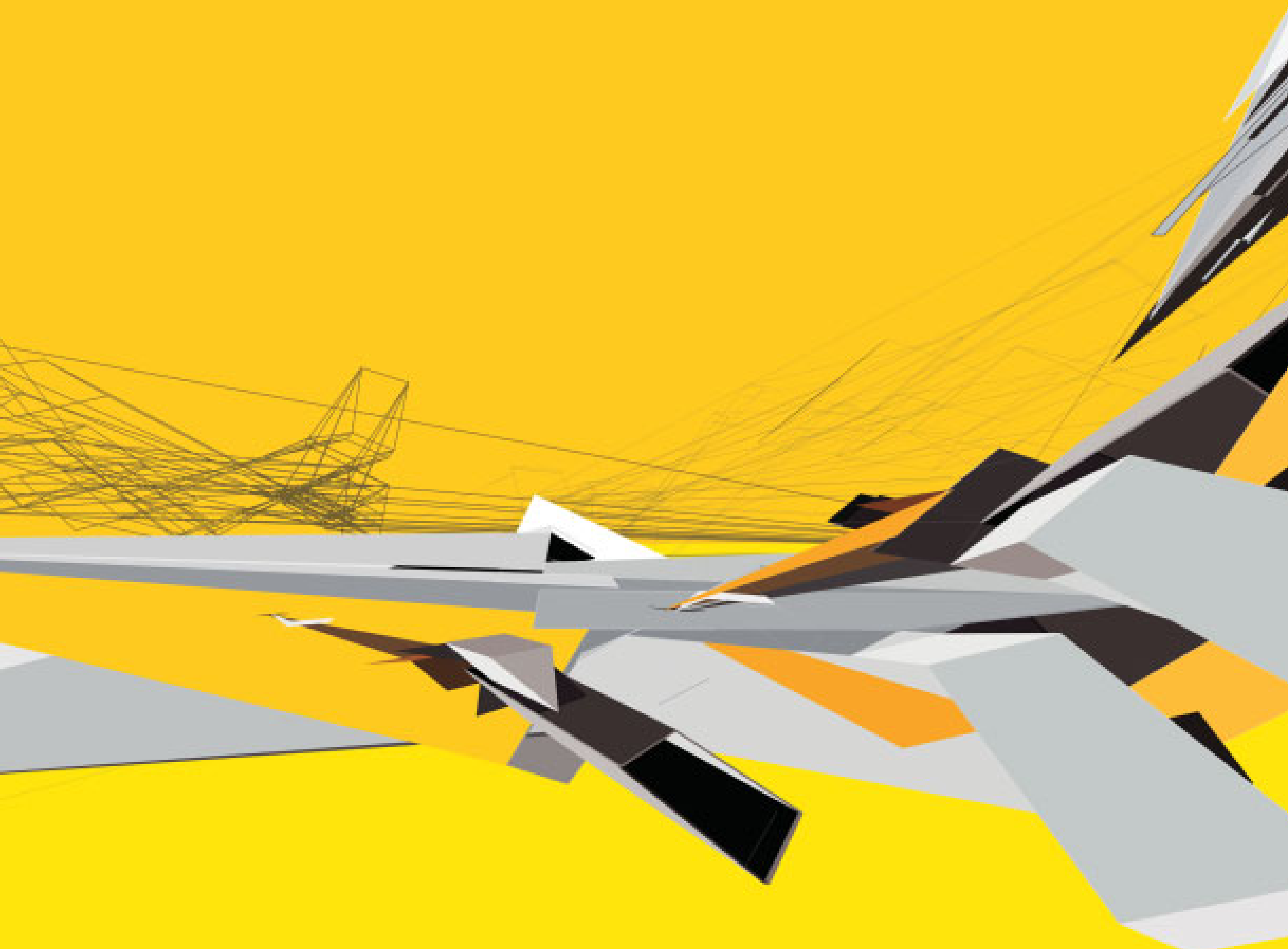
Mitsui Kinzoku

Annual Report 2005



Contents

Profile

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

The Company has technological expertise in the production of such electronics-related materials as copper foil and semiconductor packaging tapes, which are presently indispensable for information-related and telecommunications devices. The Company maintains its technological leadership through aggressive R&D accompanied with its "material intelligence" obtained through its extensive background in smelting and refining operations in the nonferrous metals field. In addition, the Company is known as a producer of highly evaluated automobile door-related parts and systems.

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.

Cautionary Statement with Respect to Forward-Looking Statements

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

In this report, fiscal 2004 represents the year ended March 31, 2005.

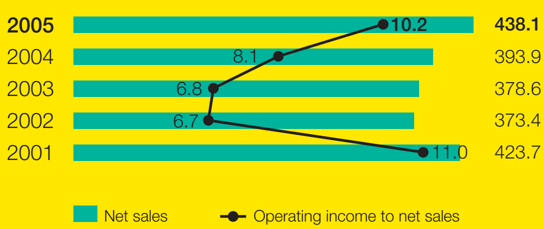
Financial Highlights

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

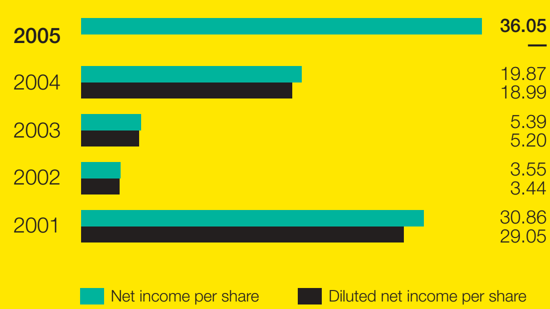
	Millions of yen			Thousands of U.S. dollars
	2005	2004	2003	**2005**
Consolidated Performance				
Net sales	**¥438,143**	¥393,928	¥378,608	**$4,082,584**
Operating income	**44,515**	32,035	25,740	**414,787**
Net income	**20,780**	11,452	3,085	**193,626**
Total assets	**409,019**	392,545	370,886	**3,811,209**
Total shareholders' equity	**133,963**	115,398	103,237	**1,248,257**
Total shareholders' equity per share (¥, $)	**¥233.65**	¥201.33	¥184.48	**$2.18**
Net income per share (¥, $)	**36.05**	19.87	5.39	**0.34**
Diluted net income per share (¥, $)	**—**	18.99	5.20	**—**
Cash dividends per share (¥, $)	**7.00**	5.00	5.00	**0.07**

Note: All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥107.32 to US$1.00, the rate prevailing at March 31, 2005.

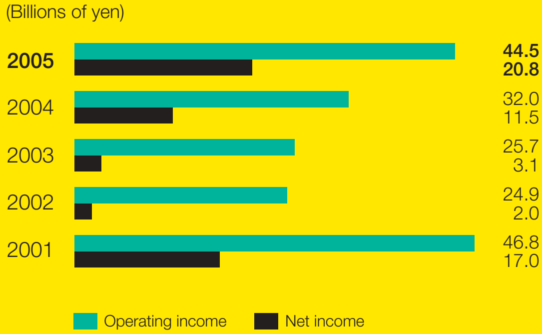
Net Sales and Operating Income to Net Sales
(Billions of yen, %)



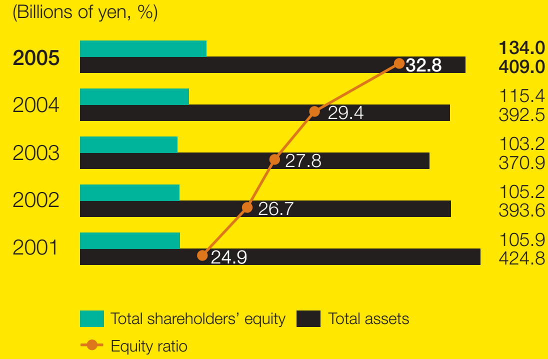
Net Income per Share and Diluted Net Income per Share
(Yen)



Operating Income and Net Income
(Billions of yen)



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



President and
Chief Operating Officer
Hiroshi Makihara

Chairman and
Chief Executive Officer
Shimpei Miyamura

ACCELERATING TOWARD TAKEOFF:

STARTING A NEW MEDIUM-TERM MANAGEMENT PLAN AND ADVANCING TO A NEW STAGE OF MANAGEMENT

In April 2005, Mitsui Kinzoku began implementing a new three-year management plan.

This plan calls for introducing new management systems and proactively investing in new business development in a manner that will support a sustained rise in our corporate value, as well as continuing the efforts to broaden our profit base and strengthen our financial position that we have been implementing with considerable success during the past 10 years.

By fiscal 2007, ending March 31, 2008, we are aiming to increase our operating income to a level ¥10 billion higher than the fiscal 2004 level. We consider that level to be the takeoff point for further corporate growth, and we are confident that we can steadily accelerate to that point.

NURTURING NEW BUSINESSES WHILE SUSTAINING GROWTH IN EXISTING OPERATIONS

The current medium-term plan is our fourth such plan since we began full-scale business restructuring measures in 1995.

The plan implemented from 1995 got structural reforms under way and emphasized measures to increase our profitability, sharpen our focus on selected strategic fields, and strengthen our financial position. From 1998, our plan maintained those objectives and carried them further ahead, thereby achieving an increase in corporate stability. The plan, which was initiated in 2001, had the goal of laying the foundation for a sustained performance surge during the 21st century, but the bursting of the so-called “IT bubble” soon after the start of that plan made it necessary to concentrate mainly on realizing a recovery in performance. Our relentless efforts during that period bore fruit, supporting steady rises in both sales revenue and profit during each of the three years through fiscal 2004 and generating a record high level of net income in fiscal 2004.

Looking back at the past 10 years, the largest change in our operations has been the considerable growth in business related to intermediate materials, including those for electronics. That growth greatly changed Mitsui Kinzoku's profit structure, which had previously centered on metal-smelting operations. Our financial position has also been substantially improved during the past decade—our shareholders' equity ratio was only 4% in 1995, at the start of the reforms, but was 33% in March 2005. Return on equity has also risen, reaching 16.7%.

