MITSUBISHI MATERIALS CORPORATION

Annual Report 2006

For the Year Ended March 31, 2006

Profile

Established in 1950, Mitsubishi Materials Corporation is one of the world's largest diversified materials companies. In addition to being a leader in metal smelting and refining, cement products and fabricated metals—notably aluminum cans—Mitsubishi Materials is also a major supplier of advanced materials.

The Company's high-level research and development (R&D) programs are instrumental in enabling it to maintain its dominant position in key markets.

Mitsubishi Materials comprises 281 subsidiaries and affiliates in 24 countries, employing 19,020 people.

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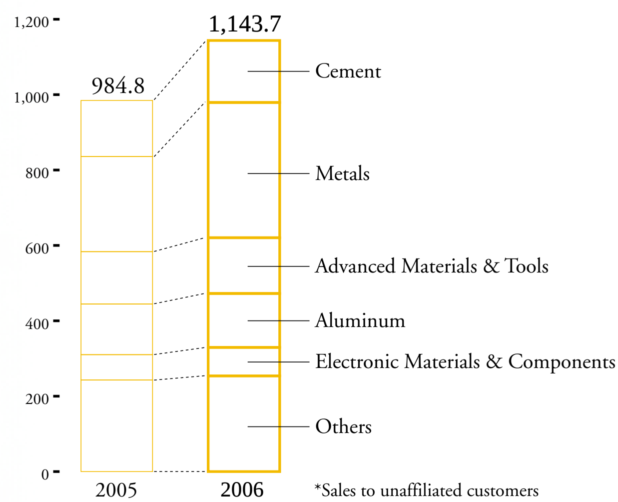
Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this annual report with respect to Mitsubishi Materials' plans, strategies and beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of Mitsubishi Materials, which are based on management's assumptions and beliefs in light of the information currently available to it, and involve risks and uncertainties. Potential risks and uncertainties include, without limitation, general economic conditions in Mitsubishi Materials' markets; industrial market conditions; exchange rates, particularly between the yen and the U.S. dollar, and other currencies in which Mitsubishi Materials makes significant sales or in which Mitsubishi Materials' assets and liabilities are denominated; and Mitsubishi Materials' ability to continue to win acceptance of its products and services, which are offered in highly competitive markets characterized by continual new product introductions, rapid developments in technology and changing customer preferences.

Mitsubishi Materials at a Glance

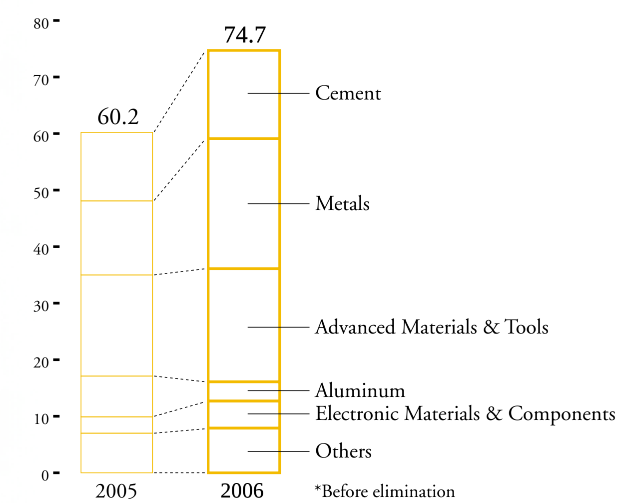
From its beginnings as a developer of resources and producer of base metals, precious metals and coal, Mitsubishi Materials has evolved into a leading name in fabricated metals, silicon products, advanced materials, cement products and a variety of other cutting-edge products and services.

Sales by Segment* (Billions of yen)

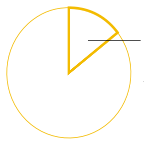
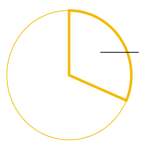
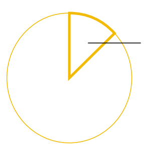
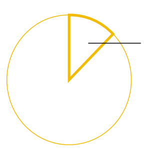
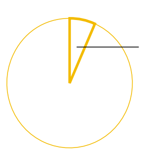
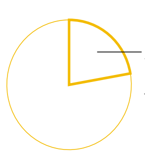


*Sales to unaffiliated customers

Operating Profit by Segment* (Billions of yen)



*Before elimination

Segment	Sales for Fiscal 2006	Major Products and Services	
Cement	 14.4% ¥164.5 billion	• Cement • Cement-related products • Ready-mixed concrete • Building materials	
Metals	 31.4% ¥358.8 billion	• Copper smelting • Processed copper products	
Advanced Materials & Tools	 12.9% ¥147.9 billion	• Cemented carbide products • Sintered parts • High-performance alloy products • Diamond cutting tools	
Aluminum	 12.5% ¥143.1 billion	• Aluminum beverage cans • Rolled aluminum products • Processed aluminum products	
Electronic Materials & Components	 6.6% ¥75.5 billion	• Electronic materials • Chemical products • Electronic components • Polycrystalline silicon	
Others	 22.2% ¥253.9 billion	• Fossil fuels • Nuclear energy-related services • Precious metals • Resources-, environment- and recycling-related products • Real estate, etc.	

Message from the President

We are particularly keen to strengthen our core businesses, taking advantage of recent solid performances to take steps that will further reinforce our operating foundations.

Overview

In fiscal 2006, ended March 31, 2006, the operating climate was positive overall for the Mitsubishi Materials Group. This reflected further rises in the prices of key metals, solid automotive demand and a turnaround in construction demand. These factors compensated for slow sales of IT and digital offerings in the first half owing to the impact of inventory adjustments that began in the previous term. High fuel costs throughout the year were also challenging.

During the year, the Group endeavored to reinforce its earnings foundations under a two-year consolidated management plan. We forged several alliances, notably in aluminum cans and powder metallurgy products, to improve efficiency and profitability. We continued initiatives from the previous term to increase profitability by liquidating unprofitable businesses and generally streamlining operations, cutting fixed and variable costs, and investing more selectively. We also further reduced interest-bearing debt by selling assets as part of concerted efforts to boost our financial position.

Consolidated net sales thus climbed 16.1%, to ¥1,143.7 billion. Operating profit jumped 27.5%, to ¥68.9 billion. We benefited from the favorable performances of equity method affiliates and from gains on marketable securities and investments, notably in SUMCO. At the same time, we posted a loss on the impairment of fixed assets under new accounting standards. Nonetheless, net income rocketed 259.1%, to ¥58.8 billion.

Progress under Medium-Term Management Plan

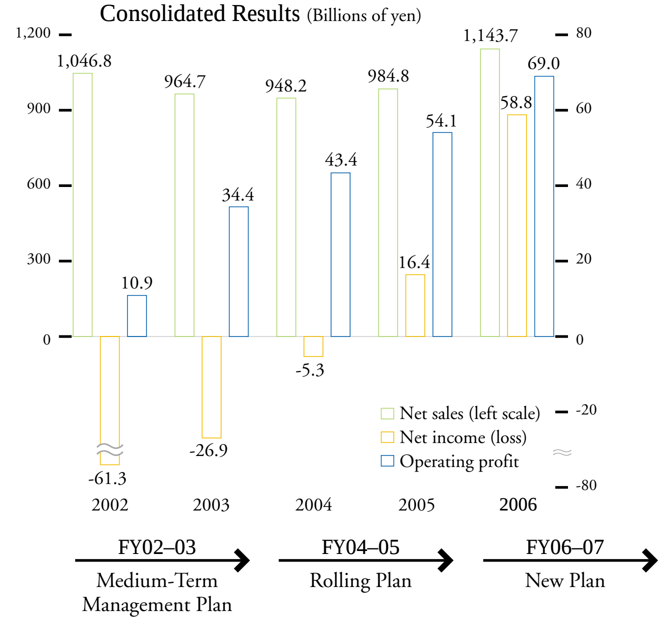
We made steady progress in fiscal 2006 with our medium-term management plan, which we launched in April 2005. This initiative aims to stabilize our earnings structure while employing our comprehensive management resources in drawing on our core technologies and infrastructure to build foundations for growth as a winner in core businesses.

This initiative targets ordinary income of ¥60 billion, a return on assets exceeding 4% and a reduction of interest-bearing debt to ¥700 billion in fiscal 2007. We reached all these objectives a year ahead of schedule.

This success was due partly to favorable operating conditions, although it was mainly the result of concerted Groupwide reform efforts. We refuse to be complacent, however, and will keep forging ahead with reforms. We are particularly keen to strengthen our core businesses, taking advantage of recent solid performances to take steps that will further reinforce our operating foundations.

Our medium-term management plan emphasizes investing in capital and development to strengthen core businesses. We are considering ways in which the next plan can concentrate more on spending to cultivate new technologies and businesses to accelerate progress in the years ahead.

Consolidated Results (Billions of yen)



Reinforcing our financial position is just as important to us as becoming more profitable. We aim to strengthen that position by further lowering interest-bearing debt while continuing to reorganize or liquidate unprofitable businesses.

Preparations for our next medium-term management plan focus on ensuring that we can continue to generate stable earnings and continue to expand even in adverse operating climates.

We will thus intensify efforts to strengthen core operations, cut losses in specific businesses and complete business restructuring initiatives.

Doing Better for Shareholders and Investors

In fiscal 2007, we look for automotive, IT and digital products to continue doing well. However, the year will probably be very challenging because of higher oil costs and the potential for our prices to fall if the prices of key metals decline.

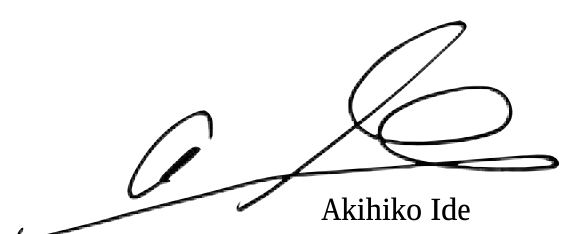
We will tackle these challenges by steadily implementing the policies of our medium-term management plan while further strengthening core businesses. We will also harness core technologies and infrastructure to more swiftly build new businesses. Such endeavors should stabilize earnings while establishing foundations for the future.

One specific effort will be to better integrate everything from raw materials procurement to production, processing and sales by investing in and reorganizing Group companies, thereby increasing value and building firm foundations in each business area. Our main growth focuses will be in the automotive, information and electronics, and environment and recycling fields, in which we will concentrate the Group's core technologies and management resources, swiftly bringing high-value-added products to market.

We will expand Groupwide purchasing of fuels and expand the use of recycled fuels. We will deploy highly efficient facilities and draw on production improvement efforts to streamline manufacturing processes and cut production costs. At the same time, we will continue to pursue corporate social responsibility (CSR) initiatives to contribute to sustainable development and enhance our social credibility and increase enterprise value.

We look forward to your ongoing support and encouragement as we pursue excellence by implementing clear strategies and improving our financial position, ensuring transparency for shareholders and investors.

June 29, 2006



Akihiko Ide
President

Pursuing Progress in Three Growth Areas

The Mitsubishi Materials Group aims to stabilize its earnings fundamentals in line with its consolidated medium-term management plan while harnessing its comprehensive management strengths to establish foundations for growth as a winner in its core businesses.

The Group focuses on expanding businesses with excellent global potential without compromising its broad operational portfolio. We provide numerous products and services in these areas. We are confident of cultivating a superior position by employing our existing basic and proprietary technologies, and manufacturing and sales infrastructure.

We have positioned the automotive, information electronics, and environment and recycling areas as key growth areas in which we are concentrating such management resources as capital expenditure, and research and development.

Automotive Products

The Group's automotive sintered products include powder metallurgy parts for engines, transmissions and other components that are essential for parts fabrication, notably cemented carbide products.

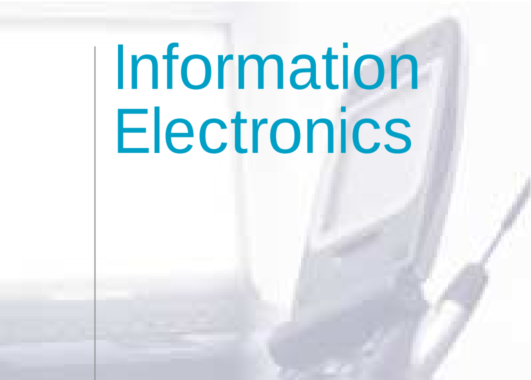
We have expanded our cemented carbide products business by developing a broader range of products that satisfy the needs of Japanese automakers as they have grown.

We supply aluminum parts that reduce the weight of cars and enhance recycling.

In the years ahead, we will strengthen our capabilities in high-precision electronic devices for electronic cars and in offerings for electronic vehicles.

- Related businesses: Metals, advanced materials and tools, aluminum, and electronic materials and components
- Related basic technologies: Alloys, metalworking, powder metallurgy, precision casting, thin films, and evaluation and simulation
- Growth products and services: Hybrid car radiation components and soft magnetic materials for hybrid cars, wireless sensor module security and logistics services, and aluminum heat exchanger parts
- Development themes: Direct brazed aluminum substrates for third-generation hybrid cars and integrated sensor connectors



Information Electronics

The Group supplies silicon wafers and high-purity polycrystalline silicon for the semiconductor industry, as well as such peripheral offerings as gold bonding wire for semiconductors and copper alloy lead frame materials for oxygen-free copper bases. We are also cultivating the global market for chemical products used in the LCD panels of laptop computers, as well as ultracompact electronic devices and balance weights (used in vibration motors) for mobile phones.

There are broad applications for silicon semiconductors in such fields as information electronics and automobiles. We thus believe there is plenty of room for the Group to expand in automotive electronics given the global growth projected for the automotive industry.

We will continue to concentrate on providing high-value-added products that match market needs in keeping with society's rapid dependence on advanced information and communications.

- Related businesses: Metals, advanced materials and tools, aluminum, and electronic materials and components
- Related basic technologies: Alloys, high-purity technologies, ultra-precision processing, ceramic materials, boundary and crystal growth
- Growth products and services: Communication modules for high-speed power line communications, RFID tags, and packaging and electronic materials
- Development themes: High-performance wiring and joint packaging materials and communication modules for high-speed power line communications

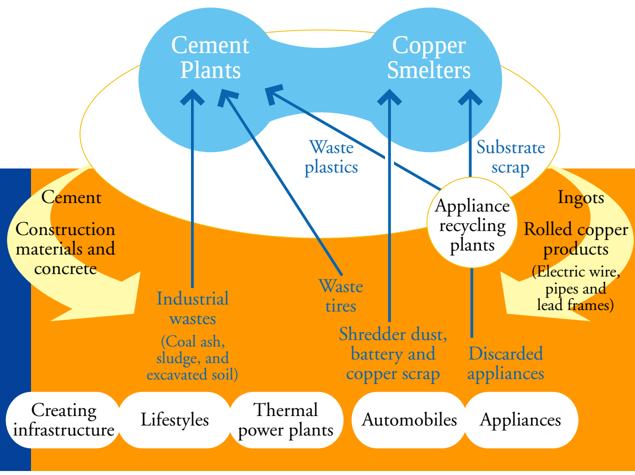
Environment and Recycling

It is a critical issue in Japan to make society more recycling-oriented. The Group is tackling this challenge by processing sludge from cement plants, automotive shredder dust at copper smelters, and recycling aluminum cans and appliances.

The Group will continue to harness its infrastructure to use alternative materials, collect metals, recover energy (thereby reducing resource consumption) and step up recycling operations to lower environmental impact.

In recent years, the Group has taken advantage of favorable economic conditions to achieve excellence through its focus on multiple businesses and integrated management. We aim to solidify our earnings foundations in our three growth areas, developing technologies and attracting and cultivating human resources to drive next-generation advancements. We will refine our mass production technologies when commercializing new products. Enhancing mass production capabilities will be a key priority in streamlining development.

Recycling Business in Cement Plants and Copper Smelters



- Related businesses: Cement, metals, aluminum, and electronic materials and components
- Related basic technologies: High-temperature baking, ore sorting, smelting and refining, alloys and high purity technology
- Growth products and services: Services to recover energy from plastics and other waste, metals recovery from automotive shredder residue and vending machines, and using cement for alternative materials
- Development themes: Waste plastics treatment

Review of Operations

Cement

Profile

Mitsubishi Materials makes a broad range of cement products, from general-use to specialty cements, to serve the sophisticated needs of its customers. Our business spans the Pacific, covering Japan, the U.S., China and Southeast Asia. Our Kyushu Plant is the largest and most cost-efficient in Japan. Our American operations center in California, importing cement from our Chinese operations.

We are helping Japan's cement industry to play an important role in recycling while slashing costs and stabilizing earnings by increasing the use of waste tires, coal ash from power plants, and sludge as cement materials and fuel.

Performance

During the year under review, we benefited from steady sales in the U.S. and signs of a recovery in the Japanese market, as companies boosted capital spending in response to improved earnings while public sector demand for disaster recovery projects continued to rise. Segment sales were thus up, while volumes remained around the same, at 13.9 million metric tons.

Volumes of aggregate and limestone were up from a year earlier, reflecting steady public sector demand for Portland cement, but sales declined because demand shifted toward low-priced offerings.

Segment sales rose 10.4%, to ¥164.5 billion, and operating profit was up 28.8%, ¥15.6 billion.

Outlook

The cement company's management policy is to build and maintain a regional business portfolio. Its basic strategy is to organically link its highly productive domestic plants with manufacturing and sales operations in the U.S., China and Southeast Asia, thereby maximizing consolidated earnings.

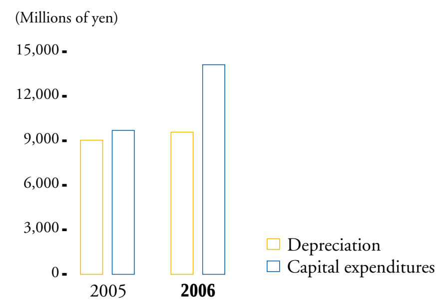
We expect domestic cement demand to drop to 57 million metric tons in the current fiscal year as the impact of a spike in disaster recovery projects abates. Ube-Mitsubishi Cement Corp. requested its customers to accept price rises in July 2005, but these increases have not been enough to compensate for rising coal costs. We are therefore working through sales companies to boost prices while expanding revenues from industrial waste product treatment and lowering expenses.

We are broadening aggregate marketing nationwide. Our Higashitani Mine quarry is selling sand made from its limestone, primarily in Western Japan.

We expect to continue doing well in the U.S. in the year ahead, although sales will probably drop owing to full-fledged regular repairs at Mitsubishi Cement Corp. to bolster productivity and reduce costs.

We have taken radical steps to enhance profitability at other affiliates. Our medium-term strategy is to raise revenues from industrial wastes and cut costs to enhance earnings, as it is unlikely that domestic cement demand will grow. We also plan to expand our operations overseas, notably in the U.S., China and Southeast Asia.

	Millions of yen		Percentage change
	2006	2005	2006/2005
• Sales	**¥164,501**	¥148,973	10.4%
• Operating profit	**15,639**	12,140	28.8
• Identifiable assets	**264,000**	246,395	7.1
• Depreciation	**9,582**	9,043	6.0
• Capital expenditures	**14,127**	9,698	45.7



Kyushu Plant: The largest cement plant in Japan

Yantai Mitsubishi Cement Co., Ltd. (China)

Mitsubishi Cement Corporation, Cushenbury Plant (U.S.A.)

Waste tires, plastics and oil used as a fuel substitute in cement plants

We aim to secure stable earnings by maintaining a regional portfolio, encompassing Japan, the United States, China and Southeast Asia.

Metals

Profile

Our metals business integrates investments in copper mines, the smelting of copper and the manufacture of processed copper products.

We have investments in four copper mines overseas. Our two domestic copper smelters together produce 340,000 metric tons annually. We started operations at our Indonesian smelter in 1999, and production capacity there is now around 270,000 metric tons yearly. We developed the Mitsubishi Process, the world's first continuous-smelting process for copper, which is highly efficient and is pollution-free. In addition to plants in Japan, smelters in Canada, Korea and Indonesia use this process.

We sell almost 80% of the electrical copper we make in Japan as processed copper to Group electric wire and rolled copper manufacturers and other manufacturers in Japan and overseas. We use high-purity copper in a special dissolution and casting process to make oxygen-free copper and copper ingots, enjoying a massive share of the global market for these offerings because of their superior properties. We are broadening applications to include rolled copper and the semiconductor and electronics fields. Smelting accounts for the bulk of profits from our metals business, although processing has become a growing source of earnings.

