SUMITOMO METAL MINING CO., LTD.

Reinforcement of Corporate Structure through Concentration on Core Businesses — Mineral Resources/Metallurgy and Electronics Materials

Annual Report 2001

For The Year Ended March 31, 2001

Corporate Philosophy

In this drastically changing global business environment, Sumitomo Metal Mining Co., Ltd. constantly reflects back on its beginnings as the first Sumitomo group company and intends to reaffirm Sumitomo Business Principles, which have been in existence for over 300 years. Backed by Sumitomo Metal Mining Group's Mission, we will apply all of our employees' efforts for elevating and strengthening our business structure.

Sumitomo Business Principles

Article 1. **Sumitomo shall conduct its business with integrity and sound management, placing prime importance on trust and reliability as the means toward pursuing the sure flourishing of its business operations.**

Article 2. **Sumitomo shall manage its business operations with positive foresight and flexibility to cope effectively with changing times. At no time shall the company pursue easy gains or act imprudently.**

Sumitomo Metal Mining Group's Mission

Having Sumitomo Business Principles as its business basics and environmental preservation and safety assurance as its operating basics, SMM shall aim to maximize its corporate value by establishing a global network and providing high-quality materials such as non-ferrous metals and electronics materials.

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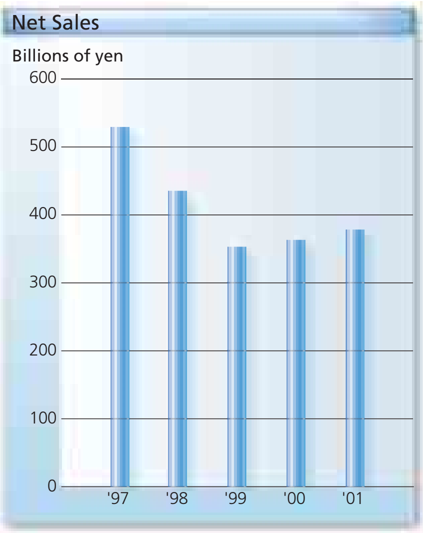
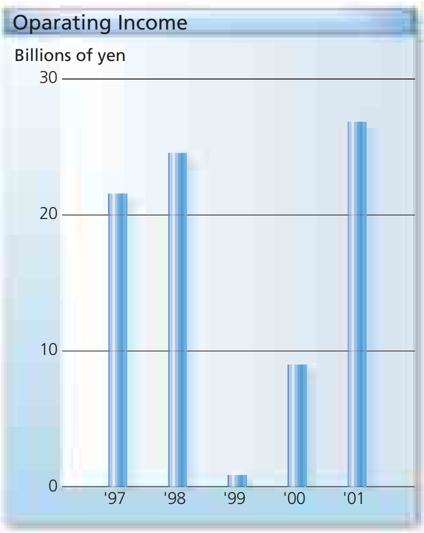
Consolidated Financial Highlights

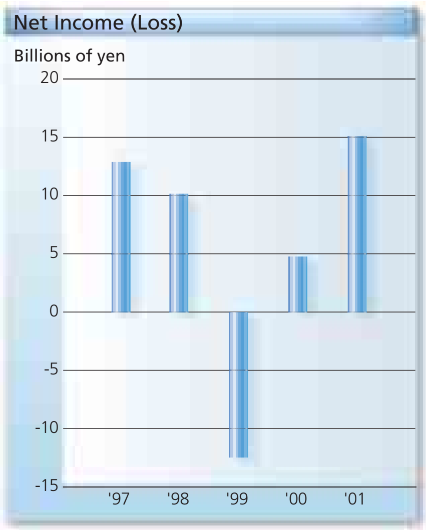
SUMITOMO METAL MINING CO., LTD.

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended March 31, 2001, 2000 and 1999	**2001**	2000	1999	**2001**
For the Year :				
Net sales	**¥ 375,352**	¥ 360,299	¥350,288	**$ 3,029,475**
Mineral resources	**23,613**	26,326	33,128	**190,580**
Metallurgy	**220,595**	208,975	208,851	**1,780,428**
Electronics materials	**133,259**	119,255	102,683	**1,075,537**
Construction materials & housing	**24,880**	26,987	31,452	**200,807**
Others	**15,074**	20,399	13,820	**121,663**
Operating income	**¥ 26,930**	¥ 8,990	¥ 858	**$ 217,353**
Mineral resources	**2,360**	1,268	4,083	**19,047**
Metallurgy	**18,244**	7,153	4,292	**147,248**
Electronics materials	**8,008**	1,437	(1,603)	**64,633**
Construction materials & housing	**(304)**	(1,144)	(6,690)	**(2,454)**
Others	**334**	1,079	1,124	**2,696**
Net income (loss)	**15,103**	4,740	(12,495)	**121,897**
Net income (loss) per share (¥/$)	**26.41**	8.29	(21.85)	**0.21**
Return on assets (%)	**2.85**	0.87	—	
Return on average shareholders' equity (%)	**6.39**	2.05	—	
At Year End :				
Total assets	**530,080**	544,121	544,519	**4,278,289**
Shareholders' equity	**237,470**	235,231	226,795	**1,916,626**
Equity ratio (%)	**44.8**	43.2	41.7	

Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥123.9=U.S. $1, the effective rate of exchange prevailing on March 31, 2001.
2. Net sales and operating income figures in each segment (Mineral resources, Metallurgy, Electronics materials, Construction materials & housing, Others) include inter-segment transactions.
3. The computation of net income (loss) per share is based on the weighted average number of shares of common stock issued during each fiscal year.







To Our Shareholders

In April 2000, Sumitomo Metal Mining Co., Ltd. ("SMM") implemented a Corporate Reform Plan in order to improve its profit structure and survive in an era of mega- competition. In the year ended March 31, 2001, SMM has largely achieved its objectives and has now set its sights on a consolidated ROA of 3% or better, the financial target of the plan for the current fiscal year. In order to acquire strong corporate structure to progress at any business environment, SMM is devoting its entire effort to maximizing corporate value.

President **Koichi Fukushima**

During the first half of fiscal year 2000 (from April 2000 through March 2001), the non-ferrous metals industry experienced favorable demand, owing to improved IT-related demand in Japan and the economic recovery in Asia and Europe driven by a strong U.S. economy. Furthermore, decreased inventories worldwide helped to support the prices of non-ferrous metals such as copper and nickel. After autumn, however, the U.S. economy experienced a marked slowdown, leading to a decline in non-ferrous metal prices such as nickel. Although there was a worldwide expansion of IT investment in the electronics materials industry and improved demand in Asia during the first half of the year, the business environment started to stumble with the coming of the new year.

<Consolidated Results for FY2000>

To improve profitability, SMM has promoted the theme of "Selection and Concentration" combined with aggressive sales activities. The resulting consolidated net income for FY2000 increased dramatically by ¥10.4 billion to ¥15.1 billion, up 218.6% on a year-over-year basis. In addition to this, there was considerable improvement of both ROA (Return on Assets), from 0.9% to 2.8%, and ROE (Return on average shareholders' equity), from 2.1% to 6.4%.

Net sales were ¥375.4 billion, an increase of ¥15.1 billion (+4.2%) from the previous year. Net sales in the metallurgy sector, were ¥220.6 billion, a 5.6% increase on a year-over-year basis. This included sales of advanced material business, which became an independent division in June 2000. The main factors for this were a recovery in demand for nickel used in stainless steel, improved business conditions in overseas markets, and increased demand for electronics materials in connection with PCs and semiconductors. Sales of electronics materials increased 11.7% to ¥133.3 billion on a year-over-year basis. This was attributed to favorable sales of nickel pastes used for multilayer ceramic capacitors, TAB tape (tape automated bonding) and lead frames together with significantly increased sales of Faraday Rotators and Optical Isolators for optical and telecommunication devices. Sales of housing and construction materials decreased 7.8% to ¥24.9 billion from the previous year due to restructuring measures such as limiting sales activities to metropolitan areas.

Operating income increased significantly by ¥17.9 billion to ¥26.9 billion (+199.6%) relative to the previous year, as well as operating margin from 2.5% to 7.2%. These increases resulted from a rise in earnings in all segments, except for the Others segment.

Net other expenses were ¥11.4 billion, which included the reserve for indemnification of damages attributable to the JCO criticality accident, as well as the loss posted in accordance with the Corporate Reform Plan, a write-off of investment securities, amortization of discrepancies in retirement benefits, which is scheduled to be amortized in one year, resulting from the introduction of new accounting standards, and profit on the sale of investment securities and fixed assets not used for business purposes such as vacant land.

SMM has been actively promoting effective utilization of assets by reducing fixed assets and investment securities, including cross-held shares. Consequently, interest-bearing debt, consisting mainly of commercial paper (CP), was decreased by ¥20.7 billion. Total assets were reduced from ¥544.1 billion to ¥530.1 billion, while the equity ratio improved to 44.8% from 43.2% in the previous year.

<Reconfirmation and Thorough Execution of the Corporate Philosophy>

In the aftermath of the criticality accident that occurred at Tokai Plant of JCO Co., Ltd., a subsidiary of SMM, measures have been taken to ensure the safety of the facility, and most of the relevant compensation issues have been finalized with the help of the local municipality and parties concerned. SMM will further continue to lend support to JCO to allow it to effectively address safety management, compensation, and other issues. To prevent a recurrence of this kind of accident in the future, SMM is approaching safety management and legal compliance issues by placing the Sumitomo Business Principles as epitomized by the concept of "Reconfirmation and Thorough Execution of Corporate Philosophy" within the Corporate Reform Plan.

Specific measures taken by SMM include promoting the introduction of the ISO14001 environment management system into the entire group. By March 2003, SMM aims to acquire certifications for all Group divisions. As of September 1, 2001, 18 offices (13 domestic offices and 5 overseas offices) have already acquired certification.

Employees at all levels, from field employees to top management, have

Outline of the Corporate Reform Plan
1. Reconfirmation and Thorough Execution of the Corporate Philosophy

We at SMM are aware that the Company is directly linked to the origin of the Sumitomo Group and have determined to make every effort to rebuild trust with the public, in consistence with the business principles of the Sumitomo Group, which emphasize "placing prime importance on integrity and sound management" and "under no circumstances shall it pursue easy gains or act imprudently." Furthermore, SMM has adopted the following Group Mission as its business precept:

<Sumitomo Metal Mining Group's Mission>

Having Sumitomo Business Principles as its business basics and environmental preservation and assurance of safety as its operating basics, SMM shall aim to maximize its corporate value by establishing a global network and providing high-quality materials such as non-ferrous metals and electronics materials.

received thorough training in matters related to safety. Top management frequently conducts on-site safety inspections to provide top-down instructions to prevent disasters from occurring and foster a safety-conscious culture. In addition, a Risk Management Committee has been established within the Company to review business risks such as those associated with development, manufacturing and production, division by division. Through these kinds of measures, SMM is directing all its efforts toward regaining trust from the public.

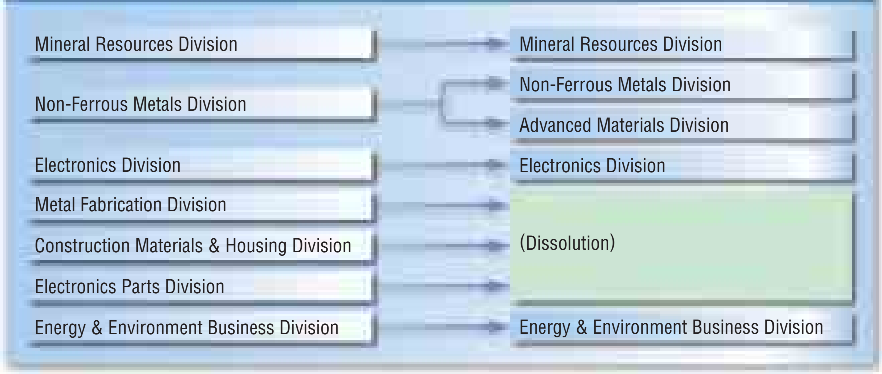
<Reinforcement of Corporate Organization: Reorganization>

SMM has positioned mineral resources & metallurgy and electronics as its two core businesses. Among these two businesses, SMM allocates resources mainly to attractive business fields where profitability and growth are expected so as to reinforce corporate structure. SMM is focusing on selected fields to accelerate the speed of development, reducing overall R&D expenses to approximately ¥4 billion.

SMM has reorganized the conventional system of seven divisions into five divisions to optimize group management for each business sector. Specifically, the Mineral Resources Division, Non-Ferrous Metals Division, Advanced Materials Division(which was strategically separated from the Non-Ferrous Metals Division), Electronics Division and Energy & Environment Business Division. The Construction Materials & Housing Division is seeking to increase profitability by changing its status as a division to a business function of a subsidiary. Our other subsidiaries and affiliates will, under the newly founded Affiliated Business Administration Department, pursue to realize such results as to justify their existence in the SMM Group within a defined period of time.

On the other hand, unpromising businesses, those that are weak and businesses not related to the Company's core business are now aggressively being sold off or discontinued. Through such restructuring, SMM aims to

New Corporate Organization from June 2000



Outline of the Corporate Reform Plan
2.Reinforcement of Corporate Organization

Reorganization

- Concentrate managerial resources on mineral resources & metallurgy and electronics materials
- Convert the Advanced Materials Division, where rapid growth is expected, into an independent division
- Consolidate the current system of 7 divisions into 5 divisions
- Reduce the number of affiliated companies from 94 to 70 or fewer by the end of March 2002

Business Strategy by Business Sector

Basic Strategy
- Ensure profitability and growth by constructing a global network
- Actively invest resources into growth areas

Mineral Resources and Metallurgy
- Promote efficient production of the various metals by ensuring the quality of overseas resources

Advanced Materials
- Promote faster commercialization and growth through tie-ups with research institutes

Electronics Materials
- Fully utilize the business strength in Southeast Asia
- Actively allocate resources to IT-related materials consisting mainly of telecommunication and optical communications

reduce the number of subsidiaries and affiliated companies from 94 to less than 70 by March 2002.

<Reinforcement of Corporate Organization: Strategies in Each Business Division>

The mineral resources and metallurgy markets, areas where SMM is highly competent, continue to grow at rates of 3-4% annually mainly in Southeast Asia. SMM aims to acquire top world class production capacity and cost competitiveness with four main minerals: gold, nickel, copper, and zinc. As to production capacity, SMM aims to increase annual production of copper from 270,000 tons to 450,000 tons and nickel (including ferro-nickel) from 55,000 tons to 85,000 tons. To realize this, SMM is actively promoting partnerships or cooperative tie-ups with major overseas non-ferrous companies, while at the same time reinforcing its domestic and overseas smelting facilities.

A mining project located in the Pogo region of the U.S. state of Alaska, a joint venture in the Stone Boy prospecting project zone, will commence operation in mid-summer 2004. Its output is expected to be 12 tons per annum. Nickel development from laterite in the Philippines (the Rio Tuba Project) is also receiving special attention to ensure a new source of nickel materials. SMM holds a majority interest in these projects, which is important to the Company. SMM aims to demonstrate its leadership through these projects, and eventually, to become one of the major non-ferrous companies in the world.

Both the Advanced Materials Division and the Electronics Division require a management that is capable of responding to the rapid changes in the markets. Reinforcement of operations related to nickel powder for multilayer ceramic capacitors and copper-clad polyimide film for COF boards is being timed to respond to expanded demand. In addition, SMM will aggressively allocate resources to rare earth metal bonded magnet, for various motors, and rechargeable batteries, for electric-powered vehicles, in accordance with the growing demand factors in the future.

The Electronics Division has been successful in worldwide business development, which started in Southeast Asia in 1970s. Drawing on this strength, SMM has launched new package materials such as the BGA (Ball Grid Array), CSP (Chip Size Package), among others, while strategically allocating resources on pastes for multilayer ceramic condensers. In addition to this, while optical telecommunications components are expected to grow over the medium and long terms, SMM will develop and reinforce high-quality product lines such as Faraday Rotators and Optical Isolators.

<Reform of Corporate Culture>

SMM is addressing the issue of corporate reform through measures designed to promote quicker decision-making, strategic thinking, and a reward system based on performance.

First, SMM introduced an Executive Officer system in June 2001 as a measure to innovate the management system. By separating the decision-making function from the supervisory function, SMM will be able to improve, reinforce and speeded up both functions.

In addition to this, SMM has adopted a new performance evaluation system and a performance-based reward system based on this evaluation system to clarify the range of responsibility and authority and improve motivation. These systems have been applied to division heads and presidents of subsidiaries since July 2001, and will be extended further. Furthermore, the strategic meetings are being reformed to foster in-depth discussions and quicker managerial decision making.

While devising the Corporate Reform Plan, SMM also established the following numerical targets: To maintain the equity ratio at 40% or better, and to improve ROA to 3% or better in fiscal year 2001 and to 5% or better in fiscal year 2003. In order to achieve these targets, a new Mid-Term Management Plan will be formulated in autumn of this year.

In today's rapidly changing business climate, SMM will devote its energy to carrying out the Corporate Reform Plan throughout the entire company so as to grow into a strong corporate organization capable of steadily developing business even under unfavorable business conditions. We very much appreciate your understanding and support.

September 2001

K. Fukushima

Koichi Fukushima
President

Outline of the Corporate Reform Plan
3. Reform of Corporate Culture

- Implementation of an executive officer system
- Reinforcement of strategic meetings
- Remuneration system more linked to performance

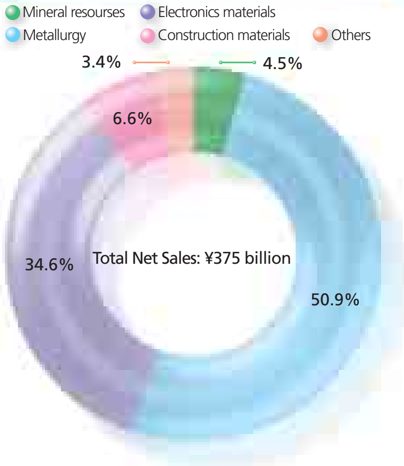
Special Feature
Concentration on Core Businesses

Business Profile

SMM endeavors to improve profitability by focusing on core businesses consistent with the Company's Corporate Reform Plan. Given their attractiveness in terms of profitability, potential for growth, and SMM's strength, SMM has defined the Mineral Resources/Metallurgy and Electronics Materials sectors as its core businesses.

