



## **ANNUAL REPORT 2003**

For the year ended March 31, 2003

## Profile

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

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

Mitsubishi Materials comprises 336 subsidiaries and affiliates in 21 countries, employing 21,745 people.

### CONTENTS

2	Message from the President
3	Interview with the President
6	Review of Operations
16	Research and Development
17	Safeguarding the Environment
18	Main Subsidiaries and Affiliates
19	International Network
20	Management
21	Financial Section
53	Corporate Data and Investor Information

### Cautionary Statement with Respect to Forward-Looking Statements

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

## Mitsubishi Materials at a Glance

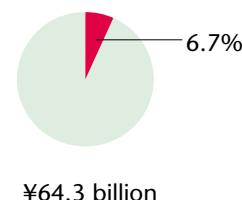
From its beginnings as a developer of resources and producer of base metals, precious metals and coal, Mitsubishi Materials has evolved into a leading name in fabricated metals, silicon products, advanced materials, cement products and a variety of other cutting-edge products and services.

### Segment

Sales for Fiscal 2003

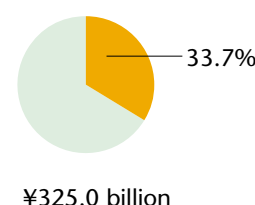
### Silicon and Advanced Materials

Mitsubishi Materials supplies products in this segment to the electronic equipment, semiconductor and telecommunications industries.



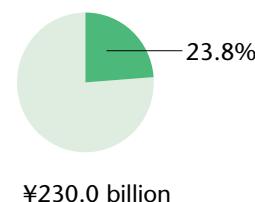
### Fabricated Metal Products

The principal customers for products in this segment are manufacturers of automobiles, electronic components, consumer electronics products, building products for the housing industry and machine tools.



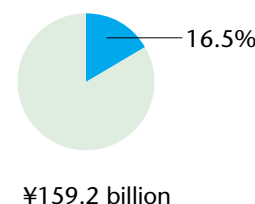
### Nonferrous Metals

Nonferrous metals are sold to manufacturers of electric cable and wire, rolled copper products, storage batteries and photographic film, as well as to jewelers.



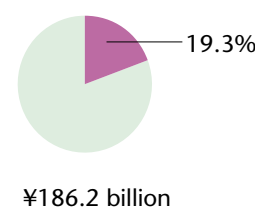
### Cement Products

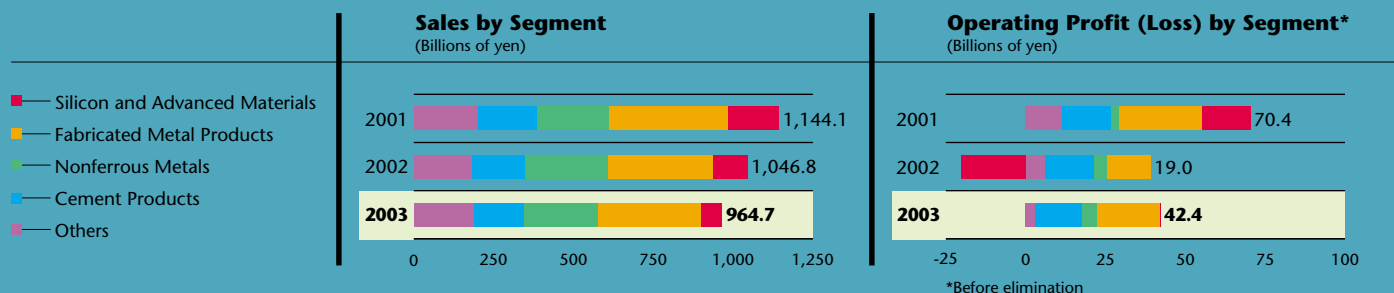
Mitsubishi Materials produces a wide range of specialty cements and building materials for companies in the construction and civil engineering industries.



### Others

This segment encompasses a broad range of energy-related and environmental businesses, including power generation, the sale of fossil fuels, pollution prevention and resource recycling. This segment's principal customers are electric power companies.





## Category

Sales for Fiscal 2003 (Billions of yen)

## Major Products and Services

Polycrystalline silicon and others	¥14.9
Advanced materials	49.4

- Polycrystalline silicon
- Ceramic condensers and sensor chips
- Gold bonding wire, sputtering targets



Hard-metal products and diamond tools	¥ 40.3
Powder metallurgy, molding dies and motors	35.1
Copper alloy products and high-performance alloys	46.7
Aluminum products	131.9
Others	71.0

- Cutting tools
- Powder metallurgical machine parts and sleeve bearings
- Precision molding dies
- Copper cakes, billets, wire and tubes
- High-performance alloys
- Industrial machinery, precision cast products
- Aluminum beverage cans
- Electrical contacts, micromotors



Copper	¥70.9
Gold	72.1
Other nonferrous metals	87.0

- Copper
- Gold
- Lead
- Zinc
- Silver
- Zinc die-casting alloys
- Sulfuric acid



- Portland cement
- Blended cement
- Soil stabilizing cement
- Building materials



- Ecobusiness
- Fossil fuels
- Nuclear energy-related services
- Hydroelectric and geothermal power generation
- Real estate



## Message from the President

### Performance Overview

In fiscal 2003, ended March 31, 2003, the operating environment remained extremely challenging. The Mitsubishi Materials Group, nevertheless, harnessed alliances with a number of companies with the aim to integrate and reorganize the core businesses of the parent company and related operations; this process included overhauling operational structures in an effort to strengthen corporate foundations. At the same time, we invested strategically in areas offering high revenues, profits and growth potential. These included bottle-shaped aluminum cans and heat-resistant alloys. We also entered the fast-expanding Chinese market and took other decisive steps to build our sales and earnings bases.

We continued efforts to improve our financial position.

We lowered fixed and variable expenses and slashed funding within our cost structure through emergency reforms, and divested assets to reduce interest-bearing debt.

Despite these measures, we posted nonoperating losses for the year. This primarily reflected the February 2002 transfer of our silicon wafer business to Sumitomo Mitsubishi Silicon Corporation (SUMCO), an equity-method affiliate that we created in conjunction with Sumitomo Metal Industries.

**Consolidated net sales fell 7.8%, to ¥964.7 billion, while operating profit rocketed 216.7%, to ¥34.4 billion.** Our net financial balance amounted to a loss of ¥13.6 billion, while our equity-method investment losses totaled ¥9.1 billion, culminating in a net loss of ¥26.9 billion. This represented a ¥34.5 billion improvement over the previous fiscal year, attributing to several factors, including ¥11.6 billion in extraordinary gains on the sale of investment securities and other holdings. These gains partly

offset ¥57.8 billion in extraordinary losses—including unrealized losses on holdings in financial institutions, a provision for losses from affiliates' businesses and incurred additional expenses for future employees' retirement.

In light of the extremely difficult operating environment for the year under review, we decided not to issue cash dividends.

### "Rolling" Initiative for Consolidated Medium-Term Management Plan

"A Revival Plan for a Superior Group" is a medium-term management plan that has already shown favorable promise. However, the downturn in the demand for information technology (IT) soon after our launching the plan, along with changes in the industrial structure amid globalization and chronic deflation, exacerbated the conditions of the already harsh operating environment. Consequently, we found it very difficult to reach our objectives and, **as a result, will continue with this management plan, rolling the initiative through fiscal 2005.**

The Group has altered the basic principles of the consolidated medium-term management plan to reinforce profitability and make management more responsive. An interview in the following pages will provide more detail, but, broadly speaking, our goal is to reorganize the operational structure and strategic parent company business while clearly identifying core and strategic operations. We also seek to allocate resources more efficiently based on our overall management strategy and pursue selective concentration more swiftly.

### Shareholder Focus

**One of our key priorities is to quickly optimize Group enterprise value.** We aim to strengthen Group management, bolster our financial position, clarify earnings responsibilities, provide decision-making information quickly and meet global accounting standards.

We ask for the continued support and encouragement from our shareholders and investors as we engage in our endeavors.

June 27, 2003



**Akira Nishikawa**

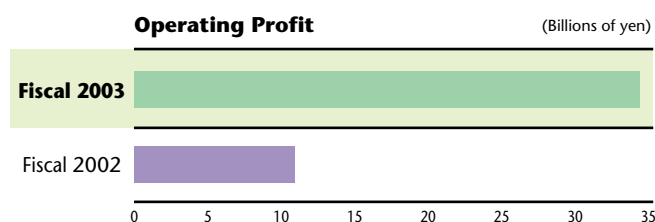
President

## Interview with the President

*What is your assessment of Mitsubishi Materials' performance in fiscal 2003? And what initiatives were particularly noteworthy?*

**Nishikawa:** For a start, we boosted operating profit **¥23.6 billion, to ¥34.4 billion.** I am very pleased that we not only improved our results but also met our operating-level target in an extremely adverse operating environment. Despite these results, we posted a net loss of ¥26.9 billion, although this was admittedly better than the ¥61.3 billion loss in the previous term. The net loss reflected a total of approximately ¥58 billion in extraordinary losses.

During the term, we managed to see light at the end of the tunnel in terms of our cost and organizational restructurings that we had initiated in October 2001. In the past few years, we have done our utmost to enhance Group value by overhauling the operations of our affiliates, which constitute half of consolidated results, by allocating new investments, forming partnerships with other companies and liquidating and withdrawing from businesses. Our cost structure reforms started to bear fruit in the year under review.



*Please explain the extension of your medium-term management plan.*

**Nishikawa:** Our management recognizes the importance of delivering solid targets. With this in mind, we decided to extend our medium-term management plan because the operating environment has gone through so many changes since we started implementing our initiatives. I have made it clear to all Group companies that we will only retain operations that bolster sales and profits. **I have also clearly delineated core and noncore businesses as part of our selective concentration efforts.**

On the organizational front, we have reorganized our core businesses, notably our cement, aluminum, nonferrous metals and fabricated metal products.

These operations are very competitive within their sectors and provide a support framework for the Group. We will efficiently allocate management resources in keeping with the strategies of these businesses. We will also grant



**Akira Nishikawa**

President

these businesses more autonomy, giving them more authority and helping them accelerate their decision-making capabilities.

Our two strategic business companies are the Advanced Materials Strategic Company and the Energy & Systems Strategic Company. We maintain five business divisions. These are High Performance Alloy Products Division, Precious Metals Division, Affiliated Corporations Division, Silicon Division and Resources & Environmental Business Division.

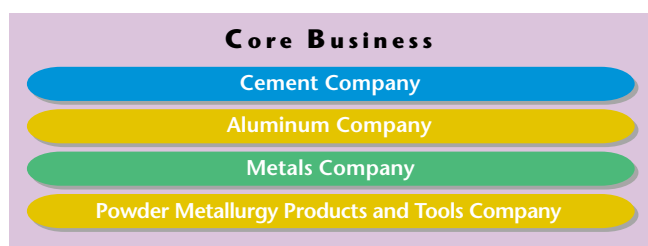
We have positioned these as eventual core areas, and will efficiently allocate resources to them based on their respective and companywide strategies, thus accelerating selective concentration. Fields that we deem particularly promising will enjoy top priority in resource allocation so that we can build them into core operations. In other businesses, we will seek alliances with outside companies, or divest or shut down such areas. We will step up corporate support to accelerate the pace of selective concentration.

Core businesses account for 65% of Group revenues. We have centered our reorganizations around these businesses, which we will expand by increasing our investments in them.

I believe that the Group is now well positioned for progress. We will transfer more authority to core businesses. The goal is for our in-house companies to become first or second in their industries as independent, self-sustaining entities.

We established the Business Reform Headquarters so that we can further overhaul and streamline parent oversight.





## Overview of Extended Medium-Term Management Plan

### Operational Targets

	New plan (ending March 31, 2005)	Reference: Initial plan (ending March 31, 2004)
Net sales	¥1,000.0	¥1,223.0
Operating profit	62.0	96.0
Ordinary income	50.0	75.0
Return on assets	3.1%	4.7%

### Sales and Operating Profit Targets of Main Businesses

	Sales	Operating Profit
(ending March 31, 2005)		
Cement company	¥ 146.1	¥ 13.0
Aluminum company	154.4	16.3
Metals company	261.6	14.0
Powder metallurgy products and tools company	122.7	10.3
Total for four key in-house companies	684.8	53.6
Total for two strategic in-house companies	197.8	11.7
Total for five business divisions	236.8	7.1
Eliminations	(119.4)	(10.4)
Total	1,000.0	62.0

### Projected Improvements in Financial Position

	New plan (ending March 31, 2005)	Reference: Initial plan (ending March 31, 2004)
Interest-bearing debt	¥ 750.0	¥ 750.0
Total assets	1,600.0	1,596.0
Interest-bearing debt/ total assets	47.0%	47.0%
Debt to equity ratio (times)	3.1	—

Please give us an overview of your core operations and their prospects.

**Nishikawa:** In cement products, we are steadily expanding overseas operations, which account for 50% of revenues and earnings in that area. In the United States, we have done well in downstream areas, while we have invested additionally in our cement terminal. We expect domestic demand to fall, although we are doing very well at our Kyushu plant, which boasts the highest productivity of cement facilities in the Far East and accounts for 30% of our cement products' export volume. The facility has performed well in export sales, particularly to China. With sales volumes down in the Japanese market, we are currently addressing the serious issue of rising prices. We are rationalizing and improving productivity and strengthening recycling operations at our four cement facilities in Japan.

Over the years, we have expanded our aluminum products business, making it a key investment priority. We sell 3.6 billion aluminum cans annually, and are focusing our investments on the production of aluminum bottles. We have forged ahead of rivals in steel cans and PET bottles in manufacturing technologies, and are confident of our continued competitiveness with cans and bottle manufacturers. We have invested heavily in upgrading our production lines to boost capacity in aluminum bottles. We plan to keep increasing capacity in line with demand. We anticipate dramatic growth in demand for nonalcoholic beverages, tea drinks and soft drinks and are planning to accommodate such demand. Subsidiary Mitsubishi Aluminum has steadily rationalized operations and slashed costs, thus greatly improving its performance. Another strength is that we can stabilize supplies of sheet aluminum for aluminum cans. Lightweight parts already account for one-third of our production. We will consolidate Group resources to develop, make and sell light, precision parts for automotive applications.

We integrated the copper smelting business and the nonferrous alloys business to form the copper business. **This move has given us a capability in covering upstream through downstream areas.** We aim to raise the productivity of our domestic smelters to global standards and maintain low finishing costs. We are making headway in resources recycling, and we intend to strengthen shredder dust treatment for automotive and other applications. At the same time, we are making steady progress at our Indonesian copper smelter, whose business has been in the red to date and is now profitable. The variable cost structure at that facility is world-class, and we

expect the facility to lead the way in meeting the needs of the Chinese and Southeast Asian markets. On a Group basis, our copper fabrication operations boast a capacity of 320,000 metric tons, making us the largest player in Asia and ranking us fourth globally. We are the sole Japanese company in the copper business to maintain a structure that can handle everything from raw materials to finished products. We seek to marshal this capability more effectively.

Our Group is particularly strong in materials and alloy development. We have a world-leading share in oxygen-free copper. We will achieve further progress in alloy sales and product development. Thailand is now our main manufacturing center for copper tubes. This operation along with possible partnerships with other companies will be part of plans to optimize our prospects in copper tubes.

In fabricated metal products, we produce hard-metal products and diamond tools. **We lead the domestic market in hard-metal products and aim to secure 10% of the global market in the near future.** Our main competitive advantages include high added value and strong development capabilities. Over the past three years, new offerings have accounted for 30% of our lineup, and we aim to raise the ratio to 50% within the next three years. We plan to deploy our operations globally while building strong sales networks domestically and internationally. We also formed MMC Tooling as the largest supplier in Japan of hard-metal products. We have steadily increased production in Tianjin, China. There, we also set up design operations and a technical center to serve local customers, and are also strengthening our ties with European businesses. In mechanical parts, we are achieving secure progress through in-house development, and will cut costs in the years ahead.

### *Tell us about the conditions in your silicon business.*

**Nishikawa:** We transferred all of our silicon wafers business to SUMCO, an equity-method affiliate. **The company focuses on 300-millimeter (12-inch) silicon wafers.** A monthly capacity of 100,000 units provides the affiliate with one-third of the world market, and the company has decided to double its monthly output. We are prioritizing ways to optimize facilities and capital efficiency, and will raise capacity in keeping with demand trends.

Our U.S. operations have seen diminished revenues and earnings, which is why we closed one of our six plants there, in Fremont (California). We have formulated plans to consolidate and rationalize production at the remaining five facilities, reducing personnel and boosting sales and



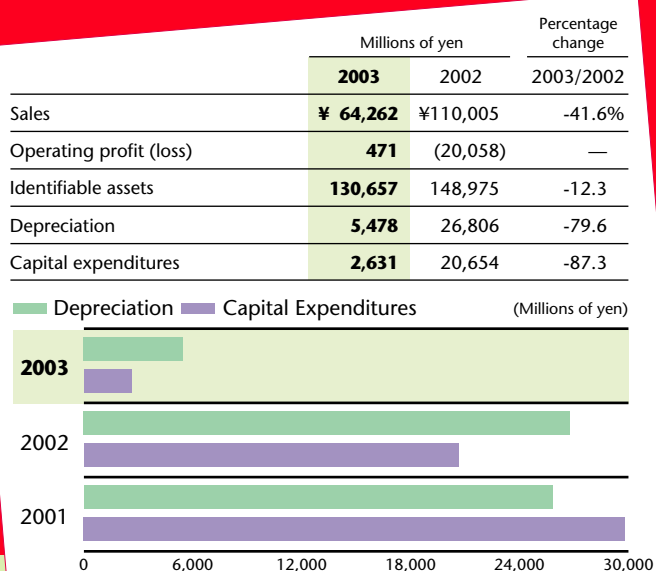
earnings. We are similarly consolidating and rationalizing operations in Japan, shutting down production lines and downsizing personnel and cutting costs. We are drawing on alliances to pursue advances in R&D and production technologies, and cut costs at an estimated ¥10 billion annually.

### *What about your prospects for the years ahead?*

**Nishikawa:** We have posted massive extraordinary losses and capital outflow to date. But **we are now steadily expanding the revenues and profitability of all our businesses to dramatically improve overall earnings.**

All Group operations compete with specialized manufacturers, so our goal is to consolidate. We have shed most of our burdens by persevering through a period of change. We now aim to position our businesses so that they can regain their competitive edge in the years ahead.

# Silicon and Advanced Materials



Fiscal 2003 sales in this segment fell 41.6%, to ¥64.3 billion, constituting 6.7% of net sales. This drop was principally the result of our removal of silicon wafer affiliates from consolidation. Demand for core silicon wafers steadily recovered through summer 2002 as the semiconductor industry extricated itself from the unprecedented slump of the previous year. The second half of the period, however, saw another correction. This was due to unclear prospects overseas, especially for the U.S. economy. First half sales of chip thermistors and other mobile communications offerings and semiconductor materials grew in line with a demand recovery in IT-related sectors. Sales for the year increased despite a deteriorating operating environment in the second half. Operating profit was ¥471 million, compared with an operating loss of ¥20.1 billion in fiscal 2002.

## Advanced Materials

This category encompasses electronic devices, semiconductor-related products and fine chemical products. Sales of advanced materials increased 8.2% in fiscal 2003, to ¥49.4 billion. This improved performance stemmed mainly from higher sales of electronic parts for mobile phones and electronic materials for the semiconductor industry.

