MITSUBISHI

MITSUBISHI MATERIALS CORPORATION

ANNUAL REPORT 2004

For the year ended March 31, 2004

Mitsubishi Materials Corporation Annual Report 2004

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 315 subsidiaries and affiliates in 23 countries, employing 20,930 people.

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Cautionary Statement with Respect to Forward-Looking Statements

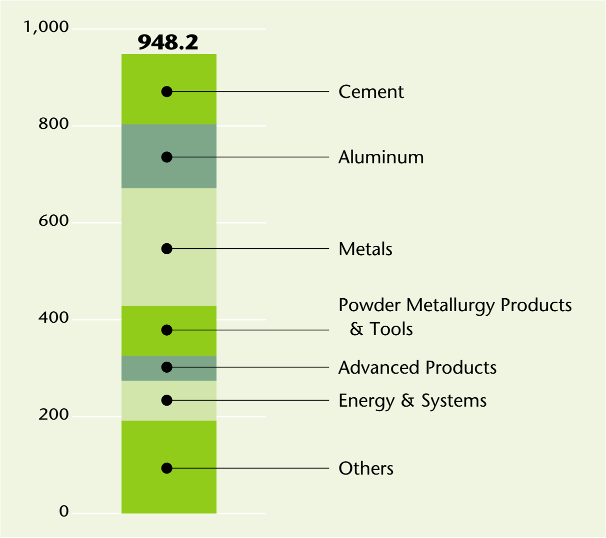
Statements made in this annual report with respect to Mitsubishi Materials' plans, strategies and beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of Mitsubishi Materials, which are based on management's assumptions and beliefs in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

Mitsubishi Materials at a Glance

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

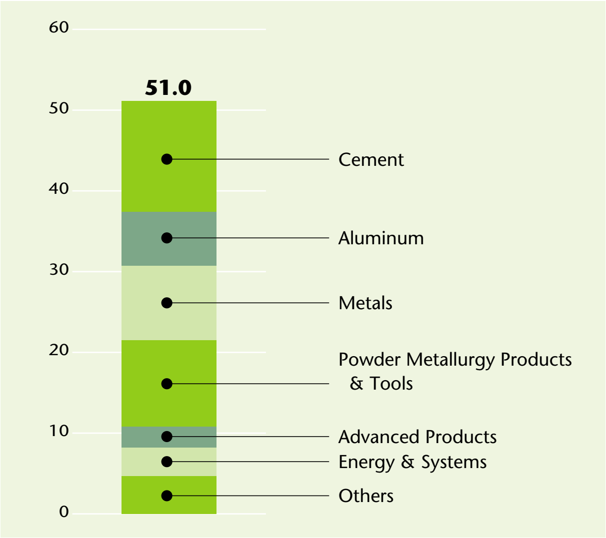
Fiscal 2004 Sales by Segment* (Billions of yen)

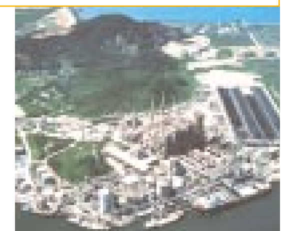
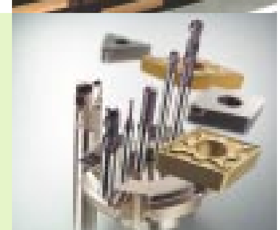
*Sales to unaffiliated customers



Fiscal 2004 Operating Profit by Segment* (Billions of yen)

*Before elimination



Segment	Sales for Fiscal 2004	Major Products and Services	
Cement	15.3% ¥145.1 billion	• Portland cement • Blended cement • Soil-stabilizing cement • Building materials	
Aluminum	13.9% ¥131.9 billion	• Aluminum beverage cans • Aluminum rolled and fabricated products • Aluminum-related products	
Metals	25.5% ¥242.1 billion	• Copper cakes, billets, wire and tubes • Copper • Gold • Lead • Zinc • Silver • Zinc die-casting alloys • Sulfuric acid	
Powder Metallurgy Products & Tools	11.0% ¥103.9 billion	• Cutting tools and cemented carbide products • Powder metallurgy products • Precision molding dies	
Advanced Products	5.4% ¥51.0 billion	• Electronic components, sensor chips • Gold bonding wire, sputtering targets	
Energy & Systems	8.7% ¥82.7 billion	• Fossil fuels • Nuclear energy-related services • Hydroelectric and geothermal power generation	
Others	20.2% ¥191.6 billion	• High-performance alloy products • Precious metals • Polysilicon • Resources, environmental operations and related businesses	

Akira Nishikawa
Chairman

Akihiko Ide
President

Overview

In fiscal 2004, ended March 31, 2004, the Mitsubishi Materials Group continued to make steady progress under a medium-term management plan that rolls through fiscal 2005.

We continued to tackle the challenges of an adverse operating environment by integrating and reorganizing parent and affiliate businesses while restructuring Group businesses to secure our corporate foundations.

At the same time, we reinforced cement sales in the highly promising Chinese market and focused on expanding sales of aluminum bottles and high-value-added information technology (IT) offerings.

We are building for the future, as reflected by strategic investments in businesses with high earnings and growth potential. In addition, we are striving to enhance profitability in existing businesses. Our efforts included measures to cut spending Companywide and to lower manufacturing costs by recycling materials in our cement and copper operations. Our selective concentration initiatives included withdrawing from unprofitable product areas.

Net sales slipped 1.7%, to ¥948.2 billion, while operating profit climbed 26.1%, to ¥43.4 billion. Other expenses declined 53.9%, to ¥32.3 billion. As a result, the Company recorded a net loss of ¥5.3 billion.

Despite the loss, management decided to issue cash dividends applicable to the year of ¥2.0 per share.

Strengthening Operations

The Mitsubishi Materials Group has overhauled its cost and business structures to allocate management resources more efficiently.

In November 2003, we agreed to merge our copper tube business with that of Kobe Steel, Ltd. In line with this accord, both sides spun off these operations in April 2004 through a new joint venture, under the name Kobelco & Materials Copper Tube, Ltd. We own 45% of that company, which has the No. 1 share in the Japanese market.

Also in November 2003, we decided to restructure the 50%-owned Sumitomo Mitsubishi Silicon Corporation (SUMCO). We expect this move, along with a recovery in the semiconductor market, to greatly improve SUMCO's performance.

The Group will continue to accelerate selective concentration to enhance its business structure.

Serving Our Shareholders

Signs that the Japanese economy is improving include steadily rising exports, private-sector capital investment and a turnaround in personal consumption. We still face many challenges, however, notably the impact of higher materials and fuels costs and the increasingly uncertain international geopolitical picture.

We will endeavor to raise profitability under these circumstances by according top priority to high-potential businesses while further reducing costs. As part of these efforts, in April 2004 we restructured our headquarters into the Corporate Strategy and Group Corporate Business departments to enhance the efficiency of Group management. We also established the Shared Service Center to centrally handle services for our businesses, and thus improve efficiency and lower costs.

We aim to reinforce the competitiveness of all our businesses and maximize profits by streamlining our internal company system, particularly in core fields. The goal is to help the management of each of these bodies focus on the specific challenges of their sectors.

Such initiatives will allow us to create solid management foundations to overcome difficult operating conditions as we do more to bolster performance and our financial position.

As of June 29, 2004, the Company selected a new team to lead the organization, elevating Akira Nishikawa to chairman and Akihiko Ide to president.

We ask for the ongoing support and encouragement of shareholders and investors as we strive to become an outstanding organization—more strategically focused, financially stronger and more transparent.

June 29, 2004

Akira Nishikawa
Chairman

Akihiko Ide
President

Akihiko Ide

October 1941
Born in Fukuoka
April 1965
Enters Mitsubishi Metal & Mining Co. (presently Mitsubishi Materials)
June 1994
Becomes general manager of the Administrative Department
June 1997
Appointed director
June 2000
Appointed managing director
June 2002
Appointed executive vice president
June 2003
Appointed chief compliance officer
June 2004
Appointed president of Mitsubishi Materials

Cement

Profile

Mitsubishi Materials manufactures an array of cement products that satisfy the sophisticated requirements of its customers, from general-use to specialty cements. Our production technologies conserve energy and resources. Moreover, we are expanding the use of industrial waste and by-products, such as coal ash, blast furnace slag, sludge and waste tires to reduce costs and stabilize sales and earnings.

Performance

Exports were favorable, especially to China and Southeast Asia. Sales and volumes were down, however, owing to a decline in domestic sales resulting from cuts in public-sector expenditures.

Overseas subsidiaries continued to perform well, especially in the United States, China and Southeast Asia. In contrast, domestic consolidated subsidiaries posted lower sales and earnings, owing to the completion of shipments of sand for the second stage of the New Kansai International Airport and dwindling engineering and construction demand.

As a result of these factors, segment sales amounted to ¥145.1 billion, a decline of 8.9% compared with the previous fiscal year, while operating profit slipped 6.9%, to ¥13.7 billion.

Outlook

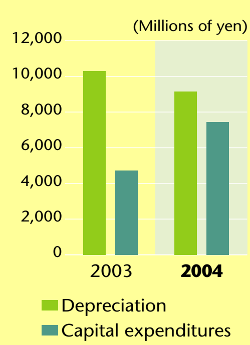
Our basic priority in the cement production business is to build a business portfolio encompassing the Pan-Pacific region. Our management strategy is based on our highly productive domestic plants, which are poised to link operations in Japan, the United States, China and Southeast Asia. This initiative will maximize overall profits of the segment as well as generate profits for each operation.

The operating environment remains severe in our cement-related businesses in Japan, so we aim to strengthen our management foundations by stepping up the recycling and reuse of industrial wastes and other manufacturing by-products.

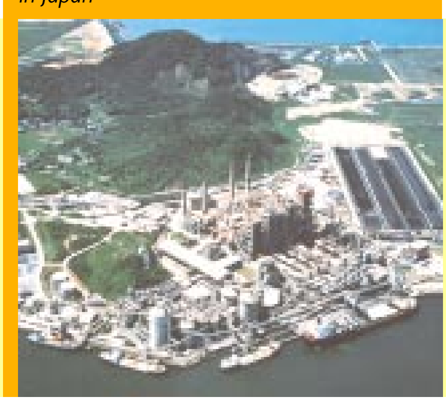
In the United States, we will make our operations more competitive by slashing costs to offset higher manufacturing expenses stemming from higher electricity rates.

We will strengthen our foundations in China by taking advantage of booming demand in that nation, including from preparations for the 2008 Beijing Olympics and Expo 2010 in Shanghai.

	Millions of yen		Percentage change
	2004	2003	2004/2003
Sales	**¥145,073**	¥159,210	–8.9%
Operating profit	**13,660**	14,673	–6.9
Identifiable assets	**251,317**	274,131	–8.3
Depreciation	**9,137**	10,309	–11.4
Capital expenditures	**7,448**	4,727	57.6



Kyushu plant—the largest cement plant in Japan



Aluminum

Profile

We maintain a quality assurance system that ensures our aluminum products deliver superior reliability. We have established a structure to boost production and sales of aluminum bottles so that we can identify new demand for aluminum. We also aim to expand the use of our aluminum recycling structure and, at the same time, set up a system to deliver aluminum cans more swiftly and improve cost competitiveness to increase sales and profits.

Performance

Higher taxes on low-malt beer and a cool summer greatly affected demand for aluminum beverage cans. Sales of cans for soft drinks and alcoholic beverages both declined, as did earnings from these operations.

Aluminum rolled and fabricated products benefited from higher demand for trucks in response to stricter emission controls; this was offset, however, by slow sales of surface treatment products.

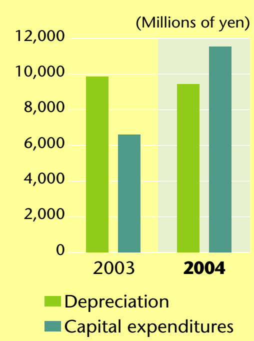
Consolidated subsidiaries performed solidly. While they suffered from a downturn in aluminum sheets for cans, they enjoyed surging demand for extruded aluminum products from truck manufacturers.

Consequently, segment sales edged up 0.7%, to ¥131.9 billion, while operating profit fell 28.3%, to ¥6.7 billion.

Outlook

We expect sales and products from aluminum cans to increase on expanded demand for aluminum bottles. A decline in new housing starts should affect demand for rolled and extruded aluminum products, although overall sales and earnings from these offerings should remain solid on the strength of automotive demand. As a result, the aluminum products business should enjoy higher sales and income.

	Millions of yen		Percentage change
	2004	2003	2004/2003
Sales	**¥131,875**	¥130,988	0.7%
Operating profit	**6,654**	9,277	–28.3
Identifiable assets	**167,681**	165,623	1.2
Depreciation	**9,425**	9,863	–4.4
Capital expenditures	**11,534**	6,608	74.5



Aluminum bottles

Metals

Profile

In our copper business, we provide high-value-added, high-performance offerings that range from copper castings and electric cable to such high-tech areas as semiconductor frames. One of the advantages of our nonferrous metal products is that we have integrated the full range of operations, from smelting to processing.

We developed the Mitsubishi Process, the world's first continuous-smelting process for copper. This process is cleaner, more energy efficient and less expensive than other smelting technologies. Outside Japan, we have licensed the process to smelters in Canada, South Korea and Indonesia.

Performance

Demand for rolled copper was strong, reflecting higher demand for semiconductors, electronic materials and automotive terminal materials. At the same time, sales of copper wire remained stagnant, with volumes down compared with the previous fiscal year. In the second half of fiscal 2004, however, copper prices rose, causing full-term sales to soar.

In fabricated copper products, both sales and volumes improved for copper castings and materials, mainly to automakers. Gold prices remained high throughout the year under review, leading to increased sales. Domestic demand for copper tubes was sluggish, as air conditioner manufacturers shifted production offshore, although sales improved greatly owing to a surge in copper prices in the second half of the term.

