

## Annual Report 2005

For the Year Ended March 31, 2005

# Mitsubishi Materials at a Glance

**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 295 subsidiaries and affiliates in 23 countries, employing 19,638 people.

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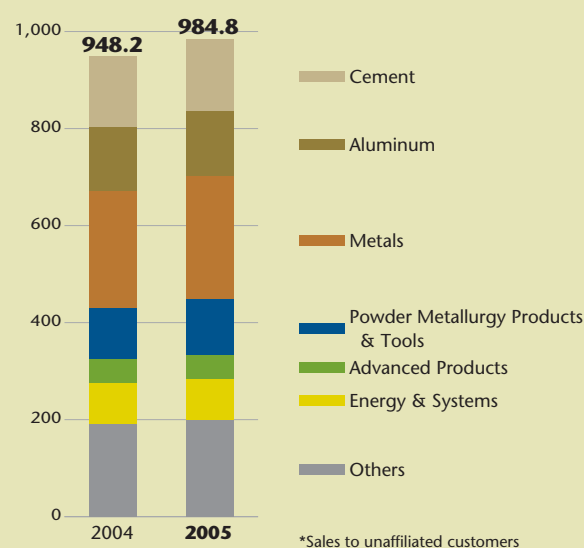
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### Cautionary Statement with Respect to Forward-Looking Statements

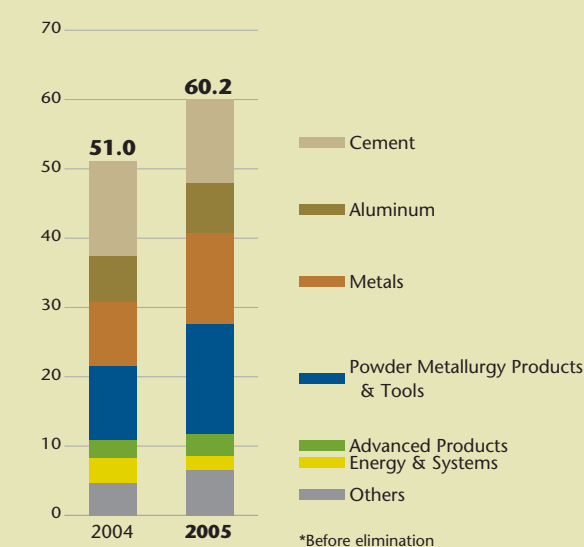
Statements made in this annual report with respect to Mitsubishi Materials' plans, strategies and beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of Mitsubishi Materials, which are based on management's assumptions and beliefs in 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.


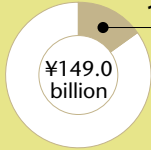
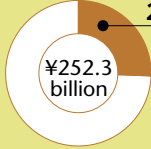
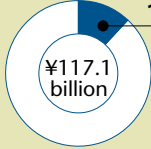
From its beginnings as a developer of resources and producer of base metals, precious metals and coal, Mitsubishi Materials has evolved into a leading name in fabricated metals, silicon products, advanced materials, cement products and a variety of other cutting-edge products and services.

**Sales by Segment\*** (Billions of yen)



**Operating Profit by Segment\*** (Billions of yen)



	Segment	Sales for Fiscal 2005	Major Products and Services
	<b>Cement</b>	 <p>15.1% ¥149.0 billion</p>	<ul style="list-style-type: none"> <li>• Portland cement</li> <li>• Blended cement</li> <li>• Soil stabilizing cement</li> <li>• Building materials</li> </ul>
	<b>Aluminum</b>	 <p>13.7% ¥134.5 billion</p>	<ul style="list-style-type: none"> <li>• Aluminum beverage cans</li> <li>• Aluminum rolled products</li> <li>• Aluminum-related products</li> </ul>
	<b>Metals</b>	 <p>25.6% ¥252.3 billion</p>	<ul style="list-style-type: none"> <li>• Copper cakes, billets, wire and tubes</li> <li>• Copper</li> <li>• Gold</li> <li>• Lead</li> <li>• Zinc</li> <li>• Silver</li> <li>• Zinc die-casting alloys</li> <li>• Sulfuric acid</li> </ul>
	<b>Powder Metallurgy Products &amp; Tools</b>	 <p>11.9% ¥117.1 billion</p>	<ul style="list-style-type: none"> <li>• Cutting tools and cemented carbide products</li> <li>• Powder metallurgical products</li> </ul>
	<b>Advanced Products</b>	 <p>5.1% ¥49.7 billion</p>	<ul style="list-style-type: none"> <li>• Electronic components, sensor chips</li> <li>• Gold bonding wire, sputtering targets</li> </ul>
	<b>Energy &amp; Systems</b>	 <p>8.4% ¥83.1 billion</p>	<ul style="list-style-type: none"> <li>• Fossil fuels</li> <li>• Nuclear energy-related services</li> <li>• Hydroelectric and geothermal power generation</li> </ul>
	<b>Others</b>	 <p>20.2% ¥199.0 billion</p>	<ul style="list-style-type: none"> <li>• High-performance alloy products</li> <li>• Precious metals</li> <li>• Polysilicon</li> <li>• Resources, environmental operations and related businesses</li> </ul>

## Message from the President



### Overview

In fiscal 2005, ended March 31, 2005, the operating environment was generally favorable for the Mitsubishi Materials Group.

The Group strove to expand sales of high-demand automotive and information technology (IT) offerings and of aluminum bottles, a strategic product. The Group also endeavored to cut costs and reduce environmental impact by using recycled fuels at its copper smelters and cement plants. To assist consolidated management, the Group reorganized headquarters in April 2004, strengthening management strategy planning and Group oversight, while continuing to trim spending to streamline operational efficiency. Ongoing efforts included constraining labor costs, liquidating unprofitable businesses, and slashing fixed and variable costs to increase profitability. We also continued to shrink consolidated interest-bearing debt through careful selection of funding sources and divesting assets, thereby reinforcing our business structure.

These factors translated into a 3.9% increase in consolidated net sales, to ¥984.8 billion, with operating profit rising 24.6%, to ¥54.1 billion. Net interest expense totaled ¥9.1 billion. Equity in earnings of affiliates was ¥8.4 billion, reflecting favorable results at Sumitomo Mitsubishi Silicon Corporation (SUMCO).

Net income totaled ¥16.4 billion. This reflected ¥18.2 billion in extraordinary gains, largely from sales of fixed assets and investments in securities, which partly offset ¥33.9 billion in extraordinary losses, comprising severance and pension benefits, losses on sales of fixed assets and the allocation of funds for the allowance for doubtful accounts of consolidated subsidiaries.

### New Consolidated Medium-Term Management Plan

The medium-term management plan that was implemented in fiscal 2002 featured several policies that were introduced to revive the Mitsubishi Materials Group, with the aim of becoming a superior group of companies. In fiscal 2003, we responded to dramatic changes in the operating environment by updating the plan with a “Rolling” initiative. We focused on overhauling our business and cost structures under this initiative to reinforce profitability and enhance our financial position.

Our new medium-term management plan continues to prioritize improvements to our profitability and financial position. The objective is to establish foundations for our long-term Group growth strategies in our efforts to become a superior group of companies.

### Pursuing Excellence

The Mitsubishi Materials Group is committed to undertaking the policies of the new medium-term plan while strengthening cost competitiveness. To these ends, we aim to increase Group companies’ joint purchases of raw materials and other supplies while stepping up the use of recycled materials. At the same time, management will create solid Groupwide foundations by reorganizing and liquidating unprofitable businesses.

Reinforcing risk management and compliance have been among management’s most important concerns to date. After thorough assessment of a series of problems that unfolded with sales of condominiums at OAP Residence Tower at Osaka Amenity Park, however, in January 2005 we decided to further strengthen our corporate social responsibility (CSR) efforts by establishing the CSR Committee, which reports directly to the president and the CSR Office. These new bodies oversee Groupwide CSR efforts to regain trust and contribute to a better society, thereby enhancing enterprise value.

Management remains dedicated to pursuing Group excellence by implementing clear strategies, improving the financial position and ensuring transparency for shareholders and investors. We ask for your ongoing support and understanding of our endeavors.

June 29, 2005

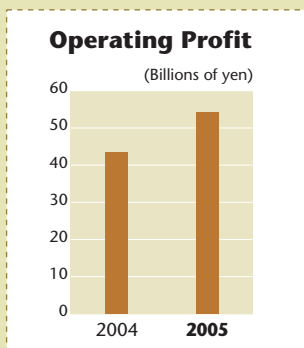
**Akihiko Ide**  
President

## Interview with the President

*"The focus is now on establishing foundations for growth to ensure that we become a superior group of companies."*



How do you assess your fiscal 2005 performance and the results of your new consolidated medium-term management plan?



How do you position your new consolidated medium-term management plan, and what are its objectives?

How do you view the development of your core businesses going forward?

>> **Ide:** Operating profit rose ¥10.7 billion from a year earlier, to ¥54.1 billion, and ordinary income grew to a record ¥50.5 billion.

The greatly improved earnings reflected favorable demand in the automotive and IT sectors, higher metals prices, expanded demand for aluminum beverage cans owing to an unusually hot summer and increased demand for copper. The real driver behind these results, however, was the successful implementation of policies that we have pursued to date.

The Group launched a "Rolling" initiative for its consolidated medium-term management plan in fiscal 2003 to overhaul its cost structure. Fiscal 2005 was the final year of this plan. Our targets for the term were ¥50 billion in consolidated ordinary income and a reduction in interest-bearing debt to ¥750 billion. I think it was very significant to reach those goals, and I am particularly proud that concerted Groupwide efforts led to our improved financial position.

### Rolling Plan Initiatives

Ended March 31, 2005

	Rolling Plan	<b>Actual</b>	Difference
• <b>Ordinary income</b>	¥50.0 billion	<b>¥50.5 billion</b>	¥0.5 billion
• <b>Return on assets (ROA)</b> (calculated using ordinary income)	3.1%	<b>3.5%</b>	0.4 point
• <b>Interest-bearing debt</b>	¥750.0 billion	<b>¥737.7 billion</b>	-¥12.3 billion

>> **Ide:** We addressed key challenges under the Rolling initiative, so the focus is now on establishing foundations for growth to ensure that we become a superior group of companies. Our efforts will include building more stable earnings structures so that we can become a winner in such core businesses as cement, metals, advanced materials & tools, aluminum, and electronic materials and components. In my view, it is crucial to strengthen cost competitiveness while taking expansionary steps.

Our new medium-term goals are to achieve ordinary income of ¥60 billion in fiscal 2007 and lower interest-bearing debt to ¥700 billion by that time. By steadily enhancing earnings and our financial position over the next two years, we aim to prepare for the next stage of growth.

This will be our chief priority for the next two years, regardless of what happens during this period.

>> **Ide:** In the cement business, improving cost competitiveness is our key focus domestically, and we aim to lower costs primarily by stepping up industrial waste treatment. We particularly seek to boost revenues by increasing volumes in plastic waste for use as fuel and handling other waste that is difficult to treat. In the United States, we intend to enhance profitability by further expanding sales volume in downstream areas. In China, we aim to



***“It is a top management priority to enhance the Group’s financial position, so we’re making concerted Groupwide efforts to lower interest-bearing debt.”***

improve sales through product upgrading and increasing cement shipments and sales bases.

Our strategy in the metals business is to harness our Group structure, which integrates everything from investments in mines to smelting and copper processing, so that we can stably raise earnings under changing business climates. Overseas, we are increasing capacity at our cost-competitive Indonesian copper smelting subsidiary PT. Smelting in response to robust demand in Southeast Asia. In Japan, we will further reduce costs by reinforcing our recycling operations at the Naoshima and Onahama smelters, concentrating on the treatment of shredder dust from automobiles and appliances. In copper and copper alloys, Mitsubishi Shindoh, Sambo Copper Alloy and other Group companies will strengthen their relationships with respect to product development and other operations to enhance revenues and earnings.

In advanced materials & tools, we will integrate and bolster advanced products operations to share customer bases in the automotive and aircraft sectors, while drawing on our extensive international marketing and sales networks to boost operational efficiency. Our prime customers in advanced materials & tools will be automakers, IT firms and heavy industry companies. Our basic strategy is to create a global production and sales structure of high-quality products that utilize our ability to focus development on customer needs.

The operating environment for the aluminum business will most likely be challenging. Owing to intense competition with PET bottles, demand for regular aluminum cans is expected to plunge. In addition, higher rolling and other processing costs will constrain our ability to generate sufficient earnings at current price levels. That said, we seek to bolster earnings by increasing sales of our strategic aluminum bottles. In October 2005, we plan to integrate our aluminum beverage can operations with those of Hokkai Can Co., Ltd., and thereby enhance earnings. In rolled aluminum products, we have already capitalized on solid demand to improve our performance. Our basic strategy in this category remains to increase automotive offerings. We expect automakers to boost the proportion of aluminum they use in their vehicles to help combat environmental problems. We have also entered the Chinese market for materials used in heat exchangers.

Finally, in electronic materials and components we will integrate our silicon and advanced products businesses. We have positioned electronic materials as a sales and earnings driver, and will accordingly concentrate management resources on this area. As for electronic components, it is crucial to continue to develop new products. We will push ahead with technological innovations for automotive and IT customers.

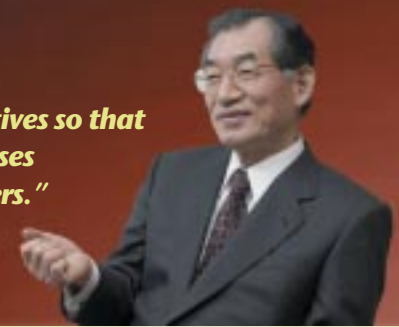
**Please elaborate on your achievements and plans for interest-bearing debt.**

>> **Ide:** It is a top management priority to enhance the Group’s financial position, so we’re making concerted Groupwide efforts to lower interest-bearing debt.

As a result of this endeavor, interest-bearing debt was reduced to ¥737.7 billion at the close of fiscal 2005, down from more than ¥1 trillion at the end of fiscal 1999. We’ll continue to draw on our experience to drive down this debt even further.

Our new consolidated medium-term management plan calls for ongoing improvements in our financial position. We intend to reduce interest-bearing debt to ¥700 billion by the end of fiscal 2007. We will get there by improving operational efficiency, divesting assets and constraining inventories and accounts receivable.

***“The Group is determined to reach its objectives so that we can become a winner in our core businesses while sharing the goals of all our stakeholders.”***



**How are your Group companies performing?**

>> **Ide:** We are focusing on consolidated management, and, as a result, we need to build solid Group management foundations. Our initial goal was to reduce the number of Group companies from 391, at the close of fiscal 2001, to fewer than 300, at the end of fiscal 2005. Aside from new joint ventures, we cut the number by almost 150. This streamlining has helped improve Group profitability and return on assets.

We will continue to tackle problematic Group companies based on earnings trends, increases in interest-bearing debt and other quantitative standards. We will keep reorganizing the Group by liquidating or withdrawing from companies that operate outside our core business or have poor prospects even if in core areas.

**How are you tackling corporate social responsibility, corporate governance and risk management?**

>> **Ide:** In December 2002, the Group instituted a management system and stepped up risk management and compliance activities.

Since then, the operating environment has changed such that management faces growing pressure to bolster CSR efforts. We have concluded that it has become far more important to not only be responsive, such as through risk management and compliance, but also to be proactive on behalf of all stakeholders, thereby increasing enterprise value.

So, in January 2005, we established the CSR Office to integrate CSR activities beyond the traditional framework of risk management and compliance.

Our first major effort will be to start identifying what we have done and what we need to do to ensure that our business activities earn the trust of our many stakeholders—including shareholders, employees, customers, suppliers and society at large. By communicating openly with stakeholders, we aim to fulfill our social responsibilities while ensuring that management and employees strive to improve enterprise value. In addition, we will make every effort to ensure the full disclosure and prompt delivery of information, in our aim of becoming a wholly transparent organization.

**Finally, what would you like to say to shareholders and investors?**

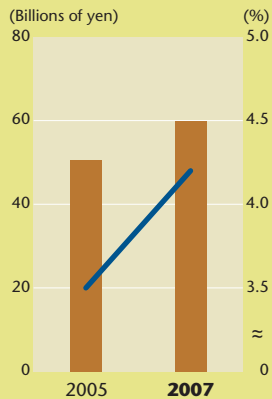
>> **Ide:** For a start, I'd like to emphasize that over the past four years we have accelerated selective concentration, strengthened our profitability and have put in place a management team that is flexible and responsive to change. Also, we have reached the targets of our Rolling initiative in restructuring operations, reforming our organization and overhauling our cost structure.

The new medium-term management plan that we implemented in April 2005 is our road map to becoming a superior group of companies. The Group is determined to reach its objectives so that we can become a winner in our core businesses while sharing the goals of all our stakeholders.

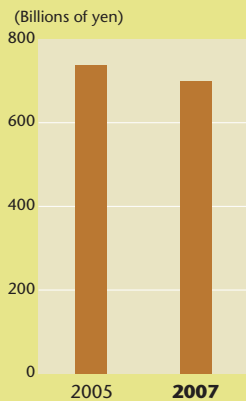
## New Medium-Term Management Plan

### Performance Targets

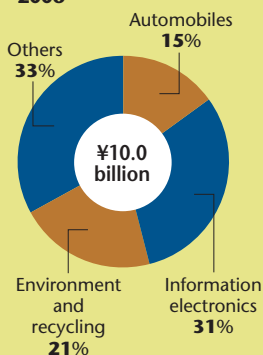
■ Consolidated ordinary income  
— Return on assets (calculated using ordinary income)



### Interest-bearing debt



### R&D expenses 2006



Mitsubishi Materials launched a new two-year management plan, which began in April 2005. The new initiative succeeds a consolidated medium-term management plan that ran from fiscal 2001 to 2003 and the subsequent Rolling Plan, which covered fiscal 2004.

