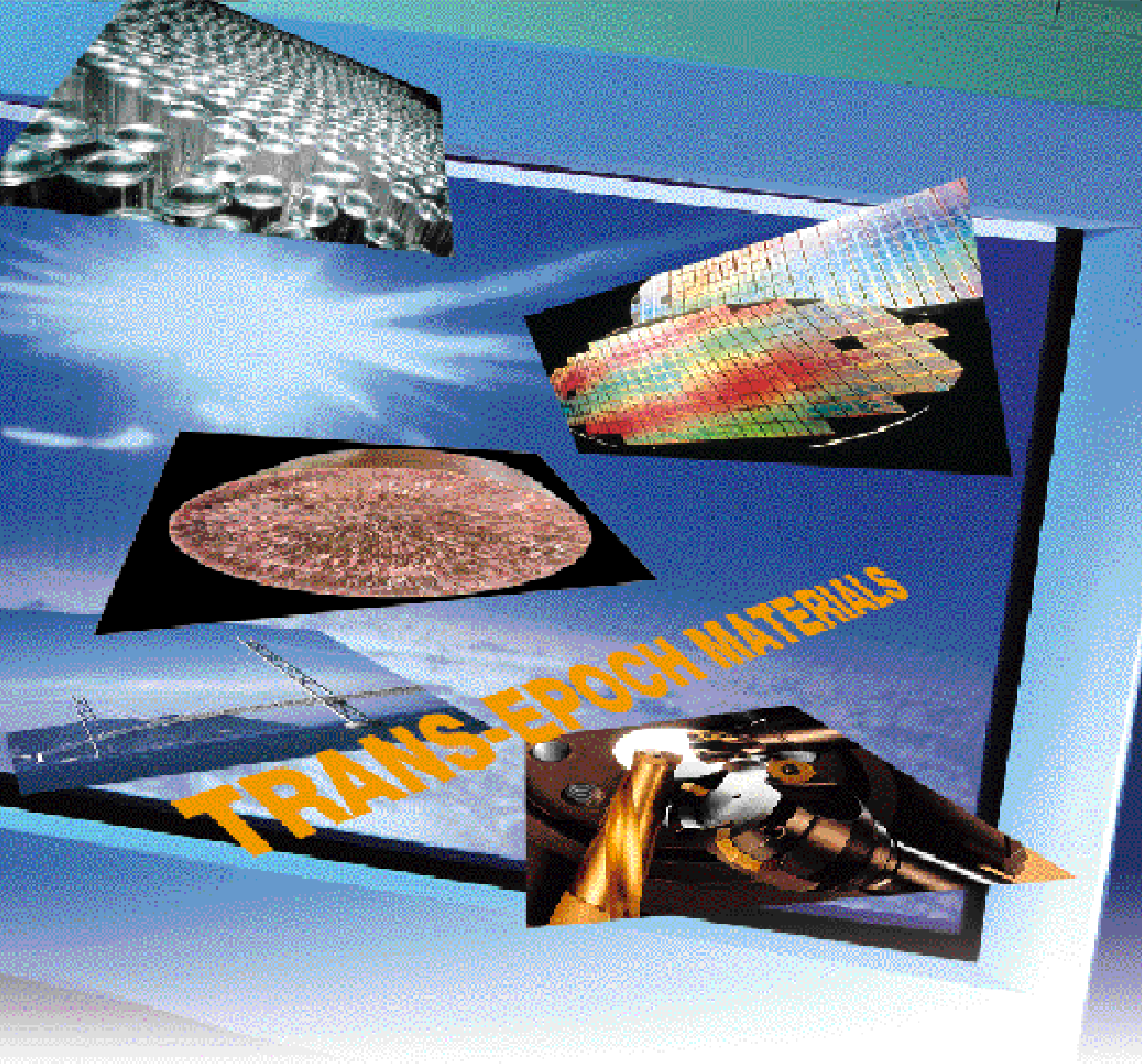

ANNUAL REPORT 2000

For the year ended March 31, 2000

MITSUBISHI
MITSUBISHI MATERIALS CORPORATION

Profile

Established in 1950, Mitsubishi Materials Corporation is one of the world's largest diversified materials companies. In addition to being a leader in metal smelting and refining, cement and fabricated metals —notably aluminum cans—Mitsubishi Materials is also a major supplier of silicon products and advanced materials. The Company's high-level research and development programs are instrumental in enabling it to maintain its dominant position in key markets.

Mitsubishi Materials comprises 394 subsidiaries and affiliates in 19 countries. These companies employ 24,682 people.

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Cautionary Statement with Respect to Forward-Looking Statements

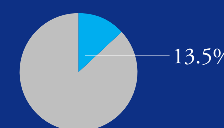
Statements made in this annual report with respect to Mitsubishi Materials' plans, strategies and beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of Mitsubishi Materials, which are based on management's assumptions and beliefs in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

Mitsubishi Materials at a Glance

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

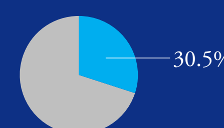
Segment — Sales for Fiscal 2000

Silicon and Advanced Materials
Mitsubishi Materials supplies products in this segment to the electronic equipment, semiconductor and telecommunications industries.



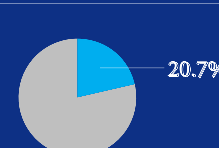
¥132.8 billion

Fabricated Metal Products
The principal customers for products in this segment are manufacturers of automobiles, electronic components, consumer electronics products, building products for the housing industry and machine tools.



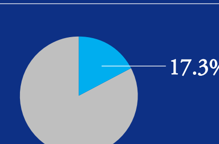
¥301.2 billion

Nonferrous Metals
Nonferrous metals are sold to manufacturers of electric cable and wire, extruded copper products, storage batteries and photographic film, as well as to jewelers.



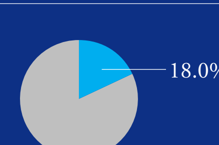
¥203.8 billion

Cement
Mitsubishi Materials produces a wide range of specialty cements and building materials for companies in the construction and civil engineering industries.

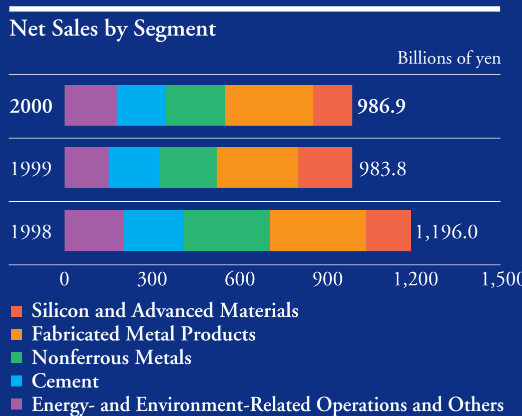


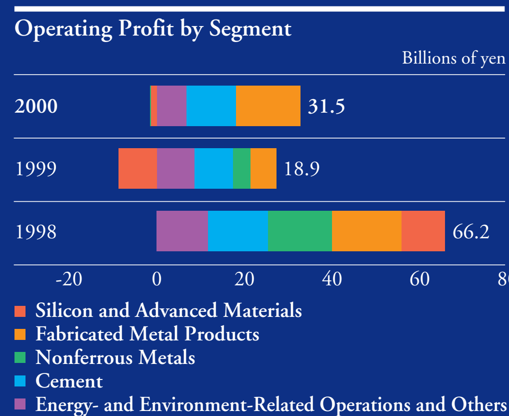
¥171.1 billion

Energy- and Environment-Related Operations and Others
This segment encompasses a broad range of energy-related and environmental businesses, including power generation, the sale of fossil fuels, pollution prevention and resource recycling. This segment's principal customers are electric power companies.

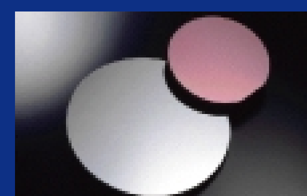


¥178.0 billion

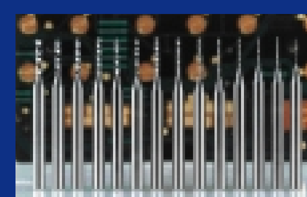




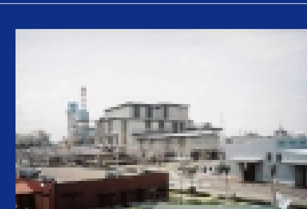
Category Sales for Fiscal 2000 (Billions of yen)		**Major Products and Services**
Silicon	¥72.8	● Silicon wafers ● Polycrystalline silicon ● Ceramic condensers and sensor chips ● Gold bonding wires, Sputtering targets ● Quartz crucibles
Polycrystalline silicon	12.8	
Advanced materials	47.2	



Hard-metal products and diamond tools	¥ 40.9	● Cutting tools ● Powder metallurgical machine parts and sleeve bearings ● Precision molding dies ● Copper cakes, billets, wire and tubes ● High-performance alloys ● Industrial machinery, Precision cast products ● Aluminum beverage cans ● Electrical contacts, Micromotors
Powder metallurgy, molding dies and motors	33.5	
Copper alloy products, high-performance alloy products and others	70.4	
Aluminum products	156.5	

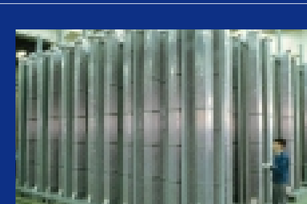


Copper	¥74.9	● Copper ● Gold ● Lead ● Zinc ● Silver ● Zinc die-casting alloys ● Sulfuric acid
Gold	63.9	
Other nonferrous metals	65.0	

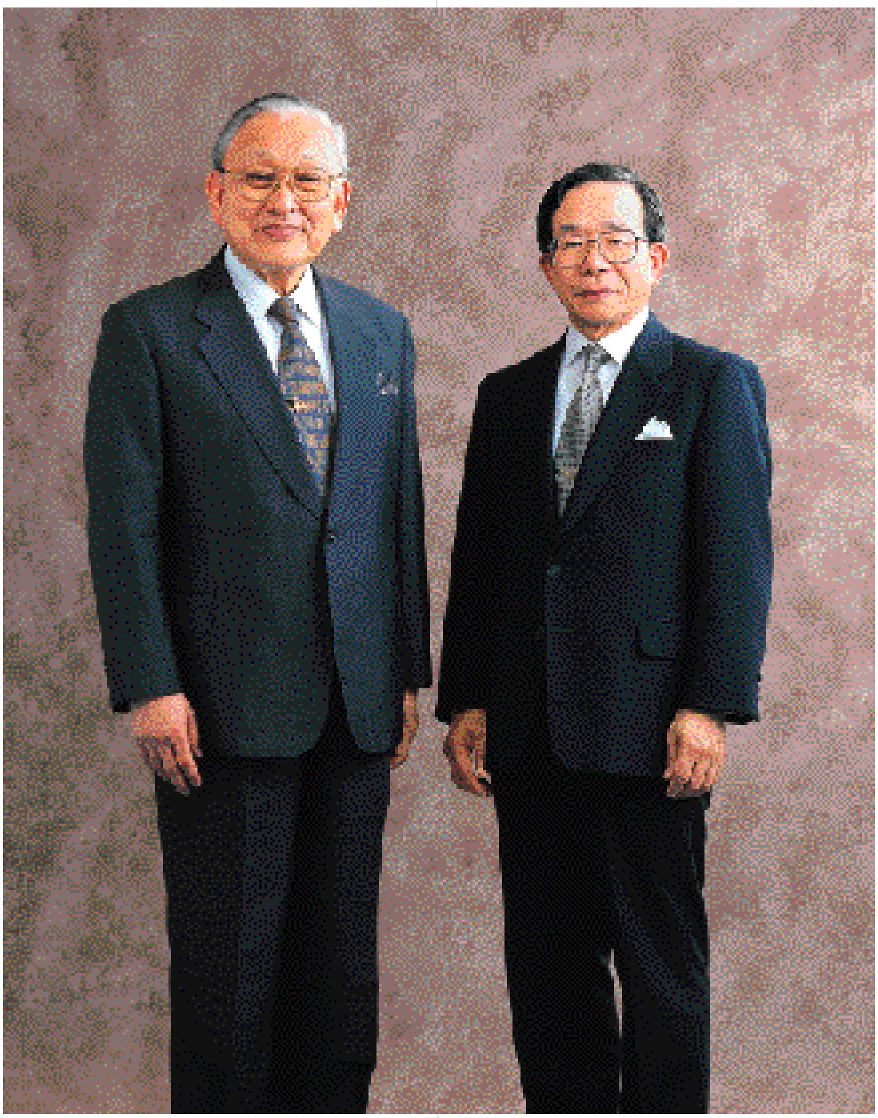


- Portland cement
- Blended cement
- Soil stabilizing cement
- Building materials

- Ecobusiness
- Fossil fuels
- Nuclear energy-related services
- Hydroelectric and geothermal power generation
- Real estate



A Message from the Management



Yumi Akimoto
Chairman

Akira Nishikawa
President

Fiscal 2000, ended March 31, 2000, proved to be yet another year of groundbreaking changes. The further expansion of information networks and the emphasis being placed on recycling has rapidly brought about vast reforms to the fabrication and structure of our society, transforming it into one which is horizontally structured, diverse and network-based. For Mitsubishi Materials, it means staying one step ahead of these technological and structural revelations to ensure that its name and products remain synonymous with quality and excellence.

Mitsubishi Materials' boardroom experienced a change of its own in fiscal 2001. On June 29, 2000, Akira Nishikawa assumed the position of president, replacing Yumi Akimoto, who became chairman. Under new leadership, Mitsubishi Materials will focus on strengthening Group management, maintaining foresight into the future and fully displaying management capabilities. The Company will continue to implement well-defined strategies, improve its financial position and ensure management transparency to remain highly evaluated by shareholders, customers, employees and society.

The Year in Review

Japan's economy remained stagnant during the period under review. Despite government efforts to revive the economy by implementing various measures on fiscal finance and taxation, as well as revisions to the financial and legal systems, the prolonged slump in consumer spending and private-sector capital investment prevented a solid recovery. However, during the second half of the period, the economy began to pick up slightly as faith in the nation's financial system was restored, demand for information technology was bolstered and a rebound in the Asian economy provided stability to exports.

The U.S. economy continued to expand and change structurally, despite lingering uncertainty regarding its imminent future. European economic growth was boosted by structural reform that focused the industrial sector on the development of new technologies. After struggling through fiscal 1999, the economy in Asia improved rapidly in fiscal 2000.

In this environment, Mitsubishi Materials recorded net sales of ¥986.9 billion, a 0.3% increase on fiscal 1999. The rise is chiefly attributed to a better performance by the Group's parent and domestic silicon sales. This offset adverse factors, such as the yen's appreciation, which curtailed smelting charges, a slump in the nonferrous metals market and further discounting of prices for the majority of its products.

During the period, the Company successfully completed a series of corporate structural reforms aimed at enhancing profitability, including downsizing personnel, withdrawal from unprofitable operations and fortification of core businesses. As a consequence, operating profit grew 161.7%, to ¥27.2 billion. The Company recorded an extraordinary gain from the sale of fixed assets and equity in subsidiaries and affiliates. However, implementation of current-value accounting in fiscal 2000, one year ahead of schedule, led Mitsubishi Materials to enhance reserves provisions to cover losses on investments in subsidiaries and affiliates, leading to an extraordinary loss. To improve its financial position, in the period under review, the Company started writing off contributions to pension over a shorter five-year period. Other losses included build-up of reserve provisions to cover withdrawal from unprofitable operations, equity valuation and disposal of facilities. In addition to these losses, adjustments were made to corporate and other income taxes under the tax-effect accounting method. As a consequence, the Company posted a net loss of ¥12.1 billion, a ¥22.8 billion recovery from a year earlier.

Mitsubishi Materials endeavors to continue issuing a stable dividend payout. However, owing to an increased emphasis on cash flow, we decided to shelve our dividend for fiscal 1999. For fiscal 2000, we were unable to avoid posting a net loss, owing to a change in accounting method that elevated extraordinary losses. However, reflecting a steady improvement in operating profit, we authorized a dividend of ¥1.5 per share.

Our Vision for the Year 2010

The Company's vision for the year 2010 is to make Mitsubishi Materials one of the world's foremost corporations best adapted to responding to the needs of the recycling- and information-oriented society. The Company aims to accomplish this by systemizing its materials, finished products and services, all of which are distinctive and enjoy a considerable competitive edge. In fiscal 1999, we actively began implementing various strategies and policies to realize our medium- to long-term corporate vision for 2010.

Corporate Strategies

We continued to forge forward in fiscal 2000, as a part of our vision for the year 2010, becoming more focused and selective, while at the same time strengthening our core businesses.

Foster comprehensive technical capabilities in core businesses

We are developing operations to concentrate on the following four categories: Copper; Hard-Metal Products and Powder Metallurgy; Silicon and Advanced Materials; and Environment and Recycling Operations. We believe that silicon will evolve into a key material for the 21st century. Accordingly, our expansion will focus mainly on the Silicon and Advanced Materials segment.

Promote Strategic Alliances

To improve management efficiency and increase competitiveness, we are actively forming affiliations and joint ventures with companies outside the Mitsubishi group. (For more information on our activities in this area, please see page 6.)

Withdraw from unprofitable operations

We will shift from a comprehensive corporate structure to one more specialized, by withdrawing from unprofitable operations and activities not synergistic with our strategies.

Develop new businesses

We will nurture core businesses that capitalize on potential growth markets in a society that is increasingly recycling- and information-oriented.

• Mobile telecommunications

The market for information networks is expected to show rapid growth as our society becomes highly information-intense. To keep up with these changes and meet evolving needs, Mitsubishi Materials is hard at work developing and

Yumi Akimoto
Chairman

commercializing key technologies, such as next-generation telecommunications systems and the Internet cyberspace. (For further details on our activities in this area, please see page 18.)

• Environment-related operations

As a materials manufacturer, we recognize our duty to recycle waste into materials or energy as a part of our contribution to establishing an economically sound, environmentally responsible society. Accordingly, we are developing environment-related operations into a core business. We plan to take advantage of our cement production and metal smelting infrastructure to expand into a wide range of recycling operations.

We have commercialized a recycling service for coal ash, used tires, automobile shredder residue and sewage. We utilize our cement production and metal smelting infrastructure to turn this waste back into raw materials. We are employing new concepts and methods to create competitive new businesses, through the modification of large-scale equipment and machinery that is past book life. We have also launched "eco-businesses" such as household appliance recycling, and gasification and the melting process for wastes.

Create a stronger financial position

We took a variety of steps to improve our financial position in fiscal 2000. We completed spending for several major overseas projects, designed to become key profit sources in the future. Reflecting the reduction in capital expenditures, we are now able to concentrate on improving cash flow as benefits begin to materialize from investments to date. In addition, we are aiming to be more selective in our investments.

We disposed of assets such as real estate, to procure capital to make structural changes and reduce interest-bearing debt. Moreover, we brought accounting procedures up to international standards. During the period under review, we brought in ¥27.4 billion through the sale of assets, one of the larger ones being our headquarters' building. We sold ¥16.0 billion in marketable securities, including the partial sale of equity in Nippon Aerosil Co., Ltd. As a consequence, we trimmed interest-bearing debt by ¥3.8 billion, to ¥1,023.4 billion, despite the fact that assets grew owing to an increase in the number of consolidated subsidiaries. We will continue to dispose of assets in an effort to trim interest-bearing debt to ¥850 billion by fiscal 2001.