In Indonesia, subsidiary PT. Smelting significantly increased sales and earnings on higher copper prices, following the completion of repairs that had been scheduled in the previous fiscal year.

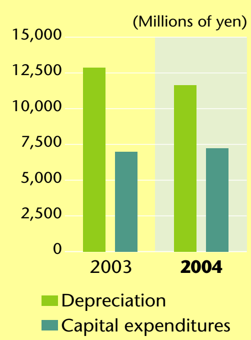
Overall, segment sales rose 12.2%, to ¥242.1 billion, while operating profit soared 61.7%, to ¥9.2 billion.

Outlook

In the year ahead, we expect demand to remain stable on the back of higher copper prices. In contrast, terms for copper mining purchases are worsening, the yen is rising and prospects for the coal market are unclear. We seek to improve sales and earnings by launching full-fledged recycling at our Naoshima smelter and refinery, raising our copper premiums, expanding sales of fabricated copper products, and reinforcing performance at Sambo Copper Alloy Co., Ltd., and other consolidated subsidiaries.

We will endeavor to improve the competitiveness of our copper tube operations through Kobelco & Materials Copper Tube, a joint venture that we formed with Kobe Steel in April 2004.

	Millions of yen		Percentage change
	2004	2003	2004/2003
Sales	**¥242,097**	¥215,867	12.2%
Operating profit	**9,223**	5,705	61.7
Identifiable assets	**310,630**	301,462	3.0
Depreciation	**11,656**	12,856	−9.3
Capital expenditures	**7,246**	6,976	3.9



Copper cakes

Powder Metallurgy Products & Tools

Profile

Mitsubishi Materials enjoys No. 1 shares in Japan and leading positions globally in powder metallurgy product markets for hard-metal tools; sintered metal components and small motors for automotive, IT and telecommunications applications; and precision dies and diamond tools for the electronics and semiconductor fields.

Performance

In hard-metal products, we continued to benefit from solid domestic demand for cutting tools from makers of transportation equipment and machine tools, as well as from the IT sector. Exports to China and elsewhere in Asia were strong, while demand was buoyant for cemented carbide blanks. As a result, sales and earnings both improved.

In powder metallurgy products, sales and earnings increased from a demand recovery among automakers, owing to stricter emission standards in Japan. However, overall sales and earnings in this business area declined, due to the divestment of consolidated subsidiary Nihon Mini Motor Co., Ltd.

Sales and earnings improved in diamond tools after IT and electronic device activity picked up from the second half of the previous fiscal year, with precision blades and chemical mechanical polishing conditioners leading the way.

Segment sales edged down 3.2%, to ¥103.9 billion. Sales would have risen 4.9%, however, without the divestment of Nihon Mini Motor. Operating profit climbed 31.3%, to ¥10.7 billion, but would have increased 36.2% without the divestment.

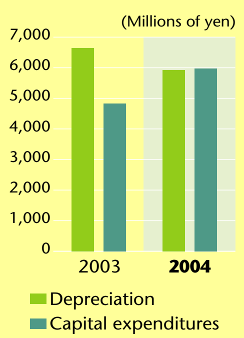
Outlook

In fiscal 2005, we anticipate higher sales and earnings for hard-metal products on productivity gains and cost reductions, which should offset hikes in the prices of tungsten, cobalt and other materials, and counter the impact of a strong yen.

In powder metallurgy products, we anticipate favorable results despite challenging operating conditions, by enhancing productivity in automotive parts and other high-value-added offerings.

In diamond tools, the outlook for the IT sector is somewhat unclear. In the first half of the term, however, we expect to perform well in the IT and devices sectors.

	Millions of yen		Percentage change
	2004	2003	2004/2003
Sales	**¥103,866**	¥107,355	–3.2%
Operating profit	**10,653**	8,113	31.3
Identifiable assets	**118,522**	118,298	0.2
Depreciation	**5,927**	6,644	–10.8
Capital expenditures	**5,982**	4,837	23.7



Cutting tools

Advanced Products

Profile

This segment comprises three business areas. The first business area is electronic devices, which include surge and noise filters and temperature sensors. The second area is electronic materials, notably gold bonding wire and sputtering targets. The third is fine chemical products, such as functional powders and pigments. The main customers for these products are manufacturers of semiconductor devices and telecommunications equipment.

Performance

Sales of advanced products surged owing to a recovery in the semiconductor market. The prime gains were in gold bonding wire and silicon precision processing parts.

Sales of electronic parts were favorable owing to strong demand for LC compound electromagnetic interference filters for mobile phones.

In fine chemical products, a stagnant market depressed sales of germanium products, which in turn created discounting pressures. Nevertheless, category sales improved on the strength of soaring demand for performance coatings for automotive glass and liquid crystal display products.

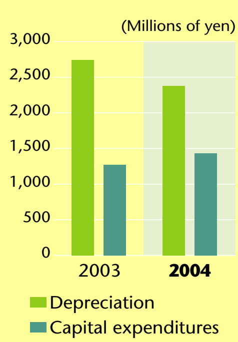
Segment sales increased 5.5%, to ¥51.0 billion, while operating profit surged 55.4%, to ¥2.6 billion.

Outlook

We project higher profits for fiscal 2005, reflecting sales gains in high-value-added products for digital appliances and high-performance mobile phones.

We will launch more high-value-added offerings in all areas of our advanced products business. We will also absorb rising discounting pressures in general-purpose offerings by shifting manufacturing offshore while reducing unit production costs. In addition, we will employ IT to shorten delivery lead times and thereby enhance customer satisfaction.

	Millions of yen		Percentage change
	2004	2003	2004/2003
Sales	**¥51,039**	¥48,368	5.5%
Operating profit	**2,619**	1,685	55.4
Identifiable assets	**42,664**	42,837	–0.4
Depreciation	**2,381**	2,743	–13.2
Capital expenditures	**1,436**	1,271	13.0



Gold bonding wire

Energy & Systems

Profile

Mitsubishi Materials has remained a stable supplier of fossil fuels since its founding. Over the years, we have emphasized the development of geothermal and other clean energy sources for a resource-poor Japan. In nuclear power, we have pursued an ideal nuclear fuel cycle that encompasses uranium mining, fuel fabrication, reprocessing, and waste treatment and disposal.

Performance

Sales from the nuclear fuel cycle operation were down, with construction coming to a close at the Rokkasho reprocessing plant in Aomori Prefecture.

In the geothermal power generation business, the supply of steam to a station in Sumikawa, Akita Prefecture, proved favorable. The hydroelectric power generation business benefited from ample rains throughout the year. Thus, sales in this business area remained basically unchanged.

Sales of fossil fuels increased. A higher availability factor at power stations boosted demand for coal, while the prices of petroleum products soared, offsetting a decline in demand for heating oil due to a warm winter.

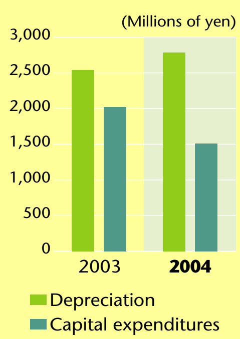
Sales in the engineering business plunged, as the previous fiscal year's results included a large project. Earnings rose, however, owing to more discriminating project selection and additional cost-cutting.

Segment sales declined 16.4%, to ¥82.7 billion, while operating profit skyrocketed over fourfold, to ¥3.5 billion.

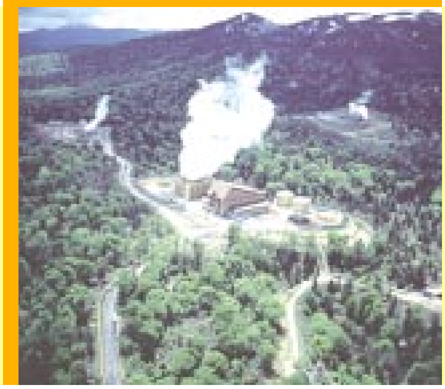
Outlook

In the nuclear fuel business, we expect sales to decline, as only a few nuclear power stations will replace fuel rods. In contrast, we aim to bolster sales and earnings in the engineering business through an ongoing restructuring that should lower costs and strengthen competitiveness.

	Millions of yen		Percentage change
	2004	2003	2004/2003
Sales	**¥82,679**	¥98,909	–16.4%
Operating profit	**3,489**	859	306.2
Identifiable assets	**86,041**	84,577	1.7
Depreciation	**2,784**	2,542	9.5
Capital expenditures	**1,511**	2,021	–25.2



Sumikawa geothermal power plant



Others

Performance

Sales in the others segment fell 6.1%, to ¥191.6 billion, while operating profit soared 156.0%, to ¥4.7 billion.

High-Performance Alloy Products

Profile

Mitsubishi Materials has forged a strong reputation for supplying automakers, aircraft manufacturers and electrical machinery producers with copper, nickel, cobalt, titanium and zirconium alloys that deliver super resistance against corrosion, heat and wear.

Performance

Sales in this business area were down, owing to the liquidation of unprofitable operations from the second half of the previous fiscal year. Operating profit, however, improved.

Outlook

With the liquidations completed, we expect to boost earnings through rigorous cost-cutting.

Precious Metals

Profile

This business area encompasses sales of gold ingots, the "My Gold Plan"—a vehicle for buying gold in installments—and direct sales of jewelry to consumers.

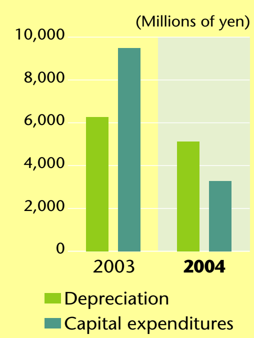
Performance

Sales fell during the year under review, as lower demand from gold buyers offset higher sales from jewelry operations.

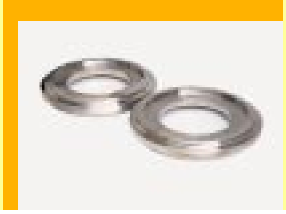
Outlook

Japanese consumers increasingly see gold ingots as a store of value, and we expect demand for these ingots to soar ahead of the Japanese government's complete termination of unconditional guarantees on deposits in financial institutions.

	Millions of yen		Percentage change
	2004	2003	2004/2003
Sales	**¥191,609**	¥204,029	–6.1%
Operating profit	**4,657**	1,819	156.0
Identifiable assets	**300,697**	286,984	4.8
Depreciation	**5,122**	6,265	–18.2
Capital expenditures	**3,287**	9,491	–65.4



Jet engine disks (High-performance alloy products)



Polysilicon

Profile

We supply high-quality materials and technologies in this area. Our activities range from the manufacture of high-purity polycrystalline silicon to the formation of high-quality single crystals, wafer production and epitaxial processing.

Performance

The semiconductor market recovered during the year under review on solid demand for digital appliances and other products.

The profitability of our polysilicon business improved, owing to higher productivity and lower costs.

Outlook

We expect the value of semiconductor shipments to continue rising in fiscal 2005. We aim to bolster earnings on further progress in productivity and cost-cutting.

Resources, Environmental Operations and Related Businesses

Profile

Our operations have benefited from growth in the market for clean energy and government and private-sector initiatives to promote resource recycling.

Performance

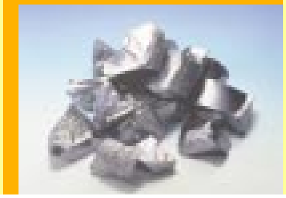
Our operations focused mainly on recycling appliances in fiscal 2004. We reduced losses by constraining costs.

Outlook

Recycling appliances will remain our prime focus for the foreseeable future. We will continue to augment our capabilities in recycling television sets, refrigerators, washing machines and air conditioners by developing new treatment techniques, including for separating waste plastics.

Gold ingots
(Precious metals)

Polycrystalline silicon
(Polysilicon)



Household appliance recycling plant
(Resources, environmental operations and related businesses)

Mitsubishi Materials accords top priority to research and development. Our R&D program focuses on supporting existing businesses and provides applied research while helping cultivate new areas to diversify our operations.

Our research and development expenses for fiscal 2004 amounted to ¥11.2 billion.

Developing World's Purest Copper

We have developed the world's purest copper. The copper in electric wire and copper products is 99.99% pure, or 4N. The highest purity to date has been 99.9999%, or 6N, resulting from repeated refining. Most 6N copper products are used as interconnects for semiconductor and other devices.

Mitsubishi Materials went one step further, achieving an ultrapure 7N-class copper. In March 2003, we began manufacturing six metric tons of this copper monthly, exporting it to North America and elsewhere around the globe. In January 2004, we raised monthly capacity to 10 metric tons to serve growing demand, primarily for next-generation semiconductor devices.

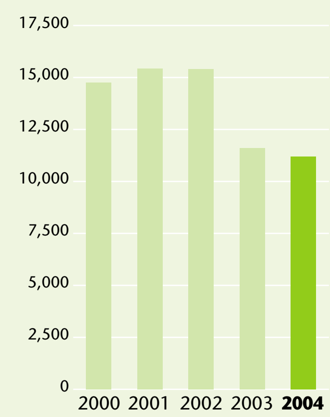
We aim to further increase capacity in line with market trends, and will continue research and development to deliver even higher quality and purity.

Creating Three-Kilowatt Power Module for Low-Temperature Solid-Oxide Fuel Cells

We have worked closely with Kansai Electric Power Co., Inc., to commercialize solid-oxide fuel cells (SOFCs) that operate at a low temperature of less than 800°C. This is 20% cooler than conventional SOFCs. The key challenges have been to boost reliability and ensure viable capacity.

To build capacity, we deployed a technique to combine three stacks (layered cells that generate electrical reactions) and create a three-kilowatt power module. The power module is the key component of the power generation system. The module consistently delivers a conversion efficiency of 55.3% (percentage for low heat value) on a direct current basis. This efficiency is the highest in the world for this class of capacity.

