MITSUI
KINZOKU

Mitsui Kinzoku

Annual Report 2004

Profile

Mitsui Mining & Smelting Co., Ltd. (Mitsui Kinzoku), supplies nonferrous metal derivatives that play key roles in high-tech industries. Since its establishment in 1950, the Company has also been known as a leading supplier of such nonferrous metals as zinc and copper and one of the world's largest producers of zinc.

The Company has technological expertise in the production of such electronics-related materials as copper foil and semiconductor packaging tapes, which are presently indispensable for information-related and telecommunications devices. The Company maintains its technological leadership through aggressive R&D accompanied with its "material intelligence" obtained through its extensive background in smelting and refining operations in the nonferrous metals field. Furthermore, Mitsui Kinzoku offers its technological expertise to the world through licensing and its engineering services.

Superior quality is the hallmark of Mitsui Kinzoku products and services. A team of nearly 10,000 talented employees strives to ensure this quality and, in doing so, has maintained the integrity of the Mitsui Kinzoku name and its long-standing reputation for innovation.

Contents

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains statements about Mitsui Kinzoku's future business plans, strategies, and beliefs. Statements regarding the Company's projected future business results are not based on historical facts and are subject to various risks and uncertainties. These risks and uncertainties relate to economic conditions in Mitsui Kinzoku's business environment, the state of private-sector and public-sector capital investment, currency exchange rates, competitive pricing pressures in the marketplace, and Mitsui Kinzoku's ability to continue designing and developing products that will be accepted in markets. However, it should be noted that elements affecting performance are not limited to the previously mentioned factors.

In this report, fiscal 2003 represents the year ended March 31, 2004.

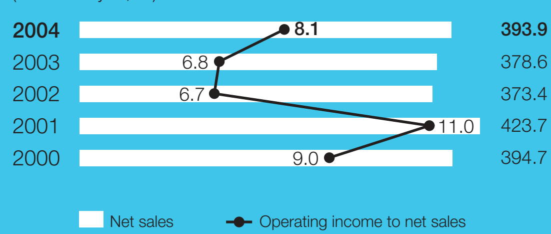
Financial Highlights

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31

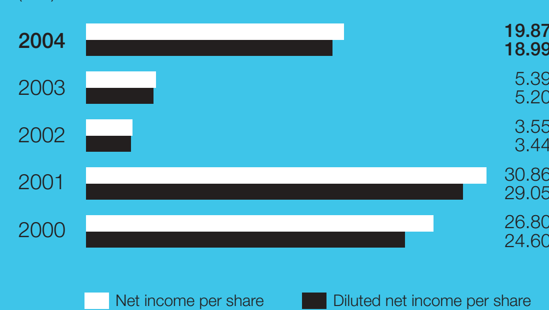
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Consolidated Performance				
Net sales	**¥393,928**	¥378,608	¥373,442	**$3,727,202**
Operating income	**32,035**	25,740	24,893	**303,103**
Net income	**11,452**	3,085	1,986	**108,354**
Total assets	**392,545**	370,886	393,603	**3,714,116**
Total shareholders’ equity	**115,398**	103,237	105,219	**1,091,853**
Total shareholders’ equity per share (¥, $)	**¥201.33**	¥184.48	¥188.13	**$1.90**
Net income per share (¥, $)	**19.87**	5.39	3.55	**0.19**
Diluted net income per share (¥, $)	**18.99**	5.20	3.44	**0.18**
Cash dividends per share (¥, $)	**5.00**	5.00	5.00	**0.05**

Note: All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥105.69 to US$1.00, the rate prevailing at March 31, 2004.

Net Sales and Operating Income to Net Sales
(Billions of yen, %)

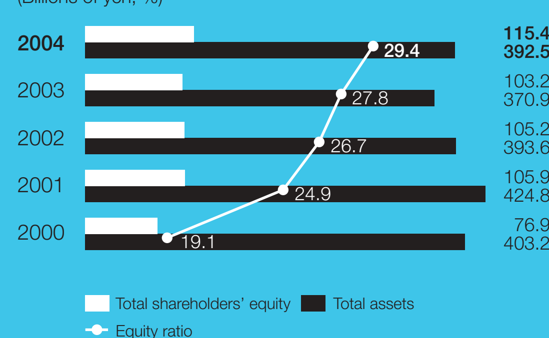


Net Income per Share and Diluted Net Income per Share
(Yen)



Operating Income and Net Income
(Billions of yen)

Total Shareholders’ Equity, Total Assets, and Equity Ratio
(Billions of yen, %)



A Message from the Management

Chairman and
Chief Executive Officer
Shimpei Miyamura
(seated)

President and
Chief Operating Officer
Hiroshi Makihara
(standing)

We are proceeding with preparations for a new stage of sustainable corporate growth and so upgrading the core manufacturing capabilities that will support such growth. The benefits of these efforts are already increasingly evident in our performance.

REINFORCING OUR BASE OF MANUFACTURING TECHNOLOGIES

Mitsui Kinzoku's goal is to continuously augment corporate value by promoting sustainable corporate development based on its ability to manufacture useful products that contribute to society's sound development. Greatly changing market needs regarding both product quality and volume make it extremely difficult to proceed steadfastly with the manufacturing and marketing of value-rich products. However, we are confident that maintaining a solid foundation of superior manufacturing capabilities is a key basis for sustaining the growth of a manufacturing company. Our own corporate history testifies to this.

In fiscal 2003, ended March 31, 2004, Mitsui Kinzoku was able to augment its profitability, largely by responding aptly to growth in markets for electronics materials. In contrast, in functional automotive parts operations, the Company considerably increased its sales, but profitability deteriorated, as we fell short of our manufacturing efficiency targets. We have to devote additional efforts to realizing our manufacturing efficiency goals.

In view of this, as a means of making progress in improving our corporate performance, Mitsui Kinzoku must ensure that it is strongly positioned vis-à-vis fundamental manufacturing services. Specifically, we must make sure that we can sustain excellent performance in:

(1) developing products that meet customers' actual and potential needs;
(2) wielding the manufacturing capabilities needed to provide the necessary volume of products to customers on a dependable, just-in-time manner; and
(3) realizing the manufacturing efficiency needed to provide products with performance-cost ratios superior to our competitors' products.

If we do all this successfully, then we will be able to earn the confidence and trust of our customers—at which point, changes in demand will work to our advantage.

We have been emphasizing to everyone in Mitsui Kinzoku that the Company will not be able to do these things successfully unless everyone makes constant and unrelenting efforts. Some of the benefits of our concerted and sustained efforts were reflected in our fiscal 2003 performance. In particular, we had noteworthy success in revitalizing our electrodeposited copper foil business.

Fiscal 2000 and 2001 were testing years in which we learned important lessons. During that period, a large rise in demand for electronics materials followed by a sharp fall in that demand had a significant impact on our performance, and the scars from that impact have remained. Electrodeposited copper foil business was one of the businesses affected by the demand volatility at that time.

Since then, we have been making steady progress in restoring our corporate performance. Now, while we are still midway through the restoration process, the operating environment has once again begun showing its volatility. Some important current changes include the rapid surge in demand for electronics materials incorporated in digital products, the skyrocketing prices of certain materials against the backdrop of rapid growth in China's economy, and changes in foreign currency exchange rates.

Aiming to promote the sound development of our operations at this point, we have been making rapid decisions based on our experiences three years ago. For example, we are projecting future demand trends to the greatest extent possible, giving due consideration to our technological capabilities for supporting efficient mass-production operations and to whether we have sufficient human resources for the task, a consideration that comprehends the skills and motivation of our present human resources. Based on a careful examination of such factors, we are working to develop products, make flexible and timely decisions about whether to increase or reduce production capacity, reduce manufacturing costs, and set selling prices at levels that facilitate concurrent increases in market share and profitability.

In addition, to facilitate the concerted use of our diverse capabilities, we are encouraging Mitsui Kinzoku Group units to make greater use of the Group's internal information network to share technological, marketing, managerial, financial, and other types of information.

MAKING EFFORTS FOR THE FUTURE

To effectively respond to changes in economic conditions, Mitsui Kinzoku will naturally have to proactively make major changes to its operations. The Company is continuously making efforts to project and plan its future evolution in concrete terms. Specifically, we are assessing each of our businesses and deciding whether they are best expanded, maintained, or abandoned. Our decisions in this regard will be incorporated in the new medium-term plan we are drafting during the current fiscal year.

The implementation of urgent measures has begun without waiting for the completion of the new plan. For example, in the past year, the missions of major business units in Ireland and the Netherlands were completed. We also acquired additional subsidiaries as well as selling or liquidating certain other subsidiaries. At the same time, we are hurrying to foster new businesses that will be important pillars of our operations in the future.

In April 2003, we reorganized our Corporate R&D Center and increased the share of resources that the facility devotes to all types of new product development work, from market surveys through the start of mass production. We made this change after deciding we were tying up too many personnel resources with work related to existing growth products.

Mitsui Kinzoku's strength relates to various niche markets that huge companies do not want to address. As a result, we have accumulated a more diverse range of technologies than companies with more tightly focused or specialized operations, particularly regarding technologies associated with the special characteristics of particular metals. We have used these technologies along with our human and financial resources to strive to be the leader in promising niche markets.

Examples of such niche markets that we have been successful in include electrodeposited copper foil, tape-automated bonding (TAB) tapes, ultrafine metal powders, and door lock mechanisms. These have all grown into important business fields for Mitsui Kinzoku. In the future, Mitsui Kinzoku will continue to be a forward-looking enterprise that is always seeking to establish a presence in promising new niche markets.

Mitsui Kinzoku is expecting additional growth in such existing business fields as electronics materials and automobile door components, both of which have made major contributions to corporate profitability during the past decade. In particular, we see great growth potential in the field of engineered materials, which include diverse functional materials centering on metal powder products.

As a company with a long history in metal smelting and refining business, Mitsui Kinzoku is proceeding with measures to utilize existing smelting and refining facilities for resource recycling-related operations. We are increasingly optimistic about the potential of such resource recycling operations to become a source of stable profits. These operations also represent a switch from business associated with environmental burdens to a business that helps preserving the environment.

We have a number of other candidate fields for new business development, though not to be specifically stated at the moment.

In addition, we are striving to further boost the efficiency of administrative and support units and increase the soundness of our financial position. Our net debt-to-equity ratio is currently 1.3 times, and we have set the initial goal of reducing this ratio to 1.0 times or less. If we maintain approximately our current cash flow levels, then we may be able to attain this goal in two to three years. In this way, we intend to heighten our financial stability and improve our fund procurement terms.

PRINCIPAL TASKS IN FISCAL 2004

The first task we will be addressing in fiscal 2004 is the expansion of our manufacturing capabilities. For example, the surge in LCD panel manufacturing volume is boosting demand for TAB tapes and indium tin oxide (ITO) targets at annual rates of more than 30%, and we have been maintaining high capacity-utilization rates for copper foil products and other electronics materials. To avoid missing out on prime opportunities, we will be taking steps to augment the capacity and efficiency of our manufacturing facilities. As particularly large demand growth is projected for LCD panel materials, we plan to make investments in advance of actual requirements so that we can absorb the rising demand while increasing our market shares.

Next, we must reduce the impact of skyrocketing raw material prices. Raw material price rises are putting pressure on profit margins in numerous sectors of our fundamental materials and electronics materials operations. To reduce the impact of these price increases, we will have to find advantageous supply sources and seek to convince our customers to share some of the burdens associated with price increases. Fortunately, we have been having increasing success in gaining the understanding and cooperation of our customers in this regard.

Another key task is further integrating our existing functional automotive parts operations with those of Ohi Seisakusho Co., Ltd., a consolidated subsidiary acquired last year. We are already enjoying various benefits from the integration of procurement, product development, and marketing operations as well as the reorganization of business units in the United States. In fiscal 2004, we will take additional measures designed to further magnify those benefits.

