Taking the Royal Road

Annual Report 2006

For The Year Ended March 31, 2006

SUMITOMO METAL MINING CO., LTD.

Philosophy & Management Vision

SMM Group Corporate Philosophy

1.Sumitomo Metal Mining Co., Ltd.("SMM"), in accordance with the Sumitomo's Business Spirit, shall, through the performance of sound corporate activities, seek to make positive contributions to society and to fulfill its responsibilities to its stakeholders, in order to win ever greater trust.

2.SMM shall, based on respect for all individuals and recognizing each person's dignity and value, seek to be a forward-minded and vibrant company.

SMM Group Management Vision

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

Contents

Unless specifically stated otherwise, information in this annual report is as of August 31, 2006.

Forward-looking Statements

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

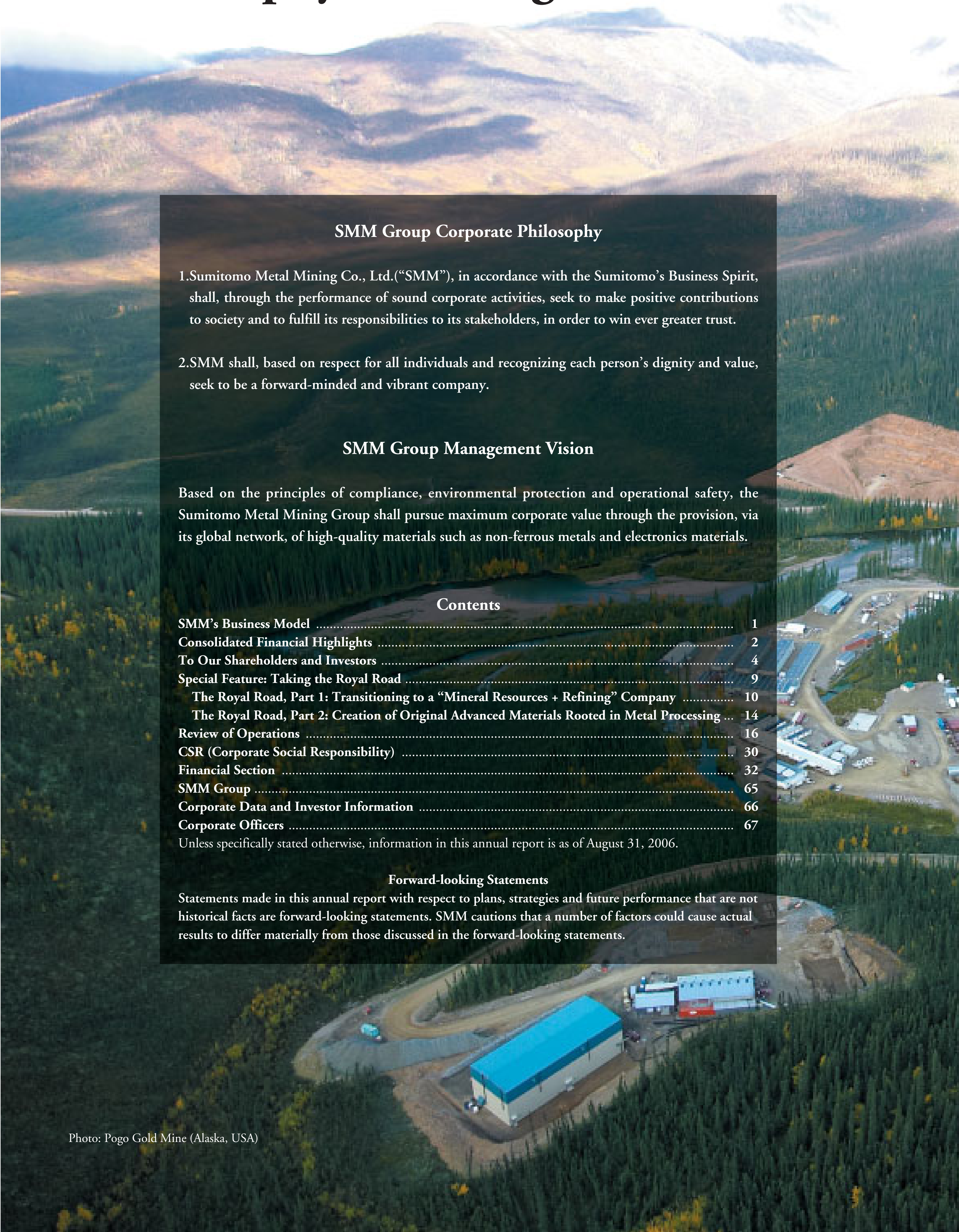
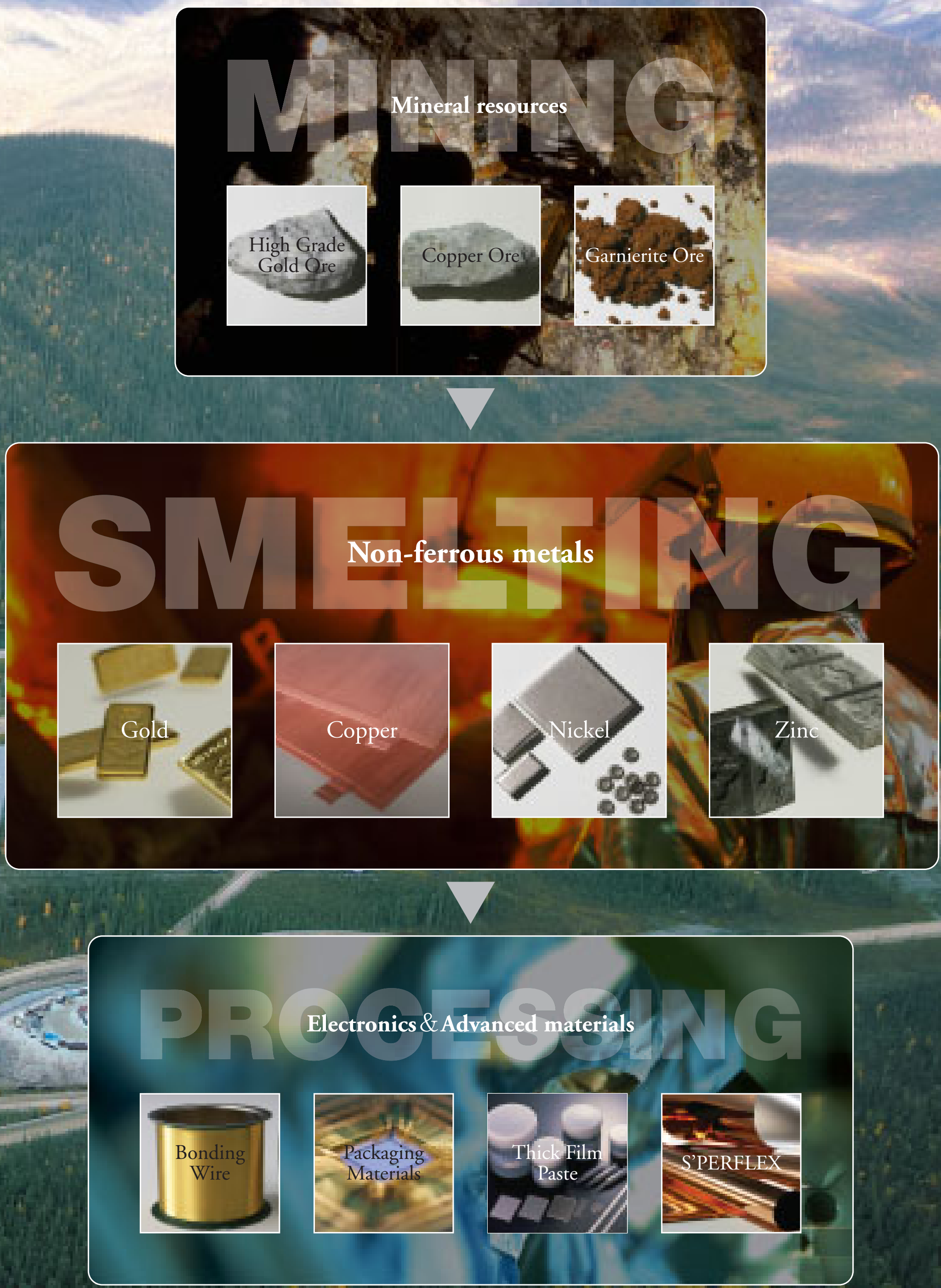


Photo: Pogo Gold Mine (Alaska, USA)

SMM's Business Model



From Mineral Resource Development to Advanced Materials

By extracting ores from mines, refining these into metals and further processing these into cutting-edge electronic materials and advanced materials, the Sumitomo Metal Mining Group has built a business model that is fully integrated from upstream to downstream in the field of non-ferrous metals.

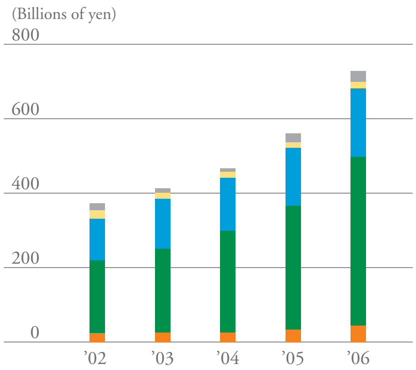
Consolidated Financial Highlights

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

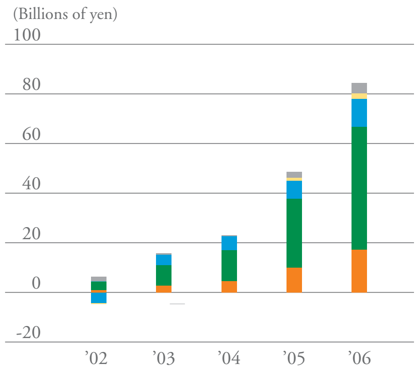
	Year-on-year change (%)	Millions of yen (unless otherwise specified)			Thousands of U.S. dollars (unless otherwise specified)
Years ended March 31	**2006/2005**	**2006**	2005	2004	**2006**
For the Year:					
Net sales	**29.1**	**¥ 625,579**	¥484,585	¥402,131	**$5,324,983**
Operating income	**72.8**	**82,756**	47,893	22,778	**704,426**
Recurring profit	**83.0**	**99,716**	54,486	27,811	**848,791**
Income (loss) before income taxes	**72.4**	**92,974**	53,917	31,194	**791,403**
Net income (loss)	**69.7**	**62,800**	37,017	19,882	**534,559**
Equity in earnings of affiliated companies	**62.2**	**21,915**	13,513	7,112	**186,542**
Capital expenditures	**38.6**	**50,568**	36,488	46,540	**430,439**
Depreciation	**11.5**	**22,951**	20,578	17,824	**195,361**
Net interest expense	**(43.4)**	**(1,281)**	(893)	(1,098)	**10,904**
Net cash flows from operating activities	**76.3**	**70,772**	40,150	32,324	**602,417**
Net cash flows from investing activities	**(222.7)**	**(102,384)**	(31,725)	(17,448)	**(871,502)**
Net cash flows from financing activities	**371.1**	**28,723**	6,097	(9,293)	**244,493**
Free cash flows	**(275.2)**	**(31,612)**	8,425	14,876	**(269,084)**
At Year-End:					
Total assets	**34.6**	**772,562**	573,925	517,930	**6,576,115**
Shareholders' equity	**31.7**	**373,752**	283,897	253,071	**3,181,410**
Interest-bearing debt	**18.9**	**190,891**	160,533	148,351	**1,624,881**
Per Share (Yen, U.S. Dollars):					
Net income (loss)	**69.8**	**109.96**	64.77	34.76	**0.94**
Shareholders' equity	**31.5**	**654.15**	497.57	443.29	**5.57**
Cash dividends	**75.0**	**14.0**	8.0	6.0	**0.12**
Ratios:					
ROA (%)	—	**9.3**	6.8	4.0	
ROE (%)	—	**19.1**	13.8	8.4	
Equity ratio (%)	—	**48.4**	49.5	48.9	
Interest-bearing debt to total asset ratio (%)	—	**24.7**	28.0	28.6	
Interest coverage ratio (times)	—	**25.2**	20.8	14.8	

Notes: 1. Recurring profit = Operating income + Nonoperating income - Nonoperating expenses
2. 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.
3. U.S. dollar figures are translated, for convenience only, at the rate of ¥117.48=U.S. $1, the effective rate of exchange prevailing on March 31, 2006.

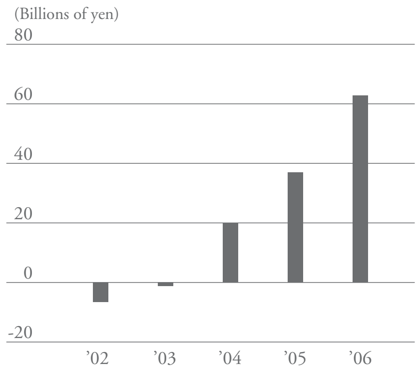
Net Sales



Operating Income (Loss)



Net Income (Loss)



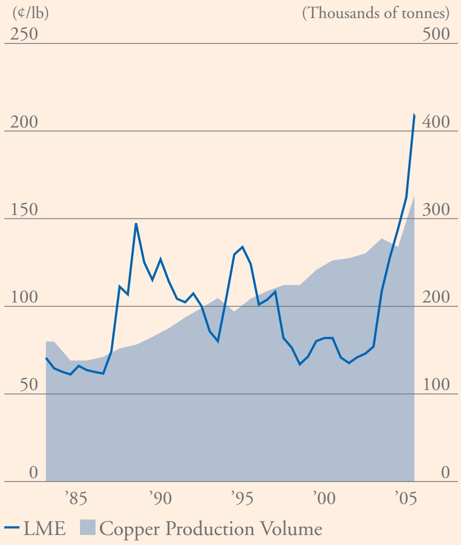
Mineral resources Metals Electronics & advanced materials Construction materials Others

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

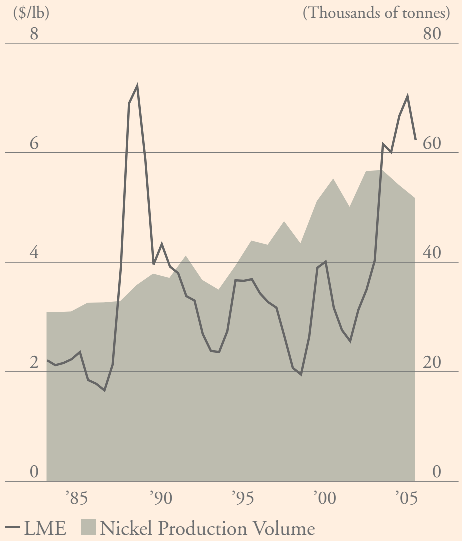
The Market Environment Surrounding SMM

Driven by economic growth in China and other Asian countries, demand for copper, nickel, zinc and other raw, non-ferrous metals is expanding, and this trend is expected to continue. At the same time, against the backdrop of this vigorous demand, the supply of raw materials is becoming tight among refiners, who are moving to enhance and increase production, and ensuring the stability of mineral resources has become a major issue. The SMM Group, which aims to become a “non-ferrous major”, will raise the level of global competitiveness of its refineries, while, as a basic strategy, shifting from ore-purchasing and refining, where it produces raw metal from purchased ore, to a business model of “mineral resources + refining”, where it possesses its own ore.

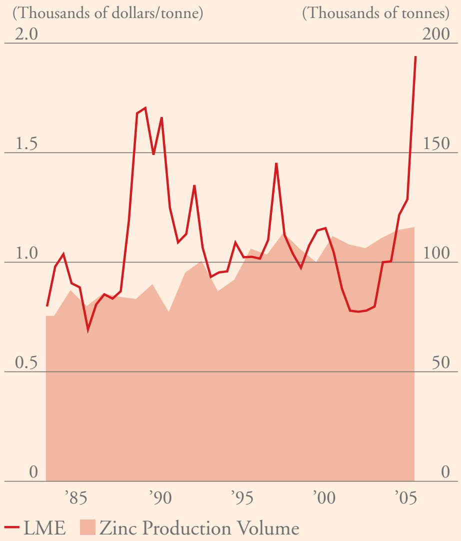
Copper Price (LME) and Our Production Volume



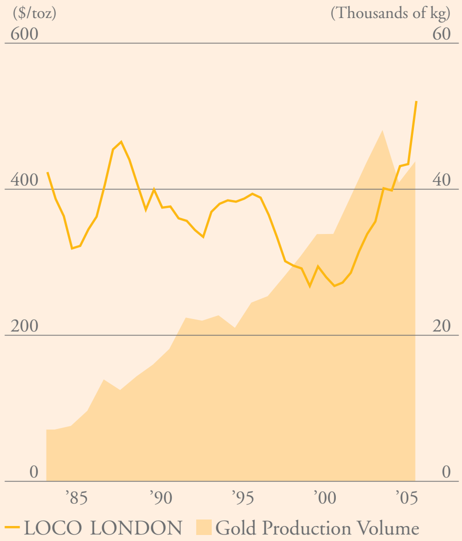
Nickel Price (LME) and Our Production Volume



Zinc Price (LME) and Our Production Volume



Gold Price (LOCO LONDON) and Our Production Volume



Note: Metal prices indicate the average prices for the previous six-month period.

To Our Shareholders and Investors

Our Mid-term Management Plan — the growth strategy upon which we embarked in fiscal year 2004 — is steadily yielding results. In fiscal year 2005, moreover, supported by an extra boost from the market, we achieved record high profits. We will continue to focus our energies on accomplishing our growth strategy of becoming a "non-ferrous major."

Review of Fiscal Year 2005

Surges in Non-ferrous Metal Prices

Fiscal year 2005 turned out to be a far more favorable environment for earnings than we had anticipated. Prices for non-ferrous metals such as copper and zinc hit record highs mainly because of expanding demand, especially in China. Other factors included accidents at mines and refineries in South and Central America and Asia, a series of strikes and other production difficulties, and an almost constant influx of speculative money into a non-ferrous market of increasingly unstable supply and demand. In fiscal year 2005, the average prices of the non-ferrous metals that are our main products were 185.8 cents/lb for copper (up 36.5% from the previous year), $6.63/lb for nickel (up 4.6%), and $476.6/oz for gold (up 15.1%). In addition to this, demand for semiconductors and electronic materials began to recover as the inventory adjustment in the market for electronic devices and electronic components that started in the second half of fiscal year 2004 had almost run its course by the beginning of fiscal year 2005.

Growth in Both Revenue and Profit in All Segments

In response to the surging prices for non-ferrous metals and the recovery in demand in the markets for electronic devices and electronic components, we achieved growth in both revenue and profit in all segments. SMM's fiscal year 2005 sales totaled ¥625.6 billion (up 29.1% from the previous year), overshooting our initial target of ¥480 billion by 30.3%. Moreover, operating income totaled ¥82.8 billion (up 72.8% from the previous year), and recurring profit came to ¥99.7 billion (up

83.0%). Net income was ¥62.8 (up 69.7%), topping previous profit records by a large margin.

* Recurring profit refers to the profit that a company earns from its standard, ongoing activities, including its main business.

¥16 billion Growth in Profit Excluding Market Effects

As the sharp rises in non-ferrous metal prices obscure the results of what we accomplished through our own efforts, we calculate the change in our business profit excluding the benefit of market factors by analyzing our recurring profit, which increased by ¥45.2 billion from the previous year to ¥99.7 billion. Subtracting "the increase in costs due to surges in commodity prices (e.g., energy-related)" from "the increase due to overall market factors" yields ¥29.2 billion as the impact of non-ferrous metal prices on our results. Subtracting this amount from the increase in recurring profit (¥45.2 billion) yields ¥16 billion, which is the increase in profit that we achieved through our own efforts. Our core segments of Mineral Resources & Metals and Electronic Materials & Advanced Materials accounted for ¥12.4 billion of this increase and Other Businesses for the remaining ¥3.6 billion.

Solid Progress in Our Strategies

Our favorable results for fiscal year 2005 were thus not due merely to higher non-ferrous metal prices; steady progress in the strategies that we have been pursuing to date also made a major contribution. Focusing on copper in our Metals and Mineral Resources segment, we have been reinforcing our Toyo Smelter & Refinery into a top global class, high-efficiency refinery. In the second half of fiscal year 2005, it began operating with an annual capacity of 365,000 tonnes, up from the previous 300,000 tonnes of metal production annually. Turning to nickel, the Coral Bay Project, which uses our HPAL (high-pressure acid leach) method to efficiently recover nickel from low-content ore, began commercial production in April 2005. It achieved full production in November 2005 after a gradual raising of production levels. The results of progress in both of these projects combined to help this segment to get a boost from the market.

In the Electronic Materials and Advanced Materials segment, operating income grew 54% to more than ¥10 billion. While our strategies for each field fully met expectations, with copper-clad polyimide film, battery materials, and packaging materials all doing well, copper-clad polyimide film in particular more than justified the long years of effort we put into its development. Our affiliated companies are also achieving strong earnings growth. They are all at the stage of realizing their individual strategies as we have pursued higher levels of business efficiency by withdrawing from unprofitable businesses and through tie-ups with other companies.

Koichi Fukushima, President

Financial Position Stable

Our total assets were ¥772.6 billion (up ¥198.6 billion from the previous year) due to investment in overseas mining companies as well as to large increases in trade receivables and inventory assets as non-ferrous metal prices continued to set new highs. Shareholders' equity, meanwhile, was ¥373.8 billion (up ¥89.9 billion) due to the growth in retained earnings accompanying the increase in net profit. As a result, the equity ratio was basically flat from the previous year at 48.4% despite a ¥30.4 billion increase (up 18.9% from the previous year) in interest-bearing debt as funds for strategic investment.

Entering the Final Year of Our Mid-term Management Plan (Fiscal Year 2006)

Our Objective is Stable Growth in Baseline Profit

The SMM Group began implementing its current three-year mid-term management plan in fiscal year 2004. The earnings targets that we have set for fiscal year 2006, the final year of the plan, have already been sharply exceeded by fiscal year 2005 due to record high metal prices. However, the true goal of the SMM Group's mid-term management plan is not to boost profit on the back of price movements. Rather, it is for our Mineral Resources and Metals segments to be among the "non-ferrous majors" and our Electronic Materials and Advanced Materials segments to have "top global class shares in their respective products" as we steadily boost baseline profit independently of metal prices. The mid-term plan's fiscal year 2006 earnings target

Mid-term Management Plan (2004-2006)

Billions of yen

	FY2004 Actual	FY2005 Actual	FY2006 Mid-term Management Plan Target
Net Sales	484.6	625.6	480.0
Operating income	47.9	82.8	33.0
Recurring profit	54.5	99.7	35.0
Income (loss) before income taxes	37.0	62.8	25.0
Equity ratio	49.50%	48.40%	40% or above
Interest-bearing debt	160.5	190.9	165.0
Interest-bearing debt ratio	28.00%	24.70%	30% or below

Prerequisite

	FY2004 Actual	FY2005 Actual	FY2006 Anticipated under Midterm Management Plan
Exchange rate (Yen/$)*	107.5	113.3	110
Copper Price (¢/Ib)	136.1	185.8	90.7
Nickel Price ($/Ib)	6.34	6.63	3.5
Gold Price ($/toz)	414	476.6	320
Zinc Price ($/ton)	1,110	1,614	950

*Exchange rate used is the average rate this fiscal year (recurring profit of ¥35 billion) refers to this baseline profit. It is important to achieve this earnings target independently of the portion due to higher metal prices.

We Expect Metal Prices to Decline

During fiscal year 2005, non-ferrous metal prices surged to levels that were impossible to predict based on past experience. The non-ferrous metal market is usually characterized by a shift to oversupply in the supply and demand balance when suppliers increase production in response to surging prices; however, production trouble at mines and refineries has led to supply shortages, inviting an influx of speculative money. In other words, the increase in prices beyond the level that can be explained by supply and demand is attributable to an influx of speculative money and that increase is large. Assuming that the non-ferrous metal companies are able to reliably provide their projected levels of capacity, the supply and demand balance should improve and metal prices should gradually decline.

Steady Implementation of Our Basic Strategy

Mineral Resources and Metals
— Aiming to Transition to “Mineral Resources + Refining”

Our basic strategy is to transition from an ore-purchasing and refining business model that depends on external sources of ore to the “Mineral Resources + Refining” type, in which we have our own ore, acknowledging that there is a limit to growth under a business model focused on refining, while we continue to boost the competitiveness of our refineries to global levels. The mineral resources industry is coming increasingly under the control of a group of the world’s largest mining companies that are known as the “mineral resource majors.” And at the same time mineral resource supply and demand is tightening amid brisk demand. Based on the concept that we must have in-house ores (mines in which we have rights and interests) to ensure stable operations, we are building a system that can provide our customers with stable supplies of metals that eliminate the impact of ore supply and demand by boosting our in-house ore ratio by investing business resources in the development of high-quality overseas mines.