R&D Expenses (Millions of yen)



Ultrapure 7N-class copper

Three-kilowatt power module

Mitsubishi Materials fulfills its social responsibilities through the following vehicles:

Instituting a Groupwide Code of Corporate Conduct

In April 2003, we revised our Code of Corporate Conduct, extending it to cover all members of the Mitsubishi Materials Group.

The new code provides clear and strict rules on compliance, environmental protection, interaction with vendors, and information management and disclosure.

Reinforcing Risk Management and Compliance

On December 15, 2002, we established the Risk Management Committee, the Employee Consulting Office, and the Corporate Ethics and Compliance Committee. These bodies oversee all Group companies and employees, contributing to our overall health through compliance and our code of conduct.

Green Productivity Management Program

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.

Expanding Our Recycling and Environmental Businesses

We provide an array of offerings as a comprehensive materials manufacturer. We recognize that we have an important role in orienting society toward recycling. Our smelters and cement plants together recycle around 4.2 million metric tons of industrial wastes and by-products such as raw materials and fuels.

We actively recycle wastes that have traditionally been difficult to properly handle and which have greatly affected the environment. These include shredder dust from metal and plastics resulting from the disassembly of automobiles and appliances, as well as sewage sludge.

The following chart illustrates our key contributions to a recycling-oriented society:

Area	Details
Scrap recycling	Recovering copper and precious metals from mobile phones and personal computer substrates
Recycling shredder dust	Using shredder dust as fuel and recovering valuable substances
Recycling lead batteries	Recovering lead in discarded batteries and recycling plastics
Recycling tin scrap	Recovering tin from scrap
Recycling discarded appliances	Recovering valuable metals from appliances
Using cement wastes and by-products as fuels	Using blast furnace slag, gypsum by-products, coal ash and other substances as fuels
Transforming sewage sludge into new resources	Using sewage sludge in the production of cement
Recycling aluminum cans	Creating an integrated network to collect and process cans to ensure efficient recycling

Management

(As of June 29, 2004)

Chairman	Akira Nishikawa
President	Akihiko Ide*
Executive Vice Presidents	Tsuneo Katsuki*
	Haruhiko Asao*
Managing Directors	Nobuaki Naito*
	Koichi Kitamura*
	Hiroshi Yao*
	Hiroo Kiyokawa*
Director	Yukio Okamoto†
Senior Executive Officers	Kozo Ohashi
	Shuichi Baba
	Yoshihiko Sugano
	Michio Fujita
	Hisayoshi Honma
	Yoichi Taguchi
	Toshihiko Igarashi
Executive Officers	Sueo Ikeda
	Yoshio Matsumoto
	Yasuhiro Nakagawa
	Chikura Kinoshita
	Etsuji Kimura
	Fumio Shimada
	Hiroshi Kanemoto
	Toshio Hiratsuka
	Yoshio Akiyama
	Makoto Miki
	Mineo Hayashi
	Kazuyuki Hagiwara
	Takuo Ohta
	Fumihiro Ueda
	Masahiko Iinuma
	Hironori Yoshimura
	Masao Ohisa
	Keichi Shirai
	Masanori Kato
Corporate Auditors (Standing)	Yoshimitsu Moriya†
	Yoshio Fujiwara
	Kuniyasu Sakakibara
Corporate Auditor	Toyoshi Nakano

*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 these ends, we are pursuing efficient and transparent management, and have implemented various policies to bolster corporate governance.

In 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.

Main Subsidiaries and Affiliates

(As of June 30, 2004)

Main Consolidated Subsidiaries	Line of Business	Percentage of Ownership
Cement		
MCC Development Corp.	Investment in cement-related industries	70%
Mitsubishi Cement Corp.	Production and sales of cement	67%
Mitsubishi Materials Kenzai Corp.	Production and sales of concrete products and other building materials	78%
Ryoko Lime Industry Co., Ltd.	Limestone quarrying	100%
Aluminum		
MA Packaging Co., Ltd.	Production and sales of flexible packaging	50%, 50% (indirectly)
Mitsubishi Aluminum Co., Ltd.	Production and sales of aluminum sheets, extrusion and foil	76%
Tachibana Metal Manufacturing Co., Ltd.	Production and sales of fabricated aluminum products	10%, 51% (indirectly)
Metals		
Onahama Smelting & Refining Co., Ltd.	Smelting and refining of copper	49%
PT. Smelting	Smelting, refining and marketing of copper	61%
Sambo Copper Alloy Co., Ltd.	Production and sales of copper and brass mill products	54%
Powder Metallurgy Products & Tools		
Japan New Metals Co., Ltd.	Production and sales of tungsten and molybdenum	89%, 11% (indirectly)
Mitsubishi Materials C.M.I. Corp.	Production of micromotors and electric contacts	100%
Mitsubishi Materials Kobe Tools Co., Ltd.	Production and sales of fabricated metal products	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%
Advanced Products		
Kamaya Electronic Co., Ltd.	Production and sales of electronic parts	65%
Energy & Systems		
Mitsubishi Materials Energy Corp.	Sales of fuel	100%
Mitsubishi Materials Techno Corp.	Technical engineering and construction	100%
Mitsubishi Nuclear Fuel Co., Ltd.	Production and sales of nuclear fuels for power generation	66%
Others		
Dia Consultants Co., Ltd.	Soil analysis and consulting	75%, 6% (indirectly)
Diasalt Corp.	Production and sales of salt	100%
Material-Finance Co., Ltd.	Financing	100%
Mitsubishi Materials Natural Resources Development Corp.	Soil analysis and consulting	100%
Mitsubishi Materials Polycrystalline Silicon Corp.	Production and sales of polycrystalline silicon	100%
Mitsubishi Polycrystalline Silicon America Corp.	Production and sales of polycrystalline silicon	100%
Mitsubishi Materials Real Estate Corp.	Real estate	100%
Ryoko Sangyo Co., Ltd.	Trading	68%

Main Affiliates*	Line of Business	Percentage of Ownership
Cement		
P.S. Mitsubishi Construction Corp.**	Construction	40%, 1% (indirectly)
Tokyohoso Kogyo Co., Ltd.	Construction	39%
Ube-Mitsubishi Cement Corp.	Marketing of cement	50%
Metals		
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%
Advanced Products		
Nippon Aerosil Co., Ltd.	Production and sales of finely dispersed silica	20%
Others		
SUMITOMO MITSUBISHI Silicon Corp.	Production and sales of silicon wafers	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, 2004)

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 metallurgy products

Kamaya Inc.
Sales of electronic parts

MCC Development Corp.
Investment in cement-related industries

Mitsubishi Cement Corp.
Production and sales of cement

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

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

MMC Electronics America Inc.
Sales of electronic parts

RFM Inc.
Production of hard-metal products

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

Italy

MMC Italia S.R.L.
Sales of fabricated metal products

Netherlands

MM Netherlands Co.
Holding company for copper mine

Russia

MMC Hardmetal Russia Ltd.
Sales of fabricated metal products

Spain

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

United Kingdom

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

Asia

India

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

Indonesia

PT. Higashifuji Indonesia
Production and sales of micromotors

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

PT. Smelting
Smelting, refining and marketing of copper

Malaysia

Diamet Klang (M) Sdn. Bhd.
Production and sales of powder metallurgy 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., 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 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

Eleven-Year Summary

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2004, 2003, 2002, 2001, 2000, 1999, 1998, 1997, 1996, 1995 and 1994

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2001	2000	**2004**
For the Year:						
Net sales	**¥ 948,238**	¥ 964,726	¥1,046,807	¥1,144,068	¥ 986,884	**$ 8,971,880**
Cost of sales	**783,971**	807,308	899,220	936,563	825,097	**7,417,646**
Operating profit	**43,422**	34,429	10,872	65,827	27,229	**410,843**
Net (loss) income	**(5,324)**	(26,854)	(61,316)	7,149	(12,075)	**(50,374)**
Depreciation and amortization	**49,401**	54,457	78,436	79,557	74,592	**467,414**
Gross cash flow	**44,077**	27,603	17,120	86,706	62,517	**417,040**
R&D expenses	**11,232**	11,608	15,404	15,437	14,762	**106,273**
Balance at End of Year:						
Total assets	**1,435,115**	1,439,985	1,575,739	1,615,844	1,671,000	**13,578,532**
Total long-term liabilities	**519,594**	555,467	572,071	509,187	603,096	**4,916,208**
Total shareholders' equity	**183,886**	174,381	206,413	239,190	231,559	**1,739,862**
Number of shares of common stock (thousands)	**1,134,054**	1,134,054	1,117,314	1,117,314	1,117,314	

	Yen					U.S. dollars (Note 1)
	2004	2003	2002	2001	2000	**2004**
Per Share Amounts:						
Net (loss) income	**¥(4.8)**	¥(23.9)	¥(54.9)	¥6.4	¥(10.8)	**$(0.05)**
Cash dividends applicable to the year	**2.0**	—	—	3.0	1.5	**0.02**
Ratios:						
Return on assets (ROA)	**–0.4%**	–1.8%	–3.9%	0.4%	–0.7%	
Return on equity (ROE)	**–3.0**	–14.1	–27.5	3.0	–5.1	

	Millions of yen					
	1999	1998	1997	1996	1995	1994
For the Year:						
Net sales	¥ 983,784	¥1,196,008	¥1,186,715	¥1,127,736	¥1,151,261	¥1,064,307
Cost of sales	830,129	981,916	971,022	923,742	959,824	898,923
Operating profit	10,405	56,744	59,615	58,968	43,878	32,036
Net (loss) income	(34,853)	10,071	14,744	11,358	(3,745)	(2,929)
Depreciation and amortization	74,038	80,575	72,886	66,692	61,497	68,379
Gross cash flow	39,185	90,646	87,630	78,050	57,752	65,550
R&D expenses	17,830	18,401	16,791	15,233	15,281	14,826
Balance at End of Year:						
Total assets	1,605,671	1,679,207	1,643,332	1,557,287	1,483,328	1,417,254
Total long-term liabilities	580,446	534,378	459,818	410,932	320,074	274,757
Total shareholders' equity	243,356	312,386	307,549	298,583	290,519	308,555
Number of shares of common stock (thousands)	1,117,314	1,134,153	1,134,153	1,134,082	1,134,082	1,134,082

	Yen					
	1999	1998	1997	1996	1995	1994
Per Share Amounts:						
Net (loss) income	¥(30.9)	¥8.9	¥13.0	¥10.0	¥(3.3)	¥(2.5)
Cash dividends applicable to the year	—	5.0	5.0	5.0	5.0	5.0
Ratios:						
Return on assets (ROA)	–2.1%	0.6%	0.9%	0.7%	–0.3%	–0.2%
Return on equity (ROE)	–12.5	3.2	4.9	3.9	–1.3	–0.9

Note: Japanese yen amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of ¥105.69 to U.S.$1, the prevailing exchange rate at March 31, 2004.

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

Overview

For the years ended March 31	Millions of yen 2004	2003	Thousands of U.S. dollars 2004	Percentage change (2004/2003)
Net sales	**¥948,238**	¥964,726	**$8,971,880**	–1.7%
Operating profit	**43,422**	34,429	**410,843**	26.1
Net loss	**(5,324)**	(26,854)	**(50,374)**	—

For the years ended March 31	Yen 2004	2003	U.S. dollars 2004	Percentage change (2004/2003)
Net loss per share	**¥(4.8)**	¥(23.9)	**$(0.05)**	—

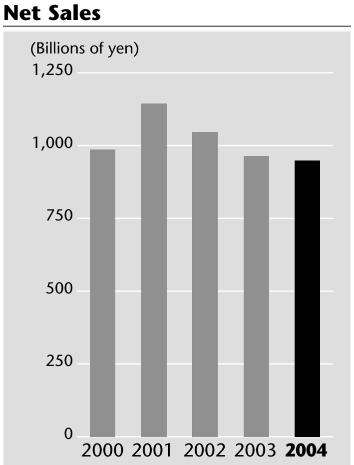
In fiscal 2004, ended March 31, 2004, the Japanese economy showed signs of a recovery. This reflected increased corporate revenues and earnings, owing to corporate restructuring and solid exports stemming from a turnaround in the global economy. In addition, the second half of the fiscal year saw lower unemployment and higher personal consumption.

The Mitsubishi Materials Group's operating environment again faced generally adverse conditions. Sales of automotive- and IT-related products remained buoyant, however, while copper prices rose in the second half of the term. In contrast, the Group faced a downturn in engineering and construction, and demand for aluminum beverage cans was sluggish owing to a cool summer. In addition, prices declined for most product lines.

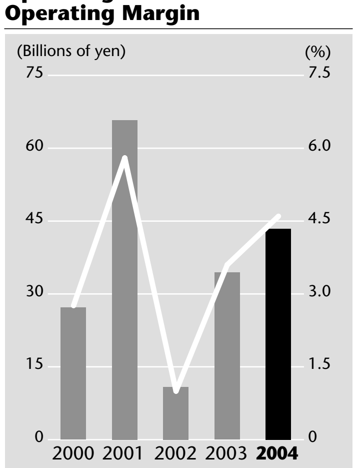
Anticipating such challenges, the Group responded by restructuring operations in April 2003 to allocate resources more efficiently. We classified operations into the four core businesses of cement, aluminum products, copper and fabricated metal products. We made further progress in initiatives to swiftly reform our cost structure by slashing fixed and variable costs while constraining capital investment. At headquarters, we streamlined operations and simplified the organization. Moreover, we cut remuneration and liquidated or transferred unprofitable and noncore businesses while divesting assets to reduce consolidated interest-bearing debt.

As a result of these measures, consolidated operating profit increased ¥9.0 billion, or 26.1%, to ¥43.4 billion. Net sales, however, declined ¥16.5 billion, or 1.7%, to ¥948.2 billion. At the non-operating level, net financial expenditure amounted to ¥10.8 billion, a decline in spending of ¥2.6 billion, compared with fiscal 2003. We posted a net loss of ¥5.3 billion, an improvement of ¥21.5 billion on the previous fiscal year. Gains on sales of property, plant and equipment and sales of investments in securities could not offset additional spending for employees' retirement benefits, a loss on disposal and sales of property, plant and equipment, and an increase in equity in losses of affiliates owing primarily to losses at 50%-owned SUMCO.