At our parent company's operations, we lowered annual personnel costs by ¥6.0 billion by downsizing, reducing the number of directors, drastically trimming middle-management and curtailing the number of regular employees, as well as lowering salaries.

A New Organization

In June 1999, we introduced a company-within-a-company system to achieve more efficient management and speedier decision-making, thereby ensuring our survival in this harsh economic environment by helping us to deal with intensifying international competition. Each operating division functions as a profit unit and maintains its own goals for return on assets (ROA) and the reduction ratio of interest-bearing debt. By evaluating the performance of each operating division as if it was an independent company, we are able to further promote cash flow management for each unit. Another facet of the company-within-a-company system is the focus on developing synergies between various Group companies to bolster overall performance. In June 2000, an executive officer system was implemented, reducing the number of directors from 32 to 11, and including a director from outside the company to enhance corporate governance. Moreover, we have established a new personnel system that allows employees more freedom with their career choices. Salaries vary to reflect these choices, with performance-based wages for more challenging positions.

Outlook for Fiscal 2001

The domestic economic environment for fiscal 2001 is expected to remain harsh. The government will continue to pass pump-priming measures, and further recovery by economies in Asia will support a gradual turnaround in overall corporate performance. Meanwhile, in the world economy, continued expansion is forecast for the United States and European economies, despite an expected slowdown in the fast-paced growth seen up until now.

We are optimistic that the Group on a whole will perform better in fiscal 2001. In particular, we are confident our Silicon and Advanced Materials segment will show marked growth. An increase in income is expected, owing to benefits from various reforms implemented, including cost reduction measures such as downsizing staff. To improve our financial position, we will endeavor to curtail interest-bearing debt by reconstraining capital expenditures and continuing to sell Group assets. As society becomes more recycling oriented and information intense, we plan to further stress the ideals of selectivity and focus in current operations, strengthen the Group's financial position and continue to promote the expansion of core businesses, thereby becoming a more dynamic and responsive company.

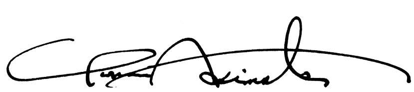
In Closing

In line with its vision for 2010, Mitsubishi Materials is moving forward with drastic structural reforms to strengthen its earnings base and increase value for shareholders. Furthermore, we are striving to accelerate the pace of reform in an effort to ensure the generation of maximum value.

We are confident in our ability to fulfill the expectations of investors. We will do this by achieving our vision of reform and implementing concrete strategies aimed at transforming Mitsubishi Materials into an "excellent company."

On behalf of the management and staff at Mitsubishi Materials, we extend our gratitude to shareholders for their support and ask for their continued guidance in the future.

June 30, 2000



Yumi Akimoto
Chairman

Akira Nishikawa
President

Akira Nishikawa
President

Akira Nishikawa

January 1935	Born in Tokyo
April 1959	Enters Mitsubishi Metal & Mining Co. (presently Mitsubishi Materials)
April 1984	Serves as general manager of the Process Technology Department of the Smelting-Refining & Chemicals Division
October 1985	Becomes general manager of the Chemicals Department of the New Materials Division
June 1991	Appointed director and general manager of the Central Research Institute
June 1993	Resigns as director of Mitsubishi Materials Appointed president of Nippon Aerosil Co., Ltd.
June 2000	Appointed president of Mitsubishi Materials

Mitsubishi Moves the 21st

Mitsubishi Materials and Sumitomo Metal Industries to Build Mass-Production Capabilities for 300-millimeter (12-inch) Silicon Wafers

Mitsubishi Materials' wholly owned subsidiary Mitsubishi Materials Silicon Corp. and Sumitomo Metal Industries, Ltd., will build a mass production plant for next-generation, 300-millimeter (12-inch) silicon wafers. Front-end crystallization processing will take place at Mitsubishi Materials Silicon's Yonezawa plant, in Yamagata Prefecture, while back-end finishing processing will be handled at Sumitomo Metal Industries' Imari plant, in Saga Prefecture.

Silicon United Manufacturing Corporation, a joint venture set up by the partners in July 1999, will be charged with the construction of a mass production plant and management of the wafer business. Construction work on the production systems will begin in July 2000, and planners at Mitsubishi Materials and Sumitomo Metal Industries expect production to start in early 2002. Initial production capacity will be 100,000 wafers per month, with future output scheduled to reach up to 200,000 wafers per month.

Mitsubishi Materials, Mitsubishi Shindoh and Kobe Steel Form Cooperation Pact

Mitsubishi Materials' affiliate Mitsubishi Shindoh Co., Ltd., and Kobe Steel, Ltd., are moving ahead in the following five areas in accordance with a pact the three entities formed on July 30, 1999, for mutual support related to copper rolling, leadframe materials processing, peripheral businesses and casting of raw materials.

- Joint procurement and standardization of raw materials
- Lowering distribution costs through mutual usage of warehouses and swapping of copper material
- Consigned production to readily utilize partner's unused capacity
- Crisis management
- Cross licensing, including the exchange of manufacturing knowhow

The three companies will strengthen cooperations related to overseas affiliates, research and development, and casting, in an effort to augment their competitiveness in international markets.

Inclusive Business Tie-Up on Magnet Wire Operations

Optec Dai-Ichi Denko Co., Ltd., a Mitsubishi Materials affiliate, and Sumitomo Electric Industries, Ltd., have come to a basic agreement to form a comprehensive tie-up for magnet wires. The two companies will ultimately merge operations in magnet wire. The first stage of the agreement is to establish a joint enterprise that will undertake sales, distribution, purchasing of materials, product development and other operations. Both companies are currently undergoing talks to fix details on how to proceed.

This business tie-up is expected to give the two firms an advantageous position in the magnet wires market. The synergies of the partnership will allow both companies to fortify their operations.

Mitsubishi Materials Corporation, a 30% shareholder in Optec Dai-Ichi Denko, positions the downstream section of copper processing operations as one of the Group's core businesses. Therefore, Mitsubishi Materials plans to provide the support and cooperation necessary to smoothly carry out this affiliation. Furthermore, both companies are considering integrating their domestic production divisions and overseas operations.

Materials into Century

Sale of Headquarters' Building

During the period under review, we sold our headquarters' building and land for nearly ¥21 billion, generating ¥16.5 billion in extraordinary gain. We have not moved our headquarters, and are currently renting the same building that we previously owned. This will result in rent expense, although we plan to offset this through various reductions in expenditures. We do not forecast that this will have any significant effect on our performance.

Shareholding in Nippon Aerosil Sold to Degussa-Huels

Mitsubishi Materials agreed to sell 30%, or 14,400 shares, of its equity in Nippon Aerosil Co., Ltd., to Degussa-Huels of Germany, on March, 31, 2000. Nippon Aerosil was established as an equal partnership between Mitsubishi Materials and Degussa-Huels. The transfer of equity has resulted in the German firm becoming an 80% owner. The sale generated ¥5.8 billion in capital gains for Mitsubishi Materials.

Degussa-Huels sought to raise its equity in Nippon Aerosil to position the company as its Asian base. Fumed silica is one of the German chemical manufacturer's core businesses and it is working to expand globally. As demand in Asia is expected to grow, Degussa-Huels focused upon Nippon Aerosil, though it currently only operates in Japan.

Nippon Aerosil will remain a blue-chip affiliate of the Group, with Mitsubishi Materials maintaining 20% ownership, and dually serve as a strategic foothold in Asia for the Company's fumed silica business. Subsidiary Mitsubishi Materials Polycrystalline Silicon Corp. will also benefit as it is Nippon Aerosil's key supplier of raw material for fumed silica.

Furthermore, in the United States, Mitsubishi Polycrystalline Silicon America Corporation and Degussa-Huels Corporation have a product-sharing relationship at neighboring plants in Mobile, Alabama. In anticipation of higher demand for organosilanes, fumed silica and other products, the two companies are considering the establishment of a joint venture to produce the raw material, chlorosilane.

Mitsubishi Materials Establishes Sales Companies in Japan and Europe to Fortify Hard-Metal Business

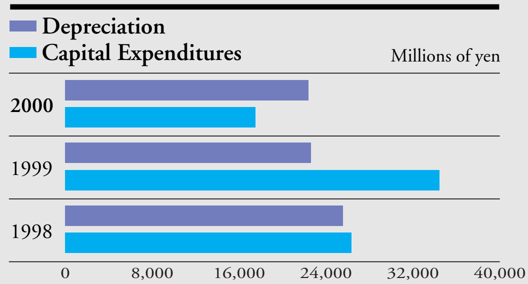
Mitsubishi Materials is planning to bolster its hard-metal operations in Japan and Europe. Domestically, MMC Diatitanit Co., Ltd. a merger between Group company MMC Diatitanit Center Co., Ltd., and Chuo Precision Industrial Co., Ltd., was established on April 1, 2000. MMC Diatitanit will assume a portion of Mitsubishi Materials' hard-metal cutting tool business. Currently, 70% of Mitsubishi Materials' hard-metal products sales are domestic, with cutting tools accounting for 60% of those sales. By integrating the two Japanese sales companies into MMC Diatitanit, the Company will be able to provide better services, construct a more efficient sales system, and ultimately be able to implement a wider range of sales strategies and reduce cost.

In Europe, as the region becomes "borderless" and as more mega-mergers take place, Mitsubishi Materials responded by setting up MMC Hardmetal Europe Holdings GmbH, to oversee its operations on the continent. It is a holding company that will supervise the operations of MMC Hard Metal U.K. Ltd., MMC Hartmetall GmbH and MMC Metal France S.A.R.L. The holding company will also propose and plan strategies for each particular country, promote distribution efficiency and work to expand sales of hard-metal products.

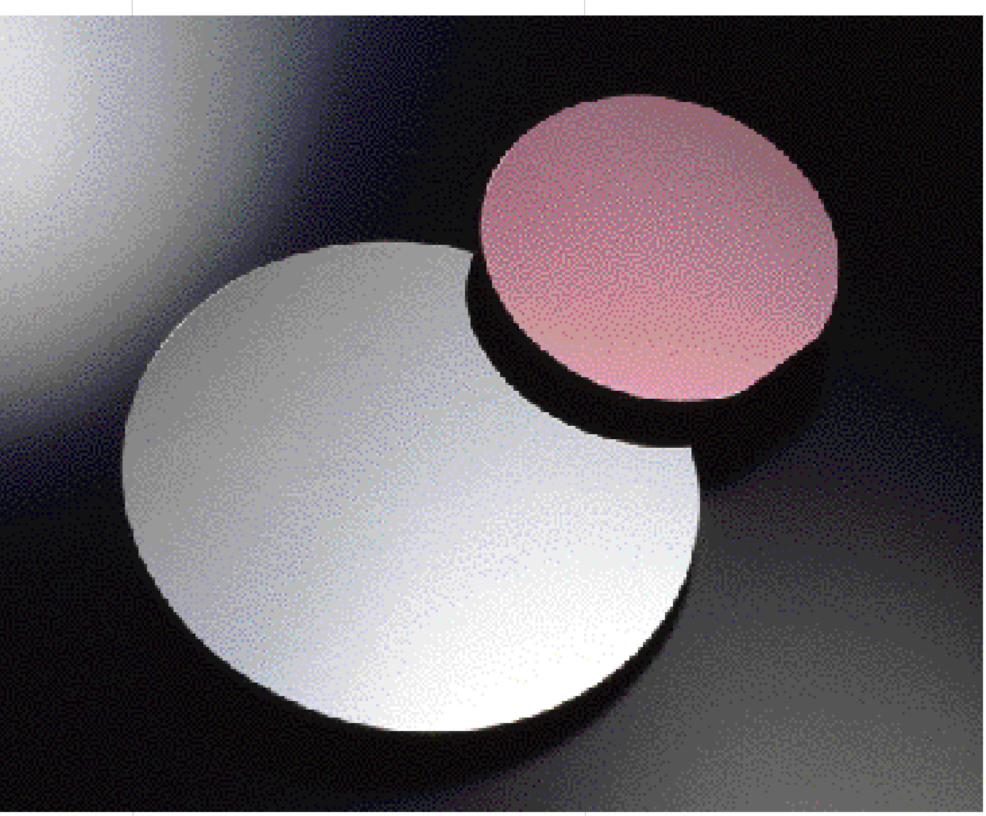
The reorganization now allows Mitsubishi Materials to offer a wider range of services in Japan and Europe, where it handles a broad range of customers such as large-scale users and trading companies. The Company's goal is to minimize cost while maximizing sales. Mitsubishi Materials not only aims to become the largest hard-metal product manufacturer domestically, but is also reinforcing its number three position internationally, hoping to secure 10% of the world market.

Silicon and Advanced Materials

	Millions of yen		Percentage change
	2000	1999	2000/1999
Net sales	¥132,774	¥130,989	1.4%
Operating profit (loss)	(1,411)	(8,809)	—
Depreciation	22,383	22,599	-1.0
Capital expenditures	17,490	34,437	-49.2



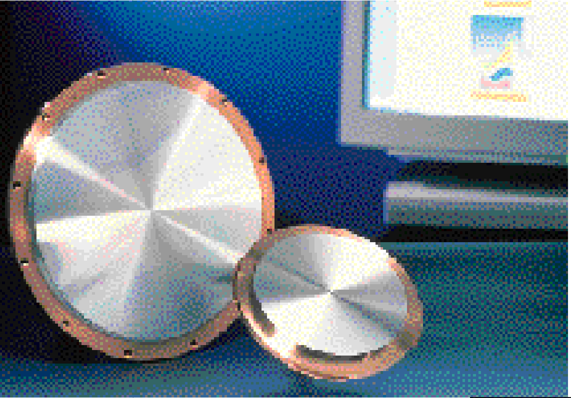
In the rapidly growing sector of silicon and advanced materials, Mitsubishi Materials offers high-value-added products for the information and telecommunications sector. We recognize that silicon will be the core material in the information-oriented society of the 21st century, and have positioned this segment as one of our core businesses. In fiscal 2000, segment sales totaled ¥132.8 billion, 1.4% higher than the previous period, and represented 13.5% of net sales. Semiconductor demand from a wide range of industries rebounded from the slump of the past few years, while selling prices improved gradually.



Silicon wafers

Silicon

In fiscal 2000, silicon sales rose 8.4%, to ¥72.8 billion. Demand for silicon wafers rose sharply owing to brisk sales of mobile phones, personal computers (PCs) and other information terminals, as well as digital home electrical appliances and home video game machines. Wafer prices also stabilized during the second half of the period. The semiconductor industry, a major market for our silicon products, recorded its first double-digit growth in three years, reflecting a recovery in Asian economies, particularly those of the Republic of Korea and Association of Southeast Asian Nations (ASEAN) countries. This, in turn, sparked a revival in electronics manufacturing in Asia and drove up demand for PCs, mobile phones, home video game machines and digital home electrical appliances in the region. Domestic semiconductor manufacturers actively invested to expand manufacturing facilities. Supplies were short for mainstay 200-millimeter wafers, as well as for 150-millimeter and 125-millimeter wafers. In Taiwan and the Republic of Korea, manufacturers pushed forward with facility expansion in response to soaring demand in these markets, while short supplies halted falling selling prices during the second half, as products demanded higher prices overseas. Our exports in this segment grew to account for one-third of net sales. Moreover, we were successful in developing mass-production technology for pure silicon, boosting sales of this product.



Sputtering targets for magneto-optical disks

The world's smallest chip thermistors

Quartz crucibles

During the period, the number of specialized staff members was increased at Mitsubishi Silicon America Corp., and measures were implemented to ensure more thorough quality control, the achievement of higher yields and the improvement of technology management. Owing to these actions, the U.S. unit saw its performance improve.

We are continuing joint development and manufacturing of next-generation 300-millimeter (12-inch) silicon wafers with Sumitomo Metal Industries. The partnership, which aims to become a leader in the global market for next-generation silicon wafers, combines the development and technological capabilities of the two companies, and minimizes investment risk.

Polycrystalline Silicon

The Group's overall production network has grown, with the start of production at Mitsubishi Polycrystalline Silicon America, a U.S. subsidiary with an annual capacity of 1,000 tons, adding to the 1,600 tons per annum currently being produced at Mitsubishi Materials Polycrystalline Silicon in Japan. Reflecting these efforts, sales of polycrystalline silicons rose 31.1%, to ¥12.8 billion.

Polycrystalline silicon

Advanced Materials

This category includes semiconductor-related products, electronic devices and fine chemical products. In fiscal 2000, sales of advanced materials fell 12.8%, to ¥47.2 billion. This category was hindered by the termination of our capacitor production, and also owing to price discounting for surge noise and chip thermistors, and falling sales volume for sputtering targets, electroconductive paints and germanium.

Favorable sales of electronic devices, volume for chip thermistors for IT and mobile telecommunications units rose significantly, as did semiconductor surge absorber shipments to Asia. In addition, we expanded sales of LC electromagnetic interference filters and have started sample shipments of Bluetooth™ technology-based products, in hopes of developing this into a core business.

Sales of quartz crucibles rose, supported by favorable conditions in the semiconductor market. We plan to counter falling prices and intense competition by launching high-value-added products. Price discounting is also prevalent in the area of fine chemical products, prompting efforts to reduce cost of sales by reviewing procurement routes for raw materials and improving technology to boost product quality.

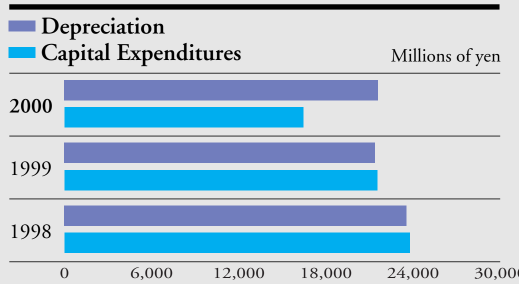
Outlook

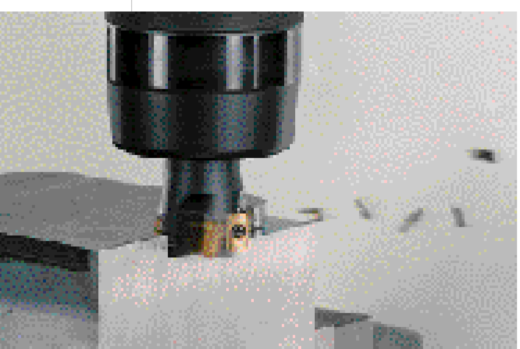
Expansion of the semiconductor market, increased silicon demand and boosted production capacity are forecast for fiscal 2001, ending March 31, 2001. Capital spending strategies include improvements to adapt existing facilities to the production of high-precision silicon wafers. In polycrystalline silicon, our U.S. arm is planning to boost production to full capacity in a bid to expand sales. We also expect to see quartz crucible sales increase in volume as the semiconductor industry continues to grow.

Advanced materials are expected to perform favorably, supported by demand from the mobile telecommunications market. We also forecast soaring sales of chip thermistors for temperature compensation crystal oscillator and chip antenna products. The market for advanced materials in China is also projected to continue growing. We will promote the realignment of overseas production bases and increased build up of our global network. The semiconductor market is forecast to expand further, boosting sales volume. In addition, we will fortify our sales drive for newly developed fine chemical products.