Performance

In the year under review, sales of rolled copper and wire for automotive products were particularly strong. We also benefited from generally high copper prices. Sales and volumes thus improved. Sales and volumes of gold advanced on high prices and on greater ore volumes and gold concentrations in ore.

PT. Smelting in Indonesia performed very well after sales volumes dropped a year earlier owing to the impact of regular repairs, with both sales and volumes surging. Production of electrical copper was up 34,000 metric tones, at 586,000 metric tons.

In processed copper products, volumes declined because of intensified competition in overseas markets, which depressed exports of wire materials. Nonetheless, sales improved owing to solid demand for electronic materials and automotive copper castings.

As a result of these factors, segment sales advanced 42.2%, to ¥358.8 billion. Operating profit was up 75.1%, to ¥23.0 billion.

Note: Electrical copper sales volumes are the aggregate of non-consolidated sales at the Naoshima and Onahama smelters and sales from PT. Smelting.

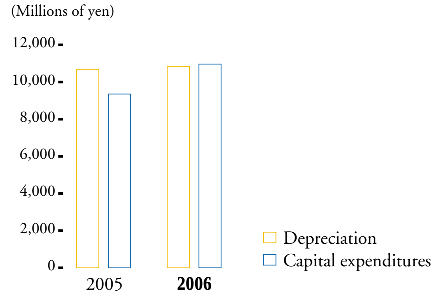
Outlook

The operating climate for the metals business has been relatively favorable because of record copper prices and favorable conditions for purchasing custom ore, but we assume that prices will fluctuate cyclically. It is critical for us to take steps so that we can maintain profitability even if copper prices trend downward.

One priority is therefore to reduce smelting costs by expanding our recycling business and strengthening downstream copper processing operations. At the highly competitive PT. Smelting, we are expanding production volumes to serve buoyant demand in Southeast Asia. In Japan, we aim to steadily lower production costs by increasing revenues from shredder dust treatment. At the Onahama Plant, we will reduce smelting costs through the deployment of a furnace using the Mitsubishi Process.

In processed copper products, we have a top share of the global market for copper ingots used in semiconductor lead frames and automotive device connectors. We seek further expansion by bolstering partnerships within the Group for development and other activities.

	Millions of yen		Percentage change
	2006	2005	2006/2005
• Sales	**¥358,765**	¥252,333	42.2%
• Operating profit	**22,962**	13,113	75.1
• Identifiable assets	**395,493**	296,483	33.4
• Depreciation	**10,846**	10,663	1.7
• Capital expenditures	**10,965**	9,354	17.2



Copper cakes and billets

Lead frames

Copper anodes (copper balls) for plating used in printed circuit boards

PT. Smelting (Indonesia)

We integrate everything from mining and smelting to copper processing to bolster earnings.

Advanced Materials & Tools

Profile

This business segment encompasses cemented carbide products for machine tools and diamond cutting tools that drill, cut and grind, as well as core functional parts for automobiles and electrical products. It also covers high-performance heat-resistant, anticorrosive and anti-abrasive resistant materials used in the manufacture of aircraft parts and other components that are designed for use in extreme conditions. Cemented carbide tools account for more than 80% of segment earnings. We have the top share of the domestic market for those tools and account for more than 10% of the global market.

Performance

Our main customers in this segment are from the automotive, IT and aerospace sectors, with the automotive sector having the greatest impact on our operations. As Japanese automotive manufacturers increase production around the world, we are striving to bolster our scale, and our production and sales structures.

Although the costs of tungsten, a major material for cemented carbide products, remained high in the year under review, we enjoyed solid demand for hard-metal cutting tools, largely from automakers. Exports to elsewhere in Asia, Europe and the U.S. were solid, with both revenues and earnings rising.

In functional parts, sales of powder metallurgy products and other automotive offerings were strong. Nonconsolidated sales and profits were down, however, owing to a merger of powder metallurgy products operations to create Mitsubishi Materials Global Sinter Holding SA, an equity method affiliate.

Sales of high-performance alloys to the aerospace sector were strong, while automotive demand was favorable. We rebuilt our business foundation by pursuing selective concentration, taking advantage of this restructuring to enhance sales and earnings from solidly performing lines. Overall, however, sales and profits from high-performance materials were down because labor, materials and other manufacturing costs rose amid efforts to reduce delivery delays during this period of increasingly high demand.

Sales and profits in diamond cutting tools were down despite signs of a demand turnaround following inventory adjustments in IT and digital products that continued through the second half of fiscal 2006.

Segment sales therefore gained 6.6%, to ¥147.9 billion. Operating profit was up 11.9%, to ¥20.0 billion.

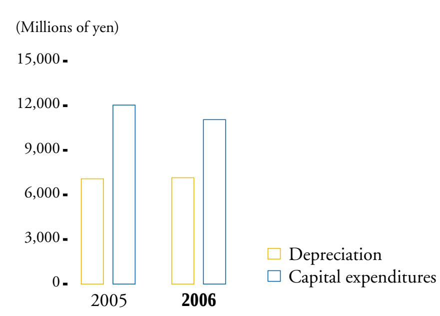
Outlook

We expect segment sales and earnings to decline in fiscal 2006 because of the removal from consolidation of our powder metallurgy products business and the high costs of the tungsten used in cemented carbide products. Tungsten costs will probably remain high for the foreseeable future, so we will steadily raise our prices and lower costs.

We expect demand for cemented carbide products to remain solid for the time being against a backdrop of Japanese automakers expanding their production worldwide. This trend should create new business opportunities for the Group, so we will accordingly bolster production capacity. In May 2006, we established a global logistics center at Narita, near the New Tokyo International Airport, and aim to further strengthen our global sales structure, particularly in the Asian, European and American, and Latin American markets. We will develop and market new offerings to prevent price declines.

The high-performance alloy business, which we included in this business segment in the previous fiscal term, has excellent demand potential in aerospace parts and industrial gas turbines, and covers the automotive and aerospace markets like the cemented carbide products business. We accordingly aim to generate synergies in this segment.

	Millions of yen		Percentage change
	2006	2005	2006/2005
• Sales	**¥147,908**	¥138,769	6.6%
• Operating profit	**19,985**	17,864	11.9
• Identifiable assets	**162,855**	161,427	0.9
• Depreciation	**7,155**	7,083	1.0
• Capital expenditures	**11,063**	12,042	-8.1




Cemented carbide products (cutting tools)


Cemented carbide products (cutting tools, construction tools and wear-resistant tools)


Disks for aircraft engines


Tsukuba Plant (carbide tools)

We cultivate operations from a user-oriented perspective, concentrating on automobiles, aircraft and IT. We also integrate our high-performance alloy product operations that serve the same customer base and expand our scale of business.

Aluminum

Profile

Our aluminum products business centers on subsidiaries Universal Can Co., Ltd., and Mitsubishi Aluminum Co., Ltd., which makes extruded aluminum.

We have created a highly reliable quality assurance structure for our aluminum can business, which has allowed us to create a setup to raise production and sales of aluminum bottles, cultivating a new demand area for aluminum containers. In our rolled aluminum business, we have expanded demand for automotive and construction applications and daily household items as part of a drive to build a top position in the Japanese market.

We seek to strengthen our aluminum recycling structure to speed up deliveries of aluminum cans and enhance cost-competitiveness and thus raise revenues and earnings. We are harnessing Green Productivity Management to reduce environmental impact and improve lifestyles by making the life cycles of aluminum resources more environment-friendly.

Performance

Sales of general aluminum cans for non-malt alcoholic beverages were favorable during the year, while we benefited from the merger of aluminum operations with those of Hokkai Can Co., Ltd., to form Hokkan Holdings Ltd. These factors boosted sales and volumes. Earnings declined, however, reflecting intensified competition from companies with similar offerings, which lowered prices, slow growth in strategic aluminum bottles and higher raw materials costs that increased manufacturing expenses.

In rolled aluminum, sales for general machinery were sluggish, offsetting gains in the automotive sector. We enjoyed gains, however, in sheet metal sales and earnings.

Segment sales therefore advanced 6.4%, to ¥143.1 billion, although operating profit was down 52.4%, to ¥3.4 billion.

Outlook

In the year ahead, we expect sales of regular cans to continue rising, largely for third-category beer. At the same time, sales of strategic aluminum bottles will probably drop, reflecting intense competition with PET bottles and aluminum bottles from rivals.

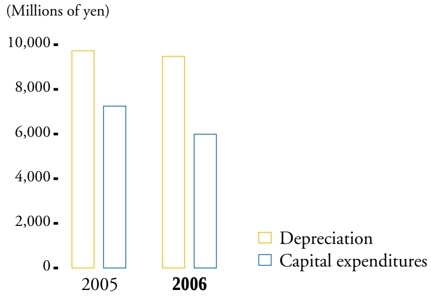
We look for aluminum can sales in fiscal 2007 to climb more than 16%, to around ¥60 billion, owing to full contribution of Universal Can, which we created in October 2005, and the addition of revenues from Hokkan. Unfortunately, we expect Universal Can to post large losses in fiscal 2007 because aluminum ingot costs, which account for the bulk of expenses, have remained high since that company began operations.

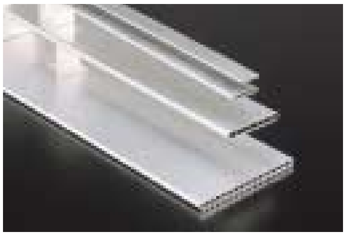
It is a top management priority to improve the performance of the aluminum can business, and we are pursuing Groupwide initiatives to that effect. They include establishing a countermeasures unit and reinforcing plant cost-cutting, as well as collaboration with Mitsubishi Aluminum to tackle raw materials costs. With raw materials costs at such high levels, it is impossible to cover these costs solely with rationalization measures at Universal Can. We are thus taking decisive steps to revise our prices and communicate such action to our customers.

Mitsubishi Aluminum has performed relatively solidly in its rolled aluminum business. This subsidiary is raising production capacity in aluminum sheet, and aims to raise sales in fiscal 2007. In March 2006, we launched production of automotive heat exchangers in China, complementing extruded materials operations in the U.S. and Thailand, and are working globally to improve results, particularly for automotive uses.

Note: Third-category beer is an alcoholic beverage similar in taste to beer made from ingredients other than malt and wheat, making it subject to lower liquor taxes.

	Millions of yen		Percentage change
	2006	2005	2006/2005
• Sales	**¥143,093**	¥134,519	6.4%
• Operating profit	**3,441**	7,231	-52.4
• Identifiable assets	**180,913**	158,917	13.8
• Depreciation	**9,478**	9,725	-2.5
• Capital expenditures	**5,992**	7,250	-17.4





Multiport flat aluminum tubes for car air conditioners

Aluminum beverage cans

Bottle-shaped can

Just-in-time delivery system

Our goal is to increase sales of aluminum cans and expand our aluminum rolled products operations, focusing on extruded products for automotive parts.

Electronic Materials & Components

Profile

This segment includes advanced materials, electronic components and silicon, and mainly serves makers of semiconductor devices and telecommunications equipment. Key functional materials are sputtering targets for recording media, gold bonding wire for semiconductors and chemical products. In electronic devices, we handle chip thermistors used in the battery packages of cellular telephones. In the silicon business, we produce and sell polycrystalline silicon, and our equity method affiliate SUMCO, which produces silicon wafers, is our main customer.

Performance

In electronic materials, sales were higher than the previous fiscal year owing to favorable demand for silicon products, mainly 300mm wafers, and for chemical products used in LCDs and PDPs.

In electronic devices, sales and earnings decreased owing to ongoing inventory adjustments in IT and digital products.

The sales volume of polycrystalline silicon was higher than the previous fiscal year owing to favorable demand for 300mm silicon wafers with photovoltaic applications.

Segment sales therefore increased 12.8%, to ¥75.5 billion, while operating profit gained 67.9%, to ¥4.8 billion.

Outlook

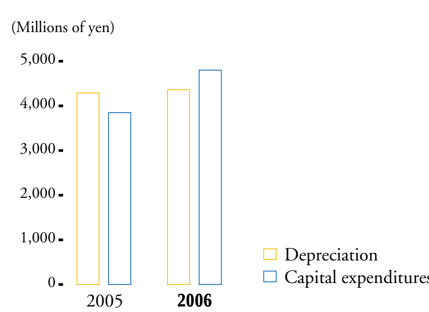
In fiscal 2006, we merged our polysilicon, functional materials and electronic devices businesses to create the electronic materials & components business.

Sales of polycrystalline silicon drive the segment's earnings. We are harnessing the vertical value chain with a strong customer base to expand our silicon business, which includes silicon wafers and precision silicon processed products, in light of the tight supply situation of polycrystalline silicon.

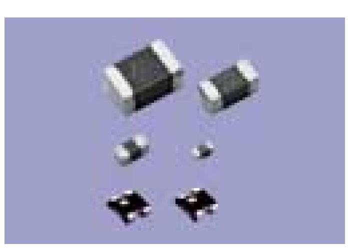
The shortage of polycrystalline silicon has persisted because of strong demand from the semiconductor industry, particularly for 300mm wafers owing to their high quality, and the booming demand from the photovoltaic industry. Consequently, we are increasing productivity by applying many years of expertise, in our efforts to expand production capacity of high-end products for semiconductors. We are aiming to complete the plant expansion at Mitsubishi Polycrystalline Silicon America Corp. by March 2007.

The prime priority in electronic devices is developing new products. We will pursue technological development in the automotive, telecommunications and home electronics fields in keeping with user plans. We seek to further expand sales in our key direct brazed aluminum substrates as demand grows for hybrid vehicles.

	Millions of yen		Percentage change
	2006	2005	2006/2005
• Sales	**¥ 75,525**	¥ 66,941	12.8%
• Operating profit	**4,814**	2,867	67.9
• Identifiable assets	**137,310**	125,050	9.8
• Depreciation	**4,361**	4,289	1.7
• Capital expenditures	**4,801**	3,850	24.7

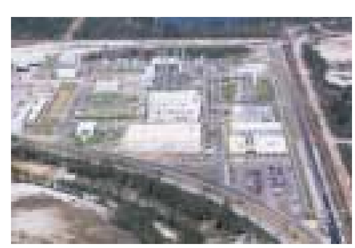


Gold bonding wire



Chip thermistors

Polycrystalline silicon



Mitsubishi Polycrystalline Silicon America Corp.

We plan to integrate our silicon and advanced products businesses, which share many technological and sales commonalities, and harness the resulting synergies.

Others

Profile

This segment encompasses energy, precious metals, resources, environmental and recycling, and real estate operations.

Our energy business plays an important role in stabilizing supplies to a naturally resource-poor Japan. Following World War II, we were swift to enter the nuclear energy field, helping prevent global warming through the use of clean energy. We are building a safe nuclear fuel cycle that covers everything from mining uranium, to fuels processing, reprocessing and waste treatment.

Our precious metals business has grown on the strength of serving industrial and retail customers. Our broad business portfolio includes selling gold ingots, the gold accumulation plan "My Gold Plan," and mail order and direct sales of jewelry to consumers. Our jewelry fairs and direct sales operations have made us one of the largest players in Japan's jewelry market.

Performance

In the energy business, sales rose on the strength of favorable sales of fuels for nuclear reactors and increases in revenues owing to high coal and oil prices.

Sales of precious metals rose on steady demand for jewelry, which offset a decline in demand for gold among individuals owing to high prices.

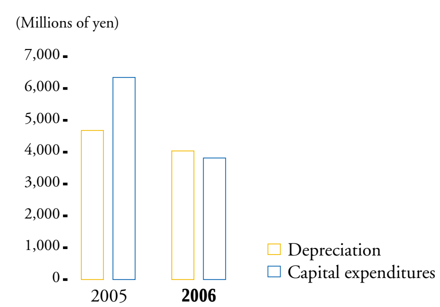
Segment sales advanced 4.4%, to ¥253.9 billion, with operating profit climbing 12.5%, to ¥7.9 billion.

Outlook

In the energy business, we are prioritizing stable supplies for our existing nuclear power business, and we are preparing to participate in a new reprocessing business. In geothermal power, we seek to maintain steam production capacity and stabilize operations through repairs to our production facilities. We will upgrade hydroelectric and geothermal facilities to maintain stable supplies while striving to lower repair costs. We are also concentrating on solid sales volume of coal.

In the precious metals business, customers will probably refrain from buying gold ingots because of the high prices. Consumer demand will likely remain slow, and we will endeavor to cut costs to stem earnings reductions while expanding our market share. There have been signs since last year of a recovery in consumer demand for jewelry, and we look for sales to grow steadily from our direct sales and fairs. We will build on the marketing techniques that have driven growth to date.

	Millions of yen		Percentage change
	2006	2005	2006/2005
• Sales	**¥253,908**	¥243,242	4.4%
• Operating profit	**7,872**	6,999	12.5
• Identifiable assets	**307,648**	276,378	11.3
• Depreciation	**4,039**	4,682	-13.7
• Capital expenditures	**3,817**	6,347	-39.9




At 250kg, the world's largest gold ingot


Mitsubishi jewelry collection


Nuclear fuel assemblies


Geothermal power plant

Our energy business is comprehensive in scope, supplying clean energy from nuclear, coal, petroleum, geothermal and hydroelectric sources to help create a more affluent society.

Our gold and other precious metals operations draw on more than a century of building customer trust and our position as one of the top producers in the Pacific Rim.

Research and Development

In fiscal 2006, parent operations, affiliates, and partners pursued R&D into our core fields in line with specific requirements. R&D focuses on applied development in existing businesses, prioritizing advances in the automotive, information and electronics, and environment and recycling areas. Marketing and development operations collaborate to cultivate new offerings that match potential needs. Our R&D expenses for fiscal 2006 totaled ¥10.9 billion.

Development Policies and Goals

We target ongoing work for the medium and long term in three prime fields in line with management policies.

Three key fields
We have built a structure to concentrate efforts for the medium and long term in the automotive, information and electronics, and environment and recycling areas.

Slashing costs through development
We will pursue development themes in which we can spend within allocations and dramatically enhance the profitability of production activities.

Strengthening and cultivating basic technologies
We are according top priority to three areas that form the bedrock of our technological capabilities, and will continue to cultivate our human and other resources accordingly:
o Metalworking processing
o Chemical processing
o Surface and boundary technology

Development Structure

The Management Council oversees corporate and in-house company development. The former focuses on medium- and long-term needs through the Central Research Institute, which cultivates basic technologies for tomorrow's businesses and products, and the Strategic Business Development Office, which explores next-generation growth opportunities. Each in-house company conducts development to enhance competitiveness in existing lines. Corporate and in-house development units collaborate closely.

Intellectual Property Strategy

We have invested heavily in our intellectual property strategy. We filed 900 patent applications in fiscal 2006, and we file about 50 patent applications annually in overseas markets. We are prioritizing international patent filings, which include the highly promising Chinese market. We aim to raise the upper remuneration limits for inventors. Our intellectual property strategy goes well beyond increasing patent filings, encompassing the quality of such filings and enhancing employee awareness of such property. We accordingly provide Groupwide education to bolster our capabilities in this area.

R&D Activities Overview

In cement products, Ube-Mitsubishi Cement Corp. spearheads efforts to cut cement manufacturing costs, enhance the performance of existing offerings, improve resource recycling technologies and develop new products.

In metals, R&D concentrates on raising capacity utilization rates, lowering refining and treatment costs, and increasing productivity at our copper smelters while strengthening recycling operations and boosting production of new high-performance materials. In copper processing, we develop and apply simulation and other analytical techniques and develop new manufacturing processes to enhance the quality and characteristics of our offerings while reducing expenses.

In advanced materials & tools, our technological goals are powder manufacturing and powder metallurgy, precision processing and thin-film coating technologies.

Most of the R&D work for the aluminum business is through Universal Can's Technology and Development Department and Mitsubishi Aluminum's Development Department.

The main R&D targets for the electronic materials & components business are electronic materials, chemicals, electronic devices and polycrystalline silicon. The Central Research Institute, the Sanda Plant's Technological Development Section and the Ceramics Plant Electronics Device R&D Center spearhead this work. Also contributing are consolidated subsidiaries Kamaya Electric Co., Ltd., Jemco Inc. and Mitsubishi Materials Polycrystalline Silicon Corp.

We develop technologies in other business areas, including nuclear and geothermal power advancements for our energy operations, and fuel cell, supercritical and solutions business for new business operations.

Complementing R&D programs in each of our segments, the Central Research Institute cultivates materials technologies for innovations in the automotive, information and electronics, and environment and recycling fields.

