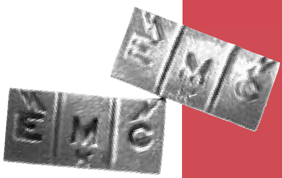
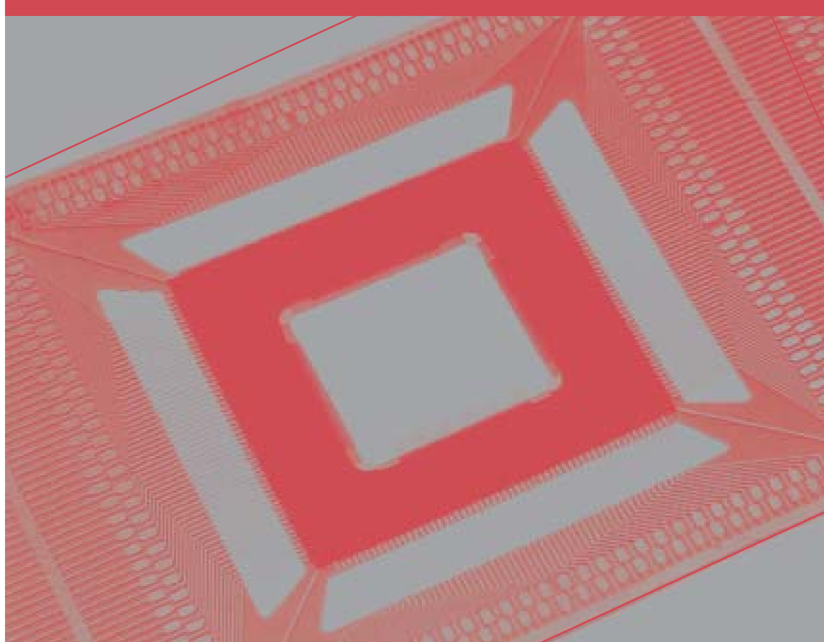
MITSUI
KINZOKU



Mitsui Kinzoku

Annual Report **2003**



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 non-ferrous 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

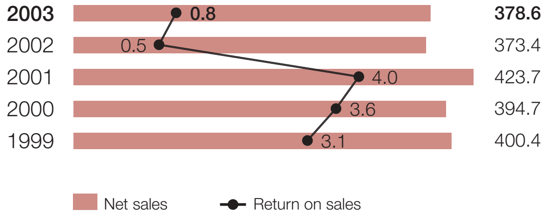
Financial Highlights

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

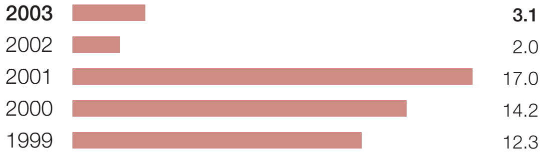
	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Consolidated Performance				
Net sales	**¥378,608**	¥373,442	¥423,707	**$3,149,816**
Net income	**3,085**	1,986	17,012	**25,665**
Total assets	**370,886**	393,603	424,829	**3,085,574**
Total shareholders' equity	**103,237**	105,219	105,936	**858,876**
Net income per share (¥, $)	**¥5.39**	¥3.55	¥30.86	**$0.04**
Diluted net income per share (¥, $)	**5.20**	3.44	29.05	**0.04**
Cash dividends per share (¥, $)	**5.00**	5.00	6.00	**0.04**

Notes: 1. All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥120.20 to US$1.00, the rate prevailing at March 31, 2003.
2. In this report, fiscal 2002 represents the year ended March 31, 2003.

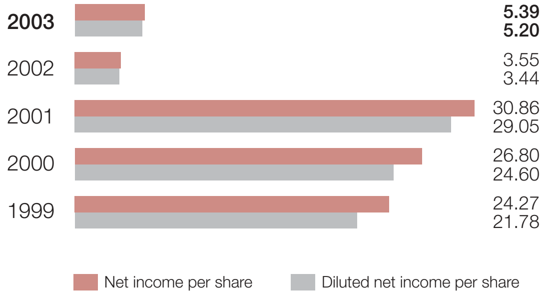
Net Sales and Return on Sales
(Billions of yen, %)



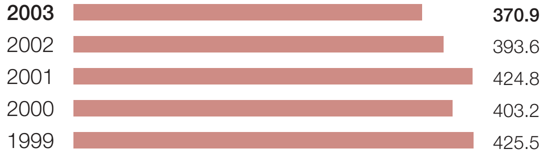
Net Income
(Billions of yen)



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



Total Assets
(Billions of yen)



Total Shareholders' Equity
(Billions of yen)

A Message from the Management

Chairman and
Chief Executive Officer
Shimpei Miyamura
(seated)

President and
Chief Operating Officer
Hiroshi Makihara
(standing)

Superior Results in Fiscal 2002

Mitsui Kinzoku witnessed a notable improvement in results in fiscal 2002. The Company delivered net income of ¥3.1 billion in fiscal 2002, a year-on-year increase of 55.3%, after one-time losses of ¥3.6 billion and ¥2.6 billion from the revaluation of under-utilized assets and capital holdings, respectively, with the latter caused by the decline of the domestic stock market. We continued our interest-bearing debt reduction strategy, bringing total interest-bearing debt to ¥182.5 billion, down ¥18.6 billion from the end of fiscal 2001.

Under increasingly challenging market conditions, Mitsui Kinzoku and its Group companies strove to fortify its operating base by reaffirming the primary tenet of manufacturing. Namely, we focused our attention on improving manufacturing technology, product quality, and cost-competitiveness. Our sales increased 1.4%, to ¥378.6 billion, and operating income 3.4%, to ¥25.7 billion.

In fundamental materials, continuing low international prices offset steady domestic demand and squeezed earnings. Intermediate materials saw electronics-related materials, our main business, recover demand modestly from the low level of the preceding year, while LCD-related materials sustained brisk demand. On the other hand, brass, construction materials, and single crystals—a new and still growing sector—enjoyed favorable markets. Parts manufacturing & assembly suffered heavy pressure for price discounting, but demand remained brisk thanks to a thriving automobile industry. Environmental engineering & metals recycling benefited from a steadily expanding market owing to increasing public awareness of the need to protect the natural environment.

Measures taken in our core businesses include the following.

Copper foil We have successfully initiated a strategy to revitalize copper foil profitability through extensive cost reductions. This has been achieved by comprehensively restructuring operations in Japan and the United States and shifting the entire production of general-purpose copper foil to Taiwan and Malaysia. Our efforts to combat price erosion are beginning to show results. In addition, our new Research and Development Center in New York State is now concentrating its efforts in the development of materials for cutting-edge technologies.

TAB materials Fierce competition in LCD panels, the primary end product of tape-automated-bonding (TAB) tapes, has resulted in speedy changes in demand patterns for TAB tapes. We have been able to minimize not only opportunity losses but also surplus costs by adjusting operations in a flexible manner. In order to service the rapidly growing market in Taiwan and maintain our high market share, we bolstered our marketing and operations staff there.

Base metals We have proceeded with business alliances in copper, distilled zinc, and lead with some of the leading smelters in Japan in the face of challenging business conditions caused

Appointment of New Management

At the June 27, 2003, meeting of the board of directors, Hiroshi Makihara was elected President and Chief Operating Officer, succeeding Shimpei Miyamura, who was appointed Chairman and Chief Executive Officer.

During the 10-year presidency of Mr. Miyamura, effective leadership and strong management brought about the successful restructuring of business operations and, thus, improved profitability and financial soundness despite the bursting of the IT bubble. Operating income to total assets rose from 2.4% in fiscal 1992 to 6.7% in fiscal 2002, and the equity ratio jumped from 7.7% to 27.8% over the same time span.

Mr. Makihara possesses an engineering background and has a track record of managing diverse businesses, including particularly successful TAB material operations. He will continue to pursue the Company's growth path with a strong will and fresh eyes, in particular focusing on strengthening R&D activities.

Highlights of 2002–2003

2002

October	Cooperation with Sumitomo Metal Mining Co., Ltd., in zinc smelting business started
October	Nobel prize awarded for Professor Koshiba's success in the detection of neutrinos in our Kamioka Mine
October	Contribution of Kamioka Mining & Smelting Co., Ltd., to lead recycling awarded Prime Minister's prize
December	Operation started at the new automotive parts production plant in Guangdong, China

2003

January	Oak-Mitsui Technologies LLC, an R&D center focusing on electronics materials, established in New York State
April	Ohi Seisakusho Co., Ltd., a former affiliate of Nissan Motor Co., Ltd., acquired by exchange of stock to fortify the 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

by prolonged low metal and by-product prices as well as a tightening supply of concentrates. These alliances also help enhance the potential of our highly profitable recycling business.

Automotive components We acquired Ohi Seisakusho Co., Ltd., a former affiliate of Nissan Motor Co., Ltd. We are confident that this acquisition broadens our product capabilities, technological prowess, and customer base for our automotive parts business and lays a foundation for enhancing growth potential.

As a matter of interest, one of the 2002 Nobel prizes for physics went to research on cosmic neutrinos conducted inside the now-defunct Kamioka Mine, the birthplace of Mitsui Kinzoku. Our rock-drilling technology played an integral part in the construction of the facility, and we take great pride in our part in this important research.