Fabricated Metal Products

	Millions of yen		Percentage change
	2000	1999	2000/1999
Net sales	¥301,246	¥296,773	1.5%
Operating profit	14,847	5,518	169.1
Depreciation	21,596	21,404	0.9
Capital expenditures	16,452	21,540	-23.6




Cutting tools

Mitsubishi Materials has earned a solid reputation as a top brand for fabricated metal products for automobiles and automotive components, and commands a top share of the domestic market. Our products in this segment are also used in information and telecommunications equipment and manufacturing machinery, and also include copper pipes and aluminum processing, such as aluminum cans. In fiscal 2000, sales of fabricated metal products increased 1.5%, to ¥301.2 billion, and accounted for 30.5% of net sales. Sales growth was attributable mainly to growing semiconductor and mobile telecommunication sales in the second half, overcoming a first-half slump in demand, the yen's appreciation against the U.S. dollar and dampened selling prices.

Hard-Metal Products and Diamond Tools

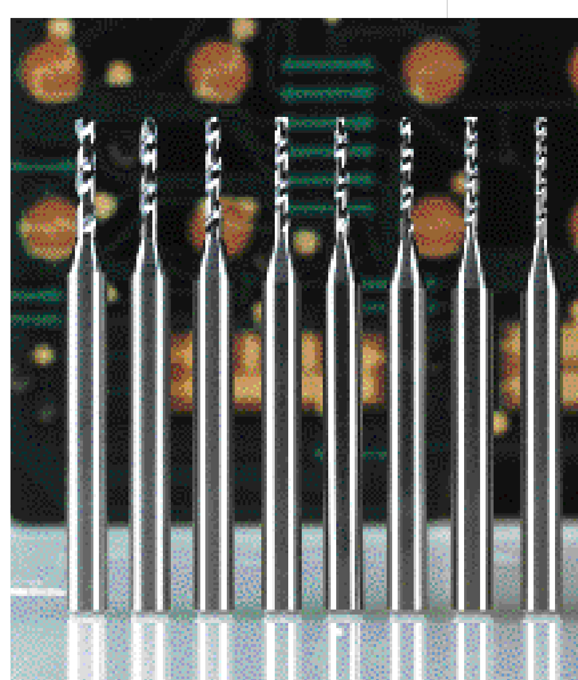
Sales for this category were ¥40.9 billion, a decrease of 5.0%. The business environment during this period was harsh, as key customers, namely automobile and automobile component manufacturers, pushed for further price discounts. Despite a first-half slump, however, demand rebounded in the second half for IT and electronics-related products, particularly those connected to the mobile phone and semiconductor industries, which saw the largest sales gains. Although levels of automotive production were high in North America, a stagnant business environment for petroleum-related products held back sales of fabricated metals. Demand in the European market also declined, owing to price-discounting pressure for certain products. In contrast, sales in Asia were favorable, reflecting a recovery in demand in Southeast Asia and Taiwan. The hard-metal product industry began to show signs of recovery, enabling us to maintain our leading market share in terms of shipments.

During the period under review, strategic investments in this category involved the acquisition of Shinko Kobelco Tool Co., Ltd., a subsidiary of Kobe Steel. Renamed MMC Kobelco Tool Co., Ltd., the company will reinforce our strong competitive position in the hard-metal product industry. We also integrated our domestic sales subsidiaries and fortified our global sales network.

Outlook

The domestic hard-metal products market is projected to grow gradually. Sales volume is expected to increase, supported by a sharp recovery in demand in the United States and Europe. We also look forward to enhancing sales through the launch of a new high-performance cutter, a collaboration with MMC Kobelco Tool in product development, production and sales, and the start of operations at MMC Diatitanit.

We will endeavor to expand sales in the diamond tools category by stepping up marketing of a popular precision-cutting tool and launching a chemical-mechanical polishing conditioner, as well as a back grinder. We will strive to increase our overseas sales ratio by participating in trade

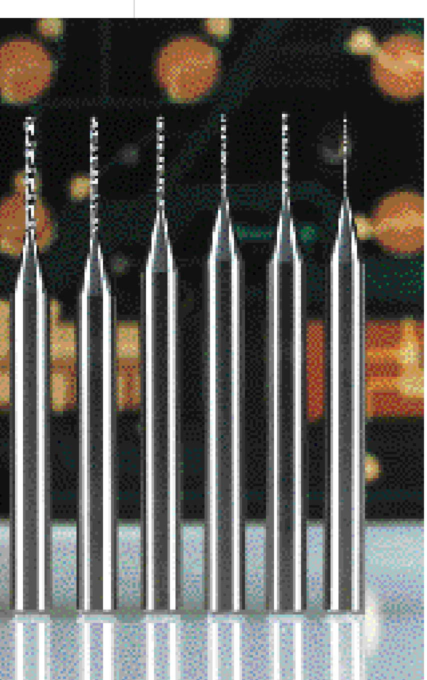

Miniature drills

shows in Taiwan and Southeast Asia to attract orders for electronic parts and from semiconductor users.

Powder Metallurgy, Molding Dies and Motors

Sales in this category increased 6.5%, to ¥33.5 billion. Powder metallurgy sales were propped up by the recovery in the automobile parts market. However, molding die sales dropped sharply as orders from magnetic tape manufacturers declined. A brisk market for weights for mobile phone vibrating motors and compact motors for digital cameras supported increased sales of electrical connectors and other micromotors. Sales in the United States and Malaysia soared, owing to the brisk economic growth in both countries.

Deliveries of metal components to the automotive industry are projected to climb slightly in fiscal 2001, while those to the household appliance industry will likely remain on a par with the previous year. Powder metallurgy products, electrical connectors and micromotor sales are expected to pick up, but molding die sales will likely continue to slide. We aim to further trim assets in this product category, as well as curtail interest-bearing debt by increasing earnings through the implementation of rationalization and cost-cutting measures.

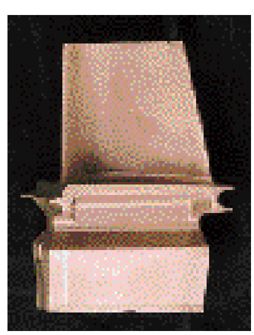


Copper Alloy Products, High-Performance Alloys and Others

Sales in this category rose 10.1%, to ¥70.4 billion. Demand for wire and copper products declined, owing to a slump in the electric wire industry, the chief destination for these products. Formed copper sales were favorable, but are expected to deteriorate in fiscal 2001 because of a sharp fall in orders for rough drawing wires. We plan to offset this sales decrease by raising production of copper alloys, developing manufacturing technologies for an rod oxygen free cable and pipe penetration system, and corrective measures to deal with copper powder, and launching new products.

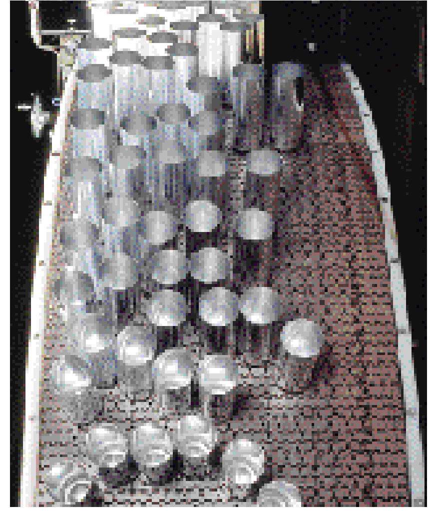
Copper pipe and tube sales increased, supported by worldwide demand. MMC Copper Tube (Thailand) Co., Ltd., which has been in operation for a full year, contributed substantially to sales. In fiscal 2001, we plan to differentiate ourselves from competitors by expanding sales of highly durable copper tubes, seamless tubes and other proprietary products. In cooperation with MMC Copper Tube (Thailand), we will continue to fully take advantage of our production system for copper products and promote cost reduction.

Although the performance of the automobile industry had bottomed and the industrial gas turbine market was active, total sales of high-performance alloy products declined owing to diminishing demand from the aerospace and chemical plant markets.



Single crystal turbine blade

High-performance copper tubing



Plain aluminum beverage cans

In fiscal 2000, total sales of high-performance alloy products are projected to decline, but we aim to maintain profit levels by further cost reduction and by entering into promising new markets such as data storage media and rechargeable batteries such as those made of lithium.

Aluminum Products

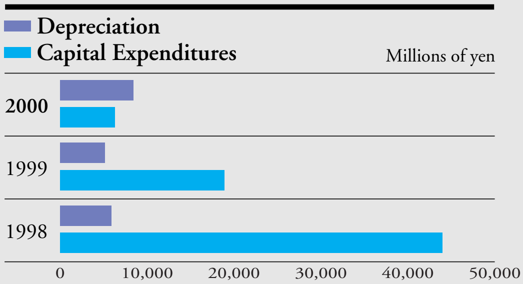
Sales of aluminum products amounted to ¥156.5 billion, down 1.2% from the previous period. For aluminum cans, sales and volume increased owing to high demand from the alcoholic beverage industry, compensating for a drop-off in orders from the non-alcoholic beverage industry.

In aluminum fabricated products, sales volume rose, supported by high demand for sheets for cans and extruded products used in automobile parts. However, sales fell, reflecting lower selling prices on such products as magnetic disc substrates.

In fiscal 2001, sales volume is forecast to grow, particularly as a result of demand from the alcoholic beverage industry. However, overall sales are not likely to improve, held back by falling selling prices. In response to these conditions, we will implement full-fledged cost-cutting measures, including the streamlining of our used beverage can recycling operations and the development of lighter aluminum cans as a means of reducing raw material costs. Furthermore, to maintain our high quality standards, we will introduce new testing equipment and revamp existing facilities.

Nonferrous Metals

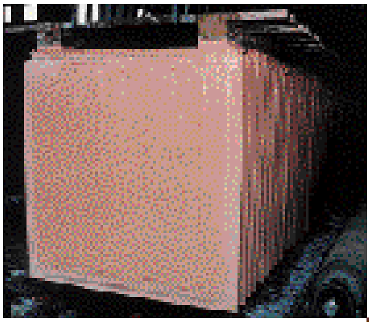
	Millions of yen		Percentage change
	2000	1999	2000/1999
Net sales	**¥203,792**	¥210,389	-3.1%
Operating profit (loss)	**(97)**	4,323	—
Depreciation	**8,417**	5,150	63.4
Capital expenditures	**6,289**	18,887	-66.7



Mitsubishi Materials' nonferrous metals operations encompass the production of copper, gold, lead, zinc and a variety of processed products. We are particularly noted for our integrated copper smelting, refining and processing capabilities for copper—essential for electric cable, wire and other infrastructure-related products, as well as for semiconductor lead frames and a host of other high-tech products. In addition to being Asia's largest gold producer, we also have processing operations for this metal. Sales in the nonferrous metals segment were down 3.1% in fiscal 2000, to ¥203.8 billion, and accounted for 20.7% of net sales.

Copper

Sales in this category grew 5.3%, to ¥74.9 billion. Demand for use in electrical wire was weak owing to a decline in capital spending by user industries and a prolonged slump in the construction industry. However, domestic sales and exports rose in terms of volume, supported by brisk demand for brass used in semiconductors. The yen's appreciation counteracted any benefits from higher overseas copper prices.



Electrolytic copper

PT. Smelting, in Indonesia, began full-scale production during the term, its first full year in operation. However, smelting margins dropped, owing to disadvantageous purchasing conditions for ore, which ultimately resulted in a loss at this unit.

Gold

Sales of gold and gold-related products dropped 24.7%, to ¥63.9 billion. Sales to individuals, as well as those for gold reserves, remained steady. In contrast, sales to large-scale buyers weakened, dragging down volume. A sharp fall in gold prices further deterred category sales. Despite flagging sales, income in this category was bolstered, as increased anode slime shipments from PT. Smelting contributed to higher production and enhanced sales of gold-related products.

Gold ingot

The Gold Shop, located on the first floor of Mitsubishi Materials' headquarters

PT. Smelting, in Indonesia

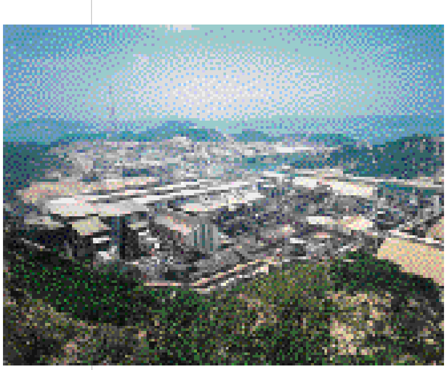
Other Nonferrous Metals

Sales in this category, which includes silver, sulfuric acid, lead and zinc, rose 19.4%, to ¥65.0 billion. Sulfuric acid sales decreased as operations were halted in April 1999 for furnace repairs at the Naoshima smelter. Exports also declined, but overall sales and income increased.

Outlook

Mitsubishi Materials expects to face another harsh year in this segment in fiscal 2001, as ore purchasing conditions continue to be unfavorable and the yen remains high against the dollar. However, we aim to boost earnings in our mainstay copper business by increasing production at the Naoshima smelter, streamlining personnel and fortifying recycling operations. We will step up marketing of precious metals, such as those used in manufacturing jewelry. Assets related to this business are expected to increase, owing to a build up in gold reserve deposits and growth in bullion.

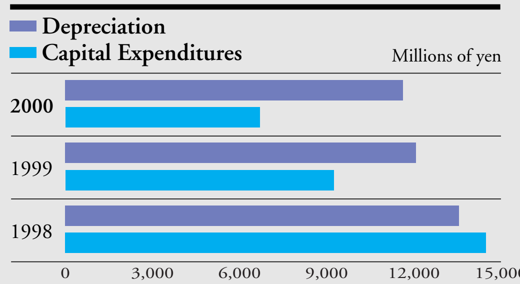
PT. Smelting plans to sell 180,000 tons of electrolytic copper, equivalent to 90% of its entire capability, in fiscal 2001. Onahama Smelting & Refining Co., Ltd., intends to establish a recycling business to deal with industrial waste emissions.



Naoshima smelter

Cement

	Millions of yen		Percentage change
	2000	1999	2000/1999
Net sales	**¥171,051**	¥185,302	-7.7%
Operating profit	**11,417**	9,334	22.3
Depreciation	**11,629**	12,078	-3.7
Capital expenditures	**6,691**	9,242	-27.6



In its cement operations, Mitsubishi Materials provides a wide range of products suited to meet the needs of each customer, offering a lineup from general-use cements to specialty cements. In addition to the development of raw materials, we are also devising production methods which utilize less energy. We will maximize profitability by recycling wastes, such as coal ash, blast-furnace scrub, sludge and waste tires, into raw materials and fuel for use in cement production. The broad application of recycled wastes in cement production will aid the Company in its endeavors to lower costs and boost revenues. In fiscal 2000, sales in this segment amounted to ¥171.1 billion, 7.7% lower than the previous year, and equivalent to 17.3% of net sales.

Domestic cement sales were in line with the previous year, as demand in the public-sector remained in line with the previous period and that from the private-sector picked up in the second half. This was despite a drop in private-sector demand in

Waste recycling plant

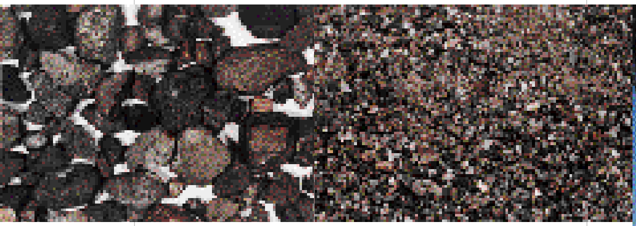
Ube-Mitsubishi Cement Corp. truck

the first half and the failure of the government's economic stimulus policies to boost demand immediately. Export volume surpassed that of the preceding period, supported by brisk shipments to Taiwan, but export sales fell as prices tumbled. Mitsubishi Cement Corp. of the United States recorded favorable performance as the U.S. economy continued to grow. In Japan, Mitsubishi Materials Kenzai Corp. posted sales gains on added demand from restoration works.

Outlook

Domestic cement sales are projected to decline to 70 million tons in fiscal 2001, reflecting flat public-sector demand, a minimal increase in private-sector capital spending and a decline in housing construction. Revenues from sand and gravel operations related to reclamation work are expected to climb as full-fledge construction begins at the No. 2 Terminal of the Kansai International Airport. Accordingly, overall segment sales are forecast to remain level with fiscal 2000. In contrast, profit will likely be bolstered by higher revenues from industrial waste processing and lower cement manufacturing costs. Under the Company's policy for strictly controlled capital investment, spending will be limited to such areas as industrial waste processing facilities and limestone silos.

Kyushu plant

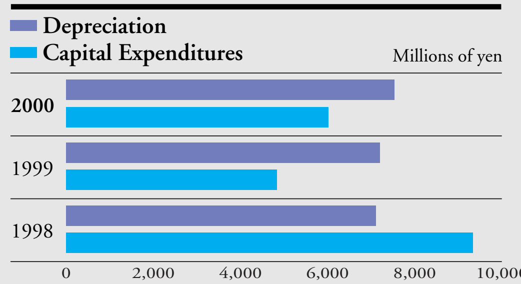


Diagate, created from recycled wastes

Distribution center, located in Daikoku-cho, near Yokohama

Energy- and Environment-Related Operations and Others

	Millions of yen		Percentage change
	2000	1999	2000/1999
Net sales	**¥178,021**	¥160,331	11.0%
Operating profit	**6,704**	8,547	-21.6
Depreciation	**7,539**	7,197	4.8
Capital expenditures	**6,025**	4,836	24.6



Energy- and environment-related operations encompass the sale of oil and coal, the production and sale of geothermal energy and nuclear fuel, nuclear fuel cycle engineering, and environmental protection and resource recycling businesses. Other operations encompass real estate business, including residential land development and the leasing of office buildings. In fiscal 2000, segment sales rose 11.0%, to ¥178.0 billion, and accounted for 18.0% of net sales.

Steadily increasing oil and gas prices have gradually hit energy industries in Japan, and the accident at JCO Co., Ltd., in September 1999, damaged trust in nuclear energy. Increasing awareness of environmental issues spurred growth in a variety of related markets, including nuclear fuel cycle services, notably the processing of radioactive waste, and recycling and environmental services, such as the recycling of discarded household appliances and other items.

Kanda Eco-Plant

Household appliance recycling plant

In the recycling and environmental services sector, the Kanda Eco-Plant in Fukuoka Prefecture is producing solid refuse-derived fuel (RDF) from ordinary and perishable refuse. To support our role in preserving the environment, we established East Japan Recycling Systems Corporation, Hokkaido Eco Recycle Systems Co., Ltd., and Kansai Recycling Systems Co., Ltd. with other household appliance makers to promote recycling activities. We entered into a joint project with Kawasaki Steel Corporation to develop environmental services using waste gasification and melting technologies, and established Japan Recycling Corporation with Kawasaki Steel for waste processing and thermal recycling services. We also established M&T Eco Corporation as a joint venture with Toyota Tsusho Corporation to process sewage sludge.

In the nuclear energy field, the Rokkasho project, constructing Japan's first commercial nuclear fuel reprocessing plant,

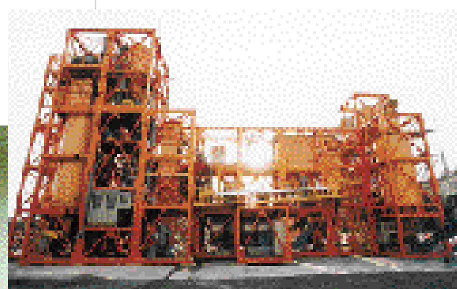
Nuclear fuel assemblies fabricated by Mitsubishi Nuclear Fuel Co., Ltd

added to sales from our nuclear fuel business. We continued with the installation of radioactive waste conditioning equipment at plants operated by Japanese Electric Utilities, the Japan Nuclear Cycle Development Institute and the Japan Atomic Energy Research Institute. We also continued to promote focused R&D in this area.