ENSURING THE SOUNDNESS OF MANAGEMENT

To achieve sustained growth, companies cannot simply pursue profits but must give due attention to maintaining sound corporate governance systems and making appropriate efforts to contribute to society and protect the natural environment.

Having already introduced a corporate executive officer system and added an outside director to its board of directors, Mitsui Kinzoku has just taken steps to nominate outsiders to fill half the positions in its board of auditors. This move, taken in advance of statutory requirements, is designed to strengthen our operational supervision capabilities, and we have also expanded the board of auditors' support staff.

Aiming to promote rigorous compliance with government laws and regulations as well as high ethical standards, we revised our internal standards and regulations last year, making them more concrete and specific. To ensure that the internal standards and regulations have the intended effects, we have established a new internal compliance violation reporting system. This system centers on a committee including an outside lawyer that serves to receive violation reports and take appropriate action.

Moreover, as described on page 5 of this report, we are continuing to make vigorous efforts to reduce the environmental impact of our operations.

As we have summarized above, Mitsui Kinzoku is making diverse initiatives to promote the sound development of its business operations while giving due attention to its responsibilities to society, and the Company is planning numerous additional initiatives that it will be implementing in the next few years. At the same time, we are redoubling our traditional emphasis on the fundamental principles of superior manufacturing operations.

July 2004

Shimpei Miyamura
Chairman and Chief Executive Officer

Hiroshi Makihara
President and Chief Operating Officer

Highlights of 2003–2004

2003

April	Ohi Seisakusho Co., Ltd., a former affiliate of Nissan Motor Co., Ltd., acquired by exchange of stock to fortify the functional automotive parts business
April	Cooperation with Nippon Mining & Metals Co., Ltd., in copper smelting business expanded
April	Cooperation with Toho Zinc Co., Ltd., in lead recycling business started
June	Mr. Makihara succeeded to the position of president from Mr. Miyamura
June	An outside director elected for the first time
August	Battery materials production in Ireland ended
November	Holding and financing operation in the Netherlands ended

2004

March	Automotive parts marketing base in Shanghai, China, established
May	Marketing base in Suzhou, China, established
June	Number of outside auditors increased to half the board of auditors

Environmental Protection

Environmental Policy

Principles: Environmental protection is an integral management principle of Mitsui Kinzoku Group companies. We conduct our business by keeping respect and management of the environment always in mind.

Environmental Protection Systems

Environmental Summit Council: Chaired by the director responsible for environmental protection issues, this council considers the most important issues associated with environmental protection. The policies and action plans approved by the council are then implemented throughout the Mitsui Kinzoku Group.

Environmental Management Systems: As a means of continuously reducing the environmental impact of its operations, Mitsui Kinzoku is working to obtain ISO 14001 certification for all Group facilities by the end of fiscal 2006. As of April 2004, 17 facilities had been certified and preparations for certification were under way at 18 other facilities.

Measures for Reducing Environmental Impact

Chemicals: In fiscal 2002, domestic Group facilities emitted 366 tons of chemicals covered by the Pollutant Release and Transfer Register (PRTR) system and transferred an additional 246 tons of such materials to entities outside the Group. Aiming to reduce the emission volume by 3% each year, the Group is taking various measures to reduce chemical usage volumes, shift to the use of alternative materials, and introduce systems for directly reducing emissions.

Global Warming: By fiscal 2010, Mitsui Kinzoku is aiming to reduce the ratio of its energy consumption to net sales by 5% or more below fiscal 2000 levels in smelting operations and by 10% or more below fiscal 2000 levels in other operations.

Waste Products: By fiscal 2010, the Company is aiming to reduce the volume of waste products that it generates and disposes of as waste by 50% or more below fiscal 2000 levels by undertaking Reduce, Reuse, Recycle programs at each of its facilities.

Environmental Business Operations

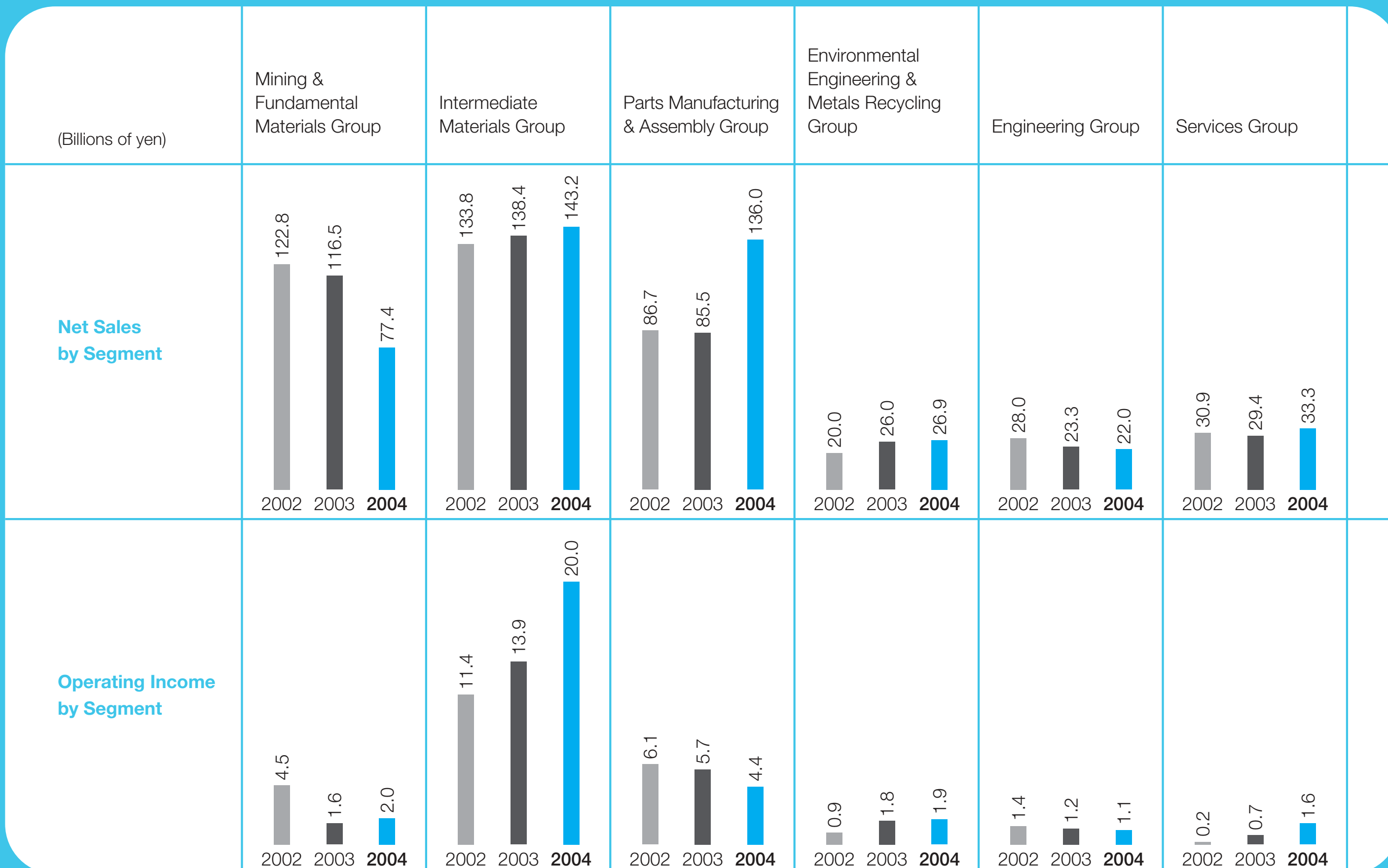
Metals Recycling: Mitsui Kinzoku is undertaking such metals recycling businesses as those that recover precious metals from electronics products, zinc from the dust generated by steelmaking furnaces and waste incinerators, and lead from motor vehicle batteries.

Environmental Surveys and Countermeasures: Drawing on the technologies it has accumulated in the course of its resource development and metal smelting operations, Mitsui Kinzoku is providing expeditious support services featuring superior performance-cost ratios with respect to all processes from the survey of ground contamination through the implementation of remediation measures.

Waste Product Treatment: Hachinohe Smelting Company collects and renders harmless diverse industrial waste materials and recovers metals from those materials. In addition, Nippon Mesalite Industry Company uses waste products as a raw material in manufacturing aggregate materials for incorporation in lightweight concrete products.

Environmental Beneficial Products: The Company uses perlite and zeolite as raw materials to manufacture products that facilitate environmentally beneficial projects, including greenification.

Review of Operations



Figures for the fiscal year ended March 31, 2002, are not restated to conform to the segmentation change effective April 1, 2003.

Zinc metal and alloy

Mining & Fundamental Materials Group

—Metal Prices Surged but Tightened Supply of Raw Materials Depressing Performance

OPERATIONS

- Nonferrous metal smelting—Mitsui Kinzoku is Japan's top zinc producer, with three domestic smelters producing approximately 200,000 tons of zinc annually. It is also a member of a corporate group that is the world's second largest copper producer, and its copper smelter in Japan has an annual output of nearly 150,000 tons as the Company's share. In addition, the Company produces such products as gold, silver, and sulfuric acid as by-products of its primary smelting operations.
- Mining—Mitsui Kinzoku procures the majority of the ore it smelts from other mining companies, but it operates a bountiful mine producing zinc and lead in Peru. The Kamioka Mine in Japan, to which the Company traces its corporate roots, has discontinued mining operations.

BUSINESS CONDITIONS AND STRATEGIES

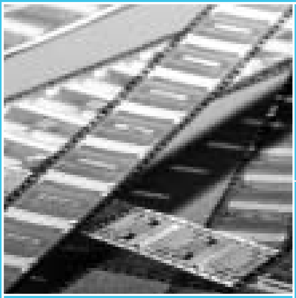
The international supply-demand balances for zinc and copper were made tight by the strength of demand in China, bringing international prices of those metals back to high levels. At the same time, the slowness of growth in ore production tightened the supply-demand balance for ore, causing a continued deterioration against smelters in the conditions of ore-supply contracts, which determine the Company's gross margin.

Mitsui Kinzoku has worked to maintain its international competitiveness by using superior technologies to realize high productivity rates and proactively entering alliances with other companies in its industry to obtain greater economies of scale in order to overcome the disadvantage of operating relatively small-scale facilities in a country with comparatively high cost levels. In fiscal 2002, a joint venture of Mitsui Kinzoku and Sumitomo Metal Mining Co., Ltd., began distilled zinc smelting business, and arrangements were made to augment an existing copper smelting operational tie-up with Nippon Mining & Metals Co., Ltd., by completely integrating the two companies' copper smelting business in April 2003.

PERFORMANCE FOR FISCAL 2003

Firm domestic demand was seen for both zinc associated with zinc-coated steel and copper for manufacturing rolled copper products. Despite the rise in metals prices, however, the continued appreciation of the yen against the dollar and a rise in fuel prices had the effect of restraining the Company's profitability in this business segment.

It should be noted that, owing to the arrangement of an alliance in copper smelting business, a portion of sales and operating income in this segment has been shifted to an affiliate accounted for by the equity method. In addition, an upward adjustment to the estimated life of a geothermal steam production subsidiary's assets depressed depreciation to ¥1.5 billion lower than the level as calculated using the previous standard.



TAB tapes

Intermediate Materials Group
—Generally Strong Demand

OPERATIONS

- Electronics materials—Electronics-related materials comprise the main product category within the Intermediate Materials Group. The Company's principal electronics materials products include electrodeposited copper foil, an indispensable material for printed circuit boards crucial to the operation of electronic equipment, and TAB tapes for tape-automated bonding of semiconductors, used mainly in the mounting of driver IC chips for LCD panels. Mitsui Kinzoku is the world's top manufacturer of these two products in terms of both technological superiority and market share. In addition, the Company produces diverse metal derivatives including powders, sputtering targets, and single crystals for use in the latest electronic components production.
- Other intermediate materials—The Company manufactures rolled copper and zinc, perlite, ceramics, and other materials that are crucial for such primary industries as construction and automobile manufacturing.