Development Structure

- Corporate strategy committee
  - Corporate R&D
    - Central Research Institute
      - Naka Research Center
      - Omiya Research Center
      - Chemical Processing Laboratory
    - Business Incubation Department
  - Company R&D
    - Cement Company — Ube-Mitsubishi Cement Research Institute
    - Metals Company — Material Recycling Center, Ohte Metals Co., Ltd.
    - Advanced Materials & Tools Company — Non-Ferrous Alloys Research & Technology Laboratory
    - Electronic Materials & Components Company — Electronics Device R&D Center
    - Aluminum Division — Universal Can's Technology and Development Department
    - Energy Business Division — Energy Project & Technology Center

Corporate Social Responsibility

In December 2002, the Mitsubishi Materials Group strove to strengthen Group risk management and compliance.

We drew on these endeavors to establish the CSR Committee in January 2005, which the president chairs, to better meet stakeholder expectations and enhance credibility. We also set up the CSR Office and appointed a director as chief CSR officer, replacing the previous compliance director position.

All business units and Group companies have CSR officers, administrators and officials to lead the corporate social responsibility (CSR) activities and raise the awareness of all employees about our activities.

We steadily pursue Companywide environmental management activities, a key CSR priority, through a headquarters division that reports to a director for these initiatives.

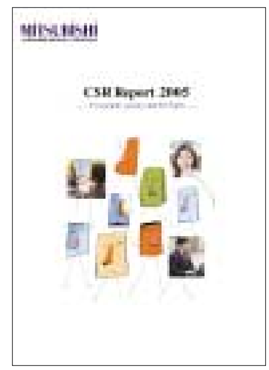
We are working across the Company to build up our credibility and reputation, and enhance enterprise value by contributing to sustainable progress through our operations.

CSR Report

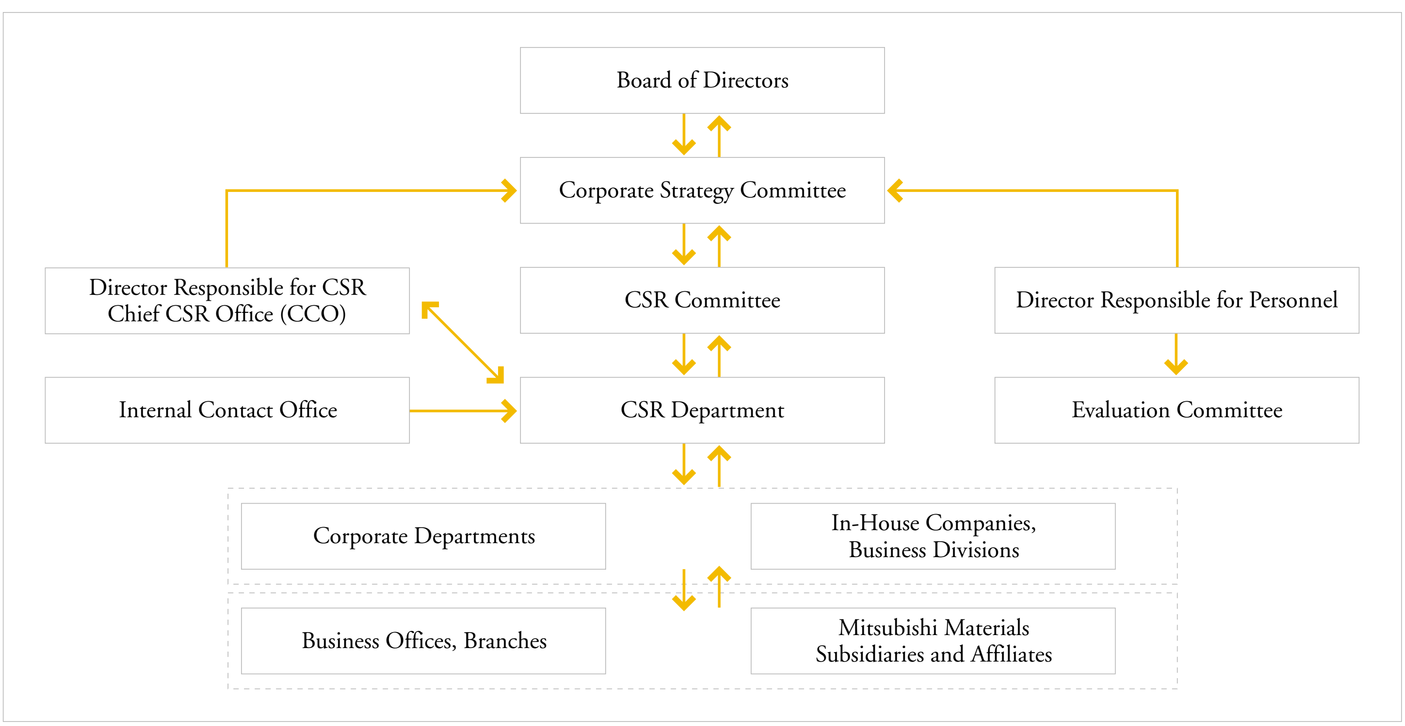
We have been publishing an annual environmental report since 1999. In 2005, we decided to broaden the report to encompass CSR to convey a deeper understanding of our initiatives—thereby renaming it the CSR Report.

This reader-friendly report, which we will continue to publish annually, describes the responsibilities and roles that our comprehensive materials businesses play in various aspects of society, highlighting our contributions to the community and our efforts to effect positive change to the environment.

To download the report, please go to the CSR section of our web site:
http://www.mmc.co.jp/english/csr/index.html


CSR Report

CSR Promotion Structure



Corporate Governance

Mitsubishi Materials established its Code of Conduct in 1997 to govern the actions of all employees and officers and ensure healthy compliance with applicable laws and ordinances as a good corporate citizen. We applied the Code to the entire Group in 2003 as part of efforts to sustain progress through fair business activities while maximizing enterprise value. Efficient and transparent management is essential to realizing those objectives, which is why we have steadily strengthened corporate governance over the years.

The Board of Directors comprises nine internal directors and one external director without conflicts of interest. We consider this structure appropriate for ensuring fast decision making and objective and transparent management. Supporting the Board is the Corporate Strategy Committee, comprising the president and several directors, which assesses matters for subsequent Board deliberation to ensure appropriate decision making.

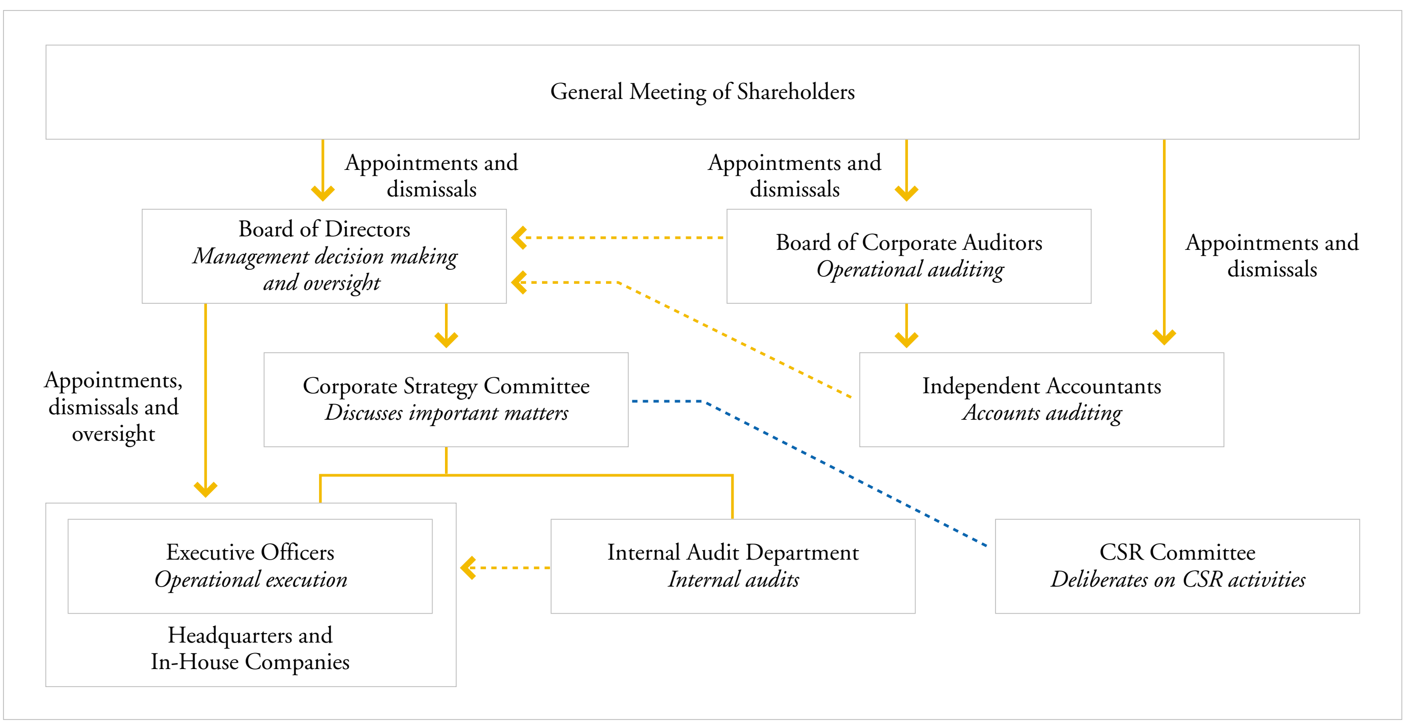
In 2000, we instituted an executive officer system to accelerate decision making and implement operations more dynamically. In June 2002, we abolished the system in which directors concurrently hold more than one executive officer position, the goal being to clearly separate management decision making from oversight.

The Board of Corporate Auditors comprises three standing corporate auditors (including an external one) and one part-time member. Each auditor attends all Board of Directors meetings and other important gatherings in keeping with internal auditing policies and plans for the relevant fiscal period based on standards that the Board of Corporate Auditors determines. These auditors monitor the work of directors, the Internal Audit Department, and other in-house control bodies, inspect important approval documents, and assess operations and assets at headquarters and key business sites. Where necessary, these auditors also check on subsidiaries and the progress of directors in fulfilling their tasks. These auditors meet regularly with the corporate auditors of major Group companies to reinforce coordination of the auditing structure for Group management. We established the Auditors Office, whose staff support the auditors. There are no transactional relationships or other conflicts of interest between the external auditors and the Company.

The Internal Audit Department has an 11-member staff. It focuses on different factors from those of corporate auditors in monitoring headquarters, in-house companies and Group affiliates, concentrating on risk management and management efficiency.

In December 2002, we created the Risk Management Committee and Corporate Ethics and Compliance Committee to step up Groupwide risk management and compliance.

Overview of Corporate Governance Structure



Management

(As of June 29, 2006)

Akihiko Ide*
President

Tsuneo Katsuki*
Executive Vice President

Haruhiko Asao*
Executive Vice President

Hiroshi Yao*
Executive Vice President

Hiroo Kiyokawa*
Managing Director

Hisayoshi Honma*
Managing Director

Yoichi Taguchi*
Managing Director

Hiroshi Kanemoto*
Managing Director

Akira Nishikawa
Director and Executive Adviser

Yukio Okamoto[†]
Director

Senior Executive Officers
Michio Fujita
Fumio Shimada
Toshinori Kato
Makoto Miki
Hironori Yoshimura
Mayuki Hashimoto

Executive Officers
Toshio Hiratsuka
Yoshio Akiyama
Motohiko Masunaga
Yukio Ono
Tadatoshi Teruyama
Shuichi Daigo
Yutaka Koshiba
Kimball McCloud
Yukimasa Endo
Masanori Hirayama
Noboru Yonezawa
Takeshi Itaba
Naoki Uchiyama
Hideaki Yoshida
Yoshiaki Inaba
Masayuki Minagawa
Akira Takeuchi

Corporate Auditors (Standing)
Yoshimitsu Moriya[†]
Yoshio Fujiwara
Nobuaki Naito

Corporate Auditor
Akio Utsumi

*Member of the Corporate Strategy Committee
[†]External

Financial Section

Eleven-Year Summary

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2003	2002	2006
For the Year:						
Net sales	¥1,143,700	¥ 984,777	¥ 948,238	¥ 964,726	¥1,046,807	$ 9,736,103
Cost of sales	953,084	812,544	783,971	807,308	899,220	8,113,425
Operating profit	68,982	54,085	43,422	34,429	10,872	587,231
Net income (loss)	58,803	16,374	(5,324)	(26,854)	(61,316)	500,579
Depreciation and amortization	47,454	48,085	49,401	54,457	78,436	403,967
Gross cash flow	106,257	64,459	44,077	27,603	17,120	904,546
R&D expenses	10,859	10,449	11,232	11,608	15,404	92,441
Balance at End of Year:						
Total assets	1,609,446	1,420,825	1,435,115	1,439,985	1,575,739	13,700,911
Total long-term liabilities	474,664	466,771	519,594	555,467	572,071	4,040,726
Total shareholders' equity	303,560	196,902	183,886	174,381	206,413	2,584,149
Number of shares of common stock (thousands)	1,147,918	1,134,054	1,134,054	1,134,054	1,117,314	

	Yen					U.S. dollars (Note 1)
	2006	2005	2004	2003	2002	2006
Per Share Amounts:						
Basic net income (loss)	¥51.7	¥14.4	¥(4.8)	¥(23.9)	¥(54.9)	$0.44
Diluted net income	45.4	12.9	—	—	—	0.39
Cash dividends applicable to the year	4.0	3.0	2.0	—	—	0.03
Ratios:						
Return on assets (ROA)	3.7%	1.2%	–0.4%	–1.8%	–3.9%	
Return on equity (ROE)	19.4%	8.3%	–3.0	–14.1	–27.5	

	Millions of yen					
	2001	2000	1999	1998	1997	1996
For the Year:						
Net sales	¥1,144,068	¥ 986,884	¥ 983,784	¥1,196,008	¥1,186,715	¥1,127,736
Cost of sales	936,563	825,097	830,129	981,916	971,022	923,742
Operating profit	65,827	27,229	10,405	56,744	59,615	58,968
Net income (loss)	7,149	(12,075)	(34,853)	10,071	14,744	11,358
Depreciation and amortization	79,557	74,592	74,038	80,575	72,886	66,692
Gross cash flow	86,706	62,517	39,185	90,646	87,630	78,050
R&D expenses	15,437	14,762	17,830	18,401	16,791	15,233
Balance at End of Year:						
Total assets	1,615,844	1,671,000	1,605,671	1,679,207	1,643,332	1,557,287
Total long-term liabilities	509,187	603,096	580,446	534,378	459,818	410,932
Total shareholders' equity	239,190	231,559	243,356	312,386	307,549	298,583
Number of shares of common stock (thousands)	1,117,314	1,117,314	1,117,314	1,134,153	1,134,153	1,134,082

	Yen					
	2001	2000	1999	1998	1997	1996
Per Share Amounts:						
Basic net income (loss)	¥6.4	¥(10.8)	¥(30.9)	¥8.9	¥13.0	¥10.0
Diluted net income	6.1	—	—	8.4	12.6	10.0
Cash dividends applicable to the year	3.0	1.5	—	5.0	5.0	5.0
Ratios:						
Return on assets (ROA)	0.4%	–0.7%	–2.1%	0.6%	0.9%	0.7%
Return on equity (ROE)	3.0	–5.1	–12.5	3.2	4.9	3.9

Note: Japanese yen amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of ¥117.47 to U.S.$1, the prevailing exchange rate at March 31, 2006.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

For the years ended March 31	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006	Percentage change (2006/2005)
Net sales	¥1,143,700	¥984,777	$9,736,103	16.1%
Operating profit	68,982	54,085	587,231	27.5%
Net income	58,803	16,374	500,579	259.1%

For the years ended March 31	Yen 2006	Yen 2005	U.S. dollars 2006	Percentage change (2006/2005)
Basic net income per share	¥51.7	¥14.4	$0.44	259.0%
Diluted net income	45.4	12.9	0.39	251.9%

The Japanese economy continued to recover during the period under review even though materials and fuel prices remained high. The improvement reflected higher corporate earnings on the back of rationalization, which led to a virtuous cycle in which capital expenditures, employment levels and average incomes increased.

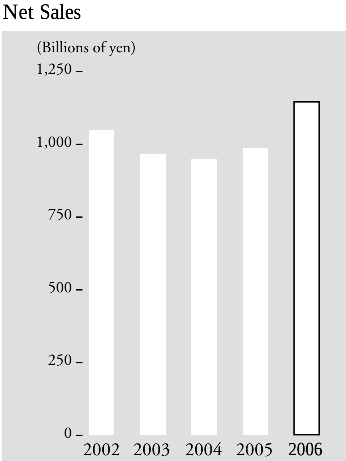
The Mitsubishi Materials Group again faced high fuel prices and inventory adjustments, with sales of IT and digital products stagnating in the first half of the year. The Group performed generally well, however, enjoying further gains in copper and other key metals prices, solid automotive demand and a recovery in construction demand.

The Group strove to stabilize its earnings structure against this backdrop and employ its comprehensive management resources by implementing a two-year consolidated management plan designed to build earnings and the foundations for growing and succeeding in core businesses. We forged alliances with other companies in the aluminum, sintered parts and other businesses to expand as well as streamline for stronger earnings. We continued to liquidate unprofitable businesses and promote overall efficiency by cutting fixed and variable costs. We invested more selectively to bolster earnings and endeavored to enhance our financial position by divesting assets and constraining interest-bearing debt.

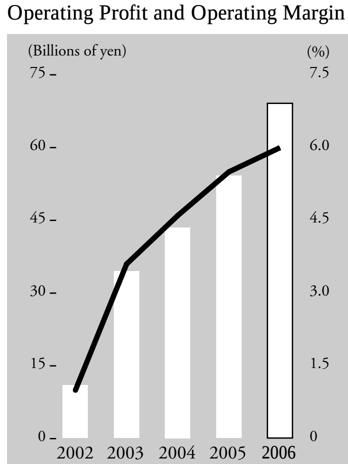
As a result of these factors, consolidated net sales advanced ¥158.9 billion, or 16.1%, to ¥1,143.7 billion, and consolidated operating profit gained ¥14.9 billion, or 27.5%, to ¥69.0 billion.

We posted a ¥34.3 billion gain on sales of marketable securities and investments in securities. At the same, we recorded extraordinary losses that included a loss on impairment of fixed assets under new accounting standards, compensation and remediation expenses for soil and underground water at Osaka

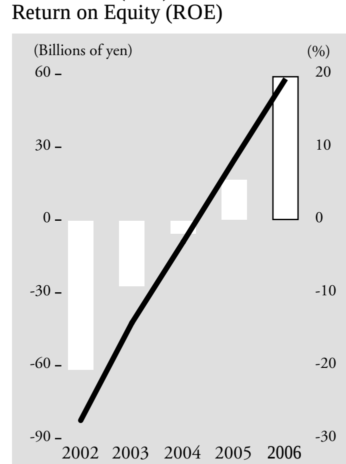
Net Sales



Operating Profit and Operating Margin



Net Income (Loss) and Return on Equity (ROE)



Amenity Park, and a provision for clean-up costs of contaminated land at our central research facilities. Nonetheless, net income jumped ¥42.4 billion, or 259.1%, to ¥58.8 billion.

Sales and Operating Profit by Business Segment

Cement

Sales were steady in the United States, while in Japan we benefited from a turnaround in private sector demand on improved corporate profits and a rise in public sector demand for disaster recovery projects. Volumes remained basically unchanged, although sales were up.

Cement production was 13.9 million metric tons, around the same as a year earlier. Aggregate volumes increased, largely owing to strong demand for Portland cement, but sales were down because demand was mainly for low-priced offerings.

Segment sales thus increased ¥15.5 billion, or 10.4%, to ¥164.5 billion. Operating profit was up ¥3.5 billion, or 28.8%, to ¥15.6 billion.

Metals

Sales and volumes both improved. Sales were particularly solid for rolled copper and copper wire for automotive products, and we also benefited from generally high copper prices. Electrical copper production gained 34,000 metric tons, to 586,000 metric tons. Sales and volumes of gold were up on higher prices and on greater ore volumes and gold concentrations in ore.

In processed copper products, intense competition in overseas markets depressed exports of wire materials, causing a decline in volumes. Nonetheless, sales improved owing to solid demand for electronic materials and automotive copper castings.