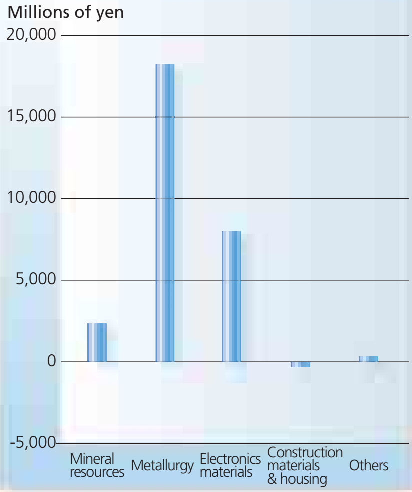
In the current age of intense international mega-competition, SMM draws on special expertise where it commands an advantage to improve profitability while at the same time aiming to create the conditions that assure future growth and allocating earnings from core businesses to growth areas.

Net Sales Breakdown by Division



Note: Proportion is calculated by net sales of each division which does not include inter-segment transactions.

Operating Income Breakdown by Division

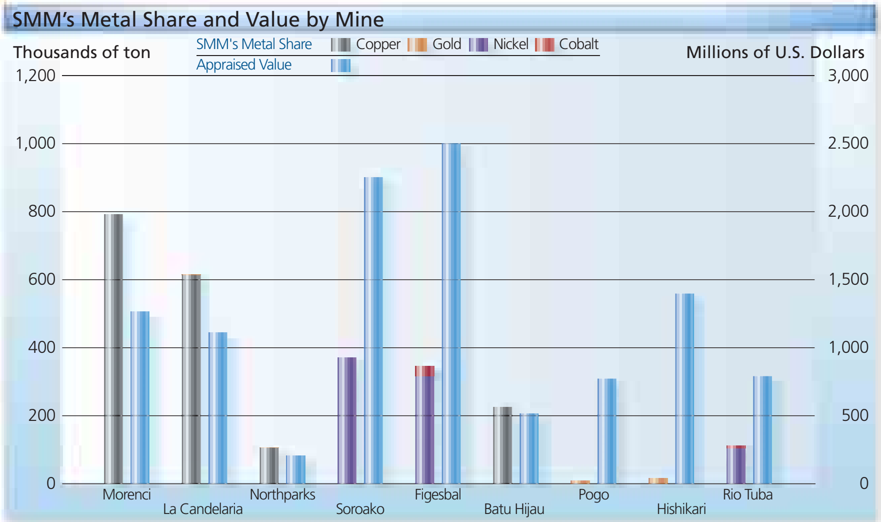


SMM's Business Profile

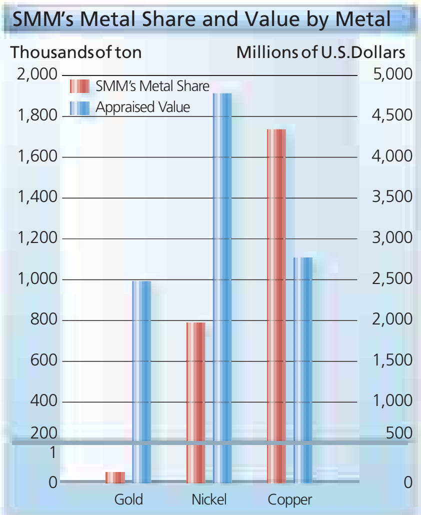
Business Sector	Principal Activities	Main Products
Mineral Resources	• Exploration, development, production, and sales of non-ferrous metal resources, domestic and overseas. • Geological consulting utilizing mineral resource developing techniques.	Gold and silver ore, Copper concentrates
Metallurgy	• Refining and sales of base metals such as copper, nickel, and precious metals.	Copper, Nickel, Zinc, Lead, Precious metals such as gold, silver, platinum, and so on
Advanced Materials	• Manufacturing, processing, and sales of metal powders (nickel, palladium), circuit board materials, materials for batteries, materials for magnets, lubricant, and so on.	Nickel powder, Copper-clad polyimide film, Materials for rechargeable batteries (nickel hydroxide, lithium cobaltate), Rare earth metal bonded magnets
Electronics Materials	• Manufacturing, processing and sales of IC packaging materials, electronics materials, crystal materials and so on. • Manufacturing and sales of optical communication materials and components, devices, connectors, switches, photo conductive cells, silicon photodiode, TV frames, etc.	Lead frame, TAB tape, Bonding wire, Nickel paste, Crystal material (GaP: Gallium Phosphide, LN: Lithium Niobate, LT: Lithium Tantalate). Printed Wiring Board (PWB), Optical components (Faraday Rotator, Optical Isolator and High frequency device).

Mineral Resources/Metallurgy Strategy

Reinforce Partnerships with Major Overseas Non-ferrous Metal Companies and Strengthen Refining Facilities



Notes : 1. Only the Company's own mines are covered.
2. SMM's metal share = Ore reserves (ton) x Metal grade x SMM's interest of mine (%)
3. Appraised value = SMM's metal share (ton) x Standard metal price
4. Standard metal price = Gold:270$/toz, Nickel:2.75$/lb, Copper:72.5¢/lb, Cobalt:9.00$/lb
5. SMM's interest of Rio Tuba which is not yet determined is tentatively 50% for calculation.



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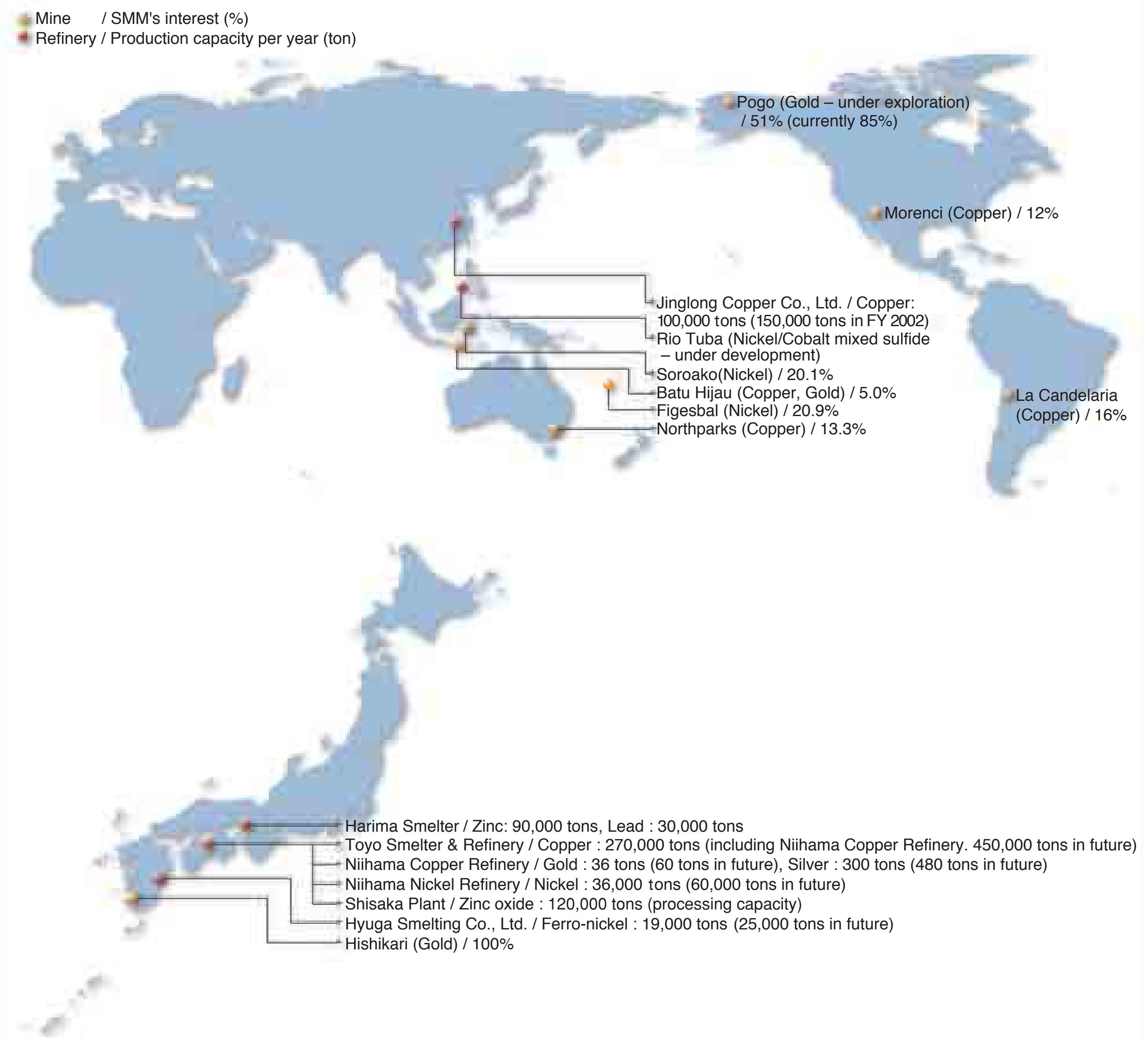
5. SMM's interest of Rio Tuba which is not yet determined is tentatively 50% for calculation.

The Mineral Resources/Metallurgy sector has traditionally been the pillar of SMM business, accounting for 65% of sales. The non-ferrous industry is generally considered to have matured in Japan. However, demand for non-ferrous metals, mainly in Asia, continues to grow at the rate of several percentage points per year. In order to ensure dominance in this field, SMM must procure materials and fully utilize superior cost competitiveness derived from the economies of scale. To realize this, SMM aims to insure a stable supply of ore from high-grade mines by reinforcing its partnerships with major overseas companies. In addition, refining facilities located domestically and overseas are also being strengthened.

As to strengthening partnerships with major overseas companies, the four main minerals of gold, nickel, copper and zinc play a principal role for developing resources and refineries on a global basis so as to reach world-class production capacity. In connection with gold, SMM operates the Hishikari Mine located in Hishikari-cho, Isa-gun, Kagoshima Prefecture. This mine prides itself in being a producer of some of the highest grade gold in the world. SMM also promotes the Liese Deposit of the Pogo claim group in the Stone Boy project in Alaska, USA. For nickel, SMM actively fosters the Rio Tuba Project on Palawan Island in the Philippines to process low-grade nickel oxide. For copper, SMM ensures that a high percentage of ore come from its own mines by entering into partnerships with major overseas non-ferrous metals companies, which allows SMM to secure stable supplies in accordance with increased output. As for zinc, SMM aims to establish a new business system.

To reinforce domestic and overseas refinery facilities, SMM will improve cost competitiveness by expanding the scale of operations and taking advantage of economies of scale. For copper, SMM plans to raise the pro-

SMM's Worldwide Mines and Refineries



duction capacity at the Toyo Smelter & Refinery located in Saijo City, Ehime Prefecture from the current annual level of 270,000 tons to 450,000 tons, depending on future trends of domestic and overseas demands. The Jinglong Copper Co., Ltd. (China) will increase production capacity from the current 100,000 tons to 150,000 tons during fiscal year 2002 to meet the needs of the growing Chinese market. With the Toyo Smelter & Refinery and Jinglong Copper Co., Ltd. as the two main plants, SMM aims to achieve the best level of cost competitiveness in the world. For nickel, SMM plans to increase the total production capacity of electrolytic nickel and ferro-nickel from the current annual level of 55,000 tons to 85,000 tons, in line with growing demand.

Strategy Details by Metal

Gold

The quality of gold mined at the Hishikari Mine is among the best in the world. Currently, it has ore reserves of approximately 4.6 million tons with gold reserves of around 161 tons as of end of 2000. SMM aims to stabilize profits by maintaining annual gold production in the range of 7 to 8 tons. SMM holds a majority interest in the Liese Deposit of the Pogo area project in Alaska, USA. Here, SMM devotes serious efforts to the construction of a 12-ton gold output system that should be ready to start operations in 2004.

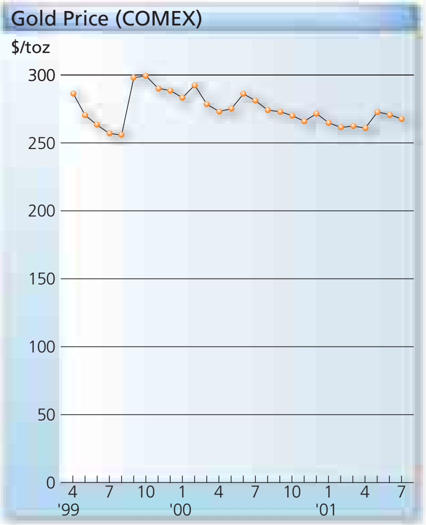
Furthermore, a new process for the refining of precious metals will be introduced by 2003 to promote higher efficiency. By doing this, SMM will be able to collect rare/precious metals such as iridium, ruthenium, which are normally difficult to be recovered by conventional processes, in addition to other precious metals such as gold, silver, platinum, palladium and rhodium. When this new process is introduced, its annual refining capacity will increase from 36 tons to 60 tons for gold and from 300 tons to 480 tons for silver.

Pogo Area Gold Mine Project (Joint Venture in the Stone Boy Exploration Project)

The Pogo Area Gold Mine Project in Alaska is a joint project involving Sumitomo Metal Mining America Inc. (a U.S. subsidiary of SMM), Teck Cominco of Canada, and SC Minerals (a U.S. subsidiary of Sumitomo Corporation). Broken down by percentages, SMM owns 51% interest at the Pogo area, Teck Cominco 40%, and SC Minerals 9%. As the first step of the exploration plan, the project began with the exploration of the main Liese ore vein in April 1999. The pre-feasibility study was completed at the end of September 1999. The final feasibility study will be completed in the first half of 2002 and operations will start in 2004. The Liese ore body possesses ore reserves of 9.7 million tons, an average grade of 18.0 g/t and expected gold output of approximately 12 tons per year.

ISO 14001 Certification Acquired for the Hishikari Mine

The Hishikari Mine acquired ISO 14001 Certification for its environmental system in June 2000. Following acquisition by the Electronics Division, this was the second such acquisition among the divisions directly managed by SMM. Since the beginning of ore development, SMM has developed the Hishikari Mine and continued to operate it, while giving careful consideration to preservation of the natural environment. Since April 1999, SMM has sought to obtain this Certification to further improve its environmental management by establishing a management system.



Nickel

As demand for nickel is expected to show steady growth, SMM will actively develop businesses that can capitalize on this demand. SMM intends to establish a structure that will allow for stable supplies and implement plans for increasing output consistent with demand conditions.

The Company has ensured strong cost competitiveness with the MCLE refining process (Matte Chlorine Leach Electro-winning Method), which has proven itself to be excellent in terms of quality and productivity. Through a capital participation with P.T. Inco (Indonesia) and a long-term matte purchase agreement with WMC (Australia), SMM has been able to create a structure for stable supplies of nickel. Furthermore, the Company is giving serious consideration to participating in a nickel-mining project to ensure a stable supply of materials.

To secure a new procurement source of nickel materials, SMM has launched the Rio Tuba Project in the Rio Tuba Mine in the Philippines in order to construct a treatment plant for low-grade nickel oxides. SMM will establish a local subsidiary of which it will hold a majority interest to promote this project with the intent to start operations in the summer of 2004. Through measures such as these, SMM will increase the current annual production capacity of electrolytic nickel from 36,000 tons to 60,000 tons in response to the growth of demand.

In addition to this, to increase production of ferro-nickel used for stainless steel, SMM has secured stable sources from New Caledonia and Indonesia.

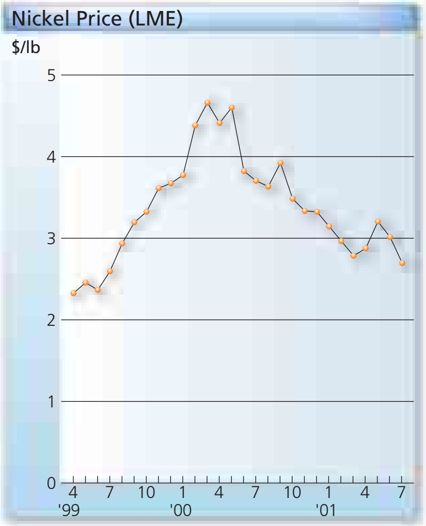
SMM has a strategic plan to ensure sufficient procurements of overseas materials to increase the total annual production capacity of nickel and ferro-nickel from the current 55,000 tons to 85,000 tons, while always paying careful attention on maintaining cost competitiveness.

Rio Tuba Project

Since early 2000, SMM has been conducting joint technical research with Rio Tuba Nickel Mining Corporation (RTN) of the Philippines regarding the feasibility of hydro-metallurgical process of low-grade nickel oxide ore in the RTN-owned Rio Tuba Mine. SMM has decided to construct a plant, as a joint venture, with RTN on land adjacent to the mine. This plant uses low-grade nickel oxide ore from the mine to manufacture intermediary nickel products utilizing the HPAL method*.

Since 1977, RTN has been conducting exploration of garnierite, high-grade nickel oxide ore, in the Rio Tuba Mine located in the Province of Palawan of the Philippines. In this project, SMM will purchase laterite low-grade nickel oxide ore, which have accumulated during the course of mining over the last 20 years, under a long-term agreement with RTN. To process laterite, approximately 16 million tons have been already stored on land adjacent to the plant's construction site, which assures a sufficient volume for processing for the next 20 years. In addition, by utilizing RTN's existing facilities, SMM will be able to develop required infrastructure, such as harbors, roads, hospitals and housing, at low cost.

With the HPAL method, nickel/cobalt mixed sulfide (MS), an intermediary product of the nickel refining process, is produced from laterite. Annual production will be approximately 10,000 tons of nickel and approximately 700 tons of cobalt. SMM purchases all of the MS produced and uses them in the process for producing electrolytic nickel and electrolytic cobalt in a nickel smelter and refinery in Niihama City, Ehime Prefecture. In addition to existing materials, this means a stable supply source, which translates into a stable source of supplies to customers.



*HPAL Method
Development of nickel resources throughout the world has concentrated mainly on nickel sulfide ore or garnierite, which is high-grade nickel oxide ore. In recent years, the HPAL method (High Pressure Acid Leach) has been developed and commercialized by which nickel can be recovered from laterite, low-grade nickel ore, at low cost.

Furthermore, this project is anticipating new demand for sulfuric acid of approximately 260,000 tons per annum. SMM believes that this will contribute to securing a customer base to whom by-products will be sold when the copper business is reinforced.

This is the primary non-ferrous refinery project in which SMM has participated abroad as majority owner of the project. While positioning nickel business as a core business and by becoming involved in this project, SMM establishes engineering technology and technology for the processing of nickel oxide, which will allow SMM to maintain its position as one of the world leaders in the refining and manufacturing of nickel.