BUSINESS CONDITIONS AND STRATEGIES

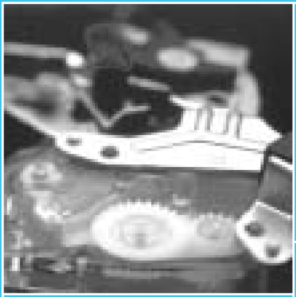
Extending the trend of recovery seen in fiscal 2002, expanding demand for PCs and other digital equipment further boosted demand for electronics materials. Growth in demand for materials used in LCD panels and PDPs was particularly striking, and manufacturers of such materials are urged to expand their production capacity.

Although increased production capacity generally tends to accentuate price competition, strong demand for certain types of products is facilitating the raising of selling prices to appropriate levels. Regarding ITO targets used in LCD panels, for example, Mitsui Kinzoku was successful in raising selling prices to reflect the surging cost of associated raw materials. Copper foil has been subject to price erosion due to oversupply since 2001, but a tightening of the supply-demand relationship is boosting prices worldwide, and this trend is a factor underlying the considerable improvement in the Company's profitability in this business segment.

Regarding commodity products, Mitsui Kinzoku has maintained superior quality and taken thorough measures to boost cost-efficiency and tighten its focus on relatively high-grade product types to contend with price competition. In August 2003, the Company closed its battery materials plant in Ireland, as it had lost cost-competitiveness. With respect to high-end products, the Company has responded precisely to customer requirements in quality and quantity to highlight its contribution to customers' operations and proactively sought additional applications for its products.

PERFORMANCE FOR FISCAL 2003

In this business segment, the Company was able to increase its sales against the backdrop of strong demand, despite sales decreases in a couple of business fields, including battery materials, and the reduction of the yen value of foreign currency-denominated sales owing to the appreciation of the yen. While the profitability of copper foil operations had previously deteriorated, the benefits of cost reductions along with a rise in selling prices enabled copper foil operations to make a large contribution to the improvement in segment performance.



Automobile door latch

Parts Manufacturing & Assembly Group

—Lower Manufacturing Efficiency Diminishes Benefits of High Automobile Production Level

OPERATIONS

- Functional automotive parts—Functional automotive parts are the key product category within the Parts Manufacturing & Assembly Group. Mitsui Kinzoku operates automotive component factories in the five major automobile manufacturing countries—Japan, the United States, Thailand, China, and the United Kingdom. These factories primarily manufacture automobile door-related components including door latches, for which the Company has a 20% share of the global market. These products are supplied principally to, but not limited to, mostly Japan-affiliated automakers.
- Others—In addition to long-standing operations manufacturing die-cast products used in automobiles and electric appliances, Mitsui Kinzoku has in recent years manufactured a growing volume of magnesium die-cast products for use in portable electronics. Other products in this category include catalysts for detoxifying motor vehicle exhaust emissions and sensors for the nondestructive testing of fruit quality.

BUSINESS CONDITIONS AND STRATEGIES

Automakers are witnessing intensifying competition within increasingly saturated markets, forcing many component manufacturers to restructure. While automobile manufacturing volume has continued strongly, particularly in the case of Japan-affiliated manufacturers, component suppliers are facing severe demands for higher quality and lower prices.

Based on its decision that, to survive as an automotive component manufacturer, its related operations should be of a considerable scale, Mitsui Kinzoku acquired Ohi Seisakusho, previously affiliated with Nissan, in April 2003. This transaction has been adding to the breadth and depth of Mitsui Kinzoku's product line, technologies, and clientele and promoting the expansion of automotive component business. The acquisition holds the possibility of boosting profitability in the near future through technological synergies.

PERFORMANCE FOR FISCAL 2003

The acquisition of Ohi Seisakusho, along with the continued worldwide strength of automobile production, enabled Mitsui Kinzoku to considerably increase its sales. Moreover, steady progress was made in realizing synergies by integrating the operations of Ohi Seisakusho with the Company's previous operations in this field, particularly regarding the integration of materials procurement systems. However, profitability decreased, largely because the Company temporarily failed to maintain high cost-efficiency levels while responding to customer demands related to delivery, quality, and price factors.

In addition, performance was temporarily affected by the accelerated recording of approximately ¥0.8 billion in retirement benefit expenses associated with Ohi Seisakusho.

Discarded circuit boards

Environmental Engineering & Metals Recycling Group

—Making a Growing Contribution to Resource Recycling

OPERATIONS

- Metals recycling—The Environmental Engineering & Metals Recycling Group uses domestic smelting facilities to recover precious metals from discarded electronics products and components, lead from automotive batteries, and zinc from steelmaking furnace dust.
- Other environmental business—The group performs surveys and purification processes for soil and groundwater contamination, detoxifies industrial waste, and conducts other activities, leveraging the Group's accumulated know-how and technologies related to resource surveys and metal smelting.

BUSINESS CONDITIONS AND STRATEGIES

Amid increasing concern about environmental protection, there is rising understanding about the need to recycle resources that were previously thrown away. Mitsui Kinzoku views this recycling business as a promising extension of its metal smelting operations and a means of increasing profitability through the utilization of facilities temporarily rendered surplus due to business tie-ups.

In addition, Japan enforced a soil pollution countermeasure law in February 2003, expanding the market for investigating and remediating underground soil pollution. To grasp this business opportunity, the Company is hurrying to develop distinctive soil remediation technologies based on its mining and smelting technologies.

PERFORMANCE FOR FISCAL 2003

Sales and income steadily increased, even if performance is analyzed excluding the contribution of a subsidiary newly shifted to this business segment from the Intermediate Materials Group.

Software development

Engineering and Services Groups

—Providing Support for Mitsui Kinzoku Group Companies

OPERATIONS

- Engineering—The Engineering Group provides design and engineering execution services for customers within and outside the Mitsui Kinzoku Group. The sophisticated manufacturing facilities manufactured by the Engineering Group are one of Mitsui Kinzoku's important strengths.
- Services—The Services Group supports Mitsui Kinzoku Group companies by providing services related to trading, financing, real estate leasing, and information processing. The information processing department has excellent capabilities, as reflected in its adept customization of SAP R/3, a well-known enterprise resource planning software package, for use within the Group. As the advantages of customizing programs were recognized, they are now being marketed to other companies as a template.

Financial Section

Five-Year Summary

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31

	Millions of yen				
	2004	2003	2002	2001	2000
For the year:					
Net sales	**¥393,928**	¥378,608	¥373,442	¥423,707	¥394,722
Cost of sales	**319,725**	313,416	310,474	333,140	318,654
Gross profit	**74,202**	65,192	62,968	90,566	76,068
Selling, general and administrative expenses	**42,167**	39,451	38,075	43,813	40,593
Operating income	**32,035**	25,740	24,893	46,752	35,474
Income before income taxes and minority interests	**13,329**	9,307	10,789	30,644	25,684
Net income	**11,452**	3,085	1,986	17,012	14,181
At year-end:					
Total current assets	**¥156,658**	¥147,729	¥155,238	¥180,557	¥176,602
Total assets	**392,545**	370,886	393,603	424,829	403,225
Total current liabilities	**147,791**	161,405	167,004	184,771	177,335
Long-term liabilities	**118,947**	95,547	110,820	124,107	140,119
Total shareholders' equity	**115,398**	103,237	105,219	105,936	76,862
Per share data:					
Net income (¥)	**¥19.87**	¥5.39	¥3.55	¥30.86	¥26.80
Diluted net income (¥)	**18.99**	5.20	3.44	29.05	24.60
Cash dividends applicable to the year (¥)	**5.00**	5.00	5.00	6.00	6.00
Number of employees	**9,397**	8,339	8,619	9,542	9,379

Financial Review

References to the future reflect the Company's expectations as of March 31, 2004.

Net Sales

On a consolidated basis, the Company's net sales during fiscal 2003, ended March 31, 2004, increased 4.0%, or ¥15.3 billion, to ¥393.9 billion.

The Mining & Fundamental Materials Group's net sales dropped ¥39.0 billion due to factors including a shift to recording revenue from a copper smelting joint venture on a toll basis. Net sales of the Intermediate Materials Group, after adjustments for changes in segmentation, grew ¥4.7 billion, mainly because of a rise in sales volume of electronics materials amid expanding markets for such products as digital consumer products, semiconductors, communications equipment, and LCDs. The Parts Manufacturing & Assembly Group boosted its net sales ¥50.5 billion, and this reflected the consolidation of Ohi Seisakusho and two subsidiaries of that company.

SGA Expenses

Selling, general and administrative (SGA) expenses increased ¥2.7 billion, after the rise resulting from consolidating Ohi Seisakusho and two subsidiaries of that company as well as the decrease associated with actuarially defined unrecognized retirement benefit obligation and additional retirement benefits. Reflecting the Company's programs to develop new technologies and products, R&D expenses included in SGA expenses increased ¥0.6 billion, to ¥2.9 billion.

Operating Income

Operating income grew 24.5%, or ¥6.2 billion, to ¥32.0 billion.

Reflecting a recovery in the profitability of electrodeposited copper foil operations and profit growth associated with higher sales of other electronics materials products, the Intermediate Materials Group, after adjustments for changes in segmentation, increased its operating income ¥6.1 billion. Parts Manufacturing & Assembly operations recorded strong sales worldwide, and there was a positive effect from the consolidation of Ohi Seisakusho and two subsidiaries of that company, but additional costs related to quality assurance and provisions made for a newly established reserve for product warranties caused operating income for the segment to decline ¥1.2 billion.

Other Income (Expenses)

Other expenses, net, increased ¥2.2 billion.

Other income included ¥2.8 billion in amortization of consolidation differences associated with the use of a stock exchange to convert Ohi Seisakusho into a wholly owned consolidated subsidiary. The Company will complete this amortization process over five years beginning from the fiscal year under review using the flat-value amortization method.

Other expenses included ¥3.1 billion in loss on sale of inventories associated with measures taken to increase collaboration with allies and boost competitiveness in metal smelting operations, ¥1.9 billion in loss on liquidation of subsidiaries associated with such moves as the discontinuation of overseas manufacturing of electrolytic manganese dioxide for dry cell batteries, and a ¥3.4 billion temporary cost related to charge-free repairs associated with functional automotive parts operations. Moreover, although the Company recorded a ¥1.7 billion write-down of goodwill in fiscal 2002, it had no such write-down in fiscal 2003, and the level of write-down of marketable securities and investments improved ¥1.7 billion in fiscal 2003.

Income Taxes

The ratio of income taxes to income before income taxes and minority interests dropped 48.6 percentage points, from 61.6% in fiscal 2002 to 13.0% in fiscal 2003. Factors behind this drop included a decrease in the number of unprofitable subsidiaries and tax effects regarding the liquidation of consolidated subsidiaries.

Net Income

As a result of the ¥6.2 billion rise in operating income, the ¥2.2 billion increase in the net expense of other income (expenses), a ¥4.0 billion decrease in income taxes, and a ¥0.3 billion decline in minority interests, net income surged 271.2%, or ¥8.3 billion, to ¥11.4 billion.

FINANCIAL POSITION

Total Assets

The Company's total assets increased ¥21.6 billion, amounting to ¥392.5 billion at fiscal year-end. The consolidation of Ohi Seisakusho and two subsidiaries of that company boosted consolidated assets ¥36.4 billion, but this was partially offset by large reductions in inventories and fixed assets in other operations.