To draw lessons from the JCO accident

Sumikawa geothermal plant

Moveable system for recovering high-quality aggregate



and reinforce a safety culture in nuclear fuel fabrication, the International Network for Safety Assurance of Fuel Cycle Industries (INSAF) was established with four domestic and three overseas fuel manufacturers.

In geothermal operations, we aim to secure a steady supply of steam, design a system for efficiently storing and managing geothermal reserves, and develop new geothermal reservoirs.

Outlook

We are currently designing and will soon start construction of household appliance recycling plants for East Japan Recycling Systems, Hokkaido Eco Recycle Systems and Kansai Recycling Systems. We also continue to work toward the commercialization of a system for recovering high-quality aggregate from waste concrete and obtained certification from The Building Center of Japan for recovering structural aggregate (BCJ-AIBT-1). With Kawasaki Steel, we are operating our first Thermoselect waste processing unit in Chiba Prefecture. We received technical authentication/certification for waste processing from the Japan Waste Management Association. Construction of low-level radioactive waste disposal facilities in Rokkasho, Aomori Prefecture, now in Phase II, continued during the period. We are also undertaking assessment and consulting services for Japan Nuclear Fuel Ltd., and will also participate in Phase III of the project.

We continue to promote the use of supercritical fluid technologies in energy and recycling areas. We developed the DeDIOX plant for the treatment of offgas to reduce dioxin and furan content. We completed test operations with good results and commenced sales of this plant.

We received an order for highly effective exhaust gas treatment and ash solidification systems for household waste incineration plants both in Tonami, Toyama Prefecture, and in Yatsushiro, Kumamoto Prefecture. We are currently designing the plants and soon will start construction.

Real Estate

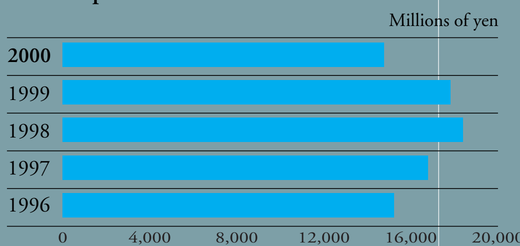
As a part of corporate structural improvements started in fiscal 1999, we continued to sell company-owned real estate to secure extraordinary profit and reduce interest-bearing debt. In fiscal 2000, we took drastic measures which included the sale of our headquarters' building, the OFS building, as well as the Sapporo Center Building, employee housing in the Tokyo metropolitan area, and properties belonging to our affiliates.

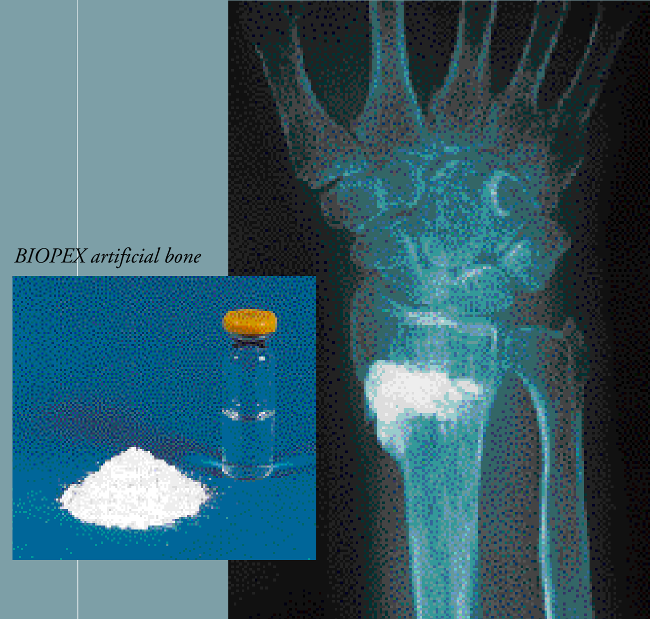
Outlook

We will continue to sell off real estate assets, in particular previously leased properties, to raise funds and improve our financial soundness.

Research and Development

R&D Expenses




BIOPEX artificial bone

Mitsubishi Materials is implementing a forward-looking research and development program that is firmly market orientated. In line with our conviction that such R&D efforts are the key to cultivating new core businesses, we are currently promoting a number of important projects. In particular, we are emphasizing next-generation new businesses, such as silicon products, systems for portable telecommunications equipment and information electronics. We are also conducting R&D aimed at positioning the Company to maximize opportunities in promising growth markets in the near future.

BIOPEX Artificial Bone

Mitsubishi Materials has developed an innovative bone filler in paste form, for which it received manufacturer's approval from the Ministry of Health and Welfare on November 19, 1999. The new product differs from contemporary artificial bone in that it can take on many shapes. The substance hardens quickly and converts to apatite, illustrating its superior biocompatibility (meaning the body's immune system does not reject it). Because new bone forms quickly, it is particularly suitable for the treatment of broken bones in elderly patients. It has many more clinical uses, including replacement of bone loss due to bone tumors and other diseases, and as filling to enclose gaps between host bones and artificial joints that do not utilize cement.

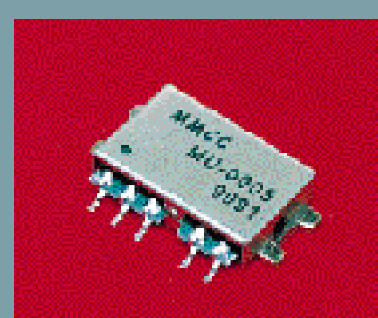
Mitsubishi Materials is continuously developing leading-edge products based on its accumulated knowledge of cements and ceramics. One such product is apatite artifical bone, which is already being used by doctors and dentists. BIOPEX is the newest of this line of products. It was developed by Mitsubishi Materials, based on patented technology held by Dr. Hideki Monma of the National Institute for Research in Inorganic Materials. The product is expected to be widely used to treat broken bones in elderly patients, suffering from osteoporosis or other bone ailments. The effects of the treatment are projected to largely improve the quality of life for senior citizens who have undergone bone reformation treatments.

BIOPEX comes in the form of a powder and liquid that must be mixed together to form a paste that takes 10 minutes to harden. The paste is injected into the bone area by a instrument similar to a syringe, so making incisions relatively small. It is also stronger than the cancellous tissue, an area commonly affected by osteoporosis.

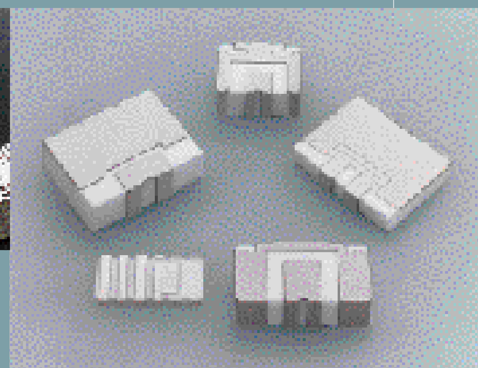
Mitsubishi Materials Readies Wireless Internet Platform, SWIFTcomm™ 2000

Mitsubishi Materials has completed the SWIFTcomm™ 2000, an Internet data communications system with 400 megahertz to gigahertz range, making it suitable for narrow- and wide-band systems. Testing for viability as a commercial system was performed in Oklahoma City and concluded in June 1999.

SWIFTcomm™ 2000 is the world's first Internet architecture to accommodate both narrow-band links, which are convenient for compact data transmission, and wide-band links crucial for large-scale business data communication on the Web. It was developed as a tool for the wireless data telecommunications market, which is expected to show stunning growth in the 21st century.


Power module

Wide-band, high-gain chip antennas



Ceramic chip antennas

The versatility of SWIFTcomm™2000 is invaluable to the creation of new businesses and the reorganization of existing business that already have rights to specified frequencies. It will prove to be a valuable tool for developing markets in new frequency ranges. The software promises synergies with a vast range of corporate systems that operate over the Internet, through intranets, and via other telecommunications formats. The original technology of SWIFTcomm™2000 consists of Internet Packet Multiple Access (IPMA™) technology enabling multiple access, and Khiva™ software, which allows for hands off and roaming throughout and across service areas, as well as providing Internet routing.

Services are scheduled to start up in the United States in 2001. To get more potential users to understand the superior features of the system, a demonstration unit will be set up in New York in October 2000.

Hallmark Wide-band, High-Gain Chip Antenna

In cooperation with FEC Corp. and Smart Card Technologies Co., Ltd., Mitsubishi Materials has developed a wide-band, "high-gain" chip antenna compatible with the 400-megahertz narrow-band frequency for digital wireless telecommunications. It was developed as a key component for portable information terminals to be used with the SWIFTcomm™ wireless Internet systems. The Company plans to market this product in the United States in 2001.

With the oncoming age of the "pervasive computer user," Mitsubishi Materials sought to develop a key component that would allow mobile telecommunications equipment access to the 400 megahertz frequency, said to be the best for communications.

This is projected to become a ¥100 billion market by 2003 and expand to ¥2 trillion by 2010. Mitsubishi Materials is hoping to claim 20% of the world market.

Mitsubishi Materials Chip Antenna for Bluetooth™ Support Receives Certification from Ericsson Microelectronics

Mitsubishi Materials was certified as the first Japanese "Bluetooth™ solution provider" for its AHD- and APD-series chip antennas by Ericsson Microelectronics AB, a subsidiary of the Swedish manufacturer of telecommunications equipment Telefonaktiebolaget LM Ericsson, and provider of the Bluetooth™ modules.

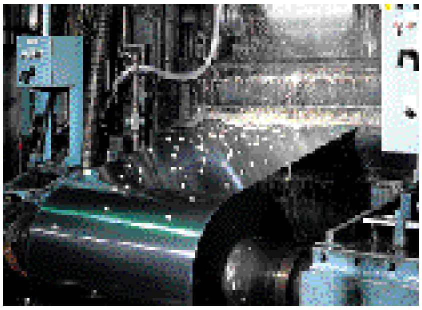
The AHD- and APD-series chip antennas will enable users of cellular telephones, notebook computers and other mobile electronic products to exchange digital data, including voice communications, in the 2.4-gigahertz band.

Certification highlights huge potential for Mitsubishi Materials technology to provide diverse products with wireless connectivity. Surface-mounted ceramic chip antennas developed by Mitsubishi Materials appear to have a big future in Bluetooth™ technology. Bluetooth™ is poised to become a de facto global standard for wireless communications. Ericsson has been especially influential in promoting the Bluetooth™ standard, so recognition from Ericsson Microelectronics is a highly prestigious public acknowledgement of attainment in Bluetooth™-related technology, which certifies Mitsubishi Materials as a reliable source for top-quality Bluetooth™-compatible equipment. Ericsson Microelectronics furnishes users of its Bluetooth™ modules and its semiconductor chips with a list of certified Bluetooth™ solution providers. As a certified provider of antennas, Mitsubishi Materials is off to a fast start in the immensely promising market for Bluetooth™-compatible systems. Mitsubishi Materials recently began mass-producing the ceramic chip antennas on a newly completed manufacturing line with a current line capacity of one million antennas a month. The Company plans to increase output in step with the growth in demand expected in 2001.

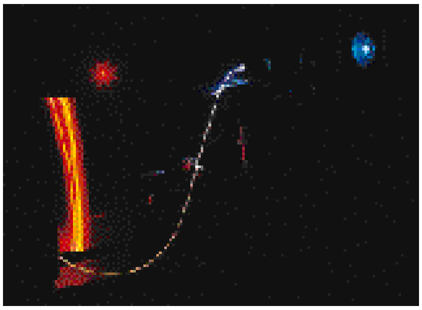
Main Subsidiaries and Affiliates

(as of June 30, 2000)

Main Consolidated Subsidiaries	Line of Business	Percentage of Ownership
Altechno Co., Ltd.	Production and sales of fabricated metal products	100% (indirectly)
Chitose Silicon Corp.	Production of silicon wafers	100% (indirectly)
Dia Consultants Co., Ltd.	Soil analysis and consulting	74%, 7% (indirectly)
Diasalt Corp.	Production and sales of salt	100%
Hawaiian Rock Products Corp. (Guam)	Production and sales of ready-mixed concrete	100% (indirectly)
Heisei Minerals Corp.	Copper mining and production of copper concentrates	60%
Higashifuji Manufacturing Co., Ltd.	Production of micromotors and electric contacts	100%
Hokuryo Sangyo Co., Ltd.	Sales of fuel	89%, 6% (indirectly)
Japan New Metals Co., Ltd.	Production and sales of tungsten and molybdenum	89%, 11% (indirectly)
Kamaya Electronic Co., Ltd.	Production and sales of electronic parts	63%
MA Disc Inc.	Production of hard disk substrates	100% (indirectly)
MA Packaging Co., Ltd.	Production and sales of flexible packagings	50%, 50% (indirectly)
Material-Finance Co., Ltd.	Financing	100%
MCC Development Corp.	Investment in cement-related industries	73%
Mitsubishi Aluminum Co., Ltd.	Production and sales of aluminum sheets, extrusion and foil	67%
Mitsubishi Cement Corp.	Production and sales of cement	67%
Mitsubishi Materials Energy Corp.	Sales of fuel	100%
Mitsubishi Materials Kenzai Corp.	Production and sales of concrete products and other building materials	78%, 0.3% (indirectly)
Mitsubishi Materials Natural Resources Development Corp.	Soil analysis and consulting	100%
Mitsubishi Materials Polycrystalline Silicon Corp.	Production and sales of polycrystalline silicon	100%
Mitsubishi Materials Quartz Corp.	Production and sales of quartz crucibles	100%
Mitsubishi Materials Silicon Corp.	Production and sales of silicon wafers	100%
Mitsubishi Materials U.S.A. Corp.	Surveys in the United States and sales of fabricated metal products	100%
Mitsubishi Nuclear Fuel Co., Ltd.	Production and sales of nuclear fuels for power generation	66%
Mitsubishi Polycrystalline Silicon America Corp.	Production and sales of polycrystalline silicon	80%, 20% (indirectly)
Mitsubishi Silicon America Corp.	Production and sales of silicon wafers	80%, 16% (indirectly)



Aluminium foil produced at Mitsubishi Aluminium Co., Ltd.



Samarium ion-doped fiber, manufactured by Mitsubishi Cable Industries Co., Ltd.

Magenet wire being wound at Optec Dai-Ichi Denko Co., Ltd.

Main Consolidated Subsidiaries	Line of Business	Percentage of Ownership
M.K. Finance Co., Ltd.	Financing	100%
MMC Copper Tube (Thailand) Co., Ltd.	Production and sales of copper tubes	100%
MMC Diatitanit Co., Ltd.	Sales of fabricated metal products	59%
MMC Kobelco Tool Co., Ltd.	Production and sales of fabricated metal products	100%
Nevada Ready Mix Corp.	Production and sales of ready-mixed concrete	100% (indirectly)
Onahama Smelting & Refining Co., Ltd.	Smelting and refining of copper	47%
Ote Technological Engineering Corp.	Technical engineering and construction	100%
PT MSIL Indonesia	Production of silicon wafers	30%, 70% (indirectly)
PT. Smelting	Smelting, refining and marketing of copper	61%
Ryokin Corp.	Real estate	100%
Ryoko Lime Industry Co., Ltd.	Limestone quarrying	100%
Ryoko Sangyo Co., Ltd.	Trading	68%
Sambo Copper Alloy Co., Ltd.	Production and sales of copper and brass mill products	38%
Sanko Materials Co., Ltd.	Trading	90%
Seibu Construction Co., Ltd.	Construction	90%
Shinryo Aluminum Can Recycling Center Co., Ltd.	Recycling of aluminum cans	99%
Tachibana Metal Manufacturing Co., Ltd.	Production and sales of fabricated aluminum products	15%, 46% (indirectly)
Tohkem Products Corp.	Production and sales of titanium dioxide and fluoride	100%

Main Affiliates*	Line of Business	Percentage of Ownership
Mitsubishi Cable Industries Co., Ltd.**	Production and sales of electric wire and cable	29%
Mitsubishi Construction Co., Ltd.**	Construction	26%
Mitsubishi Shindoh Co., Ltd.**	Production and sales of copper and copper alloy sheets and tubes	28%, 0.2% (indirectly)
Nippon Aerosil Co., Ltd.	Production and sales of finely dispersed silica	20%
Optec Dai-Ichi Denko Co., Ltd.	Production and sales of magnet wire	30%
P.S. Corp.**	Construction	39%, 3% (indirectly)
Tokyohoso Kogyo Co., Ltd.	Construction	39%
Ube-Mitsubishi Cement Corp.	Marketing of cement	50%

*Companies to which the equity method is applied
**Companies the shares of which are listed on the Tokyo Stock Exchange

The Hachidoyama tunnel, built by Mitsubishi Construction Co., Ltd., in Matsuyama, Ehime Prefecture

Mitsubishi Shindoh Co., Ltd., produces materials for use in leadframes

Ibigawa Bridge, part of the Daini-Meishin Highway, built using prestressed concrete produced by P.S. Corp.

Board of Directors, Executive Officers and Corporate Auditors

(as of June 30, 2000)

Chairman
Yumi Akimoto

President
Akira Nishikawa*

Executive Vice Presidents
Toru Kanda*
Hideo Suzuki*•
Naoyuki Hosoda*•

Managing Directors
Tozo Naito*
Yoshio Fujiwara*•
Akikuni Nozoe*•
Susumu Ogino*•
Akihiko Ide*

Director
Yukio Okamoto†

Senior Executive Officers
Hiroshi Fujii
Shiro Mitsunari
Tamotsu Ishii
Rikuo Takano
Masatoshi Hayata
Makoto Noda
Masahiro Nishida
Takashi Matsumoto

Executive Officers
Sakae Mori
Masaki Morikawa
Tsuneo Katsuki
Koichi Kitamura
Susumu Goto
Yoshihiko Sugano
Yoshiro Eguchi
Haruhiko Asao
Asaaki Sato
Hiroshi Okamoto
Keizo Osaki
Nobuaki Naito
Hiroshi Ueki
Masao Hirano
Yoshihisa Ueda

Corporate Auditors (Standing)
Susumu Kasuga
Katsuyoshi Hanawa
Yoshimitsu Moriya
Makoto Kasa

Corporate Auditor
Takuji Shidachi

* Member of the Management Committee
• Senior Executive Officer
† External

Mitsubishi Materials' Management Committee, comprising the president of the Company and seven directors, was established in June 1998, to deal more effectively with issues affecting the Company as a whole, such as the formulation of corporate strategies. The Committee also contributes to timely decision making, efficient management and competent monitoring of profit performances. To further promote these areas, in June 2000 we implemented an executive officer system. Moreover, in a staunch effort to enhance corporate governance, Mitsubishi Materials' boardroom now includes one external director.

