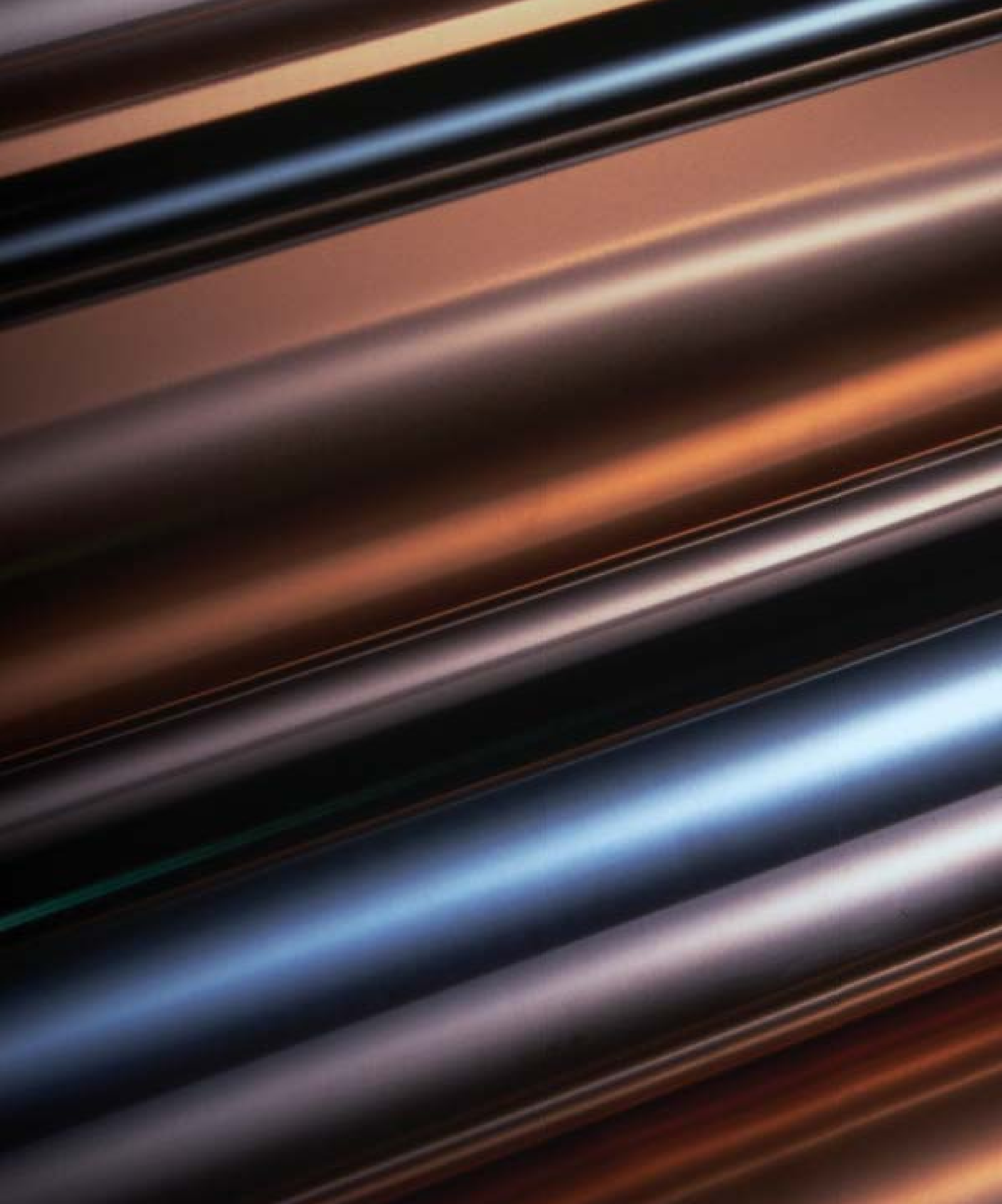


Strategic Investments for Enduring Growth

SUMITOMO METAL MINING CO., LTD.

Annual Report 2003

For The Year Ended March 31, 2003

Corporate Philosophy

In this drastically changing global business environment, Sumitomo Metal Mining Co., Ltd. (SMM) constantly reflects back on its beginnings as the first Sumitomo group company and intends to reaffirm Sumitomo Business Principles, which have been in existence for over 300 years. Backed by Sumitomo Metal Mining Group's Mission, we will apply all of our employees' efforts for elevating and strengthening our business structure.

Sumitomo Business Principles

Article 1. **Sumitomo shall conduct its business with integrity and sound management, placing prime importance on trust and reliability as the means toward pursuing the sure flourishing of its business operations.**

Article 2. **Sumitomo shall manage its business operations with positive foresight and flexibility to cope effectively with changing times. At no time shall the company pursue easy gains or act imprudently.**

Sumitomo Metal Mining Group's Mission

Having Sumitomo Business Principles as its business basics and environmental preservation and safety assurance as its operating basics, SMM shall aim to maximize its corporate value by establishing a global network and providing high-quality materials such as non-ferrous metals and electronics materials.

Unless specifically stated otherwise, information in this annual report is as of September, 2003.

Forward-looking Statements

Statements made in this annual report with respect to plans, strategies and future performance that are not historical facts are forward-looking statements. SMM cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

Contents

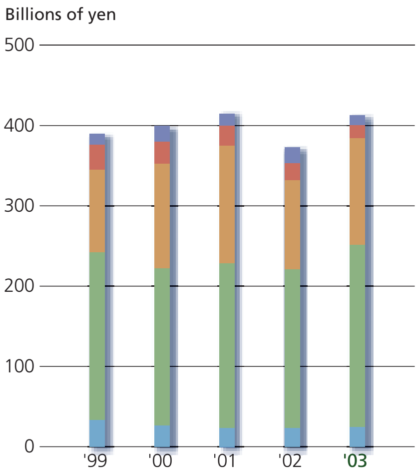
Consolidated Financial Highlights

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

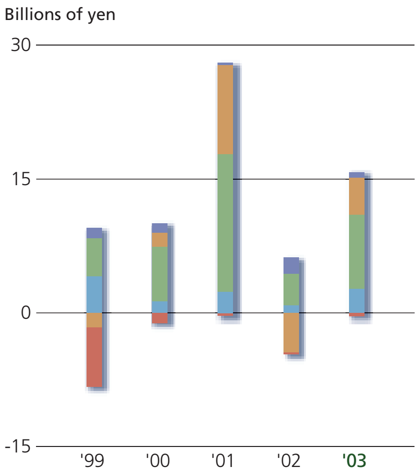
Years ended March 31, 2003, 2002 and 2001	% year-on-year change	Millions of yen (unless otherwise specified)			Thousands of U.S. dollars (unless otherwise specified)
	2003/2002	**2003**	2002	2001	**2003**
For the Year :					
Net sales	7.6	**¥ 355,242**	¥ 330,194	¥ 375,352	**$ 2,955,424**
Mineral resources	5.9	**24,672**	23,292	23,613	**205,258**
Metallurgy	14.8	**226,343**	197,183	204,827	**1,883,053**
Electronics & advanced materials	19.1	**132,923**	110,985	146,333	**1,105,849**
Construction materials & housing	-22.6	**16,741**	21,616	24,880	**139,276**
Others	-38.1	**12,375**	19,986	15,074	**102,953**
Operating income	1,346.6	**16,593**	1,147	26,930	**138,045**
Mineral resources	220.0	**2,682**	838	2,360	**22,313**
Metallurgy	135.7	**8,326**	3,533	15,421	**69,268**
Electronics & advanced materials	—	**4,118**	(4,388)	9,959	**34,260**
Construction materials & housing	—	**(352)**	(266)	(304)	**(2,928)**
Others	-65.2	**635**	1,826	334	**5,283**
Net income (loss)	—	**(1,172)**	(6,611)	15,103	**(9,750)**
Net income (loss) per share (¥, $)	—	**(2.05)**	(11.56)	26.41	**(0.017)**
Return on assets (%)	—	**—**	—	2.81	
Return on average shareholders' equity (%)	—	**—**	—	6.39	
Free cash flows	-10.2	**7,178**	7,991	(4,739)	**59,717**
Net cash provided by (used in) operating activities	-21.8	**26,105**	33,370	23,339	**217,180**
Capital expenditures	-25.4	**18,927**	25,379	28,078	**157,463**
At Year End :					
Total assets	-9.2	**470,774**	518,756	530,080	**3,916,589**
Shareholders' equity	-5.5	**223,341**	236,313	237,470	**1,858,078**
Total debt	-7.3	**154,799**	167,077	176,998	**1,287,845**
Equity ratio (%)	—	**47.4**	45.6	44.8	
Debt to equity ratio	—	**0.69**	0.71	0.75	
Interest coverage ratio	—	**9.9**	9.1	5.2	

Notes: 1. U.S. dollar figures are translated, for convenience only, at the rate of ¥120.20=U.S. $1, the effective rate of exchange prevailing on March 31, 2003.
2. Net sales and operating income figures in each segment include inter-segment transactions.
3. The computation of net income (loss) per share is based on the weighted average number of shares of common stock issued during each fiscal year.

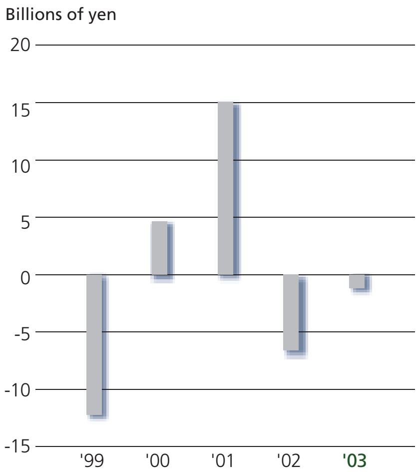
Net Sales before Adjusting Inter-segment Transactions



Operating Income before Adjusting Inter-segment Transactions



Net Income (Loss)



Mineral resources Metallurgy Electronics & advanced materials Construction materials & housing Others

To Our Shareholders

Koichi Fukushima, President

SMM is currently promoting its "Mid-term Management Plan," aiming to improve profitability by building a strong and sound corporate structure for the SMM Group. By fiscal year 2003, the final year of the plan, we aim to achieve consolidated ROA (Return On Assets) of 3% or better while maintaining an equity ratio of at least 40% by promoting Business Structure Reform and Cost Structure Reform and through efficient management of assets.

Consolidated Results for Fiscal Year 2002

In fiscal year 2002 (April 2002 – March 2003), business confidence improved due to an increase in exports and a recovery in production from the beginning of the year and capital investment showed signs of bottoming out, resulting in a partial economic recovery in the first half. From the summer, however, economic slowdown in the U.S. and heightened tensions over Iraq raised concerns over the global economy. As a result, exports, which had been driving the improvement, became flat and domestic deflation resumed, weakening the recovery trend in production. On top of this, a bleaker employment situation and further declines in share prices contributed to a gradual worsening of the economic slump including deterioration in individual consumption.

In the non-ferrous metal industry, both demand and prices for nickel and gold were favorable. As for copper, however, despite signs of a recovery in domestic demand, prices continued to be sluggish. The yen maintained relative strength in foreign exchange markets due to the U.S. economic slowdown. Although the electronics-related industries perked up temporarily in the first half, they did not achieve a full-fledged recovery.

In this environment, SMM Group achieved growth in revenue and operating income as well as a sharp recovery in ordinary income on a consolidated basis. Owing to the write-down of investment securities, however, the SMM Group posted a net loss.

Net sales were ¥355.2 billion, an increase of 7.6% (¥25.0 billion) over the previous term. In addition to higher nickel prices and increased sales in the Metallurgy and Metal Processing segment, this is attributable to growth in sales of mainstay products in the Electronics Materials and Advanced Materials segment.

Due to improvement in all segments, operating income surged from ¥1.1 billion in the previous term to ¥16.6 billion. Due to profit growth in equity in earnings of non-consolidated subsidiaries and affiliated companies such as SMMA Candelaria Inc. and P.T. International Nickel Indonesia, ordinary income also improved from a ¥1.5 billion loss in the previous term to ¥14.6 billion in fiscal year 2002.

Due to a ¥17.2 billion write-down of investment securities, however, income before income taxes improved by only ¥5.1 billion compared with the previous term for a ¥7.5 billion loss. A net loss of ¥1.2 billion was posted despite a ¥5.4 billion improvement compared with the previous term due to the posting of a ¥6.8 billion income tax deferral.

By segment, in the Mineral Resources segment, net sales grew 5.9% (¥1.4 billion) over the previous term to ¥24.7 billion, supported by higher gold prices and sales growth at Sumitomo Metal Mining Arizona Inc. Operating income improved sharply, increasing by 220.0% (¥1.8 billion) over the previous term to ¥2.7 billion, due to cost-cutting and sales growth at Sumitomo Metal Mining Arizona Inc.

In the Metallurgy and Metal Processing segment, net sales rose 14.8% (¥29.2 billion) over the previous term to ¥226.3 billion. Operating income increased 135.7% (¥47.9 billion) over the previous term to ¥8.3 billion due to higher nickel prices in overseas markets and expanded sales and to profit growth resulting from revenue growth and cost-cutting at Sumitomo Metal Mining Brass & Copper Co., Ltd.

In the Electronics Materials and Advanced Materials segment, net sales increased 19.8% (¥21.9 billion) over the previous term to ¥132.9 billion. In addition to overall sales growth in mainstay products, this is attributable to overall revenue growth in SMM subsidiaries' packaging materials-related businesses and electronic component-related businesses. Operating income improved sharply from a ¥4.4 billion loss in the previous term to a ¥4.1 billion profit in 2002, supported by the large increases in profit at SMM and most of its subsidiaries due to sales recovery.

Progress of the "Mid-term Management Plan"

We are promoting a "Mid-term Management Plan" whose main objectives are building a stronger and sounder corporate structure and enhancing profitability. By fiscal year 2003, the final year of the plan, we aim to achieve consolidated ROA (Return On Assets) of 3% or better while maintaining an equity ratio of at least 40%.

Business Structure Reform

We are concentrating our management resources in areas where we can make the most of our strengths by further promotion of the “select and focus” strategy in our core businesses: the Mineral Resources and Metallurgy segments and the Electronics Materials and Advanced Materials segment.

In the Mineral Resources and Metallurgy segments, we are reinforcing three businesses as core: nickel, where we aim to take the initiative in the industry by establishing low-grade nickel oxide ore refining technology; copper, demand for which is expected to grow steadily, particularly in the Chinese market; and precious metals, where we have overseas mine development projects and are promoting introduction of a new refining process. Specifically, the large-scale projects we are emphasizing include the Coral Bay Project, which is constructing a low-grade nickel oxide ore processing plant in the Philippines, establishment of a copper production system with annual capacity of 450,000 tonnes at the Toyo Smelter & Refinery, and the Pogo Gold Mine Project that we are promoting in Alaska, the U.S. At the same time, we are reorganizing our zinc and sulfuric acid businesses by enhancing efficiency through alliances with other companies in the same businesses.

In the Electronics Materials and Advanced Materials segment, we are concentrating on materials areas where we have expertise such as paste, bonding wire, copper-clad polyimide film, and metal powders. Based on the rapid growth in IT-related markets in China, we are promoting China strategies for each of our businesses.

In the Environmental segment, we are focusing on two businesses where we leverage the technology that we have developed over many years through our Mineral Resources and Metallurgy businesses: the recycling business, which recovers valuable metals, and the environmental improvement business, which assesses and remediates soil and groundwater contamination.

At the same time, we are withdrawing from and selling businesses with a limited future and less synergies with core businesses. In order to further enhance group profitability, we will continue to promote withdrawal from unprofitable businesses and reduction of affiliated companies.

Cost Structure Reform

For the immediate enhancement of profitability, we are promoting measures such as the Cost Reduction Project, the Procurement Innovation Project, and personnel reduction. The effects of these are steadily increasing. In fiscal year 2003, we will continue to implement these projects to achieve further cost reduction effects.

In addition, we aim to improve administrative and supporting department efficiency and reduce administrative costs by introducing ERP (Enterprise Resource Planning) and converting to SSC (Shared Service Center) under our Management Information System and Administrative and Supporting Department Efficiency Project.

Research and Development System Reform

In order to bring forth the next mainstay of earnings efficiently, we are engaged in reforming our research and development system.

Management is actively involved from the stage of selecting research and development themes, so that development is closely linked to business strategy. We aim to accelerate our research and development activities by promoting a “select and focus” strategy in project themes and closely monitoring the progress. We will concentrate on core basic technologies in which we have outstanding expertise such as fine powder technology, surface treatment technology, organic resin technology, separation/refining/crystallization technology.

Also, we aim to revitalize research and development by heightening researchers’ motivation by promoting young researchers who are capable of leading research and development and by revising the patent reward system.

Enhancing Risk Management

In the aftermath of the critical accident that occurred in 1999 at the Tokai Plant of JCO Co., Ltd., a subsidiary of SMM located in Ibaraki Prefecture, we have decided not to restart the uranium conversion business, concentrating instead on managing facility maintenance, managing low-level radioactive waste storage, and handling compensation. SMM is providing JCO with support to effectively address these issues. Since the accident, we have endeavored to assure safety management and compliance with rules throughout the Group by reconfirming and thoroughly implementing our corporate philosophy. We are committed to enhancing our risk management and compliance systems and elevating employees’ awareness of their importance, based on the serious lessons from the JCO accident.

Despite signs of recovery in the U.S. economy and domestic share prices, recent appreciation of the yen and severe employment conditions are likely to cause the outlook for the Japanese economy to achieve a self-sustaining recovery to remain uncertain. In the non-ferrous metal industry, however, inventories are generally decreasing and metal prices are advancing. Also, in electronics-related industries, semiconductor demand is turning around supported by growth in sales of digital appliances and mobile phones.

In these environments, by steadily implementing our “Mid-term Management Plan,” we are devoting all of our efforts to achieve our management goals by the final year of the plan. Currently, we are developing our next Mid-term Management Plan (fiscal years 2004 – 2006), which aims to achieve higher management goals. We deeply appreciate your understanding of and support for our management policies.

September 2003

Koichi Fukushima
President

Special Feature:

Progress of the Mid-term Management Plan (Fiscal Years 2002-2003)

SMM is promoting its "Mid-term Management Plan," aiming to improve profitability by building a strong and sound corporate structure for the SMM Group. By fiscal year 2003, the final year of the plan, we aim to achieve consolidated ROA (Return On Assets) of 3% or better while maintaining an equity ratio of at least 40% by promoting Business Structure Reform and Cost Structure Reform.

Business Structure Reform

Under Business Structure Reform, in addition to promoting the "select and focus" strategy in the Mineral Resources and Metallurgy segments and the Electronics Materials and Advanced Materials segment, which are our core businesses, we are reinforcing our Environmental segment, a growth area, by focusing on areas where we can make the most of our strengths.

In the Mineral Resources and Metallurgy segments, we are emphasizing the promotion of large-scale mineral resource development projects in order to secure profitability in the medium to long term. In the Electronics Materials and Advanced Materials segment, we are concentrating management resources in areas such as paste and copper-clad polyimide film that use the materials technology in which we are strong.

At the same time, we are withdrawing from and selling businesses with a limited future and less synergies with core businesses. In fact, in two years through the end of fiscal year 2002, we have shut down and sold off 25 affiliated companies out of 94 as of April 2000. In order to further enhance profitability of the Group, we will continue to promote withdrawal from unprofitable businesses and reduction of affiliated companies.

Investment Plan: Five Main Projects

Under this plan, which includes five main projects in the Mineral Resources and Metallurgy segments, SMM is engaged in the highest level of large-scale investment in its history. Due in part to revision of the New Nickel Oxide Ore Project, actual capital investment in fiscal year 2002 totaled ¥22.8 billion, compared with ¥35.5 billion in the initial plan. As ¥56.7 billion is planned for fiscal year 2003, total investment for the two-year period is expected to be ¥79.5 billion.

Pogo Gold Project

This is a gold mine development project that we are promoting in the Pogo area of Alaska, the U.S. It is currently in the review process for obtaining permission to develop the mine. We expect to get permission within fiscal year 2003. If this is the case, we will be able to begin operations in fiscal year 2005 as construction requires approximately two years. Fiscal year 2003 investment is estimated at ¥2.0 billion.

