Mitsui Kinzoku

Annual Report

2006

MITSUI KINZOKU

CONTENTS

PROFILE

Mitsui Mining & Smelting Co., Ltd. (Mitsui Kinzoku), supplies nonferrous metal intermediates that play key roles in high-tech industries. Since its establishment in 1950, the Company has also been known as a leading supplier of such nonferrous metals as zinc and copper and one of the world’s largest producers of zinc.

The Company has technological expertise in the production of such electronics-related materials as copper foil and semiconductor packaging tapes, which are presently indispensable for information-related and telecommunications devices. The Company maintains its technological leadership through aggressive R&D accompanied with its “material intelligence” obtained through its extensive background in smelting and refining operations in the nonferrous metals field. In addition, the Company is known as a producer of highly evaluated automobile door-related parts and systems.

Superior quality is the hallmark of Mitsui Kinzoku products and services. A team of nearly 10,000 talented employees strives to ensure this quality and, in doing so, has maintained the integrity of the Mitsui Kinzoku name and its long-standing reputation for innovation.

In this report, fiscal 2005 represents the year ended March 31, 2006.

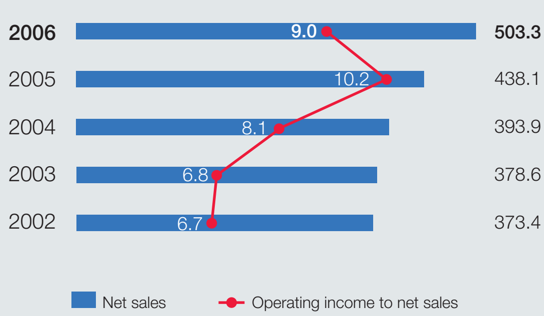
FINANCIAL HIGHLIGHTS

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31

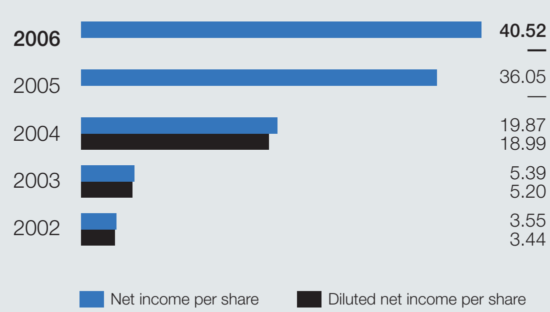
	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	**2006**
Consolidated Performance				
Net sales	**¥503,370**	¥438,143	¥393,928	**$4,284,729**
Operating income	**45,052**	44,515	32,035	**383,486**
Net income	**23,374**	20,780	11,452	**198,961**
Total assets	**460,225**	409,019	392,545	**3,917,475**
Total shareholders' equity	**159,772**	133,963	115,398	**1,359,993**
Total shareholders' equity per share (¥, $)	**¥278.66**	¥233.65	¥201.33	**$2.37**
Net income per share (¥, $)	**40.52**	36.05	19.87	**0.34**
Diluted net income per share (¥, $)	**—**	—	18.99	**—**
Cash dividends per share (¥, $)	**10.00**	7.00	5.00	**0.09**

Note: All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥117.48 to US$1.00, the rate prevailing at March 31, 2006.

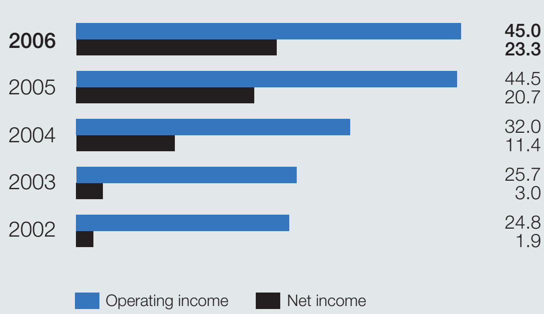
Net Sales and Operating Income to Net Sales
(Billions of yen, %)



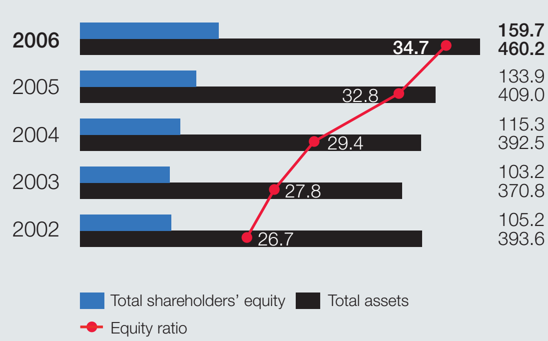
Net Income per Share and Diluted Net Income per Share
(Yen)



Operating Income and Net Income
(Billions of yen)



Total Shareholders' Equity, Total Assets, and Equity Ratio
(Billions of yen, %)



Chairman and
Chief Executive Officer
Shimpei Miyamura

President and
Chief Operating Officer
Hiroshi Makihara

NEW MEDIUM-TERM MANAGEMENT PLAN OFF TO A SMOOTH START

During fiscal 2005—which ended March 31, 2006, and was the first year of Mitsui Kinzoku's new three-year management plan—supportive trends in the operating environment helped the Company record a performance considerably better than originally projected while proactively implementing capital investment and R&D projects in accordance with the new plan. In fiscal 2006, we will continue moving steadily ahead with the implementation of various measures in line with the new medium-term management plan.

Entitled "Accelerating toward Takeoff," the plan's ultimate goal is to realize a sustained increase in Mitsui Kinzoku's corporate value. To achieve this, the plan calls for management framework reforms that promote the progressive expansion of existing operations and the establishment of new businesses. In preparation for the Company's future takeoff, we are carefully evaluating the growth stage of each of our products and proactively devising and implementing methods for optimizing our future operations.

In this message, we will explain how the plan's implementation has gone so far along with what we intend to do next.

CONTINUING TO PROACTIVELY MAKE CAPITAL INVESTMENTS IN FISCAL 2006

The new medium-term management plan originally called for the proactive implementation of more than ¥100 billion in capital investments aimed at strengthening business operations. In fiscal 2005, we implemented as much as ¥45 billion of such investments, as was originally planned. These efforts to proactively make capital investments in advance of demand increases are bringing about positive results.

In the field of electronics materials, we expanded our capacity in line with the expansion of demand. Besides augmenting capabilities related to semiconductor mounting materials

(TAB and COF tapes), we augmented our domestic and overseas manufacturing capacity for high-value-added and general-use electrodeposited copper foil, respectively. We also upgraded our capabilities with respect to such engineered materials as sputtering targets, solder powder, and polishing materials.

Regarding base metal operations, we began taking measures to increase the Tamano Smelter's copper production. In addition, in March 2006 we initiated zinc ore production at the Pallca Mine in Peru. The timing of this move was particularly good in view of the persistent international shortage of zinc ores.

With respect to functional automotive parts, we proceeded with steps to optimize the allocation of our door lock assembly work to within our global network of manufacturing facilities. These steps included those to augment production capacity in Thailand and establish a new manufacturing base in China. We are constructing a new base in India to manufacture catalysts for processing motorcycle exhaust emissions, and this facility is scheduled to begin operations in October 2006.

In fiscal 2006, we intend to continue implementing a high level of capital investments, with the total value of investments during the year expected to be as much as ¥46 billion. Our production capacity is still insufficient to meet increasing demand in various business fields.

One of our main investment projects for the year is the construction of a new semiconductor mounting material manufacturing plant. Together with our existing plant, the new facility will boost our capacity to more than 1.5 times the current level when fully equipped. Demand for semiconductor mounting materials is projected to double by around 2010, and we intend to continue making additional investments that keep our manufacturing capacity in line with rising demand.

Regarding electrodeposited copper foil, we temporarily closed a considerable portion of the Ageo Plant after the "IT bubble" burst, but we have been restarting a growing number of the closed lines, converting them to lines suitable for high-end copper foil production. We are accelerating the implementation of this revival plan so that we can complete it within 2007.

As a result of this proactive implementation of capital investment projects, we currently project that the total amount of our capital investments in the three years through fiscal 2007 will reach ¥120 billion or more. As these investments will be accompanied by a rise in the depreciation burden, it is important that the investments' benefits be realized expeditiously. Accordingly, rather than simply increasing production volume, we are introducing the most sophisticated manufacturing equipment.
By enhancing productivity and product quality, this equipment will increase our competitiveness and accelerate our shift to high-value-added products, thereby enabling us to reinforce our basic strengths and maintain our top positions in various industry segments.

CTO-LED PROJECTS EXPECTED TO BE KEY DRIVERS OF FUTURE CORPORATE GROWTH

In fiscal 2005, Mitsui Kinzoku proceeded with the implementation of Companywide R&D projects with 10 themes under the direct management of its Chief Technology Officer (CTO). These CTO projects are designed to efficiently move from product development to mass manufacturing operations in a way that is hard for individual business divisions to take the lead in doing, and they are showing steady progress. In the future, we expect the products and businesses created through CTO projects to account for 20% or more of our sales revenue.

The goals of the CTO project themes are diverse, and they include the creation of new products and businesses, the development of technologies that enable dramatic cost reductions, and the building of solid foundations for developing businesses to prosper in the future. Because many of these projects cannot be expected to generate returns in the near future, we have set ourselves milestone targets, and these targets are steadily being attained. One CTO project focused on the improvement of semiconductor mounting material technologies has already attained its final targets, and it has, therefore, been shifted from CTO project status and made the responsibility of the relevant business division. In fiscal 2006, we will move forward with 12 CTO projects—the 9 remaining from fiscal 2005 plus 3 new projects.

To increase the competitiveness of a company focused primarily on manufacturing, it is important to have strong human resource capabilities on the front lines of manufacturing operations. Another major goal of the CTO projects is to enable such frontline personnel to participate in CTO projects and thereby make such personnel more conscious of Mitsui Kinzoku's corporate goals while also promoting the development of those employees who will be in charge of the Company's manufacturing operations in the future. In this sense, also, our CTO projects are steadily generating positive results.

SHAREHOLDERS' EQUITY RATIO INCREASED TO 35%

The current medium-term management plan places strong emphasis on measures to ensure that Mitsui Kinzoku can proactively make capital investments while strengthening its financial position.

Regarding the strengthening of our financial position, the targets to be reached by the end of March 2008 are a 45% level for the shareholders' equity ratio and a 60% level for the debt/equity ratio. At the end of March 2006, these ratios stood at 34.7% and 95.0%, respectively. In view of this, our long-term credit ratings were upgraded from A- to an A rating by Japan Credit Rating Agency, Ltd., and from BBB+ to A- by Rating and Investment Information, Inc.

On the other hand, a trend of increase in our inventories due to the expansion of our businesses and the surge in raw materials prices, as well as our proactive investments, have somewhat boosted our borrowings. Accordingly, we are striving to reduce production lead times to shrink inventories, and take various other measures to consolidate our asset structure in a manner that will enable the attainment of the 45% shareholders' equity ratio target by the end of March 2008.

