

# Financial Section

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	Millions of yen				Millions of yen	Thousands of U.S. dollars*1
	Fiscal year ended March 31, 2004	Fiscal year ended March 31, 2005	Fiscal year ended March 31, 2006	Fiscal year ended March 31, 2007	Fiscal year ended March 31, 2008	
<b>Operating results</b>						
Net sales	¥2,214,589	¥2,502,538	¥3,026,262	¥3,802,447	¥4,339,472	\$43,312,426
Operating income	50,397	125,608	144,448	132,258	103,186	1,029,903
Equity in income of non-consolidated subsidiaries and affiliates	10,976	31,278	50,983	94,895	91,927	917,527
Income before special items	53,737	148,055	188,722	224,236	192,026	1,916,618
Net income	14,854	50,577	96,905	106,430	99,299	991,107
<b>Financial condition at end of fiscal year</b>						
Total assets	¥1,572,529	¥1,580,144	¥1,859,583	¥2,056,407	¥2,251,208	\$22,469,388
Shareholders' equity*2	233,742	353,437	467,479	622,476	681,411	6,801,188
Interest-bearing debt	754,027	643,790	684,736	689,437	795,900	7,943,907
Shareholders' equity ratio (%)	14.9	22.4	25.1	30.3	30.3	
D/E ratio (debt to equity ratio) (Times)	3.23	1.82	1.46	1.11	1.17	
<b>Cash flows</b>						
Cash flows from operating activities	¥ 106,182	¥ 45,360	¥ 24,258	¥ 41,200	¥ 56,830	\$ 567,222
Cash flows from investing activities	4,530	(15,170)	(37,594)	(97,576)	(114,391)	(1,141,741)
Cash flows from financing activities	(115,794)	(38,734)	11,962	37,401	74,418	742,769
Capital expenditures	31,607	47,287	57,669	148,619	103,654	1,034,574
Depreciation and amortization	45,862	47,726	44,871	51,595	62,863	627,438
<b>Per share data</b>						
Shareholders' equity per share*3	¥344.01	¥416.98	¥551.36	¥671.56	¥735.22	\$7.34
Net income per share*4	21.71	63.84	113.87	117.98	107.14	1.07
Diluted net income per share	—	—	113.84	117.91	107.06	1.07
Cash dividends per share (non-consolidated)	6	10	15	16	16	0.16
Number of shares outstanding at fiscal year-end	679,123,537	847,132,246	847,047,065	926,909,298	926,812,871	
Average number of shares outstanding during fiscal year	678,928,690	789,164,998	847,046,824	902,127,788	926,832,217	

\*1. Amounts stated in U.S. dollars have been converted at 100.19 yen per US1.00 dollar, the rate prevailing at the end of March 31, 2008.

\*2. Shareholders' equity is the total of the shareholders' equity and the valuation and translation adjustment in net assets of the consolidated balance sheets.

\*3. Shareholders' equity per share has been calculated on the basis of the number of shares outstanding at the fiscal year-end.

\*4. Net income per share has been calculated on the basis of the average number of shares outstanding during the fiscal year.

## 1. Overview

### ■ General

In the fiscal year ended March 31, 2008, in general, the Japanese economy continued along a gradual recovery path, as capital expenditures increased and personal consumption picked up. However, impact from the subprime loan crisis in the United States, which emerged in the second half of 2007, began to cast a shadow over the profit outlook for some companies.

At the start of the fiscal year under review, in April 2007, the Japanese yen traded at approximately ¥118 per U.S. dollar, but weakened to over ¥123 to the U.S. dollar in June, partly owing to the widening interest-rate gap compared with other currencies. Subsequently, the impact from the subprime loan crisis saw the yen rapidly strengthen against the U.S. dollar, reaching the level of ¥97 per U.S. dollar for a short time in March 2008. The average exchange rate for the period under review was ¥114 per U.S. dollar, compared with ¥117 during the previous fiscal year.

In the crude oil market, as global oil demand steadily grew, geopolitical risks were heightened by such factors as Iran's nuclear development program and the continuing conflict in Nigeria. The emerging credit crunch in financial markets also contributed to an influx of speculative funds into the crude oil futures markets. These conditions saw the price of Dubai crude rise from approximately \$64 per barrel at the start of the period to over \$100 per barrel for a time in March 2008. The average price of Dubai crude rose from approximately \$61 per barrel in the previous fiscal year to approximately \$77 per barrel in the fiscal period under review.

Meanwhile, the international price of copper was buoyed by strong demand growth in China and other parts of Asia, pushing the copper price on the London Metal Exchange (LME) from 314 cents per pound at the start of

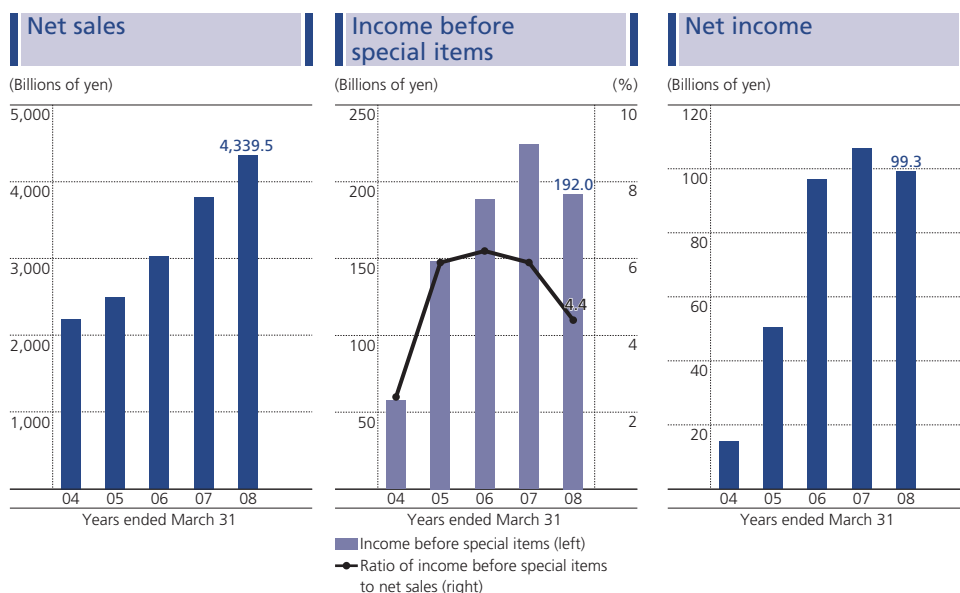
the period to as high as 377 cents per pound in October 2007. Subsequently, liquidation of long positions by speculative traders saw the price fall as low as 285 cents per pound for a brief time in December 2007, but in March 2008 the price recovered to reach an all-time record of 403 cents per pound. The average copper price for the period was approximately 344 cents per pound, compared with approximately 316 cents during the previous period.

In this operating environment, on a consolidated basis, the Company Group recorded net sales of ¥4,339.5 billion (US\$43,312.4 million), an increase of 14.1% compared with the previous fiscal year. Income before special items declined 14.4%, to ¥192.0 billion (US\$1,916.6 million), and net income decreased 6.7%, to ¥99.3 billion (US\$991.1 million). Excluding the impact of inventory valuations, income before special items fell 35.2%, to ¥143.2 billion (US\$1,428.9 million) compared with ¥220.9 billion in the previous fiscal year.

### ■ Petroleum (Japan Energy Group)

Domestic demand for petroleum products during the fiscal year under review was generally below the level of the previous fiscal year. Although demand for C heavy oil rose owing to increased consumption by the electric power sector as certain nuclear power plants were taken off line, fuel switching led to lower consumption of A heavy oil and gasoline demand also declined.