To effectively build on these achievements and sustain Mitsui Kinzoku's momentum, we have drafted a new medium-term plan. In addition to promoting the growth of our existing businesses, the new plan calls for steps aimed at fostering the dynamic development of fledgling new businesses and product lines. We anticipate that these two types of efforts will keep the Company steadily accelerating toward our takeoff point, which is the plan's main goal.

NEW MANAGEMENT SYSTEMS DESIGNED TO PROMOTE TAKEOFF

To boost Mitsui Kinzoku's corporate value in a sustained manner, our medium-term plan calls for four important strategic initiatives.

(1) Strengthening Mainstay Businesses While Concentrating Resources in Selected Products

We will continue working to strengthen our mainstay operations in the three principal fields of electronics materials, metals and environmental services, and functional automotive parts. We are among the leading suppliers in the world with respect to many of our products in these fields. We therefore expect that we will be able to further raise the profitability levels in those three fields, especially electronics materials, which presently account for approximately 60% of our consolidated profit. Rather than emphasizing entire business fields, our efforts to strengthen operations in mainstay fields will involve the selection of strategic product and service sectors within those fields and the focused investment of resources in those sectors.

We have broken our operations down into approximately 50 product categories, and operations in each category will be evaluated using uniform evaluation standards based on net present value (NPV). Each product will be annually evaluated with respect to its ability to generate profit and thereby contribute to corporate value. We also have approximately 30 projects with the potential for boosting NPV in various product categories—these projects will be publicly announced at appropriate times. We will do our utmost to realize the potential benefits of these projects while taking care not to let promising opportunities slip between our fingers.

The activities I have been describing can be called *dynamic business portfolio management.* Essentially, such management involves annually reassessing the optimal allocation of the Company's personnel, physical, and financial resources. It calls for moving steadily forward with the selection of strategic sectors and the concentration of resources in those sectors while always maintaining a broad-ranging perspective.

Noting that each product goes through several evolutional stages—including the birth, growth, and maturation stages—we are aiming to undertake *product life-cycle management* measures involving "management gear shifting" adjustments at appropriate times of inter-stage transitions. When a product enters the growth stage, one naturally will strive to shift into top gear as quickly as possible. When a product enters the maturation stage, one can often effectively maintain profitability through such gear shifting measures as those to increase the cost-saving benefits of mass-production operations and increase the differentiation of products. While we have been doing this in the past, we now will be doing it more consistently and systematically within a clear-cut management framework.

We will be endeavoring to make the most of the three key management methods—NPV-based business evaluation,

Highlights of 2003–2004

2004

May	Marketing base in Suzhou, China, established
June	Number of external auditors extended to a half of the auditors
October	Corporate Technology Center, headed by Chief Technology Officer, established

2005

February	Trading and administrative base in Shanghai, China, established
April	A new medium-term management plan started
April	Chief Financial Officer and Chief Risk Management Officer appointed

dynamic business portfolio management, and product life-cycle management.

(2) Augmenting Technological Power for Developing New Products

To make optimal use of its technological resources and strengthen its technological power based on a long-term perspective, we created the Chief Technology Officer (CTO) post and the Corporate Technology Center unit (headed by the CTO) in October 2004. Technology development operations will center on two objectives—"overcoming challenges through the thorough explication of associated mechanisms" and "strengthening competitiveness based on in-house developed manufacturing facilities."

From approximately 100 technology development themes, mostly associated with the aforementioned three mainstay business fields, we have carefully selected 10 themes that have Companywide importance and the potential for creating new business operations. The CTO has been directly managing Companywide projects focused on those 10 themes since April 2005. We have also increased our R&D budget and plan to use the additional R&D resources to proactively implement projects associated with the seeds of new businesses.

(3) Maintaining a Balanced Dual Emphasis on Proactive Investments and Financial Soundness

The main source of Mitsui Kinzoku's profitability is manufacturing operations based on unique technologies. The current medium-term plan calls for further augmenting investment in R&D while proactively implementing more than ¥100 billion in capital investments over three years, primarily in the three above-mentioned mainstay business fields. We will also proactively recruit additional human resources, mainly for posts in new business fields.

We believe we can generate sufficient cash flow that, by being consistently conscious of cash flow levels and striving to maximize investment efficiency, we can make these various investments while simultaneously reducing our borrowings. Consequently, we are forecasting that, in fiscal 2007, our shareholders' equity ratio will rise to 45% while our debt/equity ratio decreases to 0.6.

(4) Increasing the Rigor of Corporate Governance Systems

While retaining our Board of Auditors system, we are taking various measures to further increase the transparency of our corporate governance and ensure that Mitsui Kinzoku can consistently be a truly excellent company by every appraisal standard.

We have already increased management transparency through such steps as those to elect an external director and increase the number of external auditors. In April 2005, we appointed a CFO (Chief Financial Officer) and a CRO (Chief Risk Management Officer) as part of our strategy for creating a management system capable of the sophisticated decision-making processes required for the successful implementation of our medium-term plan.

Moreover, we have taken steps to further increase the rigor of our systems for ensuring that all our corporate activities are in accordance with all relevant laws and regulations as well as high standards of corporate ethics. The effectiveness of those systems is being enhanced by our internal auditing and internal reporting systems, and we have been reexamining our internal regulations and systems with an eye toward making sure of appropriate information disclosure.

STRATEGIES FOR PRINCIPAL BUSINESS FIELDS

We will emphasize the following three objectives regarding individual businesses.

The first objective is to further strengthen our business base in flat panel display material and printed circuit board material operations by proactively making investments in three strategic fields—semiconductor mounting materials (TAB & COF tapes), indium tin oxide sputtering targets, and electrodeposited copper foil—with the goal of further augmenting its industry-leading capabilities with regard to productivity and profitability in each field.

The second objective is to strengthen the profitability and competitive power of metals and environmental services operations. To do this with respect to zinc smelting, we will work to promote the conversion of zinc smelting facilities for handling operations using recycled raw materials. To achieve this goal in the field of copper smelting, we will work to further upgrade our competitive power by expanding the capacity of the cost-competitive Tamano Smelter and by augmenting collaboration with Nippon Mining & Metals Co., Ltd.

The third objective is to establish a powerful leadership position in the field of automobile door-related systems. To achieve this, we are striving to expand our top share of the global door lock mechanism market as well as expanding operations in system products (sliding-door systems, etc.). In addition, we are strengthening the cost-competitiveness of our functional automotive part products operations by proceeding with the shift of manufacturing facilities to Thailand and, thereafter, China, while concurrently working to steadily realize potential synergies attainable from integrating the operations of Ohi Seisakusho Co., Ltd., which became a wholly owned subsidiary in April 2003, into our original businesses. One example of such synergies is the factory to be constructed in Guangdong, China, which will feature optimal combinations of the best technologies of Mitsui Kinzoku and Ohi Seisakusho.

SUSTAINING A RISE IN CORPORATE VALUE

While doing our best to attain or surpass the medium-term management plan's profitability target, we are quite aware that our main objective is not so easily quantifiable in a single figure. Throughout the process of implementing the plan and attaining its targets, the real objective is to foster the growth of as many promising new businesses as possible so that they become ready to blossom by March 2008, which is Mitsui Kinzoku's scheduled takeoff point.

Over the long term, we are naturally seeking to maximize corporate value and laying a solid foundation for sustained corporate growth and development. We are doing our utmost to progressively strengthen Mitsui Kinzoku by making farsighted investments without undue concern about associated temporary increases in costs and by taking measures to increase the soundness of the Company's financial position. We are confident that these measures will contribute to a rise in shareholder value.

All of us in the Mitsui Kinzoku Group will be making concerted efforts to attain the medium-term plan's targets as soon as possible, and we sincerely hope that our efforts in this respect will satisfy the expectations of our shareholders and investors as well as other diverse stakeholders.

July 2005

Shimpei Miyamura

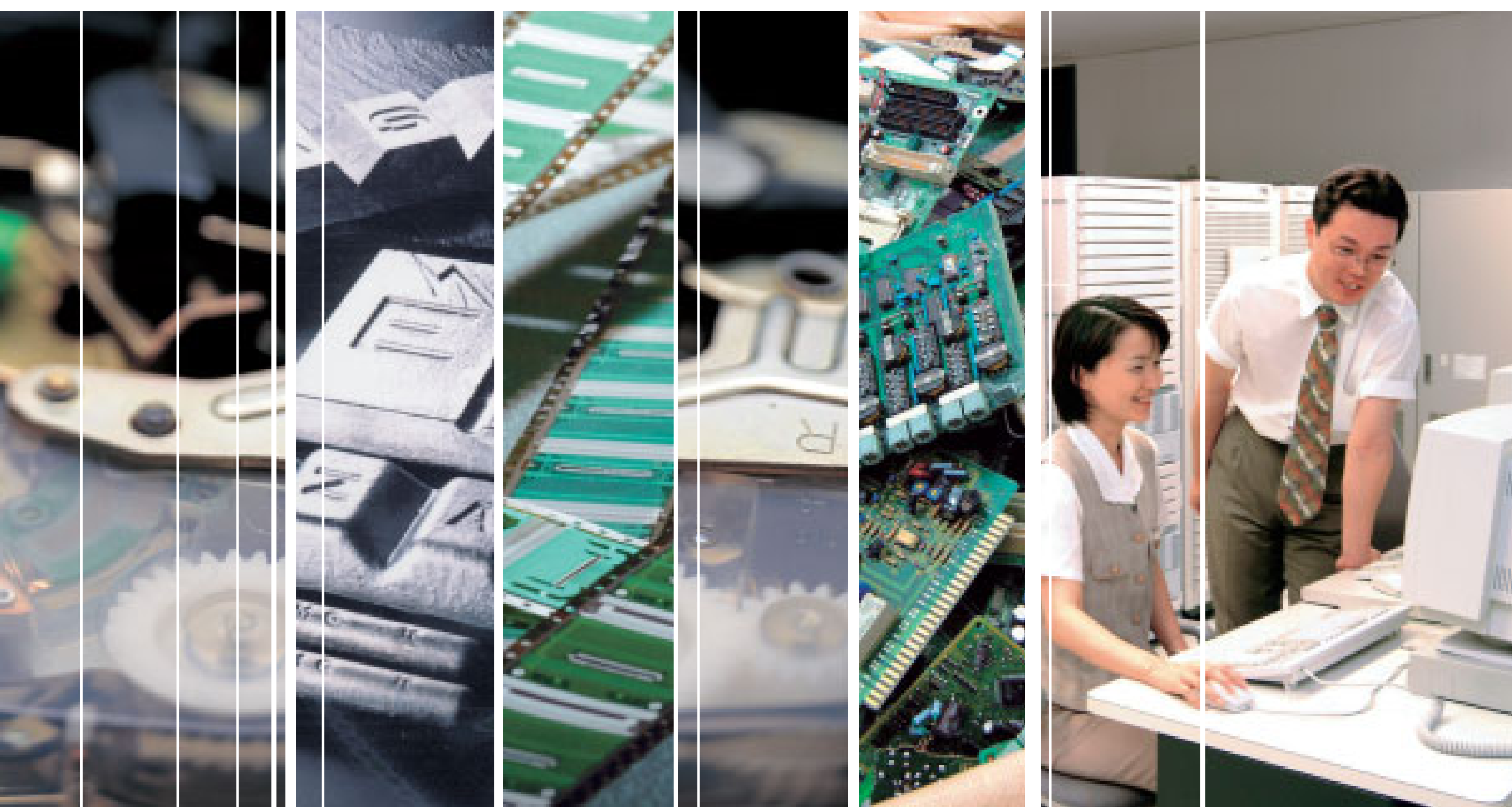
Shimpei Miyamura
Chairman and Chief Executive Officer