Segment sales rose ¥106.4 billion, or 42.2%, to ¥358.8 billion. Operating profit was up ¥9.9 billion, or 75.1%, to ¥23.0 billion.

Advanced Materials & Tools

Sales of cemented carbide products increased despite high raw materials costs, reflecting strong automotive sector demand for cemented carbide cutting tools and favorable exports to Asia, the U.S. and Europe.

In functional parts, sales of powder metallurgy products and other automotive offerings were strong. However, sales and earnings were down in this category, owing to the impact of the transfer of the injection molding die-making business on December 1, 2004, and the merger of powder metallurgy products operations with those of Plansee Holding AG of Austria on December 1, 2005, to create Plansee Mitsubishi Materials Global Sinter Holding S.A. (PMG).

Sales and earnings in high-performance alloys were down despite favorable demand from the aerospace sector and strong automotive demand. This was due to declines in the prices of various metals.

Sales and earnings in diamond cutting tools fell as a result of inventory adjustments in IT and digital products that continued through the second half of the period.

Segment sales therefore gained ¥9.1 billion, or 6.6%, to ¥147.9 billion. Operating profit was up ¥2.1 billion, or 11.9%, to ¥20.0 billion.

Aluminum

Sales and volumes both increased owing to the merger of the aluminum can business with that of Hokkai Can Co., Ltd. (now Hokkan Holdings), on October 1, 2005. Earnings declined, however, reflecting intensified competition, which lowered overall prices, and higher raw materials costs that increased manufacturing expenses.

Sales of extruded aluminum for general machinery were sluggish, overshadowing gains in the automotive sector. Sheet metal sales and earnings registered gains, however.

Segment sales advanced ¥8.6 billion, or 6.4%, to ¥143.1 billion. Operating profit dropped ¥3.8 billion, or 52.4%, to ¥3.4 billion.

Electronic Materials & Components

Sales were favorable for silicon products for 300mm silicon wafers and for chemical products used in liquid crystal and plasma displays.

In electronic devices, sales and earnings decreased owing to ongoing inventory adjustments in IT and digital products.

Polycrystalline silicon sales and earnings rose on favorable demand for 300mm silicon wafer and solar battery applications.

Segment sales therefore increased ¥8.6 billion, or 12.8%, to ¥75.5 billion, with operating profit gaining ¥1.9 billion, or 67.9%, to ¥4.8 billion.

Others

Energy sales increased thanks to steady demand for nuclear fuels and high prices for coal and oil.

Sales of precious metals increased on steady demand for jewelry, which offset a decline in demand for gold among individuals owing to high prices.

Segment sales were up ¥10.7 billion, or 4.4%, to ¥253.9 billion, with operating profit climbing ¥873 million, or 12.5%, to ¥7.9 billion.

Orders for resources, environmental, and recycling operations, including nuclear power and engineering, were up ¥4.8 billion, to ¥68.9 billion. At year-end, orders stood at ¥22.5 billion, up ¥6.4 billion.

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cement			
Sales	¥164,501	¥148,973	$1,400,366
Operating profit	15,369	12,140	133,132
Operating margin	9.5%	8.1%	
Metals			
Sales	358,765	252,333	3,054,099
Operating profit	22,962	13,113	195,471
Operating margin	6.4%	5.2%	
Advanced Materials & Tools			
Sales	147,908	138,769	1,259,113
Operating profit	19,985	17,864	170,129
Operating margin	13.5%	12.9%	
Aluminum			
Sales	143,093	134,519	1,218,124
Operating profit	3,441	7,231	29,293
Operating margin	2.4%	5.4%	
Electronic Materials & Components			
Sales	75,525	66,941	642,930
Operating profit	4,814	2,867	40,981
Operating margin	6.4%	4.3%	
Others			
Sales	253,908	243,242	2,161,471
Operating profit	7,872	6,999	67,012
Operating margin	3,1%	2.9%	

Sales and Operating Profit by Geographic Segment

Japan

The operating environment was favorable, reflecting increased prices of copper and other nonferrous metals, higher demand for rolled copper and electrical wire and for hard-metal tools for the automotive sector, and good cement sales. Domestic sales therefore increased ¥108.8 billion, or 12.9%, to ¥954.7 billion, with operating profit gaining ¥1.8 billion, or 3.4%, to ¥54.2 billion.

U.S.A.

Volumes and prices surged in line with strong demand for cement and polycrystalline silicon products. Segment sales therefore rose ¥15.1 billion, or 23.3%, to ¥80.0 billion. Operating profit improved ¥5.5 billion, or 98.4%, to ¥11.0 billion.

Europe

Demand was strong for automotive hard-metal tools. Sales thus increased ¥1.3 billion, or 10.0%, to ¥14.1 billion, although operating profit remained unchanged, at ¥644 million.

Asia

Our operations performed well on higher copper prices and solid operations at PT. Smelting in Indonesia, which made planned repairs a year earlier. Segment sales advanced ¥32.5 billion, or 55.5%, to ¥91.1 billion. Operating profit rose ¥5.1 billion, or 166.9%, to ¥8.1 billion.

For the years ended March 31	Millions of yen 2006	2005	Thousands of U.S. dollars 2006
Japan			
Sales	¥954,732	¥845,902	$8,127,454
Operating profit	54,179	52,383	461,216
Operating margin	5.7%	6.2%	
U.S.A.			
Sales	80,044	64,915	681,400
Operating profit	10,996	5,543	93,607
Operating margin	13.7%	8.5%	
Europe			
Sales	14,091	12,805	119,954
Operating profit	644	644	5,482
Operating margin	4.6%	5.0%	
Asia			
Sales	91,073	58,586	775,287
Operating profit	8,083	3,029	68,809
Operating margin	8.9%	5.2%	
Others			
Sales	3,760	2,569	32,008
Operating profit	1,035	241	8,811
Operating margin	27.5%	9.4%	

Financial Position

At the end of the term, total assets were up ¥188.6 billion, or 13.3%, from a year earlier, at ¥1,609.4 billion. Total current assets climbed ¥135.2 billion, or 28.4%, to ¥611.3 billion, reflecting higher copper and other metals prices, which boosted notes and accounts receivable and inventories. The combined total of property, plant and equipment, investments and long-term receivables, and other assets rose ¥53.5 billion, or 5.7%, to ¥998.2 billion. This was due to an increase in the market value of investments in securities after the impact of higher capital expenditures offset those of lower depreciation, impairment losses and divestments.

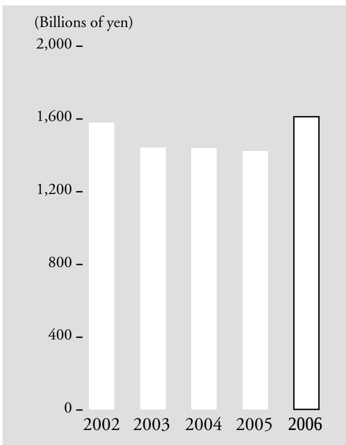
Total liabilities were up ¥69.6 billion, or 5.9%, at ¥1,251.4 billion. Total long-term liabilities increased ¥7.9 billion, or 1.7%, to ¥474.7 billion. This was because of rises in trade accounts payable and in gold deposits in customer accounts owing to higher gold prices, which offset declines in short-term bank loans and bonds. Interest-bearing debt, including loans, bonds, and commercial paper, was down ¥46.4 billion, or 6.3%, at ¥691.3 billion, reflecting proceeds from sales activities and from divestments of investment securities as part of efforts to constrain borrowing.

Total shareholders' equity increased ¥106.7 billion, or 54.2%, to ¥303.6 billion. This was due largely to rises in retained earnings and in the valuations of listed securities.

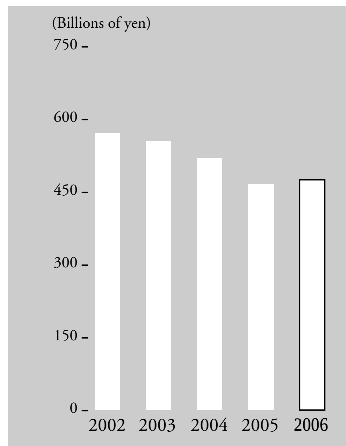
These factors translated into an improvement in the consolidated equity ratio from 13.9%, to 18.9%. Shareholders' equity per share rose from ¥174.18, to ¥265.15.

At March 31	2006	2005	2004
Equity ratio	18.9%	13.9%	12.8%

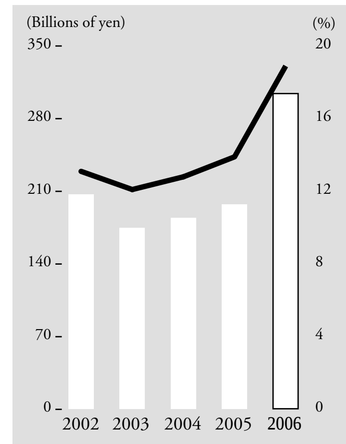
Total Assets



Total Long-Term Liabilities



Total Shareholders' Equity and Equity Ratio



Cash Flows

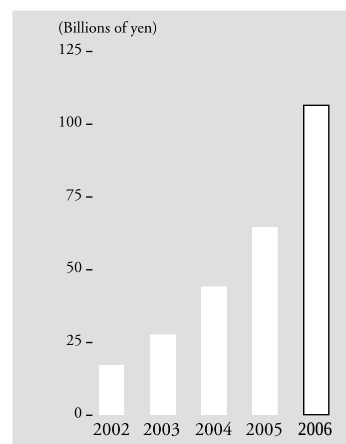
Net cash provided by operating activities was ¥55.8 billion, down ¥24.7 billion, despite solid results and increases in dividends and accounts payable. This outcome also reflected a rise in assets owing to higher metals prices and a rise in income taxes paid.

Net cash provided by investing activities was ¥899 million, compared with ¥31.2 billion used in such activities a year earlier. This reflected ¥53.1 billion in proceeds from sales of marketable securities and investments in securities, outweighing ¥48.5 billion in payments for purchases of property, plant and equipment.

Net cash used in financing activities was ¥51.2 billion, compared with ¥50.9 billion used in the previous period, owing to ¥56.6 billion in cash inflow, which was allocated for constraining interest-bearing debt.

As a result of these factors, cash and cash equivalents at end of year were ¥25.0 billion, up ¥8.6 billion.

Gross Cash Flow



	Millions of yen			Thousands of U.S. dollars
For the years ended March 31	2006	2005	2004	2006
Gross cash flow	¥106,257	¥64,459	¥44,077	$904,546

Capital Expenditures

Management determines Group capital expenditures in keeping with ongoing efforts to cut interest-bearing debt by rigorously choosing, and determining the contents of, investments in areas with high growth potential.

In the year under review, we allocated ¥52,559 million in capital expenditures to maintain and upgrade existing facilities in each business, expand plants, rationalize, and renovate equipment.

Outlook for Fiscal 2007, Ending March 31, 2007

There are concerns that the Japanese economy may suffer from high fuel prices, increased interest rates and a slowdown in exports because of decelerations in the American and Chinese economies. Management anticipates, however, that the economy will continue to recover on the strength of domestic factors, notably improved corporate earnings and capital expenditure, as well as further gains in personal consumption owing to lower unemployment and better incomes.

Management sees the operating environment as remaining very challenging. Group sales of automotive products should keep rising. Greater performance and functionality should drive solid demand for IT and digital devices, although high fuel costs will raise manufacturing, logistics and sales expenses, and product prices may decline depending on pricing trends for key metals.

As mentioned in the Management Policies section, the Group will further strengthen its core capabilities and harness its core technologies and infrastructure to more swiftly cultivate new businesses, thereby building foundations for stable earnings and growth.

Business Risks

The Mitsubishi Materials Group engages in a wide range of businesses, so its results and financial position are subject to various external influences, including domestic and overseas political and economic developments, weather, markets, currency trends, and laws and ordinances. The following risks could have particularly strong material impact on operations.

Forward-looking statements are based on management's decisions as of the announcement of fiscal 2006 results on May 10, 2006.

1. Business Restructuring

The Group is pursuing selective concentration. Management is concentrating resources in highly profitable operations while reviewing, restructuring and liquidating other businesses with a view to alliances with other companies. These endeavors may materially affect the Group's performance and financial position.

2. Customer Trends

The Group provides products and services to various industries. Rapid changes in customer markets, business strategies or product development may affect sales of the Group's products. The automotive and IT sectors are particularly vulnerable to intensive competition in terms of prices and technological development. The Group strives to cut overall costs and cultivate new products and technologies. However, failure to match industry and customer market changes could hamper Group performance.

3. Nonferrous Metals and Currency Market Fluctuations

In the copper business, the main revenue sources are smelting and other operations, for which payment is in foreign currencies. These operations are subject to fluctuations in nonferrous metals and currency markets. Purchases of raw materials for inventory—from ore purchases to ingot production and sales—can be affected by fluctuation risks in the nonferrous metals and currency markets, as well as by shipping rates.

4. Semiconductor Market Trends

The Group provides such products for the semiconductor industry as electronic materials and polycrystalline silicon products. Equity-method affiliate SUMCO makes silicon wafers for semiconductors. Trends in the semiconductor industry could thus affect the Group's performance and financial position.

5. Interest-Bearing Debt

At the end of fiscal 2006, interest-bearing debt (the total of short-term loans, bonds due within one year, commercial paper, bonds and long-term loans) represented 42.9% of consolidated total assets. Management strives to enhance the financial position by constraining inventories and divesting assets, but interest rate trends may nonetheless affect the Group's performance and financial position.

6. Debt Guarantees

The Group provided ¥34.0 billion in debt guarantees to non-consolidated affiliates in fiscal 2006. Any execution of such guarantees could thus affect the Group's performance and financial position.

7. Fluctuations in Market Values of Assets

Fluctuations in the market values of the Group's holdings of securities, land and other assets could affect the Group's performance and financial position.

8. Pension Payment Costs and Liabilities

The costs and obligations of the Group's pension plans are based mainly on actuarial assumptions. These assumptions take into account the average number of years of service remaining, long-term yields on Japanese government bonds, stocks contributed to trust accounts and other factors in pension plan management. Nonetheless, losses stemming from lower discount rates and pension plan management could affect the Group's costs and calculations of obligations.

9. Environmental Regulations

Group operations in Japan and abroad strive to prevent air, wastewater, soil and groundwater pollution in keeping with environmental laws and ordinances. In line with the Mine Safety Law, the Group endeavors to prevent water pollution from mines that it has closed in Japan and maintain their safety. Any pollutant releases could harm the Group's operating performance and financial position owing to a loss of social trust and expenditure for compensation and cleanups. In addition, revisions to related laws and ordinances may cause the Group to incur new management and treatment costs.

10. Overseas Activities

The Group maintains production and sales bases in 24 countries and territories. Overseas operations account for 23.5% of consolidated net sales. In addition to political, social, economic and currency market developments, unforeseen changes in laws and regulations or their interpretations related to trade rules and restrictions, mining sector policies, environmental regulations, and tax systems in these countries and territories could affect the Group's performance and financial position.

11. Intellectual Property

The Group recognizes the importance of safeguarding its intellectual property. Nonetheless, inadequate protection and legal violations may affect the Group's results and financial position. The Group carefully respects the intellectual property of other companies, but any recognized infringements and compensation for damages may affect the Group's results and financial position.

12. Information Management

The Group endeavors to properly handle personal information. Any leaks or other problems with such information could harm the Group's social standing and affect its results and financial position.

13. Litigation

The Group is or could become a party to litigation, disputes, legal judgments, settlements or decisions related to current and past operations in Japan and abroad, which may affect the Group's results and financial position.

14. Other Risks

Other risks that may affect the Group's results and financial position include changes in business practices, terrorism, war, epidemics, earthquakes and other natural disasters, and other unforeseen developments.

Consolidated Statements of Operations

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Net Sales (Note 13)	¥1,143,700	¥ 984,777	¥ 948,238	$9,736,103
Cost of Sales	953,084	812,544	783,971	8,113,425
Gross profit	190,616	172,233	164,267	1,622,678
Selling, General and Administrative Expenses (Note 10)	121,634	118,148	120,845	1,035,447
Operating profit	68,982	54,085	43,422	587,231
Other Income (Expenses):				
Interest and dividend income	5,377	2,618	1,949	45,773
Interest expense (Note 4)	(11,363)	(11,758)	(12,833)	(96,731)
Income from leased property	6,119	6,876	7,145	52,090
Expense for leased property	(4,737)	(5,065)	(5,318)	(40,325)
Write-down of marketable securities and investments in securities	(866)	(2,967)	(1,144)	(7,372)
Gain on sales of marketable securities and investments in securities	34,325	10,639	13,557	292,202
Gain on change in equity by affiliate stock offering	11,284	—	—	96,059
Provision for bad debt and write-off of long-term receivables—unconsolidated subsidiaries and affiliates	(7,078)	(4,107)	(2,509)	(60,254)
Loss on liquidation of subsidiaries and affiliates	(58)	—	(64)	(494)
Gain on sales of property, plant and equipment	1,806	2,769	2,037	15,374
Loss on disposal and sales of property, plant and equipment	(3,973)	(5,783)	(4,951)	(33,821)
Loss on impairment of fixed assets (Note 18)	(9,366)	—	—	(79,731)
Provision for valuation allowance for investment in unconsolidated subsidiaries and affiliates	(87)	(10)	(109)	(741)
Provision for clean-up costs of contaminated land	(5,603)	—	—	(47,697)
Foreign exchange losses, net	(61)	(278)	(22)	(519)
Employees' severance and pension benefit expense (Note 5)	—	(8,326)	(8,529)	—
Equity in earnings (losses) of affiliates	22,605	8,447	(16,066)	192,432
Provision for loss on subsidiaries and affiliates	(178)	(1,224)	(1,034)	(1,515)
Other, net (Note 19)	(21,976)	(11,144)	(4,430)	(187,078)
	16,170	(19,313)	(32,321)	137,652
Income before income taxes and minority interests	85,152	34,772	11,101	724,883
Income Taxes (Note 7)	19,826	15,238	12,403	168,775
Income (loss) before minority interests	65,326	19,534	(1,302)	556,108
Minority Interests in Income of Consolidated Subsidiaries	(6,523)	(3,160)	(4,022)	(55,529)
Net Income (Loss)	¥ 58,803	¥ 16,374	¥ (5,324)	$ 500,579

	Yen			U.S. dollars (Note 1)
	2006	2005	2004	2006
Per Share Amounts (Note 16):				
Basic net income (loss)	¥51.7	¥14.4	¥(4.8)	$0.44
Diluted net income	45.4	12.9	—	0.39
Cash dividends applicable to the year	4.0	3.0	2.0	0.03

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Mitsubishi Materials Corporation and Subsidiaries
March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
ASSETS			
Current Assets:			
Cash (Notes 4 and 15)	¥ 25,454	¥ 16,686	$ 216,685
Marketable securities (Note 11)	16	73	136
Notes and accounts receivable (Notes 4 and 8):			
Trade	196,265	166,303	1,670,767
Unconsolidated subsidiaries and affiliates	39,418	33,922	335,558
Other	19,087	13,950	162,484
Inventories (Notes 3 and 4)	206,029	154,220	1,753,886
Deferred income taxes (Note 7)	10,164	9,431	86,524
Other current assets (Note 12)	119,698	85,152	1,018,967
Allowance for doubtful accounts	(4,840)	(3,609)	(41,202)
Total current assets	611,291	476,128	5,203,805
Property, Plant and Equipment (Note 4):			
Land (Note 14)	251,158	256,960	2,138,061
Buildings and structures	397,068	386,522	3,380,165
Machinery and equipment	941,114	917,426	8,011,526
Construction in progress	15,595	13,865	132,757
	1,604,935	1,574,773	13,662,509
Less accumulated depreciation	(953,130)	(922,764)	(8,113,816)
Net property, plant and equipment	651,805	652,009	5,548,693
Investments and Long-Term Receivables:			
Investments in securities (Notes 4 and 11)	149,848	94,397	1,275,628
Unconsolidated subsidiaries and affiliates (Note 4)	120,217	116,496	1,023,385
Long-term receivables	1,559	1,997	13,271
Other (Note 4)	49,571	43,294	421,989
Allowance for doubtful accounts	(11,330)	(12,399)	(96,450)
Valuation allowance for investment in unconsolidated subsidiaries and affiliates	(97)	(1,438)	(826)
Total investments and long-term receivables	309,768	242,347	2,636,997
Other Assets:			
Deferred income taxes (Note 7)	18,099	34,353	154,073
Other (Notes 4 and 12)	18,483	15,988	157,343
Total other assets	36,582	50,341	311,416
Total Assets	¥1,609,446	¥1,420,825	$13,700,911

