# Aiming to be a World-Class Player

## Annual Report 2008

For The Year Ended March 31, 2008

SUMITOMO METAL MINING CO., LTD.

## CONTENTS



## Notes to Readers

■ Explanations of technical terms

- Please refer to the Glossary (p.86) for explanations of those words marked with asterisks in the text.
- The Glossary (p.87) also contains descriptions of some other metals-related terminology (the LME, London fixing, copper concentrates and electrolytic nickel/ferronickel).

■ Organizational rearrangement

In line with an organizational change, the Electronics and Advanced Materials Division was renamed the Semiconductor and Advanced Materials Division in October 2008.

■ Change in business segment

From fiscal 2007 (the year ended March 31, 2008), the Housing and Construction Materials Division was merged into the Others Division. To aid comparability, business segment-related information disclosed in this Annual Report presents these figures together under the Others Division for all past fiscal years (except in the Financial Section).

Unless specifically stated otherwise, information in this annual report is as of August 31, 2008.

**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.

# Aiming to be a World-Class Player

## SMM Group Corporate Philosophy

- Sumitomo Metal Mining Co., Ltd. (SMM), in accordance with the Sumitomo Business Spirit, shall, through the performance of sound corporate activities and the promotion of sustainable co-existence with the global environment, seek to make positive contributions to society and to fulfill its responsibilities to its stakeholders, in order to win ever greater trust.
- 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

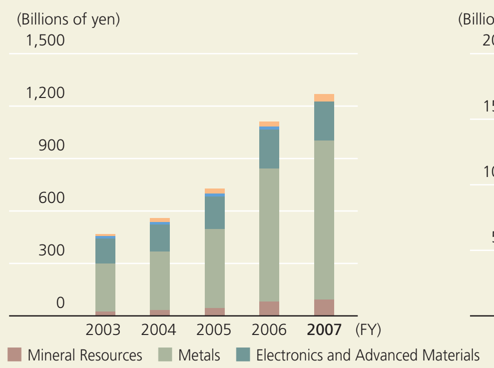
- By developing and employing innovative technology, we shall fulfill our social responsibilities as a manufacturing enterprise.
- Based on the principles of compliance, environmental protection and operational safety, the Sumitomo Metal Mining Group shall pursue maximum corporate value through the provision, via its global network, of high-quality materials such as non-ferrous metals and electronics and advanced materials.

## Consolidated Financial Highlights
SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

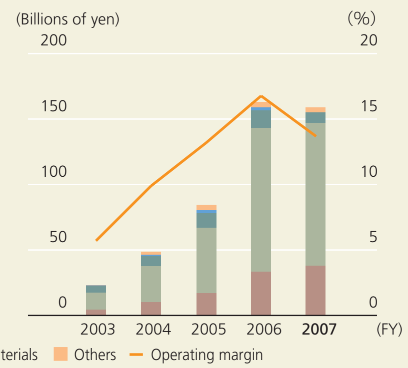
| Millions of yen (Except per share amounts and key ratios) | **FY2007** | FY2006 | FY2005 | FY2004 | FY2003 | FY2002 | FY2001 | FY2000 | FY1999 | FY1998 | FY1997 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Results for the year:** | | | | | | | | | | | |
| Net sales | **1,132,372** | 966,764 | 625,579 | 484,585 | 402,131 | 355,242 | 330,194 | 375,352 | 360,299 | 350,288 | 431,950 |
| Operating income | **155,394** | 162,632 | 82,756 | 47,893 | 22,778 | 16,593 | 1,147 | 26,930 | 8,990 | 858 | 24,622 |
| Recurring profit | **217,866** | 205,285 | 99,716 | 54,486 | 27,811 | 14,559 | (1,477) | 25,140 | 11,912 | 1,686 | 20,440 |
| Net income (loss) | **137,808** | 126,054 | 62,800 | 37,017 | 19,882 | (1,172) | (6,611) | 15,103 | 4,740 | (12,495) | 10,157 |
| Equity in earnings of affiliated companies | **73,956** | 46,708 | 21,915 | 13,513 | 7,112 | 3,400 | 1,535 | 4,078 | 2,406 | 326 | (2,599) |
| Capital expenditures | **65,145** | 51,567 | 50,568 | 36,488 | 46,540 | 18,927 | 25,379 | 28,078 | 20,490 | 32,499 | 27,968 |
| Depreciation | **30,505** | 25,693 | 22,951 | 20,578 | 17,824 | 18,283 | 17,822 | 16,774 | 16,611 | 23,095 | 21,638 |
| Net cash flows from operating activities | **157,383** | 95,985 | 70,772 | 40,150 | 32,324 | 26,105 | 33,370 | 23,339 | (800) | 22,912 | 43,056 |
| Net cash flows from investing activities | **(126,413)** | (77,429) | (102,384) | (31,725) | (17,448) | (21,246) | (16,246) | (4,248) | 4,143 | (23,287) | — |
| Net cash flows from financing activities | **55,727** | (10,073) | 28,723 | 6,097 | (9,293) | (14,163) | (14,267) | (26,089) | (9,086) | 4,047 | — |
| Free cash flows | **30,970** | 18,556 | (31,612) | 8,425 | 14,876 | 4,859 | 17,124 | 19,091 | 3,343 | (375) | — |
| **Financial position at year-end:** | | | | | | | | | | | |
| Total assets | **1,091,716** | 929,208 | 772,562 | 573,925 | 517,930 | 470,774 | 518,756 | 530,080 | 544,121 | 544,519 | 566,088 |
| Net assets | **640,345** | 528,921 | 394,899 | — | — | — | — | — | — | — | — |
| Shareholders' equity*1 | **589,640** | 495,844 | 373,752 | 283,897 | 253,071 | 223,341 | 236,313 | 237,470 | 235,231 | 226,795 | 243,436 |
| Long-term debt due after one year | **169,394** | 93,800 | 114,405 | 109,777 | 86,437 | 76,470 | 73,972 | 83,839 | 107,266 | 124,535 | 82,356 |
| Interest-bearing debt | **258,054** | 189,910 | 190,891 | 160,533 | 148,351 | 154,799 | 167,077 | 176,998 | 197,624 | 207,821 | 201,515 |
| **Amounts per share (Yen):** | | | | | | | | | | | |
| Net income (loss) | **238.13** | 220.49 | 109.96 | 64.77 | 34.76 | (2.05) | (11.56) | 26.41 | 8.29 | (21.85) | 17.77 |
| Shareholders' equity*1 | **1,017.96** | 859.82 | 654.15 | 497.57 | 443.29 | 391.14 | 413.28 | 415.25 | 411.34 | 396.59 | 425.68 |
| Cash dividends | **30.0** | 27.0 | 14.0 | 8.0 | 6.0 | 5.0 | 4.0 | 6.0 | 5.0 | 3.0 | 6.0 |
| **Key ratios:** | | | | | | | | | | | |
| ROA (%) | **13.64** | 14.81 | 9.33 | 6.78 | 4.02 | — | — | 2.81 | 0.87 | — | 1.76 |
| ROE (%)*1 | **25.39** | 28.99 | 19.10 | 13.79 | 8.35 | — | — | 6.39 | 2.05 | — | 4.22 |
| Equity ratio (%)*1 | **54.0** | 53.4 | 48.4 | 49.5 | 48.9 | 47.4 | 45.6 | 44.8 | 43.2 | 41.7 | 43.0 |
| Debt-to-equity ratio (times)*1 | **0.44** | 0.38 | 0.51 | 0.57 | 0.59 | 0.69 | 0.71 | 0.75 | 0.84 | 0.92 | 0.83 |

*1 Shareholders' equity are defined as following equation.
Shareholders' equity = Total shareholders' equity + total valuation and translation adjustment

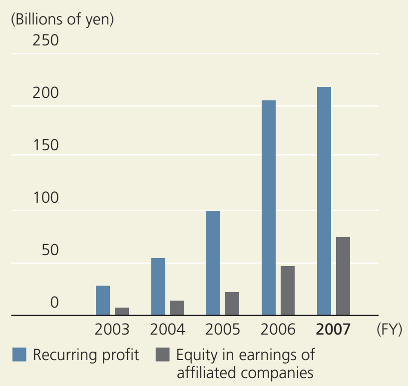
Net sales



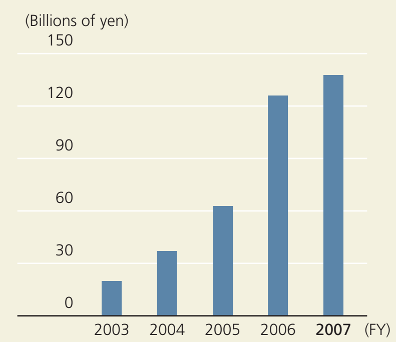

Operating income and operating margin



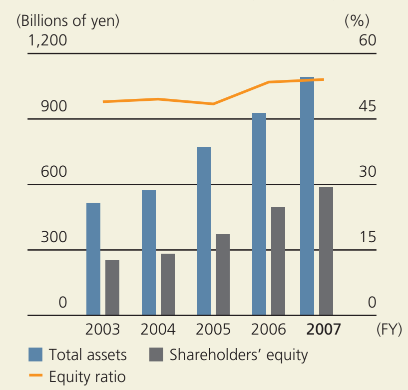

Recurring profit and equity in earnings of affiliated companies



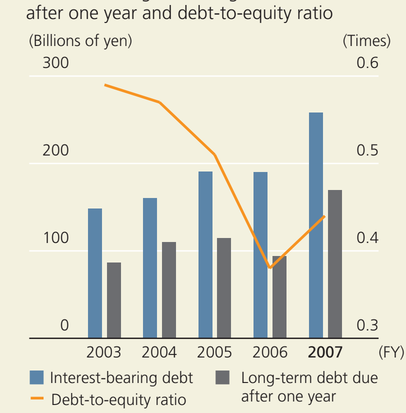

Net income



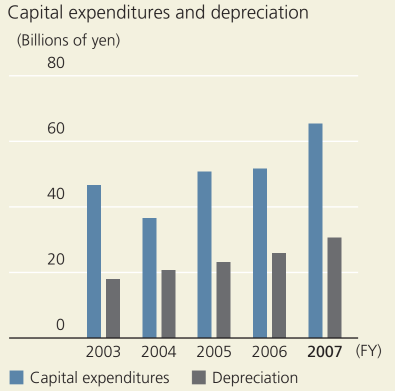

Total assets, shareholders' equity and equity ratio



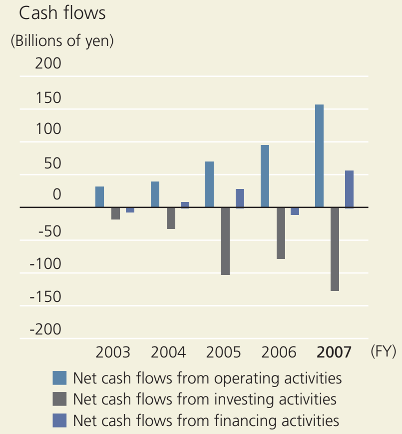

Interest-bearing debt, long-term debt due after one year and debt-to-equity ratio



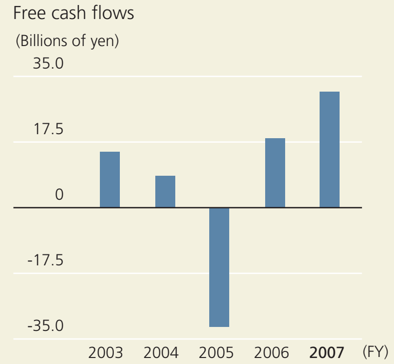

Capital expenditures and depreciation



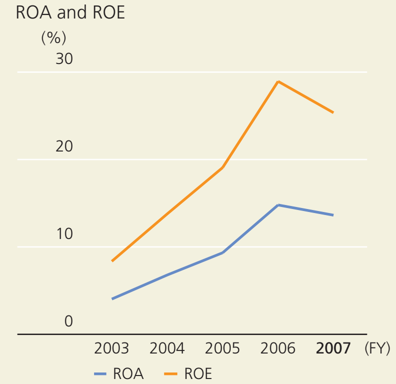

Cash flows



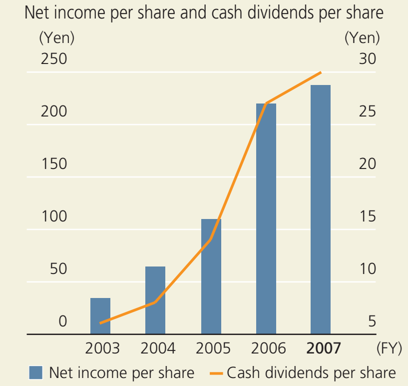

Free cash flows



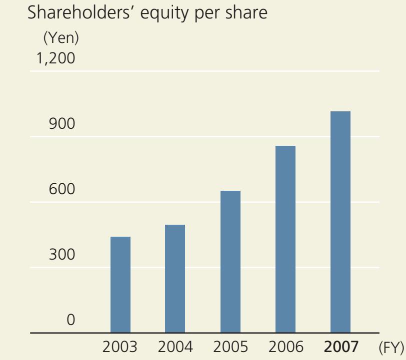

ROA and ROE




Net income per share and cash dividends per share




Shareholders' equity per share




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

A Message from the Chairman

# Aiming to be a World-Class Player

*Chairman and Representative Director: Koichi Fukushima*

*President and Representative Director: Nobumasa Kemori*

## The social role and raison d'être of the SMM Group amid intensifying competition for resources and growing environmental problems

Demand for non-ferrous metals is growing. The BRICs economies that are supporting this expansion in demand are likely to continue growing at rapid rates. We are seeing the impact of this trend in terms of higher non-ferrous metals prices and increasingly fierce competition to secure global resources.

Looking to the future, the resource sector will certainly be a growth industry. Amid increasingly fierce competition for resources, our raison d'être is to secure sources of copper, nickel, gold and other non-ferrous metals so that we can maintain a high-quality supply of such materials and fabricated items. We have a vital role to play in continued industrial development and economic growth by maintaining consistent supplies of materials to industries that lead the global economy such as the electrical machinery and automotive sectors.

Mounting global interest in environmental issues provides companies with an opportunity to make a greater contribution to society by upgrading efforts to tackle environmental problems. If we look at the SMM Group's semiconductor and advanced materials business, our portfolio of technologies and products contains numerous promising materials that offer good environment-related business development opportunities. Our battery materials for hybrid vehicle applications provide an excellent example. We are investing aggressively to develop technologies and products in a number of areas with potential so that we can expand our presence in environment-related fields. I believe that it is important from a management perspective for us to take another look at our existing materials operations with a view to refocusing our R&D activities on the most promising areas.

## Building a stronger platform for future growth as the main theme of our FY2007–9 Medium-term Business Plan

Our previous three-year Medium-term Business Plan (FY2004–6) comprised five major projects[*1] that were aimed at securing resources on a number of fronts. We were able to make progress and deliver good results based on this plan even as huge changes occurred in our operating environment over the course of the plan period. The main theme of the FY2007–9 Medium-term Business Plan that we initiated last year is to build on the earlier progress so that we can create a stronger platform for future growth.

We are therefore focusing our efforts on developing the human resources to enable us to realize our objectives. We recognize that this will necessitate a fundamental revision of our personnel development systems.

## Aiming to build greater trust as a company based on the Sumitomo Business Spirit

It has been a year since I was appointed Chairman of the Board. I believe that the transition to my successor as president, Nobumasa Kemori, has been a smooth one. In addition to Mr. Kemori's character, this reflects the fact that SMM's business strategy and policies have permeated successfully from top management all the way down the company, which has meant that everyone has a firm grasp of the direction in which the SMM Group is headed.

In accordance with the Sumitomo Business Spirit, the SMM Group Corporate Philosophy and Management Vision exhort us to undertake sound corporate activities so that we can make a positive contribution to society and fulfill our responsibilities to stakeholders. Based on this solid business platform, going forward we will strive to maximize enterprise value and earn the continued trust of society.

August 2008

K. Fukushima

Koichi Fukushima
*Chairman and Representative Director*

# Global Non-Ferrous Metals Industry Overview

*Rising demand plus fiercer competition to secure resources*

Prices of non-ferrous metals such as copper and nickel have been rising fast since 2003. Underpinning this boom has been strong economic growth within the BRICs emerging nations, which collectively account for about 40% of the world's population and 10% of global GDP. Supply has failed to keep up with the sharp increase in demand for non-ferrous metals, which has pushed up prices. Economic growth is projected to remain robust in BRICs nations going forward and these major emerging markets are expected to continue to drive growth in global non-ferrous metals demand. This undercurrent of the major expansion in demand has been a distinctive feature of the surge in prices.

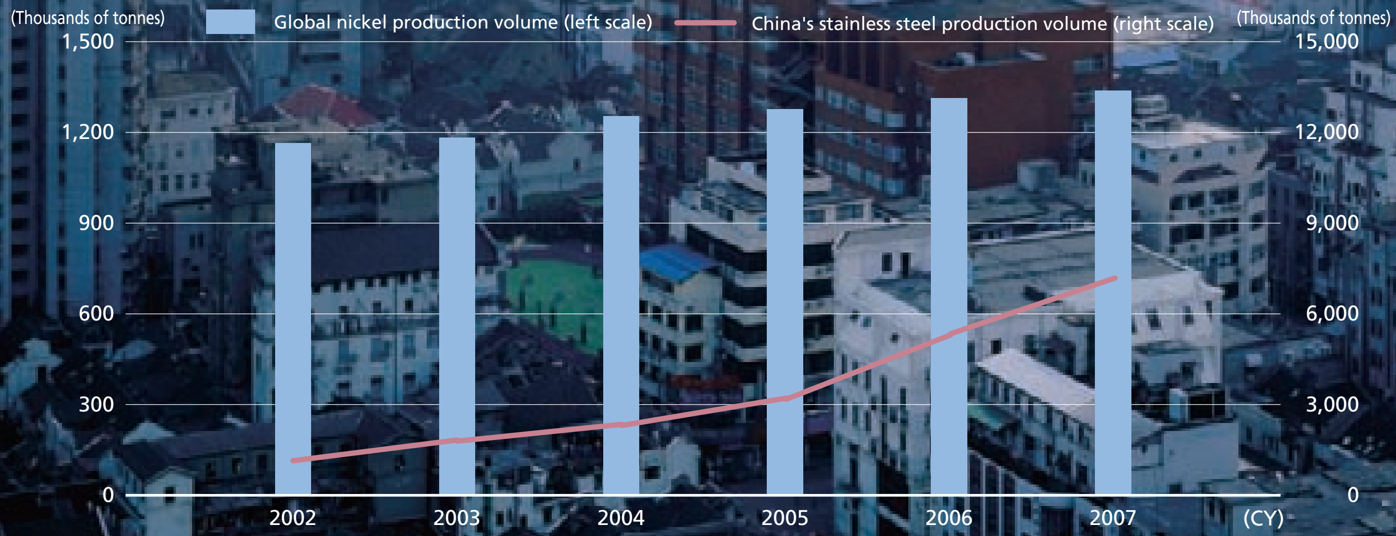
As the upward trend in non-ferrous metals prices has developed, we have also seen the emergence of resource nationalism and national strategies to secure resources. At the same time, the major mining firms based outside Japan have engaged in a series of mergers and acquisitions. The resulting consolidation of the industry is leading to the world's mineral resources being controlled by ever fewer players. The global deployment of huge amounts of capital and the increasing involvement of nation states are expected to lead to fiercer competition to secure resources in the future.

Amid rising demand and intense competition for mineral resources, industrial action by miners, production stoppages and various other factors have added to supply uncertainties. An influx of speculative trading funds into commodity markets has been an additional factor. Overall, the trends seen in non-ferrous metals prices have been unlike anything recorded in the past.

## Global and BRICs demand for copper (forecast)


Source: BROOK HUNT

## Global nickel production volume and China's stainless steel production volume




Source: Estimate by SMM

# Trends in Non-Ferrous Metals Markets

## Copper: Prices continue to surge while production falters as the result of lower-quality ores and mine obsolescence

The quality of ore extracted from many of the world's major copper mines has fallen noticeably in recent years. Usually these ores contain about 1–2% of copper by weight, but recently the amounts of ores with grades of less than 1% have been increasing. This trend means that production output of metal falls unless higher volumes of copper ores are processed, putting pressure on smelting firms to raise production. It is also one of the factors spurring the expanded use of recycled raw materials as secondary sources of copper.

While many mines are increasingly approaching obsolescence, little progress is being made in terms of developing new sources of copper. Impeding factors include rising development costs and a trend toward using M&A to control existing resources rather than focusing on development of new mines. The emergence of resource nationalism has also prompted countries to tighten rules and exert more authority over state-controlled mineral resource assets.

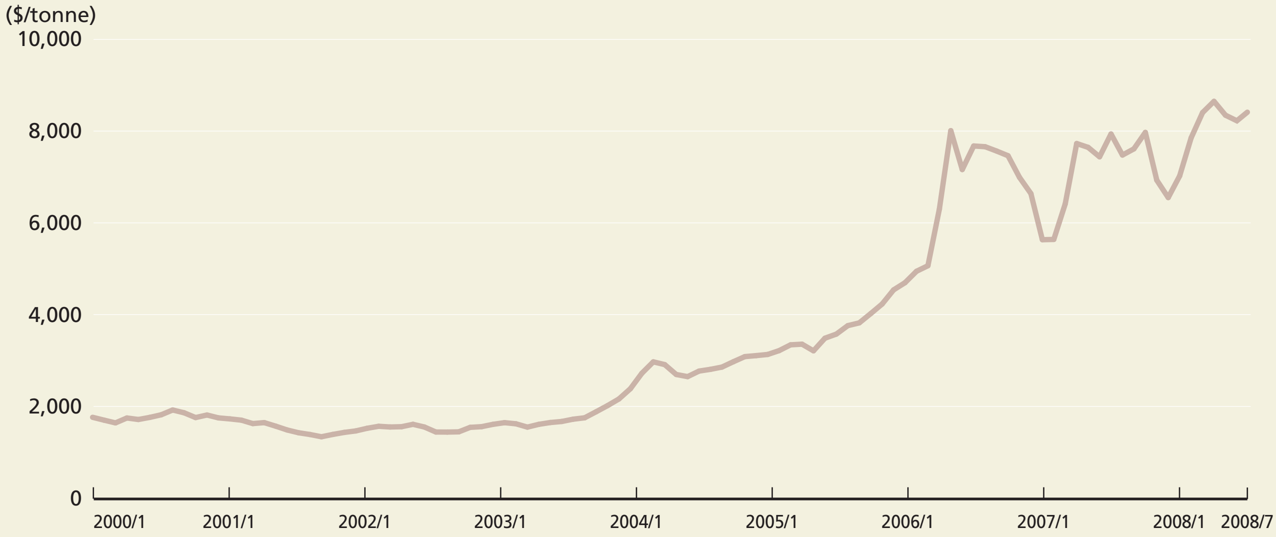
Copper prices have risen sharply since late 2003. In part this reflects supply constraints due to the suspension or termination of production at high-cost mines in response to the depressed prices recorded prior to the current boom. However, a major cause is the rise in demand from countries such as China. A relative lack of supply has been the main factor pushing up market prices.

## Nickel: Prices expected to rise in reflection of robust demand, particularly from China

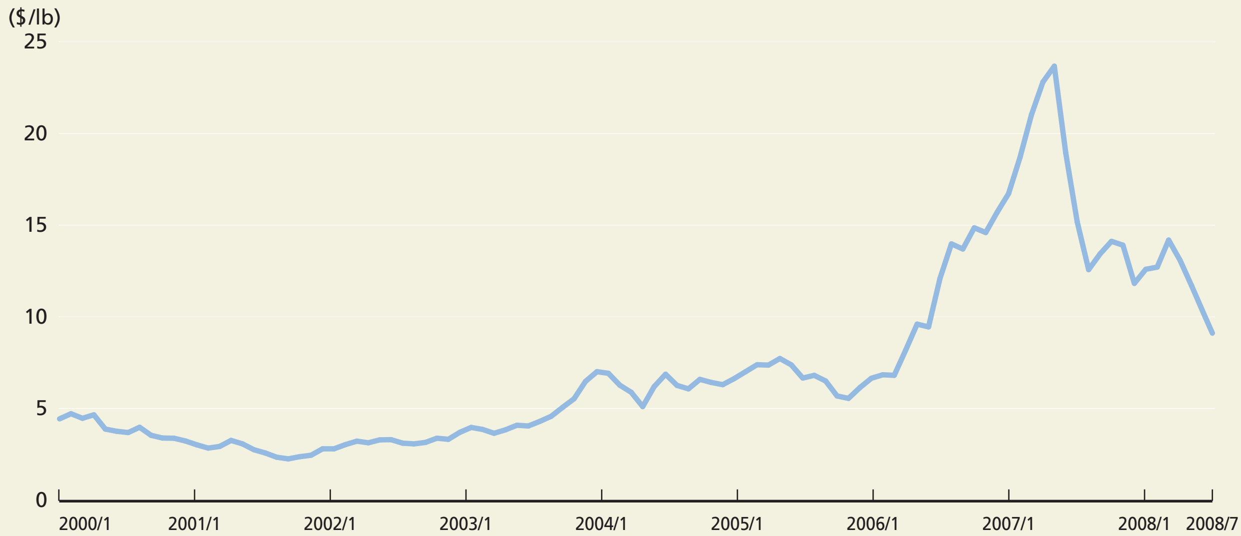
Stainless steel accounts for more than 60% of global demand for nickel. While demand for nickel has stayed buoyant in Western countries, consistently high rates of economic growth in China have contributed to fast growth in demand for stainless steel. Global demand has grown substantially as a result. China has now overtaken Japan as the world's leading source of demand.

Applications related to energy and power generation are also creating strong growth in demand for nickel-rich specialty steels and alloys. For example, due to the high price of oil, companies are increasingly looking to exploit deep-well technology to develop deep-sea oil and natural gas reserves in projects that had been previously overlooked owing to the high costs involved. This is one of the factors pushing up demand for nickel-rich alloys, whose high resistance to corrosion is useful in extreme operating environments. Led by the BRICs economies, global energy demand is projected to increase in the future, thus continuing to push up demand for nickel.