Hiroshi Makihara

Hiroshi Makihara
President and Chief Operating Officer

Review of Operations

(Billions of yen)		Mining & Fundamental Materials Group	Intermediate Materials Group	Parts Manufacturing & Assembly Group	Environmental Engineering & Metals Recycling Group	Engineering Group	Services Group
Net Sales by Segment	2003	116.5	138.4	85.5	26.0	23.3	29.4
	2004	77.4	143.2	136.0	26.9	22.0	33.3
	2005	78.1	176.0	145.7	31.6	27.9	38.7
Operating Income by Segment	2003	1.6	13.9	5.7	1.8	1.2	0.7
	2004	2.0	20.0	4.4	1.9	1.1	1.6
	2005	2.7	30.6	5.0	2.4	1.5	1.6




Zinc metal and alloy

MINING & FUNDAMENTAL MATERIALS GROUP

Enhanced Profitability Owing to a Rise in Metals Prices and Efforts to Cut Costs

OPERATIONS

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

BUSINESS CONDITIONS AND STRATEGIES

The international supply-demand balances for zinc and copper have been made tight, by the strength of demand in China and other factors, bringing international prices of those metals back to high levels. At the same time, the slowness of growth in ore production tightened the supply-demand balance for ore, causing a continued deterioration in the conditions of ore-supply contracts obtainable by smelters, which determine the Company's gross profit margin. The Company, therefore, benefits greatly from a considerable improvement in the conditions for copper ore procurement in 2005 that occurred due to a rise in ore supply as well as a decrease in China's overheated demand for ore.

Mitsui Kinzoku has worked to maintain its international competitiveness by using superior technologies to realize high productivity rates and proactively entering alliances with other companies in its industry to obtain greater economies of scale in order to overcome the disadvantage of operating relatively small-scale facilities in a country with comparatively high cost levels. Mitsui Kinzoku will further upgrade its competitiveness in copper smelting business by expanding the capacity of the cost-competitive Tamano Smelter and by further taking advantage of operational tie-ups with Nippon Mining & Metals Co., Ltd., of Japan and the LS-Group of South Korea. With respect to zinc smelting, we will work to promote the conversion of zinc smelting facilities for handling operations using recycled raw materials.

PERFORMANCE FOR FISCAL 2004

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

It should be noted that, owing to the arrangement of an alliance in copper smelting business, a portion of sales in this segment has been shifted to an affiliate accounted for by the equity method.

TAB tapes

INTERMEDIATE MATERIALS GROUP

Further Growth in Demand for Electronics Materials

OPERATIONS

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

BUSINESS CONDITIONS AND STRATEGIES

Extending the trend of recovery seen since fiscal 2002, expanding demand for PCs and other digital equipment further boosted demand for electronics materials, especially in the first half of fiscal 2004. Growth in demand for materials used in LCD panels was particularly striking, and manufacturers of such materials have been urged to expand their production capacity.

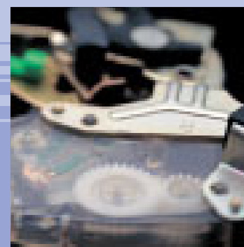
Although increased production capacity generally tends to accentuate price competition, strong demand for certain types of products facilitated the raising of selling prices to appropriate levels. Regarding ITO targets used in LCD panels, for example, Mitsui Kinzoku was successful in raising selling prices to reflect the surging cost of associated raw materials. Copper foil had been subject to price erosion due to oversupply since 2001, but a tightening of the supply-demand relationship as well as the price hike of copper as the raw material has been boosting prices worldwide.

Regarding commodity products, Mitsui Kinzoku has maintained superior quality and taken thorough measures to boost cost efficiency and tighten its focus on relatively high-grade product types to contend with price competition. 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.

Mitsui Kinzoku will proactively make investments in such fields as flat panel display materials and printed circuit board materials, with the goal of further augmenting its industry-leading capabilities with regard to productivity and profitability in each field, while implementing projects associated with the seeds of new businesses selected from all the areas of its electronics materials businesses.

PERFORMANCE FOR FISCAL 2004

In this business segment, the Company was able to further increase its sales and profit against the backdrop of strong demand and a subsequent rise in selling prices of some products. Most of the products in this segment, not to mention to those related to LCD panels, reported good results.


Automobile door latch

PARTS MANUFACTURING & ASSEMBLY GROUP

Strong Automobile Sales Compensate for Cost Increases

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 automobile door-related components, including door latches, for which the Company has a 20% share of the global market. These products are supplied principally to, but not limited to, mostly Japan-affiliated automakers.
- Others—In addition to long-standing operations manufacturing die-cast products used in automobiles and electric appliances, Mitsui Kinzoku has in recent years manufactured magnesium die-cast products for use in portable electronics. Other products in this category include catalysts for detoxifying motor vehicle exhaust emissions, sensors for the non-destructive testing of fruit quality, and semiconductors.

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 to be strong, particularly in the case of Japan-affiliated manufacturers, component suppliers are facing severe demands for higher quality and lower prices.

To establish a powerful leadership position in the field of door-related systems, Mitsui Kinzoku is striving to expand its top share of the global door latch market as well as expanding operations in the growing market of high-value system products (sliding-door systems, etc.). In addition, we are strengthening our cost-competitiveness in this field by shifting manufacturing facilities to Thailand and, thereafter, China, while concurrently working to steadily realize potential synergies attainable from the integration of Ohi Seisakusho, which the Company acquired in April 2003.

PERFORMANCE FOR FISCAL 2004

The continued worldwide strength of automobile production enabled Mitsui Kinzoku to increase its sales and profit, although the profitability was affected by an increase in production costs due to a surge in the price of steel and some temporary factors.

Discarded circuit boards

ENVIRONMENTAL ENGINEERING & METALS RECYCLING GROUP

Contributing to Resource Recycling While Benefiting from Rising Metals Prices

OPERATIONS

- Metals recycling—The Environmental Engineering & Metals Recycling Group uses domestic smelting facilities to recover precious metals from discarded electronics products and components, lead from automotive batteries, and zinc from steelmaking electric arc 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 rendered as a surplus due to business tie-ups.

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

PERFORMANCE FOR FISCAL 2004

Sales and profit steadily increased against the backdrop of a rise in prices of diverse metals, including zinc, lead, gold and silver.

Software development

ENGINEERING AND SERVICES GROUPS

Providing Support for Mitsui Kinzoku Group Companies

OPERATIONS

- Engineering—The Engineering Group provides design and engineering execution services for customers within and outside the Mitsui Kinzoku Group. The sophisticated manufacturing facilities designed by the Engineering Group for the Company's main products are one of Mitsui Kinzoku's important strengths.
- Services—The Services Group supports Mitsui Kinzoku Group companies by providing services related to trading 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. The advantages of the customizing programs were so highly evaluated that they are now being marketed to other companies as a template.

Financial Section

Five-Year Summary

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

	Millions of yen				
	2005	2004	2003	2002	2001
For the year:					
Net sales	**¥438,143**	¥393,928	¥378,608	¥373,442	¥423,707
Cost of sales	**350,565**	319,725	313,416	310,474	333,140
Gross profit	**87,578**	74,202	65,192	62,968	90,566
Selling, general and administrative expenses	**43,062**	42,167	39,451	38,075	43,813
Operating income	**44,515**	32,035	25,740	24,893	46,752
Income before income taxes and minority interests	**35,914**	13,329	9,307	10,789	30,644
Net income	**20,780**	11,452	3,085	1,986	17,012
At year-end:					
Total current assets	**¥172,912**	¥156,658	¥147,729	¥155,238	¥180,557
Total assets	**409,019**	392,545	370,886	393,603	424,829
Total current liabilities	**139,369**	147,791	161,405	167,004	184,771
Long-term liabilities	**125,022**	118,947	95,547	110,820	124,107
Total shareholders' equity	**133,963**	115,398	103,237	105,219	105,936
Per share data:					
Net income (¥)	**¥36.05**	¥19.87	¥5.39	¥3.55	¥30.86
Diluted net income (¥)	**—**	18.99	5.20	3.44	29.05
Cash dividends applicable to the year (¥)	**7.00**	5.00	5.00	5.00	6.00
Number of employees	**9,701**	9,397	8,339	8,619	9,542

References to the future reflect the Company's expectations as of March 31, 2005.