Electronic Materials and Advanced Materials
— Aiming for Top Global Class Shares

We are reinforcing and expanding our business base so that the downstream Electronic Materials and Advanced Materials segments become a second business mainstay in addition to the upstream Mineral Resources and Refining segment. In the Electronic Materials segment, we are reinforcing our supply system in China, which has become one of the world’s largest production bases for electronic equipment, with a view to winning the top global market share for all of this segment's products. In the Advanced Materials segment, we are increasing annual production capacity for copper-clad polyimide film, which is booming on the back of LCD growth, from 2.4 million m^2 at the beginning of fiscal year 2005 to 6.5 million m^2 at the end of fiscal year 2006. At the same time, we are targeting the development of at least five new products with annual sales of ¥1 billion-¥3 billion by fiscal year 2006 by focusing our efficient R&D on the five fields of 1) battery materials, 2) crystal materials, 3) materials for forming thin films such as sputtering targets, 4) functional powder materials, and 5) thin package materials such as copper-clad polyimide film.

Moreover, our implementation of these strategies is based on our recognition of the importance of reinforcing our management base. This reinforcement consists of realizing efficient and wholesome corporate activities by reinforcing corporate governance, establishing and consistently applying a compliance system that takes to heart the lessons learned from the criticality accident which occurred at our subsidiary JCO Co.,Ltd. in 1999, establishing a culture of safety, and building a risk management system.

In Conclusion
— Following the Royal Road of the Non-ferrous Metal Industry Upstream and Downstream

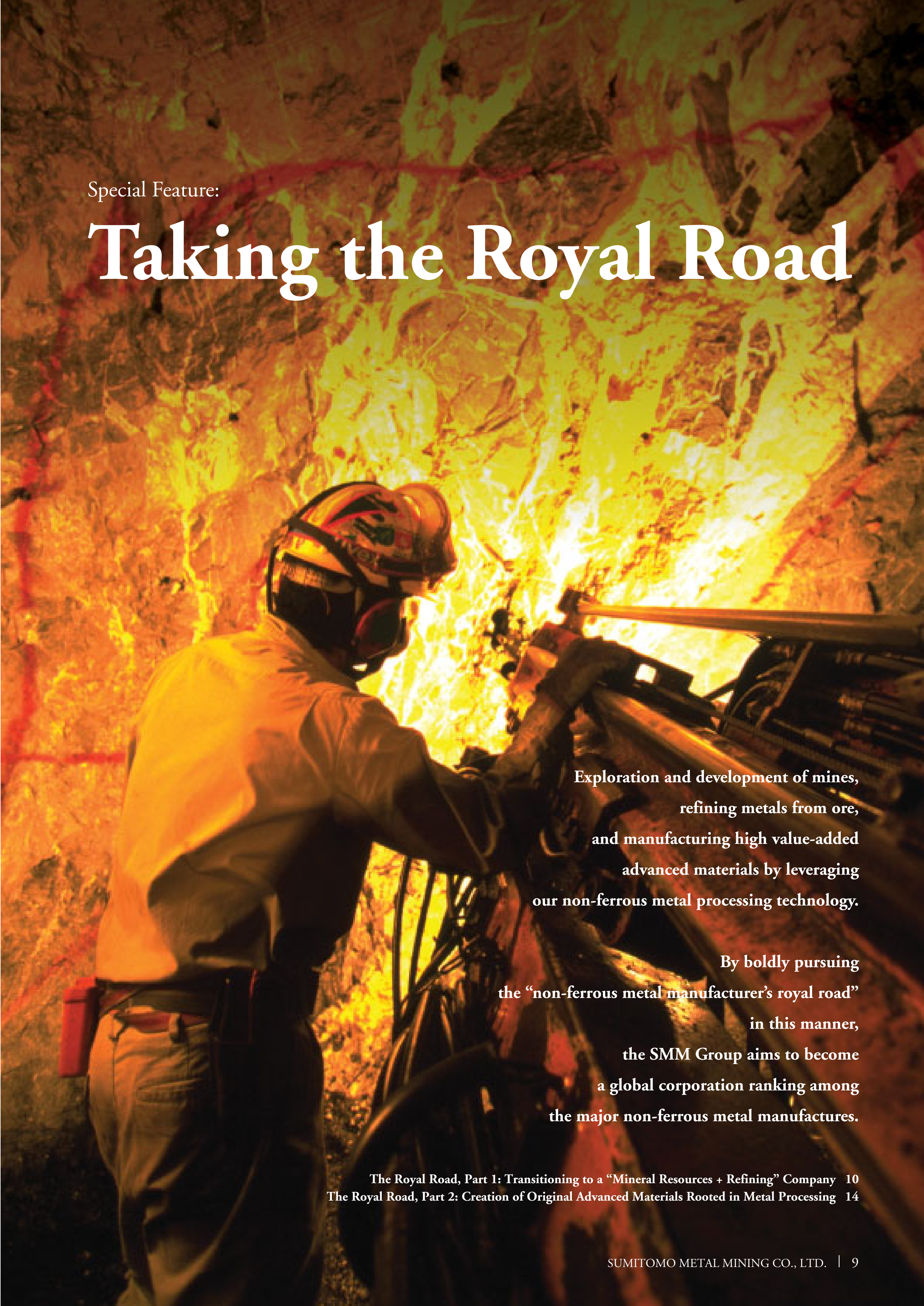
In the non-ferrous metal industry, the companies that own the world's mineral resources are posting record high profit on the back of surging metal prices. We, however, believe that expanding baseline profit independently of higher metal prices and having our responsibility of providing metal consumers with stable supplies are important. Aiming to become a "non-ferrous major," we are boldly following the royal road of the non-ferrous metal industry upstream and downstream by means of our original business development by exploiting our technologically powerful Electronic Materials and Advanced Materials segments and by demonstrating our value with a "Mineral Resources + Refining" business model that actively promotes projects for developing mineral resources.

We look forward to your continued support and understanding.

August 2006

K. Fukushima

Koichi Fukushima
President



Special Feature:

Taking the Royal Road

**Exploration and development of mines,
refining metals from ore,
and manufacturing high value-added
advanced materials by leveraging
our non-ferrous metal processing technology.**

**By boldly pursuing
the "non-ferrous metal manufacturer's royal road"
in this manner,
the SMM Group aims to become
a global corporation ranking among
the major non-ferrous metal manufactures.**

The Royal Road, Part 1

Transitioning to a "Mineral Resources + Refining" Company

As the world's largest consumer nation, as well as its top importer of raw materials, China—which has seen annual economic growth hit nearly 10%—now exerts considerable influence on world metal markets. SMM has laid out a growth strategy based on becoming a non-ferrous major, while transitioning from ore purchasing and refining to a "Mineral Resources + Refining" business model. Here, we examine our understanding of and strategy for the crucial Chinese market, with a particular focus on copper.

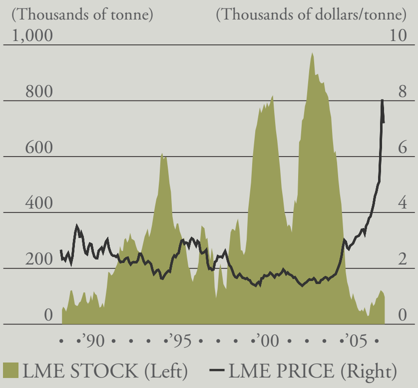
Factors behind Surging Copper Prices

Copper Prices Rise More Than 5-Fold in Three Years

At the end of 2005, the price of copper on the London Metal Exchange hit a record US$5,000 per tonne, and continued to strengthen in the new year, breaking through the US$8,000 mark in May of 2006. This more than five-fold increase in price levels over the US$1,500 range seen in 2002 can be attributed in part to China, where the voracious demand for resources to fuel the production of home appliances and build up electrical infrastructure has continued to outstrip the available supply. At the same time, LME copper inventories plunged from a record high of 980,000 tonnes in May of 2002, to an all-time low of less than 30,000 tonnes by the end of June 2005, a situation exacerbated by the declining quality of copper ore, mine accidents at Indonesia's Grasberg Mine and elsewhere, and a wave of wage-related strikes that hit mines in both North and South America. Further, just as prices were at their most volatile, an outpouring of speculative investment hit the market, and this chain of events is why the dramatic jump to US$8,000 a tonne cannot be explained by supply and demand alone.

In the end, it was a convergence of all of these factors that caused copper prices to skyrocket to historical levels. Still, underlying everything is the insatiable demand in the Chinese market.

Copper: LME Prices & LME Stock



China: The World's Largest Consumer of Copper

Feeding China's Ever-Growing Appetite

The worldwide market for copper has grown steadily in the past ten years. When we drill down, however, we find that the Chinese market as nearly tripled in size, while growth in demand in the U.S., Japan, and Europe has stayed relatively low; China is, in fact, driving the global market. In 1998, the country's nominal GDP cleared the US$1 trillion level, and in December of 2001, it succeeded in joining the World Trade Organization (WTO). By 2005, its nominal GDP had reached US$2.2 trillion, nearly doubling in just seven years, and representing a remarkable growth rate of nearly 10% per year. In the midst of this economic expansion, China saw its consumption of copper grow at an annual rate of 14.3%, from 1.27 million tonnes in 1997 to 3.67 million tonnes in 2005, more than tripling in eight years to account for over 20% of worldwide demand of 16.96 million tonnes.

(Source: WBMS–World Bureau of Metal Statistics–)

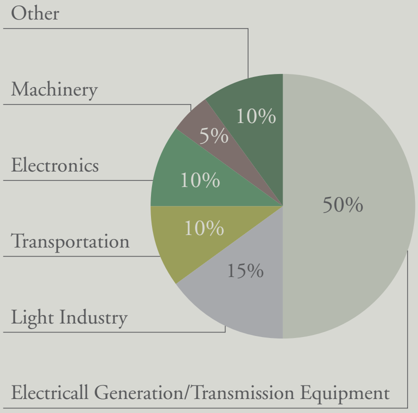
Power Transmission Infrastructure Drives Copper Consumption

Copper is a vital component of power lines and other essential infrastructure. As China produces an increasing portion of the world's goods, the demand for industrial power supplies continues to climb. At the same time, the country's newfound wealth is fueling a more comfortable consumer lifestyle, driving more demand for electricity in the home as well. These twin pressures are putting a strain on China's inadequate power delivery infrastructure, and power shortages have become a serious issue.

In an attempt to address these shortages, the government is implementing a large-scale plan to generate more power in the western part of the country, where energy resources are abundant, and deliver it to the eastern coastal areas, where continued economic development has overtaxed existing supplies. Additional help will come from the Three Gorges (Sanxia) Dam, which, when completed in 2009, will be the largest hydroelectric dam in the world, capable of generating as much as 18.2 million kilowatts. While this represents a little less than 10% of China's total energy consumption, it is estimated that nearly 250,000 tonnes of copper will be needed just for the electrical lines to deliver all of that power.

As a result of this large-scale push to develop much needed infrastructure, related demand for copper continues to grow, and today, power and other infrastructure needs represent approximately half of the country's copper consumption.

China's Copper Demand by Use

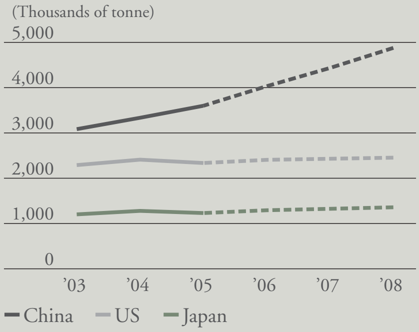


(Source: Estimate by SMM)

Per Capita Copper Consumption Has Room for Growth

While infrastructure needs drive much of the increased demand for copper in China, a look at a different set of statistics—a 2002 study of per capita copper consumption—supports the assumption that demand will continue to expand. Worldwide, per capita consumption averages 2.5kg. In leading developed nations, that average climbs to between 10 and 20kg, with the U.S. at 11kg, Japan at 10kg, and Germany at 15kg. China's per capita copper consumption, however, is a paltry 1.4kg. We believe that as lifestyles grow more affluent, this per capita consumption will continue to grow as well, and in a market the size of China's, a 1kg increase per person can represent an additional 1.3 million tonnes, a positive prospect indeed for long-term expansion.

The World's Three Largest Consumers of Copper: Actual & Estimates

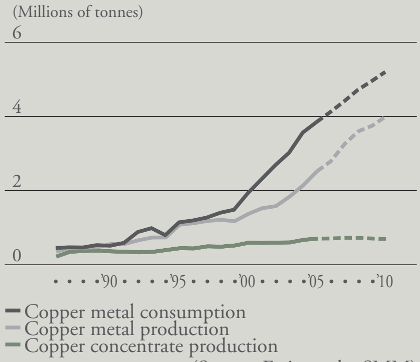


(Source: World Bureau of Metal Statistics [WBMS])

The Growing Gap between Supply and Demand

Domestic copper production in China reached 2.58 million tonnes in 2005, reflecting continued enhancement of the country's copper refining capacity in reaction to vigorous demand; capacity is expected to grow another 350,000 tonnes in 2006 alone. Still, while demand has tripled in the eight years since 1997, production capacity has barely doubled, resulting in a growing gap between supply and demand which China now attempts to fill via imported copper. Looking forward to 2010, we believe that while demand will continue its strong growth, domestic production will likely top out at 4 million tonnes, creating an even wider gap, and a bigger opportunity for imported metal.

The Gap between China's Copper Production and Consumption



(Source: Estimate by SMM)

Sumitomo Metal Mining and China

Establishing a Sales Organization in China, Enhancing Capacity at Home

Annual production capacity at our Toyo Smelter & Refinery is being increased from 365,000 tonnes in 2005, to a planned 450,000 tonnes by fiscal year 2007, making it the largest such facility in the world. With imports to both China and the rest of Southeast Asia expected to continue growing, the Toyo plant's proximity to the region positions us to take advantage of those opportunities, efforts which are further supported through our sales office in Shanghai, which opened in October of 2000, and which is the first step in the establishment of a local sales network in China.

Japan's Only Non-Ferrous Metals Company with a Copper Refining Business in China

Our ability to take these strategic steps in the growing Chinese market is due, in part, to the groundwork we have laid to

Copper Metal Production by China's Main Refiners

China's Refiners	Copper Metal Production: thousands of tonnes 2005 Actual	Copper Metal Production: thousands of tonnes 2006 Estimated	
1. Jiangxi Copper	450	700	SMM provides technology
2. Jinlong	210	400	Becomes equity-method affiliate of SMM (27% stake)
3. Yunnan Copper	320	400	
4. Jinchuan	170	400	
5. Daye	170	200	
6. Tongling	150	150	
Total for six main refiners	1,470	2,250	

date, such as our equity stake in Jinlong Copper Co., Ltd. Our involvement with China in copper business goes all the way back to the 1970s, when the country was just beginning its transition to a policy of economic reform and greater openness. We began by providing technology to the Guixi Copper Smelter & Refinery, owned by the Jiangxi Copper Corporation, which today is the largest company of its kind in China. Based on this proven record, the Jinlong Copper Co., Ltd. then came to us for similar technological support, and in 1995, we took an equity stake in the company. As China's economy has continued to grow, so has capacity at the Jinlong Refinery, from 100,000 tonnes in 1992, to 150,000 in 2002, and again to 210,000 tonnes in 2005.

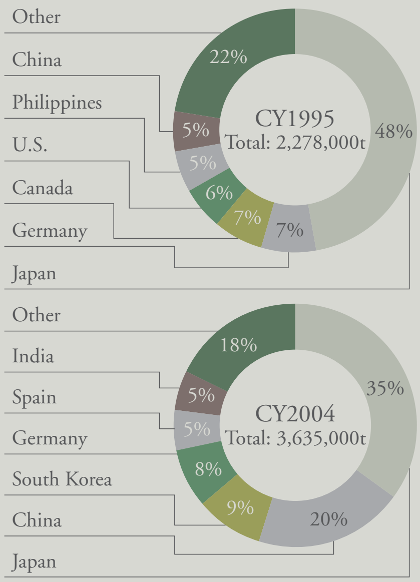
Our equity stake in Jinlong Copper Co., Ltd. was the first capital tie-up between a Chinese refining company and a foreign corporation. Owning 27% of its shares, we maintain close contact with the company by, for example, sending executives to visit.

Stable Procurement of Raw Material is Key Issue

China is Poor in Copper Resources

Despite the fact that it is situated in the world's second largest copper mineralization zone, China currently has few deposits that can be developed or used. At existing mines that were developed in the 1950s and 1960s, the equipment is worn out , and ore deposits have been exhausted. As a result, China, where copper refineries are being expanded one after the other, has rapidly expanded its volume of copper concentrate* imports, making itself the world's second largest importer after Japan in just a few years. At the same time, however, this has tightened the supply of copper resources.

Copper Concentrate Imports by Country



(Source: WBMS–World Bureau of Metal Statistics–)

Copper Concentrate Accounts for Most of the Price of Copper

A refiner which purchases copper concentrate and uses it to produce the copper metal end product will take the international (LME) price of the metal it turns out and deduct from it the refining margin (part of the ore purchase terms), an amount that represents its share. It then pays the remainder to the foreign mining concern in the form of copper concentrate fees. Ore purchase terms typically consist of two components: 1) the basic portion, which is made up of smelting and refining costs, and 2) the variable portion, also known as price participation.

1. Smelting and refining costs (basic portion):

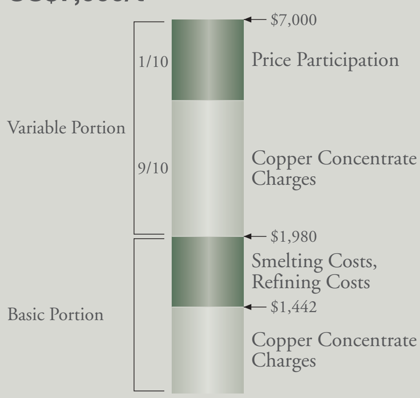
Calculated as a per-tonne price that reflects movement in copper concentrate supply and demand.

2. Price participation (variable portion):

On top of processing charges, the refiner takes a fixed percentage of the portion that exceeds the standard price set by LME (currently 10% of any portion exceeding 90 cents per pound).

Ore purchasing terms represent the refiner's gross profit, and can have a large impact on earnings; they are determined via biannual negotiations with the foreign mining companies.

Schematic of Refining Margins: Based on Copper Metal Price of US$7,000/t



* Copper concentrate: The average grade of ore extracted from major overseas mines is 1-2%. To minimize transport costs, refiners will import copper concentrate from overseas mining companies as their raw material. The concentration of copper in the concentrate is raised to around 30%.

Tight Supply for Concentrate Leads to Worsening Purchase Terms

Due to the earnings structure presented above, although refining companies can to a certain extent directly benefit from price participation when the copper price surges, smelting costs and refining costs deteriorate when the supply and demand balance for copper concentrate tightens. Japan's refiners find themselves in fierce competition with China over access to foreign ore, while at the same time the major overseas mining companies are working to assert their control over pricing via a series of mergers. As a result, in recent years, it has become difficult for Japan's refiners to lead price negotiations by leveraging their position as major customers in the same way that they did in the past. The tightening of ore supply has thus become a major issue for the country's domestic refiners.

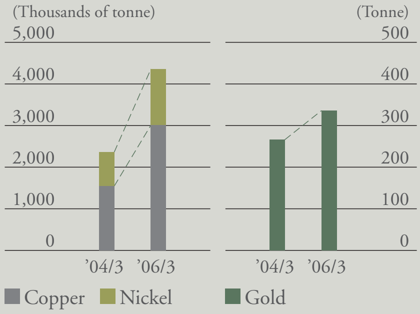
Taking the Lead in Transitioning to a 'Mineral Resources + Refining' Model

There are two reasons we have stepped ahead of our competitors in moving from being purely a purchaser of ore, and toward a business model that combines mineral resource development and refining: One is to secure a stable supply of raw material for our growing refinery operations, and the other is to address the vulnerability of our earnings to changes in ore purchasing terms. This strategy has led us to look at direct participation in the development of new, quality mining projects, an example of which is our equity stake in Peru's Cerro Verde mine. Beginning in the October-December quarter of 2006, the mine is expected to produce copper concentrate equivalent to 180,000 tonnes of copper metal annually, of which we are entitled to purchase 50% over the next ten years. This project will allow us to secure a long-term, stable source of raw material, boosting our copper division's proprietary ore ratio (the amount procured from mines in which we hold an ownership stake) from the current 40% to approximately 60%, a significant improvement.

The 'Mineral Resources + Refining' Model: Pursuing the Royal Road

Taking a closer look at the developments surrounding copper in China, while there are certainly challenges in terms of mineral resource acquisition, we are confident that the country represents an unparalleled opportunity for our group and its growth strategy. Strong demand in China is also leading to higher prices not only for copper, but for nickel, zinc, and other metals as well. As we continue to enhance our refining capability, our decision to also pursue aggressive acquisition of new resources through our 'Mineral Resources + Refining' model seems to be ideally suited to the rapid growth in that country's market. We are convinced that these moves will put us in the major leagues among non-ferrous metals companies.

Growth in SMM's Metal Mineral Resource Holdings



Summary of Projects in Mid-term Management plan (FY2004-FY2006)

Five Projects	Nation	Resources	Share of the Project (%)	Anticipated timing of business entry	Planned Production
Coral Bay Project	Philippines	Nickel	54.0	April 2005	5,000 tonnes in 2005 and 10,000 tonnes in and after 2006
Pogo Project	U.S. (Alaska)	Gold	51.0	February 2006	12 tonnes per year
Cerro Verde Project	Peru	Copper	16.8	Fiscal year 2006	180,000 tonnes per year
Goro Project	New Caledonia	Nickel	11.0	The autumn of 2007	About 60,000 tonnes per year
Toyo Smelter and Refinery, Achieve Annual Production Capacity of 450,000 tonnes	Japan	Copper	—	After fiscal year 2007	365,000 tonnes in 2005, 450,000 tonnes going forward

The Royal Road, Part 2

Creation of Original Advanced Materials Rooted in Metal Processing

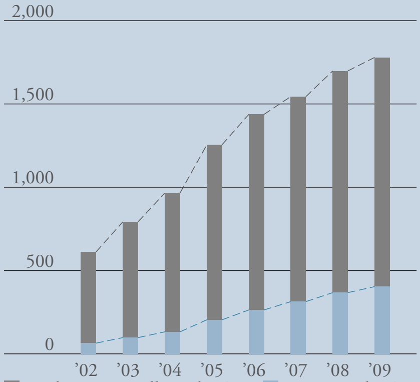
In addition to ore mining and metal refining, providing advanced materials that meet the needs of the era by using original technology to bring out the potential of metals is an important mission for a non-ferrous metal manufacturer. We believe that this same mission plays an important role in maximizing our corporate value. Liquid crystal materials are one example of these advanced materials. Our Electronic Materials and Advanced Materials division, which produces copper-clad polyimide film, a material for LCD panels, achieved operating profit of more than ¥10 billion for the first time in fiscal year 2005. In this special feature, we present our Electronic Materials and Advanced Materials division's approach to achieving victories in the LCD area.

Copper-clad Polyimide Film Grown as Driver of Earnings Growth

Winning a Dominant Share in Copper-clad Polyimide Film

Supported by rapid growth in demand due to higher performance and lower prices, global sales volume of flat-panel LCD TVs increased 2.4-fold in 2005 from the previous year and a further 1.9-fold in 2006. In conjunction with this trend, LCD panel manufacturers are seeking high levels of technology and massive investment from materials manufacturers, while those materials manufacturers that have been able to meet these expectations have gained large shares of the markets for materials.