Business Plans for Fiscal 2003

In fiscal 2003, we project operating income of ¥30.0 billion, a 16.6% increase over fiscal 2002, ROA of 8%, and net income of ¥6.7 billion, an increase of 117.2% year on year. Total interest-bearing debt is slated to be reduced by ¥12.5 billion, to ¥170.0 billion at the end of fiscal 2003. Actual results may vary from these forecasts as a result of unanticipated changes in business conditions.

We will continue to pursue the principle of reaffirming the primary tenet of manufacturing and strive to maximize profit. Specific measures include: further improving copper foil selling prices and cost reduction measures as well as expanding sales of new products; realizing the potential for greater sales of TAB materials in the growing market for LCD panels and, simultaneously, non-LCD markets; maximizing the acquisition benefit of Ohi Seisakusho in automotive components by leveraging our management techniques; and enhancing the benefits from existing alliances in base metals as well as formulating road maps for possible alliances in the area of electrolytic zinc.

Further, we have reorganized our Research & Development Center and directed more human resources to the development of new products to sustain the growth of our businesses over the long term. We will conduct an extensive review of our proprietary technological assets accumulated over the years for possible application in the development of new products. This review process should also reinforce our ongoing efforts to promote sharing technological knowledge and experience among engineers, which will be particularly useful when new products under development go into mass commercial production.

Long-Term Outlook

We believe that scale is not the sole pursuit in the evolution of a successful company. Rather, becoming a company worthy of great respect and trust through its operations is fundamental. In other words, we will strive to be adaptable to changing social and economic conditions in a speedy and definitive manner. At the same time, we aim to realize the goal of a company that generates outstanding returns relative to its moderate size and whose products are valued for uniqueness and superior functionality in niche applications.

In order to realize these plans, we have developed a four-pronged approach, entailing: (1) reviewing and, if necessary, rearranging our business portfolio using various managerial indices as a guide, (2) accelerating the development of new businesses, (3) improving the efficiency of back-office operations, and (4) further improving our balance sheet management.

Corporate Governance

There are many different ways in which corporate governance is put into practice, depending upon a company's history, culture, or prevailing circumstances. Our management precept calls for "Sustaining our company, enhancing corporate value, and contributing to society through the supply of worthy products." We regard it of the utmost importance to serve all stakeholders, shareholders, business partners, local and global communities, and employees alike.

To accomplish this mission, we separated operating functions from the board of directors and initiated an operating officer system in 2001 to strengthen the supervisory functions of the board. This year, an outside director has been elected to enhance the transparency of management, in addition to the existing internal committee supervising management and accounting of Group companies.

In closing, we would like to thank all of the staff of Mitsui Kinzoku and its Group companies for their tireless efforts and look forward to a bright and successful future together.

June 2003

Shimpei Miyamura

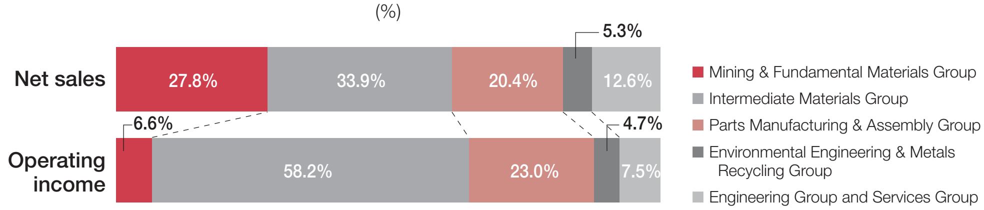
Shimpei Miyamura, Chairman and Chief Executive Officer

Hiroshi Makihara

Hiroshi Makihara, President and Chief Operating Officer

Review of Operations

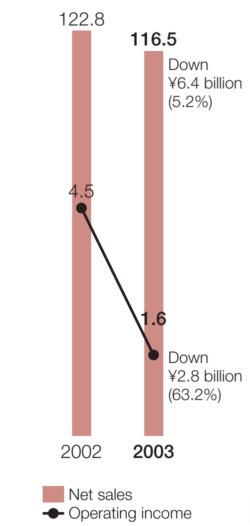
Breakdown of consolidated sales and operating income by segment
(%)



Mining & Fundamental Materials Group

—Low Prices Depress Performance

Mining & Fundamental Materials Group
(Billions of yen)



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. The Company also 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.

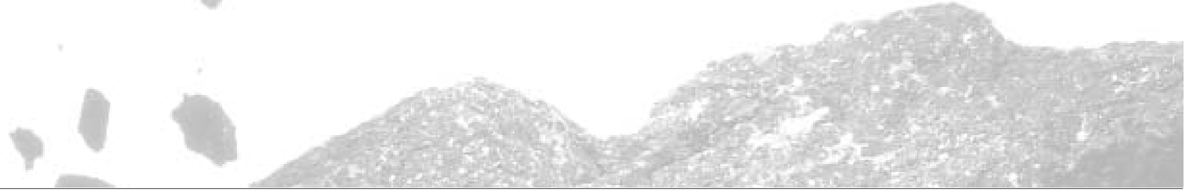
BUSINESS CONDITIONS AND STRATEGIES

The international supply-demand balances for both zinc and copper remained slack during fiscal 2002, causing prices to stay at record-low levels. Another disadvantageous circumstance for the Company was that a surplus of smelter capacity relative to ore production worsened ore procurement terms.

Although hindered by operating relatively small-scale facilities in a country with comparatively high cost levels, 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 fiscal 2002, a joint venture of Mitsui Kinzoku and Sumitomo Metal Mining began distilled zinc smelting business, and arrangements were made to augment an existing copper smelting operational tie-up with Nippon Mining & Metals by completely integrating the two companies’ copper smelting business in April 2003.

PERFORMANCE

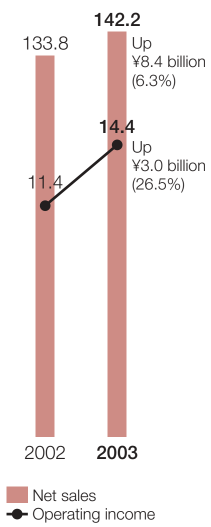
Firm domestic demand was seen for both zinc associated with zinc-coated steel and copper for manufacturing rolled copper products. However, low price levels impacted profitability, and sulfuric acid prices saw a particularly pointed deterioration due to oversupply.



Intermediate Materials Group

—Recovery in Demand for Electronics Materials but Strong Downward Pressure on Prices

Intermediate Materials Group
(Billions of yen)



OPERATIONS

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

BUSINESS CONDITIONS AND STRATEGIES

Demand for electronics materials was weak in fiscal 2001 due to inventory adjustments following the bursting of the IT bubble but saw a recovery during fiscal 2002. Growth in demand for materials used in LCD panels was particularly striking. Competition among electronics material suppliers, however, intensified further due to increased production capacity, which tends to accentuate price competition. Electronic component manufacturers' rigorous maintenance of low inventory levels has necessitated suppliers responding to sharp fluctuations in order levels and shortened delivery periods.

Regarding commodity products, Mitsui Kinzoku has maintained superior quality and taken thorough measures to boost cost-efficiency to contend with price competition. 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.

Although electrodeposited copper foil operations had previously become much less profitable because of price erosion due to oversupply, Mitsui Kinzoku has augmented related performance by decisively slashing superfluous elements of its manufacturing systems and optimizing production allocations. Assisted by recovering prices, performance in this area is expected to further improve during fiscal 2003.

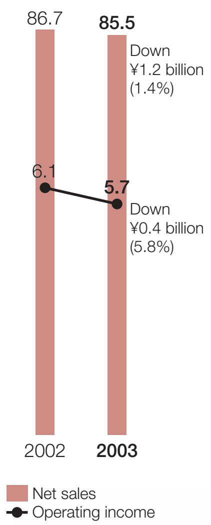
PERFORMANCE

In fiscal 2002, Mitsui Kinzoku's TAB tape sales grew thanks to robust levels of LCD panel manufacturing activities. Sales also improved regarding rolled copper and single crystal products, the latter of which saw demand arise for semiconductor processing equipment and explosive detection systems. Copper foil product prices were lower than in fiscal 2001, but a recovery in demand and cost reductions compensated for this.

Parts Manufacturing & Assembly Group

—Performance Supported by Strong Automobile Production

Parts Manufacturing & Assembly Group
(Billions of yen)



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 five major automobile manufacturing countries—Japan, the United States, Thailand, China, and the United Kingdom. These factories primarily manufacture door latches, for which the Company has a 20% share of the global market. These products are principally supplied to 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 is expected to add to the breadth and depth of Mitsui Kinzoku's product line, technologies, and clientele and promote the expansion of automotive component business. The acquisition holds the possibility of boosting profitability through technological synergies.

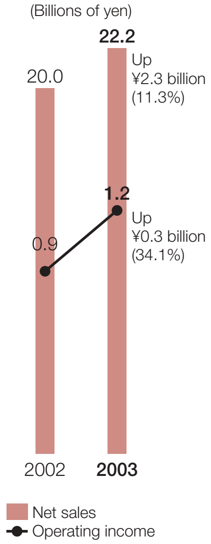
PERFORMANCE

Reflecting the strength of automotive production in Japan and the United States, the Parts Manufacturing & Assembly Group showed a steady performance during fiscal 2002, although sales and operating income declined due to the sale of subsidiaries midway through the first half of fiscal 2001.