Despite falls in sales volumes of gasoline and kerosene, overall domestic sales volumes of fuel oils by the Company Group increased, mainly owing to a rise in the volume of C heavy oil. Petroleum product prices rose, driven by higher crude oil prices. Sales volumes of petrochemical products, including aroma products (aromatic type hydrocarbons) such as benzene and paraxylene, and liquefied petroleum gas (LPG) increased. Petrochemical product prices also rose. Sales volumes of lubricating oils declined while prices rose.



Based on these market conditions, net sales in the Petroleum business increased 15.9%, compared with the previous fiscal year to ¥3,193.9 billion, while income before special items decreased 17.2%, to ¥67.8 billion. Although the rise in crude oil prices pushed down the cost of sales owing to the impact on inventory valuations, income was negatively affected by energy costs increases and deteriorating margins for fuel oil and petrochemical products.

### ■ Metals (Nippon Mining & Metals Group)

Net sales in the Metals business increased 9.3% compared with the previous fiscal year, to ¥1,119.6 billion, and income before special items declined 15.4%, to ¥113.4 billion.

### Resources and Metals

In the core copper business, international copper prices trended at high levels, leading to higher product prices compared with the previous fiscal year. Copper smelting and refining margins applied to copper concentrates purchased during the period under review deteriorated, reflecting a further tightening of supply and demand in the copper concentrate market.

Based on these market conditions, net sales of Resources and Metals grew 12.7% to ¥999.5 billion, and income before special items decreased 10.4% to ¥114.4 billion. Despite an improvement in profitability in the recycling and environmental services business, deteriorating copper smelting and refining margins conditions for copper concentrates and rising costs at overseas mining development projects led to a fall in income.

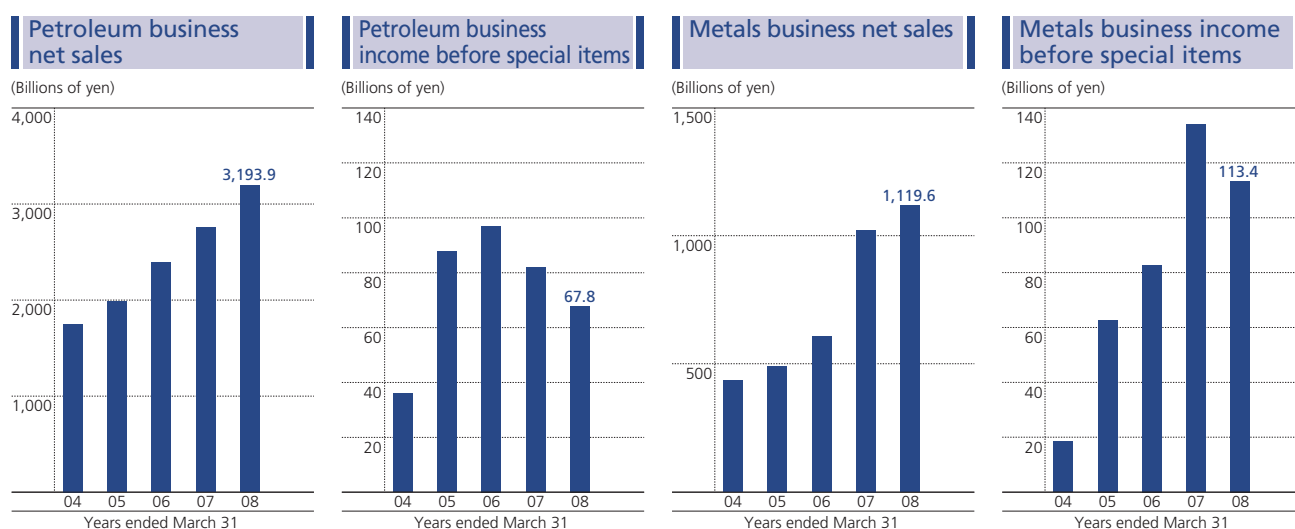
### Electronic Materials

For such mainstay products as electro-deposited copper foil, treated rolled copper foil and thin-film forming materials (sputtering targets for semiconductors and flat panel displays (FPDs)), accompanying the completion of inventory adjustments in the first half of the fiscal year for major end-use products—including mobile phones, liquid crystal panels and other items—sales volumes generally increased. Among product prices, sputtering targets for FPDs experienced a price decline, reflecting the price of indium. The price of electro-deposited copper foil rose reflecting the sharp rise in copper prices. Prices for other products were generally flat.

As a result, net sales of Electronic Materials declined 6.3%, to ¥121.3 billion, partly due to the effect of changes in the accounting period in the overseas subsidiaries. Loss before special items was ¥6.4 billion, compared with a loss of ¥2.2 billion in the previous fiscal year. Despite an improvement in the price of electro-deposited copper foil and an increase in sales volumes for semiconductor sputtering targets, this loss reflected the negative impact on inventory valuations from the further fall in the price of indium, a key raw material used in the manufacture of sputtering targets for FPDs.

### Metal Manufacturing

In the precision rolling business, accompanying the completion of inventory adjustments for digital and IT-related products, main products within the rolled copper and copper alloy products, such as copper foil and Corson alloys, saw growth in sales volumes. In contrast, reflecting the continued shift toward liquid crystal displays (LCDs) for use in televisions and PC monitors, special steel products used in cathode ray tube (CRT) components experienced a decline in sales volumes. In the precision fabrication business, demand was generally strong for such surface



\* Net sales and income before special items for the fiscal years ended March 31, 2005 and 2006 have been revised to reflect changes to segment classifications in the fiscal year ended March 31, 2007. Metals business net sales and income before special items for the fiscal year ended March 31, 2004 are the cumulative total for net sales and income before special items for the former metals-related segments.

treatment materials as gold plating, underpinned by demand for digital and IT-related products.

Under these conditions, net sales from Metal Manufacturing rose 4.7%, to ¥73.7 billion. Income before special items decreased 18.7%, to ¥5.4 billion, mainly owing to such factors as a decline in sales of special steel products.

\* Sales amounts provided on a segment basis include inter-segment transactions amounting to ¥74.9 billion, compared with ¥62.9 billion in the previous fiscal year.

### ■ Other Operations (Independent Operating Companies and Functional Support Companies)

Net sales from Other Operations increased 16.5%, to ¥76.5 billion, and income before special items rose 48.3%, to ¥11.3 billion.

During the period under review, we worked to expand the business infrastructure and enhance the profitability of the Company Group's independent operating companies, such as Nichiyo Engineering Corporation (engineering business).

In such areas as finance, administrative services, environmental management, research and consulting, basic materials procurement, and other shared operations, functional support is provided by such companies as Nippon Mining Finance Co., Ltd. These companies endeavor to carry out their operations efficiently.

From January to February 2008, the Company launched a take-over bid with the object of acquiring the shares of Toho Titanium Co., Ltd. (titanium business), held by Mitsui & Co., Ltd. The purpose of this share purchase is to enable the Company Group to provide strengthened support to Toho Titanium's growth strategy in the titanium business and enhance corporate value by leveraging the synergies between the Company Group and Toho Titanium. By the end of March 31, 2008, the Company Group held 42.7% of the voting rights of Toho Titanium. Through the resolution at Toho Titanium's annual shareholders' meeting

in June 2008, directors from the Company Group comprised a majority of the board of directors of Toho Titanium, which became a consolidated subsidiary of the Company.

In April 2008, the Company Group transferred 60% of the issued and outstanding shares of Central Computer Services Co., Ltd. (information service business), to NTT Data Corporation. The purpose of this transaction is to utilize the advanced project management know-how of NTT Data to help strengthen the Company Group's competitiveness through the strategic use of information technology. Simultaneously, Nippon Mining IT Co., Ltd., was established to handle the Company Group's IT-related planning and management functions.