Copper

SMM has promoted joint management of copper mines with major overseas companies to ensure stable supplies of copper concentrates. As a result, among domestic competitors, SMM maintains the highest percentage (around 50%) of copper ore from its own mines. The best examples are the La Candelaria Copper Mine and Morenci Copper Mine, operated in partnership with Phelps Dodge Corporation (USA), the Northparks Copper Mine, which is jointly managed with Rio Tinto(UK), and the Batu Hijau Copper and Gold Mine, which is operated with Newmont Gold (USA).

Smelting operations are carried out at the Toyo Smelter & Refinery and Jinglong Copper Co., Ltd., where cost competitiveness is excellent. Toyo Smelter & Refinery is now in the process of gradually increasing its annual production capacity in several phases from 270,000 tons to 450,000 tons with a new and improved sulfuric acid plant scheduled for completion in fiscal year 2003. Once completed, production will be effectively increased in response to trends in demand. On the other hand, Jinglong Copper Co., Ltd. is positioned to raise its annual production capacity from 100,000 tons to 150,000 tons during fiscal year 2002. This will enable SMM to respond appropriately to increased demand in growing Asian markets, including that of China. At the same time, SMM established the Shanghai Office in October 2000 as a beachhead to promote sales of non-ferrous base metals to further strengthen its business foundation in the Asian region.

Total Conversion to SX/EW Process (Solvent Extraction / Electrowinning) at the Morenci Mine

At the Morenci Mine (Arizona, USA), all processes were converted over to SX/EW, a low-cost copper refining method. Phelps Dodge Corporation, the largest copper production company in the U.S., and Sumitomo Metal Mining Arizona Inc., an SMM subsidiary jointly established with Sumitomo Corporation, formed a joint venture entity to operate the Morenci Mine. 15 years ago, Sumitomo Metal Mining Arizona Inc. acquired a 15% interest in the Morenci Mine.

Before the conversion, the Morenci Mine has employed two production methods in equal proportions in terms of copper production volumes: producing concentrates by the Ore Floatation Method and producing cathode by the SX/EW Method. To transform this mine to one capable of sustaining a given level of profit even in periods when market prices are low, it is decided that the Mine will convert all processes to the SX/EW Method. In September 1999, the conversion process was commenced at a total conversion cost of U.S.$220 million with Sumitomo Metal Mining

Arizona contributing U.S.$33 million (approximately ¥3.5 billion). Conversion work was completed in March 2001, and this has enabled the Morenci Mine to treat ores of low grade that have been difficult to handle with conventional milling methods. The volume of treatable ore significantly increased to 4,196 million tons with total copper reserves of approximately 14 million tons. This has ensured a useful life of the mine until the year 2023. Production costs were also reduced; notable among these was TC/RC (refining cost), which the mine had been responsible for paying when selling refined copper ores. The end result has been an improvement of total profitability. Total cathode production of Morenci Mine is planned to peak at 370,000 tons per year.

SX/EW Method

This is a solvent extraction method that was developed in the 1960s. In this method, copper is leached out from stacked copper ore with dilute sulfuric acid. Ionized copper is then selectively collected from the leached solution. The process involves purifying and concentrating the solution as a strong electrolyte, which is then used for electrolytic extraction. Today, this method is widely used in the production process for electrolytic copper. It collects copper from low-grade copper oxide or copper sulfide that had not been used due to the difficulties associated with separation. This method now accounts for approximately 20% of the world's production and is attracting a great deal of attention.

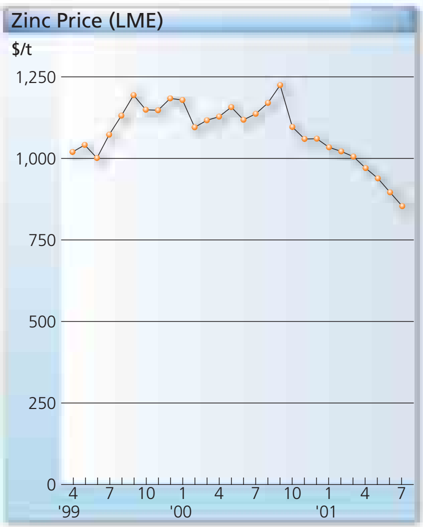
Demand Growth centered on Asia

Copper is a growing industry in Asian markets, and huge demand is expected in China, Taiwan and Korea. Especially in China, with economic development and improved living standards, infrastructure is rapidly being created, which is increasing the consumption of materials such as electric wire and copper ducts for air conditioners. China currently depends on copper imports of approximately 500,000 tons. In 10 years time, demand for copper is expected to reach approximately 2.5 million tons with around 1.3 million tons of this expected to come from the outside. There are currently about 60 copper smelters in operation in China. However, since middle-sized smelters are disadvantageous in terms of cost competitiveness, they are expected to be reshuffled and disappear in the future.

Zinc

SMM's zinc operation involves the ISP (Imperial Smelting Process, which allows a simultaneous processing of zinc and lead) at the Harima plant, and zinc recovery from electric arc furnace(EAF)dust at the Shisaka plant, which supplies one third of the raw materials used at Harima. SMM is proud of this method because of its ability to recycle resources and its cost competitiveness. EAF dust is processed at the Shisaka plant for the recovery of raw zinc oxide used in the manufacture of zinc as product produced at the Harima plant.

As for zinc, SMM aims to establish a new business system and reinforce the operation.



Strategies for Advanced Materials/Electronics Materials:
Responding to Current and Future Changes

IT-related markets, which had grown throughout the world, especially in Europe and the USA, are currently experiencing severe sluggish demand. However, over the mid/long term, it is forecasted that the markets will continue to grow. For the Advanced Materials/Electronics Materials sectors, which had expanded in line with the spread of data communications, demand is expected to expand in the future, despite they may have to experience plunging demand in fiscal year 2001. Also, SMM can draw on its basic technology in this field.

The main products in the Advanced Materials sector are metal powders such as nickel powder for multilayer ceramic capacitors, copper polyimide film for flexible wiring board, materials for rechargeable battery such as nickel hydroxide and lithium cobaltate, rare earth metal bonded magnet and so on.

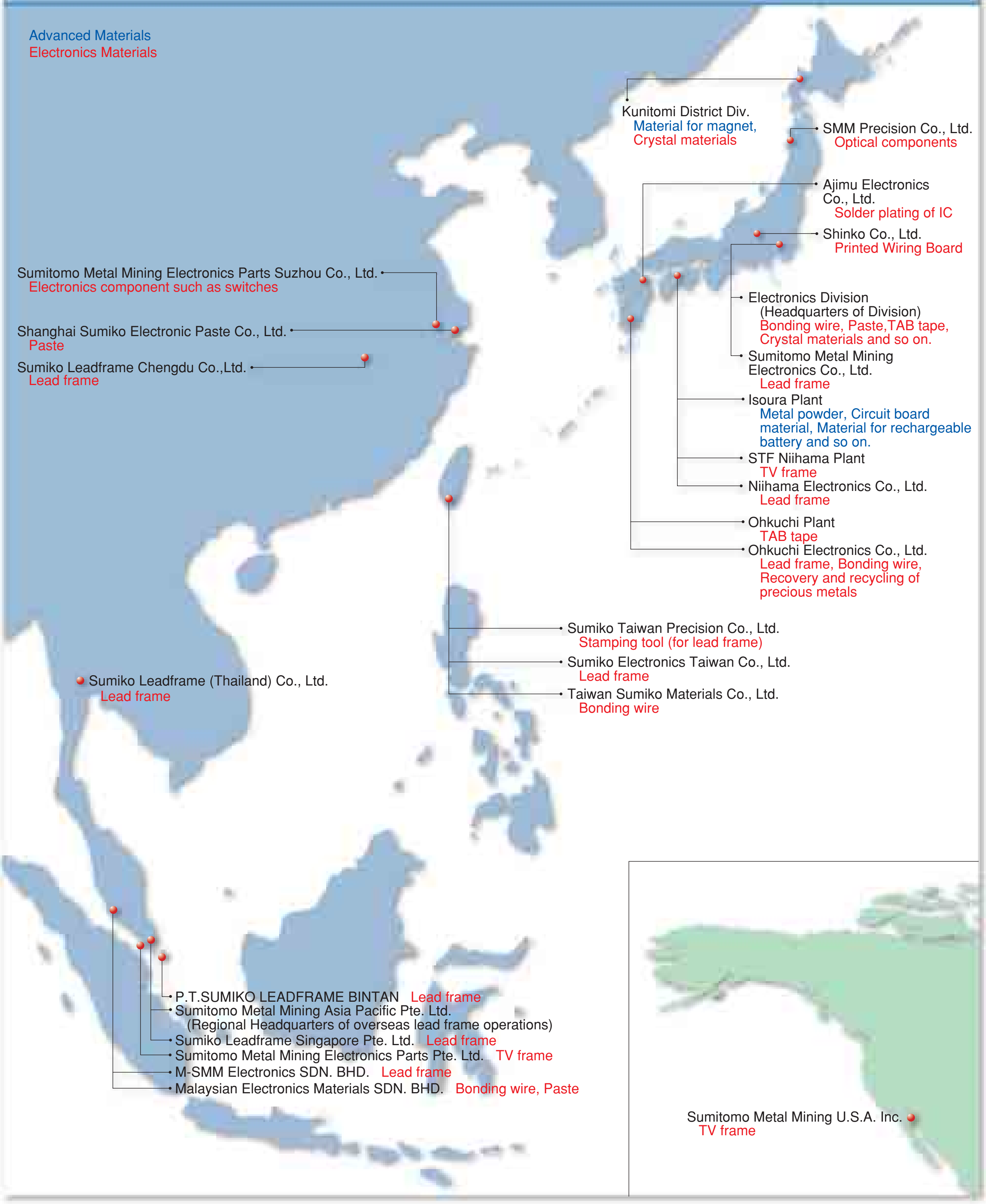
The main products in the Electronics Materials sector include lead frame, for which SMM has aggressively developed businesses in Japan and overseas, IC packaging materials such as bonding wire and TAB tape, nickel paste for multilayer ceramic capacitor and crystal materials such as GaP, GaAs, LiNbO3, LiTaO3 and so on. In addition to the above, SMM has optical components with commanding market share such as Faraday Rotator and Optical Isolator. SMM will flexibly respond to trends and intensively allocate resources to key products.

On the other hand, the IT industry, the end users in this sector, is characterized by rapid change. Overnight, new products and technologies can cause demand for products to evaporate and enable new markets to emerge. SMM will continue to reinforce its R&D systems to quickly respond to such changes. The Central Research Laboratory (Ichikawa City, Chiba Prefecture) and Niihama Research Laboratory (Niihama City, Ehime Prefecture) are our major R&D bases. Their respective roles are being clarified and reorganized to become more efficient systems. Since product cycles are relatively short, the first priority is given to shorten lead time of developing products for timely supply.

Bussiness Profile of Advanced Materials / Electronics Materials

	Main Products	Main Applications
Advanced Materials	Metal powder (nickel powder, palladium powder, etc.)	Multilayer ceramic capacitors
	Circuit board material (copper polyimide film)	Liquid crystal display
	Material for rechargeable battery (nickel hydroxide, lithium cobaltate, etc.)	Data communication equipment, electric vehicles
	Material for magnet (rare earth metal bonded magnet, etc.)	Various motors (for PC peripheral devices, etc.)
	Fire retardant for resin (antimony oxide), various rare metal	Semiconductor, catalyst, liquid crystals, optical components
Electronics Materials	Lead frame	IC packages
	Bonding wire	IC packages
	TAB tape	ASIC packages, LSI packages for telecommunication, server and so on
	Alloy preform	IC and other electronics component packages
	Lithium Niobate (LN), Lithium Tantalate (LT)	SAW (Surface Acoustic Wave) filters
	Gallium Phosphide (GaP)	LEDs (Light Emitting Diode)
	Nickel paste	Multilayer ceramic capacitors
	Printed Wiring Board (PWB)	Electronics equipment, IC packages
	Faraday Rotator, Optical Isolator, High frequency device	Optical telecommunication components (WDM)

SMM's Worldwide Production Facilities for Advanced Materials / Electronics Materials



Advanced Materials

The Advanced Materials sector, which was separated from the Metallurgy sector in June 2000, handles mainly high value-added materials for metal-based electronics components. Quick and resolute response is essential in this sector since demand is prone to sudden and dramatic changes, similar to the situation in the Electronics Materials sector. To survive in this business, SMM endeavors to allocate resources to necessary fields in the most effective and timely manner possible. Already, nickel powder for multilayer ceramic capacitors has grown to become the main pillar for this sector, and demand for copper-clad polyimide film is rapidly expanding for mobile phones and liquid crystals for PC monitors. SMM also has special expertise in materials related to rare earth metal bonded magnets, and rechargeable batteries, areas where demand is expected to flourish in the future. SMM aims to assure firm foundations for each of these businesses.

SMM is reorganizing its two main R&D bases, the Central Research Laboratory and Niihama Research Laboratory, to realize more efficient R&D activities, and shifting R&D work at the Niihama Research Laboratory from Metallurgy to Advanced Material. At the same time, SMM will clarify the different roles between these two Laboratories to establish the optimal organizations for supplying products in response to customer requirements.

Nickel Powder

Nickel powder is a material used for the internal electrodes of MLCCs (multilayer ceramic capacitors) and is indispensable for all kinds of electronic equipment. Demand continues to be robust for electronic equipment such as PCs, mobile phones, and digital cameras, in pace with improved performance levels and expanded market size of such products. Production capacity has increased to 40 tons per month since May 2001, doubled that of conventional production.

Although conventional MLCCs had typically used precious metals such as palladium, demand for nickel as a substitute material rose when the prices of precious metals soared. SMM is the first manufacturer to supply nickel powder for MLCCs. The Company is highly praised for its integrated production process from materials to pastes, and all the major MLCC manufacturers in the world adopted its product. In addition, to further increase market share, SMM is reinforcing its product attractiveness by offering new products with higher performance ratings.

Copper-clad Polyimide Film

Liquid crystal drivers, equipped in mobile phones and large TFT (Thin Film Transistors), are switching their structure from three-layered substrates TCP (Tape Carrier Package) to the COF (Chip On Film) method, which involves thinner copper polyimide films and is excellent for bending and supporting fine-pitches. As SMM copper-clad polyimide film is used as a material for COF-equipped substrates, demand for it is rapidly increasing. To meet this demand, bigger production lines are now under construction with the ability to produce approximately 0.5 times more capacity from November 2001. SMM products dominate the TFT liquid crystal market, thanks to the advantage the Company has in terms of quality. SMM aims to obtain the de facto standard for COF substrates used in liquid crystal drivers.

Materials for Batteries

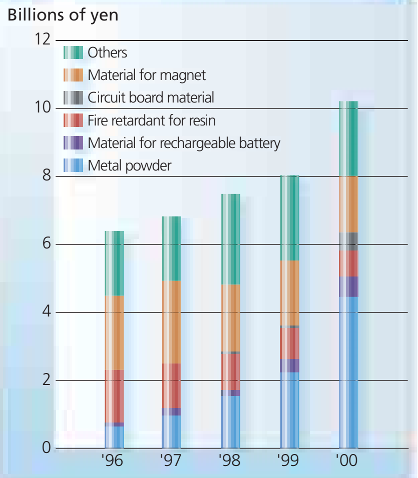
Materials for batteries include lithium cobaltate and lithium nickel oxide for lithium ion batteries, and nickel hydroxide for nickel hydrogen batteries. Both lithium ion batteries and nickel hydrogen batteries are the so-called rechargeable batteries. SMM products are used as materials for the positive electrode of these batteries.

As with nickel powder, SMM's strength lies in its ability to ensure stable procurement of raw materials combined with an integrated production process. As the market for mobile equipment used in data telecommunication continues to expand, the demand for rechargeable batteries is also expected to increase. Moreover, since the batteries to be installed in hybrid cars use nickel hydroxide, the market is certain to grow as electric vehicles become more prevalent in the future.

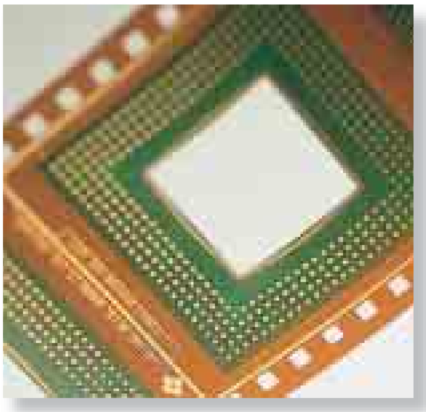
Materials for Magnets

Conventionally, MQ powder (neodium ferrous boron), a magnet powder, is pasted into nylon and epoxy resin to create "compound," which has been showing considerable growth rates. Furthermore, SMM has developed its own new magnet powder called "SFN (Samarium Ferrous Nitrogen)" as the next-generation product. In fiscal year 2000, SMM entered the market in full scale to focus on sales for information devices and various motors for home use. To expand the market, SMM has also developed a hybrid type product that combines ferrite and SFN.

Net Sales Breakdown of Advanced Materials



Electronics Materials



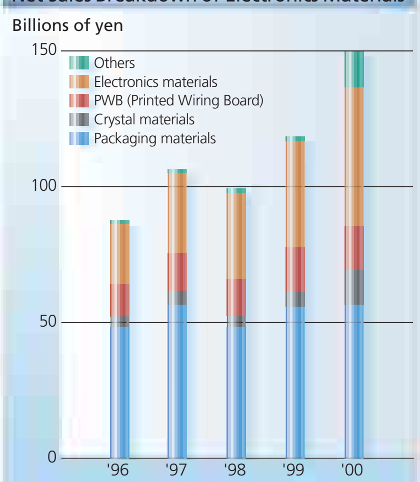
TAB tape

In fiscal year 2001, the worldwide semiconductor market is expected to plunge into double-digits, down from the previous year, leaving uncertainty as to when it will start showing signs of recovery. However, over the medium and long terms, it is forecasted that the markets will steadily grow. SMM has promoted worldwide business focusing on IC packaging materials. Overseas, SMM facilitates its success through aggressive sales activities that allow it to penetrate the markets. Moreover, given the future development of the markets in Southeast Asia, the 14 overseas production bases will become increasingly more important. Drawing on this, SMM has embarked on supplying materials compatible with new IC packaging such as BGA (Ball Grid Array) and CSP (Chip Scale Package). It also aims to reform its current business structure and to reinforce its profitability, taking advantage of domestic and foreign networks.

SMM will concentrate investments on paste for promising multilayer ceramic capacitors and optical components such as Faraday Rotator and Optical Isolator.

Regarding R&D, SMM aims to create the optimal structure that will allow for the supply of products in quick response to customer demands by reinforcing two separate and distinct R&D organizations: the Business Promotion Center, which is under the Electronics Division and focuses on developing commercialized products within two or three years, and the Central Research Laboratory, where research is concentrated primarily on basic long-term developments.