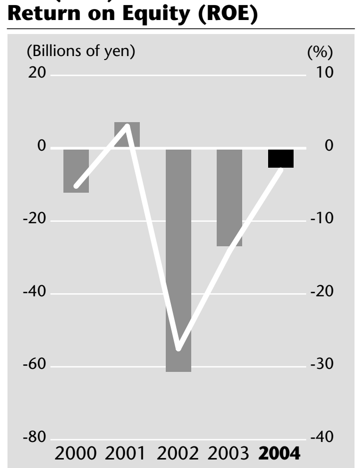
Net Sales



Operating Profit and Operating Margin



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



Sales and Operating Profit by Business Segment

The Company altered its business segments in the period under review.

Cement

Exports were favorable, especially to China and Southeast Asia. Sales and volumes were down, however, resulting from a decline in domestic sales due to cuts in public-sector expenditures.

Domestic consolidated subsidiaries posted lower revenues and earnings, owing to the completion of shipments of sand for the second stage of the New Kansai International Airport and dwindling engineering and construction demand. Overseas subsidiaries continued to perform well, especially in the United States, China and Southeast Asia.

As a result of these factors, segment sales fell ¥14.1 billion, or 8.9%, to ¥145.1 billion, and operating profit shrank ¥1.0 billion, or 6.9%, to ¥13.7 billion.

Aluminum

Higher taxes on low-malt beer and a cool summer greatly affected demand for aluminum beverage cans. Sales of cans for soft drinks and alcoholic beverages both declined, as did earnings from these operations.

Aluminum rolled and fabricated products benefited from higher demand for trucks in response to stricter emission controls. These gains were offset, however, by slow sales of surface treatment products.

Consolidated subsidiaries registered solid results. While they suffered from a downturn in aluminum sheets for cans, they enjoyed surging demand for extruded aluminum products from truck manufacturers.

Consequently, segment sales rose ¥887 million, or 0.7%, to ¥131.9 billion. Operating profit decreased ¥2.6 billion, or 28.3%, to ¥6.7 billion.

Metals

Demand for rolled copper was strong, reflecting higher demand for semiconductors, electronic materials and automotive terminal materials. At the same time, sales of copper wire remained stagnant, which led to a decline in volumes compared with the previous fiscal year. In the second half of the term, however, copper prices advanced, causing full-term sales to soar. Gold prices remained high throughout the year under review, leading to increased sales.

In fabricated copper products, both sales and volumes improved for copper castings and materials, mainly to automakers. Sales of copper tubes were sluggish, however, as air conditioner manufacturers shifted production offshore, lowering domestic demand.

In Indonesia, subsidiary PT. Smelting significantly increased sales and earnings on higher copper prices, following the completion of repairs that had been scheduled in the previous fiscal year. The Group’s domestic subsidiary for rolled copper improved its sales and income on the strength of favorable automotive demand.

Overall, segment sales climbed ¥26.2 billion, or 12.2%, to ¥242.1 billion, and operating profit rose ¥3.5 billion, or 61.7%, to ¥9.2 billion.

Powder Metallurgy Products & Tools

In hard-metal products, we continued to benefit from solid domestic demand for cutting tools from makers of transportation equipment and machine tools, as well as from the IT sector. Exports to China and elsewhere in Asia were strong, while demand was buoyant for cemented carbide blanks. As a result, sales and earnings both improved.

In powder metallurgy products, sales and earnings rose from a demand recovery among automakers, resulting from stricter emission standards in Japan. However, overall sales and earnings in this business area declined, owing to the transfer of consolidated subsidiary Nihon Mini Motor.

Sales and earnings also improved in diamond tools, as IT and electronic device activity picked up in the second half of the term.

Segment sales amounted to ¥103.9 billion, a decline of ¥3.5 billion, or 3.2%. In April 2003, we transferred Nihon Mini Motor to another company, removing it from consolidation. This move lowered segment sales ¥8.8 billion. Operating profit rose ¥2.5 billion, or 31.3%, to ¥10.7 billion (operating profit would have increased ¥400 million with the inclusion of Nihon Mini Motor).

Advanced Products

Sales of advanced products surged owing to a recovery in the semiconductor market. The prime gains were in gold bonding wire and silicon precision processing parts.

Sales of electronic parts were favorable, owing to strong demand for LC compound electromagnetic interference filters.

In fine chemical products, sales were at a low ebb as a result of the stagnant market for germanium products. Nevertheless, the category saw an improvement in sales compared with the previous term, owing to solid performances from coatings for automotive glass and liquid crystal display products.

Segment sales thus rose ¥2.7 billion, or 5.5%, to ¥51.0 billion, and operating profit grew ¥934 million, or 55.4%, to ¥2.6 billion.

Energy & Systems

Sales from the nuclear fuel cycle operation were down, with construction coming to a close at the Rokkasho nuclear fuel reprocessing plant in Aomori Prefecture.

In the geothermal power generation business, the supply of steam to a station in Sumikawa, Akita Prefecture, proved favorable. The hydroelectric power generation business benefited from ample rains throughout the year, and, as a result, sales remained at around the previous year’s levels.

Sales of fossil fuels increased. A higher availability factor at power stations boosted demand for coal, tempering a decline in demand for heating oil due to a warm winter.

The engineering business recorded dramatically lower sales, as the results of the previous fiscal year included a project with a substantial contract. Earnings rose, however, owing to more discriminating project selection and additional cost-cutting.

Segment sales decreased ¥16.2 billion, or 16.4%, to ¥82.7 billion, while operating profit soared ¥2.6 billion, or 306.2%, to ¥3.5 billion.

Others

Our trading house subsidiary increased sales of semiconductor products. At the same time, sales of precious metals to end-consumers were sluggish, while we withdrew from unprofitable lines of the high-performance materials business. Segment sales therefore declined ¥12.4 billion, or 6.1%, to ¥191.6 billion. Groupwide cost-cutting and withdrawals from unprofitable products boosted operating profit ¥2.8 billion, or 156.0%, to ¥4.7 billion.

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2004**	2003	**2004**
Cement			
Sales	**¥145,073**	¥159,210	**$1,372,628**
Operating profit	**13,660**	14,673	**129,246**
Operating margin	**9.4%**	9.2%	
Aluminum			
Sales	**131,875**	130,988	**1,247,753**
Operating profit	**6,654**	9,277	**62,958**
Operating margin	**5.0%**	7.1%	
Metals			
Sales	**242,097**	215,867	**2,290,633**
Operating profit	**9,223**	5,705	**87,265**
Operating margin	**3.8%**	2.6%	
Powder Metallurgy Products & Tools			
Sales	**103,866**	107,355	**982,742**
Operating profit	**10,653**	8,113	**100,795**
Operating margin	**10.3%**	7.6%	
Advanced Products			
Sales	**51,039**	48,368	**482,912**
Operating profit	**2,619**	1,685	**24,780**
Operating margin	**5.1%**	3.5%	
Energy & Systems			
Sales	**82,679**	98,909	**782,278**
Operating profit	**3,489**	859	**33,011**
Operating margin	**4.2%**	0.9%	
Others			
Sales	**191,609**	204,029	**1,812,934**
Operating profit	**4,657**	1,819	**44,063**
Operating margin	**2.4%**	0.9%	

Sales and Operating Profit by Geographic Segment

Japan

Certain businesses performed well owing to increased demand from the automobile and IT industries, as well as a rise in copper prices. At the same time, sales from the cement business declined amid lackluster public spending and as a result of the completion of shipments of sand for the second stage of the New Kansai International Airport. Sales of aluminum cans fell owing to higher taxes on low-malt beer and the impact of a cool summer. Also, retail sales of precious metals declined. Another factor affecting performance included the removal of Nihon Mini Motor from consolidation. As a result, domestic sales decreased ¥33.8 billion, or 4.1%, to ¥788.9 billion. Operating profit shrank ¥575 million, or 1.3%, to ¥43.2 billion.

United States

Sales of our cement subsidiary were favorable, reflecting buoyant demand. Sales of polycrystalline silicon benefited from a rejuvenated IT market. After translation into yen, however, segment sales fell ¥1.8 billion, or 3.3%, to ¥52.4 billion. Operating profit soared ¥2.0 billion, or 79.6%, to ¥4.6 billion, owing to cost-cutting at all subsidiaries.

Europe
The operating environment throughout the region was generally poor, with sales and earnings from hard-metal products declining. Segment sales decreased ¥476 million, or 4.6%, to ¥9.9 billion. Operating profit plunged ¥73 million, to ¥1 million.
Asia
Both sales and earnings improved significantly, partly as a result of Indonesian subsidiary PT. Smelting restarting its operations after completing its planned repairs. Segment sales climbed ¥19.9 billion, or 26.5%, to ¥95.0 billion, owing in part to a rise in copper prices. Moreover, operating profit surged ¥4.0 billion, to ¥4.0 billion.

	Millions of yen		Thousands of U.S. dollars
For the years ended March 31	**2004**	2003	**2004**
Japan			
Sales	**¥788,939**	¥822,763	**$7,464,651**
Operating profit	**43,210**	43,785	**408,837**
Operating margin	**5.5%**	5.3%	
U.S.A.			
Sales	**52,380**	54,186	**495,600**
Operating profit	**4,562**	2,540	**43,164**
Operating margin	**8.7%**	4.7%	
Europe			
Sales	**9,929**	10,405	**93,945**
Operating profit	**1**	74	**9**
Operating margin	**0.0%**	0.7%	
Asia			
Sales	**95,003**	75,099	**898,884**
Operating profit	**4,009**	18	**37,932**
Operating margin	**4.2%**	0.0%	
Others			
Sales	**1,987**	2,273	**18,800**
Operating profit	**(160)**	334	**(1,514)**
Operating margin	**–8.1%**	14.7%	

Financial Position and Liquidity

At year-end, total assets were down ¥4.9 billion, or 0.3%, to ¥1,435.1 billion. Total current assets grew ¥31.0 billion, or 6.9%, to ¥479.0 billion. This reflected increases in notes and accounts receivable and inventories.

The combined total of property, plant and equipment, investments and long-term receivables, and other assets decreased ¥35.8 billion, or 3.6%, to ¥956.1 billion, despite an increase in investments in securities following a turnaround in the equities market. Efforts to constrain capital spending, coupled with a decline in the value of foreign subsidiaries' assets when translated into Japanese yen, contributed to the decrease.

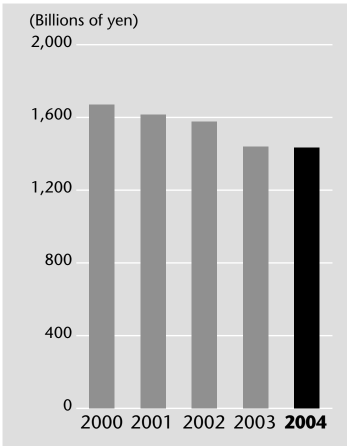
Total liabilities decreased ¥20.4 billion, or 1.7%, to ¥1,210.0 billion. In contrast, total current liabilities rose ¥15.5 billion, or 2.3%, to ¥690.4 billion. The main factors included increases in trade notes and accounts payable in the copper business following sales expansion and higher copper prices. In addition, customer deposits in gold accounts grew in response to a hike in gold prices. Total long-term liabilities fell ¥35.9 billion, or 6.5%, to ¥519.6 billion, as management stepped up repayments of long-term debt and substantially depleted the reserve for loss on subsidiaries and affiliates upon finalizing the liquidation of a copper mining investment subsidiary. Interest-bearing debt declined ¥35.2 billion, or 4.3%, to ¥792.1 billion.

Total shareholders' equity advanced ¥9.5 billion, or 5.5%, to ¥183.9 billion, largely owing to significant net unrealized holding gains on securities, which outweighed additional foreign currency translation adjustments.

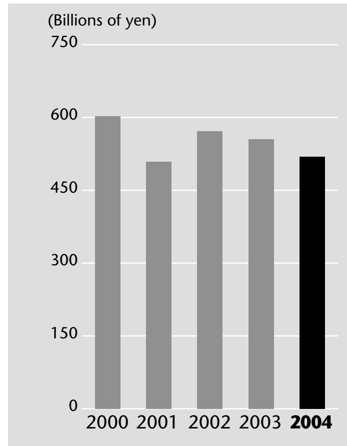
As a result of these factors, the equity ratio improved 0.7 percentage point, to 12.8%. Shareholders' equity per share rose from ¥154.22 to ¥162.57.

At March 31	**2004**	2003	2002
Equity ratio	**12.8%**	12.1%	13.1%

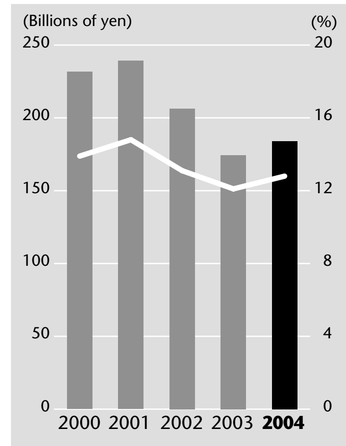
Total Assets



Total Long-Term Liabilities



Total Shareholders' Equity and Equity Ratio



Cash Flows

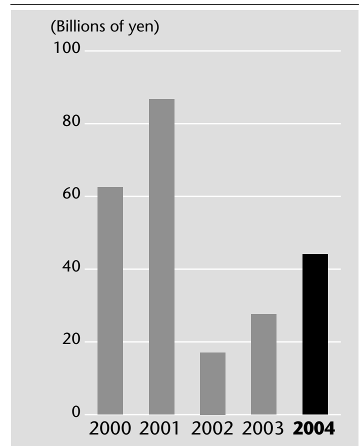
Net cash provided by operating activities amounted to ¥40.8 billion, a decrease of ¥18.9 billion from the previous fiscal year, despite an improvement in operating profit and a decrease in interest expense. The main items contributing to this decline were a write-down of marketable securities and investments in securities of ¥1.1 billion, compared with ¥20.9 billion in the previous term; an increase in notes and accounts receivable of ¥9.1 billion, compared with a decrease in notes and accounts receivable of ¥7.9 billion; and an increase in inventories of ¥10.6 billion, compared with a decrease in inventories of ¥10.0 billion.