Expanding Toyo Smelter Refinery's Annual Copper Production to 450,000 Tonnes

At the Toyo Smelter & Refinery, our domestic copper production site, we are expanding production facilities to gradually boost annual capacity to 450,000 tonnes. Expansion in fiscal year 2003 completed an increase in annual capacity from 270,000 tonnes to 300,000 tonnes. Fiscal year 2003 investment is estimated at ¥14 billion.

New Mine Development

In order to ensure a stable supply of raw materials and meet annual copper production capacity of 450,000 tonnes, we are endeavoring to secure our own resources through direct investment in overseas mines. We will further enhance and speed up new mine developments, in addition to our efforts of these years to participate in mine development plans.

Coral Bay Project

In order to secure new nickel resources, we are constructing a plant on Palawan Island, the Philippines, to produce an intermediate product of the nickel refining process from laterite low-grade nickel oxide ore. The start of operations is targeted for fiscal year 2004. Fiscal year 2003 investment is estimated at ¥5.5 billion.

Plan and Result of Investment in Fiscal Year 2002 and 2003

Billions of yen

	Plan in FY2002 (as of November 2001)	Result in FY2002	Plan in FY2003	Total of FY2002 and 2003
Mineral resources	7.7	1.4	8.0	9.4
Metallurgy	17.2	8.9	34.9	43.8
Electronics & advanced materials	7.4	9.5	11.2	20.7
Others	3.2	3.0	2.6	5.6
Total	35.5	22.8	56.7	79.5

New Nickel Oxide Ore Project

We are considering participation in the large-scale hydro-metallurgical nickel refining process project that Inco Ltd. (Canada) is advancing in New Caledonia. Inco is currently fundamentally revising plans with the goal of reducing the amount of investment in the project. When its revision of plans has been completed, we will consider if participation is possible.

Cost Structure Reform

Under Cost Structure Reform, we are steadily implementing the following measures.

Cost Reduction Project

Aims to reduce costs by approximately ¥1.0 billion annually through a major revision of systems and practices including the benefits system.

Procurement Innovation Project

Aims to cut costs by approximately ¥5.0 billion annually through a thorough reform of procurement that is not limited to a review of procured materials and procurement methods, but includes modification of product and equipment specifications and of manufacturing processes.

Personnel Reduction

Approximately 250 employees (7% of the total) accepted the early retirement package that we offered in June 2002. This was more than initially expected and represents progress toward our transformation into a corporate structure with less vulnerability to changes in environments.

As a result of the above, we achieved our fiscal year 2002 Cost Structure Reform target of ¥4.0 billion. In addition, we aim to improve administrative and supporting department efficiency and reduce administrative costs by introducing ERP (Enterprise Resource Planning) and converting to SSC (Shared Service Center) under our Management Information System and Administrative and Supporting Department Efficiency Project.

Summary of Mid-term Management Plan

Business Structure Reform

Core Business
- Mineral Resources and Metallurgy, Electronic Materials and Advanced Materials, Environmental Business

Alliance
- Zinc operation (with Mitsui Mining & Smelting Co., Ltd.)
- Sulfuric acid operation (with Dowa Mining Co., Ltd.)

Reform of Organization
- Streamline Electronics Division
- Spin off IC packaging materials business from Electronics Division

Cost Structure Reform

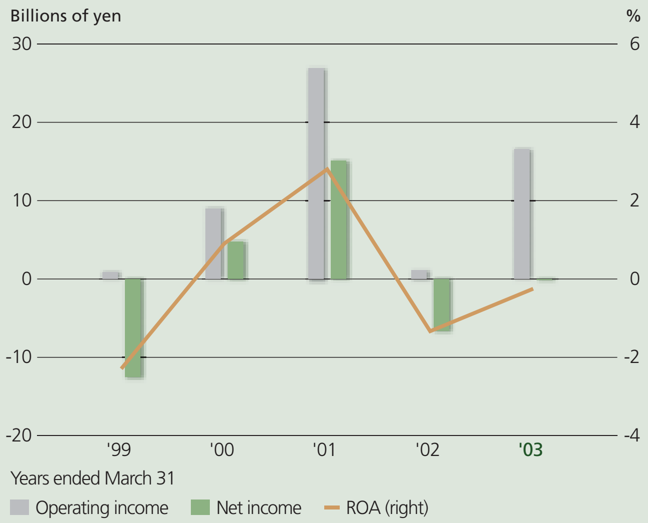
Cost Reduction Project
- Reduce approximately ¥1 billion annually

Procurement Innovation Project
- Reduce approximately ¥5 billion annually

Personnel reduction

Management Information System and Administrative and Supporting Department Efficiency Project

Operating Income, Net Income and ROA



Total Assets, Shareholders' Equity and Equity Ratio

Special Feature:

Revitalizing Research and Development

Research and Development Basic Strategy

SMM is endeavoring to restructure its R&D system for the most efficient development of the next generation of new products. We aim to revitalize R&D by building a system whose highest priority is customer needs and by enhancing researchers' motivation. We are also applying the "select and focus" strategy to R&D by focusing development themes on core basic technologies in which we have outstanding expertise.

Objectives of Research and Development Reform

1. Active Involvement of Management

We are linking R&D to business strategy through close communication between management and research laboratories. We are managing progress by having our management, business segments, and research laboratories work in unison to choose research themes that have the needs of customers and markets as their highest priority.

2. Accelerating Research and Development

Products in the Electronics Materials and Advanced Materials segment are quickly replaced by newer ones, making it crucial to develop products that meet customer needs rapidly enough to make them available in a timely manner. To that end, we are committed to meeting customers' delivery requirements through painstaking schedule management and flexible personnel deployment. We also actively promote the use of external resources such as joint research with academic research institutes and outsourcing when starting new businesses.

3. Enhancing Researchers' Motivation

The revitalization of R&D largely depends on the motivation of individual researchers. In order to enhance researchers' motivation, we are promoting younger researchers who are capable of leading R&D, transferring to them the authority to execute budgets for the themes they direct and the responsibility for promoting them. We have also revised our patent reward system by abolishing the ceiling on patent reward amounts and paying rewards as a percentage of profits based on a review of contribution to business results.

Four Core Basic Technologies

1. Fine Powder Technology

This is a nanotechnology for manufacturing functional powders whose importance is increasing as IT-related components become smaller and lighter. Related SMM products include the Advanced Materials segment's metal powders, magnetic materials, and functional inks. We are currently conducting joint R&D with Institute of Multidisciplinary Research for Advanced Materials of Tohoku University on the theme of "Functional Particle Creation and Applications."

2. Surface Treatment Technology

For many years we have worked hard on improving our surface treatment technology, which includes processes for plating on semiconductor packaging materials such as lead frames. The superiority of our technology has been recognized worldwide, as exemplified by the reputation for quality and global share exceeding 90% in the market for COF copper-clad polyimide film used in LCD driver IC of large TFTs.

3. Organic Resin Technology

Organic resin is the general term for the plastics and synthetic rubbers that are synthesized from petroleum. Related SMM products include semiconductor substrates and compounds used in magnetic materials. Development of this technology is considered crucial to the electronics field going forward.

4. Separation, Refining, Crystallization Technology

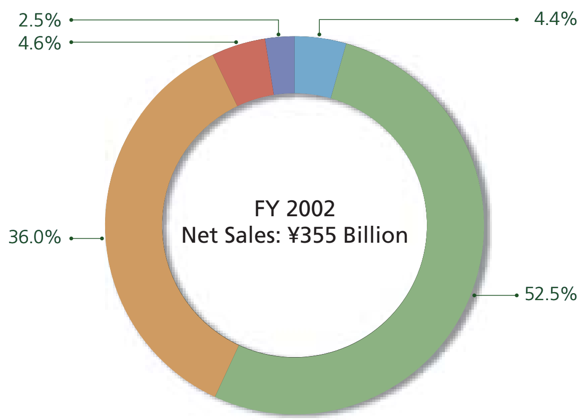
Separation and refining technology is a basic technology for metal refining in which we have a high degree of expertise and which is the source of our refining segment's high level of competitiveness. It will be used in the Coral Bay Project we are currently building and in precious metal refining processes. We use crystallization technology for the electronics materials such as GaP (gallium phosphide) and telecommunications device components. Our GaP has been particularly well received by the market, winning a share of approximately 50% worldwide.

■ Start of Comprehensive Joint R&D with Academic Research Institute

In July 2003, SMM entered a comprehensive joint R&D agreement on the theme of "Functional Particle Creation and Applications" with Institute of Multidisciplinary Research for Advanced Materials of Tohoku University. Comprehensive joint research is not simply joint research conducted by individual research laboratories and a corporation. Rather, it seeks superior R&D results in a shorter time by organically integrating the total power of multiple research laboratories and the technology owned by the Company. While development results achieved in the contracted three-year period will be jointly owned, SMM will be in charge of any commercialization. Going forward we will continue to increase the efficiency with which we develop new products by strengthening alliances with academic research institutes.

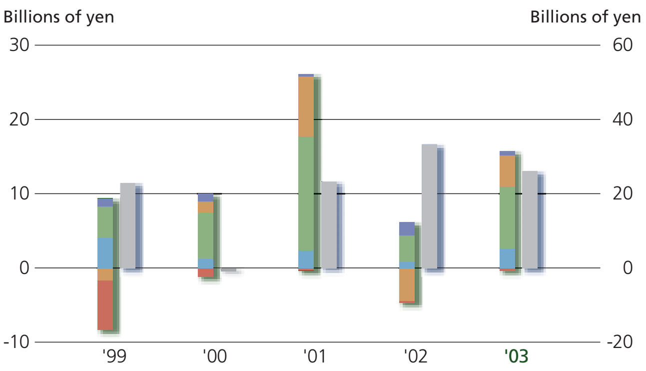
Review of Operations:
At a Glance

Net Sales by Segment (Consolidated)

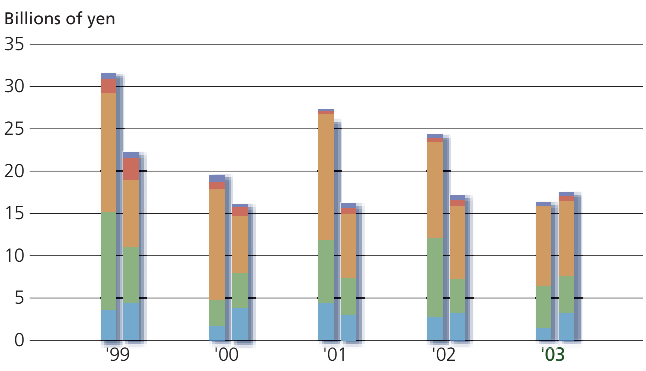


Note: Proportion is calculated by net sales of each segment which does not include inter-segment transactions.

Operating Income and Net Cash Provided by Operating Activities



Capital Expenditures (left) and Depreciation (right)



Mineral resources | Metallurgy | Electronics & advanced materials | Construction materials & housing | Others
Net cash provided by operating activities (right)

Note: Operating income, capital expenditures and depreciation of Advanced Materials segment in fiscal year ended March 1999 were included in Metallurgy.

Business Profile

Segment	Business Content	Main Products
Mineral Resources	• Exploration, development, production, and sales of non-ferrous metal resources, domestically and overseas • Geological consulting utilizing mineral resource developing techniques	Gold and silver ores, Copper concentrates
Metallurgy	• Refining and sales of base metals such as copper, nickel, and precious metals	Copper, Nickel, Zinc, Lead, Precious metals such as gold, silver, platinum, etc.
Electronics Materials	• Manufacturing, processing and sales of IC packaging materials, electronics materials, crystal materials, etc. • Manufacturing and sales of optical communication materials and components, devices, connectors, switches, photo conductive cells, silicon photodiode, TV frames, etc.	Lead frame, Tape material, Bonding wire, Paste, Crystal material (GaP: Gallium Phosphide, LN: Lithium Niobate, LT: Lithium Tantalate), Printed Wiring Board (PWB), Optical components (Faraday Rotator, Optical Isolator and High frequency device).
Advanced Materials	• Manufacturing, processing, and sales of metal powders (nickel, palladium), circuit board materials, battery materials, magnet materials, etc.	Nickel powder, Copper-clad polyimide film, Materials for rechargeable batteries (nickel hydroxide, lithium cobaltate), Rare earth metal bonded magnets

Review of Operations:
Mineral Resources and Metallurgy

Production Capacity Expansion Plan (annual basis)

Product	Current level	Goal
Nickel	36,000 tonnes	Gradually expand to 60,000 tonnes
Ferro-nickel	21,000 tonnes	Gradually expand to 24,000 tonnes
Copper (Toyo Smelter & Refinary)	300,000 tonnes	Gradually expand to 450,000 tonnes
Copper (Jinlong Copper Co., Ltd.)	150,000 tonnes	Gradually expand to 300,000 tonnes
Gold	36 tonnes	Expand to 60 tonnes in FY2003
Silver	300 tonnes	Expand to 360 tonnes in FY2004

Results for Fiscal Year 2002

The Mineral Resources segment posted net sales of ¥24.7 billion, a 5.9% increase from the previous term. Operating income increased 220.0% (¥1.8 billion) compared with the previous term to ¥2.7 billion, recovering to fiscal year 2000's level. This is attributable to growth in sales and profit at the Hishikari Mine supported by higher gold prices and to the increase in sales accompanying the complete switchover in fiscal year 2002 by Sumitomo Metal Mining Arizona, Inc. to sales of copper metal produced by the SX-EW method (solvent extraction/electrowinning, a low-cost hydro-metallurgical method for producing copper at the mine site).

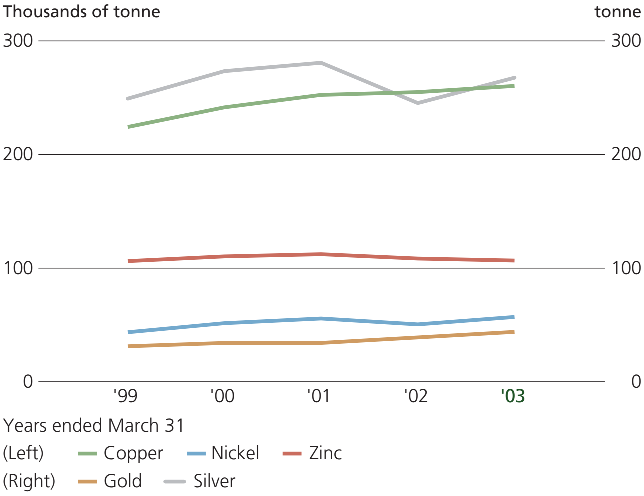
The Metallurgy and Metal Processing segment posted net sales of ¥226.3 billion, a 14.8% increase from the previous term. Operating income grew 135.7% to ¥8.3 billion, sharply recovering from the previous term's slump. Major factors behind this were the rise of LME nickel prices, the continued strength of nickel demand for stainless and other special steels, and increased sales due to the recovery in nickel for semiconductor-related electronics materials.

Basic Business Strategy

Having long been core businesses of SMM, the Mineral Resources and Metallurgy segments account for approximately 60% of overall sales. Under our "Mid-Term Management Plan," we position three businesses as core: nickel, where we aim to take the initiative in the industry by establishing low-grade nickel oxide ore refining technology; copper, demand for which is expected to grow steadily, particularly in the Chinese market; and precious metals, including gold from the Hishikari Mine, which is one of the world's few high-grade mines.

In order to provide cost-competitive products on a stable basis amid the ongoing global reorganization of mining companies and increasing oligopolization of markets, it is vital for us to secure our own resources through direct investment in overseas mines. To that end, we are aiming for an integrated production system that handles everything from mineral resources development to refining for the three core businesses by globally developing mineral resources, improving refining technology, and endeavoring to expand production capacity.

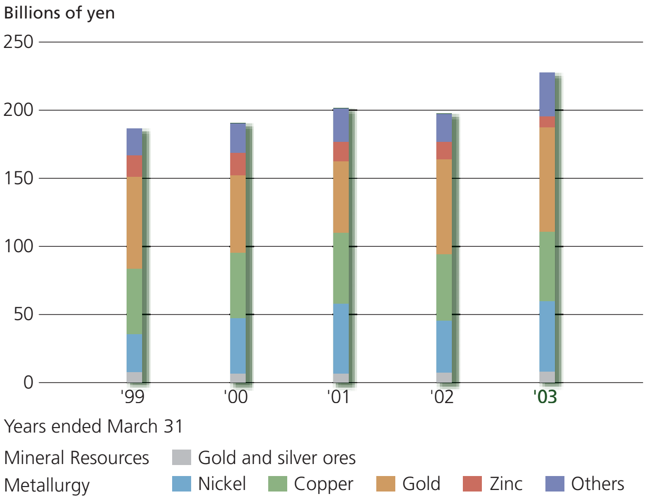
Annual Production Volume by Product (Non-consolidated)



Years ended March 31

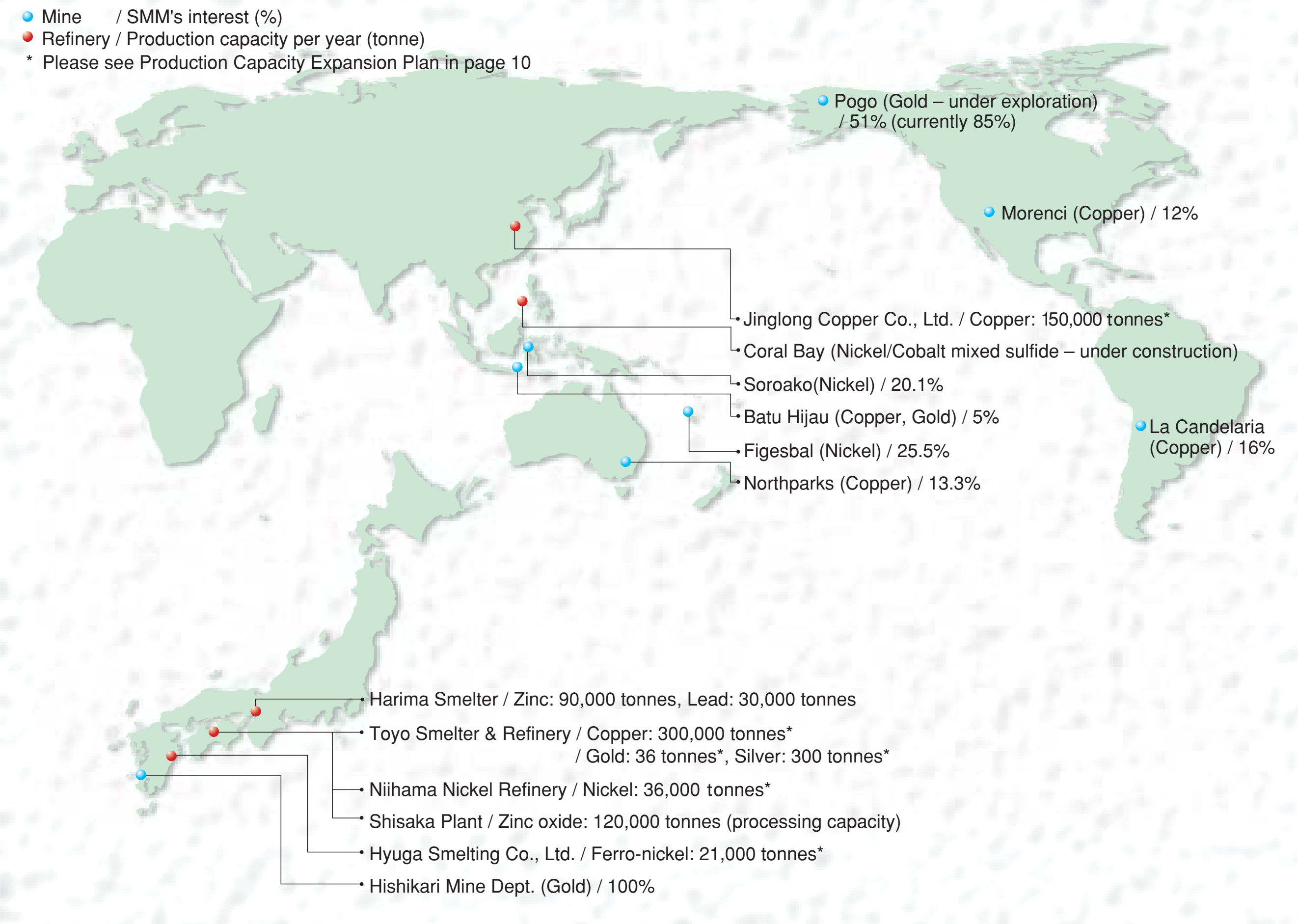
Notes: 1.Production volume includes outsourced production
2.Nickel includes ferro-nickel