Net Sales

On a consolidated basis, the Company's net sales during fiscal 2004, ended March 31, 2005, increased 11.2%, or ¥44.2 billion, to ¥438.1 billion.

The Mining & Fundamental Materials Group's net sales grew ¥0.6 billion, due to such factors that include a rise in nonferrous metal prices, despite the completion of a shift to recording revenue from gold and silver on a toll basis. The Intermediate Materials Group boosted its net sales ¥32.8 billion, mainly because of a rise in sales volume of electronics materials amid expanding markets for such products as digital consumer products, semiconductors, communications equipment, and LCD panels. Net sales of the Parts Manufacturing & Assembly Group grew ¥9.6 billion owing to the robust sales of functional automobile components.

SGA Expenses

Selling, general and administrative (SGA) expenses increased ¥0.8 billion, to ¥43.0 billion, owing to a rise in expenses in line with growth in net sales as well as the increase associated with actuarially defined unrecognized retirement benefit obligations and the introduction of pro forma income taxation.

Operating Income

Operating income grew 39.0%, or ¥12.4 billion, to ¥44.5 billion. Reflecting profit growth associated with higher sales of electronics materials products, the Intermediate Materials Group increased its operating income ¥10.5 billion. Parts Manufacturing & Assembly operations recorded strong sales worldwide, and operating income for the segment increased ¥0.5 billion, despite such cost increases as those associated with large rises in the prices of steel materials.

Other Income (Expenses)

Other expenses, net, decreased ¥10.1 billion, to ¥8.6 billion.

Equity in gains of unconsolidated subsidiaries and affiliates, including joint ventures in copper and zinc smelting businesses, improved ¥1.5 billion, and such losses recorded in fiscal 2003 as ¥3.1 billion in a loss on sale of inventories, ¥1.9 billion in a loss from liquidation of subsidiaries, and a ¥3.4 billion temporary cost related to charge-free repairs were absent in fiscal 2004.

Income Taxes

The ratio of income taxes to income before income taxes and minority interests increased 26.4 percentage points, to 39.4%. The absence of tax effects recorded in the previous fiscal year due to the liquidation of consolidated subsidiaries raised the ratio by 33.3 percentage points.

Net Income

As a result of the ¥12.4 billion rise in operating income, the ¥10.1 billion decrease in the net expense of other income (expenses) item, a ¥12.4 billion increase in income taxes, and a ¥0.8 billion rise in minority interests, net income surged 81.4%, or ¥9.3 billion, to ¥20.7 billion.

FINANCIAL POSITION

Total Assets

The Company's total assets increased ¥16.4 billion, amounting to ¥409.0 billion at fiscal year-end, owing to such factors as a ¥14.6 billion rise in inventories that occurred due to the Company's response to increases in demand.

Total Shareholders' Equity

Factors that included ¥20.7 billion in net income and ¥2.8 billion in dividend payments caused total shareholders' equity to rise ¥18.5 billion, to ¥133.9 billion. Consequently, the Company's equity ratio improved 3.4 percentage points, to 32.8%.

Interest-Bearing Debt

Short- and long-term interest-bearing debt was reduced ¥11.2 billion, to ¥147.1 billion.

CASH FLOWS

Net cash provided by operating activities decreased ¥5.7 billion, to ¥44.0 billion, mainly owing to an increase in operating capital in response to rising demand for the Company's products.

Net cash used in investing activities increased ¥11.0 billion, to ¥25.7 billion, due to such factors as an ¥11.1 billion rise in capital expenditures.

Net cash used in financing activities decreased ¥18.0 billion, to ¥14.9 billion. The Company continued working to strengthen its financial position by proceeding with the repayment of interest-bearing debt.

COMMENTS ON ACCOUNTING POLICIES

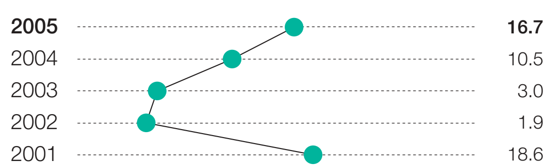
Impairment of Fixed Assets

In line with changes to Japanese accounting principles, domestic companies belonging to the Mitsui Kinzoku Group will introduce standards for the impairment of fixed assets for fiscal years starting on and after April 1, 2005.

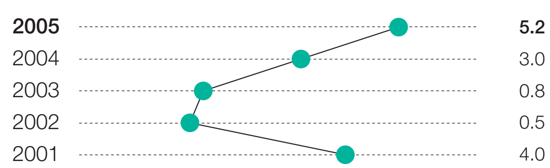
Impairment of Investments

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

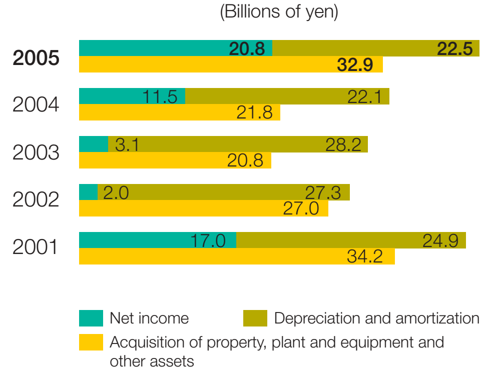
ROE (Net Income to Average Total Shareholders' Equity)
(%)



ROA (Net Income to Average Total Assets)
(%)



Free Cash Flow
(Billions of yen)



Consolidated Balance Sheets

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Assets			
Current assets:			
Cash and time deposits (Notes 4 and 8)	**¥ 16,143**	¥ 12,276	**$ 150,419**
Marketable securities (Note 3)	**—**	31	**—**
Notes and accounts receivable (Note 8):			
Trade	**76,104**	71,214	**709,131**
Unconsolidated subsidiaries and affiliates	**342**	2,907	**3,186**
Loans:			
Unconsolidated subsidiaries and affiliates	**249**	26	**2,320**
Others	**6**	116	**55**
Inventories (Note 8)	**64,141**	49,470	**597,661**
Deferred tax assets (Note 13)	**5,467**	5,197	**50,941**
Other current assets	**10,934**	15,898	**101,882**
Less: Allowance for doubtful accounts	**(478)**	(480)	**(4,453)**
Total current assets	**172,912**	156,658	**1,611,181**
Investments and other assets:			
Investment securities (Notes 3 and 8)	**14,693**	15,125	**136,908**
Unconsolidated subsidiaries and affiliates	**12,738**	11,700	**118,691**
Deferred tax assets (Note 13)	**7,507**	8,765	**69,949**
Others (Note 8)	**8,077**	8,378	**75,260**
Less: Allowance for doubtful accounts	**(3,208)**	(2,945)	**(29,891)**
	39,808	41,023	**370,928**
Property, plant and equipment (Note 8):			
Land	**43,285**	43,543	**403,326**
Buildings and structures	**152,978**	156,052	**1,425,437**
Machinery and equipment	**368,207**	352,720	**3,430,926**
Construction in progress	**7,947**	6,716	**74,049**
	572,418	559,034	**5,333,749**
Less: Accumulated depreciation	**(376,119)**	(364,170)	**(3,504,649)**
	196,298	194,863	**1,829,090**
	¥409,019	¥392,545	**$3,811,209**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term bank loans (Note 7)	**¥ 45,291**	¥ 58,937	**$ 422,018**
Current portion of long-term debt (Note 7)	**16,994**	19,965	**158,348**
Notes and accounts payable:			
Trade	**36,461**	36,257	**339,740**
Unconsolidated subsidiaries and affiliates	**697**	820	**6,494**
Others	**10,044**	10,978	**93,589**
Accrued income taxes (Note 13)	**11,200**	3,231	**104,360**
Accrued expenses	**8,921**	7,593	**83,125**
Deferred tax liabilities (Note 13)	**52**	65	**484**
Reserve for product warranties	**1,670**	2,979	**15,560**
Other current liabilities	**8,036**	6,962	**74,878**
Total current liabilities	**139,369**	147,791	**1,298,630**
Long-term debt (Note 7)	**84,840**	79,438	**790,532**
Employees' retirement benefits (Note 16)	**27,688**	23,610	**257,994**
Directors' and corporate auditors' retirement benefits	**1,018**	1,046	**9,485**
Deferred tax liabilities (Note 13)	**1,033**	1,124	**9,625**
Consolidation differences	**8,974**	11,573	**83,619**
Other long-term liabilities	**1,468**	2,154	**13,678**
Minority interests in consolidated subsidiaries	**10,662**	10,407	**99,347**
Commitments and contingent liabilities (Notes 10 and 14)			
Shareholders' equity (Note 11):			
Common stock:			
Authorized—1,944,000 thousand shares			
Issued—572,966 thousand shares	**42,129**	42,129	**392,554**
Capital surplus	**22,557**	22,557	**210,184**
Retained earnings	**72,051**	54,302	**671,366**
Net unrealized gains on securities	**2,662**	2,593	**24,804**
Foreign currency translation adjustments	**(5,369)**	(6,143)	**(50,027)**
Less: Treasury stock	**(68)**	(41)	**(633)**
Total shareholders' equity	**133,963**	115,398	**1,248,257**
	¥409,019	¥392,545	**$3,811,209**