\* Sales amounts provided on a segment basis include inter-segment transactions amounting to ¥50.6 billion, compared with ¥43.0 billion in the previous fiscal year.

## 2. Financial Condition

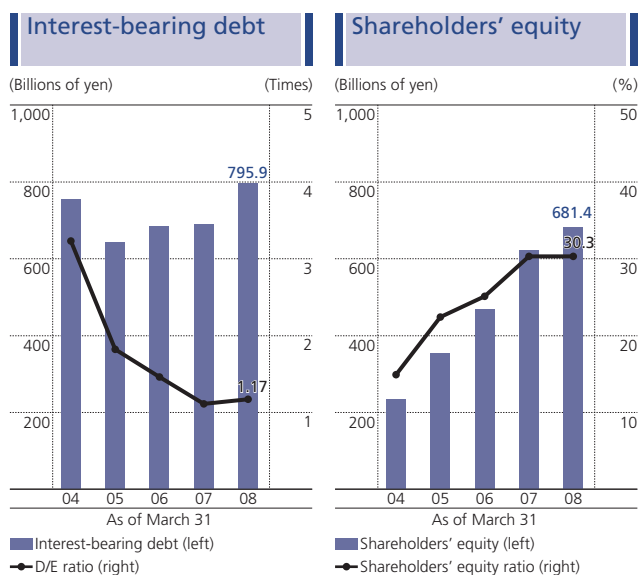
(Consolidated Balance Sheets)

(Billions of yen)

As of March 31	2007	2008	Year-on-year change
Total assets	2,056.4	2,251.2	194.8
Total liabilities	1,355.3	1,485.9	130.6
(Interest-bearing debt)	689.4	795.9	106.5
Total net assets	701.1	765.3	64.2
(Shareholders' equity)	622.5	681.4	58.9

Total assets stood at ¥2,251.2 billion (US\$22,469 million) as of March 31, 2008, an increase of ¥194.8 billion compared with the previous fiscal year-end. Within this rise, inventories increased ¥67.9 billion accompanying the rise in crude oil and metal prices, trade receivables rose ¥48.6 billion and property, plant and equipment grew ¥35.8 billion as a result of capital expenditures.

Total liabilities—comprising total current liabilities and total long-term liabilities—amounted to ¥1,485.9 billion (US\$14,831 million) an increase of ¥130.6 billion, compared with the previous fiscal year-end. Although accrued income tax declined ¥9.8 billion, interest-bearing



debt rose ¥106.5 billion, and trade payables increased ¥60.9 billion in line with higher crude oil and metal prices.

Total net assets amounted to ¥765.3 billion (US\$7,638 million) as of the end of the fiscal year under review, an increase of ¥64.2 billion compared with the previous fiscal year-end. The main item contributing to this increase was net income of ¥99.3 billion.

As a result of the changes summarized above, the shareholders' equity ratio stood at 30.3%, unchanged compared with the previous fiscal year-end, and the D/E ratio rose 0.06 times to 1.17 times.

As of March 31	2004	2005	2006	2007	2008
Shareholders' Equity ratio (%)	14.9	22.4	25.1	30.3	30.3
Total assets (Billions of yen)	1,572.5	1,580.1	1,859.6	2,056.4	2,251.2
Shareholders' Equity (Billions of yen)	233.7	353.4	467.5	622.5	681.4
D/E ratio (Times)	3.23	1.82	1.46	1.11	1.17
Interest-bearing debt (Billions of yen)	754.0	643.8	684.7	689.4	795.9

(Consolidated Cash Flows)	(Billions of yen)	
Years ended March 31	2007	2008
Cash flows from operating activities	41.2	56.8
Cash flows from investing activities	(97.6)	(114.4)
Cash flows from financing activities	37.4	74.4
Effect of exchange rate changes		
on cash and cash equivalents	(0.1)	0.4
Net increase (decrease) in cash and cash equivalents	(19.1)	17.3
Cash and cash equivalents at beginning of fiscal year	63.9	45.2
Increase in cash and cash equivalents related to subsidiaries		
newly included in consolidation	0.5	0.1
Cash and cash equivalents at end of fiscal year	45.2	62.6

Net cash provided by operating activities amounted to ¥56.8 billion (US\$567.2 million). Income before income taxes and minority interests of ¥188.3 billion, depreciation and amortization expenses of ¥60.3 billion and a ¥40.0 billion increase in trade payables outweighed a ¥65.8 billion increase in inventories, payments for income taxes of ¥64.1 billion, a ¥51.9 billion increase in trade receivables and a ¥26.1 billion difference arising from equity-method investments (¥91.9 billion in equity in income of non-consolidated subsidiaries and affiliates minus ¥65.9 billion in dividend income from them).

Net cash used in investing activities amounted to ¥114.4 billion (US\$1,141.7 million). This included payments for acquisition of property, plant and equipment and payments for acquisition of intangible assets totaling ¥112.0 billion, and payments for acquisition of investments in securities amounting to ¥20.1 billion.

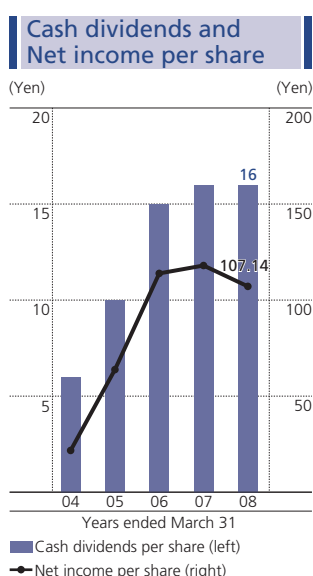
Net cash provided by financing activities amounted to ¥74.4 billion (US\$742.8 million). Cash dividends paid totaled ¥14.8 billion and cash dividends paid to minority shareholders amounted to ¥18.4 billion. These were outweighed by an increase in interest-bearing debt of ¥106.5 billion, including proceeds from issuance of bonds amounting to ¥15.0 billion.

As a result, cash and cash equivalents at end of fiscal year amounted to ¥62.6 billion (US\$625.0 million), an increase of ¥17.4 billion compared with cash and cash equivalents at beginning of fiscal year.

### 3. Basic Policy regarding Determination of Cash Dividends

The Company maintains the policy of determining dividends to shareholders by taking into full consideration business results and management environment, steady dividend payouts and retained earnings, and by considering these elements in a comprehensive manner. The Company intends to pay a year-end dividend of ¥8 per share, a total annual dividend of ¥16 per share combined with the interim dividend of ¥8 per share that has already been paid. The Company will strive to further improve its financial strength and to further raise dividends in the future.

Pursuant to Article 459, Paragraph 1, of the Corporation Law of Japan, the articles of incorporation of the Company Group stipulate that the payment of cash dividends may be determined through a resolution of the Board of Directors. In the foreseeable future, we plan to make two dividend payments per year, an interim dividend and a year-end dividend.



\* Cash dividends per share for the period ended March 31, 2006 included cash dividends of ¥3 per share to commemorate the 100th anniversary of the founding of the Company Group.

**Matters that may have a material impact on the business of the Nippon Mining Holdings Group include those summarized as follows. Forward-looking statements made in this section are, unless otherwise stated, judgments made by the Company as of the date of compilation of these materials.**

### **Risks Affecting the Entire Group**

#### **(1) Country risks relating to sources of raw-material supplies**

The Company Group procures large quantities of raw materials outside Japan. In particular, it is almost entirely dependent on limited crude oil reserves in the Middle East and Indonesia, and on limited copper concentrate sources in South America, Southeast Asia and Australia. Country risks in those countries or regions, for example involving political instability, social unrest, deterioration in economic conditions or changes in laws or policies, may have an impact on the Company Group's business performance.

