taking the Initiative

SUMITOMO METAL MINING CO., LTD.

Annual Report 2007

For The Year Ended March 31, 2007

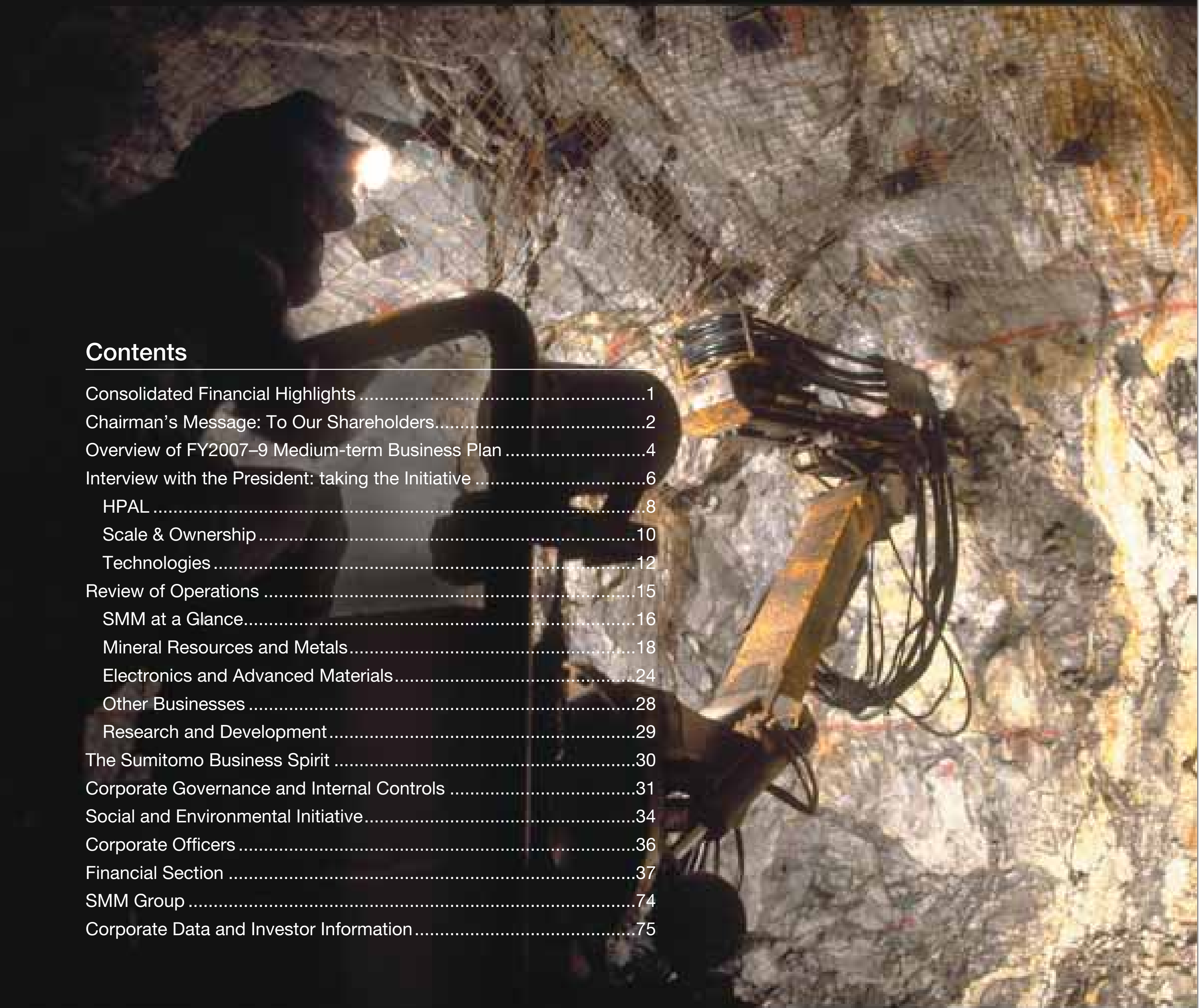
CORPORATE PHILOSOPHY & MANAGEMENT VISION

SMM Group Corporate Philosophy

1. Sumitomo Metal Mining Co., Ltd. ("SMM"), in accordance with the Sumitomo Business Spirit, shall, through the performance of sound corporate activities, seek to make positive contributions to society and to fulfill its responsibilities to its stakeholders, in order to win ever greater trust.
2. SMM shall, based on respect for all individuals and recognizing each person's dignity and value, seek to be a forward-minded and vibrant company.

SMM Group Management Vision

Based on the principles of compliance, environmental protection and operational safety, the Sumitomo Metal Mining Group shall pursue maximum corporate value through the provision, via its global network, of high-quality materials such as non-ferrous metals and electronics materials.



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Unless specifically stated otherwise, information in this annual report is as of August 31, 2007.

Forward-looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements. SMM cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

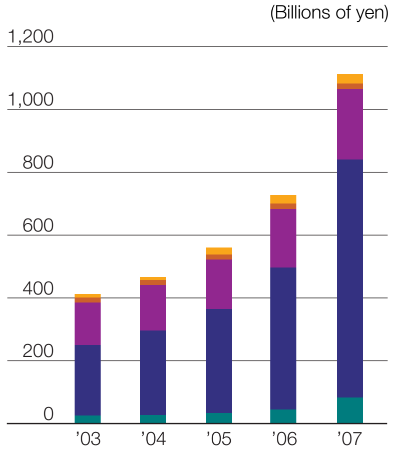
CONSOLIDATED FINANCIAL HIGHLIGHTS

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES
Years ended March 31

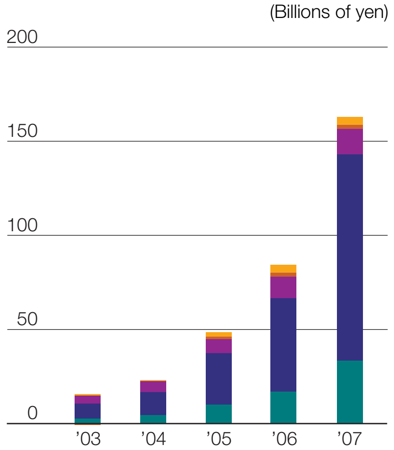
	Year-on-year change (%)	Millions of yen (unless otherwise specified)			Thousands of U.S. dollars (unless otherwise specified)
	2007/2006	2007	2006	2005	2007
For the Year:					
Net sales	**54.5**	**¥ 966,764**	¥ 625,579	¥ 484,585	**$8,186,671**
Operating income	**96.5**	**162,632**	82,756	47,893	**1,377,187**
Recurring profit	**105.9**	**205,285**	99,716	54,486	**1,738,378**
Income before income taxes	**121.2**	**205,617**	92,974	53,917	**1,741,189**
Net income	**100.7**	**126,054**	62,800	37,017	**1,067,440**
Equity in earnings of affiliated companies	**113.1**	**46,708**	21,915	13,513	**395,529**
Capital expenditures	**2.0**	**51,567**	50,568	36,488	**436,675**
Depreciation	**11.9**	**25,693**	22,951	20,578	**217,571**
Net interest expense	**(103.4)**	**(2,606)**	(1,281)	(893)	**(22,068)**
Net cash flows from operating activities	**35.6**	**95,985**	70,772	40,150	**812,811**
Net cash flows from investing activities	**24.4**	**(77,429)**	(102,384)	(31,725)	**(655,678)**
Net cash flows from financing activities	**(135.1)**	**(10,073)**	28,723	6,097	**(85,300)**
Free cash flows	**158.7**	**18,556**	(31,612)	8,425	**157,133**
At Year-End:					
Total assets	**20.3**	**929,208**	772,562	573,925	**7,868,643**
Total net assets	**33.9**	**528,921**	394,899	—	**4,478,966**
Interest-bearing debt	**(0.5)**	**189,910**	190,891	160,533	**1,608,180**
Per Share (Yen and U.S. dollars):					
Net income	**100.5**	**220.49**	109.96	64.77	**1.87**
Shareholders' equity	**31.4**	**859.82**	654.15	497.57	**7.28**
Cash dividends	**92.9**	**27.0**	14.0	8.0	**0.23**
Ratios:					
ROA (%)	—	**14.8**	9.3	6.8	
ROE (%)	—	**29.0**	19.1	13.8	
Equity ratio (%)	—	**53.4**	48.4	49.5	
Interest-bearing debt to total assets ratio (%)	—	**20.4**	24.7	28.0	
Interest coverage ratio (times)	—	**18.9**	25.2	20.8	

Notes: 1. Recurring profit = Operating income + Nonoperating income – Nonoperating expenses
2. The computation of net income per share is based on the weighted average number of shares of common stock issued during each fiscal year.
3. U.S. dollar figures are translated, for convenience only, at the rate of ¥118.09=U.S.$1, the effective rate of exchange prevailing on March 31, 2007.

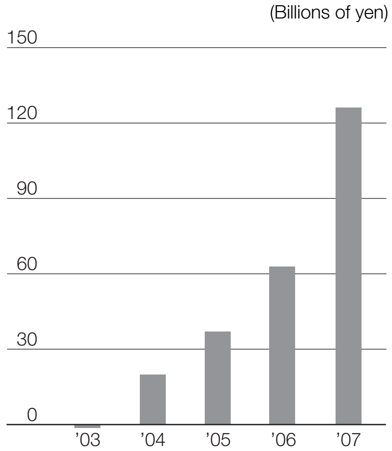
Net Sales



Operating Income



Net Income (Loss)



Mineral Resources Metals Electronics and Advanced Materials Housing and Construction Materials Others

Note: Sum of segments is not consistent with the actual figure because net sales and operating income of each segment include inter-segment transactions.

TO OUR SHAREHOLDERS

Steady growth achieved in fiscal 2006

During fiscal 2006, the year ended March 31, 2007, we made further steady progress in pursuing our growth strategy for the SMM Group to maximize corporate value. In performance terms we had an excellent year. Consolidated net sales totaled ¥966.8 billion, an increase of more than 50% over the previous year. Consolidated earnings at every level were almost double the figures posted in fiscal 2005. Operating income reached ¥162.6 billion, recurring profit climbed to ¥205.3 billion and net income soared to ¥126.1 billion. Cash dividends for fiscal 2006 totaled ¥27 per share, comprising an interim dividend of ¥11 and a final dividend of ¥16. This marked a year-on-year increase in dividends per share of ¥13.

Although unexpectedly high non-ferrous metals prices did exert a substantial effect on performance, they were not the only reason behind this good set of results. The figures also demonstrated the synergistic benefits derived from major strategic investments that we have made in our two core businesses of mineral resources and metals and electronics and advanced materials. Going forward, we intend to continue focusing on internally generated growth.

Significant steps taken toward realization of business vision

Fiscal 2006 marked the final year of the three-year medium-term business plan (covering the fiscal 2004–6 period) that we formulated as the first step in realizing the SMM Group Management Vision. The basic strategy behind the FY2004–6 Plan was to expand and strengthen our core businesses while also developing new products. In the mineral resources and metals business, we set a goal of entering the ranks of the major non-ferrous metals players within ten years. In the electronics and advanced materials business, our aim was to establish a leading global presence for our products.

We recorded several major achievements in the mineral resources and metals business during the three-year period. We acquired an equity stake in the Cerro Verde Copper Mine in Peru; we initiated commercial production at the Coral Bay Nickel Project in the Philippines; and we expanded annual production capacity for electrolytic copper at the Toyo Smelter & Refinery to 450kt. In the electronics and advanced materials business, we achieved operating income of ¥13.6 billion—comfortably exceeding our initial target of ¥12.5 billion—as the result of efforts to supply rising demand for various products. In addition, we made significant progress in laying the groundwork for future strategic growth. These initiatives included preparations for doubling nickel production capacity at Coral Bay, the start of exploratory survey work for the Taganito Project in the Philippines, and further expansion of our production capacity for copper-clad polyimide film.

Not everything went smoothly, however. Output at the Pogo Gold Mine has not yet reached design capacity. We are also experiencing delays in completion of the Goro Nickel Project. I believe that we have drawn lessons from these setbacks and that we are now in a position to accelerate the implementation of our growth strategy going forward.

Looking back on seven years as president

I was appointed SMM's president in April 2000, some six months after the serious incident that occurred at JCO Co., Ltd. During the seven years of my tenure as president, I devoted myself to the construction of a new SMM Group. In the first two years to fiscal 2001, most of our efforts focused on trying to revitalize the Company. During fiscal 2002–3 we implemented a program of business restructuring. In the three years of the FY2004–6 Plan, we pursued a strategy of growth aimed at expanding and strengthening our core businesses. To ensure the successful implementation of this strategy, we also focused efforts on reinforcing our manufacturing capabilities, which count as one of the major strengths of the SMM Group. In other words, we have concentrated on applying innovative technologies developed in-house to the creation of products based on our technical skills in manufacturing.

Chairman and Representative Director: Koichi Fukushima *President and Representative Director:* Nobumasa Kemori

Specifically, we have used the progress made on major projects to stimulate greater awareness of the importance of our manufacturing-related skills base. At the same time, we have made improvements at existing operating sites to reinforce our manufacturing base with the aim of developing the capability to expand production capacity while maintaining high quality standards. Most importantly, with the support and understanding of all parties, and through the devoted efforts of all SMM Group employees, we have been able to transform our situation into one where we have a realistic and feasible growth strategy for future development.

A new leader and medium-term business plan

The second stage in the realization of the SMM Group Management Vision is our three-year FY2007–9 Medium-term Business Plan, which began in April 2007. The aim of this new plan is to accelerate further the growth strategy that we have pursued to date.

This new stage of growth is a good opportunity to pass the baton to a new president, Nobumasa Kemori, as part of a fresh senior management team. I plan to provide support to management in my new capacity as chairman. Mr. Kemori has proved his mettle in managing projects such as the expansion of electrolytic copper production capacity to 450ktpa at the Toyo Smelter & Refinery and the establishment of our nickel-smelting technology at Coral Bay. He has an exceptional record of site management experience and related knowledge. Under his leadership, our aim is to focus on attaining our two strategic goals: to become a major within the non-ferrous metals industry, and to secure leading global market shares for our products in the electronics and advanced materials sector.

I ask our shareholders for their continued support and understanding as we move forward.

August 2007

Koichi Fukushima
Chairman and Representative Director

Overview of FY2007–9 Medium-term Business Plan

SMM embarked on a new medium-term business plan in April 2007. The FY2007–9 Plan covers the period to March 2010. The new plan aims to increase corporate value further by building on the results achieved in the previous medium-term business plan.

Basic strategy in Mineral Resources and Metals sector

- With the aim of becoming a major player in non-ferrous metals, we will continue making progress in shifting from a business model based on purchasing and refining ore to a "mineral resources + refining" model by building up production capacity and by securing stable supplies of raw materials.
- With a core focus on expanding and strengthening the nickel business, we plan to hone further the technologies such as High Pressure Acid Leach (HPAL) and Matte Chlorine Leach Electrowinning (MCLE) that we have developed in-house to achieve full-scale expansion of operations.

Nickel business

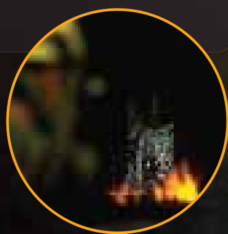
- To develop a nickel production set-up of 100ktpa capacity by 2013
- To increase domestic annual electrolytic nickel production capacity from 30kt to 65kt
- To inaugurate the second HPAL nickel refinery at Coral Bay (Philippines)
- To develop another HPAL project at Taganito (Philippines)
- To achieve early completion of the Goro Nickel Project (New Caledonia)
- To make progress with the exploration project in the Solomon Islands

Precious metals business

- To ramp up operations at the Pogo Gold Mine (U.S.A.) to full design capacity
- To maintain stable operations at the Hishikari Mine (Kagoshima prefecture)

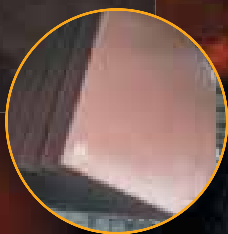
Zinc business

- To boost recycling volumes
- To increase distilled zinc ingot sales volumes



Copper business

- To establish production capacity of 450ktpa at Toyo Smelter & Refinery and to raise cost-competitiveness
- To achieve stable operations at copper mines overseas, notably Cerro Verde
- To raise our proprietary ore ratio to two-thirds from around 40% at present



Results and Projections

Results (fiscal 2006)

Major financial indicators		Non-ferrous metal prices/FX rate	
Net sales	¥966.8 billion	Copper ($/tonne)	6,970
Recurring profit	¥205.3 billion	Nickel ($/lb)	14.02
Net income	¥126.1 billion	Gold ($/Toz)	629
Ave. total assets	¥850.9 billion	Zinc ($/tonne)	3,579
ROA	14.8%	USD-JPY rate	117.03

Performance projections (fiscal 2009)

Major financial indicators (estimates)		Non-ferrous metal prices/FX rate (assumptions)	
Net sales	¥680 billion	Copper ($/tonne)	4,000
Recurring profit	¥100 billion	Nickel ($/lb)	7.00
Net income	¥ 64 billion	Gold ($/Toz)	550
Ave. total assets	¥960 billion	Zinc ($/tonne)	2,250
ROA	7.0%	USD-JPY rate	110.00

Basic strategy in Electronics and Advanced Materials sector

- We plan to develop a set-up capable of delivering stable annual operating income of ¥20 billion by securing leading market shares with existing products while actively developing new products and businesses.

Electronics business

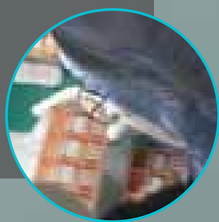
- To achieve leading market shares in major product groups
- To develop full-scale operations of sapphire substrates

Advanced materials business

- Board materials: To strengthen cost-competitiveness through higher productivity
- Battery materials: To increase production of lithium nickel oxide (LNO)

Semiconductor packaging materials

- Lead frames: To maintain and build on our top global share
- Tape bonding materials: To leverage the competitiveness of Taiwanese facility



Corporate strategy

- To keep consolidated equity ratio above 50%
- To shift profit distribution policy to stress correlation with performance—consolidated payout ratio of at least 20% from fiscal 2009
- To ensure the internal control system
- To retain and develop human resources needed for overseas operations
- To pursue initiatives to pass on and reinforce manufacturing skills

Capital investment plans

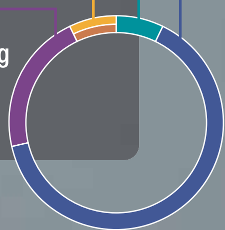
Metals: ¥90 billion

Mineral Resources: ¥10 billion

Construction Materials and Other: ¥10 billion

Electronics and Advanced Materials: ¥30 billion

Total capital spending over 3-year period: ¥140 billion



taking the Initiative

In this section, new President Nobumasa Kemori discusses the strategic focus behind SMM's new medium-term business plan for FY2007–9.

How do you see your duties as president?

I see the task ahead of me as one of raising the profile of the SMM Group within the global non-ferrous metals industry by realizing our business vision. In the mineral resources and metals business, our goal is to enter the ranks of the non-ferrous metals majors. In the electronics and advanced materials business, we aim to secure leading global market shares for our products. To attain these objectives, I aim to channel the efforts of the entire Company into making steady progress in realizing the goals of the FY2007–9 Plan, which we have formulated to cover the period to March 2010.

I believe that we will need to make momentous decisions for the future of SMM during this next growth phase of the business. The SMM Group Corporate Philosophy will be an important guide in making such decisions. As one of the original enterprises within the Sumitomo family, the SMM Group must base its growth on sound ideology. This means that we must have an effective system of internal controls that operate to strict standards of governance so that we can strive to meet the expectations of stakeholders by being a company that engenders a high level of trust. Only in this way can we expect to earn profits while contributing to society.

Please explain the basic strategy behind the new medium-term business plan.

In the non-ferrous metals sector, SMM is developing a vertically integrated business that spans resource development, refining and materials processing. As part of the FY2004–6 Plan, which ended in March 2007, we identified our core businesses as upstream and midstream operations within the mineral resources and metals sector and downstream operations within the electronics and advanced materials sector. During the three-year plan period we invested a lot of effort to expand and fortify these operations.

This policy is unchanged in the new FY2007–9 Medium-term Business Plan, which commenced in April 2007. Building on the achievements of the previous plan, our basic strategy is to continue expanding and strengthening our core businesses. There are three major challenges in the new plan.

First, we aim to build further on the successes achieved over the past three years. While raising production safely to full design capacity at each of our major mineral resource development projects, we aim to scale up operations steadily in businesses linked to new products such as battery materials and sapphire substrates. Success in these various areas will translate into a more secure and profitable earnings structure.

Our second main challenge is to build an annual refining capacity for nickel of 100kt. We concentrated mainly on increasing copper smelting capacity in the previous three-year plan. In the FY2007–9 Plan, we will accelerate the shift to a "mineral resources + refining" business model by focusing on our nickel operations.

The final challenge involves undertaking exploratory activities and reinforcing our R&D capabilities. The goal here is to realize multiple potential products and sources of ore so that we can develop new profit-building opportunities during the next three-year medium-term business plan starting in fiscal 2010. Steady progress in these two areas will help ensure that we achieve our two main goals of becoming a major player in non-ferrous metals and of securing leading global market shares for our downstream products.

The business environment has changed significantly for SMM in the past few years. The emergence of China and other countries as new and powerful sources of demand has exceeded earlier

President and Representative Director: Nobumasa Kemori

expectations. At the same time, the consolidation among the leading firms within the global non-ferrous metals industry has caused a rapid shift toward a small group of major players. This means that we must now develop our business within a radically different balance of power. In such circumstances, I believe that it is vital for us to grow by doing our own exploration and resource development. At the same time, it is imperative that we boost our competitiveness by cultivating a strengthened manufacturing base that other companies cannot readily emulate.

In the mineral resources and metals sector, we plan to continue shifting our business model from a "purchased ore refining" model based on importing raw materials from overseas mines at market prices to a "mineral resources + refining" model, in which we can procure raw materials based on our equity interests in mining projects. By developing stable raw material supplies and by building the capacity to raise production, we plan to forge a stronger business base for growth over the medium-to-long term.

On the other hand, in the electronics and advanced materials sector, the key challenge is how to raise our global profile as a materials manufacturer. This involves reinforcing our product lineup underpinned by innovative technology while at the same time securing high global market shares for these products. In practical terms this means building on the results that we achieved during the previous three-year plan, both by pursuing strategies aimed at securing leading global market shares for our existing products and through the active development and commercialization of new products that anticipate the needs of our customers.

As an adjunct to these strategic approaches, we will also pursue a corporate strategy aimed at realizing our business philosophy and vision. This entails reinforcing our basic systems supporting efforts in areas such as compliance, environmental protection and occupational health. We also plan to focus on HR policies to help us retain and develop a capable workforce.

taking the **Initiative** through

HPAL

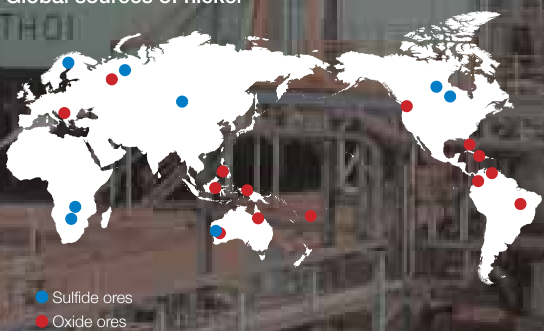
All eyes on our HPAL method

Despite the fact that oxide ores account for about 70% of global nickel deposits, currently the majority of nickel is produced either from sulfide ores or certain high-grade oxide ores. Hence, not only are most of the world's nickel oxide deposits undeveloped, but the smelting of low-grade oxide ores that have been developed is also considered problematic.

Our HPAL smelting method for nickel has turned this situation upside down. At the Coral Bay Nickel Project, we have been able to make several proprietary improvements to the technique to clear a number of related technical hurdles. In doing so, we have now developed the know-how to create stable operating conditions for HPAL-based nickel extraction. The industry's attention is now focused on our advanced nickel-smelting technology, which offers a potential means for satisfying the rising global demand for nickel.

Nickel reserves, by deposit type (kt, '000s)

Global sources of nickel



Please tell us more about SMM's strategic plan to double nickel production capacity to 100ktpa.

Expanding and strengthening our nickel operations is a core element of the FY2007–9 plan. However, our intention is not to grow simply by expanding in terms of operational scale. Our strategy is rather one of emphasizing and reinforcing our particular strengths so that we can speed our ascension to the ranks of the non-ferrous majors. To do this, we aim to develop a refining system for nickel with an annual production capacity of 100kt. This would place SMM in the ranks of the top five nickel producers worldwide by output.

In the nickel business, SMM's greatest strength is our efficient nickel-smelting technology based on the HPAL (High Pressure Acid Leach) method. HPAL is a technology that enables the extraction of nickel from low-grade oxide ores at low cost. Efficient recovery of nickel, cobalt and other metals from such ores on a commercial scale used to be considered infeasible from a technical standpoint. By implementing a series of our own improvements at the Coral Bay Nickel Project in the Philippines, we commenced commercial nickel production using the HPAL method in April 2005. Today this technology is recognized as world class. HPAL is not a technique that can be applied simply by installing some state-of-the-art equipment. It also requires sophisticated operational management know-how to maintain the facilities as conditions change depending on the precise mix of ores being processed at any one time. In other words, you also need highly trained technical personnel to make it work. I think these characteristics make HPAL a sure-fire winner for SMM.

To date, nickel has mainly been extracted from high-grade primary deposits. Most of the world's low-grade nickel oxide ore deposits lie undeveloped. Our plan is to leverage the HPAL technology developed at Coral Bay, along with our related in-house engineering expertise, to extract nickel from low-grade oxide ore deposits. In doing so we aim to turn SMM into a major player within the global non-ferrous metals industry.

This is a goal that my predecessor identified for SMM. Now I intend to lead us in our whole-hearted efforts to achieve it.

While reinforcing efforts to develop resources, what is SMM doing to protect the natural environment and to fulfill compliance-related responsibilities in areas such as the safety of mine workers?

To date our efforts in mineral resource development have focused on actively acquiring new equity interests in mines. Going forward, however, besides just investing in projects, we must also take the initiative to develop projects of our own. As part of our focus on resource development, I believe that we must also reinforce our efforts to protect the natural environment and to ensure the health and safety of workers, among other issues.

Our interest in mine development stretches back over 300 years to 1691, when the Sumitomo family first began operating the copper mine at Besshi. Extraction of copper ores from the Besshi mine continued for 283 years, during which time Sumitomo provided housing, schools, rail links and other facilities around the site. Rapid modernization finally caused the Besshi mine to be abandoned, but today the mine has been returned to a natural state following a massive forestation project that involved the planting of over a million trees per year. As part of the Sumitomo Group, for many years we have adhered to the belief of promoting sustainable co-existence with society.

In the Pogo Gold Mine Project, which is the first mine outside Japan where SMM is taking the project development lead, we have incorporated various eco-friendly techniques in water taking the **Initiative** through

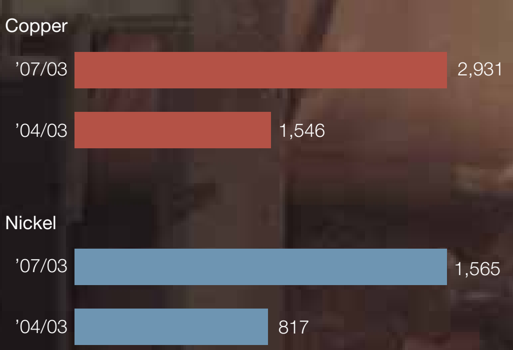
Scale & Ownership

The ability to pursue a winning strategy

We are steadily pursuing our strategy. Our holdings of copper in mines where we have an interest have expanded from 1,546kt to 2,931kt in the past three years. Successes such as the acquisition of off-take rights for copper-smelting ores from the Cerro Verde mine significantly in excess of our equity stake in the project have helped to boost our proprietary ore ratio for copper from a little over 20% to around 40%. Besides copper, over the past three years we have also significantly expanded our holdings of nickel from 817kt to 1,565kt. Moreover, underscored by our tried-and-tested technology and expertise, we have increased the scale of our refining and production operations while maintaining high quality standards.