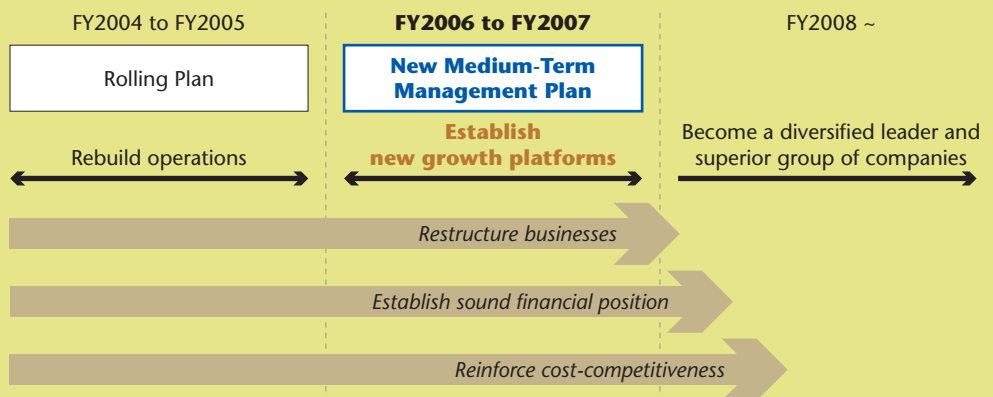
Under the plan covering fiscal 2001 to 2003, we took steps to rebuild the Company as a superior group of companies. In 2003, we revised that initiative to reflect dramatic changes in the operating climate, instituting the Rolling Plan to cover fiscal 2004 to 2005. We focused on revamping our business and cost structures under that plan, according particular attention to bolstering profitability and reinforcing our financial position.

Our new medium-term management plan will step up efforts to improve profitability and our financial position, providing the foundations that management needs to formulate Group growth strategies. All these endeavors are in line with our objective of becoming a superior group of companies.

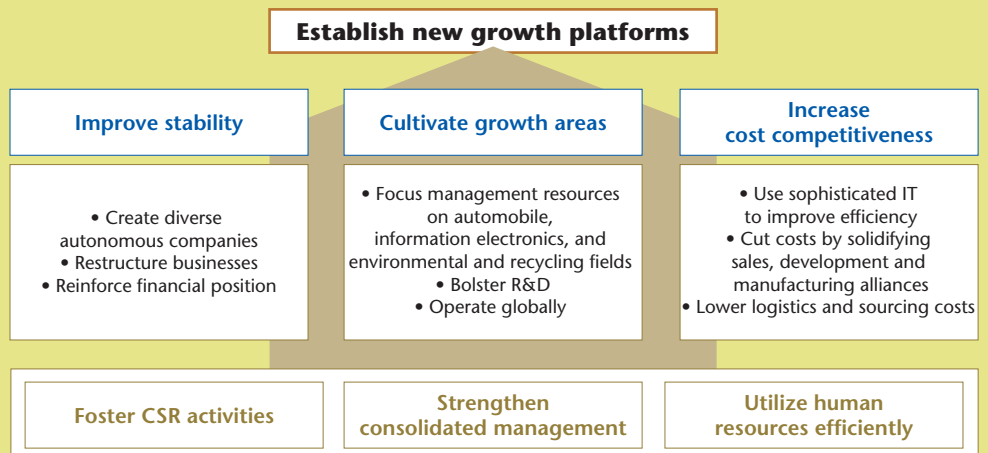
### Performance Targets Fiscal (FY)2007

• Increase earnings	Consolidated ordinary income	¥60 billion
	Return on assets (calculated using ordinary income)	Greater than 4%
• Improve profitability	Interest-bearing debt	¥700 billion

### Positioning

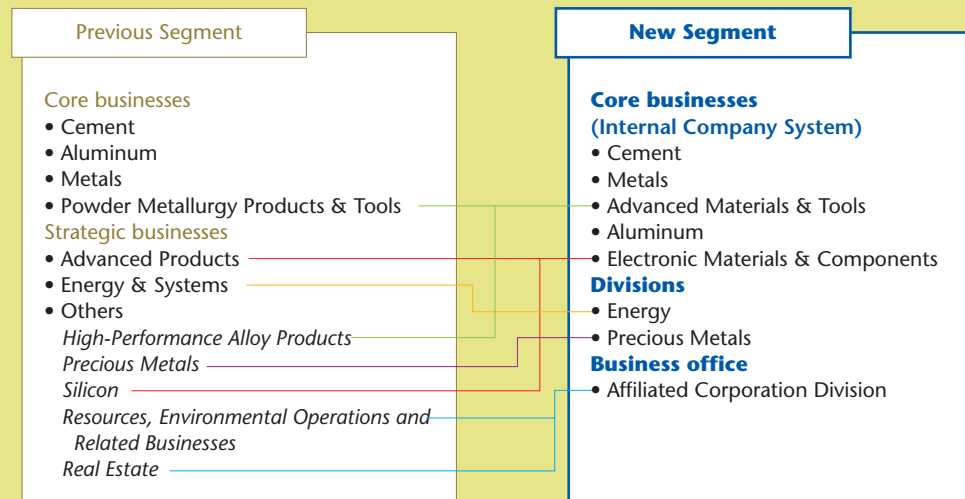


### Basic Concepts



## New Segmentation

- Combine business realignments and optimal businesses
- Efficiently concentrate management resources and create the foundations for a business conglomerate by reorganizing operations



### Overview

**Until March 2005:** Four core businesses (Cement Company, Aluminum Company, Metals Company, and Powder Metallurgy Products & Tools Company) + seven strategic businesses

**From April 2005:** Business structure centered on five companies (five companies + two divisions + one business office)

**Five companies:** Cement, Metals, Advanced Materials & Tools, Aluminum, and Electronic Materials & Components

- Advanced Materials & Tools was formed by the merger of Powder Metallurgy Products & Tools and High-Performance Alloy Products.
- Electronic Materials & Components was formed by the merger of Advanced Products and Silicon.

Note: In the Company's new business segment configuration, the two divisions Energy and Precious Metals are grouped together with the business office Affiliated Corporation Division to form the Others business segment.

## Management Strategy of Five Companies

### Cement Company

Secure stable earnings by maintaining a regional portfolio encompassing Japan, the United States, China, and Southeast Asia.

### Metals Company

Integrate everything from mining and smelting to copper processing to bolster earnings.

### Advanced Materials & Tools Company

Cultivate operations from a user-oriented perspective, concentrating on automobiles, aircraft and IT. We integrated powder metallurgy products & tools and high-performance alloy products operations that serve the same customer base to expand our business.

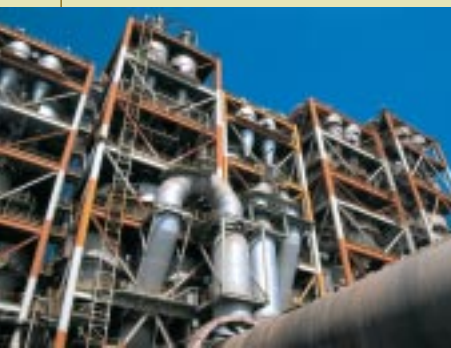
### Aluminum Company

Increase sales of aluminum cans and expand aluminum rolled products operations, centering on extruded products for automotive parts.

### Electronic Materials & Components Company

We integrated our silicon and advanced products businesses, which share many technological and sales commonalities, and will harness the resulting synergies. We have positioned the electronic materials business as a Companywide growth driver, and will accordingly concentrate management resources to increase earnings.

## Cement



**Kyushu Plant:**  
The Largest Cement Plant in Japan

### 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. 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 revenues and earnings.

### Performance

Sales and volumes decreased in Japan owing to a decline in public sector expenditures, which countered solid demand from the private sector.

As with cement, sales and volumes were down for aggregate due to the drop in public sector spending, which dampened demand for ready-mixed concrete.

Consolidated subsidiaries in Japan continued to face tough business conditions due to the downturn in public sector expenditures, while U.S. and Chinese operations achieved consistently strong performances.

As a result of these factors, segment sales rose 2.7%, to ¥149.0 billion, and operating profit was slipped 11.1%, to ¥12.1 billion.

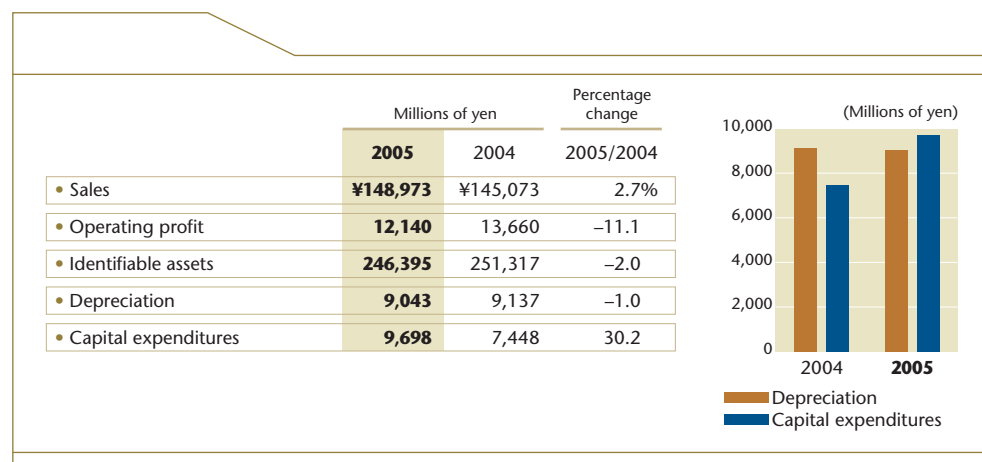
### Outlook

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

With domestic demand continuing to slide, the cement business is striving to cut costs, with its operations expanding industrial waste treatment to help boost income. At the same time, management is pressing for higher prices to offset cost increases that have stemmed primarily from rises in the costs of coal used in cement production and hikes in sea freight charges.

The aggregate business responded to restrictions on procuring sand from the Seto Inland Sea by setting up crushing facilities at the Kyushu Plant to provide an alternative source of fine aggregate. Full-fledged sales of sand made from limestone at the Higashitani Mine quarry commenced in December 2004.

In the United States, Mitsubishi Cement Corp. should continue to do well, while other affiliates are working on policies to bolster profitability.



## Aluminum

### Profile

All of us at Aluminum Division work to uphold a quality assurance system that guarantees superior reliability of our aluminum products. Additionally, we are developing a new structure to boost production and sales of aluminum bottles so that we can identify new demand for aluminum containers. We aim to expand the use of our aluminum recycling structure while setting up a system to deliver aluminum cans more swiftly and improve cost competitiveness to increase sales and profits.

### Performance

Sales were solid for aluminum bottles, a key strategic offering attributed from by the record breaking summers heat that generated strong demand for soft drinks and alcoholic beverages. However, despite the sales increase, the earnings decreased, due to intensified competition.

Sales of aluminum fabricated products declined from the previous year as a consequence of the withdrawal from this business as of June 2004, due to further internalization by the key customers.

Revenues and earnings improved in extruded aluminum products due to heightened demands from automakers as well as the strong demand for sheet aluminum.

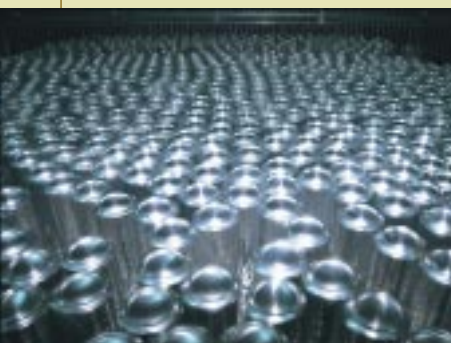
Segment sales thus increased by 2.0%, to ¥134.5 billion, while the operating profit rose by 8.7%, to ¥7.2 billion.

### Outlook

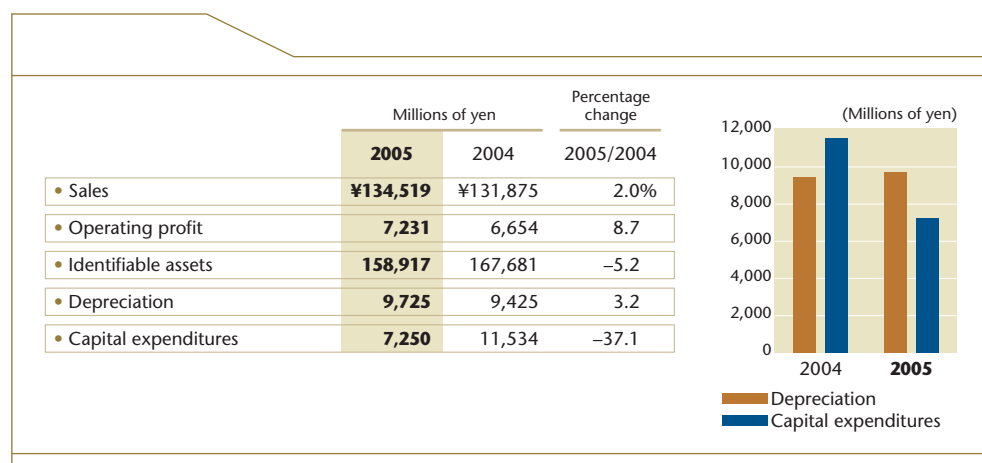
We aim to expand sales of volumes of aluminum cans and rolled aluminum products, centered on extruded products for automotive parts.

We have signed a formal agreement to establish Universal Can Co., Ltd., in October 2005, to which we and Hokkai Co., Ltd., will spin off aluminum beverage can operations. We will have an 80% stake in the new entity, while Hokkai Can will own the remaining 20%.

We will strive to become a leading player in the small beverage container market by responding to the diverse requirements of customers for our aluminum cans.



High-Speed Aluminum Can  
Production Lines



## Metals



Copper Billets and Cakes

### 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 devices as semiconductor frames. One of the advantages of our nonferrous metal products is that we have integrated everything from smelting to processing.

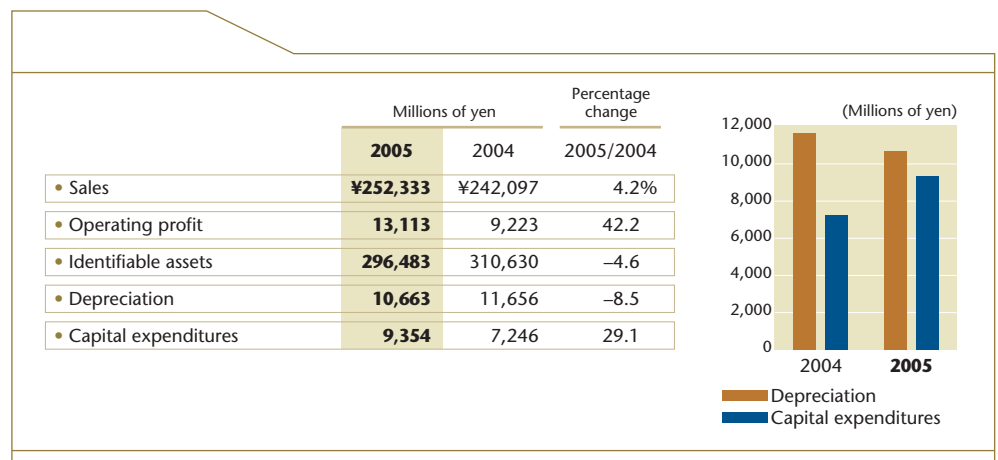
We developed the Mitsubishi Process, the world's first continuous-smelting process for copper. This process is cleaner, more energy efficient and less expensive than other smelting technologies. Outside Japan, we have licensed the process to smelters in Canada, Korea, Indonesia and India.

### Performance

Copper wire volumes declined from a year earlier. Volumes were favorable for rolled copper used in automotive electronic materials, but overall volumes of electronic materials declined amid inventory corrections in the semiconductor market. In addition, reduced procurement suppressed exports. As a result, overall volumes of rolled copper were down, although revenues surged owing to price hikes. In fabricated metal products, sales of automotive copper castings were up, although revenues declined for wire materials. Gold prices remained high but revenues were down, as volumes declined and the proportion of gold used in raw materials decreased. In Indonesia, PT. Smelting's sales were down owing to the impact of regular repairs, although that subsidiary benefited from greater electrolytic capacity. Dutch subsidiary MM Netherlands Co. boosted earnings more than threefold from a year earlier on the strength of high metals prices. As a result of these factors, segment sales rose 4.2%, to ¥252.3 and operating profit rose 42.2%, to ¥13.1 billion.

### Outlook

In fiscal 2006, higher prices for coal, oil, and other resources and increasing sea freight charges could cause nonautomotive demand to decline. Nonetheless, we expect copper prices to remain high and improved ore purchase terms, which should drive revenues as expected and allow us to stabilize operations and boost earnings.



## Powder Metallurgy Products & Tools

### Profile

Mitsubishi Materials enjoys No. 1 shares in Japan and is steadily increasing its shares globally in powder metallurgy product markets for cemented carbide products, sintered metal components for automobiles, small motors for IT and telecommunications applications, and diamond tools for the electronics and semiconductor fields.