#### **(2) Risks relating to business operations in East Asian countries, particularly China**

Sales of products such as copper, petrochemical products, electronic materials and manufactured metal products made by the Company Group depend heavily on demand in East Asian countries, notably China, and the Company Group expects to undertake further business expansion in those regions.

In the event that, for whatever reason, there is a decline or other changes in demand for the Company Group's products in these areas, it may have a material impact on the Company Group's financial condition and business performance.

#### **(3) Risks relating to foreign exchange rate fluctuations**

A portion of the Company Group's receipts and payments arise from business transactions denominated in foreign currencies, and the Company Group also has substantial assets and liabilities denominated in foreign currencies. Consequently, fluctuations in foreign exchange rates may affect the value of assets, liabilities, receipts and payments when converted into yen.

In addition, fluctuations in foreign exchange rates may also have a material impact when the financial statements of overseas consolidated subsidiaries or affiliated companies accounted for by the equity method are converted into yen.

#### **(4) Risks relating to collaboration with third parties and business investments**

The Company Group collaborates with third parties through joint ventures and other means, and also makes strategic investments in other companies in a variety of business fields. These partnerships and investments play an

important role in the Company Group's business, and, in the event that, for various reasons, key joint ventures experience financial difficulties, or it is not possible to achieve the desired results from collaborative relationships or investments, this may have a material impact on the Company Group's financial condition and business performance.

#### **(5) Risks relating to business restructuring**

The Company Group is taking steps to reduce costs, focus its business activities and enhance efficiency. However, it is possible that substantial special losses relating to restructuring may occur in the future.

In the event that the Company Group is unable to execute business restructuring appropriately, or that the restructuring does not achieve the envisaged improvements in the Company Group's business operations, this may have a material impact on the Company Group's financial condition and business performance.

#### **(6) Risks relating to capital expenditure and investments**

Continuous capital expenditure and investments are necessary for the ongoing maintenance and growth of the Company Group's business. However, it is possible that, for such reasons as inadequacy of cash flow, it may become difficult to implement these plans. In addition, it is possible that actual investment amounts will greatly exceed projections, or that projected earnings will not materialize.

#### **(7) Risks relating to environmental regulations**

The Company Group's businesses are subject to a wide range of environmental regulations. These regulations impose expenses for environmental cleanups, and, if environmental pollution were to occur, the payment of fines and compensation would be required, making it difficult for the Company Group to continue its operations.

The Company Group's operations give rise to considerable quantities of wastewater, gas emissions and waste matter, and unforeseen circumstances may cause the volumes of these discharges to rise above their permitted levels. It is also possible that in the future environmental regulations will be applied more strictly or strengthened, and also that new environmental regulations will be implemented that give rise to additional cost burdens. The obligations and burdens imposed on the Company Group by these environmental regulations and standards may have a material impact on the Company Group's financial condition and business performance.

The Company Group has made due provision to reserves based on its expectation of the cost of environmental measures relating to soil remediation, asbestos and PCBs (Polychlorinated biphenyls), but if new or further measures become necessary due to toughened environmental laws or regulations, this could have a material impact on

the Company Group's financial condition or business performance.

**(8) Risks relating to operations**

The Company Group's business is exposed to a variety of risks relating to its operations, such as risks of fire, explosions, accidents, import or export restrictions, natural disasters, mine collapses, climatic or other natural phenomena, labor disputes and restrictions on the transportation of raw materials or products. If such accidents or disasters were to occur, considerable losses may ensue.

The Company Group obtains insurance cover for accidents, disasters, etc., to the extent possible and appropriate. Notwithstanding, it is possible that compensation may not cover the full cost of any damages that occur.

**(9) Risks relating to intellectual property rights**

In the execution of its business, the Company Group owns patents and other intellectual property rights of various kinds, but in certain circumstances it is possible that intellectual property rights may be difficult to obtain or their validity may be contested. It is also possible that the Company Group's corporate secrets may be disclosed or misused by a third party, or that owing to the speed of technical progress, the protection afforded by intellectual property rights becomes inadequate with respect to technologies vital to the Company Group's business.

In addition, a claim from a third party of infringement of intellectual property rights in regard to the Company Group's technologies may lead to the payment of substantial royalties or to the prohibition of use of the relevant technologies.

In cases such as those referred to above, in which the Company Group is unable to obtain, or make adequate use of intellectual property rights for the conduct of its business, the Company Group's business performance may be affected.

**(10) Risks relating to the management of personal information**

The Company Group manages personal information in relation to such services as petroleum product sales and precious metal installment purchases. The implementation of measures necessary to protect that information may necessitate considerable expense. Furthermore, the disclosure or misuse of customers' personal information may have a material impact on the aforementioned business activities.

**(11) Risks relating to interest-bearing debt**

The large size of these interest-bearing debt may restrict the business activities of the Company Group.

In addition, to make repayments of principal and interest relating to these debt, it may be necessary for the Company Group to raise funds by such means as additional borrowings, equity financing or the sale of assets. However, the Company Group's ability to conduct such fund raising may depend upon a variety of factors, such as the state of financial markets, the Company's share price and whether or not there are buyers for the assets. Additionally, if interest rates rise—either within Japan or overseas—the resultant increase in interest burden may have a material impact on the Company Group's financial condition and business performance.

**(12) Risks relating to write-down of inventories owing to decreased profit potential**

In the fiscal year ended March 31, 2007, the Company Group voluntarily adopted the Accounting Standard for Measurement of Inventories, which became mandatory on April 1, 2008.

In the event that net selling price of inventories at the end of the fiscal period is lower than the corresponding book value owing mainly to declines in market prices of crude oil, petroleum products and rare metals, the book value must be reduced in line with net selling prices. The difference between book values and net selling prices must be charged to cost of sales. Such write-down of inventories may effect the Company Group's financial condition and business performance.

**(13) Risks relating to the impairment of fixed assets**

In the future, if factors such as changes in the business environment cause the earnings potential of fixed assets to decline and make it unlikely that the amount of investment will be recovered, their book value will be reduced to reflect the likelihood of recovery, and it will be necessary to post the amount of the reduction as an impairment loss. This may affect the Company Group's financial condition and business performance.

**(14) Risks relating to the establishment of internal control systems**

The Company Group is making every effort to strengthen and upgrade its internal control systems, by stepping up compliance and risk management measures and setting up internal financial reporting systems, including the establishment of an internal control promotion office.

In cases where the Company Group's internal control systems do not function effectively, or situations arise in which the reliability of disclosure cannot be guaranteed, there is a risk that confidence among its stakeholders may be significantly impaired, and this may materially affect the financial position and business performance of the Company Group.

## Risks by Segment

### Petroleum (Japan Energy Group)

#### (1) Risks relating to fluctuations in margins in the petroleum business

The margins in the Company Group's Petroleum business are determined by factors beyond the control of the Company Group, largely by the relationship between crude oil prices and the prices of petroleum products. The range of such fluctuations has been considerable, and this trend is expected to continue for the next several years.

Factors influencing crude oil prices include the Japanese yen to U.S. dollar exchange rate, the political situation in oil-producing regions, production adjustments by the Organization of the Petroleum Exporting Countries (OPEC) and global demand for crude oil. Factors that influence the prices of petroleum products include demand for petroleum products, overseas petroleum-product market conditions, domestic petroleum-refining capacity and capacity utilization ratios, and the total number of service stations in Japan.

The Company Group has decided to peg the prices of petroleum products to fluctuations in crude oil prices, but price competition and sluggish demand may make it difficult to raise the prices of petroleum products quickly. Consequently, this may hinder the Company Group's ability to secure reasonable margins over the long term, which may have a material impact on the Company Group's financial condition and business performance. Conversely, falling crude oil prices may cause the market value of inventories to fall substantially below start-of-period book value, which may have a material impact on the Company Group's financial condition and business performance.