LCD Market Trend

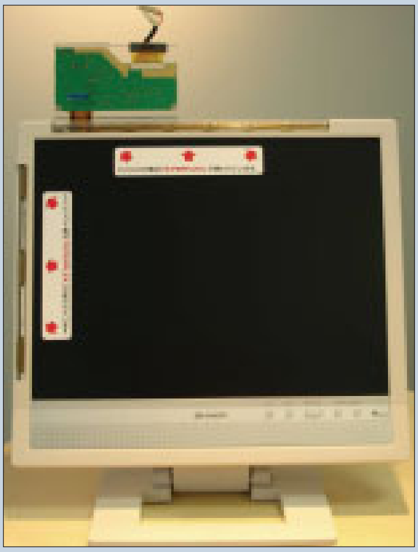


(Source: NetBrain)

Using our original metal processing technology, we have worked to develop and manufacture advanced materials that are superior to those of other companies and have top global shares. A representative example is our copper-clad polyimide film, which has already gained an overwhelming share of the market. It is a material that is used in the chip-on-film (COF) boards that package the semiconductors (driver ICs) used for controlling LCDs. Until 2004 the main method for packaging LCD driver ICs was tape automated bonding (TAB), which uses adhesive to bond polyimide film and copper into a board with a triple-layer structure. We became the first company to develop materials for boards with a double-layer structure.

Copper-clad polyimide film is produced by evenly applying a very thin layer of copper to the surface of polyimide film. Thanks to its superior workability and flexibility, it can be inserted into extremely narrow spaces. The use of COF, which minimizes the space required for wiring, makes it possible to reduce the number of driver ICs in an LCD panel by one-third, thereby allowing LCD panel manufactur-


Copper-clad Polyimide Film


Copper-clad Polymide Film used in Flat Panel LCD TV
Copper-clad Polymide Film is used in the places indicated by the arrows

ers to cut costs. Leveraging the strength of our surface treatment technology that we have accumulated over many years, copper-clad polyimide film has helped us to gain the top share in the market for materials for COF boards for large-scale LCD panels.

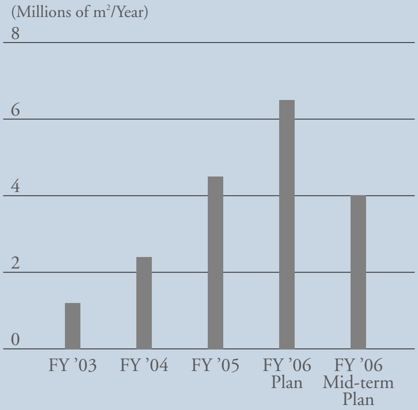
Pursuit of Quality That Merits Trust

One company after another has made a full-scale entry into the market for COF boards for large-scale LCDs as this market is steadily expanding in conjunction with the rapid growth in LCD panels. Still our copper-clad polyimide film has boasted stable results since its development winning a high degree of trust from our customers. Competition is likely to become harsher as more companies enter the market; however, as the leader in this field, we possess technology capable of achieving the ever-higher levels of quality that are required by the technological advances in the industry. We also continue to implement quality-boosting measures that are one step ahead of the competition in order to further solidify our already strong position.

Flexible Response to Demand

At the same time as the LCD panels that are used in flat-panel TVs entered a phase of rapid diffusion a few years ago, progressively larger, higher-resolution models appeared, rapidly boosting demand for our products that are used in COF. Extremely popular with our customers, copper-clad polyimide film gained a large share upon of the market its launch. In response to the rapid start of this market, we put in place a large amount of production capacity in a short term, boosting supply from 1.2 million m^2 in fiscal year 2003 to 6.5 million m^2 in 2006. This prompt construction of a supply system to meet our customers' needs further enhanced our presence in the LCD materials market.

Production Capacity for Copper-clad Polyimide Film

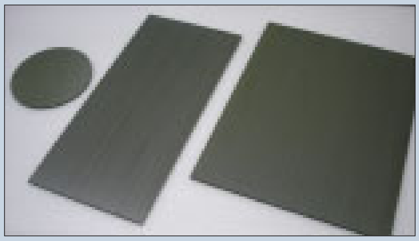


Maintaining Our Advantage through Top Market Share

In the market for COF boards for large-scale LCDs, we maintain the top industry position in terms of processing technology, manufacturing technology, and capacity. We also have an accurate grasp of trends in demand for end products as our overwhelming market share fosters a close exchange of information with powerful LCD manufacturers. Utilizing such advantages and our strength, we will also continue to reinforce product lines for developing new applications in the future.

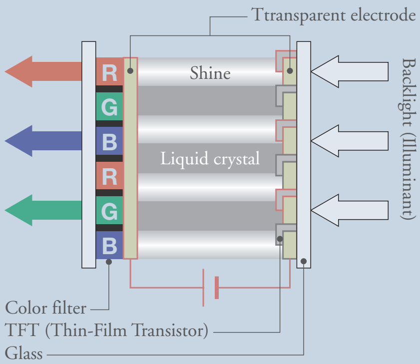
Developing New Products with Top Market Share

Following our success with polyimide film in the LCD area, we have begun a full-scale entry into target materials. On April 1, 2005, we set up a joint venture with Idemitsu Kosan Co., Ltd. for transparent electrode materials for LCDs. Known as IS Electrode Materials Co.,Ltd. (51% owned by Idemitsu, 49% by the SMM Group), this company manufactures and sells as it principal product IZO (indium zinc oxide) targets developed by Idemitsu Kosan. Compared with the ITO (indium tin oxide) targets that preceded them, IZO targets offer advantages such as low occurrence of surface defects during the film deposition process, good uniformity of film deposition even on large panels, and high-speed, high-precision etching of the deposited film. IZO targets are widely adopted in newly installed LCD panel production lines. Positioning IZO, which has superior properties for use in large-scale LCD panels, as a strategic product in our transparent electrode material business, we aim to achieve new victories in the LCD market as it continues to expand.



IZO

Section of LCD (liquid crystal display) TV



Review of Operations

Our Group's core business segments are
Mineral Resources and Metals,
and Electronic Materials and Advanced Materials.
With these core business segments, we are aiming
to become a "non-ferrous major."

To achieve this goal, the Mineral Resources and Metals segment is shifting its business model from ore-purchasing and refining to "mineral resources + refining."
Also, the Electronic Materials and Advanced Materials segment is enhancing its efforts to achieve the "top global market share," and is actively launching new products in promising markets.

SMM at a Glance

Segment (Percentage of Group Operating Income)		Year	Operating Income (Billions of yen)	Net Sales (Billions of yen)
Mineral Resources	20.3%	'06	17.107	43.719
		'05	9.971	33.071
		'04	4.460	25.315
		'03	2.682	24.672
		'02	0.838	23.292
Metals	58.9%	'06	49.683	453.680
		'05	27.701	333.178
		'04	12.567	273.387
		'03	8.326	226.343
		'02	3.533	197.183
Electronics and Advanced Materials	13.2%	'06	11.176	184.075
		'05	7.265	154.864
		'04	5.612	142.676
		'03	4.118	132.923
		'02	-4.388	110.985
Housing and Construction Materials	2.5%	'06	2.140	17.318
		'05	1.180	15.785
		'04	0.007	15.377
		'03	-0.352	16.741
		'02	-0.266	21.616
Other Businesses	5.1%	'06	4.264	28.784
		'05	2.448	23.119
		'04	0.391	10.204
		'03	0.635	12.375
		'02	1.826	19.986

Notes: 1. Operating income ratio by segment is calculated based on operating income including intersegment transactions for year ended March 31, 2006.
2. Operating income and Net sales given above include intersegment transactions.

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

Mineral Resources and Metals

Left: **Ichiro Abe**
Managing Executive Officer
General Manager, Mineral Resources Div.
Right: **Nobumasa Kemori**
Director/Managing Executive Officer
General Manager, Non-Ferrous Metals Div.

Financial Highlights by Segment

(Millions of yen)

	FY2005	FY2004	FY2003
Mineral Resources			
Net sales	**¥43,719**	¥33,071	¥25,315
Operating income	**17,107**	9,971	4,460
Operating margin	**39.13%**	30.15%	17.60%
Depreciation expense	**3,250**	2,751	2,947
Capital expenditures	**14,014**	7,036	3,001
Metals			
Net sales	**¥453,680**	¥333,178	¥273,387
Operating income	**49,683**	27,701	12,567
Operating Margin	**10.95%**	8.31%	4.60%
Depreciation expense	**7,478**	6,354	4,676
Capital expenditures	**16,195**	15,192	27,878

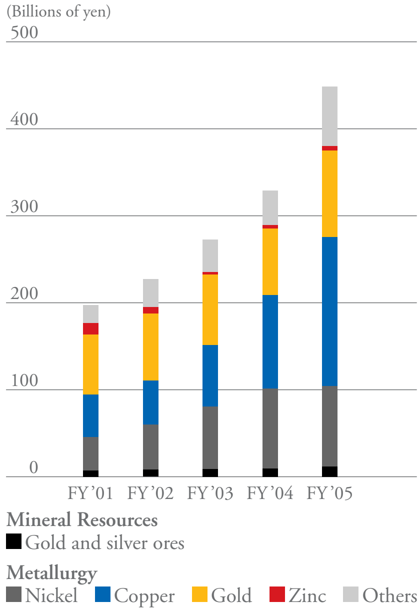
Fiscal Year 2005 Results

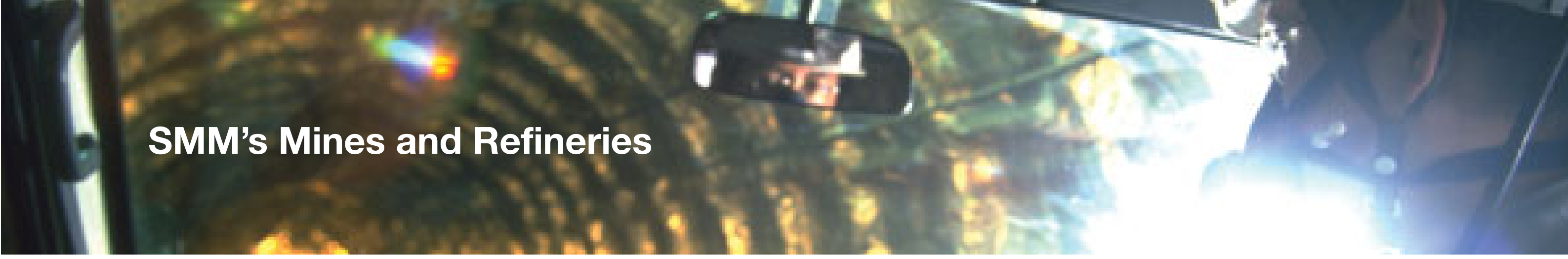
In our Mineral Resources segment, production at the Hishikari Mine in Japan was healthy, while copper production volume at our overseas copper mines was down from the previous fiscal year due to the impact of heavy rains at the Morenci Copper Mine (U.S.). Supported by high copper and gold prices, however, this segment's sales increased 32.2% from the previous fiscal year to ¥43.7 billion and operating income surged 71.6% from the previous fiscal year to ¥17.1 billion.

In our Metals segment, copper sales were strong, supported by growth in exports to Asia driven by the Chinese market in addition to higher demand for wire for construction, electrical equipment, and automobiles triggered by domestic economic recovery. Nickel sales volume decreased 8% from the previous fiscal year, despite strong sales in energy related materials such as special steels and alloys, due to a slowdown in demand for nickel for Chinese stainless steel and the impact of inventory adjustment in nickel for electronic materials.

Sales in this segment rose 36.2% from the previous fiscal year to ¥453.7 billion, mainly due to higher overseas copper and gold prices and larger copper sales volume. Operating income surged 79.4% from the previous fiscal year to ¥49.7 billion due to increases in smelting margins (the refiner's margin, which is the price of metal minus the price of ore) caused by higher metal prices and due to the impact of inventory valuation gains that occur when prices rise.

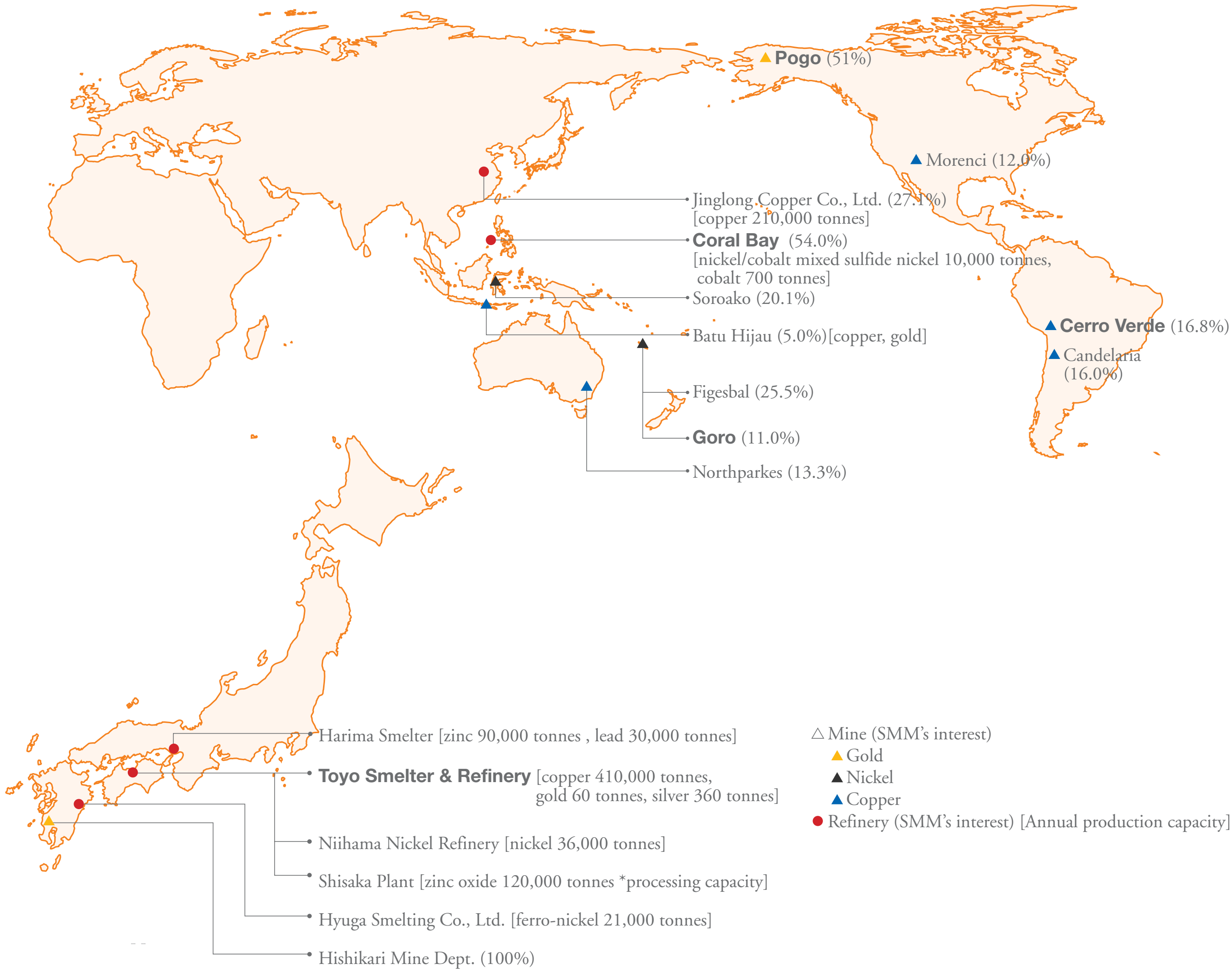
Net Sales by Products (Non-Consolidated)



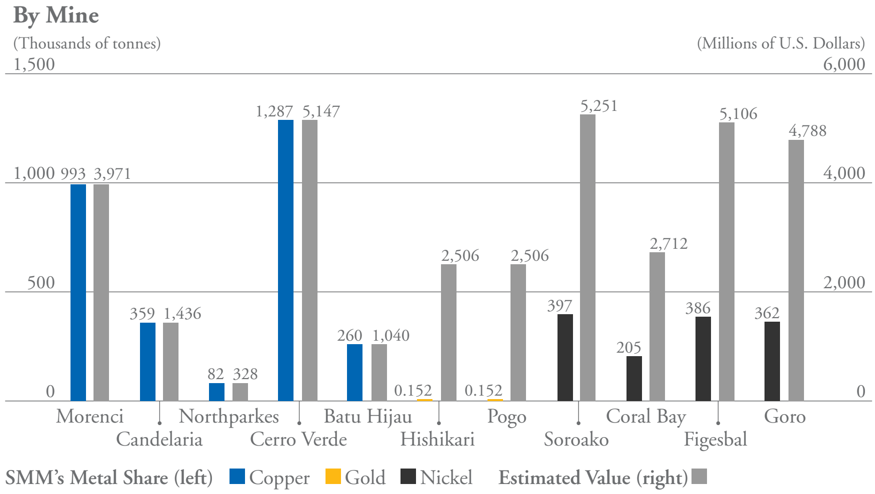


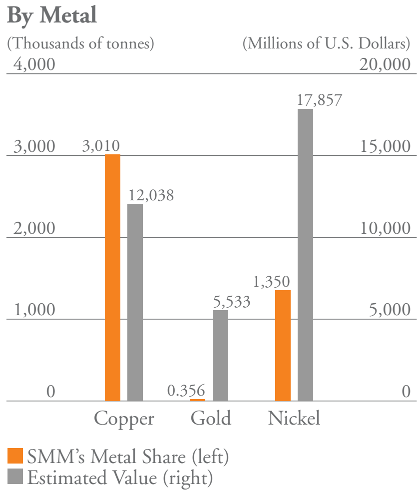
SMM's Mines and Refineries

*Five Projects are indicated by boldface.



SMM's Metal Share and Value





Notes: 1. Only the Company's own mines are covered.
2. SMM's metal share = Ore reserves (tonnes) x Metal grade x SMM's interest of mine (%)
3. Estimated value = SMM's metal share (tonne) x Standard metal price
4. Standard metal price = Copper: 181.4¢/lb, Gold: 530$/toz, Nickel: 6.0$/lb

Copper

Basic Strategy

Copper has a wide variety of applications such as electronic materials and alloys, as well as wire and cable, because of its high workability and resistance to corrosion, in addition to its being the second best conductor of electricity after silver. Due to the rapid growth of demand in emerging markets such as China and India, expanding copper production capacity has become an urgent issue together with raw material supply for copper smelters. Toyo Copper Smelter and Refinery has been taking steps to boost annual copper refining capacity to 450,000 tonnes. We aim to supply 60% of the raw material for Toyo Smelter from mines in which we have invested. We have, moreover, been involved in the rapidly growing Chinese market from an early stage, having taken an equity stake in Jinlong Copper Co.,Ltd. (27.1% stake) in 1995. The Jinlong Copper Smelter and Refinery (production capacity of 210,000 tonnes) is the only copper-refining business run in China by a Japanese non-ferrous metal company. We are working to expand sales in China and the rest of East Asia by leveraging this strength.

Project Overview and Progress Report

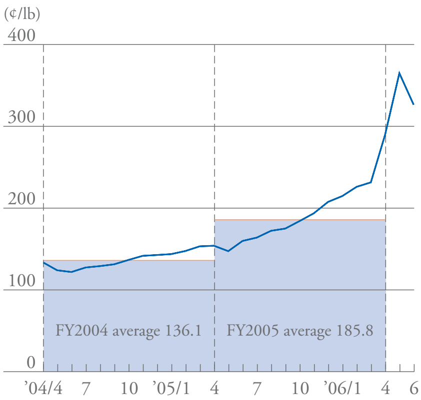
Reinforcing Toyo Smelter & Refinery Production Capacity

The Toyo plant is the core smelter and refinery of our copper business. We are investing ¥29 billion to reinforce its production capacity to a top global class 450,000 tonnes annually. Up to now we have boosted capacity gradually, from 270,000 tonnes initially to 365,000 tonnes in fiscal year 2005. Our target for fiscal year 2006 is 410,000 tonnes.

Cerro Verde Copper Mine Project

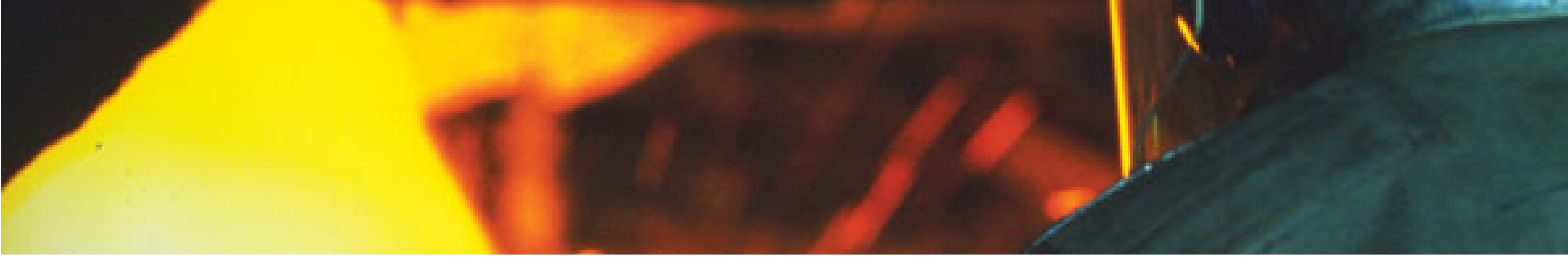
In conjunction with our reinforcement of copper smelting and refining capacity, we have been making efforts to secure raw materials for copper. In March 2005, together with Sumitomo Corporation, we entered into a basic agreement with Phelps Dodge Corporation, the largest copper producing company in the U.S., concerning an equity stake in the Cerro Verde Copper Mine, in Peru. This project, will develop a sulfide deposit at a cost of US$850 million, and begin production in the 4th quarter of 2006. While our equity stake is 16.8%, we are entitled to 50% of the copper concentrate the mine produces (equivalent to 90,000 tonnes of copper) over a ten-year period. Having acquired a secure source of raw material through this investment, our in-house ore ratio will be 60%.

Copper Price (LME)



Electrolytic copper

Jinlong Copper Co.,Ltd.

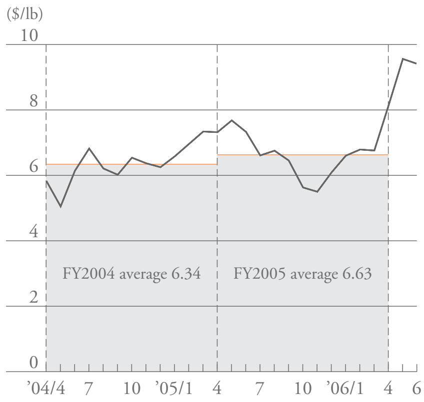


Nickel

Basic Strategy

Nickel, used in stainless steel and other materials for its corrosion-resistant properties, is also a critically important metal in cutting-edge fields such as semiconductors and the aerospace industry. Ferronickel, an alloy of iron and nickel, is the basic ingredient in stainless steel, and thus finds its way into a wide range of everyday products, from flatware and other household utensils to construction materials, while electrolytic nickel is seeing increased use as a key component in battery materials, including those powering the current generation of hybrid electric cars. As Japan's only producer of electrolytic nickel, we are focused on expanding our nickel business, by working to secure new sources of ore through exploration, and by deploying refining technologies that enable efficient recovery of mineral resources from low-grade ore.

Nickel Price (LME)



Project Overview and Progress Report

Coral Bay Nickel Project

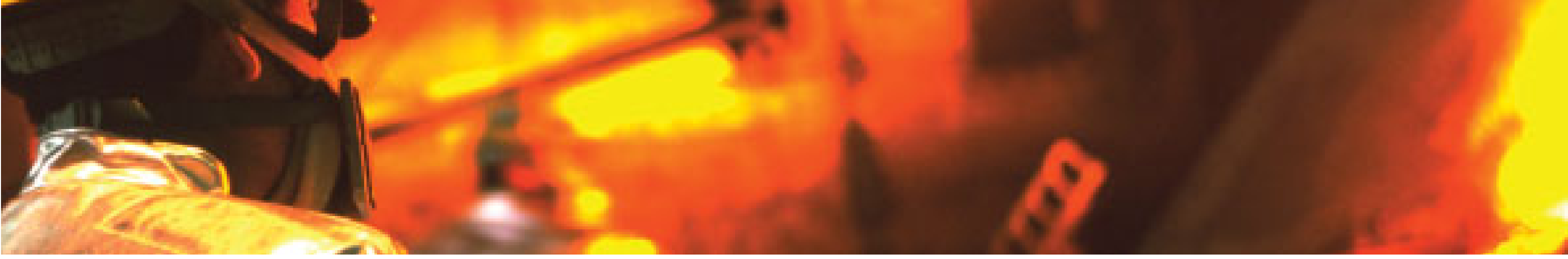
With an equity stake of 54%, we are the lead developer and operator in this nickel refining project, located on Palawan Island in the southwestern part of the Republic of the Philippines. The refining plant we built uses the HPAL (High Pressure Acid Leach) process, and in April of 2005, it began production of nickel-cobalt mixed sulfide, an intermediate product in the nickel refining process. HPAL is a breakthrough process which recovers nickel-cobalt from low-grade ore, something which was previously considered impractical, and this technology brings momentum to our efforts to secure a stable supply of raw material for nickel. Production for fiscal year 2006 is expected to reach 10,000 tonnes in terms of nickel recovered , but with the addition of a second plant of identical scale adjacent to the first, plans are to double production capacity by fiscal year 2009.