We continue to make progress from both qualitative and quantitative angles in engineering our transition to a “mineral resources + refining” business model. The cumulative effects promise to elevate SMM to the ranks of the world’s non-ferrous metals majors in due course.

Growth in SMM’s metal mineral resources holdings
(Thousands of tonnes)



processing and other areas to minimize the impact of the development on the local ecosystem. At the nickel-smelting project in Coral Bay, we have also adopted an eco-friendly stance by applying strict North American standards for issues such as waste-water purification.

We intend to copy these individual examples in all other development projects going forward. By being consistent on such issues we hope to fulfill our social responsibilities as a company.

Please tell us more about SMM's strategic plan to expand copper smelting capacity at the Toyo Smelter & Refinery.

We have invested a total of ¥29 billion at the Toyo Smelter & Refinery to increase annual electrolytic copper production capacity to 450kt, from 270kt in fiscal 2004 (production capacity at the end of fiscal 2006 was 410kt). The major capital expenditure phase was completed during fiscal 2006. We plan to raise operating capacity gradually in fiscal 2007. I believe that capacity will have reached an output level of 450kt by around the time that this Annual Report is published.

A capacity of 450ktpa makes Toyo one of the single largest copper-smelting lines worldwide. It has been the foundation of SMM's business in this field since its completion in 1971 due to its pre-eminent technical capabilities. Our goal has been to extract maximum value from the technical advantages that we enjoy while expanding the scale of operations. I believe that we have one of the most cost-competitive facilities of its kind in the world.

Besides boosting capacity to the 450ktpa level, the other major issue has been one of raw material procurement. No matter how cost-competitive the Toyo Smelter & Refinery is due to superior technology, the business cannot generate stable profits if the price and volume of imported copper ores vary wildly according to market supply and demand. Our strategy is therefore not only to conclude long-term ore-purchasing contracts for copper ores with overseas mines, but also to develop resources or acquire mining interests of our own so that we can secure long-term stable prices

and volumes for the copper-smelting raw materials processed at the Toyo Smelter & Refinery. This is what we refer to as a "mineral resources + refining" business model.

We can gauge the extent of our transition toward a "mineral resources + refining" business model through our proprietary ore ratio* for copper. We acquired an interest in the Cerro Verde Copper Mine in Peru in March 2005. Now that this sulfide ore project has commenced production, our proprietary ore ratio has increased to around 40% at present. Our results to date also reflect the acquisition of improved expertise in resource development as well as strengthened relationships with business partners. We plan to make further use of these as we actively explore for new resources, with the future goal being to boost our proprietary ore ratio to around two-thirds.

***Proprietary ore ratio for copper:**
[(Copper proportional to SMM's stakes in overseas mines) + (proportional Cerro Verde off-take rights)] ÷ [Electrolytic copper production at Toyo]

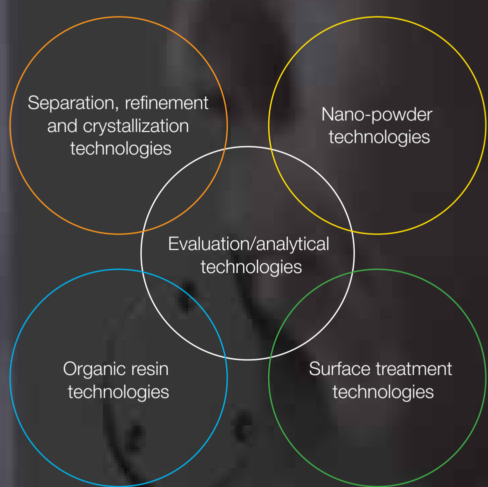
taking the Initiative through Technologies

The technical prowess of a "metals specialist"

Our extensive base of proprietary technologies has been the critical element enabling us to secure an excellent reputation among clients on the demand side. Technology has also allowed us to develop products where we continue to maintain and expand a leading share of the global market. We have made our R&D activities highly efficient by cultivating a strong base of technical abilities as a "metals specialist" and by aligning development themes with business strategy. These programs continue to create a stream of products that make SMM a major presence across numerous sectors.

Our R&D activities are currently focused on five areas that we identify as core technologies. Our separation, refinement and crystallization technologies are contributing to the creation of highly energy-efficient electronic and advanced materials. We apply nano-powder technologies to produce high-performance, ultra-fine powders to support the use of lighter, thinner and smaller electronics components. Our surface treatment technologies help to supply the demand for materials with characteristics such as thermal resistance and dimensional stability. We apply organic resin technologies to create materials that combine strong magnetic properties with the ability to be molded into various forms. Finally, we are also developing technologies for evaluation and analysis that form the basis for other R&D activities. Our technical prowess across these different fields continues to support the development of a variety of products that lead global markets while providing unique offerings to customers.

Core technologies



What are SMM's growth products in the electronics and advanced materials sector, and what characteristics are promoting expansion in their sales?

Within our electronics and advanced materials business, the effect of demand fluctuations is much greater than, say, the impact of non-ferrous metal price changes on our other operations. In this sense, our basic strategy for this business is to develop products with leading global market shares that are unique within their sectors—in other words, with quality such that customers would find it difficult to source an alternative. By developing a portfolio of such products, we aim to build a system capable of delivering high, stable earnings. Having such a range of products also enables us to develop strong relationships with customers, in turn realizing possibilities such as the joint development of new products. This in turn allows us to anticipate customer needs, making it a win-win relationship for both sides.

Copper-clad polyimide film, bonding wire, nickel paste and lead frames are all examples of such products. Within each of these product ranges, we plan to develop strategies to allow us to secure, maintain and expand leading global market shares. At the same time, we will devote increasing resources to the cultivation and development of new products to realize stable growth over the medium and long term.

Please elaborate on the capital investment plans and performance forecasts for the medium-term business plan that started in April 2007.

Our capital spending plan is to invest ¥140 billion over three years to keep operations on the current growth trajectory. The main expenditures are investments totaling about ¥60 billion—two-thirds of our total investments of ¥90 billion in the Metals segment—to build an annual production capacity of 100kt for nickel. These comprise an investment of around ¥30 billion for the construction of the second-phase facility at Coral Bay (operations are due to start in April 2009), and of approximately ¥26 billion in the Taganito Project in the Philippines, which will be our next majority-stake HPAL project after Coral Bay. Construction at Taganito is due to begin in 2009, with the facility coming on stream in 2012. Elsewhere, we expect to invest ¥10 billion in the mineral resources exploration project in the Solomon Islands, about ¥30 billion to expand the scale of electronics and advanced materials operations, and a further ¥10 billion on other businesses. In terms of R&D spending, we plan to invest around ¥20 billion over three years, mostly to develop new products in the electronics and advanced materials sector.

Due to the difficulties involved in predicting metals prices and the significant impact of related price fluctuations on earnings, we have not set any specific profit targets for the FY2007–9 Medium-term Business Plan. We expect the supply situation to ease and non-ferrous metals prices to fall during the plan period. Consequently, we have tentatively forecast a figure of ¥100 billion for consolidated recurring profit in fiscal 2009.

While we realize that FY2007–9 could represent a window offering additional growth opportunities from aggressive investments, our financial strategy is one that stresses the importance of maintaining a healthy balance sheet. We aim to maintain a consolidated equity ratio of at least 50%. Nonetheless, this does not preclude our making a major investment in an overseas mine if an especially enticing opportunity were to arise.

We have shifted our profit distribution policy to emphasize correlation with performance rather than dividend stability. For fiscal 2009 onwards, we aim to maintain a consolidated payout ratio of at least 20%.

Please explain the nature and purpose of the takeover defenses that SMM recently adopted.

At SMM, we believe that our value as a company does not just derive from the proprietary technology and expertise that contribute to growth of our non-ferrous metals operations or from our earnings structure. We believe that there are two other critical elements that contribute to increased corporate value: first, the culture that we have developed as an enterprise based on the Sumitomo business spirit over more than 400 years of history; and second, our management of business operations based on the relationships of trust we have developed and maintained with all stakeholders.

Based on this thinking, and reflecting the nature of the business environment today, in February 2007 we elected to institute takeover defenses that require prior warning of any large-scale acquisitive moves. These defenses aim to preserve and increase corporate value while protecting the common interests of shareholders. Shareholders approved the deployment of these defensive takeover countermeasures for a three-year period at the Ordinary General Meeting of Shareholders held in June 2007.

Takeover defenses could be triggered in the event of any share purchase in which the acquirer gains a shareholding ratio of at least 20%, or in which a tender offer resulted in the acquirer gaining an overall shareholding ratio of at least 20% once the shares of any parties having a special relationship with the acquirer are included. The takeover defenses also require that parties undertaking large-scale acquisitive moves toward SMM supply information about the planned acquisition in advance; allow sufficient time for the takeover plans to be considered; provide the opportunity for the Company to present an alternative plan to shareholders; and allow for negotiations to be held with any acquiring parties.

In cases where it is judged that there is a reasonable fear that the acquisition would encroach on corporate value and the common interests of shareholders, the takeover defenses would allow SMM to undertake the gratis allotment of stock acquisition rights to dilute the rights of the said acquiring parties. However, please note that the takeover defenses are also structured in such a way that the directors of SMM would not be allowed to make any arbitrary decision to undertake such a gratis allotment. This would first require the permission of an independent committee composed purely of outside experts. We would also make every effort to ensure that all information is disclosed transparently to shareholders in a timely manner.

The executive officers and employees of SMM share a business philosophy and our basic stance is to work together to realize our common business vision. Our aim is to be a company that continues to earn increasing trust from all of our stakeholders. Going forward, we will focus intently on implementing the strategy in the FY2007–9 plan for the benefit of shareholders. We intend to meet the expectations of shareholders by building corporate value steadily and stably over time.

I hope that shareholders will continue to give us their support as we seek to develop SMM's business further.

August 2007

Nobumasa Kemori
President and Representative Director

REVIEW OF OPERATIONS

— From resource development to advanced materials —

The SMM Group has developed a vertically integrated business model in the non-ferrous metals sector that spans upstream and downstream operations. We extract ore from mines, refine it to produce metals and then process these metals to manufacture state-of-the-art electronics and advanced materials.

The extensive base of knowledge in the non-ferrous metals field that we have accumulated enables us to develop more advanced technologies for refining ores and processing metals. Such technologies help to open up the many possibilities offered by non-ferrous metals.

Mineral Resources

High-Grade Gold Ore

Copper Ore

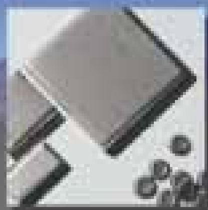
Garnierite Ore

▼

Metals

Gold

Copper



Nickel

Zinc

▼

Electronics and Advanced Materials

Bonding Wire

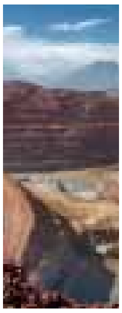
Semiconductor Packaging Materials

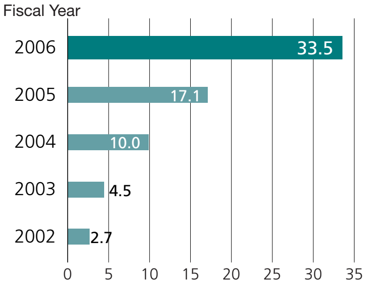
Thick-film Paste

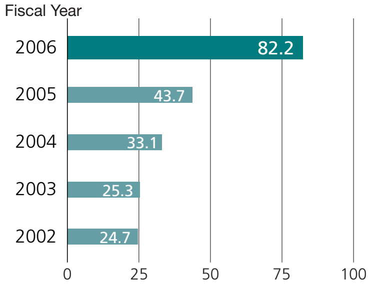
Copper-clad Polyimide Film

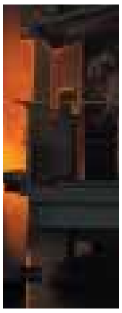
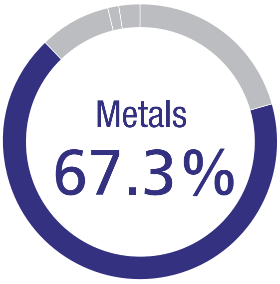
Review of Operations: SMM at a Glance

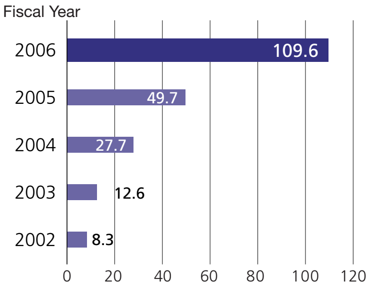
Segment (Percentage of Group operating income) | Operating Income (Billions of yen) | Net Sales (Billions of yen)

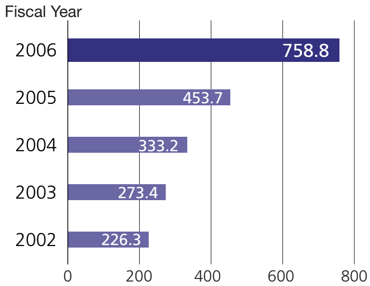


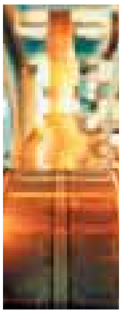
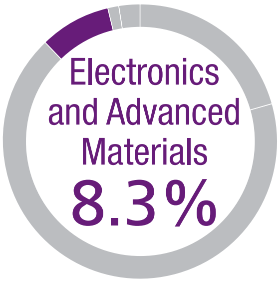



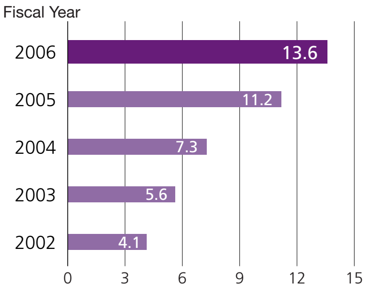


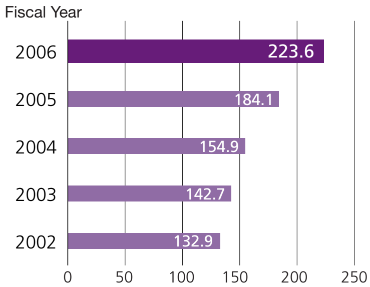



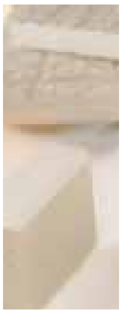


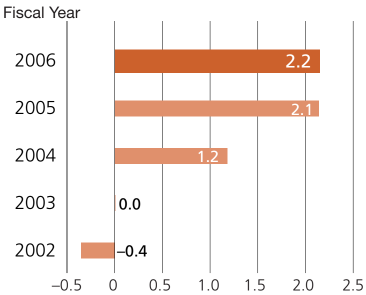


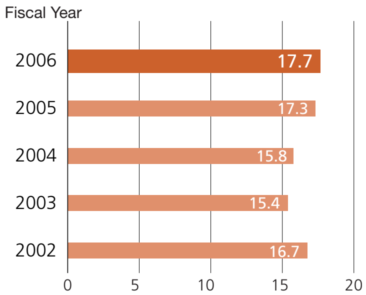



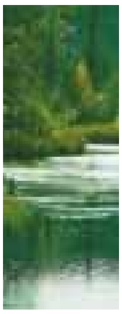
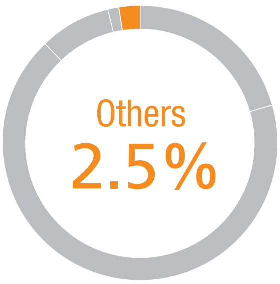


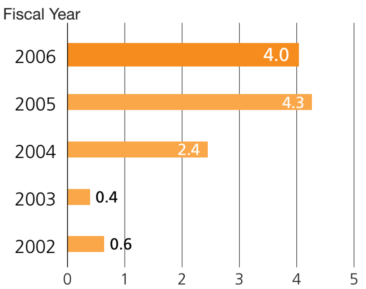


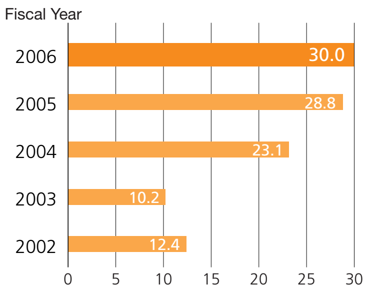




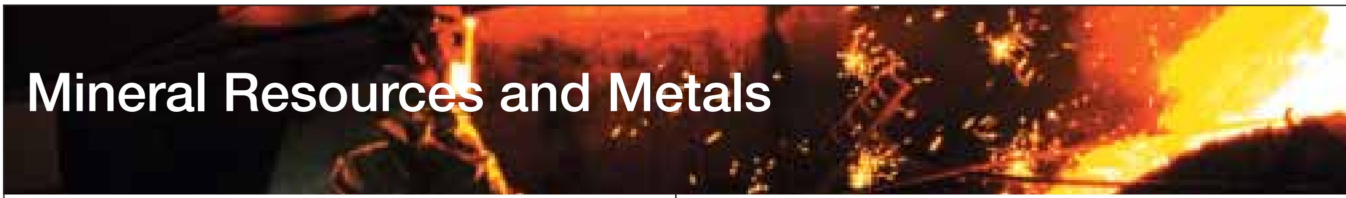







Notes: 1. Operating income ratio by segment is calculated based on operating income including inter-segment transactions for fiscal 2006, the year ended March 31, 2007.
2. Operating income and net sales figures include inter-segment transactions.

Operations	Main Products and Services
Tasked with the dual mission of boosting the earnings of the mineral resource business and securing raw materials for the refining business, this segment is engaged in the exploration for and development, production, and sales of non-ferrous metal resources. It is also engaged in geological consulting utilizing mineral resource development techniques.	• Gold and silver ores • Copper concentrates and electrolytic copper • Geological research
This segment refines non-ferrous raw materials procured from overseas mining companies and the mineral resources segment into metals such as gold, copper, nickel and zinc, which it then sells. Having achieved the world's first commercially viable method of recovering nickel from low-grade ore, which had been considered difficult with conventional technology, we possess world-class refining technology and are the industry leader.	• Copper • Nickel • Zinc • Lead • Precious metals such as gold, silver and platinum • Sulfuric acid • Copper and brass
By supplementing the foundation of material refining technologies that we have developed as a comprehensive non-ferrous metal manufacturer with a variety of high-precision processing technologies, the electronics materials segment provides the high-quality electronics materials that are indispensable to the manufacture of semiconductors and electronics devices. Moreover, the advanced materials segment creates new materials with highly advanced properties by leveraging the metal-related technologies that we have accumulated, thereby providing a broad variety of advanced materials such as circuit board materials, powder materials, functional inks, battery materials, magnetic materials and rare metals.	• Electronics materials (bonding wire, electric paste, thin films, etc.) • Semiconductor packaging materials (lead frames, tape materials, etc.) • Advanced materials (copper-clad polyimide film, battery materials, etc.)
This segment mainly engages in the manufacture and sale of building materials. As a pioneer of ALC (Autoclaved Lightweight aerated Concrete), we introduced the technology from Sweden in 1962, and have since been a manufacturer of ALC for building materials. Currently, our subsidiary Sumitomo Metal Mining Siporex Co., Ltd., manufactures and sells ALC under the product name *Siporex.*	• ALC (Autoclaved Lightweight aerated Concrete)
Leveraging the technology that we have developed through the refining of nonferrous metals, in addition to our environmental improvement business—which includes the assessment and remediation of contaminated soil and groundwater and the manufacture of environmental preservation equipment—we, among other things, produce and sell chemical catalysts and operate a recycling business that recovers valuable metals from used catalyst.	• Recovery and sales of valuable metals from used catalyst • Survey and decontamination operations for soil and groundwater • Environment-related engineering



Mineral Resources and Metals

Fiscal 2006 Review

Mineral Resources

Operations at the Hishikari Mine (Japan) continued steadily, with volumes of mined ore and recovered gold in line with plans. Ore shipment volumes were largely on a par with the previous year. At the Morenci Copper Mine (Arizona, U.S.A.), where we are involved in operational management, heavy rains caused production volumes to slip slightly below target, as had also occurred in fiscal 2005. High copper prices compensated, helping to push up profits.

At the Pogo Gold Project (Alaska, U.S.A.), a mine that we are developing in a joint venture with Teck Cominco of Canada, production began in February 2006. Progress was delayed temporarily in October 2006 when fire caused damage to a power-supply facility at the site.

Reflecting sharply higher overseas prices for copper and gold, net sales in the mineral resources segment jumped 88.1% on a year-on-year basis to ¥82.2 billion. Operating income rose 96.0% to ¥33.5 billion.

Metals

Supported by buoyant global economic growth, demand for copper remained firm. Sales in Japan rose significantly. Demand from the electric machinery and automobile sectors was robust, and sales to the wire and cable industry posted further favorable growth due to a recovery in demand from the electric power-related sector. Sales of copper strip products also grew strongly, reflecting increased demand from the mobile phone and automotive sectors.

Nickel sales increased due to strong demand from the energy-related sector for nickel used in specialty steels and alloys, along with a recovery in nickel demand for electronic materials. Sales of nickel for stainless steel production also revived after the effects of an inventory adjustment that began in fiscal 2005 tapered off in the second half of fiscal 2006. Sales also benefited from the soaring prices for nickel. Although there was evidence in some demand sectors of customers running down stocks and restricting purchases, overall demand was firm, and sales increased sharply.

Reflecting sharply higher overseas prices for copper, nickel and gold along with higher sales volumes of copper and nickel, net sales in the non-ferrous metals segment climbed 67.3% on a year-on-year basis to ¥758.8 billion. Operating income soared 120.5% to ¥109.6 billion.

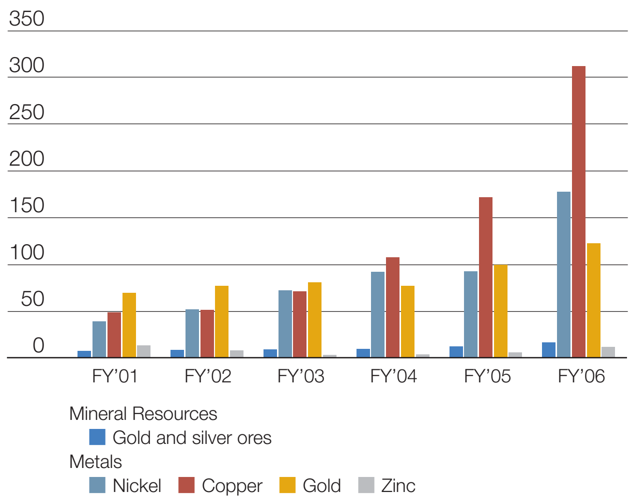
Financial Highlights, by Segment

(Millions of yen)

	FY2006	FY2005	FY2004
Mineral Resources			
Net sales	¥ 82,248	¥ 43,719	¥ 33,071
Operating income	33,532	17,107	9,971
Operating margin (%)	40.77	39.13	30.15
Depreciation expense	4,539	3,250	2,751
Capital expenditures	9,288	14,014	7,036
Metals			
Net sales	¥758,836	¥453,680	¥333,178
Operating income	109,564	49,683	27,701
Operating Margin (%)	14.44	10.95	8.31
Depreciation expense	8,433	7,478	6,354
Capital expenditures	18,833	16,195	15,192

Net Sales, by Product (Non-Consolidated)

(Billions of yen)



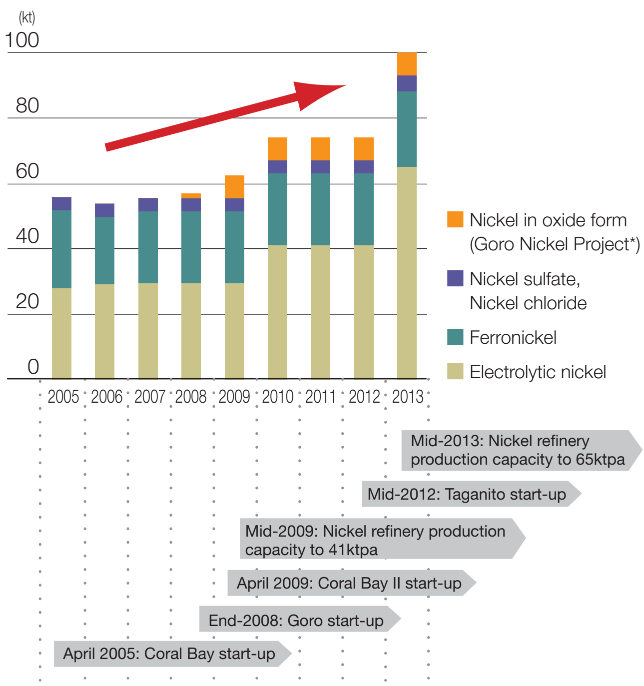
Core Strategies Under FY2007–9 Medium-term Business Plan

Our goal in mineral resources and metals is to become a major force in the non-ferrous industry. We continue to make progress toward this goal so that we can transform our business model from one based largely on the refining of purchased ore to a "mineral resources + refining" model. As we strive to boost production capacity and secure stable supplies of mineral resources, we have identified the following four core strategic issues.

Building a nickel-refining capacity of 100ktpa

By 2013 we plan to raise our annual nickel production capacity to 100kt, from 57kt at present. This will help to propel us into the ranks of the non-ferrous industry majors. To realize this aim, we have honed technologies developed in-house such as HPAL (High Pressure Acid Leach) and MCLE (Matte Chlorine Leach Electrowinning) to facilitate the full-scale development of low-grade laterite ores which had not been developed due to their less profitability.

Projected Increase in SMM's Nickel Production Capacity



* Based on proprietary mine interests

Progress at specific nickel projects remains on track. We expect to bring the expansion of HPAL nickel smelter at Coral Bay in the Philippines on stream in April 2009. Construction at the Taganito Project (Philippines) is due to begin in 2009, with smelting operations slated to commence in 2012. We aim to complete the construction of Goro Nickel Project (New Caledonia) as soon as possible.

Establishing production capacity of 450ktpa at Toyo Smelter & Refinery

We have steadily expanded capacity at Toyo, which is our principal smelting facility for copper. Annual capacity has risen from 270kt to 410kt over the past three years, and is slated to reach 450kt by the second half of fiscal 2007. The Toyo facility is now the largest copper smelter in Japan. Under the FY2007–9 Medium-term Business Plan, our aim is to exploit full-capacity operation so that we can increase our cost competitiveness and boost profits.