### Performance

Demand for cemented carbide products remained buoyant, reflecting solid sales to the automotive sector, strong exports to Asia and a favorable business climate in both Europe and the United States.

In powder metallurgy products, sales were strong to the automotive sector, particularly of sintered parts. Sales and earnings for the entire powder metallurgy products category declined, however, owing to the transfer of the injection molding die-making business in December 2004, and high raw materials prices, which raised costs.

Sales and profits increased in diamond tools, as IT sales were especially favorable in the first half of the term.

Segment sales thus rose 12.8%, to ¥117.1 billion, with operating profit gaining 49.3%, to ¥15.9 billion.

### Outlook

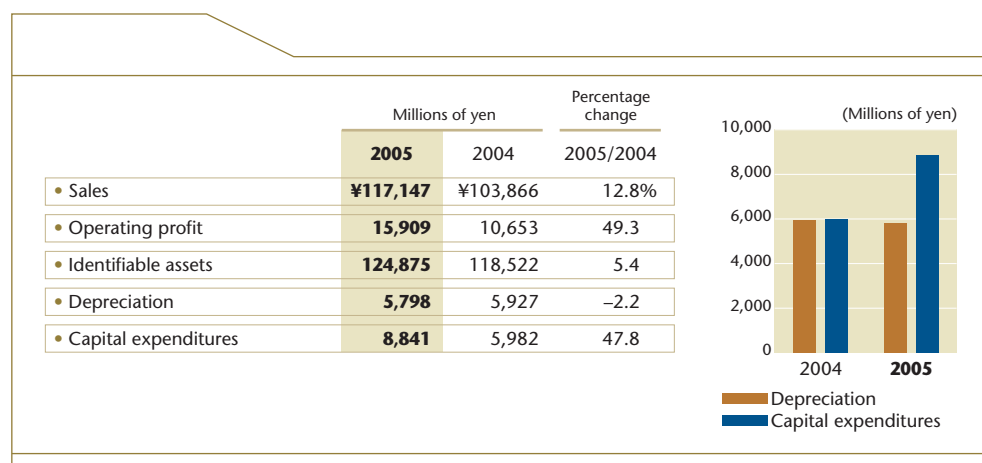
In April 2005, we merged the high performance alloy products business with the powder metallurgy products & tools business.

In fiscal 2006, we will endeavor to strengthen operations and enhance revenues and earnings by stepping up product development, expanding sales and cutting costs. We will also continue our efforts to eliminate wasteful processes and shrink lead times, thereby building a stable sales and earnings structure.

We reached an agreement with Plansee Holding AG to create a 50–50 joint venture to which both parties will transfer their sintered metal components businesses. The new entity will set up a supply structure for automotive firms around the world, as it aims to be a global leader in its field. We plan to establish the new company on October 1, 2005.



**Cemented Carbide Products**  
(Cutting Tools, Construction Tools  
and Wear-Resistant Tools)



## Advanced Products

### Profile

This segment covers three business areas that innovate and manufacture high-performance offerings. 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

Revenues and earnings of advanced products increased, owing to strong sales of silicon precision processing parts for 300mm wafers, which offset the impact of inventory adjustments in gold wire and other IT offerings.

Sales and profits were down in electronic devices, reflecting demand downturns in offerings for digital appliances and IT equipment. Sales of components for mobile phones, however, were solid.

Revenues grew for fine chemical products, owing to higher semiconductor-related sales, which compensated for sluggish demand for fluoride products.

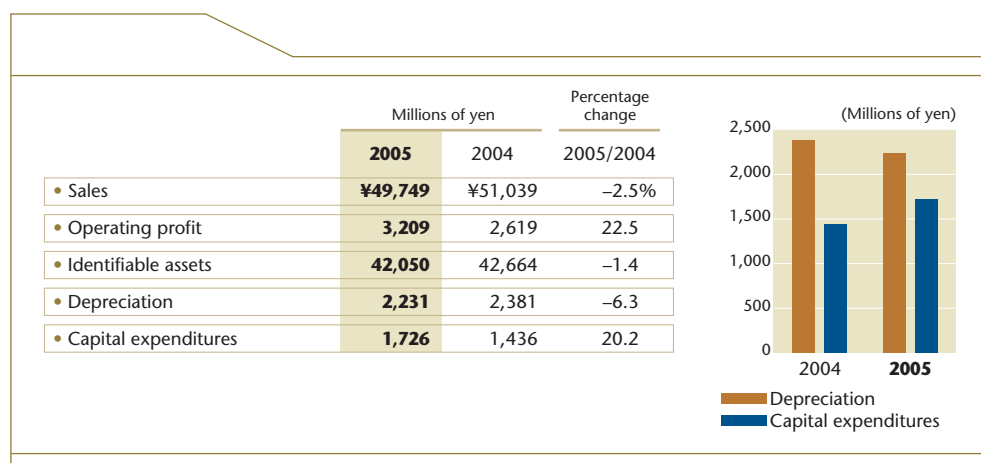
As a result of these factors, segment sales declined 2.5%, to ¥49.7 billion, while operating profit improved 22.5%, to ¥3.2 billion.

### Outlook

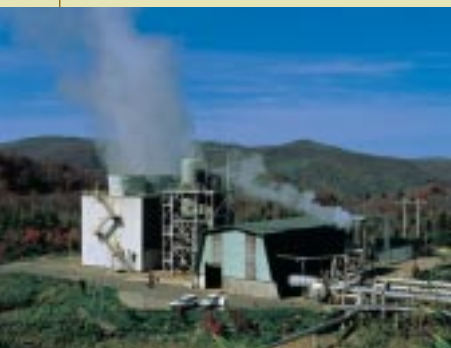
In April 2005, we integrated the advanced products and silicon businesses to create the Electronic Materials & Components business segment. In fiscal 2006, we will focus on expanding sales in the semiconductor, displays, battery materials and automotive fields, where we have leading market positions.



Sputtering Targets for Recording Media



## Energy & Systems



Geothermal Power Plant

### 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 created an ideal nuclear fuel cycle that encompasses everything from uranium mining through to reprocessing, waste treatment and disposal.

### Performance

Sales of fuels for nuclear reactors were down from a year earlier, reflecting a decline in revenues from nuclear power and systems.

In the geothermal and hydroelectric power businesses, sales were basically unchanged owing to a strong performance from our hydroelectric power business and favorable sales of steam to a geothermal power station in Akita Prefecture.

Sales of our fossil fuels business increased as a result of volume increase as well as high global prices for coal and oil.

The engineering business posted higher sales despite a decline in construction project orders.

Segment sales edged up 0.5%, to ¥83.1 billion, while operating profit was down 41.3%, to ¥2.0 billion.

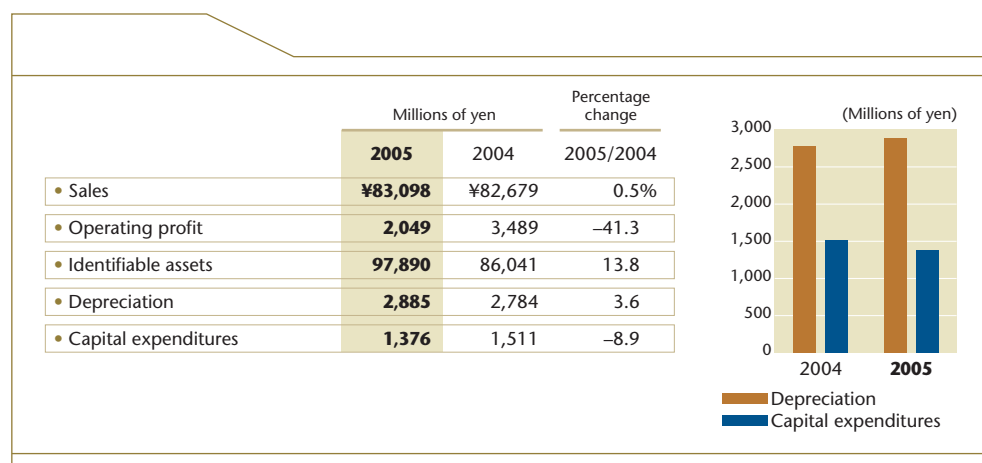
### Outlook

In April 2005, we reorganized the energy & systems business as the energy business, which focuses on nuclear, geothermal and hydroelectric power, and fossil fuels.

The operating climate in the nuclear power business remains challenging, as tight government and electric power company budgets are exacerbating the impact of delays in uranium tests at the Rokkasho Reprocessing Plant and restraints on mergers of organizations in the nuclear power sector. Nonetheless, ensuring that uranium tests proceed smoothly and securing new orders are our top priorities.

In the geothermal power business, our basic goal is to ensure stable supplies of steam to a station in Sumikawa, Akita Prefecture, as part of which we will maintain capacity through repairs to existing production facilities. At the same time, we will endeavor to cut maintenance and repair costs.

In our fossil fuels business, we will strengthen sales of coal that offers reduced environmental impact while reinforcing capital relationships with customers to increase sales volume. Subsidiary Mitsubishi Materials Energy Corp. is spearheading domestic marketing of petroleum products.



## Others



**F**an Case for Aircraft Engine

### Overall Performance

Sales in the Others segment advanced 3.8%, to ¥199.0 billion, with operating profit climbing 39.8%, to ¥6.5 billion.

### High-Performance Alloy Products

#### Profile

Mitsubishi Materials has forged a strong reputation for supplying to a broad customer base, which includes 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

The high-performance alloy business was affected positively by higher metals prices and posted higher revenues and earnings on greater demand from the automotive and aerospace sectors and for gas turbine materials, which offset the impact of production halts and reductions in unprofitable products.

#### Outlook

In April 2005, we merged the high-performance alloy products business with the Advanced Materials & Tools Company. In the year ahead, we will bolster our aircraft parts supply capabilities to take advantage of market growth.

### Precious Metals

#### Profile

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

#### Performance

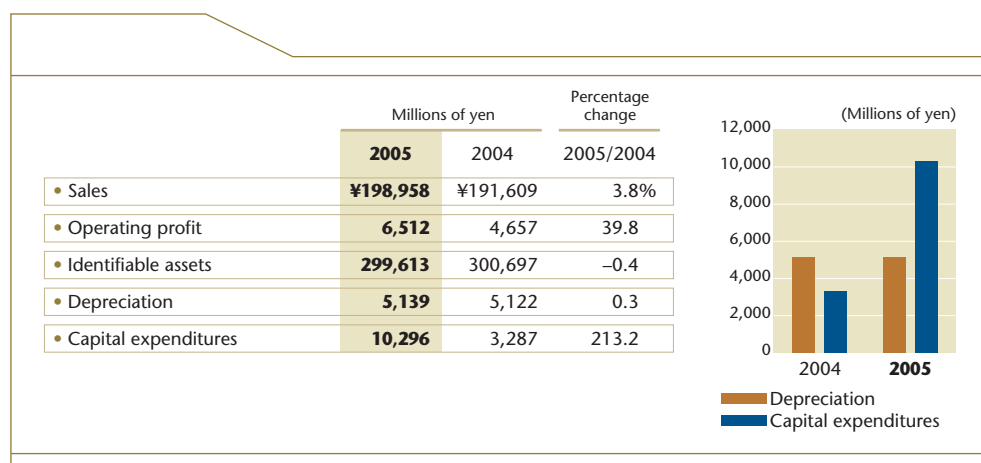
Sales of gold and jewelry to individual consumers remained strong, although sales of precious metals declined owing to a drop in sales of gold to businesses.

#### Outlook

In fiscal 2006, we do not expect demand for gold ingots to increase as quickly as in recent years. That said, the trend toward people holding part of their assets in gold is continuing. We therefore aim to boost sales by offering full-fledged custodial services to wealthy individuals.



**T**he World's Largest Gold Ingot (250kg)



We anticipate higher sales of jewelry on the back of increased recognition of our MJC sub-brand, for which we mounted a concerted advertising campaign in fiscal 2005, and the popularity of our Trilogy range of licensed products.

## **Polysilicon**

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### **Profile**

We produce polycrystalline silicon for semiconductor and photovoltaic applications (i.e. solar batteries), along with high-purity silane gases for optical fiber and other semiconductor-related applications. We also manufacture and sell high-quality silicon wafers through SUMCO, a 50–50 joint venture with Sumitomo Metal Industries, Ltd. We continue to draw on our core competencies in advanced materials and process technologies to provide offerings that are the foundation of the semiconductor industry.

### **Performance**

Sales of polycrystalline silicon surged owing to a demand for high-quality 300mm silicon wafers and a boost in demand for solar batteries. The silicon wafer market continues to grow, particularly in 300mm wafers. SUMCO has been the world's second largest manufacturer of silicon wafers.

### **Outlook**

In April 2005, we integrated the silicon and advanced products businesses to form the Electronic Materials & Components Company.

In the years ahead, the semiconductor market will most likely remain at steady growth, although we anticipate higher sales due to rising demand for 300mm silicon wafers and the booming photovoltaic industry.

Demand is expected to remain strong for polycrystalline silicon, and price recoveries should provide significantly higher earnings.

## **Resources, Environmental Operations and Related Businesses**

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### **Profile**

In the resources field, we leverage many years of experience in managing mines and resource development technologies to support everything from discovery to development and operations in Japan and abroad. In our environmental operations and recycling business, we are focusing mainly on recycling appliances in response to government policies designed to encourage the reusability of resources.

### **Performance**

During the term, we were able to reduce losses by constraining the heavy parent costs of these operations.

### **Outlook**

In April 2005, we reorganized our resources, environmental and recycling businesses to create the Resources, Environmental and Recycling Office, whose role is to coordinate Companywide operations across these areas of business.



**P**olycrystalline Silicon



**H**ousehold Appliance Recycling Plant

## Research and Development

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

R&D expenses for fiscal 2005 totaled ¥10.4 billion.



**U**ltracompact Power Line  
Communication Audio Module

### ***Sales Launched of Ultracompact Power Line Communication Audio Module***

Mitsubishi Materials developed a 40 x 25mm high-speed power line communication (PLC) audio module that is one of the smallest in the world. This new offering enables transmission of CD-quality digital audio, and incorporates circuitry technologies for surge protection as well as suppression of electrical field emissions. Test marketing of the new product commenced in January 2005.

PLC technology uses a high-frequency (2–30 MHz) band and special communications technologies to enable data transmissions to homes and businesses over power lines. Many expect this approach to allow people to create data networks within the home through power distribution lines that enable them to send and receive information between their appliances.

We developed surge absorber technologies that are important to PLC. We also innovated one of the world's smallest high-speed PLC modules, which is ideal for use in appliances. Just as demand has started to rise for music distribution to portable music players and mobile phones, the market for networked music distribution is poised for expansion. We began offering our PLC module in North America, Europe and Asia. Plugged into a power outlet, it will allow people to enjoy music wherever they want.



**A**SIP Chamber

### ***ASIP Chamber Launched***

In September 2004, we launched our All-round Smart-operation Isostatic Pressing (ASIP) chamber for general use in the manufacturing industry. This product provides environments of high temperatures and high pressures along with a simple one-touch operation.

The ASIP chamber was originally designed for supercritical fluid technologies. We have developed and commercialized various processes and products that harness supercritical fluid technologies. Our supercritical water technologies encompass hydrogen manufacturing and coal gasification. Also, our supercritical carbon dioxide technologies are employed in various fields, including high-performance cleaning and extraction processes, the manufacture of high-quality resins, among others. When developing these technologies for commercial use, we need a special chamber that provides not only a high temperature and pressure but also exceptional safety and operability. The ASIP chamber satisfies these requirements.

The most important feature of the chamber is the closing mechanism of its lid. A clamp-based closing mechanism eliminates the need for nuts and bolts. As a result, this feature, coupled with a double-lid structure, facilitates simple and quick opening and closing, as well as enhances the seal life of the lid. In addition, the chamber's opening and closing can be fully automated. These features of the chamber make it easier for a manufacturer to operate where the equipment requires ultrahigh temperatures, pressures and/or vacuums. Another benefit of the ASIP chamber is that *takt* times in the production process are shortened.

The Mitsubishi Materials Group has long endeavored to enrich society by providing it with the resources it needs.

We drew on our corporate philosophy to formulate a mission that aims to concertedly pursue the above goal. We devised the 10 Articles of Corporate Conduct to help implement our mission and have made the principles of this document central to our business activities.

Our mission clarifies what each employee must do to ensure our progress and help us coexist with and contribute to society through our business activities. The mission is the foundation of our corporate social responsibility (CSR) endeavors.

In January 2005, we established the CSR Committee, which the president chairs, to more systematically focus business activities on contributing to society. We also set up the CSR Office to oversee such efforts.

The Mitsubishi Materials Group seeks to enhance enterprise value by earning the trust of society and helping it become even more prosperous.

## CSR Pledge Building Trust in the Mitsubishi Materials Group

Since its establishment, the Mitsubishi Materials Group has striven as a comprehensive materials maker to serve the basic needs of society. Group businesses have worked tirelessly to enrich society, including by helping reduce environmental impact and fostering recycling.

Management implemented a Group mission and a related 10 Articles of Corporate Conduct that guides all business activities.

Our mission is the foundation of our Corporate Social Responsibility efforts because it mandates that Group operations and employees alike contribute daily to corporate and social progress.