In electronic devices, poor conditions in IT sectors depressed sales and led to losses. Sales recovered, however, on the demand for advanced semiconductor materials. We became profitable on the strength of greater sales volumes and cost cutting, which compensated for lower prices.

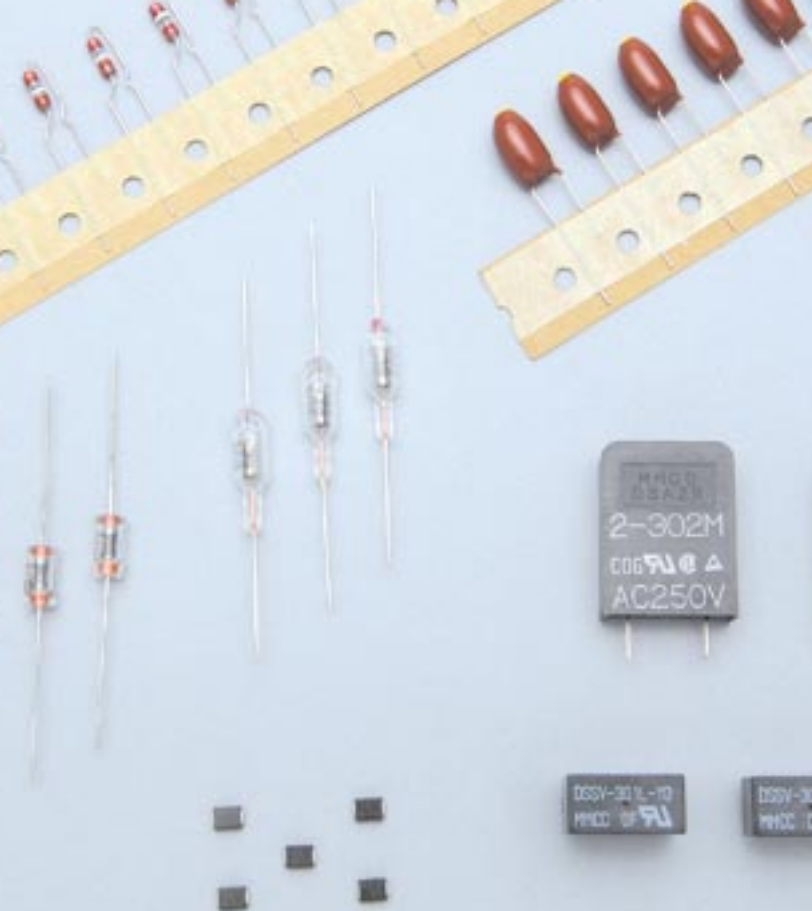
Production was again down, as a result of the shift abroad in the manufacturing of videocassette recorders (VCRs) and audio equipment to meet the needs of external demand. However, demand was down dramatically for personal computers and mobile phones.

Demand for surge absorbers used in personal computers and peripherals dropped amid worsening market conditions, although revenues from thermistors were up as a result of expanding overseas markets and applications. Aggregate sales of electronic devices soared owing to these factors and strong demand for high-frequency products and modules.

Gold bonding wire







Surge absorbers

The year was also noteworthy for the commercialization and mass production of chip resistors and thermistors in keeping with advances in miniaturization. Higher precision in televisions, mobile devices and in other video equipment boosted demand for filters. We launched several new offerings during the term, including electromagnetic interference filters and arrays. With the rising importance of wireless networks, we continued to develop ceramic chip antennas. We augmented a 2.4-gigahertz model introduced in fiscal 2002 with a 400-megahertz version.

Bonding wire, targets, silicon precision processing parts and other semiconductor-related products benefited from a recovery from the semiconductor recession, boosting both sales and exports.

Sales of fine chemicals were down overall, although revenues for some of these offerings increased.

### Polycrystalline Silicon and Others

Sales of polycrystalline silicon and others were ¥14.9 billion.

Our silicon wafer operations were transferred to SUMCO, an equity-method affiliate, with only the polycrystalline silicon business remaining in this category.

Through summer 2002, the silicon wafer industry recovered from the slump of the previous year, but thereafter suffered another correction. During the term, demand in the silicon wafer market climbed 19%, but overall demand was still 16% below the levels of 2000.

The polycrystalline silicon market continued to suffer from oversupply, which depressed prices for semiconductor

applications. On the other hand, demand was strong for “recharge rods” and other high-value-added products. Restructuring and positive domestic market conditions supported the Japanese affiliate’s revenue and earnings growth. In contrast, a decline in sales at SUMCO U.S.A., and lower production due to a drop in silicon tetrachloride (STC) transactions, led the U.S. affiliate to a record loss.

In new products, we increased sales volume of recharge rods. In response to growing demand for small polycrystalline silicon for improved charge density, we started shipping samples of polycrystalline silicon chips produced by a new crushing method that utilizes quick thermal quenching. We will continue to improve quality and reduce costs, employing total product management to enhance operational safety and stability.

### Outlook

In fiscal 2004, we expect sales and earnings to rise in electronic-related products despite generally cloudy prospects in the international marketplace, as we are confident that demand will increase for semiconductors, digital versatile discs (DVDs) and plasma display applications. Our efforts to optimize manufacturing for general-purpose products in Japan should also yield results.

In the silicon business, we will improve our financial results by increasing the revenue from 300-millimeter (12-inch) wafers, and through further realization of the synergistic effects of SUMCO consolidation.

Silicon wafers



# Fabricated Metal Products

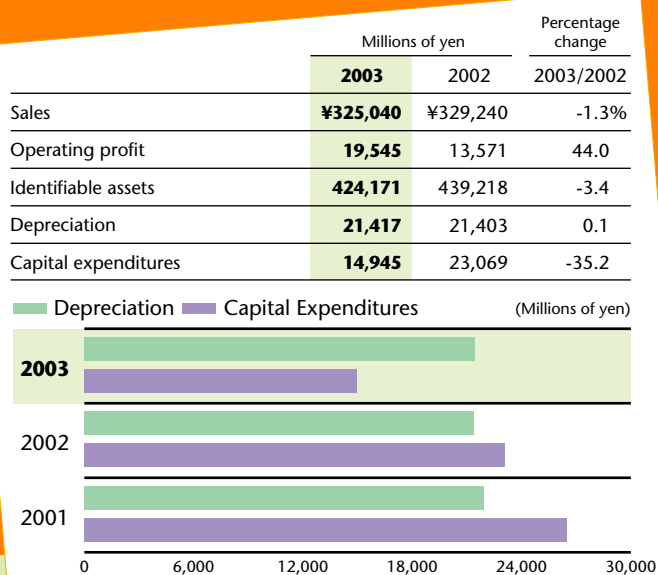
## Hard-Metal Products and Diamond Tools

Category sales rose 5.9%, to ¥40.3 billion.

Sales of hard-metal products to the domestic automotive industry were buoyant and were also solid in Asia. While demand was generally on a recovery path throughout the term, in the latter half of the year we encountered a fall in demand for some IT products. In addition, automobile production trended downward in North America and Europe, making the operating environment very challenging. Against this backdrop, automakers continued to press for lower prices, prompting us to step up efforts to reduce costs and restructure to maintain profitability. In Japan, we retained our top market share despite moves among customers to shift production offshore, which shrank the local marketplace.

Close collaboration with MMC Kobelco Tool Co., Ltd., which we acquired in 2000, helped us to launch even more innovative offerings. Products developed within the previous five years again represented more than 30% of sales in this category. During the term, we established a new tools market by joining hands with 16 key makers of carbide cutting tools and tool holders to develop the HSK interface system for integrated processing machinery.

In diamond tools, markets for IT-related products recovered, particularly for precision blades, as inventory adjustments ran their course. In addition, demand was generally favorable for tool processing, dies and automotive products. Revenues thus increased for precision cutting tools and wheels. At the same time, competition intensified in terms of prices, delivery timing and products. Still, we steadily



**Mitsubishi Materials enjoys No. 1 shares in the domestic fabricated metal product markets for hard-metal tools, automobiles, automotive components and telecommunications equipment. This business segment also includes alloy and aluminum products.**

In fiscal 2003, sales in this segment slipped 1.3%, to ¥325.0 billion, or 33.7% of net sales. While there was a mild recovery in information technology-related demand and the domestic and overseas automobile production sectors were generally favorable, we experienced lower revenues in the United States and some parts of the Japanese market. Operating profit soared 44.0%, to ¥19.5 billion, as we were able to lower costs sufficiently to cover a decline in prices.



Carbide cutting tools



Copper billets

increased our market share among major users of chemical-mechanical polishing (CMP) conditioners, a key offering, while we were also able to secure new customers for these products internationally.

Manufacturers in the electronics and semiconductor sectors and in the automotive parts industry continued to shift production offshore during the year, prompting us to strengthen our international sales structures in core products, notably precision cutting blades, CMP conditioners and large resin offerings.

#### Outlook

In fiscal 2004, we will endeavor to enhance operational efficiency by consolidating and sharing information in everything from production to sales. In manufacturing, we will push ahead with supply chain management in addition to total product management to shorten lead times and cut inventory shortage rates.

#### Powder Metallurgy, Molding Dies and Motors

Sales in this category increased 6.6%, to ¥35.1 billion.

Revenues in Japan and abroad rose in line with favorable demand from automakers. Sales of contacts and motor parts also increased, as IT demand remained steady, including for mobile phones. Led by our variable valve timing products, which help reduce engine emissions and environmental impact, our motor parts remained popular, including for hot water heaters, which we have focused on in recent years as part of our departure away from the air conditioner business.

#### Outlook

We have learned that automakers may reduce production in the year ahead, so the outlook is slightly downbeat. Nevertheless, we aim to enhance yields, cut labor and reduce process outsourcing expenses to lower costs. We will also reinforce development to integrate everything from materials to facilities for high-precision machinery parts and functional machinery parts, thus boosting revenues and earnings.

#### Copper Alloy Products and High-Performance Alloys

Sales in this category decreased 3.9%, to ¥46.7 billion.

During the term, orders for billets declined amid sluggish conditions in IT-related sectors, but we raised revenues on steady automotive-related demand. Downward pricing pressures hampered operations to some extent, although we still benefited from automotive demand and increased sales of terminal connectors. Improved sales of Rod Oxygen Free copper alloys, especially in North America, also contributed to performance. Gains in sales of copper wire rod added to our overall performance in wire rod sales.

Domestic sales volume decreased for copper tubes, forcing down both revenues and earnings despite cost-cutting initiatives. Subsidiary MMC Copper Tube (Thailand) Co., Ltd., experienced demand delays but was able to steadily bolster sales volume. The company benefited from cost reductions and price gap gains, enabling it to become profitable for the first time since its establishment in 1998.

Sales of high-performance materials plummeted, as demand for gas aircraft engine and gas turbine materials continued to decline, while discounting pressures were heavy. Our efforts to increase sales volume at lower price levels and cost-cutting initiatives, centered on personnel savings, were unable to overcome this situation.

Overall sales of extruded copper products were down, mainly owing to strong pricing pressures, which offset improved automotive-related demand and strong demand for copper sheets.

We expect the sales environment to remain adverse in the near term, although our cost reduction efforts and improved productivity should support our goal of expanding sales of copper alloy and high-purity copper, for which we enjoy outstanding reputations.

#### Aluminum Products

Category sales rose 2.1%, to ¥131.9 billion.

Domestic demand for aluminum cans increased 1% during the term, to ¥17.5 billion units. Although demand for canned alcoholic beverages was down, full-fledged demand for aluminum bottles for soft drinks materialized, allowing us to raise sales volumes and amounts. We did much to boost sales of aluminum cans during the year, including diversity in can size.

In aluminum rolled and fabricated products, sheet shipments grew 3.8%, to 2.3 million metric tons, following significantly higher automotive demand, which outweighed a decline in demand from construction firms amid a housing industry slump. Sales volumes and amounts both rose for these products as a result. Earnings improved dramatically on the strength of better prices, lower costs and more efficient aluminum bottle production technologies.

#### Outlook

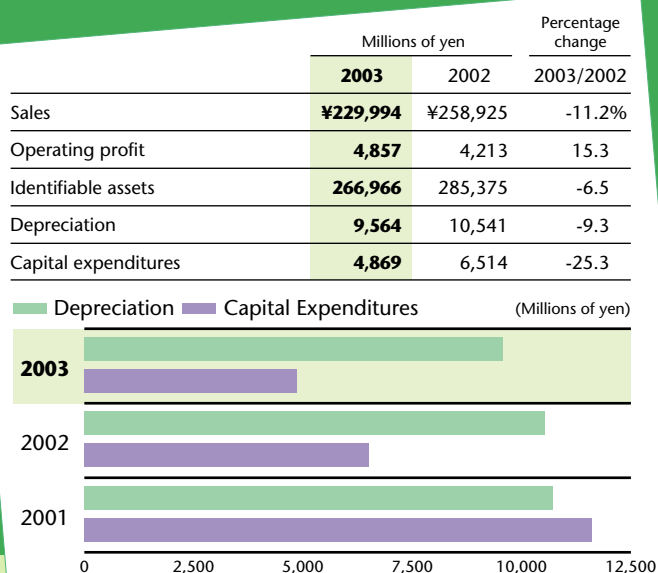
In the year ahead, demand for aluminum cans will probably rise in keeping with the popularity of aluminum bottles. In aluminum rolled and fabricated products, we expect demand to remain flat. We will therefore implement policies to qualitatively improve our operations, such as a plan to significantly reduce losses through our withdrawal from the magnetic disk substrates business.



Bottle-shaped aluminum cans



# Nonferrous Metals



**Copper is essential for electric cable, wire and other infrastructure-related products, as well as for semiconductor lead frames and other high-tech products. Mitsubishi Materials' nonferrous metals are noteworthy for integrated copper capabilities that encompass everything from smelting to processing. We are Asia's largest gold producer and also have processing operations for this metal.**

**In fiscal 2003, sales of nonferrous metals dropped 11.2%, to ¥230.0 billion, accounting for 23.8% of net sales. This decline reflected lower sales volume, which offset higher revenues from shredder dust treatment. Operating profit rose 15.3%, to ¥4.9 billion, owing to cost-cutting and an increase in gold prices, which outweighed the decreased sales volume and the impact of a fall in palladium prices.**

## Copper

Sales in this category dropped 2.2%, to ¥70.9 billion.

Sales of rolled copper were favorable, owing to a recovery in demand for semiconductor materials and copper for automotive terminals. At the same time, copper wire demand was again sluggish because of downturns in the electric power, telecommunications and construction sectors. Exports were down from a year earlier, as were sales volumes and values.

## Gold

Sales of gold and related products were down 8.8%, to ¥72.1 billion.

Sales of gold to individuals were relatively solid because of concerns over the instability of Japan's financial system and political turmoil overseas. Nevertheless, overall sales volumes and values were both down. This was a consequence of a temporary boom in demand for gold from the second half of fiscal 2002 just prior to the termination of the Japanese government's unconditional guarantees on deposits in





### Outlook

Adverse conditions continue to plague the copper business, owing to stagnant prices and worsening purchase terms. Nevertheless, we expect to improve profits on the strength of full-capacity operations and cost-cutting initiatives at PT. Smelting, as well as cost-cutting measures at other facilities. From fiscal 2004, the Naoshima smelter and refinery aims to lower expenses through its recycling efforts, while the Onahama facility will increase its shredder dust processing capacity.

financial institutions, in April 2002. Sales of gold jewelry continued to rise steadily.

### Other Nonferrous Metals

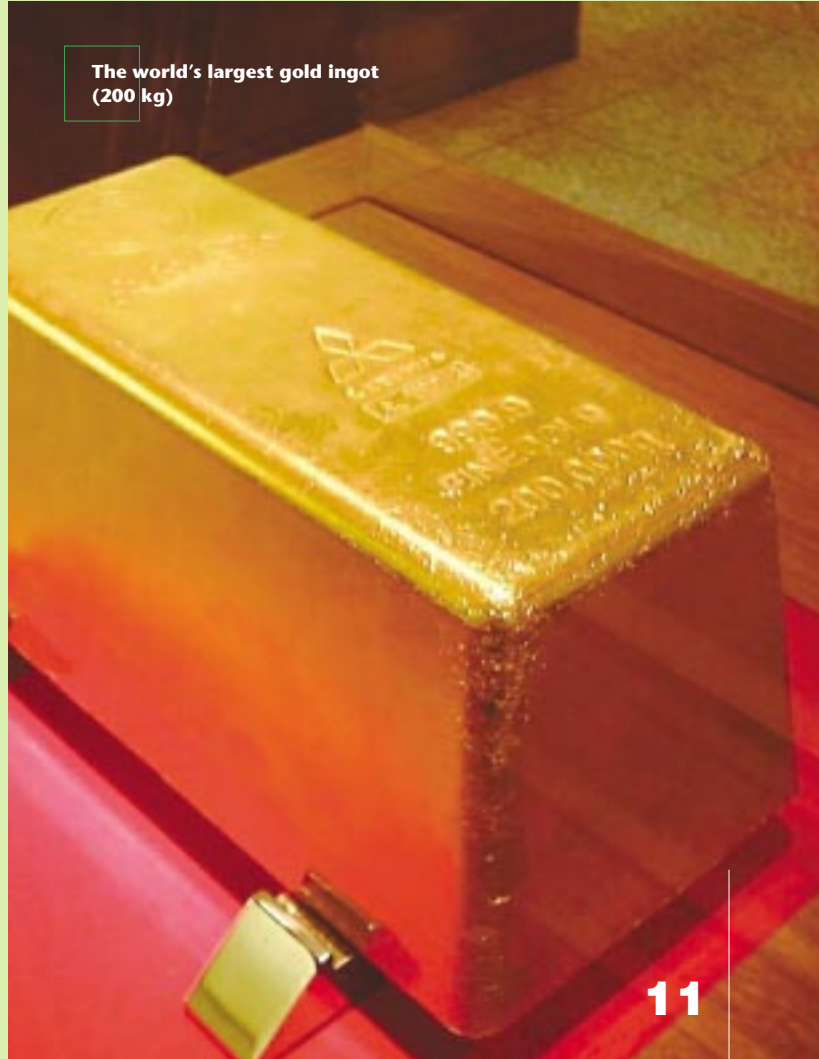
Sales in this category declined 19.0%, to ¥87.0 billion.

Its offerings include silver, sulfuric acid, lead and zinc. Sales volume of sulfuric acid increased, but revenues were down.

Smelting operations again suffered from adverse ore purchase terms, sluggish metals prices and declining sales of copper and sulfuric acid. We addressed this situation by rationalizing operations, principally through emphasizing cost structure reforms, while lowering expenses, reinforcing our capabilities in the recycling business and strengthening sales of jewelry and other precious metals products.

PT. Smelting, an Indonesian consolidated subsidiary, undertook scheduled repairs for approximately one month, causing its production and revenues to drop. Onahama Smelting & Refining Co., Ltd., increased its sales in line with a new accounting policy, through which it began to disclose revenues from shredder dust treatment.

