MITSUBISHI

MITSUBISHI MATERIALS CORPORATION

Annual Report 2007

For the Year Ended March 31, 2007

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 advanced materials & tools—Mitsubishi Materials is also a major supplier of electronic materials & components.

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 239 subsidiaries and affiliates in 25 countries, employing 19,631 people.

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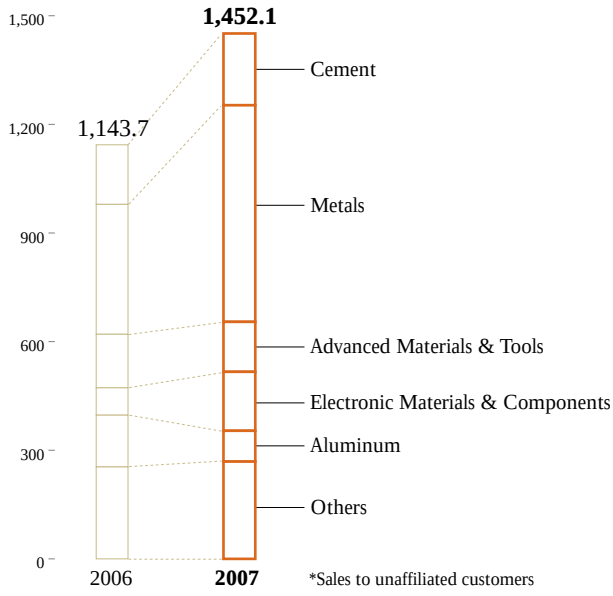
Cautionary Statement with Respect to Forward-Looking Statements
Statements made in this annual report with respect to Mitsubishi Materials' plans, strategies and beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of Mitsubishi Materials, 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.

Note
Figures for the year ended March 31, 2007 have been truncated in this annual report. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

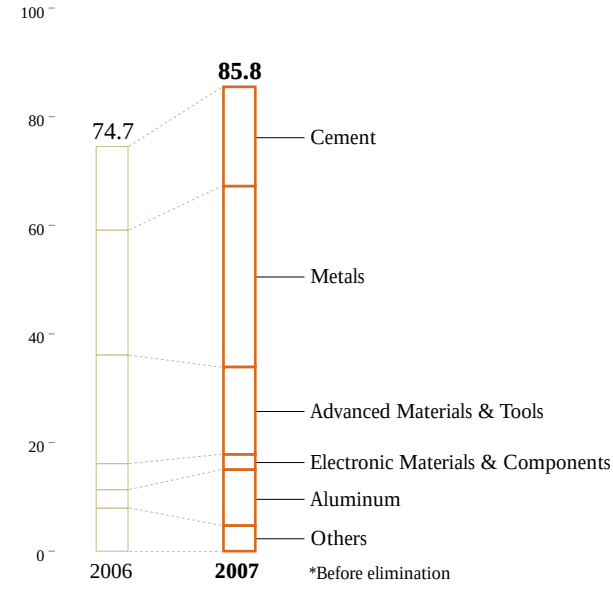
Mitsubishi Materials at a Glance

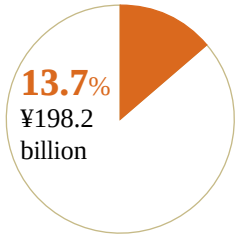
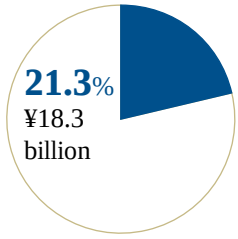
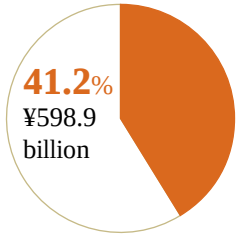
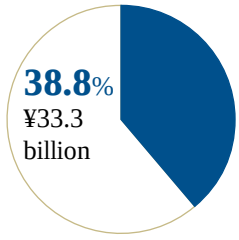
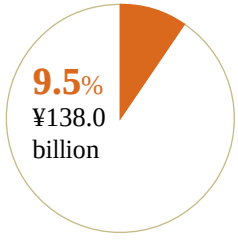
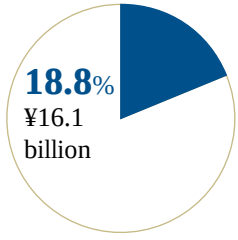
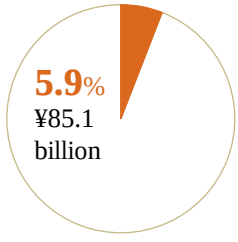
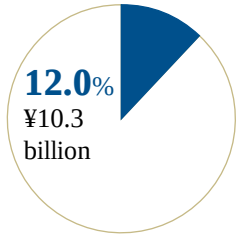
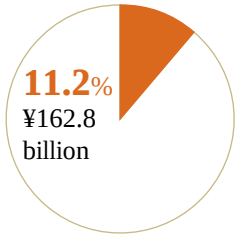
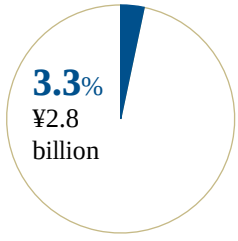
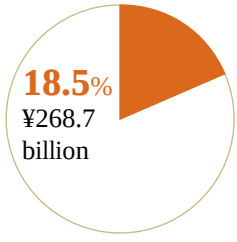
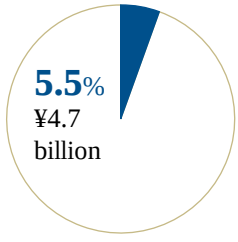
From its beginnings as a developer of resources and producer of base metals, precious metals and coal, Mitsubishi Materials has evolved into a leading name in fabricated metals, silicon products, advanced materials, cement products and a variety of other cutting-edge products and services.

Sales by Segment* (Billions of yen)



Operating Profit by Segment* (Billions of yen)



	Segment	Sales for Fiscal 2007	Operating Profit for Fiscal 2007	Major Products and Services
	Cement			• Portland cement • Cement-related products • Ready-mixed concrete • Building materials
	Metals			• Copper smelting • Processed copper products
	Advanced Materials & Tools			• Cemented carbide products • Sintered parts • High-performance alloy products • Diamond cutting tools
	Electronic Materials & Components			• Electronic materials • Chemical products • Electronic components • Polycrystalline silicon
	Aluminum			• Aluminum beverage cans • Rolled aluminum products • Processed aluminum products
	Others			• Fossil fuels • Nuclear energy-related services • Precious metals • Resources-, environment- and recycling-related products • Real estate, etc.

Message from the President

Overview

In fiscal 2007, ended March 31, 2007, operating conditions were generally favorable for the Mitsubishi Materials Group despite excessive fuel costs throughout the term. Prices of copper and other key metals remained high. We enjoyed brisk demand from the automotive, information technology and electronics sectors, while our cement operations in the U.S. generated solid growth. Consolidated net sales jumped 27.0%, to ¥1,452.1 billion. Consolidated ordinary income surged 32.7%, to ¥107.1 billion. This was the fifth consecutive rise and the third straight record performance. Consolidated net income climbed 21.4%, to ¥71.3 billion. This gain reflected additional other income from the issue of shares at affiliate SUMCO Corporation ("SUMCO"), which offset a rise in other expenses following an addition to the provision for cleanup costs of contaminated land.

Progress under Medium-Term Management Plan

In fiscal 2006 and 2007, our medium-term management plan focused on stabilizing our earnings structure while harnessing our extensive management resources to build foundations for growth as a pacesetter in core businesses. Earlier major strategic investments in our cement business in the United States, Indonesian copper smelting operations and silicon operations bore fruit through significant contributions to profits. We thus greatly increased earnings in our four core businesses of cement, metals, advanced materials & tools, and electronic materials & components.

We concentrated resources in our three major growth areas of automotive products, information electronics, and environment and recycling. We beefed up capital investments in those fields, boosting productivity while drawing on joint development programs to reinforce our technological capabilities.

At the same time, we greatly improved our financial position by divesting assets to slash interest-bearing debt.

We thus attained our management goals one year ahead of schedule.

Implementing a New Medium-Term Management Plan

In April 2007, we inaugurated "Break-through 1000," a new medium-term management plan that targets a level of more than ¥100 billion in consolidated ordinary income.

The Group's operating climate is likely to be quite challenging in the years ahead, as price trends in key metals are unclear, while the supply and demand balance of products will probably shift.

The new plan maintains the management principles of the earlier initiative. The goal is to solidify the foundations of our four core businesses, taking advantage of their differing market cycles to deliver more stable results overall. We expect such stability to reinforce Group strengths so we can consistently generate consolidated net sales of ¥100 billion even in volatile operating environments.

We will continue to strengthen our resources to realize the objectives of "Break-through 1000" while striving to administer effective solutions in materials, components and systems, and providing services dedicated to recycling-oriented, information-intensive societies. We will draw on our comprehensive capabilities to transform our operations so we can become an influential world-class business.

I look forward to your ongoing support and encouragement as we pursue excellence through these endeavors.

June 28, 2007

Akihiko Ide
President

Special Feature 1

New Medium-Term Management Plan: Presentation by the President

Mitsubishi Materials Corporation aims to actualize so-called "four-wheel-drive" management by energizing the earnings capability of its four core businesses, thereby stabilizing the management foundation and achieving sustainable growth through evolution and innovation.

Targets and key points of the plan

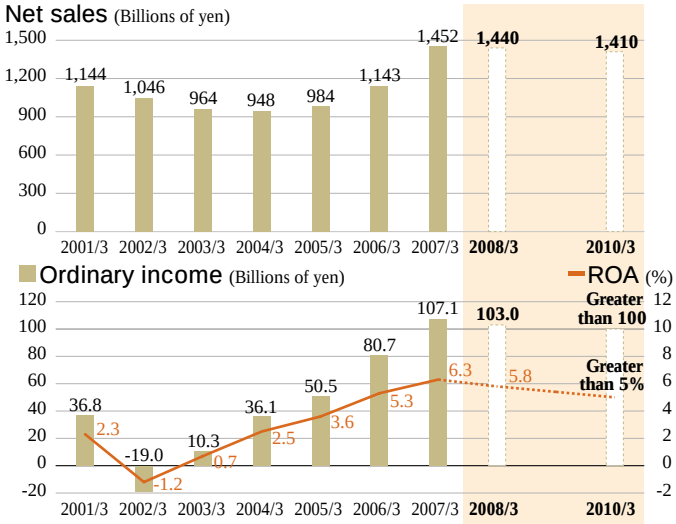
The management targets of the new medium-term management plan include securing more than ¥100 billion of ordinary income, moving above 5% of ROA (ratio of ordinary income to total assets) and achieving a debt-to-equity ratio of 1.4 times by fiscal 2010, assuming that copper prices are 200 cents per pound and the exchange rate is ¥110/US$1.

Our target amount for ordinary income is more than ¥100 billion. A cumulative decrease in income of ¥61 billion is estimated over the next three years, owing to the deterioration of procurement conditions for copper ore and a likely downturn in copper prices, which will lead to price gaps and an increase in the burden of depreciation and amortization. To address these negative factors, we undertake to improve earnings by ¥59 billion via such management efforts as expanding production, reducing costs and effectively utilizing development processes.

The key points of the new medium-term management plan address the aims of achieving gains in income and promoting further expansion. To this end, focusing on the growth drivers of each of the four core businesses—namely, Cement, Metals, Advanced Materials & Tools, and Electronic Materials & Components—a vertical value chain will be pursued from raw materials to downstream products, thereby supplying value-added businesses and products that are unique or dominant in their respective markets, and reinforcing the business foundation to stabilize earnings. Pursuing further growth, we will concentrate management resources mainly in three burgeoning fields—Automotive, Information Electronics and Environment & Recycling.

To realize our targets, we will aggressively implement ¥250 billion in capital investment and loans over the next three years to accelerate growth.

Growth foundations established through radical reform of profit-making structure



Interest-bearing debt (Billions of yen)

2001/3	2002/3	2003/3	2004/3	2005/3	2006/3	2007/3	2008/3	2010/3
889.5	898.5	827.2	792.0	737.7	691.2	685.1	685.0	685.0

New medium-term management plan (FY2008-2010) management targets

	FY2007	FY2010 (Targets)
Ordinary income	¥107.1 billion	**Greater than ¥100 billion**
ROA (Ratio of ordinary income to total assets)	6.3%	**Greater than 5.0%**
Debt-to-equity ratio	1.7 times	**1.4 times**

Improve the debt-to-equity ratio by strengthening shareholders' equity while continuing growth-oriented investments.

Capital investment and loans	FY2005-2007 ¥180.0 billion	**FY2008-2010 ¥250.0 billion**

(Reference)

Net sales	¥1,452 billion	¥1,410 billion
LME copper price (¢/lb)	316 ¢/lb	200 ¢/lb
Exchange rates (¥/$)	¥117/$	¥110/$

Special Feature 1

We aim to establish a well-balanced "four-wheel-drive" earnings structure for our four core businesses.

Expansion of our four core businesses

The ratio of ordinary income for the Metals business to the overall ordinary income of the Company was 40% in fiscal 2007 due to the impact of increased copper prices. In fiscal 2010, although a decrease in income due to the changes in copper prices will be offset by reinforcing the copper processing business, the Metals business will likely experience an income decline compared with fiscal 2007. On the other hand, we believe the Cement, Advanced Materials & Tools and Electronic Materials & Components businesses will achieve substantial growth, which will form a well-balanced profit-making structure and further stabilize the earnings structure of the whole Company.

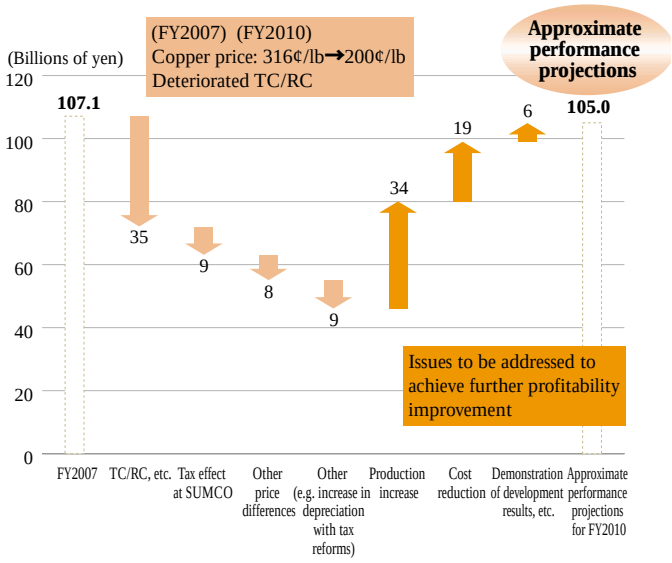
The cement business in Japan and the United States is a growth driver. In Japan, we will endeavor to expand the industrial waste treatment and limestone businesses. In the United States, with a medium- to long-term expectation of demand for cement increasing due to a rise in population in southern California and Nevada and the recovery of the U.S. economy, we plan to reinforce the capacity of import terminals and further strengthen vertical integration with the ready-mixed concrete business—the Company's strength.

The copper processing business is a growth driver of the Metals business. Harnessing our strength in manufacturing electrolytic copper and the material development of oxygen-free copper and copper alloy, we will promote business connections among three Group companies—the Company, Mitsubishi Shindoh Co., Ltd., and Sambo Copper Alloy Co., Ltd.,—to aggressively expand the Group's rolled copper business.

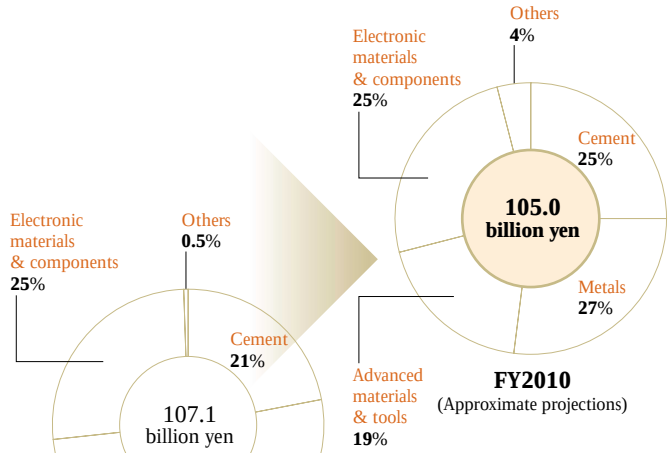
The cemented carbide products business is a growth driver of the Advanced Materials & Tools business. Automotive manufacturers, which are the main users of our products, are increasing the manufactured volume of automobiles, and we anticipate sustainable growth proportional to their commercial development. Brazil, Russia, India and China (The BRICs), in particular, are achieving rapid growth in the manufacture of automobiles, and positioning our overseas sales expansion to cope with the BRICs' advance is critical. The Group aims to raise its overseas sales ratio in this area to 50% or more.

The silicon business is a growth driver of the Electronic Materials & Components business. Pursuing a vertical value chain with SUMCO, the Company will increase the manufactured volume of polycrystalline silicon to sell to SUMCO.

New medium-term management plan: Ordinary income changing factors



Breakdown of ordinary income by segment



FY2010	(Billions of yen)
Cement	26.5
Metals	28.0
Advanced materials & tools	20.5
Electronic materials & components	26.0
Aluminum	5.5
Others, elimination, etc.	-1.5
Total	105.0

Our goal is to achieve evolution and innovation by promoting growth strategies.

Strategies in three growth fields

The Company has determined Automobiles, Information Electronics and Environment & Recycling to be its three main growth fields. We are concentrating our management resources in terms of capital investment and R&D in these three burgeoning areas. Of the ¥250 billion allotted for capital investment and loans over the next three years, nearly half will be designated for investment in new developments and to increase manufactured volume. Of that allotment, 60%, or ¥75 billion, will be directed to the three growth fields.

As a result of this strategy, we expect to create an additional ¥11.4 billion in income over the three years of the new medium-term management plan and ¥13.9 billion over the next five years. R&D expenses will be distributed at 40% for Information Electronics, 20% for Automobiles and 15% for Environment & Recycling, with R&D expenses for these three growth fields accounting for three-quarters of total R&D expenses.

Cash flow plan and financial plan

For the three years of the new medium-term management plan, cash flow from investing activities is expected to largely exceed depreciation and amortization. As a result, free cash flow will be ¥35 billion, which will be mainly used to increase returns to shareholders.

For the Company, creation of operating cash flow is an issue. As investments increase, thereby reinforcing earnings capacity, we expect a further jump in operating cash flow approaching fiscal 2010.

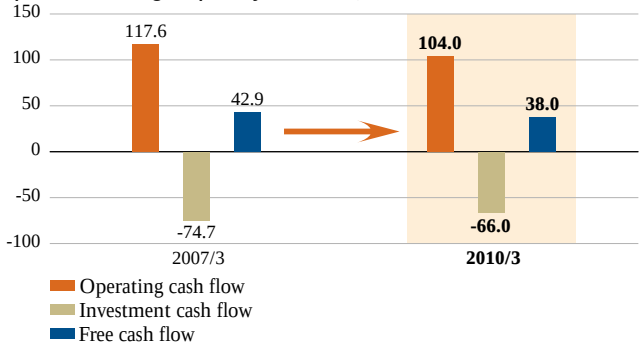
To improve our financial structure, we will continue our financial plan to focus on the next three years by maximizing earnings. To improve earnings during the period, we plan to raise equity to achieve a debt-to-equity ratio of 1.4 times. Regarding dividends, we are aiming for a consolidated payout ratio of 20%.

Over the next three years, we will strive to establish a well-balanced “four-wheel-drive” earnings structure for our four core businesses, thereby establishing a sturdy management base, to become an influential global entity—a comprehensive materials manufacturer with high earnings capability. We will grow to become a company that meets investors’ expectations of excellence and ingenuity.