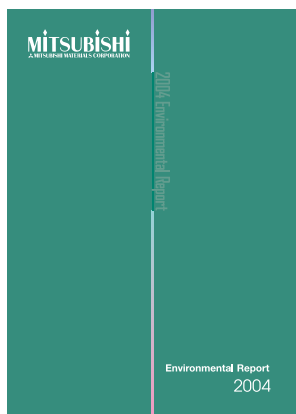
We are reemphasizing to those roots so we can better serve our shareholders, employees, customers, society, suppliers, identifying areas for improvement so we can earn the long-term trust of these and many other stakeholders.

Management and all employees will draw on our mission to communicate better with stakeholders, thereby meeting our social responsibilities and enhancing enterprise value. At the same time, we will appropriately disclose information that society needs so we can demonstrate transparency.

I hereby pledge that the Group will earnestly tackle its Corporate Social Responsibility challenges so it can continue to help make the world a better place through its operations.

April 2005

**Akihiko Ide**  
President



**Environmental Report**  
(The Company's CSR Report will be published in 2005.)

<http://www.mmc.co.jp/english/environment/>

# Management

(As of June 29, 2005)

<b>President</b>	Akihiko Ide*
<b>Executive Vice Presidents</b>	Tsuneo Katsuki* Haruhiko Asao*
<b>Managing Directors</b>	Koichi Kitamura* Hiroshi Yao* Hiroo Kiyokawa* Yoichi Taguchi*
<b>Director and Executive Adviser</b>	Akira Nishikawa
<b>Director</b>	Yukio Okamoto†
<b>Senior Executive Officers</b>	Shuichi Baba Michio Fujita Hisayoshi Honma Toshihiko Igarashi Fumio Shimada Hiroshi Kanemoto
<b>Executive Officers</b>	Chikura Kinoshita Etsuji Kimura Toshio Hiratsuka Yoshio Akiyama Makoto Miki Kazuyuki Hagiwara Takuo Ohta Fumihiro Ueda Masahiko Iinuma Hironori Yoshimura Masao Ohisa Keiichi Shirai Toshinori Kato Masafumi Koga Motohiko Masunaga Yukio Ono Tadatoshi Teruyama Shuichi Daigo Yutaka Koshiba Mayuki Hashimoto
<b>Corporate Auditors (Standing)</b>	Yoshimitsu Moriya† Yoshio Fujiwara Kuniyasu Sakakibara
<b>Corporate Auditor</b>	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 that end, we are pursuing efficient and transparent management, and have implemented various policies to bolster corporate governance.

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

Our Board of Directors comprises eight internal and one external director. We regard this structure an appropriate arrangement for fast and effective decision making. Supporting the Board is the Corporate Strategy Committee, comprising the president and several directors, which assesses matters for subsequent Board deliberation to ensure appropriate and efficient decision making.

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

# Main Consolidated Subsidiaries and Affiliates

(As of June 30, 2005)

Main Consolidated Subsidiaries	Line of Business	Percentage of Ownership
<b>Cement</b>		
MCC Development Corp.	Investment in cement-related industries	70%
Mitsubishi Cement Corp.	Production and sales of cement	67%
Mitsubishi Materials Kenzai Corp.	Production and sales of concrete products and other building materials	78%
Ryoko Lime Industry Co., Ltd.	Production and sales of limestone	100%
<b>Metals</b>		
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%
<b>Advanced Materials &amp; Tools</b>		
Japan New Metals Co., Ltd.	Production and sales of tungsten and molybdenum	89%, 11% (indirectly)
Mitsubishi Materials C.M.I. Corp.	Production of micromotors and electric contacts	100%
Mitsubishi Materials Kobe Tools Co., Ltd.	Production and sales of cutting tools	100%
Mitsubishi Materials Tools Co., Ltd.	Sales of cutting tools	100%
Mitsubishi Materials U.S.A. Corp.	Surveys in the United States and sales of fabricated metal products	100%
<b>Aluminum</b>		
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)
<b>Electronic Materials &amp; Components</b>		
JEMCO Inc.	Production and sales of chemical products	100%
Kamaya Electronic Co., Ltd.	Production and sales of electronic parts	96%
Mitsubishi Materials Polycrystalline Silicon Corp.	Production and sales of polycrystalline silicon	100%
Mitsubishi Polycrystalline Silicon America Corp.	Production and sales of polycrystalline silicon	100%
<b>Others</b>		
Mitsubishi Materials Energy Corp.	Sales of fuel	100%
Mitsubishi Materials Techno Corp.	Technical engineering and construction	100%
Mitsubishi Nuclear Fuel Co., Ltd.	Production and sales of nuclear fuels for power generation	66%
Dia Consultants Co., Ltd.	Soil analysis and consulting	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 Real Estate Corp.	Real estate	100%
Ryoko Sangyo Co., Ltd.	Trading	68%
<b>Main Affiliates*</b>		
<b>Cement</b>		
P.S. Mitsubishi Construction Co., Ltd.**	Construction	40%, 1% (indirectly)
Tokyohoso Kogyo Co., Ltd.	Construction	39%
Ube-Mitsubishi Cement Corp.	Marketing of cement	50%
<b>Metals</b>		
Kobelco & Materials Copper Tube, Ltd.	Production and sales of copper tubes and related products	45%
Mitsubishi Cable Industries Co., Ltd.**	Production and sales of electric wire and cable	29%
Mitsubishi Shindoh Co., Ltd.**	Production and sales of copper and copper alloy sheets and tubes	28%
<b>Electronic Materials &amp; Components</b>		
Nippon Aerosil Co., Ltd.	Production and sales of finely dispersed silica	20%
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, 2005)

## North America

### Canada

Mitsubishi Materials Corp. Vancouver Office  
*Representative office*

### Mexico

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

### United States

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

## South America

### Brazil

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

### Chile

Mitsubishi Materials Corp. Chile Office  
*Representative office*

## Europe

### France

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

### Germany

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

MMC Hartmetall GmbH  
*Sales of cemented carbide products*

### Italy

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

### Netherlands

MM Netherlands Co.  
*Holding company for copper mine*

### Russia

MMC Hardmetal Russia Ltd.  
*Sales of cemented carbide products*

### Spain

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

### United Kingdom

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

## Asia

### India

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

### Indonesia

PT. Higashifuji Indonesia  
*Production and sales of micromotors*

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

PT. Smelting  
*Smelting, refining and marketing of copper*

### Malaysia

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

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

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

Mitsubishi Materials Corp. Southeast Asia Regional Office  
*Representative office*

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

### People's Republic of China

(Hong Kong SAR)  
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 cemented carbide products*

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

### Singapore

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

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

### South Korea

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

### Taiwan

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

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

### Thailand

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

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

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

### Vietnam

Nghi Son Cement Corporation  
*Production and sales of cement*

## Oceania

### Australia

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

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

## Eleven-Year Summary

Mitsubishi Materials Corporation and Subsidiaries  
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2002	2001	2005
<b>For the Year:</b>						
Net sales	¥ 984,777	¥ 948,238	¥ 964,726	¥1,046,807	¥1,144,068	\$ 9,170,100
Cost of sales	812,544	783,971	807,308	899,220	936,563	7,566,291
Operating profit	54,085	43,422	34,429	10,872	65,827	503,632
Net income (loss)	16,374	(5,324)	(26,854)	(61,316)	7,149	152,472
Depreciation and amortization	48,085	49,401	54,457	78,436	79,557	447,760
Gross cash flow	64,459	44,077	27,603	17,120	86,706	600,232
R&D expenses	10,449	11,232	11,608	15,404	15,437	97,300
<b>Balance at End of Year:</b>						
Total assets	1,420,825	1,435,115	1,439,985	1,575,739	1,615,844	13,230,515
Total long-term liabilities	466,771	519,594	555,467	572,071	509,187	4,346,504
Total shareholders' equity	196,902	183,886	174,381	206,413	239,190	1,833,523
Number of shares of common stock (thousands)	1,134,054	1,134,054	1,134,054	1,117,314	1,117,314	
					Yen	U.S. dollars (Note 1)
	2005	2004	2003	2002	2001	2005
<b>Per Share Amounts:</b>						
Basic net income (loss)	¥14.4	¥(4.8)	¥(23.9)	¥(54.9)	¥6.4	\$ 0.13
Diluted net income	12.9	—	—	—	6.1	0.12
Cash dividends applicable to the year	3.0	2.0	—	—	3.0	0.03
<b>Ratios:</b>						
Return on assets (ROA)	1.2%	-0.4%	-1.8%	-3.9%	0.4%	
Return on equity (ROE)	8.3%	-3.0	-14.1	-27.5	3.0	

	Millions of yen					
	2000	1999	1998	1997	1996	1995
<b>For the Year:</b>						
Net sales	¥ 986,884	¥ 983,784	¥1,196,008	¥1,186,715	¥1,127,736	¥1,151,261
Cost of sales	825,097	830,129	981,916	971,022	923,742	959,824
Operating profit	27,229	10,405	56,744	59,615	58,968	43,878
Net income (loss)	(12,075)	(34,853)	10,071	14,744	11,358	(3,745)
Depreciation and amortization	74,592	74,038	80,575	72,886	66,692	61,497
Gross cash flow	62,517	39,185	90,646	87,630	78,050	57,752
R&D expenses	14,762	17,830	18,401	16,791	15,233	15,281
<b>Balance at End of Year:</b>						
Total assets	1,671,000	1,605,671	1,679,207	1,643,332	1,557,287	1,483,328
Total long-term liabilities	603,096	580,446	534,378	459,818	410,932	320,074
Total shareholders' equity	231,559	243,356	312,386	307,549	298,583	290,519
Number of shares of common stock (thousands)	1,117,314	1,117,314	1,134,153	1,134,153	1,134,082	1,134,082
					Yen	
	2000	1999	1998	1997	1996	1995
<b>Per Share Amounts:</b>						
Basic net income (loss)	¥(10.8)	¥(30.9)	¥8.9	¥13.0	¥10.0	¥(3.3)
Diluted net income	—	—	8.4	12.6	10.0	—
Cash dividends applicable to the year	1.5	—	5.0	5.0	5.0	5.0
<b>Ratios:</b>						
Return on assets (ROA)	-0.7%	-2.1%	0.6%	0.9%	0.7%	-0.3%
Return on equity (ROE)	-5.1	-12.5	3.2	4.9	3.9	-1.3

Note: Japanese yen amounts have been translated into U.S. dollars, solely for the convenience of the reader, at the rate of ¥107.39 to U.S.\$1, the prevailing exchange rate at March 31, 2005.

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

## Overview

For the years ended March 31	Millions of yen		Thousands of U.S. dollars	Percentage change
	2005	2004	2005	(2005/2004)
Net sales	<b>¥984,777</b>	¥948,238	<b>\$9,170,100</b>	3.9%
Operating profit	<b>54,085</b>	43,422	<b>503,632</b>	24.6
Net income (loss)	<b>16,374</b>	(5,324)	<b>152,472</b>	—

For the years ended March 31	Yen		U.S. dollars	Percentage change
	2005	2004	2005	(2005/2004)
Basic net income (loss) per share	<b>¥14.4</b>	¥(4.8)	<b>\$0.13</b>	—
Diluted net income	<b>12.9</b>	—	<b>0.12</b>	—

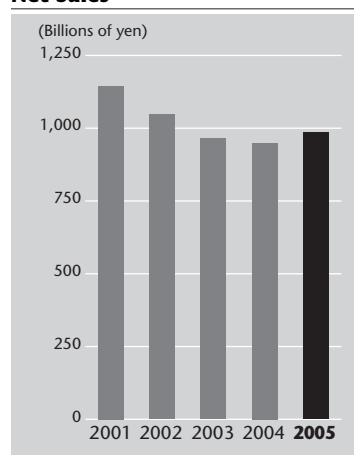
In fiscal 2005, ended March 31, 2005, the Japanese economy continued to head slowly toward a recovery. The term saw steady progress in processing corporate nonperforming loans and excessive debt. Exports benefited from an expansion in the global economy, which helped to bolster corporate earnings. Companies suffered in the first half of the term, however, from ongoing hikes in materials and fuel prices. In the second half, performances weakened slightly owing to a slowdown in exports and inventory corrections in IT and digital products. Nonetheless, companies maintained solid capital investments against the backdrop of improved earnings, and the economy also benefited from a better employment climate and improved personal consumption.

The Mitsubishi Materials Group continued to experience sluggish demand during the period under review from the engineering and construction sectors, reflecting stagnant public spending. This compounded ongoing rises in fuel costs from the previous fiscal year. In the second half, prices dropped for IT

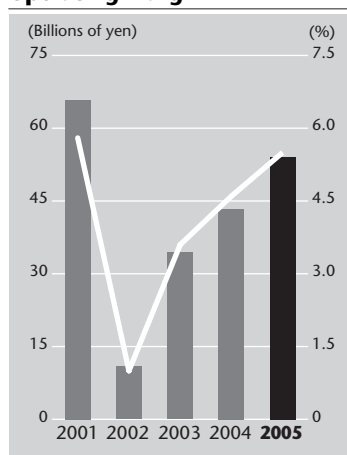
products owing to inventory adjustments. Amid this climate, the Group still performed generally well, reflecting higher prices in key metals and brisk demand from the automotive sector. The Group responded to the operating environment by striving to expand sales of high-demand offerings to the automotive and IT sectors while boosting sales of aluminum bottles, a strategic product. The Group also endeavored to cut costs and reduce environmental impact by using recycled fuels at its copper smelters and cement plants. To assist consolidated management, the Group reorganized headquarters in April 2004, strengthening management strategy planning and Group oversight, while continuing to trim spending to streamline operational efficiency. Ongoing efforts to increase profitability included constraining labor expenses, liquidating unprofitable businesses, and slashing fixed and variable costs.

As a result of these factors, consolidated net sales advanced ¥36.5 billion, or 3.9%, to ¥984.8 billion, and consolidated operating profit gained ¥10.7 billion, or 24.6%, to ¥54.1 billion.

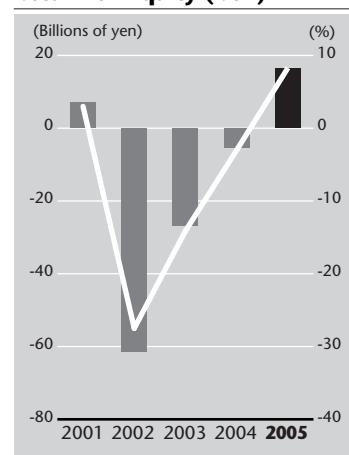
**Net Sales**



**Operating Profit and Operating Margin**



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



We posted equity in earnings of affiliates of ¥8.4 billion, compared with ¥16.1 billion in losses of affiliates in fiscal 2004, on the back of favorable results at SUMCO. Net income totaled ¥16.4 billion compared with a ¥5.3 billion loss a year earlier.

## **Sales and Operating Profit by Business Segment**

### **Cement**

Sales and volumes decreased in Japan owing to lackluster public sector expenditures, which countered solid demand from the private sector. In contrast, sales remained strong in the United States and China, reflecting expanded demand in those markets.

As with cement, sales and volumes were down for aggregate due to slow public sector spending, which dampened demand for ready-mixed concrete.

As a result of these factors, segment sales rose ¥3.9 billion, or 2.7%, to ¥149.0 billion, although operating profit declined ¥1.5 billion, or 11.1%, to ¥12.1 billion.

### **Aluminum**

Sales were solid for aluminum bottles, a key strategic offering, as one of the hottest summers on record created strong demand for soft drinks and alcoholic beverages.

Although aluminum can sales increased, earnings decreased, owing to intensified competition. Sales of aluminum fabricated products declined from a year earlier as a consequence of the June 2004 halt in production, as key customers internalized their production.

Revenues and earnings improved in extruded aluminum products on higher demand from automakers and strong demand for sheet aluminum.

Segment sales thus increased ¥2.6 billion, to ¥134.5 billion, or 2.0%, and operating profit rose ¥577 million, or 8.7%, to ¥7.2 billion.

### **Metals**

Sales volumes of rolled copper decreased owing to a decline in demand for rolled electronic materials amid inventory corrections in the semiconductor market. Although copper wire sales volumes again fell, revenues were up owing to higher prices. Gold prices remained high but revenues were down, as volumes declined and the proportion of gold used in raw materials decreased.

In fabricated metal products, volumes were down slightly for copper castings, and sales volumes and revenues declined for wire materials. Nonetheless, overall sales of fabricated metal products rose on higher copper prices. On April 1, 2004, we transferred our copper tube operations to jointly form the equity-method affiliate Kobelco & Materials Copper Tube, Ltd. (KMC), with Kobe Steel, Ltd.

Segment sales increased ¥10.2 billion, or 4.2%, to ¥252.3 billion. Segment sales would have risen ¥42.7 billion in the absence of a new financial policy that accounts for the declining sales of PT. Smelting as an internal elimination, impacting ¥32.7 billion in sales. The transfer of operations to KMC also adversely affected sales, for an amount of ¥8.4 billion. As a result of these factors, operating profit rose ¥3.9 billion, or 42.2%, to ¥13.1 billion.

### **Powder Metallurgy Products & Tools**

Demand for cemented carbide products remained buoyant, reflecting solid sales to the automotive sector, strong exports to Asia and a favorable business climate in both Europe and the United States.

In powder metallurgy products, sales were strong to the automotive sector, particularly of sintered parts. Overall sales and earnings from these products declined, however, owing to the transfer of the injection molding die-making business on December 1, 2004, and high raw materials prices, which raised costs.

Sales and profits increased in diamond tools, as IT sales were especially favorable in the first half of the term.

Segment sales thus rose ¥13.3 billion, or 12.8%, to ¥117.1 billion, with operating profit gaining ¥5.3 billion, or 49.3%, to ¥15.9 billion.