ENSURING MITSUI KINZOKU HAS THE SOLID BUSINESS BASE AND STRONG PROFITABILITY REQUIRED FOR THE UPCOMING TAKEOFF

In the current fiscal year, which is the key second year of the management plan, we are seeking to further improve our performance. While it remains difficult to predict the impact of such factors in the business environment as crude oil prices, other raw materials prices, currency exchange rates, and interest rates, we are anticipating that demand for our products will continue to be in a trend of robust expansion. Amid the supportive conditions in our operating environment, we are moving ahead with management framework reforms with particular

Milestones in 2005-2006

2005

April
New medium-term management plan started

April
Chief Financial Officer and Chief Risk Management Officer appointed

June
Vehicular exhaust emission processing catalyst product manufacturing company established in India

September
The Company's shareholding in Hachinohe Smelting Co., Ltd., a zinc and lead smelting company, increased

2006

January
ITO sputtering target processing and marketing company established in Korea

January
Construction of new TAB and COF tape manufacturing facility started in Omuta, Japan

emphasis on the resolute implementation of measures to select relatively promising product fields and concentrate our resources in those fields, based on continuous net present value-based evaluations for each product.

With respect to the management plan's final year, fiscal 2007, we expect that the increasing benefits of our CTO projects and our proactive capital investments will contribute to our performance. We are confident that we can create the solid business base needed to make the end of the current management plan Mitsui Kinzoku's takeoff point for further corporate growth. To achieve this goal, we must redouble our farsighted efforts to hire and foster the development of excellent employees, automate labor-intensive business processes, and take various other measures.

At the same time, realizing Mitsui Kinzoku's objective of sustained corporate growth will require the strengthening of corporate governance as well as additional efforts to ensure we protect the natural environment and otherwise live up to our responsibilities to society at large. We are determined to respond to the expectations of the Company's shareholders and other stakeholders. As a means of further increasing management transparency, in June 2006, we increased the number of outside directors by one, to two. That same month, we established the Internal Control Office to reinforce our internal control systems.

Cash dividends per share applicable to fiscal 2005 amounted to ¥10. This is up ¥3 from the fiscal 2004 level, which was ¥2 higher than the fiscal 2003 level. Based on its fundamental policy of optimizing the distribution of retained earnings, Mitsui Kinzoku is seeking to maintain dividend payments that are both sustainable and commensurate with its performance. Besides making a considerable volume of capital investments aimed at driving future business expansion while striving to strengthen the Company's financial position, we are doing our utmost to continue increasing shareholder returns.

July 2006

Shimpei Miyamura
Chairman and Chief Executive Officer

Hiroshi Makihara
President and Chief Operating Officer

March
Production at the Pallca Mine, a new zinc mine in Peru, started

April
Copper smelting function integrated into Pan Pacific Copper Co., Ltd., an existing joint venture established with Nippon Mining and Metals Co., Ltd.

May
Regalito Copper Corp., a Canada-based company with mining concessions in Chile, acquired by Pan Pacific Copper

May
New facility for recycling fly ash from waste-melting furnaces completed in Hachinohe, Japan

May
New automobile component manufacturing plant completed in China's Guangdong Province

June
Internal Control Office established

June
Number of outside directors increased by one, to two

(Billions of yen)		Mining & Fundamental Materials Group	Intermediate Materials Group	Parts Manufacturing & Assembly Group	Environmental Engineering & Metals Recycling Group	Engineering Group	Services Group
Net Sales by Segment	2004	77.4	143.1	136.0	26.9	21.9	33.2
	2005	78.0	176.0	145.6	31.5	27.9	38.6
	2006	93.7	208.3	159.3	38.8	40.5	46.7
Operating Income by Segment	2004	2.0	20.0	4.4	1.8	1.1	1.6
	2005	2.6	30.5	4.9	2.3	1.5	1.6
	2006	4.5	30.4	2.8	2.1	2.7	1.7

MINING & FUNDAMENTAL MATERIALS GROUP

Enhanced Profitability owing to a Surge in Metals Prices

Zinc metal and alloy

OPERATIONS

• Nonferrous metal smelting—Mitsui Kinzoku is Japan's top zinc producer, with three domestic primary smelters producing approximately 230,000 tons of zinc annually. It is also a member of a corporate alliance that has an annual output of nearly 1.1 million tons in total as the world's second largest copper producer. In addition, the Company produces such products as gold, silver, and sulfuric acid as by-products of its primary smelting operations.

• Mining—While Mitsui Kinzoku procures the majority of the ore it smelts from other mining companies, it operates two mines producing zinc and lead in Peru.

BUSINESS CONDITIONS AND STRATEGIES

The international supply-demand balances for zinc and copper have been made tight by the strength of demand in China and other factors, bringing international prices of those metals back to high levels, and a rise in speculative investments in metals exchanges further boosted prices. At the same time, the slowness of growth in ore production has been tightening the supply-demand balance for zinc ore, causing a continued deterioration in the conditions of ore-supply contracts obtainable by zinc smelters. On the other hand, the conditions for copper ore procurement improved due to a rise in ore supply.

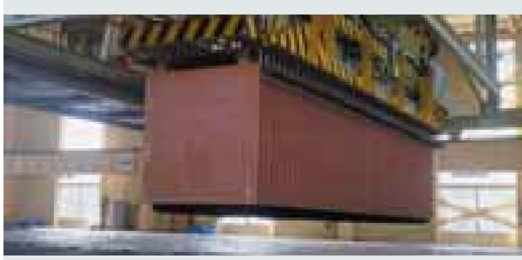
Mitsui Kinzoku has worked to maintain its international competitiveness by using superior technologies to realize high productivity rates and proactively entering alliances with other companies in its industry to obtain greater economies of scale in order to overcome the disadvantage of operating relatively small-scale facilities in a country with comparatively high cost levels. Mitsui Kinzoku upgraded its competitiveness in copper smelting business by integrating its Tamano Smelter into Pan Pacific Copper Co., Ltd., the existing copper-smelting joint enterprise with Nippon Mining & Metals Co., Ltd., in April 2006 to further take advantage of operational tie-ups with Nippon Mining & Metals and the LS Group of South Korea.

With respect to zinc smelting, we are working to obtain greater volumes of raw materials on favorable terms by exploring and handling natural and recycled resources. In March 2006, Mitsui Kinzoku started operations at the newly developed Pallca Mine in Peru, which is located near the existing Huanzala Mine.

PERFORMANCE FOR FISCAL 2005

While an adjustment in domestic demand was seen for both zinc associated with zinc-coated steel and copper for rolled copper products, metal prices in Japan surged, reflecting the tightness in the international supply-demand balance and the depreciation of the yen against the U.S. dollar, and the positive effect of this price surge on the Company's performance compensated for the negative effect on the Company's performance of deterioration in zinc ore procurement conditions.

It should be noted that a considerable part of the improvement in the performance of copper smelting business is accounted for by the equity method.



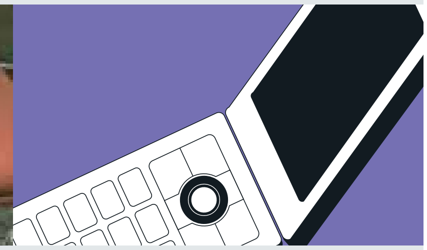
Electrolytic copper

Location of Pallca Mine

INTERMEDIATE MATERIALS GROUP

Further Growth in Demand for Electronics Materials

Electrodeposited copper foil



OPERATIONS

• Electronics materials—Electronics-related materials comprise the main product category within the Intermediate Materials Group. The Company's principal electronics materials products include electrodeposited copper foil, an indispensable material for printed circuit boards crucial to the operation of electronic equipment, and TAB and COF tapes for tape-automated bonding of semiconductors, used mainly in the mounting of driver IC chips for LCD panels and other flat panel displays. Mitsui Kinzoku is the world's top manufacturer of these two product categories in terms of technological superiority, production capacity, and market share. In addition, the Company produces diverse metal intermediates, including powders, sputtering targets, and single crystals for use in the latest electronic components production.

• Other intermediate materials—The Company manufactures rolled copper and zinc, perlite, specialty ceramics, and other materials that are crucial for such primary industries as construction and automobile manufacturing.

BUSINESS CONDITIONS AND STRATEGIES

Following the start of a general demand adjustment in the latter half of the previous fiscal year, demand for LCD panel materials played a leading role in the smooth recovery of demand during fiscal 2005. Reflecting growing demand for PCs, mobile phones, and other digital equipment, supplies of many electronics materials continued to be tight during the latter half of the year.

Although rises in raw materials prices generally tend to shrink profit margins, strong demand made it possible for the selling price to reflect the surging cost of the raw material in the case of copper foil—the product on which raw materials price fluctuations have the greatest impact. In the case of some kinds of LCD panel related materials, however, customer demands for price reduction and competition among suppliers caused selling prices to decrease despite the rapid rate of growth in demand.

Mitsui Kinzoku has anticipated market trends in its ongoing efforts to upgrade and expand its manufacturing facilities to maintain superior reliability in product quality and delivery, as well as to boost cost efficiency, with respect to both commodity and high-end products. This approach has enabled the Company to sustain market shares and profitability second to none. The Company has responded precisely to customer requirements in quality and quantity to highlight its contribution to customers' operations and proactively sought additional applications for its products.

Mitsui Kinzoku will continue proactively making investments in such fields as flat panel display materials and printed circuit board materials, with the goal of further augmenting its industry-leading capabilities with regard to productivity and profitability in each field, while implementing projects associated with the seeds of new businesses selected from all the areas of its electronics materials businesses.

PERFORMANCE FOR FISCAL 2005

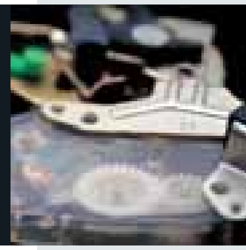
In this business segment, the Company was able to further increase its sales against the backdrop of strong demand and a rise in selling prices of some products that reflected a surge in raw materials prices. Growth in profitability was restrained by a rise in depreciation expense associated with the proactive implementation of capital investments and by the temporary effects of raw materials price fluctuations.

Sputtering targets

TAB and COF tapes

PARTS MANUFACTURING & ASSEMBLY GROUP

Strong Automobile Sales, but Cost Reductions Fell Short of the Fall in Prices



Automobile door latch

OPERATIONS

• Functional automotive parts—Functional automotive parts are the key product category within the Parts Manufacturing & Assembly Group. Mitsui Kinzoku operates automotive component factories in five major automobile manufacturing countries—Japan, the United States, Thailand, China, and the United Kingdom. These factories primarily manufacture automobile door-related components, including door latches, for which the Company's share of the global market is 20% or higher. These products are supplied principally, but not exclusively, to Japan-affiliated automakers.

• Others—In addition to long-standing operations manufacturing die-cast products used in automobiles and electric appliances, Mitsui Kinzoku has in recent years manufactured magnesium die-cast products for use in portable electronics devices.

Other products in this category include catalysts for detoxifying motor vehicle exhaust emissions and sensors for non-destructive testing. Urea quality-monitoring sensors for nitrogen oxide emission reduction systems are a promising new product line in this category.

BUSINESS CONDITIONS AND STRATEGIES

Automakers are witnessing intensifying competition, forcing many component manufacturers to restructure. While automobile manufacturing volume has continued to be strong, particularly in the case of Japan-affiliated manufacturers, component suppliers are facing severe demands for higher quality and lower prices.

To establish a powerful leadership position in the field of door-related systems, Mitsui Kinzoku is striving to expand its top share of the global door latch market as well as expanding operations in the growing market of high-value-added system products (sliding-door systems, etc.). In addition, we are strengthening our cost-competitiveness in this field by shifting manufacturing facilities to Thailand and, thereafter, China.