Consolidated Statements of Income

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Net sales (Note 12)	**¥438,143**	¥393,928	**$4,082,584**
Cost of sales (Note 9)	**350,565**	319,725	**3,266,539**
Gross profit	**87,578**	74,202	**816,045**
Selling, general and administrative expenses (Note 9)	**43,062**	42,167	**401,248**
Operating income (Note 12)	**44,515**	32,035	**414,787**
Other income (expenses):			
Interest and dividend income	**592**	481	**5,516**
Interest expense	**(2,360)**	(2,945)	**(21,990)**
Gain on sale of securities	**325**	844	**3,028**
Gain on sale of securities of consolidated subsidiaries	**—**	647	**—**
Loss on sale and disposal of property, plant and equipment, net	**(3,415)**	(2,394)	**(31,820)**
Loss on sale of inventories	**—**	(3,158)	**—**
Impairment charges on property, plant and equipment	**—**	(1,152)	**—**
Write-down of inventories	**—**	(1,063)	**—**
Write-down of marketable securities and investments	**(253)**	(827)	**(2,357)**
Foreign exchange loss	**(897)**	(264)	**(8,358)**
Indemnity	**(531)**	(554)	**(4,947)**
Equity in gains of unconsolidated subsidiaries and affiliates	**2,501**	933	**23,304**
Amortization of net transition obligation resulting from the adoption of new accounting standard for retirement benefits (Note 16)	**(3,806)**	(3,806)	**(35,464)**
Amortization of the consolidation differences	**2,896**	2,892	**26,984**
Loss from liquidation of subsidiaries	**—**	(1,997)	**—**
Cost of warranty and other free repairs	**—**	(3,438)	**—**
Other, net	**(3,652)**	(2,903)	**(34,029)**
	(8,601)	(18,706)	**(80,143)**
Income before income taxes and minority interests	**35,914**	13,329	**334,644**
Income taxes (Note 13):			
Current	**13,323**	5,055	**124,142**
Deferred	**815**	(3,324)	**7,594**
	14,139	1,731	**131,746**
Minority interests	**995**	145	**9,271**
Net income	**¥ 20,780**	¥ 11,452	**$ 193,626**

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (Note 17)	**¥36.05**	¥19.87	**$0.34**
Diluted net income (Note 17)	**—**	18.99	**—**
Cash dividends applicable to the year	**7.00**	5.00	**0.07**

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Number of shares of common stock issued (Thousands)	Millions of yen					
		Common stock	Capital surplus	Retained earnings (Note 9)	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	559,305	¥42,129	¥18,570	¥45,816	¥ 331	¥(3,584)	¥(26)
Net income				11,452			
Cash dividends				(2,870)			
Bonuses to directors				(96)			
Issuance due to stock exchange	13,660		3,986				
Increase in net unrealized gains on securities					2,261		
Foreign currency translation adjustments						(2,559)	
Increase in treasury stock							(15)
Balance at March 31, 2004	572,966	42,129	22,557	54,302	2,593	(6,143)	(41)
Net income				**20,780**			
Cash dividends				**(2,864)**			
Bonuses to directors				**(86)**			
Bonuses to employees				**(8)**			
Decrease due to change in consolidated subsidiaries				**(72)**			
Increase in net unrealized gains on securities					**68**		
Foreign currency translation adjustments						**773**	
Increase in treasury stock							**(26)**
Balance at March 31, 2005	**572,966**	**¥42,129**	**¥22,557**	**¥72,051**	**¥2,662**	**¥(5,369)**	**¥(68)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings (Note 9)	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	$392,554	$210,184	$505,982	$24,161	$(57,240)	$(382)
Net income			**193,626**			
Cash dividends			**(26,686)**			
Bonuses to directors			**(801)**			
Bonuses to employees			**(74)**			
Decrease due to change in consolidated subsidiaries			**(670)**			
Increase in net unrealized gains on securities				**633**		
Foreign currency translation adjustments					**7,202**	
Increase in treasury stock						**(242)**
Balance at March 31, 2005	**$392,554**	**$210,184**	**$671,366**	**$24,804**	**$(50,027)**	**$(633)**

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥35,914	¥13,329	$334,644
Depreciation and amortization	22,478	22,110	209,448
Write-down of marketable securities and investments	253	827	2,357
Gain on sale of securities	(325)	(844)	(3,028)
Gain on sale of securities of consolidated subsidiaries (Note 5)	—	(647)	—
Loss on sale and disposal of property, plant and equipment, net	3,415	2,394	31,820
Impairment charges on property, plant and equipment	—	1,152	—
Indemnity	531	554	4,947
Allowance for doubtful accounts	233	(53)	2,171
Amortization of net transition obligation resulting from the adoption of new accounting standard for retirement benefits (Note 16)	3,806	3,806	35,464
Foreign exchange (gain) loss	(144)	155	(1,341)
Equity in gains of unconsolidated subsidiaries and affiliates	(2,501)	(933)	(23,304)
Increase in employees' retirement benefits	270	131	2,515
Interest and dividend income	(592)	(481)	(5,516)
Interest expense	2,360	2,945	21,990
Increase in notes and accounts receivable	(2,284)	(3,987)	(21,282)
(Increase) decrease in inventories	(14,376)	15,337	(133,954)
Increase in notes and accounts payable	19	3,956	177
Other, net	1,829	(1,716)	17,042
Subtotal	50,887	58,036	474,161
Interest and dividend received	1,251	597	11,656
Interest paid	(2,517)	(2,923)	(23,453)
Indemnity paid	(531)	(554)	(4,947)
Income taxes paid	(5,074)	(5,368)	(47,279)
Net cash provided by operating activities	44,016	49,787	410,137
Cash flows from investing activities:			
Purchases of securities	(236)	(2,240)	(2,199)
Proceeds from sale of securities	461	3,011	4,295
Proceeds from sale of securities of consolidated subsidiaries (Note 5)	—	885	—
Proceeds from issuance of new shares through stock exchange, net of cash acquired (Note 6)	—	3,166	—
Acquisition of property, plant and equipment and other assets	(32,913)	(21,773)	(306,680)
Proceeds from sale of property, plant and equipment	6,495	1,261	60,519
(Increase) decrease in short-term loans receivable, net	(264)	840	(2,459)
Disbursement for long-term loans receivable	(129)	(207)	(1,202)
Collection of long-term loans receivable	107	106	997
Other, net	686	233	6,392
Net cash used in investing activities	(25,792)	(14,716)	(240,327)
Cash flows from financing activities:			
Decrease in short-term bank loans, net	(14,492)	(10,950)	(135,035)
Decrease in commercial paper, net	—	(5,000)	—
Proceeds from long-term debt	13,207	20,818	123,061
Repayment of long-term debt	(20,289)	(31,486)	(189,051)
Issuance of bonds	10,000	10,000	93,179
Redemption of convertible bonds	—	(13,371)	—
Payment for cash dividends to the Company's shareholders	(2,864)	(2,870)	(26,686)
Payment for cash dividends to minority interests	(403)	(125)	(3,755)
Other, net	(105)	(3)	(978)
Net cash used in financing activities	(14,947)	(32,989)	(139,275)
Effect of exchange rate changes on cash and cash equivalents	115	(119)	1,071
Net increase in cash and cash equivalents	3,391	1,962	31,597
Cash and cash equivalents at beginning of year	12,274	10,312	114,368
Effect of addition of consolidated subsidiaries	476	—	4,435
Cash and cash equivalents at end of year (Note 4)	¥16,143	¥12,274	$150,419
Noncash financing activities:			
Increase in capital surplus through the stock exchange	¥ —	¥ 3,986	$ —

See accompanying notes.

1. Basis of Presenting Consolidated Financial Statements

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of Mitsui Mining and Smelting Company, Limited ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted effective April 1, 2005.

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, 2005, which was ¥107.32 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation

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

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

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

(b) Foreign currency translation

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

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

(c) Cash and cash equivalents

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

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

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

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

(e) Derivative transactions and hedge accounting

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

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

(f) Inventories

Inventories are stated primarily at cost based on the following methods:

Metals & Minerals Sector—Precious metals and a subsidiary (MCS, Inc.): First-in, first-out

Copper Foil Division: Moving average

The Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory, functional powder factory of Hikoshima Smelting Company, Limited, and Ohi Seisakusho Company, Limited): Average cost

Overseas subsidiaries: Lower of market or cost using average or first-in, first-out

Others: Mainly last-in, first-out

Effective April 1, 2004, the Companies changed the method of accounting for inventories in the Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory, functional powder factory of Hikoshima Smelting Company, Limited) from the last-in, first-out cost method to average cost method.

Recently, the principal products of these business divisions are being used gradually as electronics materials. Thus, the sales prices of many of these products are dependent upon demand for use in electronics products, while the correlation between material prices and sales prices has become weaker. Moreover, since large demand fluctuations have led to corresponding fluctuations in inventory values, the last-in, first-out method cannot maintain an appropriate matching of costs and revenues.

Therefore, this change was made for the purpose of maintaining an appropriate matching of costs and revenues by leveling fluctuations of material prices.

As a result of this change, cost of sales for the year ended March 31, 2005 decreased by ¥472 million ($4,398 thousand). Operating income and income before income taxes and minority interests increased by the same amount compared with what would have been reported under the prior accounting policy.

As to the effect of this change on segment information, see notes 12 (a) and (b).

(g) Property, plant and equipment

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

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

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

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

(h) Allowance for doubtful accounts

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

(i) Reserve for product warranties

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

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

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

(j) Employees' retirement benefits

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

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

(k) Directors' and corporate auditors' retirement benefits

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

(l) Lease transactions

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

(m) Research and development expenses

Research and development expenses are charged to income as incurred.

(n) Income taxes

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

(o) Bonuses to directors

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

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

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

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

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

(q) Reclassification

Certain prior year amounts have been reclassified to conform to the 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Securities

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

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

At March 31, 2005, there were no held-to-maturity debt securities with fair value.