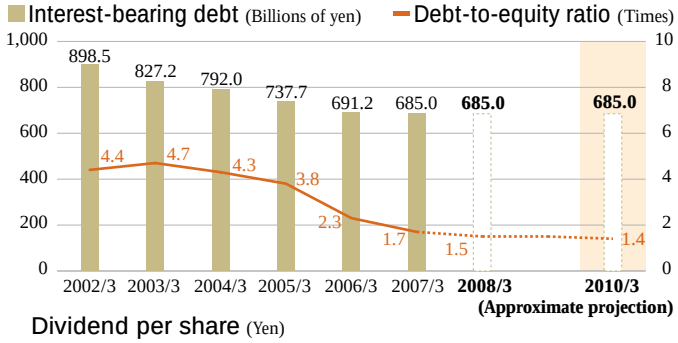
Total cash flows for three years (FY2008–2010)

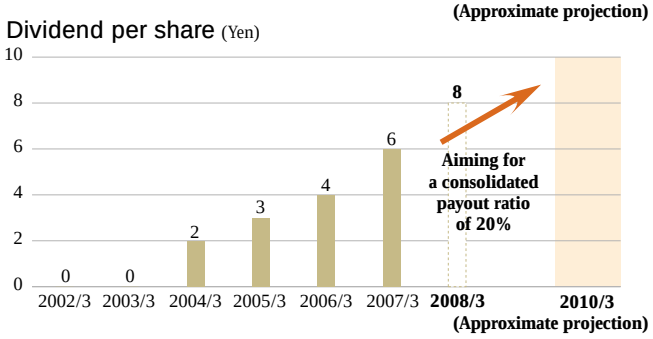
Operating cash flow:	¥285 billion
Investment cash flow: (Depreciation and amortization: ¥194 billion)	-¥250 billion
Free cash flow:	¥35 billion

Creation of cash flows via strengthened profit-earning capacity (Billions of yen)



Financial plan





Special Feature 2

New Medium-Term Management Plan: Investments and Growth Strategies and Research and Development

Mitsubishi Materials seeks to stabilize earnings and pursue growth strategies centered on its four core businesses of Cement, Metals, Advanced Materials & Tools, and Electronic Materials & Components, and its three growth areas, notably the Automobile, Information Electronics, and Environment & Recycling fields. Our goal is to harness our comprehensive management strengths so we can consistently generate consolidated ordinary income at a level of more than ¥100 billion in all operating climates.

Generating Growth through ¥250 billion in Investments

We have allocated ¥250 billion for capital expenditures and loans over the next three years, significantly more than the ¥180 billion spent in the previous three years.

Four Core Businesses
We aim to solidify the foundations of these businesses by upgrading and modernizing facilities, enhancing productivity, and deploying policies to prevent opportunity losses so we can strengthen competitiveness.

Planned Capital Expenditures for Four Core Businesses

Cement ¥52.5 billion

- Bolster in-house electricity generation
- Beef up industrial waste treatment facilities
- Jointly develop limestone mines
- Increase U.S. terminal capacity

Metals ¥57.0 billion

- Increase copper ingot production
- Install furnace at Onahama Plant
- Expand recycling business

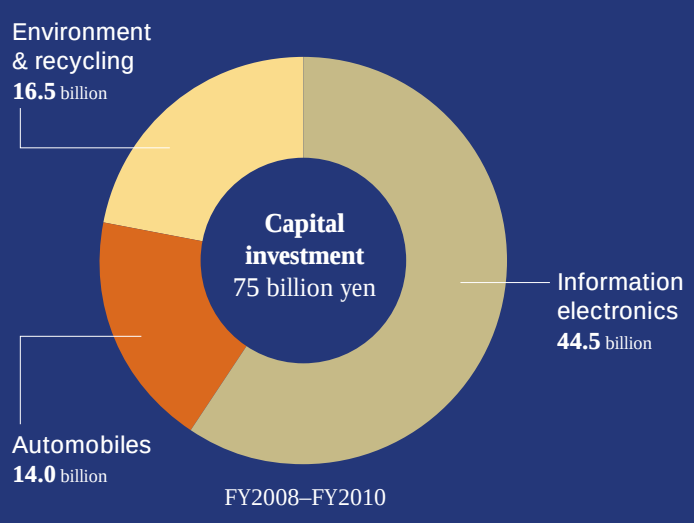
Advanced materials & tools ¥33.0 billion

- Raise production of hard-metal tools
- Boost production of advanced materials and aerospace products

Electronic materials & components ¥40.0 billion

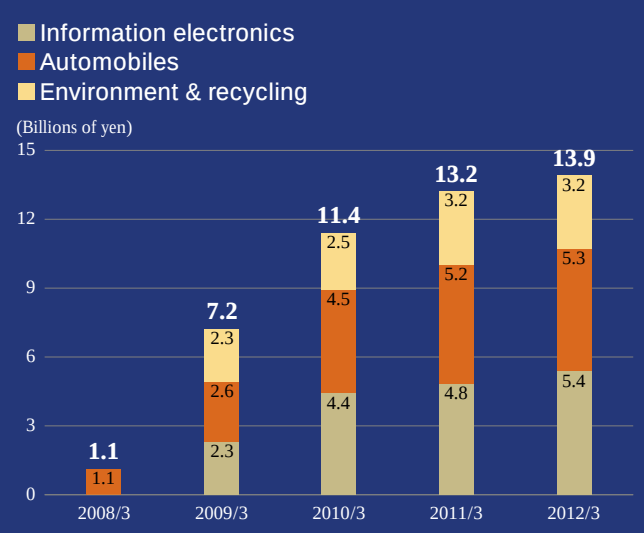
- Raise polycrystalline silicon production
- Increase production of semiconductor products

Promotion of the three growth fields strategy



Investment effects (Ordinary income)

Approximate projections



Note: As the time is not fixed the effects of an extensive increase in production of polycrystalline silicon is not included.

Three Growth Areas

We have allocated around half of our ¥250 billion in capital expenditures over the next three years to new businesses, development and production increases, and about 60% of that amount, or ¥75 billion, will go to our three growth areas.

As a result, we should generate ¥11.4 billion in ordinary income from these three areas within three years and around ¥15.0 billion within five years.

Research and Development

At Mitsubishi Materials, the parent handles most research and development for core businesses. We also conduct joint R&D with consolidated subsidiaries, which also handle some of their own research in line with the specific requirements of their businesses and customer bases. R&D aims to support expansion in existing businesses while pursuing advances in basic and leading-edge areas that lay the foundations for operations.

Under the new medium-term management plan, we intend to raise corporate R&D expenditure an average 30% annually, to ¥18.0 billion, over the next three years. Our three growth areas will account for around 75% of this spending. We have earmarked 40% to Information Electronics, 20% to Automobile operations, and 15% to the Environment & Recycling field. Our marketing and development operations are working on new offerings to match market needs. Our total R&D expenses in fiscal 2007 were ¥11.1 billion.

Strengthening Core Technologies in Manufacturing

Our wet and reactive processes, metals and fabrication processes, and interface and thin-film control technologies are key areas for all our core businesses. Under our medium-term management plan, we are concentrating on these technologies to differentiate our products and create next-generation offerings in order to solidify our technological foundations over the medium and long terms.

For example, wet and reactive processes support our copper smelting and cement businesses and are also fundamental to our environment & recycling and polycrystalline silicon operations.

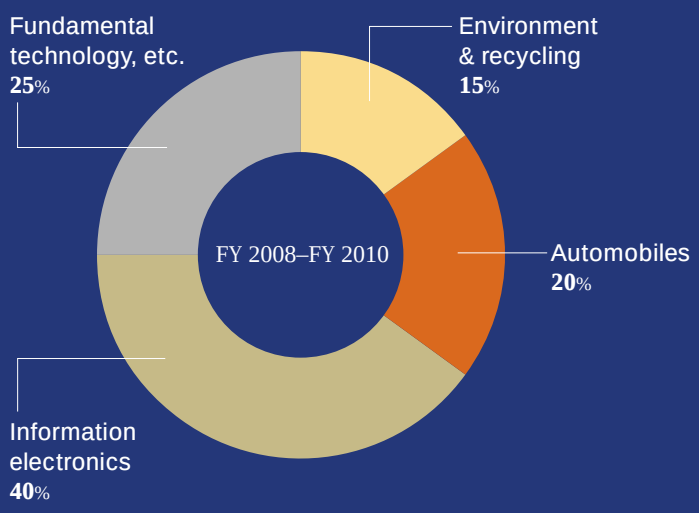
Metals and fabrication processes are the building blocks of our metals and aerospace materials businesses, and we are also deploying them in such growth areas as automotive connector materials and flat-panel display targets.

We employ interface and thin-film control technologies in wear-resistant coatings for hard-metal tools and other value-added products and plan to use them in electronic devices and other new fields.

Intellectual Property Strategy

We have invested heavily in our intellectual property strategy. We are prioritizing international filings, particularly in the increasingly important Chinese and European markets. We aim to remove the upper remuneration limits for in-house inventors. It is also important in our intellectual property strategy to raise the quality of patent filings and enhance employee awareness of such property. We thus offer Groupwide education to bolster our capabilities in this area.

Breakdown of R&D expenditures in corporate divisions



¥18 billion in the three year period of FY2008-2010

30% increase against actual results for FY2006-2007 (annual average)

R&D themes in the three focused fields

Environment & recycling

Incremental waste disposal technology, wet smelting/refining

Automobiles

Connector materials (Copper processed products), tool coating

Information electronics

Display materials, polycrystalline silicon

Our core technologies

- Analysis and evaluation technologies
- Wet-type reaction process technology
- Metal processing/ process technology
- Interfacial/thin-film technology
- CAE technology

Review of Operations

Hiroo Kiyokawa
President of Cement Company

Cement

Profile

Mitsubishi Materials' Cement business spans the Pacific, covering Japan, the United States, China and Southeast Asia.

Joint venture Ube-Mitsubishi Cement Corp., along with Ube Industries, Ltd., sells our products in Japan. It ranks second domestically, with a market share of around 24%.

Our Kyushu Plant is the largest and most cost-efficient in Japan, shipping cement domestically and abroad. The hub of our American operations is California, where we make cement locally and also maintain a terminal that imports cement from China and Southeast Asia.

We are encouraging Japan's cement industry to focus on 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

Japanese demand for cement remained consistent at around 59 million metric tons in the period under review, as the private sector compensated for a downturn in public-sector demand. We maintained favorable domestic and export shipments and prioritized the raising of prices to cover higher energy costs. The sales volumes and prices of our U.S. operations remained high. Our Chinese operations achieved strong exports to the United States and satisfactory sales within China despite soaring costs of coal and other raw materials, thereby keeping revenues and earnings basically unchanged.

Volumes and sales of aggregate and limestone increased, owing to steady demand for core Portland cement.

As a result of these factors, segment sales climbed 20.5% in fiscal 2007, to ¥198.2 billion. Operating profit rose 17.2%, to ¥18.3 billion.

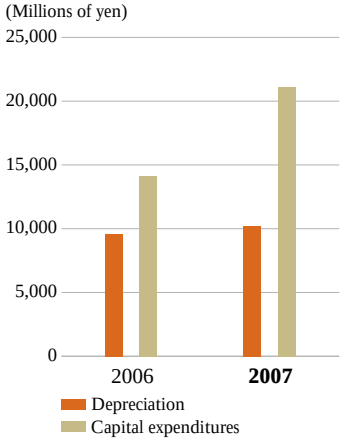
Outlook

In fiscal 2008, we expect domestic cement demand to decline to 58 million metric tons, as a reduction in the government's public investment budget will most likely overshadow private-sector consumption, which remains strong. The costs of coal and sea freight have been high since the second half of 2005, so we are working to raise cement prices accordingly while expanding revenues from industrial waste product treatment and lowering expenses.

Our Higashitani Mine quarry sells sand made from its limestone, allowing our aggregate business to harness this abundant domestic resource. Demand for this sand has surged because of restrictions on imports from China, and we intend to boost production capacity in the years ahead.

Despite concerns about slower housing demand and the possibility of falling prices, we anticipate favorable results in our U.S. cement business in the year ahead based on stronger demand from the non-housing and public sectors. Our affiliates have also deployed initiatives to bolster revenues and earnings.

Millions of yen		Percentage change
•Sales		
2007	2006	2007/2006
¥198,288	¥164,501	20.5%
•Operating profit		
2007	2006	2007/2006
18,335	15,639	17.2
•Indentifiable assets		
2007	2006	2007/2006
280,368	264,000	6.2
•Depreciation		
2007	2006	2007/2006
10,216	9,582	6.6
•Capital expenditures		
2007	2006	2007/2006
21,114	14,127	49.5



Kyushu Plant, the biggest plant in Japan
<Japan>
Mitsubishi Materials Corporation
Cement production

Cushenbury Plant, Mitsubishi Cement Corporation
<U.S.A.>
Mitsubishi Cement Corporation
Cement production
Cement import terminal
Sales

Ready-Mixed Concrete Plant
<U.S.A.>
MCC development
Investment in ready-mixed concrete and aggregates industries

Yantai Mitsubishi Cement Co., Ltd.
<China>
Yantai Mitsubishi Cement Co., Ltd.
Cement production and sales

Segment Philosophy

To become a major manufacturer in the Pacific Rim region by focusing on regional portfolio management

Core Strategies

—To concentrate management resources on operating bases in the Pacific Rim region where higher performance is expected, with the Kyushu Plant as a strategic base, thereby leading to a more dynamic earnings structure

(1) Japan: Offset a projected decline in domestic demand by raising cement prices and reducing manufacturing costs to improve profitability

We are targeting ¥15.6 billion in revenues from industrial wastes in fiscal 2010, a significant increase from the current level of ¥14.5 billion, including through the use of alternative treatments. We also aim to raise sand production to 1.7 million metric tons annually by fiscal 2009, up from 0.9 million metric tons in fiscal 2007.

(2) United States: Expand downstream fields by deploying vertically integrated cement production, imports and sales in the ready-mixed concrete and aggregate businesses

Our profit margins are high because we do not only produce and sell cement—we also offer ready-mixed concrete downstream and have established a vertically integrated business model. Demand for cement is expected to increase in the medium term. We will upgrade our import terminal and expand our sales area accordingly, thus maintaining the high earnings of our U.S. cement business while pursuing stable growth.

Business Environment

Projected demand for cement

Japan

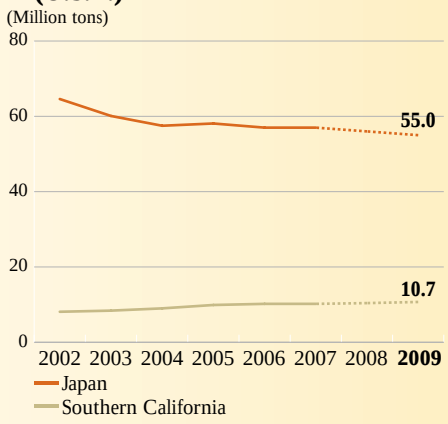
(FY2007) 59 million tons
(FY2010) 55 million tons

Southern California (U.S.A.)

(2006) 10.2 million tons
(2009) 10.7 million tons

Released by the United States Cement Association in the summer of 2006

Transition of domestic demand for cement in Japan and southern California (U.S.A.)



Although demand for cement in southern California, the Company's core market, is expected to gradually increase, the Company made a conservative estimate that demand level will stay flat until 2009 given the decline in housing construction since late last year.

Metals

Toshinori Kato
President of Metals Company

Profile

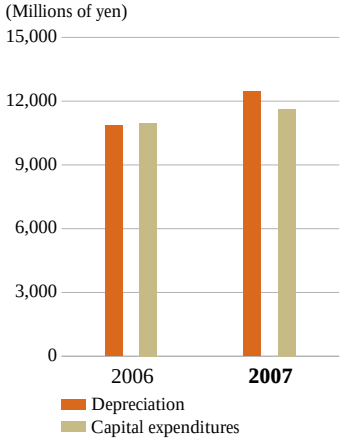
Our Metals business integrates investments in copper mines, copper smelting and the production of processed copper products.

We have investments in four copper mines overseas. Our two domestic copper smelters together produce 340 thousand metric tons of copper cathode annually. Our Indonesian smelter began operations in 1999, and it has since boosted its production capacity to 270 thousand metric tons of copper cathode per year from the original capacity of 200 thousand metric tons. We have also 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 copper cathode we make in Japan as processed copper to Group electric wire and rolled copper makers and other manufacturers in Japan and overseas. We use high-purity copper cathode in a special melting and casting process to make oxygen-free copper and copper alloy ingots, enjoying a massive share of the global market for these offerings because of their superior quality. We are broadening applications of copper to 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 and stable source of earnings.

Performance

Millions of yen		Percentage change
•Sales		
2007	2006	2007/2006
¥598,921	¥358,765	66.9%
•Operating profit		
2007	2006	2007/2006
33,395	22,962	45.4
•Indentifiable assets		
2007	2006	2007/2006
466,294	395,493	17.9
•Depreciation		
2007	2006	2007/2006
12,455	10,846	14.8
•Capital expenditures		
2007	2006	2007/2006
11,626	10,965	6.0



Sales for rolled copper and copper wire were favorable during the year under review, reflecting solid domestic demand from the semiconductor and automotive sectors. Overall volumes were down, however, as problems at the plant of an oxygen supplier forced PT. Smelting in Indonesia to suspend operations from October through December 2006. Nonetheless, we increased revenues on the strength of high copper prices.

In processed copper products, volumes and revenues rose amid steady demand for electronic materials and automotive parts. The consolidation of Mitsubishi Shindoh Co., Ltd., also contributed to this robust performance.

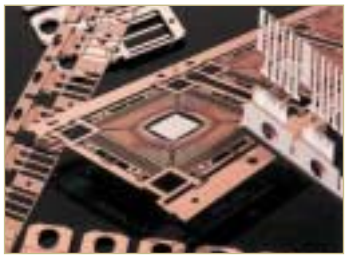
Sales from this segment thus soared 66.9%, to ¥598.9 billion, while operating profit jumped 45.4%, to ¥33.3 billion.

Outlook

We expect demand for copper to remain favorable in fiscal 2008, particularly in the automobile and semiconductor sectors, owing to global economic growth led by China and India. At the same time, we anticipate a supply surplus because new and expanded smelters will add capacity. Investment funds will probably continue to cause far greater fluctuations in commodity markets than actual demand would suggest. There is also likely to be a shortage of copper ore because of higher demand in India and China and lower production at large copper mines. Ore purchasing terms could generally worsen, although discussions and negotiations based on then prevailing market conditions will determine outcomes. While we assume that copper prices, ore purchasing terms and other business climate factors will peak out, we aim to underpin profitability by cutting smelting costs while expanding our copper processing operations.

Escondida, Chile
<Mine>
Mines
Huckleberry (Canada)
Escondida (Chile)
Los Pelambress (Chile)
BatuHijau (Indonesia)

PT. Smelting, Indonesia
<Smelter & refinery>
Naoshima
Onahama
Gresik (Indonesia)



Lead frames
<Copper processing products>
Mitusbishi Shindoh Co., Ltd
Sambo Copper Alloy Co., Ltd.
Mitsubishi Cable Industries Co., Ltd.
Kobelco & Materials Copper Tube, Ltd.

Eco-Friendly Naoshima
<Recycling plant>
Shredder dust (ASR)
Copper-bearing sludge
Metal-bearing substrates

Segment Philosophy

Boost value and steadily increase earnings by drawing on our cost-competitiveness, technologies and development capabilities, and vertical integration of everything from copper smelting to processing

Core Strategies

—Achieve world-class cost competitiveness through reinforcement of recycling treatment, harnessing our strength in both the Mitsubishi Process Smelting Furnace and reverberatory, and augmenting the value in the rolled copper business using our material development capabilities of oxygen-free copper and copper alloy

(1) Copper smelting: Stabilize profitability by reducing costs

We will strengthen our earnings structure by lowering copper smelting costs, thereby overcoming an expected deterioration in the operating environment.

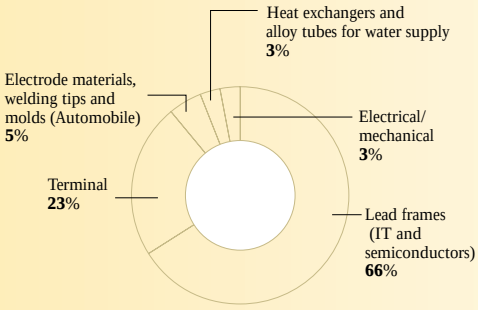
In Japan, we will expand the recycling of shredder dust and other materials at the Naoshima and Onahama plants. The Onahama Plant will reduce costs by deploying a Smelting Furnace that uses the Mitsubishi Process.

Overseas, PT. Smelting will further increase capacity to take advantage of buoyant demand in Southeast Asia.

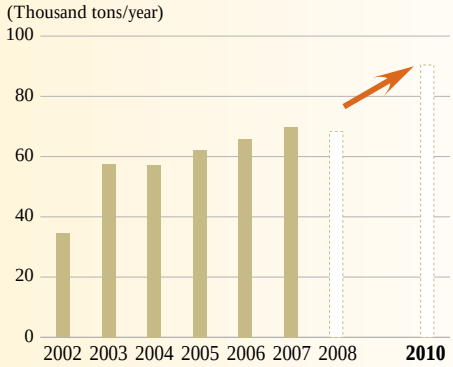
(2) Copper processing: Improve the value chain of Group rolled copper companies by stepping up copper alloy development

In processed copper products, we have the top share of the global market for copper alloys used in semiconductor lead frames and automotive device connectors. We plan to raise annual production and sales of these alloys to 100 thousand metric tons, an increase of 30 thousand metric tons over current levels. We intend to increase capacity in copper balls for plating by 20 thousand metric tons to 40 thousand metric tons annually. We will build on the effects of the tie-up of Mitsubishi Shindoh Co., Ltd., and Sambo Copper Alloy Co., Ltd.