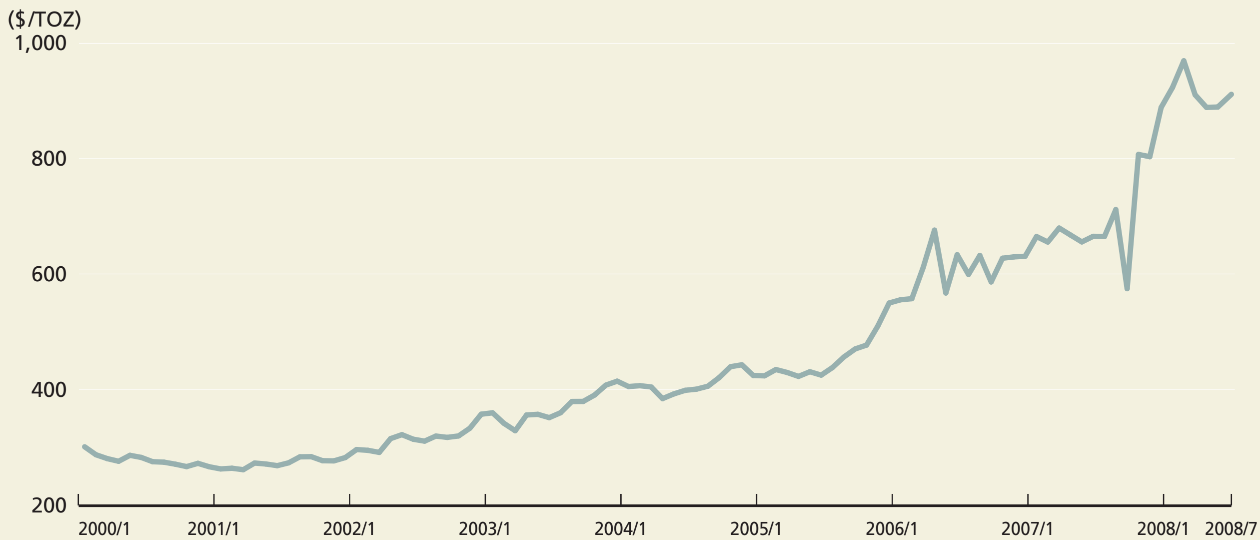
## Copper Price (LME)




## Nickel Price (LME)

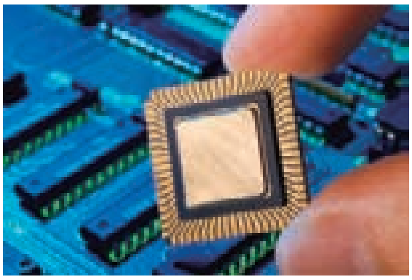



## Gold Price (London Fixing)



The market for nickel is small compared with those for other base metals such as copper and aluminum. This tends to make nickel prices more susceptible to changes in the supply-demand balance or to an influx of speculative trading capital. Nickel prices soared rapidly in response to the sharp rise in demand from China and an influx of trading capital, but retreated after the London Metal Exchange (LME) imposed restrictions on speculation in June 2007. Although nickel prices have since fallen sharply to levels less than half of the peak, prices are still high relative to those recorded in 2003 prior to the surge. The residual pricing differential reflects the impact of rising demand for the metal from emerging markets.

## Gold: Prices remain elevated amid robust demand, with China taking over the mantle of top global producer



While the gold production output of major producing nations such as South Africa, the United States and Peru has been declining, annual output in China has been on the increase. Replacing South Africa, China assumed the mantle of top global producer in 2007. Production in South Africa has halved over the past ten years, reflecting the depletion of productive veins and problems with retaining technical personnel and mine laborers. Although major gold mining companies based in North America and South Africa have actively entered into mergers, acquisitions and strategic alliances, production output has failed to generate any significant growth. On the demand side, countries such as China and India now account for around 30% of total global demand for gold used in fabrication, mainly in jewelry and electronics-related applications.

The cross-cultural value of gold means that price formation in this market is not governed purely by supply and demand. The price of gold has traditionally also reflected other factors such as global geopolitical or financial conditions. The metal is often regarded as a store of value in times of trouble, meaning that its price tends to rise during periods of political or financial uncertainty. Gold is also seen as an inflation hedge: any uncertainty concerning inflation due to factors such as high oil prices tends to support the price of gold.

Funds have flowed into the gold market following the depreciation of the U.S. dollar and the economic volatility sparked by the subprime loan crisis. The price of gold has also exhibited a robust upward trend as gold producers have curtailed their earlier hedging practice of forward-selling projected output in the commodity futures markets.

# Overview of Semiconductor and Advanced Materials Markets

## Semiconductors:
Demand growth driven by digital appliances and the automotive sector

The global semiconductor market has expanded consistently to date and is forecast to continue growing over the medium and long term.

Emerging trends include ongoing growth in demand for mobile phones and other types of electronic equipment in developing countries and the projected replacement demand within developed markets for laptop PCs and 3G mobile handsets with advanced functionality. At the same time, the automotive sector is also expected to generate significant demand growth. Vehicles are rapidly incorporating more electronic components in the form of engine controls and various types of sensors. The proportion of semiconductor demand derived from automotive applications is set to rise above 20% within the near future.

## LCDs: Taiwan emerging as a key market amid rising demand

Global demand for flat-screen televisions is rising quickly. Falling sales prices for these products are promoting consumer uptake in emerging markets such as China. Another major demand driver is an ongoing shift in Japan and other developed country markets toward full high-definition models.

In recent years, companies in South Korea and Taiwan have emerged as a force in LCD panel materials, which traditionally has been an area of specialty for Japanese producers. For example, Taiwanese firms with manufacturing bases in coastal China now account for 40% of global output in LCD driver ICs.[*5] This makes Taiwan one of the leading producer markets within this sector. The market is projected to continue growing amid broader competition between companies in terms of both technology and price.

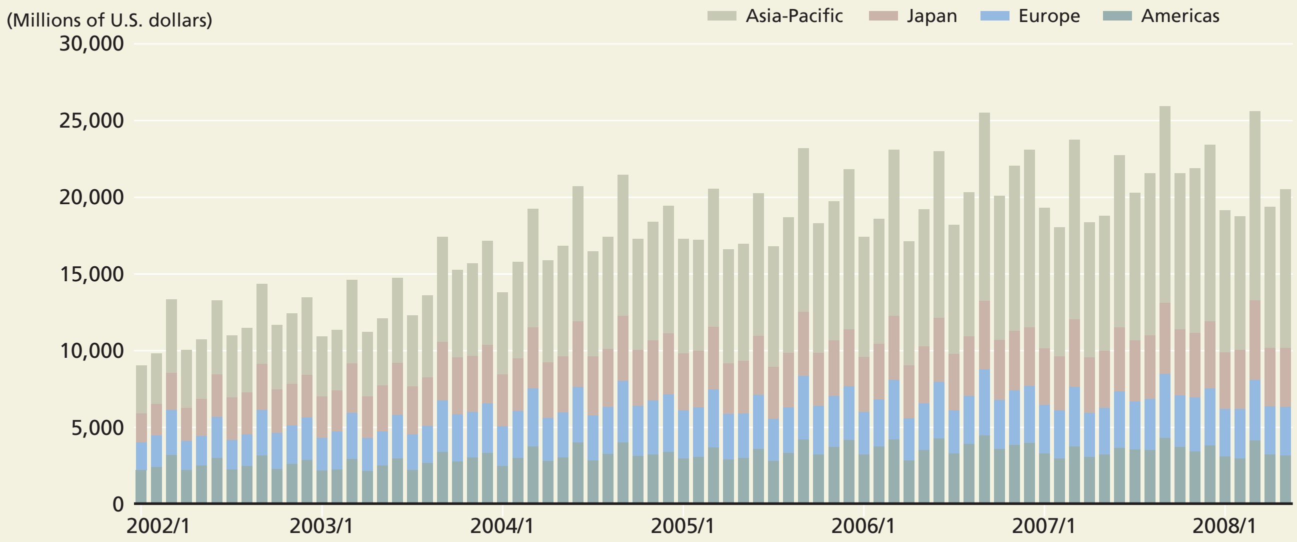
## Battery materials:
Prospects broaden for next-generation batteries as development accelerates

Technical progress is accelerating the evolution of rechargeable secondary batteries,[*11] and the market for these products has expanded as the range of applications has broadened. Secondary lithium-ion batteries combining high power output with low weight and superior cost performance power many of the latest PCs and mobile handsets.

Automotive applications for rechargeable secondary batteries are expected to increase in the future with the growing adoption of the hybrid electric vehicle (HEV). Currently the United States is the largest market for such HEVs, but the global market for such vehicles is expected to grow rapidly going forward as more models are launched.

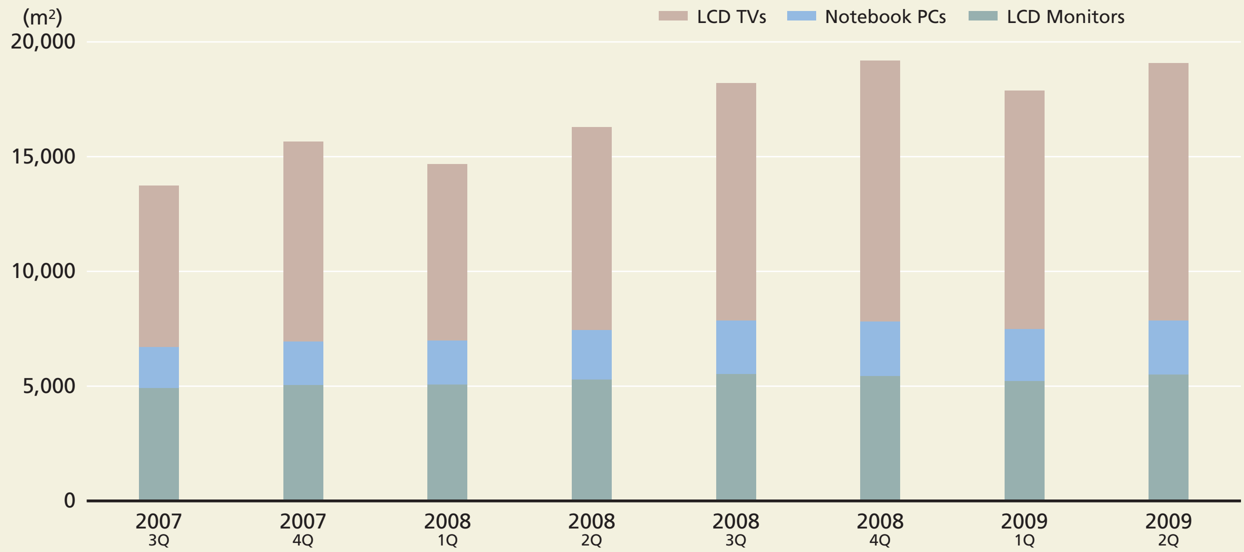
Most of the batteries that power the current lineup of HEVs are of the nickel metal hydride variety. However, attention is also focusing on development of lithium-ion batteries for automotive applications owing to the potential benefits in terms of higher performance, reduced weight and lower replacement cost. The competition between various manufacturers to develop rechargeable secondary batteries for automotive use has intensified amid rising oil prices and mounting environmental concerns. Expectations have risen that this will lead to the emergence of new materials and technologies.

## Semiconductor monthly shipment value (actual)



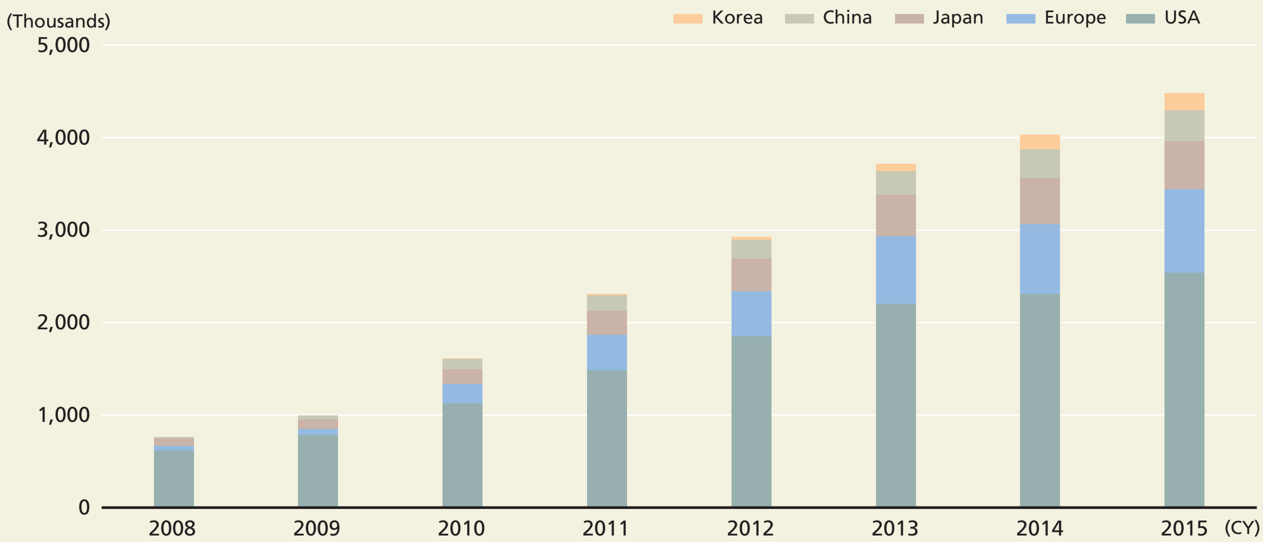

Source: WSTS (World semiconductor trade statistics)

## Large-area TFT-LCD panel demand (estimation)




Source: Large Area TFT-LCD Panel Supply & Demand Analysis — 15th Edition May 2008 (Displaybank)

## Hybrid car production (forecast)




Source: HEV Market Report 2008 (HIEDGE INSTITUTE Ltd.)

# Overview of longer-term business strategy and FY2007–9 Medium-term Business Plan

*~Strategic objectives: become a major player in the non-ferrous metal industry (Mineral Resources and Metals); secure leading global market shares for our key products (Semiconductor and Advanced Materials)*

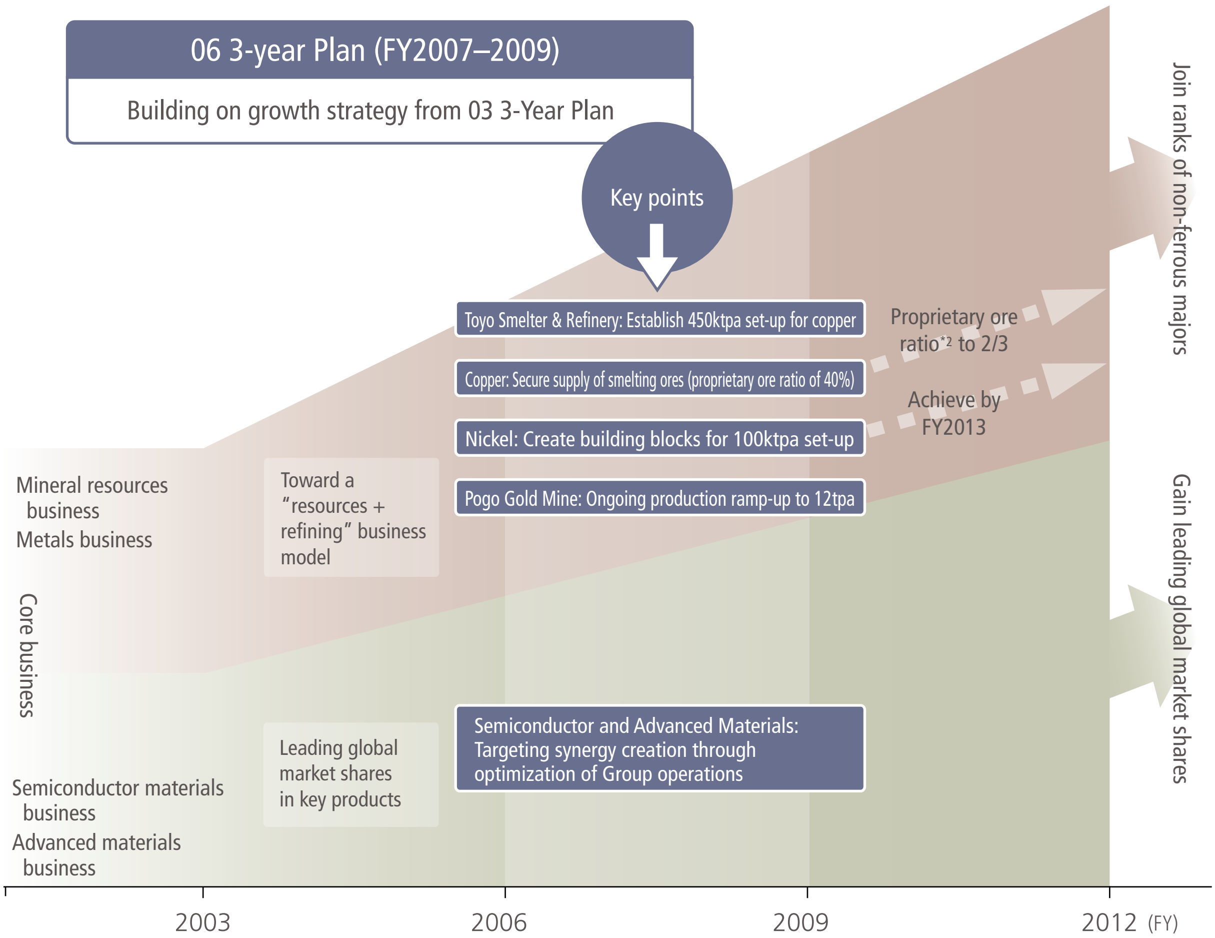
The FY2007–9 Medium-term Business Plan marks the second stage of our longer-term business strategy. Fiscal 2008 is the second year of this plan.

The longer-term business strategy is to focus on our two core businesses in the mineral resources and metals and semiconductor and advanced materials sectors. The basic strategic objectives for the SMM Group are to become a major within the non-ferrous metals industry in the mineral resources and metals sector, and to secure leading global market shares for our products in the semiconductor and advanced materials sector.

To develop and grow these core businesses, in the mineral resources and metals sector we are focusing on raising production output by boosting the scale of production at the mines around the world in which the SMM Group owns equity interests, while at the same time expanding smelting capacity. In the semiconductor and advanced materials sector, we are focusing our efforts on developing new products and on expanding our sales beyond the domestic market in Taiwan and China.

Other areas of focus include reinforcing the management infrastructure by strengthening occupational health and safety, environmental preservation and compliance programs so that we can uphold the SMM Group Corporate Philosophy; expanding and upgrading programs to retain and develop human resources; making further progress with the SMM Group's financial strategy; and improving corporate governance and CSR activities.

Through such initiatives aimed at further strengthening our management capabilities and general business vitality — and by trying to raise the bar in each of these areas -- we aim to build enterprise value.




## Toyo Smelter & Refinery: Establish 450ktpa set-up for copper

We are on track to build a 450ktpa set-up for electrolytic copper at the Toyo Smelter & Refinery by fiscal 2009. With a capacity of 450ktpa, the electrolytic copper production line is one of the single largest such facilities in the world.

• Production output:
FY2004: 268kt FY2005: 327kt
FY2006: 366kt FY2007: 407kt

## Copper: Secure supply of smelting ores (proprietary ore ratio of 40%)

We have sought to secure supplies of copper smelting ores while at the same time expanding our smelting capacity. As part of this strategy, we invested in an equity stake in a sulfide ore development project at the Cerro Verde Copper Mine. The commencement of operations at this project in November 2006 has helped to boost our proprietary ore ratio for copper to 40%.

• Off-take rights for half of the copper concentrates produced at Cerro Verde (equivalent to 90ktpa of copper) for an initial ten-year period
• Active investment in exploration activities to boost the ratio to two-thirds

## Nickel: Create building blocks for 100ktpa set-up

This is the major theme of the FY2007–9 Plan. We are putting in place the building blocks needed to achieve a 100ktpa level of output for nickel by fiscal 2013. By further honing advanced refining technologies such as HPAL*3 and MCLE,*4 which have drawn critical approval worldwide, we aim to expand production by securing a stable supply of raw materials.

• CBNC: second-phase plant operational by April 2009 (22ktpa)
• Expansion of electrolytic nickel production capacity in Japan by FY2012 (from 30ktpa to 65ktpa)
• Goro Nickel Project: operational by end of 2008 (60ktpa)
• Taganito Nickel Project: provisionally operational by FY2012 (30ktpa)

## Pogo Gold Mine: Ongoing production ramp-up to 12tpa

Located in Alaska in the US, Pogo is a gold mine in which the SMM Group has a majority interest. It was developed following a successful in-house prospecting project. Production began in February 2006, around 11 years after the initial discovery of gold seams.

• Ongoing ramp-up in operating capacity toward 12tpa target for 2009

## Semiconductor and Advanced Materials: Targeting synergy creation through optimization of Group operations

In this sector, our aim is to secure leading global market shares for our major products. To this end, in October 2008 we initiated a reorganization to focus efforts on those technical areas where we are strong, to accelerate product development, and to maximize synergy benefits.

Reinforcement of existing operations
• Maintain and build on leading global market shares for major product groups such as copper-clad polyimide film (CCPF), bonding wire,*8 nickel paste and lead frames*7
• In tape bonding materials,*7 commence production of COF*6 in Taiwan based on a new manufacturing process

Accelerate product development
Establish four core development themes (including development of more advanced materials)
• Battery materials (such as LNO*12)
• Single-crystal materials (such as sapphire substrates)
• Thin-film materials*9 (such as materials for sputtering targets*9)
• Thin-film chip packaging materials (including CCPF and IC substrates)

# Progress Status of Major Projects

Cu

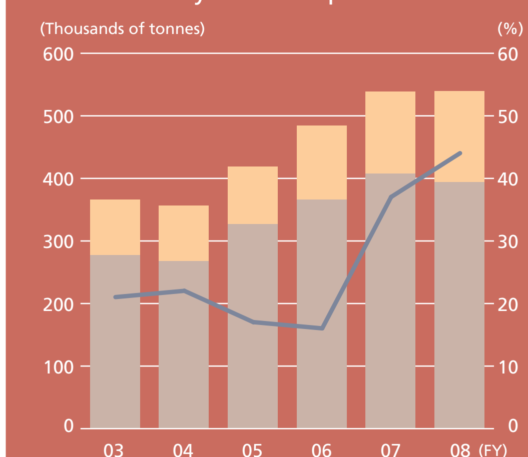
## Copper

### Realizing 450ktpa production set-up by steadily raising the ratio of ores purchased in-house

Under the FY2007–9 Plan, we are focused on securing smelting ores and bolstering the earnings base through the stable operation of overseas mines such as Cerro Verde in Peru. We are also undertaking an aggressive exploration program with the aim of developing copper mines in which the SMM Group has a controlling stake. Our aim is to raise the proprietary ore ratio[*2] for copper from 40% at present to around two-thirds in the future.

Production output from the Toyo facility has increased steadily in line with internal projections. However, our plans assumed a stable quality of ore to ensure efficient production. Reflecting a decline in the grade of copper concentrates, during fiscal 2008 we plan to improve smelting processes to cope with the lower-quality ore and thus regain operational stability toward realizing a 450ktpa set-up.

Total electrolytic Cu output




Ni

## Nickel

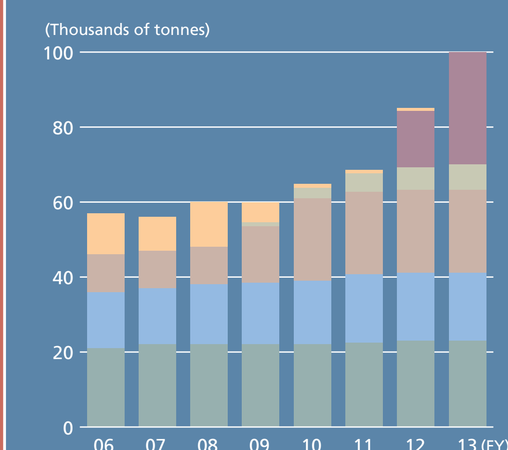
### Expansion of operating capacity and exploration activities with the aim of establishing a 100ktpa production set-up

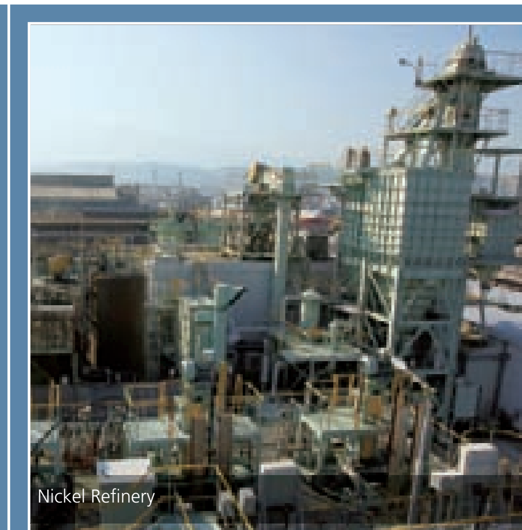
At Philippines-based CBNC, where the first-phase plant is already operating, production at a second-phase plant is due to commence around April 2009. This will enable use to secure 22ktpa of raw materials. As a follow-on project, we are also pushing forward with the Taganito Project to supply raw materials using HPAL[*3] technology. Alongside these two projects, we are also upgrading nickel refining capacity at our facilities in Japan with the ultimate aim of expanding electrolytic nickel output to 65ktpa by 2013. Moreover, in New Caledonia, we are jointly developing the Goro Nickel Mine in partnership with VALE Inco. Production is due to commence in late 2008.

By 2013, we thus intend to raise overall nickel production capacity to 100ktpa, from the current level of 56ktpa.

Another key exploration project to secure nickel resources to increase output beyond the 100ktpa mark is currently progressing in the Solomon Islands.