The world's largest gold ingot  
(200 kg)





# Cement Products

	Millions of yen		Percentage change
	2003	2002	2003/2002
Sales	<b>¥159,210</b>	¥168,414	-5.5%
Operating profit	<b>14,673</b>	15,220	-3.6
Identifiable assets	<b>273,323</b>	284,130	-3.8
Depreciation	<b>10,309</b>	10,845	-4.9
Capital expenditures	<b>4,727</b>	6,501	-27.3

■ Depreciation
 ■ Capital Expenditures
 (Millions of yen)

Year	Depreciation	Capital Expenditures
2003	10,309	4,727
2002	10,845	6,501
2001	~11,000	~8,000

**Mitsubishi Materials provides a wide range of cement products that satisfy the sophisticated requirements of its customers, from general-use to specialty cements. We have devised production methods that use less energy and natural resources. For example, we utilize industrial waste and by-products in cement production, including coal ash, blast furnace slag, sludge and waste tires. By increasing our use of such materials, we have been able to slash costs and stabilize revenues and earnings.**

**In fiscal 2003, sales in this segment decreased 5.5%, to ¥159.2 billion, representing 16.5% of net sales. Despite efforts to lower fixed and other costs, operating profit dropped 3.6%, to ¥14.7 billion.**

During the year, we strove to stabilize revenues and earnings by maintaining waste treatment capability at our cement plants in Japan at full capacity to solidify our environmental business foundations for future expansion.

Domestic demand for cement declined 4.3 million metric tons, to 63.5 million metric tons. This was mainly due to lower public works spending and stagnant demand for housing investment and private sector capital expenditure. Prices were also low amid poor demand conditions. In contrast, export volumes improved from a year earlier, largely a result of gains in mainland China and Hong Kong. Our U.S. cement business remained buoyant, but domestic consolidated operations fared poorly owing to a downturn in demand for engineering and construction projects, while the reclamation soil business also experienced a decline.

Kyushu plant



Mitsubishi Cement Corp. (California)



#### Outlook

We expect that Japanese demand for cement will again fall in fiscal 2004, to approximately 61 million metric tons.

We will endeavor to stabilize revenues and earnings in this business area by processing waste at full capacity at our domestic plants.

We will draw on our bases in China, the United States and elsewhere overseas to organize production and sales operations in East Asia and the Pan Pacific. We will work to strengthen our international competitiveness by building a globally optimized manufacturing, logistics and sales structure.

We continued to upgrade our R&D structure to keep abreast of customer requirements. The Ube Mitsubishi Cement Research Institute headed our drive to enhance the features of existing products, advance recycling technologies and develop new products. Key achievements during the term included the development of silica fume cement for ultrahard concrete (150N/mm<sup>2</sup>), the creation and use of a phosphorous recovery agent, and the innovation of polymer cement mortar.

Yantai Mitsubishi Cement Co., Ltd.  
(The People's Republic of China)





# Others

## Energy- and Environment-Related Operations

Our operations take advantage of expanding markets for decentralized generation and clean energy owing to the electric power industry's deregulation and restructuring, as well as the creation of a recycling-oriented social infrastructure.

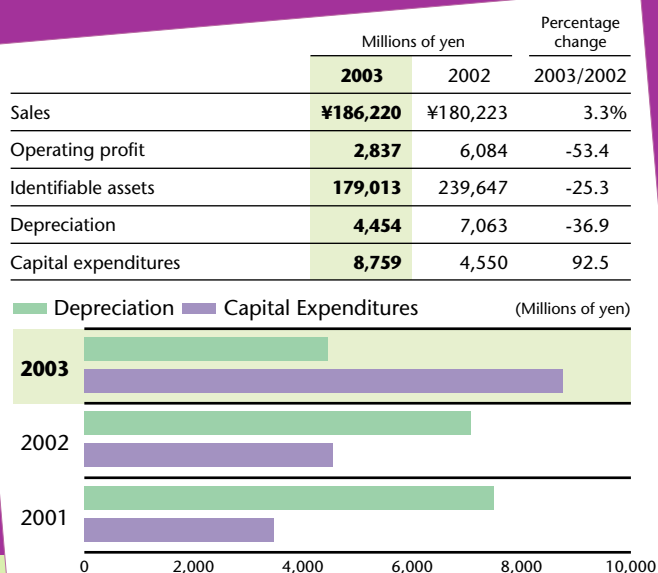
## Nuclear Power and Systems

In this business area, sales declined as construction peaked at the Rokkasho nuclear fuel reprocessing plant. We therefore focused on securing operational support, maintenance and inspection, and storage canister supply orders in preparation for the plant's opening.


### Outlook

Although construction at the Rokkasho nuclear fuel reprocessing plant has almost concluded, we will continue to provide support for pilot operations. We will deploy our supercritical systems technologies in the energy field.

### Household appliance recycling plant



The segment's energy- and environment-related operations encompass nuclear power and the creation of advanced systems, geothermal power, oil, coal and resource recycling. The segment also includes residential land development and office building leasing. In fiscal 2003, segment sales rose 3.3%, to ¥186.2 billion, or 19.3% of net sales. Despite this increase, sales dropped in the nuclear power and systems category, as construction peaked at the Rokkasho nuclear fuel reprocessing plant. Diminished sales from housing development and office leasing, as well as a decline in sales at an engineering affiliate combined to hinder results. As a result, operating profit plunged 53.4%, to ¥2.8 billion.

A photograph of the Sumikawa geothermal plant. The image shows a large industrial facility with several tall, cylindrical storage tanks and a complex network of pipes and scaffolding. Steam is rising from the tanks, indicating active geothermal operations. In the foreground, there is a paved area with a few parked cars and some low-lying vegetation. The background shows a hilly landscape under a clear sky.

Sumikawa geothermal plant

### Environment-Related Operations

In this category, we boosted sales on higher demand for our large waste treatment facilities.

#### Outlook

We established the Resources & Environmental Business Division in April 2003. The division will integrate the Group's diverse resource and environmental operations.

### Geothermal Power

Sales in this category rose as a result of increased production.

#### Outlook

We will steadily take advantage of increased production of geothermal power to lower energy costs and to stabilize operations.

### Fuels

Coal sales rose owing to a surge in demand for coal for generating electricity.

#### Outlook


We will continue to focus on sales of coal for use in power plants.

### Real Estate

In this category, revenues fell owing to lower sales from property development and rentals. We continued to divest properties to reduce interest-bearing debt.

#### Outlook

In the year ahead, rental sales will likely decline because of poor market conditions. Nevertheless, we will continue to divest real estate as needed so that we can manage our assets more efficiently and enhance our financial position.

A photograph showing numerous nuclear fuel assemblies standing vertically in a large industrial facility. The assemblies are tall, cylindrical, and wrapped in a protective material. They are arranged in rows on a green floor. The background shows the structural elements of a large building, including beams and lights.

Nuclear fuel assemblies fabricated by Mitsubishi Nuclear Fuel Co., Ltd.

## Research and Development

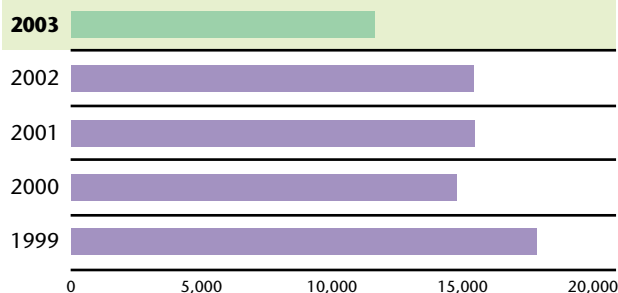
Our in-house company system has reinforced our overall management operation. Accordingly, we are overhauling our R&D process to boost the efficiency of these operations.

The Central Research Institute, our R&D operation, focuses on essential technologies that can be applied companywide. The institute also cultivates new core technologies, new products and new processes, as well as conducting research in areas that in-house companies cannot handle alone as they strive to build new businesses. The institute is endeavoring to set up systems to help such operations progress.

As part of the reorientation of our R&D structure, which is being tailored to the needs of end-users, we are focusing on the marketplace for product development to accelerate the creation of products that our customers seek.

**R&D Expenses**

(Millions of yen)



### Development of the World's First Ultramicro Grain Carbide

During the year, we developed the world's first superfine tungsten carbide particle for hardening alloys. Each particle is 0.2 to 0.3 microns in diameter. We were also the first company to manufacture and sell a rotary die cutter incorporating these alloys in wear-resistant tools.

A rotary die cutter is a tool for contour cutting and is used primarily for cutting paper and film. In recent years, the rotary die cutter has also been used on materials that are difficult to cut or that wear out tools, ranging from non-woven fabric to rechargeable batteries and fuel cell parts. Development of a higher wear-resistant carbide rotary die cutter has therefore been necessary.

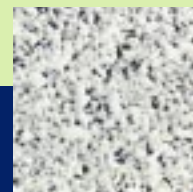
Our new rotary die cutter has met such requirements, owing to an innovative alloy that stabilizes cutter blade edges and prolongs tool life. We plan to offer our customers new products with wear-resistant parts featuring our state-of-the-art alloy which enhances the performance of the tool.

**Current Particle**



1 micron

**Superfine Tungsten Carbide Particle**



1 micron

### Low-Cost Production Technique Created for Plasma Display Panels

Together with Samsung SDI Co., Ltd., a leading display maker based in Korea, we successfully applied the barrier-rib formation process to a jointly created blade-deforming technique for manufacturing plasma display panels.

We innovated the basic technologies for the blade-deforming technique, while Samsung SDI led the development of the barrier-rib formation process for large displays.

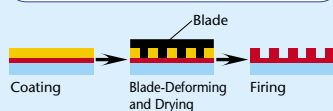
The process is very simple and raw material loss is negligible; consequently, projected costs are less than half of those incurred using the conventional sand-blast formation technique.

We plan to supply Samsung SDI with barrier-rib paste and blades so that the company can effectively handle the barrier-rib formation.

By fiscal 2008, our overall sales target for the plasma display panel-related operations is ¥5 billion.

#### Barrier-Rib Formation Process

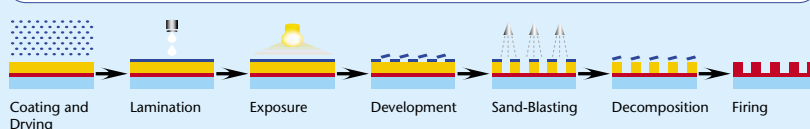
##### Blade-Deforming Formations



##### Advantages of Blade-Deforming

- Simple and quick
- Desired barrier-rib shapes
- High availability of raw materials
- Conventional equipment can be used

##### Sand-Blasting





## Safeguarding the Environment

Mitsubishi Materials recognizes the critical importance of preventing environmental problems. We also help resolve global environmental issues stemming from the over-consumption of natural resources and energy and the creation of waste. All of our operations thus maintain a strong environmental management stance. At the same time, we endeavor to use resources and energy more efficiently, reduce waste, recycle and transform waste into new resources.

Since 1998, we have implemented our Green Productivity Management (GPM) program under the banner: "By harmonizing with the environment and helping society recycle resources and minimize environmental risks, our productivity will improve and so too will our profitability and corporate image." Our GPM Committee oversees the program, headed by a Chief Green Officer (CGO) who is responsible for dealing with any number of key environmental issues.

Through these initiatives we were able to secure ISO 14001 certification at all of our 26 directly managed production sites by March 2002. Now we are working to win certification for our major Group companies. In addition, we are gradually conducting environmental audits at parent operations and key Group plants to identify and eliminate environmental risks. We completed environmental audits at all directly managed sites by the end of March of this year. We have essentially reached our targets for industrial waste disposal, lowering such waste 30% from fiscal 1998 levels. Every year we have reduced the units of energy consumption by more than 1%. The waste cuts have lowered external spending on disposal and processing, as we have stepped up internal waste management by more efficiently employing resources at our core metal refining and cement production operations.

Complementing the above initiatives are several new projects—including a green-procurement system, which is presently being introduced, that will minimize and better manage the toxic chemicals in our products; an environmental accounting system, which is currently under consideration; and a prospective life cycle assessment system that would lessen environmental impact in all processes, from raw materials procurement to product disposal. The entire Group will pursue GPM activities that are based on a common environmental policy and universal standards in its efforts to harmonize with the environment.



Environmental report

## Main Subsidiaries and Affiliates

(As of June 30, 2003)

Main Consolidated Subsidiaries	Line of Business	Percentage of Ownership
Dia Consultants Co., Ltd.	Soil analysis and consulting	75%, 6% (indirectly)
Diasalt Corp.	Production and sales of salt	100%
Japan New Metals Co., Ltd.	Production and sales of tungsten and molybdenum	89%, 11% (indirectly)
Kamaya Electronic Co., Ltd.	Production and sales of electronic parts	65%
MA Packaging Co., Ltd.	Production and sales of flexible packaging	50%, 50% (indirectly)
Material-Finance Co., Ltd.	Financing	100%
MCC Development Corp.	Investment in cement-related industries	70%
Mitsubishi Aluminum Co., Ltd.	Production and sales of aluminum sheets, extrusion and foil	76%
Mitsubishi Cement Corp.	Production and sales of cement	67%
Mitsubishi Materials C.M.I. Corp.	Production of micromotors and electric contacts	100%
Mitsubishi Materials Energy Corp.	Sales of fuel	100%
Mitsubishi Materials Kenzai Corp.	Production and sales of concrete products and other building materials	78%
Mitsubishi Materials Kobe Tools Co., Ltd.	Production and sales of fabricated metal products	100%
Mitsubishi Materials Natural Resources Development Corp.	Soil analysis and consulting	100%
Mitsubishi Materials Polycrystalline Silicon Corp.	Production and sales of polycrystalline silicon	100%
Mitsubishi Materials Techno Corp.	Technical engineering and construction	100%
Mitsubishi Materials Tools Co., Ltd.	Sales of fabricated metal products	100%
Mitsubishi Materials U.S.A. Corp.	Surveys in the United States and sales of fabricated metal products	100%
Mitsubishi Nuclear Fuel Co., Ltd.	Production and sales of nuclear fuels for power generation	66%
Mitsubishi Polycrystalline Silicon America Corp.	Production and sales of polycrystalline silicon	100%
MMC Copper Tube (Thailand) Co., Ltd.	Production and sales of copper tubes	100%
Onahama Smelting & Refining Co., Ltd.	Smelting and refining of copper	49%
PT. Smelting	Smelting, refining and marketing of copper	61%
Ryokin Corp.	Real estate	100%
Ryoko Lime Industry Co., Ltd.	Limestone quarrying	100%
Ryoko Sangyo Co., Ltd.	Trading	68%
Sambo Copper Alloy Co., Ltd.	Production and sales of copper and brass mill products	52%
Tachibana Metal Manufacturing Co., Ltd.	Production and sales of fabricated aluminum products	10%, 51% (indirectly)
Main Affiliates*	Line of Business	Percentage of Ownership
Mitsubishi Cable Industries Co., Ltd.**	Production and sales of electric wire and cable	29%
Mitsubishi Shindoh Co., Ltd.**	Production and sales of copper and copper alloy sheets and tubes	28%
Nippon Aerosil Co., Ltd.	Production and sales of finely dispersed silica	20%
P.S. Mitsubishi Construction Corp.**	Construction	40%, 1% (indirectly)
SUMITOMO MITSUBISHI Silicon Corp.	Production and sales of silicon wafers	50%
Tokyohoso Kogyo Co., Ltd.	Construction	39%
Ube-Mitsubishi Cement Corp.	Marketing of cement	50%

\* Companies to which the equity method is applied

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

# International Network

(As of June 30, 2003)

## North America

### Canada

Mitsubishi Materials Corp. Vancouver Office  
*Representative office*

### Mexico

MMC Metal de Mexico S.A.  
*Sales of hard-metal products*

### United States

Diamet Corp.  
*Production and sales of powder metallurgical products*

Kamaya Inc.  
*Sales of electronic parts*

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*

## South America

### Brazil

MMC-Metal do Brasil Ltda.  
*Sales of fabricated metal products*

### Chile

Mitsubishi Materials Corp. Chile Office  
*Representative office*

## Europe

### France

MMC Metal France S.A.R.L.  
*Sales of hard-metal products*

### Germany

MMC Hardmetal Europe GmbH  
*Holding company for fabricated metal products*

MMC Hartmetall GmbH  
*Sales of fabricated metal products*

### Netherlands

MM Netherlands Co.  
*Holding company for copper mine*

### Spain

Mitsubishi Materials España S.A. Sociedad Unipersona  
*Production and sales of hard-metal products*

### United Kingdom

Kamaya Electric Co., Ltd. U.K. Branch  
*Sales of electronic parts*

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

Diamet Klang (M) Sdn. Bhd.  
*Production and sales of powder metallurgical products*

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

Kamaya Electric (M) Sdn. Bhd.  
*Production and sales of electronic parts*

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)

Kamaya Electric (H.K.) Ltd.  
*Sales of electronic parts*

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

(Other areas)

Hainan Kunlun Cement Co., Ltd.  
*Production and sales of cement*

Mitsubishi Materials Corp. Beijing Office  
*Representative office*

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 carbide cutting tools*

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 hard-metal products*

### South Korea

MMC Electronics Korea Inc.  
*Production and sales of electronic parts*

### Taiwan

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

Taiwan Kamaya Electronic Co., Ltd.  
*Production and sales of electronic parts*

### Thailand

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

MMC Copper Tube (Thailand) Co., Ltd.  
*Production and sales of copper tubes*

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

MMC Tools (Thailand) Co., Ltd.  
*Production and sales of hard-metal products*

### Vietnam

Nghi Son Cement Corporation  
*Production and sales of cement*

## Oceania

### Australia

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

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

# Management

(As of June 30, 2003)

President	Akira Nishikawa*	Executive Officers	Keizo Osaki
Executive Vice Presidents	Yoshio Fujiwara*		Tsuyoshi Aoki
	Akikuni Nozoe*		Hideaki Saito
	Akihiko Ide*		Sueo Ikeda
Managing Directors	Nobuaki Naito*		Yoshio Matsumoto
	Koichi Kitamura*		Akira Mochizuki
	Tsuneo Katsuki*		Kikuyoshi Imao
Director and Executive Adviser	Yumi Akimoto		Yasuhiro Nakagawa
Director	Yukio Okamoto†		Chikura Kinoshita
Senior Executive Officers	Haruhiko Asao		Etsuji Kimura
	Kozo Ohashi		Fumio Shimada
	Shuichi Baba		Toshihiko Igarashi
	Yoshihiko Sugano	Corporate Auditors (Standing)	Hiroshi Kanemoto
	Michio Fujita		Toshio Hiratsuka
	Hiroshi Yao		Yoshio Akiyama
	Hisayoshi Honma		Makoto Miki
	Hiroo Kiyokawa	Corporate Auditor	Toyoshi Nakano
	Yoichi Taguchi		
			Yoshimitsu Moriya†
			Kuniyasu Sakakibara
			Akira Motono

\* Member of the Corporate Strategy Committee

† External

## Corporate Governance

Mitsubishi Materials has established a corporate code that strictly governs the actions of all officers and employees in order that the Company complies with applicable laws and ordinances and operates as a good corporate citizen. Under this code, we aim to sustain the progress of the Company through fair business practices while maximizing enterprise value. To that end, we are pursuing efficient and transparent management, and have implemented various policies to bolster corporate governance.

From 2000, we instituted an executive officer system to accelerate decision making and implement operations more dynamically. We also appointed an external director with no conflicts of interest, to improve the objectivity and transparency of management. Furthermore, in June 2002, we abolished the system in which directors hold more than one executive officer position concurrently to clearly separate the activities of management and operations.

Our Board of Directors comprises eight internal and one external director. We regard this structure an appropriate

arrangement for fast and effective decision making.

Supporting the Board is the Corporate Strategy Committee, comprising the president and several directors, which assesses matters for subsequent Board deliberation to ensure appropriate and efficient decision making.