Nickel

Coral Bay Nickel Project

Goro Nickel Project

This large-scale nickel development project, in which we have an 11% equity stake, is located in the Goro region on the southern coast of New Caledonia, and is being led by the world's second-largest nickel producer, Inco Limited of Canada. In line with our equity participation in the project, which has nickel reserves estimated to be among the world's largest, we hold the right to off-take as much as 6,600 tonnes of nickel in the form of oxide and 500 tonnes of cobalt in the form of carbonate per year. As with the Coral Bay nickel project, the Goro project employs the HPAL process, and production is expected to begin in the autumn of 2007.



Precious Metals

Basic Strategy

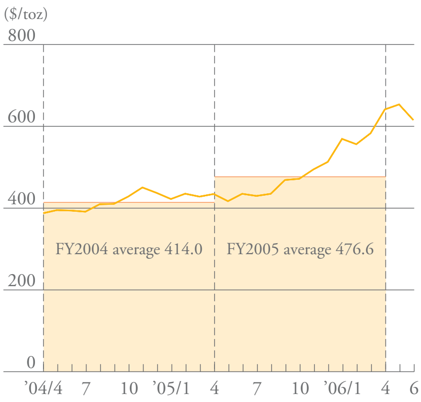
Precious metals such as gold, silver, and platinum-group metals are separated and recovered during the process of refining copper. Most of these precious metals are found in copper ore in addition to the gold ore from our Hishikari Mine. This means that boosting copper output at the Toyo Smelter & Refinery also increases the supply of precious metals, therefore we have expanded our precious metal processing capacity by introducing a new refining process. Using our own new extraction technology that we developed in house, we are also able to recover iridium and ruthenium, which had previously been considered difficult to do. We are also seeking new gold ore resources and their development by utilizing the mining technology that we developed at the Hishikari Mine.

Project Overview and Progress Report

Pogo Gold Project

SMM holds a 51% stake in this project in Alaska, U.S.A. and leads its development. Production began in February 2006, and will be at full production after modification work is completed in the first quarter of 2007. When the mine is fully operating, we expect gold production of 12 tonnes per year.

Gold Price (LOCO LONDON)



Hishikari Mine, Japan's Largest Gold Mine

Japan's largest gold mine is 100% owned by SMM. The Hishikari Mine boasts an extraordinarily high grade of gold of 45-50g per tonne of ore, which is approximately ten times the global average. It has been producing approximately 7.5 tonnes of gold annually on a stable basis since it began operations more than 20 years ago for a total output of 151 tonnes. Its gold reserves are estimated at 152 tonnes (as of the end of December 2005).

Mineral Resource Development and Capital Expenditure Plans

In our Mineral Resources and Metals segment, we are actively seeking to secure mineral resources by transitioning to a "Mineral Resources + Refining" business model. We are currently exploring for copper at eight sites and for nickel at two, and have boosted our exploration budget for fiscal year 2006 to ¥2.2 billion (including exploration near mines currently in operation). Meanwhile, our capital expenditure budget for this segment for fiscal year 2006 is ¥31.5 billion. This amount has decreased by 52.9% from the previous year due to the progress of large-scale overseas investment (the Cerro Verde Copper Mine, etc.). Please refer to the table below for more details on fiscal year 2006 capital expenditure.

Cerro Verde Copper Mine

Capital Expenditures

(Billions of yen)

	FY2006 Plan	**FY2005 Actual**	FY2004 Actual	FY2003 Actual	FY2002 Actual
Mineral Resources	6.6	**14.0**	7.0	3.0	1.4
Metal and Metal Processing	15.2	**15.6**	15.2	27.9	8.9
Overseas Developmental Investments	9.7	**37.3**	—	—	—
Total	31.5	**66.9**	22.2	30.9	10.3

Electronics Materials and Advanced Materials

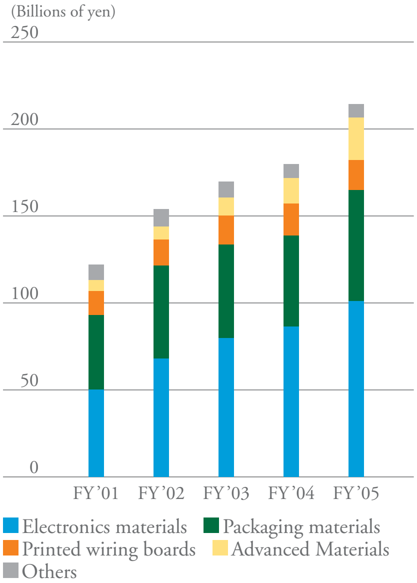
Susumu Makino :Left
Director/Managing Executive Officer
General Manager, Advanced Materials Div.
Etsu Senda :Right
Executive Officer
General Manager, Electronics Div.

Financial Highlights by Segment

(Millions of yen)

	FY2005	FY2004	FY2003
Net sales	¥184,075	¥154,864	¥142,676
Operating income	11,176	7,265	5,612
Operating margin	6.07%	4.69%	3.93%
Depreciation expense	9,647	8,943	8,273
Capital expenditures	18,783	12,578	12,168

Net Sales by Products



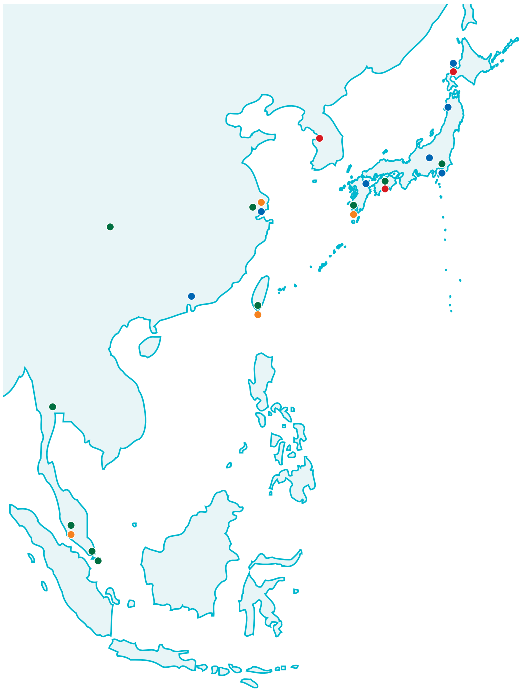
Note: Net sales include inter-segment transactions.

Fiscal Year 2005 Results

In the business environment for fiscal year 2005, we saw the near completion of inventory adjustments in the semiconductor and electronic component industries in the first half of the year, and the recovery of the strengthening of demand for electronic and advanced materials for PCs, mobile phones, flat-panel TVs, and automobile-related devices. In our Electronic Materials segment, this helped our bonding wires for semiconductors that are used in PCs and our thick-film pastes that are used in a variety of chip components to maintain strength and helped demand for our transparent conductive film materials to expand.

Our Advanced Materials segment enjoyed growth in demand for copper-clad polyimide film, for which we have reinforced production capacity. This growth was supported by expansion of the LCD market and by the panel manufacturers' switchover to the chip-on-film (COF) method. Demand was also strong for our nickel hydroxide, which is used as a positive electrode material for rechargeable batteries for hybrid cars as well as for high-capacity primary dry-cell batteries.

As a result, sales in the Electronic Materials and Advanced Materials segments grew 18.9% from the previous fiscal year to ¥184.1 billion and operating income increased 53.8% from the previous fiscal year to ¥11.2 billion.



SMM's Production Facilities of Electronics Materials and Advanced Materials

• Lead Frames

		Location	Other Products
Sumitomo Metal Mining Package Materials Co.,Ltd.	Runs IC packaging materials business	Tokyo, Japan	Tape materials
Niihama Electronics Co.,Ltd.		Ehime, Japan	
Ohkuchi Electronics Co.,Ltd.		Kagoshima, Japan	Tape materials, bonding wire, recovery and recycling of precious metals
Sumitomo Metal Mining Asia Pacific Pte. Ltd.	Regional management of overseas lead frame business	Singapore	
Sumiko Electronics Suzhou Co.,Ltd.		Suzhou, Jiangsu Province, China	
Sumiko Leadframe Chengdu Co.,Ltd.		Chengdu, Sichuan Province, China	
Sumiko Electronics Taiwan Co.,Ltd.		Taiwan	Tape materials
Sumiko Leadframe (Thailand) Co.,Ltd.		Thailand	
M-SMM Electronics SDN. BHD.		Malaysia	
P.T.SUMIKO LEADFRAME BINTAN		Indonesia	

• Bonding Wire

Ohkuchi Electronics Co.,Ltd.		Kagoshima, Japan	Lead frame, tape materials, recovery and recycling of precious metals
Sumitomo Metal Mining Electronics Materials (Shanghai) Co.,Ltd.		Shanghai, China	
Taiwan Sumiko Materials Co.,Ltd.		Taiwan	
Malaysian Electronics Materials SDN. BHD.		Malaysia	Paste

• Electronics Materials

Electronics Division	Paste, crystal materials, etc.	Tokyo, Japan	
Kunitomi District Division	Crystal materials	Hokkaido, Japan	Magnet Materials
SMM Precision Co.,Ltd.	Optical components	Akita, Japan	
Shinko Co.,Ltd.	Printed wiring boards	Nagano, Japan	
Ajimu Electronics Co.,Ltd.	Solder plating of IC	Oita, Japan	
Shanghai Sumiko Electronic Paste Co.,Ltd.	Paste	Shanghai, China	
Dongguan Sumiko Electronic Paste Co.,Ltd.	Paste	Dongguan, Guangdong, China	

• Advanced Materials

Isoura Plant	Metal powder, Circuit board materials, Battery materials, etc.	Ehime, Japan	
Kunitomi District Division	Magnet materials	Hokkaido, Japan	Crystal materials
SMM KOREA Co.,Ltd.	Circuit board materials etc.	South Korea	

Strategies for our Principal Products

Electronic Materials

Bonding Wire

Leveraging our strength of being able to procure raw materials in-house, we have gained a 25% share, the second largest globally, for this product. We plan to boost our global share to 30% by reinforcing production capacity mainly at overseas sites, starting with the launch of a new factory in Shanghai.

Bonding Wire
Used for connecting the electrodes of semiconductor chips to lead frames, these wires are made of gold because of its superior workability and conductivity.

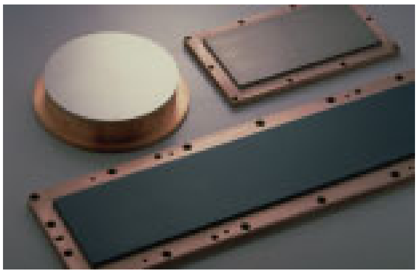
Paste

We have the top global share in nickel paste for internal electrodes for multilayer ceramic capacitors (MLCCs). In fiscal year 2006, we plan to boost monthly sales volume to 50 tonnes by targeting external electrodes in addition to further expanding sales for internal electrodes. As a result of our efforts to develop a variety of new products, moreover, we have launched an insulating paste for white light-emitting diodes (LEDs).

Paste
These are colloids that are variously made using metal powders, glass powders, etc. They are used for the formation by screen-printing of conductive, insulating, resistive, and protective films.

Thin Film Materials

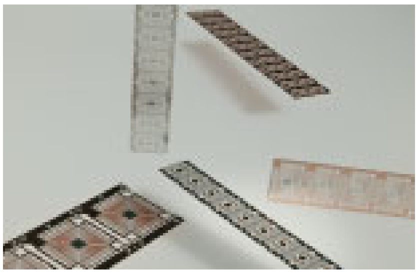
Having set up a joint venture with Idemitsu Kosan, Co., Ltd. in April 2005 for manufacturing and selling transparent electrode materials for flat-panel displays, we are working to expand sales of IZO (indium zinc oxide), which has superior characteristics for use in large-scale LCDs (please see the Special Feature on page 15).



Thin Film Materials
These materials are used to form thin films by sputtering and vapor deposition. Transparent electrode materials have the unique characteristic of conducting electricity despite being transparent and are essential for the manufacture of LCDs.

Packaging Materials

We are reinforcing our overseas production capacity, mainly in China, for lead frames, in which we have a top global share (15%) and film-based tape materials. At Sumiko Electronics Suzhou Co.,Ltd., our Chinese production base for lead frames, we are adding new etching lines to the factory's existing lines for press processing. Thus equipped with both press and etching lines, the factory will become China's most fully integrated factory for lead frames, capable of meeting a broad variety of customer needs. We are also reinforcing production lines in Taiwan in order to double production capacity for COF, a packaging material for semiconductors for LCD drivers.



Lead Frames
Metal frames that serve as the foundation for semiconductor chip circuits. These are made by applying silver plate to the connector.

Advanced Materials (please see Special Feature on page 14)

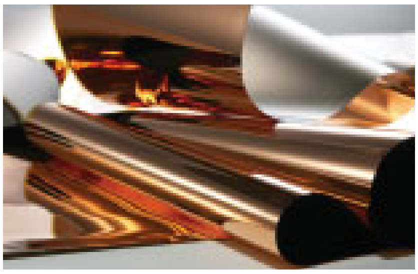
Battery Materials

As the only producer of electrolytic nickel in Japan, we provide raw materials for batteries. In conjunction with the spread of hybrid-type electric automobiles, our production volume of nickel hydroxide increased five-fold, from 500 tonnes in 2003 to 2,500 tonnes in 2005. We are working in close collaboration with automobile manufacturers to develop battery materials for hybrid-type electric automobiles, which are characterized by the frequent and demanding charging and discharging of their batteries. We are also devoting resources to expanding lithium nickel oxide, demand for which is growing as a positive electrode material for lithium ion batteries for PCs and mobile phones.

Nickel Hydroxide
Nickel hydroxide is used as a positive electrode material for rechargeable batteries for hybrid-type electric cars as well as high-capacity dry-cell batteries

Copper-clad Polyimide Film

We have an overwhelmingly dominant global share of the market for copper-clad polyimide film COF boards for large-scale LCDs. Demand has been growing, supported by the rapid shift in the method for packaging LCD driver ICs from a triple-layer structure to double-layer COFs as large-scale flat-panel LCD TVs achieve mainstream popularity. For this reason, we are planning annual capacity of 6.5 million m^2 (4.6 million m^2 in fiscal year 2005) by building a new plant in Ehime Prefecture (scheduled to start operation in October 2006). We are also reinforcing quality to meet the needs of the ever higher resolutions of LCD screens.



Copper-clad Polyimide Film
A board material consisting of polyimide film on which copper has been vapor-deposited, this is mainly used in the COF boards that package the ICs that drive LCDs.

Capital Expenditure Budget

For our Electronic Materials and Advanced Materials segments, we are planning capital expenditure of ¥24.3 billion (up 29.3% from the previous fiscal year) as we pursue an aggressive strategy of achieving top global market shares for each of our products. A major portion of the capital expenditure we are budgeting for fiscal year 2006 will be for the construction of a new plant in Niihama, Ehime Prefecture, and for reinforcing production bases in China and Taiwan.

Copper-clad Polyimide Film factory under construction (Ehime Prefecture)

Capital Expenditures

(Billions of yen)

	FY2006 Plan	**FY2005 Actual**	FY2004 Actual	FY2003 Actual	FY2002 Actual
Electronics Materials and Advanced Materials	24.3	**18.8**	12.6	12.2	9.5

Other Businesses

Financial Highlights by Segment

(Millions of yen)

	FY2005	FY2004	FY2003
Housing and Construction Materials Business			
Net sales	**¥17,318**	¥15,785	¥15,377
Operating income	**2,140**	1,180	7
Operating margin	**12.36%**	7.48%	0.05%
Depreciation expense	**656**	653	656
Capital expenditures	**241**	257	233
Other Business			
Net sales	**¥28,784**	¥23,119	¥10,204
Operating income	**4,264**	2,448	391
Operating margin	**14.81%**	10.59%	3.83%
Depreciation expense	**1,329**	1,290	472
Capital expenditures	**1,735**	1,179	1,153

Summary of Other Business

Business
Main Activities

Construction Materials Business

Sumitomo Metal Mining Siporex Co.,Ltd.
Manufacture and sale of ALC (Autoclaved Lightweight aerated Concrete)

Environmental Improvement Business

Sumitomo Metal Mining Co., Ltd.
(Energy & environment Business Division)
Unify management of group businesses, Sale and development of water treatment installations

Sumicon Certech Co.,Ltd.
Assessment and remediation of contaminated soil and groundwater

Sumiko Eco-engineering Co.,Ltd.
Environment-related engineering of exhaust gas treatment,etc. and Corrosion control

Sumiko Techno-Reserch Co.,Ltd.
Environmental assessment and analysis, Analysis of metals

Japan Irradiation Service Co.,Ltd.
Radiation processing for sterilization as well as for use in modification of industrial materials

Catalyst and Recycling Business

Nippon Ketjen Co.,Ltd.
Manufacture and sale of desulfurization catalyst for petroleum processing

Nippon Catalyst Cycle Co.,Ltd.
Recovers valuable metals from the used desulfurization catalyst produced when oil is refined

N. E. Chemcat Corporation
Manufacture and sale of chemical and automotive catalysts, Recover and refining of precious metals from used catalysts

Construction Materials

This business consists mainly of the manufacture and sales of Siporex (autoclaved lightweight aerated concrete), a building material incorporating technology from Sweden. In fiscal year 2005, sales in this business increased 9.7% from the previous fiscal year to ¥17.3 billion, supported mainly by improvement in sales prices on the back of sharp rises in materials and energy prices. Operating income surged 81.4% to ¥2.1 billion due to the effect of radical restructuring that we implemented in fiscal year 2003 with a view to cutting costs.

Siporex
Blending the solidness of concrete and the light ness of wood, Siporex is also known as “unsinkable concrete” and “non-flammable wood.” It is also environmentally friendly as it contains no harmful substances such asbestos or formaldehyde.

Recycling and Environmental Improvement

Leveraging the technologies that we have developed in the refining area, we operate a recycling business that recovers valuable metals and an environmental improvement business, which includes assessment and remediation of soil and groundwater contamination. Both revenue and earnings increased in this business in fiscal year 2005 as the manufacturing and sales of desulfurization catalysts for oil refining and the recovery of valuable metals from used desulfurization catalysts performed favorably in response to higher prices for metals such as molybdenum. As a result, Other Businesses, which include these businesses, saw sales rise 24.5% to ¥28.8 billion and operating income surged 74.2% to ¥4.3 billion.

CSR
(Corporate Social Responsibility)

Corporate Governance

We position corporate governance, a framework of corporate discipline for both maximizing the SMM Group's corporate value and ensuring sound management, as one of the most important aspects of management.

Governance System

Our core Mineral Resources and Metals business and Electronic Materials and Advanced Materials business differ in terms of customers, business environment and business characteristics. For this reason, we have adopted an executive officer system that separates the decision-making and executive functions and a corporate audit system that ensures objectivity as the governance system that best maximizes the executive and auditing functions in our businesses.

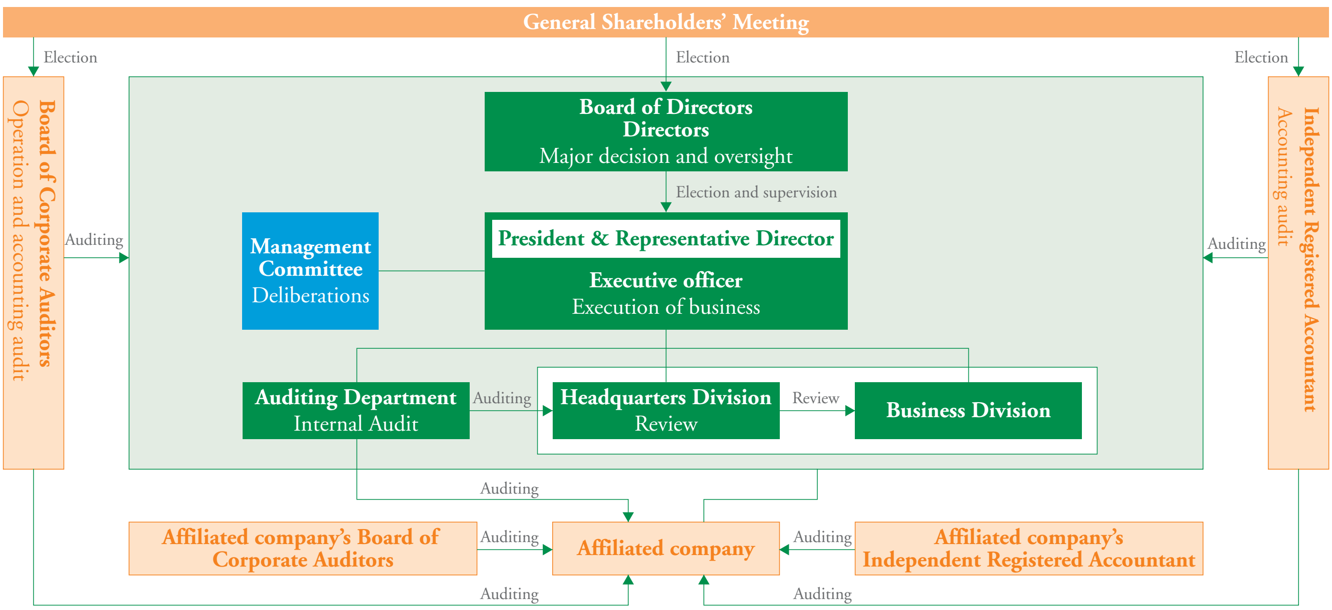
Directors, Board of Directors

Our articles of association set the maximum number of directors at ten. At present, however, our Board of Directors has eight members, an appropriate size for lively discussion and flexible decision-making. Remuneration is linked to performance.

Management Committee

The membership of our Management Committee consists of the president, executive vice president and other executive officers. Corporate auditors also have access to its meetings. In addition to discussing from a broad point of view those matters that require discreet discussion because they are important enough to warrant to a Board of Directors resolution or presidential decision and deciding whether or not to place them on the Board of Directors' agenda, the Management Committee fulfills the function of supporting decisions made by the president.

Organizational Chart of Corporate Governance



Executive Officer System

We are reinforcing the executive function of our executive officers by clarifying their authority and responsibilities and transferring a greater measure of authority to them. SMM has 19 executive officers (eight of whom also serve as directors) who carry out their work by being assigned specific authority for important tasks such as divisional managers and headquarters office managers. Moreover, they report once a month to the Executive Committee on the execution of business. Remuneration is linked to performance.

Corporate Auditors

We currently have four Corporate auditors, two of whom are from outside the company (part-time). These internal and external auditors attend meetings of the Board of Directors and Management Committee and present their views; the auditors from SMM form their views based on audits as full-time employees who maintain independence, while those of the external auditors are informed by knowledge of specialized fields.

Developing an Internal Control System

We are working to create a corporate culture that fosters the lawful and healthy execution of business by preparing an internal control system. The SMM Group is building a risk management system that is capable or rapidly and appropriately dealing with a variety of risks inside and outside the company by promoting the company-wide and organized setting up of specialized posts.

Thorough Enforcement of Compliance

Taking to heart the lessons of the criticality accident that occurred in 1999 at JCO Co.,Ltd., one of our subsidiaries, we designed a Corporate Reform Plan in the following year and have striven to achieve thorough compliance and safety management. In 2003, we committed ourselves afresh to thorough compliance by basing our business philosophy on Sumitomo's Business Spirit and establishing the "SMM Group Code of Conduct," which comprises 17 articles.

SMM Group Code of Conduct

Based on the concept that a corporation is a key member of society that sincerely cares about coexistence with nature, prosperity in balance with society, and sympathy with humanity, our Code of Conduct is studied by all employees of the SMM Group. It is a guide for pro-actively putting ideas into practice, rather than a mere list of "don'ts." Anticipating situations in which doubts or problems remain after referring to the Code and consultation with a superior is awkward or fails to result in the appropriate response, we have set up an internal reporting system so that the pertinent information can be presented directly to the responsible liaison office inside the Company.