Net cash used in investing activities totaled ¥21.5 billion, down ¥9.7 billion compared with the previous fiscal year. This decline reflected proceeds from sales of marketable securities and investments in securities of ¥27.7 billion, compared with ¥10.3 billion in the previous term. Partially offsetting this change included proceeds from collection of loan receivables of ¥2.9 billion, compared with ¥33.5 billion in fiscal 2003.

Net cash used in financing activities amounted to ¥19.7 billion, a decrease of ¥41.6 billion from the previous fiscal year. Significant factors contributing to this sharp decline included payments for redemption of bonds, which decreased from ¥40.0 billion to ¥20.3 billion; repayment of commercial paper, net, which declined from ¥25.0 billion to ¥6.0 billion; proceeds from issuance of bonds of ¥10.0 billion; and proceeds from minority shareholder for withdrawal of a foreign mining investment of ¥5.5 billion.

As a result, cash and cash equivalents at end of year totaled ¥17.8 billion, down ¥1.2 billion, or 6.2%, from fiscal 2003.

Gross Cash Flow



	Millions of yen			Thousands of U.S. dollars
For the years ended March 31	**2004**	2003	2002	**2004**
Gross cash flow	**¥44,077**	¥27,603	¥17,120	**$417,040**

Outlook for Fiscal 2005, Ending March 31, 2005

The Japanese economy appears on track for recovery, as seen in strong exports, rising private-sector capital investment and a turnaround in personal consumption. In contrast, the continued appreciation of the yen, rising prices for materials and fuels, and the unclear international situation remain concerns.

In light of such conditions, the Group operating environment continues to be challenging. We will continue to enjoy strong sales of automotive- and IT-related products. At the same time, we expect demand for cement to remain sluggish. Terms for copper mining purchases are worsening and materials prices and overseas freight rates are increasing. In addition, prices are falling across most product lines.

Against this backdrop, we will strengthen sales in the promising Chinese market while striving to boost sales from aluminum bottles and high-valued offerings for the IT sector. We will also work to further reduce costs. In the cement and copper businesses, we will promote the use of recycled materials to lower production costs.

We will also withdraw from unprofitable areas and pursue selective concentration initiatives to improve profitability. We expect a reorganization at SUMCO and a recovery in the semiconductor market to lead to dramatically improved results.

Consolidated Statements of Operations

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Net Sales (Note 13)	**¥ 948,238**	¥ 964,726	¥1,046,807	**$8,971,880**
Cost of Sales	**783,971**	807,308	899,220	**7,417,646**
Gross profit	**164,267**	157,418	147,587	**1,554,234**
Selling, General and Administrative Expenses (Note 10)	**120,845**	122,989	136,715	**1,143,391**
Operating profit	**43,422**	34,429	10,872	**410,843**
Other Income (Expenses):				
Interest and dividend income	**1,949**	2,029	2,253	**18,441**
Interest expense (Note 4)	**(12,833)**	(15,594)	(23,549)	**(121,421)**
Income from leased property	**7,145**	6,817	1,391	**67,603**
Expense for leased property	**(5,318)**	(5,143)	—	**(50,317)**
Write-down of marketable securities and investments in securities	**(1,144)**	(20,858)	(3,341)	**(10,824)**
Gain (loss) on sales of marketable securities and investments in securities	**13,557**	3,062	(207)	**128,271**
Provision for bad debt and write-off of long-term receivables—unconsolidated subsidiaries and affiliates	**(2,509)**	(1,574)	(7,118)	**(23,739)**
Loss on liquidation of subsidiaries and affiliates	**(64)**	(630)	(1,641)	**(606)**
Gain on sales of property, plant and equipment	**2,037**	3,145	14,355	**19,273**
Loss on disposal and sales of property, plant and equipment	**(4,951)**	(3,790)	(4,803)	**(46,845)**
Provision for valuation allowance for investment in unconsolidated subsidiaries and affiliates	**(109)**	(112)	(1,257)	**(1,031)**
Foreign exchange (losses) gains, net	**(22)**	(51)	817	**(208)**
Severance and pension benefit expense (Note 5)	**(8,529)**	(10,446)	(9,399)	**(80,698)**
Equity in losses of affiliates	**(16,066)**	(9,126)	(5,898)	**(152,011)**
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	**(1,034)**	(10,157)	(21,095)	**(9,783)**
Other, net	**(4,430)**	(7,744)	(12,038)	**(41,914)**
	(32,321)	(70,172)	(103,234)	**(305,809)**
Income (loss) before income taxes and minority interests	**11,101**	(35,743)	(92,362)	**105,034**
Income Taxes (Benefit) (Note 7)	**12,403**	(5,197)	(23,913)	**117,353**
Loss before minority interests	**(1,302)**	(30,546)	(68,449)	**(12,319)**
Minority Interests in (Income) Loss of Consolidated Subsidiaries	**(4,022)**	3,692	7,133	**(38,055)**
Net Loss	**¥ (5,324)**	¥ (26,854)	¥ (61,316)	**$ (50,374)**

	Yen			U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Per Share Amounts (Note 16):				
Net loss	**¥(4.8)**	¥(23.9)	¥(54.9)	**$(0.05)**
Diluted net income	**—**	—	—	**—**
Cash dividends applicable to the year	**2.0**	—	—	**0.02**

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

Mitsubishi Materials Corporation and Subsidiaries
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
ASSETS			
Current Assets:			
Cash (Notes 4 and 15)	**¥ 18,178**	¥ 19,451	**$ 171,994**
Marketable securities (Note 11)	**73**	17	**691**
Notes and accounts receivable (Notes 4 and 8):			
Trade	**167,600**	160,332	**1,585,770**
Unconsolidated subsidiaries and affiliates	**28,982**	31,234	**274,217**
Others	**11,289**	12,289	**106,812**
Inventories (Notes 3 and 4)	**153,564**	146,807	**1,452,966**
Deferred income taxes (Note 7)	**8,954**	7,137	**84,719**
Other current assets (Note 12)	**93,429**	73,584	**883,991**
Allowance for doubtful accounts	**(3,083)**	(2,824)	**(29,170)**
Total current assets	**478,986**	448,027	**4,531,990**
Property, Plant and Equipment (Note 4)**:**			
Land (Note 14)	**257,646**	246,110	**2,437,752**
Buildings and structures	**387,976**	391,504	**3,670,887**
Machinery and equipment	**932,946**	963,728	**8,827,193**
Construction in progress	**19,558**	16,190	**185,051**
	1,598,126	1,617,532	**15,120,883**
Less accumulated depreciation	**(924,902)**	(925,828)	**(8,751,084)**
Net property, plant and equipment	**673,224**	691,704	**6,369,799**
Investments and Long-Term Receivables:			
Investments in securities (Notes 4 and 11)	**85,728**	69,252	**811,127**
Unconsolidated subsidiaries and affiliates (Note 4)	**113,800**	123,385	**1,076,734**
Long-term receivables	**2,508**	6,944	**23,730**
Others (Note 4)	**41,741**	43,071	**394,938**
Allowance for doubtful accounts	**(14,046)**	(16,991)	**(132,898)**
Valuation allowance for investment in unconsolidated subsidiaries and affiliates	**(1,472)**	(1,393)	**(13,928)**
Total investments and long-term receivables	**228,259**	224,268	**2,159,703**
Other Assets:			
Deferred income taxes (Note 7)	**37,983**	56,046	**359,381**
Others (Notes 4 and 12)	**16,663**	19,940	**157,659**
Total other assets	**54,646**	75,986	**517,040**
Total Assets	**¥1,435,115**	¥1,439,985	**$13,578,532**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 4)	**¥ 272,874**	¥ 294,868	**$ 2,581,834**
Current portion of long-term debt (Note 4)	**129,501**	103,143	**1,225,291**
Commercial paper (Note 4)	**—**	6,000	**—**
Notes and accounts payable:			
Trade	**110,681**	104,204	**1,047,223**
Unconsolidated subsidiaries and affiliates	**6,737**	7,475	**63,743**
Others	**14,836**	14,587	**140,373**
Income taxes payable	**4,648**	3,419	**43,978**
Deferred income taxes (Note 7)	**69**	69	**653**
Accrued expenses	**40,790**	46,230	**385,940**
Other current liabilities (Note 12)	**110,237**	94,865	**1,043,021**
Total current liabilities	**690,373**	674,860	**6,532,056**
Long-Term Liabilities:			
Long-term debt (Note 4)	**389,711**	423,244	**3,687,302**
Severance and pension benefits (Note 5)	**48,162**	40,601	**455,691**
Reserve for loss on subsidiaries and affiliates	**1,251**	14,266	**11,837**
Deferred income taxes (Note 7)	**14,462**	14,873	**136,834**
Deferred income taxes on revaluation reserve for land (Notes 7 and 14)	**31,376**	30,957	**296,868**
Others (Note 12)	**34,632**	31,526	**327,676**
Total long-term liabilities	**519,594**	555,467	**4,916,208**
Minority Interests	**41,262**	35,277	**390,406**
Contingent Liabilities and Commitments (Notes 8 and 9)			
Shareholders' Equity (Note 6)**:**			
Common stock			
Authorized—2,683,162,000 shares			
Issued—1,134,053,663 shares at March 31, 2004 and 2003	**99,397**	99,397	**940,458**
Capital surplus	**68,413**	69,090	**647,299**
Accumulated deficit	**(28,243)**	(32,790)	**(267,225)**
Revaluation reserve for land (Note 14)	**46,657**	46,281	**441,452**
Net unrealized holding gains (losses) on securities	**10,420**	(2,936)	**98,590**
Foreign currency translation adjustments	**(12,269)**	(4,121)	**(116,085)**
Treasury stock	**(489)**	(540)	**(4,627)**
Total shareholders' equity	**183,886**	174,381	**1,739,862**
Total Liabilities, Minority Interests and Shareholders' Equity	**¥1,435,115**	¥1,439,985	**$13,578,532**