Net Sales by Product (Non-consolidated)

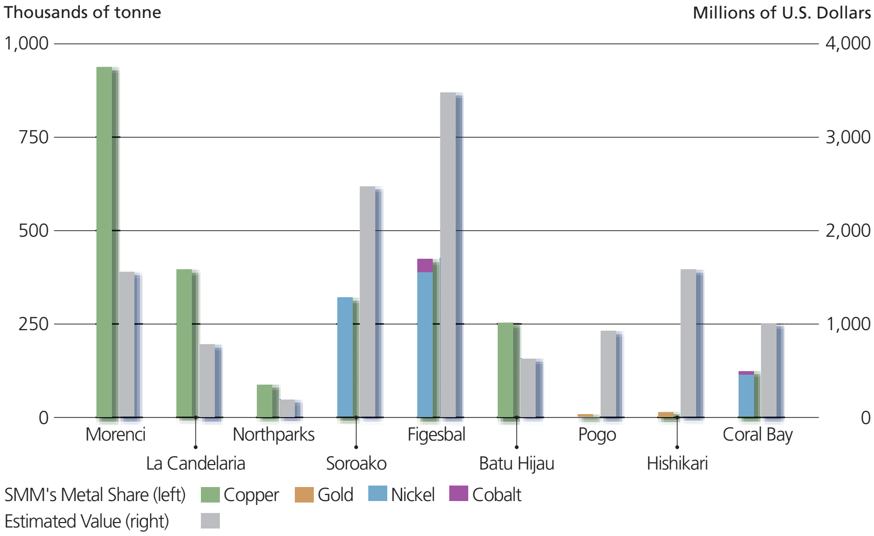


Years ended March 31

SMM's Worldwide Mines and Refineries

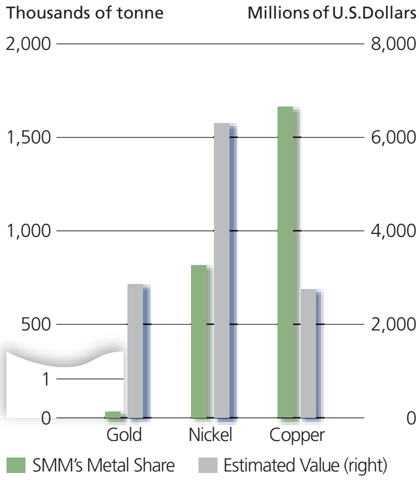


SMM's Metal Share and Value by Mine



Notes: 1. Only the Company's own mines are covered.
2. SMM's metal share = Ore reserves (tonne) x Metal grade x SMM's interest of mine (%)
3. Estimated value = SMM's metal share (tonne) x Standard metal price
4. Standard metal price = Gold: 320$/toz, Nickel: 3.5$/lb, Copper: 75¢/lb, Cobalt: 6.5$/lb

SMM's Metal Share and Value by Metal



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Strategy for Metal Business

Nickel

Demand for nickel, which is used in stainless steel and electronic materials, is expected to steadily grow over the medium to long term. SMM offers a variety of nickel products, including electrolytic nickel and ferro-nickel, and is the only domestic producer of electrolytic nickel.

Under our "Mid-term Management Plan," we seek to establish stable overseas supplies of raw materials in order to expand annual production capacity of electrolytic nickel from 36,000 tonnes to 60,000 tonnes and of ferro-nickel from 21,000 tonnes to 24,000 tonnes over the long term. For assuring stable procurement of raw materials, in addition to our capital participation in vendor P.T. Inco (Indonesia) and FIGESBAL (New Caledonia), we are promoting the Coral Bay Project.

Coral Bay Project

Coral Bay Project

The Coral Bay Project (formerly the Rio Tuba Project) is the project to establish a low-grade nickel oxide ore processing plant at Rio Tuba in the southern part of Palawan Island, the Philippines, and to produce nickel/cobalt mixed sulfide, an intermediary product in the nickel refining process (nickel: 10,000 tonnes per year; cobalt: 700 tonnes per year). To advance the project, in July 2002, SMM established Coral Bay Nickel Corporation in the Philippines in conjunction with Mitsui & Co., Ltd., Nissho Iwai Corporation, and Rio Tuba Nickel Mining Corporation (the Philippines).

Total investment in the project, which is expected to operate for approximately 20 years, is estimated at US$180 million. A stock of approximately 16 million tonnes of raw material has already been mined locally and the use of existing infrastructure of harbors, roads, and other facilities will enable low-cost development. The project is progressing smoothly and is scheduled to start operations in fiscal year 2004. This is an overseas project in which SMM holds a majority interest. By establishing low-grade oxide ore refining technology, we aim to take the initiative in the global nickel refining business.

Nickel Price (LME)

Establishment of the HPAL Method

Previously, the global development of nickel resources has mainly focused on nickel sulfide ore and garnierite, the high-grade nickel oxide ore. The recent development, however, of the HPAL (high pressure acid leach) method has made possible the low-cost recovery of nickel from laterite, the low-grade oxide ore. Laterite ore exists in large quantities in many regions including the Philippines, Indonesia, Australia, Central America, South America, and Africa and establishing laterite ore processing technology is of great significance from the standpoint of securing a stable nickel supply for the future. It is also the beginning of the strategy for the challenge of yet larger nickel refining projects going forward.

Reinforcing Domestic Nickel Plant Facilities

SMM will purchase all of the intermediary product produced by the Coral Bay Project and transform it into the final electrolytic nickel product at its own nickel plant. This plant is highly cost-competitive as it uses the MCLE (matte chlorine leach electrowinning) process, a high-quality, high-productivity hydrometallurgical refining process. In line with this project's progress and demand growth, we will gradually expand annual electrolytic nickel production capacity from 36,000 tonnes to 60,000.

Copper

In China, Taiwan, South Korea and other parts of Asia where economic development is ongoing, demand for copper is strong. In particular, in China, which will host the Beijing Olympics in 2008 and the Shanghai International Expo in 2010, the infrastructure is being improved at a fever pitch and demand for copper for wire, electronics materials, and construction materials is growing rapidly. Chinese demand for copper is expected to reach 5.0 million tonnes in fiscal year 2010, compared with the current 2.5 million tonnes. However, the production capacity of local smelters in China cannot handle the growth in demand so that the supply and demand gap will continue to expand. It is estimated that by fiscal year 2010, more than half of Chinese demand will have to be fulfilled with imports.

Securing 50% of our copper from our own mines stabilizes our supply and we have extensive business experience in China. For these reasons, we are confident of being able to establish a dominant position in the Chinese market.

In order to respond to trends like this in Asian markets, in addition to advancing plans to increase copper production, we are endeavoring to secure our own resources.

With regard to the Tropico Copper-Platinum Group Metal Project in Sinaloa, Mexico in which we have been engaged in exploration since 2001, we decided in March 2003 to withdraw from the entire project based on exploration results that showed that copper content did not meet our initial expectations.

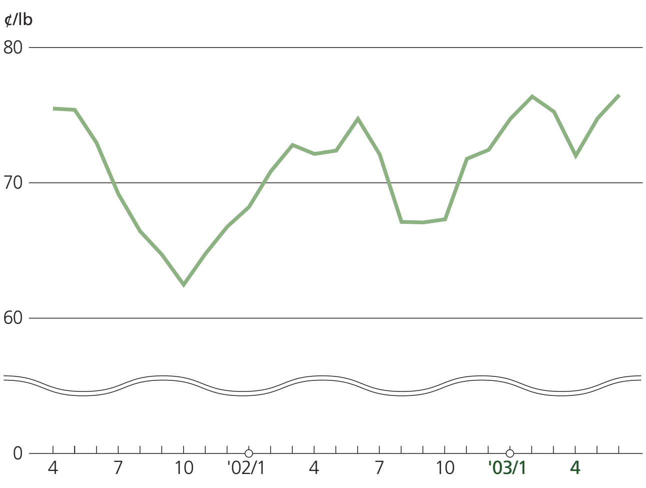
Nevertheless, our proactive stance toward mine development remains unchanged. That said, however, we are fully aware that we need to reduce the risks associated with the mine development by speeding up the development projects as mach as possible.

Expansion Plans

At the Toyo Smelter & Refinery, our domestic copper production site, we are expanding production facilities to boost annual capacity to 450,000 tonnes. In July 2003, we completed an increase in annual capacity from 270,000 tonnes to 300,000 tonnes. This plant is located on a site which is large enough to carry out the expansion in capacity in an efficient manner. Going forward we will gradually expand capacity in line with market growth. Total investment in this capacity expansion plan is estimated at ¥28.0 billion.

In addition, last year we established a system for annual electrolytic copper production capacity of 150,000 tonnes at Jinlong Copper Co., Ltd., our joint venture in Anhui Province, China. We are targeting annual capacity of 300,000 tonnes down the road in order to respond to vigorous demand.

Copper Price (LME)



Expansion of production facilities at the Toyo Smelter & Refinery

Reinforcing the Sulfuric Acid Business

The copper refining process yields a large amount of sulfuric acid as a by-product. The Toyo Smelter & Refinery currently produces approximately 700,000 tonnes of sulfuric acid annually. As the profitability of sulfuric acid sales has an impact on the competitiveness of the copper business, the sulfuric acid business becomes a vital issue when copper production is expanded.

SMM formed an alliance with Dowa Mining Co., Ltd. in the sulfuric acid business and in February 2003 established the sulfuric acid manufacturing and sales company Acids Co., Ltd. as a joint venture. Through this alliance, we aim to cut more than one billion yen in annual costs at both companies in total by enhancing transportation efficiency, cutting sales, general and administrative expenses, and enhancing productivity.

In addition, we have secured a purchaser within the Group as the Coral Bay Project's nickel oxide ore processing plant plans to use 260,000 tonnes of sulfuric acid annually.

Precious Metals

In addition to maintaining annual gold production of 7 to 8 tonnes thanks to the stable operations of the Hishikari Mine, one of the world's few high-grade gold mines, we are involved in the Pogo Gold Project in Alaska, the U.S. Furthermore, we are enhancing the efficiency of precious metal recovery and refining with the introduction of a new process for precious metals refining that we developed in-house.

The Superiority of the Hishikari Mine

While the average grade of the world's gold mines is approximately 5g of gold per tonne of ore, the average grade of the Hishikari Mine is 45g to 50g, making it one of the world's few high-grade mines. We are using the mining technology that we cultivated at this mine in mine development projects that we are currently promoting overseas. Having begun operations in 1985, the Hishikari Mine's total gold production reached 100 tonnes in 1999. With estimated gold reserves of 150 tonnes (as of December 2002), stable operations will continue going forward.

Pogo Gold Project

This is a gold mine development project in Alaska and is a joint venture with Teck Cominco (Canada) and SC Minerals (a U.S. subsidiary of Sumitomo Corporation) in which we hold a majority interest. The Liese deposit, which is the Pogo region's principal ore deposit, is promising, with estimated ore reserves of 9.7 million tonnes, average gold grade of 18.0g per tonne, gold reserves of 174 tonnes, and annual gold production of 12.5 tonnes.

This project is currently in the review process for obtaining permission to develop the mine. We expect to get permission within fiscal year 2003. If this is the case, we will be able to begin operations in fiscal year 2005 as construction requires approximately two years.

Introduction of New Process for Precious Metals Refining

After being separated and recovered in the copper refining process, precious metals – gold, silver, and platinum – are refined. In order to increase precious metal refining capacity and efficiency in conjunction with the copper production expansion at the Toyo Smelter & Refinery, we are introducing a new process for precious metals refining during the period from fiscal year 2003 to 2004. Total investment of ¥3.6 billion is expected to expand annual refining capacity from 36 tonnes to 60 tonnes for gold and from 300 tonnes to 360 tonnes for silver.

Unlike conventional processes, the new process enables recovery of greater value metals first. This shortens the gold recovery time from one month to eight days, which should have the effect of lowering costs by lightening the interest burden. In addition to gold, silver, platinum, palladium, and rhodium, other platinum-group metals such as iridium and ruthenium are also recovered, which was difficult with conventional processes. Introduction of the new process is expected to add ¥700 million to profit per year.

Zinc

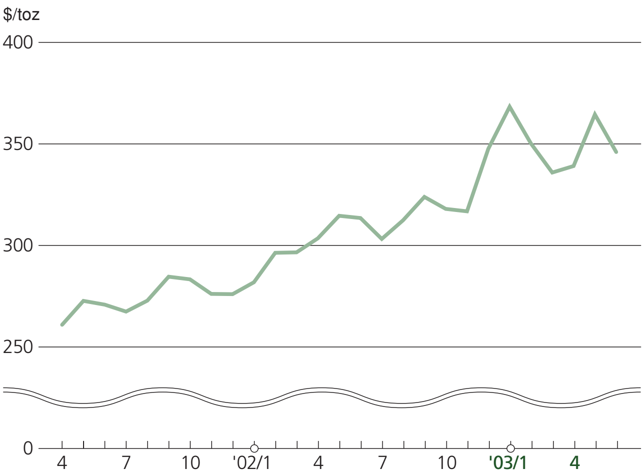
Zinc Business Joint Venture

The domestic zinc business is under severe pressure from imports from neighboring countries such as China and South Korea. In July 2002, SMM established MS Zinc Co., Ltd. as a joint venture with Mitsui Mining & Smelting Co., Ltd. The joint venture is expected to contribute to integration effects of ¥1.5 billion annually at both companies by implementing a broad range of business cooperation from materials procurement to product distribution, sales, and technology development. As part of this cooperation, in July 2003 we integrated production of zinc alloy for galvanizing.

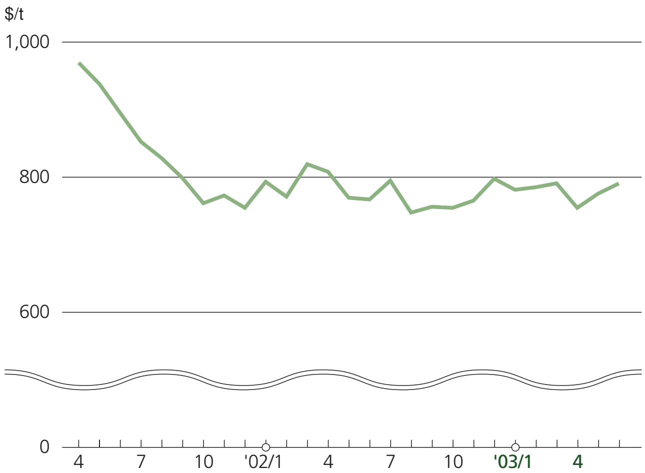
Recycling from Iron Scrap

As zinc is used as a surface treatment material on steel sheets to prevent rust, large amounts of zinc are contained in the electric arc furnace (EAF) dust produced when iron scraps are recycled to make steel. At our Shisaka plant, we process this EAF dust from steel production to recover and recycle the zinc. As part of our business cooperation, we aim to enhance the operating rate of the Shisaka Plant by promoting the transfer of a portion of the EAF dust from Mitsui Mining & Smelting.

Gold Price (COMEX)



Zinc Price (LME)



Review of Operations:

Electronics Materials and Advanced Materials

Results for Fiscal Year 2002

In the first half of fiscal year 2002, there was temporary briskness in the global semiconductor markets, particularly in Asia, and net sales in this business segment increased 19.8% (¥21.9 billion) over the previous term, to ¥132.9 billion.

Electronics materials sales increased, supported by increased exports of bonding wire and electric paste to Taiwan and by the recovery in demand for crystal materials. Advanced Materials sales also increased overall, driven by completion of user inventory adjustments and by recovery in electronic device-related demand for metal powders and copper-clad polyimide films. Net sales at subsidiaries also increased overall, as the domestic and Asian package material-related business and electronic part-related business similarly saw a revival in sales.

On the back of the recovery in net sales, operating income recovered sharply to ¥4.1 billion, from a ¥4.4 billion loss in the previous term.

Basic Business Strategy

1) Executing the Mid-term Management Plan

Under our Mid-term Management Plan we aim to further reinforce our business structure by positioning the Electronics Materials and Advanced Materials segment as a core business and applying to them the “select and focus” strategy.

In the Electronics Materials business, we are concentrating on areas that make the most of the material technologies in which we specialize. Specifically, we are reinforcing the areas of electric paste, a material used in chip components such as resistors and multilayer ceramic capacitors, and bonding wire, which is used to connect semiconductor chips to external leads. In the Advanced Materials business, the key areas are copper-clad polyimide films for liquid crystal drivers and metal powders such as nickel powder for multilayer ceramic capacitors.

In April 2002, we spun off our IC packaging materials business, which included lead frames and tape materials, and established Sumitomo Metal Mining Package Materials Co., Ltd. We have built a system in which the new company is comprehensively responsible for operations at eight domestic and overseas production sites.

In addition, we are promoting a transition to a business structure with less vulnerability to changes in environments. As a result of preferential treatment we offered employees taking early retirement in 2002, the number of employees in the Electronics Materials segment was reduced by 130, or 20%.

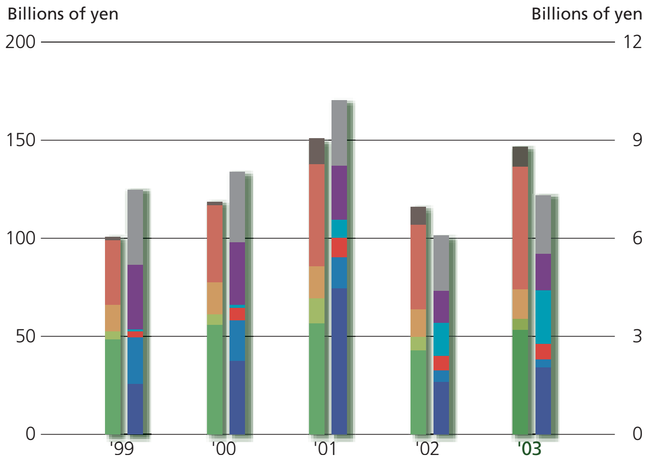
2) Key Strategies

Our key strategies going forward are development of operations in China and research and development.

Based on the rapid growth in IT-related markets in China, we are developing China strategies for each of our businesses. In bonding wire, we are reinforcing our production site in Malaysia and considering adding a production line in China. In electric paste, we are targeting a large market share in China by strategically positioning our Shanghai production site. In lead frames, in addition to the business we are already developing in Chengdu, Sichuan, we are building a new plant in Suzhou, Jiangsu, as our second production site in China. It is scheduled to start operations in 2004.

In research and development, we are endeavoring to restructure our R&D system for the most efficient development of the next generation of new products. In addition to building a system whose highest priority is to meet customer needs, we aim for timely and speedy achievements from development by focusing projects on core technologies such as fine powder technology and surface treatment technology.