Develop 100ktpa capacity for Ni





Nickel Refinery

Au

## Gold

### Close to full operating capacity at majority-interest Pogo Gold Mine

The Pogo Gold Mine is important in that it is the SMM Group's first overseas mine in which we own a majority interest. Located in Alaska, USA, the Pogo mine began production in 2006. After some initial teething troubles, output reached 80% of full design capacity in fiscal 2007. During fiscal 2008, our priority is to increase production up to the 11tpa level ahead of a further rise to 12tpa (full capacity) in fiscal 2009.


Cerro Verde

Semiconductor & Advanced Materials

## Semiconductor and Advanced Materials

### Cultivating inherent strengths and promoting new product development through organizational restructuring

In this sector, we have established four core development themes (including the development of more advanced materials).

Core development themes include battery materials (such as LNO[*12]), single-crystal materials (such as sapphire substrates), thin-film materials[*9] (such as materials for sputtering targets[*9]) and thin-film chip packaging materials (such as CCPF and IC substrates). Based on these various themes, we are aiming to re-cultivate the strengths of the SMM Group in materials technologies while also reinforcing new product development. An organizational restructuring to achieve these aims has been underway since October 2008.

We have also upgraded our production capacity both in Japan and overseas in response to rising global demand for LCD panel materials. Taiwan-based producers in particular have been grabbing market share for LCD driver ICs[*5], and now have around 40% of the world market for these products. With a view to capitalizing on this trend, in 2008 we commenced production of COF[*6] substrates used in LCD driver applications at a new plant in Taiwan. In lead frames,[*7] we are aiming to maintain and build on our leading share of the global market by increasing operating capacity at our production facility in Suzhou (Jiangsu Province, China).

# My mission is to carry out the FY2007–9 Medium-term Business Plan.

The core theme of the FY2007–9 Medium-term Business Plan that we began last year is to achieve the two growth strategy objectives originally set out by Chairman Fukushima in the FY2004–6 Medium-term Business Plan. These are to become a major within the non-ferrous metals industry in our mineral resources and metals business, and to secure leading global market shares for our products in the semiconductor and advanced materials sector.

Becoming a major within the non-ferrous metals industry does not mean that we need to attain a similar scale of operations to the world's top mining firms, which have transformed through mergers to attain so-called "super-major" status. It is not realistic for us to target the top-ranked positions in the global industry in terms of scale. What we are aiming to do is to develop a "mineral resources + refining" business model in which we do our own exploration and mine development. In other words, we aim to be a firm with sufficient scale to develop mineral resources completely in-house. This has been a consistent theme of our medium-term business plans ending in FY2003, FY2006 and FY2009. I believe that this is a realistic goal for us.

Our core focus for the FY2004–6 Plan was on the development of our copper business. With the FY2007–9 Plan, we are concentrating our efforts primarily on our nickel operations with the aim of putting in place the blocks required to build up our nickel production capacity to 100ktpa.

In the semiconductor and advanced materials business, we are now investing more heavily to upgrade our technical expertise so that we can generate new streams of earnings to supplement our existing mainstay products. New areas offering potential earnings growth include chip-on-film (COF[*6]) substrates, sapphire substrates and battery materials.

By carrying out the FY2007–9 Plan, we aim to build a more robust business base so that we can target future growth.

## Making management more responsive by tackling two issues

I have spent a good part of my first year as president visiting company sites and introducing myself to a variety of people so that SMM Group employees are aware of the transition at the top.

Outside the company, I have also made a point of meeting the prefectural governors and other local dignitaries in the parts of Japan where we have operations, as well as many of our key suppliers. Taking advantage of varied opportunities, I have also shaken hands with our overseas partners to assure them that we remain committed to our joint business ventures. In addition, I have visited many mining and smelting companies in the industry to deepen our relations, particularly with those sector peers that are developing business globally and with whom we have good relations.

In my travels over the past year I have visited each of the 40 domestic SMM Group sites. This has given me the chance to observe our frontline operations at first hand and to have a direct dialogue with employees.

What struck me particularly is that we need to make the management of our business faster and more responsive. I believe that this involves tackling two issues. First, we need to make our corporate culture more goal-oriented by implementing short PDCA (Plan, Do, Check, Act) cycles with clearly defined responsibilities, methods and limits. The second issue is to upgrade human resource development. In line with our business strategy, we are expanding the presence of the SMM Group into a broader range of business domains. This means that we need to invest more in the people in frontline operations, both in Japan and overseas. I believe that investing more to cultivate human capital in order to develop our future business remains a key issue for us.

## Reinforcing the business base for the next generation of growth by steadily upgrading the production set-up

(Mineral Resources and Metals Division)

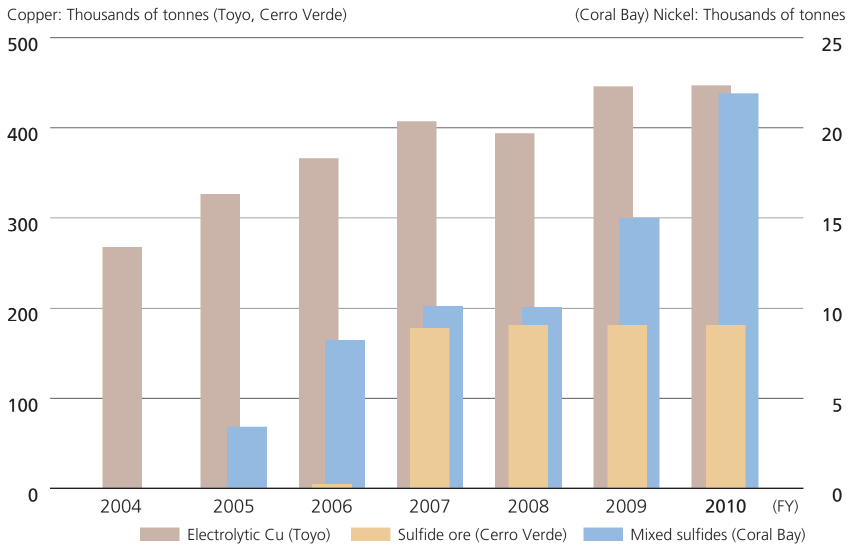
By the end of fiscal 2006, we had completed the major capital investment projects to create a 450ktpa production set-up for copper at the Toyo Smelter & Refinery. Subsequently, we have ramped up production gradually, with annual output rising from 366kt in fiscal 2006 to 410kt in fiscal 2007. While we expect output to dip to 400kt in fiscal 2008 owing to the effect of lower-grade copper concentrates, we remain on course to achieve a full-capacity output target of 450kt in fiscal 2009.

With nickel, Philippines-based Coral Bay Nickel Corporation (CBNC) reached full operating capacity in 2007 and is currently producing a little over 10ktpa of nickel intermediates for refining (slightly above design capacity). Construction work on a second-phase plant to double production capacity is progressing steadily, with operations due to commence in April 2009.

Production output of gold at the Pogo mine in Alaska in the United States was 3.2t in 2006, the first year of production. Annual output rose to 8.1t in 2007. We are targeting a figure of 11t for the year to March 2009. Our medium-term goal is annual gold output of 12t.

We have been expanding the scale of our exploration and prospecting budget over the years. In fiscal 2008 we plan to spend ¥4.7 billion on such activities, which represents a significant increase on previous years. While exploration projects require time to generate results, we are aggressively increasing our investment in such activities so that we can build a stronger business base to support the growth of the company over the next couple of decades. Through these initiatives, we aim to increase our proprietary ore ratio*2 for copper from around 40% at present to about two-thirds over the longer term.

### Mineral resources and metals strategy: Progress overview




## Achieving the FY2009 goal for operating income by creating optimized, rapid-response operations

(Semiconductor and Advanced Materials Division)

Effective October 2008, we renamed the Electronics and Advanced Materials Division as the Semiconductor and Advanced Materials Division as part of a re-organizational move.

Operating income in this business segment reached ¥13.6 billion in fiscal 2006, but then declined significantly in fiscal 2007 to a little over ¥8.0 billion. To achieve the planned operating income target of ¥20 billion in fiscal 2009, we intend to build on the recent reorganization with reforms in various areas to strengthen these operations.

In doing so we have two aims. The first is to strengthen the existing business in such a way that we can optimize operations by creating synergies with the rest of the SMM Group. This is a markedly different approach for the division, which until now has operated on a purely stand-alone basis. Second, we are aiming to speed up decision-making and product development. We plan to do this by saving time through more coordinated internal decision-making, both between the center and divisional operating sites and within each site. We are putting people into the necessary positions to facilitate a doubling in speed. We are also adjusting the set-up within our technical departments to enable faster decision-making and communication of information relating to product development or operational improvements.

Our principal challenge in this business segment is to achieve ¥20 billion in operating income in fiscal 2009. To achieve this objective, we are working to translate this financial goal into specific actions that each individual employee must accomplish.

## Cultivating a "culture of safety" through upgraded safety initiatives

Occupational health and safety is a fundamental aspect of our business and represents an important emotional issue for all employees.

In 2000, we formulated a plan to revitalize SMM from a safety perspective. Our initial goal was to halve the number of safety-related incidents. In 2003, we formulated a policy to cultivate an internal culture of safety by taking up the challenge of hazard minimization based on better safety management at the production line level. After a lot of hard work across all operating sites to develop safety programs, we achieved the goal in 2004, recording a total of 30 safety-related incidents involving employees for that year.

We are now working to try to eliminate such incidents completely. Led by the site general managers, each SMM Group site is implementing effective safety activities tailored to the needs of each workplace.

SMM group "culture of safety"

## CSR evolution and promotion of corporate governance based on the Sumitomo Business Spirit

SMM can trace its history directly back to the origins of the Sumitomo Group. Our business rationale is derived from the Sumitomo Business Spirit, whose first tenet emphasizes the importance of integrity. In line with this principle, we have formulated the SMM Group Corporate Philosophy "in order to win ever greater trust" along with the SMM Group Management Vision, which commits us to working to maximize enterprise value. These statements form a true and honest basis for our CSR and corporate governance activities.

Increasing the value of a company is not merely a matter of earning profits. Both CSR and corporate governance have an important part to play as well. Our belief is that pursuing both of these concurrently and realizing related objectives will help us to maximize enterprise value.

The core concept at the heart of our approach to CSR is one of "sustainable co-existence with the global environment and society." This draws on the central idea in the SMM Group Corporate Philosophy of seeking to contribute to society and to fulfill the company's responsibilities to stakeholders through sound corporate activities. From October 2008, we are taking our actions to the next level with the institution of a CSR Policy for the SMM Group, along with the establishment of the CSR Committee.

Corporate governance is not simply about the observance of rules. Rather, it is about setting your own rules governing what you believe it is right to do as a company, creating a framework, and then instituting the necessary internal procedures to check that corporate actions are in line with this code. We also regard proper internal controls relating to standardization and documentation of business processes as a critical element in boosting the effectiveness of corporate governance.

## Targeting further growth in enterprise value through steady stream of bold investments

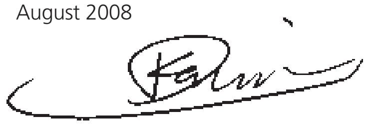
Given that the resources sector is a growth industry, we are determined to expand and reinforce our business by pursuing a growth strategy so that we do not miss any valuable opportunities. The three-year period to March 2010 (FY2007–9) covered by our current medium-term business plan is one in which we plan to invest aggressively for growth. Total planned investments over this period amount to ¥140 billion.

Our priority during this period will be to reinvest profits back into the business. We aim to maintain an equity ratio in excess of 50%. We also plan to raise the dividend payout ratio to more than 20% in fiscal 2009.

Taking into account our current situation, our overall aim is to target further growth in enterprise value through a steady stream of bold investments.

We hope that you will continue to support SMM's development.

August 2008



Nobumasa Kemori
*President and Representative Director*

# Review of Operations: SMM at a Glance

## Mineral Resources

Gold and silver ores
Copper concentrates and electrolytic copper
Geological research

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.

## Metals

Copper
Nickel
Zinc
Lead
Precious metals such as gold, silver and platinum
Sulfuric acid
Copper and brass

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.

## Semiconductor and Advanced Materials

Semiconductor materials
(Bonding wire[*8], lead frames[*7], CCPF, COF[*6])
Advanced materials
(Thick-film pastes[*10], battery materials, single-crystal materials, etc.)

In the semiconductor materials business, we apply the materials and fabrication technologies that we have developed as a full-spectrum non-ferrous metals producer to supply high-quality materials that are critical to the manufacture of semiconductors and electronic equipment.

In the advanced materials business, we apply metals-related technologies to create a range of high-value-added materials with specific functions. These include thick-film pastes, battery materials, single-crystal materials, thin-film materials[*9] and rare metals.

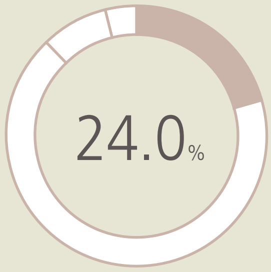
## Others
## (energy/catalysts/construction materials)

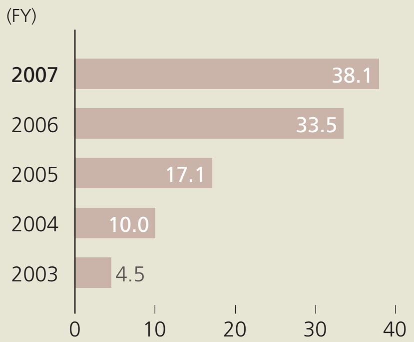
Auto exhaust and petroleum refining catalysts
Recovery and sale of valuable metals from used catalysts
Construction materials (ALC)
Environmental surveys (air/water quality)
Environment-related engineering services

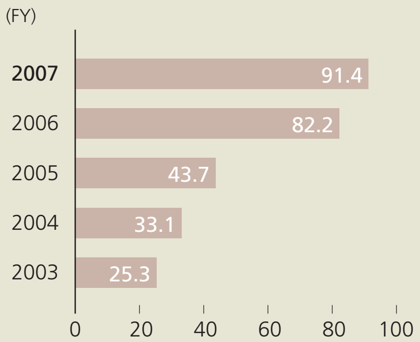
This segment includes operations to leverage various technologies that we have developed in non-ferrous metals refining. Besides conducting environmental surveys of air and water quality and making environmental protection equipment, SMM Group firms also manufacture and sell chemical catalysts and recycle valuable metals from used catalysts. In the housing and construction materials sector, subsidiary Sumitomo Metal Mining Siporex Co., Ltd. manufactures and sells ALC (Autoclaved Lightweight aerated Concrete).

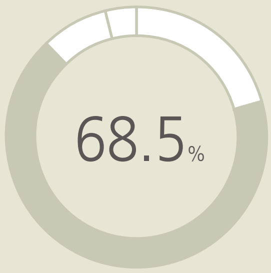
Note: In line with an organizational change, the Electronics and Advanced Materials Division was renamed the Semiconductor and Advanced Materials Division in October 2008.

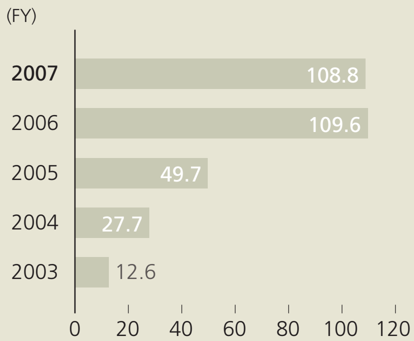
**Segment** (Percentage of Group operating income) | **Operating Income** (Billions of yen) | **Net Sales** (Billions of yen)

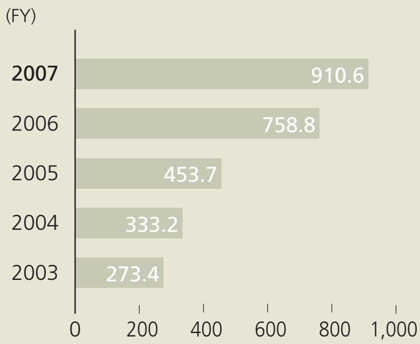


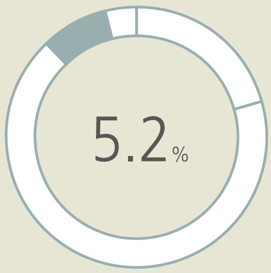



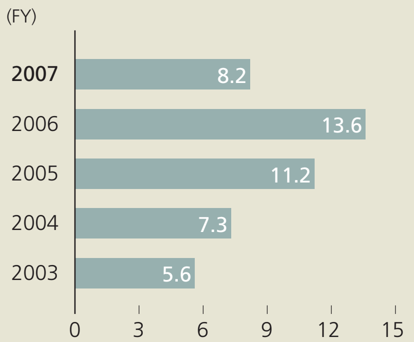



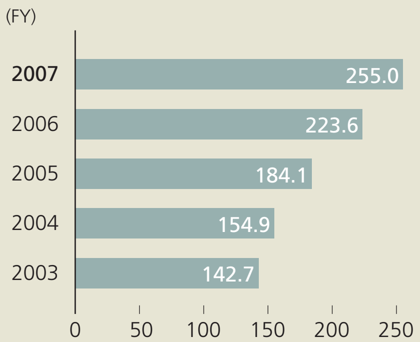



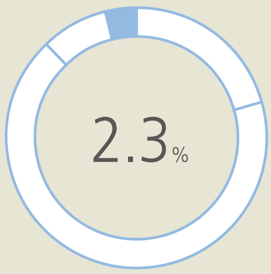



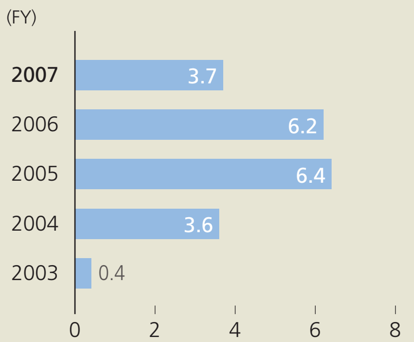



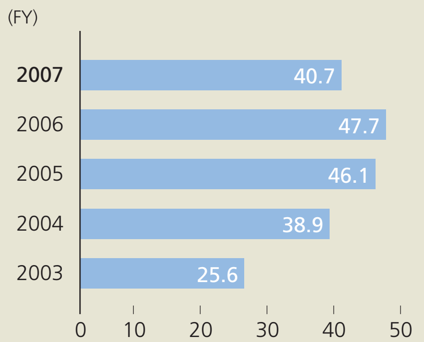



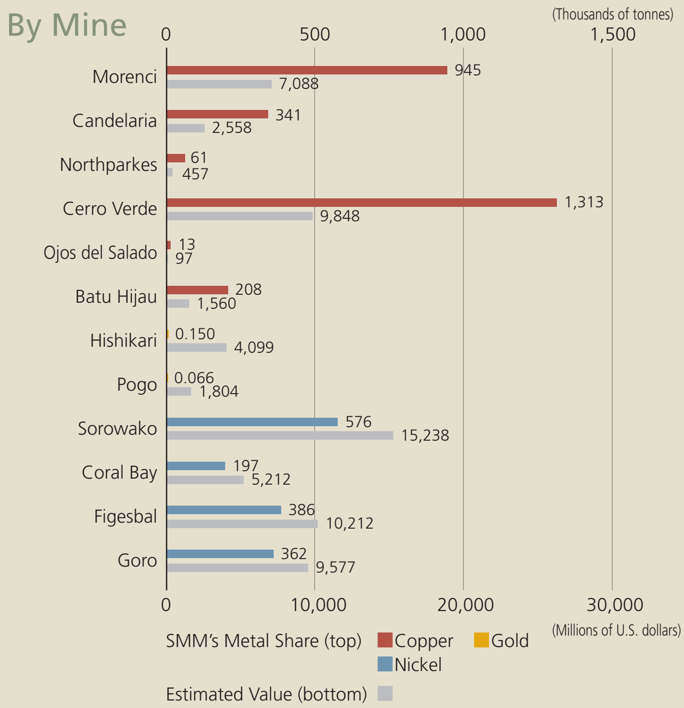



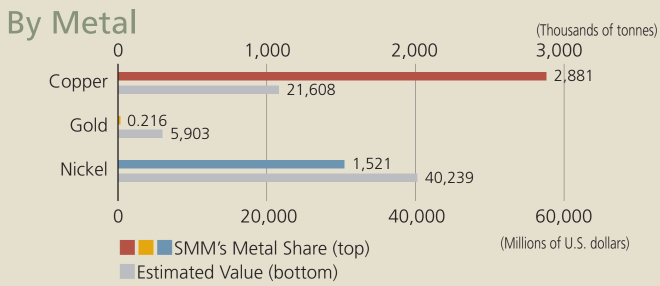

Notes:
1. Operating income and net sales figures include inter-segment transactions.
2. Operating income ratio by segment is calculated based on operating income including inter-segment transactions for fiscal 2007, the year ended March 31, 2008.

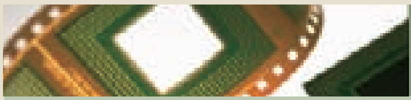
## SMM's Mines and Refineries


## SMM's Metal Shares and Estimated Values

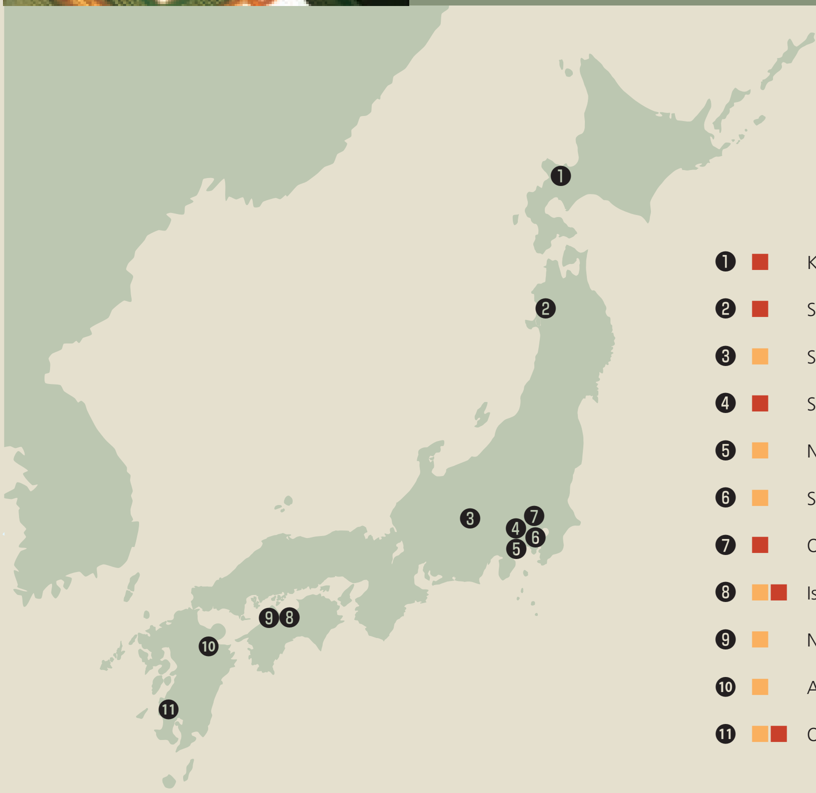



Notes:
1. Only the Company's own mines are covered.
2. SMM's metal share = Ore reserves (tonnes) x Metal grade x SMM's interest in mine (%)
3. Estimated value = SMM's metal share (tonne) x Standard metal price
4. Standard metal price = Copper: $7,500/tonne, Gold: $850/Toz, Nickel: $12/lb





## SMM's Production Facilities for Semiconductor and Advanced Materials



1. Kunitomi District Division
2. SMM Precision Co., Ltd.
3. Shinko Co., Ltd.
4. Sagami Plant
5. Nittosha Co., Ltd.
6. Sumiko Tec Co., Ltd.
7. Ome District Division
8. Isoura Plant
9. Niihama Electronics Co., Ltd.
10. Ajimu Electronics Co., Ltd.
11. Ohkuchi Electronics Co., Ltd.

Semiconductor materials Advanced materials

1. SMM KOREA Co., Ltd.
2. Shanghai Sumiko Electronic Paste Co., Ltd.
3. Sumitomo Metal Mining Electronics Materials (Shanghai) Co., Ltd.
4. Sumiko Electronics Suzhou Co., Ltd.
5. Sumiko Leadframe Chengdu Co., Ltd.
6. Sumiko Electronics Taiwan Co., Ltd.
7. Taiwan Sumiko Materials Co., Ltd.
8. Dongguan Sumiko Electronic Paste Co., Ltd.
9. Sumiko Leadframe (Thailand) Co., Ltd.
10. M-SMM Electronics SDN. BHD.
11. Malaysian Electronics Materials SDN. BHD.
12. Sumitomo Metal Mining Asia Pacific Pte. Ltd.
13. P.T.SUMIKO LEADFRAME BINTAN

## Mineral Resources

### Fiscal 2007 Review

Reflecting higher prices for copper and gold, divisional net sales increased by ¥9,112 million (11%) compared with the previous year to ¥91,360 million. Operating income increased by ¥4,595 million (14%) to ¥38,127 million.

#### Copper mining operations

■ Cerro Verde (Peru)

The operating capacity of the sulfide ore development project at the Cerro Verde Copper Mine has been increased largely in line with plan. Full-capacity processing of sulfide ores was achieved in August 2007. Going forward, Cerro Verde promises to play a major role as a driver of SMM Group earnings and as a stable supply of raw materials for copper smelting operations.

Note: This mine is operated as a joint venture with U.S.-based Freeport-McMoRan Copper & Gold Inc.

■ Morenci (Arizona, USA)

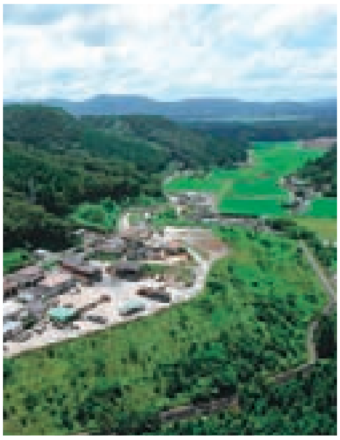
The mine's output in fiscal 2007 was virtually in line with plan. Production of concentrate restarted at an ore-dressing facility that had been idle, enabling a leaching facility that produces electrolytic copper from the ore concentrate to recommence operations. The facility is currently ramping up to full production.