Consolidated Statements of Shareholders' Equity

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Common Stock:				
Number of shares (Thousands)				
At beginning of year	**1,134,054**	1,117,314	1,117,314	
Increase due to stock exchange	**—**	16,738	—	
Conversion of convertible yen debentures	**—**	2	—	
At end of year	**1,134,054**	1,134,054	1,117,314	
Amount				
Balance at beginning of year	**¥ 99,397**	¥ 99,396	¥99,396	**$ 940,458**
Conversion of convertible yen debentures	**—**	1	—	**—**
Balance at end of year	**¥ 99,397**	¥ 99,397	¥99,396	**$ 940,458**
Capital Surplus:				
Balance at beginning of year	**¥ 69,090**	¥ 68,573	¥68,573	**$ 653,704**
Increase due to stock exchange and other	**—**	548	—	**—**
Loss on sales of treasury stock	**(14)**	(31)	—	**(132)**
Transfer to accumulated deficit	**(663)**	—	—	**(6,273)**
Balance at end of year	**¥ 68,413**	¥ 69,090	¥68,573	**$ 647,299**
(Accumulated Deficit) Retained Earnings:				
Balance at beginning of year	**¥(32,790)**	¥ (4,266)	¥59,942	**$(310,247)**
Net loss for the year	**(5,324)**	(26,854)	(61,316)	**(50,374)**
Cash dividends paid	**—**	—	(3,352)	**—**
Bonuses to directors and corporate auditors	**(59)**	(108)	(136)	**(558)**
Increase resulting from increase in the number of consolidated subsidiaries	**—**	3	990	**—**
Decrease resulting from increase in the number of consolidated subsidiaries	**—**	(28)	(1,543)	**—**
Decrease resulting from decrease in the number of consolidated subsidiaries	**(27)**	—	—	**(255)**
Decrease resulting from decrease in the number of affiliated companies on equity method	**—**	(469)	—	**—**
Decrease resulting from increase in the number of affiliated companies on equity method	**—**	—	(58)	**—**
Increase resulting from decrease in the number of affiliated companies on equity method	**57**	711	—	**539**
Increase due to reversal of revaluation reserve for land (Note 14)	**4**	322	1,025	**38**
Decrease due to reversal of revaluation reserve for land (Note 14)	**(517)**	(2,198)	—	**(4,892)**
Increase due to mergers of unconsolidated subsidiaries	**—**	260	—	**—**
Decrease due to mergers of unconsolidated subsidiaries	**—**	(150)	—	**—**
Increase resulting from realization of unrealized income by merger of consolidated subsidiaries	**9,784**	—	—	**92,573**
Transfer from capital surplus	**663**	—	—	**6,273**
Other, net	**(34)**	(13)	182	**(322)**
Balance at end of year	**¥(28,243)**	¥(32,790)	¥ (4,266)	**$(267,225)**
Revaluation Reserve for Land (Note 14)**:**				
Balance at beginning of year	**¥ 46,281**	¥ 44,015	¥ 9,201	**$ 437,894**
Increase, net	**376**	2,266	34,814	**3,558**
Balance at end of year	**¥ 46,657**	¥ 46,281	¥44,015	**$ 441,452**
Net Unrealized Holding Gains (Losses) on Securities:				
Balance at beginning of year	**¥ (2,936)**	¥ (3,474)	¥ 4,178	**$ (27,779)**
Net change	**13,356**	538	(7,652)	**126,369**
Balance at end of year	**¥ 10,420**	¥ (2,936)	¥ (3,474)	**$ 98,590**
Foreign Currency Translation Adjustments:				
Balance at beginning of year	**¥ (4,121)**	¥ 2,195	¥ (2,096)	**$ (38,992)**
Net change	**(8,148)**	(6,316)	4,291	**(77,093)**
Balance at end of year	**¥(12,269)**	¥ (4,121)	¥ 2,195	**$(116,085)**
Treasury Stock:				
Balance at beginning of year	**¥ (540)**	¥ (26)	¥ (4)	**$ (5,109)**
Decrease (increase), net	**51**	(514)	(22)	**482**
Balance at End of Year	**¥ (489)**	¥ (540)	¥ (26)	**$ (4,627)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interests	**¥ 11,101**	¥ (35,743)	¥ (92,362)	**$ 105,034**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**49,318**	54,327	78,711	**466,629**
Increase in allowance for doubtful accounts	**2,491**	1,559	4,320	**23,569**
Increase in severance and pension benefits	**7,637**	5,049	3,179	**72,258**
Increase (decrease) in reserve for loss on consolidated subsidiaries or valuation allowance for investment in unconsolidated subsidiaries and affiliates	**109**	92	(1,343)	**1,031**
(Decrease) increase in reserve for loss on subsidiaries and affiliates	**(351)**	11,254	21,236	**(3,321)**
Interest and dividend income	**(1,949)**	(2,029)	(2,253)	**(18,441)**
Interest expense	**12,833**	15,594	23,549	**121,421**
Loss on disposal and sales of property, plant and equipment	**4,951**	3,790	4,803	**46,845**
Gain on sales of property, plant and equipment	**(2,037)**	(3,145)	(14,355)	**(19,273)**
(Gain) loss on sales of marketable securities and investments in securities	**(13,557)**	(3,062)	207	**(128,271)**
Write-down of marketable securities and investments in securities	**1,144**	20,858	3,341	**10,824**
(Increase) decrease in notes and accounts receivable	**(9,114)**	7,877	36,160	**(86,233)**
(Increase) decrease in inventories	**(10,554)**	10,016	13,217	**(99,858)**
Increase (decrease) in notes and accounts payable	**8,828**	(10,329)	(29,715)	**83,527**
Increase (decrease) in accrued expense	**284**	(8,764)	(4,616)	**2,687**
Equity in losses of affiliates	**16,066**	9,126	5,898	**152,011**
Loss on write-down of building	**—**	—	29,461	**—**
Other, net	**(7,059)**	1,572	(6,450)	**(66,791)**
Subtotal	**70,141**	78,042	72,988	**663,648**
Interest and dividend received	**4,833**	4,928	5,929	**45,728**
Interest paid	**(12,848)**	(16,427)	(23,805)	**(121,563)**
Payments for withdrawal of a foreign mining investment	**(12,168)**	—	—	**(115,129)**
Income taxes paid	**(9,138)**	(6,827)	(13,038)	**(86,460)**
Net Cash Provided by Operating Activities	**40,820**	59,716	42,074	**386,224**
Cash Flows from Investing Activities:				
Payments for purchases of property, plant and equipment	**(37,732)**	(39,865)	(77,976)	**(357,006)**
Proceeds from sales of property, plant and equipment	**6,046**	8,552	20,586	**57,205**
Payments for purchases of marketable securities and investments in securities	**(22,207)**	(21,469)	(14,588)	**(210,114)**
Proceeds from sales of marketable securities and investments in securities	**27,723**	10,293	4,337	**262,305**
Disbursement of loan receivables	**(2,730)**	(9,454)	(18,628)	**(25,830)**
Proceeds from collection of loan receivables	**2,877**	33,535	3,455	**27,221**
Payments for settlement of forward monthly strip knockout contract	**—**	—	(2,711)	**—**
Decrease due to business combinations of former consolidated subsidiaries with affiliates	**—**	—	(7,743)	**—**
Payments for purchases of intangible fixed assets	**(874)**	(2,339)	(1,646)	**(8,269)**
Proceeds from sale of consolidated subsidiaries' shares, net of cash owned by those subsidiaries	**1,144**	—	—	**10,824**
Other, net	**4,303**	(10,363)	(7,934)	**40,712**
Net Cash Used in Investing Activities	**(21,450)**	(31,110)	(102,848)	**(202,952)**
Cash Flows from Financing Activities:				
Proceeds from long-term debt	**95,048**	108,231	137,177	**899,309**
Repayments of long-term debt	**(82,671)**	(81,508)	(78,880)	**(782,203)**
Payments for redemption of bonds	**(20,349)**	(40,000)	(45,000)	**(192,535)**
Proceeds from issuance of bonds	**10,000**	—	30,000	**94,616**
(Repayment of) proceeds from commercial paper, net	**(6,000)**	(25,000)	11,000	**(56,770)**
Payments for purchase of treasury stock	**(53)**	(158)	(23)	**(501)**
(Decrease) increase in short-term bank loans, net	**(19,279)**	(22,669)	43,520	**(182,411)**
Proceeds from issuance of common stock by consolidated subsidiaries to minority shareholders	**—**	265	308	**—**
Proceeds from minority shareholder for withdrawal of a foreign mining investment	**5,518**	—	—	**52,209**
Cash dividends paid	**—**	—	(3,352)	**—**
Cash dividends paid to minority shareholders	**(1,075)**	(491)	(355)	**(10,171)**
Other, net	**(888)**	(13)	—	**(8,401)**
Net Cash (Used in) Provided by Financing Activities	**(19,749)**	(61,343)	94,395	**(186,858)**
Effect of Exchange Rate Fluctuation on Cash and Cash Equivalents	**(985)**	(883)	717	**(9,320)**
Net (Decrease) Increase in Cash and Cash Equivalents	**(1,364)**	(33,620)	34,338	**(12,906)**
Cash and Cash Equivalents at Beginning of Year	**18,926**	52,153	16,595	**179,071**
Effect of Changes in Consolidated Subsidiaries	**126**	89	1,220	**1,192**
Increase in Cash and Cash Equivalents from Mergers of Unconsolidated Subsidiaries	**66**	304	—	**625**
Cash and Cash Equivalents at End of Year (Note 15)	**¥ 17,754**	¥ 18,926	¥ 52,153	**$ 167,982**

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 Financial Reporting Standards and standards in other countries in certain respects as to application and disclosure requirements.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company, which were prepared in accordance with Japanese GAAP from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law of Japan. Some supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying 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 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, 2004, which was ¥105.69 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.

The excess investment amount, at the acquisition date, over net assets of consolidated subsidiaries or unconsolidated subsidiaries and affiliates accounted for by the applied equity method, except for Sumitomo Mitsubishi Silicon Corporation ("SUMCO"), is amortized over a period of five years on a straight-line basis.

The excess investment amount over net assets of SUMCO as of March 31, 2002, which is considered to be goodwill, is amortized over a period of 20 years.

(b) Translation of Foreign Currencies

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

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

(c) Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided in the amount sufficient to cover probable losses on collection. It consists of individually estimated uncollectible amounts and an amount calculated using the 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
Derivative financial instruments are stated at fair value. Gains or losses resulting from changes in fair value are recognized in income 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 statements of operations in the period which includes the inception date, and
   (2) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated 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.

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

Held-to-maturity debt securities are stated at amortized cost. Equity securities, which are not accounted for 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 statements 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.

(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 2 to 65 years for buildings and structures and from 2 to 22 years for machinery and equipment.

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

In the year ended March 31, 2002, the Company wrote 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 expenses of consolidated statements of operations.

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting

Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2004, but the standard does not prohibit earlier adoption. The Company will adopt these standards by the year ending March 31, 2006.

The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adoption of the new standard, because the Company has not yet completed its analysis. However, adoption of the new standard could have a material effect on the Company's financial statements.

(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 defined benefit pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

   The Companies provided allowance for employees' severance and pension benefits, based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, 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 employee's 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, 2004, 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.

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 was 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 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."

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

In the year ended March 31, 2003, the Company changed the presentation of income from leased property and the corresponding expense. Such income and expense are presented as income from leased property and expense for leased property in other income (expenses), 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 the real estate leasing business and transferred most of the 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 and ¥3,271 million, respectively, and gross profit and operating profit have decreased by ¥929 million 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 interests. See Note 13 Segment Information for the effect on each segment.

In addition, income from leased property not for leasing business purposes, which was previously reported, net of the corresponding expense, as other income, is 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 per share for the years ended March 31, 2004, 2003 and 2002, was not presented, as per share amount for the years ended March 31, 2004, 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.

(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, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Products	**¥ 51,624**	¥ 50,718	**$ 488,447**
Semifinished products and work in process	**59,176**	56,739	**559,902**
Raw materials and supplies	**42,764**	39,350	**404,617**
	¥153,564	¥146,807	**$1,452,966**

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

Short-term bank loans and commercial paper outstanding at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Unsecured	**¥260,676**	¥278,588	**$2,466,421**
Secured	**12,198**	22,280	**115,413**
Total short-term debt	**¥272,874**	¥300,868	**$2,581,834**

The average interest rate per annum for short-term bank loans outstanding at March 31, 2004, is 1.0%, and the average interest rates per annum for short-term bank loans and commercial paper outstanding at March 31, 2003, were 1.0% and 0.2%, respectively.

Long-term debt at March 31, 2004 and 2003, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Banks, insurance companies and other financial institutions, maturing serially through 2030—with an average rate of 1.693% per annum:			
Unsecured	**¥ 350,931**	¥ 335,070	**$ 3,320,380**
Secured	**53,832**	66,519	**509,339**
2.2% unsecured convertible yen debentures, due 2004	**—**	10,349	**—**
0.95% unsecured convertible yen debentures, due 2005	**49,259**	49,259	**466,070**
Floating rate (six-month Japanese yen—LIBOR) unsecured yen notes, due 2004	**5,000**	5,000	**47,308**
3.10% unsecured yen bonds, due 2008	**10,000**	10,000	**94,616**
2.125% unsecured yen bonds, due 2004	**10,000**	10,000	**94,616**
1.875% unsecured yen bonds, due 2003	**—**	10,000	**—**
1.54% unsecured yen bonds, due 2008	**15,000**	15,000	**141,925**
1.01% unsecured yen bonds, due 2006	**15,000**	15,000	**141,925**
1.24% unsecured yen bonds, due 2006	**10,000**	—	**94,616**
2.495% secured yen bonds, due 2005	**190**	190	**1,798**
	519,212	526,387	**4,912,593**
Less current portion	**(129,501)**	(103,143)	**(1,225,291)**
	¥ 389,711	¥ 423,244	**$ 3,687,302**

The 0.95% unsecured convertible yen debentures due 2005 are currently convertible at ¥514 ($4.86) for one share through September 29, 2005. At March 31, 2004, 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, 2004, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	**¥129,501**	**$1,225,291**
2006	**133,693**	**1,264,954**
2007	**119,804**	**1,133,541**
2008	**49,881**	**471,956**
2009	**51,145**	**483,915**
2010 and thereafter	**35,188**	**332,936**
	¥519,212	**$4,912,593**

Assets pledged as collateral primarily for short-term loans and long-term debt at March 31, 2004 and 2003, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash	**¥ 2,432**	¥ 3,951	**$ 23,011**
Notes and accounts receivable	**4,418**	6,893	**41,801**
Inventories	**8,157**	9,941	**77,179**
Investments:			
Investments in securities	**549**	446	**5,194**
Unconsolidated subsidiaries and affiliates	**2,803**	2,663	**26,521**
Property, plant and equipment, at net book value	**152,269**	170,064	**1,440,713**
Other	**1,035**	748	**9,793**
	¥171,663	¥194,706	**$1,624,212**

Note 5—Severance and Pension Benefits

Severance and pension benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003, consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥147,573**	¥150,672	**$1,396,282**
Less fair value of pension assets	**(63,418)**	(54,378)	**(600,038)**
Unrecognized projected obligation	**84,155**	96,294	**796,244**
Less unrecognized net transition obligation	**(8,706)**	(18,922)	**(82,373)**
Unrecognized actuarial differences	**(32,150)**	(43,391)	**(304,192)**
Unrecognized prior service costs	**2,682**	4,288	**25,376**
Net liability for severance and retirement benefits	**45,981**	38,269	**435,055**
Prepaid pension costs	**41**	27	**388**
Employees' severance and pension benefits	**46,022**	38,296	**435,443**
Accrual for officers' lump-sum severance benefits	**2,140**	2,305	**20,248**
Severance and pension benefits	**¥ 48,162**	¥ 40,601	**$ 455,691**

Severance and pension benefit expense included in the consolidated statements of operations for the years ended March 31, 2004, 2003 and 2002, consists of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Service costs—benefits earned during the year	**¥ 6,207**	¥ 8,509	¥ 7,559	**$ 58,728**
Interest cost on projected benefit obligation	**3,643**	3,861	4,709	**34,469**
Expected return on plan assets	**(1,300)**	(1,475)	(2,193)	**(12,300)**
Amortization of net transition obligation	**10,160**	10,753	11,030	**96,130**
Amortization of actuarial differences	**4,654**	3,838	2,227	**44,035**
Amortization of prior service costs	**(1,661)**	(1,552)	(1,627)	**(15,716)**
Special termination benefits and other benefits	**—**	1,244	—	**—**
Officers' lump-sum severance benefit expense	**608**	586	520	**5,753**
Severance and pension benefit expense	**¥22,311**	¥25,764	¥22,225	**$211,099**

The discount rate used by the Companies is mainly 2.5% for the years ended March 31, 2004, 2003 and 2002. The rates of expected return on plan assets are mainly 2.5% for the years ended March 31, 2004 and 2003, and 3.5% for the year ended March 31, 2002. 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 resulting from revision of employees' retirement policy in October 2000, amounting to ¥8,529 million ($80,698 thousand), ¥10,446 million and ¥9,399 million for the years ended March 31, 2004, 2003 and 2002, 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, the legal earnings reserve and additional paid-in capital are available for distributions by resolution of the shareholders' meeting. There is no legal earnings reserve as of March 31, 2004, since additional paid-in capital exceeds 25% of common stock of the Company.