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 4)	¥ 238,714	¥ 258,293	$ 2,032,127
Current portion of long-term debt (Note 4)	110,351	145,483	939,397
Commercial paper (Note 4)	7,000	—	59,590
Notes and accounts payable:			
Trade	152,672	117,742	1,299,668
Unconsolidated subsidiaries and affiliates	9,354	7,054	79,629
Other	18,601	13,446	158,347
Income taxes payable	13,857	9,530	117,962
Deferred income taxes (Note 7)	46	72	392
Accrued expenses	59,680	42,319	508,045
Other current liabilities (Note 12)	166,484	121,163	1,417,246
Total current liabilities	776,759	715,102	6,612,403
Long-Term Liabilities:			
Long-term debt (Note 4)	335,191	333,942	2,853,418
Employees' severance and pension benefits (Note 5)	46,661	47,444	397,216
Accrual for officers' lump-sum severance benefits	1,903	1,629	16,200
Reserve for loss on subsidiaries and affiliates	362	1,431	3,082
Reserve for clean-up costs of contaminated land	5,603	—	47,697
Deferred income taxes (Note 7)	16,751	13,361	142,598
Deferred income taxes on revaluation reserve for land (Notes 7 and 14)	35,020	37,148	298,119
Other (Note 12)	33,173	31,816	282,396
Total long-term liabilities	474,664	466,771	4,040,726
Minority Interests	54,463	42,050	463,633
Contingent Liabilities and Commitments (Notes 8 and 9)			
Shareholders' Equity (Note 6):			
Common stock			
Authorized—2,683,162,000 shares			
Issued—1,147,917,921 shares at March 31, 2005 and 2004	101,753	99,397	866,204
Capital surplus	70,882	68,440	603,405
Retained earnings (Accumulated deficit)	43,453	(14,328)	369,907
Revaluation reserve for land (Note 14)	37,318	39,480	317,681
Net unrealized holding gains on securities	50,572	16,989	430,510
Foreign currency translation adjustments	424	(12,381)	3,609
Treasury stock	(842)	(695)	(7,167)
Total shareholders' equity	303,560	196,902	2,584,149
Total Liabilities, Minority Interests and Shareholders' Equity	¥1,609,446	¥1,420,825	$13,700,911

Consolidated Statements of Shareholders' Equity

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Common Stock:				
Number of shares (Thousands)				
At beginning of year	1,134,054	1,134,054	1,134,054	
Conversion of convertible yen debentures	8	—	—	
Issuance of new stocks by execution of stock acquisition rights	13,856	—	—	
At end of year	1,147,918	1,134,054	1,134,054	
Amount				
Balance at beginning of year	¥ 99,397	¥ 99,397	¥ 99,397	$ 846,148
Conversion of convertible yen debentures	2,356	—	—	20,056
Balance at end of year	¥101,753	¥ 99,397	¥ 99,397	$ 866,204
Capital Surplus:				
Balance at beginning of year	¥ 68,440	¥ 68,413	¥ 69,090	$ 582,617
Gain (loss) on sales of treasury stock	100	27	(14)	851
Conversion of convertible yen debentures	2	—	—	17
Issuance of new stocks by execution of stock acquisition rights	2,340	—	—	19,920
Transfer to accumulated deficit	—	—	(663)	—
Balance at end of year	¥ 70,882	¥ 68,440	¥ 68,413	$ 603,405
Retained Earnings (Accumulated Deficit):				
Balance at beginning of year	¥(14,328)	¥(28,243)	¥(32,790)	$(121,972)
Net income (loss) for the year	58,803	16,374	(5,324)	500,579
Cash dividends paid	(3,396)	(2,265)	—	(28,910)
Bonuses to directors and corporate auditors	(52)	(65)	(59)	(443)
Increase resulting from increase in the number of consolidated subsidiaries	290	44	—	2,469
Decrease resulting from decrease in the number of consolidated subsidiaries	—	—	(27)	—
Decrease resulting from increase in the number of affiliates on equity method	—	(72)	—	—
Increase resulting from decrease in the number of affiliates on equity method	—	—	57	—
Increase due to reversal of revaluation reserve for land (Note 14)	2,416	351	4	20,567
Decrease due to reversal of revaluation reserve for land (Note 14)	(259)	(230)	(517)	(2,205)
Increase due to mergers of unconsolidated subsidiaries	50	67	—	426
Decrease due to mergers of unconsolidated subsidiaries	(158)	(143)	—	(1,345)
Increase resulting from realization of unrealized income by merger of consolidated subsidiaries	—	—	9,784	—
Transfer from capital surplus	—	—	663	—
Other, net	87	(146)	(34)	741
Balance at end of year	¥ 43,453	¥(14,328)	¥(28,243)	$ 369,907
Revaluation Reserve for Land (Note 14):				
Balance at beginning of year	¥ 39,480	¥ 46,657	¥ 46,281	$ 336,086
Increase (decrease), net	(2,162)	(7,177)	376	(18,405)
Balance at end of year	¥ 37,318	¥ 39,480	¥ 46,657	$ 317,681
Net Unrealized Holding Gains (Losses) on Securities:				
Balance at beginning of year	¥ 16,989	¥ 10,420	¥ (2,936)	$ 144,624
Net change	33,583	6,569	13,356	285,886
Balance at end of year	¥ 50,572	¥ 16,989	¥ 10,420	$ 430,510
Foreign Currency Translation Adjustments:				
Balance at beginning of year	¥(12,381)	¥(12,269)	¥ (4,121)	$(105,398)
Net change	12,805	(112)	(8,148)	109,007
Balance at end of year	¥ 424	¥(12,381)	¥(12,269)	$ 3,609
Treasury Stock:				
Balance at beginning of year	¥ (695)	¥ (489)	¥ (540)	$ (5,916)
Decrease (increase), net	(147)	(206)	51	(1,251)
Balance at End of Year	¥ (842)	¥ (695)	¥ (489)	$ (7,167)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Mitsubishi Materials Corporation and Subsidiaries

Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2006	2005	2004	2006
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 85,152	¥ 34,772	¥ 11,101	$ 724,883
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	47,684	47,920	49,318	405,925
Increase in allowance for doubtful accounts	7,499	3,673	2,491	63,838
(Decrease) increase in severance and pension benefits	(518)	1,063	7,637	(4,410)
Increase in valuation allowance for investment in unconsolidated subsidiaries and affiliates	87	5	109	741
Increase (decrease) in reserve for loss on subsidiaries and affiliates	(496)	1,222	(351)	(4,222)
Increase in reserve for clean-up costs of contaminated land	5,603	—	—	47,697
Interest and dividend income	(5,377)	(2,618)	(1,949)	(45,773)
Interest expense	11,363	11,758	12,833	96,731
Loss on disposal and sales of property, plant and equipment	3,973	5,783	4,951	33,821
Gain on sales of property, plant and equipment	(1,806)	(2,769)	(2,037)	(15,374)
Loss on impairment of fixed assets	9,366	—	—	79,731
Gain on sales of marketable securities and investments in securities	(34,325)	(10,639)	(13,557)	(292,202)
Write-down of marketable securities and investments in securities	866	2,967	1,144	7,372
Gain on change in equity by affiliate stock offering	(11,284)	—	—	(96,059)
Increase in notes and accounts receivable	(36,749)	(14,853)	(9,114)	(312,837)
Increase in inventories	(47,170)	(3,610)	(10,554)	(401,549)
Proceeds from sales of gold bullion deposited from customers under consuming bailment My Gold Plan	26,689	10,288	—	227,198
Payment for purchases of gold bullion from market for customers under My Gold Plan	(10,296)	—	—	(87,648)
Increase in notes and accounts payable	30,420	7,171	8,828	258,960
Increase in accrued expense	16,047	1,859	284	136,605
Equity in (earnings) losses of affiliates	(22,605)	(8,447)	16,066	(192,432)
Other, net	(2,810)	11,644	(7,059)	(23,922)
Subtotal	71,313	97,189	70,141	607,074
Interest and dividend received	19,013	9,362	4,833	161,854
Interest paid	(10,965)	(11,651)	(12,848)	(93,343)
Payments for withdrawal of a foreign mining investment	—	—	(12,168)	—
Payments for supporting of an affiliate	—	(2,150)	—	—
Income taxes paid	(23,567)	(12,244)	(9,138)	(200,621)
Net Cash Provided by Operating Activities	55,794	80,506	40,820	474,964
Cash Flows from Investing Activities:				
Payments for purchases of property, plant and equipment	(48,542)	(46,420)	(37,732)	(413,229)
Proceeds from sales of property, plant and equipment	3,768	4,521	6,046	32,076
Payments for purchases of marketable securities and investments in securities	(15,705)	(3,515)	(22,207)	(133,694)
Proceeds from sales of marketable securities and investments in securities	53,096	13,398	27,723	451,996
Disbursement of loan receivables	(5,338)	(3,101)	(2,730)	(45,441)
Proceeds from collection of loan receivables	7,970	3,260	2,877	67,847
Payments for purchases of intangible fixed assets	(1,441)	(1,129)	(874)	(12,267)
Proceeds from sale of consolidated subsidiaries' shares, net of cash owned by those subsidiaries	8,843	449	1,144	75,279
Proceeds from transfer of business	—	1,448	—	—
Payments for acquisition of business	(961)	—	—	(8,181)
Other, net	(791)	(117)	4,303	(6,733)
Net Cash Provided by (Used in) Investing Activities	899	(31,206)	(21,450)	7,653
Cash Flows from Financing Activities:				
Proceeds from long-term debt	81,787	69,689	95,048	696,237
Increase of long-term debt	(98,654)	(128,547)	(82,671)	(839,823)
Payments for redemption of bonds	(49,445)	(15,000)	(20,349)	(420,916)
Proceeds from issuance of bonds	30,000	40,000	10,000	255,384
Increase (decrease) of commercial paper, net	7,000	—	(6,000)	59,590
Payments for purchase of treasury stock	(258)	(150)	(53)	(2,196)
Decrease in short-term bank loans, net	(15,258)	(12,198)	(19,279)	(129,888)
Proceeds from minority shareholders for withdrawal from a foreign mining investment	—	—	5,518	—
Cash dividends paid	(3,396)	(2,265)	—	(28,910)
Cash dividends paid to minority shareholders	(1,775)	(1,235)	(1,075)	(15,110)
Other, net	(1,242)	(1,225)	(888)	(10,573)
Net Cash Used in Financing Activities	(51,241)	(50,931)	(19,749)	(436,205)
Effect of Exchange Rate Fluctuation on Cash and Cash Equivalents	2,243	27	(985)	19,094
Net Decrease in Cash and Cash Equivalents	7,695	(1,604)	(1,364)	65,506
Cash and Cash Equivalents at Beginning of Year	16,353	17,754	18,926	139,210
Effect of Changes in Consolidated Subsidiaries	272	35	126	2,315
Increase in Cash and Cash Equivalents from Mergers of Unconsolidated Subsidiaries	674	168	66	5,738
Cash and Cash Equivalents at End of Year (Note 15)	¥ 24,994	¥ 16,353	¥ 17,754	$ 212,769

The accompanying notes are an integral part of these statements.

Note 1—Basis of Presentation of Consolidated Financial Statements

Mitsubishi Materials Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"). The accounts of its overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements.

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

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, in order to present them in a form that is more familiar to readers outside Japan.

The translation of Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S.$1. These translations should not be construed as representations that 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.

Note 2—Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies which the Company controls through majority voting right or existence of certain conditions. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in affiliates of which the Company has the ability to exercise significant influence over operating and financial policies, except for insignificant companies, are accounted for by the equity method, and accordingly, stated at cost adjusted for the earnings and losses after elimination of unrealized intercompany profits from the date of acquisition.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost, adjusted for any substantial and nonrecoverable decline in value.

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

The excess investment amounts, at the acquisition date, over net assets of consolidated subsidiaries or unconsolidated subsidiaries and affiliates accounted for by the equity method, except for SUMCO, are being amortized over a period of five years on a straight-line basis. The excess investment amount over net assets of SUMCO as of March 31, 2002, which is considered to be goodwill, is amortized over a period of 20 years.

(b) Translation of Foreign Currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates. Gains or losses resulting from foreign currency transactions are credited or charged to other income as incurred.

The financial statements of consolidated foreign subsidiaries and affiliates are translated into Japanese yen amounts at the current rate except for shareholders' equity, which is translated at historical rates. The difference resulting from exchange adjustments is reported as a separate component of shareholders' equity.

(c) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided in the amount sufficient to cover probable losses on collection. It consists of individually estimated uncollectible amounts, and an amount calculated using the past rate of actual losses on collection.

(d) Inventories

Nonferrous metals are stated at cost, primarily determined by the first-in, first-out (FIFO) method. Inventories of cement and related businesses are stated at cost, primarily determined by the average method. Other inventories are primarily stated at the lower of average cost or market.

In the year ended March 31,2005, one of the consolidated subsidiaries in the copper processing business has changed its valuation method for inventories. The content, the reason, and the effect of the change are described in Note 13, Segment Information.

(e) Derivative Transaction and Hedge Accounting

Derivative financial instruments are stated at fair value. Gains or losses resulting from changes in fair value are recognized in income except for the derivative financial instruments applied hedge accounting.

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

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

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (1) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated at the spot rate as of the inception date of the contract and the carrying amount of the receivable or payable is recognized in the consolidated statements of operations in the period which includes the inception date, and
   (2) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated at the contracted forward rate and that translated at the spot rate as of the inception date of the contract) is recognized in income over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future forecasted transaction denominated in foreign currency, the future transaction will be recorded at the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

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

(f) Securities

Based on the intent of holding, securities are classified as (a) securities held for trading purposes, (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by unconsolidated subsidiaries and affiliates (hereafter, "equity securities") and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Equity securities, which are not accounted for by the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Realized gains and losses on sale of such securities are computed with the moving-average cost. Available-for-sale securities with no available fair market value are stated at moving-average cost. There are no securities held for trading purposes.

If the market value of held-to-maturity debt securities, equity securities, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between the fair market value and the carrying amount is recognized as losses in the period of decline. If the fair market value of these securities is not readily available, such securities are written down to net asset value with corresponding charge in the consolidated statement of operations, in the event net asset value declines significantly. In these cases, such fair market value or net asset value will become the carrying amount of the securities at the beginning of the next year.

(g) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost, except for certain revalued land as explained in Note 14. Depreciation is calculated primarily using the declining-balance method at rates based on the estimated useful lives of depreciable assets. The straight-line method is applied to certain plant facilities, such as those in the Naoshima smelter, etc., based on the estimated useful lives of those depreciable assets.

The useful lives of the assets range from 2 to 65 years for buildings and structures, and from 2 to 22 years for machinery and equipment.

Cost and accumulated depreciation applicable to assets retired or otherwise disposed of are eliminated from the related accounts, and gain on sale or loss on disposal is credited or charged to income. Expenditures for new facilities and those which substantially increase the useful lives of existing property, plant, and equipment are capitalized. Maintenance, repair and minor renewals are charged to income as incurred.

(h) Loss on Impairment of Fixed Assets

Effective on April 1, 2005, the Company, the domestic consolidated subsidiaries and affiliates under the equity method have adopted "Accounting Standards for Impairment Loss of Fixed Assets" ("Opinion for Regulating Accounting Standards for Impairment Loss of Fixed Assets" (by Business Accounting Council, August 9, 2002)), and "Guidelines for Implementing Accounting Standards for Impairment Loss of Fixed Assets" (Accounting Standard Guideline No.6 by Accounting Standards Board of Japan, October 31, 2003). The Company, the domestic consolidated subsidiaries and affiliates under the equity method review their fixed assets for impairment, whenever events or changes in circumstances indicate that the carrying amount of asset or asset group may not be recoverable. A loss on impairment is recognized if the carrying amount of asset or asset group exceeds the total undiscounted future cash flows expected to arise from the continued use and the eventual disposition of asset or asset group. The loss on impairment is an excess of the carrying amount of asset over the recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposal of asset, or the net selling price at the time of disposal. The amounts of loss on impairment were directly deducted from the amounts of each asset as cost adjustments. The effect of adopting those accounting standards, including the loss on impairment recognized by the affiliates under the equity method was to decrease the income before income taxes and minority interests by ¥16,945 million ($144,250 thousand) for the year ended March 31, 2006.

(i) Finance Leases

Finance leases are accounted for in the same manner as operating leases, unless the ownership of the leased assets is considered to be transferred to the lessee.

(j) Severance and Pension Benefits

1. For employees

The Company provides two types of post-employment benefit plans, an unfunded lump-sum severance payment plan, and funded defined benefit pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, the length of service, and certain other factors.

The Company provides allowance for employees' severance and pension benefits, based on the estimated amounts of projected benefit obligations that were actuarially calculated on certain assumptions, and the fair value of plan assets at that date.

The excess of projected benefit obligation over the offset total of the fair value of pension assets as of April 1, 2000 and the liabilities for retirement and severance benefits recorded as of April 1, 2000, (the "net transition obligation") amounted to ¥67,327 million, of which ¥14,222 million was recognized as expense in the year ended March 31, 2001, as a result of the contribution of the same worth of investments in securities to an employee retirement benefit trust.

Remaining net transition obligation has been recognized as other expense in equal amounts mainly over five years, commencing with the year ended March 31, 2001. The negative prior service cost of ¥8,154 million, resulting from the revision of employee's retirement benefit policy in October 2000, is being amortized over five years and recorded as other income in the year ended March 31, 2006, and as a reduction in other expense in the years ended March 31, 2005 and 2004. Prior service costs incurred after April 1, 2000, except for the negative prior service cost aforementioned, are recognized as expense with the straight-line method over the period within the estimated average remaining service life of the employees (mainly five years). Actuarial gains and losses are also recognized as expense with the straight-line method over the estimated average remaining service life (mainly 10 years), commencing from the succeeding period.

The employees' pension fund of Sambo Copper Alloy Co. Ltd., one of the consolidated subsidiaries, was dissolved on December 20, 2004, with an authorization from the Ministry of Health, Labour and Welfare. A ¥1,964 million profit due to this dissolution is included in the "Other income—other, net" for the year ended March 31, 2005.

2. For officers

Officers (directors and corporate auditors) are entitled to lump-sum severance payments based on the length of service and certain other factors. The Company accrues a liability for lump-sum severance payments equal to 100% of the amounts required, had all officers voluntarily retired at the balance sheet dates.

(k) Valuation Allowance for Investment in Unconsolidated Subsidiaries and Affiliates and Reserve for Loss on Subsidiaries and Affiliates

Valuation allowance for investment in unconsolidated subsidiaries and affiliates and reserve for loss on subsidiaries and affiliates are provided for based on the evaluation of individual financial and other conditions of subsidiaries and affiliates.

(l) Reserve for clean-up costs of contaminated land

Reserve for clean-up costs of contaminated land is provided to clean up soil contamination at the Central Research Institute (Saitama, Saitama prefecture) site, based on the management estimation of future remedial costs to be paid.

(m) Income Taxes

The Company provides for income taxes on the basis of current tax liabilities, and reflects the tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

(n) Bonuses to Directors and Corporate Auditors

Bonuses to directors and corporate auditors are subject to approval by the shareholders, and accounted for as an appropriation of retained earnings for the year in which payment is made.

(o) Net Income (Loss) per Share

Basic net income (loss) per share is computed based upon the weighted-average number of shares of common stock outstanding during each period.

Diluted net income per share assumes that outstanding convertible bonds and zero-coupon unsecured convertible bond-type bonds with stock acquisition rights were converted into common stock at the beginning of the period at the current conversion price. Diluted net income per share for the year ended March 31, 2004 is not presented, as per share amount for the year ended March 31, 2004 was a loss.

(p) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with maturity of three months or less at the time of purchase.

(q) Elimination of slime transaction with PT. Smelting (Indonesia)

One of the consolidated subsidiaries, PT. Smelting (Indonesia), has sold slime to the Company through a trading company outside of the group. In the year ended March 31, 2004, the Company had not eliminated this kind of transactions in preparing the consolidated financial statements, as it had not regarded such transactions as intercompany within the consolidated group, judging from the content of transactional contracts between the subsidiary and the trading company, and ones between the trading company and the Company. However as a result of the change of contract between the trading company and the Company in December 2003, such transactions started to be deemed as substantially intercompany within the consolidated group. Therefore in the year ended March 31, 2005, the Company started to eliminate the subsidiary's sales to the trading company, and its purchase from the trading company.