Furthermore, margins for petrochemical products are affected by the relationship between prices for major raw materials, such as crude oil and naphtha, and prices for petrochemical products. These margins are determined by factors beyond the control of the Company Group, and it is possible that large fluctuations in these margins may continue over an extended period. Petrochemical product prices are affected by such factors as increases in supply capacity through the construction of new production facilities or the expansion of existing facilities, and demand trends for apparel, automobiles, home electronics and other goods. Owing to weak market conditions, it may be difficult to pass on cost increases stemming from higher crude oil and raw materials prices by increasing product prices. This may have a material impact on the Company Group's financial condition and business performance.

#### (2) Risks relating to sources of procurement of crude oil and petrochemical products

The Company Group procures all its crude oil from overseas, primarily in the Middle East. Some petrochemical products are procured abroad and in Japan. Such factors as changes in the political situation in oil-producing countries, and changes in the supply and demand balance for petrochemical products in Japan and abroad, may hamper procurement of crude oil and petrochemical products. Inability to secure an appropriate alternative supply may have a material impact on the Company Group's financial condition and business performance.

#### (3) Risks relating to competition

In the Petroleum business, the Company Group competes with numerous powerful oil companies, both domestically and overseas, including some that have more extensive operations, larger market shares, and greater funds and resources than the Company Group. Competition with such companies is intense, and the inability of the Company Group to conduct operations efficiently in this competitive environment may have a material impact on its financial condition and business performance.

### Metals (Nippon Mining & Metals Group)

#### (1) Risks relating to market price fluctuations

The Company Group's copper business mainly derives its profit from its copper smelting and refining business and investments in overseas copper mines. Any changes in related market prices, as listed below, could have a material impact on the financial condition and business performance of the Company Group.

Our copper smelting and refining business operates as a custom smelter that produces and sells refined copper, and the copper concentrates used as its raw material are purchased from mines overseas. The gross margin mainly comprises smelting and refining margin and sales premium.

Smelting and refining margins are determined by negotiations with the mines that produce copper concentrates, but in recent years the supply of copper concentrates to the market has tended to be inadequate owing to such factors as a gradual decrease in the availability of high-grade copper ore, the emergence of an oligopoly of mining majors, increasing integration of mining and smelting companies and increasing demand from smelters in China, India and other emerging economies. With these factors, copper concentrates remain in short supply, placing downward pressure on smelting and refining margins. In addition, the Company Group's concentrate-purchasing contracts have been concluded in U.S. dollars, and some contracts include stipulations that the computation of smelting and refining margins is required to partially reflect fluctuations in international prices of copper. Therefore, smelting and refining margins decline when

the yen appreciates in value and when international copper prices fall.

Sales premiums, which are added to international prices of refined copper, are determined through negotiations with customers in consideration of a variety of factors, such as importation costs and product quality. Depending on the outcome of such talks, sales premiums could be adversely affected.

The Company Group is also exposed to the risk of reduced returns on equity-method investments in overseas copper mines, should there be any fall in international prices of refined copper, since prices of copper concentrates sold by mining companies in which we have invested are based on international prices of refined copper.

## **(2) Risks relating to the stable procurement of copper concentrate**

The supply of copper concentrates to the market is becoming increasingly inadequate as a result of such factors as the gradual global decrease in availability of high-quality copper ore, an emerging oligopoly situation among mining majors and increased integration of mining and smelting companies. Such factors are being compounded by increasing demand from smelters in China, India and other emerging economies. It is possible that supply and demand conditions for copper concentrates will become even tighter.

In view of this situation, the Company Group has been investing in and financing overseas copper mines with the objective of securing stable supplies of copper concentrates. However, the financial condition and business performance of the Company Group could be materially affected if the Company Group is unable to procure the copper concentrates its smelters need at the appropriate time, owing to any disruption of operations of overseas copper mines that supply it, including those in which it has invested.

## **(3) Risks relating to factors such as demand fluctuations and technical innovation in the electronic materials business**

Many customers of the electronic materials and metal manufacturing business are in the IT-related products and consumer electronics industries. Consequently, such factors as supply and demand conditions and price movements in those industries may have a material impact on the Company Group's business performance. Additionally, if the Company Group is unable to respond appropriately to rapid technical innovation or changes in customer needs, this may have a material impact on the Company Group's financial condition and business performance.

Note: On April 1, 2008, the electronic materials business and the metal manufacturing business were combined to form the electronic materials business.

## **(4) Risks relating to competition in the electronic materials business**

The electronic materials business is facing fierce competition, and some competitors in this field have powerful corporate strengths in comparison with those of the Company Group. This competition may have a material impact on the Company Group's business performance.

Price competition in electro-deposited copper foil has been fierce due to a long-standing state of global over-supply, but now demand has picked up considerably owing to an improved business environment and the Company Group's measures to specialize in high added-value products. As a result, competitive pressure is having less impact on the Company Group.

## **(5) Risks relating to fluctuations in raw material procurement prices in the electronic materials business**

The procurement prices of the raw materials used in the electronic materials business fluctuate in accordance with fluctuations in the market prices of metals and other materials. If increases in the procurement costs of these raw materials cannot be passed on in the form of higher product prices, or if there is a decline in the market value of inventories compared with the corresponding book value at the start of the fiscal period, there may be a material impact on the Company Group's business performance.

## **(6) Risks relating to environmental issues surrounding Gould Electronics Inc. (U.S. subsidiary)**

In relation to environmental problems that arose in the past in its business activities, Gould Electronics Inc., a U.S.-based subsidiary, is a potential responsible party with regard to specific designated areas within the United States under U.S. environmental laws, such as the Superfund Act. The ultimate financial burden the subsidiary will bear may depend on numerous factors, including the quantity of the substance and its toxicity for which the areas were designated, the total number of other potential responsible parties and their financial condition, and remedial methods and technologies.

In relation to this matter, Gould Electronics Inc. is providing reserves that it considers appropriate, but owing to the factors referred to above, the actual amount of the burden may exceed these reserves, in which case the Company Group's business performance may be affected.

**62 Consolidated Balance Sheets**

Nippon Mining Holdings, Inc. and its consolidated subsidiaries  
As of March 31, 2007 and 2008