Electrolytic copper production capacity
- Naoshima 230kt/y
- Onahama 110kt/y
- Gresik (Indonesia) 270kt/y



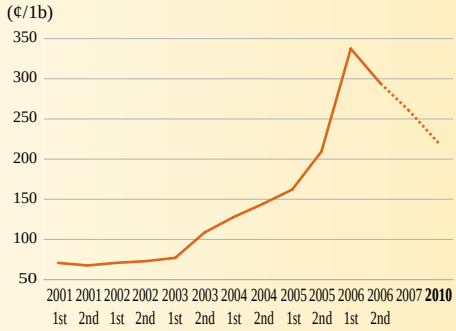
Changes in sales volume of copper alloys



Business Environment

Assumed copper price (LME):
316¢/lb (FY2007) → 200¢/lb (FY2010)
Assumed exchange rate:
¥117/$1 (FY2007) → ¥110/$1 (FY2010)
Demand for rolled copper: Estimated to increase both inside and outside Japan

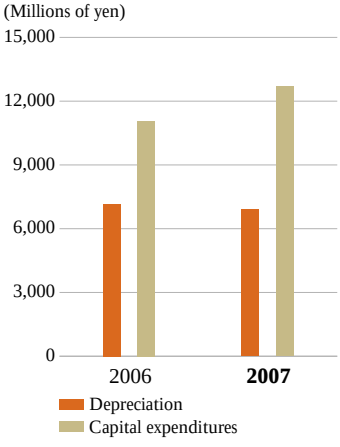
LME copper price



Advanced Materials & Tools

Hironori Yoshimura
President of Advanced Materials & Tools Company

Millions of yen		Percentage change
•*Sales*		
2007	2006	2007/2006
¥138,095	¥147,908	-6.6%
•*Operating profit*		
2007	2006	2007/2006
16,114	19,985	-19.4
•*Indentifiable assets*		
2007	2006	2007/2006
166,433	162,855	2.2
•*Depreciation*		
2007	2006	2007/2006
6,894	7,155	-3.6
•*Capital expenditures*		
2007	2006	2007/2006
12,702	11,063	14.8



Profile

This business segment encompasses cemented carbide products for machine tools for metal cutting as well as core functional parts for automobiles and electrical products. It also covers high-performance heat-resistant, corrosion-resistant and wear-resistant materials used in key and leading-edge industries, as well as diamond tools. 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

Domestic sales of cemented carbide products declined during the year owing to a downturn in demand for tools from automotive companies. Overall sales of these products rose, however, on the strength of solid demand in Europe and the United States. Operating profit decreased because we adopted a new inventory accounting standard.

We boosted sales and profits in high-performance alloy products on the back of favorable demand from the aerospace and automotive sectors.

Sales of diamond tools rose following steady demand for automotive, information technology and digital products, although price reductions led to lower earnings.

In powder metallurgy products, sales and earnings were down because we integrated our operations in this area with those of Plansee Holding AG of Austria on December 1, 2005, and created Mitsubishi Materials Plansee Global Sinter Holding S.A., an equity-method affiliate.

As a result of these factors, segment sales fell 6.6%, to ¥138.0 billion. Operating profit dropped 19.4%, to ¥16.1 billion.

Outlook

We are reinforcing our production and sales structures for cemented carbide products to accommodate expanding global automobile production. Demand remains strong for our mainline inserts. We will invest in facilities in fiscal 2008 to boost capacity by around 10% and generate added value. We will integrate Mitsubishi Materials Kobe Tools Co., Ltd., in October 2007, to the company's management, thereby accelerating its decision making and boosting its technological development capabilities so it can generate more growth in cemented carbide products. That company has contributed greatly to our outstanding competitiveness in cemented carbide products since we acquired it in 2000, giving us access to its advanced coating and other technologies and leading to the establishment of one of the largest sales organizations in Japan.

Prices of tungsten, an important material used in cemented carbide products, will probably remain high in the year ahead. We will cut costs and shift to products that use less tungsten.

The high-performance alloy business is expected to enjoy favorable conditions in the aerospace market, and so we are concentrating on broadening our lineup of forged parts for aircraft engines. Demand should remain solid for industrial gas turbine and automotive offerings.

Demand for diamond tools is still strong in the information technology and electronic device sectors, although we face increasingly heavy discounting and quality pressures from customers. We will thus enhance productivity and develop more offerings to stabilize our earnings structure.

Automobile sector demand for powder metallurgy products should generally stay strong. We will identify consumption trends among specific customers and minimize the impact of drops on our results while stepping up marketing.

Cutting tools
<Cemented carbide products>

Fan case for aircraft engines
<High performance alloy products>

<Diamond tools>

Sintered parts
<Powder metallurgy products>

Segment Philosophy

Become a valued supplier for the global automotive, aircraft and information technology industries

Core Strategies

—Harness our strength in covering the entire process from smelting cemented carbide materials to producing finished tools
—Expand the cemented carbide products business and the powder metallurgy business through aggressive globalization
—Expand the cemented carbide products and high-performance alloy products businesses in the aircraft industry, which is a new market

(1) Cemented carbide products: Bolster our sales structure and service network to accommodate rising global automobile production

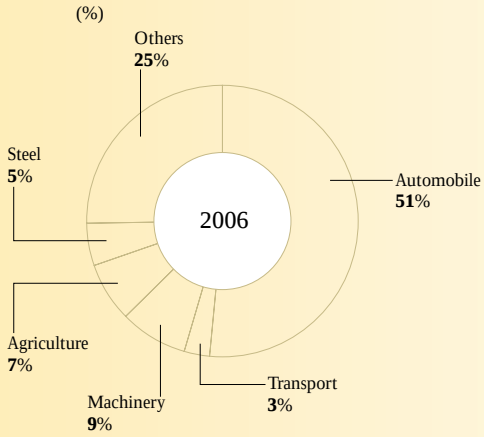
Specific initiatives

- Invest ¥22 billion over three years to boost production capacity by 20%
- Expand overseas sales network by reinforcing bases in Brazil, Russia, India and China (BRICs)
- Increase percentage of new products to total sales from 45% to more than 50%
- Stabilize raw materials procurement by increasing tungsten recycling
- Expand sales of aerospace offerings from ¥1.5 billion in fiscal 2007 to ¥5.5 billion in fiscal 2010, thereby raising our global market share from 0.7%, to 2%

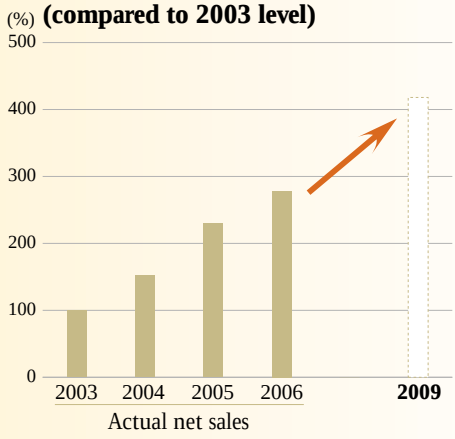
(2) High-performance alloy products: We have consolidated our product range in recent years, and are concentrating on offerings for industrial turbines, aircraft and automobiles

We are particularly strong in the manufacture of disks, rings, cases and other parts for aircraft engines, and plan to raise our global market share to more than 10% in these areas.

Cemented carbide products (cutting tools) by end market



Growth of net sales of our cemented carbide products in the BRICs (compared to 2003 level)



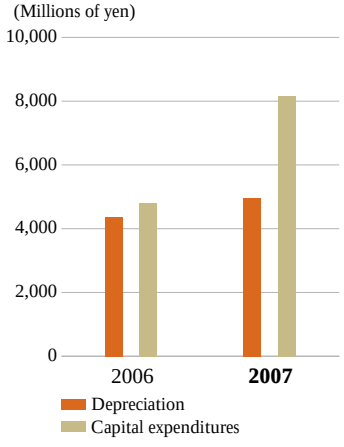
Business Environment

Number of automobiles manufactured in fiscal 2010 *In Japan*: The number to be manufactured will be level with an estimated 11 million in fiscal 2007. *Globally*: Annual 5% growth is expected from a foundation of approximately 68 million in fiscal 2007.
Amount of cemented carbide products shipped in fiscal 2010 Annual 5% growth is expected from a foundation of approximately 331 billion shipped in Japan in fiscal 2007.
Number of aircraft manufactured in fiscal 2010 Annual 5% growth is expected from a foundation of approximately 18,000 manufactured in fiscal 2007.

Electronic Materials & Components

Mayuki Hashimoto
President of Electronic Materials & Components Company

Millions of yen		Percentage change
•Sales		
2007	2006	2007/2006
¥85,189	¥75,525	12.8%
•Operating profit		
2007	2006	2007/2006
10,388	4,814	115.8
•Indentifiable assets		
2007	2006	2007/2006
169,282	137,310	23.3
•Depreciation		
2007	2006	2007/2006
4,970	4,361	14.0
•Capital expenditures		
2007	2006	2007/2006
8,162	4,801	70.0



Profile

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

Performance

Sales of advanced materials rose as the market remained favorable for semiconductor products used in personal computers, digital appliances and cellular phones.

In the electronic components division, revenues were down but earnings increased from a year earlier, owing to the transfer of operations of the Kamaya Electric Group and the ceramic disk capacitor business of MMC Electronics Taiwan Co., Ltd., to another company during the term. Shipments of electronic components remained strong, reflecting aggressive manufacturing of key electronic products, notably digital equipment for televisions that receive terrestrial digital broadcasts, personal computers and cellular telephones.

Sales and earnings from polycrystalline silicon increased because of higher production and prices in response to strong demand for 300 mm wafers, the segment driver, as well as expanded semiconductor markets and brisk activity among solar cell makers.

We boosted sales of chemical products to the expanding semiconductor industry, display makers, battery materials manufacturers and the automotive sector.

Segment sales rose 12.8%, to ¥85.1 billion. Operating profit rocketed 115.8%, to ¥10.3 billion.

Outlook

We expect the semiconductor and electronic media businesses to continue performing steadily.

In the semiconductor market, such key areas as personal computers and cellular phones will drive performance. We anticipate growth to remain high in the solar cell market because of rising interest in clean energy. We expect demand to stay robust for our polycrystalline silicon, and have accordingly decided to merge a subsidiary polycrystalline silicon company to stimulate further growth. We intend to satisfy strong demand for semiconductor silicon wafers by boosting production capacity through investment. We have already completed a project in the United States to manufacture an additional 300 metric tons every year and we are now working to secure customer certification so we can operate at a full 1,500 metric tons of annual capacity by summer 2007. We also plan to raise annual capacity at our Yokkaichi Plant in Japan by 150 metric tons, to 1,800 metric tons per year.

In precision silicon processed products, we plan to meet strong demand for solder paste used in semiconductor devices by investing heavily to boost manufacturing capacity.

We continue to thrive in the production of electronic components for digital appliances and chip surge absorbers for car antenna, and we are benefiting from steady gains in sales of automotive temperature sensors.

We will continue to focus on semiconductor, display and automotive applications for our chemical products.

Polycrystalline silicon
<Silicon>

Precision silicon products
<Advanced materials>

Chip absorbers
<Electronic components>

Solder paste
<Electronic components>

Segment Philosophy

Achieve high profitability by harnessing the vertical value chain in silicon products and by manufacturing value-added niche offerings

Core Strategies

(1) Polycrystalline silicon: Build a vertical value chain with SUMCO

In the silicon business, we will build a vertical value chain with SUMCO, which plans to significantly increase its business in 300 mm wafers. We plan to raise production of polycrystalline silicon, largely for SUMCO, and aim to increase annual production capacity of polycrystalline silicon by a level of 1,000 tons, in addition to an ongoing 450-ton production increase.

(2) Advanced materials: Harness materials development capabilities and concentrate on manufacturing value-added niche products, mainly for semiconductor applications

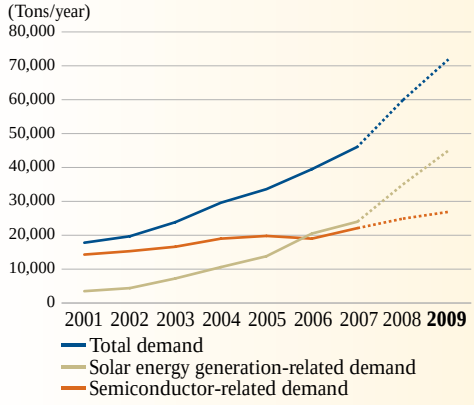
We aim to expand scale in such niche-leading offerings as silicon high-precision processed products and solder paste following the transition to semiconductors of higher accuracy and higher density.

(3) Electronic components: Reinforce development and commercialize high-quality electronic components in areas where heightened demand is expected

We will preempt planning among competitors in the automotive and telecommunications and consumer electronics industries by developing and commercializing new technologies.

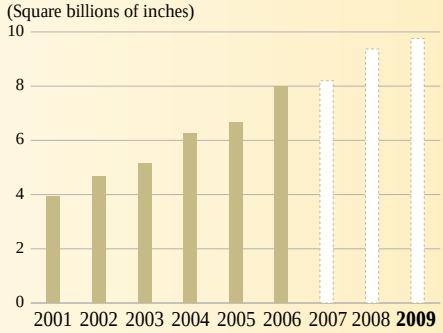
Business Environment

Changes in and projections of demand for polycrystalline silicon (Estimated by the Company)



Demand for polycrystalline silicon is expected to continue to be tight, influenced by demand for its use in solar cells.

Expected worldwide shipping volume of silicon wafers



Annual 7% growth by 2009 is estimated for silicon wafers, mainly 300 mm, as the semiconductor market grows.

Aluminum

Masaharu Kubo
President of Aluminum Division

Profile

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

We are cultivating new demand for aluminum containers. Most notable are our proprietary aluminum bottles, which have won top marks for maintaining the long-term freshness of beverages by keeping them impervious to air and light. In our rolled aluminum business, we have achieved solid growth in rolled and extruded offerings for automotive applications, and we expect demand in this area to continue to expand.

We aim to reinforce our aluminum recycling structure to enhance cost-competitiveness, thereby improving revenues and earnings. We are employing Green Productivity Management to reduce environmental impact and improve lifestyles by enhancing the life cycles of aluminum resources.

Performance

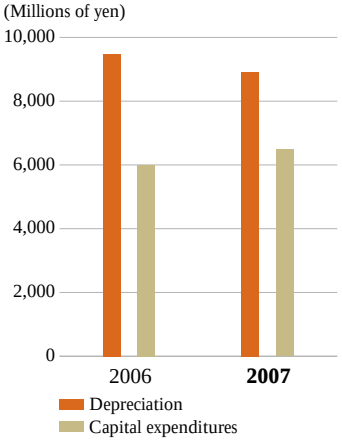
Sales of regular aluminum cans were steady in the year under review. Sales volume surged owing to the integration of our operations with those of what was then Hokkai Can Co., Ltd., and is now Hokkan Holdings Ltd. Earnings were down despite efforts to increase prices and cut costs in response to surging aluminum ingot costs. In rolled and processed aluminum products, both revenues and profits improved on the back of steady sales of aluminum sheet and other rolled products and extruded offerings for automotive applications. The revision of our prices to offset higher raw materials costs also contributed to this performance.

Segment sales thus increased 13.8%, to ¥162.8 billion, although operating profit dropped 17.2%, to ¥2.8 billion.

Outlook

Ongoing competition with polyethylene terephthalate (PET) bottles and other containers from rivals and high raw materials costs will likely affect the aluminum can business in fiscal 2008. We thus aim to improve revenues and earnings by revising prices, harnessing integration synergies and expanding marketing based on the advantages of our aluminum bottles. We will endeavor to improve segment performance by boosting sales of rolled and processed aluminum products to the automotive sector.

Millions of yen		Percentage change
•Sales		
2007	2006	2007/2006
¥162,841	¥143,093	13.8%
•Operating profit		
2007	2006	2007/2006
2,849	3,441	-17.2
•Indentifiable assets		
2007	2006	2007/2006
183,585	180,913	1.5
•Depreciation		
2007	2006	2007/2006
8,921	9,478	-5.9
•Capital expenditures		
2007	2006	2007/2006
6,481	5,992	8.2



Aluminum beverage cans
<Aluminum cans>

Bottle-shaped can
<Aluminum cans>

Multi-port flat tubes for
car air conditioner
<Rolled aluminum>

Bumper reinforcement for automobile
<Rolled aluminum>

Segment Philosophy

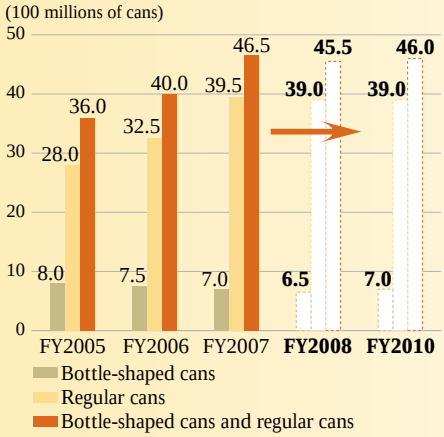
Enhance the value chain covering our strengths in everything from upstream rolled aluminum to downstream aluminum cans to become a highly competitive and valued supplier

Core Strategies

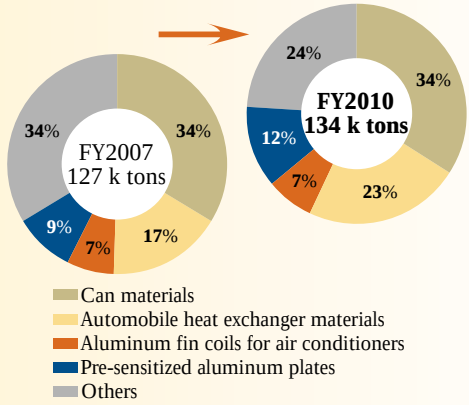
—To nurture a value chain

Aluminum cans: Revise prices, cut costs and expand sales of new products to return Universal Can to profitability
Rolled aluminum: Upgrade the extrusion facilities of Mitsubishi Aluminum to optimize quality and rationalize operations while expanding sales of automotive offerings to solidify our revenue and earnings foundations

Manufactured and sales volume of aluminum cans



Manufactured and sales volume of aluminum sheet products (%)



Business Environment

Aluminum ingot prices: Prices are expected to be generally high although slight declines are likely to be experienced occasionally.
Aluminum cans: The sales volume of aluminum cans as a whole is expected to decrease.
Rolled aluminum: Sales of rolled aluminum as a whole should see a slight increase. Market expansion is expected mainly for automotive products.

Others

Profile

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

Our energy business has helped stabilize supplies to a naturally resource-poor Japan. We entered the nuclear energy field soon after World War II, and by harnessing such sources of clean energy we continue to strive to prevent global warming. We are building a safe nuclear fuel cycle that covers everything from mining uranium to fuels processing, reprocessing and waste management.

We have expanded our precious metals business by serving industrial and retail customers. Our broad business portfolio includes: i) the gold retail business, focusing on the gold accumulation plan "My Gold Plan," ii) the precious metals business, featuring jewelry mail order sales and marketing to customers, in addition to jewelry fairs, and iii) the amusement business, producing fine gold cards, and gold and jewelry clay, etc. Our jewelry fairs and direct sales operations have made us one of Japan's largest jewelry market players.

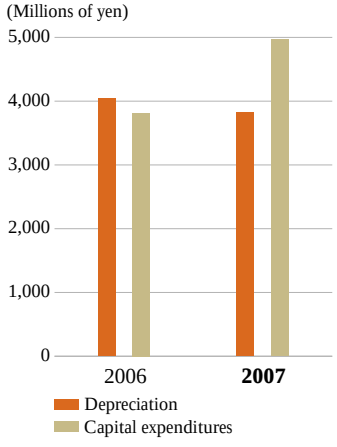
Performance

Sales and earnings from energy-related products declined because we revised the profitability levels of engineering projects, offsetting higher revenues from coal and petroleum on the strength of high fuel prices.

Precious metals sales rose owing to higher jewelry revenues, but earnings were down as high prices depressed sales of ingots to retail customers.

Segment sales rose 5.9%, to ¥268.7 billion. Operating profit fell 39.9%, to ¥4.7 billion.