Note: This mine is operated as a joint venture with U.S.-based Freeport-McMoRan Copper & Gold Inc.

■ Candelaria (Chile)

The mine operated largely in line with plan during fiscal 2007.

Note: This mine is operated as a joint venture with U.S.-based Freeport-McMoRan Copper & Gold Inc.



Hishikari Mine

#### Gold mining operations

■ Hishikari (Japan)

Operations at the Hishikari Mine proceeded steadily. Output of gold and silver ores reached 133,955t (containing 7.9t of gold) and the corresponding sales volume was 127,605t (containing 7.5t of gold).

Note: Wholly owned by SMM, this is the largest gold mine in Japan.

■ Pogo (Alaska, USA)

Construction of a new ore-processing facility was completed in March 2007. It began commercial production the following month. The operational capacity of the mine has risen steadily due to the additional ore-processing capacity.

Note: This mine is operated as a joint venture with Teck Cominco of Canada.

#### Status of major projects

| Project name | Objective | FY2007 status |
|---|---|---|
| Cerro Verde Copper Mine (Cerro Verde) | Secure resources to boost proprietary ore ratio[*2] | • Copper concentrate output: 177kt (Cu equivalents)<br>• Electrolytic copper output: 92kt<br>• Start-up of Cu concentrate production boosted proprietary ore ratio for Toyo smelter to 37% (from 16% in FY2006) |
| Pogo Gold Mine (Pogo) | Expand gold mining operations | • Gold output: 8.1t<br>• Operating capacity rose to commercial levels (80% of maximum) in April 2007 |

### Financial highlights, by segment

| (Millions of yen) | FY2007 | FY2006 | FY2005 |
|---|---|---|---|
| Net sales | 91,360 | 82,248 | 43,719 |
| Operating income | 38,127 | 33,532 | 17,107 |
| Operating margin (%) | 41.73 | 40.77 | 39.13 |
| Depreciation expense | 5,537 | 4,539 | 3,250 |
| Capital expenditures | 9,427 | 9,288 | 14,014 |

## Exploration activities

Exploration in the Solomon Islands

SMM's non-ferrous metals growth strategy involves securing further resources for the long term. Reflecting the need to transport ores to Japan, SMM is undertaking exploration and acquiring related zoning rights in more than 20 locations, principally in sites across the Asia-Pacific Rim. Copper exploration projects are concentrated mainly in South America and Australia. In nickel, to secure resources to follow the Taganito Nickel Project, SMM is engaged in exploration in the Solomon Islands. Reflecting its estimated high potential, the latter project is set to absorb a third of the exploration budget in fiscal 2008 so that the scale of prospecting can be expanded.

Besides developing in-house projects, as a matter of policy SMM also actively seeks to participate in blue-chip exploration projects through joint ventures with other companies.

**Exploration costs** (Billions of yen)

| FY2008 (Budget) | FY2007 (Actual) | FY2006 (Actual) | FY2005 (Actual) |
|---|---|---|---|
| 4.7 | 2.4 | 1.9 | 1.4 |

# Metals

## Fiscal 2007 Review

Gold

Reflecting higher prices and sales volumes for copper, nickel and gold, net sales recorded by the division increased by ¥151,738 million (20%) compared with the previous year to ¥910,574 million. Although refining margins widened due to a spike in nickel prices in the first quarter of the year, the movements in non-ferrous metals prices also led to an inventory valuation loss. Operating income declined by ¥722 million (1%) to ¥108,842 million.

■ Copper

Supported by global economic growth, demand for copper was robust during the year. In Japan, although sales to electric wire manufacturers posted good growth related to demand for copper wire in automotive applications, this was offset by reduced demand in the construction sector due to a drop in housing starts and sluggish sales to manufacturers of rolled copper products. There was also evidence that higher copper prices constrained purchasing in some quarters. Overall, domestic sales of copper were on a par with fiscal 2006.

Construction work on a capacity expansion at the Toyo Smelter & Refinery was completed as part of efforts to develop a 450ktpa production set-up for electrolytic copper. Going forward, SMM plans to increase operating capacity in line with changes in copper supply and demand. Output during fiscal 2007 did not reach targeted levels due to changes in the composition of the copper concentrate used as raw materials for the smelting process, which created a number of operational challenges.

Exports of copper were up in year-on-year terms due to increased shipment volumes to Asia.

■ Nickel

Although stainless steel-related demand was initially firm during fiscal 2007, production slowed from around the middle of the year due to a spike in prices, which prompted corrective moves by some producers to switch from nickel steel to chrome steel. However, this was more than offset by the demand for nickel in specialty steels for energy-related applications, reflecting the high price of oil. Demand for nickel for use in alloys with applications related to power generation and aerospace was also firm. Overall sales of nickel were higher than in the previous year.

In the Philippines, Coral Bay Nickel Corporation reached the initially planned processing capacity of 10ktpa for low-grade nickel oxide ores based on the utilization of high-pressure acid leaching (HPAL[*3]) technology.

■ Gold

Sales increased due to higher sales volumes coupled with higher prices.

■ Rolled copper and other fabricated products

Sales of rolled copper, steel castings, precision castings and other fabricated products generated higher revenues as the result of generally firm demand from manufacturers in the automotive and electronics sectors. However, high raw material prices exerted a negative impact on profitability.

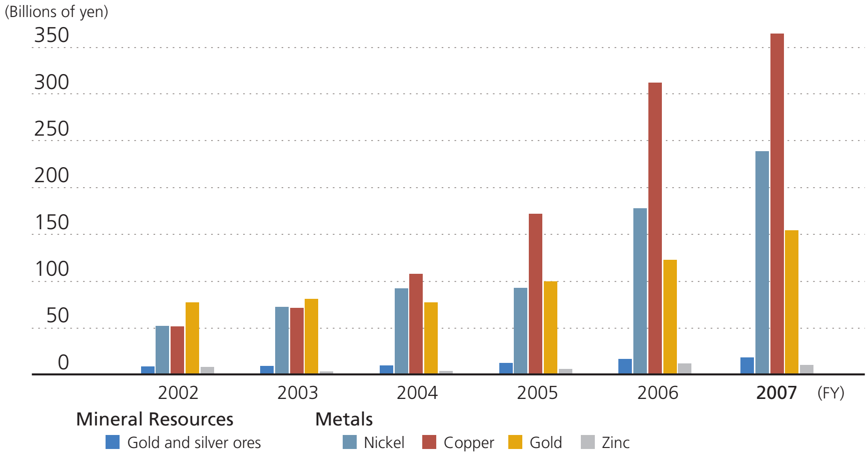
### Status of major projects

| Project name | Objective | FY2007 status |
|---|---|---|
| Toyo Smelter & Refinery | Build 450ktpa set-up for electrolytic Cu | Annual output up 41kt in year-on-year terms to 407kt |
| Coral Bay Nickel Project | Raise production capacity as part of building 100ktpa set-up for Ni | • Output of mixed sulfide ores (Ni intermediate) surpassed 10ktpa<br>• Preparations made for production start-up at a second line in April 2009 (to boost capacity from 10ktpa to 22ktpa) |

### Financial highlights, by segment

| (Millions of yen) | FY2007 | FY2006 | FY2005 |
|---|---|---|---|
| Net sales | **910,574** | 758,836 | 453,680 |
| Operating income | **108,842** | 109,564 | 49,683 |
| Operating margin (%) | **11.95** | 14.44 | 10.95 |
| Depreciation expense | **10,071** | 8,433 | 7,478 |
| Capital expenditures | **42,089** | 18,833 | 16,195 |

### Net sales, by product (Non-Consolidated)



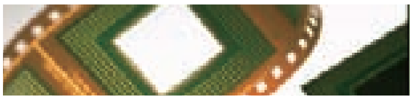

## Capital investment plans


Hyuga Smelting

The aim of the SMM Group in mineral resources and metals operations is to move toward a "mineral resources + refining" business model. Fiscal 2008 plans call for aggressive capital investment in projects to expand operations, focusing on the nickel business. Major planned capital expenditures comprise ¥6.4 billion on construction of a second production line at the Coral Bay Nickel Project, where operations are scheduled to start in April 2009, and ¥5.1 billion to build additional production capacity for electrolytic nickel.

### Capital expenditures

| (Billions of yen) | FY2008 (Plan) | FY2007 (Actual) | FY2006 (Actual) | FY2005 (Actual) | FY2004 (Actual) |
|---|---|---|---|---|---|
| Mineral Resources | 7.1 | 9.4 | 9.3 | 14.0 | 7.0 |
| Metals | 26.5 | 42.1 | 18.8 | 15.6 | 15.2 |
| Overseas Developmental Investments | 12.4 | 5.2 | 10.9 | 37.3 | — |
| Total | 46.0 | 56.7 | 39.0 | 66.9 | 22.2 |



## Semiconductor and Advanced Material

### Fiscal 2007 Review

Ohkuchi Electronics

Reflecting higher metals prices, divisional net sales grew by ¥31,422 million (14%) compared with the previous year to ¥255,002 million. Operating income declined by ¥5,369 million (40%) to ¥8,215 million, mainly due to the effects of intensifying price competition and higher raw materials prices.

Sales within the electronic equipment market were underpinned by increased uptake of digital appliances such as flat-screen televisions and mobile phones and other portable digital equipment. Another major contributory factor was the growth in sales of PCs, particularly notebook models.

Products recording strong sales performances in fiscal 2007 included bonding wire[*8] for semiconductors used in PC applications; nickel paste for applications in multi-layer ceramic capacitors used in electronic equipment such as PCs, mobile phones and flat-screen televisions; and lithium niobate and lithium tantalate[*13] substrates for applications in SAW (surface acoustic wave) filters used in mobile phones.

Sales of copper-clad polyimide film (CCPF) declined in year-on-year terms, reflecting a dip in demand due to yield improvements by customers combined with the effects of sales price erosion as the result of intense competition (CCPF is a substrate material used in chip-on-film (COF[*6]) substrates, a type of build-up packaging for the integrated circuits used in LCD screen drivers).

In battery materials, sales of nickel hydrides for use in HEV batteries posted strong growth. Demand also increased for lithium nickel oxide as a material used in secondary lithium-ion batteries[*11]. Elsewhere, the SMM Group recorded a steady increase in sales volumes for IR-shielding inks, which are used to protect objects from the effects of infrared radiation.

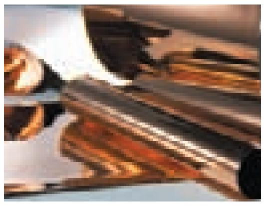
### Financial highlights, by segment

| (Millions of yen) | FY2007 | FY2006 | FY2005 |
|---|---|---|---|
| Net sales | 255,002 | 223,580 | 184,075 |
| Operating income | 8,215 | 13,584 | 11,176 |
| Operating margin (%) | 3.22 | 6.08 | 6.07 |
| Depreciation expense | 11,709 | 10,073 | 9,647 |
| Capital expenditures | 11,862 | 22,563 | 18,783 |

## Main Products


Sapphire single-crystal materials


Paste*10


Copper-clad polyimide film (CCPF)

## Capital investment plans


Sumiko Electronics Taiwan

Planned capital expenditures in this segment in fiscal 2008 of ¥13.8 billion are primarily targeted at the commercialization of new products and production capacity expansions aimed at gaining market share. Specific projects include a total investment of ¥3.6 billion to build a production line for COF substrates at Sumiko Electronics Taiwan Co., Ltd. based on a new manufacturing method.

### Capital expenditures

| (Billions of yen) | FY2008 (Plan) | FY2007 (Actual) | FY2006 (Actual) | FY2005 (Actual) | FY2004 (Actual) |
|---|---|---|---|---|---|
| Semiconductor and Advanced Materials | 13.8 | 11.8 | 22.6 | 18.8 | 12.6 |

# Sustainable Growth Through Sound Business
## —CSR and Corporate Governance

At SMM we believe that in undertaking business activities we have a duty to contribute to society and to fulfill our corporate responsibilities to stakeholders (comprising shareholders, customers, business partners, local communities, civil groups, creditors, government bodies and employees). The SMM Group Corporate Philosophy and SMM Group Management Vision defines our mission in terms of striving to earn greater trust as a company and to maximize enterprise value. In this spirit we aim to fulfill our corporate social responsibility (CSR) and implement sound corporate governance practices.

From the perspective of sustainable co-existence with the global environment and society, in October 2008 we are instituting a CSR Policy to provide a new platform to develop full-fledged CSR-related activities across the SMM Group.

Corporate governance provides a framework for maximizing the corporate value of the SMM Group and ensuring sound management practices. We are seeking to reinforce such structures while at the same time focusing efforts on improving internal controls and disclosure based on greater transparency.

Ultimately, CSR activities and good corporate governance rely on raising the awareness of individual employees. With this in mind, we have formulated the SMM Group Code of Conduct to help educate our workforce on an ongoing basis about corporate behavioral and attitudinal standards as based on the Sumitomo Business Spirit.

### The Sumitomo Business Spirit: Building Trust and Integrity

Article 1:

Sumitomo shall achieve strength and prosperity by placing prime importance on integrity and sound management in the conduct of its business.

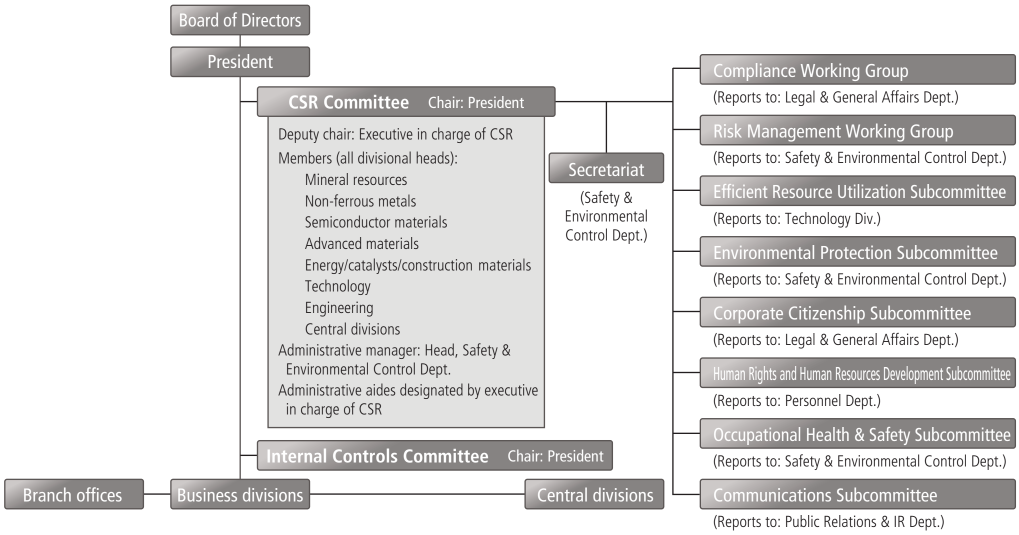
"Business Principles" forming the Rules Governing the House of Sumitomo (version formulated in 1928)

## A New Platform for Development of CSR Activities —Contributing to society while fulfilling responsibilities to stakeholders

To date, we have undertaken various initiatives to cultivate a culture of safety and to strengthen internal systems governing environmental management (to the ISO14001 standard), risk management and compliance. Going forward, our aim is to take these initiatives to the next level by systematizing our efforts from a CSR standpoint.

In 2007, we initiated full-fledged development of CSR activities by organizing workshops for the senior managers of central departments and by creating project teams of section leaders from within each department to discuss related issues. On October 1, 2008, we set up the CSR Committee. Chaired by the president, this committee is a pivotal body reporting directly to senior management that will oversee the development of CSR activities across the SMM Group.

CSR Promotion Framework




## CSR Policy

1. SMM shall work to combat global warming by promoting recycling and effective resource utilization while also targeting technological innovation and continuous improvements in energy efficiency.
2. SMM shall promote sustainable co-existence with society by respecting the needs of local communities in which we operate around the world.
3. SMM shall respect human rights and safeguard diversity in the workplace.
4. According safety the highest priority, SMM shall provide safe, comfortable working environments and seek to eliminate safety-related incidents.
5. SMM shall strengthen communications with all stakeholders to build healthy, trust-based relationships.

## Sustainable co-existence with society and the global environment

Our planet currently faces grave environmental problems such as global warming and pollution of air and water, as well as other critical issues such as ongoing depletion of limited resources. To ensure the future growth of SMM, it is vital that we realize a growth strategy that is directionally compatible with a policy of sustainable co-existence with society and the global environment. To this end we must integrate our CSR activities and business operations, based on the concept of "aligning our path with that of society."

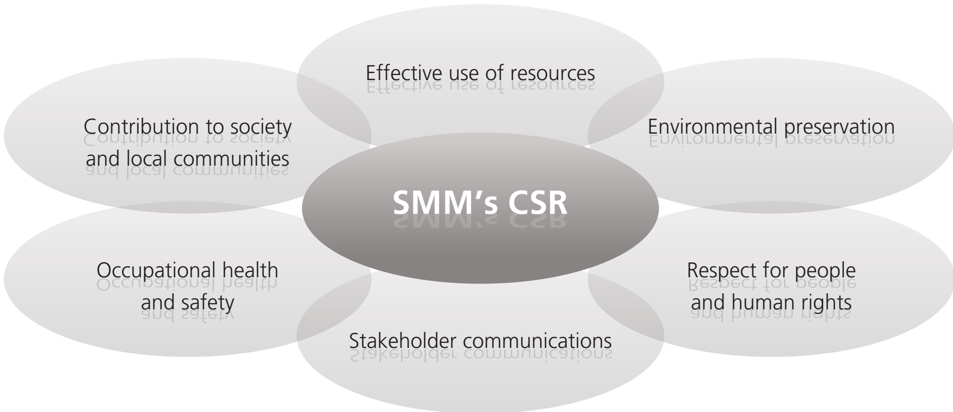
For example, we are undertaking a variety of environmental activities at the mines and refineries that we are developing and operating inside and outside Japan, as well as at our other operating sites. We have also installed teams at mining sites in Japan whose operations have been suspended temporarily or closed down so that proper post-operational environmental measures are implemented.

In line with the SMM Group Corporate Philosophy, we also undertake a range of corporate citizenship activities to make a positive contribution to society. These include providing assistance with disaster relief, sponsoring overseas scholarships, organizing educational activities for local communities and other programs aimed at the development of social infrastructure.

Based on this thinking and activities, we have defined six key CSR areas to take into account present and future needs. For each of these areas we have formulated a vision statement describing where we want to be in 2020.

For more details of our CSR activities, please refer to the CSR Report 2008 (in previous years we have published an Environmental Report).

## Six Key CSR Areas




## CSR Vision for 2020

| Six Key Areas | CSR Vision for 2020 |
|---|---|
| Effective use of resources | A company that generates resources using innovative technology<br>• Business development based on low-grade and hard-to-process ores and use of processing technologies to recycle materials from urban sources |
| Environmental preservation<br>Reduced $CO_2$ emissions (Energy savings)<br>Biodiversity | A company that meets international anti-global warming standards by using advanced technologies<br>• Zero waste emissions<br>• 50% of new products with low environmental impact (e.g. fuel cells, solar cells) |
| Contribution to society and local communities | A company respected for its social contribution |
| Respect for people and human rights | A company offering equal-opportunity employment free of any discrimination based on nationality, gender, disability or religious belief<br>Respect for diversity (Active recruitment of disabled/seniors, expanded job opportunities for women) |
| Occupational health and safety | A company that prioritizes the safety and total health of all employees and in all workplaces<br>No work-related accidents throughout the SMM Group (including venture partners)<br>Zero incidence of occupational disease<br>Create workplaces where protective equipment (mufflers/masks) is unnecessary<br>A vibrant company whose workforce is physically and mentally healthy |
| Stakeholder communications | A company in communication with stakeholder groups worldwide |

## Improving management transparency (corporate governance)

1) SMM views corporate governance as providing a disciplinary framework both for maximizing the enterprise value of the SMM Group and for ensuring sound management practices.
2) SMM has adopted executive officer and corporate auditor systems to ensure effective monitoring and oversight functions within management. First introduced in June 2001, the executive officer system delegates significant authority to executive officers and reinforces executive functions via a clear delineation of authority and responsibilities. It also helps to bolster oversight functions by promoting greater debate within the Board of Directors and by promoting faster decision-making.
3) The Sumitomo Business Spirit emphasizes the importance of integrity in corporate actions. Mere compliance with laws is insufficient – managers must also strive to do what is right. The basic stance is that adhering to this rule in every part of the organization will enable the enterprise to earn the trust of suppliers, shareholders and the rest of society.

■ 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 2008 (including one outside director), 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 Management Committee, which receives reports on all matters decided at Board meetings. Terms of directors are for one year and the membership of the Board is subject to an annual vote of confidence by shareholders. The system of remuneration for directors is based on corporate financial performance.

■ 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. 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, which oversees the status of operations. SMM has introduced a performance-based remuneration system for executive officers similar to that for directors.

■Corporate auditors

As of July 2008, SMM had four corporate auditors, including two outside auditors. 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 a month in coordination with Board meetings, and also convenes in extraordinary session if required.

# Internal controls and disclosure

Building a system of internal controls to ensure proper and efficient oversight of operational execution helps to improve legal and regulatory compliance and also increases management efficiency and transparency. We regard such a system as a critical tool in ensuring the sustained growth of the SMM Group.

## Internal controls based on Japan's Company Law

With the aim of realizing sound business management, we have established compliance structures to ensure proper operational execution. SMM's Board of Directors approved measures in May 2006 to construct a system of internal controls based on Japan's Company Law and the regulations pertaining to its enforcement. We have since taken a number of steps to bolster compliance and risk management, to strengthen disclosure of corporate information in the interests of transparency and credibility, and to ensure that the appropriate controls are applied to operational execution.

The system of internal controls was applied fully from July 2006. From April 2008, the president assumed chairmanship of the Internal Controls Committee, which had been working on related issues for many months. This committee will oversee the reinforcement of efforts in this area going forward.

## Internal controls based on the Financial Instruments and Exchange Law (FIEL)

For investors it is essential that firms provide full and proper disclosure of corporate information. As part of our broader efforts to strengthen corporate governance, we have focused on developing systems to ensure the accuracy and appropriateness of our financial reporting.

In line with the FIEL that was enacted in June 2006 (often referred to as the "J-SOX" legislation), SMM's senior management is required to evaluate the internal controls relating to financial reporting and ensure that this system is audited by a certified public accountant (CPA).

From fiscal 2008, we plan to publish documentation on our internal controls system and related internal control audit reports together with the securities reports that we are required to file with the Financial Services Agency.

## Investor relations (IR) activities

The SMM Group Corporate Philosophy emphasizes the responsibilities of the company to stakeholders. In line with this rationale, we disclose information to shareholders and potential buyers of SMM stock and undertake IR activities to deepen the understanding of shareholders and investors with respect to the SMM Group. Besides publishing information on our web site, as well as via shareholder communications and annual reports, we also organize around two IR presentations a year for domestic and overseas institutional investors where the president talks directly about business strategy and results.

Other IR activities include regular meetings convened with specific domestic and overseas institutional investors; factory tours, which are organized on request; presentations on the nickel business and related products; and investment conferences that are widely attended by overseas institutional investors. These activities aim to deepen two-way communications between the company and investors based in Japan and overseas so that investor feedback can be reflected in the way that we manage the SMM Group.

## Development of risk management system

With the formulation of a set of internal regulations, risk management has been systematized across the SMM Group's entire organization. A dedicated working group established under the CSR Committee oversees the promotion of risk management at each organizational level on a companywide basis.

SMM has also created internal regulations covering specific business-related risks, which are handled using the established risk management system.

## Outside directors and auditors

### Outside directors and auditors

| Title | Name | CV/specialist skills |
|---|---|---|
| Outside director | Tsutomu Ushijima | Registered lawyer and tax accountant<br>Provides specialist advice as a tax accountant and expert in legal affairs |
| Outside auditor | Katsumi Maeda | CPA<br>Provides specialist advice as a CPA, along with auditing capabilities |
| Outside auditor | Takayuki Kurata | Export-Import Bank of Japan/Japan Bank for International Cooperation<br>Advisor, Marubeni Power Development Corporation<br>Provides specialist advice based on extensive experience in management of financial institutions and related knowledge |

### Total financial remuneration of directors and auditors

| | | | * Figures for outside directors/auditors | |
|---|---|---|---|---|
| Title | Persons | Total executive bonuses | Persons | Total executive bonuses |
| Director | 8 | 401 Millions of yen | 1 | 11 Millions of yen |
| Auditor | 4 | 85 Millions of yen | 2 | 20 Millions of yen |
| Total | 12 | 486 Millions of yen | | |

■ Purpose of takeover defenses

SMM's Board of Directors approved the adoption of takeover defenses at a meeting held on February 19, 2007. These measures received the necessary approval of at least two-thirds of shareholders at the 82nd Ordinary General Meeting of Shareholders held in June 2007. These takeover defenses will remain in effect until the Ordinary General Meeting of Shareholders due to be convened in June 2010.

In the interests of both the company and its shareholders, these takeover defenses aim to prevent any moves that would be detrimental to the creation of enterprise value.

Feature

# The Inherent Strengths Supporting Our Business Strategy

*The Sumitomo tradition: excellence in human resources and technology*

SMM can trace its roots back to Soga Riemon, who at the tender age of 19 began learning the techniques involved in smelting and working with copper. He set up shop in Kyoto in 1590. Bold and naturally inquisitive, he used the information that he had gleaned from foreign merchants in Sakai to develop "Nanban-buki," a new smelting technique for extracting gold and silver from unrefined copper. At the time, metallurgical techniques were undeveloped in Japan. The innovative smelting method was an epoch-making development in Japan's industrial history because it stemmed the flow overseas of copper containing gold and silver impurities. This first step in the 400-year history of Sumitomo was a good example of the recurring theme of excellence in human resources and technology.