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Ten-Year Summary

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2000, 1999, 1998, 1997, 1996, 1995, 1994, 1993, 1992 and 1991

				Millions of yen	Thousands of U.S. dollars
	2000	1999	1998	1997	**2000**
For the Year					
Net Sales	**¥ 986,884**	¥ 983,784	¥1,196,008	¥1,186,715	**$ 9,297,070**
Cost of Sales	**825,097**	830,129	981,916	971,022	**7,772,934**
Operating Profit	**27,229**	10,405	56,744	59,615	**256,514**
Net (Loss) Income	**(12,075)**	(34,853)	10,071	14,744	**(113,754)**
Depreciation and Amortization	**74,592**	74,038	80,575	72,886	**702,704**
Gross Cash Flow	**62,517**	39,185	90,646	87,630	**588,950**
R&D Expenses	**14,762**	17,830	18,401	16,791	**139,067**
Balance at End of Year					
Total Assets	**1,671,000**	1,605,671	1,679,207	1,643,332	**15,741,875**
Long-Term Liabilities	**603,096**	580,446	534,378	459,818	**5,681,545**
Shareholders' Equity	**231,559**	243,356	312,386	307,549	**2,181,433**
Number of Shares of Common Stock (Thousands)	**1,117,315**	1,117,315	1,134,153	1,134,153	

				Yen	U.S. dollars
	2000	1999	1998	1997	**2000**
Per Share Amounts					
Net (Loss) Income	**¥(10.8)**	¥(30.9)	¥8.9	¥13.0	**$(0.10)**
Cash Dividends Applicable to the Year	**1.5**	—	5.0	5.0	**0.01**
Ratios					
Return on Assets	**–0.7%**	–2.1%	0.6%	0.9%	
Return on Equity	**–5.1**	–12.5	3.2	4.9	

						Millions of yen
	1996	1995	1994	1993	1992	1991
For the Year						
Net Sales	¥1,127,736	¥1,151,261	¥1,064,307	¥1,145,425	¥1,165,863	¥ 950,678
Cost of Sales	923,742	959,824	898,923	955,992	963,596	812,108
Operating Profit	58,968	43,878	32,036	47,442	66,264	60,473
Net Income (Loss)	11,358	(3,745)	(2,929)	317	35,130	45,458
Depreciation and Amortization	66,692	61,497	68,379	65,369	59,973	35,320
Gross Cash Flow	78,050	57,752	65,550	65,686	95,103	80,778
R&D Expenses	15,233	15,281	14,826	16,281	15,990	10,814
Balance at End of Year						
Total Assets	1,557,287	1,483,328	1,417,254	1,443,097	1,490,177	1,347,804
Long-Term Liabilities	410,932	320,074	274,757	339,559	343,920	322,648
Shareholders' Equity	298,583	290,519	308,555	316,663	324,092	290,074
Number of Shares of Common Stock (Thousands)	1,134,082	1,134,082	1,134,082	1,134,082	1,134,082	1,088,836

						Yen
	1996	1995	1994	1993	1992	1991
Per Share Amounts						
Net Income (Loss)	¥10.0	¥(3.3)	¥(2.5)	¥0.3	¥31.6	¥55.4
Cash Dividends Applicable to the Year	5.0	5.0	5.0	7.0	7.0	7.0
Ratios						
Return on Assets	0.7%	–0.3%	–0.2%	0.0%	2.5%	—
Return on Equity	3.9	–1.3	–0.9	0.1	11.4	—

Notes: 1. Yen figures have been translated into U.S. dollars at the rate of ¥106.15 to US$1 solely as a convenience to readers.
2. Mitsubishi Materials was formed in the year ended March 31, 1991, through the merger of Mitsubishi Metal Corporation and Mitsubishi Mining & Cement Co., Ltd. Accordingly, ratios for the Company are not available for the year of the merger.

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

Overview

For the year ended March 31, 2000	Millions of yen	Thousands of U.S. dollars	Percentage change (2000/1999)
Net sales	¥986,884	$9,297,070	0.3%
Operating profit	27,229	256,514	161.7
Net (loss) income	(12,075)	(113,754)	—

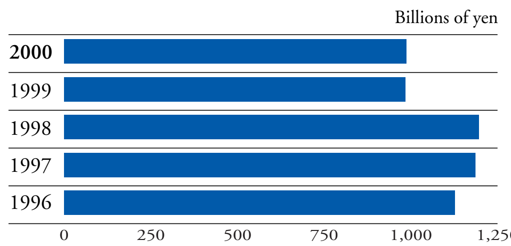
	Yen	U.S. dollars	Percentage change (2000/1999)
Net (loss) income per share	¥(10.8)	$(0.10)	—

Japan's economy remained stagnant in the period under review, as uncertainty about the country's financial system remained prevalent and the unemployment rate hit a post-war record high of 4.9%. Any chance of a solid recovery was hampered by the prolonged slump in consumer spending and private-sector capital investment. This was despite government efforts to jump-start the economy with various pump-priming measures for fiscal finance and taxation, as well as revisions to the financial and legal systems. However, during the second half of the period, the economy did pick up slightly, as faith in the nation's financial system was improved, demand for IT increased and a rebound in Asia's economies provided stability to exports.

Economic growth in the United States continued, as fears of a sudden drop-off in the near future were overcome. Industrial structural changes in the U.S. also progressed. The economy in Europe was boosted by structural reform as the industrial sector there focused on the development of new technologies. After struggling through fiscal 1999, economies in Asia began showing rapid improvement in fiscal 2000.

In this challenging environment, Mitsubishi Materials recorded net sales of ¥986.9 billion, a 0.3% increase, and an operating profit of ¥27.2 billion, up 161.7%. The Company continued to post a net loss, of ¥12.1 billion, though this was a vast improvement over the previous year's net loss of ¥34.9 billion.

Net Sales



Net Sales and Operating Profit by Segment

Net sales for the Silicon and Advanced Materials segment increased 1.4%, to ¥132.8 billion, reflecting the revival of demand from the semiconductor industry in Asia. Prices for wafers also halted their decline. Revenue from advanced materials slipped below the previous year as customers bid for lower prices. The segment posted an operating loss of ¥1.4 billion, compared with its fiscal 1999 operating loss of ¥8.8 billion.

In the Fabricated Metal Products segment, net sales climbed 1.5%, to ¥301.2 billion, reflecting the strength of second-half sales to the semiconductor industry, which helped overcome drab domestic demand, the yen's appreciation against the dollar and price discounting in the first half. The segment's operating profit skyrocketed 169.1%, to ¥14.8 billion.

Net sales in the Nonferrous Metals segment fell 3.1% in fiscal 2000, to ¥203.8 billion. Volume sales of copper rose supported by brisk demand from the semiconductor industry. However, the yen's appreciation against the dollar trimmed copper prices and smelting prices also tumbled. Gold bullion suffered a decrease in both volume and price. As a result, the segment recorded an operating loss of ¥97 million, in comparison with an operating profit of ¥4.3 billion in fiscal 1999.

The Cement segment recorded a 7.7% decline in net sales, to ¥171.1 billion. A slow start in the first half of the period hurt overall segment sales for fiscal 2000. However, a steady stream of public works in the second half of fiscal 2000, and private-sector demand, equivalent to that of fiscal 1999, provided downside support. Exports, mainly to Taiwan, also contributed, but prices dwindled below the previous year's level. Notwithstanding, operating profit for the segment rose 22.3%, to ¥11.4 billion.

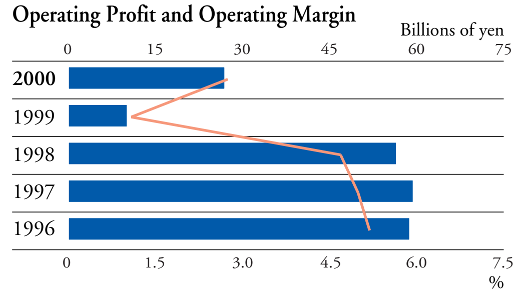
Net sales in the Energy- and Environment-Related Operations and Others segment amounted to ¥178.0 billion, an 11.0% increase. Progress in nuclear power plant-related construction pushed up sales. However, sales of geothermal power plants declined, as did those for fuel-cycle services and real estate. These factors led to a fall in segment operating profit of 21.6%, to ¥6.7 billion.

	Millions of yen			Thousands of U.S. dollars
For the years ended March 31	**2000**	1999	1998	**2000**
Silicon and Advanced Materials				
Net sales	**¥132,774**	¥130,989	¥159,514	**$1,250,815**
Operating profit (loss)	**(1,411)**	(8,809)	9,682	**(13,292)**
Operating margin	**—**	—	6.1%	
Fabricated Metal Products				
Net sales	**301,246**	296,773	328,199	**2,837,927**
Operating profit	**14,847**	5,518	16,313	**139,868**
Operating margin	**4.9%**	1.9%	5.0%	
Nonferrous Metals				
Net sales	**203,792**	210,389	296,429	**1,919,849**
Operating profit (loss)	**(97)**	4,323	14,692	**(914)**
Operating margin	**—**	2.1%	5.0%	
Cement				
Net sales	**171,051**	185,301	208,119	**1,611,408**
Operating profit	**11,417**	9,334	13,576	**107,555**
Operating margin	**6.7%**	5.0%	6.5%	
Energy- and Environment-Related Operations and Others				
Net sales	**178,021**	160,331	203,747	**1,677,071**
Operating profit	**6,704**	8,547	11,968	**63,156**
Operating margin	**3.8%**	5.3%	5.9%	

Operating Profit and Expenses

The Company managed to reduce cost of sales 0.6%, to ¥825.1 billion. Accordingly, gross profit increased 5.3%, to ¥161.8 billion, while the gross margin widened to 16.4%, from 15.6% in fiscal 1999. Selling, general and administrative expenses dipped 6.1%, to ¥134.6 billion, equivalent to 13.6% of net sales, 1.0% less than the previous period. However, operating profit soared 161.7%, to ¥27.2 billion, reflecting the outcome of ardent cost-cutting measures. The operating margin rose to 2.8%, a 1.7% increase from the previous year.

Operating Profit and Operating Margin



For the years ended March 31	Millions of yen 2000	Millions of yen 1999	Thousands of U.S. dollars 2000	Percentage change 2000/1999
Selling, General and Administrative Expenses				
Freight charges	**¥ 29,577**	¥ 33,273	**$ 278,634**	–11.1%
Depreciation and amortization	**4,481**	3,562	**42,214**	25.8
Provision for reserve for retirement allowances	**1,879**	1,570	**17,701**	19.7
Provision for reserve for directors’ retirement allowances	**453**	317	**4,268**	42.9
Provision for reserve for bonuses	**7,333**	7,486	**69,081**	–2.0
Salaries	**28,221**	29,014	**265,860**	–2.7
R&D expenses	**14,762**	17,830	**139,067**	–17.2
Others	**47,852**	50,198	**450,796**	–4.7
Total	**¥134,558**	¥143,250	**$1,267,622**	–6.1%

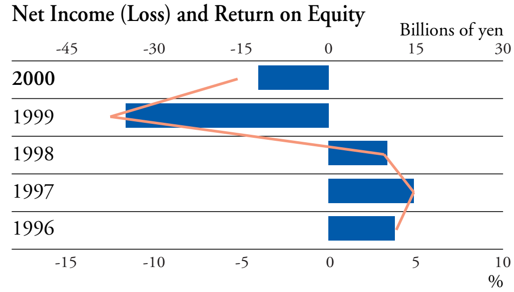
Other Income and Expenses

Net other expenses amounted to ¥43.1 billion, a year-on-year decrease of 16.2%. Meanwhile, the Company took in ¥27.4 billion in gain on the sale of property, plant and equipment and ¥9.6 billion gain on the sale of marketable securities and investments in securities. However, this was countered by an earlier than scheduled ¥7.1 write-off of past retirement benefits and ¥11.2 billion in foreign exchange losses at the Company’s financial subsidiary. As a consequence, the Company recorded a loss before income taxes and minority interests of ¥15.9 billion.

Net Income

After income taxes of ¥1.8 billion, Mitsubishi Materials recorded a net loss of ¥12.1 billion, compared with a net loss of ¥34.9 billion in fiscal 1999. Net loss per share was ¥10.8, an improvement over a net loss per share of ¥30.9 in the previous period. We shelved our dividend in fiscal 1999 in consideration of improving our cash flow. However, as we are steadily seeing improvement in earnings at the operating profit level, we implemented a ¥1.5 dividend at the end of fiscal 2000.

Net Income (Loss) and Return on Equity



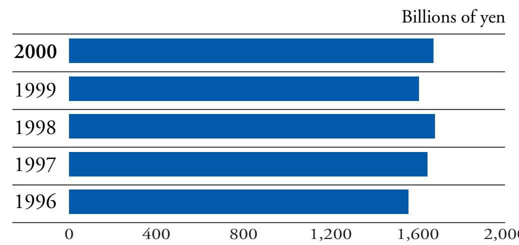
Financial Position and Liquidity

Mitsubishi Materials' total current assets as of March 31, 2000, were ¥652.0 billion, up 9.5% from the end of fiscal 1999, owing to the recording of gold-denominated deposits. During the period under review, to reduce interest-bearing debt, the Company curtailed capital expenditures to well under depreciation. In addition, we sold our headquarters' building and other assets. But we consolidated several large-scale affiliates, such as MMC Kobelco Tool. Property, plant and equipment, less accumulated depreciation, totaled ¥807.0 billion, compared with ¥812.5 billion a year earlier. Accordingly, total assets amounted to ¥1,671.0 billion, up 4.1%, supported by an increase in consolidated subsidiaries.

Total current liabilities were ¥800.1 billion, up 6.4%, reflecting the recording of gold-denominated deposits. Accordingly, the current ratio rose to 81.5%, from 79.2%. Total long-term liabilities amounted to ¥603.1 billion, up 3.9% from the end of fiscal 1999, owing to an increase in deferred income tax liabilities and write-down of reserve for foreign exchange losses.

Total shareholders' equity decreased 4.8%, to ¥231.6 billion, reflecting a net loss for the period of ¥12.1 billion. The equity ratio dipped to 13.9%, compared to 15.2% for fiscal 1999.

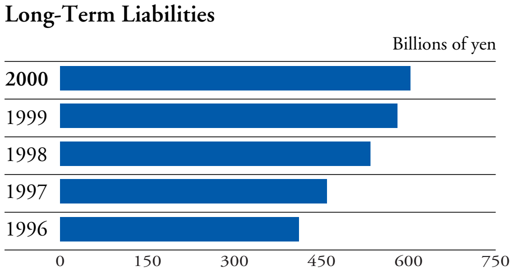
Total Assets



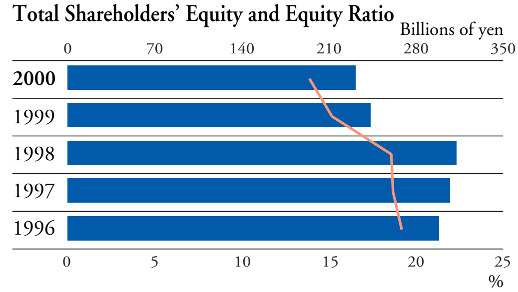
(%)

At the year ended March 31	**2000**	1999	1998
Equity ratio	**13.9**	15.2	18.6

Long-Term Liabilities



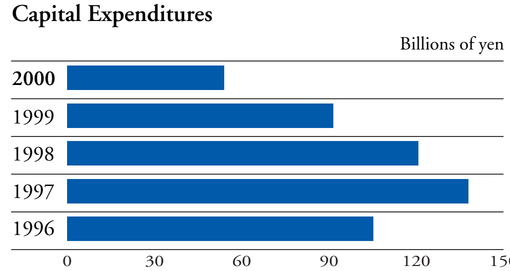
Total Shareholders' Equity and Equity Ratio



Capital Expenditures

With the aim of curtailing interest-bearing debt, the Company focused capital expenditures on carefully selected projects in existing core business areas and reduced total outlays. As investments in major overseas projects subsided, spending centered mainly on repairs and maintenance. Total outlays for fiscal 2000 were ¥54.0 billion, 40.9% lower than a year earlier, far below the level of depreciation for the period. We will continue to maintain a highly discerning stance regarding capital spending.

Capital Expenditures



Cash Flows

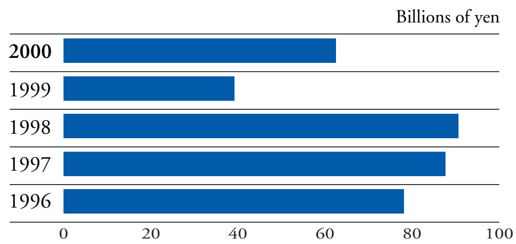
Net cash provided by operating activities amounted to ¥48.9 billion, down from ¥102.2 billion in the previous term, primarily because of a build up in provision for foreign exchange losses of ¥12.2 billion, foreign exchange losses of ¥8.9 billion, and a decrease in notes and accounts receivable of ¥24.6 billion, compared with ¥73.2 billion in fiscal 1999.

Net cash used in investing activities totaled ¥13.8 billion, compared with ¥99.0 billion in the previous period, as a result of outlays for purchases of property, plant and equipment and an increase in proceeds from sales of the same.

Net cash used in financing activities totaled ¥15.0 billion, compared with ¥4.1 billion used in fiscal 1999. During the period, the Company increased its repayments of long-term debt to ¥72.9 billion.

As a consequence of these activities, cash at end of year totaled ¥77.2 billion, up ¥20.2 billion from the previous period.

Gross Cash Flow



	Millions of yen			Thousands of U.S. dollars
For the years ended March 31	**2000**	1999	1998	**2000**
Gross cash flow	**¥62,517**	¥39,185	¥90,646	**$588,950**

Outlook for Fiscal 2001

Japan's economy is not forecast to recover fully in fiscal 2001. The government will continue to institute pump-priming measures, and further recovery by economies in Asia will support a gradual turnaround in overall corporate performance. Meanwhile, in the world economy, further expansion is forecast for the United States and European economies, despite a projected slowdown in the fast-paced growth experienced up until now.

With the operating environment in Japan likely to remain challenging for the rest of the period and product prices expected to remain low, Mitsubishi Materials does not anticipate a significant improvement in domestic sales in fiscal 2000. However, the Company is confident that its efforts to counter pessimistic operating conditions through wider cost reductions will ensure stable growth in operating profit. The Company will also focus on reducing interest-bearing debt by restraining capital expenditures and shrinking assets.

Frequently Asked Questions

1. Can you give us details on how Mitsubishi Materials is planning to reduce its interest-bearing debt?

Our outstanding interest-bearing debt as of March 31, 2000, was ¥1,023.4 billion. We plan to curtail this to ¥850 billion by March 31, 2001, by curbing capital expenditures, selling assets, reducing cash-on-hand and securitizing debt. Once this is accomplished, we will continue to control capital outlays to ensure steady profits. Over the medium term, we expect to cut our interest-bearing debt to ¥800 billion by March 31, 2003.

2. To what extent has Mitsubishi Materials curtailed its assets?

We disposed of a total of ¥57.7 billion in assets during fiscal 2000. We sold ¥41.0 billion in fixed tangible assets, generating ¥30.0 billion in gain from the sale. The largest sale consisted of our headquarters' building. In addition, we sold ¥16.0 billion in marketable securities. Of this, ¥6.0 billion was related to the transfer of equity in Nippon Aerosil, of which proceeds from this sale were ¥5.8 billion.