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1 - A)
	2007	2008	2008
<b>Current assets:</b>			
Cash and cash equivalents	¥ 45,249	¥ 62,621	\$ 625,022
Trade receivables:			
Notes and accounts, less allowance for doubtful accounts of 848 million yen in 2007 and 780 million yen in 2008	370,691	419,289	4,184,939
Inventories (Note 6)	494,954	562,893	5,618,255
Other current assets (Notes 6 and 10)	85,899	112,355	1,121,419
<b>Total current assets</b>	<b>996,793</b>	<b>1,157,158</b>	<b>11,549,635</b>
<b>Investments and long-term loans:</b>			
Investments in securities (Notes 3 and 6)	91,788	71,927	717,906
Investments in non-consolidated subsidiaries and affiliates (Note 4)	172,222	203,998	2,036,111
Long-term loans	9,623	4,508	44,995
Other investments (Note 6)	28,865	26,765	267,142
<b>Total investments and long-term loans</b>	<b>302,498</b>	<b>307,198</b>	<b>3,066,154</b>
<b>Property, plant and equipment (Note 6):</b>			
Land (Note 5)	281,591	277,826	2,772,991
Buildings and structures	409,215	425,735	4,249,276
Machinery and equipment	759,148	859,010	8,573,810
Construction in progress	50,949	11,558	115,361
	1,500,903	1,574,129	15,711,438
Less: Accumulated depreciation	(851,002)	(888,402)	(8,867,172)
<b>Net property, plant and equipment</b>	<b>649,901</b>	<b>685,727</b>	<b>6,844,266</b>
<b>Intangible assets and deferred charges:</b>			
Goodwill (Note 2 - A (5))	9,706	7,435	74,209
Other (Note 6)	86,272	85,438	852,760
<b>Total intangible assets and deferred charges</b>	<b>95,978</b>	<b>92,873</b>	<b>926,969</b>
<b>Deferred tax assets – non-current (Note 10)</b>	<b>11,237</b>	<b>8,252</b>	<b>82,364</b>
<b>Total assets</b>	<b>¥2,056,407</b>	<b>¥2,251,208</b>	<b>\$22,469,388</b>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1 - A)
	2007	2008	2008
<b>Current liabilities:</b>			
Short-term borrowings (Note 7)	¥ 379,159	¥ 471,932	\$ 4,710,370
Current portion of long-term debt (Note 7)	94,476	58,242	581,316
Trade payables:			
Notes and accounts	253,935	314,828	3,142,310
Excise tax	76,766	54,062	539,595
Accrued income taxes	29,713	19,955	199,172
Allowance for employee bonuses	8,524	7,168	71,544
Other current liabilities (Note 10)	130,922	132,384	1,321,328
<b>Total current liabilities</b>	<b>973,495</b>	<b>1,058,571</b>	<b>10,565,635</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 7)	215,802	265,726	2,652,221
Deferred tax liabilities – non-current (Note 10)	62,739	64,227	641,052
Allowance for retirement benefits (Note 8)	61,304	58,037	579,269
Accrued retirement benefits for corporate directors and auditors	1,224	1,104	11,019
Allowance for periodic repair works	14,569	13,630	136,042
Negative goodwill (Note 2 - A (5))	2,754	1,351	13,484
Other long-term liabilities	23,456	23,298	232,538
<b>Total long-term liabilities</b>	<b>381,848</b>	<b>427,373</b>	<b>4,265,625</b>
<b>Commitments and contingent liabilities (Note 11)</b>			
<b>Net assets (Note 2 - A (1)):</b>			
Common stock:			
Authorized - 3,000,000 thousand shares			
Issued - 928,462 thousand shares in 2007 and 2008	73,920	73,920	737,798
Capital surplus	226,762	226,759	2,263,290
Retained earnings	278,259	362,360	3,616,728
Less: Treasury stock, at cost	(570)	(717)	(7,156)
<b>Total shareholders' equity</b>	<b>578,371</b>	<b>662,322</b>	<b>6,610,660</b>
Unrealized gain on marketable securities	35,987	23,241	231,969
Deferred hedge gain (loss)	1,528	16	160
Surplus from land revaluation (Note 5)	(3,355)	(3,088)	(30,821)
Accumulated translation adjustment	9,945	(1,080)	(10,780)
<b>Total valuation and translation adjustment</b>	<b>44,105</b>	<b>19,089</b>	<b>190,528</b>
Stock acquisition rights	181	361	3,603
Minority interests in consolidated subsidiaries	78,407	83,492	833,337
<b>Total net assets</b>	<b>701,064</b>	<b>765,264</b>	<b>7,638,128</b>
<b>Total liabilities and net assets</b>	<b>¥2,056,407</b>	<b>¥2,251,208</b>	<b>\$22,469,388</b>

The accompanying notes are an integral part of these financial statements.



# Consolidated Statements of Changes in Net Assets (Note 2 - A (2))

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Nippon Mining Holdings, Inc. and its consolidated subsidiaries  
Fiscal years ended March 31, 2007 and 2008

For the year ended March 31, 2007	Millions of yen											
	Shareholders' equity					Valuation and translation adjustment						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Unrealized gain on marketable securities	Deferred hedge gain (loss)	Surplus from land revaluation	Accumulated translation adjustment	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2006	¥40,000	¥192,948	¥192,148	¥(430)	¥424,666	¥39,471	¥ —	¥(3,340)	¥6,682	¥ —	¥46,027	¥513,506
Issuance of stock	33,920	33,818	—	—	67,738	—	—	—	—	—	—	67,738
Cash dividends paid *	—	—	(12,715)	—	(12,715)	—	—	—	—	—	—	(12,715)
Cash dividends paid	—	—	(7,422)	—	(7,422)	—	—	—	—	—	—	(7,422)
Bonuses to directors *	—	—	(449)	—	(449)	—	—	—	—	—	—	(449)
Net income	—	—	106,430	—	106,430	—	—	—	—	—	—	106,430
Acquisition of treasury stock	—	—	—	(152)	(152)	—	—	—	—	—	—	(152)
Disposition of treasury stock	—	4	—	4	8	—	—	—	—	—	—	8
Grant of treasury stock with exercise of stock acquisition rights	—	(8)	—	8	0	—	—	—	—	—	—	0
Reclassification with surplus from land revaluation	—	—	15	—	15	—	—	—	—	—	—	15
Increase arising from changes of consolidation, net	—	—	252	—	252	—	—	—	—	—	—	252
Net changes of net assets other than shareholders' equity	—	—	—	—	—	(3,484)	1,528	(15)	3,263	181	32,380	33,853
Total changes	33,920	33,814	86,111	(140)	153,705	(3,484)	1,528	(15)	3,263	181	32,380	187,558
Balance as of March 31, 2007	¥73,920	¥226,762	¥278,259	¥(570)	¥578,371	¥35,987	¥1,528	¥(3,355)	¥9,945	¥181	¥78,407	¥701,064

\* Cash dividends paid and bonuses to directors are due to appropriation of retained earnings approved by a general meeting of the shareholders.

For the year ended March 31, 2008	Millions of yen											
	Shareholders' equity					Valuation and translation adjustment						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Unrealized gain on marketable securities	Deferred hedge gain (loss)	Surplus from land revaluation	Accumulated translation adjustment	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2007	¥73,920	¥226,762	¥278,259	¥(570)	¥578,371	¥ 35,987	¥ 1,528	¥(3,355)	¥ 9,945	¥181	¥78,407	¥701,064
Cash dividends paid	—	—	(14,841)	—	(14,841)	—	—	—	—	—	—	(14,841)
Net income	—	—	99,299	—	99,299	—	—	—	—	—	—	99,299
Acquisition of treasury stock	—	—	—	(204)	(204)	—	—	—	—	—	—	(204)
Disposition of treasury stock	—	12	—	30	42	—	—	—	—	—	—	42
Grant of treasury stock with exercise of stock acquisition rights	—	(15)	—	24	9	—	—	—	—	—	—	9
Change of interest in an affiliate accounted for by equity method	—	—	—	3	3	—	—	—	—	—	—	3
Reclassification with surplus from land revaluation	—	—	(283)	—	(283)	—	—	—	—	—	—	(283)
Decrease arising from changes of consolidation, net	—	—	(74)	—	(74)	—	—	—	—	—	—	(74)
Net changes of net assets other than shareholders' equity	—	—	—	—	—	(12,746)	(1,512)	267	(11,025)	180	5,085	(19,751)
Total changes	—	(3)	84,101	(147)	83,951	(12,746)	(1,512)	267	(11,025)	180	5,085	64,200
Balance as of March 31, 2008	¥73,920	¥226,759	¥362,360	¥(717)	¥662,322	¥ 23,241	¥ 16	¥(3,088)	¥ (1,080)	¥361	¥83,492	¥765,264