We have adopted a statutory auditor system, and our Board of Statutory Auditors comprises three standing statutory auditors, including one external member, and one part-time auditor. Each auditor attends all meetings of the Board of Directors. Full-time auditors also attend Corporate Strategy Committee meetings and other important in-house meetings. As a result, our system ensures sufficient monitoring of the performances of directors and executive officers. We established the Corporate Audit Department to conduct internal checks on risk management and the management efficiency of corporate headquarters and our in-house companies. In December 2002, we created the Risk Management Committee and Corporate Ethics and Compliance Committee to step up Groupwide risk management and compliance.

## Financial Section

### Eleven-Year Summary

Mitsubishi Materials Corporation and Subsidiaries

Years ended March 31, 2003, 2002, 2001, 2000, 1999, 1998, 1997, 1996, 1995, 1994 and 1993

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2000	1999	2003
<b>For the Year:</b>						
Net Sales	¥ 964,726	¥1,046,807	¥1,144,068	¥ 986,884	¥ 983,784	\$ 8,026,007
Cost of Sales	807,308	899,220	936,563	825,097	830,129	6,716,373
Operating Profit	34,429	10,872	65,827	27,229	10,405	286,431
Net (Loss) Income	(26,854)	(61,316)	7,149	(12,075)	(34,853)	(223,411)
Depreciation and Amortization	54,457	78,436	79,557	74,592	74,038	453,053
Gross Cash Flow	27,603	17,120	86,706	62,517	39,185	229,642
R&D Expenses	11,608	15,404	15,437	14,762	17,830	96,572
<b>Balance at End of Year:</b>						
Total Assets	1,439,985	1,575,739	1,615,844	1,671,000	1,605,671	11,979,908
Total Long-Term Liabilities	555,467	572,071	509,187	603,096	580,446	4,621,189
Total Shareholders' Equity	174,381	206,413	239,190	231,559	243,356	1,450,757
Number of Shares of Common Stock (Thousands)	1,134,054	1,117,314	1,117,314	1,117,314	1,117,314	
					Yen	U.S. dollars (Note 1)
	2003	2002	2001	2000	1999	2003
<b>Per Share Amounts:</b>						
Net (Loss) Income	¥(23.9)	¥(54.9)	¥6.4	¥(10.8)	¥(30.9)	\$(0.20)
Cash Dividends Applicable to the Year	—	—	3.0	1.5	—	—
<b>Ratios:</b>						
Return on Assets	-1.8%	-3.9%	0.4%	-0.7%	-2.1%	
Return on Equity	-14.1	-27.5	3.0	-5.1	-12.5	

	Millions of yen					Thousands of U.S. dollars (Note 1)
	1998	1997	1996	1995	1994	1993
<b>For the Year:</b>						
Net Sales	¥1,196,008	¥1,186,715	¥1,127,736	¥1,151,261	¥1,064,307	¥1,145,425
Cost of Sales	981,916	971,022	923,742	959,824	898,923	955,992
Operating Profit	56,744	59,615	58,968	43,878	32,036	47,442
Net Income (Loss)	10,071	14,744	11,358	(3,745)	(2,929)	317
Depreciation and Amortization	80,575	72,886	66,692	61,497	68,379	65,369
Gross Cash Flow	90,646	87,630	78,050	57,752	65,550	65,686
R&D Expenses	18,401	16,791	15,233	15,281	14,826	16,281
<b>Balance at End of Year:</b>						
Total Assets	1,679,207	1,643,332	1,557,287	1,483,328	1,417,254	1,443,097
Total Long-Term Liabilities	534,378	459,818	410,932	320,074	274,757	339,559
Total Shareholders' Equity	312,386	307,549	298,583	290,519	308,555	316,663
Number of Shares of Common Stock (Thousands)	1,134,153	1,134,153	1,134,082	1,134,082	1,134,082	1,134,082
					Yen	Thousands of U.S. dollars (Note 1)
	1998	1997	1996	1995	1994	1993
<b>Per Share Amounts:</b>						
Net Income (Loss)	¥8.9	¥13.0	¥10.0	¥(3.3)	¥(2.5)	¥0.3
Cash Dividends Applicable to the Year	5.0	5.0	5.0	5.0	5.0	7.0
<b>Ratios:</b>						
Return on Assets	0.6%	0.9%	0.7%	-0.3%	-0.2%	0.0%
Return on Equity	3.2	4.9	3.9	-1.3	-0.9	0.1

Note: Japanese yen amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of ¥120.20 to U.S.\$1, the prevailing exchange rate at March 31, 2003.



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

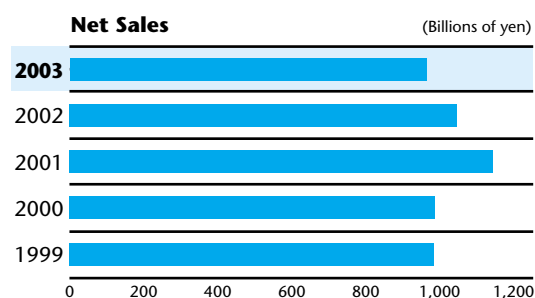
## Overview

For the year ended March 31, 2003	Millions of yen	Thousands of U.S. dollars	Percentage change (2003/2002)
Net sales	<b>¥964,726</b>	<b>\$8,026,007</b>	-7.8%
Operating profit	<b>34,429</b>	<b>286,431</b>	216.7%
Net loss	<b>(26,854)</b>	<b>(223,441)</b>	—
	Yen	U.S. dollars	Percentage change (2003/2002)
Net loss per share	<b>¥(23.9)</b>	<b>\$(0.20)</b>	—

In the first half of fiscal 2003, ended March 31, 2003, exports rose significantly, particularly to other Asian countries. Corporate earnings improved, while the downturn in private sector capital investment began to show signs of bottoming out. In the second half of the period, however, export growth declined amid a slowdown in the global economy, principally as a result of the harsh economic climate in the United States. Moreover, there were no indications in Japan of any turnaround in lackluster personal consumption and unemployment rates. Domestic equities markets continued to suffer from the financial system's instability, and Japan remained mired in a deflationary spiral.

The operating environment again faced adverse conditions. Demand for Mitsubishi Materials' automotive-related products was again solid, and demand for information technology (IT)-related offerings headed toward recovery. In contrast, public sector spending and housing investments remained at a low ebb, hampering demand in the engineering and construction sectors. Also, Mitsubishi Materials faced strong discounting pressures from customers, causing overall selling prices to drop, while demand for copper and gold declined.

Against this backdrop, Mitsubishi Materials posted a 7.8% decline in net sales, to ¥964.7 billion. Operating profit skyrocketed 216.7%, to ¥34.4 billion. The Company registered a net loss of ¥26.9 billion, compared with a net loss of ¥61.3 billion a year earlier.



## Sales and Operating Profit by Segment

### Silicon and Advanced Materials

During the period, the semiconductor industry recovered from the unprecedented downturn of the previous year, which led to a steady recovery in demand for silicon wafers, through summer 2002. The second half of the year, however, saw further market corrections, mainly owing to the uncertainty of the U.S. economy. Demand saw a turnaround for chip thermistors and other mobile telecommunications-related products, while semiconductor-related electronic materials also benefited from an improvement in the IT sector. IT-related sales were particularly strong in the first half of fiscal 2003, but the market worsened again in the second half of the term. Nevertheless, IT-related sales for the period improved from fiscal 2002. As a result of these factors, segment sales dropped 41.6% (or increased ¥11.9 billion, excluding the results for the Company's silicon wafer affiliates), to ¥64.3 billion. Operating profit totaled ¥471 million, compared with a ¥20.1 billion loss a year earlier (or increased ¥2.4 billion, excluding the results for the Company's silicon wafer affiliates).

### Fabricated Metal Products

The Company experienced a slight recovery in demand from mobile telecommunications, semiconductor and other information technology areas, while demand for automotive products remained strong throughout the period. Sales were thus solid for molding dies, hard metal products, powder metallurgy products and aluminum rolled products. Downturns in related industries, however, led to sluggish sales of copper tubes, heat resistant alloys and other high-performance materials. In this segment, sales consequently dropped 1.3%, to ¥325.0 billion. Operating profit, however, improved 44.0%, to ¥19.5 billion, as the Company managed to reduce costs and thus cover lower prices.

### Nonferrous Metals

Sales of copper were favorable, owing to a recovery in demand for semiconductor materials and copper for automotive terminals. At the same time, however, copper wire demand was again sluggish resulting from downturns in the electric power, telecommunications and construction sectors, which drove exports down as well. Also, sales volumes and values of copper wire were both down

from a year earlier. Sales of gold to individuals were relatively solid, owing to concerns over the instability of Japan's financial system and political turmoil overseas. Both sales volumes and values of gold decreased, however, from the previous period. This was a result of a temporary boom in demand for gold from the second half of fiscal 2002, just prior to the abolishment of the "payoff system." PT. Smelting, a consolidated copper smelting subsidiary in Indonesia, suffered dramatic reductions in revenues and earnings attributed to repairs that were scheduled in the first half of the period. The above factors caused nonferrous metals sales to decline 11.2%, to ¥230.0 billion. On the positive side, operating profit rose 15.3%, to ¥4.9 billion—despite production cuts at PT. Smelting—as well as decreases in costs and a rise in parent company earnings.

#### Cement Products

Domestic sales of cement products were down on a volume basis, owing to reductions in public sector spending and stagnant demand for housing investment and private sector capital expenditure. Prices were also low amid poor demand conditions. In contrast, export volumes improved from a year earlier, largely owing to gains in mainland China and Hong Kong. The Company's cement business in the United States remained buoyant, but domestic consolidated operations fared poorly, with the downturn in demand for engineering and construction projects. The reclamation soil business also experienced a decline. Segment sales thus declined 5.5%, to ¥159.2 billion, while operating profit decreased 3.6%, to ¥14.7 billion.

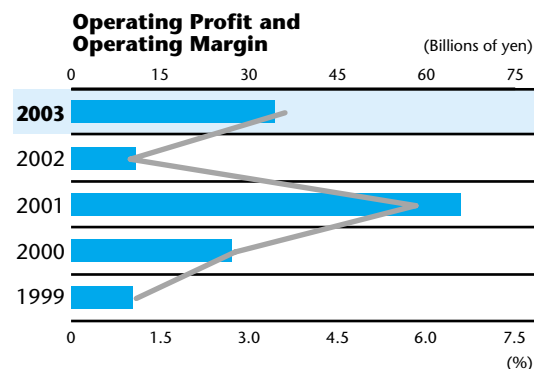
#### Others

Sales in this segment rose 3.3%, to ¥186.2 billion, or 19.3% of net sales. Despite this increase, sales dropped in the nuclear power and systems category, as construction peaked at the Rokkasho nuclear fuel reprocessing plant. Diminished sales from housing development and office leasing, as well as a decline in sales at an engineering affiliate combined to hinder results. Operating profit, however, fell 53.4%, to ¥2.8 billion.

For the years ended March 31	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
<b>Silicon and Advanced Materials</b>				
Sales	¥ 64,262	¥110,005	¥160,937	\$ 534,626
Operating profit (loss)	471	(20,058)	15,305	3,918
Operating margin	0.7%	—	9.5%	
<b>Fabricated Metal Products</b>				
Sales	325,040	329,240	374,606	2,704,160
Operating profit	19,545	13,571	26,114	162,604
Operating margin	6.0%	4.1%	7.0%	
<b>Nonferrous Metals</b>				
Sales	229,994	258,925	222,552	1,913,427
Operating profit	4,857	4,213	2,295	40,408
Operating margin	2.1%	1.6%	1.0%	
<b>Cement Products</b>				
Sales	159,210	168,414	185,792	1,324,543
Operating profit	14,673	15,220	15,349	122,072
Operating margin	9.2%	9.0%	8.3%	
<b>Others</b>				
Sales	186,220	180,223	200,181	1,549,251
Operating profit	2,837	6,084	11,316	23,602
Operating margin	1.5%	3.4%	5.7%	

#### Operating Profit

Cost of sales decreased 10.2%, to ¥807.3 billion. Gross profit was up 6.7%, to ¥157.4 billion, while the gross margin rose 2.2 percentage points, to 16.3%. Selling, general and administrative expenses were down 10.0%, to ¥123.0 billion. This represented 12.7% of net sales, down 0.4 percentage point. Operating profit rocketed 216.7%, to ¥34.4 billion. The operating margin was 3.6%, compared with 1.0% in fiscal 2002.



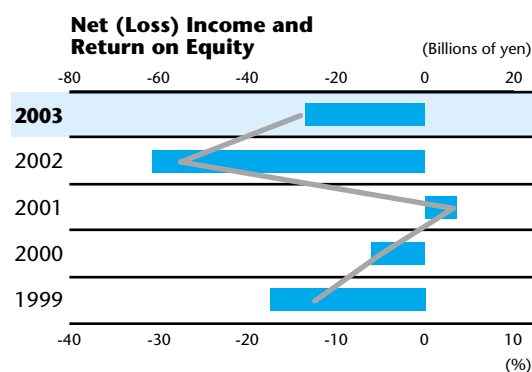
For the years ended March 31	Millions of yen		Thousands of U.S. dollars	Percentage change
	2003	2002	2003	2003/2002
<b>Selling, General and Administrative Expenses</b>				
Freight charges	¥ 22,273	¥ 27,558	\$ 185,300	-19.2%
Depreciation and amortization	2,998	5,033	24,942	-40.4
Provision for reserve for retirement allowances	5,499	3,817	45,749	44.1
Provision for reserve for directors' retirement allowances	586	520	4,875	12.7
Provision for reserve for bonuses	6,545	8,569	54,451	-23.6
Salaries	25,426	29,178	211,531	-12.9
R&D expenses	11,608	15,404	96,572	-24.6
Rent expenses	6,783	7,938	56,431	-14.6
Others	41,271	38,697	343,352	6.7
Total	¥122,989	¥136,715	\$1,023,203	-10.0%

### Other Income (Expenses)

Other expenses, net, dropped 32.0%, to ¥70.2 billion, owing to an improvement in net interest expense. Some influencing factors included a loss on write-down of marketable securities and investments in securities of ¥20.9 billion; a provision for loss on subsidiaries and affiliates totaling ¥10.2 billion; and severance and pension benefit expense amounting to ¥10.4 billion. The Company thus posted a loss before income taxes and minority interests of ¥35.7 billion, compared with a loss of ¥92.4 billion in the previous term.

### Net Loss

After ¥5.2 billion in income taxes (benefit) and ¥3.7 billion in minority interests in loss of consolidated subsidiaries, Mitsubishi Materials registered a net loss of ¥26.9 billion, compared with a net loss of ¥61.3 billion in fiscal 2002. In light of this situation, management decided not to issue cash dividends applicable to the year.



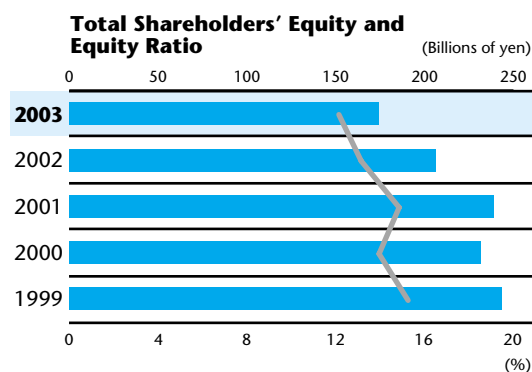
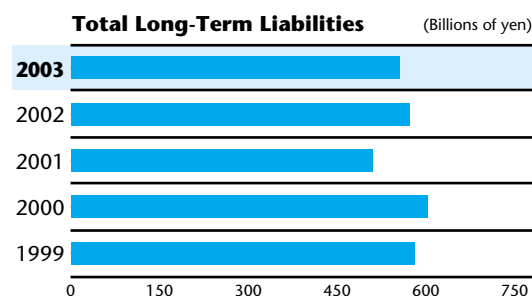
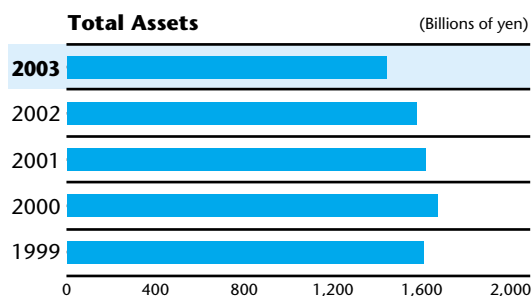
### Financial Position and Liquidity

At the end of the term, total assets were down from a year earlier. Total current assets fell 13.7%, to ¥448.0 billion. Net property, plant and equipment totaled ¥691.7 billion, down 4.0% from the previous fiscal period. Total investments and long-term receivables declined 15.9%, to ¥224.3 billion. As a result, total assets decreased 8.6%, to ¥1,440.0 billion.

Total current liabilities fell 10.7%, to ¥674.9 billion, reducing the current ratio from 68.7% to 66.4%. Total long-term liabilities therefore slipped 2.9%, to ¥555.5 billion.

Minority interests dropped 15.0%, to ¥35.3 billion.

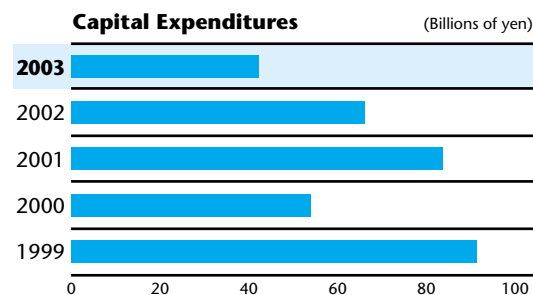
Total shareholders' equity declined 15.5%, to ¥174.4 billion, reflecting a second consecutive net loss. As a result, the equity ratio was 12.1%, compared with 13.1% a year earlier.



At March 31	2003	2002	2001
Equity ratio	12.1%	13.1%	14.8%

## Capital Expenditures

The Company again decreased capital expenditures, curtailing interest-bearing debt while concentrating on specially chosen projects in areas offering high earnings and growth potential. Total outlays for the term were down 36.2%, to ¥42.2 billion. That said, the Company allocated ample funds to maintain existing facilities, invest strategically in facilities for bottle-shaped aluminum cans and heat-resistant alloy production, and bolster capacity in industrial waste treatment plants.



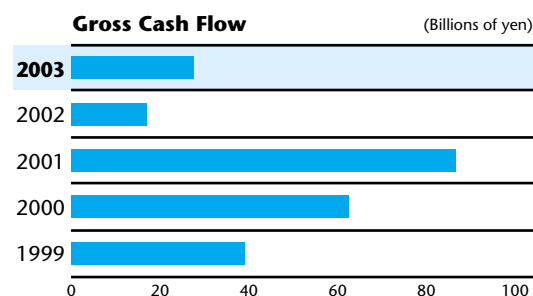
## Cash Flows

Net cash provided by operating activities amounted to ¥59.7 billion, up ¥17.6 billion from a year earlier, primarily owing to an improvement in operating profit and decreases in interest expense and income taxes paid. These factors offset a decrease in depreciation as a result of the removal of silicon wafer affiliates from consolidation.

Net cash used in investing activities totaled ¥31.1 billion, a decrease of ¥71.7 billion from the previous term. This decline stemmed mainly from decreased capital expenditures following our decision to focus on specially chosen projects, coupled with the removal of our silicon wafer affiliates from consolidation, which reduced payments for purchases of property, plant and equipment. Proceeds from collection of loan receivables rose substantially, offsetting a decrease in proceeds from sales of property, plant and equipment.