Accordingly, net sales and cost of sales for the year ended March 31, 2005 decreased by ¥32,762 million, compared to the amounts that would have been reported by the previous accounting method.

The effect of this change on the segment information is indicated in Note 13.

Note 3—Inventories

Inventories as of March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Products	¥ 55,047	¥ 51,246	$ 468,605
Semifinished products and work in process	84,833	60,619	722,167
Raw materials and supplies	66,149	42,355	563,114
	¥206,029	¥154,220	$1,753,886

Note 4—Short-Term Bank Loans, Commercial Paper and Long-Term Debt

Short-term bank loans and commercial paper outstanding as of March 31, 2006 and 2005, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unsecured	¥236,010	¥246,373	$2,009,109
Secured	9,704	11,920	82,608
Total short-term debt	¥245,714	¥258,293	$2,091,717

The average interest rates per annum for short-term bank loans outstanding at March 31, 2006 and 2005 were 1.0%, and 0.9%, respectively.

The average interest rate per annum for commercial paper at March 31, 2006 was 0.3%.

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Banks, insurance companies and other financial institutions, maturing serially through 2030—with an average rate of 2.255% per annum:			
Unsecured	¥ 271,037	¥ 284,372	$2,307,287
Secured	59,199	55,604	503,950
0.95% unsecured convertible yen debentures, due 2005	—	49,259	—
3.10% unsecured yen bonds, due 2008	10,000	10,000	85,128
1.54% unsecured yen bonds, due 2008	15,000	15,000	127,692
1.01% unsecured yen bonds, due 2006	15,000	15,000	127,692
1.24% unsecured yen bonds, due 2006	10,000	10,000	85,128
2.495% secured yen bonds, due 2005	—	190	—
0.94% unsecured yen bonds, due 2010	20,000	—	170,257
1.39% unsecured yen bonds, due 2012	10,000	—	85,128
Zero-coupon unsecured convertible yen bond-type bonds with stock acquisition rights, due 2007	17,706	20,000	150,728
Zero-coupon unsecured convertible yen bond-type bonds with stock acquisition rights, due 2009	17,600	20,000	149,825
	445,542	479,425	3,792,815
Less current portion	(110,351)	(145,483)	(939,397)
	¥ 335,191	¥ 333,942	$2,853,418

The Zero-coupon unsecured convertible bond-type bonds with stock acquisition rights, due 2007 are currently convertible at ¥345 ($2.94) per share until September 20, 2007. As of March 31, 2006, 51,322 thousand additional shares of common stock in aggregate could be issued upon full conversion at the current conversion price.

The Zero-coupon unsecured convertible bond-type bonds with stock acquisition rights, due 2009 are currently convertible at ¥333 ($2.83) per share until September 18, 2009. As of March 31, 2006, 52,853 thousand additional shares of common stock in aggregate could be issued upon full conversion at the current conversion price.

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥110,351	$ 939,397
2008	88,329	751,928
2009	74,219	631,812
2010	71,901	612,080
2011	44,842	381,732
2012 and thereafter	55,900	475,866
	¥445,542	$3,792,815

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash	¥ 1,798	¥ 796	$ 15,306
Notes and accounts receivable	10,810	6,736	92,023
Inventories	24,361	11,123	207,381
Investments:			
Investments in securities	684	678	5,823
Unconsolidated subsidiaries and affiliates	1,709	1,436	14,548
Property, plant and equipment, at net book value	141,781	153,340	1,206,955
Other	504	707	4,291
	¥181,647	¥174,816	$1,546,327

Note 5—Employees' Severance and Pension Benefits

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥131,309	¥132,656	$1,117,809
Less fair value of pension assets	(72,971)	(60,170)	(621,189)
Unrecognized projected obligation	58,338	72,486	496,620
Unrecognized actuarial differences	(11,474)	(25,991)	(97,676)
Unrecognized prior service costs	(273)	834	(2,324)
Net liability for severance and retirement benefits	46,591	47,329	396,620
Prepaid pension costs	70	115	596
Employees' severance and pension benefits	¥ 46,661	¥ 47,444	¥ 397,216

Employees' severance and pension benefit expense included in the consolidated statements of operations for the years ended March 31, 2006, 2005 and 2004, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Service costs—benefits earned during the year	¥ 6,230	¥ 6,728	¥ 6,207	$ 53,035
Interest cost on projected benefit obligation	2,904	3,516	3,643	24,721
Expected return on plan assets	(1,211)	(1,430)	(1,300)	(10,309)
Amortization of net transition obligation	—	9,957	10,160	—
Amortization of actuarial differences	3,828	4,083	4,654	32,587
Amortization of prior service costs	(778)	(1,653)	(1,661)	(6,623)
Employees' pension funds dissolution profit	—	(1,964)	—	—
Severance and pension benefit expense	¥10,973	¥19,237	¥21,703	$ 93,411

The discount rate used by the Company was mainly 2.5% for the years ended March 31, 2006, 2005 and 2004. The rates of expected return on plan assets were mainly 2.5% for the years ended March 31, 2006, 2005 and 2004. The estimated amounts of all retirement benefits to be paid at the future retirement dates are allocated equally to each service year using the estimated number of total service years.

Amortization of net transition obligation and negative prior service costs resulting from the revision of employees' retirement policy in October 2000, amounting to ¥778 million ($6,623 thousand) income, ¥8,326 million expense, and ¥8,529 million expense for the years ended March 31, 2006, 2005 and 2004, respectively, is included in other income (expenses) in the accompanying consolidated statements of operations.

Note 6—Shareholders' Equity

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

Under the Code, at least 50% of the issue price of new shares is required to be designated as common stock. The portion which is not transferred to common stock is determined by the resolution of the Board of Directors. Proceeds not transferred to common stock are credited to additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by the resolution of shareholders' meeting, or be capitalized by the resolution of Board of Directors. On the condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, the legal earnings reserve and additional paid-in capital are available for distributions by the resolution of shareholders' meeting. There is no legal earnings reserve as of March 31, 2006, since additional paid-in capital exceeds 25% of common stock of the Company.

Note 7—Income Taxes

The income taxes reflected in the accompanying consolidated statements of operations for the years ended March 31, 2006, 2005 and 2004, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Current	¥27,422	¥16,572	¥10,016	$233,438
Deferred	(7,596)	(1,334)	2,387	(64,663)
	¥19,826	¥15,238	¥12,403	$168,775

The following table summarizes the significant differences between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2006 and 2005:

	2006	2005
Statutory tax rate	40.7%	40.7%
Equity in (earnings) losses of affiliates	(4.2)	(3.3)
Valuation allowance	4.5	3.7
Intercompany cash dividend	2.2	2.8
Nondeductible expenses	2.3	5.4
Differences in statutory tax rates of consolidated subsidiaries	(3.4)	(3.3)
Reversal of reserve for loss on subsidiaries	—	—
Gain on sale of investments in an affiliate under the equity method	(11.5)	—
Net operating loss carried forward	(4.6)	—
Tax credits	(4.3)	—
Other	1.6	(2.2)
Effective tax rate	23.3%	43.8%

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

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred income tax assets:			
Net operating loss carried forwards	¥ 16,986	¥19,298	$ 144,599
Employees' severance and pension benefits	20,265	19,271	172,512
Loss on write-down of building	9,901	10,422	84,285
Intercompany profits	8,825	8,658	75,126
Accrued employees' bonuses	4,719	4,199	40,172
Loss on write-down of securities	6,257	7,010	53,265
Depreciation	1,540	1,796	13,110
Allowance for doubtful accounts	2,417	1,497	20,575
Reserve for clean-up costs of contaminated land	2,279	—	19,401
Nondeductible loss on impairment of fixed assets	2,528	—	21,520
Nondeductible environmental expenditures	2,175	—	18,515
Nondeductible compensation expenditures	1,444	—	12,293
Other	14,537	11,030	123,750
Subtotal	93,873	83,181	799,123
Valuation allowance	(21,990)	(18,508)	(187,197)
Total deferred income tax assets	¥ 71,883	¥ 64,673	$ 611,926
Deferred income tax liabilities:			
Excess of fair value over the book value of the assets and liabilities of the consolidated subsidiaries and affiliates at the acquisition date	¥ (8,473)	¥ (9,046)	$ (72,129)
Accelerated depreciation of property, plant and equipment	(8,529)	(8,283)	(72,606)
Deferred gain on sale of property, plant and equipment	(2,093)	(1,578)	(17,817)
Reserves deductible for Japanese tax purposes	(648)	(607)	(5,516)
Net unrealized holding gains on securities	(33,635)	(11,254)	(286,328)
Other	(7,039)	(3,554)	(59,922)
Total deferred income tax liabilities	(60,417)	(34,322)	(514,318)
Net deferred income tax assets	¥ 11,466	¥ 30,351	$ 97,608
Net deferred income tax liabilities on revaluation reserve for land	¥(35,020)	¥ (37,148)	$(298,119)

According to the revised local tax law of Tokyo on October 14, 2003, the Company changed the statutory tax rate from 40.49% to 40.69% for the year ended March 31, 2004.

As a result of this change in statutory tax rate, the deferred income tax assets increased by ¥116 million, the deferred income taxes decreased by ¥146 million, and the net unrealized holding gains on securities decreased by ¥30 million. Also, the net deferred income tax liabilities on revaluation reserve for land increased by ¥153 million, and the revaluation reserve for land decreased by the same amount for the year ended March 31, 2004.

Note 8—Contingent Liabilities

Contingent liabilities for notes receivable discounted with banks, notes receivable endorsed with recourse, notes and accounts receivable securitized with recourse, and loans guaranteed by the Company and its consolidated subsidiaries primarily on behalf of unconsolidated subsidiaries and affiliates, including employees' housing loans from banks, as of March 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Notes receivable discounted	¥ 3,978	¥ 553	$ 33,864
Notes receivable endorsed with recourse	88	58	749
Notes and accounts receivable securitized with recourse	5,998	7,771	51,060
Loans guaranteed	39,189	32,563	333,609
	¥49,253	¥40,945	$419,282

Loans guaranteed as of March 31, 2006 include a ¥5,121 million ($43,594 thousand) portion guaranteed by unrelated parties.

Note 9—Lease Transactions

Pro-forma information of finance leases, except for those in which the ownership of the leased assets is considered to be transferred to the lessee, was as follows:

(1) Equivalents of purchase price, accumulated depreciation, accumulated impairment loss, and book value of leased assets

	Millions of yen				Thousands of U.S. dollars			
	2006				2006			
	Machinery, equipment and vehicles	Tools	Others	Total	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	¥9,841	¥5,268	¥1,775	¥16,884	$83,776	$44,845	$15,110	$143,731
Accumulated depreciation	5,621	2,721	907	9,249	47,851	23,163	7,721	78,735
Accumulated impairment loss	15	—	—	15	128	—	—	128
Book value	¥4,205	¥2,547	¥ 868	¥ 7,620	$35,797	$21,682	$ 7,389	$ 64,868

	Millions of yen			
	2005			
	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	¥9,700	¥5,087	¥1,441	¥16,228
Accumulated depreciation	5,419	2,758	723	8,900
Book value	¥4,281	¥2,329	¥ 718	¥ 7,328

(2) Lease commitments and accumulated impairment loss on leased assets

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease commitments:			
Due within one year	¥2,600	¥2,531	$22,133
Due after one year	5,031	4,797	42,828
Total	¥7,631	¥7,328	$64,961
Accumulated impairment loss on leased assets	¥ 12	¥ —	$ 102

(3) Lease expenses, depreciation equivalents, reversal of accumulated impairment loss on leased assets, and loss on impairment

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Lease expenses	¥2,946	¥2,974	¥3,223	$25,079
Depreciation equivalents	2,941	2,974	3,223	25,036
Reversal of accumulated impairment loss on leased assets	¥ 5	¥ —	¥ —	$ 43
Loss on impairment	¥ 17	¥ —	¥ —	$ 145

Noncancelable operating lease commitments are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥1,672	¥1,755	$14,233
Due after one year	4,646	5,979	39,551
Total	¥6,318	¥7,734	$53,784

Note 10—Research and Development Expenses

Research and development expenses for the years ended March 31, 2006, 2005 and 2004, were ¥10,859million ($92,441 thousand), ¥10,449 million and ¥11,232 million, respectively, and were included in selling, general and administrative expenses.

Note 11—Securities

1. The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2006 and 2005:

Available-for-sale securities

(1) Securities with book values exceeding acquisition cost

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥46,872	¥131,367	¥84,495	¥38,979	¥70,398	¥31,419	$399,013	$1,118,307	$719,294
Bonds	—	—	—	10	10	—	—	—	—
Total	¥46,872	¥131,367	¥84,495	¥38,989	¥70,408	¥31,419	$399,013	$1,118,307	$719,294

(2) Securities with book values not exceeding acquisition cost

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥677	¥487	¥(190)	¥6,818	¥5,663	¥(1,155)	$5,763	$4,146	$(1,617)
Bonds	82	80	(2)	17	17	—	698	681	(17)
Total	¥759	¥567	¥(192)	¥6,835	¥5,680	¥(1,155)	$6,461	$4,827	$(1,634)

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

(1) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Book value	Book value	Book value
Unlisted equity securities	¥17,897	¥18,267	$152,354
Corporate bonds	—	10	—
Others	32	105	272
Total	¥17,929	¥18,382	$152,626

3. The following tables summarize maturities of available-for-sale securities with maturity, and held-to-maturity debt securities as of March 31, 2006 and 2005.

	Millions of yen				
At March 31, 2006	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities:					
Government or local bonds	¥—	¥80	¥—	¥—	¥ 80
Corporate bonds	—	—	—	—	—
Other bonds	16	14	—	—	30
Total	¥16	¥94	¥—	¥—	¥110

	Thousands of U.S. dollars				
At March 31, 2006	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities:					
Government or local bonds	$ —	$681	$ —	$ —	$681
Corporate bonds	—	—	—	—	—
Other bonds	136	119	—	—	255
Total	$136	$800	$ —	$ —	$936

	Millions of yen				
At March 31, 2005	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities:					
Government or local bonds	¥—	¥22	¥—	¥—	¥ 22
Corporate bonds	5	15	—	—	20
Other bonds	68	30	—	—	98
Total	¥73	¥67	¥—	¥—	¥140

4. Total amounts of available-for-sale securities sold, and the resulting gains and losses, in the years ended March 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Sales amount	¥7,440	¥13,228	$63,335
Gains	6,082	10,256	51,775
Losses	10	10	85

Note 12—Derivative Transactions

Derivative financial instruments currently utilized by the Company and its consolidated subsidiaries include forward foreign currency contracts, interest rate swap contracts, currency swap contracts, forward commodity contracts and commodity price swap contracts.

The Company utilizes forward foreign currency contracts to hedge the impact of foreign exchange fluctuations on receivables and payables, and on advance payments for purchase of ores.

The Company enters into interest rate swap contracts to reduce exposure to adverse movements in interest rates, and to lower finance costs on debts.

The Company also utilizes forward commodity contracts to hedge the impact of future price fluctuations of nonferrous metal inventories and sold gold bullion deposited from customers under consuming bailment named "My Gold Plan."

Some consolidated subsidiaries utilize forward foreign currency contracts and interest swap contracts to hedge the impact of foreign currency fluctuations on foreign currency receivables and payables, and forward commodity contracts and commodity price swap contracts to hedge the impact of price fluctuations of nonferrous metal inventories.

The counterparties to those derivative contracts are Japanese and overseas companies and financial institutions with high credit standing, and therefore, it is anticipated that those counterparties will be able to fully satisfy their obligations under the contracts.

The Company has "Rules on Utilizing Derivative Transactions" in its "Operation Standards" applicable to the whole Company. In addition, there are specific rules and standards for derivative transactions provided for each business unit based on its type of business. In accordance with the authority and limits provided in these rules and standards, forward foreign currency contracts are utilized and controlled by the Finance Department and other responsible departments; interest rate swap contracts by the Finance and Accounting Department; and forward commodity contracts by each responsible department. Furthermore, departments utilizing derivative transactions are required to report the status and results of derivative transactions to the risk control section for financial transaction, at each annual and semi-annual year-end.

Consolidated subsidiaries utilizing derivative transactions have provided the operational standards individually, according to the purpose of derivative transactions.

The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of the hedged items with the corresponding changes in the hedging derivative instruments. Furthermore, the Company periodically controls the transaction volume of forward commodity contracts in order to balance them with hedged nonferrous metal inventories, and to evaluate their hedge effectiveness at each annual and semi-annual year-end.

As of March 31, 2006 and 2005, the Company and its consolidated subsidiaries had outstanding derivative transactions as follows:

(a) Foreign Currency Contracts

		Millions of yen				
		Contract amounts in yen equivalent				
At March 31, 2006		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Forward exchange contracts:						
Sell	U.S. dollars	¥50,650	¥ —	¥50,650	¥51,356	¥(706)
	Other	1,318	—	1,318	1,316	2
Buy	U.S. dollars	699	406	1,105	1,352	247
	Other	120	—	120	121	1
Total						¥(456)

		Thousands of U.S. dollars				
		Contract amounts in U.S. dollar equivalent				
At March 31, 2006		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Forward exchange contracts:						
Sell	U.S. dollars	$431,174	$ —	$431,174	$437,184	$(6,010)
	Other	11,220	—	11,220	11,203	17
Buy	U.S. dollars	5,951	3,456	9,407	11,509	2,102
	Other	1,021	—	1,021	1,030	9
Total						$(3,882)

		Millions of yen				
		Contract amounts in yen equivalent				
At March 31, 2005		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Forward exchange contracts:						
Sell	U.S. dollars	¥25,530	¥ —	¥25,530	¥26,038	¥(508)
	Other	3,173	510	3,683	3,880	(197)
Buy	U.S. dollars	2,751	472	3,223	3,456	233
	Other	4	—	4	4	—
Total						¥(472)

Fair value of forward exchange contracts is stated based on the quoted market price.

The above information does not include forward exchange contracts and currency swap contracts executed to hedge existing foreign currency receivables or payables.

Forward exchange contracts shown above are primarily utilized to hedge the impact of foreign currency fluctuations on advance payments associated with the purchase of ores, and unrealized gains or losses are deferred until the related gains or losses on the hedged items are recognized.

(b) Interest Rate Contracts

At March 31, 2006	Notional amounts: Due within one year	Notional amounts: Due after one year	Notional amounts: Total	Fair value	Unrealized losses
					Millions of yen
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	¥ 0	¥ 1,000	¥ 1,000	¥(54)	¥(54)
Pay fixed rate, receive floating rate	36,388	70,819	107,207	181	181
Total					¥127

At March 31, 2006	Notional amounts: Due within one year	Notional amounts: Due after one year	Notional amounts: Total	Fair value	Unrealized losses
					Thousands of U.S. dollars
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	$ 0	$ 8,513	$ 8,513	$ (460)	$ (460)
Pay fixed rate, receive floating rate	309,764	602,869	912,633	1,541	1,541
Total					$1,081

At March 31, 2005	Notional amounts: Due within one year	Notional amounts: Due after one year	Notional amounts: Total	Fair value	Unrealized losses
					Millions of yen
Interest rate swap contracts:					
Pay fixed rate, receive floating rate	¥7,567	¥55,168	¥62,735	¥(880)	¥(880)
Total					¥(880)

Fair value is stated based on the current offer price from financial institutions.

With respect to interest rate swap contracts used as hedge and meeting certain hedging criteria, the net amounts to be paid or received under the interest rate swap contract are added to or deducted from the interest on the liabilities for which the swap contract was executed, and the information for such contracts is included in the above tables.

(c) Commodity Contracts

At March 31, 2006	Contract amounts: Due within one year	Contract amounts: Due after one year	Contract amounts: Total	Fair value	Unrealized gains (losses)
					Millions of yen
Nonferrous metals forward:					
Sell	¥62,995	¥4,165	¥67,160	¥73,848	¥(6,688)
Buy	69,516	6,370	75,886	92,615	16,729
Nonferrous metal commodity price swap:					
Pay fixed price, receive floating price	1,487	3,681	5,168	2,172	2,172
Total					¥12,213

At March 31, 2006	Contract amounts: Due within one year	Contract amounts: Due after one year	Contract amounts: Total	Fair value	Unrealized gains (losses)
					Thousands of U.S. dollars
Nonferrous metals forward:					
Sell	$536,264	$35,456	$571,720	$628,654	$(56,934)
Buy	591,776	54,227	646,003	788,414	142,411
Nonferrous metal commodity price swap:					
Pay fixed price, receive floating price	12,658	31,336	43,994	18,490	18,490
Total					$103,967

At March 31, 2005	Contract amounts: Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
					Millions of yen
Nonferrous metals forward:					
Sell	¥32,829	¥ 78	¥32,907	¥33,997	¥(1,090)
Buy	41,597	3,896	45,493	48,949	3,456
Total					¥ 2,366

Fair value is stated based on the quoted market price.