For the year ended March 31, 2008	Thousands of U.S. dollars (Note 1 - A)											
	Shareholders' equity					Valuation and translation adjustment						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Unrealized gain on marketable securities	Deferred hedge gain (loss)	Surplus from land revaluation	Accumulated translation adjustment	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2007	\$737,798	\$2,263,320	\$2,777,313	\$(5,689)	\$5,772,742	\$359,187	\$ 15,251	\$(33,486)	\$ 99,261	\$1,807	\$782,583	\$6,997,345
Cash dividends paid	—	—	(148,129)	—	(148,129)	—	—	—	—	—	—	(148,129)
Net income	—	—	991,107	—	991,107	—	—	—	—	—	—	991,107
Acquisition of treasury stock	—	—	—	(2,036)	(2,036)	—	—	—	—	—	—	(2,036)
Disposition of treasury stock	—	120	—	299	419	—	—	—	—	—	—	419
Grant of treasury stock with exercise of stock acquisition rights	—	(150)	—	240	90	—	—	—	—	—	—	90
Change of interest in an affiliate accounted for by equity method	—	—	—	30	30	—	—	—	—	—	—	30
Reclassification with surplus from land revaluation	—	—	(2,824)	—	(2,824)	—	—	—	—	—	—	(2,824)
Decrease arising from changes of consolidation, net	—	—	(739)	—	(739)	—	—	—	—	—	—	(739)
Net changes of net assets other than shareholders' equity	—	—	—	—	—	(127,218)	(15,091)	2,665	(110,041)	1,796	50,754	(197,135)
Total changes	—	(30)	839,415	(1,467)	837,918	(127,218)	(15,091)	2,665	(110,041)	1,796	50,754	640,783
Balance as of March 31, 2008	\$737,798	\$2,263,290	\$3,616,728	\$(7,156)	\$6,610,660	\$ 231,969	\$ 160	\$(30,821)	\$ (10,780)	\$3,603	\$833,337	\$7,638,128

The accompanying notes are an integral part of these financial statements.

**66 Consolidated Statements of Cash Flows**

Nippon Mining Holdings, Inc. and its consolidated subsidiaries  
Fiscal years ended March 31, 2007 and 2008

	Millions of yen		Thousands of
	2007	2008	U.S. dollars (Note 1 - A)
			2008
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥220,082	¥ 188,295	\$ 1,879,379
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	48,808	60,303	601,886
Impairment losses	1,877	2,678	26,729
Equity in income of non-consolidated subsidiaries and affiliates	(94,895)	(91,927)	(917,527)
Gain on sales of investments in securities	(13,629)	(3,407)	(34,005)
Loss on write-down of investments in securities	1,256	447	4,462
Loss on sales and disposal of property, plant and equipment, net	3,229	1,549	15,461
Reorganization and restructuring costs	5,204	—	—
Other, net	(5,755)	(12,076)	(120,531)
Changes in operating assets and liabilities:			
Trade receivables	(36,331)	(51,906)	(518,076)
Inventories	(42,631)	(65,842)	(657,171)
Trade payables	(23,951)	40,015	399,391
Accrued consumption tax	12,979	8,558	85,418
Other, net	(26,109)	(26,095)	(260,455)
Receipts of interest and dividends	68,762	70,476	703,423
Payments for income taxes	(76,318)	(64,075)	(639,535)
Payments for special retirement benefit	(1,378)	(163)	(1,627)
Net cash provided by operating activities	41,200	56,830	567,222
<b>Cash flows from investing activities:</b>			
Decrease (increase) in time deposits, net	186	(2)	(20)
Proceeds from sales of securities	1	—	—
Payments for acquisition of investments in securities	(1,083)	(20,131)	(200,928)
Proceeds from sales or maturities of investments in securities	14,758	9,260	92,424
Net payments for acquisition of business assets (Note 9)	(22,338)	—	—
Net payments for acquisition of investments in newly consolidated subsidiaries (Note 9)	(14,013)	—	—
Payments for acquisition of property, plant and equipment	(78,056)	(103,735)	(1,035,383)
Proceeds from sales of property, plant and equipment	4,335	6,126	61,144
Payments for acquisition of intangible assets	(7,995)	(8,273)	(82,573)
Payments for long-term prepaid expenses	(1,888)	(1,064)	(10,620)
Decrease (increase) in short-term loans, net	1,028	(462)	(4,611)
Payments for lending of long-term loans	(279)	(1,092)	(10,899)
Collection of long-term loans	7,423	6,747	67,342
Other, net	345	(1,765)	(17,617)
Net cash used in investing activities	(97,576)	(114,391)	(1,141,741)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term borrowings, net	58,679	(7,530)	(75,157)
Increase (decrease) in commercial paper, net	(15,000)	100,000	998,104
Proceeds from borrowings of long-term bank loans and other	29,702	105,185	1,049,855
Repayments of long-term bank loans and other	(82,819)	(106,147)	(1,059,457)
Proceeds from issuance of bonds	—	15,000	149,716
Proceeds from issuance of stock	67,738	—	—
Proceeds from issuance of stock to minority shareholders	13,090	1,534	15,311
Proceeds from third-party share allotment of consolidated subsidiary	4,000	—	—
Cash dividends paid	(20,137)	(14,841)	(148,129)
Cash dividends paid to minority shareholders	(17,369)	(18,448)	(184,130)
Other, net	(483)	(335)	(3,344)
Net cash provided by financing activities	37,401	74,418	742,769
Effect of exchange rate changes on cash and cash equivalents	(135)	432	4,312
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(19,110)</b>	<b>17,289</b>	<b>172,562</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>63,857</b>	<b>45,249</b>	<b>451,632</b>
Increase in cash and cash equivalents related to subsidiaries newly included in consolidation	469	80	798
Increase in cash and cash equivalents related to merger of consolidated subsidiaries	33	3	30
<b>Cash and cash equivalents at end of year</b>	<b>¥ 45,249</b>	<b>¥ 62,621</b>	<b>\$ 625,022</b>

The accompanying notes are an integral part of these financial statements.

Nippon Mining Holdings, Inc. and its consolidated subsidiaries

## Note 1 – SIGNIFICANT ACCOUNTING POLICIES

### A) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of NIPPON MINING HOLDINGS, INC. (the “Company”) and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. In presenting the accompanying consolidated financial statements, certain accounts and items reported in the consolidated financial statements that have been filed with the Financial Services Agency in Japan have been reclassified for the convenience of readers outside Japan.

The U.S. dollar amounts included in the accompanying consolidated financial statements are the arithmetical result of translating Japanese yen to U.S. dollars at the rate of 100.19 yen to 1 U.S. dollar, the rate prevailing as at March 31, 2008. These translations are solely for the convenience of the reader and are not intended to imply that Japanese yen amounts have been or could have been converted, realized or settled in dollars at this rate or any other rate.

### B) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries that are controlled by the Company (hereinafter referred to as the “Company Group”). As of March 31, 2007 and 2008, the Company had 114 and 115 consolidated subsidiaries, respectively. The consolidated financial statements for the fiscal year ended March 31, 2008 do not include the accounts of Japan Energy Analytical Research Center Co., Ltd. and certain other subsidiaries as they are considered immaterial.

The investments in Japan Energy Analytical Research Center Co., Ltd. and certain other non-consolidated subsidiaries are carried at cost, less any write-down due to impairment deemed necessary, as they are considered immaterial in terms of the Company Group’s total assets, net sales, net income and retained earnings.

All material inter-company transactions and accounts and unrealized inter-company profits are eliminated in the consolidated financial statements, and the portion thereof attributable to minority shareholders is credited to them.

Goodwill and negative goodwill, which represent the difference between the carrying amount of an investment in a subsidiary and underlying equity, are amortized over 5 years.

Investments in affiliates over which the Company Group has significant influence are accounted for under the equity method. The Company Group’s consolidated income includes equity in net income of those affiliates, after elimination of unrealized inter-company profits. As of March 31, 2007 and 2008, the Company had 15 affiliates that are accounted for under the equity method. The Company did not apply the equity method to its investments in certain affiliates, as they were considered immaterial. The investments in these affiliates are carried at cost, less any write-down due to impairment deemed necessary.