Total Shareholders' Equity

The conversion of Ohi Seisakusho into a wholly owned subsidiary through an exchange of stock resulted in the issuance of new stock that boosted the capital surplus ¥3.9 billion. This, along with some other factors including ¥11.4 billion in net income and ¥2.8 billion in dividend payments, caused total shareholders' equity to rise ¥12.1 billion, to ¥115.3 billion. Consequently, the Company's equity ratio increased 1.6 percentage points, to 29.4%.

Interest-Bearing Debt

Short- and long-term interest-bearing debt fell ¥24.1 billion, to ¥158.3 billion. Despite a rise in interest-bearing debt owing to the consolidation of Ohi Seisakusho and two subsidiaries of that company, the large reduction of inventories and the Company's various other measures to strengthen its financial position enabled the reduction of working capital and use of net income to lower the level of interest-bearing debt.

CASH FLOWS

Net cash provided by operating activities increased ¥9.0 billion, to ¥49.7 billion, mainly owing to the sale of and reduction in inventories.

Net cash used in investing activities decreased ¥7.2 billion, to ¥14.7 billion. This reflected the receipt of ¥3.1 billion due to the consolidation of Ohi Seisakusho and two subsidiaries of that company as well as proceeds from the sale of investment securities and securities of consolidated subsidiaries.

Net cash used in financing activities increased ¥12.8 billion, to ¥32.9 billion, as the Company continued working to strengthen its financial position by proceeding with the redemption of bonds and repayment of long- and short-term debt.

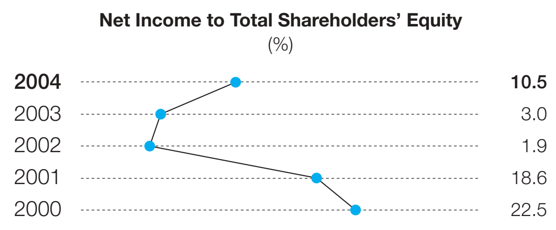
COMMENTS ON ACCOUNTING POLICIES

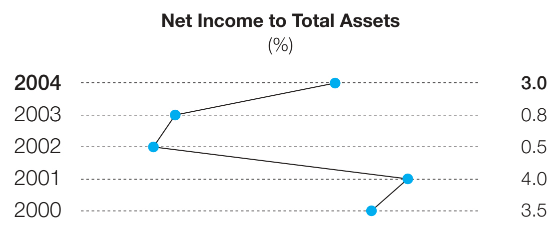
Impairment of Fixed Assets

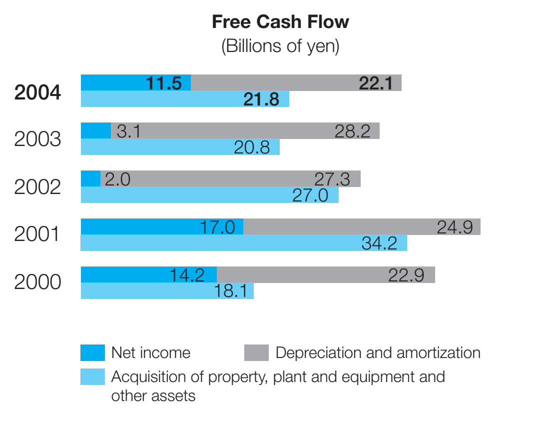
In line with changes to Japanese accounting principles, domestic companies belonging to the Mitsui Kinzoku Group will introduce standards for the impairment of fixed assets for fiscal years starting on and after April 1, 2005. Moreover, depending on the Company's business strategies, there may emerge a need to utilize impairment for a portion of fixed assets.

Impairment of Investments

With the goal of promoting the maintenance of long-term business relationships, the Group maintains small shareholdings in certain transactional partners and financial institutions. Most of these investments are in listed stocks with highly volatile prices, and, if the market prices are notably lower than the book value at the end of the fiscal period, there is a possibility that the Company will apply accounting standards allowing for the write-down of such financial products.







Consolidated Balance Sheets

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Assets			
Current assets:			
Cash and time deposits (Notes 4 and 9)	**¥ 12,276**	¥ 10,356	**$ 116,151**
Marketable securities (Note 3)	**31**	—	**293**
Notes and accounts receivable (Note 9):			
Trade	**71,214**	61,979	**673,800**
Unconsolidated subsidiaries and affiliates	**2,907**	348	**27,504**
Loans:			
Unconsolidated subsidiaries and affiliates	**26**	40	**246**
Others	**116**	418	**1,097**
Inventories (Note 9)	**49,470**	62,591	**468,066**
Deferred tax assets (Note 14)	**5,197**	2,975	**49,172**
Other current assets	**15,898**	9,813	**150,421**
Less: Allowance for doubtful accounts	**(480)**	(793)	**(4,541)**
Total current assets	**156,658**	147,729	**1,482,240**
Investments and other assets:			
Investment securities (Notes 3 and 9)	**15,125**	10,930	**143,107**
Unconsolidated subsidiaries and affiliates	**11,700**	9,751	**110,701**
Deferred tax assets (Note 14)	**8,765**	9,285	**82,931**
Others (Note 9)	**8,378**	7,686	**79,269**
Less: Allowance for doubtful accounts	**(2,945)**	(3,076)	**(27,864)**
	41,023	34,576	**388,144**
Property, plant and equipment (Note 9):			
Land	**43,543**	36,105	**411,987**
Buildings and structures	**156,052**	151,993	**1,476,506**
Machinery and equipment	**352,720**	319,794	**3,337,307**
Construction in progress	**6,716**	2,448	**63,544**
	559,034	510,343	**5,289,374**
Less: Accumulated depreciation	**(364,170)**	(321,762)	**(3,445,642)**
	194,863	188,580	**1,843,722**
	¥392,545	¥370,886	**$3,714,116**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term bank loans (Note 8)	**¥ 58,937**	¥ 66,653	**$ 557,640**
Current portion of long-term debt (Note 8)	**19,965**	36,780	**188,901**
Notes and accounts payable:			
Trade	**36,257**	25,846	**343,050**
Unconsolidated subsidiaries and affiliates	**820**	873	**7,758**
Others	**10,978**	9,531	**103,869**
Commercial paper (Note 8)	**—**	5,000	**—**
Accrued income taxes (Note 14)	**3,231**	3,533	**30,570**
Accrued expenses	**7,593**	8,062	**71,842**
Deferred tax liabilities (Note 14)	**65**	72	**615**
Reserve for product warranties	**2,979**	—	**28,186**
Other current liabilities	**6,962**	5,051	**65,871**
Total current liabilities	**147,791**	161,405	**1,398,344**
Long-term debt (Note 8)	**79,438**	74,095	**751,613**
Employees' retirement benefits (Note 17)	**23,610**	17,329	**223,389**
Directors' and corporate auditors' retirement benefits	**1,046**	917	**9,896**
Deferred tax liabilities (Note 14)	**1,124**	969	**10,634**
Consolidation differences	**11,573**	118	**109,499**
Other long-term liabilities	**2,154**	2,117	**20,380**
Minority interests in consolidated subsidiaries	**10,407**	10,695	**98,467**
Commitments and contingent liabilities (Notes 11 and 15)			
Shareholders' equity (Notes 8 and 12):			
Common stock:			
Authorized—1,944,000 thousand shares			
Issued—572,966 thousand shares in 2004 and 559,305 thousand shares in 2003	**42,129**	42,129	**398,609**
Capital surplus	**22,557**	18,570	**213,426**
Retained earnings	**54,302**	45,816	**513,785**
Net unrealized gains on securities	**2,593**	331	**24,534**
Foreign currency translation adjustments	**(6,143)**	(3,584)	**(58,122)**
Less: Treasury stock	**(41)**	(26)	**(387)**
Total shareholders' equity	**115,398**	103,237	**1,091,853**
	¥392,545	¥370,886	**$3,714,116**

Consolidated Statements of Income

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales (Note 13)	¥393,928	¥378,608	$3,727,202
Cost of sales (Note 10)	319,725	313,416	3,025,120
Gross profit	74,202	65,192	702,072
Selling, general and administrative expenses (Note 10)	42,167	39,451	398,968
Operating income (Note 13)	32,035	25,740	303,103
Other income (expenses):			
Interest and dividend income	481	444	4,551
Interest expense	(2,945)	(3,443)	(27,864)
Gain on sale of securities	844	312	7,985
Gain (loss) on sale of securities of consolidated subsidiaries	647	(166)	6,121
Loss on sale and disposal of property, plant and equipment, net	(2,394)	(1,592)	(22,651)
Loss on sale of inventories	(3,158)	—	(29,879)
Impairment charges on property, plant and equipment	(1,152)	(1,315)	(10,899)
Write-down of goodwill	—	(1,712)	—
Write down of inventories	(1,063)	—	(10,057)
Write-down of marketable securities and investments	(827)	(2,556)	(7,824)
Foreign exchange gain (loss)	(264)	564	(2,497)
Indemnity	(554)	(750)	(5,241)
Equity in gains (losses) of unconsolidated subsidiaries and affiliates	933	(77)	8,827
Amortization of net transition obligation resulting from the adoption of new accounting standard for retirement benefits (Note 17)	(3,806)	(3,803)	(36,010)
Amortization of the consolidation differences	2,892	—	27,363
Loss from liquidation of subsidiaries	(1,997)	—	(18,894)
Cost of warranty and other free repairs	(3,438)	—	(32,529)
Other, net	2,903	2,334	27,467
	(18,706)	(16,432)	(176,989)
Income before income taxes and minority interests	13,329	9,307	126,114
Income taxes (Note 14):			
Current	5,055	7,791	47,828
Deferred	(3,324)	(2,058)	(31,450)
	1,731	5,732	16,378
Minority interests	145	489	1,371
Net income	¥ 11,452	¥ 3,085	$ 108,354

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (Note 18)	¥19.87	¥5.39	$0.19
Diluted net income (Note 18)	18.99	5.20	0.18
Cash dividends applicable to the year	5.00	5.00	0.05

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Number of shares of common stock issued (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings (Note 12)	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	559,305	¥42,129	¥18,570	¥45,975	¥ 415	¥(1,867)	¥ (4)
Net income				3,085			
Cash dividends				(2,796)			
Bonuses to directors				(60)			
Decrease due to change in consolidated subsidiaries				(197)			
Decrease due to change in affiliates accounted for by the equity method				(190)			
Decrease in net unrealized gains on securities					(83)		
Foreign currency translation adjustments						(1,716)	
Increase in treasury stock							(22)
Balance at March 31, 2003	559,305	42,129	18,570	45,816	331	(3,584)	(26)
Net income				**11,452**			
Cash dividends				**(2,870)**			
Bonuses to directors				**(96)**			
Issuance due to stock exchange	**13,660**		**3,986**				
Increase in net unrealized gains on securities					**2,261**		
Foreign currency translation adjustments						**(2,559)**	
Increase in treasury stock							**(15)**
Balance at March 31, 2004	**572,966**	**¥42,129**	**¥22,557**	**¥54,302**	**¥2,593**	**¥(6,143)**	**¥(41)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings (Note 12)	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	$398,609	$175,702	$433,494	$ 3,131	$(33,910)	$(246)
Net income			**108,354**			
Cash dividends			**(27,154)**			
Bonuses to directors			**(908)**			
Issuance due to stock exchange		**37,714**				
Increase in net unrealized gains on securities				**21,392**		
Foreign currency translation adjustments					**(24,212)**	
Increase in treasury stock						**(141)**
Balance at March 31, 2004	**$398,609**	**$213,426**	**$513,785**	**$24,534**	**$(58,122)**	**$(387)**