Net Sales by Product



Years ended March 31

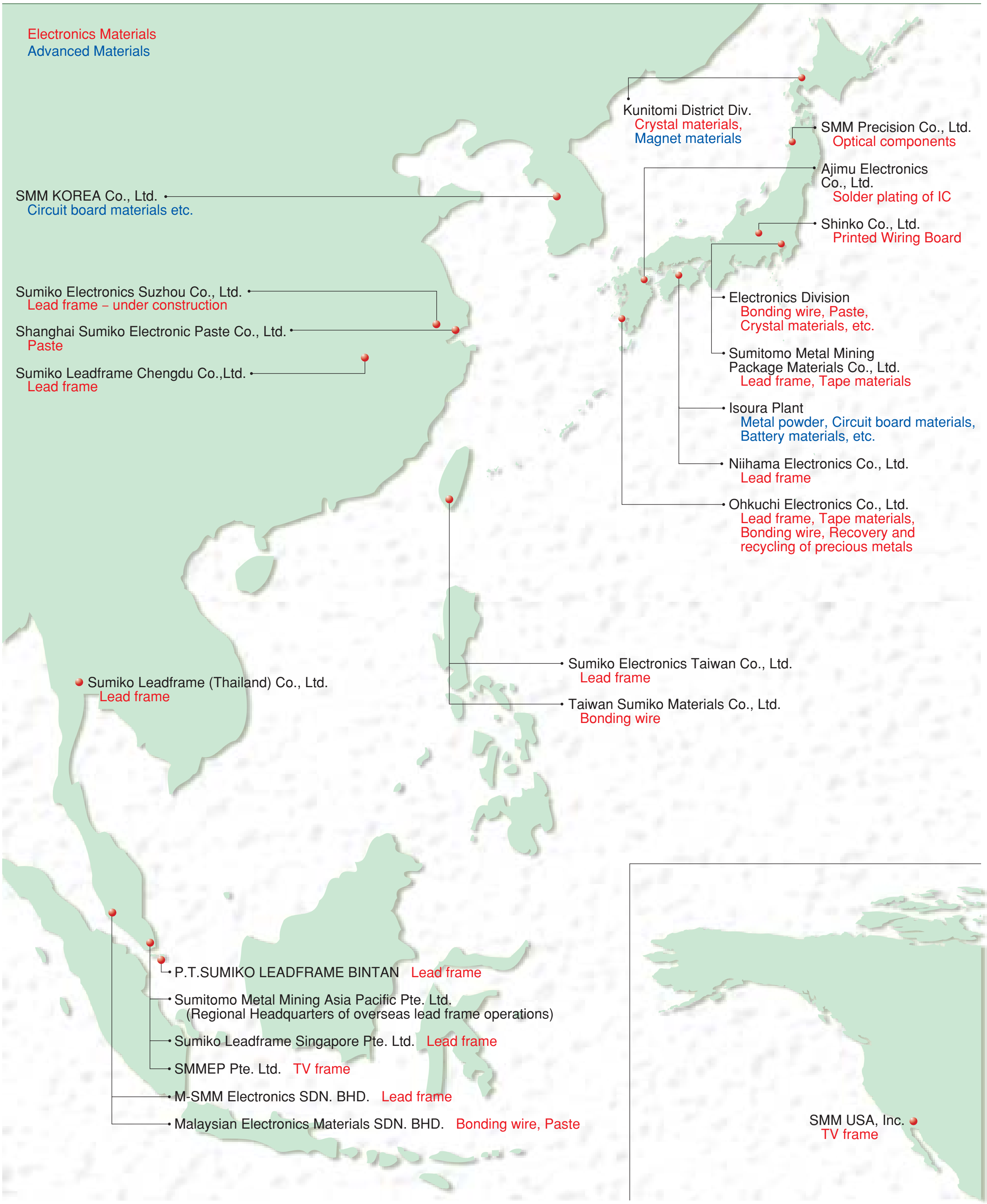
Electronics Materials (left): Packaging materials, Crystal materials, PWB, Electronics materials, Others

Advanced Materials (right): Powder materials, Functional materials, Battery materials, Circuit board materials, Magnet materials, Others

Packaging Materials (Lead frame, Tape materials etc.)
Crystal Materials (GaP, Faraday Rotator, Optical Isolator etc.)
PWB (Printed Wiring Board etc.)
Electronics Materials (Bonding wire, Nickel paste etc.)
Powder Materials (Metal power etc.)

Note : Net sales of electronics materials include in-house transactions.

SMM's Worldwide Production Facilities for Electronics Materials and Advanced Materials



Strategy for Electronics Materials Business

Electric Paste

Electric paste is used in chip components such as conductive materials, resistors, and protective film for circuits that are installed in a wide variety of electronic equipment, including mobile phones, personal computers, and home electric appliances. Among our various electric pastes, the nickel paste for multilayer ceramic capacitors that we developed ahead of the rest of the industry has been especially well received by the market and has secured a high global share. To respond to worldwide growth in demand for mobile phones and other electronic equipment, we reinforced our production line for this product in 2001. We are also promoting business in China where we expect demand to expand quickly using our Shanghai sales and production site established in 1996 as a strategic base.

Electric Paste

Bonding Wire

Bonding wire is used to connect the electrodes of semiconductor chips to lead frames. In high-density ICs, gold wire is generally used because of its superior workability and conductivity. While taking advantage of our ability to procure gold in-house, in addition to lowering costs by reducing the gold usage with fine processing, we are achieving the high level of strength in the high pin and narrow pitch bonding requirements.

While the market for bonding wire is expected to maintain an annual growth rate of around 10%, prices are likely to fall due to the impact of worldwide price competition. To reinforce our cost competitiveness, we are transferring domestic production to Malaysia and will increase production capacity there by 1.6 times in fiscal year 2004, compared with fiscal year 2002. To achieve a top global market share, we are also considering building a new production line in China.

Bonding Wire

Lead Frames

Lead frames are metal frames that form the external leads for semiconductor devices such as ICs and transistors. Our IC packaging materials, including lead frames and tape materials, boast a top share of 12% of the global market. In April 2002, we spun off our IC packaging materials business and established Sumitomo Metal Mining Package Materials Co., Ltd. We have established a system in which the new company is comprehensively responsible for operations at eight domestic and overseas production sites.

In China in particular, with a tripling of the market expected in recent years, semiconductor assembly-related businesses have, one after the other, advanced into Shanghai and other parts of the Huadong region. To handle this demand, we are building our second production site in China in Suzhou, Jiangsu, which is near Shanghai. While it is scheduled to start operations in fiscal year 2004, we plan to gradually build an integrated production system that will include plating and stamping facilities by investing a total of ¥3.6 billion by fiscal year 2007.

Strategy for Advanced Materials Business

Copper-clad Polyimide Film

Copper-clad polyimide film is a flexible board material. As telecommunications devices have become smaller and offered more functions, the chip-on-film (COF) method, which uses copper-clad polyimide film, has become standard for the LCD driver IC packaging in mobile phones. Recently, the transition to the COF method has also extended to the large thin film transistors (TFTs) used in notebook computers and monitors, resulting in a rapid growth in demand for copper-clad polyimide film.

SMM's share of the market for COF copper-clad polyimide film used in large TFTs already exceeds 90% worldwide. In order to handle the rapid growth in orders, in fiscal year 2003 we plan to invest ¥1.0 billion to build a new production line in the Isoura Plant, which will double production capacity from the fiscal year 2002 level, to 1.2 million square meters.

Copper-clad Polyimide Film

Nickel Powder

Nickel powder is used for the internal electrodes of multilayer ceramic capacitors (MLCCs), which are indispensable in all types of electronic equipment. Although MLCCs formerly used palladium and other precious metals, they were replaced by nickel as precious metal prices soared. Nickel powder is the raw material for nickel paste, one of our electronics materials, and we take advantage of our integrated production system that covers everything from raw nickel material to paste. Our nickel paste has been well received by the market and is used by most of the world's MLCC manufacturers.

We aim to expand our market share in this area by introducing new highly functional products.

Battery Materials

Our materials for batteries include nickel hydroxide for nickel hydrogen batteries and lithium cobaltate and lithium nickel oxide for lithium batteries. Both nickel hydrogen and lithium batteries are so-called rechargeable batteries. SMM products are used for the positive electrodes of these batteries. Our strength lies in the ability to respond to customer needs through quality products and an integrated production system from raw materials.

Our nickel hydroxide was adopted in batteries for the Hybrid Electric Vehicle (HEV) of Toyota Motor Corporation and sales are expanding substantially. We aim to secure orders of this product in tandem with Toyota's plan to increase HEV production to 300,000 vehicles by fiscal year 2005, seven times production volume in fiscal year 2001.

Our lithium nickel oxide was also adopted in the world's first vehicle equipped with light-weight and high-volume lithium rechargeable batteries. We will be engaged in developing highly functional lithium batteries to meet expected growth in demand for vehicle and mobile phone applications.

Nickel Hydroxide

Magnet Materials

Samarium Ferrous Nitrogen (Sm-Fe-N) is a functional magnet material that we developed and for which we started full-fledged sales in the domestic market in fiscal year 2000. Applications of Sm-Fe-N are expanding for light and small-sized devices due to its stronger magnetism compared with other magnets of the same weight. We are increasing sales volume of the product as its properties are widely known.

Applications of Sm-Fe-N will be further broadened when it is used for flexible magnets (rubber magnets) and compounded with ferrite magnets. We will focus on developing new markets for the product, and specifically aim to enter the automotive industry by enhancing its heat resistance. In conjunction with the increase in sales of this product, we will reinforce capacity at our production base, the Kunitomi District Division, where we currently have annual production capacity of one hundred tonnes.

In addition to this, demand for small-size molded magnets for digital camera shutters is expanding and the products will also be applied for camera shutters of mobile phone. We will expand sales in this area based on our superior small-size molding technologies.

Review of Operations:
Environmental Business

Basic Business Strategy

Our “Mid-term Management Plan” positions our environmental business as an area of concentration. Worth an estimated ¥30 trillion, the domestic environmental market is expected to expand going forward. As many types of businesses enter it one after the other, however, competition is becoming increasingly harsh.

We are securing a superior position by focusing on environmental businesses that take full advantage of our strengths. These include the recycling business centered on recovering valuable metals and the environmental improvement business such as soil and groundwater contamination where we leverage the wealth of technology we have developed through our mineral resources and metallurgy businesses.

Recycling Business

The recycling business recovers zinc from electric arc furnace (EAF) dust, copper and nickel from the effluent in the plating process, and precious metals from electronics materials scrap.

In addition, our subsidiary Nippon Catalyst Cycle Co., Ltd. recovers valuable metals such as molybdenum and vanadium from the used desulfured catalyst generated when oil is refined. In fiscal year 2003, we increased annual processing capacity from 12,000 tonnes to 15,000 tonnes, thereby securing processing capacity equivalent to approximately 50% of the desulfured catalyst disposed of domestically.

Oil-Contaminated Soil Cleaning Equipment

Environmental Improvement Business

Our environmental improvement business is pursued by group companies under the centralized control of our Energy & Environment Business Division, in collaboration with our research laboratories. These group companies include Sumicon Certech Co., Ltd., providing environmental assessment and remediation services for soil and groundwater contamination; Sumiko Eco-engineering Co., Ltd., involved in environment-related engineering for electronic dust collectors and fuel-gas treatment equipment and corrosion prevention for harbor facilities; Sumiko Techno-Research Co., Ltd., focusing on environmental research and analysis; and Japan Irradiation Service Co., Ltd., working in radiation processing for sterilization of food packaging materials and medical devices and for use in modification of industrial materials.

Also, using our catalyst technology, we developed technology for making the high concentration of nitrate in plant effluents harmless. The technology is now commercialized as “N-Free,” our processing equipment for removing highly concentrated nitrate. We have also established technology for treating municipal incinerator fly ash, which is also used by our existing product “SFAT (Sumitomo Fly Ash Treatment).” Orders for both promise to expand going forward.

Environmental Improvement Businesses in the SMM Group

Division, Company Name	Business Content
Energy & Environment Business Division (SMM)	Coordination of divisions, related companies; SFAT/N-Free businesses; Development of other new businesses
Sumicon Certech Co., Ltd.	Environmental assessment, remediation services for soil, groundwater contamination; Environmental remediation equipment sales
Sumiko Techno-Research Co., Ltd.	Environmental assessment and research for ground, air, water; Research and analysis for metal etc.
Sumiko Eco-engineering Co., Ltd.	Environment-related engineering (electrostatic precipitator, exhaust gas treatment, deodorizer and water treatment system); Corrosion control for harbor steel structures, industrial facilities on land, and underground pipelines
Japan Irradiation Service Co., Ltd.	Radiation processing for sterilization of food packaging materials and medical devices as well as for use in modification of industrial materials

Topics

■ Launch of New “N-Free” Processing Equipment for Removing Highly Concentrated Nitrate

The nitrogen contained in effluents from factories causes eutrophication in oceans and lakes and is a serious cause of water pollution. In 2001, a revised ministerial ordinance related to the Water Pollution Control Law was enforced, in which nitrate nitrogen was added to the effluent standards as a toxic substance. Furthermore, in April 2004, the regulation of total emissions is scheduled to be enforced for three enclosed water areas in Japan. Under these circumstances, there is a pressing need to reduce nitrogen contained in the effluents at factories.

In September 2002, SMM entered the nitrate removal business by launching processing equipment under the product name “N-Free.” The N-Free process, based on our catalyst technology, reduces nitrate/nitrite nitrogen into harmless nitrogen gas.

The conventional type of this equipment does not work well if concentration of the nitrate exceeds 1000mg/liter. N-Free, however, can process the nitrate regardless of the degree of concentration thanks to the new catalyst technology for denitrification used in N-Free.

We offer the N-Free process/equipment together with our group companies Sumiko Techno-Research Co., Ltd. (environmental research and analysis) and Sumiko Eco-engineering Co., Ltd. (environment-related engineering).

“N-Free” Processing Equipment


Catalyst for “N-Free”

Financial Section:
Management's Discussion and Analysis

Financial Analysis

In addition to itself, the businesses of Sumitomo Metal Mining Co., Ltd. (SMM) include 65 subsidiaries and 14 affiliated companies. The three core segments of operations are:

1. Mineral resources, which mines gold, silver, copper;
2. Metallurgy, which consists of the smelting business, centered on gold, copper, nickel, and zinc and the metal processing business, which manufactures copper elongation products; and
3. Electronics Materials and Advanced Materials, whose electronics materials business manufactures electronic components such as IC packaging materials, crystal materials, and printed circuit boards and whose advanced materials business manufactures nickel, palladium, and other metal powders and battery and magnetic materials.

The two peripheral segments are Construction Materials & Housing, which manufactures Siporex (autoclaved lightweight concrete, ALC) and builds residential housing, and the Others segment, which runs a nuclear power engineering business.

This Annual Report presents the consolidated results of the Company, 39 domestic and overseas consolidated subsidiaries, and six affiliates accounted for by the equity method.

Consolidated Statements of Income

Net Sales

Net sales in fiscal year 2002 (from April 1, 2002 to March 31, 2003) increased ¥25,048 million (7.6%) from the previous fiscal year to ¥355,242 million (US$2,955 million). The Metallurgy segment accounted for 63.7% of net sales.

In fiscal year 2002, although both demand and prices were favorable for nickel and gold, copper prices remained weak despite a recovery trend in domestic demand. Meanwhile, the yen maintained modest strength due to the U.S. economic slowdown.

As a result, Metallurgy segment sales increased, supported by the increases in nickel prices and sales volume which partly resulted from the recovery in semiconductor-related electronics materials demand. Although IT-related demand failed to recover fully, Electronics Materials and Advanced Materials sales also increased, supported by general growth in the sales volume of its mainstay products in response to the temporary rally in the first half after the previous fiscal year's global IT slump ended.

Cost and Expenses

Cost of sales in fiscal year 2002 increased ¥11,436 million (3.9%) from the previous fiscal year to ¥303,478 million (US$2,525 million). The gross margin increased from 11.6% to 14.6%.

Sales, general, and administrative (SGA) expenses decreased ¥1,834 million from the previous fiscal year to ¥35,171 million (US$293 million).

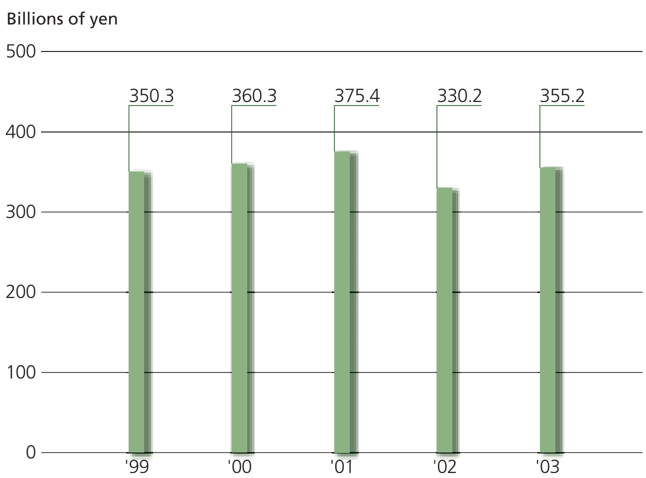
This is mainly attributable to a ¥1,434 million (12.4%) decrease to ¥10,177 million in sales, transportation and overhead expenses, which accounted for 28.9% of SGA expenses.

Operating Income

Operating income surged by approximately 14 times, from ¥1,147 million in the previous fiscal year to ¥16,593 million (US$138 million) in fiscal year 2002, due to profit growth in all three core segments.

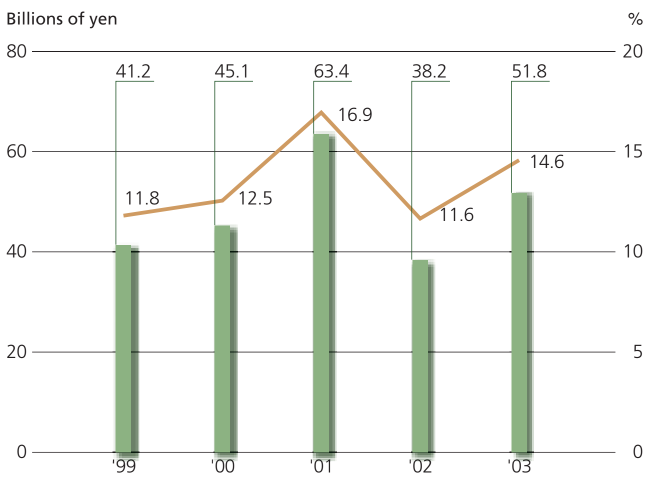
The Mineral Resources segment increased a sharp 220.0% from the previous fiscal year, recovering to the fiscal year 2000 level, supported by the Hishikari Gold Mine's profit growth that resulted from higher gold prices. The Metallurgy segment improved sharply from the previous fiscal year's slump, by 135.7%, due to the higher overseas market prices and sales volume of nickel. The Electronics Materials and Advanced Materials segment recovered to profitability from the previous fiscal year's loss, supported by the strong profit growth at the Company and most subsidiaries that resulted from sales recovery and by cost-cutting effects.

Net Sales



Years ended March 31

Gross Profit



Years ended March 31

Gross Margin (right)

Other Income (Expenses)

In other income (expenses) in fiscal year 2002, the deficit amount grew by ¥10,363 million (75.4%), resulting in a loss of ¥24,098 million (US$200 million). This is attributable to several factors. Positive factors include an increase in equity in earnings of unconsolidated subsidiaries and affiliated companies of ¥1,865 million (121.5%) from the previous fiscal year to ¥3,400 million (US$28 million) and a decrease in expenses related to the realignment of operations from ¥3,434 million in the previous fiscal year to ¥225 million (US$2 million) in fiscal year 2002. Negative factors include a sharp increase in write-downs of investment securities from ¥8,431 million (US$70 million) in the previous fiscal year to ¥17,247 million (US$143 million) in fiscal year 2002, a loss on sale and disposal of property, plant, and equipment of ¥766 million (US$6 million) in fiscal year 2002 versus a gain of ¥3,370 million (US$28 million) in the previous fiscal year, and a ¥3,613 million (US$30 million) expenses related to the restructuring charges.

Tax-effect accounting has been applied since fiscal year 1999, and a negative tax adjustment of ¥6,755 million (US$56 million) was posted. Net financial expenses improved by ¥316 million, from ¥1,775 million (US$15 million) in the previous fiscal year to ¥1,459 million (US$12 million).

Net Income (Loss)

In fiscal year 2002, the SMM Group posted a net loss of ¥1,172 million (US$10 million), despite a substantial improvement of ¥5,439 million (US$45 million) compared with the previous fiscal year's ¥6,611 million (US$55 million) net loss.

Net loss per share in fiscal year 2002 was ¥2.05 (US$0.02), compared with net loss of ¥11.56 (US$0.10) in the previous fiscal year. From fiscal year 2002, we are applying "Accounting Standard for Earnings Per Share" (Accounting Standards Board Statement No. 2) and "Implementation Guidance for Accounting Standard for Earnings Per Share" (Financial Standards Implementation Guidance No. 4). However, this does not affect per share data for fiscal year 2002.