Note 7—Income Taxes

The income taxes (benefits) reflected in the accompanying consolidated statements of operations for the years ended March 31, 2004, 2003 and 2002, consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Current	**¥10,016**	¥ 6,447	¥ 7,405	**$ 94,768**
Deferred	**2,387**	(11,644)	(31,318)	**22,585**
	¥12,403	¥ (5,197)	¥(23,913)	**$117,353**

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, 2004:

	2004
Statutory tax rate	42.1%
Equity in losses of affiliates	79.5
Valuation allowance	(11.6)
Intercompany cash dividend	7.3
Nondeductible expenses	6.8
Differences in statutory tax rates of consolidated subsidiaries	(4.6)
Reversal of reserve for loss on subsidiaries	(3.5)
Other	(4.3)
Effective tax rate	111.7%

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, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred income tax assets:			
Net operating loss carryforwards	**¥22,781**	¥37,484	**$215,546**
Severance and pension benefits	**18,577**	13,464	**175,769**
Loss on write-down of building	**10,944**	11,508	**103,548**
Intercompany profits	**8,830**	12,988	**83,546**
Accrued employees' bonuses	**3,928**	3,281	**37,165**
Loss on write-down of securities	**5,454**	14,431	**51,604**
Depreciation	**1,206**	—	**11,411**
Allowance for doubtful accounts	**1,013**	791	**9,585**
Allowance for industrial waste processing	**767**	—	**7,257**

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Valuation allowance for investment in unconsolidated subsidiaries and affiliates	**599**	564	**5,668**
Reserve for loss on subsidiaries and affiliates	**509**	5,750	**4,816**
Investments in consolidated subsidiaries	**—**	5,172	**—**
Net unrealized holding losses on securities	**—**	3,040	**—**
Interest receivable	**—**	257	**—**
Other	**7,376**	6,797	**69,788**
Subtotal	**81,984**	115,527	**775,703**
Valuation allowance	**(18,740)**	(19,490)	**(177,311)**
Total deferred income tax assets	**¥ 63,244**	¥ 96,037	**$ 598,392**
Deferred income tax liabilities:			
Difference between the book value and fair value of the assets and liabilities of the consolidated subsidiaries and affiliates at the acquisition date	**¥(10,474)**	¥(10,822)	**$ (99,101)**
Accelerated depreciation of property, plant and equipment	**(8,392)**	(8,015)	**(79,402)**
Deferred gain on sale of property, plant and equipment	**(1,619)**	(24,373)	**(15,318)**
Reserves deductible for Japanese tax purposes	**(428)**	(2,140)	**(4,050)**
Net unrealized holding gains on securities	**(6,524)**	—	**(61,728)**
Other	**(3,401)**	(2,446)	**(32,180)**
Total deferred income tax liabilities	**(30,838)**	(47,796)	**(291,779)**
Net deferred income tax assets	**¥ 32,406**	¥ 48,241	**$ 306,613**
Deferred income taxes on revaluation reserve for land	**¥(31,376)**	¥(30,957)	**$(296,868)**

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 the 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 a result of the change in the statutory tax rates, deferred income tax assets decreased by ¥1,074 million, income taxes deferred increased by ¥992 million and net unrealized holding losses on securities increased by ¥82 million 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 and revaluation reserve for land increased by the same amount for the year ended March 31, 2003.

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

As a result of this change in the statutory tax rate, deferred income tax assets increased by ¥116 million ($1,098 thousand), income taxes deferred decreased by ¥146 million ($1,381 thousand) and net unrealized holding gains on securities decreased by ¥30 million ($284 thousand). Also, deferred income taxes on revaluation reserve for land increased by ¥153 million ($1,448 thousand) and revaluation reserve for land decreased by the same amount for the year ended March 31, 2004.

Note 8—Contingent Liabilities

Contingent liabilities for notes receivable discounted with banks, notes receivable endorsed with recourse, notes and accounts receivable securitized with recourse and loans guaranteed by the Company and its consolidated subsidiaries primarily on behalf of unconsolidated subsidiaries and affiliates, including employees' housing loans from banks, at March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Notes receivable discounted	**¥ 8,210**	¥ 8,141	**$ 77,680**
Notes receivable endorsed with recourse	**109**	141	**1,031**
Notes and accounts receivable securitized with recourse	**4,099**	4,186	**38,783**
Loans guaranteed	**133,035**	170,139	**1,258,729**
	¥145,453	¥182,607	**$1,376,223**

Guarantees for loans include joint and several guarantees of ¥105,536 million ($998,543 thousand) and the Company's portion of such guarantees is ¥77,097 million ($729,464 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, are as follows:

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

	Millions of yen				Thousands of U.S. dollars			
	2004				**2004**			
	Machinery, equipment and vehicles	Tools	Others	Total	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	**¥9,851**	**¥6,291**	**¥1,195**	**¥17,337**	**$93,207**	**$59,523**	**$11,306**	**$164,036**
Accumulated depreciation	**5,138**	**3,308**	**594**	**9,040**	**48,614**	**31,299**	**5,620**	**85,533**
Book value	**¥4,713**	**¥2,983**	**¥ 601**	**¥ 8,297**	**$44,593**	**$28,224**	**$ 5,686**	**$ 78,503**

	Millions of yen			
	2003			
	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	¥8,801	¥6,783	¥1,348	¥16,932
Accumulated depreciation	4,202	4,101	685	8,988
Book value	¥4,599	¥2,682	¥ 663	¥ 7,944

(2) Lease commitments

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥2,654**	¥2,753	**$25,111**
Due after one year	**5,643**	5,191	**53,392**
Total	**¥8,297**	¥7,944	**$78,503**

(3) Lease expenses and depreciation equivalents

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Lease expenses	**¥3,223**	¥3,125	¥3,119	**$30,495**
Depreciation equivalents	**3,223**	3,125	3,119	**30,495**

Noncancelable operating lease commitments are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥1,769**	¥ 1,871	**$16,738**
Due after one year	**7,296**	9,156	**69,032**
Total	**¥9,065**	¥11,027	**$85,770**

Note 10—Research and Development Expenses

Research and development expenses for each of the three years in the periods ended March 31, 2004, 2003 and 2002, are ¥11,232 million ($106,273 thousand), ¥11,608 million and ¥15,404 million, respectively, and are 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, 2004 and 2003:

(1) Held-to-maturity debt securities

	Millions of yen		
	2003		
	Book value	Fair value	Difference
Securities with available fair values not exceeding book values	¥12	¥12	—

(2) Available-for-sale securities

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition cost:									
Equity securities	**¥39,529**	**¥60,459**	**¥20,930**	¥10,657	¥13,981	¥3,324	**$374,009**	**$572,041**	**$198,032**
Bonds	**10**	**10**	**—**	20	20	—	**95**	**95**	**—**
Total	**¥39,539**	**¥60,469**	**¥20,930**	¥10,677	¥14,001	¥3,324	**$374,104**	**$572,136**	**$198,032**

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	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	**¥7,836**	**¥5,964**	**¥(1,872)**	¥41,571	¥35,576	¥(5,995)	**$74,141**	**$56,429**	**$(17,712)**
Bonds	**5**	**5**	**—**	7	5	(2)	**47**	**47**	**—**
Total	**¥7,841**	**¥5,969**	**¥(1,872)**	¥41,578	¥35,581	¥(5,997)	**$74,188**	**$56,476**	**$(17,712)**

2. The following tables summarize book values of securities with no available fair values as of March 31, 2004 and 2003:

(1) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
	Book value	Book value	Book value
Government or local bonds	**¥40**	¥50	**$379**
Corporate bonds	**7**	7	**66**
Total	**¥47**	¥57	**$445**

(2) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
	Book value	Book value	Book value
Unlisted equity securities	**¥19,180**	¥19,445	**$181,474**
Corporate bonds	**27**	27	**256**
Others	**109**	144	**1,031**
Total	**¥19,316**	¥19,616	**$182,761**

3. The following tables summarize maturities of available-for-sale securities with maturity and held-to-maturity debt securities as of March 31, 2004 and 2003:

	Millions of yen				
At March 31, 2004	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	**17**	**20**	**—**	**—**	**37**
Other bonds	**9**	**97**	**—**	**—**	**106**
Held-to-maturity debt securities:					
Government or local bonds	**40**	**—**	**—**	**—**	**40**
Corporate bonds	**7**	**—**	**—**	**—**	**7**
Other bonds	**—**	**—**	**—**	**—**	**—**
Total	**¥73**	**¥122**	**¥—**	**¥—**	**¥195**

	Thousands of U.S. dollars				
At March 31, 2004	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	**$ —**	**$ 47**	**$ —**	**$ —**	**$ 47**
Corporate bonds	**161**	**189**	**—**	**—**	**350**
Other bonds	**85**	**918**	**—**	**—**	**1,003**
Held-to-maturity debt securities:					
Government or local bonds	**379**	**—**	**—**	**—**	**379**
Corporate bonds	**66**	**—**	**—**	**—**	**66**
Other bonds	**—**	**—**	**—**	**—**	**—**
Total	**$691**	**$1,154**	**$ —**	**$ —**	**$1,845**

	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

4. Total sales amounts of available-for-sale securities sold, gains and losses, in the years ended March 31, 2004 and 2003, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Sales amount	**¥26,295**	¥4,110	**$248,794**
Gains	**12,940**	1,280	**122,434**
Losses	**295**	680	**2,791**

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 "Rules on Utilizing Derivative Transactions" in its "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 its 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, 2004 and 2003, the Company and its consolidated subsidiaries had outstanding derivative transactions, as below:

(a) Foreign Currency Contracts

		Contract amounts in yen equivalent				Millions of yen
At March 31, 2004		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Forward exchange contracts:						
Sell	U.S. dollars	**¥33,425**	**¥3,706**	**¥37,131**	**¥35,984**	**¥1,147**
	Other	**2,291**	**—**	**2,291**	**2,204**	**87**
Buy	U.S. dollars	**4,213**	**826**	**5,039**	**5,296**	**257**
	Other	**174**	**—**	**174**	**173**	**(1)**
Total						**¥1,490**

		Contract amounts in U.S. dollar equivalent				Thousands of U.S. dollars
At March 31, 2004		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
Forward exchange contracts:						
Sell	U.S. dollars	**$316,255**	**$35,065**	**$351,320**	**$340,468**	**$10,852**
	Other	**21,677**	**—**	**21,677**	**20,854**	**823**
Buy	U.S. dollars	**39,862**	**7,815**	**47,677**	**50,109**	**2,432**
	Other	**1,646**	**—**	**1,646**	**1,637**	**(9)**
Total						**$14,098**

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

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

At March 31, 2004	Notional amounts Due within one year	Due after one year	Total	Fair value	Millions of yen Unrealized gains (losses)
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Pay fixed rate, receive floating rate	**8,757**	**48,184**	**56,941**	**(667)**	**(667)**
Total					**¥(667)**

At March 31, 2004	Notional amounts Due within one year	Due after one year	Total	Fair value	Thousands of U.S. dollars Unrealized gains (losses)
Interest rate swap contracts:					
Pay floating rate, receive fixed rate	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Pay fixed rate, receive floating rate	**82,856**	**455,899**	**538,755**	**(6,311)**	**(6,311)**
Total					**$(6,311)**

At March 31, 2003	Notional amounts Due within one year	Due after one year	Total	Fair value	Millions of yen Unrealized gains (losses)
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)

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 are added to or deducted from the interest on the liabilities for which the swap contract was executed, and the information for such contracts is included in the above tables.

(c) Commodity Contracts

At March 31, 2004	Contract amounts: Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
					Millions of yen
Nonferrous metals forward:					
Sell	**¥39,049**	**¥ 166**	**¥39,215**	**¥40,219**	**¥(1,004)**
Buy	**28,151**	**5,014**	**33,165**	**35,426**	**2,261**
Total					**¥ 1,257**

At March 31, 2004	Contract amounts: Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
					Thousands of U.S. dollars
Nonferrous metals forward:					
Sell	**$369,467**	**$ 1,571**	**$371,038**	**$380,538**	**$ (9,500)**
Buy	**266,354**	**47,441**	**313,795**	**335,188**	**21,393**
Total					**$11,893**

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

Fair value is stated based on the quoted market price.

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

Note 13—Segment Information

The Companies operate primarily in the production and sales of cement, aluminum, metals, powder metallurgy products & tools, advanced products, energy & systems, and others. Cement comprises cement, cement-related products, ready-mixed concrete and building materials; Aluminum comprises aluminum cans, aluminum rolled and fabricated products, and aluminum-related products; Metals comprise copper smelting and copper-related products; Powder metallurgy products & tools comprise carbide and tools, powder metallurgy products and diamond tools; Advanced products comprise electronic components, electronic materials and chemicals; Energy & systems comprise engineering and nuclear-related business; and Others comprise high-performance alloy products, precious metals, polysilicon, resources and environment-related businesses and the real estate business.