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥13,329**	¥ 9,307	**$126,114**
Depreciation and amortization	**22,110**	28,179	**209,196**
Write-down of goodwill	**—**	1,712	**—**
Write-down of marketable securities and investments	**827**	2,556	**7,824**
Gain on sale of securities	**(844)**	(312)	**(7,985)**
(Gain) loss on sale of securities of consolidated subsidiaries (Notes 5 and 6)	**(647)**	166	**(6,121)**
Loss on sale and disposal of property, plant and equipment, net	**2,394**	1,592	**22,651**
Impairment charges on property, plant and equipment	**1,152**	1,315	**10,899**
Indemnity	**554**	750	**5,241**
Allowance for doubtful accounts	**(53)**	(328)	**(501)**
Amortization of net transition obligation resulting from the adoption of new accounting standard for retirement benefits (Note 17)	**3,806**	3,803	**36,010**
Foreign exchange gain (loss)	**155**	(325)	**1,466**
Equity in (gains) losses of unconsolidated subsidiaries and affiliates	**(933)**	77	**(8,827)**
Increase (decrease) in employees' retirement benefits	**131**	(1,380)	**1,239**
Interest and dividend income	**(481)**	(444)	**(4,551)**
Interest expense	**2,945**	3,443	**27,864**
(Increase) decrease in notes and accounts receivable	**(3,987)**	6,898	**(37,723)**
Decrease in inventories	**15,337**	640	**145,113**
Increase (decrease) in notes and accounts payable	**3,956**	(1,452)	**37,430**
Other, net	**(1,716)**	(3,898)	**(16,236)**
Subtotal	**58,036**	52,303	**549,115**
Interest and dividend received	**597**	553	**5,648**
Interest paid	**(2,923)**	(3,489)	**(27,656)**
Indemnity paid	**(554)**	(750)	**(5,241)**
Income taxes paid	**(5,368)**	(7,910)	**(50,790)**
Net cash provided by operating activities	**49,787**	40,707	**471,066**
Cash flows from investing activities:			
Purchases of securities	**(2,240)**	(2,710)	**(21,194)**
Proceeds from sale of securities	**3,011**	1,139	**28,488**
Proceeds from (payment on) sale of securities of consolidated subsidiaries (Notes 5 and 6)	**885**	(43)	**8,373**
Proceeds from issuance of new shares through stock exchange, net of cash acquired (Note 7)	**3,166**	—	**29,955**
Acquisition of property, plant and equipment and other assets	**(21,773)**	(20,794)	**(206,008)**
Proceeds from sale of property, plant and equipment	**1,261**	1,285	**11,931**
(Increase) decrease in short-term loans receivable, net	**840**	(150)	**7,947**
Disbursement for long-term loans receivable	**(207)**	(25)	**(1,958)**
Collection of long-term loans receivable	**106**	138	**1,002**
Other, net	**233**	(826)	**2,204**
Net cash used in investing activities	**(14,716)**	(21,988)	**(139,237)**
Cash flows from financing activities:			
Decrease in short-term bank loans, net	**(10,950)**	(12,566)	**(103,604)**
Increase (decrease) in commercial paper, net	**(5,000)**	2,000	**(47,308)**
Proceeds from long-term debt	**20,818**	21,808	**196,972**
Repayment of long-term debt	**(31,486)**	(23,484)	**(297,908)**
Issuance of bonds	**10,000**	—	**94,616**
Redemption of bonds	**—**	(5,000)	**—**
Redemption of convertible bonds	**(13,371)**	—	**(126,511)**
Payment for cash dividends to the Company's shareholders	**(2,870)**	(2,796)	**(27,154)**
Payment for cash dividends to minority interests	**(125)**	(132)	**(1,182)**
Other, net	**(3)**	18	**(28)**
Net cash used in financing activities	**(32,989)**	(20,152)	**(312,129)**
Effect of exchange rate changes on cash and cash equivalents	**(119)**	(250)	**(1,125)**
Net increase (decrease) in cash and cash equivalents	**1,962**	(1,684)	**18,563**
Cash and cash equivalents at beginning of year	**10,312**	11,230	**97,568**
Effect of addition of consolidated subsidiaries	**—**	766	**—**
Cash and cash equivalents at end of year (Note 4)	**¥12,274**	¥10,312	**$116,132**
Noncash financing activities:			
Increase in capital surplus through the stock exchange	**¥ 3,986**	¥ —	**$ 37,714**

See accompanying notes.

Notes to Consolidated Financial Statements

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

1. Basis of Presenting Consolidated Financial Statements

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of Mitsui Mining and Smelting Company, Limited ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. 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.

Amounts less than one million yen have been rounded down in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen shown herein do not necessarily agree with the sums of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies"). All significant intercompany transactions, accounts and unrealized profits among the Companies have been eliminated in consolidation. Investments in certain significant affiliates, which the Company and its subsidiaries are able to influence, in a material degree, their financial and operating decision making, other than consolidated subsidiaries, are accounted for by the equity method after the elimination of unrealized intercompany profits. Investments in the remaining unconsolidated subsidiaries and affiliates are not accounted for by the equity method because of their immaterial effect on the consolidated financial statements. Such investments, therefore, are carried at cost, adjusted for any substantial and non-recoverable decline in value, and income from such unconsolidated subsidiaries and affiliates is recognized only when the Companies receive dividends therefrom.

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

The consolidation difference between acquisition cost and net assets at the date of acquisition is amortized over five years with minor exception.

(b) Foreign currency translation

Revenues and expenses are translated at the rates of exchange prevailing when translations are made. Assets and liabilities denominated in foreign currencies are generally translated into each reporting currency at the rates of foreign exchange prevailing at the balance sheet dates and the resulting translation gains or losses are included in earnings.

All assets, liabilities, revenues and expenses of consolidated foreign subsidiaries are translated into Japanese yen at the rates prevailing at their balance sheet dates for consolidation. The resulting translation adjustments are shown as "Foreign currency translation adjustments," a separate component of shareholders' equity.

(c) Cash and cash equivalents

In the accompanying consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition which have high liquidity and negligible risk of price fluctuation.

(d) Marketable securities, investment securities and investments in unconsolidated subsidiaries and affiliates other than those accounted for by the equity method

Securities are classified into (1) securities intended to be held to maturity (hereafter, "held-to-maturity securities"), (2) equity securities issued by subsidiaries and affiliated companies, or (3) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are mainly stated at average cost. Available-for-sale securities with fair market values are stated at fair market values, and the corresponding unrealized holding gains or losses, net of applicable income taxes, are reported as separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using average cost or moving-average cost. Other securities with no available fair market value are mainly stated at average cost.

(e) Derivative transactions and hedge accounting

The Companies generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless they are used for hedging purposes. Gains and losses on derivative financial instruments held by certain foreign consolidated subsidiaries are still charged to income as settled.

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

(f) Inventories

Inventories are stated at cost based on the following methods:

Metals & Minerals Sector—Precious metals and a certain subsidiary (MCS, Inc.): First-in, first-out
Copper Foil Division: Moving average
A certain subsidiary (Ohi Seisakusho Company, Limited): Average cost
Overseas subsidiaries: Lower of market or cost using average or first-in, first-out
Others: mainly last-in, first-out

Inventories held by overseas subsidiaries are stated at the lower of cost, based on average or first-in, first-out, or market.

(g) Property, plant and equipment

Property, plant and equipment are stated at cost. Impairment charges recognized by certain overseas subsidiaries are deducted directly from the acquisition costs. Depreciation of property, plant and equipment is generally computed by the declining-balance method based on the estimated useful lives of these depreciable assets, except the straight-line method is applied to: (1) buildings, excluding building fixtures, acquired after March 31, 1998, (2) certain plant facilities of the Company and (3) property, plant and equipment of certain consolidated subsidiaries. The useful lives of these assets range from 7 to 50 years for buildings, 3 to 60 years for structures and 2 to 20 years for machinery and equipment.

Effective April 1, 2003, Okuaizu Geothermal Company, Limited, a consolidated subsidiary, changed its useful life of vapor well equipments from 10 years to 20 years.

This change of useful life was based on the revised long-term agreement with a customer, in addition to consideration of the actual performance of the equipment during the past 8 years from the commencement of the operations of this company and the performance of similar equipment in other companies in the same industry sector.

As a result, operating income and income before income taxes and minority interests increased by ¥1,493 million ($14,126 thousand), compared with what would have been reported using the prior useful life.

(h) Allowance for doubtful accounts

The Company and its domestic subsidiaries provide an allowance for doubtful accounts in an amount sufficient to cover possible losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

(i) Reserve for product warranties

Reserve for product warranties is provided to accrue estimated costs of repairing products free of charge, based on individually estimated amounts, when feasible, and the ratio of actual repair costs incurred to net sales.

Previously, the Companies had recognized the individually estimated future costs of repairing products free of charge in Other current liabilities (¥423 million ($4,002 thousand) at March 31, 2003), in addition to the agreed amount when product warranty claims had been settled.

Effective April 1, 2003, the Companies provided reserve for product warranties based on the previous method and added together estimated provision based on ratio of actual repair costs incurred to net sales, and showed estimated amounts as reserve for product warranties. This change was made because product warranty costs became material, accompanied by the expansion of the functional automotive parts business, including the acquisition of newly consolidated subsidiaries Ohi Seisakusho Company, Limited and its subsidiaries as well as to achieve more accurate periodical accounting of profit and loss.

As a result of this change, selling, general and administrative expenses increased by ¥433 million ($4,096 thousand), and operating income and income before income taxes and minority interests decreased by the same amount, compared with what would have been reported under the prior accounting policy.

(j) Employees’ retirement benefits

The Companies provided employees’ retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date. The liabilities and expenses for employees’ retirement benefits were determined based on the amounts actuarially calculated using certain assumptions.

The excess of the projected benefit obligation over the plan assets at fair value as of April 1, 2000 and the liabilities for employees' retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥19,083 million. The net transition obligation is recognized as expense in equal amounts mainly over five years, commencing with the year ended March 31, 2001.

(k) Directors' and corporate auditors' retirement benefits

Directors and corporate auditors are generally entitled to receive retirement benefits based on the Companies' internal rules. Their retirement benefits are accrued at the amount required to pay in accordance with the internal rules if the directors and corporate auditors had retired at the balance sheet date.

(l) Lease transactions

Finance leases which do not transfer the ownership of the leased assets to the lessee ("non-capitalized finance leases") are accounted for in the same manner as operating leases.

(m) Research and development expenses

Research and development expenses are charged to income as incurred.

(n) Income taxes

The Companies recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income of each of the Companies, with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(o) Bonuses to directors

Bonuses to directors, which are subject to shareholders' approval at the annual shareholders' meeting under the Japanese Commercial Code, are accounted for as an appropriation of retained earnings.

(p) Net income, diluted net income and cash dividends per share

Net income per share is computed based on the weighted-average number of shares of common stock outstanding during the respective fiscal year.

Diluted net income per share is computed based on the weighted-average number of shares of common stock outstanding during the respective fiscal year assuming all convertible bonds were converted to common stock.

Cash dividends per share represent the historical amount applicable to the respective year.

(q) Reclassification

Certain prior year amounts have been reclassified to conform to the 2004 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Securities

(a) Book values and market values of held-to-maturity securities with fair value as of March 31, 2004 were as follows:

	Millions of yen		
Year ended March 31, 2004	Book value	Market value	Difference
Securities whose market value exceeds book value:			
Bonds	¥479	¥483	¥3

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2004	Book value	Market value	Difference
Securities whose market value exceeds book value:			
Bonds	$4,532	$4,569	$28

(b) Acquisition costs and book values of available-for-sale securities with fair value as of March 31, 2004 and 2003 were as follows:

	Millions of yen		
Year ended March 31, 2004	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**¥2,544**	**¥6,971**	**¥4,427**
Bonds	**25**	**51**	**25**
Subtotal	**2,569**	**7,022**	**4,452**
Securities whose book value does not exceed acquisition cost:			
Stocks	**1,547**	**1,398**	**(148)**
Subtotal	**1,547**	**1,398**	**(148)**
Total	**¥4,117**	**¥8,421**	**¥4,304**

	Millions of yen		
Year ended March 31, 2003	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	¥1,460	¥2,480	¥1,019
Subtotal	1,460	2,480	1,019
Securities whose book value does not exceed acquisition cost:			
Stocks	2,773	2,359	(413)
Subtotal	2,773	2,359	(413)
Total	¥4,234	¥4,840	¥ 605

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2004	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**$24,070**	**$65,957**	**$41,886**
Bonds	**236**	**482**	**236**
Subtotal	**24,306**	**66,439**	**42,123**
Securities whose book value does not exceed acquisition cost:			
Stocks	**14,637**	**13,227**	**(1,400)**
Subtotal	**14,637**	**13,227**	**(1,400)**
Total	**$38,953**	**$79,676**	**$40,722**

Losses on write-downs of available-for-sale securities with fair value amounted to ¥827 million ($7,824 thousand) and ¥2,556 million for the years ended March 31, 2004 and 2003, respectively.