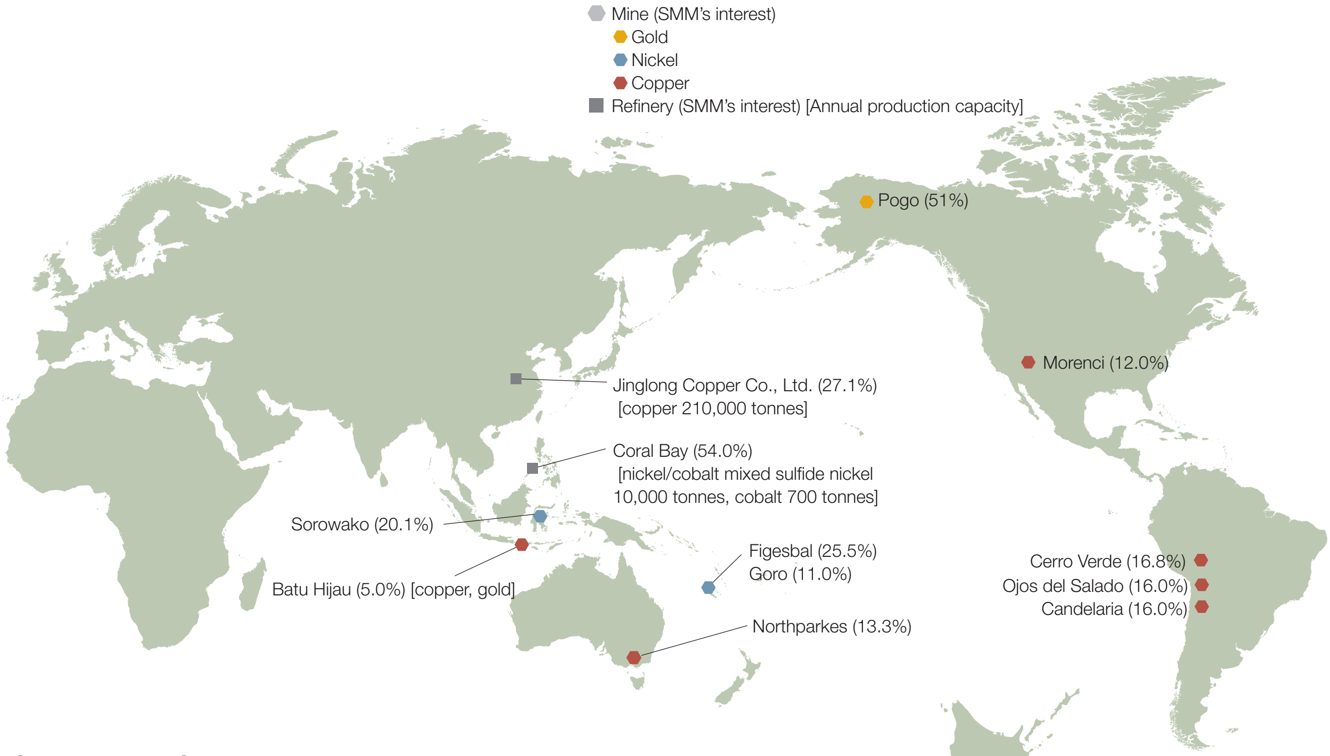
Securing additional sources of ore

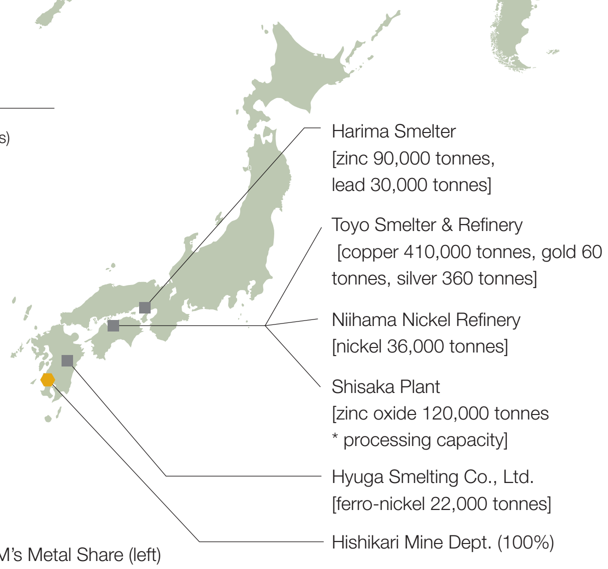
To secure nickel resources, we are developing low-grade ores using the HPAL method and undertaking an exploration project in the Solomon Islands. To secure copper resources, we are actively exploring for copper with the aim of securing majority stakes in copper mining developments. Once the Cerro Verde Copper Mine is operating at full capacity, we project that our proprietary ore ratio will increase to 40%, from a little over 20%.

Realizing full design capacity at Pogo Gold Mine

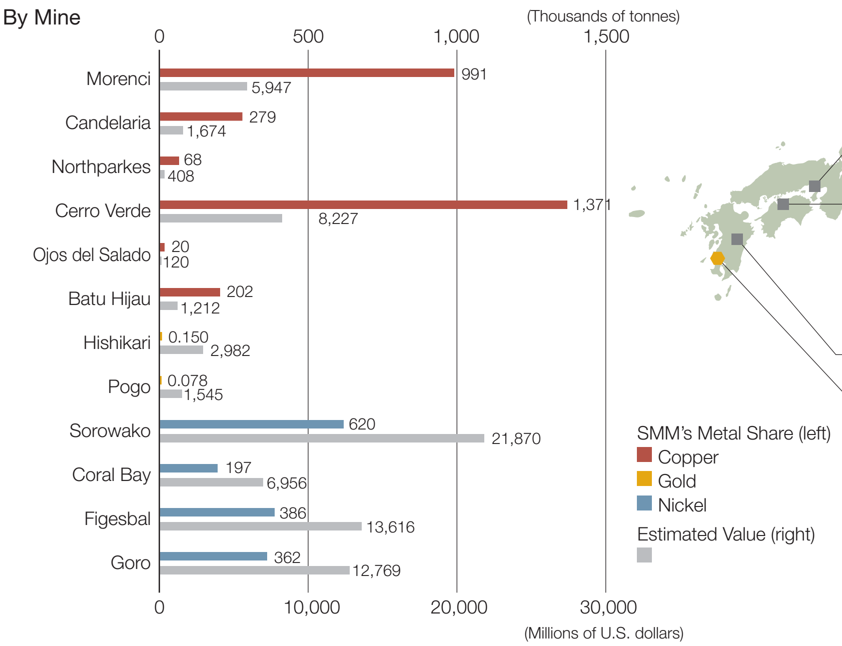
The production delays caused at the Pogo Gold Mine in Alaska by damage to power supply facilities following a fire in October 2006 were resolved by the end of that year. Additional filter installations were also completed in March 2007. Efforts are now focusing on increasing production to full capacity.

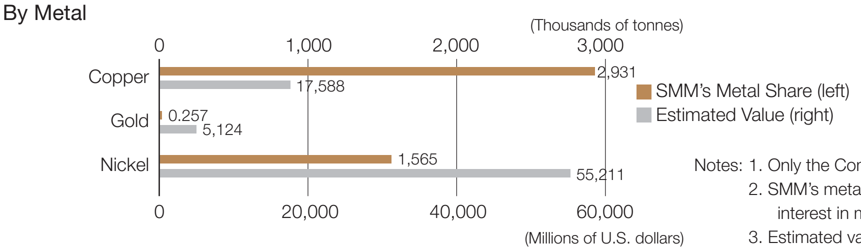
SMM's Mines and Refineries





SMM's Metal Shares and Estimated Values





Notes: 1. Only the Company's own mines are covered.
2. SMM's metal share = Ore reserves (tonnes) x Metal grade x SMM's interest in mine (%)
3. Estimated value = SMM's metal share (tonne) x Standard metal price
4. Standard metal price = Copper: $6,000/tonne, Gold: $620/Toz, Nickel: $16/lb

COPPER

Business environment and basic strategy

Demand for copper is expected to continue expanding in the future, supported by economic growth in China and other Asian countries. To supply the sharp rise in demand, the capacity of copper smelters within the region is set to increase progressively, notably in China. However, since most Chinese smelting firms source their raw materials from overseas, the industry is structured in such a way that the competition for raw material supplies between different smelting facilities tends to be fierce. Hence, securing stable supplies of raw material is the pre-eminent issue for Japan's non-ferrous metal refiners, which operate on a "purchased ore refining" business model that relies on importing smelting ores from copper mines around the world.

Against this backdrop, we are continuing to make progress in shifting away from the "purchased ore refining" business model toward a "mineral resources + refining" model so that we can secure stable supplies of raw materials and boost profitability. Going forward, the goal is to raise our proprietary ore ratio to around two-thirds. To this end, we are aggressively exploring the development of new copper mining projects. We are also investing to expand copper-smelting capacity so that we can derive greater economies of scale and become more cost-competitive globally.

Status of major projects

■ Cerro Verde Copper Mine Project (Peru)

SMM took a 16.8% equity stake in March 2005 in this project, which is being led by Phelps Dodge Corporation*, the largest copper producer in the United States. Ore production commenced in November 2006. Our stake entitles us to purchase 50% of mine output—or 50% of around 180kt of copper concentrate per year (in recovered copper equivalents)—for a ten-year period, along with off-take rights in subsequent years at least equivalent to our equity stake. We expect this project to boost our proprietary ore ratio to about 40%.

Cerro Verde Copper Mine (Peru)

*In March 2007 Phelps Dodge Corporation became part of Freeport-McMoRan Copper & Gold Inc.

■ Toyo Smelter & Refinery (Japan)

This is our core facility for smelting copper and boasts world-class processing capacity. At the end of fiscal 2006, we realized annual production capacity for copper of 410kt and completed a major investment to increase this figure further to achieve a 450ktpa set-up. Production output is expected to reach 450kt during fiscal 2007, putting us in a good position to supply increasing copper demand in the East Asian market and other regions.

Toyo Smelter & Refinery (Japan)

■ Jinlong Copper Smelter & Refinery (China)

SMM took an equity stake in 1995 in Jinlong Copper Co., Ltd. (currently 27.1%) in what remains the only capital tie-up between a Japanese non-ferrous metals producer and a Chinese copper-smelting enterprise. The relationship has continued to develop over the years. Copper output in fiscal 2006 equaled 210kt. Plans call for expanding annual capacity to over 300kt in fiscal 2008.

NICKEL

Business environment and basic strategy

The addition of nickel to iron boosts the metal's resistance to corrosion, heat and abrasion, among other benefits. These properties have helped to make nickel an indispensable raw material in the production of many advanced materials in sectors such as semiconductors, aerospace and energy development. The growth in future demand is expected to be robust. For instance, more oil and gas exploration projects now involve drilling at much greater depths or under harsh operating conditions. Seamless steel pipes used in exploratory wells must be resistant to high temperature and pressure and have anti-corrosive qualities. This is boosting demand for high-grade ferronickel alloys used to produce such steel. Demand for nickel is also rising as a raw material in applications such as battery materials, particularly for use in hybrid vehicles.

On the supply side, the global industry is developing low-grade laterite ores for nickel smelting due to falling ore production from nickel sulfide deposits, the main ore type developed to date. Development of laterite ores is technically challenging for a number of reasons, which has prompted market concerns about whether production volumes can maintain growth in the future.

As Japan's only producer of electrolytic nickel, we are focused on boosting our presence within the global nickel industry. In addition to raising our nickel refining capacity to 100ktpa, we are also undertaking exploration to secure new sources of this metal.

Status of major projects

■ Coral Bay Nickel Project (Philippines)

The SMM Group is the lead partner in this nickel-smelting project with a 54% equity stake. Since April 2005 the plant has been using the HPAL method to produce mixed nickel/cobalt sulfide products, an intermediate in the nickel-smelting process. Production volumes reached 8kt (in recovered nickel equivalents) in fiscal 2006, and are projected to rise to 10kt in fiscal 2007. The second phase of the project is targeted to begin operation in April 2009. Construction of a second facility with a refining capacity of 10ktpa is currently under way.

■ Goro Nickel Project (New Caledonia)

SMM owns an 11% equity stake in this project, which has nickel reserves estimated among the world's largest. Our annual off-take rights from the project are equivalent to approximately 6.6kt of nickel oxide and 0.5kt of cobalt carbonate. Although completion delays are currently expected to raise construction costs, we are working in conjunction with project leader CVRD Inco of Canada toward an end-2008 target date for production start-up. The HPAL technology will be the processing method employed, as at the Coral Bay project.

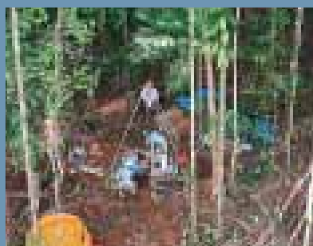
■ Taganito Project (Philippines)

In March 2007, we signed an agreement with Taganito Mining to undertake a joint feasibility study for a nickel-smelting project in the Taganito region in the northeastern part of Mindanao island in the Philippines. Plant construction is due to commence in 2009 if the feasibility study results are satisfactory. Plans call for a smelting facility capable of producing 30kt per year (in recovered nickel equivalents) from mixed nickel/cobalt sulfide ores, starting in 2012.

Solomon Islands* Exploration Project

This project is positioned to give us an initial boost in raising annual nickel refining capacity further once we have reached 100ktpa. It is a "grassroots" operation in which we are exploring from scratch on land where we have secured exclusive exploration rights. The exploration zone has a total area of 182km^2, which is equivalent to about two times the size of Manhattan.

Currently we are conducting a geological survey of the area to gauge the level of nickel reserves in approximate terms. This involves gathering soil samples and rocks from the exploration zone and using chemical analysis to determine the amounts of subterranean nickel ore deposits present.



*The Solomon Islands lie in the South Pacific.

PRECIOUS METALS

Business environment and basic strategy

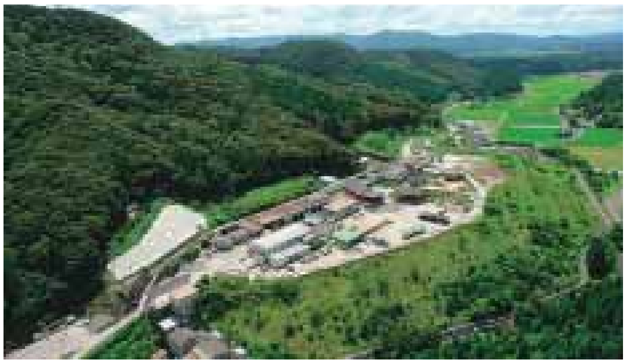
Gold, silver, platinum and other precious metals benefit from stable demand due to their unique properties. For instance, gold has low chemical reactivity, while silver provides high thermal conductivity with high optical reflectance. Precious metals can be separated and recovered during copper smelting. Higher copper smelting volumes thus translate into increased production capacity for precious metals.

We have expanded our processing capacity for precious metals through the introduction of improved refining processes at the Toyo Smelter & Refinery. We have also developed and begun using special extraction technology to enable recovery of rare metals such as iridium and ruthenium, which were previously thought too difficult to recover. We are also applying the mining technology developed at the Hishikari Mine in exploration activities to secure new gold resources.

Status of gold mines

■ Hishikari Mine

The largest gold mine in Japan, Hishikari is 100% owned by SMM. Production of gold was 7.5t in fiscal 2006, a similar figure to the previous year. The grade of the ore obtained from Hishikari is among the highest in the world, yielding 45-50g/t of gold, or about ten times the global average. The mine's estimated residual gold reserves were 150t at the end of December 2006.



Hishikari Mine (Japan)

■ Pogo Gold Project

SMM owns an equity stake of 51% in this mine. Located in Alaska, U.S.A., it is the main mine outside Japan in which we have a majority interest. The mine's estimated gold reserves were 150t at the end of December 2006. Operation remained below design capacity after production began in February 2006 due to inadequate filtration capabilities. Production successfully ramped up after the installation of additional facilities was completed in April 2007. The mine's estimated annual gold production at full capacity is approximately 12t, which is expected to generate around 6tpa of gold for SMM based on our equity stake in the project.

Pogo Gold Mine (U.S.A.)

CAPITAL INVESTMENT PLANS

Our aim in the mineral resources and metals segments is to expand the scale of operations further so that we can move toward a business model based on "mineral resources + refining." To this end we plan to invest aggressively in capital expenditure projects in fiscal 2007. Major planned capital expenditures comprise ¥21.4 billion on the construction of the second-phase plant at the Coral Bay Nickel Project (where operations are scheduled to start in April 2009), ¥2.4 billion to boost the ore-dressing capacity at the Toyo Smelter & Refinery, and ¥0.5 billion to expand the production capacity for electrolytic nickel. No capital investments in major overseas development projects are planned for fiscal 2007 in these segments.

Capital Expenditures

(Billions of yen)

	FY2007 (Plan)	FY2006 (Actual)	FY2005 (Actual)	FY2004 (Actual)	FY2003 (Actual)
Mineral Resources	¥ 6.5	¥ 9.3	¥14.0	¥ 7.0	¥ 3.0
Metal and Metal Processing	38.7	18.8	15.6	15.2	27.9
Overseas Developmental Investments	—	10.9	37.3	—	—
Total	¥45.2	¥39.0	¥66.9	¥22.2	¥30.9

Electronics and Advanced Materials

Fiscal 2006 Review

The electronics industry posted favorable growth over the previous year. This reflected the continued expansion of markets for flat-panel televisions, mobile phones and other products, along with relatively strong growth in the markets for PCs and onboard automotive electronics.

In the electronics materials segment, products generating solid growth in sales included bonding wire for semiconductors, used in PCs and other products; nickel paste for multi-layer ceramic capacitors (MLCCs), which are employed in mobile phones, flat-panel TVs and other items; and gallium phosphide (GaP) wafers for use in light-emitting diodes (LEDs). Signs of an inventory adjustment emerged during the second half of fiscal 2006 with semiconductor packaging materials such as lead frames.

In the advanced materials segment, higher demand for copper-clad polyimide film (CCPF) led to higher sales over the full year, despite the appearance of signs of an inventory correction in the LCD-related sector during the middle of fiscal 2006 (CCPF is a substrate material used in chip-on-film (COF) boards, a type of build-up packaging for the integrated circuits used in LCD screen drivers). In battery materials, sales of nickel hydroxide rose for use in hybrid vehicle batteries.

Net sales in the electronics and advanced materials segment increased 21.5% over the previous year to ¥223.6 billion, while operating income climbed 21.5% to ¥13.6 billion.

Financial Highlights

(Millions of yen)

	FY2006	FY2005	FY2004
Net sales	**¥223,580**	¥184,075	¥154,864
Operating income	**13,584**	11,176	7,265
Operating margin (%)	**6.08**	6.07	4.69
Depreciation expense	**10,073**	9,647	8,943
Capital expenditures	**22,563**	18,783	12,578

Core Strategies Under FY2007–9 Medium-term Business Plan

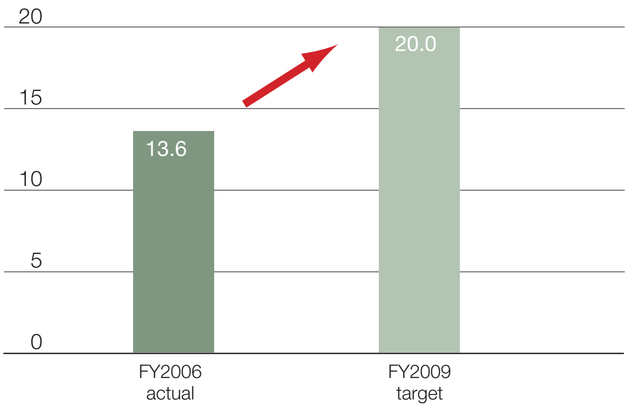
In our electronics and advanced materials businesses, our strategy is to boost the quality of earnings in two ways: first, by raising profits from existing products by securing leading market shares; and, second, by actively developing new products and businesses.

With the aim of securing leading market shares with existing products, we plan to make steady gains in growth markets such as China to expand sales of our existing product portfolio, notably in thick-film pastes and bonding wire. In addition, with products such as sapphire substrates and lithium nickel oxide where demand is expected to grow going forward, our goal is to maintain a level of quality that will earn enduring customer trust while upgrading toward mass-production capabilities as quickly as possible. With products such as copper-clad polyimide film where we have already secured benchmark status within the industry, we are seeking to entrench our dominant market share by targeting productivity improvements that bolster cost competitiveness.

In the semiconductor packaging materials business, we aim to maintain and build on our number one share of the global market for lead frames. In tape bonding materials, we plan to leverage the competitiveness of our facility in Taiwan to secure the leading share of the Taiwanese and Chinese markets.

Operating Income Target for Electronics and Advanced Materials Segment

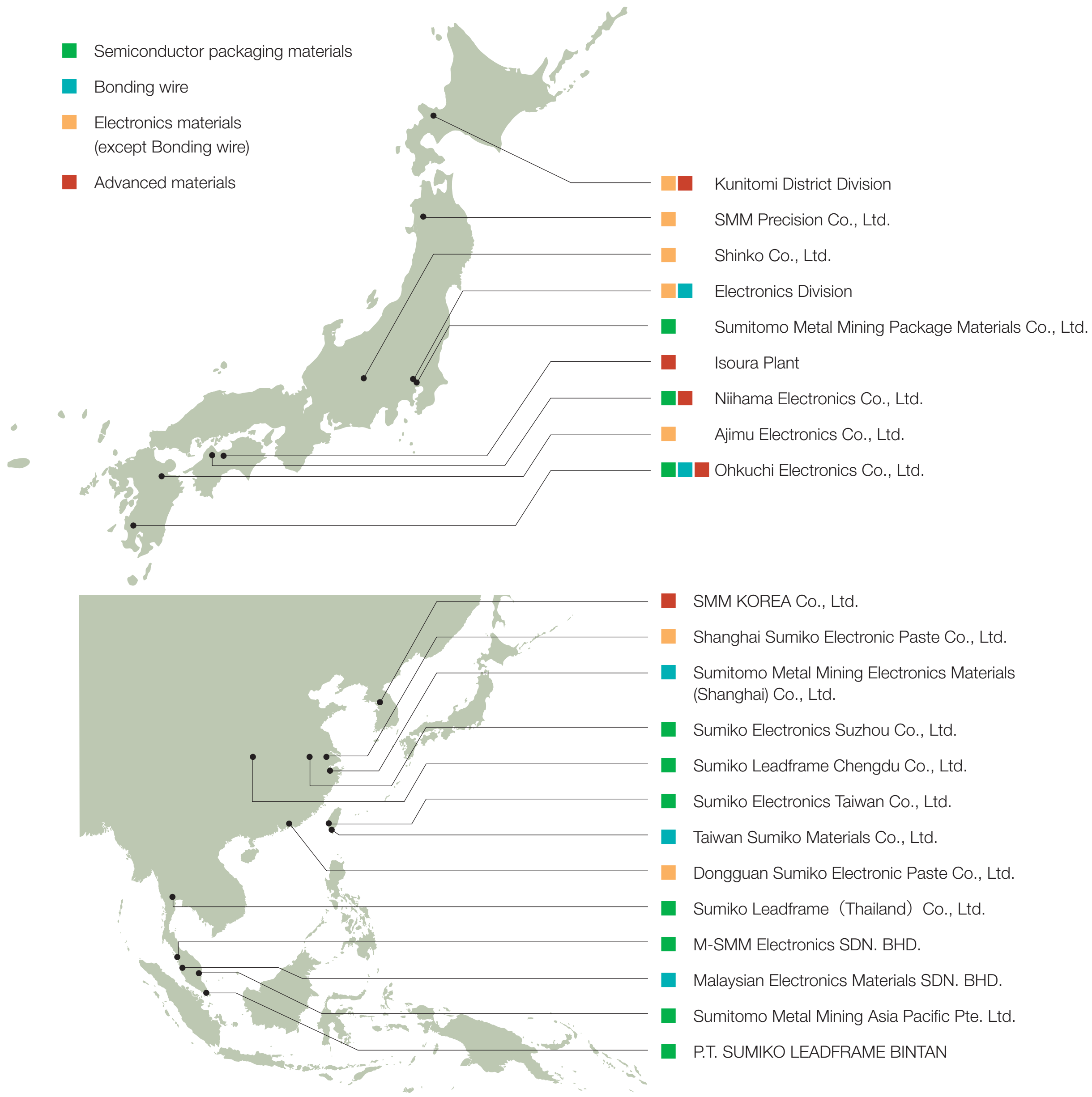
(Billions of yen)



Our new product development strategy involves maintaining and building on our leading market shares in certain sectors to derive advantages in the development of new products. We are also trying to accelerate new product commercialization and business development by focusing R&D activities on a limited selection of development themes.

In terms of numerical performance, our goal is to build a structure capable of generating consolidated operating income of ¥20 billion on a stable basis from fiscal 2009 (compared with the fiscal 2006 result of ¥13.6 billion).

SMM's Production Facilities for Electronics and Advanced Materials



ELECTRONICS MATERIALS

Bonding wire

SMM is currently the world's second-ranked supplier of bonding wire, with a market share of around 25%. One of our major strengths in this sector is that we can source the gold required to make this product internally. Through our local subsidiary Sumitomo Metal Mining Electronics Materials (Shanghai) Co., Ltd. (SMS), we aim to boost our global market share by focusing on raising our share of the Chinese market, where demand is expected to grow going forward. Our goal is to secure the leading share of the global market over the course of the 2006 Medium-Term Business Plan.

Global demand for this gold wire used in semiconductors is expected to grow steadily as the electronics market expands worldwide.

Paste

Nickel paste used in MLCC internal electrodes is the mainstay of this product range. Besides raising sales of this line, we also aim to increase our market share by expanding sales through development of pastes for use in external electrode applications. In pastes used for chip resistors, we are trying to raise our competitiveness by positioning Shanghai Sumiko Electronic Paste Co., Ltd. (SEP) as our primary production facility. Eco-friendly lead-free resistive pastes constitute another area where we have recently started to focus sales promotion efforts.

Pastes are used to make material films with conductive, insulating, resistive or protective properties. Prospective demand growth is stable owing to their use in various areas such as PCs, mobile phones, LEDs and integrated circuits.

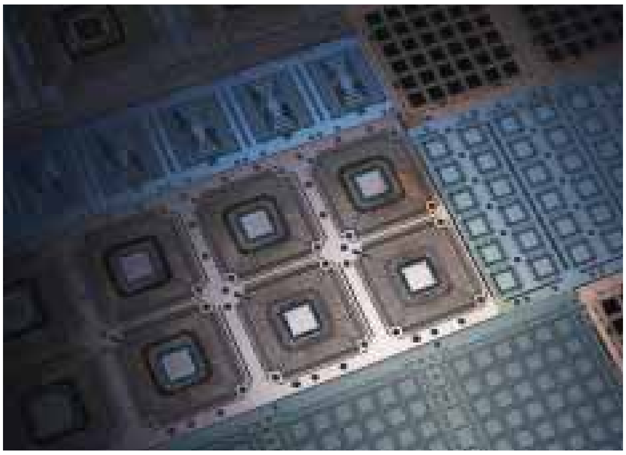
Single-crystal materials

Sapphire substrates for high-intensity white LEDs are an emerging sector where we plan to develop full-scale operations. The market for high-intensity white LEDs is expected to grow rapidly going forward. We aim to secure the leading share of this market by focusing our efforts on completing a mass-production set-up.

New applications are expected in energy-efficient light sources, including backlighting for large-scale LCD, automobile headlamps and general illumination products.

Semiconductor packaging materials

Supported by favorable market conditions, we plan to generate higher sales of lead frames. Our aim is to maintain and build on our leading global share of this market by exploiting the advantages inherent in our integrated production process, which combines the stamping and photo-etching steps. In tape bonding materials, we plan to secure the top share of the markets in Taiwan and China by leveraging the competitiveness of our Taiwan-based facility.

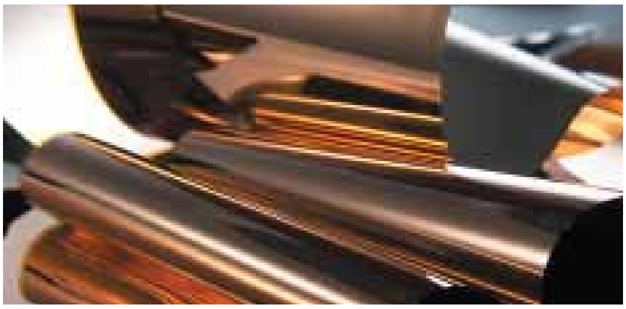


Our lead frames enjoy a high reputation for quality with customers not only for the high-precision super-fine etching processes we employ, but also for other aspects such as electrical and thermal conductivity.

ADVANCED MATERIALS

Copper-clad polyimide film (CCPF)

Our copper-clad polyimide film claims the leading share of the market in COF (Chip On Film) due to rapid uptake in the large-panel LCD sector, reflecting the high reliability that this material has demonstrated in such applications. As LCD panels have become more commonly used in flat-screen televisions in recent years, demand for the high-quality CCPF that we supply has increased sharply due to widespread adoption of COF boards in large, high-resolution panels. We have responded to rising demand from customers by expanding SMM Group supply capacity for CCPF substantially over a short period—from 1.2 million m^2 in fiscal 2003 to 6.5 million m^2 in fiscal 2006. Going forward, we plan to work on reinforcing cost competitiveness by improving productivity so that we can solidify our leading market position in board materials.



The bending durability and optimization for fine patterning shown by our copper-clad polyimide film have made it the leading choice for COF applications in large LCD panels.