Environmental Engineering & Metals Recycling Group

—Making a Growing Contribution to Resource Recycling

Environmental Engineering & Metals Recycling Group
(Billions of yen)



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 steel 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.

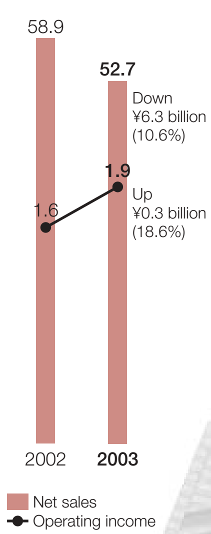
PERFORMANCE

Sales increased in all sectors of the group’s operations. For reference, this is a newly created business group, and additional subsidiaries were brought within the scope of consolidation upon the Environmental Engineering & Metals Recycling Group’s establishment.

Engineering and Services Groups

—Providing Support for Mitsui Kinzoku Group Companies

Engineering Group and Services Group
(Billions of yen)



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 the customizing programs were recognized, they are now being marketed to other companies as a template.

Five-Year Summary

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

	Millions of yen				
	2003	2002	2001	2000	1999
For the year:					
Net sales	**¥378,608**	¥373,442	¥423,707	¥394,722	¥400,399
Cost of sales	**313,416**	310,474	333,140	318,654	323,062
Gross profit	**65,192**	62,968	90,566	76,068	77,337
Selling, general and administrative expenses	**39,451**	38,075	43,813	40,593	42,041
Operating income	**25,740**	24,893	46,752	35,474	35,295
Income before income taxes and minority interests	**9,307**	10,789	30,644	25,684	22,207
Net income	**3,085**	1,986	17,012	14,181	12,344
At year-end:					
Total current assets	**¥147,729**	¥155,238	¥180,557	¥176,602	¥177,689
Total assets	**370,886**	393,603	424,829	403,225	425,484
Total current liabilities	**161,405**	167,004	184,771	177,335	206,896
Long-term liabilities	**95,547**	110,820	124,107	140,119	162,598
Total shareholders' equity	**103,237**	105,219	105,936	76,862	49,061
Per share data:					
Net income (¥)	**¥5.39**	¥3.55	¥30.86	¥26.80	¥24.27
Diluted net income (¥)	**5.20**	3.44	29.05	24.60	21.78
Cash dividends applicable to the year (¥)	**5.00**	5.00	6.00	6.00	5.00
Number of employees	**8,339**	8,619	9,542	9,379	10,256

Financial Review

Net Sales

On a consolidated basis, the Company's net sales during fiscal 2002, ended March 31, 2003, increased 1.4%, or ¥5.2 billion, to ¥378.6 billion (US$3,149.8 million).

The Mining & Fundamental Materials Group's net sales declined 5.2%, or ¥6.4 billion, to ¥116.5 billion (US$968.8 million). Firm domestic demand was seen for both zinc associated with zinc-coated steel and copper for manufacturing rolled copper products, but prices were low, and sulfuric acid prices saw a particularly pointed deterioration due to oversupply.

The Intermediate Materials Group increased its TAB tape sales thanks to robust levels of LCD panel manufacturing activities. Higher sales were also recorded for rolled copper and single crystal products, the latter of which were in greater demand for use in semiconductor processing equipment and explosive detection systems. Although copper foil product prices were down, a recovery in demand helped compensate for this. Thus, the group's overall net sales advanced 6.3%, or ¥8.4 billion, to ¥142.2 billion (US$1,183.0 million).

Reflecting the strength of automotive production in Japan and the United States, the Parts Manufacturing & Assembly Group showed a steady performance during fiscal 2002, although sales declined owing to the sale of subsidiaries midway through the first half of fiscal 2001. Thus, the group's overall net sales edged down 1.4%, or ¥1.2 billion, to ¥85.5 billion (US$710.9 million).

Sales increased in the Environmental Engineering & Metals Recycling Group's operations, and the group's overall net sales surged 11.3%, or ¥2.3 billion, to ¥22.2 billion (US$185.1 million). This is a newly created business group, and additional subsidiaries were brought within the scope of consolidation upon its establishment.

Net sales of the Engineering Group amounted to ¥23.3 billion (US$193.7 million), down 16.8%, or ¥4.7 billion, from the previous year, and net sales of the Services Group totaled ¥29.4 billion (US$244.6 million), down 5.0%, or ¥1.5 billion.

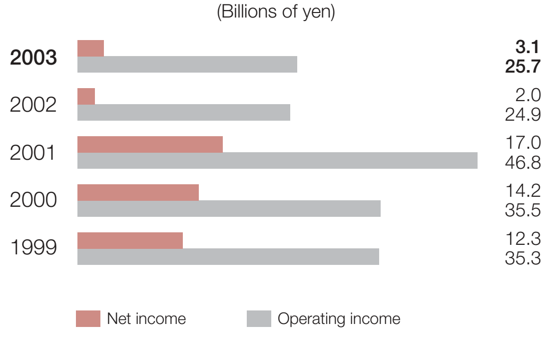
The Company's overseas sales increased 3.5%, or ¥2.9 billion, to ¥86.4 billion (US$719.0 million), and the ratio of overseas sales to consolidated net sales edged up to 22.8%, from 22.4%.

Costs, Expenses, and Earnings

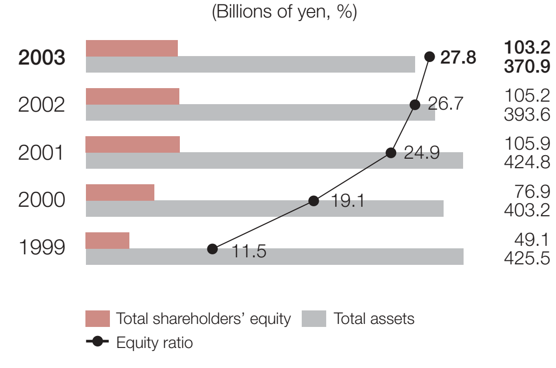
Cost of sales edged up 0.9%, or ¥2.9 billion, to ¥313.4 billion (US$2,607.5 million). The rate of increase for cost of sales was slower than that for net sales, causing the ratio of cost of sales to net sales to decline to 82.8%, from 83.1%. Consequently, gross profit amounted to ¥65.2 billion (US$542.4 million), up 3.5%, or ¥2.2 billion, and the gross profit margin increased to 17.2%, from 16.9%.

Despite the Company's ongoing restructuring and cost-cutting programs, selling, general and administrative (SGA) expenses increased 3.6%, or ¥1.4 billion, to ¥39.5 billion (US$328.2 million). This rise reflected the Company's move to account for retirement benefit liabilities as a current expense. In line with the Company's emphasis on new product development, R&D expenses included in cost of sales and SGA expenses increased to ¥2.4 billion (US$19.6 million), from ¥2.3 billion. SGA expenses represented 10.4% of net sales, up from 10.2% in the previous year.

Net Income and Operating Income
(Billions of yen)



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



As a result of the preceding factors, operating income grew 3.4%, or ¥0.8 billion, to ¥25.7 billion (US$214.1 million). This reflected rises in the profitability of Intermediate Materials and Environmental Engineering & Metals Recycling operations, which were partially offset by decreased profitability in Mining & Fundamental Materials and Parts Manufacturing & Assembly operations.

Other expenses, net, increased 16.5%, or ¥2.3 billion, to ¥16.4 billion (US$136.7 million). Reflecting the low level of domestic interest rates and the Company's efforts to reduce interest-bearing debt, interest expense decreased ¥1.2 billion, to ¥3.4 billion. A foreign exchange gain of ¥0.6 billion was recorded, representing an improvement of ¥1.0 billion, compared with a foreign exchange loss of ¥0.4 billion in the previous year. The expense of amortizing the net transition obligation resulting from the adoption of a new accounting standard for retirement benefits decreased ¥0.3 billion, to ¥3.8 billion, and no expense for additional retirement benefits was recorded, compared with an expense of ¥1.6 billion in the previous year. However, losses associated with the disposal of tangible assets and impairment charges on tangible assets totaled ¥2.9 billion, and write-down of goodwill amounted to ¥1.7 billion. Such losses were insignificant in the previous year. Write-down of marketable securities and investments grew ¥1.3 billion, to ¥2.6 billion.

Thus, income before income taxes and minority interests fell 13.7%, or ¥1.5 billion, to ¥9.3 billion (US$77.4 million). Income taxes amounted to ¥5.7 billion (US$47.7 million), down 30.4%, or ¥2.5 billion. Accordingly, net income surged 55.3%, or ¥1.1 billion, to ¥3.1 billion (US$25.7 million).

Net income per share grew 51.8%, or ¥1.84, to ¥5.39 (US$0.04), and cash dividends applicable to the year were maintained at ¥5.00 (US$0.04) per share.

Financial Position

The Company's total assets decreased 5.8%, or ¥22.7 billion, during the period, amounting to ¥370.9 billion (US$3,085.6 million) at fiscal year-end.

Total current assets decreased ¥7.5 billion, to ¥147.7 billion (US$1,229.0 million). The fall in current assets reflected drops of ¥0.9 billion in cash, time deposits, and marketable securities; ¥7.1 billion in notes and accounts receivable; and ¥0.9 billion in inventories.