The Companies write down securities when their fair value declines from cost by 50% or more. In case that the decline ranges at least 30% but less than 50%, the Companies determine whether the decline is temporary. If such a decline is judged to be other than temporary, securities are written down to their fair value.

(c) Available-for-sale securities sold for the year ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Total sale amount	**¥3,011**	¥1,132	**$28,488**
Gains	**844**	313	**7,985**
Losses	**30**	0	**283**

(d) Book values of available-for-sale and held-to-maturity securities without fair value as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Available-for-sale securities:			
Non-listed equity securities	**¥5,984**	¥5,849	**$56,618**
Non-listed domestic bonds	**240**	240	**2,270**
Held-to-maturity securities:			
Bonds	**31**	—	**293**

(e) Maturities of available-for-sale and held-to-maturity securities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Bonds:			
Within one year	**¥ 31**	¥ —	**$ 293**
Over one year but within five years	**479**	—	**4,532**
Over five years	**240**	240	**2,270**

4. Amounts of Cash and Cash Equivalents

Amounts of cash and cash equivalents at March 31, 2004 and 2003 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Cash and time deposits	**¥12,276**	¥10,356	**$116,151**
Time deposits with maturities exceeding three months from the date of deposit	**(1)**	(43)	**(9)**
Total: Cash and cash equivalents	**¥12,274**	¥10,312	**$116,132**

5. Cash Disbursements from Sale of Consolidated Subsidiary

The Companies sold the securities of consolidated subsidiary Sankin Kenzai Construction Company, Limited in the year ended March 31, 2003. The book values of assets and liabilities, sales price and cash disbursements from the sale of the subsidiary are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥491	$4,645
Long-term assets	9	85
Current liabilities	(302)	(2,857)
Long-term liabilities	(24)	(227)
Loss on sale of securities of the consolidated subsidiary	(118)	(1,116)
Sales price	55	520
Cash and cash equivalents of the consolidated subsidiary sold	(99)	(936)
Cash disbursements from sale of the consolidated subsidiary	¥ (43)	$ (406)

6. Cash Proceeds from Sale of Consolidated Subsidiary

The Companies sold the securities of consolidated subsidiary Mitsui Kinzoku Paints & Chemicals Company, Limited in the year ended March 31, 2004. The book values of assets and liabilities, sales price and cash proceeds from the sale of the subsidiary are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥1,447	$13,690
Long-term assets	579	5,478
Current liabilities	(1,164)	(11,013)
Long-term liabilities	(527)	(4,986)
Net unrealized gains on securities	(6)	(56)
Gain on sale of securities of the consolidated subsidiary	647	6,121
Sales price	976	9,234
Cash and cash equivalents of the consolidated subsidiary sold	(91)	(861)
Cash proceeds from sale of the consolidated subsidiary	¥ 885	$ 8,373

7. Cash Proceeds from Stock Exchange

(a) Ohi Seisakusho Company, Limited was newly consolidated through the stock exchange as of April 1, 2003. The assets and liabilities of Ohi Seisakusho Company, Limited and its subsidiaries as of April 1, 2003, were summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥21,039	$199,063
Long-term assets	20,135	190,509
Assets total	41,175	389,582
Current liabilities	18,748	177,386
Long-term liabilities	5,039	47,677
Liabilities total	23,788	225,073

(b) Cash acquired through the stock exchange with Ohi Seisakusho Company, Limited were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash and cash equivalents of Ohi Seisakusho Company, Limited and its subsidiaries	¥3,310	$31,318
Expense for stock exchange	144	1,362
Net cash and cash equivalents increased from issuance of new shares through stock exchange	3,166	29,955

8. Short-Term Bank Loans, Commercial Paper and Long-Term Debt

Short-term bank loans, generally represented by short-term notes and bank overdrafts, bore interest at annual rates ranging from 0.464% to 6.5% and from 0.480% to 6.9% at March 31, 2004 and 2003, respectively.

Commercial paper bore interest at an annual rate of 0.1368% at March 31, 2003.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
0.6% yen unsecured straight bonds due 2008	**¥10,000**	¥ —	**$94,616**
2.2% yen unsecured straight bonds due 2007	**1,000**	—	**9,461**
0.54% yen unsecured straight bonds due 2005	**50**	50	**473**
0.4% yen unsecured convertible bonds due 2003	**—**	13,371	**—**
Banks, insurance companies and other financial institutions, maturing through 2022 at interest rates ranging from 0.57% to 8.19% at March 31, 2004:			
Secured	**21,726**	25,810	**205,563**
Unsecured	**59,967**	61,776	**567,385**
Government-owned banks and government agencies, maturing through 2019 at interest rates ranging from 1.03% to 7.4% at March 31, 2004:			
Secured	**6,488**	9,459	**61,387**
Unsecured	**172**	409	**1,627**
	99,403	110,876	**940,514**
Less: Current portion	**19,965**	36,780	**188,901**
	¥79,438	¥ 74,095	**$751,613**

The aggregate annual maturities of long-term debt at March 31, 2004 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2005	¥19,965	$188,901
2006	15,590	147,506
2007	16,785	158,813
2008	22,214	210,180
2009	16,332	154,527
Thereafter	8,515	80,565
Total	¥99,403	$940,514

The 0.4% yen unsecured convertible bonds issued on May 23, 1996 were redeemed on September 29, 2003.

The 0.54% yen unsecured straight bonds due 2005 were issued on June 25, 2002 by Kamioka Components Company, Limited.

The 0.6% yen unsecured straight bonds due 2008 were issued on May 29, 2003 by the Company.

The 2.2% yen unsecured straight bonds due 2007 were issued on July 19, 2002 by Ohi Seisakusho Company, Limited, which was newly consolidated in the year ended March 31, 2004.

9. Pledged Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Cash and time deposits	**¥ 1,160**	¥ 41	**$ 10,975**
Notes and accounts receivable	**6,788**	2,169	**64,225**
Inventories	**2,500**	—	**23,654**
Investment securities	**2,210**	1,150	**20,910**
Other investments	**312**	—	**2,952**
Property, plant and equipment, net book value	**80,157**	86,829	**758,416**
	¥93,129	¥90,191	**$881,152**

10. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses amounted to ¥2,959 million ($27,996 thousand) and ¥2,357 million for the years ended March 31, 2004 and 2003, respectively.

11. Contingent Liabilities

Contingent liabilities at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
As endorser of notes receivable discounted	**¥ 130**	¥ 180	**$ 1,230**
As endorser of notes receivable endorsed	**82**	172	**775**
As guarantor for loans of:			
Unconsolidated subsidiaries and affiliates	**17,920**	2,571	**169,552**
Others	**7,553**	8,178	**71,463**
	¥25,687	¥11,103	**$243,040**

12. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations of retained earnings must be set aside as a legal reserve included in retained earnings until the total amount of capital surplus and legal reserve equals 25% of common stock.

The excess of the total amount of capital surplus and legal reserve which exceeds 25% of common stock can be transferred to retained earnings by a resolution of the shareholders, which may be available for dividends.

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

In accordance with the customary practice in Japan, the appropriations are not accrued in the consolidated financial statements for the period to which they relate but are recorded in the subsequent accounting period after the shareholders' approval has been obtained. Retained earnings at March 31, 2004 include amounts representing the year-end cash dividends and directors' bonuses approved at the shareholders' meeting held on June 29, 2004 as discussed in Note 20 (a).

13. Segment Information

The operations of the Companies for the years ended March 31, 2004 and 2003 were summarized by business segment, geographic segment and sales outside Japan by the Companies as follows. Effective April 1, 2003, to present the Companies' operating activities more properly, the business segment of a consolidated subsidiary whose core business shifted to industrial waste disposal was changed from "Intermediate Materials" segment to "Environmental Engineering & Metals Recycling" segment.

Previously reported data for the year ended March 31, 2003 have been restated to conform to the segmentation for the year ended March 31, 2004.

(a) Business segment information

	Millions of yen							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2004								
Sales:								
Outside customers	**¥68,944**	**¥129,139**	**¥135,435**	**¥18,864**	**¥14,224**	**¥27,319**	**¥ —**	**¥393,928**
Inter-segment	**8,498**	**14,040**	**572**	**8,058**	**7,755**	**5,964**	**(44,889)**	**—**
Total	**77,442**	**143,179**	**136,007**	**26,922**	**21,980**	**33,283**	**(44,889)**	**393,928**
Operating expenses	**75,410**	**123,148**	**131,567**	**25,026**	**20,846**	**31,664**	**(45,772)**	**361,892**
Operating income	**¥ 2,032**	**¥ 20,030**	**¥ 4,440**	**¥ 1,896**	**¥ 1,133**	**¥ 1,619**	**¥ 883**	**¥ 32,035**
Identifiable assets	**¥98,703**	**¥146,832**	**¥100,172**	**¥27,822**	**¥17,132**	**¥35,051**	**¥(33,169)**	**¥392,545**
Depreciation expense	**6,110**	**12,472**	**4,731**	**1,097**	**258**	**416**	**(240)**	**24,846**
Capital expenditures	**4,899**	**10,009**	**4,841**	**1,755**	**245**	**22**	**—**	**21,773**
Year ended March 31, 2003								
Sales:								
Outside customers	¥106,354	¥128,500	¥85,061	¥19,378	¥14,416	¥24,896	¥ —	¥378,608
Inter-segment	10,098	9,932	393	6,629	8,865	4,509	(40,428)	—
Total	116,453	138,432	85,455	26,008	23,281	29,406	(40,428)	378,608
Operating expenses	114,815	124,581	79,754	24,238	22,128	28,682	(41,333)	352,867
Operating income	¥ 1,638	¥ 13,850	¥ 5,700	¥ 1,769	¥ 1,153	¥ 723	¥ 904	¥ 25,740
Identifiable assets	¥118,853	¥148,290	¥53,562	¥27,452	¥17,395	¥32,207	¥(26,875)	¥370,886
Depreciation expense	8,038	14,647	2,871	1,153	285	461	(250)	27,207
Capital expenditures	4,855	11,150	3,546	1,081	224	34	(99)	20,794

	Thousands of U.S. dollars (Note 1)							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2004								
Sales:								
Outside customers	**$652,322**	**$1,221,865**	**$1,281,436**	**$178,484**	**$134,582**	**$258,482**	**$ —**	**$3,727,202**
Inter-segment	**80,404**	**132,841**	**5,412**	**76,241**	**73,374**	**56,429**	**(424,723)**	**—**
Total	**732,727**	**1,354,707**	**1,286,848**	**254,726**	**207,966**	**314,911**	**(424,723)**	**3,727,202**
Operating expenses	**713,501**	**1,165,181**	**1,244,838**	**236,786**	**197,237**	**299,593**	**(433,077)**	**3,424,089**
Operating income	**$ 19,226**	**$ 189,516**	**$ 42,009**	**$ 17,939**	**$ 10,720**	**$ 15,318**	**$ 8,354**	**$ 303,103**
Identifiable assets	**$933,891**	**$1,389,270**	**$ 947,790**	**$263,241**	**$162,096**	**$331,639**	**$(313,832)**	**$3,714,116**
Depreciation expense	**57,810**	**118,005**	**44,762**	**10,379**	**2,441**	**3,936**	**(2,270)**	**235,083**
Capital expenditures	**46,352**	**94,701**	**45,803**	**16,605**	**2,318**	**208**	**—**	**206,008**

Notes: (a) As stated in Note 2 (g), effective April 1, 2003, Okuaizu Geothermal Company, Limited, a consolidated subsidiary, changed its useful life of property, plant and equipment. As a result, operating expenses in the "Mining & Fundamental Materials" segment decreased by ¥1,493 million ($14,126 thousand) and operating income increased by the same amount, compared with what would have been reported using the prior useful life.