Battery materials

We supply nickel hydroxide as an anode material for high-performance primary batteries and for secondary batteries used in hybrid electric vehicles (HEVs). Going forward, besides continuing full production of nickel hydroxide, we plan to develop lithium nickel oxide (LNO) as a second major source of earnings in this field due to rising demand for LNO as an anode material in lithium-ion batteries used in PCs and mobile phones.

Due to advantages in terms of both cost and volume, LNO has excellent prospects as an anode material for use in the next generation of secondary lithium-ion batteries.

CAPITAL INVESTMENT PLANS

During fiscal 2006, we constructed a fourth plant at the Niihama site in Ehime prefecture in response to strong customer demand for CCPF. Completion of this project in December 2006 boosted annual CCPF production capacity to 6.5 million m^2. In fiscal 2007 we plan to invest ¥16.5 billion in capital spending projects, both to develop businesses with new products such as sapphire substrates and to expand capacity so that we can boost our market share of other products.

The fourth plant for CCPF

Sapphire single-crystal

Capital Expenditures

(Billions of yen)

	FY2007 (Plan)	FY2006 (Actual)	FY2005 (Actual)	FY2004 (Actual)	FY2003 (Actual)
Electronics and Advanced Materials	¥16.5	¥22.6	¥18.8	¥12.6	¥12.2

Other Businesses

Fiscal 2006 Review

■ Construction Materials

This division is primarily engaged in the manufacture and sale of *Siporex* (Autoclaved Lightweight aerated Concrete (ALC)), a construction material based on technology from Sweden. Sales of *Siporex* in fiscal 2006 were broadly on a par with the previous year, reflecting flat demand in Japan. Our efforts to pass on sharp increases in the prices of materials and energy in the face of strong demands from customers for sales price discounts were broadly successful. Overall, divisional sales rose 2.0% on a year-on-year basis to ¥17.7 billion, while operating income increased 0.6% to ¥2.2 billion.

■ Recycling and environmental improvement

Our recycling-related business involves the recovery of valuable metals using technology originally developed in refining. The environmental improvement business comprises site pollution survey and decontamination operations for soil and groundwater. A fall in metals prices reduced the sales revenues generated by the ex-catalyst metal recovery business during fiscal 2006, but this was offset by higher sales on project completions booked by our plant engineering operations. Total sales posted by the others division (including all recycling and other environment-related operations) rose by 4.1% over the previous year, to ¥30.0 billion. Segment operating income fell 5.3% to ¥4.0 billion, reflecting lower prices for recovered metals such as molybdenum.

Financial Highlights, by Segment

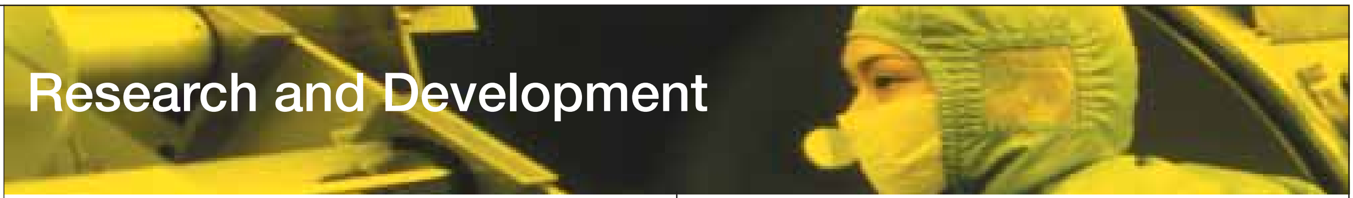
(Millions of yen)

	FY2006	FY2005	FY2004
Housing and Construction Materials			
Net sales	**¥17,661**	¥17,318	¥15,785
Operating income	**2,153**	2,140	1,180
Operating margin (%)	**12.19**	12.36	7.48
Depreciation expense	**659**	656	653
Capital expenditures	**240**	241	257
Others			
Net sales	**¥29,954**	¥28,784	¥23,119
Operating income	**4,037**	4,264	2,448
Operating margin (%)	**13.48**	14.81	10.59
Depreciation expense	**1,373**	1,329	1,290
Capital expenditures	**1,314**	1,735	1,179

Construction material *Siporex*

Summary of Other Businesses

Business	Main Activities
Housing and Construction Materials	
Sumitomo Metal Mining Siporex Co., Ltd.	Manufacture and sale of ALC (Autoclaved Lightweight aerated Concrete)
Others (Catalyst and Recycling)	
Nippon Ketjen Co., Ltd.	Manufacture and sale of desulfurization catalyst for petroleum processing
Nippon Catalyst Cycle Co., Ltd.	Recovery of valuable metals from the used desulfurization catalyst produced when oil is refined
N. E. Chemcat Corporation	Manufacture and sale of chemical and automotive catalysts; Recovery and refining of precious metals from used catalysts
Others (Environmental Improvement)	
Sumitomo Metal Mining Co., Ltd. Energy & Environmental Business Div.	Unify management of Group businesses; Sale and development of water treatment installations
Sumicon Certech Co., Ltd.	Survey and decontamination operations for soil and groundwater
Sumiko Eco-engineering Co., Ltd.	Environment-related engineering of exhaust gas treatment; Corrosion control
Sumiko Techno-Research Co., Ltd.	Analysis of metals; Environmental assessment and analysis
Japan Irradiation Service Co., Ltd.	Radiation processing for sterilization and for modification of industrial materials



Research and Development

Basic strategy and overview

Proactive and efficient R&D activities are a critical part of realizing sustained business growth through efficient generation of competitive next-generation products. In particular, we strive to make our R&D efforts more dynamic by constructing systems to focus efforts on prioritized user needs and by trying to boost the motivation of researchers. Our R&D programs created three new products with annual sales in the ¥1–3 billion range during the three-year medium-term business plan that ended in March 2007. Under the new plan, we are applying greater selectivity and focus to R&D themes at the SMM Group level to reinforce specialization in core technologies while accelerating the creation of new products.

The SMM Group operates research laboratories on three sites at Ichikawa (Chiba prefecture), Niihama (Ehime prefecture) and Ome (Tokyo). Together these employ around 200 people. Of these, 18 senior researchers occupy positions as team leaders with responsibility for activities covered by each R&D theme. To encourage commercial innovation while maintaining a degree of research independence, each team leader is given budget and personnel assignment authority over a particular R&D theme. We also try to generate positive results in cutting-edge fields through collaborative projects involving academia, public-sector organizations and other parts of industry. This often involves assigning researchers to various joint research projects.

Core technologies and development themes

The technological heritage of SMM can be traced back more than 400 years to the development of the *Nanban-buki* smelting technique by one of the founders of Sumitomo. To this day we remain an active developer of new and innovative technologies. We have identified five core technological areas: separation, refinement and crystallization technologies; nano-powder technologies; surface treatment technologies; organic resin technologies; and technologies for evaluation and analysis. All of these technologies have been developed over many years as part of our core metal-processing businesses, and many of them are unique to SMM.

Under the new medium-term business plan that began in April 2007, we are targeting five priority development themes employing these various core technologies: 1) development of new smelting and refining techniques for copper and nickel; 2) development of LNO and other battery materials for use as lithium-ion battery anode materials; 3) development of crystal materials, particularly sapphire substrates; 4) development of thin-film materials for applications such as sputtering targets; and 5) development of thin-film advanced packaging materials, including CCPF and printed circuit board materials. Going forward, we aim to accelerate development by concentrating resources in these particular areas.

Core Technologies

■ Separation, refinement and crystallization technologies

Separation and refinement technologies form the basis for metal smelting and refining. Technologies such as HPAL, MCLE and the new processes that we have developed to refine precious metals are the source of the SMM Group's high competitiveness in this business.

Crystallization technologies support the stable growth of single crystals along with increased precision for fabricating highly energy-efficient materials from these crystals. These technologies enable us to supply high-performance electronic materials such as sapphire substrates.

■ Nano-powder technologies

These include nanotechnologies to enable the manufacture of nano-powders of metal oxides with particular properties such as heat shielding or electrical conductivity, or to deliver these materials in non-powder forms such as liquid suspensions, pellets or pastes. Amid the ongoing drive to make parts lighter, thinner and smaller, such technologies are becoming vital for the manufacture of many types of advanced electronic components. Examples include transparent electrodes and semiconductor packaging.

■ Surface treatment technologies

These technologies are used to coat or treat the surfaces of semiconductor packaging materials such as lead frames. CCPF, which is made by laying a thin film of copper directly onto polyimide film, relies on such technology. The process not only creates a light, compact product, but also realizes a number of high-quality characteristics, including excellent thermal resistance and dimensional stability.

■ Organic resin technologies

Many advanced functional materials now comprise hybrids of inorganic and organic compounds. Bonded magnets are one example: the use of the hybrid approach enables materials that possess strong magnetic properties but can also be molded into a wide variety of shapes. This is critical when devising high-efficiency magnet solutions for miniaturized electronic devices. Our R&D program is developing materials for use in high-performance rare earth bonded magnets and related molding technologies.

■ Evaluation/analytical technologies

Technologies for material evaluation and analysis form an important platform for all materials-related R&D activities. We are working on four main types of technologies in this field: inorganic analysis, for examining the elements contained in a sample; organic analysis, for polymers, surfactants and related materials; solid-state analysis, for assessing properties at the atomic level and crystalline structures to guide the development of new materials; and simulation-based analytical techniques for specific analysis of fluids, stress or electromagnetic field effects.

THE SUMITOMO BUSINESS SPIRIT

Based on the Sumitomo Business Spirit, a business philosophy that has been handed down over more than 400 years, we have formulated the SMM Group Corporate Philosophy and SMM Group Code of Conduct to guide the growth of our Company. These statements relate to our responsibilities as a corporate citizen in areas such as respect for human rights, the promotion of safety and sustainable co-existence with society and the environment.

The Sumitomo Business Spirit

SMM's roots can be traced back to the late 16th century, when a technique for smelting copper known as *Nanban-buki* was developed. Since that time, the Sumitomo family has been continuously involved in copper smelting and related mining operations.

Masatomo Sumitomo, a founding member of the Sumitomo family enterprise, left a memorandum ("Monjuin Shiigaki") that laid down principles for commercial success. These tenets evolved into the Sumitomo Business Spirit. Today, these principles form the backbone of the corporate philosophy adopted by all companies in the Sumitomo Group. Two of the five principles are shown below.

> Principle 1:
> Integrity and sound management are of prime importance to ensure the prosperity and stability of the organization.
>
> Principle 2:
> Sound business management demands foresight and flexibility to cope with the changing times, while eschewing the pursuit of speculative profit or other imprudent actions.
>
> (From Business Principles in the Sumitomo corporate regulations, c. 1928)

Principle 1 means that, above all, firms must strive to develop business through sincerity and reliability, placing great importance on the faith of society in the enterprise and on the development of mutually trusting relationships.

Principle 2 means that companies must not sink into bad habits that reflect the old ways of doing business. Instead, firms always need to change with the times, gauging social demands and trends accurately to forge new operations and where necessary curtailing obsolete businesses. Such a stance requires a highly proactive attitude on the part of managers. At the same time, it is incumbent on an enterprise to seek profits by ethical means no matter what the circumstances. This means that companies should avoid the narrow pursuit of short-term profit and never proceed without doing proper research or taking all relevant factors into consideration.

The predecessors of SMM honed the implementation of these principles of business over a period of approximately 400 years, in the process creating a business that has lasted generations. One of the reasons that the business proved sustainable was that we heeded a key lesson from our ancestors, which is that an enterprise must be of major social significance to survive. Our actions over the generations have observed this rule by being of use to society. Another lesson that we have inherited is the set of values and ethical business principles that are encapsulated in the Sumitomo Business Spirit, which remain valuable today. This stance emphasizes the strength accruing to an enterprise from trust-based relationships with society. It is an approach that we intend to continue pursuing in future years.

The *Nanban-buki* smelting technique allowed the separation of both copper and silver from mineral ore.

Corporate philosophy and code of conduct

Based on the Sumitomo Business Spirit, we have formulated the SMM Group Corporate Philosophy (refer to the inside front cover page) and the SMM Group Code of Conduct (refer to page 33). The SMM Group Code of Conduct is designed to guide the behavior of individual employees.

SMM Group Code of Conduct

CORPORATE GOVERNANCE AND INTERNAL CONTROLS

Corporate governance provides a disciplinary framework both for maximizing the corporate value of the SMM Group and for ensuring sound management practices. As such, we regard it as a management issue of prime importance.

Management structure of corporate governance

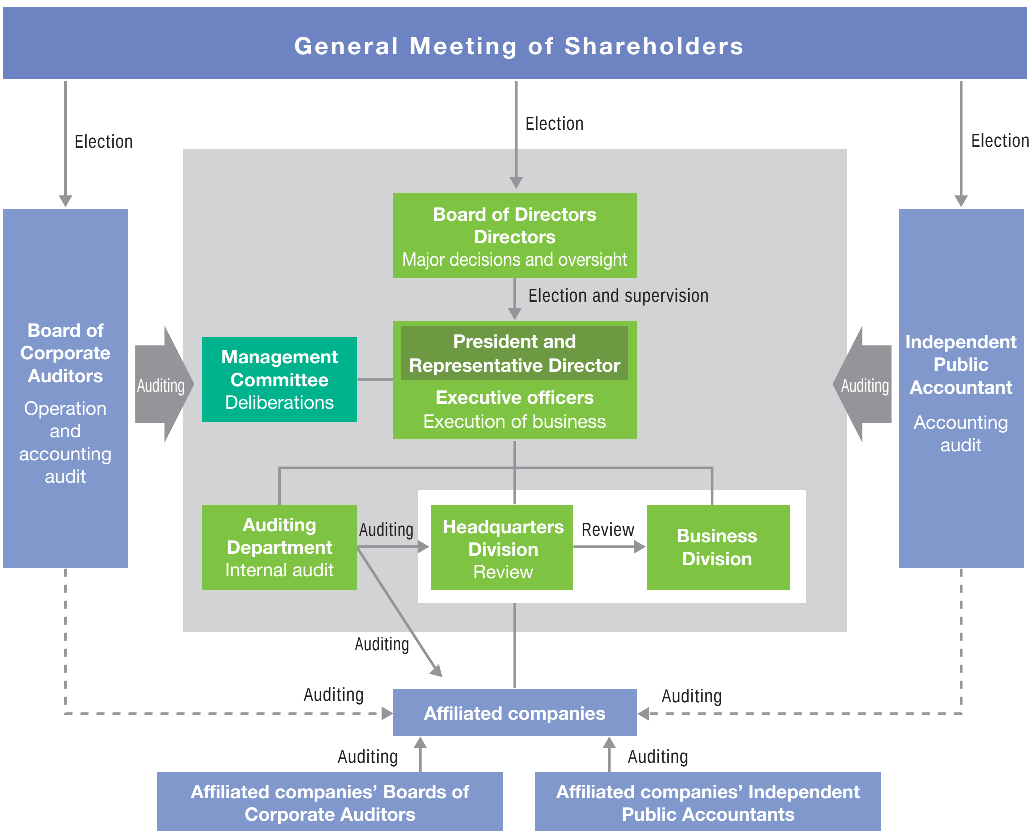
SMM has adopted an executive officer system to maximize the effectiveness of execution, monitoring and oversight functions within management. Along with the system of corporate auditors, this ensures the functional separation of executive decision-making from operational execution. SMM has also set up the Management Committee to provide deliberation with respect to important management matters. The governance system is thus structured to provide rational analysis from multiple perspectives prior to major decisions. In June 2007, to strengthen corporate governance functions further, SMM appointed an outside director to provide additional external input to the decisions made by senior management.

Directors and Board of Directors

SMM's articles of association limit the maximum number of directors to ten as a way of promoting lively debate at meetings of the Board of Directors. With eight members as of July 2007, the Board meets regularly each month and on special occasions as required to ensure flexible decision-making. Information is shared between the Board of Directors and the Executive Committee, which receives reports on all matters decided at Board meetings. The system of remuneration for directors is based on corporate financial performance.

The General Meeting of Shareholders held in June 2007 approved a measure to shorten the terms of directors from two years to one year, which will mean that the membership of the Board will become subject to an annual vote of confidence. This move is intended to bolster corporate governance functions.

Organizational Chart of Corporate Governance



Management Committee

The Management Committee is composed of the president, senior managing executive officers and other executive officers. Corporate auditors also attend its meetings. The purpose of the Management Committee is to provide a forum for broad-ranging discussion of serious issues that are either matters for the Board agenda or fall under the direct authority of the president. The Management Committee provides functional support to the president and approves which matters are placed on the Board agenda.

Executive officer system

This system reinforces executive functions by establishing a clear delineation of authority and responsibilities and by delegating significant authority to each executive officer. As of July 2007, SMM had 18 executive officers, including six with concurrent roles as directors. The executive officers occupy senior management positions with specifically assigned operational responsibilities for divisions, central departments and other key parts of the organization. All executive officers report on a monthly basis to the Executive Committee that oversees the status of operations. SMM is introducing a corporate financial performance-based remuneration system for executive officers similar to that for directors.

Corporate auditors

The articles of association limit the number of corporate auditors to five. As of July 2007, SMM had four corporate auditors, including two outside auditors that work for the Company on a part-time basis. Neither outside auditor has connections with any company in the SMM Group: one is a university professor, and the other is a CPA. The full-time internal auditors base their independent opinions on internally conducted audits, while outside auditors state opinions based on their knowledge from specialist fields. Corporate auditors attend meetings of the Board of Directors and of the Management Committee. The Board of Corporate Auditors meets once per month in coordination with Board meetings, and also convenes in extraordinary session if required.

Status of system of internal controls

To aim at ensuring full regulatory compliance, The SMM Group drew up the SMM Group Code of Conduct to set corporate behavioral standards for all employees and corporate officers. Drawing lessons from the critical nuclear accident that occurred in 1999 at our subsidiary JCO, we formulated a corporate revitalization plan in 2000 to promote the deep-rooted adoption of management practices firmly oriented toward compliance and safety. In December 2003, we instituted a revised Group management philosophy based on the Sumitomo Business Spirit.

In May 2006, the Board of Directors approved an initiative to develop a system of internal controls. We have since adopted measures to strengthen compliance, to bolster risk management, to raise transparency and improve the reliability of corporate disclosure, and to establish appropriate internal controls governing operational execution.

Initiatives to bolster compliance

We believe that strengthening compliance at the SMM Group is synonymous with improving the awareness and implementation of the SMM Group Code of Conduct. The code comprises 17 items, with compliance placed at the top of the list. Other key topics covered include the maintenance of safety, risk management and global environmental consciousness. Rather than using prohibitive language, the code emphasizes those behaviors that are expected of our employees and corporate officers. Since 2001, we have organized annual compliance-related training seminars for the entire SMM Group to improve basic compliance knowledge and to raise awareness of recent regulatory developments and related trends.

We have also established an internal reporting system to assist employees with any queries regarding the standards set out in the SMM Group Code of Conduct, or in cases where employees cannot resolve compliance-related doubts through consultation with superiors. The system allows employees to report compliance-related matters directly through this channel.

Strengthening risk management

The SMM Group faces various risks relating to issues such as compliance, the environment, disasters, quality and information security. We have drafted internal regulations relating to such risks to support systematic risk-reduction measures throughout the organization. We have also established the Risk Management Promotion Department as a dedicated team to tackle related issues. Specialist committees help to oversee promotion of risk management programs across the Company.

During fiscal 2006, we brought together the work begun a year earlier on business continuity plans as part of improving risk-management capabilities to respond to major disasters. Work is progressing on the further development of these plans to improve the effectiveness of projected measures. This includes discussions with related departments and the organization of training drills.

Ensuring proper financial reporting and operational execution

In addition to disclosing financial information prepared in accordance with proper accounting standards, we also strive to improve the reliability of such information through monitoring carried out by the Auditing Department along with the checks provided by the independent financial accounting audit. We are also constantly working to improve operational processes with the aim of making information-gathering processes faster and more comprehensive; analytical and decision-making processes more timely, compliance-oriented, precise and transparent; and disclosure processes more fair and proactive.

We also aim to ensure the appropriateness of operations by working to foster a corporate culture that is conducive to the proper fulfillment of duties based on observance of the SMM Group Code of Conduct. We try to ensure that multiple and specialist points of view are taken into account through the use of meetings and document circulation procedures that are based on internal regulations. Internal audits undertaken by the Auditing Department provide an additional safeguard to monitor the appropriateness of operational execution.

Controls affecting Group subsidiaries and affiliates include prior consultation with SMM on important matters; regular reporting of financial performance; assignment of executives to subsidiaries; and internal audits conducted by the Auditing Department to monitor operational execution at subsidiaries.

SMM Group Code of Conduct

(for corporate officers and employees)

1. Compliance with Laws and Regulations
   - We shall observe laws, rules, and morals.
   - We shall not conduct ourselves in anything which is against laws or morals even though it may benefit us.
2. Respect for Individuals
   - We respect each individual’s character and human rights, and shall not take any discriminatory action against them.
3. Securing of Safety and Health
   - We shall place top priority on the safety of life and health of our customers and employees.
4. Development of Human Resources
   - While making efforts at self-enlightenment, we shall educate our subordinates and juniors to train our successors.
5. Risk Management
   - We shall introduce the idea of risk management into our business operations.
6. Enterprising Attitude
   - We shall do our work in an enterprising attitude so that we can create technologies and systems a step ahead of the changes of the times.
7. Emphasis on Teamwork and Good Communications
   - We shall value teamwork among employees and organizations.
   - We shall make efforts to foster an open and active corporate culture where necessary information is shared in a timely and smooth fashion.
8. Relationship with the Local Community
   - We shall aim for a harmonious relationship with the local community.
9. Distinction between Private and Public Matters
   - We shall make a clear distinction between private and public matters and act sensibly.
10. How to Collect, Use, and Handle Information
    - We shall collect and use information speedily, legally, appropriately, and effectively.
    - We shall use the information obtained through our business activities only for business purposes and never disclose it to third parties.
11. Handling of Intellectual Property Rights
    - We recognize intellectual property rights as important assets that support our technology-oriented group and make efforts to create them.
    - We shall protect our intellectual property rights appropriately and use them effectively. At the same time, we shall respect the intellectual property rights of others.
12. Quality Assurance
    - We shall play the role expected from customers, base on our quality assurance system.
    - We shall provide customers with products and services that satisfy their needs with due consideration to safety and security.
13. Attitude toward Business and Purchasing Operations
    - We shall perform our business and purchasing operations through free and fair transactions under appropriate conditions.
14. Attitude toward Corporate Entertainment and Exchanges of Gifts
    - When we provide entertainment or gifts to our customers, we do so in a legally and socially acceptable way.
    - When we are provided with entertainment or gifts, we shall behave in the same way as mentioned above.
15. No Relationship with Antisocial Forces
    - We shall face up to antisocial forces or organizations and have no relationship with them.
16. Consideration to Global Environment
    - We shall make efforts to contribute to the solution or improvement of the global-level problems regarding resources, energy, and the environment.
17. Attitude toward Overseas Operations
    - In our overseas operations, we shall respect the cultures and customs of the countries or regions that we are involved with and make efforts to promote international exchanges.

SOCIAL AND ENVIRONMENTAL INITIATIVE

We recognize that the sustainability of our enterprise and business development is heavily reliant on making operations compatible with the needs of the environment and of society in general. We are engaged in various initiatives that aim from a number of angles to make a positive social and environmental contribution while cultivating a culture of safety.

Basic thinking on global environmental protection

The Sumitomo family enterprise developed originally through copper smelting and mining operations. In particular, the Besshi copper mine, which operated for a total of 283 years from 1691 to its closure in 1973, was one of the main assets of the Sumitomo business. Since copper smelting and mining are both businesses that involve harvesting the riches of nature, this demands that we adopt an eco-conscious business stance. Our predecessors also managed the business without forgetting the need for harmony with the environment.

We have formulated an environmental philosophy as the heirs to a thriving business and eco-conscious business stance. Our related ongoing program of initiatives aims to turn this philosophy into reality.

Environmental management system (EMS)

Since the institution of the SMM Environmental Philosophy in October 1997, one of the main initiatives that we have undertaken to realize it is to continue with an ongoing program to develop environmental management systems for all divisions, including affiliates, and to gain related ISO14001 certification.

A total of 50 SMM Group operating sites (44 in Japan and six overseas) had completed ISO14001 certification procedures for EMS by February 2003. Sites have since continued gaining certification to strengthen our environmental management systems. Disused mining sites are also included in the list of SMM Group operations that must acquire ISO14001 certification.

Business activities and global environmental protection

SMM has developed a vertically integrated business model in the non-ferrous metals sector that spans upstream and downstream operations, from mineral resource development and metal refining to materials fabrication. Each of these businesses has an intimate relationship with the environment.

In mineral resource development, we conduct various activities to minimize the impact on the local ecosystem and surrounding environment. In metal refining processes, we make efforts to conduct operations in an eco-friendly manner by implementing environmental impact-reduction measures to boost energy efficiency, prevent atmospheric and water pollution and maintain strict standards for the handling of chemical substances. We are also engaged in research on the smelting of low-grade ores to develop technologies that make the most effective use of limited resources. Moreover, in the area of materials fabrication, our efforts are focused on supplying customers with products that have a low environmental impact.

SMM Environment Philosophy

Sumitomo Metal Mining Co., Ltd. shall positively promote the preservation of the global environment as one of its basic managerial principles. In order to leave a comfortable and convenient environment for the next generation through our corporate activities in harmony with the environment, we shall do the following voluntarily and continuously:

1. Effective use and recycling of resources and energy saving
2. Reduction of environmental burdens

by making full use of our technologies and know-how for environmental preservation that we have accumulated over years and developing new technologies in addition to strictly observing laws and regulations.

Examples of social and environmental initiatives

■ Operations at Pogo Gold Mine begun only after clearing strict environmental standards

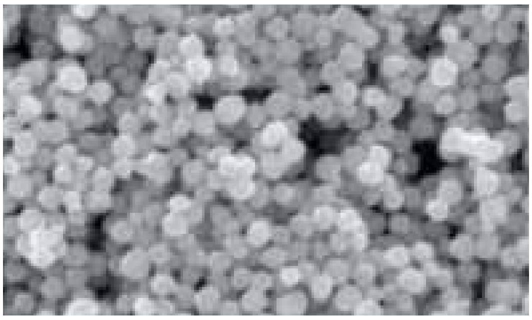
The Pogo Gold Mine in Alaska, U.S.A., which is the first mining project outside Japan in which SMM has a majority interest, began operations in February 2006. Gold deposits were first discovered in the area in 1994. Environmental concerns were fully taken into consideration from the design stage, with every effort made to gain the approval of local communities for development. The United States was one of the first countries in the world to introduce the use of environmental assessments for mining projects. The environmental protection standards are especially strict in Alaska, which has an abundance of national parks and protected wildlife areas. These various rules required 83 separate approvals for the project. In the case of the Pogo Gold Mine development, we took the utmost care to take measures to minimize the impact on ecosystems, to avoid harming the rivers that salmon ascend and protect local populations of animals such as elk.

We expect environmental protection-related demands to become even stricter for future mining projects. The Pogo project provides us with a valuable case study in how to address such environmental concerns effectively.

Elk living around Pogp Gold Mine

■ Battery materials for hybrid vehicles

The batteries used in eco-friendly hybrid vehicles need to provide energy for short bursts of acceleration. Demand for frequent power inputs and outputs is another reason why the battery electrodes must be able to cope with much larger loads than conventional batteries can typically handle. Nickel hydroxide products made by SMM are one material capable of withstanding the severe stress of the electrical loads involved. We supply nickel hydroxide for use in the hybrid vehicles made by Toyota Motor Corporation. By minimizing emissions of harmful substances such as CO_2, our battery materials are expected to contribute substantially to reducing environmental impact.