Compliance Training Seminar

Since 2001 we have held annual compliance training seminars for the executives and regular employees of the SMM Group. These seminars deepen their basic knowledge of compliance and bring them up to date on recent revisions of the law.

Living with the Environment

In order to leave a healthy and pleasant environment for future generations, the SMM group engages in corporate activities that are in harmony with the environment such as the efficient use of mineral resources by making full use of the environmental protection technology and expertise that it has acquired through its refining business. We are also committed to environmental improvement activities as part of our management system and have acquired ISO14001 certification for almost all of our production sites in Japan and overseas including Group companies.

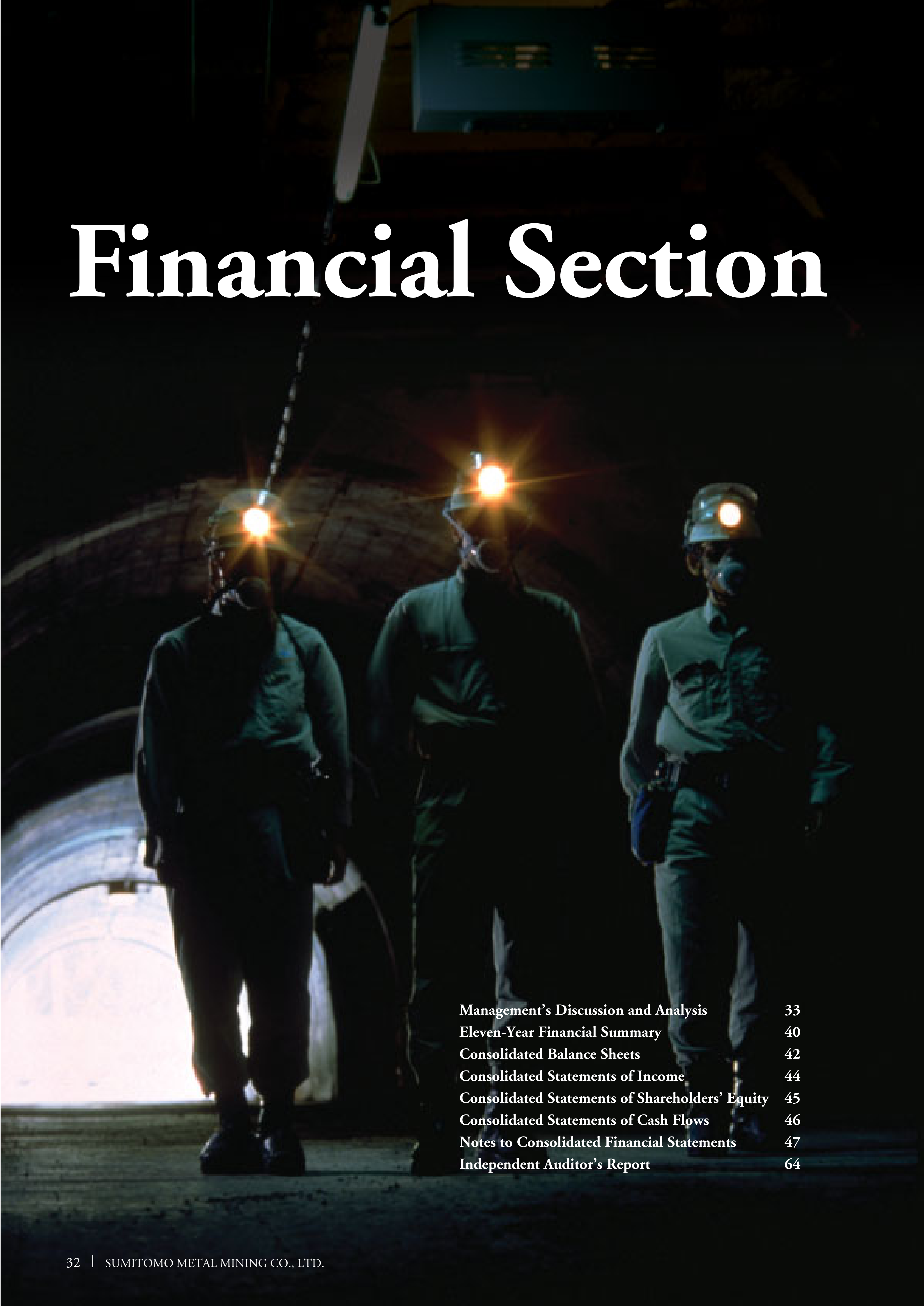
Coral Bay Nickel Project

This project, which commercially produces an intermediate product for nickel on Palawan Island, Republic of the Philippines, has paved the way for making a major contribution to the efficient use of a limited mineral resource. It is based on our unique HPAL* method, the world's first commercially viable technology for refining low-grade nickel ore that had previously been considered unusable.

* Acronym for High Pressure Acid Leach, a technology for recovering nickel and cobalt in a high-temperature, high-pressure environment by dissolving low-grade ore (laterite) in sulfuric acid.

Establishment of Green Procurement Standards

Our Electronics Division has taken steps to prevent harmful chemicals from entering the production chain by establishing Green Procurement Standards for suppliers. It is also working to reduce harmful chemical substances by setting up a chemical substance database which it sues for managing data for the entire Electronics Group including the subsidiaries under its control.



Financial Section

Management's Discussion and Analysis

Overview of Businesses

In addition to itself, the businesses of Sumitomo Metal Mining Co., Ltd. (SMM) consist of 64 subsidiaries and 18 affiliated companies. The three core segments of business are:

1) Mineral Resources, which mines gold, silver, and copper;
2) Metals, which consists of the smelting and refining business for gold, copper, nickel, and zinc, and the metal process business, which manufactures, copper elongation products; and
3) Electronics Materials and Advanced Materials, whose advanced materials business manufactures copper-clad polyimide film, nickel and other powder materials, battery materials, and magnetic materials, and whose electronic materials business manufactures electronic components such as IC packaging materials, crystal materials, and printed circuit boards.

In addition to these three core businesses there are the Construction Materials segment, which manufactures Siporex (autoclaved lightweight concrete, or ALC), and the Other Businesses segment, which runs a nuclear power-related engineering business and an environmental business.

This Annual Report presents the consolidated results of the Company, 49 domestic and overseas consolidated subsidiaries, and 13 affiliates accounted for by the equity method.

Consolidated Statement of Income

Impact of Foreign Exchange Rate Fluctuations (for Reference)

The non-ferrous metal business in Japan is closely linked to foreign exchange rates, which affect all phases of operations, from procurement of ores to sales of finished products. A strong yen is a negative factor for SMM's earnings. This is because although a strong yen brings down procurement costs for SMM, it also lowers finished product prices, reducing smelting margins, which are generally denominated in U.S. dollars. The yen was on a moderately weakening trend throughout this fiscal year. As a result, the average exchange rate for fiscal year 2005 was US$1=¥113.32, compared with US$1=¥107.54 in the previous fiscal year (from April 1, 2004 to March 31, 2005).

An average strengthening over the full year of Japanese currency by one yen against the U.S. dollar results in a ¥500 million deterioration in SMM's consolidated results.

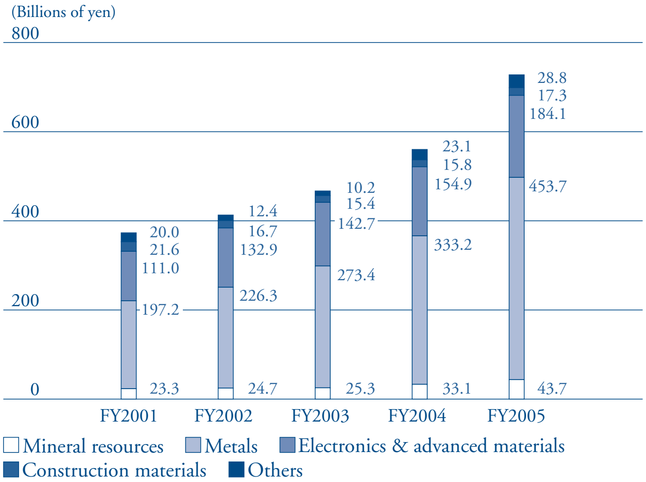
Net Sales

Net sales by business segment also include inter-segment sales.

Net sales in fiscal year 2005 (from April 1, 2005 to March 31, 2006) increased ¥140,994 million (29.1%) from the previous fiscal year to ¥625,579 million. The Metals segment accounted for 62.4% of net sales. In fiscal year 2005, the non-ferrous metal industry enjoyed continued strength in demand in Japan and overseas as capital expenditure increased and the Chinese economy expanded. The prices for non-ferrous metals such as copper maintained historically high levels as actual demand increased and the flow of funds into the market accelerated. Moreover, the yen was on a moderately weakening trend. In the electronics-related industries, meanwhile, the inventory adjustment in electronic equipment and electronic components came to an end and demand, centered on PCs, LCDs, and automobile-related products, recovered.

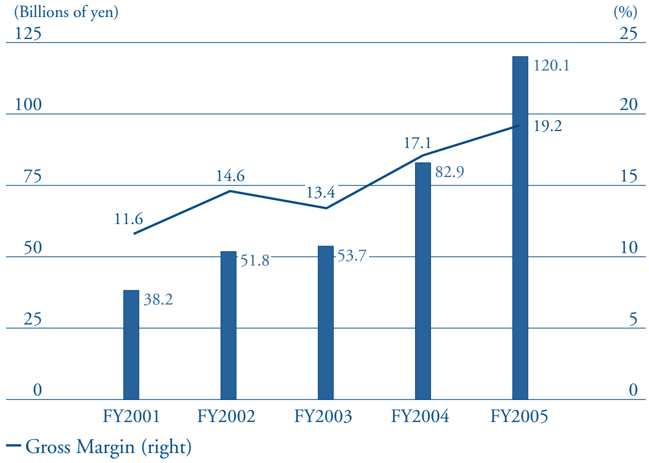
In this environment, Mineral Resources segment sales increased ¥10,648 million (32.2%) from the previous fiscal year to ¥43,719 million, supported by higher prices for copper and gold from the beginning of the year and despite a decline in copper production volume at overseas copper mines from the previous year due to heavy rain. Metals segment sales grew ¥120,502 million (36.2%) to ¥453,680 million on the back of higher overseas prices for copper and gold and increased vol-

Net Sales



(Note) Net sales include inter-segment sales

Gross Profit and Gross Margin



umes of copper sales. Electronics Materials and Advanced Materials segment sales rose ¥29,211 million (18.9%) from the previous fiscal year to ¥184,075 million as early in the fiscal year inventory adjustment in the markets for electronic equipment and electronic components ran its course, putting demand on a recovery trend.

Costs and Expenses

Cost of sales in fiscal year 2005 increased ¥103,735 million (25.8%) from the previous fiscal year to ¥505,442 million due to the higher raw materials prices resulting from higher nonferrous metal prices. However, the gross margin rose from 20.6% to 23.8%, supported by the impact of inventory valuations amid rising prices in addition to the increases in smelting margins accompanying surging metal prices.

Sales, general, and administrative (SG&A) expenses increased ¥2,396 million (6.8%) from the previous term to ¥37,381 million. This is mainly attributable to increases in sales, transportation & miscellaneous expenses, salaries & benefits; and research and development expenses of ¥520 million (7.6%); ¥699 million (9.0%); and ¥485 million (10.1%), respectively.

Operating Income

Operating income surged ¥34,863 million (72.8%) from the previous fiscal year to ¥82,756 million, supported by sharply higher earnings in all business segments.

In the Mineral Resources segment, higher prices for copper and gold boosted profit for overseas copper mines and gold and silver ores (Hishikari mine). In the Metals segment, profit rose sharply, supported by a turnaround in smelting margins on the back of large increases in overseas prices and by a valuation gain of inventory assets (¥10.4 billion) due to higher prices. The Electronics Materials and Advanced Materials segment and the Construction Materials segment enjoyed strong profit growth, supported by growth in sales of mainstay products and by improvement in profitability, respectively.

Other Income (Expenses)

Other income (expenses) increased ¥4,194 million from the previous year to a net profit of ¥10,218 million. Positive factors include an increase in the equity earnings of affiliated companies of ¥8,402 million (62.2%) from the previous fiscal year to ¥21,915 million as overseas mining companies accounted for by the equity method contributed. Negative factors include the posting of a ¥1,825 million impairment loss due to the application of impairment accounting in addition to a ¥3,033 million loss on fixed asset write-offs.

Net financial expenses (interest received + dividends received - interest paid) deteriorated ¥388 million, from ¥893 million in the previous fiscal year to ¥1,281 million.

Net Income

As a result of the above, net income increased ¥25,783 million (69.7%) from the previous fiscal year to ¥62,800 million. In conjunction with this, moreover, net income per share was ¥109.96, compared with ¥64.77 in the previous fiscal year.

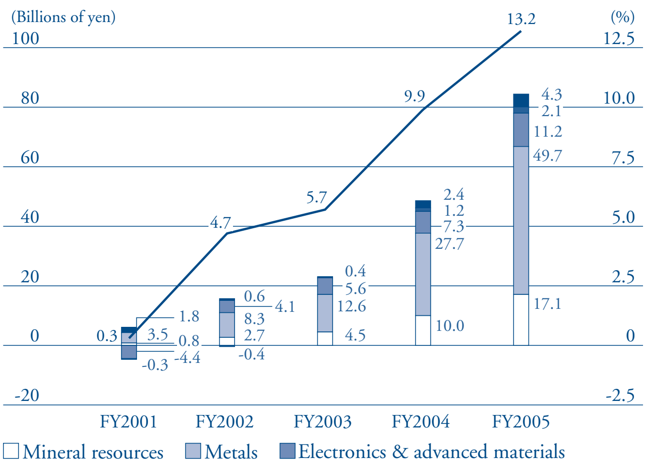
Results by Business Segment

The following sections are based on segment data. Net sales and operating income for each area include inter-segment transactions.

Mineral Resources

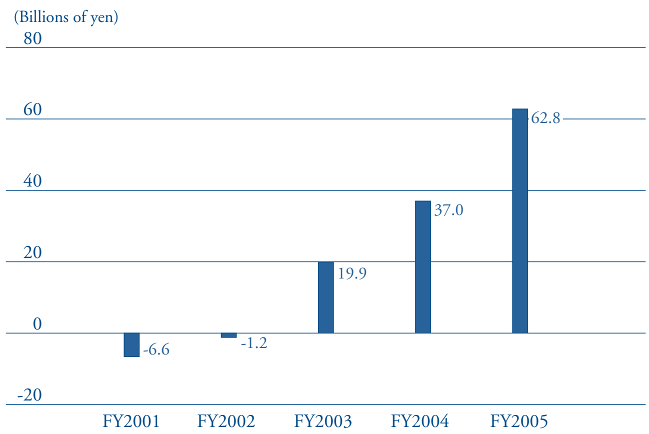
Net sales in this segment grew ¥10,648 million (32.2%) from the previous fiscal year to ¥43,719 million. This growth is attributable to continued high price levels for copper and gold

Oparating Income and Operating Margin



(Note) Operating income include inter-segment sales

Net Income (Loss)



despite a decline from previous year in the copper production volume at the Morenci Copper Mine (U.S.) of which we have participated in the management due to heavy rain.

Operating income grew a strong ¥7,136 million from the previous fiscal year to ¥17,107 million. This is attributable to growth in earnings at overseas copper mines on the back of higher copper prices and in earnings on domestic gold and silver ore (Hishikari mine) due to higher gold prices.

Metals

Net sales in this segment increased ¥120,502 million (36.2%) from the previous fiscal year to ¥453,680 million. This is attributable mainly to higher overseas prices for copper and gold and to increased sales volume of copper. Copper sales benefited from growth in demand for copper for the domestic wire industry due to continued strength in demand for wire from construction, electrical equipment, and automobiles; they also benefited from the growth in exports to Asia accompanying China's economic growth. Nickel sales, meanwhile, stagnated due to weaker demand from Chinese stainless steel and electronics materials despite continued strength in demand from energy-related special steels.

Operating income surged ¥21,982 million (79.4%) form the previous fiscal year to ¥49,683 million. This is attributable to a turnaround in the smelting margins on the back of sharply higher overseas prices and to the impact of inventory valuation when prices rise (¥10.4 billion impact compared with the previous year due to the impact of the period of valuating inventory assets using the first-in, first-out method).

Electronics Materials and Advanced Materials

Net sales in this segment grew ¥29,211 million (18.9%) from the previous year to ¥184,075 million. The inventory adjustment that continued from the second half of the previous term had basically run its course early in fiscal year 2005, when the markets for PCs, mobile phones, flat-panel TVs, and automobile-related equipment expanded and demand for electronic equipment and electronic components began a recovery trend.

Electronics Materials revenue grew, supported by strength in alloy preforms for mobile phone components and in the bonding wire for semiconductors that are used in PCs as well as by the switchover across the country in telecommunications-related optical isolators to optical fiber. In the Advanced Materials business, demand for copper-clad polyimide film has been growing due to the expansion of the LCD market and the switchover to chip-on-film (COF) method by the panel manufacturers, and our expansion of production capacity to meet this contributed. In battery materials, moreover, increased sales of the nickel hydroxide that is used as a positive electrode material for rechargeable batteries for hybrid electric vehicles (HEV) and as a material for high-capacity primary batteries boosted revenue further.

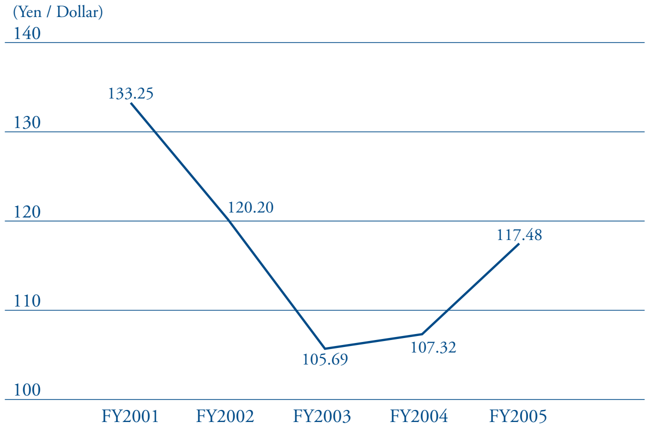
As a results of the above, operating income increased ¥3,911 million (53.8%) from the previous term to ¥11,176 million.

Construction Materials

Net sales in this segment rose ¥1,533 million (9.7%) from the previous fiscal year to ¥17,318 million. While domestic demand for ALC (autoclaved lightweight concrete) was unchanged from the previous fiscal year, efforts to improve sales prices in response to recovery in the domestic economy produced results.

Operating income surged ¥960 million (81.4%) from the previous fiscal year to ¥2,140 million, supported by the contribution from cost-cutting in addition to improvement in sales prices.

Yen-Dollar Exchange Rate (Year-End)



Capital Expenditures and Depreciation

Capital expenditure in fiscal year 2005 totaled ¥50,568 million, up ¥14,080 million (38.6%) from the previous fiscal year. The Mineral Resources and Metals segment accounted for ¥30,209 million (59.7% of the total) and the Electronics Materials and Advanced Materials segment for ¥18,783 million (37.1% of the total). Specifically, in the Mineral Resources segment, capital expenditure was centered on exploration and development in the Hishikari Mine and we invested to develop overseas mineral resources (Pogo Gold Mine Development Project), in the Metals segment we invested to expand smelting and refining equipment (Toyo Smelter & Refinery) and to build new wet-processing equipment for low-grade nickel oxide ore (Coral Bay Project), and in the Electronics Materials and Advanced Materials segment we expanded copper-clad polyimide film and other production equipment.

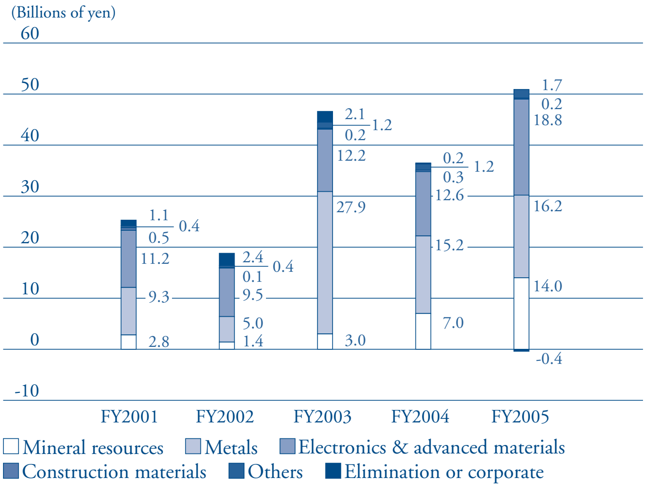
Depreciation increased ¥2,373 million (11.5%) from the previous fiscal year to ¥22,951 million.

Capital Expenditures

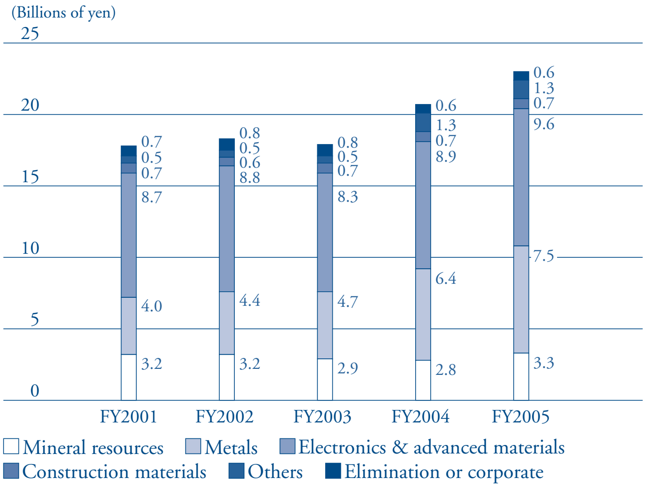
Millions of yen

At year-end	**FY2005**	FY2004	FY2003	FY2002	FY2001
Mineral resources	**¥ 14,014**	¥ 7,036	¥ 3,001	¥ 1,414	¥ 2,794
Metals	**16,195**	15,192	27,878	5,005	9,336
Electronics & advanced materials	**18,783**	12,578	12,168	9,506	11,236
Construction materials	**241**	257	233	133	515
Others	**1,735**	1,179	1,153	427	418
Elimination or corporate	**(400)**	249	2,107	2,442	1,080
Total	**¥ 50,568**	¥ 36,488	¥ 46,540	¥ 18,927	¥ 25,379

Capital Expenditures



Depreciation



Research and Development Expenses

Research and development expenses in fiscal year 2005 rose ¥485 million (10.1%) from the previous fiscal year to ¥5,297 million. Priority R&D project spending by segment was as follows: ¥118 million in the Mineral Resources segment for developing concentration processes for non-ferrous raw material ores and a variety of leaching techniques, ¥2,871 million in the Metals segment for developing non-ferrous smelting & electrolysis technologies and new processing technologies, ¥1,917 million in the Electronics Materials and Advanced Materials segment for developing higher-performance, higher-resolution technologies for contact and joining materials and developing various electronic materials, and ¥254 million in the Construction Materials segment for developing new products using the long-lasting Siporex.

Financial Position and Liquidity

Assets

Total assets as of March 31, 2006, stood at ¥772,562 million, up ¥198,637 million (34.6%) from the end of the previous fiscal year. Current assets rose ¥64,742 million (28.5%) from the end of the previous year to ¥291,588 million. This is mainly attributable to increases of ¥20,351 million (32.1%) in notes and accounts receivable and ¥26,123 million (25.4%) in inventories in conjunction with higher non-ferrous metal prices. Net property, plant and equipment stood at ¥232,338 million, up ¥24,593 million (11.8%) from the end of the previous fiscal year, mainly due to large-scale project implementation and existing facility reinforcement.

Investments and long-term receivables stood at ¥243,665 million, up from ¥109,667 million (81.8%). The main factor behind this was a ¥102,703 million increase in investment securities due to investment in overseas mining companies.

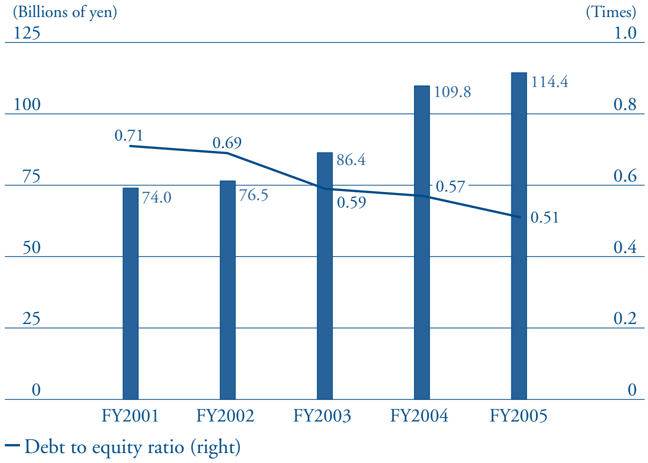
Liabilities and Shareholders' Equity

On the liabilities side, current liabilities stood at ¥219,360 million, up ¥78,896 million (56.2%) from the end of the previous fiscal year. The current ratio decreased from 161% at the end of the previous term to 133%.