(b) Acquisition costs and book values of available-for-sale securities with fair value as of March 31, 2005 and 2004 were as follows:

	Millions of yen		
Year ended March 31, 2005	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**¥3,412**	**¥7,796**	**¥4,383**
Bonds	**25**	**54**	**29**
Subtotal	**3,438**	**7,851**	**4,412**
Securities whose book value does not exceed acquisition cost:			
Stocks	**19**	**17**	**(2)**
Subtotal	**19**	**17**	**(2)**
Total	**¥3,457**	**¥7,868**	**¥4,410**

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

Year ended March 31, 2005	Thousands of U.S. dollars (Note 1) Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**$31,792**	**$72,642**	**$40,840**
Bonds	**232**	**503**	**270**
Subtotal	**32,035**	**73,155**	**41,110**
Securities whose book value does not exceed acquisition cost:			
Stocks	**177**	**158**	**(18)**
Subtotal	**177**	**158**	**(18)**
Total	**$32,212**	**$73,313**	**$41,092**

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

(c) Available-for-sale securities sold for the year ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Total sale amount	**¥461**	¥3,011	**$4,295**
Gains	**325**	844	**3,028**
Losses	**3**	30	**27**

(d) Book values of available-for-sale and held-to-maturity securities without fair value as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Available-for-sale securities:			
Unlisted equity securities	**¥6,585**	¥5,984	**$61,358**
Unlisted domestic bonds	**240**	240	**2,236**
Held-to-maturity securities:			
Bonds	**—**	31	**—**

(e) Maturities of available-for-sale and held-to-maturity securities as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Bonds:			
Within one year	**¥ —**	¥ 31	**$ —**
Over one year but within five years	**—**	479	**—**
Over five years	**240**	240	**2,236**

4. Amounts of Cash and Cash Equivalents

Amounts of cash and cash equivalents at March 31, 2005 and 2004 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Cash and time deposits	**¥16,143**	¥12,276	**$150,419**
Time deposits with maturities exceeding three months from the date of deposit	**(0)**	(1)	**(0)**
Total: Cash and cash equivalents	**¥16,143**	¥12,274	**$150,419**

5. Cash Proceeds from Sale of Consolidated Subsidiary

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥1,447	$13,483
Long-term assets	579	5,395
Current liabilities	(1,164)	(10,846)
Long-term liabilities	(527)	(4,910)
Net unrealized gains on securities	(6)	(55)
Gain on sale of securities of the consolidated subsidiary	647	6,028
Sales price	976	9,094
Cash and cash equivalents of the consolidated subsidiary sold	(91)	(847)
Cash proceeds from sale of the consolidated subsidiary	¥ 885	$ 8,246

6. Cash Proceeds from Stock Exchange

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥21,039	$196,039
Long-term assets	20,135	187,616
Assets total	¥41,175	$383,665
Current liabilities	¥18,748	$174,692
Long-term liabilities	5,039	46,953
Liabilities total	¥23,788	$221,654

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

	Millions of yen	Thousands of U.S. dollars (Note 1)
Cash and cash equivalents of Ohi Seisakusho Company, Limited and its subsidiaries	¥3,310	$30,842
Expense for stock exchange	144	1,341
Net cash and cash equivalents increased from issuance of new shares through stock exchange	¥3,166	$29,500

7. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans, generally represented by short-term notes and bank overdrafts, bore interest at annual rates ranging from 0.35% to 3.59% and from 0.464% to 6.5% at March 31, 2005 and 2004, respectively.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
0.93% yen unsecured straight bonds due 2009	**¥ 10,000**	¥ —	**$ 93,179**
0.6% yen unsecured straight bonds due 2008	**10,000**	10,000	**93,179**
2.15% yen unsecured straight bonds due 2007	**1,000**	1,000	**9,317**
0.54% yen unsecured straight bonds due 2005	**50**	50	**465**
Banks, insurance companies and other financial institutions, maturing through 2011 at interest rates ranging from 0.51% to 7.89% at March 31, 2005:			
Secured	**17,104**	21,726	**159,373**
Unsecured	**58,981**	59,967	**549,580**
Government-owned banks and government agencies, maturing through 2020 at interest rates ranging from 1.1% to 7.3% at March 31, 2005:			
Secured	**4,698**	6,488	**43,775**
Unsecured	**—**	172	**—**
	101,834	99,403	**948,881**
Less: Current portion	**16,994**	19,965	**158,348**
	¥ 84,840	¥79,438	**$790,532**

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2006	¥ 16,994	$158,348
2007	18,962	176,686
2008	25,054	233,451
2009	19,046	177,469
2010	16,978	158,199
Thereafter	4,798	44,707
Total	¥101,834	$948,881

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

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

The 0.93% yen unsecured straight bonds due 2009 were issued on May 27, 2004 by the Company.

The 2.15% yen unsecured straight bonds due 2007 were issued on July 19, 2002 by Ohi Seisakusho Company, Limited, which was newly consolidated in the year ended March 31, 2004.

8. Pledged Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Cash and time deposits	**¥ —**	¥ 1,160	**$ —**
Notes and accounts receivable	**1,676**	6,788	**15,616**
Inventories	**1,163**	2,500	**10,836**
Investment securities	**1,753**	2,210	**16,334**
Other investments	**—**	312	**—**
Property, plant and equipment, net book value	**64,228**	80,157	**598,471**
	¥68,821	¥93,129	**$641,269**

9. Research and Development Expenses

Research and development expenses included in cost of sales and selling, general and administrative expenses amounted to ¥5,881 million ($54,798 thousand) and ¥2,959 million for the years ended March 31, 2005 and 2004, respectively.

10. Contingent Liabilities

Contingent liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Notes receivable discounted	**¥ 430**	¥ 130	**$ 4,006**
Notes receivable endorsed	**84**	82	**782**
Notes receivable securitized with resource	**1,649**	—	**15,365**
Loans guaranteed:			
Unconsolidated subsidiaries and affiliates	**17,381**	17,920	**161,954**
Others	**6,915**	7,553	**64,433**
	¥26,462	¥25,687	**$246,571**

11. Shareholders’ Equity

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

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

The maximum amount 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.

In accordance with the customary practice in Japan, the appropriations are not accrued in the consolidated financial statements for the period to which they relate but are recorded in the subsequent accounting period after the shareholders’ approval has been obtained. Retained earnings at March 31, 2005 include amounts representing the year-end cash dividends and directors’ bonuses approved at the shareholders’ meeting held on June 29, 2005 as discussed in Note 19.

12. Segment Information

The operations of the Companies for the years ended March 31, 2005 and 2004 were summarized by business segment, geographic segment and sales outside Japan by the Companies as follows.

Effectiive April 1, 2004, to present the Companies' operating activities more properly, the business segment of a consolidated subsidiary whose core business shifted to industrial waste disposal was changed from the "Intermediate Materials" segment to the "Environmental Engineering & Metals Recycling" segment.

(a) Business segment information

	Millions of yen							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2005								
Sales:								
Outside customers	**¥ 68,607**	**¥158,122**	**¥144,802**	**¥20,852**	**¥14,027**	**¥31,730**	**¥ —**	**¥438,143**
Inter-segment	**9,469**	**17,886**	**854**	**10,722**	**13,874**	**6,963**	**(59,770)**	**—**
Total	**78,077**	**176,008**	**145,657**	**31,574**	**27,902**	**38,693**	**(59,770)**	**438,143**
Operating expenses	**75,399**	**145,424**	**140,675**	**29,196**	**26,376**	**37,045**	**(60,491)**	**393,627**
Operating income	**¥ 2,677**	**¥ 30,583**	**¥ 4,981**	**¥ 2,378**	**¥ 1,525**	**¥ 1,648**	**¥ 721**	**¥ 44,515**
Identifiable assets	**¥105,980**	**¥152,626**	**¥102,591**	**¥30,288**	**¥19,467**	**¥29,849**	**¥(31,784)**	**¥409,019**
Depreciation expense	**5,952**	**13,161**	**4,537**	**1,223**	**233**	**357**	**(222)**	**25,242**
Capital expenditures	**7,523**	**17,236**	**5,936**	**2,054**	**259**	**25**	**(121)**	**32,913**
Year ended March 31, 2004								
Sales:								
Outside customers	¥68,944	¥129,139	¥135,435	¥18,864	¥14,224	¥27,319	¥ —	¥393,928
Inter-segment	8,498	14,040	572	8,058	7,755	5,964	(44,889)	—
Total	77,442	143,179	136,007	26,922	21,980	33,283	(44,889)	393,928
Operating expenses	75,410	123,148	131,567	25,026	20,846	31,664	(45,772)	361,892
Operating income	¥ 2,032	¥ 20,030	¥ 4,440	¥ 1,896	¥ 1,133	¥ 1,619	¥ 883	¥ 32,035
Identifiable assets	¥98,703	¥146,832	¥100,172	¥27,822	¥17,132	¥35,051	¥(33,169)	¥392,545
Depreciation expense	6,110	12,472	4,731	1,097	258	416	(240)	24,846
Capital expenditures	4,899	10,009	4,841	1,755	245	22	—	21,773

	Thousands of U.S. dollars (Note 1)							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2005								
Sales:								
Outside customers	**$639,275**	**$1,473,369**	**$1,349,254**	**$194,297**	**$130,702**	**$295,657**	**$ —**	**$4,082,584**
Inter-segment	**88,231**	**166,660**	**7,957**	**99,906**	**129,276**	**64,880**	**(556,932)**	**—**
Total	**727,515**	**1,640,029**	**1,357,221**	**294,204**	**259,988**	**360,538**	**(556,932)**	**4,082,584**
Operating expenses	**702,562**	**1,355,050**	**1,310,799**	**272,046**	**245,769**	**345,182**	**(563,650)**	**3,667,787**
Operating income	**$ 24,944**	**$ 284,970**	**$ 46,412**	**$ 22,158**	**$ 14,209**	**$ 15,355**	**$ 6,718**	**$ 414,787**
Identifiable assets	**$987,513**	**$1,422,158**	**$ 955,935**	**$282,221**	**$181,392**	**$278,130**	**$(296,161)**	**$3,811,209**
Depreciation expense	**55,460**	**122,633**	**42,275**	**11,395**	**2,171**	**3,326**	**(2,068)**	**235,203**
Capital expenditures	**70,098**	**160,603**	**55,311**	**19,139**	**2,413**	**232**	**(1,127)**	**306,680**

Notes: (a) As note 2 (f), effective April 1, 2004, the Companies changed the method of accounting for inventories in the Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory, functional powder factory of Hikoshima Smelting Company, Limited).