Net Sales Breakdown of Electronics Materials



Electronics Materials (Bonding wire, Nickel paste etc.)
PWB (PWB etc.)
Crystal Materials (GaP, Faraday Rotator, Optical Isolator etc.)
Packaging Materials (Lead frame, TAB tape etc.)

Notes 1.Figures are based on the sales of Electronics Division which include within-segment transactions, not on the electronic materials segment.
2.Sales of fiscal year 2000 include optical telecommunication components, TV frame etc. because of the reorganization.

Nickel Paste

Paste is a material mainly used in chip components such as resistors and multilayer ceramic capacitors. Chip components are installed in all kinds of electronic equipment such as mobile phone, PC, TV, VTR, digital camera and so on. Nickel paste, in particular, is in robust demand due to improved performance and an expanded electronics equipment market. A new production line is under construction that will double current production capacity in fiscal year 2002 so that SMM will be able to meet expanded demand. Similarly, SMM will expand the business further by fostering manufacturing and sales cooperation with the Advanced Materials sector, which deals with nickel powders for multilayer ceramic capacitors and others.

Optical Telecommunication Components

While world demand for telecommunication over optical fiber networks is dramatically increasing due to the expansion of the Internet and E-commerce, WDM (Wavelength Division Multiplexing) system technology is rapidly gaining predominance since it is capable of simultaneously transmitting several tens of signal channels on a single optical fiber. SMM's optical telecommunication components such as the Optical Isolator and its main component, the Faraday Rotator, are indispensable for this WDM technology. The high quality of SMM's products is recognized all over the world. These are supplied by SMM to the world's communication system providers that are based mainly in the USA and Europe.

The Optical Isolator market is predicted to grow annually by more than 10% in the future and SMM will reinforce its production capacity in pace with expanding demand. (Actual sales for fiscal year 1999 and 2000 were ¥1.5 billion and ¥4.8 billion, respectively)

SMM has been developing optical

components since the late 1980's. In addition to the Faraday Rotator and Optical Isolator, SMM aims to intensively foster and reinforce telecommunication device operations including high frequency components for optical/electrical conversion used for receiver parts and developing fiber arrays for optical connections as a core electronics business. The production bases are located in the Electronics Division in Ome City, Tokyo and SMM Precision Co., Ltd., an SMM subsidiary located in Noshiro City, Akita Prefecture. For the Optical Isolator, a new base has been established at the Noshiro Industrial Park located in Noshiro City to actively promote and expand the business.

Principle and Role of the Optical Isolator

Optical communication offers a host of advantages. This enables the transmission of a great amount of data over a fine thread of silica fiber by converting electric signals to optical signals and transmitting these via the fiber. These electric signals are converted to light by a semiconductor laser diode, collimated by a lens and then conveyed on the fibers. When the light is reflected by the components situated on the light route or connecting part of the device and returned to the original laser diode, the returned light is amplified and oscillated as noise. The Optical

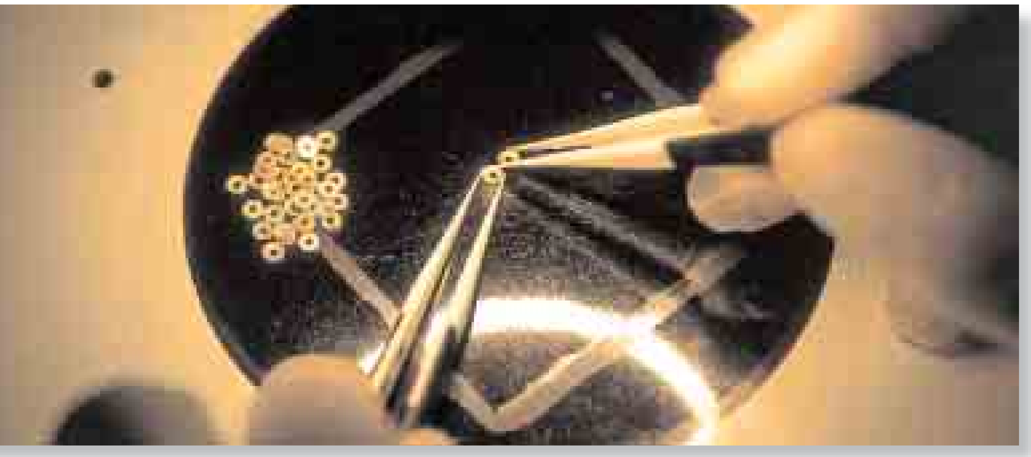
Optical Isolator

Optical Isolator

Isolator is then used to suppress the light reflected back to the laser diode so that it passes only in a forward direction.

An optical isolator consists of a Faraday Rotator sandwiched by two polarizers with the optical axes turned at 45 degree angles to each other. The Faraday Rotator turns the polarization plane of the laser light to an angle of 45 degrees by the magneto-optical effect of the crystal. When the light returns, the Faraday Rotator turns the polarization plane by another 45 degrees. This makes the polarization plane normal relative to the optical axis of the first polarizer.

The Optical Isolator is especially necessary for long haul carriers, which are large long distance lines connecting at 10-40 Gbps between countries. This is also true for backbone lines that connect between cities at 2.5 to 10 Gbps.



Management's Discussion and Analysis

Introduction

Business enterprises at Sumitomo Metal Mining Co., Ltd. (SMM) comprise the parent company, 75 subsidiaries and 16 affiliate companies. Operations consist of three core segments and two peripheral segments: Mineral Resources, pertaining to metal mining for gold, silver and copper. Metallurgy, pertains to the smelting business centering on gold, copper, nickel and zinc, and the functional materials business, which manufactures powders from nickel and palladium, and battery and magnetic materials. Electronics Materials, pertaining to the manufacturing of IC packaging materials, crystal materials, printed circuit boards and electronic components. Construction Materials & Housing, pertaining to the manufacturing of Siporex (autoclaved lightweight concrete, or ALC) and the constructing of residential buildings, and the Others segment, pertaining to nuclear engineering operations. Consolidated results described in this Annual Report are the consolidated results of the parent company, 39 domestic and overseas consolidated subsidiaries and 5 affiliates accounted for by the equity method.

Consolidated Statements of Income

Net Sales

Net sales in fiscal year 2000 (the year ended March 31, 2001) rose by ¥15,053 million (4.2%) from the previous fiscal year to reach ¥375,352 million (U.S.$3,029 million). The Metallurgy segment accounted for 50.8% of net sales. The core enterprise of this segment is smelting; however, this business is heavily affected by foreign exchange rates and trends in non-ferrous metal prices.

In the first half of fiscal year 2000, there were rises in prices of non-ferrous metals such as copper, nickel and zinc in overseas markets, but from the second half onwards the U.S. economy slowed down noticeably, and from early fall, non-ferrous metal prices, including nickel, declined. Meanwhile, the yen was comparatively strong in the first half, but weakened in the second.

As a result, in the Metallurgy segment, the sales volume growth and the rise in non-ferrous metal prices such as nickel and copper led to increased sales. Further, in the Electronic Materials segment, there were increases in sales over a wide range of products, including optical materials and communications devices.

Costs and Expenses

Cost of sales in fiscal year 2000 fell by ¥3,258 million (1.0%) from the previous fiscal year to ¥311,980 million (U.S.$2,518 million). Further, the gross margin rose from 12.5% to 16.9%.

Sales, general and administrative (SGA) expenses rose by ¥371 million from the previous fiscal year to ¥36,442 million (U.S.$294 million).

Sales, transportation and overhead expenses, which account for 31.7% of SGA expenses, rose by 17.6% over the previous fiscal year, resulting from increased exports, mainly of the parent company's metal products, over the previous fiscal year.

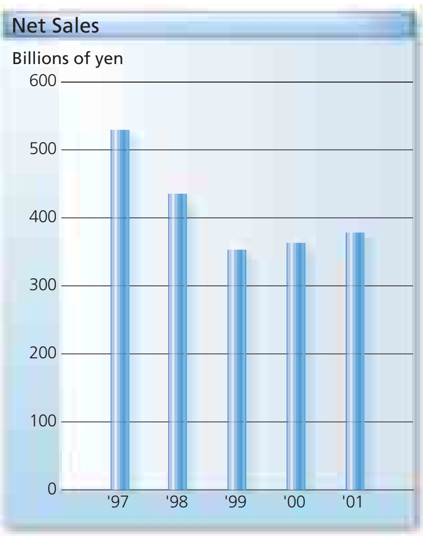
Research and development (R&D) expenses, which accounted for 9.6% of SGA expenses, decreased by 27.9% from the previous fiscal year, mainly due to the reduction in research materials expenses.

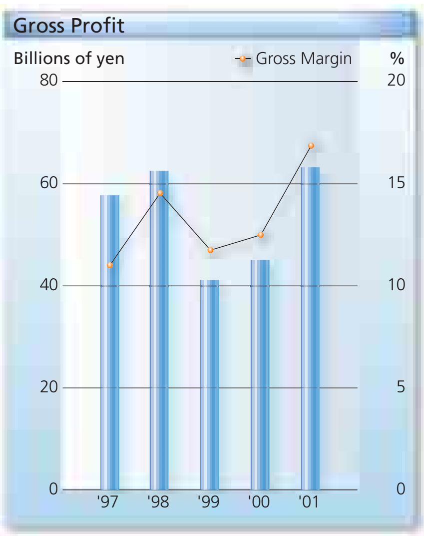
Operating Income

Operating income in fiscal year 2000 rose sharply, by 199.6% over the previous fiscal year, to ¥26,930 million (U.S.$217 million). The Construction Materials & Housing segment had posted a deficit of ¥1,144 million in the previous fiscal year, but earnings were improved in fiscal year 2000 with the completion of the restructuring program, and operating income in this segment picked up to stop slightly short of black figures. Operating income in the Electronics Materials segment recorded continued favorable results, along with increases in income for crystals (gallium phosphide, or GaP), nickel and other thick film pastes, bonding wire, and communications devices. In the functional materials business, nickel powder for use in multilayer ceramic capacitors is growing into a pillar of earnings. With the exception of the Others segment, the Mineral Resources, Metallurgy, Electronics Materials and Construction Materials & Housing segments all enjoyed increased earnings.

Other Income (Expense)

In other income(expense) in fiscal year 2000, the amount of





deficit rose from the previous fiscal year by ¥7,017 million (161.6%), and net loss of ¥11,359 million (U.S.$92 million) was posted. The major factors in this were that:

(1) losses related to a nuclear fuel reprocessing accident at subsidiary JCO Co., Ltd. decreased from the ¥13,908 million (U.S.$112 million) of the previous fiscal year to ¥2,328 million (U.S.$19 million) in the fiscal year under review,
(2) however, there was no gain on the sale of marketable securities, as opposed to the ¥7,817 million (U.S.$63 million) from such gain in the previous fiscal year,
(3) and, gain on the sale of investment securities fell from the ¥12,866 million (U.S.$104 million) of the previous fiscal year to ¥5,867 million (U.S.$47 million) in the fiscal year under review,
(4) further, valuation losses on investment securities, at ¥3,415 million (U.S.$28 million), were ¥1,788 million more than in the previous fiscal year, and
(5) finally, there was a shortfall of ¥5,858 million (U.S.$47 million) in pension funds, which was written off with a one-time charge, this liability having arisen when new accounting standards for calculating retirement benefits were introduced.

Aside from that, in fiscal year 2000, there were indemnity losses of ¥1 billion (U.S.$8 million) related to the accident at JCO Co., Ltd., and the amount approved in amicable settlement by March 31, 2001 was net loss equivalent to the revenue of ¥1 billion (U.S.$8 million) in damage insurance claims. Also, a provision for future indemnity losses of ¥1,328 million (U.S.$11 million) was posted to prepare against losses incurred through payments in the future.

Tax-effect accounting had been applied since the previous fiscal year, and a negative tax adjustment of ¥694 million (U.S.$6 million) was posted. Net financial expenses decreased from ¥2,492 million of the previous fiscal year by ¥363 million to ¥2,129 million.

Net Income (Loss)

The SMM Group's net income in fiscal year 2000 soared by ¥10,363 million (U.S.$122 million) (218.6%) to ¥15,103 million from the ¥4,740 million of the previous fiscal year. Net income per share in fiscal year 2000 was ¥26.41 (U.S.$0.21), as opposed to the ¥8.29 (U.S.$0.07) of the previous fiscal year.

Impact of Exchange Rate Fluctuations

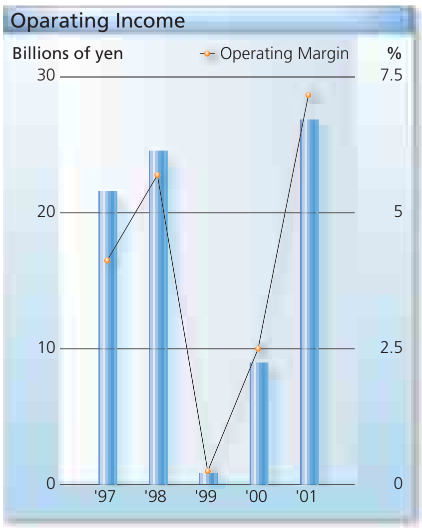
Non-ferrous metals operations are closely linked to foreign exchange rates, from the procurement of ores to the sale of finished products. Although a weak yen brings with it the disadvantage that SMM must pay higher prices for the procurement of ores, the selling prices of finished products rise as well. In general, a weak yen is a positive factor to SMM's earnings, mainly due to the fact that smelting margins, which are calculated in U.S. dollars, rise when translated into yen. The average exchange rate in fiscal year 2000 was ¥110.58 to the U.S. dollar, compared to ¥111.59 in the previous fiscal year. In the first half the yen was comparatively strong, but it weakened in the second half, and on an annualized basis, the yen was somewhat strong. The parent company has announced that the weakening of the Japanese currency by 1 yen against the U.S. dollar contributes to an upturn of ¥350 million, in terms of gross income, operating profit, and recurring profit, on a non-consolidated basis.

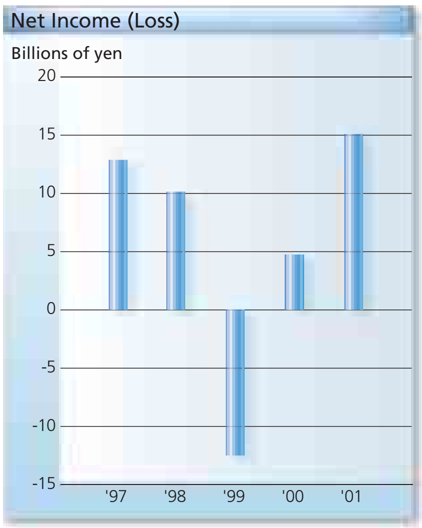
Results by Business Segment

The following results are based on segment information, and net sales and operating income in each field include inter-segment transactions.

Mineral Resources

Net sales in this segment fell by ¥2,713 million to ¥23,613 million (U.S.$191 million), due to a decline in new orders in public works projects, particularly civil engineering projects, at Sumiko Development and Construction Co., Ltd., and the falling new orders for geological surveys at Sumiko Consultants Co., Ltd. There was almost no impact, however, on gain and loss. At Sumitomo Metal Mining Arizona Inc. one of two concentrators had to be closed because the Morenci copper mine in Arizona, a joint venture in which SMM Arizona is participating, switched entirely over to the solvent extraction/electrowinning





(SX-EW) process. Because of the rise in copper market prices overseas, however, operating income in Mineral Resources rose by ¥1,092 million (86.1%) to ¥2,360 million (U.S.$19 million).

Metallurgy

(including results of the functional materials business, which became an independent segment in June 2000)

Income increased sharply because demand for nickel destined for stainless steel recovered, in addition to which demand for nickel in personal computers- and semiconductor-related electronic materials perked up, and further, nickel prices rose. Not only nickel, but copper, gold and zinc also generated increases in income. In the functional materials business, results grew in metal powders, including nickel powder destined for multilayer ceramic capacitors thanks to the increase in IT-related demand. In addition, all consolidated subsidiaries showed increases in income over the previous fiscal year, notably Sumitomo Metal Mining Brass & Copper Co., Ltd., which enjoyed increased income mainly in coils for terminals and connectors.

As a result, net sales stood at ¥220,595 million (U.S.$1,780 million), up by ¥11,620 million (5.6%) over the previous fiscal year. Operating income rose sharply by ¥11,091 million (155.1%) to ¥18,244 million (U.S.$147 million).

Electronics Materials

Net sales in this segment increased over the previous fiscal year by ¥14,004 million (11.7%) to ¥133,259 million (U.S.$1,076 million). Operating income also shot up by ¥6,571 million (457.3%) to ¥8,008 million (U.S.$65 million). The dramatic increase in operating income in the first half was led by demand for communications machinery & equipment and for digital consumer electronics, and there were increases in sales of and income from bonding wire, thick film paste for multilayer ceramic capacitors, TAB, and TV frames etc. Furthermore, net sales also rose dramatically in optical materials and communications devices, such as Faraday Rotators and Optical Isolators.

Construction Materials & Housing

Net sales decreased by ¥2,107 million (7.8%) to ¥24,880 million (U.S.$201 million), due to the restructuring of the housing business including the transfer of operations at Sperio Homes Co., Ltd. to Igeta Heim Co., Ltd. in the previous fiscal year and the confining of the operations to the Tokyo metropolitan area. The construction materials business raised its sales volume in western Japan amid intense competition among the three companies involved in ALC (autoclaved lightweight concrete). Further, in October 1999 it concentrated its manufacturing to three production bases, and the effects of the integration of production and retailing showed up. As a result, operating income rose by ¥840 million over the previous fiscal year to the deficit of ¥304 million (U.S.$2 million), substantially reducing the deficit.