Nickel hydroxide powder

■ Contributions to society through the Sumitomo Foundation

The Sumitomo Foundation was established in 1991 as part of the 300th anniversary celebrations of the opening of the first shaft at the Besshi copper mine, the common forebear of all the Sumitomo Group businesses. The mission of the foundation is to contribute to the building of an affluent society for the benefit of humankind. SMM has consistently given financial support to the foundation, which was established initially with capital of ¥20 billion donated by 20 companies from the Sumitomo Group. Currently the foundation donates ¥300 million every year to fund activities and programs in five areas, including basic scientific research, environmental research, cultural heritage preservation activities in Japan and abroad, and international exchanges.

A thorough attitude toward safety

Cultivating a culture of safety underpins all business activities within SMM. We believe that this is a critical part of how we earn the trust of all stakeholders. A core part of the program of safety-related activities has been the introduction of an Occupational Safety and Health Management System (OSHMS). The key benefit of the OSHMS approach is that it seeks to identify and anticipate latent health and safety-related risks by determining possible hazards, evaluating risks and devising suitable countermeasures.

Based on the thinking that it is better to "make haste slowly," our program of safety measures is not one that seeks instant results, but rather a careful and thorough initiative that is being implemented steadily and reliably.

CORPORATE OFFICERS

As of June 28, 2007

From left: Tsutomu Ushijima (*Director*), Ichiro Abe (*Director*), Susumu Makino (*Director*), Koichi Fukushima (*Representative Director*), Nobumasa Kemori (*Representative Director*), Takuro Mochihara (*Director*), Masashi Koike (*Director*), Yoshiaki Nakazato (*Director*)

Directors and Corporate Auditors

Representative Directors:
Koichi Fukushima
Nobumasa Kemori

Directors:
Takuro Mochihara
Susumu Makino
Masashi Koike
Ichiro Abe
Yoshiaki Nakazato
Tsutomu Ushijima*

(Standing) Senior Corporate Auditor:
Hirosuke Chihara

(Standing) Corporate Auditor:
Motoki Kitamura

Corporate Auditors:
Hajime Ohta**
Katsumi Maeda**

*Outside Director under the Commercial Code
**Outside Corporate Auditors under the Commercial Code

Executive Officers

President: Nobumasa Kemori

Senior Managing Executive Officers:

Takuro Mochihara*

Susumu Makino*
(General Manager, Advanced Materials Div.)

Masashi Koike*

Ichiro Abe*
(General Manager, Mineral Resources Div.)

Managing Executive Officers:

Naoki Tajiri
(General Manager, Finance & Accounting Dept. and Management Service Center)

Yoshiaki Hashinaka
(General Manager, Besshi-Niihama District Div.)

Etsu Senda
(General Manager, Electronics Div.)

Kozou Baba
(General Manager, Technology Div.)

Executive Officers:

Kotaro Tomino
(Deputy General Manager, Non-Ferrous Metals Div.)

Yukio Kawaguchi
(Deputy General Manager, Mineral Resources Div.)

Yoshiaki Nakazato*
(General Manager, Corporate Planning Dept. and Affiliated Business Administration Dept.)

Toru Yamasaki
(General Manager, Energy & Environmental Business Div.)

Takahito Kusada
(General Manager, Safety & Environmental Control Dept.)

Takeshi Kubota
(General Manager, Non-Ferrous Metals Div.)

Toshikazu Yakushiji
(Deputy General Manager, Energy & Environmental Business Div.)

Yasushi Hashimoto
(Deputy General Manager, Advanced Materials Div.)

Naoyuki Tsuchida
(Deputy General Manager, Non-Ferrous Metals Div.)

*Those Double as Director and Executive Officer

Financial Section

Eleven-Year Financial Summary

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

Years ended March 31	**2007**	2006	2005	2004
Results for the year:				
Net sales	**¥966,764**	¥625,579	¥484,585	¥402,131
Gross profit	**203,180**	120,137	82,878	53,714
Operating income	**162,632**	82,756	47,893	22,778
Other income (expenses)	**42,985**	10,218	6,024	8,416
Income (loss) before income taxes	**205,617**	92,974	53,917	31,194
Net income (loss)	**126,054**	62,800	37,017	19,882
Equity in earnings of affiliated companies	**46,708**	21,915	13,513	7,112
Capital expenditures	**51,567**	50,568	36,488	46,540
Depreciation	**25,693**	22,951	20,578	17,824
Net interest expense	**(2,606)**	(1,281)	(893)	(1,098)
Net cash flows from operating activities	**95,985**	70,772	40,150	32,324
Net cash flows from investing activities	**(77,429)**	(102,384)	(31,725)	(17,448)
Net cash flows from financing activities	**(10,073)**	28,723	6,097	(9,293)
Free cash flows	**18,556**	(31,612)	8,425	14,876
Financial position at year-end:				
Total assets	**929,208**	772,562	573,925	517,930
Net assets*1	**528,921**	394,899	—	—
Shareholders' equity	**—**	—	283,897	253,071
Long-term debt due after one year	**93,800**	114,405	109,777	86,437
Interest-bearing debt	**189,910**	190,891	160,533	148,351
Working capital	**103,791**	72,228	86,382	52,795
Amounts per share (Yen):				
Net income (loss)				
— Basic	**220.49**	109.96	64.77	34.76
— Diluted	**213.67**	108.87	—	—
Shareholders' equity*2	**859.82**	654.15	497.57	443.29
Cash dividends	**27.0**	14.0	8.0	6.0
Key ratios:				
ROA (%)	**14.81**	9.33	6.78	4.02
ROE (%)*2	**28.99**	19.10	13.79	8.35
Equity ratio (%)*2	**53.4**	48.4	49.5	48.9
Interest-bearing debt to total assets ratio (%)	**20.4**	24.7	28.0	28.6
Debt-to-equity ratio (times)*2	**0.38**	0.51	0.57	0.59
Current ratio (times)	**1.39**	1.33	1.61	1.38

*1 Sections under "Net assets" are newly provided to conform to Japanese accounting regulation revisions.
See note 2 to the consolidated financial statements "Accounting standard for presentation of net assets in the balance sheet."
The fiscal 2006 figures have also been restated to reflect this change.

*2 From 2006, basis of calculation of shareholders' equity is figured out as follows:
Shareholders' equity = Total shareholders' equity (refer to page 49) + Total valuation and translation adjustments (refer to page 49)

Millions of yen (Except per share amounts and key ratios)

2003	2002	2001	2000	1999	1998	1997
¥355,242	¥330,194	¥375,352	¥360,299	¥350,288	¥431,950	¥525,076
51,764	38,152	63,372	45,061	41,190	62,641	57,836
16,593	1,147	26,930	8,990	858	24,622	21,665
(24,098)	(13,735)	(11,359)	(4,342)	(12,932)	(3,605)	(4,294)
(7,505)	(12,588)	15,571	4,648	(12,074)	16,876	14,617
(1,172)	(6,611)	15,103	4,740	(12,495)	10,157	12,884
3,400	1,535	4,078	2,406	326	(2,599)	(2,789)
18,927	25,379	28,078	20,490	32,499	27,968	24,730
18,283	17,822	16,774	16,611	23,095	21,638	20,702
(1,459)	(1,775)	(2,129)	(2,492)	(1,907)	(2,447)	(3,145)
26,105	33,370	23,339	(800)	22,912	43,056	43,135
(21,246)	(16,246)	(4,248)	4,143	(23,287)	—	—
(14,163)	(14,267)	(26,089)	(9,086)	4,047	—	—
4,859	17,124	19,091	3,343	(375)	—	—
470,774	518,756	530,080	544,121	544,519	566,088	586,948
—	—	—	—	—	—	—
223,341	236,313	237,470	235,231	226,795	243,436	238,056
76,470	73,972	83,839	107,266	124,535	82,356	117,021
154,799	167,077	176,998	197,624	207,821	201,515	224,736
35,945	23,371	33,259	38,910	50,518	26,529	62,726
(2.05)	(11.56)	26.41	8.29	(21.85)	17.77	22.65
—	—	—	—	—	—	—
391.14	413.28	415.25	411.34	396.59	425.68	417.20
5.0	4.0	6.0	5.0	3.0	6.0	6.0
—	—	2.81	0.87	—	1.76	2.13
—	—	6.39	2.05	—	4.22	5.56
47.4	45.6	44.8	43.2	41.7	43.0	40.6
32.9	32.2	33.4	36.3	38.2	35.6	38.3
0.69	0.71	0.75	0.84	0.92	0.83	0.94
1.26	1.14	1.20	1.23	1.31	1.13	1.31

Financial Analysis

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

Overview of Consolidated Operations

The SMM Group comprised the parent company (Sumitomo Metal Mining Co., Ltd.), 58 subsidiaries and 18 affiliated companies as of March 31, 2007. The SMM Group operates three main businesses, which are outlined below.

(1) Mineral resources: mining of ores to extract gold, silver, copper and other metals

(2) Metals: smelting and refining of non-ferrous metals such as gold, copper, nickel and zinc; manufacture of fabricated metal products such as copper strip products

(3) Electronics and advanced materials: manufacture of electronics materials such as IC packaging materials, single-crystal materials and PCB substrates (electronics materials business); manufacture of advanced materials, including copper-clad polyimide film, powdered materials such as nickel powder, battery materials and magnetic materials (advanced materials business)

Other consolidated operations include the housing and construction materials business, which manufactures *Siporex* (Autoclaved Lightweight aerated Concrete), and others business, which primarily comprises nuclear power-related engineering services and environment-related operations.

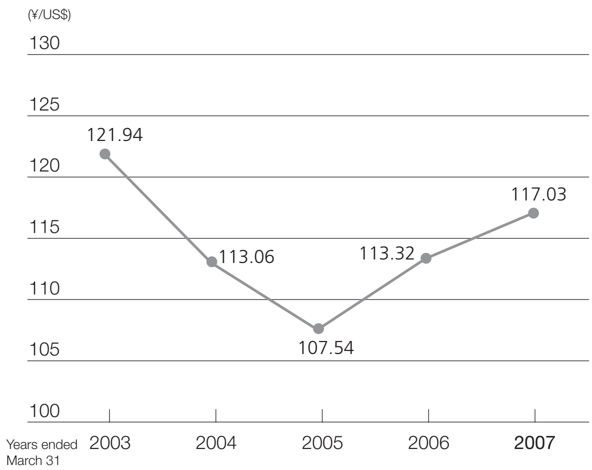
The results presented in this Annual Report comprise the consolidated performance of the parent company, 48 domestic and overseas subsidiaries, and 13 equity-method affiliates.

Operating Performance (Consolidated)

Impact of Foreign Exchange Fluctuations (Reference Note)

Exchange rates are closely linked to the non-ferrous metals business, from the purchase of ore to sales of final products. In our refining business, a weaker yen pushes up the price of purchased ore and raises the sales prices of manufactured products. In general terms, a weaker yen has a positive impact on earnings because U.S. dollar-denominated refining margins are worth more when translated into yen. The yen depreciated steadily during fiscal 2006, the year ended March 31, 2007. The average exchange rate against the U.S. dollar was ¥117.03, compared with ¥113.32 during the previous fiscal year (April 1, 2005–March 31, 2006, A depreciation of the yen against the U.S. dollar during fiscal 2006 of ¥3.71 translated into an improvement in earnings of approximately ¥5,000 million at the consolidated level.

U.S. Dollar–Yen Exchange Rate (Ave.)



Net Sales

Note: Net sales of business segments include inter-segment transactions.

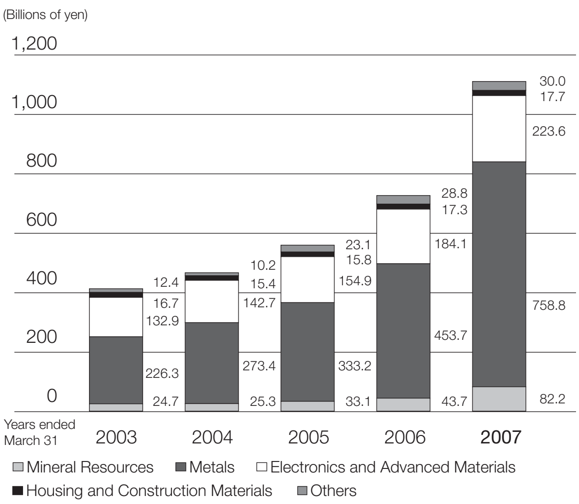
Demand in the non-ferrous metals industry remained robust in fiscal 2006, supported by rising capital investment, strong economic growth in emerging nations such as China and firm demand in the United States and Europe, among other factors. Non-ferrous metals prices rose even higher than the previous year's elevated levels due to a combination of growing demand, the emergence of production constraints in a number of areas and a market influx of trading capital. In addition, the yen remained relatively weak.

In the electronics sector, total demand for electronics devices and components grew favorably in year-on-year terms, despite an inventory correction during the middle of the year for LCD-related products. PCs, mobile phones and automotive components remained the major demand drivers.

Against this backdrop, the SMM Group pursued a growth strategy aimed at maximizing corporate value in the final year of the FY2004–6 Medium-term Business Plan. Primarily reflecting sharply higher prices and increased sales volumes for both copper and nickel, among other factors, consolidated net sales totaled ¥966,764 million in fiscal 2006, an increase of ¥341,185 million (54.5%), compared with the previous year. The metals segment accounted for 69.5% of consolidated net sales.

By business segment, the mineral resources segment recorded net sales of ¥82,248 million, a year-on-year increase of ¥38,529 million (88.1%); the metals segment posted net sales of ¥758,836 million, a year-on-year increase of ¥305,156 million (67.3%); and the electronics and advanced materials segment posted net sales of ¥223,580 million, a year-on-year increase of ¥39,505 million (21.5%).

Net Sales



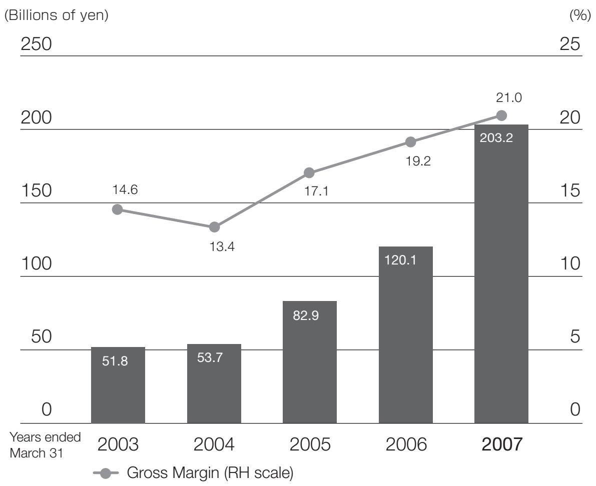
Note: Net sales of business segments include inter-segment transactions.

Cost of Sales and SG&A Expenses

Reflecting higher raw materials prices associated with the sharp increases in non-ferrous metals prices, the cost of sales increased by ¥258,142 million (51.1%) in year-on-year terms to ¥763,584 million. However, the gross margin increased from 19.2% to 21.0%, due mainly to positive inventory valuation effects amid rising metals prices, along with an increase in refining margins associated with the continued surge in metals prices.

Selling, general and administrative (SG&A) expenses rose by ¥3,167 million (8.5%) to ¥40,548 million. The main factors pushing up SG&A expenses were selling, transportation and miscellaneous expenses (up by ¥1,518 million, or 20.6%), salary bonuses and benefits (up by ¥312 million, or 3.7%), and other expenses (up by ¥1,870 million, or 13.4%). These factors were partially offset by a fall in retirement benefit expenses of ¥1,010 million, or 68.2%.

Gross Profit and Gross Margin



Operating Income

Reflecting higher overseas prices for non-ferrous metals, along with increased sales of non-ferrous metals and electronics and advanced materials due to robust demand in both sectors, operating income rose significantly across all core businesses. Consolidated operating income increased by ¥79,876 million (96.5%) in year-on-year terms to ¥162,632 million.

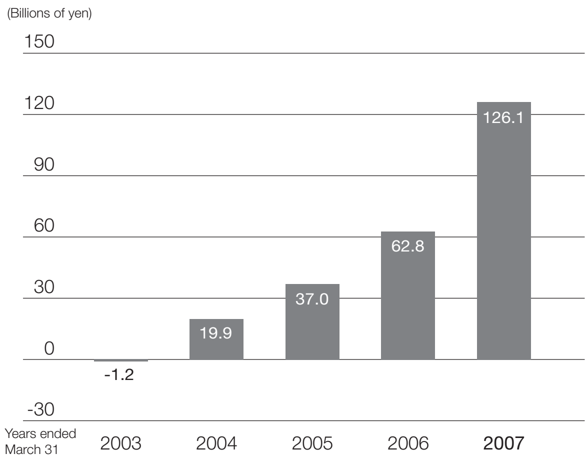
Other Income (Expenses)

Other income, net, was ¥42,985 million, a gain of ¥32,767 million (320.7%) compared with fiscal 2005. The major contributory factor was equity in earnings of affiliated companies, which increased by ¥24,793 million (113.1%) to ¥46,708 million due to higher earnings recorded by equity-method affiliates such as SMMA Candelaria Inc., SMM Cerro Verde Netherlands B.V. and P.T. International Nickel Indonesia. Offsetting negative factors included financial income (interest and dividend income, less interest expense), which recorded a net loss of ¥2,606 million that was ¥1,325 million (103.4%) greater than in fiscal 2005, and a valuation loss on gold loans of ¥1,803 million, which represented a year-on-year increase in the extent of the loss of ¥748 million (70.9%).

Net Income

Consolidated net income rose by ¥63,254 million (100.7%) in year-on-year terms to ¥126,054 million. Net income per share was ¥220.49, compared with ¥109.96 in the previous year.

Net Income (loss)



Segment Performance Analysis

Note: Net sales and operating income of each business segment in the analysis below include inter-segment transactions.

Mineral Resources

Reflecting sharply increased overseas prices for copper and gold, along with higher sales of copper ores sourced from overseas mines and precious metal ores sourced from domestic mining operations at Hishikari, net sales in the mineral resources segment rose by ¥38,529 million (88.1%) on a year-on-year basis to ¥82,248 million.

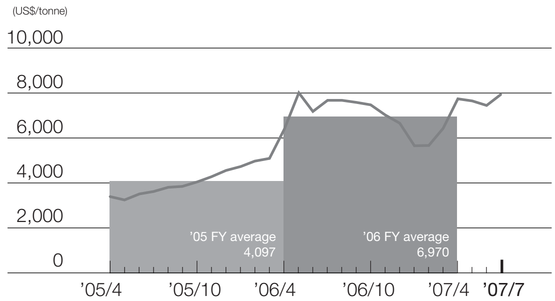
Higher prices for copper ores sourced from overseas mines helped to boost profits. Gold and silver ores from the Hishikari Mine also contributed to higher earnings due to an increase in the price of gold. Segment operating income increased by ¥16,425 million (96.0%) to ¥33,532 million.

Metals

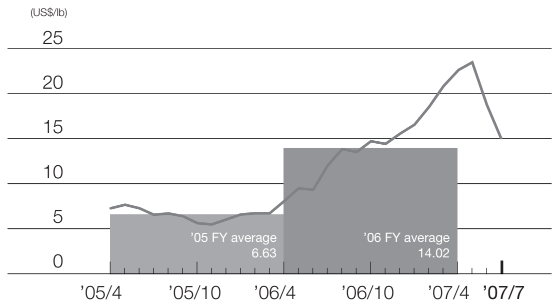
Reflecting sharply higher overseas prices for copper, nickel and gold and increased sales volumes for copper and nickel, net sales in the metals segment rose by ¥305,156 million (67.3%) on a year-on-year basis to ¥758,836 million.

Sales of copper in Japan expanded. Demand from the electric machinery and automobile sectors was robust, and sales to the wire and cable industry posted further favorable growth due to a recovery in demand from the electric power-related sector. Sales of copper strip products also grew strongly due to higher demand from the mobile phone and automotive sectors. Export sales of copper products were slightly down on fiscal 2005 levels. Sales of nickel increased due to firmer overall demand, although there was evidence in some demand sectors of customers running down stocks and restricting purchases due to surging prices for the metal. The specialty steels and alloys sector saw strong nickel demand from the energy-related sector, along with a recovery in nickel demand for electronics materials. Sales of nickel for use in stainless steel revived during the second half of fiscal 2006 after the lingering effects of the inventory adjustment from fiscal 2005 faded.

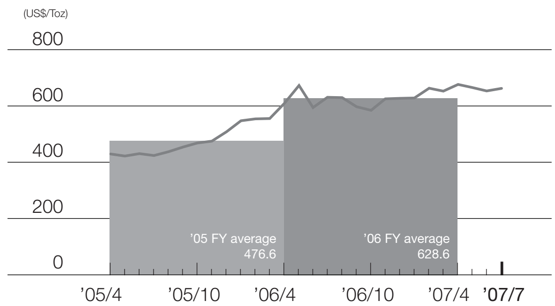
Copper Price (LME)



Nickel Price (LME)



Gold Price (LOCO London)



Reflecting sharply higher overseas prices and increased sales volumes for both copper and nickel, segment operating income rose by ¥59,881 million (120.5%) in year-on-year terms to ¥109,564 million.

Electronics and Advanced Materials

The recovery in demand in Japan for electronics devices and components that began in the second half of fiscal 2005 extended into fiscal 2006. The year also saw more market penetration of flat-panel televisions plus robust demand within the PC, mobile phone and onboard automotive electronics sectors. Reflecting these and other factors, net sales in the electronics and advanced materials segment increased by ¥39,505 million (21.5%) on a year-on-year basis to ¥223,580 million.

In the electronics materials business, products generating solid growth in sales included bonding wire for semiconductors, used in PCs and other products; alloy preform for electronics components, used in items such as mobile phones and flat-panel televisions; and nickel paste for multi-layer ceramic capacitors (MLCCs). Signs of an inventory adjustment emerged during the second half of fiscal 2006 with semiconductor packaging materials such as lead frames. In the advanced materials business, higher demand for copper-clad polyimide film (CCPF) boosted sales in fiscal 2006; sales of nickel hydroxide materials for use in hybrid vehicle batteries also grew. In other sectors, functional inks with infrared shielding properties posted a steady increase in sales volume.

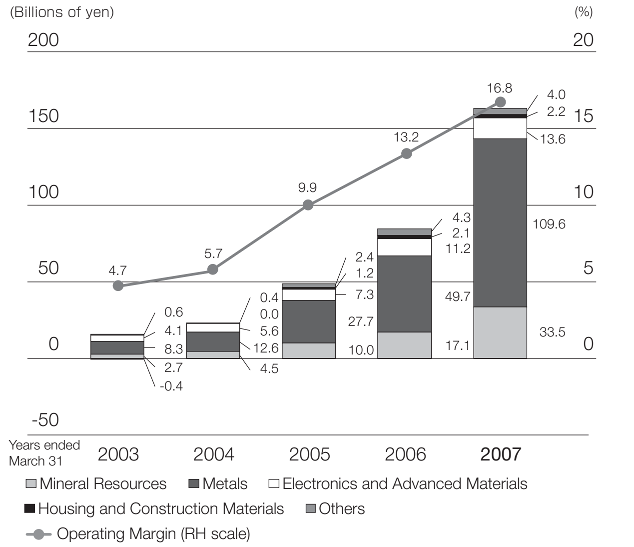
Reflecting the above factors, segment operating income increased by ¥2,408 million (21.5%) in year-on-year terms to ¥13,584 million.

Housing and Construction Materials

Demand in Japan for Autoclaved Lightweight aerated Concrete, the main product of this business, was expected to be on a par with the previous year. Consolidated sales volumes were roughly equal to fiscal 2005. Despite strong demands from customers for sales price discounts, the SMM Group was broadly successful in passing on sharp increases in the prices of materials and energy.

Reflecting such factors, net sales in the housing and construction materials segment rose by ¥343 million (2.0%) on a year-on-year basis to ¥17,661 million. Segment operating income increased by ¥13 million (0.6%) to ¥2,153 million.

Operating Income and Operating Margin



Note: Operating income in each segment is calculated taking into account inter-segment sales transactions.

Capital Expenditures and Depreciation

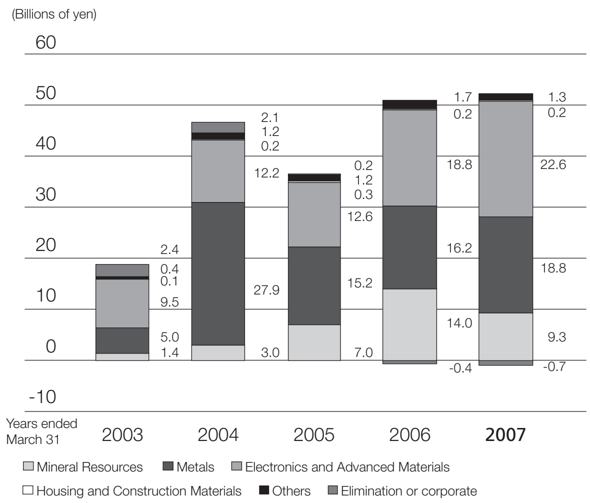
Total capital expenditures during fiscal 2006 amounted to ¥51,567 million, an increase of ¥999 million (2.0%) over the previous year. Of this figure, the mineral resources and metals segments accounted for ¥28,121 million (54.5% of the total) and the electronics and advanced materials segment accounted for ¥22,563 million (43.8% of the total).

In the mineral resources segment, the major capital spending programs for the year focused on exploration and development activities, primarily at the Hishikari Mine; on copper extraction and production facilities at the U.S.-based Morenci Copper Mine; and on facilities for the extraction and refining of gold at the Pogo Gold Mine, also in the United States. In the metals segment, besides undertaking capital investments to expand, upgrade and rationalize capacity at smelting and refining facilities for copper, nickel, lead and zinc, various investments were also made to boost wet-process smelting capacity for low-grade nickel oxide ores at Coral Bay and to renovate the ferronickel production facilities at Hyuga Smelting Co., Ltd.

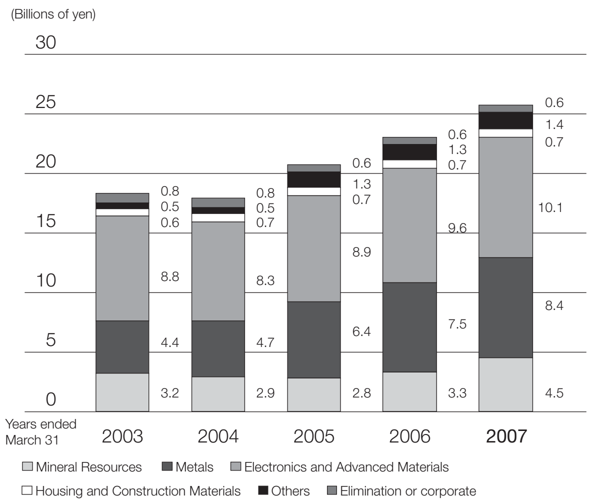
In the electronics and advanced materials segment, the major items of capital expenditure in fiscal 2006 included investments to increase and upgrade production facilities for CCPF and other advanced materials, the construction of new manufacturing facilities in China and Taiwan for COF (Chip on Film) products, and investments in increased production capacity for lead frames.

Depreciation increased by ¥2,742 million (11.9%) compared with the previous year to ¥25,693 million.

Capital Expenditures



Depreciation



Research and Development (R&D) Expenses

Total R&D expenses in fiscal 2006 amounted to ¥5,392 million, an increase of ¥95 million (1.8%) compared with the prior year. An overview of the spending breakdown by business segment is provided below.

R&D expenses in the mineral resources segment totaled ¥101 million. Major projects focused on ore-dressing processes for non-ferrous metal ores, the development of different types of leaching technologies for metal refining, and on development of water-resistant processing technologies. R&D expenses in the metals segment totaled ¥2,919 million. Major project themes included the development of non-ferrous metal refining, electrolytic technologies and new metal-refining processes; pilot-scale trials for original in-house wet-process copper-smelting technologies for actively separating, refining and purifying trace amounts of other metals contained in ores; development of alloys and related casting technologies; development of surface-treatment technologies; and the development of manufacturing technologies for rolled copper foil products. R&D expenses in the electronics and advanced materials segment totaled ¥2,034 million. Major project themes included the development of technologies, processes and related equipment for creating high-performance and related value-added electronics materials and the development of new advanced materials. In other business areas, R&D spending of ¥232 million in the housing and construction materials segment focused on the development of long-life *Siporex* and other new products, and R&D spending of ¥106 million in the others segment was directed toward the development of technologies in the areas of environmental protection and non-ferrous metals recycling.