As a result of this change, operating expenses in the “Mining & Fundamental Materials” segment decreased by ¥245 million ($2,283 thousand) and operating income increased by the same amount, compared with what would have been reported under the prior accounting policy.

Operating expenses in the “Intermediate Materials” segment decreased by ¥227 million ($2,115 thousand) and operating income increased by the same amount.

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

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

(b) Geographic segment information

	Millions of yen					
	Japan	North America	Asia	Other Areas	Elimination or corporate	Consolidated
Year ended March 31, 2005						
Sales:						
Outside customers	**¥325,397**	**¥55,106**	**¥47,898**	**¥ 9,740**	**¥ —**	**¥438,143**
Inter-segment	**36,473**	**238**	**10,332**	**973**	**(48,018)**	**—**
Total	**361,871**	**55,344**	**58,231**	**10,714**	**(48,018)**	**438,143**
Operating expenses	**327,578**	**55,295**	**50,836**	**9,321**	**(49,405)**	**393,627**
Operating income	**¥ 34,292**	**¥ 49**	**¥ 7,394**	**¥ 1,392**	**¥ 1,387**	**¥ 44,515**
Identifiable assets	**¥375,209**	**¥30,193**	**¥43,312**	**¥ 8,293**	**¥(47,989)**	**¥409,019**
Year ended March 31, 2004						
Sales:						
Outside customers	¥309,752	¥48,794	¥27,371	¥8,009	¥ —	¥393,928
Inter-segment	18,175	112	4,561	1,154	(24,004)	—
Total	327,927	48,907	31,932	9,164	(24,004)	393,928
Operating expenses	302,262	47,243	27,825	9,054	(24,493)	361,892
Operating income	¥ 25,665	¥ 1,663	¥ 4,107	¥ 110	¥ 488	¥ 32,035
Identifiable assets	¥369,167	¥29,444	¥29,836	¥8,499	¥(44,401)	¥392,545

	Thousands of U.S. dollars (Note 1)					
	Japan	North America	Asia	Other Areas	Elimination or corporate	Consolidated
Year ended March 31, 2005						
Sales:						
Outside customers	**$3,032,025**	**$513,473**	**$446,310**	**$90,756**	**$ —**	**$4,082,584**
Inter-segment	**339,852**	**2,217**	**96,272**	**9,066**	**(447,428)**	**—**
Total	**3,371,887**	**515,691**	**542,592**	**99,832**	**(447,428)**	**4,082,584**
Operating expenses	**3,052,348**	**515,234**	**473,686**	**86,852**	**(460,352)**	**3,667,787**
Operating income	**$ 319,530**	**$ 456**	**$ 68,896**	**$12,970**	**$ 12,923**	**$ 414,787**
Identifiable assets	**$3,496,170**	**$281,336**	**$403,578**	**$77,273**	**$(447,158)**	**$3,811,209**

Notes: (a) As note 2 (f), effective April 1, 2004, the Companies changed the method of accounting for inventories in the Company’s intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory, functional powder factory of Hikoshima Smelting Company, Limited).

As a result of this change, operating expenses in the “Japan” segment decreased by ¥472 million ($4,398 thousand) and operating income increased by the same amount, compared with what would have been reported under the prior accounting policy.

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

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

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

	Millions of yen			
	North America	Asia	Other Areas	Total
Year ended March 31, 2005				
Overseas sales	**¥57,060**	**¥69,234**	**¥12,351**	**¥138,646**
Consolidated net sales	**—**	**—**	**—**	**438,143**
Ratio of overseas sales to consolidated net sales	**13.02%**	**15.80%**	**2.82%**	**31.64%**
Year ended March 31, 2004				
Overseas sales	¥49,418	¥48,939	¥11,896	¥110,254
Consolidated net sales	—	—	—	393,928
Ratio of overseas sales to consolidated net sales	12.55%	12.42%	3.02%	27.99%

	Thousands of U.S. dollars (Note 1)			
	North America	Asia	Other Areas	Total
Year ended March 31, 2005				
Overseas sales	**$531,680**	**$645,117**	**$115,085**	**$1,291,893**
Consolidated net sales	**—**	**—**	**—**	**4,082,584**

13. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.4% and 41.7% for the years ended March 31, 2005 and 2004, respectively.

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Deferred tax assets:			
Unrealized profits and losses	**¥ 2,288**	¥ 3,649	**$ 21,319**
Operating loss carryforward for tax purposes	**5,758**	3,889	**53,652**
Excess bad debt expenses	**484**	162	**4,509**
Excess accrued bonuses to employees	**2,137**	2,071	**19,912**
Excess product warranties	**671**	1,223	**6,252**
Enterprise taxes accrued	**836**	255	**7,789**
Retirement benefits	**10,874**	9,000	**101,323**
Other	**6,844**	4,871	**63,771**
Subtotal	**29,896**	25,123	**278,568**
Valuation allowance	**(8,321)**	(4,295)	**(77,534)**
Total deferred tax assets	**¥21,575**	¥20,827	**$201,034**
Deferred tax liabilities:			
Net unrealized gains on securities	**¥ (1,751)**	¥ (1,714)	**$ (16,315)**
Deferral of capital gain related to certain sale of property, plant and equipment	**(2,490)**	(2,623)	**(23,201)**
Retained earnings of foreign subsidiaries	**(3,118)**	(1,775)	**(29,053)**
Other	**(2,323)**	(1,940)	**(21,645)**
Total deferred tax liabilities	**(9,685)**	(8,053)	**(90,244)**
Net deferred tax assets	**¥11,889**	¥12,773	**$110,780**

The net deferred tax assets at March 31, 2005 and 2004 were contained in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Deferred tax assets—current	**¥5,467**	¥5,197	**$50,941**
Deferred tax assets—non-current	**7,507**	8,765	**69,949**
Deferred tax liabilities—current	**52**	65	**484**
Deferred tax liabilities—non-current	**1,033**	1,124	**9,625**

The following table summarizes the significant differences between the statutory effective tax rate and the tax rate calculated based on the Company's consolidated financial statements for the year ended March 31, 2004. The differences between the statutory effective tax rate and the tax rate calculated based on the Company's consolidated financial statements for the year ended March 31, 2005 is not shown because the difference was less than 5%.

	2005	2004
Statutory effective tax rate	**—%**	41.7%
Permanent difference due to non-deductible expense	**—**	2.1
Permanent difference due to non-taxable income	**—**	(16.5)
Effect of elimination of intercompany dividends received	**—**	20.6
Tax benefit not recognized on temporary differences of consolidated subsidiaries	**—**	—
Effect of liquidation of subsidiaries	**—**	(33.3)
Others	**—**	(1.6)
Tax rate calculated based on the Companies' consolidated financial statements	**—%**	13.0%

14. Lease Transactions

(a) As lessees

(1) Information on non-capitalized finance leases for the years ended March 31, 2005 and 2004 is as follows:

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

	Millions of yen		
Year ended March 31, 2005	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥7,752**	**¥3,272**	**¥4,479**

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

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2005	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**$72,232**	**$30,488**	**$41,734**

Lease obligations, lease expenses and depreciation equivalents

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Lease obligations due:			
Within one year	**¥1,370**	¥1,389	**$12,765**
After one year	**3,732**	3,703	**34,774**
Total	**¥5,102**	¥5,092	**$47,540**
Lease expenses	**¥1,345**	¥1,368	**$12,532**
Depreciation equivalents	**1,345**	1,368	**12,532**

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

Assumed depreciation amounts are computed using the straight-line method over the lease terms assuming no residual value.

(2) Information on operating leases for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Lease obligations due:			
Within one year	**¥ 356**	¥298	**$ 3,317**
After one year	**777**	532	**7,240**
Total	**¥1,133**	¥831	**$10,557**

(b) As lessors

Information on non-capitalized finance leases for the years ended March 31, 2005 and 2004 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Lease receivables due:			
Within one year	**¥19**	¥104	**$177**
After one year	**24**	391	**223**
Total	**¥44**	¥496	**$409**

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, 2005 and 2004 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				**2005**	2004	**2005**
Forward contracts:						
	Selling U.S. dollars:		Contract amounts	**¥ 71**	¥ 430	**$ 661**
			Due over one year	**—**	—	**—**
			Market value	**72**	419	**670**
			Net unrealized gains	**(0)**	11	**(0)**
	Selling Euros:		Contract amounts	**¥109**	¥ 774	**$1,015**
			Due over one year	**—**	—	**—**
			Market value	**110**	769	**1,024**
			Net unrealized gains	**(0)**	5	**(0)**
	Buying Thai baht:		Contract amounts	**¥171**	¥ —	**$1,593**
			Due over one year	**—**	—	**—**
			Market value	**160**	—	**1,490**
			Net unrealized gains	**(10)**	—	**(93)**
	Buying Japanese yen:		Contract amounts	**¥545**	¥1,397	**$5,078**
			Due over one year	**—**	514	**—**
			Market value	**473**	1,292	**4,407**
			Net unrealized losses	**(71)**	(104)	**(661)**
Swaps:	Receive	Pay				
	U.S. dollars	Japanese yen	Contract amounts	**¥ —**	¥ 165	**$ —**
			Due over one year	**—**	—	**—**
			Market value	**—**	179	**—**
			Net unrealized losses	**—**	(14)	**—**

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

(b) Commodities-related derivatives

Type			Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Forward contracts:					
	Selling metal	Contract amounts	**¥1,626**	¥1,925	**$15,150**
		Due over one year	**28**	—	**260**
		Market value	**1,701**	2,164	**15,849**
		Net unrealized losses	**(74)**	(238)	**(689)**
	Buying metal	Contract amounts	**¥ 584**	¥ —	**$ 5,441**
		Due over one year	**—**	—	**—**
		Market value	**723**	—	**6,736**
		Net unrealized gains	**139**	—	**1,295**

Market value of metal forward contracts is 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.