### **Advanced Products**

Revenues and earnings of advanced products increased owing to strong sales of silicon precision processing parts for 300mm wafers, which offset the impact of inventory adjustments in gold wire and other IT offerings.

Sales and profits were down in electronic devices, reflecting demand downturns in offerings for digital appliances and IT equipment. Sales of components for mobile phones, however, were solid.

Revenues grew for fine chemical products, owing to higher semiconductor-related sales, which compensated for sluggish demand for fluoride products.

As a result of these factors, segment sales declined ¥1.3 billion, or 2.5%, to ¥49.7 billion, while operating profit improved ¥590 million, or 22.5%, to ¥3.2 billion.

### **Energy & Systems**

Sales of fuels for nuclear reactors were down from a year earlier, impacted by the decline in sales of nuclear power and systems. In the geothermal power generation business, sales remained essentially unchanged, reflecting a strong performance from our hydroelectric power business in Akita Prefecture and favorable sales of steam to a geothermal power station in that prefecture.

Sales of our fossil fuels business increased as a result of high global prices for coal and oil.

The engineering business posted higher sales despite a decline in construction project orders.

Segment sales rose ¥419 million, to ¥83.1 billion, or 0.5%, while operating profit dropped ¥1.4 billion, or 41.3%, to ¥2.0 million.

### **Others**

The high-performance alloy business posted higher revenues and earnings on greater demand from the automotive and aerospace sectors and for gas turbine materials, which countered the impact of production halts and reductions in unprofitable products.

Sales of gold and jewelry to individual consumers remained strong, although sales of precious metals declined owing to a drop in sales of gold to businesses.

Sales of polycrystalline silicon surged on higher demand for 300mm silicon wafers and a boost in demand for solar batteries. As a result, segment sales improved ¥7.3 billion, to ¥199.0 billion, or 3.8%, with operating profit climbing ¥1.9 billion, or 39.8%, to ¥6.5 billion.

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Cement</b>			
Sales	¥148,973	¥145,073	\$1,387,215
Operating profit	12,140	13,660	113,046
Operating margin	8.1%	9.4%	
<b>Aluminum</b>			
Sales	134,519	131,875	1,252,621
Operating profit	7,231	6,654	67,334
Operating margin	5.4%	5.0%	
<b>Metals</b>			
Sales	252,333	242,097	2,349,688
Operating profit	13,113	9,223	122,106
Operating margin	5.2%	3.8%	
<b>Powder Metallurgy Products &amp; Tools</b>			
Sales	117,147	103,866	1,090,856
Operating profit	15,909	10,653	148,143
Operating margin	13.6%	10.3%	
<b>Advanced Products</b>			
Sales	49,749	51,039	463,255
Operating profit	3,209	2,619	29,882
Operating margin	6.5%	5.1%	
<b>Energy &amp; Systems</b>			
Sales	83,098	82,679	773,796
Operating profit	2,049	3,489	19,080
Operating margin	2.5%	4.2%	
<b>Others</b>			
Sales	198,958	191,609	1,852,669
Operating profit	6,512	4,657	60,639
Operating margin	3.3%	2.4%	

## Sales and Operating Profit by Geographic Segment

### Japan

Sales from the domestic cement business declined amid stagnant public spending. In contrast, sales were up across the board for automotive offerings, including cemented carbide products and extruded aluminum products. Sales also rose in the smelting business on the back of higher prices for nonferrous metals. Domestic sales thus advanced ¥57.0 billion, or 7.2%, to ¥845.9 billion. Operating profit increased ¥9.2 billion, or 21.2%, to ¥52.4 billion, reflecting a rise in earnings from sales and lower costs.

### U.S.A.

Sales of our cement subsidiary surged as demand remained buoyant. Sales of polycrystalline silicon grew on a recovery in the semiconductor market. As a result, segment sales gained ¥12.5 billion, or 23.9%, to ¥64.9 billion. Operating profit jumped ¥981 million, or 21.5%, to ¥5.5 billion.

### Europe

The regional economy showed signs of a gradual recovery, with sales and earnings from new offerings in cemented carbide products increasing amid favorable automotive demand. New business sales also improved. Segment sales therefore rose ¥2.9 billion, or 29.0%, to ¥12.8 billion. Operating profit climbed to ¥644 million from ¥1 million yen in the previous fiscal year.

### Asia

Sales of Indonesian subsidiary PT. Smelting increased owing to the impact of high copper prices. Operating profit from this business essentially remained unchanged, however, as this subsidiary reduced production as a result of planned repairs. During the year, we integrated MMC Copper Tube (Thailand) with counterpart operations at Kobe Steel to form the equity-method affiliate Kobelco & Materials Copper Tube. These factors translated into a segment sales drop of ¥36.4 billion, or 38.3%, to ¥58.6 billion. Operating profit declined ¥980 million, or 24.4%, to ¥3.0 billion.

For the years ended March 31	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Japan</b>			
Sales	<b>¥845,902</b>	¥788,939	<b>\$7,876,916</b>
Operating profit	<b>52,383</b>	43,210	<b>487,782</b>
Operating margin	<b>6.2%</b>	5.5%	
<b>U.S.A.</b>			
Sales	<b>64,915</b>	52,380	<b>604,479</b>
Operating profit	<b>5,543</b>	4,562	<b>51,616</b>
Operating margin	<b>8.5%</b>	8.7%	
<b>Europe</b>			
Sales	<b>12,805</b>	9,929	<b>119,238</b>
Operating profit	<b>644</b>	1	<b>5,996</b>
Operating margin	<b>5.0%</b>	0.0%	
<b>Asia</b>			
Sales	<b>58,586</b>	95,003	<b>545,544</b>
Operating profit	<b>3,029</b>	4,009	<b>28,206</b>
Operating margin	<b>5.2%</b>	4.2%	
<b>Others</b>			
Sales	<b>2,569</b>	1,987	<b>23,923</b>
Operating profit	<b>241</b>	(160)	<b>2,245</b>
Operating margin	<b>9.4%</b>	-8.1%	

## Financial Position and Liquidity

At the close of the term, total assets were down ¥14.3 billion, or 1.0%, to ¥1,420.8 billion. This decline stemmed from the integration of the operations of MMC Copper Tube (Thailand) and the copper tube business of Kobe Steel and their transfer to Kobelco & Materials Copper Tube. Another contributing factor was the divestment of customer deposits in gold accounts.

Total current assets decreased ¥2.9 billion, or 0.6%, to ¥476.1 billion. This reflected the impact of the integration of the copper tube business and the divestment of customer deposits in gold accounts.

The combined total of property, plant and equipment investments and long-term receivables, and other assets dropped ¥11.4 billion, or 1.2%, to ¥944.7 billion. This was a result of the integration of the copper tube business and divestments, which offset gains in the market value of investments in securities and additional investments in new shares owing to the integration of the copper tube business.

Total liabilities, minority interests and shareholders' equity declined ¥14.3 billion, or 1.0%, to ¥1,420.8 billion. Total current

liabilities increased ¥24.7 billion, or 3.6%, to ¥715.1 billion. This was due largely to rises in trade accounts payable, higher metals prices, volume growth in gold deposits in customer accounts and increased gold prices, which offset reductions that stemmed from the integration of the copper tube business.

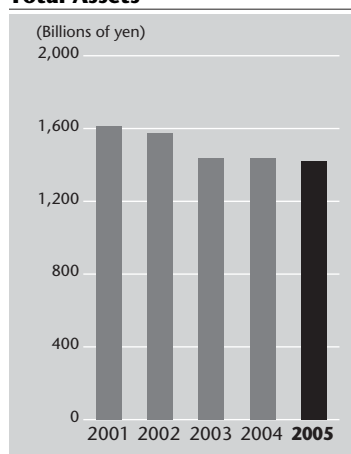
Total long-term liabilities were down ¥52.8 billion, or 10.2%, to ¥466.8 billion. The main factors were declines from the integration of the copper tube business and decreases in long-term debt, including bonds. Interest-bearing debt, including short-term bank loans, current portion of long-term debt and long-term debt declined ¥54.4 billion, or 6.9%, to ¥737.7 billion. This was mainly a reflection of constraints on borrowing through proceeds from sales activities and reductions stemming from the integration of the copper tube business.

Total shareholders' equity advanced ¥13.0 billion, or 7.1%, to ¥196.9 billion. The principal factors included increases in retained earnings and the valuations of listed securities, which countered a reduction in the revaluation reserve for land.

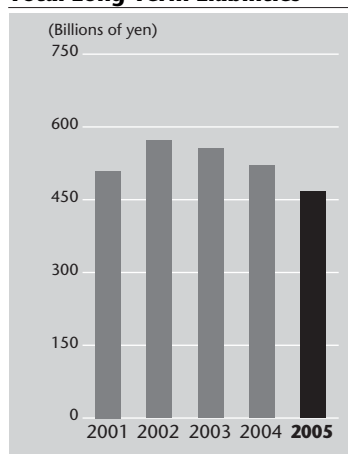
As a result of these factors, the consolidated equity ratio improved from 12.8% to 13.9%. Shareholders' equity per share increased from ¥162.57 to ¥174.18.

At March 31	2005	2004	2003
Equity ratio	<b>13.9%</b>	12.8%	12.1%

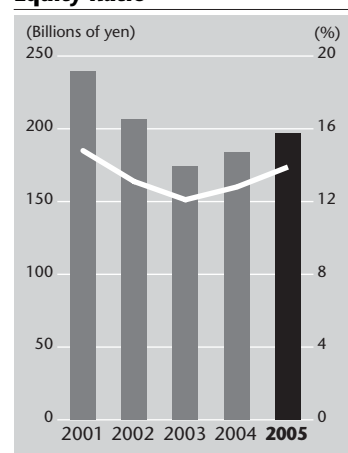
### Total Assets



### Total Long-Term Liabilities



### Total Shareholders' Equity and Equity Ratio



### Cash Flows

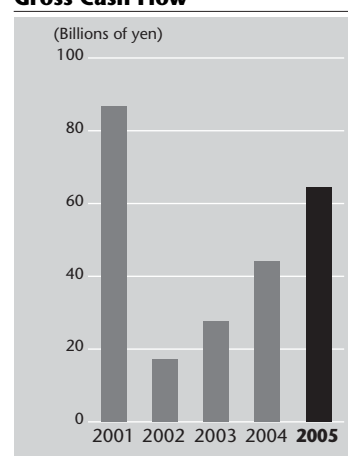
Net cash provided by operating activities amounted to ¥80.5 billion, an increase of ¥39.7 billion. This reflected generally strong results and increased income from sales of gold ingots, which offset increases in notes and accounts payable and other current liabilities.

Net cash used in investing activities totaled ¥31.2 billion, an increase of ¥9.8 billion, mainly owing to payments for purchases of property, plant and equipment.

Net cash used in financing activities amounted to ¥50.9 billion, an increase of ¥31.2 billion.

As a result of these factors, cash and cash equivalents at end of year were ¥16.4 billion.

### Gross Cash Flow



For the years ended March 31	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Gross cash flow	<b>¥64,459</b>	¥44,077	¥27,603	<b>\$600,232</b>

### Outlook for Fiscal 2006, Ending March 31, 2006

Prospects for the Japanese economy remain unclear. On an encouraging note, private sector capital investment is rising steadily, while personal consumption is remaining stable, owing to improved corporate earnings and a more favorable employment environment. There are concerns, however, regarding higher oil and raw materials prices and the possibility of economic slowdowns in the United States and China, which are major importers of Japanese goods.

The Group operating environment will most likely remain very challenging. Automotive sector demand should stay stable

as automakers employ more electronic controls and fabricated metal products. Solid demand for IT offerings is also projected. Anticipated negative factors include sluggish conditions in the domestic engineering and construction sectors, higher fuel prices and shipping rates, and generally lower product prices.

The Group will meet these challenges by more efficiently allocating management resources to bolster profitability in keeping with the new consolidated medium-term management plan. The Group will also further reduce costs and reorganize or liquidate unprofitable businesses to enhance its financial position and stabilize its earnings structure, thereby laying the foundations for long-term growth in its core businesses.

# Consolidated Statements of Operations

Mitsubishi Materials Corporation and Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
<b>Net Sales</b> (Note 13)	<b>¥ 984,777</b>	¥ 948,238	¥ 964,726	<b>\$9,170,100</b>
<b>Cost of Sales</b>	<b>812,544</b>	783,971	807,308	<b>7,566,291</b>
Gross profit	<b>172,233</b>	164,267	157,418	<b>1,603,809</b>
<b>Selling, General and Administrative Expenses</b> (Note 10)	<b>118,148</b>	120,845	122,989	<b>1,100,177</b>
Operating profit	<b>54,085</b>	43,422	34,429	<b>503,632</b>
<b>Other Income (Expenses):</b>				
Interest and dividend income	<b>2,618</b>	1,949	2,029	<b>24,378</b>
Interest expense (Note 4)	<b>(11,758)</b>	(12,833)	(15,594)	<b>(109,489)</b>
Income from leased property	<b>6,876</b>	7,145	6,817	<b>64,028</b>
Expense for leased property	<b>(5,065)</b>	(5,318)	(5,143)	<b>(47,165)</b>
Write-down of marketable securities and investments in securities	<b>(2,967)</b>	(1,144)	(20,858)	<b>(27,628)</b>
Gain on sales of marketable securities and investments in securities	<b>10,639</b>	13,557	3,062	<b>99,069</b>
Provision for bad debt and write-off of long-term receivables— unconsolidated subsidiaries and affiliates	<b>(4,107)</b>	(2,509)	(1,574)	<b>(38,244)</b>
Loss on liquidation of subsidiaries and affiliates	—	(64)	(630)	—
Gain on sales of property, plant and equipment	<b>2,769</b>	2,037	3,145	<b>25,785</b>
Loss on disposal and sales of property, plant and equipment	<b>(5,783)</b>	(4,951)	(3,790)	<b>(53,850)</b>
Provision for valuation allowance for investment in unconsolidated subsidiaries and affiliates	<b>(10)</b>	(109)	(112)	<b>(93)</b>
Foreign exchange losses, net	<b>(278)</b>	(22)	(51)	<b>(2,589)</b>
Severance and pension benefit expense (Note 5)	<b>(8,326)</b>	(8,529)	(10,446)	<b>(77,530)</b>
Equity in losses of affiliates	<b>8,447</b>	(16,066)	(9,126)	<b>78,657</b>
Provision for loss on subsidiaries and affiliates	<b>(1,224)</b>	(1,034)	(10,157)	<b>(11,398)</b>
Other, net	<b>(11,144)</b>	(4,430)	(7,744)	<b>(103,771)</b>
	<b>(19,313)</b>	(32,321)	(70,172)	<b>(179,840)</b>
Income (loss) before income taxes and minority interests	<b>34,772</b>	11,101	(35,743)	<b>323,792</b>
<b>Income Taxes (Benefit)</b> (Note 7)	<b>15,238</b>	12,403	(5,197)	<b>141,894</b>
Loss before minority interests	<b>19,534</b>	(1,302)	(30,546)	<b>181,898</b>
<b>Minority Interests in (Income) Loss of Consolidated Subsidiaries</b>	<b>(3,160)</b>	(4,022)	3,692	<b>(29,426)</b>
<b>Net Income (Loss)</b>	<b>¥ 16,374</b>	¥ (5,324)	¥ (26,854)	<b>\$ 152,472</b>
			Yen	U.S. dollars (Note 1)
	2005	2004	2003	2005
<b>Per Share Amounts</b> (Note 16):				
Net income (loss)	<b>¥14.4</b>	¥(4.8)	¥(23.9)	<b>\$0.13</b>
Diluted net income	<b>12.9</b>	—	—	<b>0.12</b>
Cash dividends applicable to the year	<b>3.0</b>	2.0	—	<b>0.03</b>

The accompanying notes are an integral part of these statements.