Net cash used in financing activities amounted to ¥61.3 billion, compared with ¥94.4 billion provided by financing activities from the previous period. The main factors contributing to this result included ¥40.0 billion in payments for redemption of bonds; ¥25.0 billion in repayment of proceeds from commercial paper, net; and ¥22.7 billion in decrease in short-term bank loans, net. These factors offset the ¥26.7 billion net difference between proceeds from long-term debt, amounting to ¥108.2 billion, and repayments of long-term debt, totaling ¥81.5 billion.

With fluctuations in the exchange rate and changes in consolidation, cash and cash equivalents at end of year totaled ¥18.9 billion, down ¥33.2 billion from fiscal year 2002.



For the years ended March 31	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Gross cash flow	<b>¥27,603</b>	¥17,120	¥86,706	<b>\$229,642</b>

## Outlook for Fiscal 2004

There is little hope for a domestic demand-led recovery in the Japanese economy. In addition, management does not anticipate an improvement in the export environment owing to the uncertain future of the U.S. economy. Management thus believes that the business environment will remain challenging for the Mitsubishi Materials Group.

The Group will endeavor to overcome this situation by swiftly restructuring operations and reorganizing strategic parent company operations in an effort to build stable revenues and earnings foundations. At the same time, the Group will continue focusing on further reducing costs through emergency cost structure reforms while transferring businesses and divesting assets to bolster its financial position.

## Frequently Asked Questions

### ***How are you reorganizing and integrating Group companies?***

We aim to institute further reviews for all Group companies. As part of these efforts, we are monitoring profit trends and interest-bearing debt and are implementing quantitative standards for net assets and investment proportions that match our holdings. We are tackling all problematic Group businesses and companies so that we can identify ways to swiftly reorganize or withdraw, depending on what the situation dictates. There were four such organizational initiatives in fiscal 2003.

The first initiative included the integration of strategic areas of our wire business. In October 2002, we merged Optec Dai-ichi Denko with the wire business of Sumitomo Electric Industries, Ltd. Under the leadership of the latter company, the new entity has become one of a handful of players worldwide with a solid foundation and great potential to achieve fast growth.

Our second strategic move led to a strengthened position in the construction sector, by merging Mitsubishi Construction Co., Ltd., and P.S. Corporation, to form P.S. Mitsubishi Construction Co., Ltd., in October 2002. The new entity draws on the bridge construction and other technologies of the former P.S. Corporation and the condominium building operations of the prior Mitsubishi Construction, positioning it well for expansion.

Our third organizational initiative culminated in a partnership involving our zinc business. We concluded a basic agreement with Dowa Mining Co., Ltd., to cooperate in processing and selling zinc. In April 2003, we reinforced our ties with Dowa Mining by jointly investing in a new zinc sales business and in Akita Zinc Solutions Co., Ltd., a zinc processing company.

The fourth achievement entailed a merger between Mitsubishi Materials Techno Corporation and Tamagawa Machinery Corporation. This move integrated our mechatronics and systems capabilities, thus eliminating overlap and streamlining marketing, design, development and manufacturing to bolster profitability.

### ***What progress have you made in cutting interest-bearing debt?***

It has been a critical management priority to slash consolidated interest-bearing debt. This debt stood at ¥827.3 billion at the end of fiscal 2003, down ¥71.3 billion from a year earlier.

We aim to make steady progress in the extended medium-term management plan announced in February 2003. Our goal is to lower interest-bearing debt to ¥750 billion by the end of fiscal 2005.

### ***How have your emergency cost structure reforms fared?***

We launched these measures in October 2002. By the end of fiscal 2004, we seek to reduce costs by ¥30 billion on a nonconsolidated basis and ¥70 billion in consolidated terms.

By the close of fiscal 2003, nonconsolidated costs were down ¥20.3 billion, while consolidated costs fell ¥45.2 billion.

We will reach our goals for fiscal 2004 by achieving savings in labor, materials and supplies, as well as in outsourcing.

### ***Describe your risk management structure and its underpinnings.***

We implemented a new risk management structure in December 2002 so that all Group operations could respond more effectively to changes in the domestic and international operating environments.

The new structure comprises the Risk Management Committee, the Corporate Ethics and Compliance Committee, and the Employee Consulting Office.

With the president presiding over the Risk Management Committee as chairperson, offering leadership and guidance, the committee formulates basic risk management guidelines with the aim to minimize risks through training and by establishing in-house operations. The Corporate Ethics and Compliance Committee ensures adherence to corporate ethics and assesses compliance. The Employee Consulting Office gathers information through consultation with employees concerning corporate ethics, and partly bases management decisions on this vital feedback.



# Consolidated Statements of Operations

Mitsubishi Materials Corporation and Subsidiaries  
Years ended March 31, 2003, 2002 and 2001

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2002	2001	2003
<b>Net Sales</b> (Note 13)	¥ 964,726	¥1,046,807	¥1,144,068	<b>\$8,026,007</b>
<b>Cost of Sales</b>	<b>807,308</b>	899,220	936,563	<b>6,716,373</b>
Gross profit	157,418	147,587	207,505	1,309,634
<b>Selling, General and Administrative Expenses</b> (Note 10)	<b>122,989</b>	136,715	141,678	<b>1,023,203</b>
Operating profit	34,429	10,872	65,827	286,431
<b>Other Income (Expenses):</b>				
Interest and dividend income	2,029	2,253	3,715	16,880
Interest expense (Note 4)	(15,594)	(23,549)	(28,575)	(129,734)
Income from leased property	6,817	1,391	1,477	56,714
Expense for leased property	(5,143)	—	—	(42,787)
Write-down of marketable securities and investments in securities	(20,858)	(3,341)	(4,481)	(173,527)
Gain (loss) on sales of marketable securities and investments in securities	3,062	(207)	4,042	25,474
Provision for bad debt and write-off of long-term receivables— unconsolidated subsidiaries and affiliates	(1,574)	(7,118)	(4,933)	(13,095)
Loss on liquidation of subsidiaries and affiliates	(630)	(1,641)	(853)	(5,241)
Gain on sales of property, plant and equipment	3,145	14,355	12,230	26,165
Loss on disposal and sales of property, plant and equipment	(3,790)	(4,803)	(5,043)	(31,531)
Provision for loss on consolidated subsidiaries	—	—	(688)	—
Provision for valuation allowance for investment in unconsolidated subsidiaries and affiliates	(112)	(1,257)	—	(932)
Foreign exchange (losses) gains, net	(51)	817	1,584	(424)
Severance and pension benefit expense (Note 5)	(10,446)	(9,399)	(24,446)	(86,905)
Equity in (losses) earnings of affiliates	(9,126)	(5,898)	509	(75,923)
Loss on write-down of building (Note 2)	—	(29,461)	—	—
Loss on write-down of inventories	—	(2,243)	—	—
Provision for loss on subsidiaries and affiliates	(10,157)	(21,095)	—	(84,501)
Gain on securities contributed to employee retirement benefit trust (Note 2)	—	—	11,125	—
Reversal of provision for foreign exchange losses	—	—	4,620	—
Loss due to withdrawal of business	—	—	(8,704)	—
Other, net	(7,744)	(12,038)	(9,018)	(64,427)
	(70,172)	(103,234)	(47,439)	(583,794)
(Loss) income before income taxes and minority interests	(35,743)	(92,362)	18,388	(297,363)
<b>Income Taxes (Benefit)</b> (Note 7)	<b>(5,197)</b>	(23,913)	10,349	<b>(43,237)</b>
(Loss) income before minority interests	(30,546)	(68,449)	8,039	(254,126)
<b>Minority Interests in Loss (Income) of Consolidated Subsidiaries</b>	<b>3,692</b>	7,133	(890)	<b>30,715</b>
<b>Net (Loss) Income</b>	¥ (26,854)	¥ (61,316)	¥ 7,149	<b>\$ (223,411)</b>
			Yen	U.S. dollars (Note 1)
	2003	2002	2001	2003
<b>Per Share Amounts</b> (Note 16):				
Net (loss) income	¥(23.9)	¥(54.9)	¥6.4	<b>\$(0.20)</b>
Diluted net income	—	—	6.1	—
Cash dividends applicable to the year	—	—	3.0	—

The accompanying notes are an integral part of these statements.

## Consolidated Balance Sheets

Mitsubishi Materials Corporation and Subsidiaries  
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash (Notes 4 and 15)	¥ 19,451	¥ 49,852	\$ 161,822
Marketable securities (Notes 11 and 15)	17	3,001	141
Notes and accounts receivable (Notes 4 and 8):			
Trade	160,332	167,761	1,333,877
Unconsolidated subsidiaries and affiliates	31,234	53,589	259,850
Others	12,289	11,956	102,238
Inventories (Notes 3 and 4)	146,807	158,611	1,221,356
Deferred income taxes (Note 7)	7,137	6,899	59,376
Other current assets (Note 12)	73,584	71,123	612,180
Allowance for doubtful accounts	(2,824)	(3,701)	(23,494)
Total current assets	448,027	519,091	3,727,346
<b>Property, Plant and Equipment</b> (Note 4):			
Land (Note 14)	246,110	243,495	2,047,504
Buildings and structures	391,504	387,435	3,257,105
Machinery and equipment	963,728	966,214	8,017,704
Construction in progress	16,190	21,609	134,692
	1,617,532	1,618,753	13,457,005
Less accumulated depreciation	(925,828)	(898,052)	(7,702,396)
Net property, plant and equipment	691,704	720,701	5,754,609
<b>Investments and Long-Term Receivables:</b>			
Investments in securities (Notes 4 and 11)	69,252	87,233	576,140
Unconsolidated subsidiaries and affiliates (Note 4)	123,385	134,552	1,026,498
Long-term receivables	6,944	12,690	57,770
Others (Note 4)	43,071	49,265	358,327
Allowance for doubtful accounts	(16,991)	(15,832)	(141,356)
Valuation allowance for investment in unconsolidated subsidiaries and affiliates	(1,393)	(1,302)	(11,589)
Total investments and long-term receivables	224,268	266,606	1,865,790
<b>Other Assets:</b>			
Deferred income taxes (Note 7)	56,046	47,635	466,273
Others (Notes 4 and 12)	19,940	21,706	165,890
Total other assets	75,986	69,341	632,163
<b>Total Assets</b>	<b>¥1,439,985</b>	<b>¥1,575,739</b>	<b>\$11,979,908</b>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Short-term bank loans (Note 4)	¥ 294,868	¥ 317,627	\$ 2,453,145
Current portion of long-term debt (Note 4)	103,143	115,884	858,095
Commercial paper (Note 4)	6,000	31,000	49,917
Notes and accounts payable:			
Trade	104,204	113,502	866,922
Unconsolidated subsidiaries and affiliates	7,475	8,334	62,188
Others	14,587	14,729	121,356
Income taxes payable	3,419	3,363	28,444
Deferred income taxes (Note 7)	69	183	574
Accrued expenses	46,230	56,423	384,609
Other current liabilities (Note 12)	94,865	94,712	789,226
Total current liabilities	674,860	755,757	5,614,476
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 4)	423,244	433,997	3,521,165
Severance and pension benefits (Note 5)	40,601	35,759	337,779
Reserve for loss on subsidiaries and affiliates	14,266	21,236	118,686
Deferred income taxes (Note 7)	14,873	16,157	123,735
Deferred income taxes on revaluation reserve for land (Notes 7 and 14)	30,957	31,860	257,546
Others (Note 12)	31,526	33,062	262,278
Total long-term liabilities	555,467	572,071	4,621,189
<b>Minority Interests</b>	<b>35,277</b>	<b>41,498</b>	<b>293,486</b>
<b>Contingent Liabilities and Commitments (Notes 8 and 9)</b>			
<b>Shareholders' Equity (Note 6):</b>			
Common stock			
Authorized—2,683,162,000 shares			
Issued—1,134,053,663 shares at March 31, 2003 and 1,117,314,857 shares at March 31, 2002	99,397	99,396	826,930
Capital surplus	69,090	68,573	574,792
Accumulated deficit	(32,790)	(4,266)	(272,795)
Revaluation reserve for land (Note 14)	46,281	44,015	385,033
Net unrealized holding losses on securities	(2,936)	(3,474)	(24,426)
Foreign currency translation adjustments	(4,121)	2,195	(34,284)
Treasury stock	(540)	(26)	(4,493)
Total shareholders' equity	174,381	206,413	1,450,757
<b>Total Liabilities, Minority Interests and Shareholders' Equity</b>	<b>¥1,439,985</b>	<b>¥1,575,739</b>	<b>\$11,979,908</b>

## Consolidated Statements of Shareholders' Equity

Mitsubishi Materials Corporation and Subsidiaries  
Years ended March 31, 2003, 2002 and 2001

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen			
	2003	2002	2001	2003
<b>Common Stock:</b>				
Number of shares (Thousands)				
At beginning of year	1,117,314	1,117,314	1,117,314	
Increase due to stock exchange	16,738	—	—	
Conversion of convertible yen debentures	2	—	—	
<b>At end of year</b>	<b>1,134,054</b>	<b>1,117,314</b>	<b>1,117,314</b>	
Amount				
Balance at beginning of year	¥ 99,396	¥99,396	¥99,396	\$ 826,922
Conversion of convertible yen debentures	1	—	—	8
<b>Balance at end of year</b>	<b>¥ 99,397</b>	<b>¥99,396</b>	<b>¥99,396</b>	<b>\$ 826,930</b>
<b>Capital Surplus:</b>				
Balance at beginning of year	¥ 68,573	¥68,573	¥68,573	\$ 570,491
Increase due to stock exchange and other	548	—	—	4,559
Loss on sales of treasury stock	(31)	—	—	(258)
<b>Balance at end of year</b>	<b>¥ 69,090</b>	<b>¥68,573</b>	<b>¥68,573</b>	<b>\$ 574,792</b>
<b>(Accumulated Deficit) Retained Earnings:</b>				
Balance at beginning of year	¥ (4,266)	¥59,942	¥55,001	\$ (35,491)
Net (loss) income for the year	(26,854)	(61,316)	7,149	(223,411)
Cash dividends paid	—	(3,352)	(1,676)	—
Bonuses to directors and corporate auditors	(108)	(136)	(134)	(899)
Increase resulting from increase in the number of consolidated subsidiaries	3	990	—	25
Decrease resulting from increase in the number of consolidated subsidiaries	(28)	(1,543)	—	(233)
Decrease resulting from decrease in the number of affiliated companies on equity method	(469)	—	—	(3,902)
Decrease resulting from increase in the number of affiliated companies on equity method	—	(58)	—	—
Increase resulting from decrease in the number of affiliated companies on equity method	711	—	—	5,915
Increase due to reversal of revaluation reserve for land (Note 14)	322	1,025	—	2,679
Decrease due to reversal of revaluation reserve for land (Note 14)	(2,198)	—	(540)	(18,286)
Increase due to mergers of unconsolidated subsidiaries	260	—	—	2,163
Decrease due to mergers of unconsolidated subsidiaries	(150)	—	—	(1,248)
Others, net	(13)	182	142	(107)
<b>Balance at End of Year</b>	<b>¥(32,790)</b>	<b>¥ (4,266)</b>	<b>¥59,942</b>	<b>\$ (272,795)</b>
<b>Revaluation Reserve for Land (Note 14):</b>				
Balance at beginning of year	¥ 44,015	¥ 9,201	¥ 8,593	\$ 366,181
Increase, net	2,266	34,814	608	18,852
<b>Balance at end of year</b>	<b>¥ 46,281</b>	<b>¥44,015</b>	<b>¥ 9,201</b>	<b>\$ 385,033</b>
<b>Net Unrealized Holding (Losses) Gains on Securities:</b>				
Balance at beginning of year	¥ (3,474)	¥ 4,178	¥ —	\$ (28,902)
Adoption of new accounting standard in 2001	—	—	4,178	—
Net change	538	(7,652)	—	4,476
<b>Balance at end of year</b>	<b>¥ (2,936)</b>	<b>¥ (3,474)</b>	<b>¥ 4,178</b>	<b>\$ (24,426)</b>
<b>Foreign Currency Translation Adjustments:</b>				
Balance at beginning of year	¥ 2,195	¥ (2,096)	¥ —	\$ 18,261
Transfer from other assets	—	—	16,186	—
Net change	(6,316)	4,291	(18,282)	(52,545)
<b>Balance at end of year</b>	<b>¥ (4,121)</b>	<b>¥ 2,195</b>	<b>¥ (2,096)</b>	<b>\$ (34,284)</b>
<b>Treasury Stock:</b>				
Balance at beginning of year	¥ (26)	¥ (4)	¥ (4)	\$ (216)
Increase, net	(514)	(22)	0	(4,277)
<b>Balance at End of Year</b>	<b>¥ (540)</b>	<b>¥ (26)</b>	<b>¥ (4)</b>	<b>\$ (4,493)</b>

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Cash Flows

Mitsubishi Materials Corporation and Subsidiaries  
Years ended March 31, 2003, 2002 and 2001

Thousands of  
U.S. dollars  
(Note 1)