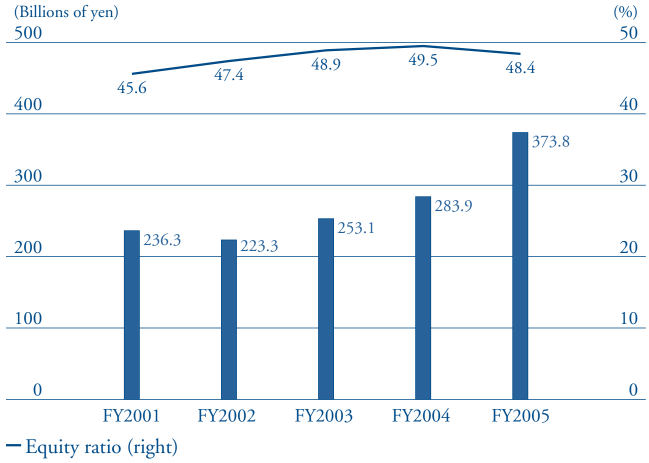
In terms of long-term liabilities, total liabilities stood at ¥377,663 million, up ¥96,564 million (34.4%). In addition to a ¥4,628 million (4.2%) increase in long-term debts due after one year to ¥114,405 million to cover large investments, this is attributable to a ¥13,271 million (111.7%) increase in deferred tax liabilities due to higher market prices for investment securities.

Total shareholders' equity stood at ¥373,752 million, up ¥89,855 million (31.7%) from the end of the previous fiscal year. This is attributable to the increase in retained earnings (¥58,184 million) resulting from a large increase in net income and to the increase in net unrealized holding gains on available-for-sale securities (¥19,617 million) resulting from higher market prices for investment securities. Because of the large increase in total assets, however, the equity ratio decreased from 49.5% in the previous fiscal year to 48.4%.

Long-Term Debt Due After One Year and Debt to Equity Ratio



Shareholders' Equity and Equity Ratio



Composition of Interest-Bearing Debt

At year-end	FY2005		FY2004		FY2003	
						Millions of yen
Short-term interest-bearing debt due within one year	**¥ 76,486**	**(9.9)**	¥ 50,756	(8.8)	¥ 61,914	(12.0)
Long-term interest-bearing debt due after one year	**114,405**	**(14.8)**	109,777	(19.1)	86,437	(16.7)
Total shareholders' equity	**373,752**	**(48.4)**	283,897	(49.5)	253,071	(48.9)
Total assets	**¥ 772,562**	**(100.0)**	¥ 573,925	(100.0)	¥ 517,930	(100.0)

( ):Percentage to total assets

Consolidated Statement of Cash Flows

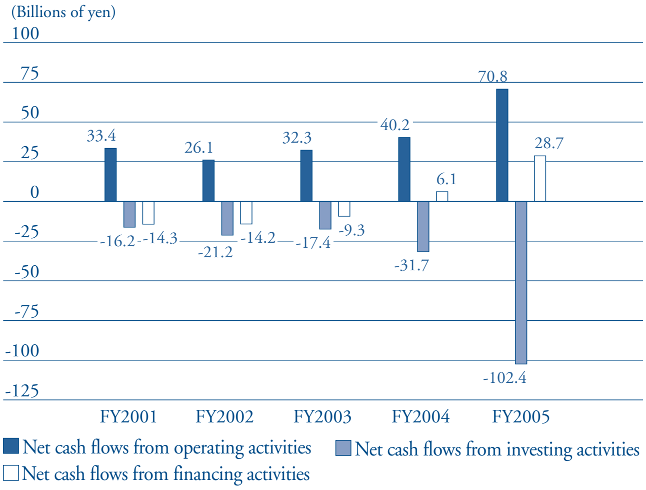
Net cash flows from operating activities in fiscal year 2005 improved ¥30,622 million from the previous fiscal year to ¥70,772 million, mainly due to a ¥39,057 million increase from the previous fiscal year in net income before income taxes and minority interests.

Cash flows from investing activities saw outflows increase ¥70,659 million from the previous fiscal year to ¥102,384 million. In addition to a ¥51,969 million increase from the previous fiscal year in acquisitions of affiliated companies because of the intensive investment in core businesses, this was due to a ¥10,672 million increase from the previous fiscal year in acquisitions of property, plant and equipment.

Net cash flow from financing activities saw an inflow of ¥28,723 million. This was because as much of the abundant cash flow from operating activities as possible was used for the heavy investment in core businesses, minimizing the increase in interest-bearing debts and limiting the increase in procured funds from the previous year to ¥22,626 million.

As a result of the above and foreign exchange rate fluctuations, the year-end balance of cash and cash equivalents was ¥34,250 million, down ¥535 million from the beginning of the year.

Net Cash Flows



Risk Information

The following types of information contained in this report concerning the Group's businesses and management may substantially affect the investor's judgment. Moreover, the forward-looking statements contained herein are based on the views of the Group as of the end of consolidated fiscal year 2005.

1) Fluctuations in Non-ferrous Metal Prices and Foreign Exchange Rates

Slump in Non-Ferrous Metal Prices

The prices of non-ferrous metals such as copper, nickel, and gold are determined by the London Metal Exchange (LME) and other international markets (the prices determined by these markets are hereinafter referred to as "LME and other market prices"). LME and other market prices vary in response to impacts such as the international balance of supply and demand, political and economic conditions, speculative transactions, and the cost-competitiveness of substitute materials. Any significant and sustained decline in the LME and other market prices of copper, nickel, and gold due to such impacts may cause serious deterioration in the Group's financial position and business performance.

Foreign Exchange Rate (Strong Yen)

The prices of imported raw materials such as copper concentrate and nickel matte are determined according to the U.S. dollar-denominated LME and other market rates. This is also true of the sales prices of metals in Japan. For this reason, the Group's smelting margins are effectively denominated in U.S. dollars. The revenue generated by our investments in overseas mines and electronics materials businesses and by exports of electronics materials products is also denominated in foreign currencies. Any large and sustained impact of a strong yen on exchanges rates may therefore cause serious deterioration in the Group's financial position and business performance.

In response, the Group is promoting various policies in order to overcome deterioration in the environment by reinforcing its competitiveness in raw materials procurement and manufacturing.

2) Non-Ferrous Metal Raw Materials: Deterioration in Purchase Contract Terms and Supply Difficulties

The Group intends to increase the proportion of non-ferrous metal raw materials such as copper concentrate and nickel matte that it procures from producers in which it has an equity stake (referred to below as "in-house ore ratio"). Currently, however, we procure the majority of these raw materials through long-term ore-purchasing contracts with third parties.

Although these contracts' terms for purchasing raw materials are renegotiated annually, it is not always possible to purchase the required amounts at reasonable prices due to a variety of market factors. Moreover, as product prices are largely determined by factors directly related to the non-ferrous metals themselves such as supply and demand, it is generally difficult to shift deterioration in raw material purchasing terms to product prices.

In addition, raw material supply can be delayed or suspended due to uncontrollable factors such as bad weather, major earthquakes, operational accidents, and labor disputes. Any constraint on the Group's production due to these factors may cause deterioration of its financial position and business performance.

In response, the Group is working to secure stable raw material sources by boosting its in-house ore ratio through, for example, investment high-quality overseas mines.

3) Uncertainties of Mining Investment

As mentioned above, the Group has a policy of investing in mines in order to boost the in-house ore ratio of its raw material procurement. However, minable reserves and mining costs may prove to differ from prospecting-based estimates, impairing the expected return on investment. In mine development, a variety of factors including environmental administration procedures may delay the start of production and increase development costs. Additional investment or higher mining costs resulting from these uncertainties inherent in mining investment may cause deterioration in the Group's financial position and business performance.

In response, the Group makes carefully selected investments by cautiously determining profitability based on its long years of prospecting experience and mine assessment expertise.

4) Risks Associated with Environmental Protection and Compliance

The Group's businesses, in particular its mining business and non-ferrous metal refining business, are subject to a broad range of laws including those regulating worker safety, worker hygiene, environmental protection, prevention of pollution caused by mining, mine waste product processing, and toxic substance management. These laws can require a business to pay compensation whether or not it was at fault and to pay to maintain and manage mines after they have been closed down. Moreover, new environmental regulations can cause additions to the expense burden. The mining business and non-ferrous metal refining business also bear the risks and liabilities associated with environmental pollution and mine waste products. Managing businesses in compliance with the relevant laws mentioned above may entail a substantial cost burden and the expenses required to deal with new risks brought about by unforeseen circumstances may exceed assumptions. These cost burdens may cause deterioration of the Group's financial position and business performance.

In response, in addition to taking all possible measures to ensure environmental protection and compliance by strictly applying its environmental management system and risk management system, the Group aims for a reasonable cost burden.

5) Risks Associated with Market Volatility, New Product Development, and Intellectual Property

The markets targeted by the Group's Electronics Materials and Advanced Materials segment are characterized by rapid changes in technologies used, customer requirements, and product life cycles on the one hand, and the need for large investments of funds and human resources due to the longer time required to develop new products on the other. In addition, when a new product is outmoded by technological advances after it has been introduced to the market, when it fails to meet changing customer requirements, or when a competitor begins to take over the market with a similar product, returns on the investment may fall short of plan.

The sales volumes of the Electronics Materials and Advanced Materials segment's main products depend on the levels at which our clients produce mobile phones, PCs, home appliances, and other products and vary according to factors such as cyclical changes in demand for the clients' products, technological innovation, and general economic trends.

When new product development and existing product sales in the Electronics Materials and Advanced Materials segment do not go according to plan due to these factors, the Group's financial position and business performance may be impacted.

Recognizing the importance of acquiring and managing intellectual property rights, the Group takes all the legal measures required for claiming and protecting them. As it is not always possible to establish secure measures to protect intellectual property rights, however, disputes with third parties and unauthorized implementations by third parties can threaten our benefiting from the results of our research and development.

In response, the Group aims to mitigate any impact with a research and development system that produces results in a timely manner. In addition, we have set up a special office for the management of intellectual property rights and are making every effort to securely acquire and protect them.

6) International Operations

The Group is developing its businesses internationally by locating production bases and seeking markets for its products overseas. These overseas activities are subject to political and economic risks in each country, including 1) political instability, 2) changes in laws and regulations governing the environment, labor, taxes, currency exchange, and trade, 3) limited legal protection of intellectual property rights or inadequate enforcement, 4) foreign exchange volatility, and 5) confiscation or nationalization of assets. Any of these could prevent the Group from achieving a return on its investment.

In response, the Group makes investment decisions based on ample investigation of country risk.

Eleven-Year Financial Summary

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

Years ended March 31	**2006**	2005	2004	2003
For the year:				
Net sales	**¥ 625,579**	¥ 484,585	¥ 402,131	¥ 355,242
Gross profit	**120,137**	82,878	53,714	51,764
Operating income	**82,756**	47,893	22,778	16,593
Other income (expenses)	**10,218**	6,024	8,416	(24,098)
Income (loss) before income taxes	**92,974**	53,917	31,194	(7,505)
Net income (loss)	**62,800**	37,017	19,882	(1,172)
Equity in earnings of affiliated companies	**21,915**	13,513	7,112	3,400
Capital expenditures	**50,568**	36,488	46,540	18,927
Depreciation	**22,951**	20,578	17,824	18,283
Net interest expense	**(1,281)**	(893)	(1,098)	(1,459)
Net cash flows from operating activities	**70,772**	40,150	32,324	26,105
Net cash flows from investing activities	**(102,384)**	(31,725)	(17,448)	(21,246)
Net cash flows from financing activities	**28,723**	6,097	(9,293)	(14,163)
Free cash flows	**(31,612)**	8,425	14,876	4,859
At year-end:				
Total assets	**772,562**	573,925	517,930	470,774
Shareholders' equity	**373,752**	283,897	253,071	223,341
Long-term debt due after one year	**114,405**	109,777	86,437	76,470
Interest-bearing debt	**190,891**	160,533	148,351	154,799
Working capital	**72,228**	86,382	52,795	35,945
Per share (Yen):				
Net income (loss)				
— Basic	**109.96**	64.77	34.76	(2.05)
— Diluted	**108.87**	—	—	—
Shareholders' equity	**654.15**	497.57	443.29	391.14
Cash dividends	**14.0**	8.0	6.0	5.0
Ratios:				
ROA (%)	**9.33**	6.78	4.02	—
ROE (%)	**19.10**	13.79	8.35	—
Equity ratio (%)	**48.4**	49.5	48.9	47.4
Interest-bearing debt to total asset ratio (%)	**24.7**	28.0	28.6	32.9
Debt to equity ratio (times)	**0.51**	0.57	0.59	0.69
Current ratio (times)	**1.33**	1.61	1.38	1.26

Millions of yen (unless otherwise specified)

2002	2001	2000	1999	1998	1997	1996
¥ 330,194	¥ 375,352	¥ 360,299	¥ 350,288	¥ 431,950	¥ 525,076	¥ 511,887
38,152	63,372	45,061	41,190	62,641	57,836	55,904
1,147	26,930	8,990	858	24,622	21,665	19,947
(13,735)	(11,359)	(4,342)	(12,932)	(3,605)	(4,294)	(7,553)
(12,588)	15,571	4,648	(12,074)	16,876	14,617	12,394
(6,611)	15,103	4,740	(12,495)	10,157	12,884	10,683
1,535	4,078	2,406	326	(2,599)	(2,789)	(5,022)
25,379	28,078	20,490	32,499	27,968	24,730	25,722
17,822	16,774	16,611	23,095	21,638	20,702	19,889
(1,775)	(2,129)	(2,492)	(1,907)	(2,447)	(3,145)	(4,877)
33,370	23,339	(800)	22,912	43,056	43,135	6,100
(16,246)	(4,248)	4,143	(23,287)	—	—	—
(14,267)	(26,089)	(9,086)	4,047	—	—	—
17,124	19,091	3,343	(375)	—	—	—
518,756	530,080	544,121	544,519	566,088	586,948	624,419
236,313	237,470	235,231	226,795	243,436	238,056	225,296
73,972	83,839	107,266	124,535	82,356	117,021	171,596
167,077	176,998	197,624	207,821	201,515	224,736	285,871
23,371	33,259	38,910	50,518	26,529	62,726	104,854
(11.56)	26.41	8.29	(21.85)	17.77	22.65	19.18
—	—	—	—	—	—	—
413.28	415.25	411.34	396.59	425.68	417.20	398.35
4.0	6.0	5.0	3.0	6.0	6.0	6.0
—	2.81	0.87	—	1.76	2.13	1.76
—	6.39	2.05	—	4.22	5.56	4.95
45.6	44.8	43.2	41.7	43.0	40.6	36.1
32.2	33.4	36.3	38.2	35.6	38.3	45.8
0.71	0.75	0.84	0.92	0.83	0.94	1.27
1.14	1.20	1.23	1.31	1.13	1.31	1.53

Consolidated Balance Sheets

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

ASSETS	Millions of yen		Thousands of U.S. dollars (Note1)
As of March 31, 2006 and 2005	**2006**	2005	**2006**
Current assets:			
Cash and cash equivalents	**¥ 34,250**	¥ 34,785	**$ 291,539**
Time deposits	**459**	305	**3,907**
Receivables:			
Notes and accounts receivable:			
Trade	**78,468**	57,294	**667,926**
Non-consolidated subsidiaries and affiliated companies	**5,374**	6,197	**45,744**
Loans and others:			
Non-consolidated subsidiaries and affiliated companies	**4,183**	4,468	**35,606**
Other	**6,542**	5,121	**55,686**
Allowance for doubtful accounts	**(384)**	(441)	**(3,269)**
Inventories (Note 5)	**128,940**	102,817	**1,097,549**
Deferred tax assets (Note 8)	**5,280**	2,299	**44,944**
Other current assets	**28,476**	14,001	**242,390**
Total current assets	**291,588**	226,846	**2,482,022**
Investments and long-term receivables:			
Investment securities (Notes 3 and 7):			
Non-consolidated subsidiaries and affiliated companies	**140,698**	69,262	**1,197,634**
Other	**94,859**	61,613	**807,448**
Loans:			
Non-consolidated subsidiaries and affiliated companies	**6**	19	**51**
Other	**692**	771	**5,890**
Other long-term receivables	**6,323**	2,468	**53,823**
Allowance for doubtful accounts	**(458)**	(523)	**(3,899)**
	242,120	133,610	**2,060,947**
Property, plant and equipment (Notes 6 and 7):			
Land	**29,330**	29,005	**249,660**
Buildings and structures	**142,357**	137,794	**1,211,755**
Machinery and equipment	**305,578**	289,209	**2,601,107**
Construction in progress	**29,143**	15,396	**248,068**
	506,408	471,404	**4,310,590**
Accumulated depreciation	**(274,070)**	(263,659)	**(2,332,909)**
Net property, plant and equipment	**232,338**	207,745	**1,977,681**
Deferred tax assets (Note 8)	**1,545**	388	**13,151**
Other assets	**4,971**	5,336	**42,314**
	¥ 772,562	¥ 573,925	**$ 6,576,115**

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

LIABILITIES AND SHAREHOLDERS' EQUITY

As of March 31, 2006 and 2005	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note1) 2006
Current liabilities:			
Bank loans (Note 7)	**¥ 46,730**	¥ 36,871	**$ 397,770**
Long-term debt due within one year (Note 7)	**29,756**	13,885	**253,286**
Notes and accounts payable:			
Trade	**48,739**	32,357	**414,871**
Non-consolidated subsidiaries and affiliated companies	**6,294**	6,128	**53,575**
Other	**10,473**	7,071	**89,147**
Accrued income taxes (Note 8)	**27,250**	9,729	**231,954**
Accrued expenses	**4,386**	4,360	**37,334**
Advances received	**1,126**	1,319	**9,585**
Accrued restructuring charges	**975**	100	**8,299**
Accrued repair construction of lots for sale	**191**	—	**1,626**
Deferred tax liabilities (Note 8)	**54**	63	**460**
Other current liabilities	**43,386**	28,581	**369,305**
Total current liabilities	**219,360**	140,464	**1,867,212**
Long-term debt (Note 7)	**114,405**	109,777	**973,825**
Deferred tax liabilities (Note 8)	**25,148**	11,877	**214,062**
Accrued retirement benefits (Note 9)	**11,120**	12,753	**94,654**
Accrued environmental measures	**573**	—	**4,877**
Accrued restructuring charges	**—**	220	**—**
Accrued indemnification loss on damages caused by a consolidated subsidiary	**792**	1,026	**6,742**
Accrued liquidation loss of subsidiaries	**1,051**	1,469	**8,946**
Other accruals	**2,446**	1,454	**20,821**
Other long-term liabilities	**2,768**	2,059	**23,562**
Total long-term liabilities	**158,303**	140,635	**1,347,489**
Minority interest	**21,147**	8,929	**180,005**
Contingent liabilities (Note 13)			
Shareholders' equity (Note 12)**:**			
Common stock			
Authorized - 1,000,000,000 shares			
Issued - 572,971,694 shares	**88,906**	88,355	**756,776**
Capital surplus	**81,750**	81,191	**695,863**
Retained earnings (Note 11)	**171,946**	113,762	**1,463,619**
Net unrealized holding gain on available-for-sale securities	**34,897**	15,280	**297,046**
Foreign currency translation adjustment	**(2,620)**	(13,912)	**(22,302)**
Treasury stock, at cost	**(1,127)**	(779)	**(9,593)**
Total shareholders' equity	**373,752**	283,897	**3,181,409**
	¥ 772,562	¥ 573,925	**$ 6,576,115**

Consolidated Statements of Income

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended March 31, 2006, 2005 and 2004	**2006**	2005	2004	**2006**
Net sales (Note 14)	**¥ 625,579**	¥ 484,585	¥ 402,131	**$ 5,324,983**
Costs and expenses (Note 14)**:**				
Cost of sales	**505,442**	401,707	348,417	**4,302,367**
Selling, general and administrative expenses (Note 10)	**37,381**	34,985	30,936	**318,190**
	542,823	436,692	379,353	**4,620,557**
Operating income (Note 14)	**82,756**	47,893	22,778	**704,426**
Other income (expenses):				
Interest and dividend income	**1,673**	957	1,023	**14,241**
Interest expense	**(2,954)**	(1,850)	(2,121)	**(25,145)**
Gain on sale of investment securities	**356**	71	4,848	**3,030**
Write-down of investment securities	**(60)**	—	(998)	**(511)**
Gain (Loss) on sales of subsidiaries and affiliated companies securities	**—**	1,390	(360)	**—**
Gain (Loss) on sale and disposal of property, plant and equipment	**(3,407)**	(757)	1,746	**(29,001)**
Loss on impairment of fixed assets	**(1,825)**	(1,263)	—	**(15,535)**
Gain (Loss) on liquidation of subsidiaries	**418**	(78)	(1,131)	**3,558**
Reversal of (Provision for) doubtful accounts	**54**	(41)	710	**460**
Reversal of allowance for loss on investments	**—**	—	271	**—**
Provision for repair construction of lots for sale	**(191)**	—	—	**(1,626)**
Provision for environmental measures	**(573)**	—	—	**(4,877)**
Gain (Loss) from valuation of gold loans	**(1,055)**	(271)	138	**(8,980)**
Exchange gain (loss)	**845**	(313)	(642)	**7,193**
Restructuring charges	**(1,092)**	(185)	(790)	**(9,295)**
Provision for realignment of operations	**—**	—	(720)	**—**
Maintenance cost for ceased projects	**(816)**	(743)	(745)	**(6,946)**
Write-off of obsolete inventories	**—**	(478)	—	**—**
Casualty loss	**(409)**	(622)	(108)	**(3,481)**
Gain (Loss) from valuation of derivative instruments	**(2,029)**	(3,636)	1,280	**(17,271)**
Amortization of consolidation difference	**33**	27	32	**281**
Equity in earnings of affiliated companies	**21,915**	13,513	7,112	**186,542**
Gain on change in interests in an affiliated company	**—**	1,313	—	**—**
Other, net	**(665)**	(1,010)	(1,129)	**(5,660)**
	10,218	6,024	8,416	**86,977**
Income before income taxes and minority interests	**92,974**	53,917	31,194	**791,403**
Income taxes (Note 8)**:**				
Current	**31,932**	10,246	1,330	**271,808**
Deferred	**(3,557)**	5,276	9,400	**(30,277)**
	28,375	15,522	10,730	**241,531**
	64,599	38,395	20,464	**549,872**
Minority interests in net income of consolidated subsidiaries	**(1,799)**	(1,378)	(582)	**(15,313)**
Net income:	**¥ 62,800**	¥ 37,017	¥ 19,882	**$ 534,559**

	yen			U.S. dollars (Note1)
Amounts per share of common stock:				
Net income (Note 16)				
— Basic	**¥ 109.96**	¥ 64.77	¥ 34.76	**$ 0.94**
— Diluted	**108.87**	—	—	**0.93**
Cash dividends applicable to the year	**14.00**	8.00	6.00	**0.12**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

Years ended March 31, 2006, 2005 and 2004	Shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
							Millions of yen
Balance at March 31, 2003	571,873	¥88,355	¥81,184	¥ 64,183	¥ (2,217)	¥ (7,763)	¥ (401)
Net income				19,882			
Foreign currency translation adjustments						(5,504)	
Adjustments for unrealized gains on securities					18,328		
Treasury stock							(124)
Gain on sale of treasury stock			3				
Cash dividends paid				(2,855)			
Balance at March 31, 2004	571,873	¥88,355	¥81,187	¥ 81,210	¥16,111	¥(13,267)	¥ (525)
Net income				37,017			
Increase due to change in consolidation of subsidiaries				1,049			
Foreign currency translation adjustments						(645)	
Adjustments for unrealized gains on securities					(831)		
Treasury stock							(254)
Gain on sale of treasury stock			4				
Executive bonuses				(37)			
Decrease due to change in consolidation of subsidiaries				(1,071)			
Decrease due to change in consolidation of affiliated companies				(981)			
Cash dividends paid				(3,425)			
Balance at March 31, 2005	571,873	¥88,355	¥81,191	¥113,762	¥15,280	¥(13,912)	¥ (779)
Net income				62,800			
Conversion of convertible bonds		551	551				
Foreign currency translation adjustments						11,292	
Adjustments for unrealized gains on securities					19,617		
Treasury stock							(348)
Gain on sale of treasury stock			8				
Executive bonuses				(52)			
Cash dividends paid				(4,564)			
Balance at March 31, 2006	**572,972**	**¥88,906**	**¥81,750**	**¥171,946**	**¥34,897**	**¥ (2,620)**	**¥(1,127)**