Millions of yen		Percentage change
•Sales		
2007	2006	2007/2006
¥268,771	¥253,908	5.9%
•Operating profit		
2007	2006	2007/2006
4,733	7,872	-39.9
•Indentifiable assets		
2007	2006	2007/2006
306,280	307,648	-0.4
•Depreciation		
2007	2006	2007/2006
3,821	4,039	-5.4
•Capital expenditures		
2007	2006	2007/2006
4,970	3,817	30.2



Outlook

The operating climate for the energy business has changed dramatically, as we have terminated our nuclear fuel reprocessing facility construction business. Nonetheless, we aim to improve sales and profits by reinforcing our fuel fabrication and waste management operations while becoming more selective about orders and taking steps to lower costs. In geothermal power, we will maintain stable supplies through planned upgrades to facilities and cost reductions to enhance competitiveness. We aim to expand sales to electric power companies and industrial consumers of Tivoli coal from Australia and coal from PT. Adaro in Indonesia.

In the precious metals business, customers are likely to continue to refrain from buying gold ingots for the foreseeable future because of high prices. We will endeavor to strengthen operations by increasing transaction fees from both selling and purchasing. In the retail sales business we will strive to attract more customers for the "My Gold Plan" and boost marketing for our gold shops. We also aim to increase the recognition value of our Mitsubishi Jewelry Collection (MJC) brand and strengthen our partnership strategy to accelerate the growth of our jewelry business. Besides domestic sales expansion, overseas sales will be expanded, especially in the amusement business.

Masatoshi Hanzawa
General Manager,
Energy Business Division

Energy Business Division

This division is endeavoring to generate earnings from nuclear power, fuels and geothermal power businesses and build the foundations for our next growth stage.

Nuclear fuel assemblies

Satoshi Terashita
General Manager,
Precious Metals Division

Precious Metals Division

This division takes advantage of the credibility of the Mitsubishi brand to increase the popularity of our precious metals and build our corporate brand image while striving to optimize earnings through strategic marketing.

Mitsubishi jewelry collection

Isao Iwano
General Manager,
Affiliated Corporations Division

Affiliated Corporations Division

This division helps Group companies which do not belong to the other segments expand and restructure and thereby secure stable earnings and is also supporting the reinforcement of the Group's corporate governance organization.

Historic site: Sado Gold Mine

Corporate Social Responsibility

To clarify the direction that we should take as a company and to ensure that stakeholders fully understand management decisions, we revisited the topic of Groupwide corporate social responsibility (CSR) and came up with a new definition. We then forged a medium-term CSR direction, based on this definition, which all employees can enthusiastically support together in the development of CSR activities.

CSR Definition and Medium-Term CSR Direction

In April 2006, Mitsubishi Materials defined the meaning of CSR as it pertains to the entire Group to enable all employees to act as one in a consolidated effort to fulfill CSR. The Company also identified priority CSR themes to address over the next three years, and is orchestrating progress under a single, medium-term CSR direction.

Meaning of CSR

The Mitsubishi Materials Group is an ensemble of companies operating under the composite profile of a comprehensive basic materials maker. As a group, we provide resources, basic materials and energy indispensable to modern lifestyles, and in these efforts, we adhere to a corporate philosophy that emphasizes contributions to people, society and the Earth. CSR for the Group thus hinges on making this philosophy a reality, through the sincere fulfillment of the obligations and expected role that society places on a corporate citizen, disclosure of the approaches taken—with proper explanation— and the constant pursuit of two-way communication with stakeholders to promote greater mutual understanding. These actions will underpin a position of trust in society.

Corporate philosophy

For People, Society and the Earth

Vision

We aim to be the strongest integrated corporate group by promoting value creation by supplying customer-first original materials and products in a resource-recycling and highly information-oriented society.

Management concepts underlying the new medium-term management plan

"Take a decisive lead in our core businesses," "Value professionalism highly," and "Share sense of achievement"

New Medium-Term Management Plan (FY2008-2010)

"Break-through 1000"

—Aiming to become a company with ¥100 billion in ordinary income—

Medium-Term CSR Direction

To genuinely contribute to people, society and the Earth, the Mitsubishi Materials Group will prioritize three issues over the next three years, beginning in fiscal 2007.

1. Respect relationships with people:

Reinforce ties to stakeholders

Plants and companies under the Group umbrella will strive to enhance the perception of the Group, as held by shareholders, employees, customers, suppliers and other stakeholders, while deepening our understanding of stakeholders' positions, and also strive to improve our satisfaction rating with stakeholders.

2. Respect promises made to society:

Ensure thorough compliance and risk management practices

We will systematically reinforce levels of compliance and risk management to ensure legal compliance—a vital condition for expanding corporate activities— and to stop business-related problems before they start.

3. Respect the Earth:

Reduce environmental impact

In our commitment to Green Productivity Management (GPM) activities, which serve to reduce environmental impact, we will direct efforts toward such measures as saving energy and resources, cutting waste and limiting the use of hazardous substances.

Our medium-term CSR direction will guide us in preparing action plans to promote and execute appropriate CSR activities.

Corporate Governance

Mitsubishi Materials established its Code of Conduct in 1997 to govern the actions of all employees and officers and ensure strict compliance with applicable laws and ordinances as a good corporate citizen. We applied the Code of Conduct to the entire Group in 2003 as part of efforts to sustain growth through fair business activities while maximizing enterprise value. Efficient and transparent management is essential to realizing these 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 of Directors is the Corporate Strategy Committee, comprising the president and several directors, which assesses matters for subsequent deliberation to ensure appropriate decision making.

Our four core businesses are Cement, Metals, Advanced Materials & Tools, and Electronic Materials & Components. We instituted executive officer and internal company systems to oversee these operations. In launching our new medium-term management plan in April 2007, we appointed directors and executive officers to head these internal companies based on decisions of the Board of Directors.

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 11 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.

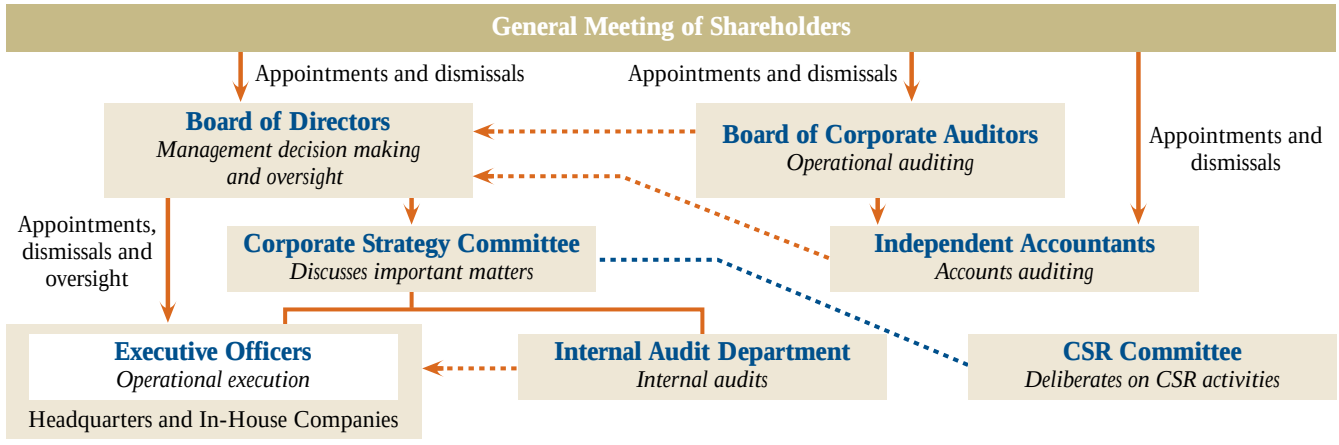
The Company appoints auditors in keeping with the Company Law, and chose KPMG AZSA & Co. as its auditing firm based on the Securities and Exchange Law. Three certified public accountants from that firm audit our books.

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

In January 2005, we reinforced our CSR efforts by integrating the Risk Management Committee and the Corporate Ethics and Compliance Committee while setting up the CSR Committee, which the president chairs. We also opened the CSR Office, appointed CSR officials at internal businesses and subsidiaries, and pushed ahead with Groupwide initiatives.

It is essential to maintain proper corporate governance systems so we can fulfill business objectives and management plans. We aim to enhance our systems by establishing and deploying internal rules and by employing a structure to comply with the Company Law and its implementation regulations.

Overview of Corporate Governance Structure



Management

(As of June 28, 2007)

Akihiko Ide*
President

Haruhiko Asao*
Executive Vice President

Hiroshi Yao*
Executive Vice President

Hiroo Kiyokawa*
Executive Vice President

Hisayoshi Honma*
Managing Director

Yoichi Taguchi*
Managing Director

Hiroshi Kanemoto*
Managing Director

Mayuki Hashimoto*
Managing Director

Akira Nishikawa
Director and Executive Adviser

Yukio Okamoto†
Director

*Member of the Corporate Strategy Committee
†External

Senior Executive Officers

Toshinori Kato
Makoto Miki
Hironori Yoshimura
Toshio Hiratsuka

Executive Officers

Motohiko Masunaga
Kimball McCloud
Yukimasa Endo
Masanori Hirayama
Noboru Yonezawa
Takeshi Itaba
Naoki Uchiyama
Hideaki Yoshida
Yoshiaki Inaba
Masayuki Minagawa
Akira Takeuchi
Yoshinori Inaba
Nozomu Ito
Masaharu Kubo
Youichi Fujitsuka
Hiroshi Nakahara
Masatoshi Hanzawa
Masayuki Hirota
Toshikazu Murai
Akio Hamaji
Takashi Shimizu
Hideo Kobayashi

Corporate Auditors (Standing)

Yoshio Fujiwara
Nobuaki Naito
Takao Wada†

Corporate Auditor

Akio Utsumi†

Eleven-Year Summary

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	**2007**
For the Year:						
Net sales	**¥1,452,108**	¥1,143,700	¥ 984,777	¥ 948,238	¥ 964,726	**$12,300,791**
Cost of sales	**1,246,261**	953,084	812,544	783,971	807,308	**10,557,063**
Operating profit	**78,758**	68,982	54,085	43,422	34,429	**667,164**
Net income (loss)	**71,382**	58,803	16,374	(5,324)	(26,854)	**604,682**
Depreciation and amortization	**50,135**	47,454	48,085	49,401	54,457	**424,696**
Gross cash flow	**121,518**	106,257	64,459	44,077	27,603	**1,029,379**
R&D expenses	**11,112**	10,859	10,449	11,232	11,608	**94,129**
Balance at End of Year:						
Total assets	**1,773,899**	1,609,446	1,420,825	1,435,115	1,439,985	**15,026,681**
Total long-term liabilities	**475,393**	474,664	466,771	519,594	555,467	**4,027,053**
Total net assets	**481,970**	303,560	196,902	183,886	174,381	**4,082,765**
Number of shares of common stock (thousands)	**1,252,092**	1,147,918	1,134,054	1,134,054	1,134,054	

	Yen					U.S. dollars (Note 1)
	2007	2006	2005	2004	2003	**2007**
Per Share Amounts:						
Basic net income (loss)	**¥60.3**	¥51.7	¥14.4	¥(4.8)	¥(23.9)	**$0.51**
Diluted net income	**57.1**	45.4	12.9	—	—	**0.48**
Cash dividends applicable to the year	**6.0**	4.0	3.0	2.0	—	**0.05**
Ratios:						
Return on assets (ROA)	**4.0%**	3.7%	1.2%	–0.4%	–1.8%	
Return on equity (ROE)	**14.8%**	19.4%	8.3%	–3.0	–14.1	

	Millions of yen					
	2002	2001	2000	1999	1998	1997
For the Year:						
Net sales	¥1,046,807	¥1,144,068	¥ 986,884	¥ 983,784	¥1,196,008	¥1,186,715
Cost of sales	899,220	936,563	825,097	830,129	981,916	971,022
Operating profit	10,872	65,827	27,229	10,405	56,744	59,615
Net income (loss)	(61,316)	7,149	(12,075)	(34,853)	10,071	14,744
Depreciation and amortization	78,436	79,557	74,592	74,038	80,575	72,886
Gross cash flow	17,120	86,706	62,517	39,185	90,646	87,630
R&D expenses	15,404	15,437	14,762	17,830	18,401	16,791
Balance at End of Year:						
Total assets	1,575,739	1,615,844	1,671,000	1,605,671	1,679,207	1,643,332
Total long-term liabilities	572,071	509,187	603,096	580,446	534,378	459,818
Total net assets	206,413	239,190	231,559	243,356	312,386	307,549
Number of shares of common stock (thousands)	1,117,314	1,117,314	1,117,314	1,117,314	1,134,153	1,134,153

	Yen					
	2002	2001	2000	1999	1998	1997
Per Share Amounts:						
Basic net income (loss)	¥(54.9)	¥6.4	¥(10.8)	¥(30.9)	¥8.9	¥13.0
Diluted net income	—	6.1	—	—	8.4	12.6
Cash dividends applicable to the year	—	3.0	1.5	—	5.0	5.0
Ratios:						
Return on assets (ROA)	–3.9%	0.4%	–0.7%	–2.1%	0.6%	0.9%
Return on equity (ROE)	–27.5	3.0	–5.1	–12.5	3.2	4.9

Notes: Japanese yen amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of ¥118.05 to U.S.$1, the prevailing exchange rate at March 31, 2007.
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted, "Accounting Standard for Presentation of Net Assets in the Balance Sheet." Except 2007, "Total Net Assets" means "Total Shareholders' Equity" which is pursuant to the previous presentation rules.

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

Mitsubishi Materials Corporation and Consolidated Subsidiaries

Overview

For the years ended March 31	2007	Millions of yen 2006	Thousands of U.S. dollars 2007	Percentage change (2007/2006)
Net sales	**¥1,452,108**	¥1,143,700	**$12,300,791**	27.0 %
Operating profit	**78,758**	68,982	**667,164**	14.2 %
Net income	**71,382**	58,803	**604,682**	21.4 %

For the years ended March 31	2007	Yen 2006	Thousands of U.S. dollars 2007	Percentage change (2007/2006)
Basic net income per share	**¥60.3**	¥51.7	**$0.51**	16.6%
Diluted net income	**57.1**	45.4	**0.48**	25.8%

In fiscal 2007, ended March 31, 2007, despite the continued high raw material and fuel prices persisting from the previous fiscal year, the Japanese economy achieved a level of sustainable growth. Rationalization efforts increased corporate earnings, which boosted capital investments and steadily improved the employment climate and earnings in addition to strong demand overseas and stable domestic consumption.

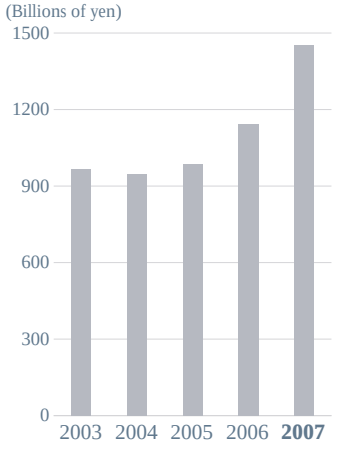
Through the entire fiscal year under review, the Mitsubishi Materials Group continued to experience high raw material and fuel prices. Nevertheless, the Group performed generally well due to high prices for our main metals, such as copper, and brisk demand in the automotive, and information and electronics sectors, as well as sales growth in the cement business in the United States.

The Group responded to such an operating environment by stabilizing its earnings structure as the final stage of its consolidated medium-term management plan, for which the fiscal year under review was the final year, and accelerating efforts to establish growth foundations to achieve success in its core businesses. Specifically, we concentrated management resources in our three growth fields—Automobile, Information Electronics and Environment & Recycling—while harnessing the strengths of integrated management; enhanced productivity by reinforcing facilities; and improved technologies by promoting collaborative development. In addition, the Group continued to direct concerted efforts to reinforce profitability and improve its financial structure. To reinforce profitability, we liquidated/transferred unprofitable businesses and enhanced operational efficiency in each sector. To improve the financial structure, with all our efforts, we pledged to compress interest-bearing debt.

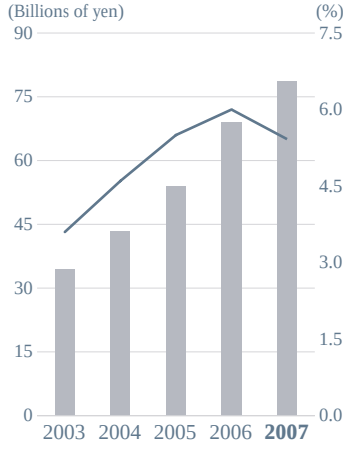
As a result of these factors, consolidated net sales advanced ¥308.4 billion, or 27.0%, to ¥1,452.1 billion, and consolidated operating profit gained ¥9.7 billion, or 14.2%, to ¥78.7 billion.

Consolidated net income increased 21.4% to ¥71.3 billion, resulting from reserve from soil remediation loss of Central Research Institute, in Saitama, and extraordinary losses from business restructuring, etc., while posting an extraordinary income from increased equities of newly issued shares for SUMCO Corporation ("SUMCO").

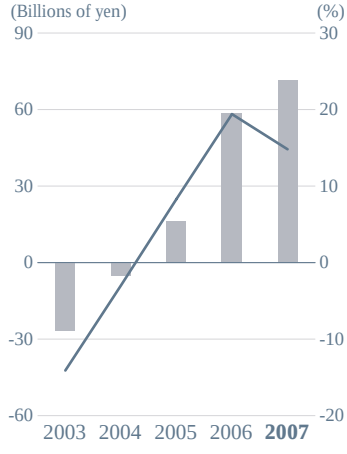
Net Sales



Operating Profit
Operating Margin



Net Income (Loss)
Return on Equity (ROE)



Sales and Operating Profit by Business Segment

Cement

Sales volume and sales revenue in Cement increased from a year earlier. In Japan, although the number of public-sector projects decreased, the increase in corporations' capital investment sustained a steady demand in the private sector. Overseas, sales remained strong in the United States, and sales volume and sales revenue exceeded those of a year earlier.

Production volume of Cement as a whole remained at 14 million tons, unchanged from a year earlier.

Aggregate sales volume and sales revenue exceeded those of a year earlier largely owing to strong demand for main-line Portland cement.

Segment sales thus increased ¥33.7 billion, to ¥198.2 billion. Operating profit was up ¥2.6 billion, to ¥18.3 billion.

Metals

In the Metals business, sales of rolled copper and copper wire progressed favorably, supported by strong domestic demand in the semiconductor and automotive sectors. However, PT. Smelting (Indonesia) suspended operations following trouble at the manufacturing facilities of its oxygen supplier from early October to mid-December 2006, which reduced the manufactured volume and decreased sales volume compared with a year earlier. However, sales revenue increased year-on-year due to a surge in copper prices. Manufactured volume of electrolytic copper over the whole business unit decreased to 545 thousand metric tons, down 41 thousand metric tons.

Sales volume of gold declined owing to the decreased purchased volume of raw material ores. However, sales revenue rose as a result of consistently high gold prices.

Sales volume and revenue of processed copper products increased year-on-year due to steady demand for electronic materials and ingot copper for automotive products, in addition to the consolidation of Mitsubishi Shindoh Co., Ltd.

Segment sales rose ¥240.1 billion, to ¥598.9 billion. Operating profit was up ¥10.4 billion, to ¥33.3 billion.

Advanced Materials & Tools

Domestic segment sales of cemented carbide products declined from a year earlier due to a decrease in demand for tools used in automotive facilities. However, overseas sales remained favorable and steady, mainly in Europe and the United States. As a result, overall sales increased. Operating profit decreased owing to the impact of a change in the valuation method for inventories.

In powder metallurgy products, sales and profits were down, largely due to the impact of the integration of the powder metallurgy products operations of the Company and Plansee Holding AG, an Austrian company that was converted to a new equity-method affiliate as of December 1, 2005.

In high-performance alloy products, sales and profits increased due to steady progress in demand for such products for aircraft and automotive products, etc.

Sales were up and profits were down in diamond tools, due to a decline in sales prices, although demand for use on automotive, IT and digital-related products was strong.

Segment sales decreased ¥9.8 billion, to ¥138.0 billion. Operating profit was down ¥3.8 billion, to ¥16.1 billion.

Aluminum

Sales of regular aluminum cans were steady. As of October 1, 2005, the Company and Hokkan Holdings Ltd. integrated their respective businesses, which resulted in an increased sales volume during the year under review, whereas a surge in aluminum metal prices negatively influenced profits. Consequently, sales of aluminum cans were up but profits were down.

Sales and profits were up in rolled aluminum and processed aluminum products. Such increases were due to steady sales of rolled products such as sheet aluminum and extrusion for automotive products, as well as a revision of sales prices following a surge in raw material prices.

Segment sales advanced ¥19.7 billion, to ¥162.8 billion. Operating profit dropped ¥0.5 billion, to ¥2.8 billion.

Electronic Materials & Components

Sales and profits were up in advanced materials. In addition to favorable demand in silicon-related products such as 300-mm silicon wafer materials and semiconductor-related products, sales of gold bonding wire were high owing to the impact of high gold prices.