Unrealized gains or losses on forward commodity contracts, and commodity price swap contracts which are utilized to hedge future price fluctuations of nonferrous metals, are deferred until related losses or gains on the hedged items are recognized.

The Company does not apply the hedge accounting to the forward commodity contracts for gold bullion.

Note 13—Segment Information

(a) The Companies operate primarily in the production and sales of cement, metals, advanced materials & tools, aluminum, electronic materials & components, and others. Cement comprises cement, secondary cement product, ready-mixed concrete, and building materials; metals comprise copper smelting, and processed copper products; advanced materials & tools comprise superhard tools, sintered parts, highly efficient materials, and diamond tools; aluminum comprises aluminum cans, rolled aluminum products, and processed aluminum products; electronic materials & components comprise electronic materials, chemical products, electronic device products, and polycrystalline silicon; and others comprise engineering, nuclear energy, precious metals, resource & environment & recycle related products, and real estate.

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

Millions of yen

Year ended March 31, 2006	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:									
Unaffiliated customers	¥164,501	¥358,765	¥147,908	¥143,093	¥ 75,525	¥253,908	¥1,143,700	¥ —	¥1,143,700
Intersegment	553	68,696	14,250	699	2,480	51,882	138,560	(138,560)	—
Total	165,054	427,461	162,158	143,792	78,005	305,790	1,282,260	(138,560)	1,143,700
Operating expenses	149,415	404,499	142,173	140,351	73,191	297,918	1,207,547	(132,829)	1,074,718
Operating profit	¥ 15,639	¥ 22,962	¥ 19,985	¥ 3,441	¥ 4,814	¥ 7,872	¥ 74,713	¥ (5,731)	¥ 68,982
Identifiable assets	¥264,000	¥395,493	¥162,855	¥180,913	¥137,310	¥307,648	¥1,448,219	¥ 161,227	¥1,609,446
Depreciation	¥ 9,582	¥ 10,846	¥ 7,155	¥ 9,478	¥ 4,361	¥ 4,039	¥ 45,461	¥ 2,223	¥ 47,684
Capital expenditures	¥ 14,127	¥ 10,965	¥ 11,063	¥ 5,992	¥ 4,801	¥ 3,817	¥ 50,765	¥ 1,794	¥ 52,559

Thousands of U.S. dollars

Year ended March 31, 2006	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:									
Unaffiliated customers	$1,400,366	$3,054,099	$1,259,113	$1,218,124	$ 642,930	$2,161,471	$ 9,736,103	$ —	$ 9,736,103
Intersegment	4,708	584,796	121,308	5,950	21,112	441,661	1,179,535	(1,179,535)	—
Total	1,405,074	3,638,895	1,380,421	1,224,074	664,042	2,603,132	10,915,638	(1,179,535)	9,736,103
Operating expenses	1,271,942	3,443,424	1,210,292	1,194,781	623,061	2,536,120	10,279,620	(1,130,748)	9,148,872
Operating profit	$ 133,132	$ 195,471	$ 170,129	$ 29,293	$ 40,981	$ 67,012	$ 636,018	$(48,787)	$ 587,231
Identifiable assets	$2,247,382	$3,366,758	$1,386,354	$1,540,078	$1,168,894	$2,618,950	$12,328,416	$1,372,495	$13,700,911
Depreciation	$ 81,570	$ 92,330	$ 60,909	$ 80,684	$ 37,124	$ 34,384	$ 387,001	$ 18,924	$ 405,925
Capital expenditures	$ 120,260	$ 93,343	$ 94,177	$ 51,009	$ 40,870	$ 32,494	$ 432,153	$ 15,272	$ 447,425

Millions of yen

Year ended March 31, 2005	Cement	Aluminum	Metals	Powder Metallurgy Products & Tools	Advanced Products	Energy & Systems	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:										
Unaffiliated customers	¥148,973	¥134,519	¥252,333	¥117,147	¥49,749	¥ 83,098	¥198,958	¥ 984,777	¥ —	¥ 984,777
Intersegment	491	747	55,176	9,083	1,439	27,724	34,356	129,016	(129,016)	—
Total	149,464	135,266	307,509	126,230	51,188	110,822	233,314	1,113,793	(129,016)	984,777
Operating expenses	137,324	128,035	294,396	110,321	47,979	108,773	226,802	1,053,630	(122,938)	930,692
Operating profit	¥ 12,140	¥ 7,231	¥ 13,113	¥ 15,909	¥ 3,209	¥ 2,049	¥ 6,512	¥ 60,163	¥ (6,078)	¥ 54,085
Identifiable assets	¥246,395	¥158,917	¥296,483	¥124,875	¥42,050	¥ 97,890	¥299,613	¥1,266,223	¥ 154,602	¥1,420,825
Depreciation	¥ 9,043	¥ 9,725	¥ 10,663	¥ 5,798	¥ 2,231	¥ 2,885	¥ 5,139	¥ 45,484	¥ 2,436	¥ 47,920
Capital expenditures	¥ 9,698	¥ 7,250	¥ 9,354	¥ 8,841	¥ 1,726	¥ 1,376	¥ 10,296	¥ 48,541	¥ 966	¥ 49,507

Millions of yen

Year ended March 31, 2004	Cement	Aluminum	Metals	Powder Metallurgy Products & Tools	Advanced Products	Energy & Systems	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:										
Unaffiliated customers	¥145,073	¥131,875	¥242,097	¥103,866	¥51,039	¥ 82,679	¥191,609	¥ 948,238	¥ —	¥ 948,238
Intersegment	579	899	63,907	8,972	1,358	27,211	30,624	133,550	(133,550)	—
Total	145,652	132,774	306,004	112,838	52,397	109,890	222,233	1,081,788	(133,550)	948,238
Operating expenses	131,992	126,120	296,781	102,185	49,778	106,401	217,576	1,030,833	(126,017)	904,816
Operating profit	¥ 13,660	¥ 6,654	¥ 9,223	¥ 10,653	¥ 2,619	¥ 3,489	¥ 4,657	¥ 50,955	¥ (7,533)	¥ 43,422
Identifiable assets	¥251,317	¥167,681	¥310,630	¥118,522	¥42,664	¥ 86,041	¥300,697	¥1,277,552	¥ 157,563	¥1,435,115
Depreciation	¥ 9,137	¥ 9,425	¥ 11,656	¥ 5,927	¥ 2,381	¥ 2,784	¥ 5,122	¥ 46,432	¥ 2,886	¥ 49,318
Capital expenditures	¥ 7,448	¥ 11,534	¥ 7,246	¥ 5,982	¥ 1,436	¥ 1,511	¥ 3,287	¥ 38,444	¥ 498	¥ 38,942

(1) The Company has changed its method of business segment classification from the previous segmentation of "Cement," "Aluminum," "Metals," "Powder metallurgy products & tools," "Advanced products," "Energy & systems," and "Others," to the current one of "Cement," "Metals," "Advanced materials & tools," "Aluminum," "Electronic materials & components," and "Others."

Effective April 1, 2005, the Company has reorganized its business segments to divide them into five (5) main companies, comprising "Cement," "Metals," "Advanced materials & tools," "Aluminum," and "Electronic materials & components," in order to efficiently invest its management resources, and improve its profitability. It reviewed its previous business units and operational system that divide its businesses into "core businesses" and "strategic businesses," and then integrated and reorganized them, considering the synergy effect arising from the similarity in product category and sales method, and the business position in the company group. Therefore this year's change in business segmentation was made to more adequately reflect the results of the Company's operations after the reorganization.

Business segment information reclassified to conform with the current business segmentation, for the year ended March 31, 2005, was as follows:

Millions of yen

Year ended March 31, 2005	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:									
Unaffiliated customers	¥148,973	¥252,333	¥138,769	¥134,519	¥ 66,941	¥243,242	¥ 984,777	¥ —	¥ 984,777
Intersegment	491	55,176	14,945	747	2,512	47,284	121,155	(121,155)	—
Total	149,464	307,509	153,714	135,266	69,453	290,526	1,105,932	(121,155)	984,777
Operating expenses	137,324	294,396	135,850	128,035	66,586	283,527	1,045,719	(115,027)	930,692
Operating profit	¥ 12,140	¥ 13,112	¥ 17,864	¥ 7,231	¥ 2,867	¥ 6,999	¥ 60,213	¥ (6,128)	¥ 54,085
Identifiable assets	¥246,395	¥296,483	¥161,427	¥158,917	¥125,050	¥276,378	¥1,264,650	¥ 156,175	¥1,420,825
Depreciation	¥ 9,043	¥ 10,663	¥ 7,083	¥ 9,725	¥ 4,289	¥ 4,682	¥ 45,485	¥ 2,435	¥ 47,920
Capital expenditures	¥ 9,698	¥ 9,354	¥ 12,042	¥ 7,250	¥ 3,850	¥ 6,347	¥ 48,541	¥ 966	¥ 49,507

(2) Change in allocation method for operating expenses
In the past, the basic R&D expenses and the administrative expenses for the corporate had been allocated to each segment, according to a certain allocation bases that mainly reflect the degree of benefit. In the year ended March 31, 2006, the Company has reviewed the scope of unallocatable operating expenses, and started to allocate some expenses directly to the related segments, and other expenses to each segment according to the allocation bases that reflect the degree of offering services.

This change was made to reflect the performance of each business segment more adequately, following the change in internal control system at the Company to clarify the further benefit assessment through transforming the headquarters organization into a shared service unit, or elaborating the burden on each segment arising from each development theme, and others.

By the previous allocating method, the total amount of unallocatable operating expenses for the year ended March 31, 2006 was ¥8,490 million ($72,274 thousand), and the amounts of operating expenses and operating profit for each segment were as follows:

Millions of yen

Year ended March 31, 2006	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Operating expenses	¥149,302	¥404,247	¥141,475	¥140,242	¥72,195	¥297,626	¥1,205,087	¥(130,369)	¥1,074,718
Operating profit	15,752	23,214	20,683	3,550	5,810	8,164	77,173	(8,100)	68,982

Thousands of dollars

Year ended March 31, 2006	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Operating expenses	$1,270,980	$3,441,279	$1,204,350	$1,193,854	$614,582	$2,533,634	$10,258,679	$(1,109,807)	$9,148,872
Operating profit	134,094	197,616	176,071	30,220	49,459	69,499	656,959	(69,723)	587,231

(3) Change in scope of corporate assets
In the past, the deferred tax asset of the Company had been classified as a corporate asset. In the year ended March 31, 2006, the Company started to classify it as an asset of each segment, if its source can be attributed to a particular segment. This change was made to reflect the performance of each business segment more adequately, following the change in internal control system at the Company to clarify the responsibility for recovering a deferred tax asset, and others. By the previous method, the total amount of corporate assets as of March 31, 2006 was ¥194,224 million ($1,653,392 thousand), and the amounts of assets for each segment were as follows:

Millions of yen

Year ended March 31, 2006	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Assets	¥263,146	¥389,941	¥162,425	¥180,913	¥135,365	¥306,580	¥1,438,370	¥171,076	¥1,609,446

Thousands of dollars

Year ended March 31, 2006	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Assets	$2,240,112	$3,319,494	$1,382,694	$1,540,078	$1,152,337	$2,609,858	$12,244,573	$1,456,338	$13,700,911

(4) Elimination of slime transaction with PT. Smelting (Indonesia)
As indicated in Note 2 (q), the Company has started to eliminate this kind of transactions in the year ended March 31, 2005, as a result of the change of its contract. Consequently, both the sales to unaffiliated customers and the operating expenses for "Metals" for the year ended March 31, 2005 decreased by ¥32,762 million, compared to the amounts that would have been reported by the previous accounting method.

(5) Change of valuation method for inventories for the "Metals" segment
In the year ended March 31, 2005, Sambo Copper Alloy Co. Ltd., one of the consolidated subsidiaries in the copper processing business, has changed its valuation method for inventories from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. This change was to make the consolidated statements of operations calculate the profit or loss for a period more properly, by matching sales and cost of sales at the same price level, as the price for copper bullion, its main material, is substantially fluctuating under the circumstances of the international market. Consequently, the operating expenses for the "Metals" for the year ended March 31, 2005 increased by ¥841 million, and both the operating profit and the assets decreased by the same amount compared to the amounts that would have been reported by the previous accounting method.

(6) The Company has changed its method of business segment classification to "Cement," "Aluminum," "Metals," "Powder

metallurgy products & tools," "Advanced products," "Energy & systems," and "Others" from the previous segmentation of "Silicon and advanced materials," "Fabricated metal products," "Non-ferrous metals," "Cement products" and "Others" in the year ended March 31, 2004.

Effective April 1, 2003, the Company has reorganized its business segments, to divide them into Core business, comprising "Cement," "Aluminum," "Metals," and "Powder metallurgy products & tools," and Strategic business, comprising "Advanced products," "Energy & systems," and Others, for the efficient allocation of its operational resources and for better selection and concentration of its businesses.

This change in business segment classification was made to reflect the results of the Company's operations based on its new business segmentation.

(b) Segment information by geographic area for the years ended March 31, 2006, 2005 and 2004, is as follows:

Millions of yen

Year ended March 31, 2006	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	¥ 954,732	¥80,044	¥14,091	¥ 91,073	¥3,760	¥1,143,700	¥ —	¥1,143,700
Intersegment	27,785	1,985	306	93,755	—	123,831	(123,831)	—
Total	982,517	82,029	14,397	184,828	3,760	1,267,534	(123,831)	1,143,700
Operating expenses	928,338	71,033	13,753	176,745	2,725	1,192,594	(117,876)	1,074,718
Operating profit	¥ 54,179	¥10,996	¥ 644	¥ 8,083	¥1,035	¥ 74,937	¥ (5,955)	¥ 68,982
Identifiable assets	¥1,269,949	¥93,670	¥35,636	¥124,029	¥4,437	¥1,527,721	¥ 81,725	¥1,609,446

Thousands of U.S. dollars

Year ended March 31, 2006	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	$ 8,127,454	$681,400	$119,954	$ 775,287	$32,008	$ 9,736,103	$ —	$ 9,736,103
Intersegment	236,528	16,898	2,605	798,119	—	1,054,150	(1,054,150)	—
Total	8,363,982	698,298	122,559	1,573,406	32,008	10,790,253	(1,054,150)	9,736,103
Operating expenses	7,902,766	604,691	117,077	1,504,597	23,197	10,152,328	(1,003,456)	9,148,872
Operating profit	$ 461,216	$ 93,607	$ 5,482	$ 68,809	$ 8,811	$ 637,925	$ (50,694)	$ 587,231
Identifiable assets	$10,810,837	$797,395	$303,363	$1,055,835	$37,771	$13,005,201	$ 695,710	$13,700,911

Millions of yen

Year ended March 31, 2005	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	¥ 845,902	¥64,915	¥12,805	¥ 58,586	¥2,569	¥ 984,777	¥ —	¥ 984,777
Intersegment	25,600	868	42	63,330	—	89,840	(89,840)	—
Total	871,502	65,783	12,847	121,916	2,569	1,074,617	(89,840)	984,777
Operating expenses	819,119	60,240	12,203	118,887	2,328	1,012,777	(82,085)	930,692
Operating profit	¥ 52,383	¥ 5,543	¥ 644	¥ 3,029	¥ 241	¥ 61,840	¥ (7,755)	¥ 54,085
Identifiable assets	¥1,145,281	¥80,409	¥27,400	¥ 88,115	¥3,117	¥1,344,322	¥ 76,503	¥1,420,825

Millions of yen

Year ended March 31, 2004	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	¥ 788,939	¥52,380	¥ 9,929	¥ 95,003	¥1,987	¥ 948,238	¥ —	¥ 948,238
Intersegment	27,014	546	10	22,756	—	50,326	(50,326)	—
Total	815,953	52,926	9,939	117,759	1,987	998,564	(50,326)	948,238
Operating expenses	772,743	48,364	9,938	113,750	2,147	946,942	(42,126)	904,816
Operating profit	¥ 43,210	¥ 4,562	¥ 1	¥ 4,009	¥ (160)	¥ 51,622	¥ (8,200)	¥ 43,422
Identifiable assets	¥1,159,557	¥74,879	¥21,799	¥100,437	¥3,316	¥1,359,988	¥ 75,127	¥1,435,115

(1) Change in allocation method for operating expenses
In the past, the basic R&D expenses and the administrative expenses for the corporate had been allocated to each business segment in "Japan", according to a certain allocation bases that mainly reflect the degree of benefit. In the year ended March 31, 2006, the Company has reviewed the scope of unallocatable operating expenses, and started to allocate some expenses directly to the related business segments, and other expenses to each business segment according to the allocation bases that reflect the degree of offering services.

This change was made to reflect the performance of each business segment more adequately, following the change in internal control system at the Company to clarify the further benefit assessment through transforming the headquarters organization into a shared service unit, or elaborating the burden on each segment arising from each development theme, and others.

By the previous allocating method, the total amount of unallocatable operating expenses for the year ended March 31, 2006 was ¥8,490 million ($72,274 thousand), and the amounts of operating expenses and operating profit for each segment were as follows:

Millions of yen

Year ended March 31, 2006	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Operating expenses	¥925,879	¥71,032	¥13,753	¥176,744	¥2,725	¥1,190,133	¥(115,415)	¥1,074,718
Operating profit	56,639	10,996	644	8,083	1,035	77,397	(8,415)	68,982

Thousands of U.S. dollars

Year ended March 31, 2006	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Operating expenses	$7,881,834	$604,682	$117,077	$1,504,588	$23,197	$10,131,378	$(982,506)	$9,148,872
Operating profit	482,157	93,607	5,482	68,809	8,811	658,866	(71,635)	587,231

(2) Change in scope of corporate assets
In the past, the deferred tax asset of the Company had been classified as a corporate asset. In the year ended March 31, 2006, the Company started to classify it as an asset of each business segment, if its source can be attributed to a particular segment. This change was made to reflect the performance of each business segment more adequately, following the change in internal control system at the Company to clarify the responsibility for recovering a deferred tax asset, and others. By the previous method, the total amount of corporate assets as of March 31, 2006 was ¥194,224 million ($1,653,392 thousand), and the amounts of assets for each segment were as follows:

Millions of yen

Year ended March 31, 2006	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Assets	¥1,260,100	¥93,670	¥35,636	¥124,029	¥4,437	¥1,517,872	¥91,574	¥1,609,446

Thousands of U.S. dollars

Year ended March 31, 2006	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Assets	$10,726,994	$797,395	$303,363	$1,055,836	$37,771	$12,921,359	$779,552	$13,700,911

(3) Elimination of slime transaction with PT. Smelting (Indonesia)
As indicated in the Note 2 (q), the Company has started to eliminate this kind of transactions in the year ended March 31, 2005, as a result of the change of its contract. Consequently, the sales to unaffiliated customers in "Asia" for the year ended March 31, 2005 decreased by ¥32,762 million, and the intersegment sales increased by the same amount, compared to the amounts that would have been reported by the previous accounting method.

(4) Change of valuation method for inventories for "Japan"
In the year ended March 31, 2005, Sambo Copper Alloy Co. Ltd., one of the consolidated subsidiaries in the copper processing business, has changed its valuation method for inventories from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. This change was to make the consolidated statements of operations calculate the profit or loss for a period more properly, by matching sales and cost of sales at the same price level, as the price for copper bullion, its main material, is substantially fluctuating under the circumstances of the international market. Consequently, the operating expenses for "Japan" for the year ended March 31, 2005 increased by ¥841 million, and both the operating profit and the assets decreased by the same amount compared to the amounts that would have been reported by the previous accounting method.