3. Can you outline the launch of your 300-millimeter (12-inch) silicon wafer operations, and future plans?

Mitsubishi Materials, in an alliance with Sumitomo Metal Industries, established Silicon United Manufacturing Corporation (SUMCO) in July 1999 to develop and manufacture 300-millimeter (12-inch) silicon wafers. SUMCO will begin construction of the wafer plant from July 2000. Front-end crystallization processing will be handled at our Yonezawa plant. All other processes from the slicing stage will be done at Sumitomo Metal Industries' Imari plant. Production is scheduled to start at the beginning of 2002. Initially at an investment of ¥60 billion, the plant will be equipped to produce 100,000 wafers per month. However, we plan to spend another ¥30 billion to boost production capacity to 200,000 wafers per month.

4. Can you tell us what Mitsubishi Materials' view is on alliances?

We recognize that limiting alliances to within the Mitsubishi Group would constrict our ability to globalize operations and render us unable to respond properly to the structural changes taking place in industry. Ultimately, we would be losing out on business opportunities. We are looking to promote alliances that will offer prime advantages to our business operations.

- Our 300-millimeter silicon wafer alliance with Sumitomo Metal Industries will allow us to capture the top share of the global market.
- Our alliance with Kobe Steel, which also involves our affiliate Mitsubishi Shindoh, will boost our share of the domestic leadframe material. We will participate in the development of alloys used for raw materials and the supply of formed copper products.
- An alliance in the area of magnet wires was formed between Sumitomo Electric Industries and Optec Dai-Ichi Denko, of which we own 30%. This is a field in which Optec Dai-Ichi Denko holds a 20% domestic market share, while Sumitomo Electric Industries has 12%. We also have a global strategic partnership with the French company Alcatel, which is the third largest shareholder of Optec Dai-Ichi Denko.
- In cement, we have an alliance with Ube Industries, Ltd. Together we operate the cement distribution and sales company Ube-Mitsubishi Cement Corp. In addition, the R&D operations of both companies were merged in October 1999. We also have distribution agreements with Sumitomo Osaka Cement Co., Ltd. We hope to lower cost and improve market share to strengthen our competitiveness.

We plan to continue promoting the creation of effective alliances to fortify our competitiveness.

5. What is Mitsubishi Materials' basic stance on risk management?

•Safety management of nuclear power-related operations

The nuclear accident at JCO, Tokai-mura, Ibaraki Prefecture, in 1999, reaffirmed our conviction to maintaining safe operations. We established a Nuclear Power Safety Measures Committee in December 1999, to improve safety measures for our nuclear power-related operations and to provide better response in the event of an accident. Moreover, to enhance our safety management, we set up a supervisory body in our Environment Administration Department.

The specific functions of the supervisory body include a twice annual inspection of nuclear power-related operations executed by the chief inspector for nuclear power safety. We are also participating actively in the International Network for Safety Assurance of Fuel Cycle Industries (INSAF) to upgrade our safety management techniques and implement information-sharing related to safety matters.

INSAF, under the leadership of Chairman Akimoto, was established on April 27, 2000, with the goal of creating worldwide standards on nuclear safety. INSAF plans to exchange information on safety strategies with organizations worldwide.

•Derivative management

Foreign currency forward contracts are used mainly for the purpose of hedging. These forward contracts are made to cover payments for ore imports and used for the forward deliveries of nonferrous metals such as aluminum. We also utilize interest rate swap contracts to control the cost of procuring funds.

We have devised management standards that outline the authorization of trading, the establishment of ceilings for contract and the handling of foreign currency forward contracts, all of which are handled by our Controllers' Department. Commodity futures transactions, forward deliveries and options are handled by each respective division.

6. Can you address Mitsubishi Materials' position on environment issues?

Our nonferrous and cement operations have an image of being heavy users of natural resources. Because of this, we have always made a conscious effort to preserve the environment and reduce the burden that our operations may have on it. In 1997, we pledged to "work to preserve the environment, efficiently utilize resources and recycle waste back into reusable materials." Reflecting this, in September 1998, we organized an environmental program under the name of the Green Productivity Management, to fortify our stance in addressing environmental issues. Under this scheme, we have implemented measures directed toward contributing to a recycling-oriented society, with the simultaneous goal of improving productivity and preserving the environment.

In the fall of 1999, we published an Environmental Report as a part of our program and will continue to do so annually. The report is available at our homepage http://www.mmc.co.jp/english/corporate/environment/index.html.

Environmental issues are a prime concern of our management and we aim to center our operations around environmental topics and to contribute to the creation of an environment-conscious society.

Consolidated Balance Sheets

Mitsubishi Materials Corporation and Subsidiaries
March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	2000
ASSETS			
Current Assets:			
Cash (Note 4)	¥ 77,210	¥ 57,056	$ 727,367
Marketable securities (Notes 4 and 11)	91,441	102,945	861,432
Notes and accounts receivable (Note 4):			
Trade	208,332	192,020	1,962,620
Unconsolidated subsidiaries and affiliates	31,123	49,095	293,198
Others	19,923	19,838	187,687
Inventories (Notes 3 and 4)	173,636	163,145	1,635,761
Deferred income taxes (Note 7)	7,346	4,750	69,204
Other current assets	47,353	11,290	446,095
Allowance for doubtful accounts	(4,383)	(4,669)	(41,291)
Total current assets	651,981	595,470	6,142,073
Investment and Long-Term Receivables:			
Investments in securities (Notes 4 and 11)	34,089	33,827	321,140
Unconsolidated subsidiaries and affiliates (Notes 4 and 11)	90,406	109,337	851,682
Long-term receivables	17,608	21,973	165,878
Others	42,651	36,478	401,799
Allowance for doubtful accounts	(17,270)	(25,829)	(162,694)
Total investments and long-term receivables	167,484	175,786	1,577,805
Property, Plant and Equipment (Notes 4 and 11)**:**			
Land	191,977	145,990	1,808,545
Buildings and structures	480,445	468,550	4,526,095
Machinery and equipment	1,067,505	938,352	10,056,571
Construction in progress	23,071	125,018	217,343
	1,762,998	1,677,910	16,608,554
Less accumulated depreciation	(956,039)	(865,415)	(9,006,491)
Net property, plant and equipment	806,959	812,495	7,602,063
Other Assets:			
Deferred income taxes (Note 7)	15,158	5,600	142,798
Foreign currency translation adjustments	16,186	6,006	124,654
Others	13,232	10,314	152,482
Total other assets	44,576	21,920	419,934
	¥1,671,000	¥1,605,671	$15,741,875

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2000	1999	**2000**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term bank loans (Note 4)	**¥ 452,442**	¥ 447,349	**$ 4,262,287**
Current portion of long-term debt (Note 4)	**77,975**	59,066	**734,574**
Commercial paper	**—**	13,000	**—**
Notes and accounts payable:			
Trade	**125,049**	103,317	**1,178,041**
Unconsolidated subsidiaries and affiliates	**4,535**	11,352	**42,723**
Others	**18,408**	19,564	**173,415**
Income taxes payable	**4,757**	3,227	**44,814**
Deferred income taxes (Note 7)	**801**	—	**7,546**
Accrued expenses	**47,497**	50,512	**447,452**
Other current liabilities	**68,677**	44,361	**646,981**
Total current liabilities	**800,141**	751,748	**7,537,833**
Long-Term Liabilities:			
Long-term debt (Note 4)	**492,965**	507,722	**4,644,041**
Retirement and severance benefits (Note 5)	**29,355**	26,290	**276,543**
Reserve for loss on consolidated subsidiaries	**3,216**	5,251	**30,298**
Reserve for foreign exchange losses	**12,200**	—	**114,932**
Deferred income taxes (Note 7)	**15,369**	—	**144,786**
Deferred income taxes for revaluation reserve for land (Notes 7 and 14)	**6,925**	—	**65,238**
Others	**43,066**	41,183	**405,707**
Total long-term liabilities	**603,096**	580,446	**5,681,545**
Minority Interests	**36,204**	30,121	**341,064**
Contingent Liabilities and Commitments (Notes 8 and 9)			
Shareholders' Equity (Note 6)**:**			
Common stock, par value ¥50 per share:			
Authorized—2,683,162,000 shares			
Issued—1,117,314,857 shares	**99,396**	99,396	**936,374**
Additional paid-in capital	**68,573**	68,573	**646,002**
Revaluation reserve for land, net of tax (Note 14)	**8,593**	—	**80,951**
Retained earnings	**55,001**	75,388	**518,144**
Treasury stock, at cost	**(4)**	(1)	**(38)**
Total shareholders' equity	**231,559**	243,356	**2,181,433**
	¥1,671,000	¥1,605,671	**$15,741,875**

Consolidated Statements of Operations

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Net Sales	**¥986,884**	¥983,784	¥1,196,008	**$9,297,070**
Cost of Sales	**825,097**	830,129	981,916	**7,772,934**
Gross profit	**161,787**	153,655	214,092	**1,524,136**
Selling, General and Administrative Expenses (Note 10)	**134,558**	143,250	157,348	**1,267,622**
Operating profit	**27,229**	10,405	56,744	**256,514**
Other Income (Expenses):				
Interest and dividend income	**4,110**	4,083	4,439	**38,719**
Interest expense (Note 4)	**(24,331)**	(24,664)	(24,343)	**(229,215)**
Write-down of marketable securities and investments in securities	**(4,579)**	(6,826)	(7,075)	**(43,137)**
Gain (Loss) on sale of marketable securities and investments in securities	**9,581**	(253)	2,356	**90,259**
Provision for bad debt and write-off of investments and long-term receivables—unconsolidated subsidiaries and affiliates	**(1,254)**	(1,077)	(639)	**(11,813)**
Gain on sale of property, plant and equipment	**27,446**	5,029	2,561	**258,559**
Loss on disposal of property, plant and equipment	**(9,363)**	(5,090)	(3,813)	**(88,205)**
Early retirement benefit	**—**	(9,980)	—	**—**
Provision for loss on consolidated subsidiaries	**(2,200)**	(5,251)	—	**(20,726)**
Foreign exchange losses	**(11,204)**	—	—	**(105,549)**
Past service cost under retirement pension plan (Note 5)	**(7,113)**	—	—	**(67,009)**
Provision for foreign exchange losses (Note 12)	**(12,200)**	—	—	**(114,932)**
Loss due to withdrawal of business	**(4,902)**	—	—	**(46,180)**
Other, net	**(7,072)**	(7,381)	(3,540)	**(66,621)**
	(43,081)	(51,410)	(30,054)	**(405,850)**
(Loss) Income before income taxes and minority interests	**(15,852)**	(41,005)	26,690	**(149,336)**
Income Taxes (Benefit) (Note 7)	**1,813**	(5,957)	15,308	**17,079**
(Loss) Income before minority interests	**(17,665)**	(35,048)	11,382	**(166,415)**
Minority Interests in Loss (Income) of Consolidated Subsidiaries	**5,590**	195	(1,311)	**52,661**
Net (Loss) Income	**¥ (12,075)**	¥ (34,853)	¥ 10,071	**$ (113,754)**

	Yen			U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Per Share Amounts:				
Net (loss) income	**¥(10.8)**	¥(30.9)	¥8.9	**$(0.10)**
Diluted net income	**—**	—	8.4	**—**
Cash dividends applicable to the year	**1.5**	—	5.0	**0.01**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	2000
Common Stock:				
Shares				
Balance at beginning of year	1,117,314	1,134,152	1,134,152	
Retirement of treasury stock	—	16,838	—	
Balance at end of year	1,117,314	1,117,314	1,134,152	
Amount				
Balance at beginning of year	¥ 99,396	¥ 99,396	¥ 99,396	$936,374
Balance at end of year	¥ 99,396	¥ 99,396	¥ 99,396	$936,374
Additional Paid-in Capital:				
Balance at beginning of year	¥ 68,573	¥ 72,466	¥ 72,466	$646,002
Retirement of treasury stock	—	(3,893)	—	—
Balance at end of year	¥ 68,573	¥ 68,573	¥ 72,466	$646,002
Revaluation Reserve for Land, Net of Tax:				
Balance at end of year	¥ 8,593	¥ —	¥ —	$ 80,951
Retained Earnings:				
Balance at beginning of year	¥ 75,388	¥140,526	¥135,704	$710,203
Cumulative effect of change in accounting for income taxes	—	(22,553)	—	—
Net (loss) income for the year	(12,075)	(34,853)	10,071	(113,754)
Cash dividends paid	—	(5,671)	(5,670)	—
Bonuses to directors and corporate auditors	(164)	(349)	(396)	(1,545)
Decrease resulting from increase of consolidated subsidiaries	—	(1,712)	—	—
Decrease resulting from decrease of affiliated companies on equity method	(37)	—	—	(349)
Increase due to merger of unconsolidated subsidiaries	9	—	717	85
Increase due to revaluation of property, plant and equipment of a foreign subsidiary	—	—	100	—
Decrease due to adjustment for land as a result of revaluation of land (Note 14)	(3,068)	—	—	(28,903)
Adjustment for prior year income tax effect of the difference between the book value and fair value of the assets and liabilities of the consolidated subsidiaries and affiliates at the acquisition date	(5,052)	—	—	(47,593)
Balance at end of year	¥ 55,001	¥ 75,388	¥140,526	$518,144
Treasury Stock:				
Balance at beginning of year	¥ (1)	¥ (2)	¥ (17)	$ (9)
Purchase for retirement of treasury stock (Note 6)	—	(3,893)	—	—
Retirement (Note 6)	—	3,893	—	—
Cost of treasury stock (purchased) sold	(3)	1	15	(29)
Balance at end of year	¥ (4)	¥ (1)	¥ (2)	$ (38)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Mitsubishi Materials Corporation and Subsidiaries
Years ended March 31, 2000, 1999 and 1998

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2000	1999	1998	**2000**
Cash Flows from Operating Activities:				
Net (loss) income	**¥ (12,075)**	¥ (34,853)	¥ 10,071	**$(113,754)**
Adjustment to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	**74,592**	74,038	80,575	**702,704**
Write-down of marketable securities and investments in securities	**4,579**	6,826	7,075	**43,137**
(Gain) Loss on sale of marketable securities and investments in securities	**(9,581)**	253	(2,356)	**(90,259)**
Provision for bad debt and write-off of investments and long-term receivables—unconsolidated subsidiaries and affiliates	**1,254**	1,077	639	**11,813**
Gain on sale of property, plant and equipment	**(27,446)**	(5,029)	(2,561)	**(258,559)**
Loss on disposal of property, plant and equipment	**9,363**	5,090	3,813	**88,205**
Foreign exchange losses	**8,904**	—	—	**83,881**
Provision for foreign exchange losses	**12,200**	—	—	**114,932**
Provision for deferred income taxes	**(4,190)**	(12,233)	—	**(39,472)**
Decrease in notes and accounts receivable	**24,608**	73,236	18,179	**231,823**
(Increase) Decrease in inventories	**(4,014)**	8,324	15,408	**(37,814)**
(Increase) Decrease in other current assets	**(4,143)**	2,306	(12,180)	**(39,029)**
(Decrease) Increase in notes and accounts payable	**(605)**	(13,566)	(22,837)	**(5,699)**
Increase (Decrease) in income taxes payable	**112**	(4,801)	(2,821)	**1,055**
(Decrease) Increase in accrued expenses and other current liabilities	**(9,948)**	(7,676)	(3,944)	**(93,716)**
(Decrease) Increase in retirement and severance benefits liabilities	**(1,491)**	(909)	257	**(14,046)**
Increase (Decrease) in long-term liabilities—others	**2,467**	(1,631)	705	**23,240**
(Decrease) Increase in reserve for loss on consolidated subsidiaries	**(1,618)**	5,251	—	**(15,243)**
(Decrease) Increase in minority interests	**(6,556)**	(613)	537	**(61,762)**
Bonuses paid to directors and corporate auditors	**(164)**	(349)	(396)	**(1,545)**
Effect of changes in consolidated subsidiaries	**923**	992	799	**8,695**
Others	**(7,753)**	6,460	(7,354)	**(73,038)**
Net Cash Provided by Operating Activities	**49,418**	102,193	83,609	**465,549**
Cash Flows from Investing Activities:				
Purchases of property, plant and equipment	**(51,096)**	(95,735)	(123,872)	**(481,357)**
Proceeds from sales of property, plant and equipment	**41,267**	14,312	4,374	**388,761**
Decrease (Increase) in marketable securities and investments in securities	**14,526**	(3,108)	5,209	**136,844**
Payments for acquisition for newly consolidated subsidiaries	**(7,032)**	—	—	**(66,246)**
(Increase) Decrease in investments and long-term receivables—unconsolidated subsidiaries and affiliates	**(5,395)**	(8,870)	5,337	**(50,824)**
Decrease (Increase) in long-term receivables and other assets	**2,336**	(5,623)	(4,217)	**22,007**
Payments for settlement of monthly strip knockout forward contract	**(8,904)**	—	—	**(83,881)**
Net Cash Used in Investing Activities	**(14,298)**	(99,024)	(113,169)	**(134,696)**
Cash Flows from Financing Activities:				
Proceeds from long-term debt	**61,352**	122,602	120,742	**577,975**
Repayments of long-term debt	**(72,869)**	(52,604)	(66,619)	**(686,472)**
Proceeds from commercial paper, net	**(13,000)**	(17,000)	30,000	**(122,468)**
Purchase for retirement of treasury stock	**—**	(3,893)	—	**—**
Increase (Decrease) in short-term bank loans	**9,551**	(47,587)	(29,891)	**89,976**
Proceeds from issuance of common stock of consolidated subsidiaries to third party	**—**	30	57	**—**
Cash dividends paid	**—**	(5,671)	(5,670)	**—**
Net Cash (Used in) Provided by Financing Activities	**(14,966)**	(4,123)	48,619	**(140,989)**
Net Increase (Decrease) in Cash	**20,154**	(954)	19,059	**189,864**
Cash at beginning of year	**57,056**	58,010	38,951	**537,503**
Cash at end of year	**¥ 77,210**	¥ 57,056	¥ 58,010	**$ 727,367**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Mitsubishi Materials Corporation and Subsidiaries

Note 1—Basis of Presentation of Financial Statements

Mitsubishi Materials Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with accounting principles and practices generally accepted in Japan from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the Minister of Finance ("MOF") as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically, including the 2000 consolidated cash flow statements prepared in accordance with the "Standards for Preparation of Consolidated Cash Flow Statements, etc." effective in 2000, in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of cash flows for 1999 and 1998 and the consolidated statements of shareholders' equity have been prepared for the purpose of inclusion in the accompanying consolidated financial statements even though such statements were not customarily prepared in Japan and not required to be filed with the MOF at that time.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate at March 31, 2000, which was ¥106.15 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.

Note 2—Summary of Significant Accounting Policies

(a) Consolidation

The Company prepared the consolidated financial statements for the year ended March 31, 2000, in accordance with the revised Accounting Principles for Consolidated Financial Statements (the "Revised Accounting Principles") effective from the year ended March 31, 2000.

The accompanying consolidated financial statements include the accounts of the Company and significant companies which the Company controls through majority voting right or existence of certain conditions. All significant intercompany balances and transactions have been eliminated in the consolidation. Investments in affiliates of which the Company has the ability to exercise significant influence over operating and financial policies, except for insignificant companies, are accounted for using the equity method, and accordingly, stated at cost adjusted for the earnings and losses after elimination of unrealized intercompany profits from the date of acquisition. The effect of adopting the Revised Accounting Principles is immaterial.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost, adjusted for any substantial and nonrecoverable diminution in value.

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

Consolidation difference is amortized over a period of five years on a straight-line basis.