	Millions of yen			
	2003	2002	2001	2003
<b>Cash Flows from Operating Activities:</b>				
(Loss) income before income taxes and minority interests	¥ (35,743)	¥ (92,362)	¥ 18,388	\$ (297,363)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	54,327	78,711	78,983	451,972
Increase in allowance for doubtful accounts	1,559	4,320	4,108	12,970
Increase in severance and pension benefits	5,049	3,179	6,044	42,005
Increase (decrease) in reserve for loss on consolidated subsidiaries or valuation allowance for investment in unconsolidated subsidiaries and affiliates	92	(1,343)	(571)	765
Increase in reserve for loss on subsidiaries and affiliates	11,254	21,236	—	93,627
(Decrease) in reserve for foreign exchange losses	—	—	(7,100)	—
Interest and dividend income	(2,029)	(2,253)	(3,715)	(16,880)
Interest expense	15,594	23,549	28,575	129,734
Loss on disposal of property, plant and equipment	3,790	4,803	12,236	31,531
Gain on sales of property, plant and equipment	(3,145)	(14,355)	(12,230)	(26,165)
(Gain) loss on sales of marketable securities and investments in securities	(3,062)	207	(4,042)	(25,474)
Write-down of marketable securities and investments in securities	20,858	3,341	4,481	173,527
Decrease (increase) in notes and accounts receivable	7,877	36,160	(612)	65,532
Decrease (increase) in inventories	10,016	13,217	(8,174)	83,328
(Decrease) increase in notes and accounts payable	(10,329)	(29,715)	18,649	(85,932)
(Decrease) increase in accrued expense	(8,764)	(4,616)	13,881	(72,912)
Equity in losses (earnings) of affiliates	9,126	5,898	(509)	75,923
Loss on write-down of building	—	29,461	—	—
Others, net	1,572	(6,450)	13,768	13,080
Subtotal	78,042	72,988	162,160	649,268
Interest and dividend received	4,928	5,929	5,094	40,998
Interest paid	(16,427)	(23,805)	(28,635)	(136,664)
Income taxes paid	(6,827)	(13,038)	(6,551)	(56,797)
<b>Net Cash Provided by Operating Activities</b>	<b>59,716</b>	<b>42,074</b>	<b>132,068</b>	<b>496,805</b>
<b>Cash Flows from Investing Activities:</b>				
Payments for purchases of property, plant and equipment	(39,865)	(77,976)	(72,358)	(331,656)
Proceeds from sales of property, plant and equipment	8,552	20,586	32,183	71,148
Payments for purchases of marketable securities and investments in securities	(21,469)	(14,588)	(4,949)	(178,611)
Proceeds from sales of marketable securities and investments in securities	10,293	4,337	22,987	85,632
Disbursement of loan receivables	(9,454)	(18,628)	(7,414)	(78,652)
Proceeds from collection of loan receivables	33,535	3,455	5,680	278,993
Payments for settlement of forward monthly strip knockout contract	—	(2,711)	(5,100)	—
Payments due to transference of guarantee deposits to affiliated company	—	—	(9,141)	—
Decrease due to business combinations of former consolidated subsidiaries with affiliates	—	(7,743)	—	—
Payments for purchases of intangible fixed assets	(2,339)	(1,646)	(2,862)	(19,459)
Others, net	(10,363)	(7,934)	2,246	(86,214)
<b>Net Cash Used in Investing Activities</b>	<b>(31,110)</b>	<b>(102,848)</b>	<b>(38,728)</b>	<b>(258,819)</b>
<b>Cash Flows from Financing Activities:</b>				
Proceeds from long-term debt	108,231	137,177	44,397	900,424
Repayments of long-term debt	(81,508)	(78,880)	(75,380)	(678,103)
Payments for redemption of bonds	(40,000)	(45,000)	(29,929)	(332,779)
Proceeds from issuance of bonds	—	30,000	—	—
(Repayment of) proceeds from commercial paper, net	(25,000)	11,000	20,000	(207,987)
Payments for purchase of treasury stock	(158)	(23)	0	(1,314)
(Decrease) increase in short-term bank loans, net	(22,669)	43,520	(109,200)	(188,594)
Proceeds from issuance of common stock by consolidated subsidiaries to minority shareholders	265	308	320	2,205
Cash dividends paid	—	(3,352)	(1,676)	—
Cash dividends paid to minority shareholders	(491)	(355)	(483)	(4,085)
Other, net	(13)	—	—	(108)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(61,343)</b>	<b>94,395</b>	<b>(151,951)</b>	<b>(510,341)</b>
<b>Effect of Exchange Rate Fluctuation on Cash and Cash Equivalents</b>	<b>(883)</b>	<b>717</b>	<b>1,571</b>	<b>(7,345)</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(33,620)</b>	<b>34,338</b>	<b>(57,040)</b>	<b>(279,700)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>52,153</b>	<b>16,595</b>	<b>74,172</b>	<b>433,885</b>
<b>Effect of Changes in Consolidated Subsidiaries</b>	<b>89</b>	<b>1,220</b>	<b>(537)</b>	<b>740</b>
<b>Increase in cash and cash equivalents from mergers of unconsolidated subsidiaries</b>	<b>304</b>	<b>—</b>	<b>—</b>	<b>2,529</b>
<b>Cash and Cash Equivalents at End of Year (Note 15)</b>	<b>¥ 18,926</b>	<b>¥ 52,153</b>	<b>¥ 16,595</b>	<b>\$ 157,454</b>

The accompanying notes are an integral part of these statements.

## Notes to Consolidated Financial Statements

Mitsubishi Materials Corporation and Subsidiaries

### Note 1—Basis of Presentation of Financial Statements

Mitsubishi Materials Corporation (the “Company”) and its consolidated domestic subsidiaries maintain their accounts and records in Japanese yen and in accordance with the provisions set forth in the Japanese Commercial Code (the “Code”) and the Securities and Exchange Law of Japan and in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”). The accounts of its overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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

as required by the Securities and Exchange Law of Japan. Some supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders’ equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements even though such statements were not customarily prepared in Japan and not required to be filed with the regulatory authorities.

The translation of Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader—using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S.\$1. These translations should not be construed as representations that Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rates of exchange.

### Note 2—Summary of Significant Accounting Policies

#### (a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies which the Company controls through majority voting right or existence of certain conditions. All significant intercompany balances and transactions have been eliminated in the 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 using 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 diminution 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 the fair value at the time the Company acquired control of the respective subsidiaries.

Consolidation difference is amortized over a period of five years on a straight-line basis.

On February 1, 2002, the Company and Sumitomo Metal Industries, Ltd. (“SMI”), integrated their silicon business into Sumitomo Mitsubishi Silicon Corporation (“SUMCO”), which is 50% owned by the Company and SMI, respectively. The

Company accounted for this transaction by purchase method as if such transaction occurred as of March 31, 2002, and therefore, the operating results of the silicon business of the Company have been excluded from the Company’s operating profit, and instead reported in other income as equity earnings (losses) of SUMCO together with SMI’s contributed silicon business portion from April 1, 2002.

In applying the equity method on the investment in SUMCO, 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

Prior to April 1, 2000, foreign currency amounts were translated into Japanese yen amounts on the basis of historical rates for current and non-current receivables and payables. Commencing with the year ended March 31, 2001, they are translated into Japanese yen amounts on the basis of current rates in accordance with the revised Accounting Principles for Translation of Foreign Currencies (the “Revised Accounting Principles for Translation”), effective from the year ended March 31, 2001. Gains or losses resulting from foreign currency transactions are credited or charged to other income as incurred. As a result of the change, income before income taxes and minority interests increased by ¥774 million for the year ended March 31, 2001, compared with what would have been recorded under the previous accounting standard.

The financial statements of consolidated foreign subsidiaries and affiliates are translated into Japanese yen amounts at the current rate except for shareholders' equity, which is translated at historical rates. The difference resulting from exchange adjustments is reported as a separate component of the shareholders' equity. Prior to April 1, 2001, such translation adjustments were included in other assets. Commencing with the year ended March 31, 2001, translation adjustments are reported as a reduction of shareholder's equity (¥2,096 million) and in minority interests (¥812 million) in accordance with the Revised Accounting Principles for Translation.

(c) Allowance for Doubtful Accounts

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

(d) Inventories

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

(e) Derivative Transaction and Hedge Accounting

Effective April 1, 2000, the new Accounting Standard for Financial Instruments requires the Company and its consolidated subsidiaries (the "Companies") to state derivative financial instruments at fair value and recognize gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer 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 using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statement of operations in the period which includes the inception date, and
  - (2) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as 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.

The adoption of the new Accounting Standard for Financial Instruments did not have a material impact on net income with respect to derivative transaction.

(f) Securities

Prior to April 1, 2000, securities listed on exchanges are stated at the lower of cost or market, cost being determined by the moving-average method. Unlisted securities are stated at cost, determined by the moving-average method, adjusted for any substantial and nonrecoverable diminution in value.

Effective April 1, 2000, the Companies adopted the new Accounting Standard for Financial Instruments.

In accordance with the new Accounting Standard for Financial Instruments, the Companies examined the intent of holding each security and classified those securities 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 using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market value are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the shareholders' equity. Realized gains and losses on sale of such securities are computed using the moving-average cost. Available-for-sale securities with no available fair market value are stated at moving-average cost. There are no securities held for trading purposes.

If the market value of held-to-maturity debt securities, equity securities and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between 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 should be written down to net asset value with corresponding charge in the consolidated statement of operations in the event net asset value declines significantly. In these cases, such fair market value or net asset value will be the carrying amount of the securities at the beginning of the next year.

As a result of adopting the new Accounting Standard for Financial Instruments, income before income taxes and minority interests increased by ¥4,208 million for the year ended March 31, 2001, compared with what would have been recorded under the previous accounting standard.

(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, based on the estimated useful lives of those depreciable assets.

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

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

In the year ended March 31, 2002, the Company has written down a building for lease to the fair value determined by an independent real estate valuation. Loss on write-down of building was ¥29,461 million and reported in other expense of consolidated statements of operations.

#### (h) 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.

#### (i) Severance and Pension Benefits

##### 1. For employees

The Companies provide two types of post-employment benefit plans—an unfunded lump-sum severance payment plan and funded 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, length of service and certain other factors.

At March 31, 2000, the Companies accrued a liability for lump-sum severance payments primarily equal to 40% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date. The Companies recognized pension expense when, and to the extent, payments were made to the pension fund.

Effective April 1, 2000, the Companies adopted the new Accounting Standard for Employees' Severance and Pension Benefits.

Under the new Accounting Standard for Employees' Severance and Pension Benefits, allowance and expenses for severance and pension benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Companies provided allowance for employees' severance and pension benefits, based on the estimated amounts of projected benefit obligation and fair value of the plan assets at that date.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000, and the liabilities for 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 investments in securities worth the same amounts to an employee retirement

benefit trust. Remaining net transition obligation is 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, resulted from revision of employees' retirement benefit policy in October 2000, is amortized over five years and recorded as a reduction in other expense in the years ended March 31, 2003 and 2002. Prior service costs incurred after April 1, 2000, except for the negative prior service cost aforementioned, are recognized as expense using the straight-line method over the period within the estimated average remaining service life of the employees (mainly five years). Actuarial gains and losses are also recognized as expense using the straight-line method over the estimated average remaining service life (mainly 10 years), commencing from the succeeding period.

As a result of the adoption of the new Accounting Standard for Employees' Severance and Pension Benefits, in the year ended March 31, 2001, severance and pension benefit expense increased by ¥15,880 million, operating profit increased by ¥1,758 million, and income before income taxes and minority interests decreased by ¥4,960 million, considering the gain on securities contributed to employee retirement benefit trust of ¥11,125 million, compared with what would have been recorded under the previous accounting standard.

##### 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 Companies accrued a liability for lump-sum severance payments equal to 100% of the amounts required, had all officers voluntarily retired at the balance sheet date.

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

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

Prior to the year ended March 31, 2002, provision for possible losses in relation to equity and loan investments in subsidiaries and affiliates were recorded as "Reserve for loss on consolidated subsidiaries" in the liability section of consolidated balance sheets.

For the year ended March 31, 2002, the Company has reviewed its accounting policies, in accordance with Accounting Standard for Financial Instruments and with "Audit Guidance for Reserve for Loss on Subsidiaries and Affiliates." As a result, valuation losses in relation to investment in unconsolidated subsidiaries and affiliates are recorded as "Valuation allowance for investment in unconsolidated subsidiaries and affiliates," losses relating to loans receivable are recorded as "Allowance for doubtful accounts" and losses in excess of the amounts of investment to and loans receivable from subsidiaries and affiliates are recorded as "Reserve for loss on subsidiaries and affiliates."



If the same accounting policies had been applied for the year ended March 31, 2001, "Allowance for doubtful accounts" would have increased by ¥473 million, "Valuation allowance for investment in unconsolidated subsidiaries and affiliates" by ¥679 million, and "Reserve for loss on subsidiaries and affiliates" by ¥1,493 million, respectively, and "Reserve for loss on consolidated subsidiaries" would have decreased by ¥2,645 million.

(k) Change in Presentation of Income from Leased Property and the Corresponding Expense

In the year ended March 31, 2003, the Company has changed the presentation of income from leased property and the corresponding expense. Such income and expense are now presented as income from leased property and expense for leased property in other income (expense), whereas previously they were recorded as net sales and cost of sales, respectively.

At March 31, 2002, the Company decided not to expand its investments in real estate leasing business and transferred most of leased property to a subsidiary. The change of presentation was made because the Company considered that the real estate leasing business is no longer the core business of the Company due to the reason above.

As a result of the change, net sales and cost of sales have decreased by ¥4,200 million (\$34,942 thousand), and ¥3,271 million (\$27,213 thousand), respectively, and gross profit and operating profit have decreased by ¥929 million (\$7,729 thousand), for the year ended March 31, 2003, compared with what would have been recorded under the previous accounting method. There was no effect on loss before income taxes and minority interest. See Note 13 "Segment Information" for the effect on each segment.

In addition, income from leased property not for leasing business purposes, which were previously reported, net of the corresponding expense, as other income, are now reported with gross amount as income from leased property and expense for leased property together.

Prior year presentation has not been restated in relation to this change.

(l) Income Taxes

The Companies provide for income taxes on the basis of current tax liabilities and reflect the tax effects of the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

(m) Bonuses to Directors and Corporate Auditors

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

(n) Net (Loss) Income per Share

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

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The effect on earnings per share of the adoption of the new accounting standard was immaterial.

Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price. Diluted net income for the years ended March 31, 2003 and 2002, was not presented, as per share amount for the years ended March 31, 2003 and 2002, was a loss.

(o) Accounting Standard for Treasury Stock and Reversal of Statutory Reserves

Effective April 1, 2002, the Company adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No. 1, "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002).

The effect on net income of the adoption of the new accounting standard was immaterial.

As a result of adopting this new accounting standard and application of the related revised disclosure requirements, shareholders' equity accounts in the accompanying balance sheet as of March 31, 2003 are presented differently from prior years. Shareholders' equity accounts as of March 31, 2002 have been changed to conform to the presentation for 2003.

(p) Cash and Cash Equivalents

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

### Note 3—Inventories

Inventories at March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Products	¥ 50,718	¥ 55,419	\$ 421,947
Semifinished products and work in process	56,739	63,474	472,038
Raw materials and supplies	39,350	39,718	327,371
	¥146,807	¥158,611	\$1,221,356

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

Short-term bank loans and commercial paper outstanding at March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Unsecured	<b>¥278,588</b>	¥328,237	<b>\$2,317,704</b>
Secured	<b>22,280</b>	20,390	<b>185,358</b>
Total short-term debt	<b>¥300,868</b>	¥348,627	<b>\$2,503,062</b>

Average interest rates per annum for short-term bank loans and commercial paper outstanding at March 31, 2003, are 1.0% and 0.2%, respectively, and for those outstanding at March 31, 2002, were 1.0% and 0.4%, respectively.

Long-term debt at March 31, 2003 and 2002, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Banks, insurance companies and other financial institutions, maturing serially through 2030—with an average rate of 2.084% per annum:			
Unsecured	<b>¥335,070</b>	¥297,552	<b>\$2,787,603</b>
Secured	<b>66,519</b>	87,530	<b>553,403</b>
2.2% unsecured convertible yen debentures, due 2004	<b>10,349</b>	10,349	<b>86,098</b>
0.95% unsecured convertible yen debentures, due 2005	<b>49,259</b>	49,260	<b>409,809</b>
Floating rate (six-month Japanese yen-LIBOR) unsecured yen notes, due 2004	<b>5,000</b>	5,000	<b>41,597</b>
2.75% unsecured yen bonds, due 2002	—	20,000	—
2.425% unsecured yen bonds, due 2003	—	10,000	—
3.10% unsecured yen bonds, due 2008	<b>10,000</b>	10,000	<b>83,195</b>
2.125% unsecured yen bonds, due 2004	<b>10,000</b>	10,000	<b>83,195</b>
1.775% unsecured yen bonds, due 2002	—	10,000	—
1.875% unsecured yen bonds, due 2003	<b>10,000</b>	10,000	<b>83,195</b>
1.54% unsecured yen bonds, due 2008	<b>15,000</b>	15,000	<b>124,792</b>
1.01% unsecured yen bonds, due 2006	<b>15,000</b>	15,000	<b>124,792</b>
2.495% secured yen bonds, due 2005	<b>190</b>	190	<b>1,581</b>
	<b>526,387</b>	549,881	<b>4,379,260</b>
Less current portion	<b>(103,143)</b>	(115,884)	<b>(858,095)</b>
	<b>¥423,244</b>	¥433,997	<b>\$3,521,165</b>

The 2.2% unsecured convertible yen debentures due 2004 are currently convertible at ¥850.30 (\$7.07) for one share through March 30, 2004. At March 31, 2003, 12,171 thousand additional shares of common stock in aggregate would be issued upon full conversion at the current conversion price.

The 0.95% unsecured convertible yen debentures due 2005 are currently convertible at ¥514 (\$4.28) for one share through September 29, 2005. At March 31, 2003, 95,835 thousand additional shares of common stock in aggregate would be issued upon full conversion at the current conversion price.

The aggregate annual maturities of long-term debt at March 31, 2003, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004	<b>¥103,143</b>	<b>\$ 858,095</b>
2005	<b>120,157</b>	<b>999,642</b>
2006	<b>124,310</b>	<b>1,034,193</b>
2007	<b>76,306</b>	<b>634,825</b>
2008	<b>41,039</b>	<b>341,423</b>
2009 and thereafter	<b>61,432</b>	<b>511,082</b>
	<b>¥526,387</b>	<b>\$4,379,260</b>

Assets pledged as collateral primarily for short-term loans and long-term debt at March 31, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash	¥ 3,951	¥ 5,317	\$ 32,870
Notes and accounts receivable	6,893	6,851	57,346
Inventories	9,941	10,022	82,704
Investments:			
Investments in securities	446	672	3,710
Unconsolidated subsidiaries and affiliates	2,663	2,954	22,155
Property, plant and equipment, at net book value	170,064	192,361	1,414,842
Other	748	1,301	6,223
	<b>¥194,706</b>	<b>¥219,478</b>	<b>\$1,619,850</b>

### Note 5—Severance and Pension Benefits

Severance and pension benefits included in the liability section of the consolidated balance sheets as of March 31, 2003 and 2002, consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥150,672	¥154,321	\$1,253,511
Less fair value of pension assets	(54,378)	(61,063)	(452,396)
Unrecognized projected obligation	96,294	93,258	801,115
Less unrecognized net transition obligation	(18,922)	(31,034)	(157,421)
Unrecognized actuarial differences	(43,391)	(34,958)	(360,990)
Unrecognized prior service costs	4,288	5,944	35,674
Net liability for severance and retirement benefits	38,269	33,210	318,378
Prepaid pension costs	27	24	225
Employees' severance and pension benefits	38,296	33,234	318,603
Accrual for officers' lump-sum severance benefits	2,305	2,525	19,176
Severance and pension benefits	<b>¥ 40,601</b>	<b>¥ 35,759</b>	<b>\$ 337,779</b>

Severance and pension benefit expense included in the consolidated statements of operations for the years ended March 31, 2003, 2002 and 2001, consists of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Service costs—benefits earned during the year	¥ 8,509	¥ 7,559	¥ 7,115	\$ 70,790
Interest cost on projected benefit obligation	3,861	4,709	4,000	32,122
Expected return on plan assets	(1,475)	(2,193)	(1,627)	(12,271)
Amortization of net transition obligation	10,753	11,030	25,263	89,459
Amortization of actuarial differences	3,838	2,227	—	31,930
Amortization of prior service costs	(1,552)	(1,627)	(815)	(12,912)
Special termination benefits and other benefits	1,244	—	—	10,350
Officers' lump-sum severance benefit expense	586	520	(280)	4,875
Severance and pension benefit expense	<b>¥25,764</b>	<b>¥22,225</b>	<b>¥33,656</b>	<b>\$214,343</b>

The discount rates used by the Companies are mainly 2.5% for the years ended March 31, 2003 and 2002, and 3.5% for the year ended March 31, 2001. The rate of expected return on plan assets is mainly 2.5% for the year ended March 31, 2003, and 3.5% for the years ended March 31, 2002 and 2001. The estimated amounts of all retirement benefits to be paid at the future retirement date 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 resulted from revision of employees' retirement policy in October 2000, amounting to ¥10,446 million (\$86,905 thousand), ¥9,399 million and ¥24,446 million for the years ended March 31, 2003, 2002 and 2001, respectively, is included in other expenses in the accompanying consolidated statements of operations.

## Note 6—Shareholders' Equity

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

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

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total

amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, they are available for distributions by the resolution of the shareholders' meeting. Legal earnings reserve is included in retained earnings (accumulated deficit) in the accompanying consolidated financial statements.