Employees' retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2004 consisted of the following:

	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Projected benefit obligation	**¥31,683**	¥31,363	**$295,219**
Plan assets at fair value	**(3,839)**	(3,597)	**(35,771)**
Projected benefit obligation in excess of plan assets	**27,844**	27,765	**259,448**
Less: Unrecognized net transition obligation	**—**	(3,809)	**—**
Less: Unrecognized prior service costs	**(158)**	(83)	**(1,472)**
Less: Unrecognized actuarial differences	**2**	(262)	**18**
Employees' retirement benefits	**¥27,688**	¥23,610	**$257,994**

The employees' retirement benefit costs for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Service costs—benefits earned during the year	**¥2,202**	¥2,214	**$20,518**
Interest cost on projected benefit obligation	**510**	618	**4,752**
Expected return on plan assets	**(41)**	(52)	**(382)**
Amortization of net transition obligation	**3,806**	3,806	**35,464**
Amortization of prior service costs	**46**	68	**428**
Amortization of actuarial differences	**959**	731	**8,935**
Additional retirement benefits	**385**	—	**3,587**
Employees' retirement benefit costs	**¥7,868**	¥7,387	**$73,313**

The actuarial assumptions for calculating the projected benefit obligation for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
Attribution of benefits to periods of service	**Benefit/years-of-service approach**	Benefit/years-of-service approach
Discount rate used to determine the projected benefit obligation	**1.7%–2.4%**	1.7%–2.4%
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

Earnings per share of common stock at March 31, 2005 and 2004 were as follows:

Year ended March 31, 2005	Net income (Millions of yen)	Weighted-average shares (Thousands)	Net income per share (Yen)	Net income per share (U.S. dollars (Note 1))
Basic earnings per share:				
Net income unavailable to common shareholders	**¥20,780**			
Bonuses to directors by appropriation of retained earnings	**129**			
Net income available to common shareholders	**20,650**	**572,816**	**¥36.05**	**$0.34**
Effect of dilutive securities:				
Convertible bonds	**—**	**—**		
Diluted net income per share:				
Net income for computation	**¥20,650**	**572,816**	**¥36.05**	**$0.34**

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

18. Related Party Transactions

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

The transactions and account balances with Pan Pacific Copper Company, Limited as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Net sales	**¥ —**	¥30,406	**$ —**
Sales of materials and work-in-progress:			
Proceeds	**—**	5,358	**—**
Losses	**—**	2,407	**—**
Guaranties of bank loans	**15,582**	12,681	**145,191**
Notes and accounts receivable, trade	**—**	2,330	**—**

Terms of transactions:

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

Sales of materials and work-in-progress:

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

19. Subsequent Events

On June 29, 2005, at the shareholders' meeting, the following appropriations were approved:

(1) payment of cash dividends to shareholders of record on March 31, 2005 of ¥7.00 ($0.07) per share totaling ¥4,009 million ($37,356 thousand) and

(2) payment of bonuses to directors totaling ¥120 million ($1,118 thousand).

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Mining and Smelting Company, Limited and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 2 (f) to the consolidated financial statements, effective April 1, 2004, Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries changed the method of accounting for inventories in the Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory and functional powders factory of Hikoshima Smelting Company, Limited).
(2) As discussed in Note 2 (i) to the consolidated financial statements, effective April 1, 2003, Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries changed the method of accounting for the costs of repairing products free of charge.
(3) As discussed in Note 12 to the consolidated financial statements, effective April 1, 2003, Mitsui Mining and Smelting Company, Limited changed the business segmentation of a consolidated subsidiary, whose core business shifted to industrial waste disposal, from the Intermediate Materials segment to the Environmental Engineering & Metals Recycling segment.

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

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2005

Directors, Auditors, and Executive Officers

(As of June 29, 2005)

Board of Directors

Shimpei Miyamura

Chairman and Representative Director,
Chief Executive Officer

Hiroshi Makihara

President and Representative Director,
Chief Operating Officer

Tatsuo Sunaga

Executive Vice President and
Representative Director,
Deputy Chief Operating Officer

Ei Omoto

Director,
Senior Managing Executive Officer,
Chief Financial Officer

Yoshihiko Takebayashi

Director,
Senior Managing Executive Officer

Muneo Saida

Director,
Senior Managing Executive Officer

Yasuo Yokoo

Director,
Senior Executive Officer,
Chief Technology Officer

Kunio Yanai

Director,
Senior Executive Officer,
Chief Risk Management Officer

Takao Hironaka

Director,
Senior Executive Officer

Naoaki Ogawa

Director,
Senior Executive Officer

Tadaaki Chigusa

Director

Corporate Auditors

Takashi Hasegawa
Toshio Kodama
Toshiaki Tanabe
Hiromichi Shibata

Upper Executive Officer

Masao Omura

Executive Officers

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

Corporate Data

(As of March 31, 2005)

Established: May 1, 1950

Authorized capital: 1,944 million shares

Shares issued: 572,966,166 shares

Paid-in capital: ¥42,129,466 thousand

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

Number of shareholders: 46,067

Principal shareholders:

	Investment in the Company	
	Number of shares held (Thousands)	Percentage of shares issued (%)
The Master Trust Bank of Japan, Ltd. (Held in trust account)	65,541	11.43
Japan Trustee Services Bank, Ltd. (Held in trust account)	52,723	9.20
State Street Bank and Trust Company	16,912	2.95
Nippon Life Insurance Company (Held in special pension accounts)	8,816	1.53
Mitsui Life Insurance Company, Limited	7,981	1.39
Trust & Custody Services Bank, Ltd. (Held in trust account B)	7,927	1.38
JPMBLSA Offshore Lending JASDEC Account	7,763	1.35
State Street Bank and Trust Company 505103	7,524	1.31
Japan Trustee Services Bank, Ltd. (Held in trust account 4)	7,474	1.30
The Chase Manhattan Bank N.A. London	6,726	1.17

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
MCS, Inc.	¥450	100.0 (8.9)
Ohi Seisakusho Co., Ltd.	¥2,766	100.0
GECOM Corp.	US$15.75	100.0
Okuaizu Geothermal Co., Ltd.	¥100	100.0
MESCO, Inc.	¥1,085	63.3

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

Worldwide Operations

(As of July 1, 2005)

	Japan	Asia	Americas and Europe
Offices/ Laboratories	**Head Office** (Shinagawa, Tokyo) **Osaka Branch** (Osaka, Osaka) **Corporate R&D Center** (Ageo, Saitama)	**Mitsui Kinzoku Trading (Shanghai) Co., Ltd.** (Shanghai, China)	**Mitsui Mining & Smelting Co., Ltd., Sucursal del Perú** (Lima, Perú) **Oak-Mitsui Technologies LLC** (New York, U.S.A.)
Electronics-Related Materials	**Hibi Smelter** (Tamano, Okayama) **Takehara Refinery** (Takehara, Hiroshima) **Ageo Copper Foil Plant** (Ageo, Saitama) **Miike Thin-film Materials Plant** (Omuta, Fukuoka) **Miike Rare Metals Plant** (Omuta, Fukuoka) **MCS, Inc.** (Shimonoseki, Yamaguchi)	**Taiwan Copper Foil Co., Ltd.** (Nantou, Taiwan) **Mitsui Copper Foil (Malaysia) Sdn. Bhd.** (Selangor Darul Ehsan, Malaysia) **Mitsui Copper Foil (Hong Kong) Co., Ltd.** (Hong Kong, China) **Mitsui Copper Foil (Suzhou) Co., Ltd.** (Jiangsu, China) **Mitsui Copper Foil (Guangdong) Co., Ltd.** (Guangdong, China) **Mitsui Electronic Materials Co., Ltd.** (Taichung, Taiwan) **Mitsui Micro Circuits Taiwan Co., Ltd.** (Taichung, Taiwan)	**Oak-Mitsui Inc.** (New York, U.S.A.) **Mitsui-Eurocel S.A.S.** (Dives-sur-Mer, France) **Mitsui Zinc Powder LLC** (Pennsylvania, U.S.A.)
Metals and Environmental Services	**Kamioka Mining & Smelting Co., Ltd.** (Hida, Gifu) **Hibi Kyodo Smelting Co., Ltd.** (Shinagawa, Tokyo) **Hachinohe Smelting Co., Ltd.** (Shinagawa, Tokyo) **Hikoshima Smelting Co., Ltd.** (Shimonoseki, Yamaguchi) **Okuaizu Geothermal Co., Ltd.** (Yanagitsu, Fukushima)		**Compania Minera Santa Luisa S.A.** (Lima, Perú)
Automotive Parts	**Nirasaki Parts & Components Manufacturing Plant** (Nirasaki, Yamanashi) **Kamioka Catalyst Plant** (Hida, Gifu) **Ohi Seisakusho Co., Ltd.** (Yokohama, Kanagawa)	**Mitsui Siam Components Co., Ltd.** (Rayong, Thailand) **Mitsui-Huayang Automotive Components Co., Ltd.** (Guizhou, China) **Mitsui Components Guangdong Co., Ltd.** (Guangdong, China) **Wuxi Da Chong Industry Co., Ltd.** (Jiangsu, China)	**GECOM Corp.** (Indiana, U.S.A.) **Ohi Automotive of America LLC** (Kentucky, U.S.A.) **Mitsui Components Europe Ltd.** (Wales, U.K.) **Mitsui Components (U.S.A.), Inc.** (Arizona, U.S.A.)
Other	**Ageo Rolled Copper & Zinc Plant** (Ageo, Saitama) **Omuta Ceramics Plant** (Omuta, Fukuoka) **Kitakata Perlite Plant** (Kitakata, Fukushima) **Funabashi Perlite Plant** (Funabashi, Chiba) **Osaka Perlite Plant** (Kaizuka, Osaka) **MESCO, Inc.** (Sumida, Tokyo)	**Mitsui Grinding Technology (Thailand) Co., Ltd.** (Chonburi, Thailand)	

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