(b) As stated in Note 2 (i), effective April 1, 2003, the Companies changed the method of accounting for the costs of repairing products free of charge. As a result, operating expenses in the "Parts Manufacturing & Assembly" segment increased by ¥433 million ($4,096 thousand) and operating income decreased by the same amount, compared with what would have been reported under the prior accounting policy.

(b) Geographic segment information

Effective April 1, 2003, the "North America" and "Asia" geographic segments are specified, since the importance of these segment increases. Previously reported data for the year ended March 31, 2003 have been restated to conform to the segmentation for the year ended March 31, 2004.

	Millions of yen					
	Japan	North America	Asia	Other Areas	Elimination or corporate	Consolidated
Year ended March 31, 2004						
Sales:						
Outside customers	**¥309,752**	**¥48,794**	**¥27,371**	**¥8,009**	**¥ —**	**¥393,928**
Inter-segment	**18,175**	**112**	**4,561**	**1,154**	**(24,004)**	**—**
Total	**327,927**	**48,907**	**31,932**	**9,164**	**(24,004)**	**393,928**
Operating expenses	**302,262**	**47,243**	**27,825**	**9,054**	**(24,493)**	**361,892**
Operating income	**¥ 25,665**	**¥ 1,663**	**¥ 4,107**	**¥ 110**	**¥ 488**	**¥ 32,035**
Identifiable assets	**¥369,167**	**¥29,444**	**¥29,836**	**¥8,499**	**¥(44,401)**	**¥392,545**
Year ended March 31, 2003						
Sales:						
Outside customers	¥314,761	¥32,294	¥23,169	¥ 8,383	¥ —	¥378,608
Inter-segment	10,931	125	2,567	1,169	(14,794)	—
Total	325,692	32,420	25,736	9,552	(14,794)	378,608
Operating expenses	300,489	31,743	25,807	10,386	(15,559)	352,867
Operating income (loss)	¥ 25,202	¥ 677	¥ (70)	¥ (834)	¥ 765	¥ 25,740
Identifiable assets	¥334,435	¥21,849	¥30,843	¥24,620	¥(40,861)	¥370,886

	Thousands of U.S. dollars (Note 1)					
	Japan	North America	Asia	Other Areas	Elimination or corporate	Consolidated
Year ended March 31, 2004						
Sales:						
Outside customers	**$2,930,759**	**$461,670**	**$258,974**	**$75,778**	**$ —**	**$3,727,202**
Inter-segment	**171,965**	**1,059**	**43,154**	**10,918**	**(227,117)**	**—**
Total	**3,102,724**	**462,740**	**302,128**	**86,706**	**(227,117)**	**3,727,202**
Operating expenses	**2,859,892**	**446,995**	**263,269**	**85,665**	**(231,743)**	**3,424,089**
Operating income	**$ 242,832**	**$ 15,734**	**$ 38,858**	**$ 1,040**	**$ 4,617**	**$ 303,103**
Identifiable assets	**$3,492,922**	**$278,588**	**$282,297**	**$80,414**	**$(420,105)**	**$3,714,116**

Notes: (a) As stated in Note 2 (g), effective April 1, 2003, Okuaizu Geothermal Company, Limited, a consolidated subsidiary, changed its useful life of property, plant and equipment. As a result, operating expenses in the "Japan" segment decreased by ¥1,493 million ($14,126 thousand) and operating income increased by the same amount, compared with what would have been reported using the prior useful life.

(b) As stated in Note 2 (i), effective April 1, 2003, the Companies changed the method of accounting for the costs of repairing products free of charge. As a result, operating expenses in the "Japan" segment increased by ¥433 million ($4,096 thousand) and operating income decreased by the same amount, compared with what would have been reported under the prior accounting policy.

(c) Sales outside Japan by the Company and its consolidated subsidiaries

Effective April 1, 2003, the "North America" geographic segment is specified, since the importance of the segment increases.

Previously reported data for the year ended March 31, 2003 have been restated to conform to the segmentation for the year ended March 31, 2004.

	Millions of yen			
	North America	Asia	Other Areas	Total
Year ended March 31, 2004				
Overseas sales	**¥49,418**	**¥48,939**	**¥11,896**	**¥110,254**
Consolidated net sales				**393,928**
Ratio of overseas sales to consolidated net sales	**12.55%**	**12.42%**	**3.02%**	**27.99%**
Year ended March 31, 2003				
Overseas sales	¥36,331	¥41,238	¥8,854	¥ 86,424
Consolidated net sales				378,608
Ratio of overseas sales to consolidated net sales	9.59%	10.89%	2.33%	22.83%

	Thousands of U.S. dollars (Note 1)			
	North America	Asia	Other Areas	Total
Year ended March 31, 2004				
Overseas sales	**$467,574**	**$463,042**	**$112,555**	**$1,043,182**
Consolidated net sales				**3,727,202**

14. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which in the aggregate resulted in normal tax rates for each of the years in the two-year period ended March 31, 2004 of approximately 41.70%.

On March 24, 2003, the Japanese Diet approved amendments to the Local Tax Law, which reduce standard business tax rates as well as additionally levy business tax based on corporate size.

It will be effective for years beginning on and after April 1, 2004.

Consequently, normal tax rate will be lowered to approximately 40.40% for deferred tax assets and liabilities expected to be settled or realized on and after April 1, 2004.

This change had little effect on deferred tax assets (after deferred tax liability deduction) in the consolidated balance sheet and income taxes—deferred in the consolidated statement of income. The Company's foreign subsidiaries were subject to income taxes of the countries in which they operate.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Deferred tax assets:			
Unrealized profits and losses	**¥ 3,649**	¥ 3,702	**$ 34,525**
Operating loss carryforward for tax purposes	**3,889**	3,250	**36,796**
Excess bad debt expenses	**162**	207	**1,532**
Excess accrued bonuses to employees	**2,071**	1,673	**19,595**
Excess product warranties	**1,223**	—	**11,571**
Enterprise taxes accrued	**255**	316	**2,412**
Retirement benefits	**9,000**	6,229	**85,154**
Other	**4,871**	3,568	**46,087**
Subtotal	**25,123**	18,949	**237,704**
Valuation allowance	**(4,295)**	(4,264)	**(40,637)**
Total deferred tax assets	**20,827**	14,684	**197,057**
Deferred tax liabilities:			
Net unrealized gains on securities	**(1,714)**	(250)	**(16,217)**
Deferral of capital gain related to certain sale of property, plant and equipment	**(2,623)**	(1,186)	**(24,817)**
Retained earnings of foreign subsidiaries	**(1,775)**	(817)	**(16,794)**
Other	**(1,940)**	(1,211)	**(18,355)**
Total deferred tax liabilities	**(8,053)**	(3,465)	**(76,194)**
Net deferred tax assets	**¥12,773**	¥11,219	**$120,853**

The net deferred tax assets at March 31, 2004 and 2003 were contained in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Deferred tax assets—current	**¥5,197**	¥2,975	**$49,172**
Deferred tax assets—non-current	**8,765**	9,285	**82,931**
Deferred tax liabilities—current	**65**	72	**615**
Deferred tax liabilities—non-current	**1,124**	969	**10,634**

The following table summarizes the significant differences between the statutory effective tax rate and the tax rate calculated based on the Companies' consolidated financial statements for the years ended March 31, 2004 and 2003, respectively.

	2004	2003
Statutory effective tax rate	**41.7%**	41.7%
Permanent difference due to non-deductible expense	**2.1**	4.8
Permanent difference due to non-taxable income	**(16.5)**	(1.6)
Effect of elimination of intercompany dividends received	**20.6**	2.1
Tax benefit not recognized on temporary differences of consolidated subsidiaries	**—**	15.4
Effect of liquidation of subsidiaries	**(33.3)**	—
Others	**(1.6)**	(0.8)
Tax rate calculated based on the Companies' consolidated financial statements	**13.0%**	61.6%

15. Lease Transactions

(a) As lessees

(1) Information on non-capitalized finance leases for the years ended March 31, 2004 and 2003 is as follows:

Acquisition cost equivalents, accumulated depreciation equivalents and net book value equivalents of leased properties

	Millions of yen		
Year ended March 31, 2004	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥7,747**	**¥3,149**	**¥4,598**

	Millions of yen		
Year ended March 31, 2003	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	¥6,018	¥2,453	¥3,565

	Thousands of U.S.dollars (Note 1)		
Year ended March 31, 2004	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$73,299**	**$29,794**	**$43,504**

Lease obligations, lease expenses and depreciation equivalents

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Lease obligations due:			
Within one year	**¥1,389**	¥1,087	**$13,142**
After one year	**3,703**	3,003	**35,036**
Total	**¥5,092**	¥4,090	**$48,178**
Lease expenses	**¥1,368**	¥1,108	**$12,943**
Depreciation equivalents	**1,368**	1,108	**12,943**

Since the amounts of lease obligations are relatively small, amounts shown above are inclusive of interest.

(2) Information on operating leases for the years ended March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Lease obligations due:			
Within one year	**¥298**	¥ 460	**$2,819**
After one year	**532**	610	**5,033**
Total	**¥831**	¥1,071	**$7,862**

(b) As lessors

Information on non-capitalized finance leases for the years ended March 31, 2004 and 2003 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Lease receivables due:			
Within one year	**¥104**	¥ 99	**$ 984**
After one year	**391**	432	**3,699**
Total	**¥496**	¥531	**$4,692**

All transactions of the Companies as lessors were subleases to third parties. The Companies subleased to lessees on the same terms that the Companies originally signed. The whole amount was included in the amount of lease obligations shown in (a).

Since the amounts of lease receivables were relatively small, amounts shown above are inclusive of interest.

16. Derivative Transactions

The Companies used currency forward contracts and options to hedge transactions, such as sales of commodities (mainly basic metals) and purchases of inventories (mainly imported materials), and to hedge its assets and liabilities denominated in foreign currencies against foreign exchange risk.

The Companies also entered into interest rate swaps to hedge their loans payable against interest rate risk. Further, the Companies utilized metal forward contracts to reduce the Companies' exposure to fluctuations in metal prices. All of these contracts were based on actual demand and not for trading in the short-term or for speculation. In particular, the Companies prohibited selling options in accordance with their respective internal transaction management rules.

Contract amounts shown in the tables below are notional amounts in derivative contracts. These amounts do not represent the Companies' market risk or credit risk incurred in derivative transactions.

Dealing market value was computed as a fair value based on the price shown by banking facilities or trading companies. These market values were presented for evaluations of derivatives, and they do not represent the amounts that the Companies pay or receive in the future.

The following tables summarize market value information as of March 31, 2004 and 2003 of derivative transactions for which hedge accounting had not been applied.