PERFORMANCE FOR FISCAL 2005

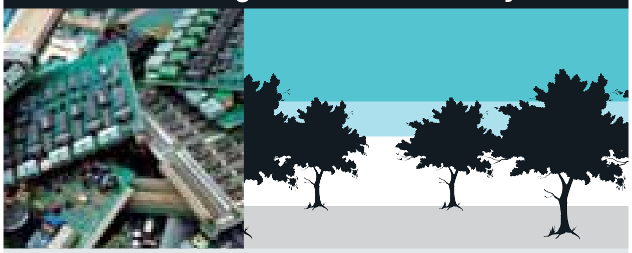
Although the continued worldwide strength of automobile production by its customers enabled Mitsui Kinzoku to increase its sales, profitability was affected by an unrelenting decline in selling prices and an increase in production costs due to temporary factors associated with the inter-regional shift of manufacturing facilities.

Sliding-door closure system

Urea quality-monitoring sensor

ENVIRONMENTAL ENGINEERING & METALS RECYCLING GROUP

Contributing to Resource Recycling While Benefit from Rising Metals Prices Decayed



Recyclable circuit boards

OPERATIONS

• Metals recycling—The Environmental Engineering & Metals Recycling Group uses domestic smelting facilities to recover precious metals from recyclable electronics products and components, lead from automotive batteries, and zinc from steelmaking electric arc furnace dust.

• Other environmental business—The group performs surveys and purification processes for soil and groundwater contamination, detoxifies industrial waste, and conducts other activities, leveraging the Group's accumulated know-how, technologies, and facilities related to resource surveys and metal smelting.

BUSINESS CONDITIONS AND STRATEGIES

Amid increasing concern about environmental protection, there is a rising understanding about the need to recycle resources that were previously thrown away. Mitsui Kinzoku views this recycling business as a promising extension of its metal smelting operations and a means of stable procurement of raw materials. In cooperation with Pacific Metals Co., Ltd., a leading ferronickel producer, the Company inaugurated a unique system for completely recycling fly ash from waste-melting furnaces in May 2006.

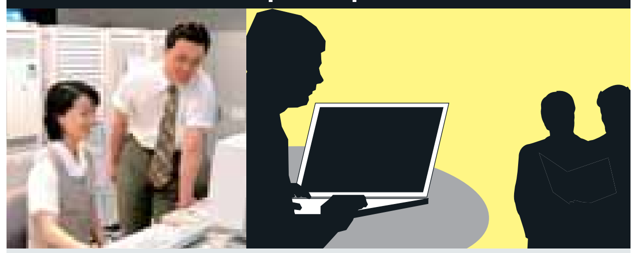
In addition, since Japan enforced a soil pollution countermeasure law in February 2003, the market for investigating and remediating underground soil pollution has been expanding. To grasp this business opportunity, the Company is hurrying to develop distinctive soil remediation technologies based on its mining and smelting technologies.

PERFORMANCE FOR FISCAL 2005

Sales steadily increased against the backdrop of a rise in prices of diverse metals, including zinc, lead, gold, and silver. However, profitability declined due to the impact of sharp rises in metals prices that impeded recycling material procurement.

ENGINEERING AND SERVICES GROUPS

Providing Support for Mitsui Kinzoku Group Companies

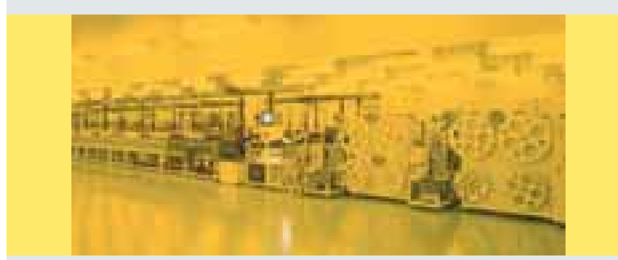


Software development

OPERATIONS

• Engineering—The Engineering Group provides design and engineering execution services for customers within and outside the Mitsui Kinzoku Group. The sophisticated manufacturing facilities designed by the Engineering Group for the Company's main products are one of Mitsui Kinzoku's important strengths.

• Services—The Services Group supports Mitsui Kinzoku Group companies by providing services related to trading and information processing. The information processing department has excellent capabilities, as reflected in its adept customization of SAP R/3, a well-known enterprise resource planning software package, for use within the Mitsui Kinzoku Group. The advantages of the customizing programs were so highly evaluated that they are now being marketed to other companies as a template.



Semiconductor packaging tape facility

FINANCIAL SECTION

FIVE-YEAR SUMMARY

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31

	Millions of yen				
	2006	2005	2004	2003	2002
For the year:					
Net sales	**¥503,370**	¥438,143	¥393,928	¥378,608	¥373,442
Cost of sales	**412,003**	350,565	319,725	313,416	310,474
Gross profit	**91,366**	87,578	74,202	65,192	62,968
Selling, general and administrative expenses	**46,314**	43,062	42,167	39,451	38,075
Operating income	**45,052**	44,515	32,035	25,740	24,893
Income before income taxes and minority interests	**38,636**	35,914	13,329	9,307	10,789
Net income	**23,374**	20,780	11,452	3,085	1,986
At year-end:					
Total current assets	**¥208,754**	¥172,912	¥156,658	¥147,729	¥155,238
Total assets	**460,225**	409,019	392,545	370,886	393,603
Total current liabilities	**162,170**	139,369	147,791	161,405	167,004
Long-term liabilities	**126,558**	125,022	118,947	95,547	110,820
Total shareholders' equity	**159,772**	133,963	115,398	103,237	105,219
Per share data:					
Net income (¥)	**¥40.52**	¥36.05	¥19.87	¥5.39	¥3.55
Diluted net income (¥)	**—**	—	18.99	5.20	3.44
Cash dividends applicable to the year (¥)	**10.00**	7.00	5.00	5.00	5.00
Number of employees	**9,965**	9,701	9,397	8,339	8,619

FINANCIAL REVIEW

References to the future reflect the Company's expectations as of March 31, 2006.

Net Sales

On a consolidated basis, the Company's net sales during fiscal 2005, ended March 31, 2006, increased 14.9%, or ¥65.2 billion, to ¥503.3 billion.

The Mining & Fundamental Materials Group's net sales grew ¥15.6 billion, primarily due to a rise in nonferrous metal prices. The Intermediate Materials Group boosted its net sales ¥32.3 billion, mainly because of a rise in sales volume of electronics materials amid expanding markets for such products as LCD panels and digital consumer products. Net sales of the Parts Manufacturing & Assembly Group grew ¥13.6 billion, owing to the robust sales of functional automobile components.

SGA Expenses

Selling, general and administrative (SGA) expenses increased ¥3.2 billion, to ¥46.3 billion, owing to a rise in selling expenses in line with growth in net sales as well as the increase in research and development expenses.

Operating Income

Operating income grew 1.2%, or ¥0.5 billion, to ¥45.0 billion.

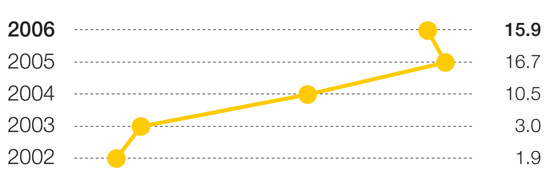
The Mining & Fundamental Materials Group increased its operating income ¥1.8 billion due to a large rise in nonferrous metal prices and other factors. The Intermediate Materials Group benefited from a rise in demand for electronics materials, but its operating income edged down ¥0.1 billion, owing to factors that included an increase in depreciation expense, price competition, and rising raw materials prices. Despite robust sales of functional automobile components worldwide, the operating income of the Parts Manufacturing & Assembly Group declined ¥2.0 billion as a consequence of selling price reductions, steel materials price rises, a rise in costs associated with measures to maintain product quality during preparations for inter-regional shifts of manufacturing facilities, and other factors. The Engineering Group recorded a ¥1.1 billion rise in operating income that reflected growth in its business associated with capital investment projects both within and outside the Mitsui Kinzoku Group.

Other Income (Expenses)

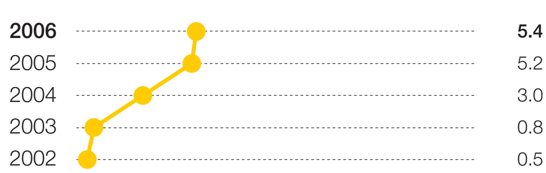
Other expenses, net, improved ¥2.1 billion, to ¥6.4 billion.

Equity in gains of unconsolidated subsidiaries and affiliates, including joint ventures in copper and zinc smelting businesses, improved ¥1.9 billion, and a ¥3.8 billion loss recorded in fiscal 2004 related to the adoption of the new accounting standard for retirement benefits was absent in fiscal 2005. The adoption of the new accounting standard for the impairment of fixed assets led to a ¥7.7 billion loss on impairment of fixed assets, primarily related to land.

ROE (Net Income to Average Total Shareholders' Equity)
(%)



ROA (Net Income to Average Total Assets)
(%)



Income Taxes

The ratio of income taxes to income before income taxes and minority interests decreased 5.3 percentage points, to 34.1%, due to factors that included a rise in equity in gains of unconsolidated subsidiaries and affiliates that are accounted for by the equity method on a net income basis.

Net Income

As a result of the ¥0.5 billion rise in operating income, the ¥2.1 billion decrease in the net expense of the other income (expenses) item, a ¥0.9 billion decrease in income taxes, and a ¥1.0 billion rise in minority interests, net income increased 12.5%, or ¥2.5 billion, to ¥23.3 billion.

FINANCIAL POSITION

Total Assets

The Company's total assets increased ¥51.2 billion, amounting to ¥460.2 billion at fiscal year-end, owing to such factors as rises in notes and accounts receivable and in inventories that occurred due to a rise in nonferrous metal prices and the increases in demand, and an increase in fixed assets due to proactive capital expenditures, gains in fair market values of investment securities, and other factors.

Total Shareholders' Equity

Factors that included ¥23.3 billion in net income, ¥4.0 billion in dividend payments, and a ¥3.2 billion increase in net unrealized gains on securities caused total shareholders' equity to rise ¥25.8 billion, to ¥159.7 billion. Consequently, the Company's equity ratio improved 2.0 percentage points, to 34.7%.

Interest-Bearing Debt

Short- and long-term interest-bearing debt increased ¥4.7 billion, to ¥151.8 billion.

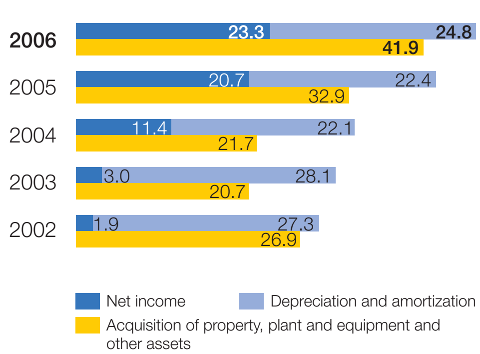
CASH FLOWS

Net cash provided by operating activities increased ¥0.7 billion, to ¥44.8 billion. A ¥9.5 billion increase in notes and accounts payable was offset by a ¥10.2 billion increase in income taxes paid.

Net cash used in investing activities increased ¥17.2 billion, to ¥43.0 billion, due to such factors as an ¥8.9 billion rise in acquisition of tangible assets.

Net cash used in financing activities decreased ¥13.6 billion, to ¥1.2 billion. The repayment of interest-bearing debt decreased ¥14.8 billion.