Impact of Exchange Rate Fluctuations

Profit of non-ferrous metal operations is closely linked to foreign exchange rates, which affect the entire process, from procurement of ores to the sales of finished products. In general, a weak yen is a positive factor for SMM's earnings on a net basis. Although a weak yen has the disadvantage of making ore procurement prices higher for SMM, it also leads to higher finished product prices and an increase of smelting margins which are usually denominated in U.S. dollars. Despite temporary weakness in the first half, the yen was strong on average during fiscal year 2002. The average exchange rate was ¥121.94 to the U.S. dollar in fiscal year 2002, compared with ¥125.13 in the previous fiscal year.

A weakening of the Japanese currency by one yen against the U.S. dollar therefore adds ¥300 million to non-consolidated gross profit, operating income, and recurring profit.

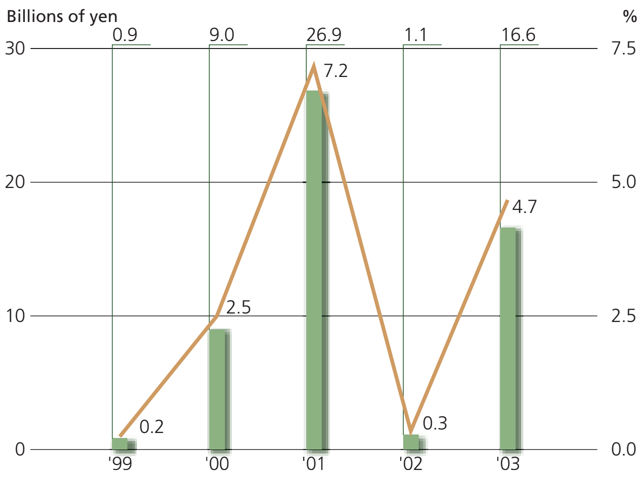
Results by Business Segment

The following sections are based on segment data. Net sales and operating income for each area include inter-segment transactions.

Mineral Resources

Net sales in this segment increased ¥1,380 million (5.9%) from the previous fiscal year to ¥24,672 million (US$205 million). This is attributable to the increase in sales resulting from the sales volume growth and the effect of the complete switchover in fiscal year 2002 by Sumitomo Metal Mining Arizona, Inc. to sales of copper metal produced by the SX-EW process (solvent extraction/electrowinning, a low-cost wet refining method) despite the decrease in sales that resulted from Sumiko Development and Construction Co., Ltd.'s withdrawal from the urban civil engineering business in the previous fiscal year. The sales growth at SMM's Hishikari Mine that resulted from higher

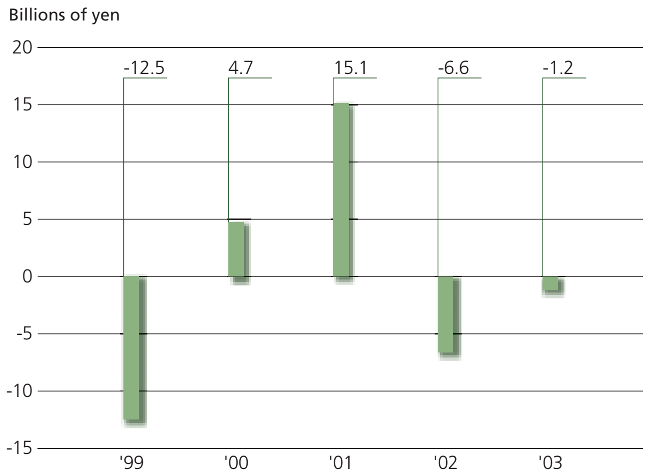
Oparating Income



Years ended March 31

Operating Margin (right)

Net Income (Loss)



Years ended March 31

gold prices also contributed.

Operating income increased ¥1,844 million (220.0%) from the previous fiscal year to ¥2,682 million (US$22 million). This is attributable to various factors. On the negative side was the consolidation for the first time of SMM Pogo LLC, which is still in the preparatory stage of mine development. On the positive were the profit growth at Hishikari Mine resulting from sales growth and sharp improvement in profit at Sumitomo Metal Mining Arizona, Inc. resulting from cost-cutting and sales volume growth despite continued weakness in copper prices.

Metallurgy

Net sales in this segment increased ¥29,160 million (14.8%) from the previous term to ¥226,343 million (US$1,883 million). This is mainly attributable to price increases in overseas nickel market, the sales volume growth that resulted from the continued strength of nickel for stainless and other special steels, and the recovery in nickel for semiconductor-related electronics materials. The increase in sales that resulted from higher overseas market prices for gold also contributed.

Operating income increased ¥4,793 million (135.7%) from the previous fiscal year to ¥8,326 million (US$69 million). In addition to the profit growth from increased nickel sales, this is attributable to Sumitomo Metal Mining Brass & Copper Co., Ltd.'s profit growth resulting from the recovery in semiconductor and IT-related demand and from strength in the automobile-related area and to profit growth resulting from cost-cutting.

Electronics Materials and Advanced Materials

Net sales in this segment increased ¥21,938 million (19.8%) from the previous fiscal year to ¥132,923 million (US$1,106 million). This increase represents a recovery equivalent to more than 60% of the previous fiscal year's sales decline due to the temporary rally in the first half of fiscal year 2002 in global semiconductor markets, mainly in Asia.

Overall sales of SMM's main electronics materials products expanded due to the sales volume growth that resulted from increased exports of bonding wire and pastes, mainly to Taiwan, and from the recovery in markets for crystal materials. At the same time, overall sales of advanced materials products such as metal powders and copper-clad polyimide film expanded, supported by the completion of user inventory adjustment and recovery in electronic device-related markets. Sales at subsidiaries also increased on the whole, as sales volumes at domestic and Asian packaging material-related and electronic component-related businesses rallied.

Operating income recovered from a ¥4,388 million loss in the previous fiscal year to a ¥4,118 million (US$34 million) profit in fiscal year 2002, supported by the large growth in profit at the Company and most subsidiaries that resulted from these net sales recoveries.

Construction Materials & Housing

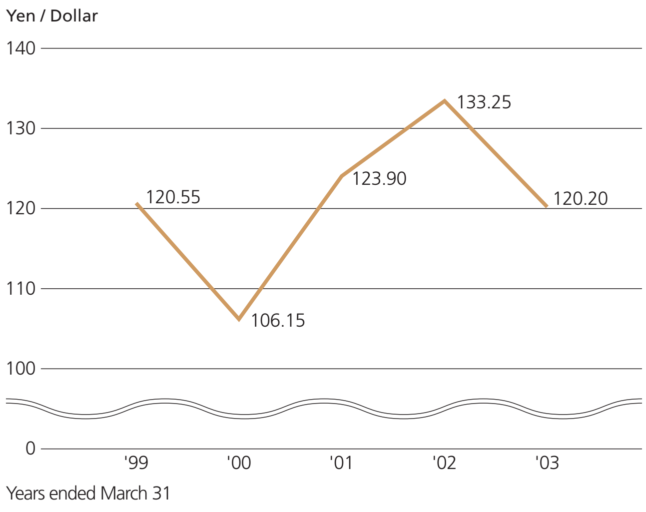
Net sales in this segment decreased ¥4,875 million (22.6%) from the previous term to ¥16,741 million (US$139 million). This is partly attributable to the lower sales at Sumitomo Metal Mining Siporex Co., Ltd. and Sumiko Tatsumi Construction Materials Co., Ltd. that resulted from the general slump in the construction industry. The completion of Igeta Heim Co., Ltd.'s business reduction plan in fiscal year 2002 was an additional factor.

The segment posted an operating loss of ¥352 million (US$3 million) due to unfavorable business environment, resulting in a ¥86 million deterioration from the previous fiscal year despite efforts to cut fixed costs.

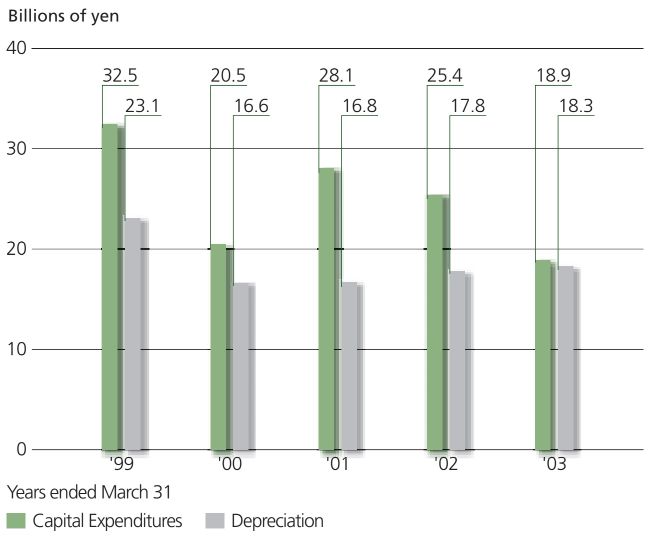
Capital Expenditures and Depreciation

Capital expenditures in fiscal year 2002 totaled ¥18,927 million (US$157 million). The Electronics Materials and Advanced Materials segment accounted for ¥9,506 million (50.2%) of this and the Metallurgy segment for ¥5,005 million (26.4%). Major construction completed during the year under review includes

Yen-Dollar Exchange Rate (Year-End)



Capital Expenditures and Depreciation



As of March 31	2003		2002		2001	
	Millions of yen					
Short-term Interest-bearing debt due within one year	**¥ 78,329**	**(16.6)**	¥ 93,105	(17.9)	¥ 93,159	(17.6)
Long-term Interest-bearing debt due after one year	**76,470**	**(16.2)**	73,972	(14.3)	83,839	(15.8)
Total Shareholders' equity	**223,341**	**(47.4)**	236,313	(45.6)	237,470	(44.8)
Total assets	**¥470,774**	**(100.0)**	¥518,756	(100.0)	¥530,080	(100.0)

( ): Percentage to total assets

expansion and renovation of production facilities for copper-clad polyimide film in the Electronics Materials and Advanced Materials segment and the expansion, renovation, and rationalization of copper smelting facilities in the Metallurgy segment.

Depreciation increased ¥461 million (2.6%) to ¥18,283 million (US$152 million).

Research and Development Expenses

Research and Development expenses in fiscal year 2002 totaled ¥3,763 million (US$31 million). By segment, the Mineral Resources segment is developing concentration process of non-ferrous raw material ores and various leaching technologies. The Metallurgy segment is mainly developing non-ferrous smelting and electrolysis technologies. The Electronics Materials and Advanced Materials segment is developing electronic material technologies, concentrating on new semiconductor packaging materials. The Construction Materials & Housing segment is developing new product processing technologies and new products such as long-lasting Siporex.

Financial Position and Liquidity

Financial Position

Total assets as of March 31, 2003 stood at ¥470,774 million (US$3,917 million), down ¥47,982 million (9.2%) from the end of the previous fiscal year. Current assets fell ¥13,822 million (7.4%) to ¥173.226 million. This is mainly attributable to a ¥9,076 million decrease in cash and cash equivalents and time deposits and to a ¥9,696 decrease in inventories.

Net property, plant and equipment stood at ¥169,373 million (US$1,409 million), down ¥10,168 million from the end of the previous fiscal year, due to a ¥7,722 million decrease in machinery and equipment.

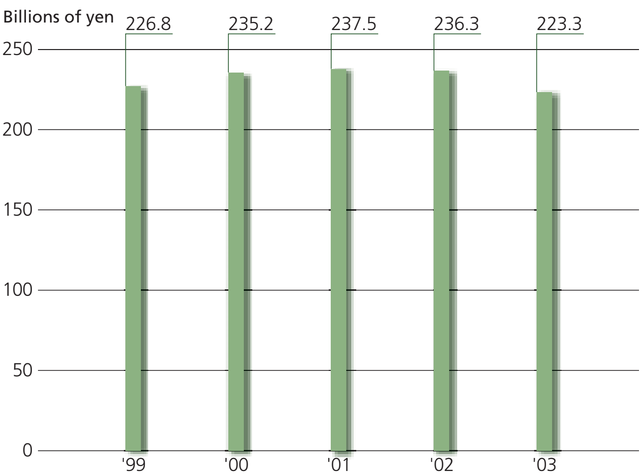
Investments and long-term receivables stood at ¥122,600 million (US$1,020 million), down ¥24,957 million. This is mainly attributable to a ¥31,033 million decrease in investment securities despite an ¥8,519 million increase in deferred tax assets.

Meanwhile, current liabilities stood at ¥137,281 million (US$1,142 million), down ¥26,396 million (16.1%) from the end of the previous fiscal year. This is mainly attributable to a ¥12,000 million decrease in corporate bonds due within one year, a ¥6,427 million decrease in employees' deposits, and a ¥5,776 million decrease in bank loans. As a result, the working capital ratio increased from 1.14 in the previous fiscal year to 1.26 times.

Long-term debts due after one year stood at ¥76,470 million (US$636 million), up ¥2,498 million (3.4%) from the end of the previous fiscal year, due to appropriations for bond redemption and capital expenditures. As a result, total liabilities excluding minority interests stood at ¥241,436 million (US$2,009 million), down ¥34,568 million.

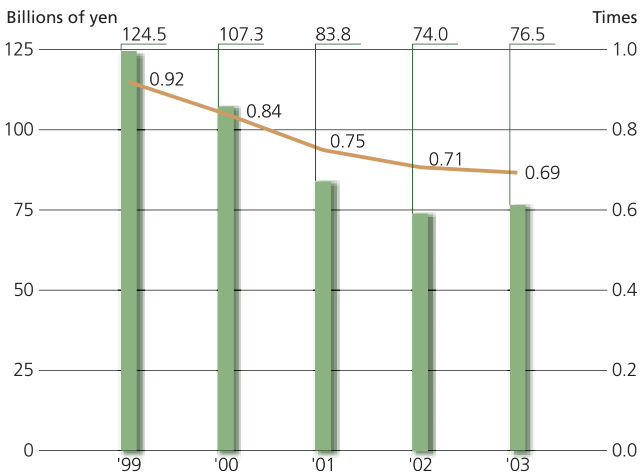
Total shareholders' equity stood at ¥223,341 million (US$1,858 million), down ¥12,972 (5.5%) from the end of the previous fiscal year. This is attributable to a ¥4,561 million decrease in net unrealized holding gain on available-for-sale

Shareholders' Equity



Years ended March 31

Long-Term Debt Due After One Year



Years ended March 31

Debt to Equity Ratio (right)

securities and to a ¥4,372 million decrease in foreign currency translation adjustment. However, because liabilities decreased in a larger amount than shareholders' equity, the equity ratio rose from 45.6% in the previous fiscal year to 47.4%.

Consolidated Statement of Cash Flows

Cash and cash equivalents, including the effect of foreign exchange rate fluctuations, stood at ¥13,581 million (US$113 million) at the end of the fiscal year 2002, down ¥9,182 million (40.3%) from the beginning of the year.

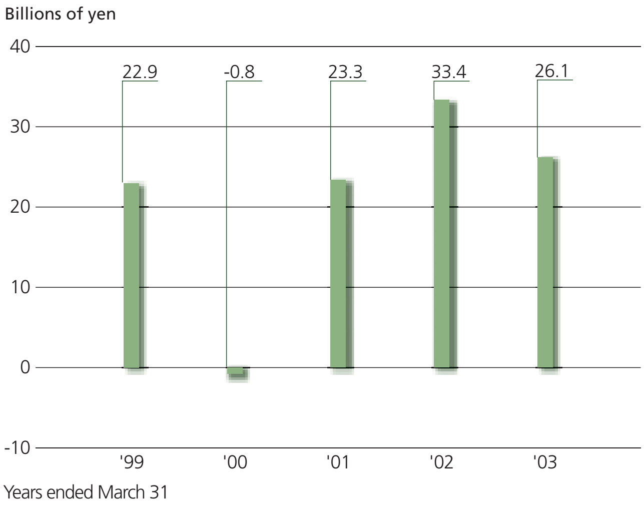
Net cash flows from operating activities in fiscal year 2002 decreased ¥7,265 million from the previous fiscal year to ¥26,105 million. This is attributable to an increase in payments consisting mainly of a ¥12,749 million increase from the previous fiscal year in trade receivables and ¥7,018 million decrease from the previous fiscal year in trade payables, despite the increase due to the sharp increase in consolidated operating income compared with the previous fiscal year.

Net cash flows from investing activities saw outflows totaling ¥21,246 million, a ¥5,000 million increase from the previous fiscal year. This is mainly attributable to the decrease in proceeds from sale of investment securities (¥2,222 million) and to the decrease in collection of loans receivable (¥4,246 million).

Net cash flows from financing activities saw outflows totaling ¥14,163 million, basically the same as the previous fiscal year's level, because the increase in payments resulting from the reduction of bank loans (¥5,586 million) and from the increase in bond redemptions (¥4,000 million) was basically the same amount as the increase in earnings resulting from the commercial paper issuance (¥5,500 million) and from the increase in long-term debts (¥3,378 million).

As a result of the above, including the effect of foreign exchange rate fluctuations and consolidated subsidiary changes, the year-end balance of cash and cash equivalents was ¥13,581 million, down ¥9,182 million from the beginning of the year.

Net Cash Provided by Operating Activities



Risk Management

SMM's operations are exposed to various risks, including fluctuations in metal prices, foreign exchange rates, and interest rates. SMM engages in derivatives transactions as an efficient means of hedging these risks. In commodities, forward contracts are used to hedge metal price fluctuations, forward contracts to hedge foreign exchange rate fluctuations, and interest rate swaps are used to hedge interest rate fluctuations. Strictly within the limits dictated by real demand in production and sales activities and by payables and receivables, our derivatives transactions are never for speculative purposes.

Reflecting on the critical accident at JCO Co., Ltd., we are acutely aware of the importance of risk management and in July 2000 we established a Risk Management Committee as a central mechanism for identifying and managing risk. Subsequently, we have been studying systems for identifying and managing risk throughout the Group. In August 2001, we launched a risk management system, of which ensuring strict compliance is one of key elements.

At the same time, we are going back to the basics in manufacturing and taking a fresh look at safety and environmental issues. As part of these initiatives, we aim to build an environmental management system, whose importance will continue to grow, by implementing the ISO 14000 series of standards throughout the Group.

Per Share Data

From fiscal year 2002, we are applying "Accounting Standards Board Statement No. 2 Accounting Standard for Earnings Per Share" (September 25, 2002) and "Financial Standards Implementation Guidance No. 4 Implementation Guidance for Accounting Standard for Earnings Per Share" (September 25, 2002). This change does not affect the consolidated financial statements.

Eleven-Year Summary

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

Years ended March 31	**2003**	2002	2001	2000
Net sales	**¥355,242**	¥330,194	¥375,352	¥360,299
Gross profit	**51,764**	38,152	63,372	45,061
Operating income	**16,593**	1,147	26,930	8,990
Other income (expense)	**(24,098)**	(13,735)	(11,359)	(4,342)
Net income (loss)	**(1,172)**	(6,611)	15,103	4,740
Net income (loss) per share (¥)	**(2.05)**	(11.56)	26.41	8.29
Dividends per share (¥)	**5.00**	4.00	6.00	5.00
Return on average shareholders' equity (%)	**—**	—	6.39	2.05
Net cash provided by (used in) operating activities	**26,105**	33,370	23,339	(800)
Capital expenditures	**18,927**	25,379	28,078	20,490
Depreciation	**18,283**	17,822	16,774	16,611
For the Year:				
Total assets	**¥470,774**	¥518,756	¥530,080	¥544,121
Shareholders' equity	**223,341**	236,313	237,470	235,231
Equity ratio (%)	**47.4**	45.6	44.8	43.2
Long-term debt due after one year	**76,470**	73,972	83,839	107,266
Total debt	**154,799**	167,077	176,998	197,624
Debt to equity ratio (times)	**0.69**	0.71	0.75	0.84
Working capital	**35,945**	23,371	33,259	38,910
Working capital ratio (times)	**1.26**	1.14	1.20	1.23

Note: "N/A" indicates that figures have not been disclosed.