(c) Overseas sales by geographic area for the years ended March 31, 2006, 2005 and 2004, were as follows:

Year ended March 31, 2006	U.S.A.	Europe	Asia	Others	Total
					Millions of yen
Overseas sales	¥88,987	¥36,186	¥138,529	¥5,018	¥268,720
Consolidated net sales					1,143,700
Percentage of overseas sales to consolidated net sales	7.8%	3.2%	12.1%	0.4%	23.5%

Year ended March 31, 2006	U.S.A.	Europe	Asia	Others	Total
					Thousands of U.S. dollars
Overseas sales	$757,530	$308,045	$1,179,271	$42,717	$2,287,563
Consolidated net sales					9,736,103
Percentage of overseas sales to consolidated net sales	7.8%	3.2%	12.1%	0.4%	23.5%

Year ended March 31, 2005	U.S.A.	Europe	Asia	Others	Total
					Millions of yen
Overseas sales	¥69,872	¥17,316	¥111,226	¥3,565	¥201,979
Consolidated net sales					984,777
Percentage of overseas sales to consolidated net sales	7.1%	1.8%	11.3%	0.3%	20.5%

Year ended March 31, 2004	U.S.A.	Europe	Asia	Others	Total
					Millions of yen
Overseas sales	¥57,609	¥15,511	¥90,608	¥2,350	¥166,078
Consolidated net sales					948,238
Percentage of overseas sales to consolidated net sales	6.1%	1.6%	9.6%	0.2%	17.5%

Note 14—Revaluation Reserve for Land

Pursuant to Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance for the Law concerning Revaluation Reserve for Land (the "Law"), effective March 31, 1998, and to the partial revision to the Law on March 31, 2001, the Company and the certain consolidated subsidiaries revalued their own lands for business at fair value. The related unrealized gain, net of income taxes and minority interests, was credited to "Revaluation reserve for land" in shareholders' equity in the consolidated balance sheet, and the applicable income tax effect was recorded as "Deferred income taxes on revaluation reserve for land" in liabilities in the consolidated balance sheet. When such land is sold, the revaluation reserve for land is reversed and credited to the retained earnings (or accumulated deficit).

According to the Law, the Company and its consolidated subsidiaries are not permitted to revalue the land at any time even if fair value of the land declines. Such unrecorded revaluation losses at March 31, 2006 and 2005, amounted to ¥23,949 million ($203,873 thousand) and ¥19,081 million, respectively.

Note 15—Notes to the Consolidated Statements of Cash Flows

(a) Breakdown of cash and cash equivalents

	Millions of yen			Thousands of U.S. dollars
	2006	2005	2004	2006
Cash	¥25,454	¥16,686	¥18,178	$216,685
Less term deposits with maturities extending more than three months	(460)	(333)	(424)	(3,916)
Cash and cash equivalents	¥24,994	¥16,353	¥17,754	$212,769

(b) Effect of the integration of aluminum can business

On October 1, 2005, the Company and Hokkai Can Co., Ltd. established a new joint company named "Universal Can Corporation", and contributed their aluminum can businesses to the new company for integration purpose. The Company acquired 80% of equity share of Universal Can Corporation in exchange of its contributed assets and liabilities for aluminum can business. At the time of integration, the assets and liabilities succeeded from Hokkai Can Co., Ltd. and included in the accompanying consolidated balance sheet were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 8,112	$ 69,056
Noncurrent assets	11,558	98,391
Total assets	¥19,670	$167,447
Current liabilities	¥ 9,788	$ 83,324
Noncurrent liabilities	2,050	17,451
Total liabilities	¥11,838	$100,451

(c) Effect of the integration of sintered parts business

On December 1, 2005, the Company and Plansee Holding AC, an Austrian company, established a new joint holding company named "Plansee Mitsubishi Material Global Sinter Holding, S.A." ("PMGH") as an affiliate under the equity method, and transferred their sintered parts businesses to PMGH for integration purpose. At the time of integration, the assets and liabilities transferred from the Company to PMGH were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥(10,221)	$ (87,010)
Noncurrent assets	(15,712)	(133,753)
Total assets	¥(25,933)	$(220,763)
Current liabilities	¥(16,519)	$(140,623)
Noncurrent liabilities	(646)	(5,499)
Total liabilities	¥(17,165)	$(146,122)

(d) Effect of integration of copper tube business

During the year ended March 31, 2005, the Company and Kobe Steel, Ltd. established a joint venture company named "Kobelco & Materials Copper Tube, Ltd." ("KMC") as an affiliate under the equity method for integration purpose, and the Company transferred its copper tube business to KMC. The assets and liabilities transferred, and the investments in securities for this integration were as follows:

	Millions of yen
Current assets	¥ 7,665
Noncurrent assets	8,919
Total assets	¥16,584
Current liabilities	¥ 5,789
Noncurrent liabilities	5,501
Total liabilities	¥11,290
Increment in investments in affiliates	¥ 6,937

Note 16—Net Income (Loss) per Share of Common Stock

Reconciliation of the numbers and amounts used in the basic and diluted net income (loss) per share of common stock computation for the years ended March 31, 2006, 2005, and 2004 was as follows:

	Millions of yen	Thousands	Yen	U.S. dollars
Year ended March 31, 2006	Net income	Weighted-average shares	Net income per share	Net income per share
Basic net income per share:				
Net income	¥58,803			
Bonuses to directors by an appropriation of retained earnings	130			
Net income available to common shareholders	¥58,673	1,134,224	¥51.7	$0.44
Effect of dilutive securities:				
Convertible bonds	143	47,917		
Stock acquisition rights	—	114,533		
Diluted net income per share:				
Net income for computation	¥58,816	1,296,674	¥45.4	$0.39

	Millions of yen	Thousands	Yen
Year ended March 31, 2005	Net income	Weighted-average shares	Net income per share
Basic net income per share:			
Net income	¥16,374		
Bonuses to directors by an appropriation of retained earnings	52		
Net income available to common shareholders	¥16,322	1,130,529	¥14.4
Effect of dilutive securities:			
Convertible bonds	285	95,835	
Stock acquisition rights	—	57,884	
Diluted net income per share:			
Net income for computation	¥16,607	1,284,248	¥12.9

	Millions of yen	Thousands	Yen
Year ended March 31, 2004	Net loss	Weighted-average shares	Net loss per share
Basic net loss per share:			
Net loss	¥5,324		
Bonuses to directors by an appropriation of retained earnings	65		
Net loss available to common shareholders	¥5,389	1,130,721	¥4.8

No information for reconciliation of numbers and amounts used in the diluted net loss per share of common stock computation for the year ended March 31, 2004, is disclosed, as the Company incurred a net loss.

Note 17—Related Party Transactions

The Company had no significant transactions with related parties for the year ended March 31, 2006.
Significant transactions with related parties for the years ended March 31, 2005, and 2004 were as follows:

	Millions of yen		
	March 31, 2005		
Name of company	Net sales	Accounts receivable	Rental income
Ube–Mitsubishi Cement Corp.	¥41,174	¥5,115	¥3,114

	Millions of yen			
	March 31, 2005			
Name of company	Net sales	Accounts receivable	Rental income	Guarantee
Ube–Mitsubishi Cement Corp.	¥41,289	¥3,792	¥2,324	—
Sumitomo Mitsubishi Silicon Co., Ltd.	—	—	—	¥101,487

	Millions of yen							
	March 31, 2004							
Name of related individual	Borrowing	Issuance of commercial paper	Interest expenses	Commission fee	Short-term bank loans	Long-term debts	Prepaid expenses	Accrued expenses
Toyoshi Nakano	¥13,659	¥4,000	¥454	¥272	¥5,659	¥43,910	¥101	¥47

Note: These transactions were acted by Toyoshi Nakano (Corporate Auditor of the Company), as Representative Director of The Mitsubishi Trust and Banking Corporation.

Note 18—Loss on Impairment of Fixed Assets

In reviewing the fixed assets for impairment, the Company and the consolidated subsidiaries group categorize their operating assets mainly by product group based on the business segmentation, and idle assets by asset unit.

For the year ended March 31, 2006, the Company and the consolidated subsidiaries recognized the loss on impairment of fixed assets amounting to ¥9,366 million ($79,731 thousand) as other expense in the consolidated statements of operations by devaluating the carrying amount of each fixed asset to its recoverable amount. The devalued assets were in operating asset groups whose profitability has significantly deteriorated due to the decline in market value of products or others, and also were idle assets whose recoverable amounts were lower than their carrying amounts due to the decline in market value of each asset, etc.

The details for the year ended March 31, 2006 are as follows:

			Loss on Impairment	
Asset group	Location	Asset Type	Millions of yen	Thousands of U.S. dollars
Cement	Fukuoka, Fukuoka prefecture	Land and buildings, etc.	¥ 405	$ 3,448
Metal	Sakai, Osaka prefecture	Land and machinery, etc.	1,121	9,543
Advanced materials & tools	Joso, Ibaragi prefecture	Machinery, etc.	845	7,193
Aluminum	Susono, Shizuoka prefecture	Land and machinery, etc.	2,391	20,354
Other	Nagato, Yamaguchi prefecture	Land and buildings, etc.	1,508	12,837
Idle assets	Noda, Chiba prefecture	Land, etc.	3,096	26,356
Total			¥9,366	$79,731

*Details of loss on impairment by account
Buildings ¥2,172 million ($18,490 thousand), Machinery ¥2,039 million ($17,358 thousand),
Land ¥4,236 million ($36,060 thousand), Patent ¥501 million ($4,265 thousand),
Other ¥418 million ($3,558 thousand).

In measuring the loss on impairment, a recoverable amount is calculated based on the discounted cash flows from the continued use and eventual disposition of asset mainly at 5.0% discount rate for the operating asset group, and on the estimated net selling price at the time of disposal based on the real estate appraisal by the third parties, or property tax valuation, etc. for the idle assets.

Note 19—Problem of Soil and Groundwater in Osaka Amenity Park ("OAP")

In order to solve the problem of soil and groundwater at OAP comprehensively, the four companies (i.e. Mitsubishi Estate Co., Ltd., Obayashi Corporation, Mitsubishi Material Real Estate Co., Ltd., and the Company) have executed a confirmation note with the management association of OAP Residence Tower on May 8, 2005 to offer financial compensations to the present owners of the said condominium. In addition, they have also executed a confirmation note with the management association of OAP Residence Tower on January 29, 2006 to agree the method of remediation works. The Company accrued for the financial compensation and the remediation works, amounting to ¥2,800 million ($23,836 thousand) and ¥4,154 million ($35,362 thousand) respectively, and charged them to other expenses (other, net) for the year ended March 31, 2006.

Note 20—Subsequent Events

On June 29, 2006, the shareholders of the Company approved the following:

1) Payment of cash dividend of ¥4.0 ($0.03) per share to shareholders recorded as of March 31, 2006, which amounts to ¥4,581 million ($38,997 thousand) in total.
2) Payment of bonuses to directors of ¥100 million ($851 thousand).

Independent Auditors' Report

To the Shareholders and the Board of Directors of
Mitsubishi Materials Corporation:

We have audited the accompanying consolidated balance sheets of Mitsubishi Materials Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2006, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to 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 Mitsubishi Materials Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 13 (a)(6), Mitsubishi Materials Corporation has changed its method of business segment classification in the year ended March 31, 2004.
(2) As discussed in Note 2 (h), Mitsubishi Materials Corporation, the domestic consolidated subsidiaries and affiliates under the equity method have adopted the new accounting standard for impairment of fixed assets in the year ended March 31, 2006.
(3) As discussed in Note 13, Mitsubishi Materials Corporation has changed its method of business segment classification in the year ended March 31, 2006.

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

Main Consolidated Subsidiaries and Affiliates

(As of June 29, 2006)

Main Consolidated Subsidiaries	Line of Business	Percentage of Ownership
Cement		
MCC Development Corp.	Investment in cement-related industries	70%
Mitsubishi Cement Corp.	Production and sales of cement	67%
Mitsubishi Materials Kenzai Corp.	Production and sales of concrete products and other building materials	78%
Ryoko Lime Industry Co., Ltd.	Production and sales of limestone	100%
Metals		
Onahama Smelting & Refining Co., Ltd.	Smelting and refining of copper	49%
PT. Smelting	Smelting, refining and marketing of copper	61%
Sambo Copper Alloy Co., Ltd.	Production and sales of copper and brass mill products	62%
Advanced Materials & Tools		
Japan New Metals Co., Ltd.	Production and sales of tungsten and molybdenum	89%, 11% (indirectly)
Mitsubishi Materials C.M.I. Corp.	Production of micromotors and electric contacts	100%
Mitsubishi Materials Kobe Tools Co., Ltd.	Production and sales of cutting tools	100%
Mitsubishi Materials Tools Co., Ltd.	Sales of cutting tools	100%
Mitsubishi Materials U.S.A. Corp.	Surveys in the United States and sales of fabricated metal products	100%
Aluminum		
Universal Can Corp.	Production and sales of aluminum beverage cans	80%
Mitsubishi Aluminum Co., Ltd.	Production and sales of aluminum sheets, extrusion and foil	76%
Tachibana Metal Manufacturing Co., Ltd.	Production and sales of fabricated aluminum products	62% (indirectly)
Electronic Materials & Components		
JEMCO Inc.	Production and sales of chemical products	100%
Mitsubishi Materials Polycrystalline Silicon Corp.	Production and sales of polycrystalline silicon	100%
Mitsubishi Polycrystalline Silicon America Corp.	Production and sales of polycrystalline silicon	100%
Others		
Mitsubishi Materials Energy Corp.	Sales of fuel	100%
Mitsubishi Materials Techno Corp.	Technical engineering and construction	100%
Mitsubishi Nuclear Fuel Co., Ltd.	Production and sales of nuclear fuels for power generation	66%
Dia Consultants Co., Ltd.	Soil analysis and consulting	82%, 6% (indirectly)
Diasalt Corp.	Production and sales of salt	100%
Material-Finance Co., Ltd.	Financing	100%
Mitsubishi Materials Natural Resources Development Corp.	Soil analysis and consulting	100%
Mitsubishi Materials Real Estate Corp.	Real estate	100%
Ryoko Sangyo Co., Ltd.	Trading	68%

Main Affiliates*	Line of Business	Percentage of Ownership
Cement		
P.S. Mitsubishi Construction Co., Ltd.**	Construction	40%, 1% (indirectly)
Tokyohoso Kogyo Co., Ltd.	Construction	39%
Ube-Mitsubishi Cement Corp.	Marketing of cement	50%
Metals		
Kobelco & Materials Copper Tube, Ltd.	Production and sales of copper tubes and related products	45%
Mitsubishi Cable Industries Co., Ltd.**	Production and sales of electric wire and cable	29%
Mitsubishi Shindoh Co., Ltd.**	Production and sales of copper and copper alloy sheets and tubes	34%
Advanced Materials & Tools		
Plansee Mitsubishi Materials Global Sinter Holding S.A.	Production and sales of powder metallurgical products	50%
Electronic Materials & Components		
SUMITOMO MITSUBISHI Silicon Corp.	Production and sales of silicon wafers	30%

* Companies to which the equity method is applied
** Companies whose shares are listed on the Tokyo Stock Exchange

International Network

(As of June 29, 2006)

North America

Canada

Mitsubishi Materials Corp. Vancouver Office
Representative office

Mexico

MMC Metal de Mexico S.A.
Sales of cemented carbide products

United States

MCC Development Corp.
Investment in cement-related industries

Mitsubishi Cement Corp.
Production and sales of cement

Mitsubishi Materials U.S.A. Corp.
Surveys in the United States and sales of fabricated metal products

Mitsubishi Polycrystalline Silicon America Corp.
Production and sales of polycrystalline silicon

MMC Electronics America Inc.
Sales of electronic parts

RFM Inc.
Production of cemented carbide products

South America

Brazil

MMC-Metal do Brasil Ltda.
Sales of cemented carbide products

Chile

Mitsubishi Materials Corp. Chile Office
Representative office

Europe

France

MMC Metal France S.A.R.L.
Sales of cemented carbide products

Germany

MMC Hardmetal Europe GmbH
Holding company for fabricated metal products

MMC Hartmetall GmbH
Sales of cemented carbide products

Italy

MMC Italia S.R.L.
Sales of cemented carbide products

Luxembourg

Plansee Mitsubishi Materials Global Sinter Holding S.A.
Production and sales of powder metallurgical products

Netherlands

MM Netherlands Co.
Holding company for copper mine

Russia

MMC Hardmetal Russia Ltd.
Sales of cemented carbide products

Spain

Mitsubishi Materials España S.A. Sociedad Unipersona
Production and sales of cemented carbide products

United Kingdom

MMC Hard Metal U.K. Ltd.
Sales of fabricated metal products

Asia

India

Sona Okegawa Precision Forgings Ltd.
Production of precision forging gears for automobiles

Indonesia

PT. Higashifuji Indonesia
Production and sales of micromotors

PT. MMC Metal Fabrication
Production of nickel-base alloy fabricated products

PT. Smelting
Smelting, refining and marketing of copper

Malaysia

Higashifuji (Malaysia) Sdn. Bhd.
Production and sales of micromotors

Mitsubishi Materials Corp. Southeast Asia Regional Office
Representative office

MMC Electronics (M) Sdn. Bhd.
Production and sales of electronic parts

People's Republic of China

(Hong Kong SAR)

MMC Electronics (H.K.) Ltd.
Sales of electronic parts

(Other areas)

Mitsubishi Materials Corp. Shanghai Office
Representative office

MMC Electronics Hangzhou Co., Ltd.
Production of gold bonding wire

MMC Shanghai Co., Ltd.
Sales of electronic parts

Tianjin Tianling Carbide Tools Co., Ltd.
Production and sales of cemented carbide products

Yantai Mitsubishi Cement Co., Ltd.
Production and sales of cement

Singapore

MMC Electronics (Singapore) Pte. Ltd.
Sales of electronic parts

MMC Metal Singapore Pte. Ltd.
Sales of cemented carbide products

South Korea

MMC Electronics Korea Inc.
Production and sales of electronic parts

Taiwan

MMC Electronics Taiwan Co., Ltd.
Production and sales of electronic parts

Thailand

Higashifuji Thailand Co., Ltd.
Production and sales of micromotors

MMC Carbide (Thailand) Co., Ltd.
Production and sales of brazed tools

MMC Electronics (Thailand) Co., Ltd.
Production and sales of electronic parts

MMC Tools (Thailand) Co., Ltd.
Production and sales of cemented carbide products

Vietnam

Nghi Son Cement Corporation
Production and sales of cement

Oceania

Australia

Dia Coal Mining (Australia) Pty. Ltd.
Coal mining

Mitsubishi Materials (Australia) Pty. Ltd.
Development of coal mines

Corporate Data

(Nonconsolidated)
(As of March 31, 2006)

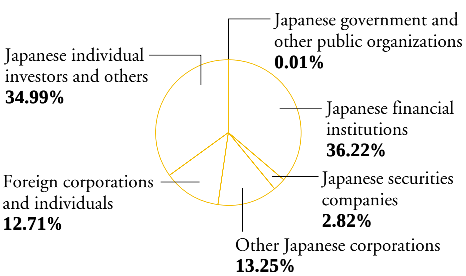
Date Established	April 1, 1950
Headquarters	1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan
Number of Employees	3,744
Number of Manufacturing Plants (Domestic)	14
Number of R&D Institutes (Domestic)	2
Number of Sales Offices (Domestic)	6

Investor Information

(As of March 31, 2006)

Shares of Common Stock	Authorized: 2,683,162,000 Issued and Outstanding: 1,147,917,921
Capital	¥101,752 million
Number of Shareholders	160,862
Stock Listings	Tokyo Stock Exchange and Osaka Securities Exchange
Transfer Agent of Common Stock	The Mitsubishi UFJ Trust and Banking Corp. 1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan
Independent Certified Public Accountants	KPMG AZSA & Co.
For Further Information, Contact	Corporate Communications & IR Dept. Mitsubishi Materials Corporation 1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan Tel: +81-3-5252-5206 Fax: +81-3-5252-5272 E-mail: www-ir@mmc.co.jp

Distribution of Shareholders



Major Shareholders	Japan Trustee Services Bank, Ltd. (Trust account) The Master Trust Bank of Japan, Ltd. (Trust account) The Bank of Tokyo–Mitsubishi UFJ Ltd. The Meiji Yasuda Mutual Life Insurance Co. Trust & Custody Services Bank, Ltd.
Annual Meeting of Shareholders	The annual meeting of shareholders of the Company is normally held in June each year in Tokyo.

Mitsubishi Materials Online

Sections of this annual report and additional information on the Company may be found on Mitsubishi Materials' home page at http://www.mmc.co.jp/

MITSUBISHI MATERIALS CORPORATION
1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan

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