Free Cash Flow
(Billions of yen)



CONSOLIDATED BALANCE SHEETS

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Assets			
Current assets:			
Cash and time deposits (Note 4)	¥ 16,944	¥ 16,143	$ 144,228
Notes and accounts receivable (Note 7):			
Trade	82,400	76,104	701,395
Unconsolidated subsidiaries and affiliates	1,095	342	9,320
Loans:			
Unconsolidated subsidiaries and affiliates	699	249	5,949
Others	9	6	76
Inventories (Note 7)	79,165	64,141	673,859
Deferred tax assets (Note 12)	5,677	5,467	48,323
Loss on deferred hedge	8,590	1,065	73,118
Other current assets	14,695	9,869	125,085
Less: Allowance for doubtful accounts	(525)	(478)	(4,468)
Total current assets	208,754	172,912	1,776,932
Investments and other assets:			
Investment securities (Notes 3 and 7):			
Unconsolidated subsidiaries and affiliates	12,806	9,710	109,005
Others	19,619	14,693	166,998
Loans:			
Unconsolidated subsidiaries and affiliates	4,010	3,028	34,133
Others	765	916	6,511
Deferred tax assets (Note 12)	5,762	7,507	49,046
Others	8,485	7,160	72,225
Less: Allowance for doubtful accounts	(3,883)	(3,208)	(33,052)
	47,565	39,808	404,877
Property, plant and equipment (Note 7):			
Land	38,331	43,285	326,276
Buildings and structures	159,591	152,978	1,358,452
Machinery and equipment	393,043	368,207	3,345,616
Construction in progress	8,843	7,947	75,272
	599,810	572,418	5,105,635
Less: Accumulated depreciation	(395,904)	(376,119)	(3,369,969)
	203,906	196,298	1,735,665
	¥460,225	¥409,019	$3,917,475

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 43,944**	¥ 45,291	**$ 374,055**
Current portion of long-term debt (Note 6)	**19,678**	16,994	**167,500**
Notes and accounts payable:			
Trade	**46,464**	36,461	**395,505**
Unconsolidated subsidiaries and affiliates	**1,065**	697	**9,065**
Others	**13,804**	10,044	**117,500**
Accrued income taxes (Note 12)	**9,221**	11,200	**78,489**
Accrued expenses	**9,203**	8,921	**78,336**
Deferred tax liabilities (Note 12)	**68**	52	**578**
Reserve for product warranties	**1,179**	1,670	**10,035**
Derivative liabilities	**8,608**	1,100	**73,272**
Other current liabilities	**8,931**	6,936	**76,021**
Total current liabilities	**162,170**	139,369	**1,380,405**
Long-term debt (Note 6)	**88,210**	84,840	**750,851**
Employees' retirement benefits (Note 15)	**28,405**	27,688	**241,785**
Directors' and corporate auditors' retirement benefits	**977**	1,018	**8,316**
Deferred tax liabilities (Note 12)	**1,326**	1,033	**11,287**
Consolidation differences	**6,209**	8,974	**52,851**
Other long-term liabilities	**1,428**	1,468	**12,155**
Minority interests in consolidated subsidiaries	**11,724**	10,662	**99,795**
Commitments and contingent liabilities (Notes 9 and 13)			
Shareholders' equity (Note 10):			
Common stock:			
Authorized—1,944,000 thousand shares			
Issued—572,966 thousand shares	**42,129**	42,129	**358,605**
Capital surplus	**22,557**	22,557	**192,007**
Retained earnings	**91,275**	72,051	**776,940**
Net unrealized gains on securities	**5,914**	2,662	**50,340**
Foreign currency translation adjustments	**(2,011)**	(5,369)	**(17,117)**
Less: Treasury stock	**(93)**	(68)	**(791)**
Total shareholders' equity	**159,772**	133,963	**1,359,993**
	¥460,225	¥409,019	**$3,917,475**

CONSOLIDATED STATEMENTS OF INCOME

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Net sales (Note 11)	**¥503,370**	¥438,143	**$4,284,729**
Cost of sales (Note 8)	**412,003**	350,565	**3,507,005**
Gross profit	**91,366**	87,578	**777,715**
Selling, general and administrative expenses (Note 8)	**46,314**	43,062	**394,228**
Operating income (Note 11)	**45,052**	44,515	**383,486**
Other income (expenses):			
Interest and dividend income	**648**	592	**5,515**
Interest expense	**(2,416)**	(2,360)	**(20,565)**
Gain on sale of securities	**898**	325	**7,643**
Loss on sale and disposal of property, plant and equipment, net	**(1,730)**	(3,415)	**(14,725)**
Write-down of marketable securities and investments	**(626)**	(253)	**(5,328)**
Foreign exchange gain (loss)	**133**	(897)	**1,132**
Indemnity	**(644)**	(531)	**(5,481)**
Equity in gains of unconsolidated subsidiaries and affiliates	**4,468**	2,501	**38,032**
Amortization of net transition obligation resulting from the adoption of new accounting standard for retirement benefits (Note 15)	**—**	(3,806)	**—**
Amortization of the consolidation differences	**2,963**	2,896	**25,221**
Loss on impairment of fixed assets (Note 17)	**(7,791)**	—	**(66,317)**
Loss from liquidation of subsidiaries	**(649)**	—	**(5,524)**
Other, net	**(1,401)**	(3,652)	**(11,925)**
	(6,415)	(8,601)	**(54,605)**
Income before income taxes and minority interests	**38,636**	35,914	**328,872**
Income taxes (Note 12):			
Current	**13,397**	13,323	**114,036**
Deferred	**(227)**	815	**(1,932)**
	13,170	14,139	**112,104**
Minority interests	**2,092**	995	**17,807**
Net income	**¥ 23,374**	¥ 20,780	**$ 198,961**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (Note 16)	**¥40.52**	¥36.05	**$0.34**
Cash dividends applicable to the year	**10.00**	7.00	**0.09**

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Number of shares of common stock issued (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings (Note 10)	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	572,966	¥42,129	¥22,557	¥54,302	¥2,593	¥(6,143)	¥(41)
Net income				20,780			
Cash dividends				(2,864)			
Bonuses to directors				(86)			
Bonuses to employees				(8)			
Decrease due to change in consolidated subsidiaries				(72)			
Increase in net unrealized gains on securities					68		
Foreign currency translation adjustments						773	
Increase in treasury stock							(26)
Balance at March 31, 2005	572,966	42,129	22,557	72,051	2,662	(5,369)	(68)
Net income				**23,374**			
Cash dividends				**(4,009)**			
Bonuses to directors				**(129)**			
Bonuses to employees				**(11)**			
Increase in net unrealized gains on securities					**3,252**		
Foreign currency translation adjustments						**3,357**	
Increase in treasury stock							**(25)**
Balance at March 31, 2006	**572,966**	**¥42,129**	**¥22,557**	**¥91,275**	**¥5,914**	**¥(2,011)**	**¥(93)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings (Note 10)	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	$358,605	$192,007	$613,304	$22,659	$(45,701)	$(578)
Net income			**198,961**			
Cash dividends			**(34,124)**			
Bonuses to directors			**(1,098)**			
Bonuses to employees			**(93)**			
Increase in net unrealized gains on securities				**27,681**		
Foreign currency translation adjustments					**28,575**	
Increase in treasury stock						**(212)**
Balance at March 31, 2006	**$358,605**	**$192,007**	**$776,940**	**$50,340**	**$(17,117)**	**$(791)**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥38,636**	¥35,914	**$328,872**
Depreciation and amortization	**24,814**	22,478	**211,218**
Loss on impairment of fixed assets (Note 17)	**7,791**	—	**66,317**
Write-down of marketable securities and investments	**626**	253	**5,328**
Gain on sale of securities	**(898)**	(325)	**(7,463)**
Loss from liquidation of subsidiaries	**649**	—	**5,524**
Loss on sale and disposal of property, plant and equipment, net	**1,730**	3,415	**14,725**
Indemnity	**644**	531	**5,481**
Allowance for doubtful accounts	**863**	233	**7,345**
Amortization of net transition obligation resulting from the adoption of new accounting standard for retirement benefits (Note 15)	**—**	3,806	**—**
Foreign exchange gain	**(39)**	(144)	**(331)**
Equity in gains of unconsolidated subsidiaries and affiliates	**(4,468)**	(2,501)	**(38,032)**
Increase in employees' retirement benefits	**715**	270	**6,086**
Interest and dividend income	**(648)**	(592)	**(5,515)**
Interest expense	**2,416**	2,360	**20,565**
Increase in notes and accounts receivable	**(5,345)**	(2,284)	**(45,497)**
Increase in inventories	**(13,751)**	(14,376)	**(117,049)**
Increase in notes and accounts payable	**9,567**	19	**81,435**
Other, net	**(2,894)**	1,829	**(24,633)**
Subtotal	**60,409**	50,887	**514,206**
Interest and dividend received	**2,700**	1,251	**22,982**
Interest paid	**(2,389)**	(2,517)	**(20,335)**
Indemnity paid	**(644)**	(531)	**(5,481)**
Income taxes paid	**(15,275)**	(5,074)	**(130,022)**
Net cash provided by operating activities	**44,800**	44,016	**381,341**
Cash flows from investing activities:			
Purchases of securities	**(2,165)**	(236)	**(18,428)**
Proceeds from sale of securities	**1,571**	461	**13,372**
Proceeds from sale of securities of consolidated subsidiaries (Note 5)	**285**	—	**2,425**
Acquisition of property, plant and equipment and other assets	**(41,923)**	(32,913)	**(356,852)**
Proceeds from sale of property, plant and equipment	**2,402**	6,495	**20,446**
Increase in short-term loans receivable, net	**(181)**	(264)	**(1,540)**
Disbursement for long-term loans receivable	**(1,247)**	(129)	**(10,614)**
Collection of long-term loans receivable	**3**	107	**25**
Other, net	**(1,785)**	686	**(15,194)**
Net cash used in investing activities	**(43,039)**	(25,792)	**(366,351)**
Cash flows from financing activities:			
Decrease in short-term bank loans, net	**(2,285)**	(14,492)	**(19,450)**
Proceeds from long-term debt	**12,511**	13,207	**106,494**
Repayment of long-term debt	**(16,920)**	(20,289)	**(144,024)**
Issuance of bonds	**10,000**	10,000	**85,120**
Redemption of convertible bonds	**(50)**	—	**(425)**
Payment for cash dividends to the Company's shareholders	**(4,009)**	(2,864)	**(34,124)**
Payment for cash dividends to minority interests	**(417)**	(403)	**(3,549)**
Other, net	**(107)**	(105)	**(910)**
Net cash used in financing activities	**(1,278)**	(14,947)	**(10,878)**
Effect of exchange rate changes on cash and cash equivalents	**319**	115	**2,715**
Net increase in cash and cash equivalents	**801**	3,391	**6,818**
Cash and cash equivalents at beginning of year	**16,143**	12,274	**137,410**
Effect of addition of consolidated subsidiaries	**—**	476	**—**
Cash and cash equivalents at end of year (Note 4)	**¥16,944**	¥16,143	**$144,228**

See accompanying notes.

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 Mitsui Mining and Smelting Company, Limited ("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.

Amounts less than one million yen have been rounded down in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen shown herein do not necessarily agree with the sums of the individual amounts.

The translation 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

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies"). All significant intercompany transactions, accounts and unrealized profits among the Companies have been eliminated in consolidation. Investments in certain significant affiliates, which the Company and its subsidiaries, are able to influence, in a material degree, their financial and operating decision-making, other than consolidated subsidiaries, are accounted for by the equity method after the elimination of unrealized intercompany profits. Investments in the remaining unconsolidated subsidiaries and affiliates are not accounted for by the equity method because of their immaterial effect on the consolidated financial statements. Such investments, therefore, are carried at cost, adjusted for any substantial and non-recoverable decline in value, and income from such unconsolidated subsidiaries and affiliates is recognized only when the Companies receive dividends therefrom.