(a) Business segment information for the years ended March 31, 2004, 2003 and 2002, is as follows:

Millions of yen

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

Thousands of U.S. dollars

Year ended March 31, 2004	Cement	Aluminum	Metals	Powder metallurgy products & tools	Advanced products	Energy & systems	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales:										
Unaffiliated customers	**$1,372,628**	**$1,247,753**	**$2,290,633**	**$ 982,742**	**$482,912**	**$ 782,278**	**$1,812,934**	**$ 8,971,880**	**$ —**	**$ 8,971,880**
Intersegment	**5,478**	**8,506**	**604,665**	**84,890**	**12,849**	**257,460**	**289,753**	**1,263,601**	**(1,263,601)**	**—**
Total	**1,378,106**	**1,256,259**	**2,895,298**	**1,067,632**	**495,761**	**1,039,738**	**2,102,687**	**10,235,481**	**(1,263,601)**	**8,971,880**
Operating expenses	**1,248,860**	**1,193,301**	**2,808,033**	**966,837**	**470,981**	**1,006,727**	**2,058,624**	**9,753,363**	**(1,192,326)**	**8,561,037**
Operating profit (loss)	**$ 129,246**	**$ 62,958**	**$ 87,265**	**$ 100,795**	**$ 24,780**	**$ 33,011**	**$ 44,063**	**$ 482,118**	**$ (71,275)**	**$ 410,843**
Identifiable assets	**$2,377,869**	**$1,586,536**	**$2,939,067**	**$1,121,412**	**$403,671**	**$ 814,088**	**$2,845,085**	**$12,087,728**	**$1,490,804**	**$13,578,532**
Depreciation	**$ 86,451**	**$ 89,176**	**$ 110,285**	**$ 56,079**	**$ 22,528**	**$ 26,341**	**$ 48,463**	**$ 439,323**	**$ 27,306**	**$ 466,629**
Capital expenditures	**$ 70,470**	**$ 109,130**	**$ 68,559**	**$ 56,600**	**$ 13,587**	**$ 14,297**	**$ 31,100**	**$ 363,743**	**$ 4,712**	**$ 368,455**

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

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

The Company has changed its method of business segment classification to "Cement," "Aluminum," "Metals," "Powder metallurgy products & tools," "Advanced products," "Energy & systems," and "Others" from previous segmentation of "Silicon and advanced materials," "Fabricated metal products," "Nonferrous metals," "Cement products" and "Others" in the year ended March 31, 2004.

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

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

Business segment information, which was reclassified in compliance with current business segmentation for the year ended March 31, 2003, is as follows:

Millions of yen

Year ended March 31, 2003	Cement	Aluminum	Metals	Powder metallurgy products & tools	Advanced products	Energy & systems	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales:										
Unaffiliated customers	¥159,210	¥130,988	¥215,867	¥107,355	¥48,368	¥ 98,909	¥204,029	¥ 964,726	¥ —	¥ 964,726
Intersegment	702	957	50,985	8,496	1,048	22,347	27,652	112,187	(112,187)	—
Total	159,912	131,945	266,852	115,851	49,416	121,256	231,681	1,076,913	(112,187)	964,726
Operating expenses	145,239	122,668	261,147	107,738	47,731	120,397	229,862	1,034,782	(104,485)	930,297
Operating profit (loss)	¥ 14,673	¥ 9,277	¥ 5,705	¥ 8,113	¥ 1,685	¥ 859	¥ 1,819	¥ 42,131	¥ (7,702)	¥ 34,429
Identifiable assets	¥274,131	¥165,623	¥301,462	¥118,298	¥42,837	¥ 84,577	¥286,984	¥1,273,912	¥ 166,073	¥1,439,985
Depreciation	¥ 10,309	¥ 9,863	¥ 12,856	¥ 6,644	¥ 2,743	¥ 2,542	¥ 6,265	¥ 51,222	¥ 3,105	¥ 54,327
Capital expenditures	¥ 4,727	¥ 6,608	¥ 6,976	¥ 4,837	¥ 1,271	¥ 2,021	¥ 9,491	¥ 35,931	¥ 6,297	¥ 42,228

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, ¥3,271 million and ¥929 million, 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 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.

Ryoko Sangyo Corporation, a consolidated subsidiary, merged with Sanko-Materials Corporation on 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 for “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.

Loss on 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.”

(b) Segment information by geographic area for the years ended March 31, 2004, 2003 and 2002, is as follows:

Millions of yen

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

Thousands of U.S. dollars

Year ended March 31, 2004	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales:								
Unaffiliated customers	**$ 7,464,651**	**$495,600**	**$ 93,945**	**$ 898,884**	**$18,800**	**$ 8,971,880**	**$ —**	**$ 8,971,880**
Intersegment	**255,597**	**5,166**	**94**	**215,309**	**—**	**476,166**	**(476,166)**	**—**
Total	**7,720,248**	**500,766**	**94,039**	**1,114,193**	**18,800**	**9,448,046**	**(476,166)**	**8,971,880**
Operating expenses	**7,311,411**	**457,602**	**94,030**	**1,076,261**	**20,314**	**8,959,618**	**(398,581)**	**8,561,037**
Operating profit (loss)	**$ 408,837**	**$ 43,164**	**$ 9**	**$ 37,932**	**$ (1,514)**	**$ 488,428**	**$ (77,585)**	**$ 410,843**
Identifiable assets	**$10,971,303**	**$708,478**	**$206,254**	**$ 950,298**	**$31,375**	**$12,867,708**	**$ 710,824**	**$13,578,532**

Millions of yen

Year ended March 31, 2003	Japan	U.S.A.	Europe	Asia	Others	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

Millions of yen

Year ended March 31, 2002	Japan	U.S.A.	Europe	Asia	Others	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

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, ¥3,271 million and ¥929 million, 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 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.

Loss on 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."

(c) Overseas sales by geographic area for the years ended March 31, 2004, 2003 and 2002, are as follows:

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

Year ended March 31, 2004	U.S.A.	Europe	Asia	Others	Total
					Thousands of U.S. dollars
Overseas sales	**$545,075**	**$146,759**	**$857,300**	**$22,235**	**$1,571,369**
Consolidated net sales					**8,971,880**
Percentage of overseas sales to consolidated net sales	**6.1%**	**1.6%**	**9.6%**	**0.2%**	**17.5%**

Year ended March 31, 2003	U.S.A.	Europe	Asia	Others	Total
					Millions of yen
Overseas sales	¥61,874	¥14,848	¥86,019	¥1,702	¥164,443
Consolidated net sales					964,726
Percentage of overseas sales to consolidated net sales	6.4%	1.5%	8.9%	0.2%	17.0%

Year ended March 31, 2002	U.S.A.	Europe	Asia	Others	Total
					Millions of yen
Overseas sales	¥74,130	¥14,486	¥105,270	¥2,157	¥ 196,043
Consolidated net sales					1,046,807
Percentage of overseas sales to consolidated net sales	7.1%	1.4%	10.1%	0.2%	18.7%

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 certain 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. 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 the case that the fair value of the land declines. Such unrecorded revaluation loss at March 31, 2004 and 2003, was ¥6,698 million ($63,374 thousand) and ¥5,298 million, respectively.

Note 15—Notes to the Consolidated Statements of Cash Flows

(a) Breakdown of cash and cash equivalents

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Cash	**¥18,178**	¥19,451	¥49,852	**$171,994**
Marketable securities:				
Commercial paper	**—**	—	3,000	**—**
Term deposits with maturity more than three months	**(424)**	(525)	(699)	**(4,012)**
Cash and cash equivalents	**¥17,754**	¥18,926	¥52,153	**$167,982**

(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

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 years ended March 31, 2004 and 2003, is as follows:

	Millions of yen	Thousands	Yen	U.S. dollars
Year ended March 31, 2004	Net loss	Weighted-average shares	Net loss per share	Net loss per share
Basic earnings per share:				
Net loss	**¥5,324**			
Bonuses to directors by appropriation of retained earnings	**65**			
Net loss available to common shareholders	**¥5,389**	**1,130,721**	**¥4.8**	**$0.05**

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, 2004, is disclosed, as the Company incurred a net loss.

	Millions of yen	Thousands	Yen
Year ended March 31, 2003	Net loss	Weighted-average shares	Net loss per share
Basic earnings per share:			
Net loss	¥26,854		
Bonuses to directors by appropriation of retained earnings	30		
Net loss available to common shareholders	¥26,884	1,125,659	¥23.9

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, is disclosed, because disclosure of such information for 2002 was not required.

Note 17—Related Party Transactions

Significant transactions with related parties for the years ended March 31, 2004, 2003 and 2002, are as follows:

	Millions of yen			
	March 31, 2004			
Name of company	Net sales	Accounts receivable	Rental income	Guarantee
Ube–Mitsubishi Cement Corp.	**¥41,289**	**¥3,792**	**¥2,324**	**—**
Sumitomo Mitsubishi Silicon Co., Ltd.	**—**	**—**	**—**	**¥101,487**

	Thousands of U.S. dollars			
	March 31, 2004			
Name of company	Net sales	Accounts receivable	Rental income	Guarantee
Ube–Mitsubishi Cement Corp.	**$390,661**	**$35,879**	**$21,989**	**—**
Sumitomo Mitsubishi Silicon Co., Ltd.	**—**	**—**	**—**	**$960,233**

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

Name of company	Net sales	Accounts receivable	Sales of properties	Gain on sales of properties	Rental income	Guarantee
						Millions of yen
						March 31, 2002
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 related individual	Borrowing	Issuance of commercial paper	Interest expenses	Commission fee	Short-term bank loans	Long-term debts	Prepaid expenses	Accrued expenses
								Millions of yen
								March 31, 2004
Toyoshi Nakano	**¥13,659**	**¥4,000**	**¥454**	**¥272**	**¥5,659**	**¥43,910**	**¥101**	**¥47**

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

Name of related individual	Borrowing	Issuance of commercial paper	Interest expenses	Commission fee	Short-term bank loans	Long-term debts	Prepaid expenses	Accrued expenses
								Thousands of U.S. dollars
								March 31, 2004
Toyoshi Nakano	**$129,236**	**$37,847**	**$4,296**	**$2,574**	**$53,543**	**$415,460**	**$956**	**$445**

Note 18—Subsequent Events

(a) Payment of a cash dividend

On June 29, 2004, the Company's shareholders approved the payment of the cash dividend of ¥2.00 ($0.02) per one share to shareholders of record at March 31, 2004, or a total payment of ¥2,265 million ($21,431 thousand).

(b) Business integration

On February 24, 2004, Kobe Steel, Ltd. and the Company formally agreed to establish a joint venture company to which their copper tube businesses will be transferred in exchange for common stock of the joint venture company in accordance with the Code section 374-6. According to this agreement, the new company "Kobelco & Materials Copper Tube, Ltd." ("KMC") was formed and the copper tube business was transferred in exchange for KMC's common stock on April 1, 2004.

(1) Purpose of the integration

The Company, which is an integrated producer of copper tube with smelting operations, has a long experience in materials and skills in technical capabilities and cost competitiveness. Kobe Steel, Ltd. has technical, marketing and service system capabilities. Through these combined capabilities and assets, the new joint venture aims to become one of the leading integrated manufacturers of copper tube.

(2) Equity share

Mitsubishi Materials Corporation 45%
Kobe Steel, Ltd. 55%

KMC will be an affiliated company of Mitsubishi Materials Corporation, applying the equity method.

(3) Capital

¥6,000 million ($56,770 thousand)

(4) Rights and obligations to be transferred to KMC

Assets, liabilities, rights and obligations, and other contractual arrangements pertaining to the manufacture, research and development, and sale of copper tube and related products are held by Kobe Steel Ltd. and Mitsubishi Materials Corporation.

(5) Extent of the business of the Company to be integrated

(i) Domestic

Kitamoto Plant (Mitsubishi Materials Corporation)
Location: Kitamoto, Saitama
Sales: ¥9,835 million ($93,055 thousand) for the year ended March 31, 2004
Assets: ¥11,020 million ($104,267 thousand) at March 31, 2004

(ii) Overseas

MMC Copper Tube (Thailand) Co., Ltd.
Location: Rayong, Thailand
Sales: ¥7,317 million ($69,231 thousand) for the year ended December 31, 2003
Assets: ¥9,495 million ($89,838 thousand) at December 31, 2003

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, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2004, 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

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

(1) As discussed in Note 2, Mitsubishi Materials Corporation has changed its presentation of income from leased property and the corresponding expense in the year ended March 31, 2003.
(2) As discussed in Note 13, Mitsubishi Materials Corporation has changed its method of business segment classification in the year ended March 31, 2004.
(3) As discussed in Note 18, Subsequent Events, Mitsubishi Materials Corporation has transferred its copper tube business to Kobelco & Materials Copper Tube, Ltd. ("KMC"), a joint venture company newly established, in exchange for KMC's common stock on April 1, 2004.

The consolidated financial statements as of and for the year ended March 31, 2004, 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.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2004

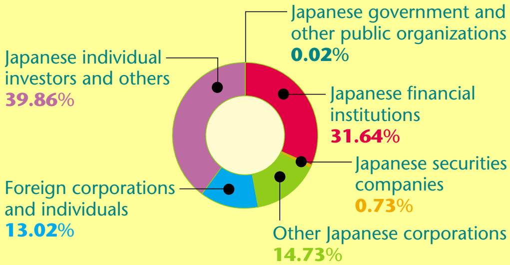
Corporate Data (Nonconsolidated)

(As of March 31, 2004)

Date Established	April 1, 1950
Headquarters	1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan
Number of Employees	5,162
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, 2004)

Shares of Common Stock	Authorized: 2,683,162,000 Issued and Outstanding: 1,134,053,663
Capital	¥99,397 million
Number of Shareholders	164,683
Stock Listings	Tokyo Stock Exchange and Osaka Securities Exchange
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	KPMG AZSA & Co.
For Further Information, Contact	Corporate Communications & IR Dept. Mitsubishi Materials Corporation 1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan Tel: +81-3-5252-5206 Fax: +81-3-5252-5272 E-mail: www-ir@mmc.co.jp
Distribution of Shareholders	
Major Shareholders	Japan Trustee Services Bank, Ltd. (Trust account) The Bank of Tokyo–Mitsubishi Ltd. The Master Trust Bank of Japan, Ltd. (Trust account) The Meiji Yasuda Mutual Life Insurance Co. The Nomura Trust Banking Co., 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 at Mitsubishi Materials' web site at http://www.mmc.co.jp/

MITSUBISHI MATERIALS CORPORATION

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