Financial Position and Liquidity

Assets

As of the fiscal 2006 year-end (March 31, 2007), total assets amounted to ¥929,208 million, an increase of ¥156,646 million (20.3%) compared with a year earlier.

Current assets rose by ¥77,100 million (26.4%) to ¥368,688 million. This was mainly the result of respective increases in notes and accounts receivable and in inventories of ¥24,790 million (29.6%) and ¥40,393 million (31.3%) linked to the significant increases in metals prices during fiscal 2006. Total investments and other assets rose by ¥61,153 million (25.3%) to ¥303,273 million due to a gain in the value of investment securities, mainly relating to the Group's investments in overseas mining companies and favorable results posted by overseas mining affiliates accounted for by the equity method. Net property, plant and equipment increased by ¥18,362 million (7.9%) to ¥250,700 million, mainly reflecting the expansion and upgrade of production facilities.

Liabilities

Total liabilities amounted to ¥400,287 million as of the fiscal 2006 year-end, an increase of ¥22,624 million (6.0%) compared with a year earlier.

Current liabilities rose by ¥45,537 million (20.8%) to ¥264,897 million. This mainly reflected increases in short-term debt at overseas mining subsidiaries and higher accrued income taxes. The current ratio increased to 1.39 times from 1.33 times at the previous fiscal year-end. Reflecting successful efforts to squeeze long-term debt, total long-term liabilities declined by ¥22,913 million (14.5%) to ¥135,390 million.

Net Assets

Following the adoption of revised Japanese accounting standards relating to presentation of the shareholders' equity section of the balance sheet, effective fiscal 2006 the presentation of shareholders' equity has been aggregated with that of minority interest as "net assets."

As of the fiscal 2006 year-end, total net assets amounted to ¥528,921 million. This was the result of net income recorded for fiscal 2006 of ¥126,054 million, among other factors. Subtracting minority interest and valuation and translation adjustments, total shareholders' equity amounted to ¥458,280 million as of March 31, 2007, which represented a year-on-year increase of ¥116,805 million, or 34.2%. The equity ratio was 53.4%.

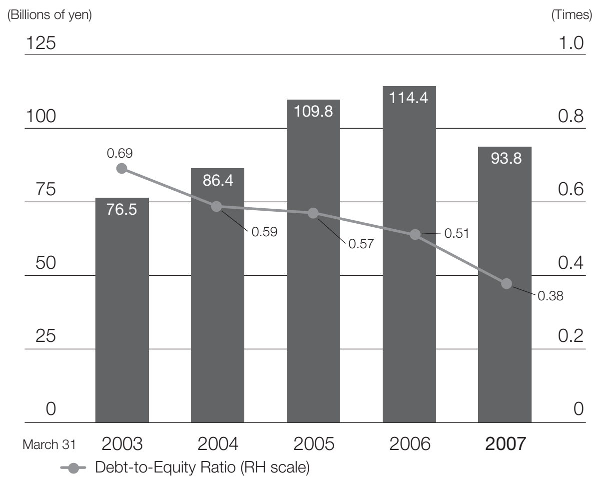
Composition of Interest-Bearing Debt

(Millions of yen)

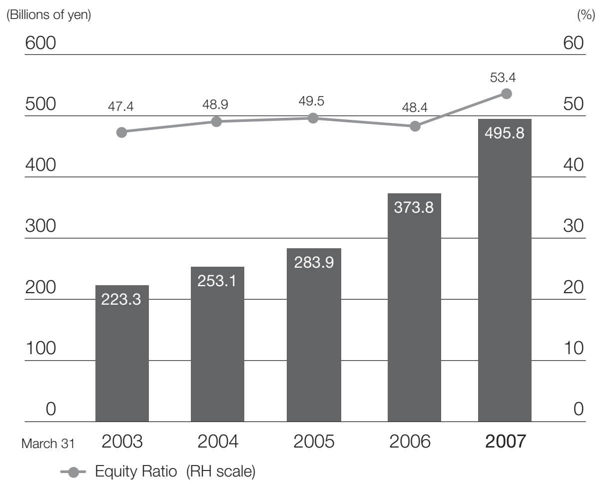
March 31	2007	2006	2005
Short-term debt	**¥ 96,110** **(10.3%)**	¥ 76,486 (9.9%)	¥ 50,756 (8.8%)
Long-term debt	**93,800** **(10.1%)**	114,405 (14.8%)	109,777 (19.1%)
Shareholders' equity*	**495,844** **(53.4%)**	373,752 (48.4%)	283,897 (49.5%)
Total assets	**¥929,208** **(100.0%)**	¥772,562 (100.0%)	¥573,925 (100.0%)

Figures in parentheses refer to proportions of total assets.
*including total valuation and translation adjustments

Long-Term Debt and Debt-to-Equity Ratio



Shareholders' Equity and Equity Ratio



Cash Flows

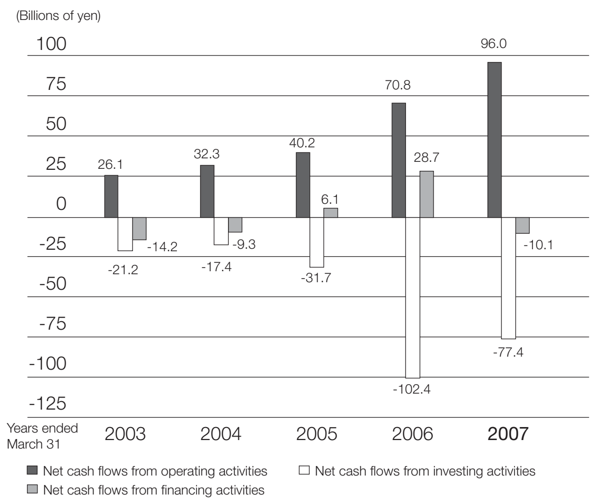
Net cash provided by operating activities totaled ¥95,985 million, an increase of ¥25,213 million compared with the previous year. This primarily reflected a significant rise in income before income taxes and minority interests. Negative offsetting factors included effects of higher trade receivables and inventories along with increased income tax payments.

Net cash used in investing activities in fiscal 2006 equaled ¥77,429 million, which marked a year-on-year fall in cash outflow of ¥24,955 million. Although funds were still required to finance some major facility investments, demand for funds to finance acquisitions of overseas mining interests was curtailed in fiscal 2006.

Net cash used in financing activities equaled ¥10,073 million in fiscal 2006. Compared with the prior year, this represented an increase in cash outflow of ¥38,796 million, reflecting higher repayments of long-term debt and a substantial increase in cash dividend payments.

Factoring in the effects of exchange rate fluctuations, the year-end balance of cash and cash equivalents amounted to ¥44,333 million at March 31, 2007, an increase of ¥10,083 million compared with the previous year-end.

Cash Flows



Risk Information

The following section provides an overview of the risk factors that could exert a significant effect on the business performance and financial position of the SMM Group. All forward-looking statements in the text refer to management decisions based on the best information available at the end of fiscal 2006.

Fluctuations in non-ferrous metals prices and exchange rates

■ Sustained downturn in non-ferrous metals prices

Prices of copper, nickel, gold and other non-ferrous metals are influenced by a number of factors, including international supply and demand, political and economic circumstances, speculative trading and competition from alternative materials. A sharp and sustained downturn in non-ferrous metals prices could have a significant negative impact on the Group's business performance and financial position.

■ Appreciation of the yen

The refining margins earned by SMM are effectively denominated in U.S. dollars. Returns on investments in overseas mining developments, income earned from investments in the electronics materials business and revenues from exports of products in the electronics materials and other segments are also denominated in foreign currencies. A substantial appreciation of the yen against these currencies over a sustained period could exert a significant negative impact on the Group's business performance and financial position.

To mitigate these external risks, the SMM Group continues to make progress in implementing a variety of measures aimed at boosting competitiveness, both in materials procurement and manufacturing.

Deterioration in terms of non-ferrous metal ore purchasing contracts and supply disruptions

Currently the SMM Group procures the majority of copper ores, nickel matte and other raw materials for non-ferrous metal refining operations based on long-term ore-purchasing contracts with third-party producers. This exposes the Group to the risk that shifts in supply and demand or various other factors affecting markets could prevent the purchase of required volumes of ore at reasonable prices. Supplies of ore are also subject to unpredictable disruptive events such as natural disasters and operational stoppages due to accidents or industrial disputes. Such factors could impose various constraints on Group production volumes, which as a result could exert a negative impact on the Group's business performance and financial position.

To mitigate such risks, the Group continues to seek to invest in high-grade overseas mines to secure reliable (in-house) supplies of ore.

Uncertainty inherent in mining investments

As described above, the raw materials procurement policy of the SMM Group is to develop in-house mining resources to boost the proprietary ore ratio. Amounts of extractable ore and extraction costs can only be estimated based on the results of exploratory surveys prior to mine development. In addition, the development costs of a mining project can rise as the result of a variety of situations such as compliance with environmental or regulatory actions. Any additional investment or increase in the burden of extraction costs arising from the inherent uncertainty associated with mining developments could have a negative impact on the Group's business performance and financial position.

To mitigate such risks, the SMM Group employs a selective investment policy and undertakes strict assessments of the potential profitability of individual mining developments based on extensive experience in mining extraction and mine valuation accumulated over many years.

Environmental protection and regulatory compliance risks

SMM Group businesses, notably the mining and non-ferrous metal smelting and refining operations, are subject to a broad range of laws and regulations in areas such as occupational safety and health, environmental protection, pollution prevention, industrial waste disposal and management of potentially toxic substances. Ongoing regulatory compliance costs are substantial and subject to unexpected increases as the result of the sudden emergence of previously unknown risks. The costs of ensuring regulatory compliance could therefore exert a negative impact on the Group's business performance and financial position.

To mitigate such risks, the Group seeks to ensure that operations are in full compliance with environmental protection and other laws and regulations through the operation of environmental and risk management systems based on strict standards. The Group also endeavors to manage operations so that related compliance costs are kept within reasonable limits.

Risks associated with market shifts, new product development and intellectual property rights

Demand changes rapidly in markets targeted by the SMM Group's electronics and advanced materials operations, even as product development programs in these areas require the investment of increasingly large amounts of time and resources. Expected returns on investment from related new product development programs may not materialize due to obsolescence caused by technological progress, delays caused by responding to customer requests or the launch of competitor products, among other factors. Customer demand for products may also decline in the future. All these various factors could have a negative impact on the Group's business performance and financial position.

The SMM Group recognizes the importance and value of acquiring intellectual property rights and managing such rights properly in accordance with related laws and regulations. Although the Group strives to observe such laws, it remains exposed to risks such as failure to acquire certain rights or damage done to the results of the Group's R&D activities due to illegal actions by third parties.

To mitigate such risks, the Group strives to minimize related problems by structuring R&D activities to realize commercial opportunities as quickly as possible. The Group has also created dedicated in-house teams to manage issues related to intellectual property rights to ensure that such rights are acquired and protected properly.

Overseas investments

Overseas operations are subject to political and economic risks that vary by country. The emergence of various developments could prevent the Group from earning a suitable return on overseas investments. Such risks include the development of mineral resource projects by organizations funded by national or regional governments against the backdrop of high nonferrous metals prices, or the levying of higher taxes on such operations. Increased environmental demands from various quarters constitute a further risk.

To mitigate such risks, the SMM Group makes overseas investment decisions based on careful consideration of all relevant country risks.

Disaster-related risks

The SMM Group locates manufacturing operations based on considerations such as customer relationships, raw material procurement, the links to other Group operations and effective use of management resources. Unexpected large-scale natural disasters such as earthquakes or typhoons that affect the regions where such facilities are located could result in major financial losses arising from factors such as on-site damage and loss of production.

To mitigate such risks, the Group insures such facilities where this is possible at reasonable cost and has made plans containing suitable countermeasures to minimize any secondary effects due to such disasters.

Consolidated Balance Sheets

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

ASSETS

As of March 31, 2007 and 2006	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current assets:			
Cash and cash equivalents	**¥ 44,333**	¥ 34,250	**$ 375,417**
Time deposits	**314**	459	**2,659**
Receivables:			
Notes and accounts receivable:			
Trade	**101,660**	78,468	**860,869**
Non-consolidated subsidiaries and affiliated companies	**6,972**	5,374	**59,040**
Loans and others:			
Non-consolidated subsidiaries and affiliated companies	**4,808**	4,183	**40,715**
Other	**6,899**	6,542	**58,422**
Allowance for doubtful accounts	**(304)**	(384)	**(2,574)**
Inventories (Note 5)	**169,333**	128,940	**1,433,932**
Deferred tax assets (Note 8)	**4,499**	5,280	**38,098**
Other current assets	**30,174**	28,476	**255,515**
Total current assets	**368,688**	291,588	**3,122,093**
Investments and long-term receivables:			
Investment securities (Notes 3 and 7):			
Non-consolidated subsidiaries and affiliated companies	**188,943**	140,698	**1,599,992**
Other	**108,507**	94,859	**918,850**
Allowance for loss on investments	**(16)**	—	**(135)**
Loans:			
Non-consolidated subsidiaries and affiliated companies	**—**	6	**—**
Other	**1,142**	692	**9,671**
Other long-term receivables	**5,080**	6,323	**43,016**
Allowance for doubtful accounts	**(383)**	(458)	**(3,243)**
Total investments and other assets	**303,273**	242,120	**2,568,151**
Property, plant and equipment (Notes 6 and 7)**:**			
Land	**29,188**	29,330	**247,167**
Buildings and structures	**155,034**	142,357	**1,312,846**
Machinery and equipment	**341,289**	305,578	**2,890,075**
Construction in progress	**9,000**	29,143	**76,213**
	534,511	506,408	**4,526,301**
Accumulated depreciation	**(283,811)**	(274,070)	**(2,403,344)**
Net property, plant and equipment	**250,700**	232,338	**2,122,957**
Deferred tax assets (Note 8)	**1,843**	1,545	**15,607**
Other assets	**4,704**	4,971	**39,835**
Total assets	**¥ 929,208**	¥ 772,562	**$ 7,868,643**

The accompanying notes are an integral part of these balance sheets.

LIABILITIES AND NET ASSETS

As of March 31, 2007 and 2006	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:			
Bank loans (Note 7)	**¥ 67,163**	¥ 46,730	**$ 568,744**
Long-term debt due within one year (Note 7)	**28,947**	29,756	**245,127**
Notes and accounts payable:			
Trade	**51,131**	48,739	**432,983**
Non-consolidated subsidiaries and affiliated companies	**6,132**	6,294	**51,926**
Other	**17,435**	10,473	**147,642**
Accrued income taxes (Note 8)	**44,742**	27,250	**378,881**
Accrued expenses	**4,772**	4,386	**40,410**
Advances received	**1,433**	1,126	**12,135**
Accrued restructuring charges	**479**	975	**4,056**
Accrued repair construction of lots for sale	**86**	191	**728**
Accrued bonus to directors and corporate auditors	**115**	—	**974**
Deferred tax liabilities (Note 8)	**45**	54	**381**
Other current liabilities	**42,417**	43,386	**359,192**
Total current liabilities	**264,897**	219,360	**2,243,179**
Long-term liabilities :			
Long-term debt (Note 7)	**93,800**	114,405	**794,309**
Deferred tax liabilities (Note 8)	**26,682**	25,148	**225,946**
Accrued retirement benefits (Note 9)	**9,510**	11,120	**80,532**
Accrued environmental measures	**632**	573	**5,352**
Accrued restructuring charges	**75**	—	**635**
Accrued indemnification loss on damages caused by a consolidated subsidiary	**552**	792	**4,674**
Accrued liquidation loss of subsidiaries	**—**	1,051	**—**
Other accruals	**2,265**	2,446	**19,180**
Other long-term liabilities	**1,874**	2,768	**15,870**
Total long-term liabilities	**135,390**	158,303	**1,146,498**
Contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Note 12):			
Common stock			
Authorized — 1,000,000,000 shares			
Issued — 578,790,870 shares	**91,821**	88,906	**777,551**
Capital surplus	**84,668**	81,750	**716,979**
Retained earnings (Note 11)	**283,568**	171,946	**2,401,287**
Treasury stock, at cost	**(1,777)**	(1,127)	**(15,048)**
Total shareholders' equity	**458,280**	341,475	**3,880,769**
Valuation and translation adjustments:			
Net unrealized holding gain on securities	**34,558**	34,897	**292,642**
Deferred gain or losses on hedges	**1,170**	—	**9,908**
Foreign currency translation adjustment	**1,836**	(2,620)	**15,547**
Total valuation and translation adjustments	**37,564**	32,277	**318,097**
Minority interest	**33,077**	21,147	**280,100**
Total net assets	**528,921**	394,899	**4,478,966**
Total liabilities and net assets	**¥ 929,208**	¥ 772,562	**$ 7,868,643**

Consolidated Statements of Income

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

Years ended March 31, 2007, 2006 and 2005	Millions of yen 2007	2006	2005	Thousands of U.S. dollars (Note 1) 2007
Net sales (Note 14)	**¥ 966,764**	¥ 625,579	¥ 484,585	**$ 8,186,671**
Costs and expenses (Note 14)**:**				
Cost of sales	**763,584**	505,442	401,707	**6,466,119**
Selling, general and administrative expenses (Note 10)	**40,548**	37,381	34,985	**343,365**
	804,132	542,823	436,692	**6,809,484**
Operating income (Note 14)	**162,632**	82,756	47,893	**1,377,187**
Other income (expenses):				
Interest and dividend income	**2,829**	1,673	957	**23,956**
Interest expense	**(5,435)**	(2,954)	(1,850)	**(46,024)**
Gain on sale of investment securities	**76**	356	71	**644**
Write-down of investment securities	**(6)**	(60)	—	**(51)**
Gain (Loss) on sales of subsidiaries and affiliated companies securities	**400**	—	1,390	**3,387**
Write-down of subsidiaries and affiliated securities	**(302)**	—	—	**(2,557)**
Gain (Loss) on sale and disposal of property, plant and equipment	**(1,026)**	(3,407)	(757)	**(8,688)**
Loss on impairment of fixed assets	**—**	(1,825)	(1,263)	**—**
Reversal of loss on impairment of fixed assets	**939**	—	—	**7,952**
Gain (Loss) on liquidation of subsidiaries	**63**	418	(78)	**533**
Reversal of (Provision for) doubtful accounts	**355**	54	(41)	**3,006**
Provision for loss on investments	**(16)**	—	—	**(135)**
Provision for repair construction of lots for sale	**(73)**	(191)	—	**(618)**
Provision for environmental measures	**(57)**	(573)	—	**(483)**
Gain (Loss) from valuation of gold loans	**(1,803)**	(1,055)	(271)	**(15,268)**
Exchange gain (loss)	**1,207**	845	(313)	**10,221**
Reversal of (Provision for) restructuring charges	**37**	(1,092)	(185)	**313**
Maintenance cost for ceased projects	**(605)**	(816)	(743)	**(5,123)**
Write-off of obsolete inventories	**—**	—	(478)	**—**
Casualty loss	**(103)**	(409)	(622)	**(872)**
Gain (Loss) from valuation of derivative instruments	**380**	(2,029)	(3,636)	**3,218**
Amortization of negative goodwill	**10**	33	27	**85**
Equity in earnings of affiliated companies	**46,708**	21,915	13,513	**395,529**
Gain on change in interests in an affiliated company	**—**	—	1,313	**—**
Other, net	**(593)**	(665)	(1,010)	**(5,024)**
	42,985	10,218	6,024	**364,002**
Income before income taxes and minority interests	**205,617**	92,974	53,917	**1,741,189**
Income taxes (Note 8)**:**				
Current	**68,149**	31,932	10,246	**577,094**
Deferred	**1,203**	(3,557)	5,276	**10,187**
	69,352	28,375	15,522	**587,281**
	136,265	64,599	38,395	**1,153,908**
Minority interests in net income of consolidated subsidiaries	**(10,211)**	(1,799)	(1,378)	**(86,468)**
Net income	**¥ 126,054**	¥ 62,800	¥ 37,017	**$ 1,067,440**

Years ended March 31, 2007, 2006 and 2005	Yen 2007	2006	2005	U.S. dollars (Note 1) 2007
Amounts per share of common stock:				
Net income (Note 17)				
— Basic	**¥ 220.49**	¥ 109.96	¥ 64.77	**$ 1.87**
— Diluted	**213.67**	108.87	—	**1.81**
Cash dividends applicable to the year	**27.00**	14.00	8.00	**0.23**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

		Shareholders' Equity				
Years ended March 31, 2007, 2006 and 2005	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(thousands)	Millions of yen				
Balance at March 31, 2004	571,873	¥ 88,355	¥ 81,187	¥ 81,210	¥ (525)	¥ 250,227
Net income				37,017		37,017
Increase due to change in consolidation of subsidiaries				1,049		1,049
Foreign currency translation adjustments						
Adjustments for unrealized gains on securities						
Treasury stock					(254)	(254)
Gain on sale of treasury stock			4			4
Executive bonuses				(37)		(37)
Decrease due to change in consolidation of subsidiaries				(1,071)		(1,071)
Decrease due to change in consolidation of affiliated companies				(981)		(981)
Cash dividends paid				(3,425)		(3,425)
Balance at March 31, 2005	571,873	¥ 88,355	¥ 81,191	¥ 113,762	¥ (779)	¥ 282,529
Net income				62,800		62,800
Conversion of convertible bonds		551	551			1,102
Foreign currency translation adjustments						
Adjustments for unrealized gains on securities						
Treasury stock					(348)	(348)
Gain on sale of treasury stock			8			8
Executive bonuses				(52)		(52)
Cash dividends paid				(4,564)		(4,564)
Balance at March 31, 2006	572,972	¥ 88,906	¥ 81,750	¥ 171,946	¥ (1,127)	¥ 341,475
Net income				126,054		126,054
Conversion of convertible bonds		2,915	2,910			5,825
Foreign currency translation adjustments						
Adjustments for unrealized gains on securities						
Decrease due to change in consolidation of subsidiaries				(75)		(75)
Treasury stock					(657)	(657)
Gain on sale of treasury stock			8		7	15
Deferred gains or losses on hedges						
Executive bonuses				(73)		(73)
Minority interest						
Cash dividends paid				(14,284)		(14,284)
Balance at March 31, 2007	**578,791**	**¥91,821**	**¥84,668**	**¥283,568**	**¥(1,777)**	**¥458,280**

	Shareholders' Equity				
Years ended March 31, 2007	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	Thousands of U.S. dollars (Note 1)				
Balance at March 31, 2006	$ 752,866	$ 692,269	$ 1,456,059	$ (9,544)	$ 2,891,650
Net income			1,067,440		1,067,440
Conversion of convertible bonds	24,685	24,642			49,327
Foreign currency translation adjustments					
Adjustments for unrealized gains on securities					
Decrease due to change in consolidation of subsidiaries			(635)		(635)
Treasury stock				(5,564)	(5,564)
Gain on sale of treasury stock		68		59	127
Deferred gains or losses on hedges					
Executive bonuses			(618)		(618)
Minority interest					
Cash dividends paid			(120,959)		(120,959)
Balance at March 31, 2007	**$777,551**	**$716,979**	**$2,401,287**	**$(15,049)**	**$3,880,768**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets (continued)

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

Years ended March 31, 2007, 2006 and 2005	Net unrealized holding gain on securities	Deferred gain on hedges	Foreign currency translation adjustment	Total valuation and translation adjustment	Minority interests	Total net assets
	Valuation, translation adjustment and others					
						Millions of yen
Balance at March 31, 2004	¥16,111		¥(13,267)	¥ 2,844		¥253,071
Net income						37,017
Increase due to change in consolidation of subsidiaries						1,049
Foreign currency translation adjustments			(645)	(645)		(645)
Adjustments for unrealized gains on securities	(831)			(831)		(831)
Treasury stock						(254)
Gain on sale of treasury stock						4
Executive bonuses						(37)
Decrease due to change in consolidation of subsidiaries						(1,071)
Decrease due to change in consolidation of affiliated companies						(981)
Cash dividends paid						(3,425)
Balance at March 31, 2005	¥15,280		¥(13,912)	¥ 1,368		¥283,897
Net income						62,800
Conversion of convertible bonds						1,102
Foreign currency translation adjustments			11,292	11,292		11,292
Adjustments for unrealized gains on securities	19,617			19,617		19,617
Treasury stock						(348)
Gain on sale of treasury stock						8
Executive bonuses						(52)
Cash dividends paid						(4,564)
Balance at March 31, 2006	¥34,897		¥ (2,620)	¥32,277	¥21,147	¥394,899
Net income						126,054
Conversion of convertible bonds						5,825
Foreign currency translation adjustments			4,456	4,456		4,456
Adjustments for unrealized gains on securities	(339)			(339)		(339)
Decrease due to change in consolidation of subsidiaries						(75)
Treasury stock						(657)
Gain on sale of treasury stock						15
Deferred gains or losses on hedges		¥1,170		1,170		1,170
Executive bonuses						(73)
Minority interest					11,930	11,930
Cash dividends paid						(14,284)
Balance at March 31, 2007	**¥34,558**	**¥1,170**	**¥ 1,836**	**¥37,564**	**¥33,077**	**¥528,921**