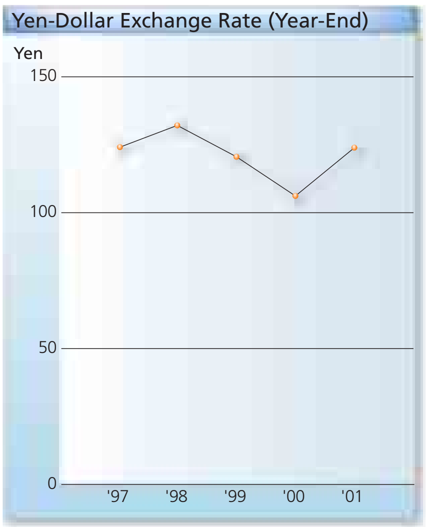
Financial Position and Liquidity

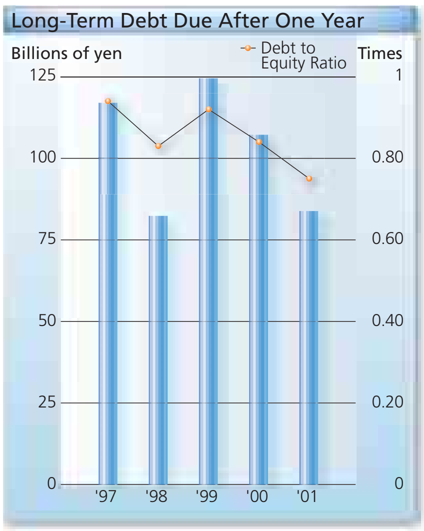
Financial Position

Total assets as of March 31, 2001 stood at ¥530,080 million (U.S.$4,278 million), down ¥14,041 million (2.6%) from the end of the previous fiscal year. Current assets fell ¥8,209 million (3.9%) to ¥200,324 million (U.S.$1,617 million). Specifically, trade notes and accounts receivable rose by ¥1,537 million in line with the increase in net sales. On the other hand, marketable securities fell by ¥10,391 million and short-term loans decreased by ¥1,152 million. The reason for the decrease in marketable securities was that most of the marketable securities were transferred to the investment securities account due to the reclassification of the holding objectives of marketable securities.

Net property, plant and equipment stood at ¥174,752 million (U.S.$1,410 million), up ¥8,220 million from the end of the previous fiscal year due to the increase in machinery and equipment by ¥5,156 million, and construction in progress by ¥2,703 million.

Investments and long-term receivables stood at ¥150,710 million (U.S.$1,216 million), up ¥2,283 million. The reason for this was that the impact of the increase in investment securities resulted from the fact that transferring marketable securities from current assets to investment securities was stronger than the impact of the sale of investment securities with the aim of thinning out assets.





Financial Structure

As of March 31	2001	*	2000	*	1999	*
					Millions of yen (%)	
Short-term interest-bearing liabilities	**¥ 93,159**	**(17.6)**	¥ 90,358	(16.6)	¥ 83,286	(15.3)
Long-term interest-bearing liabilities	**83,839**	**(15.8)**	107,266	(19.7)	124,535	(22.9)
Total shareholders' equity	**237,470**	**(44.8)**	235,231	(43.2)	226,795	(41.7)
Liabilities and Shareholders' equity	**¥530,080**	**(100.0)**	¥ 544,121	(100.0)	¥ 544,519	(100.0)

* Percentage to Liabilities and Shareholders' equity = 100.

Meanwhile, current liabilities decreased by ¥2,558 million (1.5%) from the end of the previous fiscal year to ¥167,065 million (U.S.$1,348 million). The major factors for this decline were the decrease in the outstanding amount of commercial paper by ¥7,500 million and in the notes and accounts payable by ¥4,236 million. By contrast, short-term bank loans increased by ¥2,301 million, and corporate bonds due within one year increased by ¥8,000 million. As a result, the working capital ratio decreased from 1.23 to 1.20 times.

Long-term debts due after one year decreased by ¥23,427 million from the end of the previous fiscal year to ¥83,839 million (U.S.$677 million). This was mainly the result of efforts to reduce interest-bearing liabilities by placing limits on the issuing of corporate bonds and long-term borrowing in respect of the redemption of corporate bonds and repayment of long-term borrowing. As a result, total liabilities excluding minority interests decreased by ¥15,853 million (5.2%) to ¥286,496 million (U.S.$2,312 million).

Total shareholders' equity increased by ¥2,239 million (1.0%) from the end of the previous fiscal year to ¥237,470 million (U.S.$1,917 million). This resulted from the increase in retained earnings by ¥12,244 million, most of which was accounted for by the ¥10,363 million rise in net income in the period under review. As a result, the equity ratio rose from the 43.2% of the previous fiscal year to 44.8%.

Consolidated Statement of Cash Flows

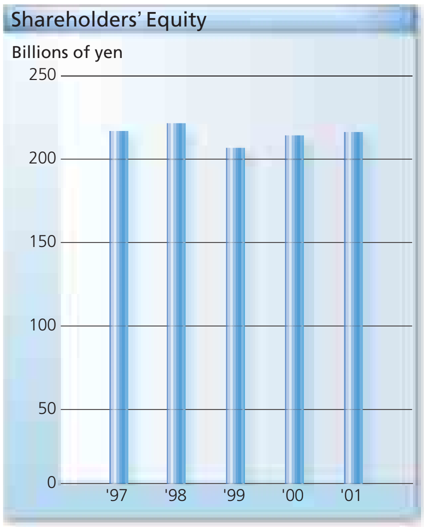
Cash and cash equivalents, including the effect of change in the foreign exchange rate, stood at the end of the year at ¥18,806 million (U.S.$152 million), down ¥6,053 million (24.3%) from the beginning of the year.

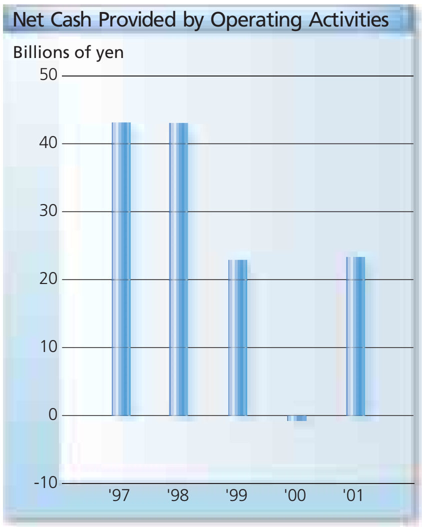
Cash flows from operating activities in fiscal year 2000 showed that income before income taxes staged an upturn from the previous fiscal year of ¥10,923 million to reach ¥15,571 million (U.S.$126 million) under the impact of a sharp rise in consolidated operating income. In addition, cash flows improved by ¥5,355 million thanks to the rise in reserves accompanying the introduction of new accounting standards for calculating retirement benefits. Net cash flows improved by ¥24,139 million over the previous fiscal year reaching ¥23,339 million (U.S.$188 million), partly because of the decrease in indemnity payments related to the accident at JCO Co., Ltd. from the previous fiscal year, which resulted in an improvement of ¥8,059 million.

Net cash flows from investing activities experienced outflows of ¥4,248 million (U.S.$34 million), due to a ¥8,391 million increase in expenditures over the previous fiscal year. Net cash outflows stem from a cash use of ¥3,040 million (U.S.$25 million) related to the parent company's acquisition of a new plant for TAB and the consolidation of Sumiko Taiwan Precision Co., Ltd., and also a decrease of ¥6,430 million (U.S.$52 million) in dividend income due to the sale of investment securities.

Net cash flows from financing activities declined from the previous fiscal year by ¥17,003 million to net outflows of ¥26,089 million (U.S.$211 million), mainly due to the ¥17,500 million decrease in commercial paper from the previous fiscal year (a drop from the ¥10,000 million of the previous fiscal year to outflow of ¥7,500 million in fiscal year 2000).

As a result, cash and cash equivalents at year end, including





the effect of change in the foreign exchange rate, declined by ¥6,053 million from the beginning of the year to a year-end balance of ¥18,806 million (U.S.$152 million).

Capital Expenditures and Depreciation

Capital expenditures for fiscal year 2000 amounted to ¥28,078 million (U.S.$227 million), of which, Electronics Materials accounted for ¥13,318 million (47.4%), and Metallurgy for ¥9,031 million (32.2%).

Depreciation increased by ¥163 million (1.0%) to ¥16,774 million (U.S.$135 million).

Research and Development Expenses

Research and development expenses for fiscal year 2000 were ¥3,484 million (U.S.$28 million). By segment, Mineral Resources carried out the development of non-ferrous raw material ores concentration processes and various types of leaching technology. The Metallurgy segment mainly focused on the development of non-ferrous smelting and electrolysis technology. The Electronic Materials segment concentrated on developing technology in electronic materials, principally new semiconductor packaging materials. The Construction Materials & Housing segment focused on developing new product processing technologies and new products such as long-lasting Siporex technology.

Risk Management

The operations of SMM are exposed to various risks such as fluctuations in metal prices, exchange rates, and interest rates. To effectively hedge against these risks, SMM engages in financial derivatives transactions. In commodities, forward contracts are used to hedge against fluctuations in ingot prices; forward foreign exchange contracts and currency swaps are used to hedge currency fluctuations, and interest rate swaps are used to hedge interest rate fluctuations. Whatever the case, we carry out derivative transactions within limits based on real demand in production and sales activities, and on actual amount payable or receivable, and do not engage in transactions for the speculation purposes.

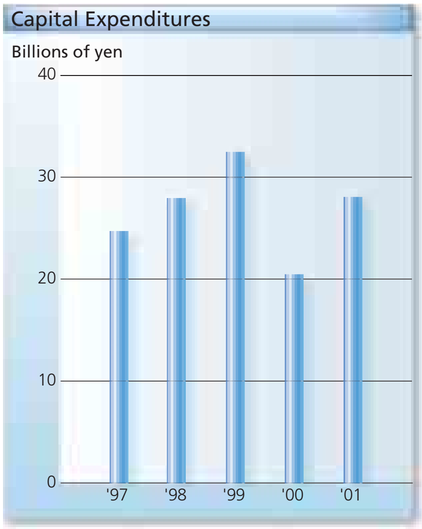
Further, in view of the accident at JCO Co., Ltd., we are acutely aware of the importance of risk management, and as a central mechanism for mitigating and managing risk, we set up a Risk Management Committee in July 2000 to spearhead risk management. Since then, we have been examining a framework for risk mitigation and management throughout the group. We plan to start introducing the Risk Management System in July 2001.

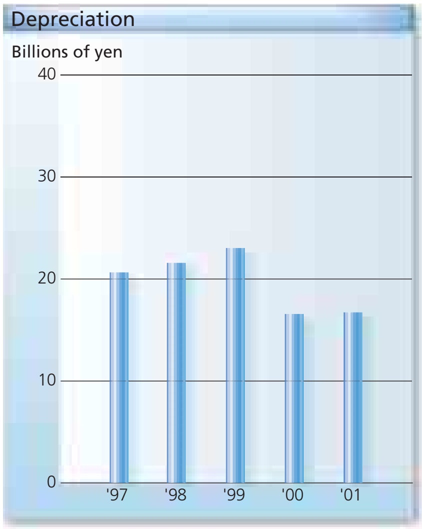
At the same time, SMM is aiming to go back to the basics of manufacturing, addressing the issues of safety and the environment. As part of these initiatives, SMM is carrying out ISO14001 environment management system for the whole group and building an environmental management system, which is becoming increasingly important.

Accounting for Retirement Benefits

SMM pays retirement benefits to retiring employees under the terms of its retirement plan based on the length of service, base salary (the amount which forms the basis of an employee's salary and bonus) at time of retirement and cause of retirement. We introduced a Tax Qualified Pension Fund for part of our retirement benefits plan, and upgraded this plan in 1991 with a 15-year minimum guaranteed annuity period.

In response to the introduction of accounting standards for calculating retirement benefits in Japan in fiscal 2000, we have been applying new accounting standards since the beginning of the consolidated accounting period under review. Compared to the hypothetical results under the former accounting system, retirement benefit costs increased by ¥5,426 million, recurring profit was up by ¥335 million, and income before income taxes decreased by ¥5,523 million.





Eleven-Year Summary
SUMITOMO METAL MINING CO., LTD.

For the Year:	2001	2000	1999	1998
Net sales	**¥375,352**	¥360,299	¥350,288	¥431,950
Gross profit	**63,372**	45,061	41,190	62,641
Operating income	**26,930**	8,990	858	24,622
Other income (expense)	**(11,359)**	(4,342)	(12,932)	(3,605)
Net income (loss)	**15,103**	4,740	(12,495)	10,157
Net income (loss) per share (¥)	**26.41**	8.29	(21.85)	17.77
Dividends per share (¥)	**6.00**	5.00	3.00	6.00
Return on average shareholders' equity (%)	**6.39**	2.05	—	4.22
Net cash provided by (used in) operating activities	**23,339**	(800)	22,912	43,056
Capital expenditures	**28,078**	20,490	32,499	27,968
Depreciation	**16,774**	16,611	23,095	21,638
For the Year:				
Total assets	**¥530,080**	¥544,121	¥544,519	¥566,088
Shareholders' equity	**237,470**	235,231	226,795	243,436
Equity ratio (%)	**44.8**	43.2	41.7	43.0
Long-term debt due after one year	**83,839**	107,266	124,535	82,356
Total debt	**176,998**	197,624	207,821	201,515
Debt to equity ratio (times)	**0.75**	0.84	0.92	0.83
Working capital	**33,259**	38,910	50,518	26,529
Working capital ratio (times)	**1.20**	1.23	1.31	1.13

Note: "–" indicates that figures have not been disclosed.

Millions of yen

1997	1996	1995	1994	1993	1992	1991
¥525,076	¥511,887	¥464,843	¥446,712	¥507,951	¥539,122	¥571,781
57,836	55,904	40,262	28,914	45,018	55,344	67,393
21,665	19,947	5,169	(3,934)	8,550	20,330	31,175
(4,294)	(7,553)	(2,384)	3,543	2,377	(2,635)	(5,899)
12,884	10,683	1,292	1,902	6,197	10,141	13,909
22.65	19.18	2.32	3.49	12.33	20.22	27.81
6.00	6.00	5.00	5.00	7.00	7.00	7.00
5.56	4.95	0.62	0.97	3.45	5.76	8.22
43,135	6,100	721	17,780	23,684	38,155	—
24,730	25,722	—	—	—	—	—
20,702	19,889	20,917	20,522	—	—	—

¥586,948	¥624,419	¥591,446	¥594,982	¥616,672	¥670,519	¥620,122
238,056	225,296	205,940	210,902	179,926	178,919	173,269
40.6	36.1	34.8	35.4	29.2	26.7	27.9
117,021	171,596	197,884	228,255	221,926	214,195	224,804
224,736	285,871	277,289	281,073	321,131	371,093	335,739
0.94	1.27	1.35	1.33	1.78	2.07	1.94
62,726	104,854	101,110	131,644	105,878	126,651	155,842
1.31	1.53	1.63	2.02	1.58	1.52	1.80

Consolidated Balance Sheets

SUMITOMO METAL MINING CO., LTD.

ASSETS	Millions of yen		Thousands of U.S. dollars (Note1)
Years ended March 31, 2001 and 2000	**2001**	2000	**2001**
Current assets:			
Cash and cash equivalents (Note 14)	**¥ 18,806**	¥ 24,859	**$ 151,784**
Time deposits	**5**	5	**40**
Marketable securities (Note 4)	**102**	10,493	**823**
Receivables:			
Notes and accounts receivable (Notes 7 and 14):			
Trade	**81,178**	79,714	**655,190**
Unconsolidated subsidiaries and affiliated companies	**1,007**	934	**8,127**
Loans and others:			
Unconsolidated subsidiaries and affiliated companies	**3,434**	4,900	**27,716**
Other	**4,306**	4,481	**34,754**
Allowance for doubtful accounts	**(1,059)**	(1,016)	**(8,547)**
Inventories (Note 6)	**73,927**	67,401	**596,667**
Deferred tax assets (Note 8)	**3,363**	1,099	**27,143**
Other current assets	**15,255**	15,663	**123,123**
Total current assets	**200,324**	208,533	**1,616,820**
Investments and long-term receivables:			
Investment securities (Notes 4 and 7):			
Unconsolidated subsidiaries and affiliated companies	**59,656**	53,797	**481,485**
Other	**82,135**	83,403	**662,914**
Loans:			
Unconsolidated subsidiaries and affiliated companies	**3,737**	5,552	**30,161**
Other	**1,205**	1,114	**9,726**
Other long-term receivables	**4,311**	3,986	**34,794**
Allowance for doubtful accounts	**(2,451)**	(2,881)	**(19,782)**
	148,593	144,971	**1,199,298**
Property, plant and equipment (Note 7):			
Land	**30,695**	30,378	**247,740**
Buildings and structures	**127,029**	125,205	**1,025,254**
Machinery and equipment	**254,282**	243,493	**2,052,317**
Construction in progress	**6,053**	3,350	**48,854**
	418,059	402,426	**3,374,165**
Accumulated depreciation	**(243,307)**	(235,894)	**(1,963,737)**
Net property, plant and equipment	**174,752**	166,532	**1,410,428**
Deferred tax assets (Note 8)	**2,117**	3,456	**17,086**
Other assets	**4,294**	4,420	**34,657**
Foreign currency translation adjustments	**—**	16,209	**—**
	¥ 530,080	¥544,121	**$ 4,278,289**

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note1)
Years ended March 31, 2001 and 2000	**2001**	2000	**2001**
Current liabilities:			
Bank loans (Note 7)	**¥ 64,333**	¥ 63,802	**$ 519,233**
Commercial paper	**2,500**	10,000	**20,178**
Long-term debt due within one year (Note 7)	**26,326**	16,556	**212,478**
Notes and accounts payable (Note 14):			
Trade	**29,936**	32,997	**241,614**
Unconsolidated subsidiaries and affiliated companies	**992**	2,141	**8,007**
Other	**7,071**	5,705	**57,070**
Accrued income taxes (Note 8)	**1,484**	1,237	**11,977**
Accrued expenses	**5,653**	5,914	**45,626**
Advances received	**5,522**	7,686	**44,568**
Deferred tax liabilities (Note 8)	**14**	27	**113**
Other current liabilities	**23,234**	23,558	**187,522**
Total current liabilities	**167,065**	169,623	**1,348,386**
Long-term debt due after one year (Note 7)	**83,839**	107,266	**676,667**
Deferred tax liabilities (Note 8)	**1,435**	1,188	**11,582**
Retirement benefits (Note 9)	**22,127**	15,913	**178,588**
Reserve for restructuring charges	**2,823**	—	**22,784**
Reserve for indemnification of damages caused by a consolidated subsidiary	**1,771**	4,115	**14,294**
Reserve for liquidation of subsidiaries	**1,347**	—	**10,872**
Other long-term liabilities	**5,832**	4,053	**47,070**
Minority interest	**6,114**	6,541	**49,346**
Consolidation difference	**257**	191	**2,074**
Contingent liabilities (Note 13)			
Shareholders' equity (Note 12):			
Common stock, par value ¥50 per share;			
Authorized — 1,000,000,000 shares			
Issued — 571,872,794 shares	**88,355**	88,355	**713,115**
Additional paid-in capital	**81,184**	81,184	**655,238**
Retained earnings (Note 11)	**77,937**	65,693	**629,031**
Net unrealized holding losses on available-for-sale securities	**(48)**	—	**(387)**
Foreign currency translation adjustments	**(9,956)**	—	**(80,355)**
	237,472	235,232	**1,916,642**
Treasury stock , at cost	**(2)**	(1)	**(16)**
Total shareholders' equity	**237,470**	235,231	**1,916,626**
	¥ 530,080	¥544,121	**$ 4,278,289**

See accompanying notes.