Year ended March 31, 2006	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
						Thousands of U.S. dollars (Note 1)
Balance at March 31, 2005	$752,085	$691,105	$ 968,352	$130,065	$(118,420)	$(6,631)
Net income			534,559			
Conversion of convertible bonds	4,691	4,691				
Foreign currency translation adjustments					96,118	
Adjustments for unrealized gains on securities				166,981		
Treasury stock						(2,962)
Gain on sale of treasury stock		67				
Executive bonuses			(443)			
Cash dividends paid			(38,849)			
Balance at March 31, 2006	**$756,776**	**$695,863**	**$1,463,619**	**$297,046**	**$ (22,302)**	**$(9,593)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended March 31, 2006, 2005 and 2004	**2006**	2005	2004	**2006**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 92,974**	¥ 53,917	¥ 31,194	**$ 791,403**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**22,951**	20,578	17,824	**195,361**
Loss on impairment of fixed assets	**1,825**	1,263	—	**15,535**
Loss (Gain) on sale and disposal of property, plant and equipment	**3,407**	757	(1,746)	**29,001**
Gain on sale of investment securities	**(356)**	(71)	(4,848)	**(3,030)**
Write-down of investment securities	**60**	—	998	**511**
Gain on change in interests in an affiliated company	**—**	(1,313)	—	**—**
Decrease in allowance for loss on investments	**—**	—	(814)	**—**
Loss (Gain) on sales of subsidiaries and affiliated companies securities	**—**	(1,591)	360	**—**
Loss (Gain) from valuation of derivative instruments	**2,029**	3,636	(1,280)	**17,271**
Provision for (Reversal of) doubtful accounts	**(122)**	(72)	(886)	**(1,038)**
Increase (Decrease) in retirement benefits	**(1,613)**	(2,458)	368	**(13,730)**
Loss (Gain) on liquidation of subsidiaries	**(418)**	(608)	1,225	**(3,558)**
Interest and dividend income	**(1,673)**	(957)	(1,023)	**(14,241)**
Interest expense	**2,954**	1,850	2,121	**25,145**
Equity in earnings of affiliated companies	**(21,915)**	(13,513)	(7,112)	**(186,542)**
Provision for (Reversal of) realignment of operations	**—**	(69)	720	**—**
Restructuring charges	**441**	70	—	**3,754**
Casualty loss	**409**	622	108	**3,481**
Loss from indemnification of damages caused by a consolidated subsidiary	**—**	—	7	**—**
Maintenance cost for ceased projects	**816**	743	745	**6,946**
Decrease (Increase) in trade receivables	**(18,971)**	9,624	(7,363)	**(161,483)**
Decrease (Increase) in inventories	**(24,964)**	(37,061)	2,632	**(212,496)**
Increase in trade payables	**8,804**	2,886	8,288	**74,940**
Others	**8,298**	3,556	(6,620)	**70,632**
Sub total	**74,936**	41,789	34,898	**637,862**
Interest and dividend received	**14,350**	3,597	2,206	**122,148**
Interest paid	**(2,811)**	(1,923)	(2,177)	**(23,928)**
Payments for additional retirement benefits by realignment of operations	**—**	(95)	(632)	**—**
Payments for maintenance costs for ceased project	**(816)**	(743)	(717)	**(6,946)**
Payments for recovery costs	**(409)**	(589)	(108)	**(3,481)**
Payments for indemnification of damages caused by a consolidated subsidiary	**—**	—	(7)	**—**
Payments for income taxes	**(14,478)**	(1,886)	(1,139)	**(123,238)**
Net cash provided by operating activities	**70,772**	40,150	32,324	**602,417**
Cash flows from investing activities:				
Payments for acquisition of property, plant and equipment	**(48,728)**	(38,056)	(35,245)	**(414,777)**
Proceeds from sale of property, plant and equipment	**3,103**	2,615	4,848	**26,413**
Payments for purchases of investment securities	**(1,204)**	(416)	(2,046)	**(10,249)**
Payments for purchase of subsidiaries and affiliated companies securities	**(51,969)**	—	—	**(442,365)**
Proceeds from sale of investment securities	**510**	235	18,438	**4,341**
Proceeds from sales of subsidiaries and affiliated companies securities	**5**	4,018	944	**43**
Increase in loans receivable	**(1,621)**	(1,575)	(3,224)	**(13,798)**
Collection of loans receivable	**956**	2,105	1,392	**8,138**
Other	**(3,436)**	(651)	(2,555)	**(29,248)**
Net cash used in investing activities	**(102,384)**	(31,725)	(17,448)	**(871,502)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	**31,867**	16,785	17,180	**271,255**
Repayments of long-term debt	**(4,337)**	(2,586)	(9,818)	**(36,917)**
Net increase (decrease) in bank loans	**7,682**	(6,970)	(10,529)	**65,390**
Net decrease in commercial paper	**—**	—	(3,000)	**—**
Payments for redemption of bonds	**(10,000)**	(16,000)	(10,000)	**(85,121)**
Proceeds from issuance of bonds	**—**	20,000	10,000	**—**
Contribution from minority in consolidated subsidiaries	**9,288**	—	—	**79,060**
Increase in treasury stocks	**(338)**	(254)	(124)	**(2,877)**
Cash dividends paid	**(4,564)**	(3,425)	(2,855)	**(38,849)**
Other	**(875)**	(1,453)	(147)	**(7,448)**
Net cash provided by (used in) financing activities	**28,723**	6,097	(9,293)	**244,493**
Effect of changes in exchange rate on cash and cash equivalents	**2,354**	55	(772)	**20,038**
Net increase (decrease) in cash and cash equivalents	**(535)**	14,577	4,811	**(4,554)**
Cash and cash equivalents at beginning of fiscal year	**34,785**	19,304	13,581	**296,093**
Increase in cash due to newly consolidated subsidiaries	**—**	904	1,299	**—**
Other decrease in cash and cash equivalents	**—**	—	(387)	**—**
Cash and cash equivalents at end of fiscal year	**¥ 34,250**	¥ 34,785	¥ 19,304	**$ 291,539**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

1. Basis of presenting consolidated financial statements

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

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

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.48 to U.S. $1. 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 (49 subsidiaries in 2006, 47 in 2005 and 40 in 2004). All significant intercompany balances and transactions have been eliminated. Investments in affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method (13 affiliated companies in 2006, 8 in 2005 and 6 in 2004). Investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost because of their immaterial effect on the consolidated financial statements.

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

The 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.

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.

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, or other similar conditions), an allowance is booked based on an estimation of the uncollectible amount, on a case by case basis.

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

Available-for-sale securities with available fair values are stated at the fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Other available-for-sale securities with no available fair values are stated at moving-average method. Securities issued by non-consolidated subsidiaries and affiliated companies are stated at moving-average costs.

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

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

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

(1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable, (a) the difference, if any, between the Japanese yen amount

of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and

(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

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

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

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

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

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for 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.

Inventories —

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

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

(Change for the accounting policy of inventory valuation)

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

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

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

Also refer to the section of business segment information and geographic segment information for the impact of the change to the Company's segment information.

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. The depreciation period generally ranges from 3 years to 50 years for buildings and structures and 5 years to 17 years for machinery and equipment.

(Adopting the new accounting standard for impairment of fixed assets)

The Company and consolidated domestic subsidiaries adopted early from April 1, 2004, the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As the result of adopting the accounting policy, in the year ended March 31, 2005, income before income taxes and minority interests was decreased by ¥1,263 million.

Also refer to the section of business segment information for the impact of adopting the new accounting standard.

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.

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

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

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

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

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

(Revision to accounting policy for employees' retirement benefits)

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

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

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

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

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

Accrued liquidation loss of subsidiaries — Accrued liquidation loss of subsidiaries are provided by the Company to liquidate business.

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

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 subsidiaries recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. 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.

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

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

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

Reclassifications — Certain prior year amounts have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Securities

(1) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2006 and 2005:

Securities with book values exceeding acquisition costs

	Millions of yen					
			2006			2005
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 30,336**	**¥ 87,952**	**¥ 57,616**	¥ 28,674	¥ 54,275	¥ 25,601
Others	**50**	**149**	**99**	50	80	30
Total	**¥ 30,386**	**¥ 88,101**	**¥ 57,715**	¥ 28,724	¥ 54,355	¥ 25,631

	Thousands of U.S. dollars		
			2006
	Acquisition cost	Book value	Difference
Equity securities	**$ 258,223**	**$ 748,655**	**$ 490,432**
Bonds	**426**	**1,268**	**842**
Total	**$ 258,649**	**$ 749,923**	**$ 491,274**

Securities with book values not exceeding acquisition costs

	Millions of yen					
			2006			2005
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 1,664**	**¥ 1,662**	**¥ (2)**	¥ 1,996	¥ 1,961	¥ (35)
Total	**¥ 1,664**	**¥ 1,662**	**¥ (2)**	¥ 1,996	¥ 1,961	¥ (35)

	Thousands of U.S. dollars		
			2006
	Acquisition cost	Book value	Difference
Equity securities	**$ 14,164**	**$ 14,147**	**$ (17)**
Total	**$ 14,164**	**$ 14,147**	**$ (17)**

(2) The following tables summarize book values of the securities with no available fair values as of March 31, 2006 and 2005:

Available-for-sale securities	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Unlisted equity securities	**¥ 4,411**	¥ 4,439	**$ 37,547**
Others	**—**	28	**—**
Total	**¥ 4,411**	¥ 4,467	**$ 37,547**

(3) Available-for-sale securities with maturities as of March 31, 2006 and 2005 are as follows:

As of March 31, 2006				Millions of yen
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Mutual funds	**¥ 149**	**¥ —**	**¥ —**	**¥ 149**

As of March 31, 2006				Thousands of U.S. dollars
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Mutual funds	**$ 1,268**	**$ —**	**$ —**	**$ 1,268**

As of March 31, 2005				Millions of yen
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Mutual funds	¥ 28	¥ 80	¥ —	¥ 108

(4) Total sales of available-for-sale securities sold amounted to ¥510 million ($4,341 thousand), ¥235 million and ¥18,438 million, and the related gains amounted to ¥356 million ($3,030 thousand), ¥71 million and ¥4,848 million in the years ended March 31, 2006, 2005 and 2004, respectively. No losses were recognized in the years ended March 31, 2006, 2005 and 2004.

4. Derivative transactions

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

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

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

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

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

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

The following tables summarize market value information as of March 31, 2006 and 2005 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen							
	2006				2005			
	Contracted amount				Contracted amount			
	Total	Over one year	Market value	Recognized gains (losses)	Total	Over one year	Market value	Recognized gains (losses)
Currency:								
Forward contracts:								
Sell position—U.S. dollars	**¥ —**	**¥ —**	**¥ —**	**¥ —**	¥ 59	¥ —	¥ 60	¥ (1)
Buy position—U.S. dollars	**6,550**	**—**	**6,544**	**(6)**	5,684	—	5,780	96
	¥ 6,550	**¥ —**	**¥ —**	**¥ (6)**	¥ 5,743	¥ —	¥ —	¥ 95
Commodity:								
Forward contracts:								
Sell position—Metal	**¥ 796**	**¥ —**	**¥ 1,184**	**¥ (388)**	¥ 14,408	¥ —	¥ 16,090	¥ (1,682)
Buy position—Metal	**11,794**	**—**	**13,375**	**1,581**	—	—	—	—
Option contracts:								
Zero cost option	**—**	**—**	**—**	**—**	3,082	—	(490)	(490)
Put position-Metal	**131**	**—**	**97**	**(34)**	—	—	—	—
	¥ 12,721	**¥ —**	**¥ —**	**¥ 1,159**	¥ 17,490	¥ —	¥ —	¥ (2,172)

	Thousands of U.S. dollars			
	2006			
	Contracted amount			
	Total	Over one year	Market value	Recognized gains (losses)
Currency:				
Forward contracts:				
Sell position—U.S. dollars	**$ —**	**$ —**	**$ —**	**$ —**
Buy position—U.S. dollars	**55,754**	**—**	**55,703**	**(51)**
	$ 55,754	**$ —**	**$ —**	**$ (51)**
Commodity:				
Forward contracts:				
Sell position—Metal	**$ 6,776**	**$ —**	**$ 10,078**	**$ (3,302)**
Buy position—Metal	**100,392**	**—**	**113,849**	**13,457**
Option contracts:				
Zero cost option	**—**	**—**	**—**	**—**
Put position-Metal	**1,115**	**—**	**826**	**(289)**
	$ 108,283	**$ —**	**$ —**	**$ 9,866**

5. Inventories

Inventories at March 31, 2006 and 2005 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Merchandise	**¥ 1,011**	¥ 2,021	**$ 8,606**
Finished products	**30,678**	22,274	**261,134**
Semi-finished products and work in process	**58,203**	40,982	**495,429**
Raw materials and supplies	**39,048**	37,540	**332,380**
	¥ 128,940	¥ 102,817	**$ 1,097,549**

6. Loss on impairment of fixed assets

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

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
			Loss	
Hyuga City, Miyazaki Prefecture, Japan	Idle Land	Land	**¥ 9**	**$ 77**
Singapore	Manufacturing facilities for electronic parts	Machinery and equipment	**118**	**1,005**
Ocean Side, California, USA	Manufacturing facilities for electronic parts	Machinery and equipment	**172**	**1,464**
Iwanai-gun, Hokkaido, Japan	Manufacturing facilities for electronic crystal materials	Machinery and equipment	**512**	**4,358**
New South Wales, Australia	Mining and concentrating facilities for copper ore	Machinery, equipment, and mining rights	**1,014**	**8,631**
Total			**¥ 1,825**	**$ 15,535**

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

The breakdown of major use is as follows.

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

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

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

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

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

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

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

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

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

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

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

7. Bank loans and long-term debt

Bank loans are generally represented by short-term notes (most of which are unsecured) and bank overdrafts, and bore interest at annual rates of 0.30% to 6.33% and 0.44% to 6.13% at March 31, 2006 and 2005, respectively.

The Zero-coupon convertible bonds due in 2009 are currently convertible at ¥1,001 ($8.52) per share until June 15, 2009.

As of March 31, 2006, 18,881 thousand additional shares of common stock in aggregate could be issued upon full conversion at the current conversion price.

Long-term debt at March 31, 2006 and 2005 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Long-term loans from:			
Banks, insurance companies and other financial institutions, maturing through 2015 at interest rates of 0.69% to 6.51%:			
Secured	**¥ 90**	¥ 154	**$ 766**
Unsecured	**49,896**	41,424	**424,719**
Government owned banks and government agencies, maturing through 2020 at interest rates of 0.65% to 4.75%:			
Secured	**13,116**	9,976	**111,645**
Unsecured	**32,159**	12,108	**273,740**
2.00% domestic bonds due in 2005	**—**	10,000	**—**
0.88% domestic bonds due in 2006	**10,000**	10,000	**85,121**
1.08% domestic bonds due in 2007	**10,000**	10,000	**85,121**
0.51% domestic bonds due in 2008	**10,000**	10,000	**85,121**
Zero coupon convertible bonds due in 2009	**18,900**	20,000	**160,878**
	144,161	123,662	**1,227,111**
Amount due within one year	**(29,756)**	(13,885)	**(253,286)**
	¥ 114,405	¥ 109,777	**$ 973,825**

The 2.00% domestic bond was redeemed during the year ended March 31, 2006.

The aggregate annual maturities of long-term debt at March 31, 2006 is as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 29,756	$ 253,286
2008	29,224	248,757
2009	20,764	176,745
2010	27,340	232,720
2011	7,608	64,760
Thereafter	29,469	250,843

Assets pledged as collateral for bank loans and long-term debt at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Investment securities			
Subsidiaries	**¥ 131**	¥ 131	**$ 1,115**
Other	**16,523**	12,102	**140,645**
Property, plant and equipment, at net book value	**56,735**	51,399	**482,933**
	¥ 73,389	¥ 63,632	**$ 624,693**

8. Income taxes

Income taxes in the accompanying consolidated statements of income comprise corporation taxes, inhabitants taxes and enterprise taxes.

Consolidated overseas subsidiaries are subject to income taxes of the countries in which they domicile.

The following table summarizes the significant differences between the statutory tax rate and the Company's and its consolidated subsidiaries' effective tax rate for financial statement purposes for the years ended March 31, 2006, 2005 and 2004:

	2006	2005	2004
Statutory tax rate	**40.7%**	40.7%	42.1%
Equity in earnings of unconsolidated subsidiaries and affiliated companies	**(7.2)**	(7.0)	(9.6)
Effect of elimination of intercompany dividends received	**4.0**	6.7	2.6
Difference in tax rates among the Company and its consolidated subsidiaries	**0.3**	(0.5)	(1.0)
Permanently nondeductible expenses	**0.3**	0.3	0.6
Permanently nontaxable dividends received	**(3.5)**	(8.8)	(1.5)
Per capita inhabitant tax	**0.1**	0.2	0.4
Refunded corporation tax	**(2.5)**	—	—
Increase in valuation allowance	**(0.8)**	(1.0)	0.6
Others	**(0.9)**	(1.8)	0.2
Effective tax rate	**30.5%**	28.8%	34.4%

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Retirement benefits	**¥ 7,337**	¥ 7,624	**$ 62,453**
Net operating loss carry forwards	**2,560**	4,428	**21,791**
Accrued enterprise taxes	**2,059**	551	**17,526**
Allowance for bonus payable	**1,383**	1,198	**11,772**
Loss from valuation of gold loans	**1,019**	—	**8,674**
Loss on impairment of fixed assets	**830**	454	**7,065**
Loss from valuation of derivative instruments	**672**	715	**5,720**
Accrued liquidation loss of subsidiaries	**426**	597	**3,626**
Depreciation	**420**	349	**3,575**
Accrued indemnification loss of damages caused by a consolidated subsidiary	**312**	405	**2,656**
Others	**5,215**	4,848	**44,391**
Gross deferred tax assets	**22,233**	21,169	**189,249**
Less valuation allowance	**(4,950)**	(7,053)	**(42,135)**
Deferred tax assets-less valuation allowance	**17,283**	14,116	**147,114**
Deferred tax liabilities:			
Net unrealized holding gain on available-for-sale securities	**(22,920)**	(10,496)	**(195,097)**
Depreciation	**(4,306)**	(2,781)	**(36,653)**
Deferred gains on properties for tax purpose	**(3,491)**	(4,097)	**(29,716)**
Reserve for losses on overseas investment	**(2,071)**	(1,284)	**(17,629)**
Accumulated earnings of overseas subsidiaries	**(1,030)**	(2,695)	**(8,767)**
Reserve for explorations	**(676)**	(740)	**(5,754)**
Gain on securities contributed to employee retirement benefits trust	**(594)**	(594)	**(5,056)**
Accrual for special depreciation of fixed assets	**(274)**	(238)	**(2,332)**
Others	**(298)**	(444)	**(2,537)**
Deferred tax liabilities	**(35,660)**	(23,369)	**(303,541)**
Net deferred tax assets	**¥ (18,377)**	¥ (9,253)	**$ (156,427)**

9. Retirement benefits and pension costs

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2005 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ (49,617)**	¥ (45,666)	**$ (422,344)**
Fair value of pension assets	**49,574**	34,356	**421,978**
Excess of projected benefit obligation over pension assets	**¥ (43)**	¥ (11,310)	**$ (366)**
Unrecognized actuarial differences	**(8,388)**	3,636	**(71,399)**
Unrecognized prior services costs	**(2,213)**	(4,583)	**(18,837)**
Retirement benefits	**¥ (10,644)**	¥ (12,257)	**$ (90,602)**

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

Retirement benefits in the consolidated balance sheets as of March 31, 2006 and 2005 also include estimated liabilities for the unfunded lump-sum benefit plan covering directors and corporate auditors of ¥476 million ($4,052 thousand) and ¥496 million, respectively.

The Company and certain domestic subsidiaries have transferred their pension plan from approved retirement annuity system to defined benefit plan as of April, 2004.

Included in the consolidated statements of income for the years ended March 31, 2006, 2005 and 2004 are severance and retirement benefit expense comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Service cost–benefits earned during the year	**¥ 1,837**	¥ 1,866	¥ 1,973	**$ 15,637**
Interest cost on projected benefit obligation	**798**	892	986	**6,793**
Expected return on plan assets	**(639)**	(530)	(466)	**(5,439)**
Amortization of actuarial differences	**632**	445	867	**5,380**
Amortization of prior services costs	**(461)**	(509)	—	**(3,924)**
	¥ 2,167	¥ 2,164	¥ 3,360	**$ 18,447**

The amounts for additional retirement benefits the Company made for employees for the year ended March 31, 2004 was ¥632 million.

The discount rates used by the Company are primarily 2.0% for the years ended March 31, 2006 and 2005, and 2.5% for the year ended March 31, 2004. The rates of expected return on plan assets used by the Company are primarily 3.5%, respectively for the years ended March 31, 2006, 2005 and 2004. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement using the straight-line method in ten years.

10. Research and development expense

Research and development expense included in selling, general and administrative expenses for the years ended March 31, 2006, 2005 and 2004 are ¥5,297 million ($45,089 thousand), ¥4,812 million and ¥4,286 million, respectively.

11. Special reserves

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

Such reserves, which are included in retained earnings, are ¥35,852 million ($305,175 thousand) and ¥19,877 million at March 31, 2006 and 2005, respectively.

12. Shareholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code requires that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

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

13. Contingent liabilities

Contingent liabilities at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
Notes and accounts receivable sold to factoring companies with recourse	¥ 7,535	$ 64,139
As guarantor for loans of:		
Non-consolidated subsidiaries and affiliated companies	743	6,324
Other	4,614	39,275
	¥ 12,892	$ 109,738

Besides the above, as to providing electric power to Pogo gold mine, there are ¥1,408 million ($11,985 thousand) to guarantee construction costs of electric facilities.