As of April 28, 2006, shares of Kamaya Electric Co., Ltd., the Company's subsidiary, were transferred to Walsin Technology Corporation in Taiwan, and Kamaya Electric Co., Ltd., was eliminated from the scope of consolidation of the Company. We also eliminated or withdrew from unprofitable products. Consequently, sales were down and profits were up in electronic components.

Sales and profits of polycrystalline silicon increased due to favorable sales for its use in 300-mm silicon wafers.

Segment sales therefore increased ¥9.6 billion, to ¥85.1 billion, with operating profit jumping ¥5.5 billion, to ¥10.3 billion.

Others

In energy-related products, despite an increase in sales revenue of petroleum and coal due to high fuel prices, we reviewed revenue and expenditures for engineering projects. Thus, sales increased and profits decreased in energy-related products.

Although sales of precious metals for gold and jewelry steadily progressed due to high gold prices, sales of gold ingots to individuals declined. Sales increased but profits decreased in precious metals.

Orders for nuclear and engineering-related businesses, along with resources environmental operations and related businesses, was ¥77.2 billion, up ¥8.3 billion, and the backlog of orders totals ¥35.7 billion, up ¥13.1 billion.

Segment sales therefore increased ¥14.8 billion, to ¥268.7 billion, with operating profit decreasing ¥3.1 billion, to ¥4.7billion.

For the years ended March 31	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Cement			
Sales	**¥198,288**	¥164,501	**$1,679,698**
Operating profit	**18,335**	15,639	**155,322**
Operating margin	**9.2%**	9.5%	
Metals			
Sales	**598,921**	358,765	**5,073,458**
Operating profit	**33,395**	22,962	**282,893**
Operating margin	**5.6%**	6.4%	
Advanced Materials & Tools			
Sales	**138,095**	147,908	**1,169,805**
Operating profit	**16,114**	19,985	**136,508**
Operating margin	**11.7%**	13.5%	
Aluminum			
Sales	**162,841**	143,093	**1,379,427**
Operating profit	**2,849**	3,441	**24,140**
Operating margin	**1.7%**	2.4%	
Electronic Materials & Components			
Sales	**85,189**	75,525	**721,642**
Operating profit	**10,388**	4,814	**88,000**
Operating margin	**12.2%**	6.4%	
Others			
Sales	**268,771**	253,908	**2,276,757**
Operating profit	**4,733**	7,872	**40,099**
Operating margin	**1.8%**	3.1%	

Sales and Operating Profit by Geographic Segment

Japan

Higher prices of copper and other nonferrous metals and increased demand for rolled copper and electrical wire contributed to a significant rise in sales.

Domestic sales advanced ¥261.3 billion, to ¥1,216.0 billion. Operating profit gained ¥8.7 billion, to ¥62.9 million.

U.S.A.

The business climate was generally favorable, reflecting increased demand for cement and polycrystalline silicon. Segment sales thus rose ¥5.8 billion, to ¥85.8 billion. Operating profit was up ¥2.5 billion, to ¥13.5 billion.

Europe

Demand was solid for automotive cemented carbide products. Sales therefore increased ¥2.9 billion, to ¥17.0 billion, with operating profit improving ¥0.4 billion, to ¥1.0 billion.

Asia

Sales volumes were down owing to problems with a supplier of oxygen for PT. Smelting in Indonesia, which also made planned repairs.

Owing to copper prices, however, segment sales rose ¥38.7 billion, to ¥129.8 billion. Operating profit was down ¥0.4 billion, to ¥7.5 billion.

For the years ended March 31	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars 2007
Japan			
Sales	**¥1,216,099**	¥954,732	**$10,301,563**
Operating profit	**62,926**	54,179	**533,050**
Operating margin	**5.2%**	5.7%	
U.S.A.			
Sales	**85,866**	80,044	**727,372**
Operating profit	**13,542**	10,996	**114,717**
Operating margin	**15.8%**	13.7%	
Europe			
Sales	**17,065**	14,091	**144,558**
Operating profit	**1,097**	644	**9,298**
Operating margin	**6.4%**	4.6%	
Asia			
Sales	**129,823**	91,073	**1,099,734**
Operating profit	**7,590**	8,083	**64,301**
Operating margin	**5.8%**	8.9%	
Others			
Sales	**3,253**	3,760	**27,563**
Operating profit	**863**	1,035	**7,315**
Operating margin	**26.5%**	27.5%	

Financial Position

At year-end, total assets stood at ¥1,773.8 billion, up ¥164.4 billion, or 10.2%. Total current assets increased ¥89.0 billion, or 14.6%, to ¥700.3 billion, reflecting rises in the prices of copper and other metals, which caused notes and accounts receivable and inventories to rise. Total fixed assets advanced ¥75.3 billion, or 7.6%, to ¥1,073.5 billion, owing to the consolidation of Mitsubishi Shindoh Co., Ltd., as well as the impact of strategic investments that raised property, plant and equipment and investments in securities.

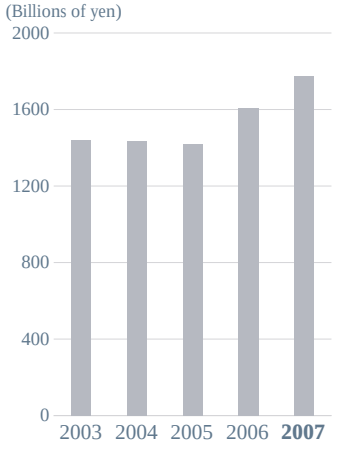
Total liabilities rose ¥40.5 billion, or 3.2%, to ¥1,291.9 billion. Total current liabilities were up ¥39.7 billion, or 5.1%, to ¥816.5 billion, owing to higher gold prices, which increased gold payable, and new consolidations of subsidiaries. Total long-term liabilities expanded ¥0.7 billion, or 0.2%, to ¥475.3 billion, following additions to the reserve for soil remediation losses. Interest-bearing debt, including loans, bonds, and commercial paper, declined ¥6.0 billion, or 0.9%, to ¥685.1 billion, owing to efforts to minimize borrowing by funding investments from operating activities.

Total net assets were ¥481.9 billion. In the year under review, the Company adopted Accounting Standard for Presentation of Net Assets in the Balance Sheet. Total shareholders' equity under the old standard was ¥411.6 billion, up ¥108.0 billion, or 35.6%, reflecting rises in retained earnings and the full execution of stock warrants.

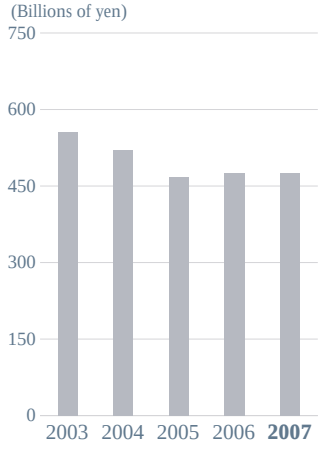
As a result of these factors, the consolidated equity ratio expanded from 18.9%, to 23.2%. Shareholders' equity per share increased from ¥265.15, to ¥329.35.

At March 31	2007	2006	2005
Equity ratio	**23.2%**	18.9%	13.9%

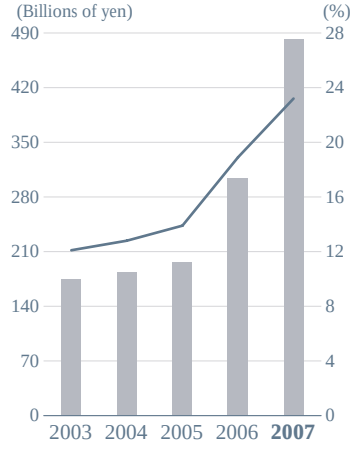
Total Assets



Total Long-Term Liabilities



Total Net Assets (Shareholders' Equity) and Equity Ratio



Cash Flows

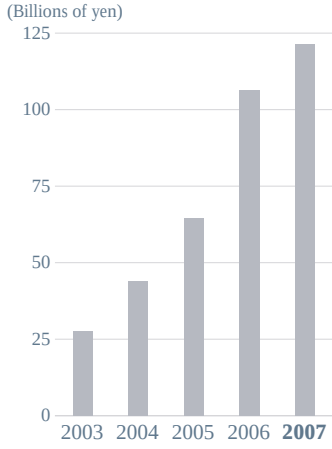
Net cash provided by operating activities amounted to ¥117.6 billion, an increase of ¥61.8 billion. This reflected increased cash expenses due to rises in accounts receivable and inventories, which were offset by favorable business results, revenue from gold sales and an increase in dividends received.

Net cash used in investing activities totaled ¥74.7 billion, an increase of ¥75.6 billion, mainly owing to payments of ¥65 billion for capital investments.

Net cash used in financing activities amounted to ¥3.4 billion, a decrease of ¥47.8 billion, owing to repayments for long-term loans payable despite cash procurements by issuing commercial paper and corporate bonds.

As a result, the balance of cash and cash equivalents at the end of the fiscal year was ¥67.2 billion, up ¥42.2 billion.

Gross Cash Flow



	Millions of yen			Thousands of U.S. dollars
For the years ended March 31	**2007**	2006	2005	**2007**
Gross cash flow	**¥121,518**	¥106,257	¥64,459	**$1,029,379**

Capital Expenditures

Management determines Group capital expenditures based on ongoing efforts to reduce interest-bearing debt by concentrating investments in areas with high earnings and business growth potential.

In the year under review, we allocated ¥66.4 billion in capital expenditures to maintain and upgrade the existing facilities of each business, expand plants, rationalize and renovate equipment.

Business segment capital expenditures were as follows.

Cement: We installed thermal power facilities in Japan and upgraded, maintained and repaired existing facilities, largely domestically and in the United States. Segment capital expenditures totaled ¥21.1 billion.

Metals: We boosted smelter capacity in Japan and Indonesia, upgraded domestic copper processing operations, and maintained and repaired existing facilities. Segment capital expenditures were ¥11.6 billion.

Advanced Materials & Tools: We upgraded plants to accommodate increased orders, mainly for the automotive sector, and maintained and repaired existing facilities. Segment capital expenditures were ¥12.7 billion.

Aluminum: We maintained and repaired existing facilities, mainly expanding production capacity in rolled aluminum products. Segment capital expenditures were ¥6.4 billion.
Electronic Materials & Components: We expanded polycrystalline silicon facilities in the United States and maintained and repaired existing facilities. Segment capital expenditures were ¥8.1 billion.
Others: We maintained and repaired existing facilities. Segment capital expenditures were ¥6.3 billion.

Outlook for Fiscal 2008, Ending March 31, 2008

The Japanese economy is expected to continue to grow gradually. There are several economic concerns, such as a possible decline in exports along with the adverse impacts of a rise in domestic interest rates and an economic slowdown in the United States, as well as the expected high prices of some raw materials and fuels. However, corporate earnings should further increase, resulting in expansion of demand for capital investments, and the recovery in employment and income will encourage personal consumption.

The business environment in which the Group operates will likely remain challenging, due to the trend for prices of the core metals that influence product prices being uncertain, and possible changes in the procurement processes for raw materials—related strategies of countries that produce rare metals or other changes in the demand/supply environment could raise raw material prices, thereby increasing manufacturing costs.

To address these challenges, the Group formulated the New Medium-Term Management Plan (April 2007 through March 2010) "Break-through 1000"—Aiming to become a ¥100 billion company—to continually reinforce the business base for achieving pertinent goals.

Accordingly, consolidated net sales, ordinary income and net income for the next fiscal year are expected to total ¥1,440 billion, ¥103 billion and ¥55 billion, respectively.

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 a particularly strong material impact on operations.

Forward-looking statements are based on management's decisions as of the announcement of fiscal 2007 results on June 28, 2007.

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 2007, interest-bearing debt (the total of short-term loans, bonds due within one year, commercial paper, bonds and long-term loans) represented 38.6% 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 ¥29.4 billion in debt guarantees to nonconsolidated affiliates in fiscal 2007. 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 25 countries and territories. Overseas operations account for 24.7% 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 Income

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Net Sales (Note 13)	**¥1,452,108**	¥1,143,700	¥ 984,777	**$12,300,791**
Cost of Sales	**1,246,261**	953,084	812,544	**10,557,063**
Gross profit	**205,847**	190,616	172,233	**1,743,728**
Selling, General and Administrative Expenses (Note 10)	**127,088**	121,634	118,148	**1,076,563**
Operating profit	**78,758**	68,982	54,085	**667,164**
Other Income (Expenses):				
Interest and dividend income	**10,602**	5,377	2,618	**89,815**
Interest expense (Note 4)	**(12,909)**	(11,363)	(11,758)	**(109,358)**
Income from leased property	**5,763**	6,119	6,876	**48,823**
Expense for leased property	**(4,276)**	(4,737)	(5,065)	**(36,223)**
Write-down of marketable securities and investments in securities	**(1,122)**	(866)	(2,967)	**(9,507)**
Gain on sales of marketable securities and investments in securities	**1,076**	34,325	10,639	**9,121**
Gain on change in equity by affiliate stock offering	**13,925**	11,284	—	**117,966**
Provision for bad debt and write-off of long-term receivables—unconsolidated subsidiaries and affiliates	**—**	(7,078)	(4,107)	**—**
Loss on liquidation of subsidiaries and affiliates	**(85)**	(58)	—	**(721)**
Gain on sales of property, plant and equipment	**748**	1,806	2,769	**6,339**
Loss on disposal and sales of property, plant and equipment	**(5,989)**	(3,973)	(5,783)	**(50,736)**
Loss on impairment of fixed assets (Note 18)	**(2,486)**	(9,366)	—	**(21,062)**
Provision for valuation allowance for investment in unconsolidated subsidiaries and affiliates	**(445)**	(87)	(10)	**(3,769)**
Provision for clean-up costs of contaminated land	**(8,703)**	(5,603)	—	**(73,722)**
Foreign exchange losses, net	**(19)**	(61)	(278)	**(165)**
Employees' severance and pension benefit expense (Note 5)	**—**	—	(8,326)	**—**
Equity in earnings of affiliates	**39,245**	22,605	8,447	**332,447**
Provision for loss on unconsolidated subsidiaries and affiliates	**(193)**	(178)	(1,224)	**(1,634)**
Other, net	**(5,824)**	(21,976)	(11,144)	**(49,336)**
	29,308	16,170	(19,313)	**248,273**
Income before income taxes and minority interests	**108,067**	85,152	34,772	**915,438**
Income Taxes (Note 7)	**29,385**	19,826	15,238	**248,926**
Income (loss) before minority interests	**78,681**	65,326	19,534	**666,511**
Minority Interests in Income of Consolidated Subsidiaries	**(7,298)**	(6,523)	(3,160)	**(61,829)**
Net Income (Loss)	**¥ 71,382**	¥ 58,803	¥ 16,374	**$ 604,682**

	Yen			U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Per Share Amounts (Note 16):				
Basic net income (loss)	**¥60.3**	¥51.7	¥14.4	**$0.51**
Diluted net income	**57.1**	45.4	12.9	**0.48**
Cash dividends applicable to the year	**6.0**	4.0	3.0	**0.05**

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Mitsubishi Materials Corporation and Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
ASSETS			
Current Assets:			
Cash (Notes 4 and 15)	**¥67,556**	¥25,454	**$572,267**
Marketable securities (Note 11)	**4**	16	**42**
Notes and accounts receivable (Notes 4, 8 and 20):			
Trade	**234,188**	196,265	**1,983,811**
Unconsolidated subsidiaries and affiliates	**35,215**	39,418	**298,310**
Other	**15,568**	19,087	**131,877**
Inventories (Notes 3 and 4)	**234,919**	206,029	**1,989,999**
Deferred income taxes (Note 7)	**12,186**	10,164	**103,230**
Other current assets (Note 12)	**104,718**	119,698	**887,066**
Allowance for doubtful accounts	**(3,986)**	(4,840)	**(33,770)**
Total current assets	**700,371**	611,291	**5,932,835**
Property, Plant and Equipment (Note 4)**:**			
Land (Note 14)	**253,725**	251,158	**2,149,304**
Buildings and structures	**414,194**	397,068	**3,508,632**
Machinery and equipment	**990,742**	941,114	**8,392,565**
Construction in progress	**28,195**	15,595	**238,845**
	1,686,857	1,604,935	**14,289,347**
Less accumulated depreciation	**(1,006,385)**	(953,130)	**(8,525,077)**
Net property, plant and equipment	**680,472**	651,805	**5,764,269**
Investments and Long-Term Receivables:			
Investments in securities (Notes 4 and 11)	**172,109**	149,848	**1,457,939**
Unconsolidated subsidiaries and affiliates (Note 4)	**142,694**	120,217	**1,208,767**
Long-term receivables	**1,471**	1,559	**12,468**
Other (Note 4)	**57,008**	49,571	**482,915**
Allowance for doubtful accounts	**(10,562)**	(11,330)	**(89,473)**
Valuation allowance for investment in unconsolidated subsidiaries and affiliates	**(460)**	(97)	**(3,901)**
Total investments and long-term receivables	**362,261**	309,768	**3,068,716**
Other Assets:			
Deferred income taxes (Note 7)	**12,367**	18,099	**104,768**
Other (Notes 4 and 12)	**18,426**	18,483	**156,092**
Total other assets	**30,794**	36,582	**260,860**
Total Assets	**¥1,773,899**	¥1,609,446	**$15,026,681**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	**2007**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 4)	**¥ 256,833**	¥ 238,714	**$ 2,175,635**
Current portion of long-term debt (Note 4)	**75,284**	110,351	**637,736**
Commercial paper (Note 4)	**28,000**	7,000	**237,187**
Notes and accounts payable (Note 20):			
Trade	**164,315**	152,672	**1,391,913**
Unconsolidated subsidiaries and affiliates	**6,908**	9,354	**58,524**
Other	**24,576**	18,601	**208,184**
Income taxes payable	**11,453**	13,857	**97,018**
Deferred income taxes (Note 7)	**2,496**	46	**21,151**
Accrued expenses	**70,128**	59,680	**594,054**
Other current liabilities (Note 12)	**176,538**	166,484	**1,495,456**
Total current liabilities	**816,535**	776,759	**6,916,862**
Long-Term Liabilities:			
Long-term debt (Note 4)	**325,068**	335,191	**2,753,654**
Employees' severance and pension benefits (Note 5)	**48,853**	46,661	**413,837**
Accrual for officers' lump-sum severance benefits	**2,230**	1,903	**18,891**
Reserve for loss on unconsolidated subsidiaries and affiliates	**367**	362	**3,113**
Reserve for clean-up costs of contaminated land	**12,037**	5,603	**101,967**
Deferred income taxes (Note 7)	**18,265**	16,751	**154,727**
Deferred income taxes on revaluation reserve for land (Notes 7 and 14)	**34,831**	35,020	**295,056**
Other (Note 12)	**33,739**	33,173	**285,806**
Total long-term liabilities	**475,393**	474,664	**4,027,053**
Minority Interests	**—**	54,463	**—**
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	**—**	101,753	**—**
Capital surplus	**—**	70,882	**—**
Retained earnings	**—**	43,453	**—**
Revaluation reserve for land (Note 14)	**—**	37,318	**—**
Net unrealized holding gains on securities	**—**	50,572	**—**
Foreign currency translation adjustments	**—**	424	**—**
Treasury stock	**—**	(842)	**—**
Total shareholders' equity	**—**	303,560	**—**
Total Liabilities, Minority Interests and Shareholders' Equity	**¥ —**	¥1,609,446	**$ —**
Net Assets (Note 6):			
Shareholders' equity			
Common stock			
Authorized—2,683,162,000 shares			
Issued—1,252,092,486 shares	**119,457**	—	**1,011,926**
Capital surplus	**88,580**	—	**750,366**
Retained earnings	**108,259**	—	**917,063**
Treasury stock, at cost	**(1,036)**	—	**(8,778)**
Total shareholders' equity	**315,261**	—	**2,670,578**
Valuation and Translation Adjustments			
Net unrealized holding gains on securities	**54,655**	—	**462,987**
Unrealized gains/losses on hedging derivatives, net of taxes (Note 12)	**(452)**	—	**(3,833)**
Revaluation reserve for land (Note 14)	**36,805**	—	**311,779**
Foreign currency translation adjustments	**4,894**	—	**41,461**
Total valuation and translation adjustments	**95,903**	—	**812,395**
Minority Interests	**70,805**	—	**599,792**
Total net assets	**481,970**	—	**4,082,765**
Total Liabilities and Net assets	**¥1,773,899**	¥ —	**$15,026,681**