Consolidated Statements of Operations

SUMITOMO METAL MINING CO., LTD.

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended March 31, 2001, 2000 and 1999	**2001**	2000	1999	**2001**
Net sales (Note 15)	**¥ 375,352**	¥360,299	¥350,288	**$ 3,029,475**
Costs and expenses (Note 15)**:**				
Cost of sales	**311,980**	315,238	309,098	**2,517,998**
Selling, general and administrative (Note 10)	**36,442**	36,071	40,332	**294,124**
	348,422	351,309	349,430	**2,812,122**
Operating income (Note 15)	**26,930**	8,990	858	**217,353**
Other income (expenses)**:**				
Interest and dividend income	**2,241**	2,383	3,595	**18,087**
Interest expense	**(4,370)**	(4,875)	(5,502)	**(35,270)**
Gain on sale of marketable securities	**—**	7,817	3,468	**—**
Gain on sale of investment securities	**5,867**	12,866	4,377	**47,353**
Write-off of marketable securities	**—**	—	(8,109)	**—**
Write-off of investment securities	**(3,415)**	(1,627)	(3,896)	**(27,563)**
New shares and bond issue expense	**—**	—	(254)	**—**
Gain (Loss) on sale and disposal of property, plant and equipment	**5,153**	(1,201)	(897)	**41,590**
Gain on insurance	**1,000**	—	—	**8,071**
Loss on liquidation of subsidiaries	**(1,045)**	(163)	(4,330)	**(8,434)**
Provision for doubtful account	**(1,433)**	(3,462)	—	**(11,566)**
Restructuring charges	**(8,195)**	(1,356)	—	**(66,142)**
Loss from indemnification of damages caused by a consolidated subsidiary	**(2,328)**	(13,908)	—	**(18,789)**
Loss from suspension of operating activity of a consolidated subsidiary	**(1,621)**	(1,620)	—	**(13,083)**
Amortization of net transition obligation(Note 9)	**(5,858)**	—	—	**(47,280)**
Loss on penalty for specific contracts of a consolidated subsidiary	**(665)**	—	—	**(5,367)**
Amortization of consolidation difference	**131**	98	98	**1,057**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**4,078**	2,406	326	**32,914**
Other, net	**(899)**	(1,700)	(1,808)	**(7,257)**
	(11,359)	(4,342)	(12,932)	**(91,679)**
Income (Loss) before income taxes	**15,571**	4,648	(12,074)	**125,674**
Income taxes (Note 8)**:**				
Current	**945**	797	544	**7,627**
Deferred	**(694)**	(484)	—	**(5,601)**
	251	313	544	**2,026**
	15,320	4,335	(12,618)	**123,648**
Minority interest in net income of consolidated subsidiaries	**(217)**	405	123	**(1,751)**
Net income (loss)	**¥ 15,103**	¥ 4,740	¥ (12,495)	**$ 121,897**

	yen			U.S. dollars (Note1)
Amounts per share of common stock:				
Net income (loss)	**¥26.41**	¥8.29	¥(21.85)	**$0.21**
Cash dividends applicable to the year	**6.00**	5.00	3.00	**0.05**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

SUMITOMO METAL MINING CO., LTD.

Years ended March 31, 2001, 2000 and 1999	Thousands Shares of common stock	Millions of yen Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding losses on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 1998	571,873	¥ 88,355	¥ 81,184	¥ 73,898	¥ —	¥ —	¥ (1)
Decrease due to change in consolidation of subsidiaries				(642)			
Net loss				(12,495)			
Treasury stock							(1)
Cash dividends paid(¥6.00 per share)				(3,431)			
Bonuses to directors and corporate auditors				(72)			
Balance at March 31, 1999	571,873	88,355	81,184	57,258	—	—	(2)
Net income				4,740			
Cumulative effect of adopting deferred income tax accounting (Note 8)				3,695			
Treasury stock							1
Balance at March 31, 2000	571,873	88,355	81,184	65,693	—	—	(1)
Net income				15,103			
Adjustments from translation of foreign currency financial statements						(9,956)	
Adoption of new accounting standard for financial instruments					(48)		
Treasury stock							(1)
Cash dividends paid (¥5.00 per share)				(2,859)			
Balance at March 31, 2001	**571,873**	**¥ 88,355**	**¥ 81,184**	**¥ 77,937**	**¥ (48)**	**¥ (9,956)**	**¥ (2)**

	Thousands of U.S. dollars Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding losses on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2000	$713,115	$655,238	$530,209	$ —	$ —	$ (8)
Net income			121,897			
Adjustments from translation of foreign currency financial statements					(80,355)	
Adoption of new accounting standard for financial instruments				(387)		
Treasury stock						(8)
Cash dividends paid ($0.04 per share)			(23,075)			
Balance at March 31, 2001	$713,115	$655,238	$629,031	$(387)	$(80,355)	$ (16)

Due to the adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders' equity and minority interests.
The prior year's amount, which is included in assets, has not been reclassified.
See accompanying notes.

Consolidated Statements of Cash Flows

SUMITOMO METAL MINING CO., LTD.

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended March 31, 2001, 2000 and 1999	**2001**	2000	1999	**2001**
Cash flows from operating activities:				
Income (Loss) before income taxes	**¥ 15,571**	¥ 4,648	¥(12,074)	**$125,674**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	**16,774**	16,611	23,095	**135,383**
Gain on sale of marketable securities	**—**	(7,817)	(3,468)	**—**
Loss (Gain) on sale and disposal of property, plant and equipment	**(5,153)**	1,201	897	**(41,590)**
Gain on sale of investment securities	**(5,867)**	(12,866)	(4,377)	**(47,353)**
Write-off of marketable securities and investment securities	**3,415**	1,627	12,005	**27,563**
(Reversal of) Provision for doubtful accounts	**(391)**	3,445	(37)	**(3,156)**
Increase (Decrease) in reserve for liquidation of subsidiaries	**1,347**	(4,330)	4,330	**10,872**
Increase in retirement benefits	**6,278**	923	827	**50,670**
Interest and dividend income	**(2,241)**	(2,383)	(3,595)	**(18,087)**
Interest expense	**4,370**	4,875	5,502	**35,270**
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**(4,078)**	(2,406)	(326)	**(32,914)**
Gain on insurance	**(1,000)**	—	—	**(8,071)**
Restructuring charges	**8,830**	—	—	**71,267**
Loss from indemnification of damages caused by a consolidated subsidiary	**2,328**	13,908	—	**18,789**
Loss from suspension of operating activity of a consolidated subsidiary	**1,621**	1,620	—	**13,083**
Loss on liquidation of subsidiaries	**1,134**	4,493	—	**9,153**
Loss on penalty for specific contracts of a consolidated subsidiary	**665**	—	—	**5,367**
Decrease (Increase) in trade receivables	**(2,738)**	(17,883)	17,352	**(22,098)**
Decrease (Increase) in inventories	**(5,921)**	5,356	4,865	**(47,789)**
Increase (Decrease) in trade payables	**(3,300)**	4,468	(9,995)	**(26,634)**
Other	**(246)**	3,410	(240)	**(1,985)**
Sub total	**31,398**	18,900	34,761	**253,414**
Proceeds from Interest and dividend income	**3,559**	3,016	3,568	**28,725**
Payments for interest paid	**(4,446)**	(4,408)	(5,308)	**(35,884)**
Proceeds of insurance	**1,000**	—	—	**8,071**
Payments for suspension of operating activity in a consolidated subsidiary	**(1,525)**	(1,156)	—	**(12,308)**
Payments for restructuring charges	**(975)**	(4,609)	(420)	**(7,869)**
Payments for indemnification of damages caused by a consolidated subsidiary	**(4,072)**	(12,131)	—	**(32,865)**
Payments for penalty for specific contracts of a consolidated subsidiary	**(665)**	—	—	**(5,367)**
Payments for income taxes	**(881)**	(412)	(9,689)	**(7,111)**
Other	**(54)**	—	—	**(436)**
Net cash provided by (used in) operating activities	**23,339**	(800)	22,912	**188,370**
Cash flows from investing activities:				
Payments for purchases of marketable securities	**—**	(583)	(4,602)	**—**
Proceeds from sale of marketable securities	**267**	16,812	9,956	**2,155**
Payments for acquisition of property, plant and equipment	**(23,922)**	(20,882)	(30,762)	**(193,075)**
Proceeds from sale of property, plant and equipment	**9,388**	4,339	1,183	**75,771**
Payments for purchases of investment securities	**(84)**	(14,933)	(18,412)	**(678)**
Proceeds from sale of investment securities	**13,608**	20,038	18,694	**109,830**
Payments for acquisition of newly consolidated subsidiary's stock	**(481)**	—	—	**(3,882)**
Increase in loans receivable	**(5,014)**	(2,732)	(12,453)	**(40,468)**
Collection of loans receivable	**3,300**	1,878	13,274	**26,634**
Other	**(1,310)**	206	(165)	**(10,573)**
Net cash provided by (used in) investing activities	**(4,248)**	4,143	(23,287)	**(34,286)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	**4,103**	5,600	18,899	**33,115**
Payments for retirement of long-term debt	**(9,604)**	(13,873)	(9,134)	**(77,514)**
Net increase (decrease) in bank loans	**(428)**	(517)	(5,668)	**(3,454)**
Net increase (decrease) in commercial paper	**(7,500)**	10,000	(4,000)	**(60,533)**
Proceeds from issuance of bonds	**—**	—	45,000	**—**
Payments for redemption of bonds	**(10,000)**	(10,000)	(37,024)	**(80,710)**
Cash dividends paid	**(2,866)**	(6)	(3,772)	**(23,132)**
Other	**206**	(290)	(254)	**1,663**
Net cash provided by (used in) financing activities	**(26,089)**	(9,086)	4,047	**(210,565)**
Effect of changes in exchange rate on cash and cash equivalents	**945**	(885)	(822)	**7,627**
Net increase (decrease) in cash and cash equivalents	**(6,053)**	(6,628)	2,850	**(48,854)**
Cash and cash equivalents at beginning of year	**24,859**	31,487	28,603	**200,638**
Increase in cash due to change in consolidated subsidiaries	**—**	—	34	**—**
Cash and cash equivalents at end of year	**¥ 18,806**	¥ 24,859	¥ 31,487	**$ 151,784**

See accompanying notes.

Notes to Consolidated Financial Statements

SUMITOMO METAL MINING CO., LTD.

1. Basis of presenting consolidated financial statements

The Company, a Japanese corporation, and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and shareholders' equity for 2001, 2000 and 1999 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidation—The consolidated financial statements include the accounts of the Company and its significant subsidiaries (39 subsidiaries in 2001, 38 subsidiaries in 2000 and 40 subsidiaries in 1999). All significant intercompany balances and transactions have been eliminated.

Effective for the year ended March 31, 2000, all companies are required to consolidate all significant investees which are controlled through substantial ownership of majority voting rights or existence of certain conditions. There was no effect of applying this rule to the Company's consolidated financial statements.

Investments in significant affiliated companies are accounted for using the equity method (5 affiliated companies in 2001, 2000 and 1999). Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercises significant influence over operating and financial policies of the investees, are accounted for by the equity method.

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 consolidation difference between the cost of an investment and the underlying equity in its net assets at the date of acquisition is being amortized over five years with minor exceptions.

Cash and cash equivalents and cash flow statements—For the purpose of the consolidated statements of cash flows, the Company and its consolidated subsidiaries classify cash on hand, readily-available bank deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase as cash and cash equivalents.
In accordance with new Japanese standards, effective from the year ended March 31, 2000, the Company is required to prepare consolidated cash flow statements in a format different from those prepared for readers outside Japan although not required to be filed with the Ministry of Finance in prior years. The consolidated cash flow statement for 1999 has been restated to conform to the 2000 presentation.

Allowance for doubtful accounts—The Company and its consolidated domestic subsidiaries provide a general allowance for doubtful accounts. Calculation of this allowance is based on actual collection losses incurred in the past. Additionally, for accounts receivable considered at risk (bankruptcy, companies under rehabilitation plan), an allowance is booked based on an estimation of the uncollectible amount, on a case by case basis.

Marketable securities and investment securities—
Marketable securities and investment securities are stated at cost based on the moving average method adjusted for any substantial and non-recoverable diminution in value, except that those of certain unconsolidated subsidiaries and affiliated companies are accounted for by the equity method.

Derivatives and hedge accounting—The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative transactions at fair value and to recognize changes in the fair value as gains or 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—Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payable denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the revised accounting standard for foreign currency translation, “Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation”, issued by the Business Accounting Deliberation Council on October 22, 1999 (the “Revised Accounting Standard”). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated income statement of adopting the Revised Accounting Standard is a decrease in income before income taxes by ¥129 million ($1,041 thousand).

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for shareholders’ equity accounts, 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.

Due to the adoption of the Revised Accounting Standard, the Company and its domestic subsidiaries report foreign currency translation adjustments in the shareholders’ equity and minority interests. The prior year’s amount, which is included in assets, has not been reclassified.

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

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 the assets.

In accordance with revisions of the Corporation Tax Law, buildings, excluding building fixtures, acquired after April 1, 1998 were depreciated using the straight-line method. The effect of this change was to increase operating income and to decrease loss before income taxes in the year ended March 31, 1999 by ¥17 million.

Also effective April 1, 1998 in accordance with revisions referred to above, the Company and its consolidated domestic subsidiaries shortened the estimated useful lives of buildings excluding building fixtures. The effect of this change was to decrease operating income and to increase loss before income taxes in the year ended March 31, 1999 by ¥260 million.

As explained in Note 3, the Company and its ten consolidated domestic subsidiaries changed the method of depreciation effective April 1, 1999.

The effects of these changes on segment information are stated in Note 15.

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, based on the length of service, base salary at the time of retirement or severance and the cause thereof. Prior to April 1, 2000, the Company provided for the full amount (40% of the amount which was required if all eligible employees voluntarily retired as of the balance sheet date in case of consolidated domestic subsidiaries) which would be required to be paid if all eligible employees voluntarily retired as of the balance sheet date less the estimated amount of the Company’s trusted pension assets.

The Company and some consolidated domestic subsidiaries also have a non-contributory funded pension plan, which covers substantially all employees. Prior to April 1, 2000, annual contributions, which consisted of normal cost and amortization of prior service cost, were charged to income when paid.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard, “Opinion on Setting Accounting Standard for Employees’ Severance and Pension Benefits”, issued by the Business Accounting Deliberation Council on June 16, 1998 (the “New Accounting Standard”).

Under the New Accounting Standard, the liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated domestic subsidiaries provided allowance for employees’ severance and retirement benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the “net transition obligation”) amounted to ¥5,858 million ($47,280 thousand). The entire net transition obligation was recognized in expenses in the year ended March 31, 2001. 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.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥5,426 million ($43,793 thousand) and income before income taxes decreased by ¥5,523 million ($44,576 thousand) compared with what would have been recorded under the previous accounting standard.

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

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—The Company and its consolidated domestic subsidiaries provided income taxes at the amounts currently payable for the year ended March 31, 1999. Effective April 1, 1999, the Company and its consolidated domestic subsidiaries adopted the new accounting standard, which recognizes tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. Under the new accounting standard, the provision for income taxes is computed based on the pretax income included in the statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

The amount of deferred income taxes attributable to the net tax effects of the temporary differences at April 1, 1999 is reflected as an adjustment of ¥3,695 million to the retained earnings brought forward from the previous year.

The effect for the year ended March 31, 2000 was to increase net income by ¥484 million and retained earnings by ¥4,179 million.

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

Bonuses to directors and corporate auditors—Bonuses to directors and corporate auditors, which are subject to shareholders' approval at the annual shareholders' meeting under the Commercial Code of Japan, are accounted for as an appropriation of retained earnings.

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

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

Reclassifications—Certain prior year amounts have been reclassified to conform to the 2001 presentation. These changes had no impact on previously reported results of operations or shareholders’ equity.

3. Change in accounting policy

Translation—In the year ended March 31, 1999, the Company and its consolidated domestic subsidiaries changed the method of translating both short-term receivables and payables denominated in foreign currencies into Japanese yen from the method using historical exchange rates to the method using current exchange rates.

As a result of this change, loss before income taxes for the year ended March 31, 1999 increased by ¥57 million.

The effect of this change on segment information is stated in Note 15.

Depreciation—In the year ended March 31, 2000, the Company and its ten consolidated domestic subsidiaries changed the method of depreciation from the decline-balance method to the straight-line method except certain plant facilities and buildings, excluding building fixtures, acquired after April 1, 1998 which have been computed by the straight-line method. The change was made in order to attain a better matching of costs with revenues.

As a result of this change, income before income taxes for the year ended March 31, 2000 increased by ¥6,056 million.

The effect of this change on segment information is stated in Note 15.

4. Securities

(1) The following tables summarize book values of securities with no available fair values as of March 31,2001:

	Millions of yen	Thousands of U.S. dollars
	Book Value	Book Value
Available-for-sale securities		
Non-listed equity securities	¥6,189	$49,952
Non-listed foreign bonds	550	4,439

(2) Available-for-sale securities with maturities are as follows:

	Millions of yen			
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Bonds	¥ —	¥66	¥ —	¥ 66
Others	102	—	10	112
Total	¥102	¥66	¥ 10	¥178

	Thousands of U.S. dollars			
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Bonds	$ —	$533	$ —	$ 533
Others	823	—	81	904
Total	$823	$533	$ 81	$1,437

(3) Total sales of available-for-sale securities sold in the year ended March 31, 2001 amounted to ¥13,845 million ($111,743 thousand) and the related gains and losses amounted to ¥5,842 million ($47,151 thousand) and ¥218 million ($1,759 thousand), respectively.

(4) At March 31, 2000, book value, market value and net unrealized gains (losses) of quoted securities of the Company and its consolidated subsidiaries were as follows:

	Millions of yen		
	2000		
	Book Value	Market value	Unrealized gains (losses)
Current:			
Shares	¥10,022	¥ 14,301	¥ 4,279
Bonds	16	16	0
Others	162	121	(41)
	10,200	14,438	4,238
Non-current:			
Shares	88,227	136,912	48,685
Total	¥98,427	¥151,350	¥52,923

5. 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 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 contracted amount of interest swap is the notional amount only, and not to be considered as an index for measuring market risk or credit risk of the Company and its consolidated subsidiaries.