(a) Currency-related derivatives

				Millions of yen		Thousands of U.S. dollars (Note 1)
Type				**2004**	2003	**2004**
Forward contracts:						
	Selling U.S. dollars:		Contract amounts	**¥ 430**	¥ 66	**$ 4,068**
			Due over one year	**—**	—	**—**
			Market value	**419**	65	**3,964**
			Net unrealized gains	**11**	0	**104**
	Selling Euros:		Contract amounts	**¥ 774**	¥ —	**$ 7,323**
			Due over one year	**—**	—	**—**
			Market value	**769**	—	**7,275**
			Net unrealized gains	**5**	—	**47**
	Buying U.S. dollars:		Contract amounts	**¥ —**	¥3,331	**$ —**
			Due over one year	**—**	—	**—**
			Market value	**—**	3,362	**—**
			Net unrealized gains	**—**	31	**—**
	Buying Japanese yen:		Contract amounts	**¥1,397**	¥ 624	**$13,217**
			Due over one year	**514**	—	**4,863**
			Market value	**1,292**	593	**12,224**
			Net unrealized losses	**(104)**	(30)	**(984)**
Swaps:	Receive	Pay				
	U.S. dollars	Japanese yen	Contract amounts	**¥ 165**	¥ 370	**$ 1,561**
			Due over one year	**—**	370	**—**
			Market value	**179**	21	**1,693**
			Net unrealized gains (losses)	**(14)**	21	**(132)**

Market values of forward currency and swap contracts are based on future exchange rates or prices provided by financial institutions.

(b) Interest rate-related derivatives

Type				Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Swaps:	Receive	Pay				
	Float	Float	Contract amounts	¥ —	¥5,997	$ —
			Due over one year	—	5,997	—
			Market value	—	(1,226)	—
			Net unrealized losses	—	(1,226)	—

Market value of swaps is present value based on rates provided by financial institutions.

(c) Commodities-related derivatives

Type			Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Forward contracts:					
	Selling metal	Contract amounts	**¥1,925**	¥ 305	**$18,213**
		Due over one year	**—**	—	**—**
		Market value	**2,164**	284	**20,474**
		Net unrealized losses (gains)	**(238)**	21	**(2,251)**
	Buying metal	Contract amounts	**¥ —**	¥2,528	**$ —**
		Due over one year	**—**	—	**—**
		Market value	**—**	2,627	**—**
		Net unrealized gains	**—**	98	**—**

Market value of metal forward contracts is based on forward prices provided by trading companies.

17. Employees' Retirement Benefits

The Companies provide two retirement benefit plans for employees, an unfunded retirement plan and a funded retirement plan, under which all eligible employees are entitled to benefits based on their length of service and basic rate of pay at the time of termination.

Employees' retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen 2004	Millions of yen 2003	Thousands of U.S. dollars (Note 1) 2004
Projected benefit obligation	**¥31,363**	¥27,177	**$296,745**
Plan assets at fair value	**(3,597)**	(1,786)	**(34,033)**
Projected benefit obligation in excess of plan assets	**27,765**	25,390	**262,702**
Less: Unrecognized net transition obligation	**(3,809)**	(7,608)	**(36,039)**
Less: Unrecognized prior service costs	**(83)**	(99)	**(785)**
Less: Unrecognized actuarial differences	**(262)**	(353)	**(2,478)**
Employees' retirement benefits	**¥23,610**	¥17,329	**$223,389**

The employees' retirement benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Service costs—benefits earned during the year	**¥2,214**	¥2,162	**$20,948**
Interest cost on projected benefit obligation	**618**	611	**5,847**
Expected return on plan assets	**(52)**	(16)	**(492)**
Amortization of net transition obligation	**3,806**	3,803	**36,010**
Amortization of prior service costs	**68**	148	**643**
Amortization of actuarial differences	**731**	915	**6,916**
Employees' retirement benefit costs	**¥7,387**	¥7,624	**$69,893**

The actuarial assumptions for calculating the projected benefit obligation for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Attribution of benefits to periods of service	**Benefit/years-of-service approach**	Benefit/years-of-service approach
Discount rate used to determine the projected benefit obligation	**1.7%–2.4%**	1.8%–3.0%
Expected return on plan assets	**Mainly 1.0%**	Mainly 1.0%
Period to amortize net transition obligation	**Mainly 5 years**	Mainly 5 years
Period to amortize prior service costs	**1–5 years**	1–5 years
Period to amortize the actuarial differences	**1–3 years**	1–3 years

18. Earnings per Share of Common Stock

Earnings per share of common stock at March 31, 2004 and 2003 were as follows:

Year ended March 31, 2004	Net income (Millions of yen)	Weighted-average shares (Thousands)	Net income per share (Yen)	Net income per share (U.S. dollars (Note 1))
Basic earnings per share:				
Net income unavailable to common shareholders	**¥11,452**			
Bonuses to directors by appropriation of retained earnings	**67**			
Net income available to common shareholders	**11,385**	**572,871**	**¥19.87**	**$0.19**
Effect of dilutive securities:				
Convertible bonds	**15**	**27,523**		
Diluted net income per share:				
Net income for computation	**¥11,400**	**600,394**	**¥18.99**	**$0.18**

Year ended March 31, 2003	Net income (Millions of yen)	Weighted-average shares (Thousands)	Net income per share (Yen)
Basic earnings per share:			
Net income unavailable to common shareholders	¥3,085		
Bonuses to directors by appropriation of retained earnings	70		
Net income available to common shareholders	3,015	559,263	¥5.39
Effect of dilutive securities:			
Convertible bonds	34	27,523	
Diluted net income per share:			
Net income for computation	¥3,049	586,786	¥5.20

19. Related Party Transactions

(a) The Company owns 34% of outstanding shares of Pan Pacific Copper Company, Limited, which sells products related to copper refining and smelting business.

The transactions and account balances with Pan Pacific Copper Company, Limited as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales	**¥30,406**	¥36,650	**$287,690**
Sales of materials and work-in-progress:			
Proceeds	**5,358**	—	**50,695**
Losses	**2,407**	—	**22,774**
Guaranties of bank loans	**12,681**	—	**119,982**
Notes and accounts receivable, trade	**2,330**	3,202	**22,045**

Terms of transactions:

Terms of sales to Pan Pacific Copper Company, Limited are determined under general market conditions.

Sales of materials and work-in-progress:

It was intended to bring about a greater synergy in the alliance with Pan Pacific Copper Company, Limited and to strengthen competitiveness.

(b) The Company owns 50% of outstanding shares of MS Zinc Company, Limited, which produces and sells products related to zinc refining and smelting business.

The transactions and account balances with MS Zinc Company, Limited as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales	**¥20,768**	¥9,728	**$196,499**
Sale of materials and work-in-progress:			
Proceeds	**1,413**	—	**13,369**
Losses	**751**	—	**7,105**
Notes and accounts receivable, trade	**2,061**	4,579	**19,500**

Terms of transactions:

Terms of sales to MS Zinc Company, Limited are determined under general market conditions.

Sales of materials and work-in-progress:

It was intended to bring about a greater synergy in the alliance with MS Zinc Company, Limited and to strengthen competitiveness.

20. Subsequent Events

(a) On June 29, 2004, at the shareholders' meeting, the following appropriations were approved:

(1) payment of cash dividends to shareholders of record on March 31, 2004 of ¥5.00 ($0.04) per share totaling ¥2,864 million ($27,098 thousand), and

(2) payment of bonuses to directors totaling ¥60 million ($567 thousand).

(b) Issuance of unsecured domestic straight bonds

On April 27, 2004, the Board of Directors of the Company approved a proposal for the issuance of unsecured domestic straight bonds amounting to ¥10,000 million ($94,616 thousand). Principal data on these bonds issued are as follows:

1. Total issue amounts	¥10,000 million ($94,616 thousand)
2. Issue price	¥100 for each ¥100 of face value
3. Payment date	May 27, 2004
4. Interest rate	0.93%
5. Redemption amounts	¥100 for each ¥100 of face value
6. Redemption date	May 27, 2004
7. Application of funds	Repayment of debt

Independent Auditors' Report

To the Board of Directors of
Mitsui Mining and Smelting Company, Limited:

We have audited the accompanying consolidated balance sheets of Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Mining and Smelting Company, Limited and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 2 (i) to the consolidated financial statements, effective April 1, 2003, Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries changed the method of accounting for the costs of repairing products free of charge.
(2) As discussed in Note 13 to the consolidated financial statements, effective April 1, 2003, Mitsui Mining and Smelting Company, Limited changed the business segmentation of a consolidated subsidiary, whose core business shifted to industrial waste disposal, from the Intermediate Materials segment to the Environmental Engineering & Metals Recycling segment.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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, 2004

Directors, Executive Officers, and Auditors

(As of June 29, 2004)

Board of Directors

Shimpei Miyamura

Chairman and Representative Director,
Chief Executive Officer

Hiroshi Makihara

President and Representative Director,
Chief Operating Officer

Tatsuo Sunaga

Senior Managing Director and
Representative Director,
Senior Managing Executive Officer

Ei Omoto

Director,
Senior Executive Officer

Yoshihiko Takebayashi

Director,
Senior Executive Officer

Muneo Saida

Director,
Senior Executive Officer

Yasuo Yokoo

Director,
Senior Executive Officer

Kunio Yanai

Director,
Senior Executive Officer

Takao Hironaka

Director,
Senior Executive Officer

Naoaki Ogawa

Director,
Senior Executive Officer

Tadaaki Chigusa

Director

Executive Officers

Yoshiaki Kitagawa
Shoji Onoue
Shuzo Takahashi
Masao Omura
Masanobu Matsufuji
Takashi Sujino
Toshihiko Saito
Satoru Kobayashi
Shin'ichi Ishii
Masashi Kawasaki
Yasuo Tamura
Masatoshi Eto
Wakaba Sakurai
Mitsuhiko Hasuo
Tomoharu Jogo
Norifumi Egashira
Tatsuhiko Takai

Corporate Auditors

Takashi Hasegawa
Toshio Kodama
Toshiaki Tanabe
Hiromichi Shibata

Corporate Data

(As of March 31, 2004)

Established: May 1, 1950

Authorized capital: 1,944 million shares

Shares issued: 572,966,166 shares

Paid-in capital: ¥42,129,466 thousand

Stock listings: Common stock is listed on the Tokyo, Osaka, and three other domestic stock exchanges.

Number of shareholders: 49,270

Principal shareholders:

	Investment in the Company	
	Number of shares held (Thousands)	Percentage of shares issued (%)
Japan Trustee Services Bank, Ltd. (Held in trust account)	71,705	12.51%
The Master Trust Bank of Japan, Ltd. (Held in trust account)	59,488	10.38
State Street Bank and Trust Company	11,410	1.99
Trust & Custody Services Bank, Ltd. (Held in trust account B)	8,176	1.42
Mitsui Mutual Life Insurance Company	7,981	1.39
JPMBLSA Offshore Lending JASDEC Account	7,101	1.23
Nippon Life Insurance Company	7,047	1.22
Nippon Life Insurance Company (Held in special pension account)	6,812	1.18
Sumitomo Mitsui Banking Corporation	6,471	1.12
Goldman, Sachs and Co. Regular	6,241	1.08

Principal subsidiaries:

	Paid-in capital (Millions)	Share (%)
Kamioka Mining & Smelting Co., Ltd.	¥4,600	100.0%
Hibi Kyodo Smelting Co., Ltd.	¥4,700	63.5
Hachinohe Smelting Co., Ltd.	¥4,795	57.7
Hikoshima Smelting Co., Ltd.	¥460	100.0
Taiwan Copper Foil Co., Ltd.	NT$800	95.0
Mitsui Copper Foil (Malaysia) Sdn. Bhd.	RM50	90.0
Oak-Mitsui Inc.	US$3.068	100.0
MCS, Inc.	¥450	100.0 (8.9)
Ohi Seisakusho Co., Ltd.	¥2,766	100.0
GECOM Corp.	US$15.75	100.0
Okuaizu Geothermal Co., Ltd.	¥100	100.0
MESCO, Inc.	¥1,085	63.3

Note: Parentheses around figures for percentage owned by Mitsui Kinzoku indicate indirect ownership.

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(As of July 1, 2004)

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MITSUI KINZOKU Annual Report 2004

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