Eventually the Tokugawa shoguns lost power and Japan underwent major change following the Meiji Restoration. The Besshi copper mine that formed the core of the Sumitomo business was now in poor shape, and the situation deteriorated to the point where its continued existence was threatened. The general manager at the time, Saihei Hirose, displayed leadership in insisting that Sumitomo modernize its management and introduce Western technology to save the business. This enterprising attitude ensured that the company overcame its difficulties. It subsequently produced a series of outstanding top managers. Human resources and technology remained the key to the growth and development of the business. The company became the foundation stone for the construction of today's corporate grouping under the Sumitomo name.

Without the value placed on excellence in human resources and technology, our corporate history might have turned out quite differently. In this section, we look at some of the inherited strengths of the business.

# Developing People for the Global Stage

## Training of mining engineers as leaders in developing the “mineral resources + refining” business model

### The Hishikari Gold Mine: SMM’s “school of mining”

Today, most of the mines in Japan have closed. This is a significant problem from the point of view of training the next generation of mining engineers and passing on related skills. Located in Kagoshima Prefecture, SMM’s Hishikari Mine is Japan’s only remaining operational gold mine. We use it as a “mining school” where new recruits are initially assigned. This enables us to develop the people who will support the future of our mineral resources business.

### Ten years of training to produce a professional mining engineer

The job of engineers working in the mining industry involves different aspects such as discovering, analyzing and evaluating new deposits (exploration) and then mining the actual ore (extraction). At Hishikari, our mining engineers spend about three years learning these basic skills. They also acquire other expertise critical to the field such as safety management, process management, operational supervision and budgeting. We then post the engineers to a mine located overseas to acquire further technical and other expertise. Overall, our development program takes about ten years to turn out a fully trained professional mining engineer.

### Reinforcing our base of inherited knowledge and technical expertise

Our long-term strategic objective is to become a major within the non-ferrous metals industry. To this end, we are pursuing the development of a “mineral resources + refining” business model that combines mining operations to yield stable supplies of raw materials with metal smelting and refining operations. Amid intensifying competition to secure resources, owning an interest in a highly productive mine is gaining in importance in terms of providing business stability and generating sustained growth. Our mining engineer development program has demonstrated its value by underpinning successful exploration projects outside Japan and helping us improve the operational management of our mines.

Going forward, we plan to upgrade efforts to train and develop a corps of mining engineers for the SMM Group. This promises to help reinforce our base of inherited knowledge and technical expertise.

## Training process engineers and NPD engineers as value creators focused on generating outstanding results

### Intensive training for new employees emphasizes market awareness and technical skills

In the semiconductor and advanced materials sector, one of the main keys to success is to cultivate technical personnel capable of assimilating market needs and rapidly developing the required technology. We use a three-stage training program to turn our new employees into engineers with the necessary combination of market awareness and technical expertise.

Stage 1: The program builds skills and awareness using on-the-job training, focusing on key themes. These include: the basics of manufacturing; the relationship between production, technology and sales; and the importance of R&D in the semiconductor and advanced materials business.

Stage 2: Training continues at our research facilities in Ichikawa and Niihama. Trainees learn basic approaches to solving technical problems and related methods in order to cultivate theoretical problem-solving capabilities.

Stage 3: The final stage takes place at our testing and technical evaluation center. Trainees learn evaluation technologies, gain an appreciation for what analytical evaluation can teach us, and acquire data-handling techniques.

### Building the platform to generate valuable results

One of the main objectives of this training is to enable trainees to meet and interact with a wide range of frontline personnel in order to gain a detailed understanding of the distinctive features and capabilities of our facilities. At the same time, the training experience helps people to build the networks that will foster creative collaboration in the future.

Another key aim is to understand testing and analytical technologies. A high level of expertise in these areas helps to support our preeminent position in materials technologies. Exposure to these critical technologies as part of early career training helps to build the platform for the growth and development of engineers who will lead our future R&D activities.

In addition, the training also stresses the importance of realizing that the R&D function, like any other part of an enterprise, must be organized to produce output. The training program aims to cultivate people with the skills needed to manage this function in a way that fosters early creation of valuable results.

# Training production engineers to support our manufacturing capabilities




## Our strengths in production engineering

The manufacturing processes based on HPAL[*3] and MCLE[*4] technology that we employ to produce nickel have received critical approval from all around the world. Production engineers are the people who set up our manufacturing systems and keep facilities running at high capacity. We have also developed unrivaled manufacturing capabilities in semiconductor materials such as CCPF, which is used as a substrate material for LCD driver ICs[*5]. Our ability to design, build and operate production facilities on an independent basis counts as one of our strengths.

## Developing mission-specific targeted skill sets

Production engineers are responsible for working out how the manufacturing processes that we have developed are incorporated into production facilities. We are reinforcing our training programs to ensure that they turn out people with the requisite skills in each field. In the engineering field, this means the acquisition of the skills needed to manage whole projects and operations from plant design to equipment installation. In the field of plant maintenance, the required skill set encompasses the management of smelting facilities and related skills. In the field of production technology development relating to semiconductors and advanced materials, we aim to cultivate the skills needed to design plants for particular requirements based on the introduction of new technology and the vertical integration of production equipment made in-house, all with the goal of accelerating the pace of overall production.

## Advancing to the next level in the third, sixth and ninth years

Within the first three years at the company, our production engineers learn all the fundamentals of our in-house production technology. A distinctive feature of this initial training period is that two years are spent learning about how we maintain the world-class technology in operation at the Toyo Smelter & Refinery and our nickel refining facilities. Our rationale is that those with a poor knowledge of our production facilities and the people who operate them will be unable to design such facilities well. Through maintenance operations, we teach production engineers about plant design and help them to acquire the basic technical knowledge and related engineering skills.

The objective of the training program is that, by the end of the ninth year after joining the company, the engineer is capable of assuming a leadership role to manage the construction of a plant, manage and maintain the operations of a large-scale facility and the related production technology, or else contribute to new product development (NPD) by developing production technology.

# Training management accountants as "on-site CFOs" to lead pivotal accounting operations




## The rising importance of the accounting function

From the compilation and management of budgets to production of financial figures on a monthly, quarterly and annual basis, companies need accounting functions that can handle these tasks quickly and accurately and also provide more advanced processing capabilities. The fundamental role of management accountants at SMM is to contribute to the management of the business by using accounting knowledge to collect and analyze management information. Besides handling corporate accounting in central divisions, these personnel are also assigned to mines and production bases worldwide to support the management of these operations based on their knowledge and perspectives as accounting professionals.

## HR development emphasis on integrated skills

In furthering the career development of each employee, our HR development programs emphasize building integrated skill sets. The development plan for the accounting stream has an initial phase in which trainees learn about the company's systems and gain basic financial accounting knowledge. Trainees advance over time to higher levels within the training program, in the process broadening and deepening their knowledge and gaining greater awareness of their role.

## Providing enhanced management support capabilities as "on-site CFOs"

Management accountants play a key role in supporting the management of the business. For instance, at our operating sites in Japan, the accounting function uses figures relating to business performance to interface between the site and head office and to liaise between the on-site departments.

We see management accountants as numbers professionals whose job it is to identify issues relevant to the management of the business, or to provide a financial overview of how the business or certain functions are performing. Effectively, they function as "on-site CFOs." We are working to upgrade our training and development program so that we can cultivate people with the outlook and skills to perform such a role, thus enhancing the management support capabilities for the SMM Group as a whole.

| | | |
|---|---|---|
| 1 | Introductory training (First 7 months) | Basic knowledge of company systems and accounting |
| 2 | Basic training (Through year 3–5) | Basic investigative knowledge relating to business performance measurement and related accuracy |
| 3 | Applied training (Through year 8–10) | General accounting knowledge and skills to provide independent operational support |
| 4 | Accounting leadership development (After completion of applied training) | Operational knowledge for managerial function; line management experience |

## Developing the next generation of capable and motivated leaders




### Upgrading SMM Group HR development systems

From developing and operating mines across the world to refining metals and fabricating materials, the SMM Group has developed a vertically integrated business spanning both upstream and downstream sectors. In our view, the source of greatest enterprise value lies in the possession of the technologies required in each of these fields along with the human resources to operate globally at the highest level. In line with the Sumitomo Business Spirit, we aim to cultivate capable and motivated people to take on fresh challenges.

### Short overseas training course system for new recruits: basic training to develop people for overseas positions

Pursuing a growth strategy requires global operations. As part of our training for overseas roles, we send the entire class of graduate recruits to a university outside Japan for two months of language training in the autumn of their first year at the company. This boosts awareness of the need to learn languages and creates opportunities to improve communication skills for the future. We began this program in 2006 to reinforce our commitment as a company to HR development and to enhance the message to new recruits that we hope the SMM Group can satisfy their lifelong career needs.

### Four new training programs to set SMM Group personnel standards

We believe that the quality of operations depends on the quality of the people. We are upgrading HR development programs for four key sets of employees with the aim of raising the quality level of personnel in terms of functional and technical skills, style and intellect. In this way, our aim is to establish high standards for the SMM Group.

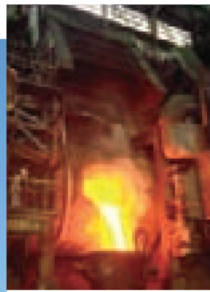
As of the end of March 2008, the parent company employed 2,184 people and the SMM Group as a whole had 9,786 employees on the payroll. More than 4,000 employees work in operations outside Japan. In 2008, we are initiating a program to bring those working at managerial levels in overseas operations to Japan for a course that covers topics such as the history and traditions of the company, the Sumitomo Business Spirit and the SMM Group Code of Conduct. The program also includes site tours of Besshi and Hishikari.

| Course | Targeting | Aim |
|---|---|---|
| Middle management training | Section leaders | Develop abilities to realize business philosophy and contribute to strategic management |
| Executive management training | Department heads, presidents of affiliated companies | Develop strategic management capabilities |
| Overseas management training | Persons expected to assume overseas managerial posts | Improve abilities in flexible, cross-cultural management and overseas crisis management |
| Training for executives of overseas bases | Locally hired managers of overseas bases | Increase loyalty and motivation by sharing Sumitomo Business Spirit and corporate history |

# Original World-Class Technologies

SMM has developed first-class materials and fabrication technologies to maximize the potential of non-ferrous metals. Efforts are focused on developing and supplying enhanced value by trying to create technical breakthroughs in five designated core fields of technology.






## State-of-the-art hydrometallurgical technologies

Refining methods based on hydrometallurgical technologies employ solvents rather than heat to recover ore-based metals. Because of their lower energy costs, such refining methods are being adopted increasingly throughout the industry. Our development of a proprietary hydrometallurgical refining method positions SMM as a technological leader within the industry.

## Producing high-purity nickel from low-grade ores (MCLE[*4]/HPAL[*3])

SMM is the only producer of electrolytic nickel in Japan. In the mid-1990s, we developed and successfully commercialized MCLE (Matte Chlorine Leach Electrowinning), an energy-efficient method for high-purity nickel recovery based on hydrometallurgical technologies.

HPAL (High-Pressure Acid Leach) is a method for recovering nickel from difficult-to-process low-grade nickel oxide ores. In 2005, SMM subsidiary Coral Bay Nickel Corporation (CBNC) in the Philippines began employing the HPAL method to commercially produce intermediate materials used in nickel refining. Based on our HPAL expertise, SMM is a frontrunner in the processing of lower-grade ores.

SMM was recognized at the 2007 Nikkei Manufacturing Awards for successfully incorporating the HPAL method at CBNC.

## Recovering precious metals (PMEX)

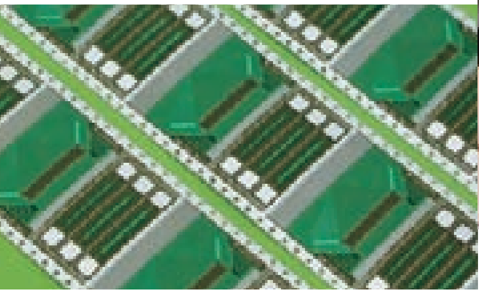
The PMEX (Precious Metals Solvent Extraction & Ion Exchange) method employs hydrometallurgical technologies to recover precious metals. With the PMEX method, we have achieved continuous, automated operations for refining precious metals. This not only significantly reduces the time needed to recover gold and silver but also yields metals of higher purity than that previously achieved with traditional methods.

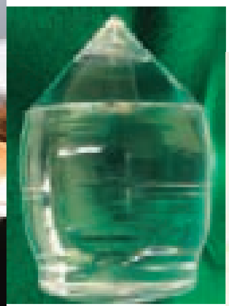
## Pyrometallurgical technologies

We are also making innovations to more traditional refining methods based on pyrometallurgical technologies. For example, our proprietary Sumitomo method burner was designed to increase the volume of copper concentrate melted inside the flash furnace. With relatively minimal investment, therefore, we are currently working to expand the production capacity for electrolytic copper at the Toyo Smelter & Refinery to 450ktpa, the largest capacity in the world for a single production line.

| | | |
|---|---|---|
| 1 | Separation, refinement and crystallization technologies | Technologies that are the source of the SMM Group's high competitiveness in smelting and other operations |
| 2 | Nano-powder technologies | Technologies based on the science of nano-powders |
| 3 | Surface treatment technologies | Technologies for treating the surfaces of materials such as chrome to satisfy advanced performance requirements |
| 4 | Organic resin technologies | Technologies for developing materials with new properties and functions |
| 5 | Evaluation/analysis technologies | Technologies for quickly and accurately evaluating and verifying development results for materials and for developing and commercializing products |

## World-leading semiconductor and advanced materials products






### Copper-clad polyimide film (CCPF)

CCPF is a material that is used to connect LCD screens to driver ICs. In the past these parts were composed of three layers, with metal and copper foil sandwiched together by an adhesive layer. Using our surface treatment technologies, we were able to attach copper directly to a polyimide film to form a bilayer. This allowed for further miniaturization and a greater degree of precision in fabrication. LCD panel manufacturers began widely adopting CCPF in 2000. Today, we still command a dominant share of the market for packaging substrates for LCD driver ICs.[*5]

### Chip-on-Film (COF[*6]) boards

COF substrates are components incorporating CCPF that connect LCD screens to driver ICs. Supplementing the subtractive method that we have used for some time, in 2008 we led the industry in Taiwan in the mass-production of COF substrates using the semi-additive method. This method uses laser etching of the circuitry rather than the previous electroplating process, which enables thinner lines and greater positional precision. We have successfully used this method to create COF substrates with a line resolution of 20 microns.

### Sapphire substrates

Sapphire substrates are the materials used as the substrate for white LEDs, which are used in car headlights as well as backlighting in mobile phones and laptop PCs. Due to their superior energy efficiency, demand for white LEDs is also expected to rise as they replace the incandescent light bulbs still widely used for lighting in the home. We were the first company in Japan to succeed in making sapphire substrates using the epitaxial method. Production output continues to grow steadily.

### Battery materials

We supply materials such as nickel hydroxide and lithium nickel oxide (LNO) for the electrodes of secondary batteries. Besides mobile phones and laptop PCs, these battery materials are being widely used in hybrid electric vehicles due to high charging capacity and good reliability. The market for secondary batteries is expected to expand in the future due to the growth in the number of hybrid vehicles on the road. In anticipation we are focusing efforts on the development of new battery materials.

# CORPORATE OFFICERS

From left: Yoshiaki Nakazato (*Director*), Naoki Tajiri (*Director*), Koichi Fukushima (*Representative Director*), Ichiro Abe (*Director*), Masashi Koike (*Representative Director*), Nobumasa Kemori (*Representative Director*), Kouzou Baba (*Director*), Tsutomu Ushijima (*Director*)

## Directors and Corporate Auditors

*Representative Directors:*
Koichi Fukushima *(Chairman)*
Nobumasa Kemori *(President)*
Masashi Koike *(Director)*

*Directors:*
Ichiro Abe
Naoki Tajiri
Kouzou Baba
Yoshiaki Nakazato
Tsutomu Ushijima*

*Standing Senior Corporate Auditor:*
Motoki Kitamura

*Standing Corporate Auditor:*
Toshikazu Yakushiji

*Corporate Auditors:*
Katsumi Maeda**
Takayuki Kurata**

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

## Executive Officers

*President:* Nobumasa Kemori*

*Senior Managing Executive Officers:*
Masashi Koike*
Ichiro Abe*
Naoki Tajiri*

*Managing Executive Officers:*
Yoshiaki Hashinaka
Etsu Senda
Kouzou Baba*
Kotaro Tomino
Yoshiaki Nakazato*

*Executive Officers:*
Yukio Kawaguchi
Tohru Yamasaki
Takahito Kusada
Takashi Itou
Takeshi Kubota
Yasushi Hashimoto
Naoyuki Tsuchida
Ryoichi Manabe
Mikinobu Ogata

*Double role as Director and Executive Officer

# Aiming to be a World-Class Player

## Financial Section

# Eleven-Year Financial Summary

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

| Years ended March 31 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| **Results for the year:** | | | | |
| Net sales | **¥1,132,372** | ¥966,764 | ¥625,579 | ¥484,585 |
| Gross profit | **198,147** | 203,180 | 120,137 | 82,878 |
| Operating income | **155,394** | 162,632 | 82,756 | 47,893 |
| Other income (expenses) | **61,110** | 42,985 | 10,218 | 6,024 |
| Income (loss) before income taxes and minority interests | **216,504** | 205,617 | 92,974 | 53,917 |
| Net income (loss) | **137,808** | 126,054 | 62,800 | 37,017 |
| Equity in earnings of affiliated companies | **73,956** | 46,708 | 21,915 | 13,513 |
| Capital expenditures | **65,145** | 51,567 | 50,568 | 36,488 |
| Depreciation | **30,505** | 25,693 | 22,951 | 20,578 |
| Net interest expenses | **(2,209)** | (2,606) | (1,281) | (893) |
| Net cash flows from operating activities | **157,383** | 95,985 | 70,772 | 40,150 |
| Net cash flows from investing activities | **(126,413)** | (77,429) | (102,384) | (31,725) |
| Net cash flows from financing activities | **55,727** | (10,073) | 28,723 | 6,097 |
| Free cash flows | **30,970** | 18,556 | (31,612) | 8,425 |
| **Financial position at Year-end:** | | | | |
| Total assets | **1,091,716** | 929,208 | 772,562 | 573,925 |
| Net assets | **640,345** | 528,921 | 394,899 | — |
| Shareholders' equity*1 | **—** | — | — | 283,897 |
| Long-term debt due after one year | **169,394** | 93,800 | 114,405 | 109,777 |
| Interest-bearing debt | **258,054** | 189,910 | 190,891 | 160,533 |
| Working capital | **266,250** | 103,791 | 72,228 | 86,382 |
| **Amounts per share (Yen):** | | | | |
| Net income (loss) | | | | |
| — Basic | **238.13** | 220.49 | 109.96 | 64.77 |
| — Diluted | **231.50** | 213.67 | 108.87 | — |
| Shareholders' equity | **1,017.96** | 859.82 | 654.15 | 497.57 |
| Cash dividends | **30.0** | 27.0 | 14.0 | 8.0 |
| **Key ratios:** | | | | |
| ROA (%) | **13.64** | 14.81 | 9.33 | 6.78 |
| ROE (%)*1 | **25.39** | 28.99 | 19.10 | 13.79 |
| Equity ratio (%)*1 | **54.0** | 53.4 | 48.4 | 49.5 |
| Interest-bearing debt to total asset ratio (%) | **23.6** | 20.4 | 24.7 | 28.0 |
| Debt-to-equity ratio (times)*1 | **0.44** | 0.38 | 0.51 | 0.57 |
| Current ratio (times) | **2.04** | 1.39 | 1.33 | 1.61 |

*1 Shareholders' equity are defined as following equation.
Shareholders' equity = Total shareholders' equity + total valuation and translation adjustment

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

| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|
| ¥402,131 | ¥355,242 | ¥330,194 | ¥375,352 | ¥360,299 | ¥350,288 | ¥431,950 |
| 53,714 | 51,764 | 38,152 | 63,372 | 45,061 | 41,190 | 62,641 |
| 22,778 | 16,593 | 1,147 | 26,930 | 8,990 | 858 | 24,622 |
| 8,416 | (24,098) | (13,735) | (11,359) | (4,342) | (12,932) | (3,605) |
| 31,194 | (7,505) | (12,588) | 15,571 | 4,648 | (12,074) | 16,876 |
| 19,882 | (1,172) | (6,611) | 15,103 | 4,740 | (12,495) | 10,157 |
| 7,112 | 3,400 | 1,535 | 4,078 | 2,406 | 326 | (2,599) |
| 46,540 | 18,927 | 25,379 | 28,078 | 20,490 | 32,499 | 27,968 |
| 17,824 | 18,283 | 17,822 | 16,774 | 16,611 | 23,095 | 21,638 |
| (1,098) | (1,459) | (1,775) | (2,129) | (2,492) | (1,907) | (2,447) |
| 32,324 | 26,105 | 33,370 | 23,339 | (800) | 22,912 | 43,056 |
| (17,448) | (21,246) | (16,246) | (4,248) | 4,143 | (23,287) | — |
| (9,293) | (14,163) | (14,267) | (26,089) | (9,086) | 4,047 | — |
| 14,876 | 4,859 | 17,124 | 19,091 | 3,343 | (375) | — |
| | | | | | | |
| 517,930 | 470,774 | 518,756 | 530,080 | 544,121 | 544,519 | 566,088 |
| — | — | — | — | — | — | — |
| 253,071 | 223,341 | 236,313 | 237,470 | 235,231 | 226,795 | 243,436 |
| 86,437 | 76,470 | 73,972 | 83,839 | 107,266 | 124,535 | 82,356 |
| 148,351 | 154,799 | 167,077 | 176,998 | 197,624 | 207,821 | 201,515 |
| 52,795 | 35,945 | 23,371 | 33,259 | 38,910 | 50,518 | 26,529 |
| | | | | | | |
| 34.76 | (2.05) | (11.56) | 26.41 | 8.29 | (21.85) | 17.77 |
| — | — | — | — | — | — | — |
| 443.29 | 391.14 | 413.28 | 415.25 | 411.34 | 396.59 | 425.68 |
| 6.0 | 5.0 | 4.0 | 6.0 | 5.0 | 3.0 | 6.0 |
| | | | | | | |
| 4.02 | — | — | 2.81 | 0.87 | — | 1.76 |
| 8.35 | — | — | 6.39 | 2.05 | — | 4.22 |
| 48.9 | 47.4 | 45.6 | 44.8 | 43.2 | 41.7 | 43.0 |
| 28.6 | 32.9 | 32.2 | 33.4 | 36.3 | 38.2 | 35.6 |
| 0.59 | 0.69 | 0.71 | 0.75 | 0.84 | 0.92 | 0.83 |
| 1.38 | 1.26 | 1.14 | 1.20 | 1.23 | 1.31 | 1.13 |

# Financial Analysis

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

## Overview of Consolidated Operations

The SMM Group comprised the parent company (Sumitomo Metal Mining Co., Ltd.), 59 subsidiaries and 17 affiliated companies as of March 31, 2008. The SMM Group operates three main businesses, which are outlined below.

(1) Mineral resources: mining of ores to extract gold, 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 such as copper-clad polyimide film, powdered materials such as nickel powder, battery materials and magnetic materials (advanced materials business)

Other consolidated operations include production of housing and construction materials such as Siporex (Autoclaved Lightweight aerated Concrete), nuclear power-related engineering services and environment-related operations.

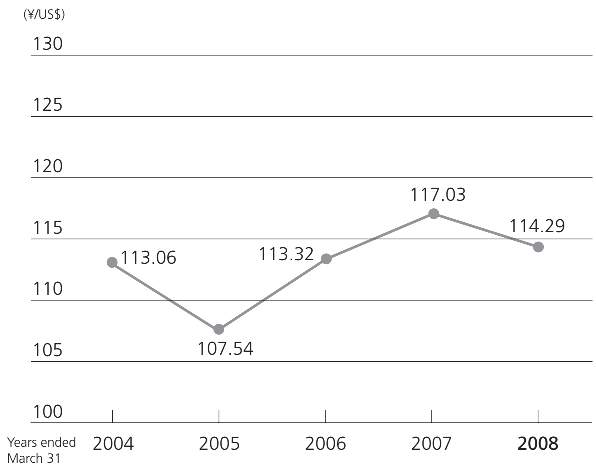
The results presented in this Annual Report comprise the consolidated performance of the parent company, 50 domestic and overseas subsidiaries, and 12 equity-method affiliates.

## 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. Although a stronger yen pushes down the price of purchased ore for refining, it also lowers the sales prices for manufactured products. A stronger yen tends to exert a negative overall impact on earnings because U.S. dollar-denominated smelting margins are worth less when translated into yen. The yen appreciated slightly during fiscal 2007 (the year ended March 31, 2008). The average exchange rate against the U.S. dollar was ¥114.29, compared with ¥117.03 in the previous fiscal year (April 1, 2006 – March 31, 2007). This appreciation of ¥2.74 in the yen's value against the U.S. dollar depressed consolidated profits by around ¥1.0 billion (a movement in the yen-dollar exchange rate of ±¥1 over the course of a year translates into a shift in annual earnings of approximately ¥1.0 billion).

**U.S. Dollar–Yen Exchange Rate (Ave.)**



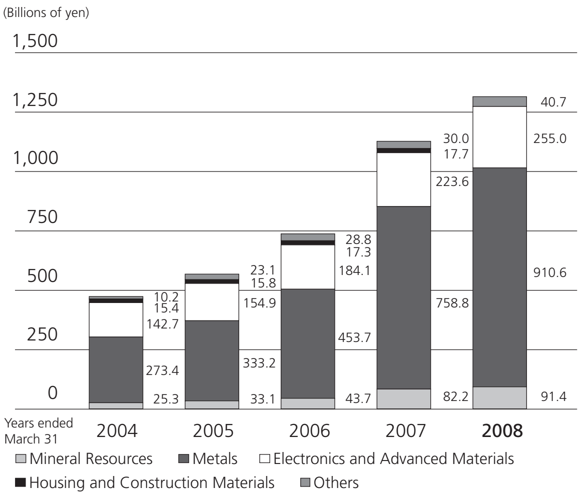

### Net Sales

Although there was some evidence that elevated prices constrained buying and encouraged a shift toward alternatives, demand in the non-ferrous metals industry remained firm in fiscal 2007, supported by the ongoing economic expansion of emerging nations and a global economic recovery. Strong demand helped non-ferrous metals prices to remain at high levels generally, although nickel prices spiked and fell back in the first quarter of fiscal 2007. The yen appreciated in currency markets during the year.