The following tables summarize market value information as of March 31, 2001 of derivative transactions for which hedge accounting has not been applied:

				Millions of yen
	Contracted amount		Market value	Recognized gains(losses)
2001	Total	Over one year		
Currency related derivatives:				
Forward contracts:				
To sell foreign currencies—				
U.S.dollars	¥ 37	¥ —	¥38	¥ (1)
To buy foreign currencies—				
U.S.dollars	2,108	—	2,214	106
	¥2,145	¥ —		¥105
Interest related derivatives:				
Pay fixed, receive variable:	¥2,539	¥2,116	¥6	¥ 6

				Thousands of U.S. dollars
	Contracted amount		Market value	Recognized gains(losses)
2001	Total	Over one year		
Currency related derivatives:				
Forward contracts:				
To sell foreign currencies—				
U.S.dollars	$ 298	$ —	$ 306	$ (8)
To buy foreign currencies—				
U.S.dollars	17,014	—	17,869	855
	$17,312	$ —		$847
Interest related derivatives:				
Pay fixed, receive variable:	$20,492	$17,078	$ 48	$ 48

The aggregate amounts contracted to be paid or received and the market value of derivative transactions in Japanese yen of the Company and its consolidated subsidiaries at March 31, 2000 was as follows:

	Millions of yen			
	Contracted amount		Market value	Unrealize gains(losses)
2000	Total	Over one year		
Currency related derivatives:				
Forward contracts:				
To buy foreign currencies—				
U.S.dollars	¥1,481	¥ —	¥ 1,481	¥ (0)
France Francs	42	—	38	(4)
Swiss Francs	17	—	17	(0)
	¥1,540	¥ —		¥ (4)
Interestswap:				
To receive float/pay fixed	¥2,701	¥2,374	¥ 77	¥77
Commodity related derivatives:				
Futures contract:				
To sell metals	¥ 661	¥ —	¥ 617	¥44
To buy metals	3,563	138	3,598	35
	¥4,224	¥ 138		¥79

Prior to April 1, 2000, derivative transactions were not stated at fair value, and the changes in fair value were not recognized as gains or losses.

6. Inventories

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Merchandise	**¥ 1,266**	¥ 835	**$ 10,218**
Finished products	**18,768**	14,529	**151,477**
Semi-finished products and work in process	**12,779**	31,590	**103,140**
Raw materials and supplies	**41,114**	20,447	**331,832**
	¥73,927	¥67,401	**$596,667**

7. Bank loans and long-term debt

Bank loans are generally represented by short-term notes (most of which are unsecured) and bank overdrafts, and bore interest at annual rates of 0.38% to 8.30% and 0.49% to 7.85% at March 31, 2001 and 2000, respectively. Long-term debt at March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Long-term loans from:			
Banks, insurance companies and other financial institutions, maturing through 2006 at interest rates of 1.34% to 7.79%:			
Secured	**¥ 7,843**	¥ 9,914	**$ 63,301**
Unsecured	**10,167**	5,626	**82,058**
Government owned banks and government agencies, maturing through 2015 at interest rates of 1.15% to 7.4%:			
Secured	**15,810**	21,842	**127,603**
Unsecured	**345**	440	**2,785**
2.75% domestic bonds due in 2000	**—**	10,000	**—**
3.0% domestic bonds due in 2001	**10,000**	10,000	**80,710**
2.4% domestic bonds due in 2002	**8,000**	8,000	**64,569**
1.75% domestic bonds due in 2002	**7,000**	7,000	**56,497**
2.2% domestic bonds due in 2004	**6,000**	6,000	**48,426**
1.825% domestic bonds due in 2002	**15,000**	15,000	**121,066**
2.225% domestic bonds due in 2004	**10,000**	10,000	**80,710**
2.0% domestic bonds due in 2005	**10,000**	10,000	**80,710**
1.6% domestic bonds due in 2003	**10,000**	10,000	**80,710**
	110,165	123,822	**889,145**
Amount due within one year	**(26,326)**	(16,556)	**(212,478)**
	¥ 83,839	¥ 107,266	**$ 676,667**

The 2.75% domestic bonds were redeemed during the year ended March 31, 2001.

The aggregate annual maturities of long-term debt at March 31, 2001 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2002	¥26,326	$212,478
2003	30,676	247,587
2004	20,695	167,030
2005	18,143	146,433
2006	11,883	95,908
Thereafter	2,442	19,709

Assets pledged as collateral for bank loans and long-term debt at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable		
Trade	¥ 614	$ 4,956
Investment securities		
Other	10,659	86,029
Property, plant and equipment, at net book value	45,222	364,988
	¥56,495	$455,973

8. Income taxes

Income taxes in the accompanying statement of operations comprise corporation tax, inhabitants taxes and enterprise tax. The aggregate statutory tax rate in Japan was approximately 42.1% for the year ended March 31, 2001 and 2000 and 47.4% for the year ended March 31, 1999.

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 year ended March 31, 2001 and 2000:

	2001	2000
Statutory tax rate	**42.1%**	42.1%
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**(9.8)**	(20.5)
Effect of elimination of counterparty dividends received	**3.8**	11.0
Difference in tax rates among the Company and its consolidated subsidiaries	**(0.6)**	(2.4)
Permanently nondeductible expenses	**1.9**	4.8
Permanently nontaxable dividends received	**(6.0)**	(12.1)
Per capita inhabitant tax	**0.6**	1.9
Decrease in valuation allowance	**(29.3)**	(24.9)
Others	**(1.1)**	6.8
Effective tax rate	**1.6%**	6.7%

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2001 and 2000 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Net operating loss carry forwards	**¥ 8,726**	¥ 8,362	**$ 70,428**
Retirement benefits	**6,459**	3,633	**52,131**
Reserve for restructuring charges	**1,160**	—	**9,362**
Allowance for doubtful accounts	**482**	794	**3,890**
Reserve for indemnification of damages caused by a consolidated subsidiary	**739**	1,730	**5,964**
Write-off of investment securities	**—**	1,253	**—**
Depreciation	**1,008**	—	**8,136**
Others	**4,077**	2,991	**32,905**
Gross deferred tax assets	**22,651**	18,763	**182,816**
Less valuation allowance	**(7,184)**	(8,669)	**(57,982)**
Deferred tax assets-less valuation allowance	**15,467**	10,094	**124,834**
Deferred tax liabilities:			
Reserve for losses on overseas investment	**(380)**	(391)	**(3,067)**
Reserve for special depreciation of fixed assets	**(251)**	(264)	**(2,026)**
Deferred gains on properties for tax purpose	**(3,386)**	(2,430)	**(27,329)**
Reserve for explorations	**(1,212)**	(1,276)	**(9,782)**
Depreciation	**(2,706)**	(2,139)	**(21,840)**
Allowance for doubtful accounts	**(1,807)**	—	**(14,584)**
Accumulated earnings of overseas subsidiaries	**(1,325)**	—	**(10,694)**
Others	**(369)**	(254)	**(2,978)**
Deferred tax liabilities	**(11,436)**	(6,754)	**(92,300)**
Net deferred tax assets	**¥ 4,031**	¥ 3,340	**$ 32,534**

9. Retirement benefits and pension costs

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2001 consists of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	**2001**
Projected benefit obligation	**¥(41,488)**	**$(334,850)**
Fair value of pension assets	**17,139**	**138,329**
Excess of projected benefit obligation over pension assets	**¥(24,349)**	**$(196,521)**
Unrecognized net obligation at transition	—	—
Unrecognized actuarial differences	**2,703**	**21,816**
Unrecognized prior service cost	—	—
Net pension liability recognized in the balance sheet	**¥(21,646)**	**$(174,705)**
Prepaid pension expenses	**18**	**146**
Retirement benefits	**¥(21,664)**	**$(174,851)**

Retirement benefits in the consolidated balance sheets also include estimated liabilities for the unfunded lump-sum benefit plan covering directors and corporate auditors (¥463 million ($3,737 thousand)).

Included in the consolidated statement of income for the year ended March 31, 2001 are severance and retirement benefit expenses comprised of the following:

	Millions of yen	Thousands of U.S. dollars
	2001	**2001**
Service cost–benefits earned during the year	**¥2,212**	**$17,853**
Interest cost on projected benefit obligation	**982**	**7,926**
Expected return on plan assets	**(507)**	**(4,092)**
Amortization of entire net transition obligation	**5,858**	**47,280**
	¥8,545	**$68,967**

The discount rate and the rate of expected return on plan assets used by the Company are primarily 3.0 % and 3.5 %, respectively. 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.

Prior to April 1, 2000, the charges to income with respect to retirement benefits and pension costs amounted to ¥4,078 million, and ¥3,100 million for the years ended March 31, 2000, and 1999, respectively.

10. Research and development expense

Research and development expense included in selling, general and administrative expenses for the years ended March 31, 2001, 2000, and 1999 were ¥3,484 million ($28,119 thousand), ¥4,830 million and ¥6,104 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 included in retained earnings at March 31, 2001 and 2000 were ¥6,213 million ($50,145 thousand) and ¥4,259 million, respectively.

12. Shareholders' equity

The diluted net income per share for the year ended March 31, 2001 and 2000 were not calculated because there were no securities with dilutive effects. The diluted net income per share for the year ended March 31, 1999 was not calculated because of net loss incurred for the year. For calculating diluted net income per share, the number of shares outstanding were adjusted by assuming full conversion of the outstanding convertible bonds and full exercise of the outstanding warrants.

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

Under the Code, certain amounts of retained earnings equal to at least10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

At the June 26, 1998 annual meeting, the Company's shareholders approved certain changes in the articles of incorporation of the Company including an article of treasury stock purchase program, so that the Company could retire its own shares acquired in a timely manner by offsetting the cost of the treasury stock against retained earnings within the maximum limit of 57,100 thousand shares by resolution of the Board of Directors. There was no acquisition of treasury stock for this purpose during the year ended March 31, 2001.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company and in accordance with the Code.

13. Contingent liabilities

Contingent liabilities at March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes receivable discounted	¥ 3,302	$ 26,651
As guarantor for loans of:		
Unconsolidated subsidiaries and affiliated companies	5,659	45,674
Other	6,058	48,894
	¥15,019	$121,219

14. Effect of bank holiday on March 31, 2001

As financial institutions in Japan were closed on March 31, 2001, amounts that would normally be settled on March 31, 2001 were collected or paid on the following business day, April 2, 2001. The effects of the settlements on April 2 instead of March 31 included the following:

Cash and cash equivalents	Decreased by ¥403 million	($3,253 thousands)
Notes receivable trade	Increased by ¥2,091 million	($ 16,877 thousand)
Notes payable trade	Increased by ¥1,634 million	($ 13,188 thousand)
Notes payable other	Increased by ¥54 million	($ 436 thousand)
Notes receivable discounted	Increased by ¥692 million	($ 5,585 thousand)

15. Segment information

Business segment information—The primary business activities of the Company and its consolidated subsidiaries include mineral resources, metallurgy, electronics materials, construction materials & housing and other segments.

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

(1) **Change in depreciation method (in the year ended March 31, 1999)**
As explained in Note 2, buildings, excluding building fixtures, acquired after April 1, 1998 are depreciated using the straight-line method. The effect of this change regarding operating income on the segment information was immaterial in the year ended March 31, 1999.

(2) **Change in estimated useful lives (in the year ended March 31,1999)**
As explained in Note 2, effective April 1, 1998, the Company and its consolidated domestic subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. The effects of this change on the segment information were to decrease (or increase) operating

income (loss) of mineral resources, metallurgy, electronics materials, construction materials & housing and others by ¥13 million, ¥96 million, ¥60 million, ¥46 million and ¥36 million, respectively in the year ended March 31, 1999.

(3) **Foreign currency translation (in the year ended March 31, 1999)**
As explained in Note 3, in the year ended March 31, 1999, the Company and its consolidated domestic subsidiaries changed the method of translating both short-term receivables and payables denominated in foreign currencies into Japanese yen from the method using historical exchange rates to the method using current exchange rates. The effect of this change on the segment information was to decrease identifiable assets of mineral resources by ¥16 million, and to increase identifiable assets of metallurgy by ¥3 million and those of electronics materials by ¥9 million in the year ended March 31, 1999.

(4) **Change in depreciation method (in the year ended March 31, 2000)**
As explained in Note 3, in the year ended March 31, 2000, the Company and its ten consolidated domestic subsidiaries changed the method of depreciation from the declining-balance method to the straight-line method except certain plant facilities and buildings, excluding building fixtures, acquired after April 1, 1998 which have been computed by the straight-line method. The effect of this change on the segment information were to increase (decrease) operating income (loss) of mineral resources, metallurgy, electric materials, construction materials & housing and others by ¥307 million, ¥2,500 million, ¥1,768 million, ¥980 million and ¥376 million, respectively.

(5) **Retirement benefits and pension costs (in the year ended March 31, 2001)**
As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits. The effect of this change on the segment information were to increase operating income of mineral resources, metallurgy, electronics materials and others by ¥15 million ($121 thousand), ¥110 million ($888 thousand), ¥211 million ($1,703 thousand) and ¥76 million ($613 thousand) and decrease operating income of construction materials & housing by ¥17 million ($137 thousand), in the year ended March 31,2001, respectively.

(6) **Financial instruments (in the year ended March 31, 2001)**
As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for financial instrument. The effect of this change on the segment information were to increase identifiable assets of metallurgy by ¥939 million ($7,579 thousand) in the year ended March 31,2001.

(7) **Foreign currency translation (in the year ended March 31, 2001)**
As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for foreign currency translation. The effect of this change on the segment information were to decrease identifiable assets of Elimination or corporate by ¥10,861 million ($87,659 thousand) in the year ended March 31,2001.

Net sales, costs and expenses, operating income (loss), depreciation expense and capital expenditures by segment of business activities for the years ended March 31, 2001, 2000, and 1999, and identifiable assets by segment of business activities at March 31, 2001, 2000, and 1999 are summarized as follows:

							Millions of yen
2001	Mineral resources	Metallurgy	Electronics materials	Construction materials & housing	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥ 16,987	¥190,862	¥129,991	¥ 24,828	¥ 12,684	¥ —	¥375,352
Inter segment	6,626	29,733	3,268	52	2,390	(42,069)	—
Total	23,613	220,595	133,259	24,880	15,074	(42,069)	375,352
Costs and expenses	21,253	202,351	125,251	25,184	14,740	(40,357)	348,422
Operating income(loss)	¥ 2,360	¥ 18,244	¥ 8,008	¥ (304)	¥ 334	¥ (1,712)	¥ 26,930
Identifiable assets	¥ 57,258	¥186,326	¥115,066	¥ 25,222	¥ 45,382	¥100,826	¥530,080
Depreciation expense	2,956	4,371	7,564	746	549	588	16,774
Capital expenditures	4,420	9,031	13,318	243	282	784	28,078

2000	Mineral resources	Metallurgy	Electronics materials	Construction materials & housing	Others	Elimination or corporate	Consolidated
							Millions of yen
Net sales:							
Outside customers	¥ 18,938	¥179,538	¥116,772	¥ 26,940	¥ 18,111	¥ —	¥360,299
Inter segment	7,388	29,437	2,483	47	2,288	(41,643)	—
Total	26,326	208,975	119,255	26,987	20,399	(41,643)	360,299
Costs and expenses	25,058	201,822	117,818	28,131	19,320	(40,840)	351,309
Operating income(loss)	¥ 1,268	¥ 7,153	¥ 1,437	¥ (1,144)	¥ 1,079	¥ (803)	¥ 8,990
Identifiable assets	¥ 54,899	¥174,325	¥103,356	¥ 25,064	¥ 47,437	¥139,040	¥544,121
Depreciation expense	3,764	4,369	6,524	1,091	363	500	16,611
Capital expenditures	1,635	3,865	12,312	856	864	958	20,490

1999	Mineral resources	Metallurgy	Electronics materials	Construction materials & housing	Others	Elimination or corporate	Consolidated
							Millions of yen
Net sales:							
Outside customers	¥ 23,479	¥184,913	¥100,220	¥ 31,394	¥ 10,282	¥ —	¥350,288
Inter segment	9,649	23,938	2,463	58	3,538	(39,646)	—
Total	33,128	208,851	102,683	31,452	13,820	(39,646)	350,288
Costs and expenses	29,045	204,559	104,286	38,142	12,696	(39,298)	349,430
Operating income(loss)	¥ 4,083	¥ 4,292	¥ (1,603)	¥ (6,690)	¥ 1,124	¥ (348)	¥ 858
Identifiable assets	¥ 63,396	¥165,515	¥ 95,642	¥ 35,841	¥ 48,536	¥135,589	¥544,519
Depreciation expense	4,403	6,644	7,856	2,586	739	867	23,095
Capital expenditures	3,596	11,572	14,062	1,602	642	1,025	32,499

2001	Mineral resources	Metallurgy	Electronics materials	Construction materials & housing	Others	Elimination or corporate	Consolidated
							Thousands of U.S. dollars
Net sales:							
Outside customers	**$ 137,102**	**$1,540,452**	**$1,049,161**	**$200,387**	**$102,373**	**$ —**	**$3,029,475**
Inter segment	**53,478**	**239,976**	**26,376**	**420**	**19,290**	**(339,540)**	**—**
Total	**190,580**	**1,780,428**	**1,075,537**	**200,807**	**121,663**	**(339,540)**	**3,029,475**
Costs and expenses	**171,533**	**1,633,180**	**1,010,904**	**203,261**	**118,967**	**(325,723)**	**2,812,122**
Operating income(loss)	**$ 19,047**	**$ 147,248**	**$ 64,633**	**$ (2,454)**	**$ 2,696**	**$ (13,817)**	**$ 217,353**
Identifiable assets	**$ 462,131**	**$1,503,842**	**$ 928,701**	**$203,567**	**$366,279**	**$ 813,769**	**$4,278,289**
Depreciation expense	**23,858**	**35,278**	**61,049**	**6,021**	**4,431**	**4,746**	**135,383**
Capital expenditures	**35,674**	**72,889**	**107,490**	**1,961**	**2,276**	**6,328**	**226,618**

Geographic segment information—

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

(1) **Change in depreciation method (in the year ended March 31, 1999)**
As explained in Note 2, buildings, excluding building fixtures, acquired after April 1, 1998 are depreciated using the straight-line method. The effect of this change on the segment information was to decrease operating loss in Japan by ¥17 million in the year ended March 31, 1999.

(2) **Change in estimated useful lives (in the year ended March 31, 1999)**
As explained in Note 2, effective April 1, 1998, the Company and its consolidated domestic subsidiaries shortened the estimated useful lives of buildings, excluding building fixtures. The effect of this change on the segment information was to increase operating loss in Japan by ¥251 million in the year ended March 31, 1999.