Consolidated Statements of Shareholders' Equity

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

	Millions of yen	
	2006	2005
Common Stock:		
Number of shares (Thousands)		
At beginning of year	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
Amount		
Balance at beginning of year	¥ 99,397	¥ 99,397
Conversion of convertible yen debentures	2,356	—
Balance at end of year	¥101,753	¥ 99,397
Capital Surplus:		
Balance at beginning of year	¥ 68,440	¥ 68,413
Gain (loss) on sales of treasury stock	100	27
Conversion of convertible yen debentures	2	—
Issuance of new stocks by execution of stock acquisition rights	2,340	—
Balance at end of year	¥ 70,882	¥ 68,440
Retained Earnings (Accumulated Deficit):		
Balance at beginning of year	¥ (14,328)	¥(28,243)
Net income for the year	58,803	16,374
Cash dividends paid	(3,396)	(2,265)
Bonuses to directors and corporate auditors	(52)	(65)
Increase resulting from increase in the number of consolidated subsidiaries	290	44
Decrease resulting from increase in the number of affiliates on equity method	—	(72)
Increase due to reversal of revaluation reserve for land (Note 14)	2,416	351
Decrease due to reversal of revaluation reserve for land (Note 14)	(259)	(230)
Increase due to mergers of unconsolidated subsidiaries	50	67
Decrease due to mergers of unconsolidated subsidiaries	(158)	(143)
Other, net	87	(146)
Balance at end of year	¥ 43,453	¥(14,328)
Revaluation Reserve for Land (Note 14):		
Balance at beginning of year	¥ 39,480	¥ 46,657
Increase (decrease), net	(2,162)	(7,177)
Balance at end of year	¥ 37,318	¥ 39,480
Net Unrealized Holding Gains (Losses) on Securities:		
Balance at beginning of year	¥ 16,989	¥ 10,420
Net change	33,583	6,569
Balance at end of year	¥ 50,572	¥ 16,989
Foreign Currency Translation Adjustments:		
Balance at beginning of year	¥(12,381)	¥(12,269)
Net change	12,805	(112)
Balance at end of year	¥ 424	¥(12,381)
Treasury Stock:		
Balance at beginning of year	¥ (695)	¥ (489)
Decrease (increase), net	(147)	(206)
Balance at end of year	¥ (842)	¥ (695)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes In Net Assets (Note 19)

Mitsubishi Materials Corporation and Consolidated Subsidiaries
Year ended March 31, 2007

	Thousands	Millions of yen											
		Shareholders' equity					Valuation and translation adjustments						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Unrealized gains (losses) on hedging derivatives, net of taxes	Revaluation reserve for land (Note 14)	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Shareholders' equity at March 31, 2006 as previously reported:	1,147,918	¥101,753	¥70,882	¥43,453	¥(842)	¥215,246	¥50,572	¥ —	¥37,318	¥424	¥88,314	¥ —	¥303,560
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance at April 1, 2006												54,462	54,462
Net assets at April 1, 2006	1,147,918	101,753	70,882	43,453	(842)	215,246	50,572	—	37,318	424	88,314	54,462	358,023
Issuance of new stocks by execution of stock acquisition rights	104,174	17,705	17,600	—	—	35,306	—	—	—	—	—	—	35,306
Cash dividends paid	—	—	—	(6,870)	—	(6,870)	—	—	—	—	—	—	(6,870)
Bonuses to directors and corporate auditors	—	—	—	(129)	—	(129)	—	—	—	—	—	—	(129)
Net income for the year	—	—	—	71,382	—	71,382	—	—	—	—	—	—	71,382
Decrease due to reversal of revaluation reserve for land (Note 14)	—	—	—	(35)	—	(35)	—	—	—	—	—	—	(35)
Increase due to mergers of unconsolidated subsidiaries	—	—	—	346	—	346	—	—	—	—	—	—	346
Decrease due to mergers of unconsolidated subsidiaries	—	—	—	(105)	—	(105)	—	—	—	—	—	—	(105)
Increase resulting from increase in the number of consolidated subsidiaries	—	—	—	191	—	191	—	—	—	—	—	—	191
Transfer of unrealized gains and losses on derivatives at overseas subsidiaries	—	—	—	26	—	26	—	—	—	—	—	—	26
Acquisition of treasury stock	—	—	—	—	(299)	(299)	—	—	—	—	—	—	(299)
Sales of treasury stock	—	—	97	—	153	250	—	—	—	—	—	—	250
Increase resulting from changes of equity ratio in affiliates	—	—	—	—	(47)	(47)	—	—	—	—	—	—	(47)
Net change other than shareholders' equity	—	—	—	—	—	—	4,083	(452)	(512)	4,470	7,589	16,342	23,931
Balance at end of year	1,252,092	¥119,457	¥88,580	¥108,259	¥(1,036)	¥315,261	¥54,655	¥(452)	¥36,805	¥4,894	¥95,903	¥70,805	¥481,970

	Thousands	Thousands of U.S. dollars (Note 1)											
		Shareholders' equity					Valuation and translation adjustments						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains (losses) on securities	Unrealized gains (losses) on hedging derivatives, net of taxes	Revaluation reserve for land (Note 14)	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Shareholders' equity at March 31, 2006 as previously reported:	1,147,918	$861,946	$600,443	$368,091	$(7,136)	$1,823,345	$428,394	$ —	$316,121	$3,592	$748,108	$ —	$2,571,453
Reclassification due to adoption of new accounting standards for presentation of net assets in the balance at April 1, 2006												461,355	461,355
Net assets at April 1, 2006	1,147,918	861,946	600,443	368,091	(7,136)	1,823,345	428,394	—	316,121	3,592	748,108	461,355	3,032,808
Issuance of new stocks by execution of stock acquisition rights	104,174	149,979	149,097	—	—	299,076	—	—	—	—	—	—	299,076
Cash dividends paid	—	—	—	(58,202)	—	(58,202)	—	—	—	—	—	—	(58,202)
Bonuses to directors and corporate auditors	—	—	—	(1,098)	—	(1,098)	—	—	—	—	—	—	(1,098)
Net income for the year	—	—	—	604,682	—	604,682	—	—	—	—	—	—	604,682
Decrease due to reversal of revaluation reserve for land (Note 14)	—	—	—	(304)	—	(304)	—	—	—	—	—	—	(304)
Increase due to mergers of unconsolidated subsidiaries	—	—	—	2,937	—	2,937	—	—	—	—	—	—	2,937
Decrease due to mergers of unconsolidated subsidiaries	—	—	—	(889)	—	(889)	—	—	—	—	—	—	(889)
Increase resulting from increase in the number of consolidated subsidiaries	—	—	—	1,623	—	1,623	—	—	—	—	—	—	1,623
Transfer of unrealized gains and losses on derivatives at overseas subsidiaries	—	—	—	224	—	224	—	—	—	—	—	—	224
Acquisition of treasury stock	—	—	—	—	(2,537)	(2,537)	—	—	—	—	—	—	(2,537)
Sales of treasury stock	—	—	825	—	1,297	2,123	—	—	—	—	—	—	2,123
Increase resulting from changes of equity ratio in affiliates	—	—	—	—	(402)	(402)	—	—	—	—	—	—	(402)
Net change other than shareholders' equity	—	—	—	—	—	—	34,593	(3,833)	(4,341)	37,869	64,287	138,437	202,724
Balance at end of year	1,252,092	$1,011,926	$750,366	$917,063	$(8,778)	$2,670,578	$462,987	$(3,833)	$311,779	$41,461	$812,395	$599,792	$4,082,765

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2007, 2006 and 2005

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2007	2006	2005	**2007**
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	**¥108,067**	¥ 85,152	¥ 34,772	**$ 915,438**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**49,416**	47,684	47,920	**418,607**
(Decrease) increase in allowance for doubtful accounts	**(603)**	7,499	3,673	**(5,116)**
(Decrease) increase in severance and pension benefits	**(704)**	(518)	1,063	**(5,966)**
Increase in valuation allowance for investment in unconsolidated subsidiaries and affiliates	**411**	87	5	**3,488**
Increase (decrease) in reserve for loss on unconsolidated subsidiaries and affiliates	**100**	(496)	1,222	**850**
Increase in reserve for clean-up costs of contaminated land	**6,434**	5,603	—	**54,504**
Interest and dividend income	**(10,602)**	(5,377)	(2,618)	**(89,815)**
Interest expense	**12,909**	11,363	11,758	**109,358**
Loss on disposal and sales of property, plant and equipment	**5,989**	3,973	5,783	**50,736**
Gain on sales of property, plant and equipment	**(748)**	(1,806)	(2,769)	**(6,339)**
Loss on impairment of fixed assets	**2,486**	9,366	—	**21,062**
Gain on sales of marketable securities and investments in securities	**(1,076)**	(34,325)	(10,639)	**(9,121)**
Write-down of marketable securities and investments in securities	**1,122**	866	2,967	**9,507**
Gain on change in equity by affiliate stock offering	**(13,925)**	(11,284)	—	**(117,966)**
Increase in notes and accounts receivable	**(15,739)**	(36,749)	(14,853)	**(133,332)**
Increase in inventories	**(12,854)**	(47,170)	(3,610)	**(108,892)**
Proceeds from sales of gold bullion deposited from customers under consuming bailment My Gold Plan	**46,605**	26,689	10,288	**394,796**
Payment for purchases of gold bullion from market for customers under My Gold Plan	**(26,740)**	(10,296)	—	**(226,516)**
Increase in notes and accounts payable	**2,914**	30,420	7,171	**24,689**
Increase in accrued expense	**9,428**	16,047	1,859	**79,867**
Equity in earnings of affiliates	**(39,245)**	(22,605)	(8,447)	**(332,447)**
Other, net	**3,298**	(2,810)	11,644	**27,942**
Subtotal	**126,943**	71,313	97,189	**1,075,336**
Interest and dividend received	**32,426**	19,013	9,362	**274,688**
Interest paid	**(12,554)**	(10,965)	(11,651)	**(106,350)**
Payments for supporting of an affiliate	**—**	—	(2,150)	**—**
Proceeds from erection all risks insurance	**2,259**	—	—	**19,136**
Income taxes paid	**(31,403)**	(23,567)	(12,244)	**(266,020)**
Net Cash Provided by Operating Activities	**117,671**	55,794	80,506	**996,790**
Cash Flows from Investing Activities:				
Payments for purchases of property, plant and equipment	**¥ (63,731)**	¥(48,542)	¥ (46,420)	**$(539,864)**
Proceeds from sales of property, plant and equipment	**2,060**	3,768	4,521	**17,456**
Payments for purchases of marketable securities and investments in securities	**(20,819)**	(15,705)	(3,515)	**(176,360)**
Proceeds from sales of marketable securities and investments in securities	**4,792**	53,096	13,398	**40,595**
Disbursement of loan receivables	**(3,805)**	(5,338)	(3,101)	**(32,235)**
Proceeds from collection of loan receivables	**8,394**	7,970	3,260	**71,106**
Payments for purchases of intangible fixed assets	**(1,308)**	(1,441)	(1,129)	**(11,080)**
Payments for acquisition of consolidated subsidiaries' shares, net of cash owned by the subsidiaries	**(3,588)**	—	—	**(30,397)**
Proceeds from acquisition of consolidated subsidiary's shares, net of cash owned by the subsidiary	**1,593**	—	—	**13,497**
Proceeds from sale of consolidated subsidiaries' shares, net of cash owned by the subsidiaries	**849**	8,843	449	**7,197**
Proceeds from sales of business	**249**	—	1,448	**2,113**
Payments for acquisition of business	**(38)**	(961)	—	**(329)**
Other, net	**597**	(791)	(117)	**5,061**
Net Cash Provided by (Used in) Investing Activities	**(74,753)**	899	(31,206)	**(633,237)**
Cash Flows from Financing Activities:				
Proceeds from long-term debt	**52,938**	81,787	69,689	**448,441**
Repayments of long-term debt	**(83,119)**	(98,654)	(128,547)	**(704,105)**
Payments for redemption of bonds	**(25,000)**	(49,445)	(15,000)	**(211,774)**
Proceeds from issuance of bonds	**35,000**	30,000	40,000	**296,484**
Increase (decrease) of commercial paper, net	**21,000**	7,000	—	**177,890**
Payments for purchase of treasury stock	**(299)**	(258)	(150)	**(2,537)**
Increase (decrease) in short-term bank loans, net	**4,022**	(15,258)	(12,198)	**34,071**
Cash dividends paid	**(6,870)**	(3,396)	(2,265)	**(58,202)**
Cash dividends paid to minority shareholders	**(1,606)**	(1,775)	(1,235)	**(13,611)**
Other, net	**507**	(1,242)	(1,225)	**4,299**
Net Cash Used in Financing Activities	**¥ (3,428)**	¥(51,241)	¥ (50,931)	**$ (29,045)**
Effect of Exchange Rate Fluctuation on Cash and Cash Equivalents	**¥1,715**	¥2,243	¥ 27	**$ 14,535**
Net Increase (decrease) in Cash and Cash Equivalents	**41,204**	7,695	(1,604)	**349,042**
Cash and Cash Equivalents at Beginning of Year	**24,994**	16,353	17,754	**211,726**
Effect of Changes in Consolidated Subsidiaries	**135**	272	35	**1,144**
Increase in Cash and Cash Equivalents from Mergers of Unconsolidated Subsidiaries	**928**	674	168	**7,868**
Cash and Cash Equivalents at End of Year (Note 15)	**¥ 67,262**	¥ 24,994	¥ 16,353	**$ 569,782**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Mitsubishi Materials Corporation and Consolidated Subsidiaries

Note 1 Basis of Presenting Consolidated Financial Statements

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

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with certain expanded disclosure and the inclusion of the consolidated statements of shareholders' equity for 2006 and 2005) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 2 (r), is presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2 (s), the consolidated statement of changes in net assets for the year ended March 31, 2007 has been prepared in accordance with the new accounting standard. The accompanying consolidated statements of shareholders' equity for the year ended March 31, 2006 and 2005 were voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S. $1. The convenience translation should not be construed as representation that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Fractions less than one million yen (one tenth of a yen in respect of per share amount) have been omitted from the year ended March 31, 2007. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

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 rights 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 the net assets category, which is translated at historical rates. The difference resulting from exchange adjustments is reported as a separate component of net assets.

(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

The amounts of inventories are stated primarily at acquisition cost modified by the writing down below cost to net selling value. Nonferrous metals are stated primarily at the first-in, first-out (FIFO) method. Other inventories are primarily stated at average cost method.

The Company and the domestic consolidated subsidiaries have adopted the "Accounting Standard for Measurement of Inventories" (Statement No.9, issued by the Accounting Standards Board of Japan on July 5, 2006) in the year ended March 31, 2007, as the standard has become applicable to the consolidated fiscal year commencing before March 31, 2008 and the following consolidated fiscal years. Under this standard, inventories held for sale in the ordinary course of business in principle, shall be carried at the acquisition cost on the balance sheet. However, in the case that the net selling value falls below the acquisition cost at the end of the period, inventories shall be carried at the net selling value on the balance sheet, regarded as decreased profitability.

Consequently, the gross profit, the operating profit, and the income before income taxes and minority interests for the year ended March 31, 2007 decreased by ¥5,740 million yen ($48,625 thousand), compared to the amounts that would have been reported by the previous accounting method.

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

In the year ended March 31, 2005, one of the consolidated subsidiaries in the copper processing business 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 under 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 income 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 net assets. 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 decline 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 income, in the event that 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 3 to 75 years for buildings and structures, and from 2 to 30 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.

The Company shortened the useful lives of the equipment at Sanda Factory (Sanda, Hyogo prefecture) for production of semiconductors from 13 to 4 years considering the high capacity utilization due to the increase in demand and the life cycle of the products.

Mitsubishi Polycrystalline Silicon America Corp. (Alabama), the consolidated subsidiary, also shortened the useful lives of its equipment from the range from 5 to 30 years (21 years on average) to the range from 3 to 20 years (17 years on average). That is because the operating rate of the equipment has been over its original capacity limit since last fiscal year due to the continuous high demand in silicon wafers.

Consequently, the gross profit, the operating profit, and the income before income taxes and minority interests for the year ended March 31, 2007 decreased by ¥691 million yen ($5,853 thousand), compared to the amounts that would have been reported under the previous accounting method.

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

(h) Loss on Impairment of Fixed Assets

Effective on April 1, 2005, the Company, the domestic consolidated subsidiaries, and the affiliates under the equity method adopted "Accounting Standards for Impairment Loss of Fixed Assets" ("Opinion for Regulating Accounting Standards for Impairment Loss of Fixed Assets" (by the Business Accounting Council, August 9, 2002)), and "Guidelines for Implementing Accounting Standards for Impairment Loss of Fixed Assets" (Accounting Standard Guideline No.6 by the Accounting Standards Board of Japan, October 31, 2003). The Company, the domestic consolidated subsidiaries, and the 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 would be 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 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 employees' 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 year ended March 31, 2005. 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 10 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, Labor 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 Unconsolidated Subsidiaries and Affiliates

Valuation allowance for investment in unconsolidated subsidiaries and affiliates and reserve for loss on unconsolidated 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 and Kaihatsu Board Co., Ltd. (Aizuwakamatsu, Fukushima prefecture) site, based on the management estimation of future remedial cost to be paid.

Kaihatsu Board Co., Ltd. was a wholly-owned consolidated subsidiary, and the Company sold all its stocks on April 10, 2007.

(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.

Bonuses to directors and corporate auditors had been accounted for as an appropriation of retained earnings for the year in which payment was made until the year ended March 31, 2006. Effective from the year ended March 31, 2007, the Company adopted "Accounting Standard for Directors' Bonus" (Statement No.4 issued by the Accounting Standards Board of Japan on November 29, 2005) and bonuses to directors and corporate auditors are accounted for as an expense of the period when incurred. The effect on net income of adoption of this new accounting standard is not material.

(o) Net Income per Share

Basic net income 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.

(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 transaction 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 decreased by ¥32,762 million, compared to the amounts that would have been reported under the previous accounting method.

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

(r) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No.5 issued by the Accounting Standards Board of Japan on December 9, 2005), the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No.8 issued by the Accounting Standards Board of Japan on December 9, 2005), revised "Accounting Standards for Treasury shares and Appropriation of Legal Reserve and its Implementation Guidance" (Statement No.1 issued by the Accounting Standards Board of Japan on August 11, 2006) and revised "Guidance on Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" (Statement No.2 issued by the Accounting Standards Board of Japan on August 11, 2006) (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007, prepared in accordance with the New Accounting Standards, comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006, prepared pursuant to the previous presentation rules, comprises the assets, liabilities, minority interests and shareholders' equity sections. Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Share subscription rights and minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present share subscription rights and minority interests in the liabilities section and between the non-current liabilities and the shareholders' equity sections, respectively.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥ 411,617 million ($ 3,486,802 thousand) would have been presented.

(s) Accounting Standards for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No.6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No.9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statements of shareholders' equity for the year ended March 31, 2006 and 2005, which were voluntarily prepared for inclusion in the consolidated financial statements, have not been adapted to the new presentation rules of 2007.

(t) Accounting Standard for Business Combinations

Effective from the year ended March 31, 2007, the Company adopted "Accounting Standards for Business Combination" issued by the Business Accounting Council on October 31, 2003, "Accounting Standard for Business Divestitures and the related Implementation Guidance" (Statement No.7 issued by the Accounting Standards Board of Japan on December 27, 2005), and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Guidance No.10 issued by the Accounting Standards Board of Japan on December 27, 2005).

(u) Change in Accounting Method for Income for Industrial Waste Treatment in the "Cement" Segment

In the past, the income for industrial waste treatment in the "Cement" segment had been deducted from the cost of sales. From the year ended March 31, 2007, the Company has changed its accounting method to include such income in the sales amount. This change was made to reflect the revenue structure of the "Cement" segment more appropriately as industrial waste treatment has increased and become core revenue in the "Cement" segment.

Consequently, the sales and the cost of sales for the year ended March 31, 2007 increased by ¥12,197 million ($103,320 thousand) and ¥11,917 million ($100,948 thousand) respectively, and the gross profit, the operating profit and the income before income taxes and minority interests for the year ended March 31, 2007 increased by ¥279 million ($2,363 thousand) respectively, compared to the amounts that would have been reported under the previous accounting method.

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

Note 3 Inventories

Inventories as of March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Products	**¥ 58,783**	¥ 55,047	**$ 497,950**
Semifinished products and work in process	**92,816**	84,833	**786,251**
Raw materials and supplies	**83,319**	66,149	**705,797**
	¥234,919	¥206,029	**$1,989,999**

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

Short-term bank loans and commercial paper outstanding as of March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Unsecured	**¥273,947**	¥236,010	**$2,320,602**
Secured	**10,886**	9,704	**92,220**
Total short-term debt	**¥284,833**	¥245,714	**$2,412,822**

The average interest rates per annum for short-term bank loans outstanding at March 31, 2007and 2006 were 1.4% and 1.0%, respectively.