# Consolidated Balance Sheets

Mitsubishi Materials Corporation and Subsidiaries  
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash (Notes 4 and 15)	¥ 16,686	¥ 18,178	\$ 155,378
Marketable securities (Note 11)	73	73	680
Notes and accounts receivable (Notes 4 and 8):			
Trade	166,303	167,600	1,548,589
Unconsolidated subsidiaries and affiliates	33,922	28,982	315,877
Other	13,950	11,289	129,900
Inventories (Notes 3 and 4)	154,220	153,564	1,436,074
Deferred income taxes (Note 7)	9,431	8,954	87,820
Other current assets (Note 12)	85,152	93,429	792,923
Allowance for doubtful accounts	(3,609)	(3,083)	(33,606)
Total current assets	476,128	478,986	4,433,635
<b>Property, Plant and Equipment (Note 4):</b>			
Land (Note 14)	256,960	257,646	2,392,774
Buildings and structures	386,522	387,976	3,599,236
Machinery and equipment	917,426	932,946	8,542,937
Construction in progress	13,865	19,558	129,109
	1,574,773	1,598,126	14,664,056
Less accumulated depreciation	(922,764)	(924,902)	(8,592,644)
Net property, plant and equipment	652,009	673,224	6,071,412
<b>Investments and Long-Term Receivables:</b>			
Investments in securities (Notes 4 and 11)	94,397	85,728	879,011
Unconsolidated subsidiaries and affiliates (Note 4)	116,496	113,800	1,084,794
Long-term receivables	1,997	2,508	18,596
Other (Note 4)	43,294	41,741	403,147
Allowance for doubtful accounts	(12,399)	(14,046)	(115,458)
Valuation allowance for investment in unconsolidated subsidiaries and affiliates	(1,438)	(1,472)	(13,390)
Total investments and long-term receivables	242,347	228,259	2,256,700
<b>Other Assets:</b>			
Deferred income taxes (Note 7)	34,353	37,983	319,890
Other (Notes 4 and 12)	15,988	16,663	148,878
Total other assets	50,341	54,646	468,768
<b>Total Assets</b>	<b>¥1,420,825</b>	<b>¥1,435,115</b>	<b>\$13,230,515</b>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Short-term bank loans (Note 4)	¥ 258,293	¥ 272,874	\$ 2,405,187
Current portion of long-term debt (Note 4)	145,483	129,501	1,354,716
Notes and accounts payable:			
Trade	117,742	110,681	1,096,396
Unconsolidated subsidiaries and affiliates	7,054	6,737	65,686
Other	13,446	14,836	125,207
Income taxes payable	9,530	4,648	88,742
Deferred income taxes (Note 7)	72	69	670
Accrued expenses	42,319	40,790	394,068
Other current liabilities (Note 12)	121,163	110,237	1,128,252
Total current liabilities	715,102	690,373	6,658,924
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 4)	333,942	389,711	3,109,619
Severance and pension benefits (Note 5)	49,073	48,162	456,961
Reserve for loss on subsidiaries and affiliates	1,431	1,251	13,325
Deferred income taxes (Note 7)	13,361	14,462	124,416
Deferred income taxes on revaluation reserve for land (Notes 7 and 14)	37,148	31,376	345,917
Other (Note 12)	31,816	34,632	296,266
Total long-term liabilities	466,771	519,594	4,346,504
<b>Minority Interests</b>	<b>42,050</b>	<b>41,262</b>	<b>391,564</b>
<b>Contingent Liabilities and Commitments</b> (Notes 8 and 9)			
<b>Shareholders' Equity</b> (Note 6):			
Common stock			
Authorized—2,683,162,000 shares			
Issued—1,134,053,663 shares at March 31, 2005 and 2004	99,397	99,397	925,570
Capital surplus	68,440	68,413	637,303
Accumulated deficit	(14,328)	(28,243)	(133,420)
Revaluation reserve for land (Note 14)	39,480	46,657	367,632
Net unrealized holding gains on securities	16,989	10,420	158,199
Foreign currency translation adjustments	(12,381)	(12,269)	(115,289)
Treasury stock	(695)	(489)	(6,472)
Total shareholders' equity	196,902	183,886	1,833,523
<b>Total Liabilities, Minority Interests and Shareholders' Equity</b>	<b>¥1,420,825</b>	<b>¥1,435,115</b>	<b>\$13,230,515</b>

# Consolidated Statements of Shareholders' Equity

Mitsubishi Materials Corporation and Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
<b>Common Stock:</b>				
Number of shares (Thousands)				
At beginning of year	1,134,054	1,134,054	1,117,314	
Increase due to stock exchange	—	—	16,738	
Conversion of convertible yen debentures	—	—	2	
<b>At end of year</b>	<b>1,134,054</b>	<b>1,134,054</b>	<b>1,134,054</b>	
Amount				
Balance at beginning of year	¥ 99,397	¥ 99,397	¥ 99,396	\$ 925,570
Conversion of convertible yen debentures	—	—	1	—
<b>Balance at end of year</b>	<b>¥ 99,397</b>	<b>¥ 99,397</b>	<b>¥ 99,397</b>	<b>\$ 925,570</b>
<b>Capital Surplus:</b>				
Balance at beginning of year	¥ 68,413	¥ 69,090	¥ 68,573	\$ 637,052
Increase due to stock exchange and other	—	—	548	—
Gain (loss) on sales of treasury stock	27	(14)	(31)	251
Transfer to accumulated deficit	—	(663)	—	—
<b>Balance at end of year</b>	<b>¥ 68,440</b>	<b>¥ 68,413</b>	<b>¥ 69,090</b>	<b>\$ 637,303</b>
<b>Accumulated Deficit:</b>				
Balance at beginning of year	¥(28,243)	¥(32,790)	¥ (4,266)	\$ (262,995)
Net income (loss) for the year	16,374	(5,324)	(26,854)	152,472
Cash dividends paid	(2,265)	—	—	(21,091)
Bonuses to directors and corporate auditors	(65)	(59)	(108)	(605)
Increase resulting from increase in the number of consolidated subsidiaries	44	—	3	410
Decrease resulting from increase in the number of consolidated subsidiaries	—	—	(28)	—
Decrease resulting from decrease in the number of consolidated subsidiaries	—	(27)	—	—
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	(72)	—	—	(670)
Increase resulting from decrease in the number of affiliated companies on equity method	—	57	711	—
Increase due to reversal of revaluation reserve for land (Note 14)	351	4	322	3,268
Decrease due to reversal of revaluation reserve for land (Note 14)	(230)	(517)	(2,198)	(2,142)
Increase due to mergers of unconsolidated subsidiaries	67	—	260	624
Decrease due to mergers of unconsolidated subsidiaries	(143)	—	(150)	(1,332)
Increase resulting from realization of unrealized income by merger of consolidated subsidiaries	—	9,784	—	—
Transfer from capital surplus	—	663	—	—
Other, net	(146)	(34)	(13)	(1,359)
<b>Balance at end of year</b>	<b>¥(14,328)</b>	<b>¥(28,243)</b>	<b>¥(32,790)</b>	<b>\$ (133,420)</b>
<b>Revaluation Reserve for Land (Note 14):</b>				
Balance at beginning of year	¥ 46,657	¥ 46,281	¥ 44,015	\$ 434,463
(Decrease) increase, net	(7,177)	376	2,266	(66,831)
<b>Balance at end of year</b>	<b>¥ 39,480</b>	<b>¥ 46,657</b>	<b>¥ 46,281</b>	<b>\$ 367,632</b>
<b>Net Unrealized Holding Gains (Losses) on Securities:</b>				
Balance at beginning of year	¥ 10,420	¥ (2,936)	¥ (3,474)	\$ 97,030
Net change	6,569	13,356	538	61,169
<b>Balance at end of year</b>	<b>¥ 16,989</b>	<b>¥ 10,420</b>	<b>¥ (2,936)</b>	<b>\$ 158,199</b>
<b>Foreign Currency Translation Adjustments:</b>				
Balance at beginning of year	¥(12,269)	¥ (4,121)	¥ 2,195	\$ (114,247)
Net change	(112)	(8,148)	(6,316)	(1,042)
<b>Balance at end of year</b>	<b>¥(12,381)</b>	<b>¥(12,269)</b>	<b>¥ (4,121)</b>	<b>\$ (115,289)</b>
<b>Treasury Stock:</b>				
Balance at beginning of year	¥ (489)	¥ (540)	¥ (26)	\$ (4,553)
(Increase) decrease, net	(206)	51	(514)	(1,919)
<b>Balance at End of Year</b>	<b>¥ (695)</b>	<b>¥ (489)</b>	<b>¥ (540)</b>	<b>\$ (6,472)</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Mitsubishi Materials Corporation and Subsidiaries  
Years ended March 31, 2005, 2004 and 2003

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2005	2004	2003	2005
<b>Cash Flows from Operating Activities:</b>				
Income (loss) before income taxes and minority interests	¥ 34,772	¥ 11,101	¥ (35,743)	\$ 323,792
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	47,920	49,318	54,327	446,224
Increase in allowance for doubtful accounts	3,673	2,491	1,559	34,202
Increase in severance and pension benefits	1,063	7,637	5,049	9,899
Increase in reserve for loss on consolidated subsidiaries or valuation allowance for investment in unconsolidated subsidiaries and affiliates	5	109	92	47
Increase (decrease) in reserve for loss on subsidiaries and affiliates	1,222	(351)	11,254	11,379
Interest and dividend income	(2,618)	(1,949)	(2,029)	(24,378)
Interest expense	11,758	12,833	15,594	109,489
Loss on disposal and sales of property, plant and equipment	5,783	4,951	3,790	53,850
Gain on sales of property, plant and equipment	(2,769)	(2,037)	(3,145)	(25,785)
Gain on sales of marketable securities and investments in securities	(10,639)	(13,557)	(3,062)	(99,069)
Write-down of marketable securities and investments in securities	2,967	1,144	20,858	27,628
(Increase) decrease in notes and accounts receivable	(14,853)	(9,114)	7,877	(138,309)
(Increase) decrease in inventories	(3,610)	(10,554)	10,016	(33,616)
Proceeds from sales of gold bullion deposited from customers under consuming bailment My Gold Plan	10,288	—	—	95,800
Increase (decrease) in notes and accounts payable	7,171	8,828	(10,329)	66,775
Increase (decrease) in accrued expense	1,859	284	(8,764)	17,311
Equity in (earnings) losses of affiliates	(8,447)	16,066	9,126	(78,657)
Other, net	11,644	(7,059)	1,572	108,427
Subtotal	97,189	70,141	78,042	905,009
Interest and dividend received	9,362	4,833	4,928	87,177
Interest paid	(11,651)	(12,848)	(16,427)	(108,492)
Payments for withdrawal of a foreign mining investment	—	(12,168)	—	—
Payments for supporting of an affiliate	(2,150)	—	—	(20,020)
Income taxes paid	(12,244)	(9,138)	(6,827)	(114,014)
<b>Net Cash Provided by Operating Activities</b>	<b>80,506</b>	<b>40,820</b>	<b>59,716</b>	<b>749,660</b>
<b>Cash Flows from Investing Activities:</b>				
Payments for purchases of property, plant and equipment	(46,420)	(37,732)	(39,865)	(432,256)
Proceeds from sales of property, plant and equipment	4,521	6,046	8,552	42,099
Payments for purchases of marketable securities and investments in securities	(3,515)	(22,207)	(21,469)	(32,731)
Proceeds from sales of marketable securities and investments in securities	13,398	27,723	10,293	124,760
Disbursement of loan receivables	(3,101)	(2,730)	(9,454)	(28,876)
Proceeds from collection of loan receivables	3,260	2,877	33,535	30,357
Payments for purchases of intangible fixed assets	(1,129)	(874)	(2,339)	(10,513)
Proceeds from sale of consolidated subsidiaries' shares, net of cash owned by those subsidiaries	449	1,144	—	4,181
Proceeds from transfer of business	1,448	—	—	13,484
Other, net	(117)	4,303	(10,363)	(1,090)
<b>Net Cash Used in Investing Activities</b>	<b>(31,206)</b>	<b>(21,450)</b>	<b>(31,110)</b>	<b>(290,585)</b>
<b>Cash Flows from Financing Activities:</b>				
Proceeds from long-term debt	69,689	95,048	108,231	648,934
Repayments of long-term debt	(128,547)	(82,671)	(81,508)	(1,197,011)
Payments for redemption of bonds	(15,000)	(20,349)	(40,000)	(139,678)
Proceeds from issuance of bonds	40,000	10,000	—	372,474
Repayment of commercial paper, net	—	(6,000)	(25,000)	—
Payments for purchase of treasury stock	(150)	(53)	(158)	(1,397)
Decrease in short-term bank loans, net	(12,198)	(19,279)	(22,669)	(113,586)
Proceeds from issuance of common stock by consolidated subsidiaries to minority shareholders	—	—	265	—
Proceeds from minority shareholders for withdrawal from a foreign mining investment	—	5,518	—	—
Cash dividends paid	(2,265)	—	—	(21,091)
Cash dividends paid to minority shareholders	(1,235)	(1,075)	(491)	(11,500)
Other, net	(1,225)	(888)	(13)	(11,407)
<b>Net Cash Used in Financing Activities</b>	<b>(50,931)</b>	<b>(19,749)</b>	<b>(61,343)</b>	<b>(474,262)</b>
<b>Effect of Exchange Rate Fluctuation on Cash and Cash Equivalents</b>	<b>27</b>	<b>(985)</b>	<b>(883)</b>	<b>251</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(1,604)</b>	<b>(1,364)</b>	<b>(33,620)</b>	<b>(14,936)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>17,754</b>	<b>18,926</b>	<b>52,153</b>	<b>165,323</b>
<b>Effect of Changes in Consolidated Subsidiaries</b>	<b>35</b>	<b>126</b>	<b>89</b>	<b>326</b>
<b>Increase in Cash and Cash Equivalents from Mergers of Unconsolidated Subsidiaries</b>	<b>168</b>	<b>66</b>	<b>304</b>	<b>1,564</b>
<b>Cash and Cash Equivalents at End of Year (Note 15)</b>	<b>¥ 16,353</b>	<b>¥ 17,754</b>	<b>¥ 18,926</b>	<b>\$ 152,277</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Mitsubishi Materials Corporation and Consolidated Subsidiaries

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

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

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

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

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, in order to present them in a form 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, 2005, which was ¥107.39 to U.S.\$1. These translations should not be construed as representations that Japanese yen amounts have been, could have been or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

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## Note 2—Summary of Significant Accounting Policies

### (a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies which the Company controls through majority voting right or existence of certain conditions. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in affiliates of which the Company has the ability to exercise significant influence over operating and financial policies, except for insignificant companies, are accounted for 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 decline in value.

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

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

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

### (b) Translation of Foreign Currencies

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

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

### (c) Allowance for Doubtful Accounts

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

### (d) Inventories

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

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

(e) Derivative Transaction and Hedge Accounting

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

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

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

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

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

(f) Securities

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

Held-to-maturity debt securities are stated at amortized cost. Equity securities, which are not accounted for 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 with the moving-average cost. Available-for-sale securities with no available fair market value are stated at moving-average cost. There are no securities held for trading purposes.

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

(g) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost, except for certain revalued land as explained in Note 14. Depreciation is calculated primarily using the declining-balance method at rates based on the estimated useful lives of depreciable assets. The straight-line method is applied to certain plant facilities, such as those in the Naoshima smelter, 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, 2005, 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, 2005, but the standard does not prohibit earlier adoption. The Company will adopt these standards in 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 Company provides two types of post-employment benefit plans, an unfunded lump-sum severance payment plan and funded defined benefit pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Company provides allowance for employees' severance and pension benefits, based on the estimated amounts of projected benefit obligations, actuarially calculated on 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 has been recognized as other expense in equal amounts mainly over five years, commencing with the year ended March 31, 2001. The negative prior service cost of ¥8,154 million, resulted from the revision of employee's retirement benefit policy in October 2000, is being amortized over five years and recorded as a reduction in other expense in the years ended March 31, 2005, 2004 and 2003. Prior service costs incurred after April 1, 2000, except for the negative prior service cost aforementioned, are recognized as expense with the straight-line method over the period within the estimated average remaining service life of the employees (mainly five years). Actuarial gains and losses are also recognized as expense with the straight-line method over the estimated average remaining service life (mainly 10 years), commencing from the succeeding period.

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

2. For officers

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

(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.

(k) Income Taxes

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

(l) 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.

(m) Net Income (Loss) per Share

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

Diluted net income per share assumes that outstanding convertible bonds 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 and 2003, is not presented, as per share amount for the years ended March 31, 2004 and 2003, was a loss.

(n) 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.

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

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

Accordingly, net sales and cost of sales decreased by ¥32,762 million (\$305,075 thousand), compared to the amounts that would have been reported by the previous accounting method.

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

### Note 3—Inventories

Inventories as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Products	¥ 51,246	¥ 51,624	\$ 477,195
Semifinished products and work in process	60,619	59,176	564,475
Raw materials and supplies	42,355	42,764	394,404
	¥154,220	¥153,564	\$1,436,074

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

Short-term bank loans outstanding as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Unsecured	¥246,373	¥260,676	\$2,294,190
Secured	11,920	12,198	110,997
Total short-term debt	¥258,293	¥272,874	\$2,405,187

The average interest rate per annum for short-term bank loans outstanding at March 31, 2005, is 0.9%, and the average interest rate per annum for short-term bank loans and commercial paper outstanding at March 31, 2004, was 1.0%.

Long-term debt as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Banks, insurance companies and other financial institutions, maturing serially through 2030—with an average rate of 1.735% per annum:			
Unsecured	¥ 284,372	¥ 350,931	\$ 2,648,031
Secured	55,604	53,832	517,776
0.95% unsecured convertible yen debentures, due 2005	49,259	49,259	458,693
Floating rate (six-month Japanese yen—LIBOR) unsecured yen notes, due 2004	—	5,000	—
3.10% unsecured yen bonds, due 2008	10,000	10,000	93,118
2.125% unsecured yen bonds, due 2004	—	10,000	—
1.54% unsecured yen bonds, due 2008	15,000	15,000	139,678
1.01% unsecured yen bonds, due 2006	15,000	15,000	139,678
1.24% unsecured yen bonds, due 2006	10,000	10,000	93,118
2.495% secured yen bonds, due 2005	190	190	1,769
Zero-coupon unsecured convertible yen bonds, due 2007	20,000	—	186,237
Zero-coupon unsecured convertible yen bonds, due 2009	20,000	—	186,237
	479,425	519,212	4,464,335
Less current portion	(145,483)	(129,501)	(1,354,716)
	¥ 333,942	¥ 389,711	\$ 3,109,619

The 0.95% unsecured convertible yen debentures due 2005 are currently convertible at ¥514 (\$4.79) for one share until September 29, 2005. As of March 31, 2005, 95,835 thousand additional shares of common stock in the aggregate could be issued upon full conversion at the current conversion price.

The Zero-coupon unsecured convertible yen bonds, due 2007 are currently convertible at ¥345 (\$3.21) for one share until September 20, 2007. As of March 31, 2005, 57,971

thousand additional shares of common stock in the aggregate could be issued upon full conversion at the current conversion price.