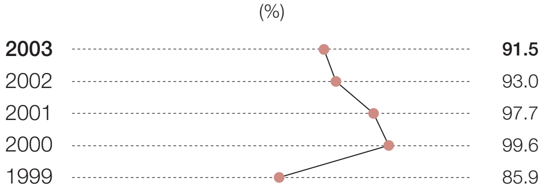
Investments and long-term receivables decreased ¥1.7 billion, to ¥32.5 billion (US$270.5 million), principally owing to a ¥3.3 billion decline in investment securities.

Net property, plant and equipment fell ¥10.8 billion, to ¥188.6 billion (US$1,568.9 million). The predepreciation value of fixed assets rose ¥4.7 billion.

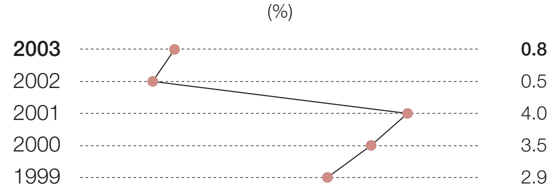
Total liabilities dropped ¥20.9 billion, to ¥257.0 billion (US$2,137.7 million). Of this, short- and long-term interest-bearing debt and commercial paper fell ¥18.6 billion, to ¥182.5 billion (US$1,518.5 million). Total current liabilities decreased ¥5.6 billion, to ¥161.4 billion (US$1,342.8 million), mainly reflecting drops in short-term bank loans and other current liabilities, which offset a rise in the current portion of long-term debt. Long-term debt, less the current portion, dropped ¥16.2 billion, to ¥74.1 billion (US$616.4 million).

Total shareholders' equity edged down ¥2.0 billion, to ¥103.2 billion (US$858.9 million), reflecting a ¥1.7 billion worsening in foreign currency translation adjustments. The Company's equity ratio increased to 27.8%, from 26.7% at the previous year-end.

Current Ratio
(%)



Return on Total Assets
(%)



Cash Flows

Net cash provided by operating activities totaled ¥40.7 billion (US$338.7 million), mainly reflecting ¥9.3 billion in income before income taxes and minority interests and the adjustment for ¥28.2 billion in depreciation and amortization. Net cash inflow from decreases in receivables and payables amounted to ¥5.4 billion.

Net cash used in investing activities amounted to ¥22.0 billion (US$182.9 million). Sales and purchases of property, plant and equipment and other assets resulted in a net cash outflow of ¥19.5 billion.

Net cash used in financing activities totaled ¥20.2 billion (US$167.7 million). A net decrease in short-term bank loans led to a net cash outflow of ¥12.6 billion, and net cash outflow for the repayment of long-term debt and redemption of bonds, less proceeds from long-term debt, amounted to ¥6.7 billion.

As net cash used in investing and financing activities was not completely covered by net cash provided by operating activities, cash and cash equivalents at end of year declined ¥0.9 billion, to ¥10.3 billion (US$85.8 million).

Forward-Looking Statement

Against increasing concerns regarding trends in the Japanese and global economy, the Mitsui Kinzoku Group is seeking to ensure that it has a solid base of profitability by continuing to take various measures with the theme of reaffirming the primary tenet of manufacturing. These measures include diverse steps to reduce costs and boost manufacturing efficiency as well as steps to augment demand by enhancing product quality and developing new product applications.

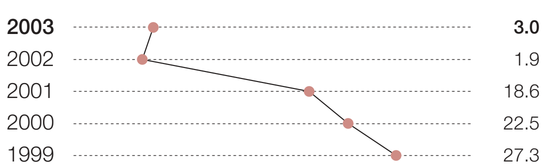
As a means of structurally strengthening the Group over the long term, the Company is taking such measures as reconsidering the nature of each of its businesses with an eye to business restructuring and strengthening its R&D to promote new business development.

Regarding fiscal 2003 performance projections, it remains extremely difficult to forecast trends in demand for the Company's products and there is concern that the Company may face intensified competition. In view of this, the Company anticipates that it will operate in a harsh business environment but will be able to increase its profitability despite this environment.

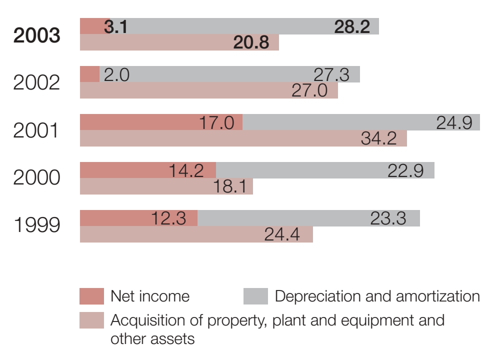
The Company projects that its consolidated net sales in fiscal 2003 will amount to ¥391.0 billion, up 3.3% from fiscal 2002, and operating income in fiscal 2003 will total ¥30.0 billion, up 16.6%. Net income is forecast to surge 117.2%, to ¥6.7 billion. The Company also expects to reduce the balance of its interest-bearing debt by ¥12.5 billion, to ¥170.0 billion at the end of fiscal 2003.

These projections were made by the Group based on information currently available, and they are subject to change due to various potential risks and uncertain elements. Accordingly, if events do not correspond to some of the many assumptions made by the Company to provide a basis for the projections, actual performance may be considerably different from projected performance.

Return on Total Shareholders' Equity
(%)



Free Cash Flow
(Billions of yen)



Consolidated Balance Sheets

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Assets			
Current assets:			
Cash and time deposits (Note 4)	**¥ 10,356**	¥ 11,178	**$ 86,156**
Marketable securities (Note 3)	**—**	52	**—**
Notes and accounts receivable (Note 8):			
Trade	**61,979**	64,509	**515,632**
Unconsolidated subsidiaries and affiliates	**348**	4,895	**2,895**
Loans:			
Unconsolidated subsidiaries and affiliates	**40**	554	**332**
Others	**418**	18	**3,477**
Inventories	**62,591**	63,489	**520,723**
Deferred tax assets (Note 13)	**2,975**	2,890	**24,750**
Other current assets	**9,813**	8,571	**81,638**
Less: Allowance for doubtful accounts	**(793)**	(921)	**(6,597)**
Total current assets	**147,729**	155,238	**1,229,026**
Investments and long-term receivables:			
Investment securities (Notes 3 and 8)	**10,930**	14,263	**90,931**
Unconsolidated subsidiaries and affiliates	**9,751**	9,740	**81,123**
Deferred tax assets (Note 13)	**9,285**	7,836	**77,246**
Others (Note 8)	**5,624**	5,623	**46,788**
Less: Allowance for doubtful accounts	**(3,076)**	(3,290)	**(25,590)**
	32,514	34,172	**270,499**
Property, plant and equipment (Note 8):			
Land	**36,105**	36,512	**300,374**
Buildings and structures	**151,993**	149,705	**1,264,500**
Machinery and equipment	**319,794**	316,519	**2,660,515**
Construction in progress	**2,448**	2,906	**20,366**
	510,343	505,644	**4,245,782**
Less: Accumulated depreciation	**(321,762)**	(306,279)	**(2,676,888)**
	188,580	199,364	**1,568,885**
Other assets	**2,062**	4,827	**17,154**
	¥370,886	¥393,603	**$3,085,574**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 66,653**	¥ 79,325	**$ 554,517**
Current portion of long-term debt (Note 7)	**36,780**	28,506	**305,990**
Notes and accounts payable:			
Trade	**25,846**	25,892	**215,024**
Unconsolidated subsidiaries and affiliates	**873**	2,053	**7,262**
Others	**9,531**	8,953	**79,292**
Commercial paper (Note 7)	**5,000**	3,000	**41,597**
Accrued income taxes (Note 13)	**3,533**	3,604	**29,392**
Accrued expenses	**8,062**	8,641	**67,071**
Deferred tax liabilities (Note 13)	**72**	11	**599**
Other current liabilities	**5,051**	7,014	**42,021**
Total current liabilities	**161,405**	167,004	**1,342,803**
Long-term debt (Note 7)	**74,095**	90,303	**616,430**
Allowance for employees' retirement benefits (Note 16)	**17,329**	14,767	**144,168**
Allowance for directors' and statutory auditors' retirement benefits	**917**	842	**7,628**
Deferred tax liabilities (Note 13)	**969**	2,000	**8,061**
Other long-term liabilities	**2,235**	2,906	**18,594**
Minority interests in consolidated subsidiaries	**10,695**	10,559	**88,976**
Commitments and contingent liabilities (Notes 10 and 14)			
Shareholders' equity (Notes 7 and 11):			
Common stock:			
Authorized—1,944,000 thousand shares			
Issued—559,305 thousand shares—2003 and 2002	**42,129**	42,129	**350,490**
Capital surplus	**18,570**	18,570	**154,492**
Retained earnings	**45,816**	45,975	**381,164**
Net unrealized gains on securities	**331**	415	**2,753**
Foreign currency translation adjustments	**(3,584)**	(1,867)	**(29,816)**
Less: Treasury stock	**(26)**	(4)	**(216)**
Total shareholders' equity	**103,237**	105,219	**858,876**
	¥370,886	¥393,603	**$3,085,574**