						Millions of yen
1999	1998	1997	1996	1995	1994	1993
¥350,288	¥431,950	¥525,076	¥511,887	¥464,843	¥446,712	¥507,951
41,190	62,641	57,836	55,904	40,262	28,914	45,018
858	24,622	21,665	19,947	5,169	(3,934)	8,550
(12,932)	(3,605)	(4,294)	(7,553)	(2,384)	3,543	2,377
(12,495)	10,157	12,884	10,683	1,292	1,902	6,197
(21.85)	17.77	22.65	19.18	2.32	3.49	12.33
3.00	6.00	6.00	6.00	5.00	5.00	7.00
—	4.22	5.56	4.95	0.62	0.97	3.45
22,912	43,056	43,135	6,100	721	17,780	23,684
32,499	27,968	24,730	25,722	N/A	N/A	N/A
23,095	21,638	20,702	19,889	20,917	20,522	N/A

¥544,519	¥566,088	¥586,948	¥624,419	¥591,446	¥594,982	¥616,672
226,795	243,436	238,056	225,296	205,940	210,902	179,926
41.7	43.0	40.6	36.1	34.8	35.4	29.2
124,535	82,356	117,021	171,596	197,884	228,255	221,926
207,821	201,515	224,736	285,871	277,289	281,073	321,131
0.92	0.83	0.94	1.27	1.35	1.33	1.78
50,518	26,529	62,726	104,854	101,110	131,644	105,878
1.31	1.13	1.31	1.53	1.63	2.02	1.58

Consolidated Balance Sheets

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

ASSETS	Millions of yen		Thousands of U.S. dollars (Note1)
As of March 31, 2003 and 2002	**2003**	2002	**2003**
Current assets:			
Cash and cash equivalents (Note 13)	**¥ 13,581**	¥ 22,763	**$ 112,987**
Time deposits	**448**	342	**3,727**
Receivables:			
Notes and accounts receivable (Notes 6 and 13):			
Trade	**57,513**	62,182	**478,478**
Non-consolidated subsidiaries and affiliated companies	**2,135**	360	**17,762**
Loans and others:			
Non-consolidated subsidiaries and affiliated companies	**5,770**	3,274	**48,003**
Other	**4,480**	5,821	**37,271**
Allowance for doubtful accounts	**(1,139)**	(673)	**(9,476)**
Inventories (Note 5)	**68,004**	77,700	**565,757**
Deferred tax assets (Note 7)	**7,035**	4,480	**58,527**
Other current assets	**15,399**	10,799	**128,112**
Total current assets	**173,226**	187,048	**1,441,148**
Investments and long-term receivables:			
Investment securities (Notes 3 and 6):			
Non-consolidated subsidiaries and affiliated companies	**66,035**	64,833	**549,376**
Other	**42,169**	75,120	**350,824**
Allowance for loss on investments	**(1,369)**	(1,068)	**(11,389)**
Loans:			
Non-consolidated subsidiaries and affiliated companies	**303**	419	**2,521**
Other	**825**	704	**6,864**
Other long-term receivables	**3,408**	4,820	**28,352**
Allowance for doubtful accounts	**(1,518)**	(1,499)	**(12,629)**
	109,853	143,329	**913,919**
Property, plant and equipment (Note 6):			
Land	**31,292**	32,243	**260,333**
Buildings and structures	**127,428**	130,421	**1,060,133**
Machinery and equipment	**259,809**	268,890	**2,161,473**
Construction in progress	**4,289**	2,680	**35,682**
	422,818	434,234	**3,517,621**
Accumulated depreciation	**(253,445)**	(254,693)	**(2,108,527)**
Net property, plant and equipment	**169,373**	179,541	**1,409,094**
Deferred tax assets (Note 7)	**12,747**	4,228	**106,048**
Other assets	**5,575**	4,610	**46,381**
	¥ 470,774	¥ 518,756	**$ 3,916,590**

The accompanying notes are an integral part of those balance sheets.

LIABILITIES AND SHAREHOLDERS' EQUITY

As of March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note1) 2003
Current liabilities:			
Bank loans (Note 6)	**¥ 55,548**	¥ 62,684	**$ 462,130**
Long-term debt due within one year (Note 6)	**19,781**	30,421	**164,567**
Commercial paper	**3,000**	—	**24,958**
Notes and accounts payable (Note 13):			
Trade	**27,143**	28,338	**225,815**
Non-consolidated subsidiaries and affiliated companies	**1,333**	1,791	**11,090**
Other	**4,002**	4,828	**33,295**
Accrued income taxes (Note 7)	**1,163**	1,048	**9,676**
Accrued expenses	**4,759**	4,460	**39,592**
Advances received	**1,595**	884	**13,270**
Deferred tax liabilities (Note 7)	**72**	25	**599**
Other current liabilities	**18,885**	29,198	**157,113**
Total current liabilities	**137,281**	163,677	**1,142,105**
Long-term debt (Note 6)	**76,470**	73,972	**636,190**
Deferred tax liabilities (Note 7)	**1,237**	533	**10,291**
Accrued retirement benefits (Note 8)	**14,605**	23,104	**121,506**
Accrued restructuring charges	**936**	2,491	**7,787**
Accrued indemnification loss on damages caused by a consolidated subsidiary	**1,068**	1,329	**8,885**
Accrued liquidation loss of subsidiaries	**2,793**	1,724	**23,236**
Accrued realignment loss of operations	—	3,108	—
Other accruals	**449**	437	**3,735**
Other long-term liabilities	**6,597**	5,629	**54,884**
Total long-term liabilities	**104,155**	112,327	**866,514**
Minority interest	**5,997**	6,439	**49,892**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 11):			
Common stock			
Authorized - 1,000,000,000 shares			
Issued -571,872,794 shares	**88,355**	88,355	**735,067**
Capital Surplus	**81,184**	81,184	**675,408**
Retained earnings (Note 10)	**64,183**	67,856	**533,968**
Net unrealized holding gain (loss) on available-for-sale securities	**(2,217)**	2,344	**(18,444)**
Foreign currency translation adjustment	**(7,763)**	(3,391)	**(64,584)**
Treasury stock, at cost	**(401)**	(35)	**(3,336)**
Total shareholders' equity	**223,341**	236,313	**1,858,079**
	¥470,774	¥518,756	**$3,916,590**

Consolidated Statements of Operations

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended March 31, 2003, 2002 and 2001	**2003**	2002	2001	**2003**
Net sales (Note 14)	**¥355,242**	¥330,194	¥375,352	**$2,955,424**
Costs and expenses (Note 14):				
Cost of sales	**303,478**	292,042	311,980	**2,524,775**
Selling, general and administrative (Note 9)	**35,171**	37,005	36,442	**292,604**
	338,649	329,047	348,422	**2,817,379**
Operating income (Note 14)	**16,593**	1,147	26,930	**138,045**
Other income (expenses):				
Interest and dividend income	**1,074**	1,700	2,241	**8,935**
Interest expense	**(2,533)**	(3,475)	(4,370)	**(21,073)**
Gain on sale of investment securities	**108**	958	5,867	**899**
Write-down of investment securities	**(17,247)**	(8,431)	(3,415)	**(143,486)**
Write-down of subsidiary securities	**—**	(335)	—	**—**
Gain (Loss) on sale and disposal of property, plant and equipment	**(766)**	3,370	5,153	**(6,373)**
Gain on insurance	**—**	—	1,000	**—**
Gain on securities contributed to employee retirement benefits trust	**1,845**	—	—	**15,349**
Loss on liquidation of subsidiaries	**—**	(1,341)	(1,045)	**—**
Provision for doubtful account	**(851)**	(510)	(1,433)	**(7,080)**
Provision for loss on investments	**(301)**	(424)	—	**(2,504)**
Restructuring charges	**(3,613)**	(857)	(8,195)	**(30,058)**
Loss from realignment of operations	**(225)**	(3,434)	—	**(1,872)**
Loss from indemnification of damages caused by a consolidated subsidiary	**—**	—	(2,328)	**—**
Loss from suspension of operating activity of a consolidated subsidiary	**(990)**	(1,144)	(1,621)	**(8,236)**
Loss from disposal of inventories	**(398)**	(777)	—	**(3,311)**
Write-off of obsolete inventories	**(1,391)**	—	—	**(11,572)**
Casualty loss	**—**	(442)	—	**—**
Loss on sales of securities of an affiliated company	**(465)**	—	—	**(3,869)**
Amortization of net transition obligation (Note 8)	**—**	—	(5,858)	**—**
Loss on penalty for specific contracts of a consolidated subsidiary	**—**	—	(665)	**—**
Amortization of consolidation difference	**49**	129	131	**408**
Equity in earnings of affiliated companies	**3,400**	1,535	4,078	**28,286**
Other, net	**(1,794)**	(257)	(899)	**(14,926)**
	(24,098)	(13,735)	(11,359)	**(200,483)**
Income (Loss) before income taxes	**(7,505)**	(12,588)	15,571	**(62,438)**
Income taxes (Note 7):				
Current	**329**	437	945	**2,737**
Deferred	**(6,755)**	(5,968)	(694)	**(56,198)**
	(6,426)	(5,531)	251	**(53,461)**
	(1,079)	(7,057)	15,320	**(8,977)**
Minority interests in net income (loss) of consolidated subsidiaries	**(93)**	446	(217)	**(773)**
Net income (loss)	**¥ (1,172)**	¥ (6,611)	¥ 15,103	**$ (9,750)**

	Yen			U.S. dollars (Note1)
Amounts per share of common stock:				
Net income (loss)	**¥ (2.05)**	¥ (11.56)	¥ 26.41	**$ (0.02)**
Cash dividends applicable to the year	**5.00**	4.00	6.00	**0.04**

The accompanying notes are an integral part of those statements.

Consolidated Statements of Shareholders' Equity

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

Years ended March 31, 2003, 2002 and 2001	Shares of common stock (thousands)	Common stock	Capital Surplus	Retained earnings	Net unrealized holding gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
							Millions of yen
Balance at March 31, 2000	571,873	¥88,355	¥81,184	¥65,693	¥ —	¥ —	¥ (1)
Net income				15,103			
Adjustments from translation of foreign currency financial statements						(9,956)	
Adoption of new accounting standard for financial instruments					(48)		
Treasury stock							(1)
Cash dividends paid (¥5.00 per share)				(2,859)			
Balance at March 31, 2001	571,873	88,355	81,184	77,937	(48)	(9,956)	(2)
Decrease due to change in consolidation of subsidiaries				(39)			
Net income				(6,611)			
Adjustments from translation of foreign currency financial statements						6,565	
Adoption of new accounting standard for financial instruments					2,392		
Treasury stock							(33)
Cash dividends paid (¥6.00 per share)				(3,431)			
Balance at March 31, 2002	571,873	88,355	81,184	67,856	2,344	(3,391)	(35)
Increase due to merger of non-consolidated subsidiaries				164			
Decrease due to change in consolidation of subsidiaries				(378)			
Net income				(1,172)			
Adjustments from translation of foreign currency financial statements						(4,372)	
Adjustments for unrealized losses on securities					(4,561)		
Treasury stock							(366)
Cash dividends paid (¥4.00 per share)				(2,287)			
Balance at March 31, 2003	**571,873**	**¥88,355**	**¥81,184**	**¥64,183**	**¥(2,217)**	**¥ (7,763)**	**¥(401)**

Years ended March 31, 2003, 2002 and 2001	Common stock	Capital Surplus	Retained earnings	Net unrealized holding gain (loss) on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
						Thousands of U.S. dollars (Note 1)
Balance at March 31, 2002	$735,067	$675,408	$564,526	$ 19,501	$(28,211)	$ (291)
Increase due to merger of non-consolidated subsidiaries			1,364			
Decrease due to change in consolidation of subsidiaries			(3,145)			
Net income			(9,750)			
Adjustments from translation of foreign currency financial statements					(36,373)	
Adjustments for unrealized losses on securities				(37,945)		
Treasury stock						(3,045)
Cash dividends paid ($0.03 per share)			(19,027)			
Balance at March 31, 2003	**$735,067**	**$675,408**	**$533,968**	**$(18,444)**	**$(64,584)**	**$(3,336)**

The accompanying notes are an integral part of those statements.

Consolidated Statements of Cash Flows

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

	Millions of yen			Thousands of U.S. dollars (Note1)
Years ended March 31, 2003, 2002 and 2001	**2003**	2002	2001	**2003**
Cash flows from operating activities:				
Income (Loss) before income taxes	**¥ (7,505)**	¥(12,588)	¥ 15,571	**$ (62,438)**
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation	**18,283**	17,822	16,774	**152,105**
Loss (Gain) on sale and disposal of property, plant and equipment	**766**	(3,370)	(5,153)	**6,373**
Gain on sale of investment securities	**(108)**	(958)	(5,867)	**(899)**
Write-down of investment securities	**17,247**	8,431	3,415	**143,486**
Write-down of subsidiary securities	**301**	1,403	—	**2,504**
Loss on sales of securities of an affiliated company	**465**	—	—	**3,869**
Provision for (Reversal of) doubtful accounts	**485**	(1,338)	(391)	**4,035**
Increase (Decrease) in retirement benefits	**(658)**	1,180	6,278	**(5,474)**
Interest and dividend income	**(1,074)**	(1,700)	(2,241)	**(8,935)**
Interest expense	**2,533**	3,475	4,370	**21,073**
Equity in earnings of affiliated companies	**(3,400)**	(1,535)	(4,078)	**(28,286)**
Loss from realignment of operations	**90**	3,434	—	**749**
Restructuring charges	**3,042**	315	8,830	**25,308**
Gain on securities contributed to employee retirement benefits trust	**(1,845)**	—	—	**(15,349)**
Casualty loss	**—**	442	—	**—**
Loss from indemnification of damages caused by a consolidated subsidiary	**233**	247	2,328	**1,938**
Loss from suspension of operating activity of a consolidated subsidiary	**990**	1,144	1,621	**8,236**
Loss on liquidation of subsidiaries	**1,069**	2,280	2,481	**8,894**
Decrease (Increase) in trade receivables	**4,269**	17,018	(2,738)	**35,516**
Decrease (Increase) in inventories	**9,387**	(3,280)	(5,921)	**78,095**
Increase (Decrease) in trade payables	**(3,769)**	3,249	(3,300)	**(31,356)**
Others	**(9,264)**	1,877	(246)	**(77,073)**
Sub total	**31,537**	37,548	31,733	**262,371**
Proceeds from interest and dividend income	**2,338**	3,001	3,559	**19,451**
Payments for interest paid	**(2,633)**	(3,649)	(4,446)	**(21,905)**
Payments for additional retirement benefits by realignment of operations	**(3,198)**	(326)	—	**(26,606)**
Payments for suspension of operating activity in a consolidated subsidiary	**(962)**	(1,075)	(1,525)	**(8,003)**
Payments for restructuring charges	**(201)**	(315)	(975)	**(1,672)**
Payments for recovery costs	**—**	(442)	—	**—**
Payments for indemnification of damages caused by a consolidated subsidiary	**(233)**	(247)	(4,072)	**(1,938)**
Payments for income taxes	**(460)**	(905)	(881)	**(3,827)**
Other	**(83)**	(220)	(54)	**(691)**
Net cash provided by (used in) operating activities	**26,105**	33,370	23,339	**217,180**
Cash flows from investing activities:				
Proceeds from sale of marketable securities	**—**	53	267	**—**
Payments for acquisition of property, plant and equipment	**(21,723)**	(26,778)	(23,922)	**(180,724)**
Proceeds from sale of property, plant and equipment	**5,715**	5,080	9,388	**47,546**
Payments for purchases of investment securities	**(60)**	(456)	(84)	**(499)**
Payments for purchase of subsidiaries securities	**(4,566)**	(265)	(932)	**(37,987)**
Proceeds from sale of investment securities	**1,976**	4,198	13,608	**16,439**
Payments for acquisition of newly consolidated subsidiary’s stock	**—**	—	(481)	**—**
Increase in loans receivable	**(3,381)**	(2,633)	(5,014)	**(28,128)**
Collection of loans receivable	**648**	4,894	3,300	**5,391**
Other	**145**	(339)	(378)	**1,207**
Net cash provided by (used in) investing activities	**(21,246)**	(16,246)	(4,248)	**(176,755)**
Cash flows from financing activities:				
Proceeds from issuance of long-term debt	**12,875**	12,264	4,103	**107,113**
Repayments of long-term debt	**(8,367)**	(11,134)	(9,604)	**(69,609)**
Net decrease in bank loans	**(7,393)**	(1,807)	(428)	**(61,506)**
Net increase (decrease) in commercial paper	**3,000**	(2,500)	(7,500)	**24,958**
Payments for redemption of bonds	**(22,000)**	(18,000)	(10,000)	**(183,028)**
Proceeds from issuance of bonds	**10,000**	10,000	—	**83,195**
Increase in treasury stocks	**(366)**	(33)	(1)	**(3,045)**
Cash dividends paid	**(2,287)**	(3,434)	(2,866)	**(19,027)**
Other	**375**	377	207	**3,121**
Net cash provided by (used in) financing activities	**(14,163)**	(14,267)	(26,089)	**(117,828)**
Effect of changes in exchange rate on cash and cash equivalents	**(58)**	686	945	**(483)**
Net increase (decrease) in cash and cash equivalents	**(9,362)**	3,543	(6,053)	**(77,886)**
Cash and cash equivalents at beginning of fiscal year	**22,763**	18,806	24,859	**189,375**
Increase in cash due to a newly consolidated subsidiary	**55**	414	—	**458**
Increase in cash due to merger of non-consolidated subsidiaries	**125**	—	—	**1,040**
Cash and cash equivalents at end of fiscal year	**¥ 13,581**	¥ 22,763	¥ 18,806	**$ 112,987**

The accompanying notes are an integral part of those statements.

Notes to Consolidated Financial Statements

SUMITOMO METAL MINING CO., LTD. AND SUBSIDIARIES

1. Basis of presenting consolidated financial statements

The Company, a Japanese corporation, 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. The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile. Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

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 appropriate Local Finance Bureau of the Ministry of Finance 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 in order to present them in a form which is more familiar to readers outside Japan. The consolidated statements of shareholders' equity for 2003, 2002 and 2001 have been prepared for the purpose of inclusion in the accompanying consolidated financial statements, although such statements were not required for domestic purposes and were not filed with the regulatory authorities.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

Consolidation — The consolidated financial statements include the accounts of the Company and its significant subsidiaries (39 subsidiaries in 2003, 2002 and 2001). All significant intercompany balances and transactions have been eliminated. Investments in significant affiliated companies (6 affiliated companies in 2003 and 5 affiliated companies in 2002 and 2001) are accounted for using the equity method. Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies of the investees, are accounted for by the equity method.

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

The consolidation difference between the cost of an investment and the underlying equity in its net assets at the date of acquisition is being amortized over five years with minor exceptions.

Cash and cash equivalents and cash flow statements — For the purpose of the consolidated statements of cash flows, the Company and its consolidated subsidiaries classify cash on hand, readily-available bank deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase as cash and cash equivalents.

Allowance for doubtful accounts — The Company and its consolidated domestic subsidiaries provide a general allowance for doubtful accounts. Calculation of this allowance is based on actual collection losses incurred in the past. Additionally, for accounts receivable considered at risk (bankruptcy, companies under rehabilitation plan), an allowance is booked based on an estimation of the uncollectible amount, on a case by case basis.

Investment securities — Effective from the year ended March 31, 2002, the Company adopted new accounting standards for financial instruments, prospectively and recorded ¥2,403 million of net unrealized losses on available–for-sale securities as a separate component of shareholders' equity on a net of tax basis. Under the new standards, unrealized gains and losses on securities classified as available-for-sale with readily-determinable fair values, are reported in a separate component of shareholders' equity, net of applicable income taxes. Securities issued by non-consolidated subsidiaries and affiliated companies are stated at moving average costs. Prior to April 1, 2001, securities were stated at moving average cost.

Derivatives and hedge accounting — The new accounting standard for financial instruments, effective from the year ended March 31, 2001, requires companies to state derivative transactions at fair value and to recognize changes in the fair value as gains or losses unless derivative transactions are used for hedging purposes.

If derivative transactions are used as hedges and meet certain hedging criteria, the Company and its domestic consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative transactions until the related losses or gains on the hedged items are recognized.