(3) **Foreign currency translation (in the year ended March 31, 1999)**
As explained in Note 3, in the year ended March 31, 1999, the Company and its consolidated domestic subsidiaries changed the method of translating both short-term receivables and payables denominated in foreign currencies into Japanese yen from the method using historical exchange rates to the method using current exchange rates. The effect of this change on the segment information was to decrease identifiable assets in Japan by ¥4 million in the year ended March 31, 1999.

(4) **Change in depreciation method (in the year ended March 31, 2000)**
As explained in Note 3, in the year ended March 31, 2000, the Company and its 10 consolidated domestic subsidiaries changed the method of depreciation from the decline-balance method to the straight-line method except certain plant facilities and buildings, excluding building fixtures, acquired after April 1, 1998 which have been computed by the straight-line method. The effect of this change on the segment information were to increase operating income in Japan ¥5,931 million in the year ended March 31, 2000.

(5) **Retirement benefits and pension costs (in the year ended March 31, 2001)**
As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits. The effect of this change on the segment information were to increase operating income of Japan by ¥395 million ($3,188 thousand) in the year ended March 31,2001.

(6) **Financial instruments (in the year ended March 31, 2001)**
As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for financial instrument. The effect of this change on the segment information were to increase identifiable assets of Japan by ¥939 million ($7,579 thousand) in the year ended March 31, 2001.

(7) **Foreign currency translation (in the year ended March 31, 2001)**
As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for foreign currency translation. The effect of this change on the segment information were to decrease identifiable assets of Elimination or corporate by ¥10,861 million ($87,659 thousand) in the year ended March 31,2001.

Geographic segment information for the years ended March 31, 2001, 2000, and 1999 are summarized as follows:

Millions of yen

2001	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	**¥328,608**	**¥ 14,922**	**¥ 23,663**	**¥ 8,159**	**¥ —**	**¥375,352**
Inter segment	**10,334**	**18**	**718**	**1,155**	**(12,225)**	**—**
Total	**338,942**	**14,940**	**24,381**	**9,314**	**(12,225)**	**375,352**
Costs and expenses	**313,854**	**14,766**	**23,407**	**8,711**	**(12,316)**	**348,422**
Operating income	**¥ 25,088**	**¥ 174**	**¥ 974**	**¥ 603**	**¥ 91**	**¥ 26,930**
Identifiable assets	**¥376,180**	**¥ 36,099**	**¥ 19,900**	**¥ 12,095**	**¥ 85,806**	**¥530,080**

Millions of yen

2000	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥318,397	¥ 14,066	¥ 21,216	¥ 6,620	¥ —	¥360,299
Inter segment	2,920	13	781	1,425	(5,139)	—
Total	321,317	14,079	21,997	8,045	(5,139)	360,299
Costs and expenses	312,585	15,253	20,724	7,967	(5,220)	351,309
Operating income(loss)	¥ 8,732	¥ (1,174)	¥ 1,273	¥ 78	¥ 81	¥ 8,990
Identifiable assets	¥361,881	¥ 32,605	¥ 15,299	¥ 10,912	¥123,424	¥544,121

Millions of yen

1999	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥308,670	¥ 18,363	¥ 18,017	¥ 5,238	¥ —	¥350,288
Inter segment	2,336	17	1,805	2,596	(6,754)	—
Total	311,006	18,380	19,822	7,834	(6,754)	350,288
Costs and expenses	313,405	17,273	18,647	6,980	(6,875)	349,430
Operating income(loss)	¥ (2,399)	¥ 1,107	¥ 1,175	¥ 854	¥ 121	¥ 858
Identifiable assets	¥360,398	¥ 46,710	¥ 16,684	¥ 10,429	¥110,298	¥544,519

2001	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
						Thousands of U.S. dollars
Net sales:						
Outside customers	**$ 2,652,203**	**$ 120,436**	**$ 190,985**	**$ 65,851**	**$ —**	**$ 3,029,475**
Inter segment	**83,406**	**145**	**5,795**	**9,322**	**(98,668)**	**—**
Total	**2,735,609**	**120,581**	**196,780**	**75,173**	**(98,668)**	**3,029,475**
Costs and expenses	**2,533,123**	**119,177**	**188,918**	**70,307**	**(99,403)**	**2,812,122**
Operating income	**$ 202,486**	**$ 1,404**	**$ 7,862**	**$ 4,866**	**$ 735**	**$ 217,353**
Identifiable assets	**$ 3,036,158**	**$ 291,356**	**$ 160,614**	**$ 97,619**	**$ 692,542**	**$ 4,278,289**

Information for overseas sales

2001	North America	Southeast Asia	EastAsia	Others	Total
					Millions of yen
Overseas net sales	**¥ 18,736**	**¥ 21,681**	**¥ 53,258**	**¥ 5,278**	**¥ 98,953**
Consolidated net sales	**—**	**—**	**—**	**—**	**¥ 375,352**
Share of overseas net sales	**5.0%**	**5.8%**	**14.2%**	**1.4%**	**26.4%**

2000	North America	Southeast Asia	EastAsia	Others	Total
					Millions of yen
Overseas net sales	¥ 17,240	¥ 20,021	¥ 43,271	¥ 4,191	¥ 84,723
Consolidated net sales	—	—	—	—	¥ 360,299
Share of overseas net sales	4.8%	5.6%	12.0%	1.1%	23.5%

1999	North America	Southeast Asia	EastAsia	Others	Total
					Millions of yen
Overseas net sales	¥ 21,308	¥ 17,854	¥ 37,433	¥ 2,771	¥ 79,366
Consolidated net sales	—	—	—	—	¥ 350,288
Share of overseas net sales	6.1%	5.1%	10.7%	0.8%	22.7%

2001	North America	Southeast Asia	EastAsia	Others	Total
					Thousands of U.S. dollars
Overseas net sales	**$ 151,219**	**$ 174,988**	**$ 429,846**	**$ 42,599**	**$ 798,652**
Consolidated net sales	**—**	**—**	**—**	**—**	**$ 3,029,475**
Share of overseas net sales	**5.0%**	**5.8%**	**14.2%**	**1.4%**	**26.4%**

16. Information for certain leases

As a lessee

A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value of finance leases accounted for in the same manner as operating leases at March 31, 2001 and 2000 were as follows:

	Millions of yen						Thousands of U.S. dollars		
			2001			2000			**2001**
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥2,494**	**¥1,190**	**¥1,304**	¥2,708	¥1,110	¥1,598	**$20,129**	**$ 9,604**	**$10,525**
Others	**351**	**179**	**172**	336	127	209	**2,833**	**1,445**	**1,388**
Total	**¥2,845**	**¥1,369**	**¥1,476**	¥3,044	¥1,237	¥1,807	**$22,962**	**$11,049**	**$11,913**

Future lease payment, inclusive of interest, at March 31, 2001 and 2000 under such lease were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due within one year	**¥ 517**	¥ 564	**$4,173**
Due after one year	**959**	1,243	**7,740**
Total	**¥1,476**	¥1,807	**$11,913**

Total expenses and assumed depreciation charges for the years ended March 31, 2001, 2000, and 1999 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Total expenses	**¥591**	¥680	¥773	**$4,770**
Assumed depreciation charge	**¥591**	¥680	¥773	**$4,770**

As a lessor

A summary of assumed amounts (inclusive of interest) of acquisition cost, accumulated depreciation and net book value at March 31, 2001 and 2000 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2001			2000			**2001**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥510**	**¥164**	**¥346**	¥382	¥164	¥218	**$4,116**	**$1,323**	**$2,793**
Others	**1**	**0**	**1**	—	—	—	**8**	**0**	**8**
Total	**¥511**	**¥164**	**¥347**	¥382	¥164	¥218	**$4,124**	**$1,323**	**$2,801**

Future lease receipt, inclusive of interest, at March 31, 2001 and 2000 under such lease were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Due within one year	**¥ 65**	¥ 48	**$ 525**
Due after one year	**301**	215	**2,429**
Total	**¥ 366**	¥ 263	**$2,954**

Total revenue and Depreciation charges for the years ended March 31, 2001, 2000, and 1999 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2000	1999	**2001**
Total revenues	**¥ 51**	¥ 55	¥105	**$412**
Depreciation charge	**¥ 24**	¥ 21	¥ 71	**$194**

17. Subsequent events

On June 28, 2001 the shareholders of the Company approved payment of an annual cash dividend of ¥6.0 ($0.05) per share or total of ¥3,431 million ($27,692 thousand) to shareholders of record at March 31, 2001.

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Sumitomo Metal Mining Co., Ltd. (a Japanese corporation) and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2001, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Sumitomo Metal Mining Co., Ltd. and subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2001 in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the periods, except as noted in the following paragraph.

As explained in Note 2, Sumitomo Metal Mining Co., Ltd. and consolidated domestic subsidiaries adopted, on a prospective basis in all cases, new Japanese accounting standards for financial instruments, employees' severance and retirement benefits and foreign currency translation effective April 1, 2000, and for consolidation and income taxes effective April 1, 1999. Also, Sumitomo Metal Mining Co., Ltd. and its consolidated domestic subsidiaries changed the method of translation, effective April 1, 1998, and Sumitomo Metal Mining Co., Ltd. and its ten consolidated domestic subsidiaries changed the method of depreciation, effective April 1, 1999, as referred to in Note 3, with which we concur.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Asahi & Co.

Tokyo, Japan
June 28, 2001

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying consolidated financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

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Principal Affiliated Companies

MINERAL RESOURCES

Sumiko Consultants Co., Ltd.*
Sumiko Development and Construction Co., Ltd.*

METALLURGY AND METAL FABRICATION

Hyuga Smelting Co., Ltd.*
SMM Trading Co., Ltd.*
Sumitomo Metal Mining Brass & Copper Co., Ltd.*
Taihei Metal Industry Co., Ltd.*
Sumico Lubricant Co., Ltd.*
Nittosha Co., Ltd.*

ELECTRONICS

Ohkuchi Electronics Co., Ltd.*
Shinko Co., Ltd.*
Sumitomo Metal Mining Electronics Co., Ltd.*
Niihama Electronics Co., Ltd.*
Ajimu Electronics Co., Ltd.*
Maruzen Industry Co., Ltd.*
Sumiko Tec Co., Ltd.*
Fuji Electronics Industries Co., Ltd.*

CONSTRUCTION MATERIALS AND HOUSING

Sumitomo Metal Mining Siporex Co., Ltd.*
Igeta Heim Co., Ltd.*
Sumiko Tatsumi Construction Materials Co., Ltd.*

OTHER SERVICES

Sumiko Engineering Co., Ltd.*
Igeta Auto Industries Co., Ltd.*
Bekko Development & Construction Co., Ltd.*
Sumiko Information Systems Co., Ltd.*
N. E. Chemcat Corporation
Nippon Ketjen Co., Ltd.

Overseas Office

London Office
Vintners Place
68 Upper Thames Street
London EC4V 3BJ, U.K.
Phone : 44-020-7246-3865
Facsimile: 44-020-7246-3931

Shanghai Office
RM1105,11th Floor
Shanghai International Trade Center
2201 Yan An Road West
Shanghai, China
Phone : 86-21-6219-4077
Facsimile: 86-21-6219-0466

Overseas Affiliated Companies

Sumitomo Metal Mining America Inc.*
900 Fourth Avenue, Suite 3950
Seattle, WA 98164, U.S.A.
Phone : 1-206-405-2800
Facsimile: 1-206-405-2814

Sumitomo Metal Mining Arizona Inc.*
900 Fourth Avenue, Suite 3950
Seattle, WA 98164, U.S.A.
Phone : 1-206-405-2800
Facsimile: 1-206-405-2814

SMMA Candelaria Inc.*
Corporation Trust Center, 1209
Orange Street, Wilmington,
Delaware, U.S.A.
Phone : 1-206-405-2800
Facsimile: 1-206-405-2814

Sumitomo Metal Mining Canada Ltd.*
602-700 West Georgia Street
P.O. Box 10150
Pacific Center, Vancouver
B.C. V7Y1C6, Canada
Phone : 1-604-685-3274
Facsimile: 1-604-685-3276

Sumitomo Metal Mining Oceania Pty. Ltd.*
Level 21, Governor Phillip Tower
1 Farrer Place, Sydney
N.S.W. 2000, Australia
Phone : 61-2-9247-6511
Facsimile: 61-2-9247-6599

COMPAÑIA CONTRACTUAL MINERA CANDELARIA
AVENIDA APOQUINDO 4499 4°
PISO SANTIAGO CHILE
Phone : 56-2-251-1200
Facsimile: 56-2-251-1290

P.T. International Nickel Indonesia
Bapindo Plaza II, 22nd Floor
Jalan Jend Sudirman Kav 54-55
Jakarta, Indonesia
Phone : 62-21-5249000
Facsimile: 62-21-5249020

FIGESBAL
21-23, rue de L'Alma
BP C4 Noumea Cedex
New Caledonia
Phone : 687-27-2031
Facsimile: 687-27-2922

Sumitomo Metal Mining Asia Pacific Pte. Ltd.*
No. 35/41, Kallang Place
Singapore 339163
Phone : 65-293-4377
Facsimile: 65-294-8658

M-SMM Electronics SDN. BHD.*
Lots 7 & 9, Jalan Ragum 15/17
40200 Shah Alam Selangor
Darul Ehsan, Malaysia
Phone : 60-3-5519-8140
Facsimile: 60-3-5519-8110

Malaysian Electronics Materials SDN. BHD.*
Lots 7 & 9, Jalan Ragum 15/17
40200 Shah Alam Selangor
Darul Ehsan, Malaysia
Phone : 60-3-5519-8302
Facsimile: 60-3-5519-8305

Sumiko Electronics Taiwan Co., Ltd.*
16. East 7th St., N.E.P.Z.
Kaohsiung, Taiwan, R.O.C.
Phone : 886-7-365-3592
Facsimile: 886-7-361-2458

Sumiko Leadframe (Thailand) Co., Ltd.*
1/49 Rojana Industrial Park Moo 5,
Tambol kanham, Amphur Utai,
Ayutthaya 13210, Thailand
Phone : 66-35-226303
Facsimile: 66-35-226309

P.T.SUMIKO LEADFRAME BINTAN*
Lots D6&D7, Bintan Industrial
Estate, Lobam/Bintan, Riau
Province, Indonesia
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Facsimile: 62-770-696025

Sumiko Leadframe Singapore Pte.Ltd.*
No.35/41 Kallang Place, Singapore
339163
Phone : 65-293-4377
Facsimile: 65-294-8658

Sumiko Taiwan Precision Co., Ltd.*
16-1.East 7th St., N.E.P.Z.
Kaohsiung, Taiwan,R.O.C.
Phone : 886-7-365-5768
Facsimile: 886-7-365-5758

Sumitomo Metal Mining U.S.A.Inc.*
4055 Calle Platino, Oceanside,CA
92056,U.S.A.
Phone : 1-760-941-4500
Facsimile: 1-760-941-0900

Sumitomo Metal Mining Electronics Parts Pte. Ltd.*
No. 6 Tuas Avenue 20
Singapore 638820
Phone : 65-863-1123
Facsimile: 65-863-2062

*Consolidated subsidiaries

Corporate Data

As of March 31, 2001

FOUNDED
1590

INCORPORATED
1950

HEAD OFFICE
11-3, Shimbashi 5-chome, Minato-ku, Tokyo 105-8716, Japan

PAID-IN CAPITAL
¥88.3 billion

NUMBER OF EMPLOYEES
2,668

Investor Information

As of March 31, 2001

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. The 2001 regular general meeting was held on June 28.

COMMON STOCK
Number of authorized shares:
1,000,000,000 shares
Number of issued and outstanding shares:
571,872,794 shares

LISTING OF SHARES
Domestic:
Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo stock exchanges

STOCK TRANSACTION UNITS
1,000-share units

STOCK TRANSFER AGENT
The Sumitomo Trust and Banking Company, Limited
Head office:
5-33, Kitahama 4-chome, Chuo-ku, Osaka 540-8639
Stock Transfer Agency Department:
4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8233

PUBLIC NOTICES
The Company's public notices appear in the Nihon Keizai Shimbun published in Tokyo, Japan.

INDEPENDENT PUBLIC ACCOUNTANTS
Asahi & Co.
1-2, Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551

PRINCIPAL SHAREHOLDERS

	Number of shares held (thousands)	Percentage of total shares outstanding
Japan Trustee Services Bank, Ltd. (Trust accounts)	33,091	5.8%
The Mitsubishi Trust and Banking Corporation (Trust accounts)	29,744	5.2
The Sumitomo Bank, Limited*	20,398	3.6
Separately managed money trustee, The Chuo Mitsui Trust and Banking Company, Limited "1"	17,999	3.1
Pension trustee, The Chuo Mitsui Trust and Banking Company, Limited "2"	16,712	2.9
Sumitomo Life Insurance Company	16,193	2.8
Japan Trustee Services Bank, Ltd./The Sumitomo Trust and Banking Co., Ltd. (Retirement benefit trust account)	14,000	2.4
The Toyo Trust and Banking Co., Ltd. (Trust accounts "A")	12,287	2.1
NEC Corporation	10,001	1.7
Sumitomo Corporation	10,000	1.7

* The Sumitomo Bank, Limited merged with The Sakura Bank, Ltd. on April 1, 2001, and has become The Sumitomo Mitsui Banking Corporation.

Corporate Officers

DIRECTOR
Yuji Yokoyama

DIRECTOR
Noboru Hishida

DIRECTOR
Hirosuke Chihara

DIRECTOR
Nobuto Yamaguchi

REPRESENTATIVE DIRECTOR
Koichi Fukushima

REPRESENTATIVE DIRECTOR
Chitsura Arakawa

DIRECTORS AND AUDITORS
(As of June 28, 2001)

REPRESENTATIVE DIRECTORS

Koichi Fukushima

Chitsura Arakawa

DIRECTORS

Noboru Hishida

Hirosuke Chihara

Yuji Yokoyama

Nobuto Yamaguchi

AUDITORS

Isao Shima

Masahide Tsuno

Setsuya Kuroda

Hajime Ohta

EXECUTIVE OFFICERS
(As of June 28, 2001)

PRESIDENT

Koichi Fukushima

SENIOR MANAGING EXECUTIVE OFFICER

Chitsura Arakawa

MANAGING EXECUTIVE OFFICERS

Noboru Hishida

Hirosuke Chihara

Akira Ichinose

Koji Aiba

Yuji Yokoyama

Nobuto Yamaguchi

EXECUTIVE OFFICERS

Takeshi Yamane

Takayoshi Kimura

Ryoichi Suzuki

Yukio Ishikawa

Takuro Mochihara

Kenji Fujimura

SUMITOMO METAL MINING CO., LTD.