Consolidated Statements of Income

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net sales (Note 12)	**¥378,608**	¥373,442	**$3,149,816**
Cost of sales (Note 9)	**313,416**	310,474	**2,607,454**
Gross profit	**65,192**	62,968	**542,362**
Selling, general and administrative expenses (Note 9)	**39,451**	38,075	**328,211**
Operating income (Note 12)	**25,740**	24,893	**214,143**
Other income (expenses):			
Interest and dividends income	**444**	614	**3,693**
Interest expense	**(3,443)**	(4,616)	**(28,643)**
Gain on sale of securities	**312**	33	**2,595**
Gain (loss) on sale of securities of consolidated subsidiaries	**(166)**	2,091	**(1,381)**
Loss on sale and disposal of property, plant and equipment, net	**(1,592)**	(75)	**(13,244)**
Impairment charges on property, plant and equipment	**(1,315)**	—	**(10,940)**
Write-down of goodwill	**(1,712)**	—	**(14,242)**
Write-down of marketable securities and investments	**(2,556)**	(1,218)	**(21,264)**
Foreign exchange gain (loss)	**564**	(444)	**4,692**
Reversal of (write-off and provision for) doubtful accounts	**36**	(431)	**299**
Indemnity	**(750)**	(1,379)	**(6,239)**
Equity in losses of unconsolidated subsidiaries and affiliates	**(77)**	(31)	**(640)**
Amortization of net transition obligation resulting from the adoption of new accounting standard for retirement benefits (Note 16)	**(3,803)**	(4,061)	**(31,638)**
Additional retirement benefits (Note 16)	**—**	(1,626)	**—**
Other, net	**(2,370)**	(2,956)	**(19,717)**
	(16,432)	(14,103)	**(136,705)**
Income before income taxes and minority interests	**9,307**	10,789	**77,429**
Income taxes (Note 13):			
Current	**7,791**	9,466	**64,816**
Deferred	**(2,058)**	(1,231)	**(17,121)**
	5,732	8,234	**47,687**
Minority interests	**489**	568	**4,068**
Net income	**¥ 3,085**	¥ 1,986	**$ 25,665**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (Note 17)	**¥5.39**	¥3.55	**$0.04**
Diluted net income (Note 17)	**5.20**	3.44	**0.04**
Cash dividends applicable to the year	**5.00**	5.00	**0.04**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Number of shares of common stock issued (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings (Note 11)	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2001	559,305	¥42,129	¥18,570	¥47,481	¥1,727	¥(3,970)	¥ (1)
Net income				1,986			
Cash dividends				(3,355)			
Bonuses to directors				(113)			
Bonuses to employees				(23)			
Decrease in net unrealized gains on securities					(1,312)		
Foreign currency translation adjustments						2,103	
Increase in treasury stock							(2)
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)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings (Note 11)	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2002	$350,490	$154,492	$382,487	$3,452	$(15,532)	$ (33)
Net income			**25,665**			
Cash dividends			**(23,261)**			
Bonuses to directors			**(499)**			
Decrease due to change in consolidated subsidiaries			**(1,638)**			
Decrease due to change in affiliates accounted for by the equity method			**(1,580)**			
Decrease in net unrealized gains on securities				**(690)**		
Foreign currency translation adjustments					**(14,276)**	
Increase in treasury stock						**(183)**
Balance at March 31, 2003	**$350,490**	**$154,492**	**$381,164**	**$2,753**	**$(29,816)**	**$(216)**

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 9,307**	¥10,789	**$ 77,429**
Depreciation and amortization	**28,179**	27,307	**234,434**
Write-down of goodwill	**1,712**	—	**14,242**
Write-down of marketable securities and investments	**2,556**	1,218	**21,264**
Gain on sale of securities	**(312)**	(33)	**(2,595)**
Loss (gain) on sale of securities of consolidated subsidiaries	**166**	(2,091)	**1,381**
Loss on sale and disposal of property, plant and equipment, net	**1,592**	75	**13,244**
Impairment charges on property, plant and equipment	**1,315**	—	**10,940**
Indemnity	**750**	1,379	**6,239**
Provision for (reversal of) doubtful accounts	**(328)**	384	**(2,728)**
Amortization of net transition obligation resulting from the adoption of new accounting standard for retirement benefits (Note 16)	**3,803**	4,061	**31,638**
Additional retirement benefits (Note 16)	**—**	1,626	**—**
Foreign exchange loss (gain)	**(325)**	465	**(2,703)**
Equity in losses of unconsolidated subsidiaries and affiliates	**77**	31	**640**
Decrease in allowance for retirement benefits	**(1,380)**	(2,787)	**(11,480)**
Interest and dividends income	**(444)**	(614)	**(3,693)**
Interest expense	**3,443**	4,616	**28,643**
Decrease in notes and accounts receivable	**6,898**	17,191	**57,387**
Decrease (increase) in inventories	**640**	(4,176)	**5,324**
Decrease in notes and accounts payable	**(1,452)**	(9,493)	**(12,079)**
Other, net	**(3,898)**	78	**(32,429)**
Subtotal	**52,303**	50,030	**435,133**
Interest and dividends received	**553**	666	**4,600**
Interest paid	**(3,489)**	(4,776)	**(29,026)**
Indemnity paid	**(750)**	(1,379)	**(6,239)**
Payment of additional retirement benefits	**—**	(1,221)	**—**
Income taxes paid	**(7,910)**	(14,731)	**(65,806)**
Net cash provided by operating activities	**40,707**	28,587	**338,660**
Cash flows from investing activities:			
Purchases of securities	**(2,710)**	(657)	**(22,545)**
Sale of securities	**1,139**	560	**9,475**
Sale of securities of consolidated subsidiaries (Notes 5 and 6)	**(43)**	5,333	**(357)**
Acquisition of property, plant and equipment and other assets	**(20,794)**	(26,969)	**(172,995)**
Sale of property, plant and equipment	**1,285**	2,779	**10,690**
Decrease (increase) in short-term loans receivable, net	**(150)**	271	**(1,247)**
Disbursement for long-term loans receivable	**(25)**	(122)	**(207)**
Collection of long-term loans receivable	**138**	295	**1,148**
Other, net	**(826)**	189	**(6,871)**
Net cash used in investing activities	**(21,988)**	(18,319)	**(182,928)**
Cash flows from financing activities:			
Decrease in short-term bank loans, net	**(12,566)**	(2,347)	**(104,542)**
Increase in commercial paper, net	**2,000**	1,000	**16,638**
Proceeds from long-term debt	**21,808**	19,067	**181,430**
Repayment of long-term debt	**(23,484)**	(29,996)	**(195,374)**
Redemption of bonds	**(5,000)**	—	**(41,597)**
Payment for cash dividends to the Company's shareholders	**(2,796)**	(3,355)	**(23,261)**
Payment for cash dividends to minority interests	**(132)**	(248)	**(1,098)**
Other, net	**18**	33	**149**
Net cash used in financing activities	**(20,152)**	(15,846)	**(167,653)**
Effect of exchange rate changes on cash and cash equivalents	**(250)**	117	**(2,079)**
Net decrease in cash and cash equivalents	**(1,684)**	(5,461)	**(14,009)**
Cash and cash equivalents at beginning of year	**11,230**	16,692	**93,427**
Effect of additions of consolidated subsidiaries	**766**	—	**6,372**
Cash and cash equivalents at end of year (Note 4)	**¥10,312**	¥11,230	**$ 85,790**

See accompanying notes.

Notes to Consolidated Financial Statements

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2003 and 2002

1. Basis of Presenting Consolidated Financial Statements

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

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders’ equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. 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, 2003, which was ¥120.20 to U.S.$1.00. 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.

(b) Foreign currency translation and foreign currency financial statements

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 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 low 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

Equity securities issued by subsidiaries and affiliated companies are stated at average cost. Available-for-sale securities with fair market value are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders’ equity. Realized gains on the sale of such securities are computed using 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 of derivative financial instruments held by certain foreign consolidated subsidiaries are 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) 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.

(g) Inventories

Inventories are determined by the following methods:

Metals & Minerals Sector—Precious metals and
a certain subsidiary (MCS, Inc.): first-in, first-out cost
Copper Foil Division: moving average cost
Others: principally last-in, first-out cost

(h) Property, plant and equipment

Property, plant and equipment are stated at cost. 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.

(i) Directors’ and statutory auditors’ retirement benefits

Directors and statutory auditors are generally entitled to receive retirement benefits based on the Companies’ internal rules. Their retirement benefits are charged to income as incurred.

(j) 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.

(k) Research and development expenses

Research and development expenses are charged to income as incurred.

(l) Income taxes

The Companies are subject to corporation tax, inhabitants tax and enterprise tax, which are based on taxable income. The Companies provide for income taxes on the basis of current tax liabilities and reflect the tax effects of the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting.

(m) 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.

(n) 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.

The Company and its domestic subsidiaries have adopted Financial Accounting Standard No. 2, "Accounting Standard for Earnings per Share," and Financial Accounting Standards Implementation Guidance No. 4, "Implementation Guidance for the Accounting Standard for Earnings per Share," since the year beginning April 1, 2002. The effect of adopting this standard and guidance is disclosed below.