(b) Translation of Foreign Currencies

Foreign currency amounts are translated into Japanese yen amounts on the basis of the historical rates for current and non-current receivables and payables.

The financial statements of foreign consolidated subsidiaries are translated into Japanese yen at the current rate except for shareholders' equity, which is translated at historical rates. The difference resulting from exchange adjustments are reflected under "Foreign currency translation adjustments" in the accompanying consolidated financial statements.

(c) Allowance for Doubtful Accounts
Notes and accounts receivable and investments and long-term receivables are primarily valued by providing an amount for possible losses from doubtful accounts equaling to the probable collection losses estimated.

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

(e) Marketable Securities and Investments in Securities
Securities listed on exchanges are valued at the lower of cost or market, cost being determined by the moving average method. Commencing with the year ended March 31, 1999, the Company records recoveries of write-down of securities in accordance with a revision in the Corporation Tax Law. There was no effect on net loss resulting from adopting this accounting policy.

Unlisted securities are carried at cost, determined by the moving average method, adjusted for any substantial and nonrecoverable diminution in value.

(f) Property, Plant, Equipment and Depreciation
Property, plant and equipment are stated at cost except for certain revalued land as explained in Note 14. Depreciation is calculated primarily using the declining-balance method at rates based on the estimated useful lives of depreciable assets. The straight-line method is applied to certain plant facilities, such as those in the Naoshima Smelter, based on the estimated useful lives of those depreciable assets. In accordance with revisions of the Corporation Tax Law, buildings acquired after March 31, 1998, are depreciated using the straight-line method. The effect of this change was immaterial.

The useful lives of the assets range from two to 65 years for buildings and structures and two to 45 years for machinery and equipment.

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

(g) Finance Leases
Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

(h) Retirement and Severance Benefits and Pension Costs
Officers (directors and corporate auditors) and employees severing their employment with the Company or its domestic consolidated subsidiaries on retirement or otherwise are entitled, in most circumstances, to lump-sum severance and, in certain cases, annuity payments based on current rates of pay, length of service and certain other factors. The Company and its domestic consolidated subsidiaries provide for such liability for the lump-sum severance benefits primarily to the extent of 40% for employees and 100% for officers of the amount which would be required if all employees voluntarily terminated their employment and all officers retired at each year-end. Such provision is not funded.

In addition to the unfunded lump-sum severance payments described above, eligible employees of the Company and 37 domestic consolidated subsidiaries are covered by noncontributory trusteed pension plans, primarily since 1962 for employees of the nonferrous and fabricated metals and related business divisions and since 1983 for employees of the cement and related business divisions. Due to the revision of the pension contract, the funding period for the prior service costs for the Company has been reduced and prior service costs relating to these pension plans are primarily being funded over five years.

(i) Reserve for Loss on Consolidated Subsidiaries
Possible losses on consolidated subsidiaries are provided for based on the evaluation of individual financial and other conditions of subsidiaries.

(j) Reserve for Foreign Exchange Losses
Reserve for foreign exchange losses represents the amount provided for estimated possible losses as at March 31, 2000, resulting from settlement of the monthly strip knockout forward contract. Further information is provided in Note 12.

(k) Income Taxes
For the year ended March 31, 1998, deferred income taxes were recognized only to the extent of temporary differences related to the elimination of intercompany profits which arose as a result of the consolidation of subsidiaries. Effective April 1, 1998, the Company adopted the new accounting standard, which recognizes tax effects of temporary differences. The 1998 consolidated financial statements have not been restated. The cumulative effect of adopting the new accounting standard was ¥22,553 million, which was directly subtracted from the retained earnings brought forward from March 31, 1998. The effect of the change for the year ended March 31, 1999, was to decrease net loss by ¥10,407 million and retained earnings by ¥12,145.

(l) Bonuses to Directors and Corporate Auditors
Bonuses to directors and corporate auditors are subject to approval by the shareholders and are accounted for as an appropriation of retained earnings for the year in which payment is made.

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

Diluted net income per share assumes that outstanding convertible bonds were converted into common stock at the beginning of the period at the current conversion price. Diluted net loss for the years ended March 31, 2000 and 1999, was not presented as the per share amounts were losses.

Note 3—Inventories

Inventories at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Products	**¥ 65,262**	¥ 63,514	**$ 614,810**
Semifinished products and work in process	**62,682**	59,869	**590,504**
Raw materials and supplies	**45,692**	39,762	**430,447**
	¥173,636	¥163,145	**$1,635,761**

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

Short-term bank loans outstanding were generally represented by unsecured short-term notes and bank overdraft arrangements and bore interest at annual rates of 0.1% to 10.5% and 0.5% to 8.5% at March 31, 2000 and 1999, respectively.

Long-term debt at March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Banks, insurance companies and other financial institutions, maturing serially through 2030—1.50%–7.93% and 0.64%–12.00% per annum:			
Secured	**¥234,650**	¥ 62,932	**$2,210,551**
Unsecured	**126,562**	159,524	**1,192,294**
Government-owned banks and government agencies, maturing serially through 2026—1.5%–7.8% and 0.3%–7.45% per annum:			
Secured	**—**	45,871	**—**
Unsecured	**—**	61,733	**—**
2.2% unsecured convertible yen debentures, due 2004	**10,349**	10,349	**97,494**
2.2% unsecured convertible yen debentures, due 2001	**4,929**	4,929	**46,434**
0.95% unsecured convertible yen debentures, due 2005	**49,260**	49,260	**464,060**
Floating rate (six-month Japanese yen-LIBOR) unsecured yen notes, due 2004	**5,000**	5,000	**47,104**
4.50% unsecured yen bonds, due 2002	**10,000**	10,000	**94,206**
4.35% unsecured yen bonds, due 2001	**10,000**	10,000	**94,206**
4.15% unsecured yen bonds, due 2000	**—**	7,000	**—**
2.75% unsecured yen bonds, due 2002	**20,000**	20,000	**188,413**
2.55% unsecured yen bonds, due 2001	**15,000**	15,000	**141,310**
2.25% unsecured yen bonds, due 2000	**15,000**	15,000	**141,310**
2.40% unsecured yen bonds, due 2001	**20,000**	20,000	**188,413**
1.65% unsecured yen bonds, due 1999	**—**	20,000	**—**
2.425% unsecured yen bonds, due 2003	**10,000**	10,000	**94,206**
3.10% unsecured yen bonds, due 2008	**10,000**	10,000	**94,206**
2.125% unsecured yen bonds, due 2004	**10,000**	10,000	**94,206**
1.775% unsecured yen bonds, due 2002	**10,000**	10,000	**94,206**
1.875% unsecured yen bonds, due 2003	**10,000**	10,000	**94,206**
2.495% unsecured yen bonds, due 2005	**190**	190	**1,790**
	570,940	566,788	**5,378,615**
Less current portion	**(77,975)**	(59,066)	**(734,574)**
	¥492,965	¥507,722	**$4,644,041**

The 2.2% unsecured convertible yen debentures due 2004 and 2001 are convertible currently at ¥850.30 ($8.01) for one share through March 30, 2004, and March 29, 2001, respectively. At March 31, 2000, 17,968 thousand additional shares of common stock in the aggregate would be issued upon full conversion at the current conversion price.

The 0.95% unsecured convertible yen debentures are convertible currently at ¥514 ($4.84) for one share through September 29, 2005. At March 31, 2000, 95,837 thousand additional shares of common stock would be issued upon full conversion at the current conversion price.

The aggregate annual maturities of long-term debt at March 31, 2000, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2001	¥ 77,975	$ 734,574
2002	108,482	1,021,969
2003	102,136	962,186
2004	68,319	643,608
2005 and thereafter	214,028	2,016,278
	¥570,940	$5,378,615

Assets pledged as collateral primarily for short-term loans and long-term debt at March 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash	¥ 2,019	$ 19,020
Marketable securities	14,166	133,453
Notes and accounts receivable	4,147	39,067
Inventories	7,121	67,084
Investments and long-term receivables:		
Investments in securities	10,480	98,728
Unconsolidated subsidiaries and affiliates	3,262	30,730
Property, plant and equipment, at net book value	200,392	1,887,819
Other	81	764
	¥241,668	$2,276,665

Note 5—Retirement and Severance Benefits and Pension Costs

The charges to income for employees' and officers' retirement and severance benefits and pension costs for each of the three years in the period ended March 31, 2000, were ¥23,884 million ($225,002 thousand), ¥19,096 million and ¥11,463 million, respectively.

The assets of the pension funds at March 31, 1999, the most recent valuation date, amounted to ¥34,273 million ($322,873 thousand).

Note 6—Shareholders' Equity

During the year ended March 31, 1999, the Company purchased and retired 16,838,000 shares of treasury stock at a cost of ¥3,893 million and the number of authorized and issued shares of common stock was decreased by that number.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Commercial Code of Japan.

Under the Commercial Code of Japan (the "Code"), at least 50% of the issue price of new shares, with a minimum equal to par value thereof, is required to be designated as common stock. The portion which is not transferred to common stock is determined by resolution of the Board of Directors. Proceeds not transferred to common stock are credited to additional paid-in capital.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate auditors must be set aside as a legal reserve until the reserve equals 25% of common stock. The reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The legal reserve is included in the retained earnings.

Note 7—Income Taxes

The income tax reflected in the accompanying consolidated statements of operations for the year ended March 31, 2000, consists of the following:

	Millions of yen	Thousands of U.S. dollars
Current	¥ 6,003	$ 56,552
Deferred	(4,190)	(39,473)
	¥ 1,813	$ 17,079

The Company and its domestic consolidated subsidiaries are subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate of approximately 42.1% for the year ended March 31, 2000, and 47.8% and 51.6%, for the years ended March 31, 1999 and 1998, respectively. The effective income tax rate for the year ended March 31, 2000, was decreased from such statutory tax rate primarily due to the effect of net operating loss of certain consolidated subsidiaries and certain nondeductible operating expenses offset by nontaxable dividend income from domestic corporations for income tax purposes.

Significant components of deferred income tax assets and liabilities as of March 31, 2000, are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred income tax assets:		
Intercompany profits	¥ 19,580	$ 184,456
Loss on investments in consolidated subsidiaries	13,930	131,229
Retirement and severance benefits	4,527	42,647
Net operating loss carryforward	18,178	171,248
Accrued employees bonuses	1,555	14,649
Other	6,336	59,690
Subtotal	64,106	603,919
Valuation allowance	(16,376)	(154,272)
Total deferred income tax assets	47,730	449,647
Deferred income tax liabilities:		
Deferred gain on sale of property, plant and equipment	(27,813)	(262,016)
Reserves deductible for Japanese tax purposes	(2,542)	(23,947)
Other	(11,041)	(104,013)
Total deferred income tax liabilities	(41,396)	(389,976)
Net deferred income tax assets	¥ 6,334	$ 59,670
Deferred income taxes for revaluation reserve for land	¥ (6,925)	$ (65,238)

Note 8—Contingent Liabilities

Contingent liabilities for notes receivable discounted with banks, notes receivable endorsed with recourse and loans guaranteed by the Company and its consolidated subsidiaries primarily on behalf of unconsolidated subsidiaries and affiliates, including employees' housing loans from banks, at March 31, 2000, were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable discounted	¥ 3,094	$ 29,147
Notes receivable endorsed	218	2,054
Loans guaranteed	70,680	665,850
	¥73,992	$697,051

Note 9—Lease Transactions

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, were as follows:

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

	Millions of yen				Thousands of U.S. dollars			
	2000				2000			
	Machinery equipment and vehicles	Tools	Other	Total	Machinery equipment and vehicles	Tools	Other	Total
Purchase price	¥17,157	¥8,588	¥2,049	¥27,794	$161,630	$80,904	$19,303	$261,837
Accumulated depreciation	6,547	5,540	1,161	13,248	61,677	52,190	10,937	124,804
Book value	¥10,610	¥3,048	¥ 888	¥14,546	$ 99,953	$28,714	$ 8,366	$137,033

(2) Lease commitments

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Due within one year	¥ 3,689	¥ 4,629	$ 34,753
Due after one year	10,857	12,946	102,280
Total	¥14,546	¥17,575	$137,033

(3) Lease expenses and depreciation equivalents

	Millions of yen			Thousands of U.S. dollars
	2000	1999	1998	2000
Lease expenses	¥4,454	¥4,635	¥5,092	$41,959
Depreciation equivalents	4,454	4,635	—	41,959

Disclosure of depreciation equivalents for the year ended March 31, 1998, was not required.

Non-cancelable operating lease commitments were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Due within one year	¥ 1,787	¥ 737	$ 16,835
Due after one year	12,535	1,834	118,087
Total	¥14,322	¥2,571	$134,922

Note 10—Research and Development Expenses

Research and development expenses for each of the three years in the period ended March 31, 2000, were ¥14,762 million ($139,067 thousand), ¥17,830 million and ¥18,401 million, respectively, and were included in selling, general and administrative expenses.

Note 11—Market Value of Quoted Securities

At March 31, 2000, book value, market value and net unrealized gains (losses) of quoted securities of the Company and its consolidated subsidiaries were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2000			2000		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Current assets:						
Equity securities	¥ 87,236	¥125,249	¥38,013	$ 821,818	$1,179,925	$358,107
Others	2,836	2,706	(130)	26,717	25,492	(1,225)
Noncurrent assets:						
Equity securities	33,766	32,710	(1,056)	318,097	308,149	(9,948)
Others	107	112	5	1,008	1,055	47
	¥123,945	¥160,777	¥36,832	$1,167,640	$1,514,621	$346,981

Disclosure of market value information on a consolidated basis was not required prior to 2000.

Note 12—Derivative Transactions

Derivative financial instruments currently utilized by the Company and its consolidated subsidiaries include foreign currency forward contracts, interest rate swap contracts, interest option contracts, currency swap contracts, currency option contracts, and commodity forward contracts, all of which are for hedging purposes only.

The Company uses foreign currency forward contracts to hedge foreign currency fluctuation on foreign currency receivables and payables primarily associated with the purchase of ores. The Company enters into interest rate swap contracts to lower the finance costs on debts and to reduce the exposure to adverse movements in interest rates. The Company also utilizes commodity forward contracts to hedge the price fluctuations for the inventories held and for the purpose of hedging risk in fluctuation of commodity prices arising in cases where the selling price of nonferrous metals in the future is fixed at the futures price.

Transactions utilized by the consolidated subsidiaries (excluding finance companies) include foreign currency forward contracts to hedge foreign currency fluctuation on foreign currency receivables and payables and commodity forward contracts for the purpose of hedging risk in fluctuation of commodity prices arising in cases where the selling price of nonferrous metals in the future is fixed at the futures prices.

Consolidated subsidiaries engaged in finance business uses foreign currency forward contracts and interest rate swap contracts for trading purposes. However, no derivative transactions will be entered into for trading purpose in the future.

The Company and its consolidated subsidiaries are exposed to the interest rate fluctuation risks relating to the interest rate swap contracts, which change the fixed interest rates on certain debts to floating interest rates. The transactions utilized by the consolidated subsidiary, engaged in finance businesses, for trading purpose are exposed to the fluctuation risks of foreign currency and market interest rates.

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

The Company has set the “Rules on Utilizing Derivative Transactions” in the “Operation Standards” applicable to the Company overall. In addition, there are specific rules and standards for derivative transactions set for individual internal companies based on the business of each internal company. In accordance with the authority and limits set in these rules and standards, foreign currency forward contracts are utilized and controlled by the accounting department and other responsible departments, interest rate swap contracts by the accounting department, and commodity forward contracts by each responsible department. Further, the departments utilizing derivative transactions are required to report the status and results of derivative transactions to the newly established financial risk transaction control section, at each annual and semi-annual year-end.

The consolidated subsidiaries utilizing derivative transactions have set the operational standards individually, in accordance with which the derivative transactions are utilized.

For the derivative transactions for trading purposes utilized by the subsidiary engaged in finance business, the status of transactions has been reported to the financial risk transaction control section of the Company in order to prevent the increase of related risks, and it has been determined that no new derivative transactions be entered into for trading purposes in the future.

At March 31, 2000, the Company had outstanding derivative transactions as below:

(a) Foreign Currency Contracts

Millions of yen

	Contract amounts in yen equivalent				
	Due within one year	Due after one year	Total	Market value	Unrealized gains (losses)
Forward exchange contracts					
Sell U.S. dollars	¥28,346	¥ —	¥28,346	¥28,352	¥ (6)
Others	1,053	—	1,053	984	69
Buy U.S. dollars	8,985	3,898	12,883	12,914	31
Others	82	—	82	82	(0)
Monthly strip knockout forward contracts					
Buy U.S. dollars	—	59,800	59,800		
	<—>	<203>	<203>	(13,999)	(13,796)
Currency swap contracts					
Pay yen, receive U.S. dollars	—	10,000	10,000	(416)	(416)
Pay U.S. dollars, receive yen	—	2,322	2,322	396	396
Currency options contracts					
Call U.S. dollars	412	824	1,236		
	<—>	<—>	<—>	(0)	(0)
Put U.S. dollars	412	824	1,236		
	<13>	<19>	<32>	183	151
Total					¥(13,571)

Thousands of U.S. dollars

	Contract amounts in dollar equivalent				
	Due within one year	Due after one year	Total	Market value	Unrealized gains (losses)
Forward exchange contracts					
Sell U.S. dollars	$267,037	$ —	$267,037	$267,094	$ (57)
Others	9,920	—	9,920	9,270	650
Buy U.S. dollars	84,644	36,722	121,366	121,658	292
Others	772	—	772	772	(0)
Monthly strip knockout forward contracts					
Buy U.S. dollars	—	563,354	563,354		
	<—>	<1,912>	<1,912>	(131,879)	(129,967)
Currency swap contracts					
Receive U.S. dollars, pay yen	—	94,206	94,206	(3,919)	(3,919)
Receive yen, pay U.S. dollars	—	21,875	21,875	3,731	3,731
Currency options contracts					
Call U.S. dollars	3,881	7,763	11,644		
	<—>	<—>	<—>	(0)	(0)
Put U.S. dollars	3,881	7,763	11,644		
	<122>	<179>	<301>	1,724	1,423
Total					$(127,847)

*The amounts in brackets < > represent option fees applicable for currency option contracts.

(b) Interest Rate Contracts

	Notional amounts				Millions of yen
	Due within one year	Due after one year	Total	Fair value	Unrealized gain (loss)
Interest rate swap contracts					
Pay floating rate, receive fixed rate	¥15,000	¥34,000	¥49,000	¥525	¥525
Pay fixed rate, receive floating rate	4,454	25,512	29,966	(81)	(81)
Interest rate options					
Buy interest rate cap options	—	35,100	35,100		
	<—>	<269>	<269>	44	(225)
Total					¥219

	Notional amounts				Thousands of U.S. dollars
	Due within one year	Due after one year	Total	Fair value	Unrealized gain (loss)
Interest rate swap contracts					
Pay floating rate, receive fixed rate	$141,309	$320,302	$461,611	$4,946	$4,946
Pay fixed rate, receive floating rate	41,959	240,340	282,299	(763)	(763)
Interest rate options					
Buy interest rate cap options	—	330,664	330,664		
	<—>	<2,534>	<2,534>	415	(2,120)
Total					$2,063

*The amounts in brackets < > represent option fees applicable for interest rate cap options.