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

(1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and

(b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

(2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

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

The Company evaluates hedge effectiveness monthly by comparing the cumulative changes in cash flows from or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

Foreign currency translation — Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates except for transactions with the Company, which are translated at the rates used by the Company.

Effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation", issued by the Business Accounting Deliberation Council on October 22, 1999 (the "Revised Accounting Standard"). Under the Revised Accounting Standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate.

The effect on the consolidated income statement of adopting the Revised Accounting Standard is a decrease in income before income taxes by ¥129 million compared with what would have been recorded under the previous accounting standard.

Due to the Revised Accounting Standard adopted from the year ended March 31, 2001, the Company and its domestic subsidiaries have reported foreign currency translation adjustments in the shareholders' equity and minority interests.

Inventories —

(1) Merchandise, finished products, semi-finished products, work in process and raw materials - Merchandise, finished products, semi-finished products, work in process and raw materials of precious metals and of electronics materials are stated at cost based on the first-in, first-out (FIFO) method. Others are stated at cost based on the last-in, first-out (LIFO) method.

(2) Supplies - Supplies are stated at the weighted average cost.

Property, plant and equipment — Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the straight-line method, based on the estimated useful lives of the assets. The depreciation period generally ranges from 3 years to 50 years for buildings and structures and 5 years to 17 years for machinery and equipment.

Retirement benefits — Under the terms of the Company's retirement plan, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of retirement benefits is, in general, based on the length of service, base salary at the time of retirement or severance and the cause thereof. The Company and certain consolidated domestic subsidiaries also have a non-contributory funded pension plan, which covers substantially all employees.

The Company may make payments for additional retirement benefits for employees which payments have not been included in the actuarial calculation of the projected benefit obligation. The Company and its consolidated domestic subsidiaries provided allowance for employees' severance and retirement benefits at March 31, 2003 and 2002 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

Actuarial gains and losses are recognized in expenses using the straight-line method over the average of the estimated remaining service lives of ten years commencing with the following period.

Accrued retirement benefits in the consolidated balance sheets also include estimated liabilities for the unfunded lump-sum benefit plan covering directors and corporate auditors.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥5,858 million. The entire net transition obligation arising from adoption of the new accounting standard for employees' severance and retirement benefits issued by the Business Accounting Deliberation Council effective April 1, 2000, was fully recognized as expenses in the year ended March 31, 2001.

As a result of the adoption of the new accounting standard, in the year ended March 31, 2001, severance and retirement benefit expenses increased by ¥5,426 million and income before income taxes decreased by ¥5,523 million compared with what would have been recorded under the previous accounting standard.

Research and development — Research and development costs are charged to income as incurred.

Bond issue expense — Bond issue expense is charged to income as incurred.

Accounting for certain lease transactions — Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases.

Income taxes — The Company and its consolidated subsidiaries recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

Sales — Sales of merchandise and finished products are recognized when the products are shipped to customers.

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

Accounting standard for treasury stock and reversal of statutory reserves — Effective April 1, 2002, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standards Board Statement No.1, "Accounting Standards for Treasury Stock and Reversal of Statutory Reserves", issued by the Accounting Standards Board of Japan on February 21, 2002). The adoption of the new accounting standard had no impact on the consolidated financial statements.

Earnings per share — Effective April 1, 2002, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No.2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No.4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

The adoption of the new accounting standard had no impact on the consolidated financial statements.

Amounts per share of common stock — Net income per share is computed based on the weighted average number of shares of common stock in issue during each fiscal year.

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

Reclassifications — Certain prior year amounts have been reclassified to conform to the 2003 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Securities

Investment securities at March 31, 2003 and 2002 consisted of available–for-sale securities. Available-for-sale securities are recorded at fair value, with net unrealized holding gains and losses excluded from income and included as a component of shareholders' equity, net of applicable income taxes.

(1) The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of March 31, 2003 and 2002:

(a) Available-for-sale securities

Securities with book values exceeding acquisition costs

	Millions of yen					
	2003			2002		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥10,258**	**¥12,846**	**¥2,588**	¥26,862	¥36,938	¥10,076
Bonds	**—**	**—**	**—**	16	16	0
Total	**¥10,258**	**¥12,846**	**¥2,588**	¥26,878	¥36,954	¥10,076

	Thousands of U.S. dollars		
	2003		
	Acquisition cost	Book value	Difference
Equity securities	**$85,341**	**$106,872**	**$21,531**
Bonds	**—**	**—**	**—**
Total	**$85,341**	**$106,872**	**$21,531**

Other securities

	Millions of yen					
	2003			2002		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥29,891**	**¥23,452**	**¥(6,439)**	¥37,648	¥31,839	¥(5,809)
Others	**50**	**50**	**—**	102	65	(37)
Total	**¥29,941**	**¥23,502**	**¥(6,439)**	¥37,750	¥31,904	¥(5,846)

	Thousands of U.S. dollars		
	2003		
	Acquisition cost	Book value	Difference
Equity securities	**$248,677**	**$195,108**	**$(53,569)**
Others	**416**	**416**	**—**
Total	**$249,093**	**$195,524**	**$(53,569)**

(2) The following tables summarize book values of the securities with no available fair values as of March 31, 2003 and 2002:

Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2003	2002	Book value
Non marketable equity securities	**¥5,643**	¥6,067	$46,947

(3) Available-for-sale securities with maturities as of March 31, 2003 and 2002 are as follows:

As of March 31, 2003				Millions of yen
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Bonds	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Others	**—**	**50**	**—**	**50**
Total	**¥ —**	**¥ 50**	**¥ —**	**¥ 50**

As of March 31, 2003				Thousands of U.S. dollars
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Bonds	**$ —**	**$ —**	**$ —**	**$ —**
Others	**—**	**416**	**—**	**416**
Total	**$ —**	**$416**	**$ —**	**$416**

As of March 31, 2002				Millions of yen
	Within one year	Over one year but within five years	Over five years but within ten years	Total
Bonds	¥ —	¥16	¥—	¥16
Others	—	—	65	65
Total	¥ —	¥16	¥65	¥81

(4) Total sales of available-for-sale securities sold in the year ended March 31, 2003 amounted to ¥1,976 million ($16,439 thousand) and the related gains and losses amounted to ¥373 million ($3,103 thousand) and ¥265 million ($2,205 thousand), respectively.

Total sales of available-for-sale securities sold in the year ended March 31, 2002 amounted to ¥4,188 million and the related gains and losses amounted to ¥1,097 million and ¥131 million, respectively.

4. Derivative transactions

Status of derivative transactions — The Company and its consolidated subsidiaries utilize derivative transactions in order to hedge various risks, such as fluctuation of metal prices, exchange rates and interest rates, in the normal course of business; such as futures contracts for hedging fluctuation of international price of metals, forward foreign exchange contracts and currency swaps for hedging fluctuation of exchange rates, and interest swaps for hedging fluctuation of interests of floating-rate bonds and term loans payable.

Derivative transactions of the Company and its consolidated subsidiaries cause market risk and credit risk. Market risk is the potential loss the Company and its consolidated subsidiaries may incur as a result of changes in the market value. The Company's and its consolidated subsidiaries' exposure to market risk are determined by a number of factors, including fluctuation of market prices, exchange rates and interest rates. Credit risk is the potential loss the Company and its consolidated subsidiaries could incur if the counterparties made default on their obligation. The derivative transactions are solely made with highly rated financial institutions, their subsidiaries or LME brokers guaranteed by banks, so that the Company and its consolidated subsidiaries might reduce the risk of default on an obligation.

Each department of the Company and its consolidated subsidiaries involving derivative transactions have their own rules for derivative transactions which stipulate purposes and scope of using derivatives, standards for choosing transaction counterparties, and procedures of reporting and administration. The derivative transactions are subject to approval by the General Manager of the department in charge after consulting with related departments. Based on these rules, the person in charge sets up the position. Then, the results are reported to the Directors monthly.

The derivative positions are confirmed semi-annually with the transaction counterparties. Also, the internal audit department of the Company regularly examines derivative transactions.

The Company and its consolidated subsidiaries are not exposed to market risk arising from commodity derivative transactions, because the risk of fluctuation of market prices, that is caused by time lag between purchase and sale of materials and products, is hedged by the corresponding future contracts. The Company and its consolidated subsidiaries also utilize currency derivative transactions to hedge market risk of exchange rates or interest rates. Taking receivables and payables denominated in foreign currencies into account, the Company and its consolidated subsidiaries are not exposed to market risk.

The contracted amount of interest swap is the notional amount only, and not to be considered as an index for measuring market risk or credit risk of the Company and its consolidated subsidiaries.

The following tables summarize market value information as of March 31, 2003 and 2002 of derivative transactions for which hedge accounting has not been applied:

	Millions of yen							
	2003				2002			
	Contracted amount		Market value	Recognized gains (losses)	Contracted amount		Market value	Recognized gains (losses)
	Total	Over one year			Total	Over one year		
Currency:								
Forward contracts:								
Sell position - U.S. dollars	**¥ 36**	**¥ —**	**¥ 37**	**¥ (1)**	¥ 51	¥ —	¥ 52	¥ (1)
Buy position - U.S. dollars	**2,988**	**—**	**3,010**	**22**	2,410	—	2,434	24
	¥3,024	**¥ —**		**¥ 21**	¥2,461	¥ —		¥ 23
Commodity:								
Futures contracts:								
Sell position - Metal	**¥5,377**	**¥ —**	**¥5,154**	**¥223**	¥ —	¥ —	¥ —	¥ —
Buy position - Metal	**391**	**—**	**386**	**(5)**	—	—	—	—
	¥5,768	**¥ —**		**¥218**	¥ —	¥ —		¥ —

	Thousands of U.S. Dollars			
	2003			
	Contracted amount		Market value	Recognized gains (losses)
	Total	Over one year		
Currency:				
Forward contracts:				
Sell position - U.S. dollars	**$ 300**	**$ —**	**$ 308**	**$ (8)**
Buy position - U.S. dollars	**24,858**	**—**	**25,041**	**183**
	$25,158	**$ —**		**$ 175**
Commodity:				
Futures contracts:				
Sell position - Metal	**$44,734**	**$ —**	**$42,879**	**$1,855**
Buy position - Metal	**3,253**	**—**	**3,211**	**(42)**
	$47,987	**$ —**		**$1,813**

5. Inventories

Inventories at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Merchandise	**¥ 780**	¥ 888	**$ 6,489**
Finished products	**17,330**	19,352	**144,177**
Semi-finished products and work in process	**32,349**	34,055	**269,126**
Raw materials and supplies	**17,545**	23,405	**145,965**
	¥68,004	¥77,700	**$565,757**

6. Bank loans and long-term debt

Bank loans are generally represented by short-term notes (most of which are unsecured) and bank overdrafts, and bore interest at annual rates of 0.54% to 5.81% and 0.43% to 5.11% at March 31, 2003 and 2002, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Long-term loans from:			
Banks, insurance companies and other financial institutions, maturing through 2007 at interest rates of 0.8425% to 7.79%:			
Secured	**¥ 3,798**	¥ 4,630	**$ 31,597**
Unsecured	**27,654**	18,717	**230,066**
Government owned banks and government agencies, maturing through 2017 at interest rates of 1.00% to 7.04%:			
Secured	**8,659**	12,801	**72,038**
Unsecured	**140**	245	**1,165**
1.75% domestic bonds due in 2002	**—**	7,000	**—**
2.2% domestic bonds due in 2004	**6,000**	6,000	**49,916**
1.825% domestic bonds due in 2002	**—**	15,000	**—**
2.225% domestic bonds due in 2004	**10,000**	10,000	**83,195**
2.0% domestic bonds due in 2005	**10,000**	10,000	**83,195**
1.6% domestic bonds due in 2003	**10,000**	10,000	**83,195**
0.88% domestic bonds due in 2006	**10,000**	10,000	**83,195**
1.08% domestic bonds due in 2007	**10,000**	—	**83,195**
	96,251	104,393	**800,757**
Amount due within one year	**(19,781)**	(30,421)	**(164,567)**
	¥ 76,470	¥ 73,972	**$ 636,190**

The 1.75% and 1.825% domestic bonds were redeemed during the year ended March 31, 2003.

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥19,781	$164,567
2005	43,432	361,331
2006	10,938	90,998
2007	11,707	97,396
2008	10,361	86,198
Thereafter	32	267

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Notes and accounts receivable			
Trade	**¥ 841**	¥ 953	**$ 6,997**
Investment securities			
Subsidiaries	**131**	131	**1,090**
Other	**6,394**	9,839	**53,195**
Property, plant and equipment, at net book value	**38,641**	42,640	**321,472**
	¥46,007	¥53,563	**$382,754**

7. Income taxes

Income taxes in the accompanying consolidated statements of operations comprise corporation tax, inhabitants taxes and enterprise tax. The aggregate statutory tax rate in Japan was approximately 42.05% for the years ended March 31, 2003, 2002 and 2001.

Consolidated overseas subsidiaries are subject to income taxes of the countries in which they domicile.

The following table summarizes the significant differences between the statutory tax rate and the Company's and its consolidated subsidiaries' effective tax rate for financial statement purposes for the years ended March 31, 2001:

	2001
Statutory tax rate	42.1%
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(9.8)
Effect of elimination of counterparty dividends received	3.8
Difference in tax rates among the Company and its consolidated subsidiaries	(0.6)
Permanently nondeductible expenses	1.9
Permanently nontaxable dividends received	(6.0)
Per capita inhabitant tax	0.6
Decrease in valuation allowance	(29.3)
Others	(1.1)
Effective tax rate	1.6%

The Company has not disclosed the significant differences between the statutory tax rate and the Company's and its consolidated subsidiaries' effective tax rate for the year ended March 31, 2003 and 2002, because it has incurred a loss before income taxes and minority interests.

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Net operating loss carry forwards	**¥19,595**	¥10,310	**$ 163,020**
Retirement benefits	**7,113**	6,798	**59,176**
Net unrealized holding loss on available-for-sale securities	**1,508**	—	**12,546**
Allowance for bonus payable	**1,312**	1,078	**10,915**
Depreciation	**1,169**	1,051	**9,725**
Accrued liquidation loss of subsidiaries	**1,147**	726	**9,542**
Allowance for losses on investments	**558**	—	**4,642**
Accrued indemnification loss of damages caused by a consolidated subsidiary	**422**	525	**3,511**
Write-down of investment securities	**—**	2,186	**—**
Accrued realignment loss of operations	**—**	1,304	**—**
Accrued restructuring charges	**—**	1,042	**—**
Others	**2,589**	2,536	**21,540**
Gross deferred tax assets	**35,413**	27,556	**294,617**
Less valuation allowance	**(7,026)**	(7,293)	**(58,453)**
Deferred tax assets-less valuation allowance	**28,387**	20,263	**236,164**
Deferred tax liabilities:			
Net unrealized holding gain on available-for-sale securities	**—**	(1,827)	**—**
Reserve for losses on overseas investment	**(281)**	(355)	**(2,338)**
Accrual for special depreciation of fixed assets	**(155)**	(172)	**(1,289)**
Deferred gains on properties for tax purpose	**(3,514)**	(3,926)	**(29,235)**
Reserve for explorations	**(770)**	(977)	**(6,406)**
Gain on securities contributed to employee retirement benefits trust	**(751)**	—	**(6,248)**
Depreciation	**(2,582)**	(2,404)	**(21,481)**
Allowance for doubtful accounts	**(515)**	(968)	**(4,285)**
Accumulated earnings of overseas subsidiaries	**(970)**	(1,166)	**(8,070)**
Others	**(376)**	(318)	**(3,127)**
Deferred tax liabilities	**(9,914)**	(12,113)	**(82,479)**
Net deferred tax assets	**¥18,473**	¥ 8,150	**$ 153,685**

(Change in effective tax rates to be used in calculating deferred taxes due to the revised local tax law)

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 42.05% for the year ended March 31, 2002. Effective for the year commencing on April 1, 2004 or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred income tax assets and liabilities, the Company and consolidated domestic subsidiaries used the aggregate statutory income tax rates of 42.05% and 40.69% for current items and non-current items, respectively, at March 31, 2003.

As a result of the change in the aggregate statutory income tax rates, deferred income tax assets decreased by ¥436 million ($3,627 thousand), deferred tax liabilities decreased by ¥14 million ($116 thousand), income-taxes-deferred increased by ¥369 million ($3,070 thousand) and net unrealized holding loss on available-for-sale securities increases by ¥53 million ($441 thousand) compared with what would have been recorded under the previous local tax law.

8. Retirement benefits and pension costs

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits, under which the liabilities and expenses for severance and retirement benefits are determined based on the amounts obtained by actuarial calculations.

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheet as of March 31, 2003 and 2002 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Projected benefit obligation	**¥(45,651)**	¥(45,566)	**$(379,792)**
Fair value of pension assets	**23,834**	17,390	**198,286**
Excess of projected benefit obligation over pension assets	**¥(21,817)**	¥(28,176)	**$(181,506)**
Unrecognized actuarial differences	**7,520**	5,362	**62,562**
Net pension liability recognized in the consolidated balance sheet	**¥(14,297)**	¥(22,814)	**$(118,944)**
Prepaid pension expenses	**1**	30	**8**
Retirement benefits	**¥(14,298)**	¥(22,844)	**$(118,952)**

The Company contributed securities to employee retirement benefit trust, which are included in the pension assets.

Retirement benefits in the consolidated balance sheets as of March 31, 2003 and 2002 also include estimated liabilities for the unfunded lump-sum benefit plan covering directors and corporate auditors (¥307 million ($2,554 thousand) and ¥260 million, respectively).

Included in the consolidated statements of operations for the years ended March 31, 2003, 2002 and 2001 are severance and retirement benefit expense comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Service cost–benefits earned during the year	**¥2,337**	¥2,573	¥2,212	**$19,443**
Interest cost on projected benefit obligation	**969**	1,055	982	**8,061**
Expected return on plan assets	**(495)**	(481)	(507)	**(4,118)**
Amortization of actuarial differences	**588**	270	—	**4,892**
Amortization of entire net transition obligation	**—**	—	5,858	**—**
	¥3,399	¥3,417	¥8,545	**$28,278**

The Amounts for additional retirement benefits the Company made for employees for the years ended March 31, 2003 and 2002 are ¥3,198 million ($26,606 thousand) and ¥326 million, respectively.

The discount rate and the rate of expected return on plan assets used by the Company are primarily 2.5 % and 3.5 %, respectively in fiscal year 2003 and 2002. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in income statement using the straight-line method in ten years.

9. Research and development expense

Research and development expense included in selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 were ¥3,763 million ($31,306 thousand), ¥4,237 million and ¥3,484 million, respectively.

10. Special reserves

For the purpose of obtaining tax benefits, the Company and some consolidated subsidiaries have set up special reserves mainly for losses on overseas investments and explorations in accordance with the Special Taxation Measures Law of Japan.

Such reserves included in retained earnings at March 31, 2003 and 2002 were ¥7,647 million ($63,619 thousand) and ¥7,331 million, respectively.

11. Shareholders' equity

The diluted net income per share for the years ended March 31, 2003 and 2002 are not calculated because there were no securities with dilutive effect. For calculating diluted net income per share, the number of shares outstanding were adjusted by assuming full conversion of the outstanding convertible bonds and full exercise of the outstanding warrants.

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying consolidated financial statements.

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

At the June 26, 1998 annual meeting, the Company's shareholders approved certain changes in the articles of incorporation of the Company including an article of treasury stock purchase program, so that the Company could retire its own shares acquired in a timely manner by offsetting the cost of the treasury stock against retained earnings within the maximum limit of 57,100 thousand shares by resolution of the Board of Directors. There was no acquisition of treasury stock for this purpose during the year ended March 31, 2001.

At the June 27, 2002 annual meeting, the Company's shareholders approved the deletion of this clause in accordance with the abolition of the related law.