Years ended March 31, 2007	Net unrealized holding gain on securities	Deferred gain on hedges	Foreign currency translation adjustment	Total valuation and translation adjustment	Minority interests	Total net assets
	Valuation, translation adjustment and others					
						Thousands of U.S. dollars (Note 1)
Balance at March 31, 2006	$ 295,512		$ (22,186)	$ 273,326	$ 179,075	$ 3,344,051
Net income						1,067,440
Conversion of convertible bonds						49,327
Foreign currency translation adjustments			37,734	37,734		37,734
Adjustments for unrealized gains on securities	(2,871)			(2,871)		(2,871)
Decrease due to change in consolidation of subsidiaries						(635)
Treasury stock						(5,564)
Gain on sale of treasury stock						127
Deferred gains or losses on hedges		$9,908		9,908		9,908
Executive bonuses						(618)
Minority interest					101,025	101,025
Cash dividends paid						(120,959)
Balance at March 31, 2007	**$294,641**	**$9,908**	**$ 15,548**	**$318,097**	**$280,100**	**$4,478,965**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars (Note 1)
Years ended March 31, 2007, 2006 and 2005	2007	2006	2005	2007
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 205,617**	¥ 92,974	¥ 53,917	**$ 1,741,189**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**25,693**	22,951	20,578	**217,571**
Loss on impairment of fixed assets	**—**	1,825	1,263	**—**
Reversal of loss on impairment of fixed assets	**(939)**	—	—	**(7,952)**
Loss (Gain) on sale and disposal of property, plant and equipment	**1,026**	3,407	757	**8,688**
Gain on sale of investment securities	**(76)**	(356)	(71)	**(644)**
Write-down of investment securities	**6**	60	—	**51**
Gain on change in interests in an affiliated company	**—**	—	(1,313)	**—**
Increase (Decrease) in allowance for loss on investments	**16**	—	—	**135**
Loss (Gain) on sales of subsidiaries and affiliated companies securities	**(400)**	—	(1,591)	**(3,387)**
Loss (Gain) from valuation of derivative instruments	**(380)**	2,029	3,636	**(3,218)**
Provision for (Reversal of) doubtful accounts	**(154)**	(122)	(72)	**(1,304)**
Increase (Decrease) in retirement benefits	**(350)**	(1,613)	(2,458)	**(2,964)**
Loss (Gain) on liquidation of subsidiaries	**(1,030)**	(418)	(608)	**(8,722)**
Interest and dividend income	**(2,829)**	(1,673)	(957)	**(23,956)**
Interest expense	**5,435**	2,954	1,850	**46,024**
Equity in earnings of affiliated companies	**(46,708)**	(21,915)	(13,513)	**(395,529)**
Provision for (Reversal of) realignment of operations	**—**	—	(69)	**—**
Restructuring charges	**—**	441	70	**—**
Casualty loss	**103**	409	622	**872**
Maintenance cost for ceased projects	**605**	816	743	**5,123**
Decrease (Increase) in trade receivables	**(24,454)**	(18,971)	9,624	**(207,079)**
Decrease (Increase) in inventories	**(40,413)**	(24,964)	(37,061)	**(342,222)**
Increase in trade payables	**3,017**	8,804	2,886	**25,548**
Others	**4,020**	8,298	3,556	**34,042**
Sub total	**127,805**	74,936	41,789	**1,082,266**
Interest and dividend received	**23,904**	14,350	3,597	**202,422**
Interest paid	**(5,087)**	(2,811)	(1,923)	**(43,077)**
Payments for additional retirement benefits by realignment of operations	**—**	—	(95)	**—**
Payments for maintenance costs for ceased project	**(605)**	(816)	(743)	**(5,123)**
Payments for recovery costs	**(103)**	(409)	(589)	**(872)**
Payments for income taxes	**(49,929)**	(14,478)	(1,886)	**(422,805)**
Net cash provided by operating activities	**95,985**	70,772	40,150	**812,811**
Cash flows from investing activities:				
Payments for acquisition of property, plant and equipment	**(48,314)**	(48,728)	(38,056)	**(409,129)**
Proceeds from sale of property, plant and equipment	**4,033**	3,103	2,615	**34,152**
Payments for purchases of investment securities	**(14,118)**	(1,204)	(416)	**(119,553)**
Payments for purchase of subsidiaries and affiliated companies securities	**(21,564)**	(51,969)	—	**(182,606)**
Proceeds from sale of investment securities	**263**	510	235	**2,227**
Proceeds from sales of subsidiaries and affiliated companies securities	**1,195**	5	4,018	**10,119**
Increase in loans receivable	**(2,500)**	(1,621)	(1,575)	**(21,170)**
Collection of loans receivable	**2,015**	956	2,105	**17,063**
Other	**1,561**	(3,436)	(651)	**13,219**
Net cash used in investing activities	**(77,429)**	(102,384)	(31,725)	**(655,678)**
Cash flows from financing activities:				
Proceeds from long-term debt	**5,671**	31,867	16,785	**48,023**
Repayments of long-term debt	**(20,759)**	(4,337)	(2,586)	**(175,790)**
Net increase (decrease) in bank loans	**18,880**	7,682	(6,970)	**159,878**
Payments for redemption of bonds	**(10,000)**	(10,000)	(16,000)	**(84,681)**
Proceeds from issuance of bonds	**9,944**	—	20,000	**84,207**
Contribution from minority in consolidated subsidiaries	**5,731**	9,288	—	**48,531**
Increase in treasury stocks	**(642)**	(338)	(254)	**(5,437)**
Cash dividends paid	**(14,284)**	(4,564)	(3,425)	**(120,959)**
Other	**(4,614)**	(875)	(1,453)	**(39,072)**
Net cash provided by (used in) financing activities	**(10,073)**	28,723	6,097	**(85,300)**
Effect of changes in exchange rate on cash and cash equivalents	**1,602**	2,354	55	**13,566**
Net increase (decrease) in cash and cash equivalents	**10,085**	(535)	14,577	**85,399**
Cash and cash equivalents at beginning of fiscal year	**34,250**	34,785	19,304	**290,033**
Increase in cash due to newly consolidated subsidiaries	**9**	—	904	**76**
Decrease in cash and cash equivalents due to exclusion from consolidation	**(11)**	—	—	**(91)**
Cash and cash equivalents at end of fiscal year	**¥ 44,333**	¥ 34,250	¥ 34,785	**$ 375,417**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of changes in net assets for 2006 and 2005) from the consolidated financial statements of Sumitomo Metal Mining Co., Ltd. (the "Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

As discussed in Note 2 "Accounting Standard for Statement of Changes in Net Assets", the consolidated statements of changes in net assets for 2006 and 2005 has been prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with Local Finance Bureau prior to 2007.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.09 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and its significant subsidiaries (48 subsidiaries in 2007, 49 in 2006 and 47 in 2005). All significant intercompany balances and transactions have been eliminated. Investments in affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method (13 affiliated companies in 2007 and 2006 and 8 in 2005). Investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost because of their immaterial effect on the consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

The goodwill (consolidation difference between the investment cost and the underlying equity in its net assets at the date of acquisition) is amortized over five years on a straight-line basis.

Cash and cash equivalents and cash flow statements — For the purpose of the consolidated statements of cash flows, cash on hand, readily-available bank deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts — The allowance for doubtful receivables is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amount determined by reference to specific doubtful receivables from customers who are experiencing financial difficulties.

Investment securities — Securities are classified into two categories based on the intent of holding; available-for-sale securities and securities issued by non-consolidated subsidiaries and affiliated companies.

Available-for-sale securities with available fair values (marketable securities) are stated at the fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, presented as separate component of net assets. Other available-for-sale securities with no available fair values (non-marketable securities) are stated at moving-average method. Securities issued by non-consolidated subsidiaries and affiliated companies are carried at cost. The cost of securities sold is determined by the moving-average method.

Derivatives and hedge accounting — Derivative instruments are stated at fair value. Changes in the fair values are recognized as gains and losses unless derivative transactions are used for hedging purposes.

If derivative transactions are used as hedges and meet certain hedging criteria, the Company and its domestic consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative transactions until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

(1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
  (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and
  (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

(2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Company evaluates hedge effectiveness monthly by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

Foreign currency translation — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for account components of net assets, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

Inventories —

(1) Merchandise, finished products, semi-finished products, work in process and raw materials – Merchandise, finished products, semi-finished products, work in process and raw materials of metals and electronics are stated at cost based on the first-in first-out (FIFO) method. Others are stated at cost based on the last-in, first-out (LIFO) method.

(2) Supplies – Supplies are stated at cost based on the moving average method.

(Change for the accounting policy of inventory valuation)
The costs of the Company's inventories except for precious metals and electronics and advanced materials had been determined using the last-in, first-out (LIFO) methods until the year ended March 31, 2004, but they have been determined using the first-in, first-out (FIFO) methods for year starting April 1, 2004.

This change was made in order to present the Company's financial presentations more appropriately by reflecting the current trading price of those non-ferrous metals such as copper, nickel and zinc in the international market to the balance sheet amounts of these inventories, by which also enable the Company to recognize the periodic allocation of income and expenses properly by eliminating the price volatility of the metals.

As the result of the change of the accounting policy, in the year ended March 31, 2005, inventories were increased by ¥11,113 million and the operating income, income before income taxes and minority interests increased by the same amount above.

Property, plant and equipment — Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the straight-line method, based on the estimated useful lives of respective assets. The depreciation period generally ranges from 3 years to 50 years for buildings and structures and 5 years to 17 years for machinery and equipment.

The Company and consolidated domestic subsidiaries have adopted an accounting standard for impairment of fixed assets from April, 2004. This standard requires that tangible and intangible fixed assets be carried at costs less depreciation, and be reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable.

In addition, the Company and consolidated domestic subsidiaries are required an impairment loss in their consolidated statements of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows. This standard states that impairment losses should be measured as the excess of the book value over the higher of (i) the fair market value of the asset, net of disposition costs, and (ii) the present value of future cash flows arising from the ongoing utilization of the asset and its disposition after use. This standard covers land, factories, buildings, and other forms of property, plant and equipment as well as intangible assets. Fixed assets are to be grouped at the lowest levels for which there are identifiable cash flows which are independent from the cash flows from other groups of assets.

Retirement benefits — Under the terms of the Company's retirement plan, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of retirement benefits is, in general, determined by reference to their current basic rate of pay, the length of service, and the cause thereof.

The Company and certain consolidated domestic subsidiaries also have a non-contributory funded pension plan, which covers substantially all employees.

The Company may make payments for additional retirement benefits for employees which payments have not been included in the actuarial calculation of the projected benefit obligation.

The Company and its consolidated domestic subsidiaries provided allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of ten years commencing with the following period.

Accrued retirement benefits in the consolidated balance sheets also include estimated liabilities for the unfunded lump-sum benefit plan covering directors and corporate auditors.

(Revision to accounting policy for employees' retirement benefits)

In line with public announcement of "Partial Revision of Accounting Standard for Retirement Benefit (Statement No.3 issued by the Accounting Standards Board of Japan on March 16, 2005)" as well as "Implementation Guidance for Partial Revision of Accounting Standard for Retirement Benefit (the Financial Accounting Standard Implementation Guidance No.7 issued by the Accounting Standards Board of Japan on March 16, 2005)", both issued by the Accounting Standards Board of Japan on March 16, 2005, the Company elected to apply these standards to its consolidated financial statements for the year ended March 31, 2006.

As the result of the revision of the accounting policy, in the year ended March 31, 2006, both operating income and income before income taxes and minority interests increased by ¥454 million ($3,864 thousand). Also refer to the section of business segment information and geographic segment information for the impact of the change to the Company's segment information.

Accrued restructuring charges — Accrued restructuring charges are provided by the Company and its consolidated subsidiaries to cover the costs of business reconstruction.

Accrued repair construction of lots for sale — Accrued repair construction of lots for sale is provided to cover the costs of repair construction and compensation that an ex-consolidated subsidiary built and sold.

Accrued indemnification loss on damages caused by a consolidated subsidiary — Accrued indemnification loss on damages caused by a consolidated subsidiary is provided to cover the indemnification loss of the accident incurred by the subsidiary.

Accrued liquidation loss of subsidiaries — Accrued liquidation loss of subsidiaries is provided by the Company to discontinue business.

Accrued environmental measures — The provision for environmental measures is estimated and recorded to provide for future potential costs, such as costs related to disposal of polychlorinated biphenyl (PCB).

Accrued bonuses to directors and corporate auditors — Provision for directors' bonuses are provided by the Company and its consolidated domestic subsidiaries to be accounted for as an expense of accounting period in which such bonuses were incurred.

(Adopting the new accounting standard for bonuses to directors and corporate auditors)

The Company and its consolidated domestic subsidiaries adopted from April 1, 2006, the new accounting standard for directors' bonus (the Financial Accounting Standard for Directors' Bonus issued by the Accounting Standards Board of Japan on November 29, 2005).

As the result of adopting the accounting policy, in the year ended March 31, 2007, both operating income and income before income taxes and minority interests decreased by ¥115 million ($974 thousand).

Accounting standard for presentation of net assets in the balance sheet — Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presenting of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005) .

Under the New Accounting Standards, the balance sheet comprises the assets, liabilities and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests and shareholders' equity sections. The net assets section includes deferred gain on hedges and minority interests, which were not included in the previous shareholders' equity section.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥495 million ($4,192 thousand) would have been presented.

Accounting standard for statement of changes in net assets — Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005) and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statements of changes in net assets for the years ended March 31, 2006 and 2005, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

Research and development — Research and development costs are charged to income as incurred.

Bond issue expense — Bond issue expense is charged to income as incurred.

Accounting for certain lease transactions — Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Income taxes — Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of assets and liabilities, and measured using the statutory tax rates which will be in effect when the differences are expected to be realized.

Sales — Sales of merchandise and finished products are recognized when the products are shipped to customers.

Amounts per share of common stock — Basic net income per share is computed based on the weighted-average number of shares of common stock in issue during each fiscal year.

Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price.

Cash dividends per share represent the actual amount applicable to the respective fiscal year.

Reclassifications — Certain prior year amounts have been reclassified to conform to the 2007 presentation.

3. Securities

(1) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2007 and 2006:

Securities with book values exceeding acquisition costs

Millions of yen

	2007			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥44,877**	**¥102,113**	**¥57,236**	¥30,336	¥87,952	¥57,616
Others	**—**	**—**	**—**	50	149	99
Total	**¥44,877**	**¥102,113**	**¥57,236**	¥30,386	¥88,101	¥57,715

Thousnds of U.S. dollars

	2007		
	Acquisition cost	Book value	Difference
Equity securities	**$380,024**	**$864,705**	**$484,681**
Others	**—**	**—**	**—**
Total	**$380,024**	**$864,705**	**$484,681**

Securities with book values not exceeding acquisition costs

Millions of yen

	2007			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥1,261**	**¥1,179**	**¥(82)**	¥1,664	¥1,662	¥(2)
Total	**¥1,261**	**¥1,179**	**¥(82)**	¥1,664	¥1,662	¥(2)

Thousnds of U.S. dollars

	2007		
	Acquisition cost	Book value	Difference
Equity securities	**$10,678**	**$9,984**	**$(694)**
Total	**$10,678**	**$9,984**	**$(694)**

(2) The following tables summarize book values of the securities with no available fair values as of March 31, 2007 and 2006:

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Unlisted equity securities	**¥4,299**	¥4,411	**$36,404**
Total	**¥4,299**	¥4,411	**$36,404**

(3) As of March 31, 2006, available-for-sale securities with maturities included mutual funds due within one year in the amount of ¥149 million. There was no available-for-sale security with maturities as of March 31, 2007.

(4) Total sales of available-for-sale securities sold amounted to ¥263 million ($2,227thousand), ¥510 million and ¥235 million, and the related gains amounted to ¥76 million ($644 thousand), ¥356 million and ¥71 million in the years ended March 31, 2007, 2006 and 2005, respectively. No losses were recognized in the years ended March 31, 2007, 2006 and 2005.

4. Derivative transactions

Status of derivative transactions — The Company and its consolidated subsidiaries utilize derivative transactions in order to hedge various risks, such as fluctuation of metal prices, exchange rates and interest rates, in the normal course of business; such as futures contracts for hedging fluctuation of international price of metals, forward foreign exchange contracts and currency swaps for hedging fluctuation of exchange rates, and interest swaps for hedging fluctuation of interests of floating-rate bonds and term loans payable.

Derivative transactions of the Company and its consolidated subsidiaries cause market risk and credit risk. Market risk is the potential loss the Company and its consolidated subsidiaries may incur as a result of changes in the market value. The Company's and its consolidated subsidiaries' exposure to market risk are determined by a number of factors, including fluctuation of market prices, exchange rates and interest rates. Credit risk is the potential loss the Company and its consolidated subsidiaries could incur if the counterparties made default on their obligation. The derivative transactions are solely made with highly rated financial institutions, their subsidiaries or LME (London Metal Exchange) brokers guaranteed by banks, so that the Company and its consolidated subsidiaries might reduce the risk of default on an obligation.

Each department of the Company and its consolidated subsidiaries involving derivative transactions have their own rules for derivative transactions which stipulate purposes and scope of using derivatives, standards for choosing transaction counterparties, and procedures of reporting and administration.

The derivative transactions are subject to approval by the General Manager of the department in charge after consulting with related departments. Based on these rules, the person in charge sets up the position. Then, the results are reported to the Directors monthly.

The derivative positions are confirmed semi-annually with the transaction counterparties. Also, the internal audit department of the Company regularly examines derivative transactions.

The Company and its consolidated subsidiaries are not exposed to market risk arising from commodity derivative transactions, because the risk of fluctuation of market prices, that is caused by time lag between purchase and sale of materials and products, is hedged by the corresponding future contracts. The Company and its consolidated subsidiaries also utilize currency derivative transactions to hedge market risk of exchange rates or interest rates. Taking receivables and payables denominated in foreign currencies into account, the Company and its consolidated subsidiaries are not exposed to market risk.

The following tables summarize market value information as of March 31, 2007 and 2006 of derivative transactions for which hedge accounting has not been applied:

Millions of yen

	2007				2006			
	Contracted amount				Contracted amount			
	Total	Over one year	Market value	Recognized gains (losses)	Total	Over one year	Market value	Recognized gains (losses)
Currency:								
Forward contracts:								
Buy position—U.S. dollars	**¥11,680**	**¥—**	**¥11,741**	**¥ 61**	¥ 6,550	¥ —	¥ 6,544	¥ (6)
Buy position—Euro	**2,290**	**—**	**2,466**	**176**	—	—	—	—
Buy position—A.U. dollars	**845**	**68**	**932**	**87**	—	—	—	—
	¥14,815	**¥—**	**¥ —**	**¥ 324**	¥ 6,550	¥ —	¥ —	¥ (6)
Commodity:								
Forward contracts:								
Sell position—Metal	**¥ —**	**¥—**	**¥ —**	**¥ —**	¥ 796	¥ —	¥ 1,184	¥ (388)
Buy position—Metal	**14,754**	**—**	**17,053**	**2,299**	11,794	—	13,375	1,581
Option contracts:								
Put position—Metal	**—**	**—**	**—**	**—**	131	—	97	(34)
	¥14,754	**¥—**	**¥ —**	**¥2,299**	¥12,721	¥ —	¥ —	¥1,159

	Thousands of U.S. dollars			
	2007			
	Contracted amount			
	Total	Over one year	Market value	Recognized gains (losses)
Currency:				
Forward contracts:				
Buy position—U.S. dollars	**$ 98,908**	**$ —**	**$ 99,424**	**$ 516**
Buy position—Euro	**19,392**	**—**	**20,882**	**1,490**
Buy position—A.U. dollars	**7,156**	**576**	**7,892**	**736**
	$125,456	**$ —**	**$ —**	**$ 2,742**
Commodity:				
Forward contracts:				
Sell position—Metal	**$ —**	**$ —**	**$ —**	**$ —**
Buy position—Metal	**124,939**	**—**	**144,407**	**19,468**
Option contracts:				
Put position—Metal	**—**	**—**	**—**	**—**
	$124,939	**$ —**	**$ —**	**$19,468**

5. Inventories

Inventories at March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Merchandise	**¥ 1,970**	¥ 1,011	**$ 16,682**
Finished products	**45,317**	30,678	**383,750**
Semi-finished products and work in process	**76,728**	58,203	**649,742**
Raw materials and supplies	**45,318**	39,048	**383,758**
	¥169,333	¥128,940	**$1,433,932**

6. Loss on impairment of fixed assets

Loss on impairment of fixed assets is not recorded for the year ended March 31, 2007.

Loss on impairment of fixed assets for the year ended March 31, 2006 consisted of the following:

			Millions of yen
Location	Major use	Asset category	Loss
Hyuga City, Miyazaki Prefecture, Japan	Idle Land	Land	¥ 9
Singapore	Manufacturing facilities for electronic parts	Machinery and equipment	118
Ocean Side, California, USA	Manufacturing facilities for electronic parts	Machinery and equipment	172
Iwanai-gun, Hokkaido, Japan	Manufacturing facilities for electronic crystal materials	Machinery and equipment	512
New South Wales, Australia	Mining and concentrating facilities for copper ore	Machinery, equipment, and mining rights	1,014
Total			¥1,825

The Company categorized operating assets by business unit such as a plant and manufacturing process, based on the division of managerial accounting.

The breakdown of major use is as follows.

(1) The book value of manufacturing facilities for crystal materials was reduced to the recoverable amount because it is difficult to achieve the planned sales volume due to a delay of demand recovery.

(2) The book value of mining and concentrating facilities for a part of copper deposits will be less than discounted cash flow including restitution costs due to the increase of investment amount, and it was reduced to the recoverable amount.

(3) The book value of manufacturing facilities for electronic parts in U.S.A. and Singapore was reduced due to withdrawal from a TV frame business.

The Company principally used the value in use for calculating the recoverable amount. The discounted rates used for computing the value in use of "Manufacturing facilities for crystal materials" and "Mining and concentrating facilities for copper ore," were 7.9% and 9.4% respectively. The book value of manufacturing facilities for electronic parts was reduced to ¥1 as memorandum price because no net cash inflows were expected.

As for the idle land which was acquired for future factory sites, the book value of the assets was reduced to the recoverable amount due to a decline in the market price. Net sales prices of the assets are used as their recoverable amounts for the measurement of the impairment loss. The market price information was obtained on the basis of values provided by real estate appraisers and other specialists.

Loss on impairment of fixed assets for the year ended March 31, 2005 consisted of the following:

			Millions of yen
Location	Major use	Asset category	Loss
Kashima City, Ibaraki Prefecture, and other 8 places	Idle Land	Land	¥794
Nishinomiya City, Hyogo Prefecture, Japan	Rental apartment	Land	178
Nishinomiya City, Hyogo Prefecture, Japan	Rental apartment	Buildings and Structures	73
Ocean Side, California, USA	Idle facilities	Machinery and equipment	155
Ocean Side, California, USA	Idle facilities	Machinery and equipment	1
Minato-ku, Tokyo	Fine art	Machinery and equipment	62
Total			¥1,263

As the result of the early adoption of the new accounting standards, income before income taxes was decreased by ¥1,263 million.

As for the idle land which was acquired for future factory sites, rental apartment and fine art, the book value of the assets was reduced to the recoverable amount due to a decline in the market price of each asset.

Net sales prices of these assets are used as their recoverable amounts for the measurement of the impairment loss. The market price information was obtained on the basis of values provided by real estate appraisers and other specialists.

As for the idle facilities, the book value of the assets was reduced to ¥1 as memorandum price since the TV frame facilities became so obsolete that no net cash inflows were expected from the disposal of those facilities.

7. Bank loans and long-term debt

Bank loans are generally represented by short-term notes (most of which are unsecured) and bank overdrafts, and bore interest at annual rates of 0.85% to 6.00% and 0.30% to 6.33% at March 31, 2007 and 2006, respectively.

The Zero-coupon convertible bonds due in 2009 are currently convertible at ¥1,001 ($8.48) per share until June 15, 2009.

As of March 31, 2007, 13,062 thousand additional shares of common stock in aggregate could be issued upon full conversion at the current conversion price.

Long-term debt at March 31, 2007 and 2006 consists of the following:

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Long-term loans from:			
Banks, insurance companies and other financial institutions, maturing through 2015 at interest rates of 0.82% to 7.45%:			
Secured	**¥ —**	¥ 90	**$ —**
Unsecured	**37,105**	49,896	**314,210**
Government owned banks and government agencies, maturing through 2020 at interest rates of 0.95% to 4.65%:			
Secured	**11,826**	13,116	**100,144**
Unsecured	**30,741**	32,159	**260,318**
0.88% domestic bonds due in 2006	**—**	10,000	**—**
1.08% domestic bonds due in 2007	**10,000**	10,000	**84,681**
0.51% domestic bonds due in 2008	**10,000**	10,000	**84,681**
1.42% domestic bonds due in 2012	**10,000**	—	**84,681**
Zero coupon convertible bons due in 2009	**13,075**	18,900	**110,721**
	122,747	144,161	**1,039,436**
Amount due within one year	**(28,947)**	(29,756)	**(245,127)**
	¥ 93,800	¥114,405	**$ 794,309**

The 0.88% domestic bonds were redeemed during the year ended March 31, 2007.

The aggregate annual maturities of long-term debt at March 31, 2007 are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥28,947	$245,127
2009	19,825	167,880
2010	21,688	183,657
2011	7,585	64,231
2012	21,672	183,521
Thereafter	23,030	195,021

Assets pledged as collateral for bank loans and long-term debt at March 31, 2007 and 2006 are as follows:

	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Investment securities			
Subsidiaries	**¥ 131**	¥ 131	**$ 1,109**
Other	**16,422**	16,523	**139,063**
Property, plant and equipment, at net book value	**57,330**	56,735	**485,477**
	¥73,883	¥73,389	**$625,649**

8. Income taxes

Income taxes in the accompanying consolidated statements of income comprise corporation taxes, inhabitants taxes and enterprise taxes. Consolidated overseas subsidiaries are subject to income taxes of the countries in which they domicile.

The following table summarizes the significant differences between the statutory tax rate and the Company's and its consolidated subsidiaries' effective tax rate for financial statement purposes for the years ended March 31, 2007, 2006 and 2005:

	2007	2006	2005
Statutory tax rate	**40.7%**	40.7%	40.7%
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**(5.6)**	(7.2)	(7.0)
Effect of elimination of intercompany dividends received	**8.4**	4.0	6.7
Difference in tax rates among the Company and its consolidated subsidiaries	**(2.3)**	0.3	(0.5)
Permanently nondeductible expenses	**0.1**	0.3	0.3
Permanently nontaxable dividends received	**(5.0)**	(3.5)	(8.8)
Per capita inhabitant tax	**0**	0.1	0.2
Refunded corporation tax	**0**	(2.5)	—
Increase (decrease) in valuation allowance	**0.7**	(0.8)	(1.0)
Others	**(3.3)**	(0.9)	(1.8)
Effective tax rate	**33.7%**	30.5%	28.8%

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Retirement benefits	**¥ 6,499**	¥ 7,337	**$ 55,034**
Net operating loss carry forwards	**3,463**	2,560	**29,325**
Accrued enterprise taxes	**3,292**	2,059	**27,877**
Allowance for bonus payable	**1,540**	1,383	**13,041**
Loss from valuation of gold loans	**1,918**	1,019	**16,242**
Loss on impairment or fixed assets	**596**	830	**5,047**
Loss from valuation of derivative instruments	**—**	672	**—**
Accrued liquidation loss of subsidiaries	**—**	426	**—**
Depreciation	**318**	420	**2,693**
Accrued indemnification loss of damages caused by a consolidated subsidiary	**—**	312	**—**
Others	**8,117**	5,215	**68,736**
Gross deferred tax assets	**25,743**	22,233	**217,995**
Less valuation allowance	**(7,749)**	(4,950)	**65,620**
Deferred tax assets-less valuation allowance	**¥ 17,994**	¥ 17,283	**$ 152,375**
Deferred tax liabilities:			
Net unrealized holding gain on available-for-sale securities	**¥(22,529)**	¥(22,920)	**$(190,778)**
Depreciation	**(3,518)**	(4,306)	**(29,791)**
Deferred gains on properties for tax purpose	**(3,399)**	(3,491)	**(28,783)**
Reserve for losses on overseas investment	**(2,018)**	(2,071)	**(17,089)**
Accumulated earnings of overseas subsidiaries	**(3,949)**	(1,030)	**(33,441)**
Reserve for explorations	**(787)**	(676)	**(6,664)**
Gain on securities contributed to employee retirement benefits trust	**(594)**	(594)	**(5,030)**
Accrual for special depreciation of fixed assets	**(175)**	(274)	**(1,482)**
Others	**(1,410)**	(298)	**(11,940)**
Deferred tax liabilities	**(38,379)**	(35,660)	**(324,998)**
Net deferred tax liabilities	**¥(20,385)**	¥(18,377)	**$(172,623)**

9. Retirement benefits and pension costs

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2007 and 2006 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥(51,289)**	¥(49,617)	**$(434,321)**
Fair value of pension assets	**54,846**	49,574	**464,442**
Excess of projected benefit obligation over pension assets	**¥ 3,557**	¥ (43)	**$ 30,121**
Unrecognized actuarial differences	**(9,949)**	(8,388)	**(84,249)**
Unrecognized prior services costs	**(1,894)**	(2,213)	**(16,039)**
Net retirement benefits	**¥ (8,286)**	¥(10,644)	**$ (70,167)**
Prepaid pension costs	**(928)**	—	**(7,858)**
Retirement benefits	**¥ (9,214)**	¥(10,644)	**$ (78,025)**

The Company contributed securities to employee retirement benefit trust, which are included in the pension assets.

Retirement benefits in the consolidated balance sheets as of March 31, 2007 and 2006 also include estimated liabilities for the unfunded lump-sum benefit plan covering directors and corporate auditors of ¥296 million ($2,507 thousand) and ¥476 million, respectively.

Included in the consolidated statements of income for the years ended March 31, 2007, 2006 and 2005 are severance and retirement benefit expense comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Service cost-benefits earned during the year	**¥ 2,003**	¥1,837	¥1,866	**$16,962**
Interest cost on projected benefit obligation	**884**	798	892	**7,486**
Expected return on plan assets	**(1,161)**	(639)	(530)	**(9,831)**
Amortization of actuarial differences	**(557)**	632	445	**(4,717)**
Amortization of prior services costs	**(214)**	(461)	(509)	**(1,812)**
	¥ 955	¥2,167	¥2,164	**$ 8,088**

The discount rates used by the Company are primarily 2.0% for the years ended March 31, 2007, 2006 and 2005.