The Zero-coupon unsecured convertible yen bonds, due 2009 are currently convertible at ¥333 (\$3.10) for one share until September 18, 2009. As of March 31, 2005, 60,060 thousand additional shares of common stock in the aggregate could be issued upon full conversion at the current conversion price.

The aggregate annual maturities of long-term debt as of March 31, 2005, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	<b>¥145,483</b>	<b>\$1,354,716</b>
2007	<b>106,610</b>	<b>992,737</b>
2008	<b>76,029</b>	<b>707,971</b>
2009	<b>66,102</b>	<b>615,532</b>
2010	<b>60,293</b>	<b>561,439</b>
2011 and thereafter	<b>24,908</b>	<b>231,940</b>
	<b>¥479,425</b>	<b>\$4,464,335</b>

Assets pledged as collateral for short-term loans and long-term debt as of March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash	<b>¥ 796</b>	¥ 2,432	<b>\$ 7,412</b>
Notes and accounts receivable	<b>6,736</b>	4,418	<b>62,725</b>
Inventories	<b>11,123</b>	8,157	<b>103,576</b>
Investments:			
Investments in securities	<b>678</b>	549	<b>6,313</b>
Unconsolidated subsidiaries and affiliates	<b>1,436</b>	2,803	<b>13,372</b>
Property, plant and equipment, at net book value	<b>153,340</b>	152,269	<b>1,427,880</b>
Other	<b>707</b>	1,035	<b>6,583</b>
	<b>¥174,816</b>	¥171,663	<b>\$1,627,861</b>

#### Note 5—Severance and Pension Benefits

Severance and pension benefits included in the consolidated balance sheets as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	<b>¥132,656</b>	¥147,573	<b>\$1,235,273</b>
Less fair value of pension assets	<b>(60,170)</b>	(63,418)	<b>(560,294)</b>
Unrecognized projected obligation	<b>72,486</b>	84,155	<b>674,979</b>
Less unrecognized net transition obligation	<b>—</b>	(8,706)	<b>—</b>
Unrecognized actuarial differences	<b>(25,991)</b>	(32,150)	<b>(242,024)</b>
Unrecognized prior service costs	<b>834</b>	2,682	<b>7,766</b>
Net liability for severance and retirement benefits	<b>47,329</b>	45,981	<b>440,721</b>
Prepaid pension costs	<b>115</b>	41	<b>1,071</b>
Employees' severance and pension benefits	<b>47,444</b>	46,022	<b>441,792</b>
Accrual for officers' lump-sum severance benefits	<b>1,629</b>	2,140	<b>15,169</b>
Severance and pension benefits	<b>¥ 49,073</b>	¥ 48,162	<b>\$ 456,961</b>

Severance and pension benefit expense included in the consolidated statements of operations for the years ended March 31, 2005, 2004 and 2003, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Service costs—benefits earned during the year	<b>¥ 6,728</b>	¥ 6,207	¥ 8,509	<b>\$ 62,650</b>
Interest cost on projected benefit obligation	<b>3,516</b>	3,643	3,861	<b>32,740</b>
Expected return on plan assets	<b>(1,430)</b>	(1,300)	(1,475)	<b>(13,316)</b>
Amortization of net transition obligation	<b>9,957</b>	10,160	10,753	<b>92,718</b>
Amortization of actuarial differences	<b>4,083</b>	4,654	3,838	<b>38,020</b>
Amortization of prior service costs	<b>(1,653)</b>	(1,661)	(1,552)	<b>(15,392)</b>
Special termination benefits and other benefits	—	—	1,244	—
Employees' pension funds dissolution profit	<b>(1,964)</b>	—	—	<b>(18,288)</b>
Officers' lump-sum severance benefit expense	<b>720</b>	608	586	<b>6,705</b>
<b>Severance and pension benefit expense</b>	<b>¥19,957</b>	¥22,311	¥25,764	<b>\$185,837</b>

The discount rate used by the Company was mainly 2.5% for the years ended March 31, 2005, 2004 and 2003. The rates of expected return on plan assets were mainly 2.5% for the years ended March 31, 2005, 2004 and 2003. The estimated amounts of all retirement benefits to be paid at the future retirement dates are allocated equally to each service year using the estimated number of total service years.

Amortization of net transition obligation and negative prior service costs resulting from the revision of employees' retirement policy in October 2000, amounting to ¥8,326 million (\$77,530 thousand), ¥8,529 million and ¥10,446 million for the years ended March 31, 2005, 2004 and 2003, 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 non-consolidated financial statements of the Company in accordance with the Code.

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

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

amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by the resolution of shareholders' meeting or may be capitalized by the resolution of Board of Directors. On the condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, the legal earnings reserve and additional paid-in capital are available for distributions by the resolution of shareholders' meeting. There is no legal earnings reserve as of March 31, 2005, 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, 2005, 2004 and 2003, consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Current	<b>¥16,572</b>	¥10,016	¥ 6,447	<b>\$154,316</b>
Deferred	<b>(1,334)</b>	2,387	(11,644)	<b>(12,422)</b>
	<b>¥15,238</b>	¥12,403	¥ (5,197)	<b>\$141,894</b>

The following table summarizes the significant differences between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2005 and 2004:

	2005	2004
Statutory tax rate	<b>40.7%</b>	42.1%
Equity in (earnings) losses of affiliates	<b>(3.3)</b>	79.5
Valuation allowance	<b>3.7</b>	(11.6)
Intercompany cash dividend	<b>2.8</b>	7.3
Nondeductible expenses	<b>5.4</b>	6.8
Differences in statutory tax rates of consolidated subsidiaries	<b>(3.3)</b>	(4.6)
Reversal of reserve for loss on subsidiaries	—	(3.5)
Other	<b>(2.2)</b>	(4.3)
<b>Effective tax rate</b>	<b>43.8%</b>	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, as the loss before income taxes and minority interests was reported for that year.

Significant components of deferred income tax assets and liabilities as of March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Deferred income tax assets:			
Net operating loss carryforwards	<b>¥19,298</b>	¥22,781	<b>\$179,700</b>
Severance and pension benefits	<b>19,928</b>	18,577	<b>185,567</b>
Loss on write-down of building	<b>10,422</b>	10,944	<b>97,048</b>
Intercompany profits	<b>8,658</b>	8,830	<b>80,622</b>
Accrued employees' bonuses	<b>4,199</b>	3,928	<b>39,100</b>
Loss on write-down of securities	<b>7,010</b>	5,454	<b>65,276</b>
Depreciation	<b>1,796</b>	1,206	<b>16,724</b>
Allowance for doubtful accounts	<b>1,497</b>	1,013	<b>13,940</b>
Allowance for industrial waste processing	—	767	—
Valuation allowance for investment in unconsolidated subsidiaries and affiliates	<b>581</b>	599	<b>5,410</b>
Reserve for loss on subsidiaries and affiliates	<b>631</b>	509	<b>5,876</b>
Other	<b>9,161</b>	7,376	<b>85,306</b>
Subtotal	<b>83,181</b>	81,984	<b>774,569</b>
Valuation allowance	<b>(18,508)</b>	(18,740)	<b>(172,343)</b>
<b>Total deferred income tax assets</b>	<b>¥ 64,673</b>	¥ 63,244	<b>\$ 602,226</b>
Deferred income tax liabilities:			
Excess of fair value over the book value of the assets and liabilities of the consolidated subsidiaries and affiliates at the acquisition date	<b>¥ (9,046)</b>	¥(10,474)	<b>\$ (84,235)</b>
Accelerated depreciation of property, plant and equipment	<b>(8,283)</b>	(8,392)	<b>(77,130)</b>
Deferred gain on sale of property, plant and equipment	<b>(1,578)</b>	(1,619)	<b>(14,694)</b>
Reserves deductible for Japanese tax purposes	<b>(607)</b>	(428)	<b>(5,652)</b>
Net unrealized holding gains on securities	<b>(11,254)</b>	(6,524)	<b>(104,796)</b>
Other	<b>(3,554)</b>	(3,401)	<b>(33,095)</b>
<b>Total deferred income tax liabilities</b>	<b>(34,322)</b>	(30,838)	<b>(319,602)</b>
<b>Net deferred income tax assets</b>	<b>¥ 30,351</b>	¥ 32,406	<b>\$ 282,624</b>
<b>Net deferred income tax liabilities on revaluation reserve for land</b>	<b>¥ (37,148)</b>	¥ (31,376)	<b>\$(345,917)</b>

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, the deferred income tax assets increased by ¥116 million, the deferred income taxes decreased by ¥146 million, and the net unrealized

holding gains on securities decreased by ¥30 million. Also, the net deferred income tax liabilities on revaluation reserve for land increased by ¥153 million, and the revaluation reserve for land decreased by the same amount for the year ended March 31, 2004.

## Note 8—Contingent Liabilities

Contingent liabilities for notes receivable discounted with banks, notes receivable endorsed with recourse, notes and accounts receivable securitized with recourse and loans guaranteed by the Company and its consolidated subsidiaries primarily on behalf of unconsolidated subsidiaries and affiliates, including employees' housing loans from banks, as of March 31, 2005 and 2004, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Notes receivable discounted	¥ 553	¥ 8,210	\$ 5,150
Notes receivable endorsed with recourse	58	109	540
Notes and accounts receivable securitized with recourse	7,771	4,099	72,362
Loans guaranteed	32,563	133,035	303,222
	<b>¥40,945</b>	<b>¥145,453</b>	<b>\$381,274</b>

## Note 9—Lease Transactions

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

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

	Millions of yen				Thousands of U.S. dollars			
	2005				2005			
	Machinery, equipment and vehicles	Tools	Others	Total	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	¥9,700	¥5,087	¥1,441	¥16,228	\$90,325	\$47,369	\$13,419	\$151,113
Accumulated depreciation	5,419	2,758	723	8,900	50,461	25,682	6,733	82,876
Book value	¥4,281	¥2,329	¥ 718	¥ 7,328	\$39,864	\$21,687	\$ 6,686	\$ 68,237

	Millions of yen			
	2004			
	Machinery, equipment and vehicles	Tools	Others	Total
Purchase price	¥9,851	¥6,291	¥1,195	¥17,337
Accumulated depreciation	5,138	3,308	594	9,040
Book value	¥4,713	¥2,983	¥ 601	¥ 8,297

(2) Lease commitments

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥2,531	¥2,654	\$23,568
Due after one year	4,797	5,643	44,669
Total	<b>¥7,328</b>	<b>¥8,297</b>	<b>\$68,237</b>

(3) Lease expenses and depreciation equivalents

	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	2005
Lease expenses	¥2,974	¥3,223	¥3,125	\$27,693
Depreciation equivalents	2,974	3,223	3,125	27,693

Noncancelable operating lease commitments are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	<b>¥1,755</b>	¥1,769	<b>\$16,342</b>
Due after one year	<b>5,979</b>	7,296	<b>55,676</b>
Total	<b>¥7,734</b>	¥9,065	<b>\$72,018</b>

### Note 10—Research and Development Expenses

Research and development expenses for the years ended March 31, 2005, 2004 and 2003, were ¥10,449 million (\$97,300 thousand), ¥11,232 million and ¥11,608 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, 2005 and 2004:

Available-for-sale securities

(1) Securities with book values exceeding acquisition cost

	2005			2004			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	<b>¥38,979</b>	<b>¥70,398</b>	<b>¥31,419</b>	¥39,529	¥60,459	¥20,930	<b>\$362,967</b>	<b>\$655,536</b>	<b>\$292,569</b>
Bonds	<b>10</b>	<b>10</b>	—	10	10	—	<b>93</b>	<b>93</b>	—
Total	<b>¥38,989</b>	<b>¥70,408</b>	<b>¥31,419</b>	¥39,539	¥60,469	¥20,930	<b>\$363,060</b>	<b>\$655,629</b>	<b>\$292,569</b>

(2) Securities with book values not exceeding acquisition cost

	2005			2004			2005		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	<b>¥6,818</b>	<b>¥5,663</b>	<b>¥(1,155)</b>	¥7,836	¥5,964	¥(1,872)	<b>\$63,488</b>	<b>\$52,733</b>	<b>\$(10,755)</b>
Bonds	<b>17</b>	<b>17</b>	—	5	5	—	<b>158</b>	<b>158</b>	—
Total	<b>¥6,835</b>	<b>¥5,680</b>	<b>¥(1,155)</b>	¥7,841	¥5,969	¥(1,872)	<b>\$63,646</b>	<b>\$52,891</b>	<b>\$(10,755)</b>

2. The following tables summarize book values of securities with no available fair values as of March 31, 2005 and 2004:

(1) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
	Book value	Book value	Book value
Government or local bonds	<b>¥—</b>	¥40	<b>\$—</b>
Corporate bonds	—	7	—
Total	<b>¥—</b>	¥47	<b>\$—</b>

(2) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
	Book value	Book value	Book value
Unlisted equity securities	<b>¥18,267</b>	¥19,180	<b>\$170,100</b>
Corporate bonds	<b>10</b>	27	<b>93</b>
Others	<b>105</b>	109	<b>978</b>
Total	<b>¥18,382</b>	¥19,316	<b>\$171,171</b>

3. The following tables summarize maturities of available-for-sale securities with maturity and held-to-maturity debt securities as of March 31, 2005 and 2004:

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

					Thousands of U.S. dollars
At March 31, 2005	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities:					
Government or local bonds	\$ —	\$205	\$ —	\$ —	\$ 205
Corporate bonds	47	140	—	—	187
Other bonds	633	279	—	—	912
Total	\$680	\$624	\$ —	\$ —	\$1,304

					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

4. Total sales amounts of available-for-sale securities sold, and the resulting gains and losses, in the years ended March 31, 2005 and 2004, were as follows:

		Millions of yen		Thousands of U.S. dollars
		2005	2004	2005
Sales amount		¥13,228	¥26,295	\$123,177
Gains		10,256	12,940	95,502
Losses		10	295	93

## 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 utilizes forward foreign currency contracts to hedge the impact of foreign exchange fluctuations on receivables and payables, and on advance payments associated with 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 nonferrous metal inventories, sold gold bullion deposited from customers under consuming bailment My Gold Plan, and commodities, in cases the selling price of nonferrous metals in the future is fixed at the futures price.

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

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

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

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

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

At March 31, 2005 and 2004, the Company and its consolidated subsidiaries had outstanding derivative transactions as follows:

(a) Foreign Currency Contracts

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

		Contract amounts in U.S. dollar equivalent			Thousands of U.S. dollars	
		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
At March 31, 2005						
Forward exchange contracts:						
Sell	U.S. dollars	<b>\$237,732</b>	<b>\$ —</b>	<b>\$237,732</b>	<b>\$242,462</b>	<b>\$(4,730)</b>
	Other	<b>29,546</b>	<b>4,749</b>	<b>34,295</b>	<b>36,130</b>	<b>(1,835)</b>
Buy	U.S. dollars	<b>25,617</b>	<b>4,395</b>	<b>30,012</b>	<b>32,182</b>	<b>2,170</b>
	Other	<b>37</b>	<b>—</b>	<b>37</b>	<b>37</b>	<b>—</b>
<b>Total</b>						<b>\$(4,395)</b>

		Contract amounts in yen equivalent			Millions of yen	
		Due within one year	Due after one year	Total	Fair value	Unrealized gains (losses)
At March 31, 2004						
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)
<b>Total</b>						<b>¥1,490</b>

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

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

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

## (b) Interest Rate Contracts

Millions of yen

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

Thousands of U.S. dollars

At March 31, 2005	Notional amounts			Fair value	Unrealized losses
	Due within one year	Due after one year	Total		
Interest rate swap contracts:					
Pay fixed rate, receive floating rate	<b>\$70,463</b>	<b>\$513,716</b>	<b>\$584,179</b>	<b>\$(8,194)</b>	<b>\$(8,194)</b>
<b>Total</b>					<b>\$(8,194)</b>

Millions of yen

At March 31, 2004	Notional amounts			Fair value	Unrealized losses
	Due within one year	Due after one year	Total		
Interest rate swap contracts:					
Pay fixed rate, receive floating rate	<b>¥8,757</b>	<b>48,184</b>	<b>56,941</b>	<b>(667)</b>	<b>(667)</b>
<b>Total</b>					<b>¥(667)</b>

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

With respect to interest rate swap contracts used as hedge and meeting certain hedging criteria, the net amounts to be

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

## (c) Commodity Contracts

Millions of yen

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

Thousands of U.S. dollars

At March 31, 2005	Contract amounts			Fair value	Unrealized gains (losses)
	Due within one year	Due after one year	Total		
Nonferrous metals forward:					
Sell	<b>\$305,699</b>	<b>\$ 726</b>	<b>\$306,425</b>	<b>\$316,575</b>	<b>\$(10,150)</b>
Buy	<b>387,345</b>	<b>36,279</b>	<b>423,624</b>	<b>455,806</b>	<b>32,182</b>
<b>Total</b>					<b>\$ 22,032</b>

Millions of yen

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

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.