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 when the Company acquired control of the respective subsidiaries.

The consolidation difference between acquisition cost and net assets at the date of acquisition is amortized over five years with minor exception.

(b) Foreign currency translation

Revenues and expenses are translated at the rates of exchange prevailing when transactions are made. Monetary claims and liabilities denominated in foreign currencies are generally translated into each reporting currency at the rates of foreign exchange prevailing at the balance sheet dates and the resulting translation gains or losses are included in earnings.

All assets, liabilities, revenues and expenses of consolidated foreign subsidiaries are translated into Japanese yen at the rates prevailing at their balance sheet dates for consolidation. The resulting translation adjustments are shown as "Foreign currency translation adjustments," a separate component of shareholders' equity.

(c) Cash and cash equivalents

In the accompanying consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition which have high liquidity and negligible risk of price fluctuation.

(d) Marketable securities, investment securities and investments in unconsolidated subsidiaries and affiliates other than those accounted for by the equity method

Securities owned by the Companies are classified into: (1) securities intended to be held to maturity (hereafter, "held-to-maturity securities"), (2) equity securities issued by subsidiaries and affiliated companies, or (3) all other securities that are not classified as trading securities or in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are mainly stated at average cost. Available-for-sale securities with fair market values are stated at fair market values, and the corresponding unrealized holding gains or losses, net of applicable income taxes, are reported as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using average cost or moving-average cost. Other available-for-sale securities with no available fair market value are mainly stated at average cost.

(e) Derivative transactions and hedge accounting

The Companies generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless they are used for hedging purposes. Gains and losses on derivative financial instruments held by certain consolidated foreign subsidiaries are still charged to income as settled.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies generally defer recognition of gains or losses resulting from changes in their fair value until the related gains or losses on the hedged items are recognized.

(f) Inventories

Inventories are stated primarily at cost based on the following methods:

Metals & Minerals Sector—Precious metals and a subsidiary (MCS, Inc.): First-in, first-out

Copper Foil Division: Moving average

The Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory and functional powders factory of Hikoshima Smelting Company, Limited, and Ohi Seisakusho Company, Limited): Average

Overseas subsidiaries: Lower of market or cost using average or first-in, first-out

Others: Mainly last-in, first-out

Effective April 1, 2004, the Companies changed the method of accounting for inventories in the Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory and functional powders factory of Hikoshima Smelting Company, Limited) from the last-in, first-out cost method to the average cost method.

Recently, the principal products of these business divisions are being used gradually as electronics materials. Thus, the sales prices of many of these products are dependent upon demand for use in electronics products, while the correlation between material prices and sales prices has become weaker. Moreover, since large demand fluctuations have led to corresponding fluctuations in inventory values, the last-in, first-out method cannot maintain an appropriate matching of costs and revenues.

Therefore, this change was made for the purpose of maintaining an appropriate matching of costs and revenues by leveling fluctuations of material prices.

As a result of this change, cost of sales for the year ended March 31, 2005 decreased by ¥472 million. Operating income and income before income taxes and minority interests increased by the same amount compared with what would have been reported under the prior accounting policy.

As to the effect of this change on segment information, see notes 11 (a) and (b).

(g) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is generally computed by the declining-balance method based on the estimated useful lives of these depreciable assets, except the straight-line method is applied to: (1) buildings, excluding building fixtures, acquired after March 31, 1998, (2) certain plant facilities of the Company and (3) property, plant and equipment of certain consolidated subsidiaries. The useful lives of these assets range from 7 to 50 years for buildings, 3 to 60 years for structures and 2 to 20 years for machinery and equipment.

(h) Allowance for doubtful accounts

The Company and its domestic subsidiaries provide an allowance for doubtful accounts in an amount sufficient to cover probable losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

(i) Reserve for product warranties

Reserve for product warranties is provided to accrue estimated costs of repairing products free of charge, based on individually estimated amounts, when feasible, and the ratio of actual repair costs incurred to net sales.

(j) Employees' retirement benefits

The Companies provided employees' retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date. The liabilities and expenses for employees' retirement benefits were determined based on the amounts actuarially calculated using certain assumptions.

(k) Directors' and corporate auditors' retirement benefits

Directors and corporate auditors are generally entitled to receive retirement benefits based on the Companies' internal rules. Their retirement benefits are accrued at the amount required to pay in accordance with the internal rules if the directors and corporate auditors had retired at the balance sheet date.

The Company abolished the directors' and corporate auditors' retirement benefits system as a result of the action by the Board of Directors held on April 27, 2005. Consequently, the Company provided their retirement benefits corresponding to the tenure before June 2005.

(l) Lease transactions

Finance leases which do not transfer the ownership of the leased assets to the lessee ("non-capitalized finance leases") are accounted for in the same manner as operating leases.

(m) Research and development expenses

Research and development expenses are charged to income as incurred.

(n) Income taxes

The Companies 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 of each of the Companies, with certain adjustments required for consolidation and tax purposes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(o) Bonuses to directors

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

(p) Net income, diluted net income and cash dividends per share

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during the respective fiscal year.

Diluted net income per share is not presented as there were no shares with dilutive effects in 2006 and 2005.

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

(q) Impairment of fixed assets

Effective April 1, 2005, the Company and consolidated subsidiaries adopted 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 the 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 a result of adopting this standard, income before income taxes decreased by ¥7,620 million ($64,862 thousand). The accumulated impairment losses have been deducted from the respective assets, in accordance with the revised Regulations of Consolidated Financial Statements.

(r) Reclassification

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

(a) Acquisition costs and book values of available-for-sale securities with fair value as of March 31, 2006 and 2005 were as follows:

	Millions of yen		
Year ended March 31, 2006	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**¥3,181**	**¥13,023**	**¥9,842**
Bonds	**25**	**75**	**50**
Subtotal	**3,207**	**13,099**	**9,892**
Securities whose book value does not exceed acquisition cost	**—**	**—**	**—**
Total	**¥3,207**	**¥13,099**	**¥9,892**

	Millions of yen		
Year ended March 31, 2005	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	¥3,412	¥7,796	¥4,383
Bonds	25	54	29
Subtotal	3,438	7,851	4,412
Securities whose book value does not exceed acquisition cost:			
Stocks	19	17	(2)
Subtotal	19	17	(2)
Total	¥3,457	¥7,868	¥4,410

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2006	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**$27,076**	**$110,852**	**$83,775**
Bonds	**212**	**638**	**425**
Subtotal	**27,298**	**111,499**	**84,201**
Securities whose book value does not exceed acquisition cost	**—**	**—**	**—**
Total	**$27,298**	**$111,499**	**$84,201**

The Companies write down securities when their fair value declines from cost by 50% or more. In case that the decline ranges at least 30% but less than 50%, the Companies determine whether the decline is temporary. If such a decline is judged to be other than temporary, securities are written down to their fair value.

(b) Available-for-sale securities sold for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Total sale amount	**¥1,615**	¥461	**$13,747**
Gains	**898**	325	**7,643**
Losses	**1**	3	**8**

(c) Book values of available-for-sale securities with no available fair value as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Available-for-sale securities:			
Unlisted equity securities	**¥6,279**	¥6,585	**$53,447**
Unlisted domestic bonds	**240**	240	**2,042**
Held-to-maturity securities:			
Bonds	**—**	—	**—**

(d) Maturities of available-for-sale securities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Bonds:			
Within one year	**¥ —**	¥ —	**$ —**
Over one year but within five years	**—**	—	**—**
Over five years	**240**	240	**2,042**

4. Amounts of Cash and Cash Equivalents

Amounts of cash and cash equivalents at March 31, 2006 and 2005 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Cash and time deposits	**¥16,944**	¥16,143	**$144,228**
Time deposits with maturities exceeding three months from the date of deposit	**(0)**	(0)	**(0)**
Total: Cash and cash equivalents	**¥16,944**	¥16,143	**$144,228**

5. Cash Proceeds from Sale of Consolidated Subsidiary

(a) The Companies sold the securities of a consolidated subsidiary, Sankou Kinzoku Company, Limited, in the year ended March 31, 2006. The book values of assets and liabilities, sales price and cash proceeds from the sale of the subsidiary are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥608	$5,175
Long-term assets	153	1,302
Current liabilities	(494)	(4,204)
Long-term liabilities	—	—
Loss on sale of securities of the consolidated subsidiary	(88)	(749)
Sales price	179	1,523
Cash and cash equivalents of the consolidated subsidiary sold	(3)	(25)
Cash proceeds from sale of the consolidated subsidiary	¥175	$1,489

(b) The Companies sold the securities of a consolidated subsidiary, Sanwa Buhin Company, Limited, in the year ended March 31, 2006. The book values of assets and liabilities, sales price and cash proceeds from the sale of the subsidiary are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 0	$ 0
Long-term assets	227	1,932
Current liabilities	—	—
Long-term liabilities	—	—
Loss on sale of securities of the consolidated subsidiary	(117)	(995)
Sales price	110	936
Cash and cash equivalents of the consolidated subsidiary sold	—	—
Cash proceeds from sale of the consolidated subsidiary	¥110	$ 936

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans, generally represented by short-term notes and bank overdrafts, bore interest at annual rates ranging from 0.223% to 5.352% and from 0.35% to 3.59% at March 31, 2006 and 2005, respectively.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
1.11% yen unsecured straight bonds due in 2010	**¥ 10,000**	¥ —	**$ 85,120**
0.93% yen unsecured straight bonds due in 2009	**10,000**	10,000	**85,120**
0.6% yen unsecured straight bonds due in 2008	**10,000**	10,000	**85,120**
2.15% yen unsecured straight bonds due in 2007	**1,000**	1,000	**8,512**
0.54% yen unsecured straight bonds due in 2005	**—**	50	**—**
Banks, insurance companies and other financial institutions, maturing through 2013 at interest rates ranging from 0.036% to 5.6% at March 31, 2006:			
Secured	**14,604**	17,104	**124,310**
Unsecured	**56,492**	58,981	**480,864**
Government-owned banks and government agencies, maturing through 2021 at interest rates ranging from 1.1% to 6.4% at March 31, 2005:			
Secured	**5,793**	4,698	**49,310**
Unsecured	**—**	—	**—**
	107,889	101,834	**918,360**
Less: Current portion	**19,678**	16,994	**167,500**
	¥ 88,210	¥ 84,840	**$750,851**

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2007	¥ 19,678	$167,500
2008	26,369	224,455
2009	20,996	178,719
2010	18,483	157,328
2011	20,563	175,034
Thereafter	1,797	15,296
Total	¥107,889	$918,360

The 0.54% yen unsecured straight bonds due in 2005 were issued on June 25, 2002 by Kamioka Components Company, Limited.

The 0.6% yen unsecured straight bonds due in 2008 were issued on May 29, 2003 by the Company.

The 0.93% yen unsecured straight bonds due in 2009 were issued on May 27, 2004 by the Company.

The 1.11% yen unsecured straight bonds due in 2010 were issued on October 27, 2005 by the Company.

The 2.15% yen unsecured straight bonds due in 2007 were issued on July 19, 2002 by Ohi Seisakusho Company, Limited, which was newly consolidated in the year ended March 31, 2004.