## Note 7—Income Taxes

The income taxes (benefits) reflected in the accompanying consolidated statements of operations for the years ended March 31, 2003, 2002 and 2001, consists of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Current	¥ 6,447	¥ 7,405	¥13,274	\$ 53,635
Deferred	(11,644)	(31,318)	(2,925)	(96,872)
	¥ (5,197)	¥(23,913)	¥10,349	\$(43,237)

The following table summarizes the significant differences between the statutory income tax rate and the effective income tax rate for the year ended March 31, 2001:

	2001
Statutory tax rate	42.1%
Investments in consolidated subsidiaries	(24.4)
Unrecognized income tax benefits for subsidiaries in loss positions	18.1
Nondeductible expenses	7.7
Equity in earnings of affiliates	3.7
Differences in statutory tax rates of consolidated subsidiaries	3.7
Per capita inhabitants' taxes	2.5
Differences in statutory tax rates on unrealized profit	2.4
Amortization of consolidation differences	1.3
Other	(0.8)
Effective tax rate	56.3%

No information for differences between the statutory income tax rate and the effective income tax rate is required for the years ended March 31, 2003 and 2002, as loss before income taxes and minority interests was reported for these years.

Significant components of deferred income tax assets and liabilities as of March 31, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred income tax assets:			
Net operating loss carryforwards	¥ 37,484	¥ 43,910	\$ 311,847
Loss on write-down of securities	14,431	5,604	120,058
Intercompany profits	12,988	14,257	108,053
Severance and pension benefits	13,464	10,325	112,013
Loss on write-down of building	11,508	12,388	95,741
Reserve for loss on subsidiaries and affiliates	5,750	4,784	47,837



[Continued from previous page]

Investments in consolidated subsidiaries	5,172	—	43,028
Accrued employees' bonuses	3,281	3,243	27,296
Net unrealized holding losses on securities	3,040	3,522	25,291
Allowance for doubtful accounts	791	2,516	6,581
Valuation allowance for investment in unconsolidated subsidiaries and affiliates	564	547	4,692
Interest receivable	257	2,302	2,138
Other	6,797	7,926	56,548
Subtotal	115,527	111,324	961,123
Valuation allowance	(19,490)	(20,253)	(162,146)
Total deferred income tax assets	¥ 96,037	¥ 91,071	\$ 798,977
Deferred income tax liabilities:			
Deferred gain on sale of property, plant and equipment	¥(24,373)	¥(27,470)	\$(202,770)
Difference between the book value and fair value of the assets and liabilities of the consolidated subsidiaries and affiliates at the acquisition date	(10,822)	(10,935)	(90,033)
Accelerated depreciation of property, plant and equipment	(8,015)	(7,409)	(66,681)
Reserves deductible for Japanese tax purposes	(2,140)	(2,313)	(17,804)
Other	(2,446)	(4,750)	(20,349)
Total deferred income tax liabilities	(47,796)	(52,877)	(397,637)
Net deferred income tax assets	¥ 48,241	¥ 38,194	\$ 401,340
Deferred income taxes for revaluation reserve for land	¥(30,957)	¥(31,860)	\$(257,546)

The statutory tax rate used for calculation of deferred income tax assets and liabilities was 42.05% for the year ended March 31, 2002. Effective for the year commencing on April 1, 2004, or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred tax assets and liabilities, the Company and consolidated domestic subsidiaries used the statutory tax rates of 42.05% and 40.49% for current items and non-current items, respectively, at March 31, 2003.

As the result of the change in the statutory tax rates, deferred income tax assets decreased by ¥1,074 million (\$8,935 thousand), income taxes-deferred increased by ¥992 million (\$8,253 thousand) and net unrealized holding losses on securities increased by ¥82 million (\$682 thousand) compared with what would have been recorded under the previous local tax law. Also, deferred income taxes on revaluation reserve for land decreased by ¥1,138 million (\$9,468 thousand) and revaluation reserve for land increased by the same amount.

## 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, at March 31, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Notes receivable discounted	¥ 8,141	¥ 8,745	\$ 67,729
Notes receivable endorsed	141	2,321	1,173
Notes and accounts receivable securitized with recourse	4,186	3,747	34,825
Loans guaranteed	170,139	158,192	1,415,466
	¥182,607	¥173,005	\$1,519,193

Guarantees for loans include joint and several guarantees of ¥138,544 million (\$1,152,612 thousand) and the Company's portion of such guarantees is ¥100,090 million (\$832,696 thousand).

## Note 9—Lease Transactions

Finance leases, except for those leases which the ownership of the leased assets is considered to be transferred to the lessee, were as follows:

### (1) Equivalent of purchase price, accumulated depreciation and book value of leased properties

	Millions of yen				Thousands of U.S. dollars			
	2003				2003			
	Machinery, equipment and vehicles	Tools	Others	Total	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	¥8,801	¥6,783	¥1,348	¥16,932	\$73,220	\$56,431	\$11,214	\$140,865
Accumulated depreciation	4,202	4,101	685	8,988	34,958	34,118	5,699	74,775
Book value	¥4,599	¥2,682	¥ 663	¥ 7,944	\$38,262	\$22,313	\$ 5,515	\$ 66,090

	Millions of yen			
	2002			
	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	¥10,428	¥6,927	¥1,524	¥18,879
Accumulated depreciation	4,781	4,182	844	9,807
Book value	¥ 5,647	¥2,745	¥ 680	¥ 9,072

### (2) Lease commitments

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥2,753	¥2,937	\$22,904
Due after one year	5,191	6,135	43,186
Total	¥7,944	¥9,072	\$66,090

### (3) Lease expenses and depreciation equivalents

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	2003
Lease expenses	¥3,125	¥3,119	¥3,827	\$25,998
Depreciation equivalents	3,125	3,119	3,827	25,998

Noncancelable operating lease commitments were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 1,871	¥ 1,718	\$15,566
Due after one year	9,156	9,726	76,173
Total	¥11,027	¥11,444	\$91,739

## Note 10—Research and Development Expenses

Research and development expenses for each of the three years in the period ended March 31, 2003, 2002 and 2001, were ¥11,608 million (\$96,572 thousand), ¥15,404 million and

¥15,437 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, 2003 and 2002:

### (1) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair values exceeding book values	—	—	—	¥1	¥3	¥2	—	—	—
	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Securities with available fair values not exceeding book values	¥12	¥12	—	¥3,000	¥3,000	—	\$100	\$100	—

### (2) Available-for-sale securities

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:									
Equity securities	¥10,657	¥13,981	¥3,324	¥19,895	¥29,341	¥ 9,446	\$88,661	\$116,315	\$27,654
Bonds	20	20	—	—	—	—	166	166	—
Total	¥10,677	¥14,001	¥3,324	¥19,895	¥29,341	¥ 9,446	\$88,827	\$116,481	\$27,654
	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values not exceeding acquisition cost:									
Equity securities	¥41,571	¥35,576	¥(5,995)	¥54,654	¥41,349	¥(13,305)	\$345,849	\$295,974	\$(49,875)
Bonds	—	—	—	1	1	—	—	—	—
Others	7	5	(2)	—	—	—	58	41	(17)
Total	¥41,578	¥35,581	¥(5,997)	¥54,655	¥41,350	¥(13,305)	\$345,907	\$296,015	\$(49,892)

2. The following tables summarize book values of securities with no available fair values as of March 31, 2003 and 2002:

### (1) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
	Book value	Book value	Book value
Government or local bonds	¥50	¥50	\$416
Corporate bonds	7	—	58
Others	—	12	—
Total	¥57	¥62	\$474

### (2) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
	Book value	Book value	Book value
Unlisted equity securities	¥19,445	¥16,333	\$161,772
Corporate bonds	27	28	225
Others	144	119	1,198
Total	¥19,616	¥16,480	\$163,195

3. The following tables summarize maturities of available-for-sale securities with maturity and held-to-maturity debt securities as of March 31, 2003 and 2002:

	Millions of yen				
At March 31, 2003	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	¥—	¥ 5	¥—	¥—	¥ 5
Corporate bonds	5	37	—	—	42
Other bonds	—	—	—	—	—
Held-to-maturity debt securities:					
Government or local bonds	—	50	—	—	50
Corporate bonds	12	7	—	—	19
Other bonds	—	—	—	—	—
Total	¥17	¥99	¥—	¥—	¥116

	Thousands of U.S. dollars				
At March 31, 2003	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	\$ —	\$ 42	\$ —	\$ —	\$ 42
Corporate bonds	42	307	—	—	349
Other bonds	—	—	—	—	—
Held-to-maturity debt securities:					
Government or local bonds	—	416	—	—	416
Corporate bonds	99	59	—	—	158
Other bonds	—	—	—	—	—
Total	\$141	\$824	\$ —	\$ —	\$965

	Millions of yen				
At March 31, 2002	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	¥ 1	¥—	¥—	¥—	¥ 1
Corporate bonds	1	27	—	—	28
Other bonds	—	7	—	1	8
Held-to-maturity debt securities:					
Government or local bonds	—	50	—	—	50
Corporate bonds	—	1	12	—	13
Other bonds	3,000	—	—	—	3,000
Total	¥3,002	¥85	¥12	¥ 1	¥3,100

4. Total sales amounts of available-for-sale securities sold, gains and losses, in the years ended March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Sales amount	¥4,110	¥4,057	\$34,193
Gains	1,280	1,105	10,649
Losses	680	1,199	5,657



## 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 and forward commodity contracts.

The Company uses forward foreign currency contracts to hedge foreign currency fluctuation on foreign currency receivables and payables, and for the purpose of hedging risk in foreign currency fluctuation on advance payments associated with the purchase of ores. The Company enters into interest rate swap contracts to lower finance costs on debts and to reduce exposure to adverse movements in interest rates. The Company also utilizes forward commodity contracts to hedge price fluctuations for the nonferrous metal inventories held and for the purpose of hedging risk in fluctuation of commodity prices arising in cases where the selling price of nonferrous metals in the future is fixed at the futures price.

Consolidated subsidiaries also use forward foreign currency contracts and currency swap contracts to hedge foreign currency fluctuation on foreign currency receivables and payables, interest rate swap contracts and forward commodity contracts to hedge price fluctuations for the nonferrous metal inventories held.

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

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

Consolidated subsidiaries utilizing derivative transactions have set the operational standards individually, in accordance with which the derivative transactions are utilized.

The Companies evaluate 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. Further, the Companies periodically control the transaction volume of forward commodity contracts in order to balance them with hedged nonferrous metal inventories and forward contracts, and evaluate their hedge effectiveness at each annual and semi-annual year-end.

At March 31, 2003 and 2002, the Company and its consolidated subsidiaries had outstanding derivative transactions as below:

### (a) Foreign Currency Contracts

						Millions of yen
		Contract amounts in yen equivalent			Fair value	Unrealized gains (losses)
		Due within one year	Due after one year	Total		
At March 31, 2003						
Forward exchange contracts:						
Sell	U.S. dollars	¥20,755	¥ —	¥20,755	¥20,742	¥ 13
	Others	943	—	943	955	(12)
Buy	U.S. dollars	3,172	1,199	4,371	5,057	686
	Others	339	—	339	385	46
Total						¥733

						Thousands of U.S. dollars
		Contract amounts in U.S. dollar equivalent			Fair value	Unrealized gains (losses)
		Due within one year	Due after one year	Total		
At March 31, 2003						
Forward exchange contracts:						
Sell	U.S. dollars	\$172,671	\$ —	\$172,671	\$172,563	\$ 108
	Others	7,845	—	7,845	7,945	(100)
Buy	U.S. dollars	26,389	9,975	36,364	42,071	5,707
	Others	2,820	—	2,820	3,203	383
Total						\$6,098

Millions of yen

		Contract amounts in yen equivalent				
At March 31, 2002		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Forward exchange contracts:						
Sell	U.S. dollars	¥14,678	¥ —	¥14,678	¥14,852	¥ (174)
	Others	877	—	877	901	(24)
Buy	U.S. dollars	5,407	1,591	6,998	8,628	1,630
	Others	—	—	—	—	—
Total						¥1,432

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

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

Forward exchange contracts shown above are primarily utilized for the purpose of hedging risk in foreign currency fluctuation on advance payments associated with the purchase of ores, and unrealized gains or losses are deferred until the related gains or losses on the hedged items are recognized.

#### (b) Interest Rate Contracts

Millions of yen

	Notional amounts				Unrealized gains (losses)
At March 31, 2003	Due within one year	Due after one year	Total	Fair value	
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	¥ 3,500	¥ —	¥ 3,500	¥ 133	¥ 133
Pay fixed rate, receive floating rate	32,392	46,562	78,954	(1,032)	(1,032)
Total					¥ (899)

Thousands of U.S. dollars

	Notional amounts				
At March 31, 2003	Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	\$ 29,118	\$ —	\$ 29,118	\$ 1,106	\$ 1,106
Pay fixed rate, receive floating rate	269,484	387,371	656,855	(8,585)	(8,585)
Total					\$(7,479)

Millions of yen

At March 31, 2002	Notional amounts			Fair value	Unrealized gains (losses)
	Due within one year	Due after one year	Total		
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	¥ —	¥ 3,500	¥ 3,500	¥ 265	¥ 265
Pay fixed rate, receive floating rate	536	63,754	64,290	(972)	(972)
Total					¥(707)

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

In 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 were 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

Millions of yen

At March 31, 2003	Contract amounts			Fair value	Unrealized gains (losses)
	Due within one year	Due after one year	Total		
Nonferrous metals forward:					
Sell	¥25,585	¥ —	¥25,585	¥26,411	¥ (826)
Buy	27,952	2,718	30,670	30,425	(245)
Total					¥(1,071)

Thousands of U.S. dollars

At March 31, 2003	Contract amounts			Fair value	Unrealized gains (losses)
	Due within one year	Due after one year	Total		
Nonferrous metals forward:					
Sell	\$212,854	\$ —	\$212,854	\$219,726	\$(6,872)
Buy	232,546	22,612	255,158	253,120	(2,038)
Total					\$(8,910)

Millions of yen

At March 31, 2002	Contract amounts			Fair value	Unrealized gains (losses)
	Due within one year	Due after one year	Total		
Nonferrous metals forward:					
Sell	¥31,833	¥ —	¥31,833	¥32,780	¥(947)
Buy	20,891	—	20,891	21,401	510
Total					¥(437)

Fair value is stated based on the quoted market price.

Unrealized gains or losses on forward commodity contracts, which are utilized to hedge the future price fluctuations for non-ferrous metals, are deferred until related losses or gains on the hedged items are recognized.

Unrealized gains or losses on forward commodity contracts, under which the Company and its consolidated subsidiaries have clear intention to make physical commodities delivery, are not recorded on the balance sheet.

### Note 13—Segment Information

The Companies operate primarily in the production and sales of silicon and advanced materials, fabricated metal products, nonferrous metals, cement products and others. Silicon and advanced materials comprise silicon wafers and advanced products such as surge absorbers and chip thermistors; fabricated metal products comprise powder metallurgical products,

molding dies, motors, special alloy products, industrial machinery, aluminum cans and processed copper products; nonferrous metals comprise gold, silver and copper; cement products comprise cement, cement-related products and ready-mixed concrete; and others comprise a broad range of energy-related and environmental businesses and real estate business.

(a) Business segment information for the years ended March 31, 2003, 2002 and 2001, is as follows:

Millions of yen

Year ended March 31, 2003	Silicon and advanced materials	Fabricated metal products	Nonferrous metals	Cement products	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	¥ 64,262	¥325,040	¥229,994	¥159,210	¥186,220	¥ 964,726	¥ —	¥ 964,726
Intersegment	1,275	14,613	32,979	702	30,709	80,278	(80,278)	—
Total	65,537	339,653	262,973	159,912	216,929	1,045,004	(80,278)	964,726
Operating expenses	65,066	320,108	258,116	145,239	214,092	1,002,621	(72,324)	930,297
Operating profit (loss)	¥ 471	¥ 19,545	¥ 4,857	¥ 14,673	¥ 2,837	¥ 42,383	¥ (7,954)	¥ 34,429
Identifiable assets	¥130,657	¥424,171	¥266,966	¥273,323	¥179,013	¥1,274,130	¥165,855	¥1,439,985
Depreciation	¥ 5,478	¥ 21,417	¥ 9,564	¥ 10,309	¥ 4,454	¥ 51,222	¥ 3,105	¥ 54,327
Capital expenditures	¥ 2,631	¥ 14,945	¥ 4,869	¥ 4,727	¥ 8,759	¥ 35,931	¥ 6,297	¥ 42,228

Thousands of U.S. dollars

Year ended March 31, 2003	Silicon and advanced materials	Fabricated metal products	Nonferrous metals	Cement products	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	\$ 534,626	\$2,704,160	\$1,913,427	\$1,324,543	\$1,549,251	\$ 8,026,007	\$ —	\$ 8,026,007
Intersegment	10,607	121,572	274,368	5,840	255,483	667,870	(667,870)	—
Total	545,233	2,825,732	2,187,795	1,330,383	1,804,734	8,693,877	(667,870)	8,026,007
Operating expenses	541,315	2,663,128	2,147,387	1,208,311	1,781,132	8,341,273	(601,697)	7,739,576
Operating profit (loss)	\$ 3,918	\$ 162,604	\$ 40,408	\$ 122,072	\$ 23,602	\$ 352,604	\$ (66,173)	\$ 286,431
Identifiable assets	\$1,086,997	\$3,528,877	\$2,221,015	\$2,273,902	\$1,489,292	\$10,600,083	\$1,379,825	\$11,979,908
Depreciation	\$ 45,574	\$ 178,178	\$ 79,568	\$ 85,765	\$ 37,055	\$ 426,140	\$ 25,832	\$ 451,972
Capital expenditures	\$ 21,889	\$ 124,334	\$ 40,507	\$ 39,326	\$ 72,870	\$ 298,926	\$ 52,388	\$ 351,314

Millions of yen

Year ended March 31, 2002	Silicon and advanced materials	Fabricated metal products	Nonferrous metals	Cement products	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	¥110,005	¥329,240	¥258,925	¥168,414	¥180,223	¥1,046,807	¥ —	¥1,046,807
Intersegment	3,307	17,658	25,109	513	43,568	90,155	(90,155)	—
Total	113,312	346,898	284,034	168,927	223,791	1,136,962	(90,155)	1,046,807
Operating expenses	133,370	333,327	279,821	153,707	217,707	1,117,932	(81,997)	1,035,935
Operating profit (loss)	¥ (20,058)	¥ 13,571	¥ 4,213	¥ 15,220	¥ 6,084	¥ 19,030	¥ (8,158)	¥ 10,872
Identifiable assets	¥148,975	¥439,218	¥285,375	¥284,130	¥239,647	¥1,397,345	¥178,394	¥1,575,739
Depreciation	¥ 26,806	¥ 21,403	¥ 10,541	¥ 10,845	¥ 7,063	¥ 76,658	¥ 2,053	¥ 78,711
Capital expenditures	¥ 20,654	¥ 23,069	¥ 6,514	¥ 6,501	¥ 4,550	¥ 61,288	¥ 4,920	¥ 66,208

Millions of yen

Year ended March 31, 2001	Silicon and advanced materials	Fabricated metal products	Nonferrous metals	Cement products	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	¥160,937	¥374,606	¥222,552	¥185,792	¥200,181	¥1,144,068	¥ —	¥1,144,068
Intersegment	5,914	21,883	37,535	4,158	38,755	108,245	(108,245)	—
Total	166,851	396,489	260,087	189,950	238,936	1,252,313	(108,245)	1,144,068
Operating expenses	151,546	370,375	257,792	174,601	227,620	1,181,934	(103,693)	1,078,241
Operating profit (loss)	¥ 15,305	¥ 26,114	¥ 2,295	¥ 15,349	¥ 11,316	¥ 70,379	¥ (4,552)	¥ 65,827
Identifiable assets	¥271,220	¥446,632	¥261,763	¥246,479	¥249,680	¥1,475,774	¥140,070	¥1,615,844
Depreciation	¥ 25,830	¥ 21,931	¥ 10,712	¥ 11,405	¥ 7,498	¥ 77,376	¥ 1,607	¥ 78,983
Capital expenditures	¥ 29,812	¥ 26,472	¥ 11,608	¥ 8,155	¥ 3,476	¥ 79,523	¥ 4,239	¥ 83,762

As described in Note 2, the Company has changed the presentation of income from leased property and the corresponding expense in the year ended March 31, 2003.