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

### 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 comprises copper smelting and copper-related products; Powder Metallurgy Products &

Tools comprises cemented carbide products, powder metallurgy products and diamond tools; Advanced Products comprises electronic components, electronic materials and chemicals; Energy & Systems comprises engineering and nuclear-related businesses; and Others comprises 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, 2005, 2004 and 2003, is as follows:

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

Year ended March 31, 2005								Thousands of U.S. dollars		Consolidated
	Cement	Aluminum	Metals	Powder Metallurgy Products & Tools	Advanced Products	Energy & Systems	Others	Total	Elimination and Corporate Assets or Expenses	
Sales:										
Unaffiliated customers	\$1,387,215	\$1,252,621	\$2,349,688	\$1,090,856	\$463,255	\$ 773,796	\$1,852,669	\$ 9,170,100	\$ —	\$ 9,170,100
Intersegment	4,572	6,956	513,791	84,580	13,400	258,162	319,917	1,201,378	(1,201,378)	—
Total	1,391,787	1,259,577	2,863,479	1,175,436	476,655	1,031,958	2,172,586	10,371,478	(1,201,378)	9,170,100
Operating expenses	1,278,741	1,192,243	2,741,373	1,027,293	446,773	1,012,878	2,111,947	9,811,248	(1,144,780)	8,666,468
Operating profit	\$ 113,046	\$ 67,334	\$ 122,106	\$ 148,143	\$ 29,882	\$ 19,080	\$ 60,639	\$ 560,230	\$ (56,598)	\$ 503,632
Identifiable assets	\$2,294,394	\$1,479,812	\$2,760,806	\$1,162,818	\$391,563	\$ 911,537	\$2,789,945	\$11,790,875	\$1,439,631	\$13,230,506
Depreciation	\$ 84,207	\$ 90,558	\$ 99,292	\$ 53,990	\$ 20,775	\$ 26,865	\$ 47,854	\$ 423,541	\$ 22,683	\$ 446,224
Capital expenditures	\$ 90,306	\$ 67,511	\$ 87,103	\$ 82,326	\$ 16,072	\$ 12,813	\$ 95,876	\$ 452,007	\$ 8,995	\$ 461,002

Millions of yen

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

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	¥ 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

The Company has changed its method of business segment classification to "Cement," "Aluminum," "Metals," "Powder Metallurgy Products & Tools," "Advanced Products," "Energy & Systems," and "Others" from the previous segmentation of "Silicon and Advanced Materials," "Fabricated Metal Products," "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 better selection and concentration of its businesses.

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

Business segment information, which was reclassified to conform with the 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	¥ 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

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

As indicated in Note 2 (o), the Company has started to eliminate this kind of transaction in this fiscal year, as a result of the change of its contract. Accordingly, both the sales to unaffiliated customers and the operating expenses for "Metals" decreased by ¥32,762 million, compared to the amounts that would have been reported by the previous accounting method.

*Change of valuation method for inventories in the "Metals" segment*

In this fiscal year, Sambo Copper Alloy Co. Ltd., one of the consolidated subsidiaries in the copper processing business, has

changed its valuation method for inventories from the first-in, first-out (FIFO) method to the last-in, first-out (LIFO) method. This change was to make the consolidated statements of operations calculate the profit or loss for a period more properly, by matching sales and cost of sales at the same price level, as the price for copper bullion, its main material, is substantially fluctuating under the circumstances of the international market. Accordingly, the operating expenses for the "Metals" increased by ¥841 million, and both the operating profit and the assets decreased by the same amount compared to the amounts that would have been reported by the previous accounting method.

(b) Segment information by geographic area for the years ended March 31, 2005, 2004 and 2003, is as follows:

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

Year ended March 31, 2005							Thousands of U.S. dollars	
	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
Sales:								
Unaffiliated customers	\$ 7,876,916	\$604,479	\$119,238	\$ 545,544	\$23,923	\$ 9,170,100	\$ —	\$ 9,170,100
Intersegment	238,383	8,083	391	589,720	—	836,577	(836,577)	—
Total	8,115,299	612,562	119,629	1,135,264	23,923	10,006,677	(836,577)	9,170,100
Operating expenses	7,627,517	560,946	113,633	1,107,058	21,678	9,430,832	(764,364)	8,666,468
Operating profit	\$ 487,782	\$ 51,616	\$ 5,996	\$ 28,206	\$ 2,245	\$ 575,845	\$ (72,213)	\$ 503,632
Identifiable assets	\$10,664,689	\$748,757	\$255,145	\$ 820,514	\$29,025	\$12,518,130	\$ 712,385	\$13,230,515

Year ended March 31, 2004							Millions of yen	
	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

Millions of yen

Year ended March 31, 2003	Japan	U.S.A.	Europe	Asia	Others	Total	Elimination and Corporate Assets or Expenses	Consolidated
<b>Sales:</b>								
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	¥ 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

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

As indicated in Note 2 (o), the Company has started to eliminate this kind of transaction in this fiscal year, as a result of the change of its contract. Accordingly, the sales to unaffiliated customers in "Asia" decreased by ¥32,762 million, and the intersegment sales increased by the same amount, compared to the amounts that would have been reported by the previous accounting method.

*Change of valuation method for inventories in "Japan"*

In this fiscal year, Sambo Copper Alloy Co. Ltd., one of the consolidated subsidiaries in the copper processing business,

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

(c) Overseas sales by geographic area for the years ended March 31, 2005, 2004 and 2003, were as follows:

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

Year ended March 31, 2005	U.S.A.	Europe	Asia	Others	Total
Overseas sales	<b>\$650,638</b>	<b>\$161,244</b>	<b>\$1,035,720</b>	<b>\$33,197</b>	<b>\$1,880,799</b>
Consolidated net sales					<b>9,170,100</b>
Percentage of overseas sales to consolidated net sales	<b>7.1%</b>	<b>1.8%</b>	<b>11.3%</b>	<b>0.3%</b>	<b>20.5%</b>

Year ended March 31, 2004	U.S.A.	Europe	Asia	Others	Total
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, 2003	U.S.A.	Europe	Asia	Others	Total
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%

## Note 14—Revaluation Reserve for Land

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

income taxes on revaluation reserve for land" in liabilities in the consolidated balance sheets. When such land is sold, the revaluation reserve for land is reversed and credited to the retained earnings (accumulated deficit).

According to the Law, the Company and its consolidated subsidiaries are not permitted to revalue the land at any time even if fair value of the land declines. Such unrecorded revaluation losses at March 31, 2005 and 2004, amounted to ¥19,081 million (\$177,679 thousand) and ¥6,698 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
	2005	2004	2003	2005
Cash	¥16,686	¥18,178	¥19,451	\$155,378
Less term deposits with maturities extending more than three months	(333)	(424)	(525)	(3,101)
Cash and cash equivalents	¥16,353	¥17,754	¥18,926	\$152,277

(b) Effect of integration of copper tube business

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 7,665	\$ 71,375
Noncurrent assets	8,919	83,053
Total assets	¥16,584	\$154,428
Current liabilities	¥ 5,789	\$ 53,906
Noncurrent liabilities	5,501	51,225
Total liabilities	¥11,290	\$105,131
Increment of investment in affiliates	¥ 6,937	\$ 64,596

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

Reconciliation of the numbers and amounts used in the basic and diluted net income (loss) per share of common stock computation for the years ended March 31, 2005, 2004, and 2003, is as follows:

Year ended March 31, 2005	Millions of yen	Thousands	Yen	U.S. dollars
	Net income	Weighted-average shares	Net income per share	Net income per share
Basic net income per share:				
Net income	¥16,374			
Bonuses to directors by an appropriation of retained earnings	52			
Net income available to common shareholders	16,322	1,130,529	¥14.4	\$0.13
Effect of dilutive securities:				
Convertible bonds	285	153,719		
Diluted net income per share:				
Net income for computation	¥16,607	1,284,248	¥12.9	\$0.12

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

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

Year ended March 31, 2003	Millions of yen	Thousands	Yen
	Net loss	Weighted-average shares	Net loss per share
Basic net loss per share:			
Net loss	¥26,854		
Bonuses to directors by an 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 net loss per share of common stock computation for the year ended March 31, 2003, is disclosed, as the Company incurred a net loss.

## Note 17—Related Party Transactions

Significant transactions with related parties for the years ended March 31, 2005, 2004 and 2003, were as follows:

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

Name of company	Thousands of U.S. dollars		
	March 31, 2005		
	Net sales	Accounts receivable	Rental income
Ube-Mitsubishi Cement Corp.	\$383,406	\$47,630	\$28,997

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

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

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

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

## Note 18—Subsequent Events

### (a) Payment of cash dividends

On June 29, 2005, the shareholders of the Company approved the payment of cash dividend of ¥3.00 (\$0.03) per share to shareholders recorded as of March 31, 2005, which amounts to ¥3,396 million (\$31,623 thousand) in total.

### (b) Change in method of business segment classification

The Company has reorganized the business structure as of April 1, 2005. The Company intends to improve its profitability and its financial position by moving to the business structure with five core companies (Cement, Metals, Powder Metallurgy

Products & Tools, Aluminum and Electronic Materials) to invest its managerial resources in growth areas effectively.

Accordingly it has changed its method of business segment classification to “Cement,” “Metals,” “Advanced Materials & Tools,” “Aluminum,” “Electronic Materials & Components,” and “Others,” from the previous segmentation of “Cement,” “Aluminum,” “Metals,” “Powder Metallurgy Products & Tools,” “Advanced Products,” “Energy & Systems,” and “Others.”

For respective businesses, the overview of the main products and the ratio of their sales to unaffiliated customers in consolidated net sales in this fiscal year are as follows:

Business segment	Main products	% of consolidated net sales
Cement	cement, secondary cement products, ready-mixed concrete, building materials	15.1%
Metals	copper smelting, processed copper products	25.6
Advanced Materials & Tools	cemented carbide products, sintered parts, highly efficient materials, diamond tools	14.1
Aluminum	aluminum cans, rolled aluminum products, processed aluminum products	13.7
Electronic Materials & Components	electronic materials, chemical products, electronic device products, polycrystalline silicon	6.8
Others	engineering, nuclear energy, precious metals, resources-, environment- and recycle-related products, real estate, etc.	24.7

### (c) Problem of soil and groundwater in Osaka Amenity Park (OAP)

In order to solve the problem of soil and groundwater at OAP promptly and comprehensively, the four companies (i.e. Mitsubishi Estate Co., Ltd., Obayashi Corporation, Mitsubishi Material Real Estate Co., Ltd., and the Company) have executed a confirmation note with the management association of OAP Residence Tower on May 8, 2005, on their future proposal to offer financial compensations to the present owners of the said condominium.

The proposal maintains that the companies will pay 25% of the purchase price to the owners who intend to keep their ownership, and that for those who intend to sell, the companies will ask a real estate appraiser with mutual consent for appraisal on the assumption that there was no problem regarding soil and groundwater, and will pay 10% of the appraised value in addition to buying the condominium at the appraised value.

Currently the companies are checking the owners' intention following that confirmation note, and are entering into respective negotiations on specific amounts, methods and timing of payments.

The entire sales price of the condominium approximately amounts to ¥33 billion. The four companies will pursue consultations on the respective ratio of the amount to be shared by each company.

### (d) Integration of aluminum can business

On February 23, 2005, Hokkai Can Co., Ltd. and the Company have agreed to integrate their aluminum can business. The integration plan that the two companies will establish a new joint company named “Universal Can Corporation” and contribute each aluminum can business in it on October 1, 2005 to

integrate their aluminum can business, was resolved by the Board of Directors on May 10, 2005, and was approved by the annual meeting of shareholders on June 29, 2005.

#### 1. Purpose of integration

The Company has an advantage in the production and analysis technique for aluminum cans, with its unique technique for aluminum rolling, aluminum can production, and recycling, while Hokkai Can Co., Ltd. has an excellent sales system with a background of expanded business of container production and content filling for drinks and foods. These two companies will integrate their aluminum can business to make maximum use of their advantages and the synergy effect by integration, and will aim to be a leading company in the market for compact drink containers, meeting various needs of customers as a specialized manufacturer of aluminum cans.

#### 2. Equity share

The Company: 80%  
Hokkai Can Co., Ltd.: 20%

Universal Can Corporation will be a consolidated subsidiary of the Company.

#### 3. Capital: ¥8,000 million (\$74,495 thousand)

#### 4. Rights and obligations to be transferred to Universal Can Corporation:

Assets and liabilities, and incidental rights and obligations and contractual position of the Company, and of Hokkai Can Co., Ltd., for the business related to production, research and development, and sales of aluminum cans.

### 5. Extent of business of the Company subject to integration

#### (i) The Company

Name: Yuki plant, Fuji-oyama plant, Gifu plant, Okayama plant  
Location: Yuki in Ibaraki Prefecture, Oyama in Shizuoka Prefecture, Mino-kamo in Gifu Prefecture, Seto in Okayama Prefecture  
Sales: ¥47,000 million (\$437,657 thousand) (fiscal year 2004)  
Total assets: ¥60,508 million (\$563,442 thousand) (March 31, 2005)

#### (ii) Subsidiary

Name: SHINRYO ALUMINUM TECHNOLOGY Co., Ltd.  
(consolidated subsidiary)  
Location: Chiyoda Ward in Tokyo  
Sales: ¥1,249 million (\$11,630 thousand) (fiscal year 2004)  
Total assets: ¥237 million (\$2,207 thousand) (March 31, 2005)

#### (e) Integration of sintered parts business

The Company has agreed to integrate its sintered parts business with Plansee Holding AC ("Plansee") in Austria, and the basic agreement for this integration was resolved by the Board of Directors on May 27, 2005, and executed on that date.

#### 1. Purpose of integration

As automobile manufacturers who are main users of sintered parts business are rapidly globalizing their production bases, their suppliers are urgently required to build up the supply system capable of meeting that globalized demand. As for the sintered parts business, the two companies are mutually complementary in terms of their production bases, unique technologies and sales. Furthermore, by enhancing their advantages through integration, they will aim to expand their business to China, East Europe and South America, where the market is expected to expand in the future, as well as build up an efficient product supply system to the world's automobile manufacturers.

#### 2. Method of integration

Plansee and the Company will invest 50-50 to establish a joint holding company (new company), under which they will relegate their sintered parts business. The name and other details of this new company have not yet been decided.

### 3. Extent of business of the Company subject to integration

#### (i) The Company

Name: Niigata plant, Fujioka plant  
Location: Niigata in Niigata Prefecture, Fujioka in Gunma Prefecture  
Sales: ¥24,438 million (\$227,563 thousand) (fiscal year 2004)  
Total assets: ¥22,113 million (\$205,913 thousand) (March 31, 2005)

#### (ii) Domestic subsidiary

Name: PM TECHNO Co., Ltd. (consolidated subsidiary)  
Location: Niigata in Niigata Prefecture  
Sales: ¥1,111 million (\$10,345 thousand) (fiscal year 2004)  
Total assets: ¥1,117 million (\$10,401 thousand) (March 31, 2005)

#### (iii) Overseas subsidiaries

Name: Diamet Corporation (consolidated subsidiary)  
Location: Columbus, Indiana, U.S.A.  
Sales: ¥4,148 million (\$38,626 thousand) (fiscal year 2004)  
Total assets: ¥3,892 million (\$36,242 thousand) (December 31, 2004)

Name: Diamet Klang (M) Sdn. Bhd. (unconsolidated subsidiary)  
Location: Port Klang, Selangor D.E., Malaysia  
Sales: ¥1,257 million (\$11,705 thousand) (fiscal year 2004)  
Total assets: ¥1,050 million (\$9,777 thousand) (March 31, 2005)

Name: Diamet Lingqing (Shanghai) Co., Ltd (unconsolidated subsidiary)  
Location: Shanghai, China  
Sales: —  
Total assets: ¥294 million (\$2,738 thousand) (December 31, 2004)

(iv) Expected date of integration  
October 1, 2005

## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Mitsubishi Materials Corporation (a Japanese corporation) and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2005, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Materials Corporation and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan.

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

- (1) As discussed in Note 13, Mitsubishi Materials Corporation has changed its method of business segment classification in the year ended March 31, 2004.
- (2) As discussed in Note 18, Subsequent Events, regarding the problem of soil and groundwater in Osaka Amenity Park, the four companies including Mitsubishi Materials Corporation have executed a confirmation note with the management association of OAP Residence Tower on May 8, 2005, on their future proposal to offer financial compensations to the present owners of the condominium.
- (3) As discussed in Note 18, Subsequent Events, the integration plan that Hokkai Can Co., Ltd and Mitsubishi Materials Corporation will establish a new joint company named "Universal Can Corporation" and contribute each aluminum can business in it on October 1, 2005 to integrate their aluminum can business, was resolved by the Board of Directors on May 10, 2005, and was approved by the annual meeting of shareholders on June 29, 2005.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts, and in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
June 29, 2005

## Corporate Data

(Nonconsolidated)

(As of March 31, 2005)

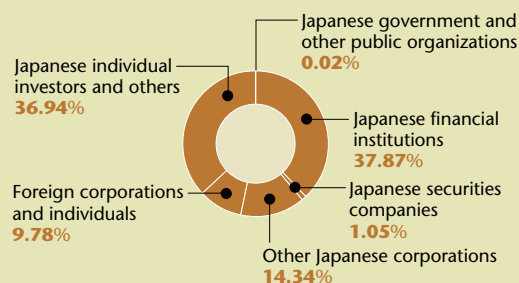
Date Established	April 1, 1950
Headquarters	1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan
Number of Employees	4,904
Number of Manufacturing Plants (Domestic)	21
Number of R&D Institutes (Domestic)	2
Number of Sales Offices (Domestic)	6

## Investor Information

(As of March 31, 2005)

Shares of Common Stock	Authorized: 2,683,162,000 Issued and Outstanding: 1,134,053,663
Capital	¥99,397 million
Number of Shareholders	153,362
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: <a href="mailto:www-ir@mmc.co.jp">www-ir@mmc.co.jp</a>

### Distribution of Shareholders



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