7. Pledged Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Notes and accounts receivable	**¥ 4,259**	¥ 1,676	**$ 36,252**
Inventories	**1,515**	1,163	**12,895**
Investment securities	**6,117**	1,753	**52,068**
Property, plant and equipment, net book value	**54,073**	64,228	**460,274**
	¥65,966	¥68,821	**$561,508**

8. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses amounted to ¥6,019 million ($51,234 thousand) and ¥5,881 million for the years ended March 31, 2006 and 2005, respectively.

9. Contingent Liabilities

Contingent liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Notes receivable discounted	**¥ 658**	¥ 430	**$ 5,600**
Notes receivable endorsed	**66**	84	**561**
Notes receivable securitized with resource	**2,539**	1,649	**21,612**
Loans guaranteed:			
Unconsolidated subsidiaries and affiliates	**21,203**	17,381	**180,481**
Others	**2,804**	6,915	**23,867**
	¥27,273	¥26,462	**$232,150**

10. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations of retained earnings must be set aside as a legal earnings reserve included in retained earnings until the total amount of capital surplus and the legal earnings reserve equals 25% of common stock.

The excess of the total amount of capital surplus and the legal earnings reserve which exceeds 25% of common stock can be transferred to retained earnings by a resolution of the shareholders, which may be available for dividends.

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

In accordance with the customary practice in Japan, the appropriations are not accrued in the consolidated financial statements for the period to which they relate but are recorded in the subsequent accounting period after the shareholders' approval has been obtained. Retained earnings at March 31, 2006 include amounts representing the year-end cash dividends and directors' bonuses approved at the shareholders' meeting held on June 29, 2006 as discussed in Note 19 (a).

11. Segment Information

The operations of the Companies for the years ended March 31, 2006 and 2005 were summarized by business segment, geographic segment and sales outside Japan by the Companies as follows.

(a) Business segment information

	Millions of yen							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2006								
Sales:								
Outside customers	**¥ 81,350**	**¥184,561**	**¥158,239**	**¥22,300**	**¥18,261**	**¥38,656**	**¥ —**	**¥503,370**
Inter-segment	**12,399**	**23,786**	**1,071**	**16,542**	**22,303**	**8,117**	**(84,221)**	**—**
Total	**93,750**	**208,347**	**159,311**	**38,843**	**40,565**	**46,773**	**(84,221)**	**503,370**
Operating expenses	**89,201**	**177,877**	**156,427**	**36,673**	**37,854**	**45,053**	**(84,769)**	**458,318**
Operating income	**¥ 4,549**	**¥ 30,470**	**¥ 2,883**	**¥ 2,170**	**¥ 2,710**	**¥ 1,719**	**¥ 547**	**¥ 45,052**
Identifiable assets	**¥118,551**	**¥179,752**	**¥109,876**	**¥32,336**	**¥25,238**	**¥35,604**	**¥(41,134)**	**¥460,225**
Depreciation expense	**6,117**	**15,113**	**4,817**	**1,341**	**222**	**246**	**(209)**	**27,650**
Loss on impairment of fixed assets	**1**	**3,497**	**657**	**365**	**568**	**2,701**	**—**	**7,791**
Capital expenditures	**9,613**	**27,170**	**6,978**	**2,092**	**266**	**21**	**(966)**	**45,176**

	Millions of yen							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2005								
Sales:								
Outside customers	¥ 68,607	¥158,122	¥144,802	¥20,852	¥14,027	¥31,730	¥ —	¥438,143
Inter-segment	9,469	17,886	854	10,722	13,874	6,963	(59,770)	—
Total	78,077	176,008	145,657	31,574	27,902	38,693	(59,770)	438,143
Operating expenses	75,399	145,424	140,675	29,196	26,376	37,045	(60,491)	393,627
Operating income	¥ 2,677	¥ 30,583	¥ 4,981	¥ 2,378	¥ 1,525	¥ 1,648	¥ 721	¥ 44,515
Identifiable assets	¥105,980	¥152,626	¥102,591	¥30,288	¥19,467	¥29,849	¥(31,784)	¥409,019
Depreciation expense	5,952	13,161	4,537	1,223	233	357	(222)	25,242
Capital expenditures	7,523	17,236	5,936	2,054	259	25	(121)	32,913

	Thousands of U.S. dollars (Note 1)							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2006								
Sales:								
Outside customers	**$ 692,458**	**$1,570,999**	**$1,346,944**	**$189,819**	**$155,439**	**$329,043**	**$ —**	**$4,284,729**
Inter-segment	**105,541**	**202,468**	**9,116**	**140,806**	**189,845**	**69,092**	**(716,896)**	**—**
Total	**798,009**	**1,773,467**	**1,356,069**	**330,635**	**345,292**	**398,135**	**(716,896)**	**4,284,729**
Operating expenses	**759,286**	**1,514,104**	**1,331,520**	**312,163**	**322,216**	**383,495**	**(721,561)**	**3,901,242**
Operating income	**$ 38,721**	**$ 259,363**	**$ 24,540**	**$ 18,471**	**$ 23,067**	**$ 14,632**	**$ 4,656**	**$ 383,486**
Identifiable assets	**$1,009,116**	**$1,530,064**	**$ 935,274**	**$275,246**	**$214,828**	**$303,064**	**$(350,136)**	**$3,917,475**
Depreciation expense	**52,068**	**128,643**	**41,002**	**11,414**	**1,889**	**2,093**	**(1,779)**	**235,359**
Loss on impairment of fixed assets	**8**	**29,766**	**5,592**	**3,106**	**4,834**	**22,991**	**—**	**66,317**
Capital expenditures	**81,826**	**231,273**	**59,397**	**17,807**	**2,264**	**178**	**(8,222)**	**384,542**

Notes: (a) As stated in note 2 (q), effective April 1, 2005, the Company and consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets.

As a result of adopting this standard, the identifiable assets decreased by ¥1 million ($8 thousand) in the "Mining & Fundamental Materials" segment, ¥2,741 million ($23,331 thousand) in the "Intermediate Materials" segment, ¥401 million ($3,413 thousand) in the "Parts Manufacturing & Assembly" segment, ¥349 million ($2,970 thousand) in the "Environmental Engineering & Metals Recycling" segment, ¥336 million ($2,860 thousand) in the "Engineering" segment, and ¥2,339 million ($19,909 thousand) in the "Services" segment.

(b) As stated in note 2 (f), effective April 1, 2004, the Companies changed the method of accounting for inventories in the Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory and functional powders factory of Hikoshima Smelting Company, Limited).

As a result of this change, operating expenses in the "Mining & Fundamental Materials" segment decreased by ¥245 million and operating income increased by the same amount, compared with what would have been reported under the prior accounting policy. Operating expenses in the "Intermediate Materials" segment decreased by ¥227 million and operating income increased by the same amount.

(b) Geographic segment information

	Millions of yen					
	Japan	North America	Asia	Other Areas	Elimination or corporate	Consolidated
Year ended March 31, 2006						
Sales:						
Outside customers	**¥365,281**	**¥63,219**	**¥64,188**	**¥10,680**	**¥ —**	**¥503,370**
Inter-segment	**54,631**	**605**	**21,881**	**1,736**	**(78,854)**	**—**
Total	**419,912**	**63,825**	**86,070**	**12,416**	**(78,854)**	**503,370**
Operating expenses	**382,636**	**64,382**	**80,698**	**10,468**	**(79,869)**	**458,318**
Operating income (loss)	**¥ 37,276**	**¥ (557)**	**¥ 5,372**	**¥ 1,947**	**¥ 1,014**	**¥ 45,052**
Identifiable assets	**¥415,649**	**¥32,449**	**¥58,278**	**¥10,679**	**¥(56,830)**	**¥460,225**
Year ended March 31, 2005						
Sales:						
Outside customers	¥325,397	¥55,106	¥47,898	¥ 9,740	¥ —	¥438,143
Inter-segment	36,473	238	10,332	973	(48,018)	—
Total	361,871	55,344	58,231	10,714	(48,018)	438,143
Operating expenses	327,578	55,295	50,836	9,321	(49,405)	393,627
Operating income	¥ 34,292	¥ 49	¥ 7,394	¥ 1,392	¥ 1,387	¥ 44,515
Identifiable assets	¥375,209	¥30,193	¥43,312	¥ 8,293	¥(47,989)	¥409,019

	Thousands of U.S. dollars (Note 1)					
	Japan	North America	Asia	Other Areas	Elimination or corporate	Consolidated
Year ended March 31, 2006						
Sales:						
Outside customers	**$3,109,303**	**$538,125**	**$546,373**	**$ 90,909**	**$ —**	**$4,284,729**
Inter-segment	**465,023**	**5,149**	**186,252**	**14,776**	**(671,212)**	**—**
Total	**3,574,327**	**543,283**	**732,635**	**105,686**	**(671,212)**	**4,284,729**
Operating expenses	**3,257,030**	**548,025**	**686,908**	**89,104**	**(679,851)**	**3,901,242**
Operating income (loss)	**$ 317,296**	**$ (4,741)**	**$ 45,726**	**$ 16,573**	**$ 8,631**	**$ 383,486**
Identifiable assets	**$3,538,040**	**$276,208**	**$496,067**	**$ 90,900**	**$(483,741)**	**$3,917,475**

Notes: (a) As stated in note 2 (q), effective April 1, 2005, the Company and consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets.

As a result of adopting this standard, the identifiable assets decreased by ¥5,730 million ($48,774 thousand) in the "Japan" segment and ¥438 million ($3,728 thousand) in the "Other Areas" segment.

(b) As stated in note 2 (f), effective April 1, 2004, the Companies changed the method of accounting for inventories in the Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory and functional powders factory of Hikoshima Smelting Company, Limited).

As a result of this change, operating expenses in the "Japan" segment decreased by ¥472 million and operating income increased by the same amount, compared with what would have been reported under the prior accounting policy.

(c) Sales outside Japan by the Company and its consolidated subsidiaries

	Millions of yen			
	North America	Asia	Other Areas	Total
Year ended March 31, 2006				
Overseas sales	**¥65,567**	**¥85,773**	**¥15,040**	**¥166,381**
Consolidated net sales	**—**	**—**	**—**	**503,370**
Ratio of overseas sales to consolidated net sales	**13.02%**	**17.04%**	**2.99%**	**33.05%**
Year ended March 31, 2005				
Overseas sales	¥57,060	¥69,234	¥12,351	¥138,646
Consolidated net sales	—	—	—	438,143
Ratio of overseas sales to consolidated net sales	13.02%	15.80%	2.82%	31.64%

	Thousands of U.S. dollars (Note 1)			
	North America	Asia	Other Areas	Total
Year ended March 31, 2006				
Overseas sales	**$558,112**	**$730,107**	**$128,021**	**$1,416,249**
Consolidated net sales	**—**	**—**	**—**	**4,284,729**

12. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.4% for the years ended March 31, 2006 and 2005.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Deferred tax assets:			
Unrealized profits and losses	**¥ 2,558**	¥ 2,288	**$ 21,773**
Operating loss carryforward for tax purposes	**5,689**	5,758	**48,425**
Excess bad debt expenses	**622**	484	**5,294**
Excess accrued bonuses to employees	**2,229**	2,137	**18,973**
Excess product warranties	**474**	671	**4,034**
Enterprise taxes accrued	**712**	836	**6,060**
Retirement benefits	**11,321**	10,874	**96,365**
Loss on impairment of fixed assets	**2,703**	—	**23,008**
Other	**7,897**	6,844	**67,219**
Subtotal	**34,209**	29,896	**291,189**
Valuation allowance	**(11,166)**	(8,321)	**(95,045)**
Total deferred tax assets	**¥ 23,043**	¥21,575	**$196,144**
Deferred tax liabilities:			
Net unrealized gains on securities	**¥ (4,003)**	¥ (1,751)	**$ (34,073)**
Deferral of capital gain related to certain sale of property, plant and equipment	**(2,415)**	(2,490)	**(20,556)**
Retained earnings of foreign subsidiaries	**(4,261)**	(3,118)	**(36,270)**
Other	**(2,316)**	(2,323)	**(19,713)**
Total deferred tax liabilities	**(12,997)**	(9,685)	**(110,631)**
Net deferred tax assets	**¥ 10,045**	¥11,889	**$ 85,503**

The net deferred tax assets at March 31, 2006 and 2005 were contained in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Deferred tax assets—current	**¥5,677**	¥5,467	**$48,323**
Deferred tax assets—noncurrent	**5,762**	7,507	**49,046**
Deferred tax liabilities—current	**68**	52	**578**
Deferred tax liabilities—noncurrent	**1,326**	1,033	**11,287**

The following table summarizes the significant differences between the statutory effective tax rate and the tax rate calculated based on the Company's consolidated financial statements for the year ended March 31, 2006. The differences between the statutory effective tax rate and the tax rate calculated based on the Company's consolidated financial statements for the year ended March 31, 2005 is not shown because the difference was less than 5%.