12. Contingent liabilities

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
As endorser of notes receivable discounted	**¥ 788**	¥ 2,129	**$ 6,556**
As guarantor for loans of:			
Non-consolidated subsidiaries and affiliated companies	**10,042**	7,002	**83,544**
Other	**4,246**	4,813	**35,324**
	¥15,076	¥13,944	**$125,424**

13. Effect of bank holiday on March 31, 2002

As financial institutions in Japan were closed on March 31, 2002 due to holidays amounts that would normally be settled on March 31, 2002 were collected or paid on the following business day, April 1, 2002 and the Company and its consolidated subsidiaries accounted for accordingly. The effects of the settlements on April 1, 2002 as compared with what would have been settled on March 31, 2002 are summarized below:

	2003	2002
Cash and cash equivalents	—	Decreased by ¥97 million
Notes receivable trade	—	Increased by ¥1,751 million
Notes payable trade	—	Increased by ¥1,313 million
Notes payable other	—	Increased by ¥341 million
Notes receivable discounted	—	Increased by ¥434 million

14. Segment information

Business segment information — The primary business segments of the Company and its consolidated subsidiaries include mineral resources, metallurgy, electronics & advanced materials, construction materials & housing and others.

(Change in the business segment information)
In the year ended March 31, 2002, the Company and its consolidated subsidiaries changed the grouping of business segments due to the change of the business operation. The Company and its consolidated subsidiaries converted advanced materials from metallurgy segment to electronics materials segment, which was changed its name to electronics & advanced materials.
The change was made for better presentation of segment information in line with the current business operations.

Segment information for the years ended March 31, 2001 have been restated to conform to the fiscal 2003 and 2002 segmentation as follows:

2003 — Millions of yen

	Mineral Resources	Metallurgy	Electronics & advanced materials	Construction materials & housing	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	**¥15,566**	**¥186,442**	**¥127,788**	**¥16,456**	**¥ 8,990**	**¥ —**	**¥355,242**
Inter segment	**9,106**	**39,901**	**5,135**	**285**	**3,385**	**(57,812)**	**—**
Total	**24,672**	**226,343**	**132,923**	**16,741**	**12,375**	**(57,812)**	**355,242**
Costs and expenses	**21,990**	**218,017**	**128,805**	**17,093**	**11,740**	**(58,996)**	**338,649**
Operating income (loss)	**¥ 2,682**	**¥ 8,326**	**¥ 4,118**	**¥ (352)**	**¥ 635**	**¥ 1,184**	**¥ 16,593**
Identifiable assets	**¥50,981**	**¥183,202**	**¥111,101**	**¥16,542**	**¥35,790**	**¥ 73,158**	**¥470,774**
Depreciation expense	**3,238**	**4,419**	**8,792**	**622**	**456**	**756**	**18,283**
Capital expenditures	**1,414**	**5,005**	**9,506**	**133**	**427**	**2,442**	**18,927**

2002 — Millions of yen

	Mineral Resources	Metallurgy	Electronics & advanced materials	Construction materials & housing	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥15,351	¥171,150	¥107,331	¥19,997	¥16,365	¥ —	¥330,194
Inter segment	7,941	26,033	3,654	1,619	3,621	(42,868)	—
Total	23,292	197,183	110,985	21,616	19,986	(42,868)	330,194
Costs and expenses	22,454	193,650	115,373	21,882	18,160	(42,472)	329,047
Operating income (loss)	¥ 838	¥ 3,533	¥ (4,388)	¥ (266)	¥ 1,826	¥ (396)	¥ 1,147
Identifiable assets	¥54,710	¥178,033	¥119,151	¥19,593	¥38,771	¥108,498	¥518,756
Depreciation expense	3,217	3,978	8,675	713	549	690	17,822
Capital expenditures	2,794	9,336	11,236	515	418	1,080	25,379

2001							Millions of yen
	Mineral Resources	Metallurgy	Electronics & advanced materials	Construction materials & housing	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	¥16,987	¥177,795	¥143,058	¥24,828	¥12,684	¥ —	¥375,352
Inter segment	6,626	27,032	3,275	52	2,390	(39,375)	—
Total	23,613	204,827	146,333	24,880	15,074	(39,375)	375,352
Costs and expenses	21,253	189,406	136,374	25,184	14,740	(38,535)	348,422
Operating income (loss)	¥ 2,360	¥ 15,421	¥ 9,959	¥ (304)	¥ 334	¥ (840)	¥ 26,930
Identifiable assets	¥57,258	¥173,208	¥128,184	¥25,222	¥45,382	¥100,826	¥530,080
Depreciation expense	2,956	3,953	7,982	746	549	588	16,774
Capital expenditures	4,420	7,387	14,962	243	282	784	28,078

2003							Thousands of U.S. dollars
	Mineral Resources	Metallurgy	Electronics & advanced materials	Construction materials & housing	Others	Elimination or corporate	Consolidated
Net sales:							
Outside customers	**$129,501**	**$1,551,098**	**$1,063,128**	**$136,905**	**$ 74,792**	**$ —**	**$2,955,424**
Inter segment	**75,757**	**331,955**	**42,720**	**2,371**	**28,162**	**(480,965)**	**—**
Total	**205,258**	**1,883,053**	**1,105,848**	**139,276**	**102,954**	**(480,965)**	**2,955,424**
Costs and expenses	**182,945**	**1,813,785**	**1,071,589**	**142,205**	**97,670**	**(490,815)**	**2,817,379**
Operating income (loss)	**$ 22,313**	**$ 69,268**	**$ 34,259**	**$ (2,929)**	**$ 5,284**	**$ 9,850**	**$ 138,045**
Identifiable assets	**$424,135**	**$1,524,143**	**$ 924,301**	**$137,621**	**$297,754**	**$ 608,636**	**$3,916,590**
Depreciation expense	**26,938**	**36,764**	**73,145**	**5,175**	**3,794**	**6,289**	**152,105**
Capital expenditures	**11,764**	**41,639**	**79,085**	**1,106**	**3,552**	**20,316**	**157,462**

(The effects of changes in accounting policies on segment information)

(1) Retirement benefits and pension costs (in the year ended March 31, 2001)

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Companies and its consolidated domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits. The effect of this change on the segment information were to increase operating income of mineral resources, metallurgy, electronics & advanced materials and others by ¥15 million, ¥110 million, ¥211 million and ¥76 million and decrease operating income of construction materials & housing by ¥17 million, in the year ended March 31, 2001, respectively.

(2) Foreign currency translation (in the year ended March 31, 2001)

As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Companies and its consolidated domestic subsidiaries adopted the new accounting standard for foreign currency translation. The effect of this change on the segment information were to decrease identifiable assets of Elimination or corporate by ¥10,861 million in the year ended March 31, 2001.

(3) Financial instruments (in the year ended March 31, 2002)

As explained in Note 2. Significant Accounting Policies, effective from the year ended March 31, 2002, the Company adopted new accounting standards for financial instruments. The effect of this change on the segment information were to decrease identifiable assets of metallurgy by ¥110 million and increase identifiable assets of electronics & advanced materials by ¥19 million, construction materials & housing by ¥2 million and elimination or corporate by ¥4,319 million in the year ended March 31, 2002.

Geographic segment information —

Geographic segment information for the years ended March 31, 2003, 2002 and 2001 are summarized as follows:

2003						Millions of yen
	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	**¥307,302**	**¥15,042**	**¥23,686**	**¥ 9,212**	**¥ —**	**¥355,242**
Intersegment	**14,377**	**25**	**964**	**1,758**	**(17,124)**	**—**
Total	**321,679**	**15,067**	**24,650**	**10,970**	**(17,124)**	**355,242**
Costs and expenses	**305,161**	**15,559**	**24,243**	**10,576**	**(16,890)**	**338,649**
Operating income (loss)	**¥ 16,518**	**¥ (492)**	**¥ 407**	**¥ 394**	**¥ (234)**	**¥ 16,593**
Identifiable assets	**¥349,986**	**¥32,725**	**¥17,846**	**¥12,947**	**¥ 57,270**	**¥470,774**

2002						Millions of yen
	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥291,605	¥13,504	¥17,772	¥ 7,313	¥ —	¥330,194
Intersegment	9,225	10	524	1,421	(11,180)	—
Total	300,830	13,514	18,296	8,734	(11,180)	330,194
Costs and expenses	296,322	15,717	19,353	8,861	(11,206)	329,047
Operating income (loss)	¥ 4,508	¥ (2,203)	¥ (1,057)	¥ (127)	¥ 26	¥ 1,147
Identifiable assets	¥360,839	¥36,245	¥19,118	¥13,930	¥ 88,624	¥518,756

2001						Millions of yen
	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	¥328,608	¥14,922	¥23,663	¥ 8,159	¥ —	¥375,352
Intersegment	10,334	18	718	1,155	(12,225)	—
Total	338,942	14,940	24,381	9,314	(12,225)	375,352
Costs and expenses	313,854	14,766	23,407	8,711	(12,316)	348,422
Operating income (loss)	¥ 25,088	¥ 174	¥ 974	¥ 603	¥ 91	¥ 26,930
Identifiable assets	¥376,180	¥36,099	¥19,900	¥12,095	¥ 85,806	¥530,080

2003						Thousands of U.S. dollars
	Domestic	North America	Southeast Asia	Others	Elimination or corporate	Consolidated
Net sales:						
Outside customers	**$2,556,589**	**$125,141**	**$197,055**	**$ 76,639**	**$ —**	**$2,955,424**
Intersegment	**119,609**	**208**	**8,020**	**14,626**	**(142,463)**	**—**
Total	**2,676,198**	**125,349**	**205,075**	**91,265**	**(142,463)**	**2,955,424**
Costs and expenses	**2,538,777**	**129,443**	**201,689**	**87,986**	**(140,516)**	**2,817,379**
Operating income (loss)	**$ 137,421**	**$ (4,094)**	**$ 3,386**	**$ 3,279**	**$ (1,947)**	**$ 138,045**
Identifiable assets	**$2,911,697**	**$272,255**	**$148,469**	**$107,713**	**$ 476,456**	**$3,916,590**

(The effects of changes in accounting policies on segment information)
(1) Retirement benefits and pension costs
(in the year ended March 31, 2001)
As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for employees' severance and retirement benefits. The effect of this change on the segment information was to increase operating income of Japan by ¥395 million in the year ended March 31, 2001.
(2) Foreign currency translation (in the year ended March 31, 2001)
As explained in Note 2. Significant Accounting Policies, effective April 1, 2000, the Companies and its consolidated domestic subsidiaries adopted the new accounting standard for foreign currency translation. The effect of this change on the segment information were to decrease identifiable assets of elimination or corporate by ¥10,861 million in the year ended March 31,2001.
(3) Financial instruments (in the year ended March 31, 2002)
As explained in Note 2. Significant Accounting Policies, effective from the year ended March 31, 2002, the Company adopted new accounting standards for financial instruments. The effect of this change on the segment information was to decrease identifiable assets of domestic by ¥89 million and increase identifiable assets of elimination or corporate by ¥4,319 million in the year ended March 31, 2002.

Information for overseas sales

2003					Millions of yen
	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	**¥18,075**	**¥25,385**	**¥61,743**	**¥2,386**	**¥107,589**
Consolidated net sales	**—**	**—**	**—**	**—**	**¥355,242**
Share of overseas net sales	**5.1%**	**7.1%**	**17.4%**	**0.7%**	**30.3%**

2002					Millions of yen
	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	¥17,158	¥17,993	¥52,590	¥3,770	¥ 91,511
Consolidated net sales	—	—	—	—	¥330,194
Share of overseas net sales	5.2%	5.5%	15.9%	1.1%	27.7%

2001					Millions of yen
	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	¥18,736	¥21,681	¥53,258	¥5,278	¥ 98,953
Consolidated net sales	—	—	—	—	¥375,352
Share of overseas net sales	5.0%	5.8%	14.2%	1.4%	26.4%

2003					Thousands of U.S. dollars
	North America	Southeast Asia	East Asia	Others	Total
Overseas net sales	**$150,374**	**$211,190**	**$513,669**	**$19,850**	**$ 895,083**
Consolidated net sales	**—**	**—**	**—**	**—**	**$2,955,424**
Share of overseas net sales	**5.1%**	**7.1%**	**17.4%**	**0.7%**	**30.3%**

15. Information for certain leases

As a lessee — A summary of assumed amounts inclusive of interest of acquisition cost, accumulated depreciation and net book value of finance leases accounted for in the same manner as operating leases at March 31, 2003 and 2002 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			**2003**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥1,720**	**¥ 929**	**¥791**	¥2,164	¥1,172	¥ 992	**$14,310**	**$7,729**	**$6,581**
Others	**308**	**239**	**69**	334	247	87	**2,562**	**1,988**	**574**
Total	**¥2,028**	**¥1,168**	**¥860**	¥2,498	¥1,419	¥1,079	**$16,872**	**$9,717**	**$7,155**

Future lease payment, inclusive of interest at March 31, 2003 and 2002 under such leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥353**	¥ 445	**$2,937**
Due after one year	**507**	634	**4,218**
Total	**¥860**	¥1,079	**$7,155**

Total expenses and assumed depreciation charges for the years ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Total expenses	**¥466**	¥555	¥591	**$3,877**
Assumed depreciation charge	**466**	555	591	**3,877**

As a lessor — A summary of acquisition cost , accumulated depreciation and net book value at March 31, 2003 and 2002 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			**2003**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Machinery and equipment	**¥422**	**¥186**	**¥236**	¥423	¥151	¥272	**$3,511**	**$1,548**	**$1,963**
Others	**1**	**1**	**0**	1	0	1	**8**	**8**	**0**
Total	**¥423**	**¥187**	**¥236**	¥424	¥151	¥273	**$3,519**	**$1,556**	**$1,963**

Future lease receipt, inclusive of interest, at March 31, 2003 and 2002 under such lease were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Due within one year	**¥ 42**	¥ 45	**$ 349**
Due after one year	**204**	246	**1,697**
Total	**¥246**	¥291	**$2,046**

Total revenue and depreciation charges for the year ended March 31, 2003, 2002 and 2001 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2003	2002	2001	**2003**
Total revenues	**¥42**	¥58	¥51	**$349**
Depreciation charge	**35**	36	24	**291**

16. Subsequent events

On June 27, 2003 the shareholders of the Company approved payment of an annual cash dividend of ¥5.0 ($0.04) per share or total of ¥2,855 million ($23,752 thousand) to shareholders of record at March 31, 2003.

Report of Independent Public Accountants

To the Board of Directors of Sumitomo Metal Mining Co., Ltd.

We have audited the accompanying consolidated balance sheets of Sumitomo Metal Mining Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Metal Mining Co., Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. Sumitomo Metal Mining Co., Ltd. and domestic subsidiaries prospectively adopted the new Japanese accounting standards for financial instruments effective April 1, 2001, for financial instruments and employees' retirement benefits and the revised Japanese accounting standard for foreign currency translation effective April 1, 2000.

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

Asahi & Co.

Tokyo, Japan
June 27, 2003

SMM Group

Branches, Divisions & Laboratories

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Principal Affiliated Companies

MINERAL RESOURCES
Sumiko Consultants Co., Ltd.*

METALLURGY AND METAL FABRICATION
Hyuga Smelting Co., Ltd.*
Sumitomo Metal Mining Brass & Copper Co., Ltd.*
Taihei Metal Industry Co., Ltd.*
MS Zinc co., Ltd.

ELECTRONICS AND ADVANCED MATERIALS
Ohkuchi Electronics Co., Ltd.*
Shinko Co., Ltd.*
Niihama Electronics Co., Ltd.*
Ajimu Electronics Co., Ltd.*
Sumitomo Metal Mining Package Materials Co., Ltd.*
Sumiko Tec Co., Ltd.*
Fuji Electronics Industries Co., Ltd.*
Sumiko STF Co., Ltd.*
Sumico Lubricant Co., Ltd.*
Nittosha Co., Ltd.*

CONSTRUCTION MATERIALS AND HOUSING
Sumitomo Metal Mining Siporex Co., Ltd.*
Igeta Heim Co., Ltd.*
Sumiko Tatsumi Construction Materials Co., Ltd.*

OTHER SERVICES
Sumiko Eco-engineering Co., Ltd.*
Sumiko Technical Service Co., Ltd.*
Sumiko Information Systems Co., Ltd.*
N. E. Chemcat Corporation
Nippon Ketjen Co., Ltd.

Overseas Office

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SMMEP Pte. Ltd.*
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Facsimile: 65-6863-2062

*Consolidated subsidiaries

Corporate Data/Investor Information

As of March 31, 2003

Corporate Data

FOUNDED
1590

INCORPORATED
1950

HEAD OFFICE
11-3, Shimbashi 5-chome, Minato-ku, Tokyo 105-8716, Japan

PAID-IN CAPITAL
¥88.3 billion

NUMBER OF EMPLOYEES
2,182

CONTACT INFORMATION
IR Dept. :
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Minato-ku, Tokyo 105-8716, Japan
Phone : 81-3-3436-7921
Facsimile : 81-3-3436-7879

Investor Information

CLOSING DATE
The Company's books are closed on March 31 each year.

REGULAR GENERAL MEETING
The regular general meeting of shareholders is held in June each year.

COMMON STOCK
Number of authorized shares:
1,000,000,000 shares
Number of issued and outstanding shares:
571,872,794 shares

LISTING OF SHARES
Tokyo and Osaka stock exchanges

STOCK TRANSACTION UNITS
1,000-share units

STOCK TRANSFER AGENT
The Sumitomo Trust and Banking Company, Limited
Head office:
5-33, Kitahama 4-chome, Chuo-ku, Osaka

Stock Transfer Agency Department:
4-4, Marunouchi 1-chome, Chiyoda-ku, Tokyo

PUBLIC NOTICES
The Company's public notices appear in the Nihon Keizai Shimbun published in Tokyo, Japan.

INDEPENDENT PUBLIC ACCOUNTANTS
Asahi & Co.
1-2, Tsukudo-cho, Shinjuku-ku, Tokyo

PRINCIPAL SHAREHOLDERS

	Number of shares held (thousands)	Percentage of voting rights
Japan Trustee Services Bank. Ltd. (Trust accounts)	78,452	13.9%
The Master Trust Bank of Japan, Ltd. (Trust accounts)	30,564	5.4
Sumitomo Mitsui Banking Corporation	20,168	3.6
Separately managed money trustee, Mitsui Asset Trust and Banking Company, Limited “1”	15,536	2.7
Pension trustee, Mitsui Asset Trust and Banking Company, Limited “2”	15,244	2.7
Japan Trustee Services Bank. Ltd. / The Sumitomo Trust and Banking Co., Ltd. (Retirement benefit trust account)	11,885	2.1
UFJ Trust Bank, Limited. (Trust accounts “A”)	11,645	2.1
Sumitomo Corporation	9,905	1.8
Sumitomo Life Insurance Company	9,108	1.6
The Mitsubishi Trust and Banking Corporation (Trust accounts)	8,505	1.5

Corporate Officers

DIRECTOR
Takeshi Yamane

DIRECTOR
Nobuto Yamaguchi

DIRECTOR
Masashi Koike

REPRESENTATIVE DIRECTOR
Chitsura Arakawa

REPRESENTATIVE DIRECTOR
Koichi Fukushima

DIRECTOR
Hirosuke Chihara

DIRECTORS AND STATUTORY AUDITORS
(As of July 22, 2003)

REPRESENTATIVE DIRECTORS
Koichi Fukushima
Chitsura Arakawa

DIRECTORS
Hirosuke Chihara
Nobuto Yamaguchi
Takeshi Yamane
Masashi Koike

(STANDING) SENIOR AUDITOR
Isao Shima

(STANDING) AUDITOR
Masahide Tsuno

AUDITORS
Hajime Ohta
Tsutomu Ushijima

EXECUTIVE OFFICERS
(As of July 22, 2003)

PRESIDENT
Koichi Fukushima

EXECUTIVE VICE PRESIDENT
Chitsura Arakawa

SENIOR MANAGING EXECUTIVE OFFICER
Hirosuke Chihara

MANAGING EXECUTIVE OFFICERS
Akira Ichinose
Koji Aiba
Nobuto Yamaguchi
Takeshi Yamane

EXECUTIVE OFFICERS
Ryoichi Suzuki
Yukio Ishikawa
Takuro Mochihara
Susumu Makino
Masashi Koike
Ichiro Abe
Kotaro Tomino
Naoki Tajiri
Yoshiaki Hashinaka

SUMITOMO METAL MINING CO., LTD.