Amounts per share for this period based on the former method are as follows:

	Yen	U.S. dollars (Note 1)
Net income per share	¥3.44	$0.03
Diluted net income per share	3.34	0.03

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

(o) Treasury stock

Effective from April 1, 2002, the Company and its domestic subsidiaries have adopted Financial Accounting Standard No. 1, "Accounting Standard on Treasury Stock and Reversal of Legal Reserves." The effect on net income of adopting this standard was immaterial.

3. Securities

(a) Acquisition costs and book values of available-for-sale securities with fair value as of March 31, 2003 and 2002 were as follows:

	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**

Year ended March 31, 2002	Millions of yen Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	¥1,746	¥3,939	¥2,193
Bonds	2	2	0
Subtotal	1,748	3,941	2,193
Securities whose book value does not exceed acquisition cost:			
Stocks	5,465	4,031	(1,433)
Subtotal	5,465	4,031	(1,433)
Total	¥7,213	¥7,973	¥ 759

Year ended March 31, 2003	Thousands of U.S. dollars (Note 1) Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**$12,146**	**$20,632**	**$8,477**
Subtotal	**12,146**	**20,632**	**8,477**
Securities whose book value does not exceed acquisition cost:			
Stocks	**23,069**	**19,625**	**(3,435)**
Subtotal	**23,069**	**19,625**	**(3,435)**
Total	**$35,224**	**$40,266**	**$5,033**

Losses on write-downs of available-for-sale securities with fair value amounted to ¥2,556 million ($21,264 thousand) and ¥1,090 million for the years ended March 31, 2003 and 2002, respectively.

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

(b) Available-for-sale securities sold for the year ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Total sale amount	**¥1,132**	¥559	**$9,417**
Gains	**313**	35	**2,603**
Losses	**0**	1	**0**

(c) Book values of available-for-sale securities without fair value as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Non-listed equity securities	**¥5,849**	¥6,049	**$48,660**
Non-listed overseas bonds	**—**	52	**—**
Non-listed domestic bonds	**240**	240	**1,996**

(d) Maturities of available-for-sale securities as of March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Bonds:			
Within one year	**¥ —**	¥ 54	**$ —**
More than one year but within five years	**—**	—	**—**
More than five years	**240**	240	**1,996**

4. Amounts of Cash and Cash Equivalents

Amounts of cash and cash equivalents at March 31, 2003 and 2002 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Cash and time deposits	**¥10,356**	¥11,178	**$86,156**
Time deposits with maturities exceeding three months from the date of deposit	**(43)**	—	**(357)**
Debt securities with maturities of three months or less from the date of acquisition	**—**	52	**—**
Total: Cash and cash equivalents	**¥10,312**	¥11,230	**$85,790**

5. Cash Proceeds from Sale of Consolidated Subsidiaries

The Companies sold the securities of consolidated subsidiaries Gifu Die and Mold Engineering Company, Limited, Kata Systems Company, EGS Company, Limited and Kamioka SEIKI Company, Limited in the year ended March 31, 2002. The book values of assets and liabilities, sales price and cash proceeds from the sale of these subsidiaries are summarized as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥5,802	$48,269
Long-term assets	4,674	38,885
Net unrealized gains on securities	(23)	(191)
Current liabilities	(4,771)	(39,692)
Long-term liabilities	(2,411)	(20,058)
Gain on sales of securities of consolidated subsidiaries	2,091	17,396
Sales price	5,362	44,608
Cash and cash equivalents of sold consolidated subsidiaries	(29)	(241)
Cash proceeds from sale of consolidated subsidiaries	¥5,333	$44,367

6. 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	$4,084
Long-term assets	9	74
Current liabilities	(302)	(2,512)
Long-term liabilities	(24)	(199)
Loss on sales of securities of consolidated subsidiary	(118)	(981)
Sales price	55	457
Cash and cash equivalents of sold consolidated subsidiary	(99)	(823)
Cash disbursements from sale of consolidated subsidiary	¥ (43)	$ (357)

7. 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 0.480 per cent. to 6.9 per cent. and from 0.474 per cent. to 7.3 per cent. at March 31, 2003 and 2002, respectively.

Commercial paper bore interest at an annual rate of 0.1368 per cent. and 0.5307 per cent. at March 31, 2003 and 2002, respectively.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
2.75 per cent. yen unsecured straight bonds due 2003	**¥ —**	¥ 5,000	**$ —**
0.54 per cent. yen unsecured straight bonds due 2005	**50**	—	**415**
0.4 per cent. yen unsecured convertible bonds due 2003	**13,371**	13,371	**111,239**
Banks, insurance companies and other financial institutions, maturing through 2022 at interest rates ranging from 0.53 per cent. to 8.19 per cent. at March 31, 2003:			
Secured	**25,810**	37,207	**214,725**
Unsecured	**61,776**	51,286	**513,943**
Government-owned banks and government agencies, maturing through 2018 at interest rates ranging from zero per cent. to 7.4 per cent. at March 31, 2003:			
Secured	**9,459**	11,230	**78,693**
Unsecured	**409**	714	**3,402**
	110,876	118,810	**922,429**
Less: Current portion	**36,780**	28,506	**305,990**
	¥ 74,095	¥ 90,303	**$616,430**

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2004	¥36,780	$305,990
2005	18,553	154,351
2006	15,352	127,720
2007	12,367	102,886
2008	17,108	142,329
Thereafter	10,714	89,134

The 0.4 per cent. yen unsecured convertible bonds due 2003 issued on May 23, 1996 are convertible into shares of common stock at the option of the holders at a conversion price of ¥485.80 ($4.04) per share, subject to adjustment in certain circumstances. These bonds are redeemable in whole or in part at the option of the Company from October 1, 2000 to September 29, 2003. At the current conversion price, 27,523 thousand shares of common stock were issuable on full conversion of the outstanding convertible bonds at March 31, 2003.

The conversion price of the convertible bonds due 2003 was adjusted from ¥487.20 ($4.05) to ¥485.80 ($4.04) on October 8, 1999.

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

8. Pledged Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Cash and time deposits	**¥ 41**	¥ —	**$ 341**
Notes and accounts receivable	**2,169**	2,605	**18,044**
Investment securities	**1,150**	2,159	**9,567**
Other investments	**—**	302	**—**
Property, plant and equipment, net book value	**86,829**	119,193	**722,371**
	¥90,191	¥124,261	**$750,341**

9. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses amounted to ¥2,357 million ($19,608 thousand) and ¥2,288 million for the years ended March 31, 2003 and 2002, respectively.

10. Contingent Liabilities

Contingent liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
As endorser of notes receivable discounted	**¥ 180**	¥ 317	**$ 1,497**
As endorser of notes receivable endorsed	**172**	253	**1,430**
As guarantor for loans of:			
Unconsolidated subsidiaries and affiliates	**2,571**	1,473	**21,389**
Others	**8,178**	8,869	**68,036**
As quasi-guarantor for loans of:			
Unconsolidated subsidiaries and affiliates	**—**	225	**—**
	¥11,103	¥11,139	**$92,371**

11. Shareholders' Equity

The Japanese Commercial Code provides that an amount equal to at least 10 per cent. 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 per cent. of common stock.

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

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

12. Segment Information

The operation of the Companies for the years ended March 31, 2003 and 2002 are summarized by industry segment, geographic segment and sales outside Japan by the Company and its subsidiaries as follows. Effective April 1, 2002, the Companies have changed the industry segmentation from the former five groups ("Mining & Fundamental Materials," "Intermediate Materials," "Parts Manufacturing & Assembly," "Engineering" and "Services") to six groups ("Mining & Fundamental Materials," "Intermediate Materials," "Parts Manufacturing & Assembly," "Environmental Engineering & Metals Recycling" (newly established industry group), "Engineering" and "Services"). The Company has integrated its various divisions' and subsidiaries' business of Environmental Engineering & Metals Recycling and concentrated its resources to develop new technologies, etc. Therefore, this change was made to present the results of their operating activities more properly.

Previously reported data for the year ended March 31, 2002 have been restated to conform to the segmentation for the year ended March 31, 2003.