The average interest rates per annum for commercial paper at March 31, 2007 and 2006 were 0.8% and 0.3%, respectively.

Long-term debt as of March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Banks, insurance companies and other financial institutions, maturing serially until 2030 with an average rate of 2.462% per annum as of March 31, 2007:			
Unsecured	**¥251,314**	¥ 271,037	**$2,128,879**
Secured	**59,039**	59,199	**500,122**
3.10% unsecured yen bonds, due 2008	**10,000**	10,000	**84,709**
1.54% unsecured yen bonds, due 2008	**15,000**	15,000	**127,064**
1.01% unsecured yen bonds, due 2006	**—**	15,000	**—**
1.24% unsecured yen bonds, due 2006	**—**	10,000	**—**
0.94% unsecured yen bonds, due 2010	**20,000**	20,000	**169,419**
1.39% unsecured yen bonds, due 2012	**10,000**	10,000	**84,709**
1.97% unsecured yen bonds, due 2011	**20,000**	—	**169,419**
1.82% unsecured yen bonds, due 2013	**15,000**	—	**127,064**
Zero-coupon unsecured convertible bond-type bonds with stock acquisition rights, due 2007	**—**	17,706	**—**
Zero-coupon unsecured convertible bond-type bonds with stock acquisition rights, due 2009	**—**	17,600	**—**
	400,353	445,542	**3,391,390**
Less current portion	**(75,284)**	(110,351)	**(637,736)**
	¥325,068	¥ 335,191	**$2,753,654**

The Zero-coupon unsecured convertible bond-type bonds with stock acquisition rights, due 2007 are currently convertible at ¥345 ($2.92) per share until September 20, 2007.

The Zero-coupon unsecured convertible bond-type bonds with stock acquisition rights, due 2009 are currently convertible at ¥333 ($2.82) per share until September 18, 2009.

The Zero-coupon unsecured convertible bond-type bonds with stock acquisition rights were fully exercised by December 14, 2006.

The aggregate annual maturities of long-term debt as of March 31, 2007, are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008	**¥ 75,284**	**$ 637,736**
2009	**99,293**	**841,114**
2010	**59,290**	**502,250**
2011	**48,395**	**409,954**
2012	**42,781**	**362,398**
2013 and thereafter	**75,308**	**637,936**
	¥400,353	**$3,391,390**

Assets pledged as collateral for short-term loans and long-term debt as of March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Cash	**¥ 13,718**	¥ 1,798	**$ 116,205**
Notes and accounts receivable	**1,890**	10,810	**16,010**
Inventories	**24,981**	24,361	**211,618**
Investments:			
Investments in securities	**50**	684	**430**
Unconsolidated subsidiaries and affiliates	**481**	1,709	**4,079**
Property, plant and equipment, at net book value	**156,849**	141,781	**1,328,666**
Other	**350**	504	**2,967**
	¥198,321	¥181,647	**$1,679,977**

Note 5 Employees' Severance and Pension Benefits

Employees' severance and pension benefits included in the consolidated balance sheets as of March 31, 2007 and 2006, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥134,153**	¥131,309	**$1,136,408**
Less fair value of pension assets	**(78,581)**	(72,971)	**(665,662)**
Unrecognized projected obligation	**55,571**	58,338	**470,746**
Unrecognized actuarial losses	**(6,690)**	(11,474)	**(56,673)**
Unrecognized prior service costs	**(216)**	(273)	**(1,837)**
Net liability for severance and retirement benefits	**48,664**	46,591	**412,234**
Prepaid pension costs	**189**	70	**1,602**
Employees' severance and pension benefits	**¥ 48,853**	¥ 46,661	**$ 413,837**

Employees' severance and pension benefit expense included in the consolidated statements of operations for the years ended March 31, 2007, 2006 and 2005, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Service cost benefits earned during the year	**¥ 6,285**	¥ 6,230	¥ 6,728	**$53,243**
Interest cost on projected benefit obligation	**2,824**	2,904	3,516	**23,928**
Expected return on plan assets	**(1,444)**	(1,211)	(1,430)	**(12,234)**
Amortization of net transition obligation	**—**	—	9,957	**—**
Amortization of actuarial losses	**2,809**	3,828	4,083	**23,801**
Amortization of prior service costs	**32**	(778)	(1,653)	**274**
Employees' pension funds dissolution profit	**—**	—	(1,964)	**—**
Employees' severance and pension benefit expense	**¥10,508**	¥10,973	¥19,237	**$89,013**

The discount rate used by the Company was mainly 2.5% for the years ended March 31, 2007, 2006 and 2005. The rates of expected return on plan assets were mainly 2.5% for the years ended March 31, 2007, 2006 and 2005. 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 ¥815 million income, and ¥8,326 million expense for the years ended March 31, 2006 and 2005, respectively, were included in other income (expenses) in the accompanying consolidated statements of income

Note 6 Net Assets

As described in Note 2 (r), the net assets category comprises four subsections, which are the owner's equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in-capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in-capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

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

Note 7 Income Taxes

The income taxes reflected in the accompanying consolidated statements of income for the years ended March 31, 2007, 2006 and 2005, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2007	2006	2005	**2007**
Current	**¥28,087**	¥27,422	¥16,572	**$237,926**
Deferred	**1,298**	(7,596)	(1,334)	**10,999**
	¥29,385	¥19,826	¥15,238	**$248,926**

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, 2007, 2006 and 2005:

	2007	2006	2005
Statutory tax rate	**40.7%**	40.7%	**40.7%**
Equity in earnings of affiliates	**(8.4)**	(4.2)	**(3.3)**
Valuation allowance	**(1.3)**	4.5	**3.7**
Intercompany cash dividend	**3.2**	2.2	**2.8**
Nondeductible expenses	**1.1**	2.3	**5.4**
Differences in statutory tax rates of consolidated subsidiaries	**(3.7)**	(3.4)	**(3.3)**
Gain on sale of investments in an affiliate under the equity method	**—**	(11.5)	**—**
Net operating loss carried forward	**—**	(4.6)	**—**
Increase in deferred tax liabilities for retained earnings of overseas consolidated subsidiaries	**1.1**	—	**—**
Gain on change in equity by affiliate stock offering	**(5.2)**	—	**—**
Decrease in deferred tax assets for unrealized gain on fixed assets	**1.8**	—	**—**
Tax credits	**(2.9)**	(4.3)	**—**
Other	**0.9**	1.6	**(2.2)**
Effective tax rate	**27.2%**	23.3%	**43.8%**

Significant components of deferred income tax assets and liabilities as of March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred income tax assets:			
Net operating loss carried forward	**¥ 15,584**	¥ 16,986	**$ 132,018**
Employees' severance and pension benefits	**20,686**	20,265	**175,234**
Loss on write-down of building	**9,380**	9,901	**79,460**
Intercompany profits	**8,427**	8,825	**71,388**
Accrued employees' bonuses	**5,266**	4,719	**44,609**
Loss on write-down of securities	**3,214**	6,257	**27,227**
Depreciation	**—**	1,540	**—**
Allowance for doubtful accounts	**—**	2,417	**—**
Reserve for clean-up costs of contaminated land	**4,897**	2,279	**41,489**
Nondeductible loss on impairment of fixed assets	**3,652**	2,528	**30,942**
Nondeductible environmental expenditures	**2,175**	2,175	**18,426**
Nondeductible compensation expenditures	**1,444**	1,444	**12,236**
Loss on write-down of inventories	**2,039**	—	**17,277**
Deferred losses on hedges	**3,487**	—	**29,538**
Other	**18,419**	14,537	**156,031**
Subtotal	**98,675**	93,873	**835,881**
Valuation allowance	**(23,370)**	(21,990)	**(197,972)**
Total deferred income tax assets	**¥ 75,305**	¥ 71,883	**$ 637,909**
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	**¥(11,361)**	¥ (8,473)	**$(96,241)**
Accelerated depreciation of property, plant and equipment	**(8,049)**	(8,529)	**(68,187)**
Deferred gain on sale of property, plant and equipment	**(1,948)**	(2,093)	**(16,507)**
Reserves deductible for Japanese tax purposes	**(1,928)**	(648)	**(16,332)**
Net unrealized holding gains on securities	**(37,258)**	(33,635)	**(315,617)**
Retained earnings of overseas consolidated subsidiaries	**(3,420)**	—	**(28,970)**
Deferred gains on hedges	**(3,334)**	—	**(28,250)**
Other	**(4,212)**	(7,039)	**(35,681)**
Total deferred income tax liabilities	**(71,513)**	(60,417)	**(605,788)**
Net deferred income tax assets	**¥ 3,791**	¥ 11,466	**$ (32,120)**
Net deferred income tax liabilities on revaluation reserve for land	**¥(34,831)**	¥(35,020)	**$(295,056)**

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, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Notes receivable discounted	**¥ 5,082**	¥ 3,978	**$ 43,054**
Notes receivable endorsed with recourse	**88**	88	**750**
Notes and accounts receivable securitized with recourse	**6,174**	5,998	**52,306**
Loans guaranteed	**33,488**	39,189	**283,680**
	¥44,834	¥49,253	**$379,792**

Loans guaranteed as of March 31, 2007 include a ¥4,010 million ($33,968 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			
				2007				**2007**
	Machinery, equipment and vehicles	Tools	Others	Total	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	**¥8,727**	**¥5,778**	**¥2,322**	**¥16,827**	**$73,928**	**$48,946**	**$19,673**	**$142,548**
Accumulated depreciation	**4,841**	**3,185**	**1,297**	**9,323**	**41,009**	**26,981**	**10,989**	**78,980**
Accumulated impairment loss	**51**	**21**	**—**	**72**	**434**	**183**	**—**	**618**
Book value	**¥3,834**	**¥2,571**	**¥1,025**	**¥ 7,431**	**$32,484**	**$21,781**	**$ 8,684**	**$ 62,950**

	Millions of yen			
				2006
	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	¥9,841	¥5,268	¥1,775	¥16,884
Accumulated depreciation	5,621	2,271	907	9,249
Accumulated impairment loss	15	—	—	15
Book value	¥4,205	¥2,547	¥ 868	¥7,620

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Lease commitments:			
Due within one year	**¥2,601**	¥2,600	**$22,033**
Due after one year	**4,897**	5,031	**41,486**
Total	**7,498**	¥7,631	**63,520**
Accumulated impairment loss on leased assets	**¥ 67**	¥ 12	**$ 570**

(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
	2007	2006	2005	**2007**
Lease expenses	**¥2,894**	¥2,946	¥2,974	**$24,518**
Depreciation equivalents	**2,890**	2,941	2,974	**24,486**
Reversal of accumulated impairment loss on leased assets	**¥ 3**	¥ 5	—	**$ 31**
Loss on impairment	**¥ 59**	¥ 17	¥ —	**$ 503**

Noncancelable operating lease commitments are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥1,876**	¥1,672	**$15,897**
Due after one year	**3,752**	4,646	**31,786**
Total	**¥5,629**	¥6,318	**$47,684**

Note 10 Research and Development Expenses

Research and development expenses for the years ended March 31, 2007, 2006 and 2005, were ¥11,112 million ($94,129 thousand), ¥10,859 million and ¥10,449 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, 2007 and 2006:

Available-for-sale securities

(1) Securities with book values exceeding acquisition cost

At March 31, 2007

	Millions of yen			Thousands of U.S. dollars		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥51,135**	**¥144,528**	**¥93,393**	**$433,164**	**$1,224,297**	**$791,132**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥51,135**	**¥144,528**	**¥93,393**	**$433,164**	**$1,224,297**	**$791,132**

At March 31, 2006

	Millions of yen		
Type	Acquisition cost	Book value	Difference
Equity securities	¥46,872	¥131,367	¥84,495
Bonds	—	—	—
Total	¥46,872	¥131,367	¥84,495

(2) Securities with book values not exceeding acquisition cost

At March 31, 2007

	Millions of yen			Thousands of U.S. dollars		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥12,549**	**¥12,024**	**¥(524)**	**$106,304**	**$101,857**	**$(4,446)**
Bonds	**5**	**4**	**(0)**	**42**	**42**	**0**
Total	**¥12,554**	**¥12,029**	**¥(524)**	**$106,346**	**$101,899**	**$(4,446)**

At March 31, 2006

	Millions of yen		
Type	Acquisition cost	Book value	Difference
Equity securities	¥677	¥487	¥(190)
Bonds	82	80	(2)
Total	¥759	¥567	¥(192)

2. The following tables summarize book values of securities with no available fair values as of March 31, 2007 and 2006:

(1) Available-for-sale securities

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Unlisted equity securities	**¥15,600**	¥17,897	**$132,154**
Corporate bonds	**—**	—	**—**
Others	**3**	32	**33**
Total	**¥15,604**	¥17,929	**$132,188**

3. The following tables summarize maturities of available-for-sale securities with maturity, and held-to-maturity debt securities as of March 31, 2007 and 2006.

At March 31, 2007

					Millions of yen
Type	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	**¥4**	**¥—**	**¥—**	**¥—**	**¥4**
Corporate bonds	**—**	**—**	**—**	**—**	**—**
Other bonds	**—**	**—**	**—**	**—**	**—**
Total	**¥4**	**¥—**	**¥—**	**¥—**	**¥4**

Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
					Thousands of U.S. dollars
Available-for-sale securities:					
Government or local bonds	**$42**	**$—**	**$—**	**$—**	**$42**
Corporate bonds	—	—	—	—	—
Total	**$42**	**$—**	**$—**	**$—**	**$42**

At March 31, 2006

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

4. Total amounts of available-for-sale securities sold, and the resulting gains and losses, in the years ended March 31, 2007 and 2006, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Sales amount	**¥4,299**	¥7,440	**$36,422**
Gains	**1,419**	6,082	**12,022**
Losses	**19**	10	**166**

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 standings, 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 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, 2007 and 2006, 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, 2007		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Forward exchange contracts:						
Sell	U.S. dollars	**¥47,672**	**¥—**	**¥47,672**	**¥47,543**	**¥128**
	Other	**958**	**—**	**958**	**972**	**(14)**
Buy	U.S. dollars	**1,664**	**138**	**1,803**	**1,979**	**176**
	Other	**222**	**—**	**222**	**223**	**0**
Total						**¥290**

						Thousands of U.S. dollars
		Contract amounts in U.S. dollar equivalent				
At March 31, 2007		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Forward exchange contracts:						
Sell	U.S. dollars	**$403,833**	**$—**	**$403,833**	**$402,744**	**$1,088**
	Other	**8,116**	**—**	**8,116**	**8,242**	**(125)**
Buy	U.S. dollars	**14,098**	**1,176**	**15,275**	**16,770**	**1,495**
	Other	**1,887**	**—**	**1,887**	**1,892**	**5**
Total						**$2,464**

						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)

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 for 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

				Millions of yen
	Notional amounts			
At March 31, 2007	Due within one year	Due after one year	Total	Fair value	Unrealized losses
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	**¥ —**	**¥ 1,000**	**¥ 1,000**	**¥ (28)**	**¥ (28)**
Pay fixed rate, receive floating rate	**17,642**	**78,657**	**96,300**	**(702)**	**(702)**
Total					**¥(730)**

				Thousands of U.S. dollars
	Notional amounts			
At March 31, 2007	Due within one year	Due after one year	Total	Fair value	Unrealized losses
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	**$ —**	**$ 8,470**	**$ 8,470**	**$(239)**	**$ (239)**
Pay fixed rate, receive floating rate	**149,448**	**666,309**	**815,758**	**(5,947)**	**(5,947)**
Total					**$(6,186)**

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

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, 2007	Contract amounts: Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
					Millions of yen
Nonferrous metals forward:					
Sell	**¥68,181**	**¥ 427**	**¥ 68,609**	**¥ 76,956**	**¥(8,347)**
Buy	**95,626**	**7,495**	**103,121**	**109,070**	**5,948**
Nonferrous metal commodity price swap:					
Pay fixed price, receive floating price	**1,486**	**1,770**	**3,256**	**2,247**	**2,247**
Total					**¥ (151)**

At March 31, 2007	Contract amounts: Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
					Thousands of U.S. dollars
Nonferrous metals forward:					
Sell	**$577,563**	**$ 3,624**	**$581,187**	**$651,898**	**$(70,710)**
Buy	**810,046**	**63,495**	**873,542**	**923,931**	**50,388**
Nonferrous metal commodity price swap:					
Pay fixed price, receive floating price	**12,593**	**14,993**	**27,587**	**19,037**	**19,037**
Total					**$ (1,284)**

At March 31, 2007	Contract amounts: Due within one year	Due after one year	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

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, powder metallurgy, highly efficient materials, and diamond tools; aluminum comprises aluminum cans, rolled aluminum products, and processed aluminum products; electronic materials & components comprise advanced 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, 2007, 2006 and 2005, was as follows:

Millions of yen

Year ended March 31, 2007	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Aluminum Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	¥198,288	¥598,921	¥138,095	¥162,841	¥ 85,189	¥268,771	¥1,452,108	¥ —	¥1,452,108
Intersegment	1,581	81,516	14,925	1,234	3,185	61,996	164,439	(164,439)	—
Total	199,869	680,438	153,020	164,075	88,375	330,767	1,616,547	(164,439)	1,452,108
Operating expenses	181,533	647,043	136,906	161,225	77,986	326,033	1,530,729	(157,379)	1,373,349
Operating profit	¥ 18,335	¥ 33,395	¥ 16,114	¥ 2,849	¥ 10,388	¥ 4,733	¥ 85,818	¥ (7,059)	¥ 78,758
Identifiable assets	¥280,368	¥466,294	¥166,433	¥183,585	¥169,282	¥306,280	¥1,572,245	¥ 201,654	¥1,773,899
Depreciation	¥ 10,216	¥ 12,455	¥ 6,894	¥ 8,921	¥ 4,970	¥ 3,821	¥ 47,279	¥ 2,137	¥ 49,416
Capital expenditures	¥ 21,114	¥ 11,626	¥ 12,702	¥ 6,481	¥ 8,162	¥ 4,970	¥ 65,058	¥ 1,425	¥ 66,484

Thousands of U.S. dollars

Year ended March 31, 2007	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Aluminum Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	$1,679,698	$5,073,458	$1,169,805	$1,379,427	$ 721,642	$2,276,757	$12,300,791	$ —	$12,300,791
Intersegment	13,393	690,529	126,432	10,455	26,982	525,167	1,392,960	(1,392,960)	—
Total	1,693,092	5,763,988	1,296,238	1,389,883	748,625	2,801,925	13,693,752	(1,392,960)	12,300,791
Operating expenses	1,537,770	5,481,094	1,159,730	1,365,743	660,624	2,761,825	12,966,788	(1,333,161)	11,633,626
Operating profit	$ 155,322	$ 282,893	$ 136,508	$ 24,140	$ 88,000	$ 40,099	$ 726,964	$(59,799)	$ 667,164
Identifiable assets	$2,374,999	$3,949,974	$1,409,854	$1,555,149	$1,433,987	$2,594,502	$13,318,468	$ 1,708,213	$15,026,681
Depreciation	$ 86,541	$ 105,508	$ 58,402	$ 75,572	$ 42,101	$ 32,375	$ 400,502	$ 18,105	$ 418,607
Capital expenditures	$ 178,864	$ 98,491	$ 107,601	$ 54,904	$ 69,140	$ 42,108	$ 551,111	$ 12,078	$ 563,190

Millions of yen

Year ended March 31, 2006	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Aluminum 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

Millions of yen

Year ended March 31, 2005	Cement	Aluminum	Powder Metallurgy Products & Metals	Advanced Tools	Energy & Products	Systems	Others	Elimination and Corporate Assets or Total	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

(1) Change in accounting method for income for industrial waste treatment in the “Cement” segment
In the past, the income for industrial waste treatment in the “Cement” segment had been deducted from the cost of sales. In the year ended March 31, 2007, the Company has changed its accounting method for such income to be included in the sales amount. This change was made to reflect the revenue structure of the “Cement” segment more appropriately as industrial waste treatment has increased and become core revenue in the “Cement” segment.

Consequently, the sales, the operating expense, and the operating profit for the “Cement” segment for the year ended March 31, 2007 increased by ¥12,197 million ($103,320 thousand), ¥11,917 million ($100,948 thousand), and ¥279 million ($2,363 thousand) respectively, compared to the amounts that would have been reported under the previous accounting method.