In the electronics sector, demand for mobile phones, flat-screen televisions, PCs, other electronic equipment and electronic components was firm overall, but weakened in some areas. Sales price erosion had a negative impact on sector profitability, with the effects especially marked in LCD-related products.

Mainly reflecting sharply higher prices for both copper and nickel as well as higher sales volumes for copper, consolidated net sales totaled ¥1,132,372 million in fiscal 2007, an increase of ¥165,608 million (17.1%) compared with the previous year.

**Net Sales**



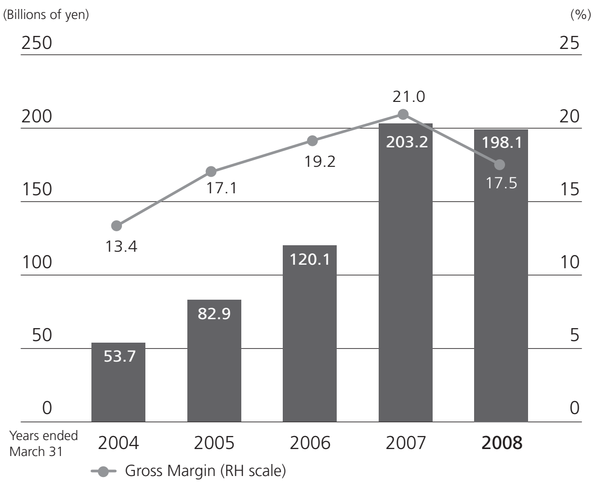

Note: Net sales of business segments include inter-segment transactions.

## Cost of Sales and SG&A Expenses

Reflecting higher raw material costs associated with the sharp increases in non-ferrous metals prices, the cost of sales increased by ¥170,641 million (22.3%) in year-on-year terms to ¥934,225 million. However, the gross margin slipped from 21.0% to 17.5%, due mainly to the effect of reduced inventory valuations in the metal refining business and sharp increases in the costs of energy and materials.

Selling, general and administrative (SG&A) expenses rose by ¥2,205 million (5.4%) to ¥42,753 million. The main factors pushing up SG&A expenses were selling, transportation and miscellaneous expenses (up by ¥1,858 million, or 20.9%), salary bonuses and benefits (up by ¥1,058 million or 11.7%), and R&D expenses (up by ¥719 million or 13.3%). These factors were partially offset by a fall in other expenses of ¥1,631 million.

**Gross Profit and Gross Margin**




## Operating Income

Profits increased in the mineral resources business due to higher prices for copper and gold, but were lower in the electronics and advanced materials sector. Consolidated operating income declined by ¥7,238 million (4.5%) in year-on-year terms to ¥155,394 million..

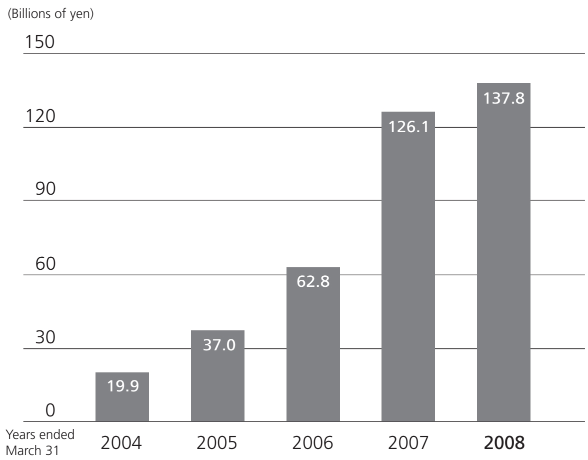
## Other Income (Expenses)

Other income (expenses) recorded a net profit of ¥61,110 million, a gain of ¥18,125 million (42.2%) compared with fiscal 2006. The major contributory factor was equity in earnings of affiliated companies, which increased by ¥27,248 million (58.3%) to ¥73,956 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 a foreign exchange loss of ¥2,142 million (representing a year-on-year decline of ¥3,349 million compared with the previous year's gain) and a loss from valuation of derivative instruments of ¥2,449 million (representing a year-on-year fall of ¥2,829 million compared with the previous year's valuation gain).

## Net Income

Consolidated net income rose by ¥11,754 million (9.3%) in year-on-year terms to ¥137,808 million. Net income per share amounted to ¥238.13, compared with ¥220.49 in the previous year.

**Net Income**



## Capital Expenditures and Depreciation

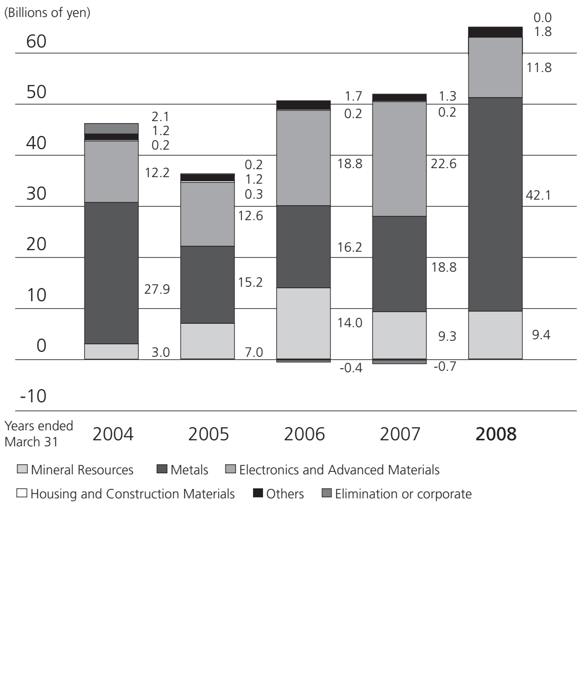
Total capital expenditures during fiscal 2007 amounted to ¥65,145 million, an increase of ¥13,578 million (26.3%) over the previous year. Of this figure, the mineral resources and metals segments accounted for ¥51,516 million (79.1% of the total) and the electronics and advanced materials segment accounted for ¥11,862 million (18.2% 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, and on copper extraction and production facilities at the Morenci Copper Mine 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, completion of the facility's second phase doubled the hydrometallurgical refining capacity for low-grade nickel oxide ores at Coral Bay Nickel Corporation; renovation of the ferronickel production facilities at Hyuga Smelting Co., Ltd. also continued.

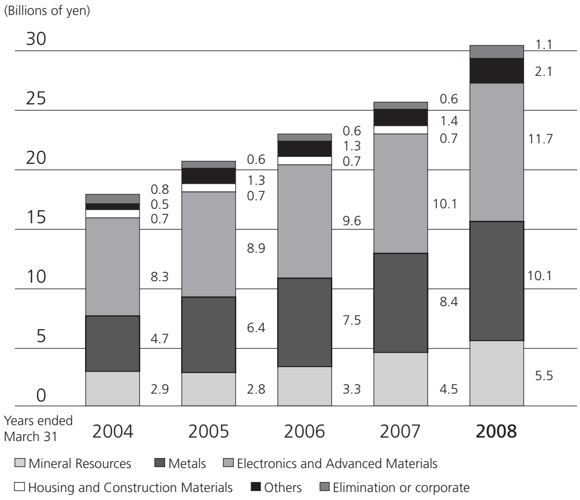
In the electronics and advanced materials segment, the major items of capital expenditure in fiscal 2007 included various investments to expand production capacity and upgrade manufacturing facilities. In China and Taiwan, spending was targeted at increasing production of lead frames and upgrading facilities for COF (Chip on Film) products.

Depreciation increased by ¥4,812 million (18.7%) compared with the previous year to ¥30,505 million.

**Capital Expenditures**




**Depreciation**




### Research and Development (R&D) Expenses

Total R&D expenses in fiscal 2007 amounted to ¥6,111 million, an increase of ¥719 million (13.3%) over the previous year. An overview of the spending breakdown by business segment is provided below.

R&D expenses in the mineral resources segment totaled ¥104 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 development of mine water discharge processing technologies. R&D expenses in the metals segment totaled ¥2,873 million. Major project themes included the development of non-ferrous metal refining, electrolytic technologies and new metal-refining processes; the optimization of original in-house hydrometallurgical copper-smelting technologies; the active separating, refining and purifying of trace amounts of other metals contained in ores; the development of alloys and related casting technologies; the 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 ¥2,961 million. Major project themes included the development of technologies, processes and related equipment for creating high-performance and related value-added electronic materials, along with the development of novel and more advanced high-performance materials. Other R&D spending totaling ¥173 million was directed at development of housing and construction materials, environment-related R&D and related facility development.

## Financial Position and Liquidity

### Assets

As of the fiscal 2007 year-end (March 31, 2008), total assets amounted to ¥1,091,716 million, an increase of ¥162,508 million, or 17.5%, compared with a year earlier.

Current assets increased by ¥154,011 million (41.8%) to ¥522,699 million. This was mainly the result of increases in notes and accounts receivable and inventories due to higher metals prices, along with an increase in negotiable certificates of deposit following the implementation of a capital procurement program based on loans with stock acquisition rights. Although a drop in share prices caused the value of investment securities to fall, property, plant and equipment increased as the result of strategic investments in the core mineral resources and metals businesses. Total fixed assets increased by ¥8,497 million compared with the previous year-end.

### Liabilities

Total liabilities amounted to ¥451,371 million as of the fiscal 2007 year-end, an increase of ¥51,084 million (12.8%) compared with a year earlier.

Current liabilities decreased by ¥8,448 million (3.2%) to ¥256,449 million, due mainly to a drop in accrued income taxes. The current ratio rose to 2.04 times from 1.39 times at the previous fiscal year-end. Reflecting growth in long-term debt due to capital procurement using loans with stock acquisition rights, total long-term liabilities rose by ¥59,532 million (44.0%) to ¥194,922 million.

### Net Assets

As of the fiscal 2007 year-end, net assets amounted to ¥640,345 million, an increase of ¥111,424 million (21.1%) compared with a year earlier. This was the result of net income recorded for fiscal 2007 of ¥137,808 million, among other factors. Subtracting minority interests, shareholders' equity amounted to ¥589,640 million as of March 31, 2008, which represented a year-on-year increase of ¥93,796 million, or 18.9%. The equity ratio increased from 53.4% to 54.0%.

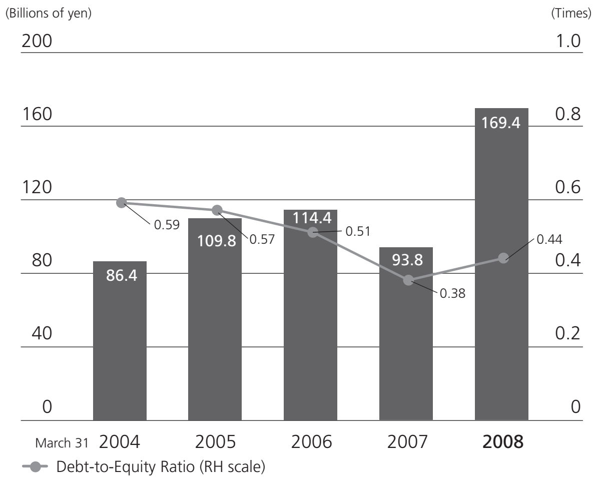
**Composition of Interest-Bearing Debt**

(Millions of yen)

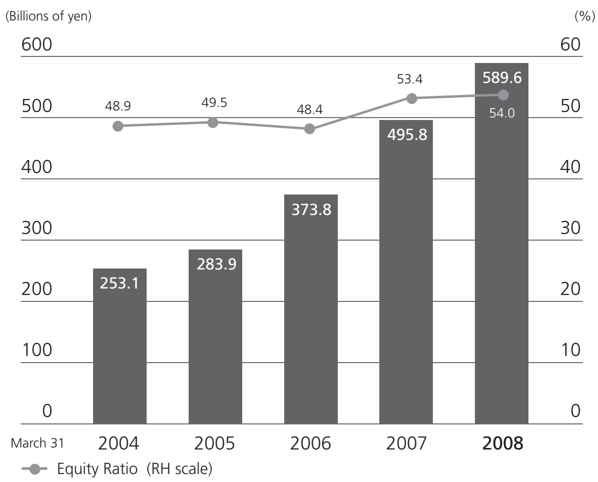
| March 31 | **2008** | 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Short-term debt | **¥ 88,660** | ¥ 96,110 | ¥ 76,486 | ¥ 50,756 |
| | **(8.1%)** | (10.3%) | (9.9%) | (8.8%) |
| Long-term debt | **169,394** | 93,800 | 114,405 | 109,777 |
| | **(15.5%)** | (10.1%) | (14.8%) | (19.1%) |
| Shareholders' equity* | **589,640** | 495,844 | 373,752 | 283,897 |
| | **(54.0%)** | (53.4%) | (48.4%) | (49.5%) |
| Total assets | **¥1,091,716** | ¥929,208 | ¥772,562 | ¥573,925 |
| | **(100.0%)** | (100.0%) | (100.0%) | (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 ¥157,383 million, an increase of ¥61,398 million compared with the previous year. This primarily reflected higher income before income taxes and minority interests and an increase in interest and dividend income.

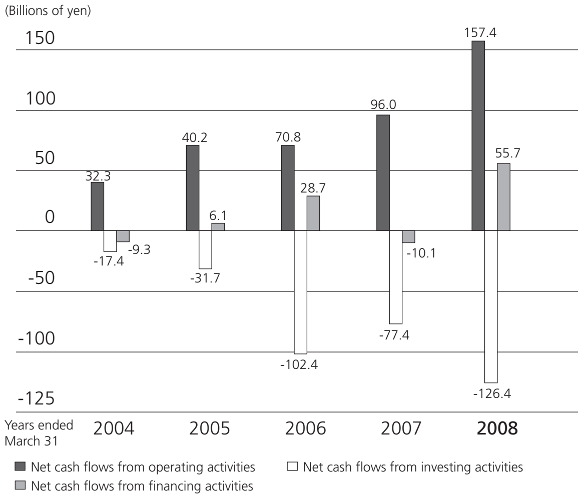
Net cash used in investing activities in fiscal 2007 equaled ¥126,413 million, which marked a year-on-year increase in cash outflow of ¥48,984 million. This result reflected the financing of major ongoing facility investments as well as other factors such as increased acquisitions of securities.

Net cash provided by financing activities amounted to ¥55,727 million in fiscal 2007. Compared with the prior year, this marked an increase in cash inflow of ¥65,800 million and was mainly due to substantial growth in long-term debt as the result of capital procurement using loans with stock acquisition rights.

Factoring in the effects of exchange rate fluctuations, the year-end balance of cash and cash equivalents amounted to ¥132,475 million at March 31, 2008, an increase of ¥88,142 million compared with the previous year-end.

**Cash Flows**

(Billions of yen)




## 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 2007.

### 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 non-ferrous 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 CONSOLIDATED SUBSIDIARIES

ASSETS

| As of March 31, 2008 and 2007 | Millions of yen 2008 | Millions of yen 2007 | Thousands of U.S. dollars (Note 1) 2008 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | ¥ 132,475 | ¥ 44,333 | $ 1,322,238 |
| Time deposits | 295 | 314 | 2,944 |
| Negotiable certificates of deposits | 43,000 | — | 429,185 |
| Receivables: | | | |
| Notes and accounts receivable: | | | |
| Trade | 113,023 | 101,660 | 1,128,087 |
| Non-consolidated subsidiaries and affiliated companies | 5,886 | 6,972 | 58,748 |
| Loans and others: | | | |
| Non-consolidated subsidiaries and affiliated companies | 3,150 | 4,808 | 31,440 |
| Other | 16,698 | 6,899 | 166,663 |
| Allowance for doubtful accounts | (329) | (304) | (3,284) |
| Inventories (Note 5) | 169,556 | 169,333 | 1,692,345 |
| Deferred tax assets (Note 8) | 3,112 | 4,499 | 31,061 |
| Other current assets | 35,833 | 30,174 | 357,651 |
| Total current assets | 522,699 | 368,688 | 5,217,078 |
| **Investments and long-term receivables:** | | | |
| Investment securities (Notes 3 and 7): | | | |
| Non-consolidated subsidiaries and affiliated companies | 199,504 | 188,943 | 1,991,257 |
| Other | 73,816 | 108,507 | 736,760 |
| Allowance for loss on investments | (16) | (16) | (160) |
| Loans: | | | |
| Non-consolidated subsidiaries and affiliated companies | 2,340 | — | 23,356 |
| Other | 1,300 | 1,142 | 12,975 |
| Other long-term receivables | 5,374 | 5,080 | 53,638 |
| Allowance for doubtful accounts | (273) | (383) | (2,725) |
| Total investments and othr assets | 282,045 | 303,273 | 2,815,101 |
| **Property, plant and equipment** (Notes 6 and 7): | | | |
| Land | 29,194 | 29,188 | 291,386 |
| Buildings and structures | 157,488 | 155,034 | 1,571,893 |
| Machinery and equipment | 357,764 | 341,289 | 3,570,855 |
| Construction in progress | 33,463 | 9,000 | 333,995 |
| | 577,909 | 534,511 | 5,768,129 |
| Accumulated depreciation | (299,760) | (283,811) | (2,991,914) |
| Net property, plant and equipment | 278,149 | 250,700 | 2,776,215 |
| **Deferred tax assets** (Note 8) | 1,880 | 1,843 | 18,764 |
| **Other assets** | 6,943 | 4,704 | 69,299 |
| Total assets | ¥ 1,091,716 | ¥ 929,208 | $ 10,896,457 |

The accompanying notes are an integral part of these financial statements.

## LIABILITIES AND NET ASSETS

| As of March 31, 2008 and 2007 | Millions of yen 2008 | Millions of yen 2007 | Thousands of U.S. dollars (Note 1) 2008 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Bank loans (Note 7) | ¥ 67,806 | ¥ 67,163 | $ 676,774 |
| Long-term debt due within one year (Note 7) | 20,855 | 28,947 | 208,155 |
| Notes and accounts payable: | | | |
| Trade | 53,133 | 51,131 | 530,322 |
| Non-consolidated subsidiaries and affiliated companies | 14,611 | 6,132 | 145,833 |
| Other | 16,763 | 17,435 | 167,312 |
| Accrued income taxes (Note 8) | 18,795 | 44,742 | 187,594 |
| Accrued expenses | 5,932 | 4,772 | 59,208 |
| Advances received | 1,104 | 1,433 | 11,019 |
| Accrued restructuring charges | 360 | 479 | 3,593 |
| Accrued repair construction of lots for sale | 7 | 86 | 70 |
| Accrued bonus to directors and corporate auditors | 100 | 115 | 998 |
| Deferred tax liabilities (Note 8) | 2,580 | 45 | 25,751 |
| Other current liabilities | 54,403 | 42,417 | 542,997 |
| Total current liabilities | 256,449 | 264,897 | 2,559,626 |
| **Long-term liabilities:** | | | |
| Long-term debt (Note 7) | 169,394 | 93,800 | 1,690,728 |
| Deferred tax liabilities (Note 8) | 11,672 | 26,682 | 116,499 |
| Accrued retirement benefits (Note 9) | 8,157 | 9,510 | 81,415 |
| Accrued environmental measures | 643 | 632 | 6,418 |
| Accrued restructuring charges | 27 | 75 | 269 |
| Accrued indemnification loss on damages caused by a consolidated subsidiary | 225 | 552 | 2,246 |
| Other accruals | 2,568 | 2,265 | 25,631 |
| Other long-term liabilities | 2,236 | 1,874 | 22,318 |
| Total long-term liabilities | 194,922 | 135,390 | 1,945,524 |
| Contingent liabilities (Note 13) | | | |
| **Net assets:** | | | |
| Shareholders' equity (Note 12): | | | |
| Common stock | | | |
| Authorized — 1,000,000,000 shares | | | |
| Issued — 581,628,031 shares | 93,242 | 91,821 | 930,652 |
| Capital surplus | 86,104 | 84,668 | 859,407 |
| Retained earnings (Note 11) | 403,459 | 283,568 | 4,026,939 |
| Treasury stock, at cost | (2,529) | (1,777) | (25,242) |
| Total shareholders' equity | 580,276 | 458,280 | 5,791,756 |
| Valuation and translation adjustments: | | | |
| Net unrealized holding gain on securities | 12,027 | 34,558 | 120,043 |
| Deferred gains on hedges | 790 | 1,170 | 7,885 |
| Foreign currency translation adjustment | (3,453) | 1,836 | (34,465) |
| Total valuation and translation adjustments: | 9,364 | 37,564 | 93,463 |
| Minority interests | 50,705 | 33,077 | 506,088 |
| **Total net assets** | 640,345 | 528,921 | 6,391,307 |
| **Total liabilities and net assets** | ¥ 1,091,716 | ¥ 929,208 | $ 10,896,457 |

# Consolidated Statements of Income

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

| For the years ended March 31, 2008, 2007 and 2006 | Millions of yen 2008 | 2007 | 2006 | Thousands of U.S. dollars (Note 1) 2008 |
|---|---|---|---|---|
| **Net sales** (Note 14) | ¥ 1,132,372 | ¥ 966,764 | ¥ 625,579 | $ 11,302,246 |
| **Costs and expenses** (Note 14): | | | | |
| Cost of sales | 934,225 | 763,584 | 505,442 | 9,324,533 |
| Selling, general and administrative expenses (Note 10) | 42,753 | 40,548 | 37,381 | 426,719 |
| | 976,978 | 804,132 | 542,823 | 9,751,252 |
| **Operating income** (Note 14) | 155,394 | 162,632 | 82,756 | 1,550,993 |
| **Other income** (expenses): | | | | |
| Interest and dividend income | 4,088 | 2,829 | 1,673 | 40,802 |
| Interest expense | (6,297) | (5,435) | (2,954) | (62,851) |
| Gain on sale of investment securities | 81 | 76 | 356 | 808 |
| Write-down of investment securities | (458) | (6) | (60) | (4,571) |
| Gain on sales of securities of subsidiaries and affiliated companies | — | 400 | — | — |
| Write-down of securities of subsidiaries and affiliated companies | — | (302) | — | — |
| Gain (Loss) on sale and disposal of property, plant and equipment | 23 | (1,026) | (3,407) | 230 |
| Loss on impairment of fixed assets (Note 6) | (941) | — | (1,825) | (9,392) |
| Reversal of loss on impairment of fixed assets | — | 939 | — | — |
| Gain on liquidation of subsidiaries | — | 63 | 418 | — |
| Reversal of doubtful accounts | 54 | 355 | 54 | 539 |
| Provision for loss on investments | — | (16) | — | — |
| Provision for repair construction of lots for sale | — | (73) | (191) | — |
| Provision for environmental measures | — | (57) | (573) | — |
| Loss from valuation of gold loans | (2,351) | (1,803) | (1,055) | (23,465) |
| Exchange gain (loss) | (2,142) | 1,207 | 845 | (21,379) |
| Provision for restructuring charges | (274) | — | (1,092) | (2,735) |
| Reversal of restructuring charges | — | 37 | — | — |
| Maintenance cost for ceased projects | — | (605) | (816) | — |
| Casualty loss | (41) | (103) | (409) | (409) |
| Gain (Loss) from valuation of derivative instruments | (2,449) | 380 | (2,029) | (24,444) |
| Amortization of negative goodwill | — | 10 | 33 | — |
| Equity in earnings of affiliated companies | 73,956 | 46,708 | 21,915 | 738,158 |
| Loss from renunciation of receivable | (36) | — | — | (359) |
| Other, net | (2,103) | (593) | (665) | (20,991) |
| | 61,110 | 42,985 | 10,218 | 609,941 |
| **Income before income taxes and minority interests** | 216,504 | 205,617 | 92,974 | 2,160,934 |
| **Income taxes** (Note 8): | | | | |
| Current | 57,938 | 68,149 | 31,932 | 578,281 |
| Deferred | 3,812 | 1,203 | (3,557) | 38,048 |
| | 61,750 | 69,352 | 28,375 | 616,329 |
| | 154,754 | 136,265 | 64,599 | 1,544,605 |
| **Minority interests in net income of consolidated subsidiaries** | (16,946) | (10,211) | (1,799) | (169,139) |
| **Net income** | ¥ 137,808 | ¥ 126,054 | ¥ 62,800 | $ 1,375,466 |

| For the years ended March 31, 2008, 2007 and 2006 | Yen 2008 | 2007 | 2006 | U.S. dollars (Note 1) 2008 |
|---|---|---|---|---|
| **Amounts per share of common stock:** | | | | |
| Net income (Note 16) | | | | |
| —Basic | ¥ 238.13 | ¥ 220.49 | ¥ 109.96 | $ 2.38 |
| —Diluted | 231.50 | 213.67 | 108.87 | 2.31 |
| Cash dividends applicable to the year | 30.00 | 27.00 | 14.00 | 0.30 |

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Changes in Net Assets

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

| For the years ended March 31, 2008, 2007 and 2006 | Number of shares issued | Shareholders' Equity: Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
|---|---|---|---|---|---|---|
| | (thousands) | Millions of yen | | | | |
| 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 interests | | | | | | |
| Cash dividends paid | | | | (14,284) | | (14,284) |
| Balance at March 31, 2007 | 578,791 | ¥91,821 | ¥84,668 | ¥283,568 | ¥(1,777) | ¥458,280 |
| Net income | | | | 137,808 | | 137,808 |
| Conversion of convertible bonds | | 1,421 | 1,419 | | | 2,840 |
| Foreign currency translation adjustments | | | | | | |
| Adjustments for unrealized gains on securities | | | | | | |
| Treasury stock | | | | | (770) | (770) |
| Gain on sale of treasury stock | | | 17 | | 18 | 35 |
| Deferred gains or losses on hedges | | | | | | |
| Minority interests | | | | | | |
| Cash dividends paid | | | | (17,917) | | (17,917) |
| **Balance at March 31, 2008** | **581,628** | **¥93,242** | **¥86,104** | **¥403,459** | **¥(2,529)** | **¥580,276** |

| For the year ended March 31, 2008 | Shareholders' Equity: Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
|---|---|---|---|---|---|
| | Thousands of U.S. dollars (Note 1) | | | | |
| Balance at March 31, 2007 | $916,469 | $845,074 | $2,830,302 | $(17,737) | $4,574,108 |
| Net income | | | 1,375,467 | | 1,375,467 |
| Conversion of convertible bonds | 14,183 | 14,163 | | | 28,346 |
| Foreign currency translation adjustments | | | | | |
| Adjustments for unrealized gains on securities | | | | | |
| Treasury stock | | | | (7,685) | (7,685) |
| Gain on sale of treasury stock | | 170 | | 180 | 350 |
| Deferred gains or losses on hedges | | | | | |
| Minority interests | | | | | |
| Cash dividends paid | | | (178,830) | | (178,830) |
| **Balance at March 31, 2008** | **$930,652** | **$859,407** | **$4,026,939** | **$(25,242)** | **$5,791,756** |