	2006
Statutory effective tax rate	**40.40%**
Effect of elimination of intercompany dividends received	**4.81**
Permanent difference due to non-deductible expense	**0.73**
Equity in gains of unconsolidated subsidiaries and affiliates	**(4.67)**
Permanent difference due to non-taxable income	**(3.41)**
Amortization of consolidation difference	**(3.10)**
Others	**(0.67)**
Tax rate calculated based on the Companies' consolidated financial statements	**34.09%**

13. Lease Transactions

(a) As lessees

(1) Information on non-capitalized finance leases for the years ended March 31, 2006 and 2005 is as follows:

Acquisition cost equivalents, accumulated depreciation equivalents and net book value equivalents of leased properties

	Millions of yen		
Year ended March 31, 2006	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥8,520**	**¥3,525**	**¥4,994**

	Millions of yen		
Year ended March 31, 2005	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥7,752	¥3,272	¥4,479

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2006	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$72,522**	**$30,005**	**$42,509**

Lease obligations, lease expenses and depreciation equivalents

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Lease obligations due:			
Within one year	**¥1,365**	¥1,370	**$11,618**
After one year	**3,653**	3,732	**31,094**
Total	**¥5,019**	¥5,102	**$42,722**
Lease expenses	**¥1,324**	¥1,345	**$11,270**
Depreciation equivalents	**1,324**	1,345	**11,270**

Since the amounts of lease obligations are relatively small, amounts shown above are inclusive of interest.

Assumed depreciation amounts are computed using the straight-line method over the lease terms assuming no residual value.

(2) Information on operating leases for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Lease obligations due:			
Within one year	**¥201**	¥ 356	**$1,710**
After one year	**366**	777	**3,115**
Total	**¥568**	¥1,133	**$4,834**

(b) As lessors

Information on non-capitalized finance leases for the years ended March 31, 2006 and 2005 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Lease receivables due:			
Within one year	**¥15**	¥19	**$127**
After one year	**9**	24	**76**
Total	**¥24**	¥44	**$204**

All transactions of the Companies as lessors were subleases to third parties. The Companies subleased to lessees on the same terms that the Companies originally signed. The whole amount was included in the amount of lease obligations shown in (a).

Since the amounts of lease receivables were relatively small, amounts shown above are inclusive of interest.

14. Derivative Transactions

The Companies used currency forward contracts and options to hedge transactions, such as sales of commodities (mainly basic metals) and purchases of inventories (mainly imported materials), and to hedge its assets and liabilities denominated in foreign currencies against foreign exchange risk.

The Companies also entered into interest rate swaps to hedge their loans payable against interest rate risk. Further, the Companies utilized metal forward contracts to reduce the Companies' exposure to fluctuations in metal prices. All of these contracts were based on actual demand and not for trading in the short term or for speculation. In particular, the Companies prohibited selling options in accordance with their respective internal transaction management rules.

Contract amounts shown in the tables below are notional amounts in derivative contracts. These amounts do not represent the Companies' market risk or credit risk incurred in derivative transactions.

Dealing market value was computed as a fair value based on the price shown by banking facilities or trading companies. These market values were presented for evaluations of derivatives, and they do not represent the amounts that the Companies pay or receive in the future.

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

(a) Currency-related derivatives

			Millions of yen		Thousands of U.S. dollars (Note 1)
Type			**2006**	2005	**2006**
Forward contracts:					
	Selling U.S. dollars:	Contract amounts	**¥1,116**	¥ 71	**$9,499**
		Due over one year	**—**	—	**—**
		Market value	**1,127**	72	**9,593**
		Net unrealized gains	**(11)**	(0)	**(93)**
	Selling Euros:	Contract amounts	**¥ 70**	¥109	**$ 595**
		Due over one year	**—**	—	**—**
		Market value	**71**	110	**604**
		Net unrealized gains	**(0)**	(0)	**(0)**
	Buying Thai baht:	Contract amounts	**¥ —**	¥171	**$ —**
		Due over one year	**—**	—	**—**
		Market value	**—**	160	**—**
		Net unrealized gains	**—**	(10)	**—**
	Buying Japanese yen:	Contract amounts	**¥ 730**	¥545	**$6,213**
		Due over one year	**—**	—	**—**
		Market value	**729**	473	**6,205**
		Net unrealized losses	**(0)**	(71)	**(0)**

Market values of forward currency contracts are based on future exchange rates or prices provided by financial institutions.

(b) Commodities-related derivatives

Type			Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Forward contracts:					
	Selling metal	Contract amounts	**¥2,492**	¥1,626	**$21,212**
		Due over one year	**—**	28	**—**
		Market value	**3,067**	1,701	**26,106**
		Net unrealized losses	**(575)**	(74)	**(4,894)**
	Buying metal	Contract amounts	**¥ —**	¥ 584	**$ —**
		Due over one year	**—**	—	**—**
		Market value	**—**	723	**—**
		Net unrealized gains	**—**	139	**—**

Market value of metal forward contracts is based on forward prices provided by trading companies.

15. Employees' Retirement Benefits

The Company and its consolidated domestic subsidiaries provide two retirement benefit plans for employees, an unfunded retirement plan and a funded retirement plan, under which all eligible employees are entitled to benefits based on their length of service and basic rate of pay at the time of termination.

Employees' retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2005 consisted of the following:

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Projected benefit obligation	**¥32,681**	¥31,683	**$278,183**
Plan assets at fair value	**(4,373)**	(3,839)	**(37,223)**
Projected benefit obligation in excess of plan assets	**28,308**	27,844	**240,960**
Less: Unrecognized prior service costs	**(203)**	(158)	**(1,727)**
Less: Unrecognized actuarial differences	**97**	2	**825**
Payment on delivery plan expense	**(202)**	—	**(1,719)**
Employees' retirement benefits	**¥28,405**	¥27,688	**$241,785**

The employees' retirement benefit costs for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 1) 2006
Service costs—benefits earned during the year	**¥2,082**	¥2,202	**$17,722**
Interest cost on projected benefit obligation	**518**	510	**4,409**
Expected return on plan assets	**(45)**	(41)	**(383)**
Amortization of net transition obligation	**—**	3,806	**—**
Amortization of prior service costs	**93**	46	**791**
Amortization of actuarial differences	**367**	959	**3,123**
Additional retirement benefits	**106**	385	**902**
Employees' retirement benefit costs	**¥3,122**	¥7,868	**$26,574**

The actuarial assumptions for calculating the projected benefit obligation for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Attribution of benefits to periods of service	**Benefit/years-of-service approach**	Benefit/years-of-service approach
Discount rate used to determine the projected benefit obligation	**1.7%–2.4%**	1.7%–2.4%
Expected return on plan assets	**Mainly 1.0%**	Mainly 1.0%
Period to amortize net transition obligation	**Mainly 5 years**	Mainly 5 years
Period to amortize prior service costs	**1–5 years**	1–5 years
Period to amortize the actuarial differences	**1–3 years**	1–3 years

16. Earnings per Share of Common Stock

Earnings per share of common stock at March 31, 2006 and 2005 were as follows:

Year ended March 31, 2006	Net income (Millions of yen)	Weighted-average shares (Thousands)	Net income per share (Yen)	Net income per share (U.S. dollars (Note 1))
Basic earnings per share:				
Net income unavailable to common shareholders	**¥23,374**			
Bonuses to directors by appropriation of retained earnings	**167**			
Net income available to common shareholders	**¥23,206**	**572,768**	**¥40.52**	**$0.34**

Year ended March 31, 2005	Net income (Millions of yen)	Weighted-average shares (Thousands)	Net income per share (Yen)
Basic earnings per share:			
Net income unavailable to common shareholders	¥20,780		
Bonuses to directors by appropriation of retained earnings	129		
Net income available to common shareholders	¥20,650	572,816	¥36.05

17. Loss on Impairment of Fixed Assets

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

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars (Note 1)
Takehara City,	Production facilities	Buildings and structures	**¥ 990**	**$ 8,426**
Hiroshima Prefecture, others	and waste dumping	Machinery	**1,521**	**12,946**
	site	Land	**946**	**8,052**
		Others	**193**	**1,642**
Funabashi City, Chiba Prefecture	Office site	Land, others	**568**	**4,834**
Takehara City,	Lease assets	Land	**1,256**	**10,691**
Hiroshima Prefecture, other		Buildings, others	**325**	**2,766**
Kita-ku, Tokyo, others	Idle assets	Land, others	**1,989**	**16,930**

The Company and its consolidated subsidiaries have grouped assets used for business activities by the units of the factory distinction and of the product distinction based on management accounting. Idle assets and lease assets that have a sign of impairment are assessed on an individual basis.

As for production facilities and waste dumping sites, there were no future cash flows expected since the serious deterioration in the market conditions had weakened profitability, and, moreover, sale of these assets was extremely improbable. Consequently, the book values of these assets were reduced to zero.

As for office sites, the book value of the assets was reduced to their estimated sales price since the assets were going to be sold to a third party.

As for idle assets and lease assets, the book values of the assets were reduced to zero in case that there were no future cash flows expected, and, moreover, sale of these assets was extremely improbable. The book value of salable lands was reduced to net realizable value based on the fair value, provided by a real estate appraiser.

18. Related Party Transactions

The Company owns 34% of outstanding shares of Pan Pacific Copper Co., Ltd., which sells products related to copper refining and smelting business.

The transactions and account balances with Pan Pacific Copper Co., Ltd. as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Guarantees of bank loans	**¥18,557**	¥15,582	**$157,958**

Terms of transactions:

Terms of sales to Pan Pacific Copper Co., Ltd. are determined under general market conditions.

19. Subsequent Events

(a) On June 29, 2006, at the shareholders' meeting, the following appropriations were approved:

(1) payment of cash dividends to shareholders of record on March 31, 2006 of ¥10.00 ($0.09) per share totaling ¥5,727 million ($48,748 thousand) and

(2) payment of bonuses to directors totaling ¥150 million ($1,276 thousand).