(a) Industry segment information

	Millions of yen							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination	Consolidated
Year ended March 31, 2003								
Sales:								
Outside customers	**¥106,354**	**¥132,261**	**¥85,061**	**¥15,617**	**¥14,416**	**¥24,896**	**¥ —**	**¥378,608**
Intergroup	**10,098**	**9,932**	**393**	**6,629**	**8,865**	**4,509**	**(40,428)**	**—**
Total	**116,453**	**142,193**	**85,455**	**22,247**	**23,281**	**29,406**	**(40,428)**	**378,608**
Operating costs and expenses	**114,815**	**127,749**	**79,754**	**21,070**	**22,128**	**28,682**	**(41,333)**	**352,867**
Operating income	**¥ 1,638**	**¥ 14,443**	**¥ 5,700**	**¥ 1,176**	**¥ 1,153**	**¥ 723**	**¥ 904**	**¥ 25,740**
Identifiable assets	**¥118,853**	**¥155,531**	**¥53,562**	**¥20,211**	**¥17,395**	**¥32,207**	**¥(26,875)**	**¥370,886**
Depreciation expense	**8,038**	**14,915**	**2,871**	**885**	**285**	**461**	**(250)**	**27,207**
Capital expenditures	**4,855**	**11,278**	**3,546**	**953**	**224**	**34**	**(99)**	**20,794**
Year ended March 31, 2002								
Sales:								
Outside customers	¥111,164	¥125,245	¥85,935	¥13,866	¥12,058	¥25,171	¥ —	¥373,442
Intergroup	11,676	8,518	728	6,120	15,939	5,774	(48,758)	—
Total	122,841	133,764	86,664	19,987	27,997	30,946	(48,758)	373,442
Operating costs and expenses	118,385	122,344	80,609	19,109	26,626	30,734	(49,260)	348,549
Operating income	¥ 4,456	¥ 11,419	¥ 6,054	¥ 877	¥ 1,371	¥ 211	¥ 502	¥ 24,893
Identifiable assets	¥122,614	¥169,470	¥54,329	¥20,416	¥16,797	¥36,956	¥(26,981)	¥393,603
Depreciation expense	7,965	13,732	3,325	521	315	493	(70)	26,283
Capital expenditures	6,770	16,338	2,977	1,097	287	6	(508)	26,969

	Thousands of U.S. dollars (Note 1)							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination	Consolidated
Year ended March 31, 2003								
Sales:								
Outside customers	**$884,808**	**$1,100,341**	**$707,662**	**$129,925**	**$119,933**	**$207,121**	**$ —**	**$3,149,816**
Intergroup	**84,009**	**82,628**	**3,269**	**55,149**	**73,752**	**37,512**	**(336,339)**	**—**
Total	**968,826**	**1,182,970**	**710,940**	**185,083**	**193,685**	**244,642**	**(336,339)**	**3,149,816**
Operating costs and expenses	**955,199**	**1,062,803**	**663,510**	**175,291**	**184,093**	**238,618**	**(343,868)**	**2,935,665**
Operating income	**$ 13,627**	**$ 120,158**	**$ 47,420**	**$ 9,783**	**$ 9,592**	**$ 6,014**	**$ 7,520**	**$ 214,143**
Identifiable assets	**$988,793**	**$1,293,935**	**$445,607**	**$168,144**	**$144,717**	**$267,945**	**$(223,585)**	**$3,085,574**
Depreciation expense	**66,871**	**124,084**	**23,885**	**7,362**	**2,371**	**3,835**	**(2,079)**	**226,347**
Capital expenditures	**40,391**	**93,826**	**29,500**	**7,928**	**1,863**	**282**	**(823)**	**172,995**

(b) Geographic segment information

	Millions of yen			
	Japan	Other Areas	Elimination	Consolidated
Year ended March 31, 2003				
Sales:				
Outside customers	**¥314,761**	**¥63,847**	**¥ —**	**¥378,608**
Intergroup	**10,931**	**3,583**	**(14,514)**	**—**
Total	**325,692**	**67,430**	**(14,514)**	**378,608**
Operating costs and expenses	**300,489**	**67,658**	**(15,280)**	**352,867**
Operating income (loss)	**¥ 25,202**	**¥ (227)**	**¥ 765**	**¥ 25,740**
Identifiable assets	**¥334,435**	**¥61,673**	**¥(25,221)**	**¥370,886**
Year ended March 31, 2002				
Sales:				
Outside customers	¥314,633	¥58,809	¥ —	¥373,442
Intergroup	9,539	4,255	(13,795)	—
Total	324,173	63,065	(13,795)	373,442
Operating costs and expenses	300,101	63,123	(14,675)	348,549
Operating income (loss)	¥ 24,071	¥ (58)	¥ 880	¥ 24,893
Identifiable assets	¥347,065	¥68,037	¥(21,499)	¥393,603

	Thousands of U.S. dollars (Note 1)			
	Japan	Other Areas	Elimination	Consolidated
Year ended March 31, 2003				
Sales:				
Outside customers	**$2,618,643**	**$531,173**	**$ —**	**$3,149,816**
Intergroup	**90,940**	**29,808**	**(120,748)**	**—**
Total	**2,709,584**	**560,981**	**(120,748)**	**3,149,816**
Operating costs and expenses	**2,499,908**	**562,878**	**(127,121)**	**2,935,665**
Operating income (loss)	**$ 209,667**	**$ (1,888)**	**$ 6,364**	**$ 214,143**
Identifiable assets	**$2,782,321**	**$513,086**	**$(209,825)**	**$3,085,574**

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

	Millions of yen		
	Asia	Other Areas	Total
Year ended March 31, 2003			
Overseas sales	**¥41,238**	**¥45,185**	**¥ 86,424**
Consolidated net sales			**378,608**
Ratio of overseas sales to consolidated net sales	**10.89%**	**11.94%**	**22.83%**
Year ended March 31, 2002			
Overseas sales	¥37,239	¥46,269	¥ 83,509
Consolidated net sales			373,442
Ratio of overseas sales to consolidated net sales	9.97%	12.39%	22.36%

	Thousands of U.S. dollars (Note 1)		
	Asia	Other Areas	Total
Year ended March 31, 2003			
Overseas sales	**$343,078**	**$375,915**	**$ 719,001**
Consolidated net sales			**3,149,816**

13. 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, 2003 of approximately 41.70 per cent.

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

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

Consequently, the normal tax rate will be lowered to approximately 40.40 per cent. effective for deferred tax assets and liabilities expected to be settled or realized commencing 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Deferred tax assets:			
Unrealized profits and losses	**¥ 3,702**	¥ 4,001	**$ 30,798**
Operating loss carryforward for tax purposes	**3,250**	1,765	**27,038**
Excess bad debt expenses	**207**	493	**1,722**
Excess accrued bonuses to employees	**1,673**	1,356	**13,918**
Enterprise taxes	**316**	340	**2,628**
Retirement benefits	**6,229**	5,014	**51,821**
Other	**3,568**	2,393	**29,683**
Subtotal	**18,949**	15,364	**157,645**
Valuation allowance	**(4,264)**	(1,917)	**(35,474)**
Total deferred tax assets	**14,684**	13,446	**122,163**
Deferred tax liabilities:			
Net unrealized gains on securities	**(250)**	(325)	**(2,079)**
Deferral of capital gain related to certain sales of property, plant and equipment	**(1,186)**	(1,290)	**(9,866)**
Retained earnings of foreign subsidiaries	**(817)**	(1,076)	**(6,797)**
Other	**(1,211)**	(2,038)	**(10,074)**
Total deferred tax liabilities	**(3,465)**	(4,730)	**(28,826)**
Net deferred tax assets	**¥11,219**	¥ 8,715	**$ 93,336**

The net deferred tax assets at March 31, 2003 and 2002 were contained in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Deferred tax assets—current	**¥2,975**	¥2,890	**$24,750**
Deferred tax assets—non-current	**9,285**	7,836	**77,246**
Deferred tax liabilities—current	**72**	11	**599**
Deferred tax liabilities—non-current	**969**	2,000	**8,061**

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 year ended March 31, 2003 and 2002, respectively.

	2003	2002
Statutory effective tax rate	**41.7%**	41.7%
Permanent difference due to non-deductible expense	**4.8**	4.3
Permanent difference due to non-deductible income	**(1.6)**	(2.3)
Effect of elimination of intercompany dividends received	**2.1**	10.1
Tax benefit not recognized on temporary differences of consolidated subsidiaries	**15.4**	21.3
Effect of selling securities of consolidated subsidiaries	**—**	11.1
Tax credit	**—**	(4.5)
Others	**(0.8)**	(5.4)
Tax rate calculated based on the Companies' consolidated financial statements	**61.6%**	76.3%

14. Lease Transactions

(a) As lessees

(1) Information on non-capitalized finance leases for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Lease obligations due:			
Within one year	**¥1,087**	¥1,217	**$ 9,043**
More than one year	**3,003**	2,207	**24,983**
Total	**¥4,090**	¥3,425	**$34,026**
Annual lease payments	**¥1,108**	¥1,068	**$ 9,217**

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

(2) Information on operating leases for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Lease obligations due:			
Within one year	**¥ 460**	¥ 616	**$3,826**
More than one year	**610**	1,230	**5,074**
Total	**¥1,071**	¥1,847	**$8,910**

(b) As lessors

Information on non-capitalized finance leases for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Lease receivables due:			
Within one year	**¥ 99**	¥14	**$ 823**
More than one year	**432**	23	**3,594**
Total	**¥531**	¥37	**$4,417**

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.

15. 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, 2003 and 2002 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				**2003**	2002	**2003**
Forward contracts:						
	Selling U.S. dollars:		Contract amounts	**¥ 66**	¥1,579	**$ 549**
			Due more than one year	**—**	—	**—**
			Market value	**65**	1,622	**540**
			Net unrealized gains (losses)	**0**	(43)	**0**
	Buying U.S. dollars:		Contract amounts	**¥3,331**	¥4,864	**$27,712**
			Due more than one year	**—**	—	**—**
			Market value	**3,362**	4,932	**27,970**
			Net unrealized gains	**31**	67	**257**
	Buying Japanese yen:		Contract amounts	**¥ 624**	¥ 822	**$ 5,191**
			Due more than one year	**—**	—	**—**
			Market value	**593**	762	**4,933**
			Net unrealized losses	**(30)**	(60)	**(249)**
Swaps:	Receive	Pay				
	U.S. dollars	Japanese yen	Contract amounts	**¥ 370**	¥ 514	**$ 3,078**
			Due more than one year	**370**	514	**3,078**
			Market value	**21**	90	**174**
			Net unrealized gains	**21**	90	**174**

Market value of forward contracts was based on future exchange rates provided by financial institutions.