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Changes in Net Assets (continued)

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

| For the years ended March 31, 2008, 2007 and 2006 | Valuation, translation adjustments and others: Net unrealized holding gain on securities | Deferred gains on hedges | Foreign currency translation adjustment | Total valuation and translation adjustments | Minority interests | Total net assets |
|---|---|---|---|---|---|---|
| | Millions of yen | | | | | |
| 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 interests | | | | | 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 |
| Net income | | | | | | **137,808** |
| Conversion of convertible bonds | | | | | | **2,840** |
| Foreign currency translation adjustments | | | **(5,289)** | **(5,289)** | | **(5,289)** |
| Adjustments for unrealized gains on securities | **(22,531)** | | | **(22,531)** | | **(22,531)** |
| Treasury stock | | | | | | **(770)** |
| Gain on sale of treasury stock | | | | | | **35** |
| Deferred gains or losses on hedges | | **(380)** | | **(380)** | | **(380)** |
| Minority interests | | | | | **17,628** | **17,628** |
| Cash dividends paid | | | | | | **(17,917)** |
| **Balance at March 31, 2008** | **¥ 12,027** | **¥ 790** | **¥ (3,453)** | **¥ 9,364** | **¥50,705** | **¥640,345** |

| For the year ended March 31, 2008 | Valuation, translation adjustments and others: Net unrealized holding gain (loss) on available-for-sale securities | Deferred gains on hedges | Foreign currency translation adjustment | Total valuation, translation adjustments and others | Minority interests in cosolidated subsidiaries | Total net assets |
|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars (Note 1) | | | | | |
| Balance at March 31, 2007 | $ 344,925 | $11,678 | $ 18,325 | $ 374,928 | $330,143 | $5,279,179 |
| Net income | | | | | | **1,375,467** |
| Conversion of convertible bonds | | | | | | **28,346** |
| Foreign currency translation adjustments | | | **(52,790)** | **(52,790)** | | **(52,790)** |
| Adjustments for unrealized gains on securities | **(224,882)** | | | **(224,882)** | | **(224,882)** |
| Treasury stock | | | | | | **(7,685)** |
| Gain on sale of treasury stock | | | | | | **350** |
| Deferred gains or losses on hedges | | **(3,793)** | | **(3,793)** | | **(3,793)** |
| Minority interests | | | | | **175,945** | **175,945** |
| Cash dividends paid | | | | | | **(178,830)** |
| **Balance at March 31, 2008** | **$ 120,043** | **$ 7,885** | **$(34,465)** | **$ 93,463** | **$506,088** | **$6,391,307** |

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Cash Flows

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED SUBSIDIARIES

| For the years ended March 31, 2008, 2007 and 2006 | Millions of yen 2008 | 2007 | 2006 | Thousands of U.S. dollars (Note 1) 2008 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Income before income taxes and minority interests | ¥ 216,504 | ¥ 205,617 | ¥ 92,974 | $ 2,160,934 |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities: | | | | |
| Depreciation | 30,505 | 25,693 | 22,951 | 304,472 |
| Loss on impairment of fixed assets | 941 | — | 1,825 | 9,392 |
| Reversal of loss on impairment of fixed assets | — | (939) | — | — |
| Loss (Gain) on sale and disposal of property, plant and equipment | (23) | 1,026 | 3,407 | (230) |
| Gain on sale of investment securities | (81) | (76) | (356) | (808) |
| Write-down of investment securities | 458 | 6 | 60 | 4,571 |
| Increase in allowance for loss on investments | — | 16 | — | — |
| Gain on sales of securities of subsidiaries and affiliated companies | — | (400) | — | — |
| Loss (Gain) from valuation of derivative instruments | 2,449 | (380) | 2,029 | 24,444 |
| Reversal of doubtful accounts | (83) | (154) | (122) | (828) |
| Decrease in retirement benefits | (2,267) | (350) | (1,613) | (22,627) |
| Gain on liquidation of subsidiaries | — | (1,030) | (418) | — |
| Interest and dividend income | (4,088) | (2,829) | (1,673) | (40,802) |
| Interest expense | 6,297 | 5,435 | 2,954 | 62,851 |
| Equity in earnings of affiliated companies | (73,956) | (46,708) | (21,915) | (738,158) |
| Restructuring charges | 69 | — | 441 | 689 |
| Casualty loss | 41 | 103 | 409 | 409 |
| Maintenance cost for ceased projects | 666 | 605 | 816 | 6,647 |
| Increase in trade receivables | (20,026) | (24,454) | (18,971) | (199,880) |
| Increase in inventories | (1,148) | (40,413) | (24,964) | (11,458) |
| Increase in trade payables | 13,971 | 3,017 | 8,804 | 139,445 |
| Others | 4,719 | 4,020 | 8,298 | 47,101 |
| Sub total | 174,948 | 127,805 | 74,936 | 1,746,164 |
| Interest and dividend received | 72,231 | 23,904 | 14,350 | 720,940 |
| Interest paid | (6,330) | (5,087) | (2,811) | (63,180) |
| Payments for maintenance costs for ceased project | (666) | (605) | (816) | (6,647) |
| Payments for recovery costs | (41) | (103) | (409) | (409) |
| Payments for income taxes | (82,759) | (49,929) | (14,478) | (826,021) |
| Net cash provided by operating activities | 157,383 | 95,985 | 70,772 | 1,570,847 |
| **Cash flows from investing activities:** | | | | |
| Payments for acquisition of property, plant and equipment | (64,883) | (48,314) | (48,728) | (647,600) |
| Proceeds from sale of property, plant and equipment | 1,852 | 4,033 | 3,103 | 18,485 |
| Payments for purchases of securities | (43,000) | — | — | (429,185) |
| Payments for purchases of investment securities | (3,216) | (14,118) | (1,204) | (32,099) |
| Payments for purchase of securities of subsidiaries and affiliated companies | (13,804) | (21,564) | (51,969) | (137,778) |
| Proceeds from sale of investment securities | 106 | 263 | 510 | 1,058 |
| Proceeds from sales of securities of subsidiaries and affiliated companies | — | 1,195 | 5 | — |
| Payments for loans receivable | (7,955) | (2,500) | (1,621) | (79,399) |
| Collection of loans receivable | 4,992 | 2,015 | 956 | 49,825 |
| Other | (505) | 1,561 | (3,436) | (5,040) |
| Net cash used in investing activities | (126,413) | (77,429) | (102,384) | (1,261,733) |
| **Cash flows from financing activities:** | | | | |
| Proceeds from long-term debt | 98,888 | 5,671 | 31,867 | 987,005 |
| Repayments of long-term debt | (18,990) | (20,759) | (4,337) | (189,540) |
| Net increase in bank loans | 3,180 | 18,880 | 7,682 | 31,740 |
| Payments for redemption of bonds | (10,000) | (10,000) | (10,000) | (99,810) |
| Proceeds from issuance of bonds | — | 9,944 | — | — |
| Contribution from minority in consolidated subsidiaries | 6,502 | 5,731 | 9,288 | 64,897 |
| Increase in treasury stocks | (735) | (642) | (338) | (7,336) |
| Cash dividends paid | (17,917) | (14,284) | (4,564) | (178,830) |
| Cash dividends paid to minority in consolidated subsidiaries | (5,201) | (4,614) | (875) | (51,911) |
| Net cash provided by (used in) financing activities | 55,727 | (10,073) | 28,723 | 556,215 |
| Effect of changes in exchange rate on cash and cash equivalents | 1,445 | 1,602 | 2,354 | 14,423 |
| Net increase (decrease) in cash and cash equivalents | 88,142 | 10,085 | (535) | 879,752 |
| Cash and cash equivalents at beginning of fiscal year | 44,333 | 34,250 | 34,785 | 442,489 |
| Increase in cash due to newly consolidated subsidiaries | — | 9 | — | — |
| Other decrease in cash and cash equivalents due to exclusion from consolidation | — | (11) | — | — |
| Cash and cash equivalents at end of fiscal year | ¥ 132,475 | ¥ 44,333 | ¥ 34,250 | $ 1,322,238 |

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

SUMITOMO METAL MINING CO., LTD. AND CONSOLIDATED 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 Financial Instruments and Exchange Act, which took effect on September 30, 2007 replacing 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 (“IFRSs”).

The accounts of consolidated 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 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 Japanese Financial Instruments and Exchange Act. 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 statement of changes in net assets for 2006 has been prepared for the purpose of inclusion in the consolidated financial statements although such statement was 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, 2008, which was ¥100.19 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 majority-owned subsidiaries (50 subsidiaries in 2008, 48 in 2007 and 49 in 2006). All significant inter-company balance and transaction 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 (12 affiliated companies in 2008, 13 in 2007 and 2006). 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 within five years on a straight-line basis. Regarding subsidiaries in the United States of America, goodwill is not amortized, but instead is tested for impairment at least annually in accordance with Financial Accounting Standards (“FAS”) 142.

Cash and cash equivalents and cash flow statements — Cash on hand, readily-available bank deposits, negotiable certificates of 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. Negotiable certificates of deposits with maturities of exceeding three months is presented as negotiable certificates of deposits.

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 are stated at cost based on the first-in first-out (FIFO) method.

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

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 to recognize 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.

(Change for the accounting policy)
In accordance with the revised Japanese Corporate Tax Law and its regulation, the Company and its domestic subsidiaries have changed the depreciation method for tangible fixed assets acquired on or after April 1, 2007.

The effect of adoption of the new depreciation method on income before income taxes and minority interests is not material.

(Additional Information)
In accordance with the revised Japanese Corporate Tax Law and its regulation, the Company and its domestic subsidiaries have adopted a new depreciation method for tangible fixed assets acquired on or before March 31, 2007 from the current consolidated fiscal year. By the new method, the residual book value of those assets which had been fully depreciated to the limit prescribed in the previous corporate tax code is depreciated in equal amount over five-year period.

As a result,depreciation increases by ¥1,024 million ($10,221 thousand) and operating income and income before income taxes and minority interests decreased by ¥942 million ($9,402 thousand), respectively.

The effects on Segment information are described in the relevant notes.

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. Prior service costs are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of ten years.

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. 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 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.

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 and loss 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 ¥494,674 million 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 statements of changes in net assets for the years ended March 31, 2008 and 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, 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 reclassifications have been made in the 2007 and 2006 financial statements to conform to the presentation of 2008.

## 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, 2008 and 2007:

Securities with book values exceeding acquisition costs

Millions of yen

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | ¥36,069 | ¥58,439 | ¥22,370 | ¥44,877 | ¥102,113 | ¥57,236 |
| Total | ¥36,069 | ¥58,439 | ¥22,370 | ¥44,877 | ¥102,113 | ¥57,236 |

Thousands of U.S. dollars

| | 2008 | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | $360,006 | $583,282 | $223,276 |
| Total | $360,006 | $583,282 | $223,276 |

Securities with book values not exceeding acquisition costs

Millions of yen

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | ¥13,007 | ¥10,165 | ¥(2,842) | ¥1,261 | ¥1,179 | ¥(82) |
| Total | ¥13,007 | ¥10,165 | ¥(2,842) | ¥1,261 | ¥1,179 | ¥(82) |

Thousands of U.S. dollars

| | 2008 | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Equity securities | $129,823 | $101,457 | $(28,366) |
| Total | $129,823 | $101,457 | $(28,366) |

(2) The following tables summarize book values of the securities with no available fair values as of March 31, 2008 and 2007:

Available-for-sale securities

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Unlisted equity securities | ¥4,229 | ¥4,299 | $42,210 |
| Total | ¥4,229 | ¥4,299 | $42,210 |

(3) As of March 31, 2008 and 2007, there was no available-for-sale security with maturities.

(4) Total sales of available-for-sale securities sold amounted to ¥106 million ($1,058 thousand), ¥263 million and ¥510 million, and the related gains amounted to ¥83 million ($828 thousand), ¥76 million and ¥356 million in the years ended March 31, 2008, 2007 and 2006, respectively. Losses amounted to ¥2 million ($20 thousand) were recognized in the year ended March 31, 2008 and no losses were recognized in the years ended March 31, 2007 and 2006.

## 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, 2008 and 2007 of derivative transactions for which hedge accounting has not been applied:

Millions of yen

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | ¥11,307 | ¥— | ¥11,192 | ¥(115) | ¥11,680 | ¥— | ¥11,741 | ¥ 61 |
| Buy position—Euro | — | — | — | — | 2,290 | — | 2,466 | 176 |
| Buy position—A.U. dollars | 65 | — | 80 | 15 | 845 | 68 | 932 | 87 |
| | ¥11,372 | ¥— | ¥ — | ¥(100) | ¥14,815 | ¥— | ¥ — | ¥ 324 |
| Commodity: | | | | | | | | |
| Forward contracts: | | | | | | | | |
| Sell position—Metal | ¥14,416 | — | ¥13,787 | 629 | — | — | — | — |
| Buy position—Metal | 5,071 | — | 5,071 | — | 14,754 | — | 17,053 | 2,299 |
| | ¥19,487 | ¥— | ¥ — | ¥ 629 | ¥14,754 | ¥— | ¥ — | ¥2,299 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2008 | | | |
| | Contracted amount | | | |
| | Total | Over one year | Market value | Recognized gains (losses) |
| Currency: | | | | |
| Forward contracts: | | | | |
| Buy position—U.S. dollars | $112,856 | $— | $111,708 | $(1,148) |
| Buy position—Euro | — | — | — | — |
| Buy position—A.U. dollars | 649 | — | 798 | 149 |
| | $113,505 | $— | $ — | $ (999) |

| | Total | Over one year | Market value | Recognized gains (losses) |
|---|---|---|---|---|
| Commodity: | | | | |
| Forward contracts: | | | | |
| Sell position—Metal | $143,887 | $— | $137,609 | $6,278 |
| Buy position—Metal | 50,614 | — | 50,614 | — |
| | $194,501 | $— | $ — | $6,278 |

## 5. Inventories

Inventories at March 31, 2008 and 2007 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Merchandise | ¥ 1,378 | ¥ 1,970 | $ 13,754 |
| Finished products | 34,709 | 45,317 | 346,432 |
| Semi-finished products and work in process | 87,320 | 76,728 | 871,544 |
| Raw materials and supplies | 46,149 | 45,318 | 460,615 |
| | ¥169,556 | ¥169,333 | $1,692,345 |

## 6. Loss on impairment of fixed assets

Loss on impairment of fixed assets for the year ended March 31, 2008 consisted of the following:

| | | | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|
| Location | Major use | Asset category | Loss | |
| Niihama City, Ehime Prefecture, Japan | Manufacturing facilities for copper-clad polyimide film | Buildings and Structures | ¥218 | $2,176 |
| Niihama City, Ehime Prefecture, Japan | Manufacturing facilities for copper-clad polyimide film | Machinery and equipment | 489 | 4,881 |
| Ichihara City, Chiba Prefecture, Japan | Manufacturing facilities for decontamination for soil | Buildings and Structures | 22 | 220 |
| Ichihara City, Chiba Prefecture, Japan | Manufacturing facilities for decontamination for soil | Machinery and equipment | 181 | 1,807 |
| Okuchi City, Kagoshima Prefecture, Japan | Manufacturing facilities for packaging materials | Machinery and equipment | 29 | 289 |
| Nasu District, Tochigi Prefecture, Japan | Idle Land | Land | 2 | 20 |
| Total | | | ¥941 | $9,393 |

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 existing manufacturing facilities for copper-clad polyimide film in Ehime Prefecture was reduced to the recoverable amount because the facilities were completely idle due to the installation of the latest manufacturing facilities which were suitable for the current market size.

(2) The book value of facilities for decontamination of soil in Chiba Prefecture was reduced to the recoverable amount due to withdrawal from its business.

(3) The book value of manufacturing facilities for packaging materials in Kagoshima Prefecture was reduced to the recoverable amount because its products were not profitable and the Company has decided not to continue its operation.

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 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.

## 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 1.04% to 5.87% and 0.85% to 6.00% at March 31, 2008 and 2007, respectively.

The Zero-coupon convertible bonds due in 2009 are currently convertible at ¥1,001 ($9.99) per share until June 15, 2009.

As of March 31, 2008, 10,225 thousand additional shares of common stock in aggregate could be issued upon full conversion at the current conversion price.

On January 31, 2008, the Company has passed a resolution to issue stock acquisition rights by way of third-party allotment and to execute a loan agreement for the purpose of procuring funds through a loan with stock acquisition rights. By executing this loan agreement, the Company procures ¥100 billion ($998 million) from February 15, 2008 to February 13, 2015. The exercise price of the stock acquisition rights will be revised in accordance with market price. The stock acquisition rights have a structure that prevents dilution of the share price to a price lower than ¥1,749 ($17).

Long-term debt at March 31, 2008 and 2007 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Long-term loans from: | | | |
| Banks, insurance companies and other financial institutions, maturing through 2015 at interest rates of 0.82% to 7.36% | | | |
| Secured | ¥ 10 | ¥ — | $ 100 |
| Unsecured | 122,999 | 37,105 | 1,227,658 |
| Government owned banks and government agencies, maturing through 2020 at interest rates of 0.95% to 4.65%: | | | |
| Secured | 10,619 | 11,826 | 105,989 |
| Unsecured | 26,386 | 30,741 | 263,360 |
| 1.08% domestic bonds due in 2007* | — | 10,000 | — |
| 0.51% domestic bonds due in 2008 | 10,000 | 10,000 | 99,810 |
| 1.42% domestic bonds due in 2012 | 10,000 | 10,000 | 99,810 |
| Zero coupon convertible bonds due in 2009 | 10,235 | 13,075 | 102,156 |
| | 190,249 | 122,747 | 1,898,883 |
| Amount due within one year | (20,855) | (28,947) | (208,155) |
| | ¥169,394 | ¥ 93,800 | $1,690,728 |

*: The 1.08% domestic bonds were redeemed during the year ended March 31, 2008.

The aggregate annual maturities of long-term debt at March 31, 2008 are as follows:

| Years ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2009 | ¥ 20,855 | $ 208,155 |
| 2010 | 19,975 | 199,371 |
| 2011 | 9,019 | 90,019 |
| 2012 | 23,147 | 231,031 |
| 2013 | 5,337 | 53,269 |
| Thereafter | 111,916 | 1,117,038 |

Assets pledged as collateral for bank loans and long-term debt at March 31, 2008 and 2007 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Investment securities | | | |
| Subsidiaries | ¥ 131 | ¥ 131 | $ 1,308 |
| Other | 10,186 | 16,422 | 101,667 |
| Property, plant and equipment, at net book value | 58,704 | 57,330 | 585,927 |
| | ¥69,021 | ¥73,883 | $688,902 |

## 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, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Statutory tax rate | 40.7% | 40.7% | 40.7% |
| Equity in earnings of unconsolidated subsidiaries and affiliated companies | (9.1) | (5.6) | (7.2) |
| Effect of elimination of intercompany dividends received | 12.1 | 8.4 | 4.0 |
| Difference in tax rates among the Company and its consolidated subsidiaries | (4.3) | (2.3) | 0.3 |
| Permanently nondeductible expenses | 0.4 | 0.1 | 0.3 |
| Permanently nontaxable dividends received | (5.6) | (5.0) | (3.5) |
| Per capita inhabitant tax | — | — | 0.1 |
| Refunded corporation tax | — | — | (2.5) |
| Increase (decrease) in valuation allowance | 1.2 | 0.7 | (0.8) |
| Others | (6.9) | (3.3) | (0.9) |
| Effective tax rate | 28.5% | 33.7% | 30.5% |

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Deferred tax assets: | | | |
| Retirement benefits | ¥ 5,511 | ¥ 6,499 | $ 55,005 |
| Net operating loss carry forwards | 4,885 | 3,463 | 48,757 |
| Accrued enterprise taxes | 1,614 | 3,292 | 16,109 |
| Allowance for bonus payable | 1,707 | 1,540 | 17,038 |
| Loss from valuation of gold loans | 1,602 | 1,918 | 15,990 |
| Loss on impairment or fixed assets | 863 | 596 | 8,614 |
| Unrealized profits | 736 | 834 | 7,346 |
| Exploration expenses (oversea subsidiaries) | 487 | 707 | 4,861 |
| Depreciation | — | 318 | — |
| Allowance for reparing furnace | 632 | 365 | 6,308 |
| Others | 6,717 | 6,211 | 67,043 |
| Gross deferred tax assets | 24,754 | 25,743 | 247,071 |
| Less valuation allowance | (7,787) | (7,749) | (77,723) |
| Deferred tax assets-less valuation allowance | 16,967 | 17,994 | 169,348 |
| Deferred tax liabilities: | | | |
| Net unrealized holding gain on available-for-sale securities | (7,532) | (22,529) | (75,177) |
| Depreciation | (2,509) | (3,518) | (25,042) |
| Deferred gains on properties for tax purpose | (3,364) | (3,399) | (33,576) |
| Reserve for losses on overseas investment | (2,837) | (2,018) | (28,316) |
| Accumulated earnings of overseas subsidiaries | (7,253) | (3,949) | (72,392) |
| Reserve for explorations | (924) | (787) | (9,222) |
| Gain on securities contributed to employee retirement benefits trust | (594) | (594) | (5,929) |
| Accrual for special depreciation of fixed assets | (77) | (175) | (769) |
| Others | (1,137) | (1,410) | (11,348) |
| Deferred tax liabilities | (26,227) | (38,379) | (261,771) |
| Net deferred tax liabilities | ¥ (9,260) | ¥(20,385) | $ (92,422) |

## 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, 2008 and 2007 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Projected benefit obligation | ¥(51,546) | ¥(51,289) | $(514,482) |
| Fair value of pension assets | 44,476 | 54,846 | 443,917 |
| Excess of projected benefit obligation over pension assets | ¥ (7,070) | ¥ 3,557 | $ (70,565) |
| Unrecognized actuarial differences | 2,509 | (9,949) | 25,042 |
| Unrecognized prior services costs | (1,491) | (1,894) | (14,882) |
| Net retirement benefits | ¥ (6,052) | ¥ (8,286) | $ (60,405) |
| Prepaid pension costs | (1,890) | (928) | (18,864) |
| Retirement benefits | ¥ (7,942) | ¥ (9,214) | $ (79,269) |

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, 2008 and 2007 also include estimated liabilities for the unfunded lump-sum benefit plan covering directors and corporate auditors of ¥184 million ($1,837 thousand) and ¥272 million, respectively.

Included in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 are severance and retirement benefit expense comprised of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| Service cost-benefits earned during the year | **¥2,323** | ¥ 2,003 | ¥1,837 | **$23,186** |
| Interest cost on projected benefit obligation | **856** | 884 | 798 | **8,544** |
| Expected return on plan assets | **(574)** | (1,161) | (639) | **(5,729)** |
| Amortization of actuarial differences | **(836)** | (557) | 632 | **(8,344)** |
| Amortization of prior services costs | **(271)** | (214) | (461) | **(2,705)** |
| | **¥1,498** | ¥ 955 | ¥2,167 | **$14,952** |

The discount rates used by the Company are primarily 2.0% for the years ended March 31, 2008, 2007 and 2006.

The rates of expected return on plan assets used by the Company are primarily 3.5%, respectively for the years ended March 31, 2008, 2007 and 2006.

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

## 10. Research and development expense

Research and development expense included in selling, general and administrative expenses for the years ended March 31, 2008, 2007 and 2006 are ¥6,111 million ($60,994 thousand), ¥5,392 million and ¥5,297 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 ($1,431,820 thousand) and ¥143,454 million at March 31, 2008 and 2007, 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 26, 2008, the shareholders approved cash dividends amounting to ¥8,689 million ($86,725 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the shareholders.

## 13. Contingent liabilities

Contingent liabilities at March 31, 2008 are as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Notes and accounts receivable sold to factoring companies with recourse | ¥ 9,729 | $ 97,105 |
| As guarantor for loans of: | | |
| Non-consolidated subsidiaries and affiliated companies | 1,675 | 16,718 |
| Other | 145 | 1,447 |
| | ¥11,549 | $115,270 |

Besides the above, as to providing electric power to Pogo gold mine, there are ¥1,081 million ($10,789 thousand) to guarantee construction costs of electric facilities.