14. Segment information

Business segment information

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

Business segment information for the years ended 31 March 2006, 2005 and 2004 are as follows:

2006							Millions of yen
	Mineral resources	Metals	Electronics & advanced materials	Construction materials	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥ 29,617	¥ 390,369	¥ 174,989	¥ 17,001	¥ 13,603	¥ —	¥ 625,579
Inter segment	14,102	63,311	9,086	317	15,181	(101,997)	—
Total	43,719	453,680	184,075	17,318	28,784	(101,997)	625,579
Costs and expenses	26,612	403,997	172,899	15,178	24,520	(100,383)	542,823
Operating income (loss)	¥ 17,107	¥ 49,683	¥ 11,176	¥ 2,140	¥ 4,264	¥ (1,614)	¥ 82,756
Identifiable assets	¥ 125,562	¥ 350,695	¥ 132,227	¥ 15,428	¥ 49,225	¥ 99,425	¥ 772,562
Depreciation expense	3,250	7,478	9,647	656	1,329	591	22,951
Loss on impairment of fixed assets	1,014	9	802	—	—	—	1,825
Capital expenditures	14,014	16,195	18,783	241	1,735	(400)	50,568

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

2004							Millions of yen
	Mineral resources	Metals	Electronics & advanced materials	Construction materials	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥ 16,437	¥ 226,148	¥ 136,272	¥ 15,370	¥ 7,904	¥ —	¥ 402,131
Inter segment	8,878	47,239	6,404	7	2,300	(64,828)	—
Total	25,315	273,387	142,676	15,377	10,204	(64,828)	402,131
Costs and expenses	20,855	260,820	137,064	15,370	9,813	(64,569)	379,353
Operating income (loss)	¥ 4,460	¥ 12,567	¥ 5,612	¥ 7	¥ 391	¥ (259)	¥ 22,778
Identifiable assets	¥ 52,326	¥ 219,816	¥ 116,395	¥ 14,125	¥ 39,869	¥ 75,399	¥ 517,930
Depreciation expense	2,947	4,676	8,273	656	472	800	17,824
Capital expenditures	3,001	27,878	12,168	233	1,153	2,107	46,540

2006							Thousands of U.S. dollars
	Mineral resources	Metals	Electronics & advanced materials	Construction materials	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	**$ 252,102**	**$ 3,322,855**	**$ 1,489,522**	**$ 144,714**	**$ 115,790**	**$ —**	**$ 5,324,983**
Inter segment	**120,037**	**538,909**	**77,341**	**2,698**	**129,222**	**(868,207)**	**—**
Total	**372,139**	**3,861,764**	**1,566,863**	**147,412**	**245,012**	**(868,207)**	**5,324,983**
Costs and expenses	**226,524**	**3,438,858**	**1,471,731**	**129,196**	**208,717**	**(854,469)**	**4,620,557**
Operating income (loss)	**$ 145,615**	**$ 422,906**	**$ 95,132**	**$ 18,216**	**$ 36,295**	**$ (13,738)**	**$ 704,426**
Identifiable assets	**$ 1,068,795**	**$ 2,985,146**	**$ 1,125,528**	**$ 131,324**	**$ 419,008**	**$ 846,314**	**$ 6,576,115**
Depreciation expense	**27,664**	**63,653**	**82,116**	**5,584**	**11,313**	**5,031**	**195,361**
Loss on impairment of fixed assets	**8,631**	**77**	**6,827**	**—**	**—**	**—**	**15,535**
Capital expenditures	**119,288**	**137,853**	**159,883**	**2,051**	**14,768**	**(3,405)**	**430,438**

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

Revision to accounting policy for employees' retirement benefits

In line with public announcement of "Partial Revision of Accounting Standard for Retirement Benefit (Corporate Accounting Standard No.3)" as well as "Implementation Guidance for Partial Revision of Accounting Standard for Retirement Benefit (Implementation Guidance No.7 for applying Corporate Accounting Standards), " both issued by the Accounting Standards Board of Japan on March 16, 2005, the company elected to apply these standards to its consolidated financial statements for the year ended March 31, 2006. As the result of the change of the accounting policy, in the year ended March 31, 2006, operating income increases by ¥115 million ($979 thousand) in Mineral resources, ¥219 million ($1,864 thousand) in Metallurgy, ¥94 million ($800 thousand) in Electronics & advanced materials and ¥26 million ($221 thousand) in Others.

Change for the accounting policy of inventory valuation

The costs of the Company's inventories except for precious metals and electronics and advanced materials had been determined using the last-in, first-out (LIFO) methods until the year ended March 31, 2004, but they have been determined using the first-in, first-out (FIFO) methods for year starting April 1, 2004. As the result of the change of the accounting policy, operating income increases by ¥14 million in Mineral resources, ¥10,605 million in Metallurgy and ¥494 million in Electronics & advanced materials.

Geographic segment information

Geographic segment information for the years ended March 31, 2006, 2005 and 2004 are summarized as follows:

2006						Millions of yen
	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	**¥ 547,665**	**¥ 25,358**	**¥ 37,790**	**¥ 14,766**	**¥ —**	**¥ 625,579**
Inter segment	**31,015**	**—**	**4,653**	**4,678**	**(40,346)**	**—**
Total	**578,680**	**25,358**	**42,443**	**19,444**	**(40,346)**	**625,579**
Costs and expenses	**505,648**	**16,114**	**42,045**	**18,590**	**(39,574)**	**542,823**
Operating income (loss)	**¥ 73,032**	**¥ 9,244**	**¥ 398**	**¥ 854**	**¥ (772)**	**¥ 82,756**
Identifiable assets	**¥ 514,881**	**¥ 74,365**	**¥ 47,575**	**¥ 77,544**	**¥ 58,197**	**¥ 772,562**

2005						Millions of yen
	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥ 419,109	¥ 20,560	¥ 34,097	¥ 10,819	¥ —	¥ 484,585
Inter segment	25,604	—	282	2,452	(28,338)	—
Total	444,713	20,560	34,379	13,271	(28,338)	484,585
Costs and expenses	403,820	15,145	33,733	12,317	(28,323)	436,692
Operating income (loss)	¥ 40,893	¥ 5,415	¥ 646	¥ 954	¥ (15)	¥ 47,893
Identifiable assets	¥ 433,342	¥ 48,872	¥ 39,468	¥ 24,637	¥ 27,606	¥ 573,925

2004						Millions of yen
	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥ 348,074	¥ 14,842	¥ 29,121	¥ 10,094	¥ —	¥ 402,131
Inter segment	21,159	—	758	1,309	(23,226)	—
Total	369,233	14,842	29,879	11,403	(23,226)	402,131
Costs and expenses	347,562	14,164	29,274	11,324	(22,971)	379,353
Operating income (loss)	¥ 21,671	¥ 678	¥ 605	¥ 79	¥ (255)	¥ 22,778
Identifiable assets	¥ 388,929	¥ 33,748	¥ 38,928	¥ 13,776	¥ 42,549	¥ 517,930

2006						Thousands of U.S. dollars
	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	**$ 4,661,772**	**$ 215,850**	**$ 321,672**	**$ 125,689**	**$ —**	**$ 5,324,983**
Inter segment	**264,002**	**—**	**39,607**	**39,820**	**(343,429)**	**—**
Total	**4,925,774**	**215,850**	**361,279**	**165,509**	**(343,429)**	**5,324,983**
Costs and expenses	**4,304,120**	**137,164**	**357,891**	**158,239**	**(336,857)**	**4,620,557**
Operating income (loss)	**$ 621,654**	**$ 78,686**	**$ 3,388**	**$ 7,270**	**$ (6,572)**	**$ 704,426**
Identifiable assets	**$ 4,382,712**	**$ 633,001**	**$ 404,963**	**$ 660,061**	**$ 495,378**	**$ 6,576,115**

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

Revision to accounting policy for employees' retirement benefits

In the line with public announcement of "Partial Revision of Accounting Standard for Retirement Benefit (Corporate Accounting Standard No.3)" as well as "Implementation Guidance for Partial Revision of Accounting Standard for Retirement Benefit (Implementation Guidance No.7 for applying Corporate Accounting Standards)," both issued by the Accounting Standards Board of Japan on March 16, 2005, the company elected to apply these standards to its consolidated financial statements for the year ended March 31, 2006. As the result of the change of the accounting policy, in the year ended March 31, 2006, operating income in Domestic section increases by ¥454 million ($3,864 thousand).

Change for the accounting policy of inventory valuation

The costs of the Company's inventories except for precious metals and electronics and advanced materials had been determined using the last-in, first-out (LIFO) methods until the year ended March 31, 2004, but they have been determined using the first-in, first-out (FIFO) methods for year starting April 1, 2004. As the result of the change of the accounting policy, in the year ended March 31, 2005, operating income in Domestic section increases by ¥11,113 million.

Information for overseas sales

2006					Millions of yen
	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	**¥ 30,082**	**¥ 45,216**	**¥ 128,921**	**¥ 7,844**	**¥ 212,063**
Consolidated net sales	**—**	**—**	**—**	**—**	**¥ 625,579**
Share of overseas net sales	**4.8%**	**7.2%**	**20.6%**	**1.3%**	**33.9%**

2005					Millions of yen
	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	¥ 25,296	¥ 35,441	¥ 97,674	¥ 3,550	¥ 161,961
Consolidated net sales	—	—	—	—	¥ 484,585
Share of overseas net sales	5.2%	7.3%	20.2%	0.7%	33.4%

2004					Millions of yen
	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	¥ 18,896	¥ 28,916	¥ 75,452	¥ 3,111	¥ 126,375
Consolidated net sales	—	—	—	—	¥ 402,131
Share of overseas net sales	4.7%	7.2%	18.8%	0.7%	31.4%

2006					Thousands of U.S. dollars
	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	**$ 256,061**	**$ 384,883**	**$ 1,097,387**	**$ 66,768**	**$ 1,805,099**
Consolidated net sales	**—**	**—**	**—**	**—**	**$ 5,324,983**
Share of overseas net sales	**4.8%**	**7.2%**	**20.6%**	**1.3%**	**33.9%**

15. Information for certain leases

As a lessee

A summary of assumed amounts inclusive of interest of acquisition cost, accumulated depreciation and net book value of finance leases accounted for in the same manner as operating leases at March 31, 2006 and 2005 are as follows:

						Millions of yen
			2006			2005
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥ 1,362**	**¥ 1,040**	**¥ 322**	¥ 1,565	¥ 1,074	¥ 491
Others	**430**	**374**	**56**	377	317	60
Total	**¥ 1,792**	**¥ 1,414**	**¥ 378**	¥ 1,942	¥ 1,391	¥ 551

			Thousands of U.S. dollars
			2006
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$ 11,593**	**$ 8,853**	**$ 2,740**
Others	**3,660**	**3,184**	**476**
Total	**$ 15,253**	**$ 12,037**	**$ 3,216**

Future lease payment, inclusive of interest at March 31, 2006 and 2005 under such leases are as follows:

		Millions of yen	Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 195**	¥ 295	**$ 1,660**
Due after one year	**183**	256	**1,558**
Total	**¥ 378**	¥ 551	**$ 3,218**

Total lease expenses and assumed depreciation charges for the years ended March 31, 2006, 2005 and 2004 are as follows:

			Millions of yen	Thousands of U.S. dollars
	2006	2005	2004	**2006**
Total lease expenses	**¥ 319**	¥ 342	¥ 330	**$ 2,715**
Assumed depreciation charge	**319**	342	330	**2,715**

As a lesser

A summary of acquisition cost, accumulated depreciation and net book value at March 31, 2006 and 2005 were as follows:

	Millions of yen					
			2006			2005
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥ 377**	**¥ 255**	**¥ 122**	¥ 377	¥ 225	¥ 152
Others	**1**	**1**	**0**	1	1	0
Total	**¥ 378**	**¥ 256**	**¥ 122**	¥ 378	¥ 226	¥ 152

	Thousands of U.S. dollars		
			2006
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$ 3,209**	**$ 2,171**	**$ 1,038**
Others	**9**	**9**	**0**
Total	**$ 3,218**	**$ 2,180**	**$ 1,038**

Future lease receipt, inclusive of interest, at March 31, 2006 and 2005 under such lease were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 31**	¥ 32	**$ 264**
Due after one year	**76**	107	**647**
Total	**¥ 107**	¥ 139	**$ 911**

Total revenue and depreciation charges for the years ended March 31, 2006, 2005 and 2004 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Total revenues	**¥ 31**	¥ 32	¥ 35	**$ 264**
Depreciation charge	**29**	30	30	**247**

16. Earnings per share

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

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Basic net income per share calculation				
Numerator:				
Net income	**¥ 62,800**	¥ 37,017	¥ 19,882	**$ 534,559**
Amounts not belonging to common stock (bonuses to directors from retained earnings)	**73**	52	37	**621**
Net income available to common stockholders	**62,727**	36,965	19,845	**533,938**
Denominator (thousands of shares):				
Weighted average number of shares	**570,477**	—	—	—
Basic EPS (yen and U.S. dollars)	**¥ 109.96**	¥ —	¥ —	**$ 0.94**
Diluted net income per share calculation				
Numerator:				
Net income	**¥ 62,800**	¥ —	¥ —	**$ 534,559**
Amounts not belonging to common stock (bonuses to directors from retained earnings)	**73**	—	—	**621**
Net income available to common stockholders	**62,727**	—	—	**533,938**
Adjusted net income	**62,727**	—	—	**533,938**
Denominator (thousands of shares):				
Weighted average number of shares	**570,477**	—	—	—
Assumed conversion of convertible bonds	**5,680**	—	—	—
Adjusted weighted average number of shares	**576,157**	—	—	—
Diluted EPS (yen and U.S. dollars)	**¥ 108.87**	¥ —	¥ —	**$ 0.93**

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

The diluted net income per share for the years ended March 31, 2005 and 2004 are not calculated because there were no securities with dilutive effect.

17. Subsequent events

(1) The following appropriations of retained earnings at March 31, 2006 were approved at the annual general meeting of shareholders of the Company held on June 29, 2006.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥14.00 ($0.12) per share)	**¥ 7,997**	**$ 68,071**
Bonuses to directors	**73**	**621**

Independent Auditor's Report

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Sumitomo Metal Mining Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitimo Metal Mining Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

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

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

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Tokyo, Japan
June 29, 2006

KPMG AZSA & Co.

SMM Group

Name	Voting Shares (%)	Operations
Mineral Resources		
Sumiko Consultants Co.,Ltd.	**100**	Geological survey on resources and civil engineering, Test boring
Sumitomo Metal Mining America Inc.	**100**	Prospecting, Management of mining subsidiaries in the U.S.
Sumitomo Metal Mining Arizona Inc.	**80**	Joint operation at the Morenci Mine, the U.S.
SMMA Candelaria Inc.	**100**	Joint operation at the Candelaria Mine, Chile
Sumitomo Metal Mining Canada Ltd.	**100**	Prospecting, Consulting
Sumitomo Metal Mining Oceania Pty. Ltd.	**100**	Joint operation at the Northparks Mine, Australia
SMM Pogo LLC	**100**	Owing an interest of Pogo mine project
SMM Cerro Verde Netherlands B.V.	**80**	Investments in Peru's local companies engaged in the Cerro Verde Mine operation
Non-Ferrous Metals		
Hyuga Smeting Co.,Ltd.	**60**	Ferro-nickel refining
Sumitomo Metal Mining Brass & Copper Co.,Ltd.	**100**	Manufacture of brass & copper products
Sumiko Logistics Co.,Ltd.	**100**	Maritime trading, Harbor transportation and services, Land transportation
MS Zinc Co.,Ltd.	**50**	Purchase of raw materials for zinc, Manufacture and distribution of zinc products
Acids Co.,Ltd.	**50**	Manufacture and distribution of sulfuric acid and related products
P.T. International Nickel Indonesia	**20**	Nickel ore mining, Nickel smelting
FIGESBAL	**26**	Nickel ore mining, Harbor transportation
Jinlong Copper Co.,Ltd.	**27**	Manufacture and distribution of electrolytic copper and sulfuric acid
Coral Bay Nickel Corporation	**54**	Intermediate products manufacture of nickel and cobalt
Sumic Nickel Netherlands B.V.	**52**	Investments in nickel and cobalt development businesses, Distribution of nickel and cobalt
Electronics		
Ohkuchi Electronics Co.,Ltd.	**100**	Semiconductor packaging materials production, Recovery of precious materials
Ajimu Electronics Co.,Ltd.	**100**	IC package plating
Shinko Co.,Ltd.	**94**	Design, manufacture and distribution of printed circuit boards
SMM Precision Co.,Ltd.	**100**	Commission-based assembly of optical communications components
GRANOPT Ltd.	**50**	Manufacture and distribution of rare earth iron garnet (RIG)
IS Electrode Materials Co.,Ltd.	**49**	Manufacture and distribution of IZO targets and ITO targets for LCDs & organic EL displays
Niihama Electronics Co.,Ltd.	**100**	Lead frame production
Sumitomo Metal Mining Package Materials Co.,Ltd.	**100**	Manufacture and distribution of semiconductor package materials such as lead frames and tape materials
Malaysian Electronics Materials SDN. BHD.	**100**	Manufacture and distribution of bonding wire
Taiwan Sumiko Materials Co.,Ltd.	**100**	Manufacture and distribution of bonding wire
Sumitomo Metal Mining Electronics Materials (Shanghai) Co.,Ltd.	**100**	Manufacture and distribution of bonding wire
Shanghai Sumiko Electronics Paste Co.,Ltd.	**51**	Manufacture and distribution of thick-film paste
Dongguan Sumiko Electronic Paste Co.,Ltd.	**51**	Manufacture and distribution of thick-film paste
Sumitomo Metal Mining Asia Pacific Pte. Ltd.	**100**	Regional headquarters (RHQ) for overseas lead frame businesses
Sumiko Leadframe Chengdu Co.,Ltd.	**85**	Lead frame production
M-SMM Electronics SDN. BHD.	**100**	Lead frame production
Sumiko Electronics Taiwan Co.,Ltd.	**70**	Lead frame and tape materials production
Sumiko Leadframe (Thailand) Co.,Ltd.	**100**	Lead frame production
P.T. SUMIKO LEADFRAME BINTAN	**100**	Lead frame production
Sumiko Electronics Suzhou Co.,Ltd.	**100**	Lead frame production
Advanced Materials		
SMM KOREA Co.,Ltd.	**100**	Marketing support for advanced materials and related operations
Nittosya Co.,Ltd.	**90**	Metal product plating, Electromagnetic shielding processing
Energy & Enviorment		
Sumicon Certech Co. ,Ltd.	**81**	Assessment and remediation of contaminated soil and groundwater
Sumiko Eco-engineering Co.,Ltd.	**100**	Environmental engineering such as exhaust gas treatment, Corrosion business
Sumiko Techno-Resarch Co.,Ltd.	**100**	Environmental assessment and analysis, Analysis of metals
Nippon Catalyst Cycle Co.,Ltd.	**100**	Valuable metals recovery business
Japan Irradiation Service Co.,Ltd.	**100**	Radiation processing for serialization as well as for use in modification of industrial materials
JCO Co.,Ltd.	**100**	Management of facilities dealing with uranium and related waste
Nippon Ketjen Co.,Ltd.	**50**	Manufacture and sale of desulfurization catalyst for pertoleum processing
Others		
Taihei Metal Industry Co.,Ltd.	**97**	Manufacture of heat, corrosion and friction-resistant steel castings and precision castings
SumikoTec Co.,Ltd.	**100**	Manufacture of electronic device terminal and connector
Sumitomo Metal Mining Siporex Co.,Ltd.	**100**	Manufacture and distribution of ALC and other construction materials
Igeta Heim Co.,Ltd.	**100**	Sub-contractor of ALC (Autoclaved Light-weight Concrete) and ferro-concrete housings
N. E. Chemcat Corporation	**42**	Manufacture of precious metal catalyst and surface treatment chemical, Recovery and refining of precious metals
Sumiko Lubricant Co.,Ltd.	**100**	Manufacture and distribution of various fabricants
Sumiko Technical Service Co.,Ltd.	**100**	Trustee, security and personnel services for non-ferrous metals refining businesses
SMM Plant Enginieering Co.,Ltd.	**100**	Design, production and repaire of non-ferrous metals refining equipmenets

Corporate Data and Investor Information

As of March 31, 2006

Corporate Data

Founded 1590

Incorporated 1950

Paid-In Capital ¥88.9 billion

Number of Employees 2,131

Head Office
11-3, Shimbashi 5-chome, Minato-ku, Tokyo 105-8716, Japan

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

Investor Information

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

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

Common Stock
Number of authorized shares:
1,000,000,000 shares
Number of issued and outstanding shares:
572,971,694 shares
Number of shareholders:
64,751

Listing of Shares
Tokyo, Osaka

Stock Transaction Units
1,000-share units

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

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

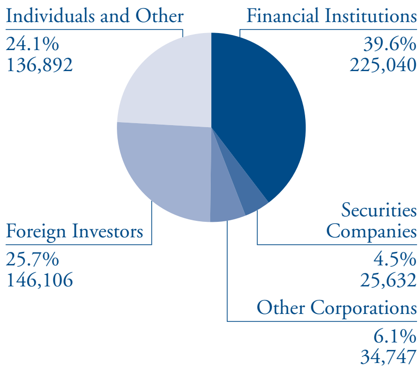
Independent Public Accountants
KPMG AZSA & Co.
1-2, Tsukudo-cho, Shinjuku-ku, Tokyo

Major Shareholders

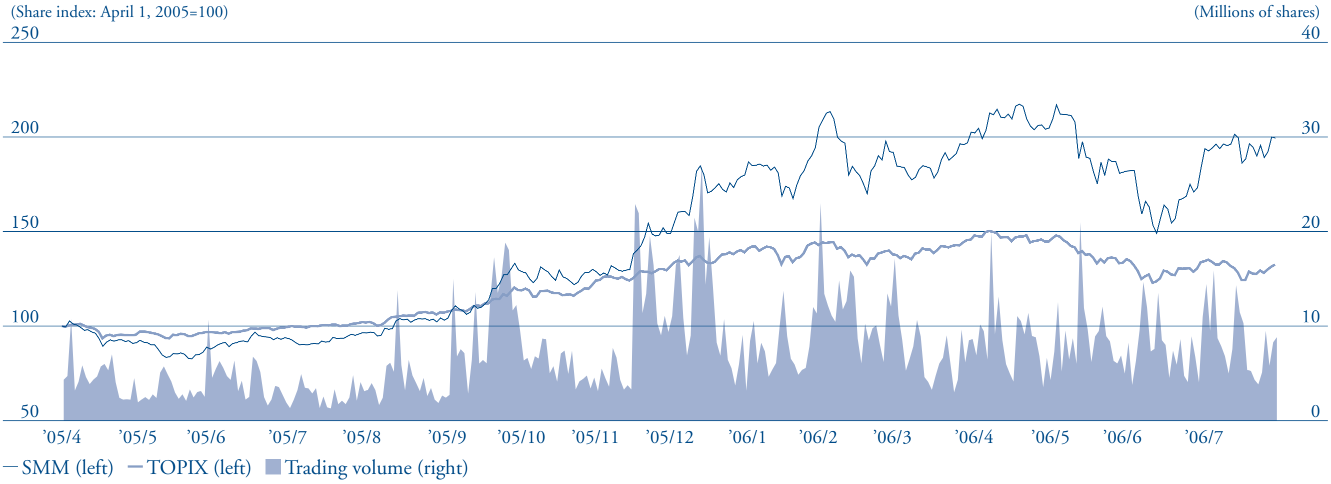
	Number of shares held (thousands)	Shareholding ratio (%)
Japan Trustee Services Bank. Ltd. (Trust accounts)	54,303	9.5
The Master Trust Bank of Japan, Ltd. (Trust accounts)	42,102	7.3
Japan Securities Finance Co., Ltd.	11,360	2.0
Separately managed money trustee, Mitsui Asset Trust and Banking Company Limited "1"	7,965	1.4
State Street Bank and Trust Company (505103)	7,718	1.3
Sumitomo Mitsui Banking Corporation	7,650	1.3
Trust & Custody Services Bank, Ltd. (Trust accounts B)	7,394	1.3
Sumitomo Life Insurance Company	7,104	1.2
Goldman Sachs International	6,964	1.2
BNP Paribas Securities (Japan) Limited	5,999	1.0

Breakdown of Shareholders

(Thousands of share)



Share Performance



Corporate Officers

As of June 29, 2006

Yoshiaki Nakazato — Director | Nobumasa Kemori — Director | Takuro Mochihara — Director | Yukio Ishikawa — Director | Koichi Fukushima — Representative Director | Nobuto Yamaguchi — Representative Director | Susumu Makino — Director | Masashi Koike — Director

Directors and Statutory Auditors

Representative Directors
Koichi Fukushima
Nobuto Yamaguchi

Directors
Yukio Ishikawa
Takuro Mochihara
Susumu Makino
Masashi Koike
Nobumasa Kemori
Yoshiaki Nakazato

(Standing) Senior Corporate Auditor
Hirosuke Chihara

(Standing) Corporate Auditor
Motoki Kitamura

Corporate Auditors
Hajime Ohta*
Tsutomu Ushijima*

*Outside Corporate Auditors under the Commercial Code

Executive Officers

President
Koichi Fukushima*

Executive Vice President
Nobuto Yamaguchi*

Senior Managing Executive Officers
Yukio Ishikawa*
General Manager, Technology Div.

Takuro Mochihara*

Managing Executive Officers
Ken Yamane
General Manager, Affiliated Business Administration Dept.

Susumu Makino*
General Manager, Advanced Materials Div.

Masashi Koike*
General Manager, General Affairs Dept.

Ichiro Abe
General Manager, Mineral Resources Div.

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

Nobumasa Kemori*
General Manager, Non-Ferrous Metals Div.

Executive Officers
Kotaro Tomino
Deputy General Manager, Non-Ferrous Metals Div.

Yoshiaki Hashinaka
General Manager, Personnel Dept.

Etsu Senda
General Manager, Electronics Div.

Kozo Baba
Deputy General Manager, Technology Div.

Yukio Kawaguchi
Deputy Division Manager, Mineral Resources Div.

Yoshiaki Nakazato*
General Manager, Corporate Planning Dept.

Toru Yamasaki
General Manager, Energy & Environmental Business Div.

Takahito Kusada
General Manager, Safety & Environmental Control Dept.

Takeshi Kubota
Deputy General Manager, Non-Ferrous Metals Div.

*Those Double as Director and Executive Officer

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