The rates of expected return on plan assets used by the Company are primarily 3.5%, respectively for the years ended March 31, 2007, 2006 and 2005.

The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement using the straight-line method in ten years.

10. Research and development expense

Research and development expense included in selling, general and administrative expenses for the years ended March 31, 2007, 2006 and 2005 are ¥5,392 million ($45,660 thousand), ¥5,297 million and ¥4,812 million, respectively.

11. Special reserves

For the purpose of obtaining tax benefits, the Company and some consolidated subsidiaries have set up special reserves mainly for losses on overseas investments and explorations in accordance with the Special Taxation Measures Law of Japan.

Such reserves, which are included in retained earnings, are ¥91,978 million ($778,881 thousand) and ¥35,852 million at March 31, 2007 and 2006, respectively.

12. Net assets

As described in Note 2, net assets comprises three subsections, which are shareholders' equity, accumulated gain (losses) from valuation and translation adjustments, and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of dividend or excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earning reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 28, 2007, the shareholders approved cash dividends amounting to ¥9,227 million ($78,135 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. Such appropriations are recognized in the period in which they are approved by the shareholders.

13. Contingent liabilities

Contingent liabilities at March 31, 2007 are as follows:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable sold to factoring companies with recourse	**¥18,539**	**$156,990**
As guarantor for loans of:		
Non-consolidated subsidiaries and affiliated companies	**4,637**	**39,267**
Other	**4,527**	**38,335**
	¥27,703	**$234,592**

Besides the above, as to providing electric power to Pogo gold mine, there are ¥1,415 million ($11,982 thousand) to guarantee construction costs of electric facilities.

14. Effect of bank holidays on March 31, 2007

As financial institutions in Japan were closed on March 31, 2007 due to holidays, amounts that would normally be settled on March 31, 2007 were collected or paid on the following business day, April 2, 2007 and the Company and its consolidated domestic subsidiaries accounted for accordingly. The effects of the settlements on April 2 as compared with what would have been settled on March 31 are summarized below:

2007	Millions of yen	Thousands of U.S. dollars
Notes receivable trade	**Increased by ¥44**	**Increased by $373**
Notes payable trade	**Increased by ¥263**	**Increased by $2,227**

15. Segment information

Business segment information

The primary business segments of the Company and its consolidated subsidiaries include mineral resources, metals, electronics and advanced materials, construction materials and others. Also refer to the section of "Review of Operations" for the details of each business.

Business segment information for the years ended March 31, 2007, 2006 and 2005 are as follows:

2007 — Millions of yen

	Mineral resources	Metals	Electronics & advanced materials	Construction materials	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	**¥ 55,482**	**¥671,471**	**¥209,515**	**¥17,029**	**¥13,267**	**¥ —**	**¥966,764**
Inter segment	**26,766**	**87,365**	**14,065**	**632**	**16,687**	**(145,515)**	**—**
Total	**82,248**	**758,836**	**223,580**	**17,661**	**29,954**	**(145,515)**	**966,764**
Costs and expenses	**48,716**	**649,272**	**209,996**	**15,508**	**25,917**	**(145,277)**	**804,132**
Operating income (loss)	**¥ 33,532**	**¥109,564**	**¥ 13,584**	**¥ 2,153**	**¥ 4,037**	**¥ (238)**	**¥162,632**
Identifiable assets	**¥142,652**	**¥456,056**	**¥151,451**	**¥14,370**	**¥50,086**	**¥ 114,593**	**¥929,208**
Depreciation expense	**4,539**	**8,433**	**10,073**	**659**	**1,373**	**616**	**25,693**
Reversal of loss on impairment of fixed assets	**(939)**	**—**	**—**	**—**	**—**	**—**	**(939)**
Capital expenditures	**9,288**	**18,833**	**22,563**	**240**	**1,314**	**(671)**	**51,567**

2006 — Millions of yen

	Mineral resources	Metals	Electronics & advanced materials	Construction materials	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥ 29,617	¥390,369	¥174,989	¥17,001	¥13,603	¥ —	¥625,579
Inter segment	14,102	63,311	9,086	317	15,181	(101,997)	—
Total	43,719	453,680	184,075	17,318	28,784	(101,997)	625,579
Costs and expenses	26,612	403,997	172,899	15,178	24,520	(100,383)	542,823
Operating income (loss)	¥ 17,107	¥ 49,683	¥ 11,176	¥ 2,140	¥ 4,264	¥ (1,614)	¥ 82,756
Identifiable assets	¥125,562	¥350,695	¥132,227	¥15,428	¥49,225	¥ 99,425	¥772,562
Depreciation expense	3,250	7,478	9,647	656	1,329	591	22,951
Loss on impairment of fixed assets	1,014	9	802	—	—	—	1,825
Capital expenditures	14,014	16,195	18,783	241	1,735	(400)	50,568

2005							Millions of yen
	Mineral resources	Metals	Electronics & advanced materials	Construction materials	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥22,715	¥284,332	¥147,987	¥15,316	¥14,235	¥ —	¥484,585
Inter segment	10,356	48,846	6,877	469	8,884	(75,432)	—
Total	33,071	333,178	154,864	15,785	23,119	¥(75,432)	484,585
Costs and expenses	23,100	305,477	147,599	14,605	20,671	(74,760)	436,692
Operating income (loss)	¥ 9,971	¥ 27,701	¥ 7,265	¥ 1,180	¥ 2,448	¥ (672)	¥ 47,893
Identifiable assets	¥64,384	¥265,667	¥112,837	¥14,248	¥49,087	¥ 67,702	¥573,925
Depreciation expense	2,751	6,354	8,943	653	1,290	587	20,578
Loss on impairment of fixed assets	—	—	156	251	—	856	1,263
Capital expenditures	7,036	15,192	12,578	257	1,179	246	36,488

2007							Thousands of U.S. dollars
	Mineral resources	Metals	Electronics & advanced materials	Construction materials	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	**$ 469,828**	**$5,686,095**	**$1,774,198**	**$144,204**	**$112,347**	**$ —**	**$8,186,671**
Inter segment	**226,658**	**739,817**	**119,104**	**5,352**	**141,307**	**(1,232,238)**	**—**
Total	**696,486**	**6,425,912**	**1,893,302**	**149,556**	**253,654**	**(1,232,238)**	**8,186,671**
Costs and expenses	**412,533**	**5,498,112**	**1,778,271**	**131,324**	**219,468**	**(1,230,223)**	**6,809,485**
Operating income (loss)	**$ 283,953**	**$ 927,800**	**$ 115,031**	**$ 18,232**	**$ 34,186**	**$ (2,015)**	**$1,377,187**
Identifiable assets	**$1,207,994**	**$3,861,936**	**$1,282,505**	**$121,687**	**$424,134**	**$ 970,387**	**$7,868,643**
Depreciation expense	**38,437**	**71,412**	**85,299**	**5,580**	**11,627**	**5,216**	**217,571**
Reversal of loss on impairment of fixed assets	**(7,952)**	**—**	**—**	**—**	**—**	**—**	**(7,952)**
Capital expenditures	**78,652**	**159,480**	**191,066**	**2,032**	**11,127**	**(5,682)**	**436,675**

(The effects of changes in accounting policies on segment information)

Revision to accounting policy for employees' retirement benefits

In line with public announcement of "Partial Revision of Accounting Standard for Retirement Benefit (Statement No.3 issued by the Accounting Standards Board of Japan on March 16, 2005)" as well as "Implementation Guidance for Partial Revision of Accounting Standard for Retirement Benefit (the Financial Accounting Standard Implementation Guidance No. 7 issued by the Accounting Standards Board of Japan on March 16, 2005)", both issued by the Accounting Standards Board of Japan on March 16, 2005, the Company elected to apply these standards to its consolidated financial statements for the year ended March 31, 2006. As the result of the change of the accounting policy, in the year ended March 31, 2006, operating income increases by ¥115 million in Mineral resources, ¥219 million in Metals, ¥94 million in Electronics & advanced materials and ¥26 million in Others.

Geographic segment information

Geographic segment information for the years ended March 31, 2007, 2006 and 2005 are summarized as follows:

2007 — Millions of yen

	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	**¥846,581**	**¥46,682**	**¥47,349**	**¥ 26,152**	**¥ —**	**¥966,764**
Inter segment	**42,159**	**—**	**20,618**	**12,319**	**(75,096)**	**—**
Total	**888,740**	**46,682**	**67,967**	**38,471**	**(75,096)**	**966,764**
Costs and expenses	**758,171**	**29,133**	**55,052**	**33,672**	**(71,896)**	**804,132**
Operating income (loss)	**¥130,569**	**¥17,549**	**¥12,915**	**¥ 4,799**	**¥ (3,200)**	**¥162,632**
Identifiable assets	**¥608,940**	**¥75,629**	**¥66,275**	**¥119,053**	**¥ 59,311**	**¥929,208**

2006 — Millions of yen

	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥547,665	¥25,358	¥37,790	¥14,766	¥ —	¥625,579
Inter segment	31,015	—	4,653	4,678	(40,346)	—
Total	578,680	25,358	42,443	19,444	(40,346)	625,579
Costs and expenses	505,648	16,114	42,045	18,590	(39,574)	542,823
Operating income (loss)	¥ 73,032	¥ 9,244	¥ 398	¥ 854	¥ (772)	¥ 82,756
Identifiable assets	¥514,881	¥74,365	¥47,575	¥77,544	¥ 58,197	¥772,562

2005 — Millions of yen

	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥419,109	¥20,560	¥34,097	¥10,819	¥ —	¥484,585
Inter segment	25,604	—	282	2,452	(28,338)	—
Total	444,713	20,560	34,379	13,271	(28,338)	484,585
Costs and expenses	403,820	15,145	33,733	12,317	(28,323)	436,692
Operating income (loss)	¥ 40,893	¥ 5,415	¥ 646	¥ 954	¥ (15)	¥ 47,893
Identifiable assets	¥433,342	¥48,872	¥39,468	¥24,637	¥ 27,606	¥573,925

2007 — Thousands of U.S. dollars

	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	**$7,168,947**	**$395,309**	**$400,957**	**$ 221,458**	**$ —**	**$8,186,671**
Inter segment	**357,007**	**—**	**174,596**	**104,319**	**(635,922)**	**—**
Total	**7,525,954**	**395,309**	**575,553**	**325,777**	**(635,922)**	**8,186,671**
Costs and expenses	**6,420,281**	**246,702**	**466,187**	**285,138**	**(608,824)**	**6,809,484**
Operating income (loss)	**$1,105,673**	**$148,607**	**$109,366**	**$ 40,639**	**$ (27,098)**	**$1,377,187**
Identifiable assets	**$5,156,575**	**$640,435**	**$561,224**	**$1,008,155**	**$ 502,253**	**$7,868,643**

(The effects of changes in accounting policies on segment information)

Revision to accounting policy for employees' retirement benefits

In line with public announcement of "Partial Revision of Accounting Standard for Retirement Benefit (Statement No.3 issued by the Accounting Standards Board of Japan on March 16, 2005)" as well as "Implementation Guidance for Partial Revision of Accounting Standard for Retirement Benefit (the Financial Accounting Standard Implementation Guidance No.7 issued by the Accounting Standards Board of Japan on March 16, 2005)", both issued by the Accounting Standards Board of Japan on March 16, 2005, the Company elected to apply these standards to its consolidated financial statements for the year ended March 31, 2006. As the result of the change of the accounting policy, in the year ended March 31, 2006, operating income in Domestic section increases by ¥454 million.

Information for overseas sales

2007 — Millions of yen

	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	**¥46,792**	**¥74,731**	**¥184,556**	**¥11,795**	**¥317,874**
Consolidated net sales	—	—	—	—	**¥966,764**
Share of overseas net sales	**4.8%**	**7.7%**	**19.1%**	**1.2%**	**32.9%**

2006 — Millions of yen

	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	¥30,082	¥45,216	¥128,921	¥7,844	¥212,063
Consolidated net sales	—	—	—	—	¥625,579
Share of overseas net sales	4.8%	7.2%	20.6%	1.3%	33.9%

2005 — Millions of yen

	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	¥25,296	¥35,441	¥97,674	¥3,550	¥161,961
Consolidated net sales	—	—	—	—	¥484,585
Share of overseas net sales	5.2%	7.3%	20.2%	0.7%	33.4%

2007 — Thousands of U.S. dollars

	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	**$396,240**	**$632,831**	**$1,562,842**	**$99,881**	**$2,691,794**
Consolidated net sales	—	—	—	—	**$8,186,671**
Share of overseas net sales	**4.8%**	**7.7%**	**19.1%**	**1.2%**	**32.9%**

16. Information for certain leases

As a lessee

A summary of assumed amounts inclusive of interest of acquisition cost, accumulated depreciation and net book value of finance leases accounted for in the same manner as operating leases at March 31, 2007 and 2006 are as follows:

						Millions of yen
			2007			2006
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥440**	**¥295**	**¥145**	¥1,362	¥1,040	¥322
Others	**418**	**416**	**2**	430	374	56
Total	**¥858**	**¥711**	**¥147**	¥1,792	¥1,414	¥378

			Thousands of U.S. dollars
			2007
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$3,726**	**$2,498**	**$1,228**
Others	**3,540**	**3,523**	**17**
Total	**$7,266**	**$6,021**	**$1,245**

Future lease payment, inclusive of interest at March 31, 2007 and 2006 under such leases are as follows:

		Millions of yen	Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥ 78**	¥195	**$ 661**
Due after one year	**69**	183	**584**
Total	**¥147**	¥378	**$1,245**

Total lease expenses and assumed depreciation charges for the years ended March 31, 2007, 2006 and 2005 are as follows:

			Millions of yen	Thousands of U.S. dollars
	2007	2006	2005	**2007**
Total lease expenses	**¥160**	¥319	¥342	**$1,355**
Assumed depreciation charge	**160**	319	342	**1,355**

As a lessor

A summary of acquisition cost, accumulated depreciation and net book value at March 31, 2007 and 2006 were as follows:

	Millions of yen					
	2007			2006		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥124**	**¥111**	**¥13**	¥377	¥255	¥122
Others	**1**	**1**	**—**	1	1	0
Total	**¥125**	**¥112**	**¥13**	¥378	¥256	¥122

	Thousands of U.S. dollars		
	2007		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$1,050**	**$940**	**$110**
Others	**8**	**8**	**—**
Total	**$1,058**	**$948**	**$110**

Future lease receipt, inclusive of interest, at March 31, 2007 and 2006 under such lease were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥15**	¥ 31	**$127**
Due after one year	**—**	76	**—**
Total	**¥15**	¥107	**$127**

Total revenue and depreciation charges for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Total revenues	**¥20**	¥31	¥32	**$169**
Depreciation charge	**19**	29	30	**161**

17. Earnings per share

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Basic net income per share calculation				
Numerator :				
Net income	**¥126,054**	¥ 62,800	¥37,017	**$1,067,440**
Amounts not belonging to common stock (bonuses to directors from retained earnings)	**—**	73	52	**—**
Net income available to common stockholders	**126,054**	62,727	36,965	**1,067,440**
Denominator (thousands of shares) :				
Weighted average number of shares	**571,708**	570,477	—	**—**
Basic EPS (yen and U.S. dollars)	**¥ 220.49**	¥ 109.96	¥ 64.77	**$ 1.87**
Diluted net income per share calculation				
Numerator :				
Net income	**¥126,054**	¥ 62,800	¥ —	**$1,067,440**
Amounts not belonging to common stock (bonuses to directors from retained earnings)	**—**	73	—	**—**
Net income available to common stockholders	**126,054**	62,727	—	**1,067,440**
Adjusted net income	**126,054**	62,727	—	**1,067,440**
Denominator (thousands of shares) :				
Weighted average number of shares	**571,708**	570,477	—	**—**
Assumed conversion of convertible bonds	**18,249**	5,680	—	**—**
Adjusted weighted average number of shares	**589,957**	576,157	—	**—**
Diluted EPS (yen and U.S. dollars)	**¥ 213.67**	¥ 108.87	¥ —	**$ 1.81**

The diluted net income per share for the years ended March 31, 2007 and 2006 is ¥213.67 and ¥108.87, respectively because there were securities with dilutive effect.

The diluted net income per share for the year ended March 31, 2005 is not calculated because there were no securities with dilutive effect.

INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report

To the Board of Directors of Sumitomo Metal Mining Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Metal Mining Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Metal Mining Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the followings:
(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, Sumitomo Metal Mining Co., Ltd. adopted the revised accounting standard for employees' retirement benefits.

(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2004, Sumitomo Metal Mining Co., Ltd. changed the accounting policy of inventory valuation. The costs of inventories except for precious metals and inventories in electronics and advanced material segment had been determined using the last-in, last-out (LIFO) methods until the year ended March 31, 2004, but they were determined using the first-in, first-out (FIFO) methods for year started April 1, 2004.

(3) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2004, Sumitomo Metal Mining Co., Ltd. and consolidated domestic subsidiaries adopted the accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 28, 2007

KPMG AZSA & Co.

SMM GROUP

As of March 31, 2007

Name	Voting Shares (%)	Operations
Mineral Resources		
Sumiko Consultants Co., Ltd.	100	Geological survey of resources and civil engineering; Test boring
Sumitomo Metal Mining America Inc.	100	Prospecting; Management of mining subsidiaries in U.S.A.
Sumitomo Metal Mining Arizona Inc.	80	Joint operation at the Morenci Mine, U.S.A.
SMMA Candelaria Inc.	100	Joint operation at the Candelaria Mine, Chile
Sumitomo Metal Mining Canada Ltd.	100	Prospecting; Consulting
Sumitomo Metal Mining Oceania Pty. Ltd.	100	Joint operation at the Northparks Mine, Australia
SMM Pogo LLC	100	Owing an interest of Pogo mine project
SMM Cerro Verde Netherlands B.V.	80	Investments in local Peruvian companies engaged in the Cerro Verde Mine operation
Metals		
Hyuga Smelting Co., Ltd.	60	Ferro-nickel smelting
Sumitomo Metal Mining Brass & Copper Co., Ltd.	100	Manufacture of brass and copper products
Sumiko Logistics Co., Ltd.	100	Maritime trading; Harbor transportation and services; Land transportation
MS Zinc Co., Ltd.	50	Purchase of raw materials for zinc; Manufacture and distribution of zinc products
Acids Co., Ltd.	50	Manufacture and distribution of sulfuric acid and related products
P.T. International Nickel Indonesia	20	Nickel ore mining; Nickel smelting
FIGESBAL	26	Nickel ore mining; Harbor transportation
Jinlong Copper Co., Ltd.	27	Manufacture and distribution of electrolytic copper and sulfuric acid
Coral Bay Nickel Corporation	54	Intermediate products manufacture of nickel and cobalt
Sumic Nickel Netherlands B.V.	52	Investments in nickel and cobalt development businesses; Distribution of nickel and cobalt
Electronics and Advanced Materials		
Ohkuchi Electronics Co., Ltd.	100	Semiconductor packaging materials production; Recovery of precious materials
Ajimu Electronics Co., Ltd.	100	IC package plating
Shinko Co., Ltd.	94	Design, manufacture and distribution of printed circuit boards
SMM Precision Co., Ltd.	100	Commission-based assembly of optical communications components
GRANOPT Ltd.	50	Manufacture and distribution of rare earth iron garnet (RIG)
IS Electrode Materials Co., Ltd.	49	Manufacture and distribution of IZO targets and ITO targets for LCDs and organic EL displays
Niihama Electronics Co., Ltd.	100	Lead frame production; Copper-clad polyimide film production
Sumitomo Metal Mining Package Materials Co., Ltd.	100	Manufacture and distribution of semiconductor packaging materials such as lead frames and tape materials
Malaysian Electronics Materials SDN. BHD.	100	Manufacture and distribution of bonding wire
Taiwan Sumiko Materials Co., Ltd.	100	Manufacture and distribution of bonding wire
Sumitomo Metal Mining Electronics Materials (Shanghai) Co., Ltd.	100	Manufacture and distribution of bonding wire
Shanghai Sumiko Electronics Paste Co., Ltd.	51	Manufacture and distribution of thick-film paste
Dongguan Sumiko Electronic Paste Co., Ltd.	76	Manufacture and distribution of thick-film paste
Sumitomo Metal Mining Asia Pacific Pte. Ltd.	100	Regional headquarters (RHQ) for overseas lead frame businesses
Sumiko Leadframe Chengdu Co., Ltd.	85	Lead frame production
M-SMM Electronics SDN. BHD.	100	Lead frame production
Sumiko Electronics Taiwan Co., Ltd.	70	Lead frame and tape materials production
Sumiko Leadframe (Thailand) Co., Ltd.	100	Lead frame production
P.T. SUMIKO LEADFRAME BINTAN	100	Lead frame production
Sumiko Electronics Suzhou Co., Ltd.	100	Lead frame production
SMM KOREA Co., Ltd.	100	Marketing support for advanced materials and related operations
Nittosya Co., Ltd.	100	Metal product plating
Energy and Environment		
Sumicon Certech Co., Ltd.	81	Assessment and remediation of contaminated soil and groundwater
Sumiko Eco-engineering Co., Ltd.	100	Environmental engineering such as exhaust gas treatment; Corrosion business
Sumiko Techno-Research Co., Ltd.	100	Analysis of metals; Environmental assessment and analysis
Nippon Catalyst Cycle Co., Ltd.	100	Valuable metals recovery business
Japan Irradiation Service Co., Ltd.	100	Radiation processing for sterilization and for modification of industrial materials
JCO Co., Ltd.	100	Management of facilities dealing with uranium and related waste
Nippon Ketjen Co., Ltd.	50	Manufacture and sale of desulfurization catalyst for petroleum processing
Others		
Taihei Metal Industry Co., Ltd.	97	Manufacture of heat-, corrosion- and friction-resistant steel castings and precision castings
SumikoTec Co., Ltd.	100	Manufacture of electronic device terminals and connectors
Sumitomo Metal Mining Siporex Co., Ltd.	100	Manufacture and distribution of ALC (Autoclaved Lightweight aerated Concrete) and other construction materials
Igeta Heim Co., Ltd.	100	Sub-contractor of ALC and ferro-concrete housings
N. E. Chemcat Corporation	42	Manufacture of precious metal catalyst and surface treatment chemicals; Recovery and refining of precious metals
Sumiko Lubricant Co., Ltd.	100	Manufacture and distribution of various fabricants
Sumiko Technical Service Co., Ltd.	100	Trustee, security and personnel services for non-ferrous metals refining businesses
SMM Plant Engineering Co., Ltd.	100	Design, production and repair of non-ferrous metals refining equipment

CORPORATE DATA AND INVESTOR INFORMATION

As of March 31, 2007

Corporate Data

Founded: 1590
Incorporated: 1950
Paid-in Capital: ¥91.8 billion
Number of Employees: 2,175
Head Office: 11-3, Shimbashi 5-chome, Minato-ku, Tokyo 105-8716, Japan

Contact Information:
Publicity & IR Department
11-3, Shimbashi 5-chome
Minato-ku, Tokyo 105-8716, Japan
Phone: 81-3-3436-7705
Facsimile: 81-3-3434-2215
Homepage: http://www.smm.co.jp/E/

Investor Information

Closing Date:
The Company's books are closed on March 31 each year.

Regular General Meeting:
The regular general meeting of shareholders is held in June each year.

Common Stock:
Number of authorized shares: 1,000,000,000
Number of issued and outstanding shares: 578,790,870
Number of shareholders: 58,501

Exchange Listings: Tokyo Stock Exchange and Osaka Securities Exchange

Stock Transaction Unit: 1,000 shares

Registrar of Shareholders:
The Sumitomo Trust and Banking Company, Limited
(Head office) 5-33, Kitahama 4-chome, Chuo-ku, Osaka
Stock Transfer Agency Department:
4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo

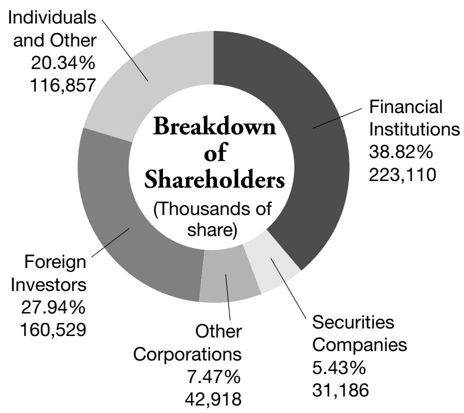
Method of Public Notice:
Electronic notification (However, if electronic notification is not possible due to an accident or other unavoidable circumstances, notice will be published in the *Nihon Keizai Shimbun* newspaper.)
The Company's website: http://www.smm.co.jp/E/

Independent Public Accountant:
KPMG AZSA & Co.
1-2, Tsukudo-cho, Shinjuku-ku, Tokyo

Major Shareholders

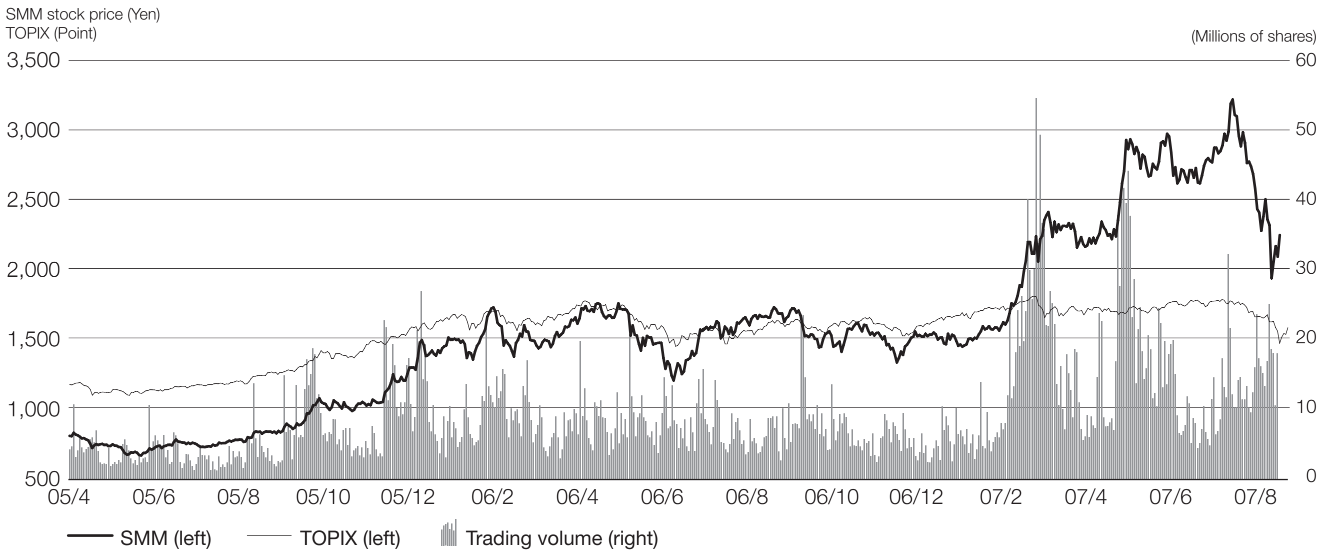
	Number of shares held (thousands)	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd. (Trust accounts)	50,483	8.8
The Master Trust Bank of Japan, Ltd. (Trust accounts)	45,764	7.9
Goldman Sachs International	15,182	2.6
Japan Trustee Services Bank, Ltd. (Trust accounts 4)	10,167	1.8
State Street Bank and Trust Company 505103	9,056	1.6
Japan Securities Finance Co., Ltd.	7,856	1.4
Trust & Custody Services Bank, Ltd. (Trust accounts B)	7,808	1.4
Sumitomo Metal Industries, Ltd.	7,806	1.4
Sumitomo Mitsui Banking Corporation	7,650	1.3
Sumitomo Life Insurance Company	7,474	1.3

Note: Shareholding ratio is calculated excluding treasury stock.



Note: Shareholdings of less than 1,000 shares have been omitted.

Stock Price and Trading Volume



Note: TOPIX began on 4 January 1968 with a base level of 100.

SUMITOMO METAL MINING CO., LTD.

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