(b) Strengthening of alliance in copper smelting business

Nippon Mining & Metals Co., Ltd. (NM&M) and the Company have for some time promoted a comprehensive alliance in copper smelting business centered on Pan Pacific Copper Co., Ltd. ("PPC"), jointly established by the two companies. Until the end of fiscal 2005, PPC had undertaken integrated copper smelting business encompassing procuring ore from overseas mines and other sources, entrusting NM&M and the Company to refine the ore, and marketing the entrusted products returned by NM&M and the Company. With the goals of integrating production functions, and thereby further strengthening the alliance and upgrading the competitiveness of copper smelting business, on April 1, 2006, the entrusted copper smelting and refining operations and related operations performed by the Company's subsidiary Hibi Kyodo Smelting Company, Limited ("HKS"), on behalf of the Company, were transferred to PPC.

In addition, accompanying the transfer of operations, the Company's shares in HKS were transferred to PPC.

Details of the transfer of operations and the Company's shares in HKS are as follows.

1. Details of the transfer of operations

(1) Size of the operations transferred

Net sales for the year ended March 31, 2006: ¥29,125 million ($247,914 thousand)

(2) Amounts of assets and liabilities transferred

Assets: ¥7,195 million ($61,244 thousand)

Liabilities: ¥2,309 million ($19,654 thousand)

(3) Date of transfer

April 1, 2006

(4) Transfer price

The transfer price is not yet decided. After obtaining an objective and fair appraisal by a third party, the companies involved will determine the price based on discussions.

(5) Overview of the assignee

Corporate name: Pan Pacific Copper Company, Limited

Head Office: 2-10-1, Toranomon, Minato-ku, Tokyo 105-0001, Japan

Representative: Representative Director and President Takeshi Kurushima

Common Stock: ¥3,450 million ($29,366 thousand)

Description of Business: Manufacture and marketing of electrolytic copper, sulfuric acid, and other copper-related products; metal mining operations

2. Details of the transfer of the Company’s shares in HKS

(1) Date of transfer

April 1, 2006

(2) Transfer price

The transfer price is not yet decided. After obtaining an objective and fair appraisal by a third party, the companies involved will determine the price based on discussions.

(3) Number of shares

5,970,000 shares

(4) Shareholding ratio

Before transfer: 63.51%

After transfer: —%

(5) Overview of the subsidiary company

Corporate name: Hibi Kyodo Smelting Company, Limited

(c) Issuance of unsecured domestic straight bonds

On April 29, 2006, the Board of Directors of the Company approved a proposal for the issuance of unsecured domestic straight bonds.

Principal data on these bonds to be issued are as follows:

1. Total issue amounts	Not more than ¥10,000 million ($85,120 thousand)
2. Term	Five years
3. Payment price	¥100 for each ¥100 of face value
4. Offering period	From June 29, 2006 to September 30, 2006
5. Interest rate	Fixed rate not exceeding swap rate corresponding to the bond repayment term plus 0.5%
6. Redemption method	Redemption of maturing date (It is possible to attach a callable option.)
7. Application of funds	Proceeds will be used for capital investments, working capital, repayment of commercial paper and other debt, equity and financing investments.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mitsui Mining and Smelting Company, Limited:

We have audited the accompanying consolidated balance sheets of Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, 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 Mitsui Mining and Smelting Company, Limited and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 2 (q) to the consolidated financial statements, effective April 1, 2005, Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets.
(2) As discussed in Note 19, on April 1, 2006, the entrusted copper smelting and refining operations and related operations performed by a subsidiary of Mitsui Mining and Smelting Company, Limited, Hibi Kyodo Smelting Company, Limited, on behalf of the Company, were transferred to Pan Pacific Copper Company, Limited. In addition, accompanying the transfer of operations, Mitsui Mining and Smelting Company, Limited's shares in Hibi Kyodo Smelting Company, Limited were transferred to Pan Pacific Copper Company, Limited.
(3) As discussed in Note 2 (f) to the consolidated financial statements, effective April 1, 2004, Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries changed the method of accounting for inventories in the Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory and functional powder factory of Hikoshima Smelting Company, Limited).

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.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

CORPORATE DATA

(As of March 31, 2006)

Established: May 1, 1950

Authorized capital: 1,944 million shares

Shares issued: 572,966,166 shares

Paid-in capital: ¥42,129 million

Stock listings: Common stock is listed on the Tokyo, Osaka, and three other domestic stock exchanges.

Number of shareholders: 44,005

Principal shareholders:

	Investment in the Company	
	Number of shares held (Thousands)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd. (Held in trust account)	63,518	11.08
The Master Trust Bank of Japan, Ltd. (Held in trust account)	49,143	8.57
Mitsui Life Insurance Company, Limited	9,281	1.61
Japan Trustee Services Bank, Ltd. (Held in trust account 4)	8,985	1.56
Trust & Custody Services Bank, Ltd. (Held in trust account B)	8,293	1.44
State Street Bank and Trust Company	7,976	1.39
State Street Bank and Trust Company 505103	7,965	1.39
Pictet and Cie (Europe) S.A.	7,598	1.32
Morgan Stanley & Co. International Limited	7,523	1.31
The Chase Manhattan Bank, N.A. London	7,203	1.25

Principal subsidiaries:

	Paid-in capital (Millions)	Share (%)
Kamioka Mining & Smelting Co., Ltd.	¥4,600	100.0%
Hachinohe Smelting Co., Ltd.	¥4,795	85.5
Hibi Kyodo Smelting Co., Ltd.	¥4,700	63.5
Hikoshima Smelting Co., Ltd.	¥460	100.0
Taiwan Copper Foil Co., Ltd.	NT$800	95.0
Mitsui Copper Foil (Malaysia) Sdn. Bhd.	RM50	90.0
MCS, Inc.	¥450	100.0 (8.9)
Mitsui Electronic Materials Co., Ltd.	NT$600	100.0
Ohi Seisakusho Co., Ltd.	¥2,766	100.0
GECOM Corp.	US$15.75	100.0
Okuaizu Geothermal Co., Ltd.	¥100	100.0
MESCO, Inc.	¥1,085	63.3

Note: Parentheses around figures for percentage owned by Mitsui Kinzoku indicate indirect ownership.

DIRECTORS, AUDITORS, AND EXECUTIVE OFFICERS

(As of June 29, 2006)

Board of Directors

Shimpei Miyamura
Chairman and Representative Director,
Chief Executive Officer

Hiroshi Makihara
President and Representative Director,
Chief Operating Officer

Ei Omoto
Director,
Senior Managing
Executive Officer,
Chief Financial Officer

Yoshihiko Takebayashi
Director,
Senior Managing
Executive Officer

Muneo Saida
Director,
Senior Managing
Executive Officer

Yasuo Yokoo
Director,
Senior Executive Officer,
Chief Technology Officer

Kunio Yanai
Director,
Senior Executive Officer,
Chief Risk Management
Officer

Takao Hironaka
Director,
Senior Executive Officer

Naoaki Ogawa
Director,
Senior Executive Officer

Masao Omura
Director,
Senior Executive Officer

Yoshiaki Kitagawa
Director,
Senior Executive Officer

Tadaaki Chigusa
Director

Hiromichi Shibata
Director

Corporate Auditors

Toshio Kodama
Shoji Onoue
Toshiaki Tanabe
Yoshiro Kamata

Executive Officers

Satoru Kobayashi
Mitsuhiko Hasuo
Hirohisa Senzaki
Takashi Sato
Mitsuru Uekawa
Shin'ichi Ishii
Tomoharu Jogo
Kazuo Hirano
Osamu Higuchi
Masatoshi Eto
Tatsuhiko Takai
Hideo Kuroda
Shigeru Mitsumori
Wakaba Sakurai
Satoshi Arita
Makoto Fukuda
Kosuke Watanabe

WORLDWIDE OPERATIONS

(As of July 1, 2006)

	Japan	Asia	Americas and Europe
Offices/ Laboratories	**Head Office** (Shinagawa, Tokyo) **Osaka Branch** (Osaka, Osaka) **Corporate R&D Center** (Ageo, Saitama)	**Mitsui Kinzoku Trading (Shanghai) Co., Ltd.** (Shanghai, China)	**Mitsui Mining & Smelting Co., Ltd., Sucursal del Perú** (Lima, Perú) **Oak-Mitsui Technologies LLC** (New York, U.S.A.)
Electronics-Related Materials	**Hibi Smelter** (Tamano, Okayama) **Takehara Refinery** (Takehara, Hiroshima) **Ageo Copper Foil Plant** (Ageo, Saitama) **Miike Thin-film Materials Plant** (Omuta, Fukuoka) **Miike Rare Metals Plant** (Omuta, Fukuoka) **MCS, Inc.** (Shimonoseki, Yamaguchi)	**Taiwan Copper Foil Co., Ltd.** (Nantou, Taiwan) **Mitsui Copper Foil (Malaysia) Sdn. Bhd.** (Selangor Darul Ehsan, Malaysia) **Mitsui Copper Foil (Hong Kong) Co., Ltd.** (Hong Kong, China) **Mitsui Copper Foil (Suzhou) Co., Ltd.** (Jiangsu, China) **Mitsui Copper Foil (Guangdong) Co., Ltd.** (Guangdong, China) **Mitsui Electronic Materials Co., Ltd.** (Taichung, Taiwan) **Mitsui Kinzoku Korea Co., Ltd.** (Seoul, Korea) **Mitsui Micro Circuits Taiwan Co., Ltd.** (Taichung, Taiwan)	**Oak-Mitsui Inc.** (New York, U.S.A.) **Mitsui-Eurocel S.A.S.** (Dives-sur-Mer, France) **Mitsui Zinc Powder LLC** (Pennsylvania, U.S.A.)
Metals and Environmental Services	**Kamioka Mining & Smelting Co., Ltd.** (Hida, Gifu) **Hachinohe Smelting Co., Ltd.** (Shinagawa, Tokyo) **Hikoshima Smelting Co., Ltd.** (Shimonoseki, Yamaguchi) **Pan Pacific Copper Co., Ltd.** (Minato, Tokyo) **Okuaizu Geothermal Co., Ltd.** (Yanagitsu, Fukushima)		**Compania Minera Santa Luisa S.A.** (Lima, Perú)
Automotive Parts	**Nirasaki Parts & Components Manufacturing Plant** (Nirasaki, Yamanashi) **Kamioka Catalyst Plant** (Hida, Gifu) **Ohi Seisakusho Co., Ltd.** (Yokohama, Kanagawa)	**Mitsui Siam Components Co., Ltd.** (Rayong, Thailand) **Mitsui-Huayang Automotive Components Co., Ltd.** (Guizhou, China) **Mitsui Components Guangdong Co., Ltd.** (Guangdong, China) **Wuxi Da Chong Industry Co., Ltd.** (Jiangsu, China) **Mitsui Kinzoku Components India Pvt. Ltd.** (Haryana, India)	**GECOM Corp.** (Indiana, U.S.A.) **Ohi Automotive of America LLC** (Kentucky, U.S.A.) **Mitsui Components Europe Ltd.** (Wales, U.K.) **Mitsui Components (U.S.A.), Inc.** (Arizona, U.S.A.)
Other	**Ageo Rolled Copper & Zinc Plant** (Ageo, Saitama) **Omuta Ceramics Plant** (Omuta, Fukuoka) **Kitakata Perlite Plant** (Kitakata, Fukushima) **Osaka Perlite Plant** (Kaizuka, Osaka) **MESCO, Inc.** (Sumida, Tokyo)	**Mitsui Grinding Technology (Thailand) Co., Ltd.** (Chonburi, Thailand)	

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Printed in Japan