## 14. Segment information

### Business segment information

The primary business segments of the Company and its consolidated subsidiaries include mineral resources, metals, electronics and advanced 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, 2008, 2007 and 2006 are as follows:

**2008** Millions of yen

| | Mineral resources | Metals | Electronics & advanced materials | Others | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Outside customers | ¥ 67,825 | ¥797,914 | ¥237,703 | ¥28,930 | ¥ — | ¥1,132,372 |
| Inter segment | 23,535 | 112,660 | 17,299 | 11,778 | (165,272) | — |
| Total | 91,360 | 910,574 | 255,002 | 40,708 | (165,272) | 1,132,372 |
| Costs and expenses | 53,233 | 801,732 | 246,787 | 37,046 | (161,820) | 976,978 |
| Operating income (loss) | ¥ 38,127 | ¥108,842 | ¥ 8,215 | ¥ 3,662 | ¥ (3,452) | ¥ 155,394 |
| Identifiable assets | ¥176,234 | ¥521,362 | ¥154,075 | ¥62,133 | ¥ 177,912 | ¥1,091,716 |
| Depreciation | 5,537 | 10,071 | 11,709 | 2,132 | 1,056 | 30,505 |
| Loss on impairment of fixed assets | — | — | 736 | 205 | — | 941 |
| Capital expenditures | 9,427 | 42,089 | 11,862 | 1,779 | (12) | 65,145 |

2007 Millions of yen

| | Mineral resources | Metals | Electronics & advanced materials | Construction materials | Others | Eliminations 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 | 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 | Eliminations 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 |

2008

Thousands of U.S. dollars

| | Mineral resources | Metals | Electronics & advanced materials | Others | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Outside customers | $ 676,964 | $7,964,009 | $2,372,522 | $288,751 | $ — | $11,302,246 |
| Inter segment | 234,904 | 1,124,463 | 172,662 | 117,557 | (1,649,586) | — |
| Total | 911,868 | 9,088,472 | 2,545,184 | 406,308 | (1,649,586) | 11,302,246 |
| Costs and expenses | 531,320 | 8,002,116 | 2,463,190 | 369,757 | (1,615,131) | 9,751,252 |
| Operating income (loss) | $ 380,548 | $1,086,355 | $ 81,994 | $ 36,551 | $ (34,455) | $ 1,550,993 |
| Identifiable assets | $1,758,998 | $5,203,733 | $1,537,828 | $620,152 | $1,775,746 | $10,896,457 |
| Depreciation expense | 55,265 | 100,519 | 116,868 | 21,280 | 10,540 | 304,472 |
| Loss on impairment of fixed assets | — | — | 7,346 | 2,046 | — | 9,392 |
| Capital expenditures | 94,091 | 420,092 | 118,395 | 17,756 | (120) | 650,214 |

(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 Metal, ¥94 million in Electronics & advanced materials and ¥26 million in Others.

(The effects of changes in segregation on segment information)

The Company has embarked the Mid-Term Business Plan by expanding and strengthening its core business. Clarifying this idea, the business segment of "Construction materials" is included in the business segment of "Others". Compared with the previous segregation, ¥14,748 million ($147,200 thousand) in sales, ¥690 million ($6,877 thousand) in operating income, ¥13,206 million ($131,810 thousand) in identifiable assets, ¥676 million ($6,747 thousand) in depreciation, ¥2 million ($20 thousand) in loss on impairment of fixed assets and ¥380 million ($3,793 thousand) in capital expenditure are included in the business segment of Others as a result of business of former "Construction materials".

(The effects of changes in depreciation method)
In accordance with the revised Japanese Corporate Tax Law, for tangible fixed assets acquired on or before March 31,2007, the Company and its domestic consolidated subsidiaries have started to depreciate the remaining balance of assets over a five year period using straight-line method from the following fiscal year after the book value of the assets decreases to 5% of the acquisition costs under the method of depreciation based on the Corporate Tax Law before revision. As a result of the change of depreciation method, in the year ended March 31, 2008, depreciation increases by ¥42 millon ($419 thousand) in Mineral resources, ¥669 million ($6,677 thousand) in Metal, ¥287 million ($2,865 thousand) in Electronics & advanced materials and ¥26 million ($260 thousand) in Others. And operating income decreases by ¥39 million ($389 thousand) in Mineral resources, ¥591 million ($5,899 thousand) in Metal, ¥286 million ($2,855 thousand) in Electronics & advanced materials and ¥26 million ($260 thousand) in Others.

### Geographic segment information

Geographic segment information for the years ended March 31, 2008, 2007 and 2006 are summarized as follows:

**2008** — Millions of yen

| | Domestic | North America | Southeast Asia | Others | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Outside customers | ¥ 986,469 | ¥57,649 | ¥53,405 | ¥ 34,849 | ¥ — | ¥1,132,372 |
| Inter segment | 53,986 | 123 | 34,462 | 6,447 | (95,018) | — |
| Total | 1,040,455 | 57,772 | 87,867 | 41,296 | (95,018) | 1,132,372 |
| Costs and expenses | 929,789 | 35,687 | 66,909 | 37,874 | (93,281) | 976,978 |
| Operating income (loss) | ¥ 110,666 | ¥22,085 | ¥20,958 | ¥ 3,422 | ¥ (1,737) | ¥ 155,394 |
| Identifiable assets | ¥ 647,305 | ¥95,265 | ¥81,667 | ¥169,290 | ¥ 98,189 | ¥1,091,716 |

2007 — Millions of yen

| | Domestic | North America | Southeast Asia | Others | Eliminations 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

| | Domestic | North America | Southeast Asia | Others | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| | Millions of yen | | | | | |
| 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 |

**2008**

| | Domestic | North America | Southeast Asia | Others | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| | Thousaands of U.S. dollars | | | | | |
| Net sales: | | | | | | |
| Outside customers | **$ 9,845,983** | **$575,397** | **$533,037** | **$ 347,829** | **$ —** | **$11,302,246** |
| Inter segment | **538,836** | **—** | **343,966** | **64,348** | **(948,378)** | **—** |
| Total | **10,384,819** | **575,397** | **877,003** | **412,177** | **(948,378)** | **11,302,246** |
| Costs and expenses | **9,280,258** | **356,193** | **667,821** | **378,022** | **(931,041)** | **9,751,253** |
| Operating income (loss) | **$ 1,104,561** | **$219,204** | **$209,182** | **$ 34,155** | **$ (17,337)** | **$ 1,550,993** |
| Identifiable assets | **$ 6,460,775** | **$950,843** | **$815,121** | **$1,689,690** | **$ 980,028** | **$10,896,457** |

(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.

(The effects of changes in depreciation method)

In accordance with the revised Japanese Corporate Tax Law, for tangible fixed assets acquired on or before March 31,2007, the Company and its domestic consolidated subsidiaries have started to depreciate the remaining balance of assets over a five year period using straight-line method from the following fiscal year after the book value of the assets decreases to 5% of the acquisition costs under the a method of depreciation based on the Corporate Tax Law before revision. As a result of the change of depreciation method, in the year ended March 31, 2008, operating income decreases by ¥942 million ($9,402 thousand) in Japan.

Information for overseas sales

**2008** Millions of yen

| | North America | Southeast Asia | East Asia | Others | Total |
|---|---|---|---|---|---|
| Overseas net sales | **¥58,265** | **¥85,721** | **¥242,835** | **¥7,908** | **¥ 394,729** |
| Consolidated net sales | — | — | — | — | **¥1,132,372** |
| Share of overseas net sales | **5.1%** | **7.6%** | **21.4%** | **0.7%** | **34.9%** |

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% |

**2008** Thousands of U.S. dollars

| | North America | Southeast Asia | East Asia | Others | Total |
|---|---|---|---|---|---|
| Overseas net sales | **$581,545** | **$855,584** | **$2,423,745** | **$78,930** | **$ 3,939,804** |
| Consolidated net sales | — | — | — | — | **$11,302,246** |
| Share of overseas net sales | **5.1%** | **7.6%** | **21.4%** | **0.7%** | **34.9%** |

## 15. 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, 2008 and 2007 are as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Acquisition cost | Accumulated depreciation | Net book value | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery and equipment | ¥225 | ¥143 | ¥82 | ¥440 | ¥295 | ¥145 |
| Others | — | — | — | 418 | 416 | 2 |
| Total | ¥225 | ¥143 | ¥82 | ¥858 | ¥711 | ¥147 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2008 | | |
| | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery and equipment | $2,246 | $1,427 | $819 |
| Others | — | — | — |
| Total | $2,246 | $1,427 | $819 |

Future lease payment, inclusive of interest at March 31, 2008 and 2007 under such leases are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Due within one year | ¥38 | ¥ 78 | $379 |
| Due after one year | 44 | 69 | 440 |
| Total | ¥82 | ¥147 | $819 |

Total lease expenses and assumed depreciation charges for the years ended March 31, 2008, 2007 and 2006 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| Total lease expenses | ¥83 | ¥160 | ¥319 | $828 |
| Assumed depreciation charge | 83 | 160 | 319 | 828 |

### As a lessor

A summary of acquisition cost, accumulated depreciation and net book value at March 31, 2008 and 2007 were as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2008 | | | 2007 | | |
| | Acquisition cost | Accumulated depreciation | Net book value | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery and equipment | ¥— | ¥— | ¥— | ¥124 | ¥111 | ¥13 |
| Others | — | — | — | 1 | 1 | — |
| Total | ¥— | ¥— | ¥— | ¥125 | ¥112 | ¥13 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2008 | | |
| | Acquisition cost | Accumulated depreciation | Net book value |
| Machinery and equipment | $— | $— | $— |
| Others | — | — | — |
| Total | $— | $— | $— |

Future lease receipt, inclusive of interest, at March 31, 2008 and 2007 under such lease were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2008 | 2007 | 2008 |
| Due within one year | ¥— | ¥15 | ¥— |
| Due after one year | — | — | — |
| Total | ¥— | ¥15 | ¥— |

Total revenue and depreciation charges for the years ended March 31, 2008, 2007 and 2006 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| Total revenues | ¥15 | ¥20 | ¥31 | $150 |
| Depreciation charge | 7 | 19 | 29 | 70 |

## 16. Earnings per share

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended March 31, 2008, 2007 and 2006 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 |
| Basic net income per share calculation | | | | |
| Numerator: | | | | |
| Net income | ¥137,808 | ¥126,054 | ¥ 62,800 | $1,375,467 |
| Amounts not belonging to common stock | | | | |
| (bonuses to directors from retained earnings) | — | — | 73 | — |
| Net income available to common shareholders | 137,808 | 126,054 | 62,727 | 1,375,467 |
| Denominator (thousands of shares) : | | | | |
| Weighted average number of shares | 578,707 | 571,708 | 570,477 | — |
| Basic EPS (yen and U.S. dollars) | ¥ 238.13 | ¥ 220.49 | ¥ 109.96 | $ 2.38 |
| Diluted net income per share calculation | | | | |
| Numerator: | | | | |
| Net income | ¥137,808 | ¥126,054 | ¥ 62,800 | $1,375,467 |
| Amounts not belonging to common stock | | | | |
| (bonuses to directors from retained earnings) | — | — | 73 | — |
| Net income available to common shareholders | 137,808 | 126,054 | 62,727 | 1,375,467 |
| Adjusted net income | 137,917 | 126,054 | 62,727 | 1,376,555 |
| Denominator (thousands of shares): | | | | |
| Weighted average number of shares | 578,707 | 571,708 | 570,477 | — |
| Assumed conversion of convertible bonds | 17,053 | 18,249 | 5,680 | — |
| Adjusted weighted average number of shares | 595,760 | 589,957 | 576,157 | — |
| Diluted EPS (yen and U.S. dollars) | ¥ 231.50 | ¥ 213.67 | ¥ 108.87 | $ 2.31 |

The diluted net income per share for the years ended March 31, 2008, 2007 and 2006 were ¥231.50, ¥213.67 and ¥108.87, respectively because there were 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, 2008 and 2007, 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, 2008, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:
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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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 26, 2008

KPMG AZSA & Co.

# Glossary

### 1) [Five major projects] Featuring on page 5

SMM established five major projects for the FY2004–6 Medium-term Business Plan. All are strategic projects in the Mineral Resources and Metals sector.

① Capacity expansion to 450ktpa for copper at the Toyo Smelter & Refinery (Ehime Prefecture, Japan)
② Cerro Verde Copper Mine Project (Peru)
③ Coral Bay Nickel Project (Philippines)
④ Goro Nickel Project (New Caledonia)
⑤ Pogo Gold Mine Project (Alaska, United States)


### 2) [Proprietary ore ratio] Featuring on pages 15, 16, 21, 28

This ratio, which we use mainly for copper, equals the proportion by volume of ore procured from overseas mining interests relative to the overall volume of smelting ores used as raw materials. SMM has 50% off-take rights at the Cerro Verde Copper Mine for the first ten years after production commenced in 2006. These ores are also included in the numerator of the formula.

(Calculation formula:)

$$\frac{\text{Copper equivalent to SMM interests by volume} + \text{Cerro Verde off-take rights in Cu-equivalents}}{\text{Volume of copper used to produce electrolytic Cu at Toyo facility}}$$

### 3) [HPAL] Featuring on pages 15, 17, 30, 43, 46

HPAL (High-Pressure Acid Leach, pronounced "H-PAL") is a groundbreaking refining method that facilitates the recovery of nickel and cobalt from difficult-to-process low-grade nickel oxide ores. In this method, low-grade nickel oxide ores are subjected to high temperature and pressure in an autoclave. Sulfuric acid is then fed into the autoclave to selectively extract nickel and cobalt. SMM subsidiary CBNC employs the HPAL method to produce nickel-cobalt mixed sulfides, the intermediate raw material used in nickel refining.

### 4) [MCLE] Featuring on pages 15, 43, 46

MCLE (Matte Chlorine Leach Electrowinning) is a refining method employed in the manufacturing process at our nickel refinery to produce high-quality electrolytic nickel at low cost. By combining the HPAL and MCLE methods, SMM developed and successfully commercialized a state-of-the-art method for recovering high-purity nickel from low-grade nickel oxide ores.

### 5) [LCD driver ICs] Featuring on pages 12, 17, 43, 47

Liquid crystals are substances that combine the properties of liquids and crystals. The application of an electric voltage across a liquid crystal alters these properties. Liquid crystal displays (LCDs) change in line with the precise way in which electricity is passed through the crystals.

LCD driver ICs are integrated circuits that are used to control the passage of electricity through the LCD panel to change (or "drive") the screen display.

### 6) [COF] Featuring on pages 15, 17, 18, 24, 32, 47

Chip-on-film (COF) tape bonding materials are a type of semiconductor packaging material used with LCD driver ICs. They are substrates that are used to connect driver ICs to LCD panels.

### 7) [Lead frames and tape bonding materials] Featuring on pages 15, 17, 24

These are build-up packaging materials used in semiconductor assembly processes to provide electrical connections between semiconductor chips and printed circuit boards. Lead frames comprise metals to provide a flat, board-like substrate, while tape bonding materials consist of plastic tape attached to copper foil.

### 8) [Bonding wire] Featuring on pages 15, 24, 32

Bonding wire is used to create an electrical connection between the electrode on the semiconductor chip and the electrode on the lead frame or other build-up packaging material.

### 9) [Sputtering targets and thin-film materials] Featuring on pages 15, 16, 24

Fabricated in flat or disk-like shapes using metals and transparent conductors such as indium tin oxide (ITO), sputtering targets are used in the formation of electrode films and other thin-films for manufacturing products such as LCD panels and photovoltaic panels.

### 10) [Paste] Featuring on pages 24, 33

Thick-film paste is ink-like substances produced by mixing powdered metals and glass in various solvents. They are used in the manufacture of electronic components such as capacitors based on a type of printing process. Resin pastes, which consist of powdered metals mixed with organic resins, are also used in the manufacture of electronic components.

### 11) [Secondary batteries] Featuring on pages 12, 32

Secondary batteries are rechargeable and reusable. Nickel metal hydride (NiMH) batteries were commercialized in the 1990s as a replacement for the nickel-cadmium (NiCad) batteries that had been common until then. NiMH batteries are in turn now being superseded by high-capacity lithium-ion rechargeable batteries, which have been developed for widespread use in products such as mobile phones and PCs.

### 12) [LNO] Featuring on pages 15, 16

Battery materials manufactured by the SMM Group include nickel hydroxide and lithium nickel oxide (LNO). Used in the positive electrodes in NIMH and lithium-ion batteries, these materials produce electricity as the result of a chemical reaction.

### 13) [Lithium niobate and lithium tantalate]

Featuring on page 32

Lithium niobate (LN) and lithium tantalate (LT) are materials used in the SAW filters of mobile phones. SAW (surface acoustic wave) filters are functional components that reduce background noise during mobile phone conversations.

## Other terminology

### LME

(London Metal Exchange)

Established in 1877, the London Metal Exchange provides trading in spot contracts and commodity futures for non-ferrous metals such as copper, nickel, aluminum, lead and zinc. Producers can monetize surplus inventory of refined ores by holding these stocks in LME-designated warehouses. The exchange also enables users to purchase quantities of metal when needed.

### London fixing

In contrast to copper, nickel and other base metals, gold is not traded on the LME. The price of gold is still determined largely by telephone or electronic communication methods between market participants for each transaction. The financial institutions that are the so-called “fixing members” of the London Bullion Market Association (LBMA) agree on a standard price for gold based on the results of all these individual transactions and publish it at 10:30 a.m. and 3:00 p.m. London time on each trading day. Buy and sell orders for gold bullion are then collated and processed at these times at the published prices. The London fixing price is thus the benchmark for global trading in gold.

### Copper concentrates

Copper smelting based on the melting of ores (dry-process smelting) uses copper concentrates as its raw material. These are ores that have been “dressed” (the extracted ore is separated from non-metallic impurities), a process that raises the copper content to around 30% by weight. Copper concentrates typically contain around 30% each of copper, iron and sulfur, with the remaining 10% consisting of gold and platinum group metals.

### Electrolytic nickel/ferronickel

Nickel is graded as Class 1 or Class 2. Electrolytic nickel is a typical Class 1 grade of high-purity nickel, which is traded on the LME. Ferronickel is the name given to Class 2 grades of nickel, which are alloys typically containing about 20% nickel and 70% iron. Ferronickel is mainly used in the manufacture of stainless steel. Electrolytic nickel is used in a broad range of applications, including specialty steels, electronics materials and electroplating.

# SMM Group

As of March 31, 2008

| 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 | Mining and related operations |
| SMMA Candelaria Inc. | 100 | Subsidiary engaged in investment in local corporation located in Chile operating Candelaria Mine |
| Sumitomo Metal Mining Canada Ltd. | 100 | Prospecting; Consulting |
| Sumitomo Metal Mining Oceania Pty. Ltd. | 100 | Resource surveys, mine development and related operations in Oceania |
| SMM Pogo LLC | 100 | Investment in Pogo Mine project |
| SMM Cerro Verde Netherlands B.V. | 80 | Investments in local Peruvian companies engaged in the Cerro Verde Mine operation |
| SMM Solomon LIMITED | 100 | Prospecting in the Solomons Islands |
| Sumitomo Metal Mining Peru S.A. | 100 | Prospecting in South America |
| Sumitomo Metal Mining Chile LTDA | 100 | Prospecting in South America |
| **■Metals** | | |
| Hyuga Smelting Co., Ltd. | 60 | Ferro-nickel smelting |
| Sumitomo Metal Mining Brass & Copper Co., Ltd. | 100 | Manufacture and sale of copper and brass products and processed copper and brass products |
| Sumiko Logistics Co., Ltd. | 100 | Maritime trading; Harbor transportation and services; Land transportation |
| MS Zinc Co., Ltd. | 50 | Manufacture and sale of zinc and related operations |
| 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 sale 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 |
| Taihei Metal Industry Co., Ltd. | 97 | Manufacture of heat-, corrosion- and friction-resistant steel castings and precision castings |
| **■Semiconductor and Advanced Materials** | | |
| Ohkuchi Electronics Co., Ltd. | 100 | Semiconductor packaging materials production; Recovery of precious materials; Manufacture of functional inks |
| 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 | Production of optical communications components |
| GRANOPT Ltd. | 50 | Manufacture and distribution of rare earth iron garnet (RIG) |
| Niihama Electronics Co., Ltd. | 100 | Lead frame production; Copper-clad polyimide film production |
| Malaysian Electronics Materials SDN. BHD. | 100 | Manufacture and sale of bonding wire and thick-film paste |
| Taiwan Sumiko Materials Co., Ltd. | 100 | Manufacture and distribution of bonding wire |
| Sumitomo Metal Mining Electronic Materials (Shanghai) Co., Ltd. | 100 | Manufacture and distribution of bonding wire |
| Shanghai Sumiko Electronic 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 | Manufacture and sale of lead frames |
| 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 semiconductor materials and related operations |
| Nittosha Co., Ltd. | 100 | Metal product plating, surface treatment and sales |
| Sumiko Tec Co., Ltd. | 100 | Manufacture of electronic device terminals, connectors and sales |
| **■Energy, Catalysts and Construction Materials** | | |
| Nippon Catalyst Cycle Co., Ltd. | 100 | Valuable-metals recovery business |
| Japan Irradiation Service Co., Ltd. | 100 | Radiation processing for sterilization and 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 |
| 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 |
| **■Others** | | |
| Sumiko Techno-Research Co., Ltd. | 100 | Environmental measurement verification operations related to water quality, air, soil, noise and vibration, etc. |
| Sumiko Technical Service Co., Ltd. | 100 | Trustee, personnel services for non-ferrous metals refining businesses |
| Sumitomo Metal Mining Engineering Co., Ltd. | 100 | Non-ferrous metal smelting; Chemicals business; Environment sector machinery and equipment; Plant surveys, design, manufacturing, and repair and maintenance |
| Sumiko Plantech Co., Ltd. | 100 | Manufacture of machinery and equipment and repair work for non-ferrous metal smelting and chemical plants; Installation of machinery and equipment and piping work; Steel structure work |

# Corporate Data and Investor Information

## Corporate Data

**Founded:** 1590
**Incorporated:** 1950
**Paid-In Capital:** ¥93.2 billion *As of March 31, 2008
**Number of Employees:** 2,184 *As of March 31, 2008
**Head Office:** 11-3, Shimbashi 5-chome, Minato-ku, Tokyo 105-8716, Japan

(Contact Information)
**Public Relations & Investor Relations 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 (As of March 31, 2008)

**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 shares
Number of issued and outstanding shares: 581,628,031 shares
Number of shareholders: 59,912

**Listing of Shares:** Tokyo, Osaka

**Stock Transaction Unit:** 1,000 shares

As of October 1, 2008

**Registrar of Shareholders:**
The Sumitomo Trust and Banking Company, Limited
(Head office) 5-33, Kitahama 4-chome, Chuo-ku, Osaka
Stock Transfer Agency Department:
3-1, Yaesu 2-chome, Chuo-ku, Tokyo

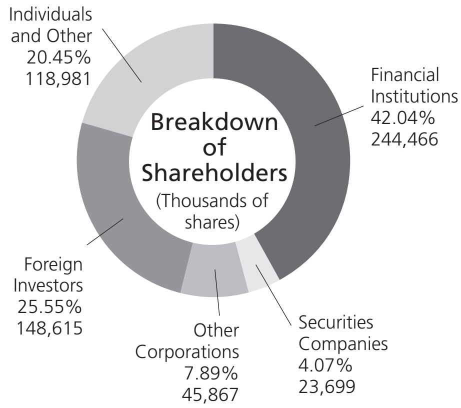
**Method of Public Notice:**
Electronic notification (However, if electronic notification is not possible due to an accident or other unavoidable circumstances, notice will be published in the *Nihon Keizai Shimbun* newspaper.)
The Company's website: http://www.smm.co.jp/E/

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

### Major Shareholders (As of March 31, 2008)

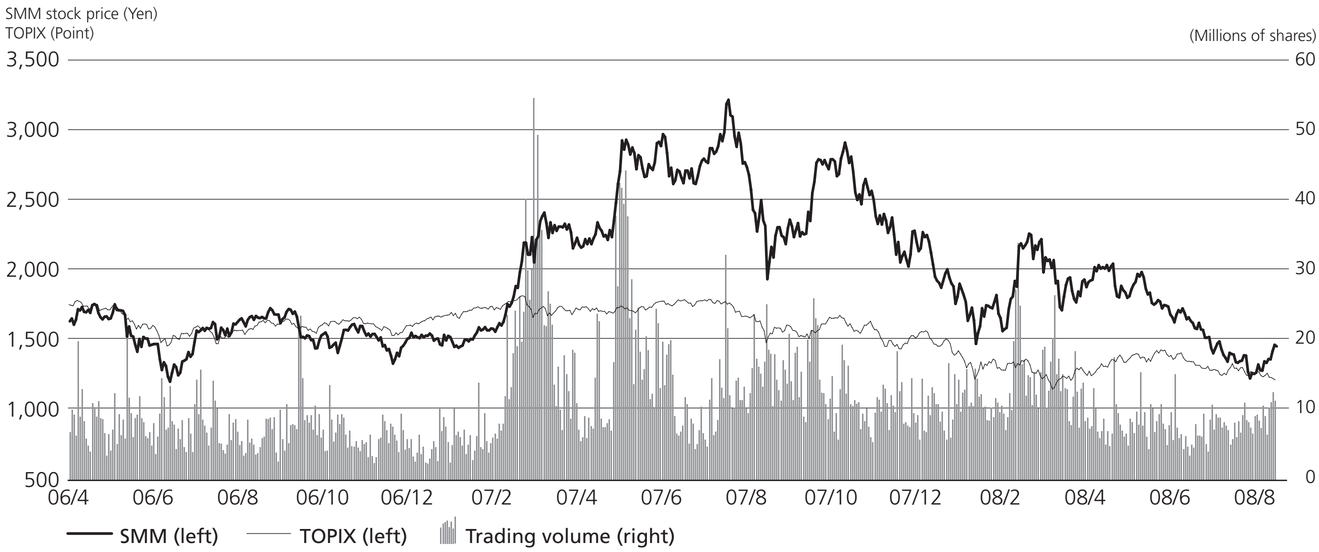
| | Number of shares held (thousands) | Shareholding ratio (%) |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust accounts) | 58,027 | 10.0 |
| Japan Trustee Services Bank, Ltd. (Trust accounts) | 55,569 | 9.6 |
| Sumitomo Metal Industries, Ltd. | 8,715 | 1.5 |
| Trust & Custody Services Bank, Ltd. (Trust accounts Y) | 8,594 | 1.5 |
| BNP PARIBAS Securities (Japan) Limited | 7,715 | 1.3 |
| Sumitomo Mitsui Banking Corporation | 7,650 | 1.3 |
| Sumitomo Life Insurance Company | 7,474 | 1.3 |
| Sumitomo Corporation | 7,000 | 1.2 |
| The Nomura Trust and Banking Co., Ltd. (Investment accounts) | 6,619 | 1.1 |
| Trust & Custody Services Bank, Ltd. (Securities investment trust accounts) | 5,776 | 1.0 |

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.

Annual Report 2008

SUMITOMO METAL MINING CO., LTD.

11-3, Shimbashi 5-chome, Minato-ku, Tokyo 105-8716, Japan
http://www.smm.co.jp

PRINTED WITH SOY INK™

Printed on recycled paper in Japan