(c) Commodity Contracts

	Contract amounts				Millions of yen
	Due within one year	Due after one year	Total	Market value	Unrealized gains (losses)
Forward					
Sell	¥24,038	¥ —	¥24,038	¥23,862	¥176
Buy	20,066	4,554	24,620	25,407	787
Total					¥963

	Contract amounts				Thousands of U.S. dollars
	Due within one year	Due after one year	Total	Market value	Unrealized gains (losses)
Forward					
Sell	$226,453	$ —	$226,453	$224,795	$1,658
Buy	189,034	42,902	231,936	239,350	7,414
Total					$9,072

Note 13—Segment Information

The Company and its consolidated subsidiaries operate primarily in the production and sales of silicon and advanced materials, fabricated metal products, nonferrous metals, cement products and others. Silicon and advanced materials comprise silicon wafers and advanced products such as surge absorbers and chip thermistors; fabricated metal products comprise powder metallurgical products, molding dies, motors, special alloy products, industrial machinery, aluminum cans and processed copper products; nonferrous metals comprise gold, silver and copper; cement products comprise cement, cement-related products and ready-mixed concrete; and others comprise a broad range of energy-related and environmental businesses and real estate business.

For the year ended March 31, 1999, the Company and its consolidated subsidiaries had changed the segmentation to reclassify processed copper products' results from nonferrous metals to fabricated metal products. Sales, operating profit, identifiable assets, depreciation and amortization and capital expenditures of processed copper products had amounted to ¥11,761 million, ¥679 million, ¥28,459 million, ¥910 million and ¥99 million for the year ended March 31, 1999, and ¥13,105 million ($123,457 thousand), ¥992 million ($9,345 thousand), ¥65,186 million ($614,093 thousand), ¥942 million ($8,874 thousand) and ¥256 million ($2,412 thousand) for the year ended March 31, 2000.

Due to the introduction of improved management system in the year ended March 31, 2000, certain costs which were previously unallocated and included in "corporate" are allocated to responsible segments based on the degree of benefits received by each segment in 2000. As a result of the change, the operating (loss) profit for silicon and advanced materials, fabricated metal products, nonferrous metals, cement products and others have been decreased by ¥523 million ($4,926 thousand), ¥930 million ($8,761 thousand), ¥379 million ($3,570 thousand), ¥480 million ($4,522 thousand) and ¥288 million ($2,713 thousand), respectively. However, there is no impact on the consolidated operating profit resulting from the change.

(a) Business segment information for the years ended March 31, 2000, 1999 and 1998, was as follows:

Millions of yen

Year ended March 31, 2000	Silicon and advanced materials	Fabricated metal products	Nonferrous metals	Cement products	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales								
Unaffiliated customers	**¥132,774**	**¥301,246**	**¥203,792**	**¥171,051**	**¥178,021**	**¥ 986,884**	**¥ —**	**¥ 986,884**
Intersegment	**3,235**	**22,207**	**20,247**	**629**	**32,227**	**78,545**	**(78,545)**	**—**
Total	**136,009**	**323,453**	**224,039**	**171,680**	**210,248**	**1,065,429**	**(78,545)**	**986,884**
Operating expenses	**137,420**	**308,606**	**224,136**	**160,263**	**203,544**	**1,033,969**	**(74,314)**	**959,655**
Operating (loss) profit	**¥ (1,411)**	**¥ 14,847**	**¥ (97)**	**¥ 11,417**	**¥ 6,704**	**¥ 31,460**	**¥ (4,231)**	**¥ 27,229**
Identifiable assets	**¥266,015**	**¥467,177**	**¥245,279**	**¥265,480**	**¥282,100**	**¥1,526,052**	**¥144,948**	**¥1,671,000**
Depreciation	**¥ 22,383**	**¥ 21,596**	**¥ 8,417**	**¥ 11,629**	**¥ 7,539**	**¥ 71,564**	**¥ 1,831**	**¥ 73,395**
Capital expenditures	**¥ 17,490**	**¥ 16,452**	**¥ 6,289**	**¥ 6,691**	**¥ 6,025**	**¥ 52,947**	**¥ 1,037**	**¥ 53,984**

Thousands of U.S. dollars

Year ended March 31, 2000	Silicon and advanced materials	Fabricated metal products	Nonferrous metals	Cement products	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales								
Unaffiliated customers	$1,250,815	$2,837,927	$1,919,849	$1,611,408	$1,677,071	$ 9,297,070	$ —	$ 9,297,070
Intersegment	30,476	209,204	190,740	5,926	303,598	739,944	(739,944)	—
Total	1,281,291	3,047,131	2,110,589	1,617,334	1,980,669	10,037,014	(739,944)	9,297,070
Operating expenses	1,294,583	2,907,263	2,111,503	1,509,779	1,917,513	9,740,641	(700,085)	9,040,556
Operating (loss) profit	$ (13,292)	$ 139,868	$ (914)	$ 107,555	$ 63,156	$ 296,373	$ (39,859)	$ 256,514
Identifiable assets	$2,506,039	$4,401,102	$2,310,683	$2,500,989	$2,657,560	$14,376,373	$1,365,502	$15,741,875
Depreciation	$ 210,862	$ 203,448	$ 79,293	$ 109,553	$ 71,022	$ 674,178	$ 17,249	$ 691,427
Capital expenditures	$ 164,767	$ 154,988	$ 59,246	$ 63,034	$ 56,759	$ 498,794	$ 9,769	$ 508,563

Millions of yen

Year ended March 31, 1999	Silicon and advanced materials	Fabricated metal products	Nonferrous metals	Cement products	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales								
Unaffiliated customers	¥130,989	¥296,773	¥210,389	¥185,302	¥160,331	¥ 983,784	¥ —	¥ 983,784
Intersegment	7,077	23,106	3,833	4,130	24,365	62,511	(62,511)	—
Total	138,066	319,879	214,222	189,432	184,696	1,046,295	(62,511)	983,784
Operating expenses	146,875	314,361	209,899	180,098	176,149	1,027,382	(54,003)	973,379
Operating profit	¥ (8,809)	¥ 5,518	¥ 4,323	¥ 9,334	¥ 8,547	¥ 18,913	¥ (8,508)	¥ 10,405
Identifiable assets	¥264,995	¥404,804	¥191,305	¥270,618	¥291,625	¥1,423,347	¥182,324	¥1,605,671
Depreciation	¥ 22,599	¥ 21,404	¥ 5,150	¥ 12,078	¥ 7,197	¥ 68,428	¥ 3,846	¥ 72,274
Capital expenditures	¥ 34,437	¥ 21,540	¥ 18,887	¥ 9,242	¥ 4,836	¥ 88,942	¥ 2,466	¥ 91,408

Millions of yen

Year ended March 31, 1998	Silicon and advanced materials	Fabricated metal products	Nonferrous metals	Cement products	Others	Total	Elimination and corporate assets or expenses	Consolidated
Sales								
Unaffiliated customers	¥159,514	¥328,199	¥296,429	¥208,119	¥203,747	¥1,196,008	¥ —	¥1,196,008
Intersegment	10,654	15,122	3,677	5,563	24,776	59,792	(59,792)	—
Total	170,168	343,321	300,106	213,682	228,523	1,255,800	(59,792)	1,196,008
Operating expenses	160,486	327,008	285,414	200,106	216,555	1,189,569	(50,305)	1,139,264
Operating profit	¥ 9,682	¥ 16,313	¥ 14,692	¥ 13,576	¥ 11,968	¥ 66,231	¥ (9,487)	¥ 56,744
Identifiable assets	¥256,616	¥388,179	¥229,013	¥289,958	¥299,599	¥1,463,365	¥215,842	¥1,679,207
Depreciation	¥ 25,550	¥ 23,555	¥ 5,900	¥ 13,557	¥ 7,115	¥ 75,677	¥ 3,413	¥ 79,090
Capital expenditures	¥ 26,366	¥ 23,791	¥ 44,004	¥ 14,488	¥ 9,341	¥ 117,990	¥ 2,824	¥ 120,814

(b) Segment information by geographic area for the years ended March 31, 2000, 1999 and 1998, was as follows:

Millions of yen

Year ended March 31, 2000	Japan	U.S.A.	Europe	Asia	Other	Total	Elimination and corporate assets or expenses	Consolidated
Sales								
Unaffiliated customers	¥ 888,616	¥ 67,896	¥4,823	¥ 31,950	¥1,599	¥ 986,884	¥ —	¥ 986,884
Intersegment	19,621	972	47	19,092	1	39,733	(39,733)	—
Total	900,237	68,868	4,870	51,042	1,600	1,026,617	(39,733)	986,884
Operating expenses	862,976	74,665	4,849	51,981	1,376	995,847	(36,192)	959,655
Operating profit	¥ 37,261	¥ (5,797)	¥ 21	¥ (939)	¥ 224	¥ 30,770	¥ (3,541)	¥ 27,229
Identifiable assets	¥1,248,188	¥138,652	¥3,038	¥104,566	¥2,464	¥1,496,908	¥174,092	¥1,671,000

Thousands of U.S. dollars

Year ended March 31, 2000	Japan	U.S.A.	Europe	Asia	Other	Total	Elimination and corporate assets or expenses	Consolidated
Sales								
Unaffiliated customers	$ 8,295,958	$ 639,623	$45,436	$300,989	$15,064	$ 9,297,070	$ —	$ 9,297,070
Intersegment	184,842	9,157	443	179,859	9	374,310	(374,310)	—
Total	8,480,800	648,780	45,879	480,848	15,073	9,671,380	(374,310)	9,297,070
Operating expenses	8,129,778	703,391	45,681	489,694	12,963	9,381,507	(340,951)	9,040,556
Operating profit	$ 351,022	$ (54,611)	$ 198	$ (8,846)	$ 2,110	$ 289,873	$ (33,359)	$ 256,514
Identifiable assets	$11,758,719	$1,306,189	$28,620	$985,078	$23,212	$14,101,818	$1,640,057	$15,741,875

Millions of yen

Year ended March 31, 1999	Japan	U.S.A.	Europe	Asia	Other	Total	Elimination and corporate assets or expenses	Consolidated
Sales								
Unaffiliated customers	¥ 888,673	¥ 79,712	¥6,132	¥ 7,087	¥2,180	¥ 983,784	¥ —	¥ 983,784
Intersegment	21,720	1,937	419	1,211	2	25,289	(25,289)	—
Total	910,393	81,649	6,551	8,298	2,182	1,009,073	(25,289)	983,784
Operating expenses	884,379	87,136	6,258	10,524	1,750	990,047	(16,668)	973,379
Operating profit	¥ 26,014	¥ (5,487)	¥ 293	¥ (2,226)	¥ 432	¥ 19,026	¥ (8,621)	¥ 10,405
Identifiable assets	¥1,128,026	¥169,816	¥3,884	¥100,785	¥2,960	¥1,405,471	¥200,200	¥1,605,671

Year ended March 31, 1998	Japan	U.S.A.	Europe	Asia	Other	Total	Elimination and corporate assets or expenses	Consolidated
								Millions of yen
Sales								
Unaffiliated customers	¥1,089,189	¥ 94,318	¥ 886	¥ 9,133	¥2,482	¥1,196,008	¥ —	¥1,196,008
Intersegment	15,762	2,245	25	634	1	18,667	(18,667)	—
Total	1,104,951	96,563	911	9,767	2,483	1,214,675	(18,667)	1,196,008
Operating expenses	1,044,180	90,556	800	10,090	2,332	1,147,958	(8,694)	1,139,264
Operating profit	¥ 60,771	¥ 6,007	¥ 111	¥ (323)	¥ 151	¥ 66,717	¥ (9,973)	¥ 56,744
Identifiable assets	¥1,202,521	¥165,556	¥2,117	¥72,118	¥3,626	¥1,445,938	¥233,269	¥1,679,207

(c) Overseas sales by geographic area for the years ended March 31, 2000 and 1999, were as follows:

Year ended March 31, 2000	U.S.A.	Europe	Asia	Other	Total
					Millions of yen
Overseas sales	**¥54,508**	**¥6,463**	**¥82,781**	**¥3,702**	**¥147,454**
Percentage of overseas sales to consolidated net sales	**5.5%**	**0.6%**	**8.4%**	**0.4%**	**14.9%**

Year ended March 31, 2000	U.S.A.	Europe	Asia	Other	Total
					Thousands of U.S. dollars
Overseas sales	**$513,500**	**$60,886**	**$779,849**	**$34,875**	**$1,389,110**

Year ended March 31, 1999	U.S.A.	Europe	Asia	Other	Total
					Millions of yen
Overseas sales	¥75,046	¥10,866	¥76,128	¥3,373	¥165,413
Percentage of overseas sales to consolidated net sales	7.6%	1.1%	7.7%	0.4%	16.8%

Note 14—Revaluation Reserve for Land

Pursuant to Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance for the Law concerning Revaluation Reserve for Land (the "Law") effective March 31, 1998, five consolidated subsidiaries of the Company recorded its owned land used for business at the fair value of ¥40,040 million (the original book value was ¥23,649 million) as of March 31, 2000, and related net unrealized gain net of income taxes was credited to "Revaluation reserve for land, net of tax" in the equity section and the applicable income tax portion was reported as "Deferred tax liabilities for revaluation reserve for land" in liabilities and net of applicable income taxes were reported as "Revaluation reserve for land, net of tax" in shareholders' equity. According to the Law, the Company and its consolidated subsidiaries are not permitted to revalue the land at any time, even in the case that the fair value of the land declines.

Certain amounts of excess of investment cost over underlying net equity had been allocated to land upon consolidation in the past. Such amounts, net of tax effect, of ¥3,068 million ($28,903 thousand) is deducted from retained earnings in the consolidated statements of shareholders' equity, in conjunction with the revaluation of land.

Note 15—Subsequent Events

On June 29, 2000, the Company's shareholders approved the payment of a cash dividend of ¥1.50 ($0.01) per one share to shareholders of record at March 31, 2000, or a total payment of ¥1,675 million ($15,780 thousand).

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Mitsubishi Materials Corporation (a Japanese corporation) and its subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2000, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Mitsubishi Materials Corporation and its subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2000, in conformity with accounting principles generally accepted in Japan applied on a consistent basis, except for the change made as of April 1, 1998, with which we concur, in business segmentation referred to in Note 13.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Tokyo, Japan
June 29, 2000

Asahi & Co.

Certified Public Accountants

Statement on Accounting Principles and Auditing Standards
This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

International Network
(as of June 30, 2000)

Overseas Offices

North America

Canada

Mitsubishi Materials Corp. Vancouver Office
Representative office

Mexico

MMC Metal de Mexico S.A.
Sales of hard-metal products

United States

Diamet Corp.
Production and sales of powder metallurgical products

Hawaiian Rock Products Corp. (Guam)
Production and sales of ready-mixed concrete

Heisei Minerals Corp.
Copper mining and production of copper concentrates

Kamaya Inc.
Sales of electronic parts

MCC Development Corp.
Investment in cement-related industries

Mitsubishi Cement Corp.
Production and sales of cement

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

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

Mitsubishi Silicon America Corp.
Production and sales of silicon wafers

MMC Electronics America Inc.
Sales of electronic parts

Nevada Ready Mix Corp.
Production and sales of ready-mixed concrete

Service Rock Products Corp.
Production and sales of ready-mixed concrete

South America

Brazil

MMC-Metal do Brasil Ltda.
Sales of fabricated metal products

Chile

Mitsubishi Materials Corp. Chile Office
Representative office

Europe

France

MMC Metal France S.A.R.L.
Sales of hard-metal products

Germany

MMC Hardmetal Europe Holdings GmbH
Sales of fabricated metal products

MMC Hartmetall GmbH
Sales of fabricated metal products

Spain

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

United Kingdom

Kamaya Electric Co., Ltd. U.K. Branch
Sales of electronic parts

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

Asia

India

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

Indonesia

PT. Higashifuji Indonesia
Production and sales of micromotors

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

PT. MSIL Indonesia
Production of silicon wafers

PT. Smelting
Smelting, refining and marketing of copper

Malaysia

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

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

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

Mitsubishi Materials Corp. Southeast Asia Regional Office
Representative office

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

People's Republic of China

(Hong Kong SAR)

Kamaya Electric (H.K.) Ltd.
Sales of electronic parts

MMC Electronics (H.K.) Ltd.
Sales of electronic parts

(Other areas)

Hainan Kunlun Cement Co., Ltd.
Production and sales of cement

Mitsubishi Materials Corp. Beijing
Representative office

Mitsubishi Materials Corp. Shanghai
Representative office

Tianjin Tianling Carbide Tools Co., Ltd.
Production and sales of carbide cutting tools

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

Singapore

Kamaya Electric (S) Pte. Ltd.
Sales of electronic parts

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

MMC Metal Singapore Pte. Ltd.
Sales of hard-metal products

South Korea

MMC Electronics Korea Inc.
Production and sales of electronic parts

Taiwan

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

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

Thailand

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

MMC Copper Tube (Thailand) Co., Ltd.
Production and sales of copper tubes

MMC Electronics (Bangkok) Co., Ltd.
Sales of electronic parts

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

MMC Tools (Thailand) Co., Ltd.
Production and sales of hard-metal products

Vietnam

Nghi Son Cement Corporation
Production and sales of cement

Oceania

Australia

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

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

Corporate Data (Nonconsolidated)
(as of March 31, 2000)

Date Established	April 1, 1950
Headquarters	1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan
Number of Employees	6,556
Number of Manufacturing Plants (Domestic)	24
Number of R&D Institutes (Domestic)	12
Number of Sales Offices (Domestic)	7

Investor Information
(as of March 31, 2000)

Shares of Common Stock
Authorized: 2,700,000,000
Issued and Outstanding: 1,117,314,857

Capital
¥99,396 million

Number of Shareholders
115,284

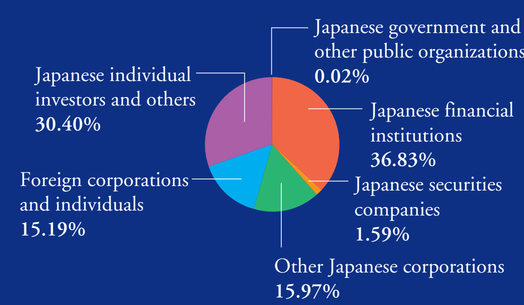
Stock Listings
Tokyo, Osaka, Nagoya, Kyoto, Fukuoka and Sapporo stock exchanges

Transfer Agent of Common Stock
The Mitsubishi Trust and Banking Corp.
1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

Independent Certified Public Accountants
Asahi & Co.

For Further Information, Contact
Investor Relations Department,
(Established April 15, 1999)
Mitsubishi Materials Corporation
1-5-1, Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan
Tel: +81-3-5252-5206
Fax: +81-3-5252-5272
E-mail: www-adm@mmc.co.jp

Distribution of Shareholders



Major Shareholders
The Meiji Mutual Life Insurance Co.
The Bank of Tokyo–Mitsubishi Ltd.
The Mitsubishi Trust and Banking Corp.
The Sumitomo Trust and Banking Co., Ltd.
Bank of New York Europe Limited

Annual Meeting of Shareholders
The annual meeting of shareholders of the Company is normally held in June each year in Tokyo.

Mitsubishi Materials Online
Sections of this annual report and additional information on the Company may be found on Mitsubishi Materials' home page at http://www.mmc.co.jp

Mitsubishi Materials Corporation Annual Report 2000

MITSUBISHI MATERIALS CORPORATION

1-5-1 Otemachi, Chiyoda-ku, Tokyo 100-8117, Japan

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