As a result of the change, net sales, operating expenses and operating profit for "Others" have decreased by ¥4,200 million (\$34,942 thousand), ¥3,271 million (\$27,213 thousand) and ¥929 million (\$7,729 thousand), respectively, compared with what would have been recorded under the previous presentation.

In applying this new presentation, the Company has changed the segments to recognize the assets related to the Company's leasing business from "Others" to "Elimination and corporate assets or expenses." Subsequently, identifiable assets for "Others" decreased by ¥43,412 million (\$361,165 thousand) and identifiable assets for "Elimination and corporate assets or expenses" increased by the same amount. This change also resulted in the decrease in depreciation for "Others" and the increase in depreciation for "Elimination and corporate assets or expenses" by the amount of ¥1,154 million (\$9,601 thousand).

Ryoko Sangyo Corporation, a consolidated subsidiary, merged with Sanko-Materials Corporation at April 1, 2001. As a result, sales, operating expenses and operating profit for "Cement products" have decreased by ¥17,536 million, ¥17,484 million and ¥52 million, respectively, and "Others" have increased by the same amounts for the year ended March 31, 2002.

As described in Note 14, the Company revaluated land in the year ended March 31, 2002. As a result, identifiable assets for "Fabricated metal products," "Nonferrous metals," "Cement products" and "Elimination and corporate assets or expenses" have increased by ¥12,405 million, ¥8,583 million, ¥37,056 million and ¥8,871 million, respectively, and for "Silicon and advanced materials" and "Others" have decreased by ¥16 million and ¥2,343 million, respectively.

Write-down of building of ¥29,461 million in the consolidated statements of operations for the year ended March 31, 2002, is in relation to assets included in "Others."

As described in Note 2, the Companies adopted the new Accounting Standard for Employees' Severance and Pension Benefits, effective April 1, 2000. As a result, operating profit for "Silicon and advanced materials," "Fabricated metal products," "Nonferrous metals," "Cement products," "Others" and "Elimination and corporate assets or expenses" has increased by ¥225 million, ¥600 million, ¥118 million, ¥349 million, ¥354 million and ¥112 million, respectively, for the year ended March 31, 2001.

As described in Note 2, the Companies adopted the Revised Accounting Principles for Translation in the year ended March 31, 2001. As a result, identifiable assets for "Elimination and corporate assets or expenses" have decreased by ¥1,283 million for the year ended March 31, 2001.

(b) Segment information by geographic area for the years ended March 31, 2003, 2002 and 2001, is as follows:

Millions of yen

Year ended March 31, 2003	Japan	U.S.A.	Europe	Asia	Other	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	¥ 822,763	¥54,186	¥10,405	¥ 75,099	¥2,273	¥ 964,726	¥ —	¥ 964,726
Intersegment	50,202	712	(6)	20,959	—	71,867	(71,867)	—
Total	872,965	54,898	10,399	96,058	2,273	1,036,593	(71,867)	964,726
Operating expenses	829,180	52,358	10,325	96,040	1,939	989,842	(59,545)	930,297
Operating profit (loss)	¥ 43,785	¥ 2,540	¥ 74	¥ 18	¥ 334	¥ 46,751	¥(12,322)	¥ 34,429
Identifiable assets	¥1,129,312	¥85,240	¥21,970	¥111,971	¥3,182	¥1,351,675	¥(88,310)	¥1,439,985



Thousands of U.S. dollars

Year ended March 31, 2003	Japan	U.S.A.	Europe	Asia	Other	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	\$6,844,950	\$450,799	\$86,564	\$624,783	\$18,911	\$8,026,007	\$—	\$8,026,007
Intersegment	417,654	5,923	(50)	174,368	—	597,895	(597,895)	—
Total	7,262,604	456,722	86,514	799,151	18,911	8,623,902	(597,895)	8,026,007
Operating expenses	6,898,336	435,591	85,898	799,001	16,132	8,234,958	(495,382)	7,739,576
Operating profit (loss)	\$364,268	\$21,131	\$616	\$150	\$2,779	\$388,944	\$(102,513)	\$286,431
Identifiable assets	\$9,395,275	\$709,151	\$182,779	\$931,539	\$26,472	\$11,245,216	\$734,692	\$11,979,908

Millions of yen

Year ended March 31, 2002	Japan	U.S.A.	Europe	Asia	Other	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	¥872,978	¥79,585	¥8,669	¥83,092	¥2,483	¥1,046,807	¥—	¥1,046,807
Intersegment	45,353	3,281	3	26,748	—	75,385	(75,385)	—
Total	918,331	82,866	8,672	109,840	2,483	1,122,192	(75,385)	1,046,807
Operating expenses	890,670	93,126	8,680	108,641	1,943	1,103,060	(67,125)	1,035,935
Operating profit (loss)	¥27,661	¥(10,260)	¥(8)	¥1,199	¥540	¥19,132	¥(8,260)	¥10,872
Identifiable assets	¥1,219,626	¥102,666	¥21,757	¥125,593	¥3,062	¥1,472,704	¥103,035	¥1,575,739

Millions of yen

Year ended March 31, 2001	Japan	U.S.A.	Europe	Asia	Other	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	¥985,032	¥90,877	¥7,011	¥59,520	¥1,628	¥1,144,068	¥—	¥1,144,068
Intersegment	30,771	3,401	30	21,713	—	55,915	(55,915)	—
Total	1,015,803	94,278	7,041	81,233	1,628	1,199,983	(55,915)	1,144,068
Operating expenses	947,681	93,390	6,747	80,736	1,523	1,130,077	(51,836)	1,078,241
Operating profit (loss)	¥68,122	¥888	¥294	¥497	¥105	¥69,906	¥(4,079)	¥65,827
Identifiable assets	¥1,356,155	¥159,291	¥4,985	¥114,308	¥2,333	¥1,637,072	¥(21,228)	¥1,615,844

As described in Note 2, the Company has changed the presentation of income from leased property and the corresponding expense in the year ended March 31, 2003.

As a result of the change, net sales, operating expenses and operating profit included in "Japan" have decreased by ¥4,200 million (\$34,942 thousand), ¥3,271 million (\$27,213 thousand) and ¥929 million (\$7,729 thousand), respectively, compared with what would have been recorded under the previous presentation.

In applying this new presentation, the Company has changed the segments to recognize the assets related to the Company's leasing business from "Japan" to "Elimination and corporate assets or expenses." Subsequently, identifiable assets for "Japan" decreased by ¥43,412 million (\$361,165 thousand) and identifiable assets for "Elimination and corporate assets or expenses" increased by the same amount.

As described in Note 14, the Company revaluated land in the year ended March 31, 2002. As a result, identifiable assets

for "Japan" and "Elimination and corporate assets or expenses" have increased by ¥55,685 million and ¥8,871 million, respectively, for the year ended March 31, 2002.

Write-down of building of ¥29,461 million in the consolidated statements of operations for the year ended March 31, 2002, is in relation to assets included in "Japan."

As described in Note 2, the Companies adopted the new Accounting Standard for Employees' Severance and Pension Benefits, effective April 1, 2000. As a result, operating profit for "Japan" and "Elimination and corporate assets or expenses" has increased by ¥1,647 million and ¥112 million, respectively, for the year ended March 31, 2001.

As described in Note 2, the Companies adopted the Revised Accounting Principles for Translation in the year ended March 31, 2001. As a result, identifiable assets for "Elimination and corporate assets or expenses" have decreased by ¥1,283 million for the year ended March 31, 2001.

(c) Overseas sales by geographic area for the years ended March 31, 2003, 2002 and 2001, are as follows:

					Millions of yen
Year ended March 31, 2003	U.S.A.	Europe	Asia	Other	Total
Overseas sales	<b>¥61,874</b>	<b>¥14,848</b>	<b>¥86,019</b>	<b>¥1,702</b>	<b>¥164,443</b>
Consolidated net sales					<b>964,726</b>
Percentage of overseas sales over consolidated net sales	<b>6.4%</b>	<b>1.5%</b>	<b>8.9%</b>	<b>0.2%</b>	<b>17.0%</b>
					Thousands of U.S. dollars
Year ended March 31, 2003	U.S.A.	Europe	Asia	Other	Total
Overseas sales	<b>\$514,759</b>	<b>\$123,527</b>	<b>\$715,632</b>	<b>\$14,160</b>	<b>\$1,368,078</b>
Consolidated net sales					<b>8,026,007</b>
Percentage of overseas sales over consolidated net sales	<b>6.4%</b>	<b>1.5%</b>	<b>8.9%</b>	<b>0.2%</b>	<b>17.0%</b>
					Millions of yen
Year ended March 31, 2002	U.S.A.	Europe	Asia	Other	Total
Overseas sales	¥74,130	¥14,486	¥105,270	¥2,157	¥ 196,043
Consolidated net sales					1,046,807
Percentage of overseas sales over consolidated net sales	7.1%	1.4%	10.1%	0.2%	18.7%
					Millions of yen
Year ended March 31, 2001	U.S.A.	Europe	Asia	Other	Total
Overseas sales	¥80,120	¥13,346	¥90,845	¥2,011	¥ 186,322
Consolidated net sales					1,144,068
Percentage of overseas sales over consolidated net sales	7.0%	1.2%	7.9%	0.2%	16.3%

#### Note 14—Revaluation Reserve for Land

Pursuant to Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance for the Law concerning Revaluation Reserve for Land (the “Law”), effective March 31, 1998, and partial revision to the Law on March 31, 2001, the Company and its consolidated subsidiaries recorded their own lands used for business at fair value. The related unrealized gain, net of income taxes and minority interest portion, was credited to “Revaluation reserve for land” in shareholders’ equity in the consolidated balance sheets, and the applicable income tax portion was recorded as “Deferred income taxes on revaluation reserve for land” in liabilities in the consolidated balance sheets. When such land is sold, revaluation reserve for land is reversed and credited to

retained earnings (accumulated deficit).

The Company performed revaluation in the year ended March 31, 2002, and recorded its own land at the fair value of ¥153,174 million while its original book value was ¥88,617 million as of March 31, 2002. Certain consolidated subsidiaries performed revaluation in the year ended March 31, 2000.

According to the Law, the Company and its consolidated subsidiaries are not permitted to revalue the land at any time even in case that the fair value of the land declines. Such unrecorded revaluation loss at March 31, 2003 and 2002, was ¥5,298 million (\$44,077 thousand) and ¥3,475 million, respectively.

#### Note 15—Notes to the Consolidated Statements of Cash Flows

(a) Breakdown of cash and cash equivalents

				Thousands of U.S. dollars
			Millions of yen	
	2003	2002	2001	2003
Cash	<b>¥19,451</b>	¥49,852	¥16,989	<b>\$161,822</b>
Marketable securities:				
Public and corporate bonds in investment trust with maturity within three months	—	—	524	—
Commercial paper	—	3,000	—	—
Term deposits with maturity more than three months	<b>(525)</b>	(699)	(918)	<b>(4,368)</b>
Cash and cash equivalents	<b>¥18,926</b>	¥52,153	¥16,595	<b>\$157,454</b>

(b) On February 1, 2002, four consolidated subsidiaries merged with an affiliated company, and thus are no longer consolidated in the accompanying consolidated balance sheets at March 31, 2002.

The amounts of assets and liabilities of these four entities, as of January 31, 2002, and the increment of investment in the affiliate as a result of the merger are as follows:

	Millions of yen
Current assets	¥ 59,448
Noncurrent assets	144,252
Total assets	¥203,700
Current liabilities	¥103,823
Noncurrent liabilities	44,233
Total liabilities	¥148,056
Increment of investment in affiliates	¥ 52,934

(c) Significant noncash transactions

1. The Company contributed securities to employee retirement benefit trust at September 2000.

	Millions of yen
Fair value of securities contributed	¥14,222
Book value of securities contributed	3,097
Gain on securities contributed to employee retirement benefit trust	¥11,125

2. PT. Smelting, a consolidated subsidiary of the Company, executed debt-equity swap at December 2000.

	Millions of yen
Total amount of the debt for which the swap contract was executed	¥19,527
Less: amount of the debt from the Parent company	11,813
Increase in minority interests	¥ 7,714

There were no significant noncash transactions during the year ended March 31, 2003 and 2002.

## Note 16—Earnings per Share of Common Stock

Reconciliation of the numbers and amounts used in the basic and diluted earnings per share of common stock computation for the year ended March 31, 2003, is as follows:

	Millions of yen	Thousands	Yen	U.S. dollars
	Net loss	Weighted-average shares	Net loss per share	Net loss per share
Business earnings per share:				
Net loss	¥26,854			
Business to directors by appropriation of retained earnings	30			
Net loss available to common shareholders	¥26,884	1,125,659	¥23.9	\$0.20

No information for reconciliation of the numbers and the amounts used in the diluted earnings per share of common stock computation for the year ended March 31, 2003, is disclosed, as the Company incurred a net loss.

No information for reconciliation of the numbers and the

amounts used in the basic and diluted earnings per share of common stock computation for the year ended March 31, 2002 and 2001, is disclosed, because disclosure of such information for 2002 and 2001, was not required.

## Note 17—Related Party Transactions

Significant transactions with related parties for the years ended March 31, 2003, 2002 and 2001, are as follows:

Name of company	Millions of yen			
	March 31, 2003			
	Net sales	Accounts receivable	Rental income	Guarantee
Ube-Mitsubishi Cement Corp.	<b>¥43,512</b>	<b>¥3,961</b>	<b>¥783</b>	—
Sumitomo Mitsubishi Silicon Co., Ltd.	—	—	—	<b>¥115,803</b>
SUMCO Oregon Corp.	—	—	—	<b>¥ 13,436</b>

Name of company	Thousands of U.S. dollars			
	March 31, 2003			
	Net sales	Accounts receivable	Rental income	Guarantee
Ube-Mitsubishi Cement Corp.	<b>\$361,997</b>	<b>\$32,953</b>	<b>\$6,514</b>	—
Sumitomo Mitsubishi Silicon Co., Ltd.	—	—	—	<b>\$963,419</b>
SUMCO Oregon Corp.	—	—	—	<b>\$111,780</b>

Name of company	Millions of yen					
	March 31, 2002					
	Net sales	Accounts receivable	Sales of properties	Gain on sales of properties	Rental income	Guarantee
Ube-Mitsubishi Cement Corp.	¥47,209	¥4,618	¥157	¥27	¥881	—
Sumitomo Mitsubishi Silicon Co., Ltd.	—	—	—	—	—	¥84,208
SUMCO Oregon Corp.	—	—	—	—	—	¥32,816

Name of company	Millions of yen					
	March 31, 2001					
	Net sales	Accounts receivable	Sales of properties	Gain on sales of properties	Transfer of guarantee deposits	
Ube-Mitsubishi Cement Corp.	¥50,893	¥5,357	¥9,141	¥1,530	¥10,618	
Dairyo Co., Ltd.	—	—	1,011	567	—	

## Note 18—Subsequent Events

### (a) A change of segmentation

Effective April 1, 2003, the Company has reorganized its business segments, dividing them into the Core business and the Strategic business, for the efficient allocation of its operational resources and for the better selection and concentration of its businesses.

Accordingly, the previous segmentation of "Nonferrous metals," "Cement products," "Fabricated metal products," "Silicon and advanced materials," and "Others" have been changed to "Cement products," "Aluminum products," "Nonferrous metals," "Fabricated metal products," "Advanced products," "Energy and Systems" and "Others."

The main products of each segment and the percentage of external sales of each segment over the consolidated sales are as follow:

Segments	Main products	Percentage over consolidated sales
Cement products	Cement products, ready-mix concrete, building materials	16.5
Aluminum products	Aluminum cans, aluminum fabricated products	13.6
Nonferrous metals	Copper smelting, copper alloy products	26.2
Fabricated metal products	Hard metal products, diamond tools, powder metallurgical products	11.1
Advanced products	Electronic device products, electronic materials, fine chemical products	5.0
Energy and Systems	Engineering-related operations, nuclear power	10.3
Others	High-performance alloys, precious metals, polycrystalline silicon, environmental-related operations, real estate	17.3

### (b) Approval of proposed disposition of accumulated deficit

On June 27, 2003, the shareholders of the Company approved the proposed disposition of accumulated deficit, where the capital surplus of ¥663 million (\$5,516 thousand) was transferred to the accumulated deficit in order to offset against accumulated deficit.

## 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 its consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Materials Corporation and its consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

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

- (1) As discussed in Note 2, Mitsubishi Materials Corporation changed the presentation of income from leased property and the corresponding expense in the year ended March 31, 2003.
- (2) As discussed in Note 2, Mitsubishi Materials Corporation and its consolidated domestic subsidiaries adopted, on a prospective basis in all cases, new Japanese accounting standards for financial instruments, employees' severance and pension benefits and translation of foreign currencies in the year ended March 31, 2001.

The consolidated financial statements as of and for the year ended March 31, 2003, have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis set forth in Note 1 to the consolidated financial statements.

Tokyo, Japan  
June 27, 2003





## Corporate Data (Nonconsolidated)

(As of March 31, 2003)

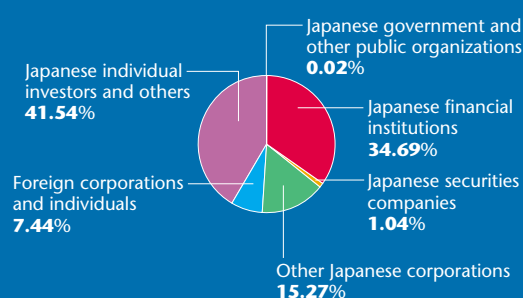
Date Established	April 1, 1950
Headquarters	1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan
Number of Employees	5,475
Number of Manufacturing Plants (Domestic)	21
Number of R&D Institutes (Domestic)	2
Number of Sales Offices (Domestic)	6

## Investor Information

(As of March 31, 2003)

Shares of Common Stock	Authorized: 2,683,162,000 Issued and Outstanding: 1,134,053,663
Capital	¥99,397 million
Number of Shareholders	173,625
Stock Listings	Tokyo, Osaka, Nagoya, Fukuoka and Sapporo stock exchanges
Transfer Agent of Common Stock	The Mitsubishi Trust and Banking Corp. 1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan
Independent Certified Public Accountants	Asahi & 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: <a href="mailto:www-ir@mmc.co.jp">www-ir@mmc.co.jp</a>

### Distribution of Shareholders



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

### Mitsubishi Materials Online

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