(2) Adoption of “Accounting Standard for Measurement of Inventories”
Effective from the year ended March 31, 2007, the Company and the domestic consolidated subsidiaries have adopted “Accounting Standard for Measurement of Inventories” (Statement No.9 issued by the Accounting Standards Board of Japan on July 5, 2006). Compared to the amounts that would have been reported under the previous accounting method, the effects of adopting this accounting standard for each business segment for the year ended March 31, 2007 were as follows:

Millions of yen

Year ended March 31, 2007	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Operating expenses	**¥ 151**	**¥ 2,650**	**¥ 1,592**	**¥ 751**	**¥ 55**	**¥ 538**	**¥ 5,740**	**¥—**	**¥ 5,740**
Operating profit	**¥(151)**	**¥(2,650)**	**¥(1,592)**	**¥(751)**	**¥(55)**	**¥(538)**	**¥(5,740)**	**¥—**	**¥(5,740)**
Assets	**¥(151)**	**¥(2,650)**	**¥(1,592)**	**¥(751)**	**¥(55)**	**¥(538)**	**¥(5,740)**	**¥—**	**¥(5,740)**

Thousands of U.S. dollars

Year ended March 31, 2007	Cement	Metals	Advanced Materials & Tools	Aluminum	Electronic Materials & Components	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Operating expenses	**$ 1,280**	**$ 22,453**	**$ 13,490**	**$ 6,364**	**$ 473**	**$ 4,562**	**$ 48,625**	**$—**	**$ 48,625**
Operating profit	**$(1,280)**	**$(22,453)**	**$(13,490)**	**$(6,364)**	**$(473)**	**$(4,562)**	**$(48,625)**	**$—**	**$(48,625)**
Assets	**$(1,280)**	**$(22,453)**	**$(13,490)**	**$(6,364)**	**$(473)**	**$(4,562)**	**$(48,625)**	**$—**	**$(48,625)**

(3) Change in useful lives of the equipment for the “Electronic materials & components” segment
The Company shortened the useful lives of the equipment at Sanda Factory (Sanda, Hyogo prefecture) for production of semiconductors from 13 to 4 years considering the high capacity utilization due to the increase in demand and the life cycle of the products.

Mitsubishi Polycrystalline Silicon America Corp. (Alabama), the consolidated subsidiary, also shortened the useful lives of the equipment from the range from 5 to 30 years (21 years on average) to the range from 3 to 20 years (17 years on average). That is because the operating rate of the equipment has been over its original capacity limit since last fiscal year due to continuous high demand in silicon wafers.

Consequently, the operating expenses for the “Electronic materials & components” segment for the year ended March 31, 2007 increased by ¥691 million ($5,853 thousand), and the operating profit decreased by the same amount, compared to the amounts that would have been reported under the previous accounting method.

This effect on assets of the “Electronic materials & components” segment was not material.

(4) 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 reorganized its business segments to divide them into five 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

	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Aluminum 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	294,397	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

(5) 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 certain allocation bases that mainly reflect the degree of benefit. In the year ended March 31, 2006, the Company 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 services offered.

This change was made to reflect the performance of each business segment more adequately, following the change in the 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.

Under the previous allocating method, the total amount of unallocatable operating expenses for the year ended March 31, 2006 was ¥8,490 million, 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	Electronic Materials & Aluminum 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	(8,191)	68,982

(6) Change in scope of corporate assets

In the past, the deferred tax assets 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. Under the previous method, the total amount of corporate assets as of March 31, 2006 was ¥194,224 million, and the amounts of assets for each segment were as follows:

Millions of yen

Year ended March 31, 2006	Cement	Metals	Advanced Materials & Tools	Electronic Materials & Aluminum 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

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

As indicated in Note 2 (q), the Company started to eliminate this kind of transaction 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 under the previous accounting method.

(8) 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, 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 income calculate the profit or loss for a period more accurately, 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" segment 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 under the previous accounting method.

(b) Segment information by geographic area for the years ended March 31, 2007, 2006 and 2005, is as follows:

Millions of yen

Year ended March 31, 2007	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	**¥1,216,099**	**¥ 85,866**	**¥17,065**	**¥129,823**	**¥3,253**	**¥1,452,108**	**¥ —**	**¥1,452,108**
Intersegment	**27,782**	**6,383**	**293**	**109,315**	**—**	**143,774**	**(143,774)**	**—**
Total	**1,243,882**	**92,249**	**17,358**	**239,139**	**3,253**	**1,595,883**	**(143,774)**	**1,452,108**
Operating expenses	**1,180,955**	**78,707**	**16,260**	**231,548**	**2,390**	**1,509,862**	**(136,512)**	**1,373,349**
Operating profit	**¥ 62,926**	**¥ 13,542**	**¥ 1,097**	**¥ 7,590**	**¥ 863**	**¥ 86,021**	**¥ (7,262)**	**¥ 78,758**
Identifiable assets	**¥1,369,821**	**¥108,275**	**¥46,444**	**¥116,019**	**¥3,290**	**¥1,643,851**	**¥ 130,048**	**¥1,773,899**

Thousands of U.S. dollars

Year ended March 31, 2007	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	**$10,301,563**	**$727,372**	**$144,558**	**$1,099,734**	**$27,563**	**$12,300,791**	**$ —**	**$12,300,791**
Intersegment	**235,348**	**54,073**	**2,485**	**926,009**	**—**	**1,217,915**	**(1,217,915)**	**—**
Total	**10,536,911**	**781,445**	**147,043**	**2,025,743**	**27,563**	**13,518,707**	**(1,217,915)**	**12,300,791**
Operating expenses	**10,003,860**	**666,727**	**137,744**	**1,961,442**	**20,247**	**12,790,023**	**(1,156,396)**	**11,633,626**
Operating profit	**$ 533,050**	**$114,717**	**$ 9,298**	**$ 64,301**	**$ 7,315**	**$ 728,684**	**$ (61,519)**	**$ 667,164**
Identifiable assets	**$11,603,736**	**$917,202**	**$393,429**	**$ 982,800**	**$27,875**	**$13,925,044**	**$ 1,101,637**	**$15,026,681**

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

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

(1) Change in accounting method for income for industrial waste treatment in the "Japan" segment
In the past, the income for industrial waste treatment in the "Cement" segment had been deducted from the cost of sales. For the year ended March 31, 2007, the Company has changed its accounting method to include such income in the sales amount. This change was made to

reflect the revenue structure of the “Cement” segment more appropriately as the industrial waste treatment has increased and stably become core revenue in the “Cement” segment.

Consequently, the sales, the operating expense, and the operating profit for the “Japan” segment for the year ended March 31, 2007 increased by ¥12,197 million ($103,320 thousand), ¥11,917 million ($100,948 thousand), and ¥279 million ($2,363 thousand) respectively, compared to the amounts that would have been reported under the previous accounting method.

(2) Adoption of “Accounting Standard for Measurement of Inventories” for the “Japan” segment

Effective from the year ended March 31, 2007, the Company and the domestic consolidated subsidiaries have adopted “Accounting Standard for Measurement of Inventories” (Statement No.9 issued by the Accounting Standards Board of Japan on July 5, 2006).

Consequently, the operating expenses for the “Japan” for the year ended March 31, 2007 increased by ¥5,740 million ($48,625 thousand), and 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.

(3) Change in useful lives of the equipment for the “Japan” and the “U.S.A.” segment

The Company shortened the useful lives of the equipment at Sanda Factory (Sanda, Hyogo prefecture) for production of semiconductors from 13 to 4 years considering the high capacity utilization due to the increase in demand and the lifecycle of the products.

Mitsubishi Polycrystalline Silicon America Corp. (Alabama), the consolidated subsidiary, also shortened the useful lives of the equipment from the range from 5 to 30 years (21 years on average) to the range from 3 to 20 years (17 years on average). That is because the operating rate of the equipment has been over its original capacity limit since last fiscal year due to the continuous high demand in silicon wafers. Consequently, the operating expenses for the “Japan” for the year ended March 31, 2007 increased by ¥158 million ($1,338 thousand), and the operating profit decreased by the same amount, compared to the amounts that would have been reported by the previous accounting method. In the same way, the operating expenses for the “U.S.A.” for the year ended March 31, 2007 increased by ¥532 million ($4,506 thousand), and the operating profit decreased by the same amount

This effect on assets of the “Japan” and the “U.S.A.” was not material.

(4) 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, 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

(5) 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, 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

(6) 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.

(7) 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 income 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, 2007, 2006 and 2005, were as follows:

					Millions of yen
Year ended March 31, 2007	U.S.A.	Europe	Asia	Others	Total
Overseas sales	**¥100,393**	**¥38,979**	**¥213,219**	**¥6,506**	**¥ 359,099**
Consolidated net sales					**1,452,108**
Percentage of overseas sales to consolidated net sales	**6.9%**	**2.7%**	**14.7%**	**0.4%**	**24.7%**

					Thousands of U.S. dollars
Year ended March 31, 2007	U.S.A.	Europe	Asia	Others	Total
Overseas sales	**$850,433**	**$330,194**	**$1,806,183**	**$55,113**	**$ 3,041,924**
Consolidated net sales					**12,300,791**
Percentage of overseas sales to consolidated net sales	**6.9%**	**2.7%**	**14.7%**	**0.4%**	**24.7%**

					Millions of yen
At March 31, 2006	U.S.A.	Europe	Asia	Others	Total
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%

					Millions of yen
At March 31, 2005	U.S.A.	Europe	Asia	Others	Total
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%

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 "Revaluation 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 net assets 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.

According to the Revaluation 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, 2007 and 2006, amounted to ¥28,423 million ($240,776 thousand) and ¥23,949 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
	2007	2006	2005	**2007**
Cash	**¥67,556**	¥25,454	¥16,686	**$572,267**
Less term deposits with maturities extending more than three months	**(293)**	(460)	(333)	**(2,485)**
Cash and cash equivalents	**¥67,262**	¥24,994	¥16,353	**$569,782**

(b) Summary of assets and liabilities of new consolidated subsidiaries due to the acquisition of stocks

One of the former affiliated companies of the Company named Mitsubishi Shindoh Co., Ltd. and its subsidiary named Gotoh MFG Co., Ltd. became new consolidated subsidiaries of the Company due to the acquisition of stocks in the year ended March 31, 2007. At the start of their consolidation, summary of their assets and liabilities, the acquisition cost of stocks, and the payment for acquisition were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥31,940	$ 270,568
Fixed assets	24,957	211,413
Current liabilities	(24,877)	(210,739)
Long-term liabilities	(11,733)	(99,393)
Negative goodwill	(19)	(165)
Minority interests	(9,928)	(84,102)
Acquisition cost of stocks	10,338	87,580
Carrying value under the equity method	(5,585)	(47,315)
Additional acquisition cost of stocks	4,753	40,264
Cash and cash equivalents of the acquired companies	(1,164)	(9,867)
Payment for acquisition	¥ 3,588	$ 30,397

(c) Material nonmonetary transactions for the year ended March 31, 2007

Increase in common stock by the issuance of new stocks due to the exercise of stock acquisition rights	¥17,705 million ($149,978 thousand)
Increase in capital surplus by the issuance of new stocks due to the exercise of stock acquisition rights	¥17,600 million ($149,089 thousand)
Decrease in convertible bond-type bonds with stock acquisition rights	¥35,306 million ($299,076 thousand)

(d) 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
Current assets	¥ 8,112
Noncurrent assets	11,558
Total assets	¥19,670
Current liabilities	¥ 9,788
Noncurrent liabilities	2,050
Total liabilities	¥11,838

(e) 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
Current assets	¥10,221
Noncurrent assets	15,712
Total assets	¥25,933
Current liabilities	¥16,519
Noncurrent liabilities	646
Total liabilities	¥17,165

(f) 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 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, 2007, 2006, and 2005 was as follows:

	Millions of yen	Thousands	Yen	U.S. dollars
Year ended March 31, 2007	Net income	Weighted-average shares	Net income per share	Net income per share
Basic net income per share:				
Net income	**¥71,382**			
Bonuses to directors by an appropriation of retained earnings	—			
Net income available to common shareholders	**71,382**	**1,183,236**	**¥60.3**	**$0.51**
Effect of dilutive securities:				
Convertible bonds	—	—		
Stock acquisition rights	—	**65,046**		
Diluted net income per share:				
Net income for computation	**¥71,382**	**1,248,282**	**¥57.1**	**$0.48**

Year ended March 31, 2006	Millions of yen Net income	Thousands Weighted-average shares	Yen 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
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

Year ended March 31, 2005	Millions of yen Net loss	Thousands Weighted-average shares	Yen Net loss 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

Note 17 Related Party Transactions

Significant transactions with related parties for the year ended March 31, 2007 were as follows:

	Millions of yen March 31, 2007						
Name of related individual	Borrowing	Interest payments	Short-term bank loans	Long-term debts	Prepaid expenses	Other current assets	Accrued expenses
Akio Utsumi	**¥4,125**	**¥632**	**¥ 7,176**	**¥19,593**	**¥65**	**¥11**	**¥28**

Note: These transactions were made by Akio Utsumi (Corporate Auditor of the Company), as Representative Director of The Mitsubishi UFJ Trust and Banking Corporation.
The interest rate for the debts was reasonably determined, considering the market interest rate.
No securities were furnished.

	Thousands of U.S. dollars March 31, 2007						
Name of related individual	Borrowing	Interest payments	Short-term bank loans	Long-term debts	Prepaid expenses	Other current assets	Accrued expenses
Akio Utsumi	**$34,942**	**$5,353**	**$60,787**	**$165,972**	**$550**	**$93**	**$237**

The Company had no significant transaction with related parties for the year ended March 31, 2006.

Significant transactions with related parties for the year ended March 31, 2005 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

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 as other expense in the consolidated statements of income 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 were as follows:

Asset group	Location	Asset Type	Loss on Impairment Millions of yen
Cement	Fukuoka, Fukuoka prefecture	Land and buildings, etc.	¥ 405
Metal	Sakai, Osaka prefecture	Land and machinery, etc.	1,121
Advanced materials & tools	Joso, Ibaragi prefecture	Machinery, etc.	845
Aluminum	Susono, Shizuoka prefecture	Land and machinery, etc.	2,391
Other	Nagato, Yamaguchi prefecture	Land and buildings, etc.	1,508
Idle assets	Noda, Chiba prefecture	Land, etc.	3,096
Total			¥9,366

*Details of loss on impairment by account
Buildings ¥2,172 million, Machinery ¥2,039 million,
Land ¥4,236 million, Patent ¥501 million,
Other ¥418 million.
(The details for the year ended March 31, 2007 are omitted due to being immaterial.)

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 Information on Net Assets

(a) Type and Number of Shares Issued and Treasury Stock
For the year ended March 31, 2007, information on shares issued and treasury stock is presented as follows:

	Type of shares issued Common stocks*1	Type of treasury stocks Common stocks*2,3
Number of shares as of March 31, 2006	1,147,917,921	3,530,426
Increase during the year ended March 31,2007	104,174,565	804,031
Decrease during the year ended March 31, 2007	—	644,082
Number of shares as of March 31, 2007	1,252,092,486	3,690,375

*1. Increase in the number of shares issued during the year ended March 31, 2007
Issuance of new shares due to the exercise of stock acquisition rights 104,174,565 shares
*2. Increase in the number of treasury stocks during the year ended March 31, 2007
Purchase of less-than-one-unit shares 603,291 shares
Increase in resulting from changes of equity ratio in affiliates 200,740 shares
*3. Decrease in the number of treasury stocks during the year ended March 31, 2007
Sales of less-than-one-unit shares 31,482 shares
Sales of the Company's shares by affiliated companies 612,600 shares

(b) Dividends
1. Dividend payment
Approvals by shareholders' meeting held on June 29, 2006 are as follows:

Type of shares	Common stock
Total amount of dividends	¥4,580 million ($38,797 thousand)
Dividends per share	¥4 ($0.03)
Record date	March 31, 2006
Effective date	June 30, 2006

Approvals by board of directors' meeting held on November 8, 2006 are as follows:

Type of shares	Common stock
Total amount of dividends	¥2,289 million ($19,390 thousand)
Dividends per share	¥2 ($0.01)
Record date	September 30, 2006
Effective date	December 8, 2006

2. Dividends whose record date is attributable to the year ended March 31, 2007, but to be effective after this fiscal year

Approvals by board of directors' meeting held on May 10, 2007 are as follows:

Type of shares	Common stock
Total amount of dividends	¥4,995 million ($42,312 thousand)
Source	Retained earnings
Dividends per share	¥4 ($0.03)
Record date	March 31, 2007
Effective date	June 4, 2007

Note 20 Notes with Maturity on the Year-End Dates

The year-end date of 2007, namely, March 31, 2007 was a bank holiday. Notes receivable and payable with maturity on the date were accordingly settled and accounted for on April 2, 2007.

Notes maturing at March 31, 2007 included in the accompanying consolidated balance sheet as of March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable	¥5,100	$43,203
Notes payable	¥5,172	$43,813

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, 2007 and 2006, the related consolidated statements of income for each of the three years in the period ended March 31, 2007, the consolidated statement of net assets for the year ended March 31, 2007, the consolidated statements of shareholders' equity for each of the two years in the period ended 2006 and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Materials Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2 (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.
(2) As discussed in Note 13, Mitsubishi Materials Corporation has changed its method of business segment classification in the year ended March 31, 2006.
(3) As discussed in Note 2 (d), Mitsubishi Materials Corporation and the domestic consolidated subsidiaries have adopted the new accounting standard for measurement of inventories in the year ended March 31, 2007.
(4) As discussed in Note 2 (r), Mitsubishi Materials Corporation and the domestic consolidated subsidiaries have adopted the new accounting standard for presentation of net assets in the balance sheet and the revised accounting standard for treasury shares and appropriation of legal reserve in the year ended March 31, 2007.
(5) As discussed in Note 2 (u), Mitsubishi Materials Corporation has changed its accounting method of income for industrial waste treatment in the "Cement" segment in the year ended March 31, 2007.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007, 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 28, 2007

Main Consolidated Subsidiaries and Affiliates

(As of June 28, 2007)

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%
Tokyohoso Kogyo Co., Ltd.	Construction	96%
Metals		
Mitsubishi Shindoh Co., Ltd.**	Production and sales of copper and copper alloy sheets and tubes	51%
Onahama Smelting & Refining Co., Ltd.	Smelting and refining of copper	50%
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 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	86%
Tachibana Metal Manufacturing Co., Ltd.**	Production and sales of fabricated aluminum products	63% (indirectly)
Electronic Materials & Components		
JEMCO Inc.	Production and sales of chemical products	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	81%, 3% (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 Corp.	Trading	68%

Main Affiliates*	Line of Business	Percentage of Ownership
Cement		
P.S. Mitsubishi Construction Co., Ltd.**	Construction	40%, 1% (indirectly)
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	37%
Advanced Materials & Tools		
Plansee Mitsubishi Materials Global Sinter Holding S.A.	Production and sales of powder metallurgical products	50%
Electronic Materials & Components		
SUMCO CORPORATION**	Production and sales of silicon wafers	28%

* Companies to which the equity method is applied

** Companies whose shares are listed on the Tokyo Stock Exchange

International Network

(As of June 28, 2007)

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 (Holdings) 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.
Sales of electronic parts

Taiwan

MUE Materials Taiwan Co., Ltd.
Production and sales of sputtering targets

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

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

Corporate Data

(Nonconsolidated)

(As of March 31, 2007)

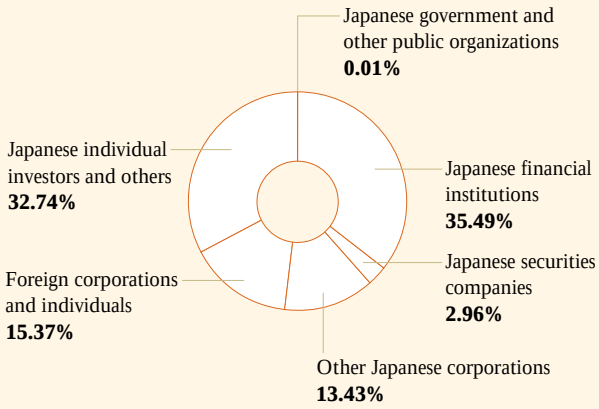
Date Established	April 1, 1950
Headquarters	1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan
Number of Employees	3,848
Number of Manufacturing Plants (Domestic)	17
Number of R&D Institutes (Domestic)	2
Number of Sales Offices (Domestic)	6

Investor Information

(As of March 31, 2007)

Shares of Common Stock	Authorized: 2,683,162,000 Issued and Outstanding: 1,252,092,486
Capital	¥119,457 million
Number of Shareholders	161,848
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	The Master Trust Bank of Japan, Ltd. (Trust account) Japan Trustee Services Bank, Ltd. (Trust account) The Bank of Tokyo–Mitsubishi UFJ Ltd. The Meiji Yasuda Mutual Life Insurance Co. Japan Trustee Services Bank, Ltd. (Trust account 4)
Annual Meeting of Shareholders	The annual meeting of shareholders of the Company is normally held in June each year in Tokyo.

MITSUBISHI MATERIALS CORPORATION

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