(b) Interest rate-related derivatives

				Millions of yen		Thousands of U.S. dollars (Note 1)
Type				**2003**	2002	**2003**
Swaps:	Receive	Pay				
	Float	Float	Contract amounts	**¥5,997**	¥6,597	**$49,891**
			Due more than one year	**5,997**	6,597	**49,891**
			Market value	**(1,226)**	(753)	**(10,199)**
			Net unrealized losses	**(1,226)**	(753)	**(10,199)**

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

(c) Commodities-related derivatives

Type			Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Forward contracts:					
	Selling metal	Contract amounts	**¥ 305**	¥ 190	**$ 2,537**
		Due more than one year	**—**	—	**—**
		Market value	**284**	191	**2,362**
		Net unrealized gains (losses)	**21**	(0)	**174**
	Buying metal	Contract amounts	**¥2,528**	¥3,017	**$21,031**
		Due more than one year	**—**	—	**—**
		Market value	**2,627**	2,741	**21,855**
		Net unrealized gains (losses)	**98**	(275)	**815**

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

16. 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.

The Companies provided allowance for employees' retirement benefits at March 31, 2003 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates. The allowance 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 ¥19,077 million. The net transition obligation will be recognized as expense in equal amounts mainly over five years, commencing with the year ended March 31, 2001.

Allowance for employees' retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2003 and 2002 consisted of the following:

	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 1) 2003
Projected benefit obligation	**¥27,177**	¥28,842	**$226,098**
Plan assets at fair value	**(1,786)**	(2,003)	**(14,858)**
Projected benefit obligation in excess of plan assets	**25,390**	26,839	**211,231**
Less: Unrecognized net transition obligation	**(7,608)**	(11,348)	**(63,294)**
Less: Unrecognized prior service costs	**(99)**	(389)	**(823)**
Less: Unrecognized actuarial differences	**(353)**	(337)	**(2,936)**
Prepaid pension cost	**—**	3	**—**
Allowance for employees' retirement benefits	**¥17,329**	¥14,767	**$144,168**

The employees' retirement benefit costs for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Service costs—benefits earned during the year	**¥2,162**	¥1,936	**$17,986**
Interest cost on projected benefit obligation	**611**	792	**5,083**
Expected return on plan assets	**(16)**	(19)	**(133)**
Amortization of net transition obligation	**3,803**	4,061	**31,638**
Amortization of prior service costs	**148**	119	**1,231**
Amortization of actuarial differences	**915**	(784)	**7,612**
Additional retirement benefits	**—**	1,626	**—**
Employees' retirement benefit costs	**¥7,624**	¥7,733	**$63,427**

The actuarial assumptions for calculating the projected benefit obligation for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
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	1.8%–3.0%	2.4%–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

17. Earnings per Share of Common Stock

	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 stockholders	¥3,085			
Bonuses to directors by appropriation of retained earnings	70			
Net income available to common stockholders	3,015	559,263	¥5.39	$0.04
Effect of dilutive securities:				
Convertible bonds	34	27,523		
Diluted net income per share:				
Net income for computation	¥3,049	586,786	¥5.20	$0.04

18. Related Party Transactions

(a) The Company owns 34 per cent. 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, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net sales	**¥36,650**	¥37,770	**$304,908**
Notes and accounts receivable, trade	**3,202**	3,397	**26,638**

Terms of transactions:

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

(b) The Company owns 50 per cent. 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, 2003 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	¥9,728	$80,931
Notes and accounts receivable, trade	4,579	38,094

Terms of transactions:

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

19. Subsequent Events

(a) On June 27, 2003, at the shareholders' meeting, the following appropriations were approved:

(1) payment of cash dividends to shareholders of record on March 31, 2003 of ¥5.00 ($0.04) per share totaling ¥2,796 million ($23,261 thousand), and

(2) payment of bonuses to directors totaling ¥60 million ($499 thousand).

(b) Conversion of Ohi Seisakusho Company, Limited into wholly owned subsidiary through exchange of stock

(1) Exchange of stock with Ohi Seisakusho Company, Limited

Based on the stock exchange contract concluded on December 25, 2002, an exchange of stock between the Company and Ohi Seisakusho Company, Limited was carried out on April 1, 2003. Thereby Ohi Seisakusho Company, Limited was converted into a wholly owned subsidiary of the Company on that same day. This exchange was designed to facilitate the Company's efficient and richly diverse responses to the accelerating changes in industry and the expansion of profitability; promote the strengthening of both companies' competitiveness in functional automobile parts operations; make the most of each company's strengths and allow for the efficient distribution of management resources regarding such goals as reducing purchasing expenses, increasing product diversity, and developing new technologies and products and otherwise enable integrated management activities that increase the level of synergy.

On the occasion of the exchange of stock, the Company issued 13,660 thousand shares of common stock and transferred these shares and 25 thousand shares of treasury stock (a total of 13,685 thousand shares) to the shareholders registered in the final version of the shareholders register of Ohi Seisakusho Company, Limited on the day previous to the exchange of stock, with the shares being exchanged for shares in Ohi Seisakusho Company, Limited at a rate of 0.925 share of the Company's stock in exchange for one share of Ohi Seisakusho Company, Limited's stock.

As a result of the exchange of stock, the Company's capital surplus increased ¥3,986 million ($33,161 thousand).

(2) Overview of Ohi Seisakusho Company, Limited

Main business:

Functional automobile parts (research and development, manufacture, selling, distribution and services)

Financial highlights (Consolidated financial statements for the year ended March 31, 2003)

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	¥52,946	$440,482
Net loss	1,461	12,154
Total assets	42,413	352,853
Total liabilities	24,225	201,539
Total shareholders' equity	18,187	151,306

(c) Domestic issuance of unsecured straight bonds

On April 25, 2003, the Board of Directors of the Company approved a comprehensive proposal authorizing the domestic issuance of as much as ¥30,000 million ($249,584 thousand) of unsecured straight bonds to obtain funds for capital investment funding, operating funding, bond repayment, borrowing repayment, and funding for investments and financing. Based on this proposal, another proposal for the domestic issuance of ¥10,000 million ($83,194 thousand) was approved as well, and these bonds were issued. Principal data on this issuance are as follows:

1. Total issue amounts ¥10,000 million ($83,194 thousand)
2. Issue price ¥100 for each ¥100 of face value
3. Payment date May 29, 2003
4. Interest rate 0.60 per cent.
5. Redemption amounts ¥100 for each ¥100 of face value
6. Redemption date May 29, 2008
7. Application of funds Repayment of bonds and borrowing

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 its consolidated subsidiaries as of March 31, 2003 and 2002, 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 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 its consolidated subsidiaries as of March 31, 2003 and 2002, 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 as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to Note 12 to the consolidated financial statements. Effective April 1, 2002, Mitsui Mining and Smelting Company, Limited and its consolidated subsidiaries have changed the industry segmentation from the former five groups to six groups.

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

Asahi & Co.

Tokyo, Japan
June 27, 2003

Directors, Executive Officers, and Auditors

(As of June 27, 2003)

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

Ryuzo Kuroda
Masakazu Miyake
Toshio Kodama
Yoshiaki Kitagawa
Shoji Onoue
Shuzo Takahashi
Masao Omura
Masanobu Matsufuji
Takashi Sujino
Toshihiko Saito
Satoru Kobayashi
Shin'ichi Ishii
Masashi Kawasaki
Yoshihiro Tsuchiya
Yasuo Tamura
Masatoshi Eto
Wakaba Sakurai
Mitsuhiko Hasuo

Corporate Auditors

Seishi Shimano
Koshi Senoguchi
Takashi Hasegawa
Toshiaki Tanabe

Corporate Data

(As of March 31, 2003)

Established: May 1, 1950

Authorized capital: 1,944 million shares

Shares issued: 559,305,791 shares
(increased to 572,966,166 shares on April 1, 2003)

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: 51,429

Principal shareholders:

	Investment in the Company	
	Number of shares held (Thousands)	Percentage of total voting rights (%)
Japan Trustee Services Bank, Ltd. (Held in trust account)	61,514	11.03%
The Master Trust Bank of Japan, Ltd. (Held in trust account)	60,897	10.92
UFJ Trust Bank Limited (Held in trust account A)	18,193	3.26
The Nomura Trust and Banking Company, Limited (Held in investment trust account)	12,336	2.21
J.P. Morgan Trust Bank Ltd. (Held in tax-free account)	10,540	1.89
Trust & Custody Services Bank, Ltd. (Held in trust account B)	8,757	1.57
Mitsui Mutual Life Insurance Company	7,981	1.43
Investment trust trustee: Mitsui Asset Trust and Banking Company, Limited	7,889	1.42
Pension trust trustee: Mitsui Asset Trust and Banking Company, Limited (Held in account No. 2)	7,761	1.39
Nippon Life Insurance Company	6,802	1.22

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
GECOM Corp.	US$15.75	100.0
Okuaizu Geothermal Co., Ltd.	¥1,000	68.9
MESCO, Inc.	¥1,085	63.4

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

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(As of July 1, 2003)

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