The accompanying consolidated financial statements include the accounts of consolidated subsidiaries that have fiscal year ends other than March 31. The fiscal year ends of such subsidiaries are principally December 31, and the accounts of these subsidiaries have been used for consolidation purposes, with necessary adjustments being made for significant transactions taking place in the intervening period.

### C) Translations of Foreign Currency Transactions and Accounts

Foreign currency transactions are generally translated using the foreign exchange rates prevailing at the respective transaction dates. All assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates. Foreign exchange gains and losses are charged to income.

Revenues and expenses of foreign consolidated subsidiaries are translated into Japanese yen using the average exchange rates for the period. Assets and liabilities are translated into Japanese yen using the foreign exchange rates prevailing at the balance sheet dates, and equity accounts are translated using historical rates. The resultant difference is presented as accumulated translation adjustment and minority interests in consolidated subsidiaries in a separate component of net assets.

### D) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand, demand deposits in banks and investments with original maturities of three months or less.

**E) Investment Securities**

The Company Group does not classify any of its investment securities as trading or held-to-maturity. Consequentially, the Company Group classifies all of investment securities as other securities. Other securities with readily determinable market values are carried at market value as of each respective balance sheet date, and associated unrealized gains and losses, net of taxes, are reported as a separate component of net assets. The Company Group determines the cost basis of these securities based on moving average. Other securities that do not have readily determinable market values are stated at cost.

Significant declines in the value of other securities that are deemed unrecoverable are charged to income.

**F) Inventories**

With respect to domestic consolidated subsidiaries:

- Petroleum inventories are stated at the lower of cost or market using the average cost method.
- Metals inventories are stated at the lower of cost or market using the first-in first-out method.

Please refer to Note 2 – A (6).

Inventories held by the Company's foreign consolidated subsidiaries are primarily stated at the lower of cost or market using the first-in, first-out method.

**G) Property, Plant and Equipment**

Property, plant and equipment, including significant renewals and additions, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals and improvements, and small purchases of equipment are expensed as incurred.

Depreciation of property, plant and equipment is primarily calculated based on the straight-line method, and is provided over the estimated useful lives as summarized below:

Buildings and structures	7 - 60 years
Machinery and equipment	3 - 15 years

**H) Intangible Assets**

Amortization of intangible assets, including software for internal use, is primarily computed using the straight-line method over their estimated useful lives.

**I) Allowance for Periodic Repair Works**

The Company Group has an allowance for periodic repair works in an amount equal to the estimated cost of periodically required repairs for oil tanks and machinery and equipment of oil refineries, which is accrued evenly over a period to the next scheduled repairs.

**J) Allowance for Doubtful Accounts**

The allowance for doubtful accounts is calculated based on the aggregate amount of individually estimated credit losses for doubtful receivables plus an amount calculated using historical write-off experience over a certain period for receivables other than doubtful receivables.

**K) Allowance for Employee Bonuses**

The allowance for employee bonuses is calculated and provided for based on an estimated amount of future payments attributable to the employee services that have been rendered to the date of the balance sheet.

**L) Allowance for Retirement Benefits**

The allowance for employee retirement benefits, which is provided for future pension and severance paid at retirement, is recorded at the amount actuarially computed based on the projected benefit obligation and the estimated fair value of pension plan assets at the end of the fiscal year.

Unrecognized net transition liabilities at the date of initial application of the accounting standard for retirement benefits has been amortized on a straight-line basis over a period of ten years.

Unrecognized actuarial gains or losses and unrecognized prior service cost are recognized as income or expenses for the fiscal year of occurrence, except for certain consolidated subsidiaries which have elected to amortize them over the average remaining service period of participating employees.

#### **M) Accrued Retirement Benefits for Corporate Directors and Auditors**

Accrued retirement benefits for corporate directors and auditors are provided for based on the amounts computed based on the internal policy of each company of the Company Group.

In June 2005, the Company abolished its retirement benefit program for the directors and officers of the Company and its core subsidiaries of the Company Group, and replaced it with a stock option program. Accordingly, no provision is made for the related retirement allowance account thereafter.

#### **N) Leases**

Finance leases, other than those under which the ownership of leased assets is transferred to the lessee or those contracts that have bargain purchase provisions, are accounted for in the same manner as operating leases. Foreign consolidated subsidiaries account for finance leases as assets and obligations as if they bought assets.

#### **O) Derivative Financial Instruments and Hedge Accounting**

The Company Group utilizes various derivative financial instruments to manage its exposure to fluctuating commodity prices, variability in foreign currency exchange rates and changes in interest rates. The Company Group utilizes derivative financial instruments for supply-demand adjustment and/or for arbitration, not for speculation, in accordance with the Company's internal policy. The Company's purchases of these risk-avoiding derivative financial instruments are limited to, at maximum, the value or units of the items that are being hedged, with the hedge accounting applied in principle.

With respect to forward currency exchange contracts, currency options, interest rate swaps, interest rate caps, commodity forwards and commodity swaps, the Company Group performs hedge effectiveness assessment to confirm if the critical terms of the hedging instruments and those of the hedged items are continuously the same during the period of hedging and, as such, the hedging is expected to be highly effective.

In addition, when interest rate swaps that meet certain required conditions have critical terms matching exactly with those of financial assets or liabilities that are being hedged, such interest rate swaps are not recognized in the balance sheet, and net interest paid or received on the swaps is recognized as adjustment to the interest income or expenses on the financial assets or liabilities that are being hedged.

Derivative financial instruments that are not designated as hedges are carried at market value, with changes in market value charged to income for the period in which they arise.

#### **P) Income Taxes**

Provision for income taxes is computed based on income before income taxes and minority interests. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying value amounts and the tax bases of assets and liabilities.

Valuation allowance is established against deferred tax assets to the extent that it is more likely than not that the deferred tax assets may not be realized within the foreseeable future.

The Company and its certain domestic wholly-owned subsidiaries have been filing the consolidated corporate tax return in Japan.

#### **Q) Net Income per Share**

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

Diluted net income per share assumes the dilution that could occur if stock acquisition rights to issue common stock were exercised with a stock option program and resulted in the issuance of common stock.

## Note 2 – ACCOUNTING CHANGES AND ADOPTION OF NEW ACCOUNTING STANDARDS

### A) For the fiscal year ended March 31, 2007

#### (1) Accounting Standard for Presentation of Net Assets in Balance Sheet

Effective for the year ended March 31, 2007, the Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Accounting Standards Board of Japan ("ASBJ") Statement No.5, December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No.8, December 9, 2005).

#### (2) Accounting Standard for Statement of Changes in Net Assets

Effective for the year ended March 31, 2007, the Company adopted "Accounting Standard for Statement of Changes in Net Assets" (ASBJ Statement No. 6, December 27, 2005) and "Guidance on Accounting Standard for Statement of Changes in Net Assets" (ASBJ Guidance No.9, December 27, 2005). According to the new accounting standard, the Company prepares the consolidated statement of changes in net assets for the purpose of reporting the change in each component of net assets during a fiscal year.

#### (3) Accounting Standard for Directors' Bonus

Effective for the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Directors' Bonus" (ASBJ Statement No.4, November 29, 2005), under which directors' bonuses shall be accounted for as an expense for the fiscal period in which such bonuses are incurred. Directors' bonuses shall be no longer accounted for as a deduction from retained earnings, different from the previous periods. As a result of this adoption, operating income, income before special items, and income before income taxes and minority interests decreased by 700 million yen, respectively.

#### (4) Accounting Standard for Stock Options

Effective for the year ended March 31, 2007, the Company adopted "Accounting Standard for Share-based Payment" (ASBJ Statement No.8, December 27, 2005) and "Guidance on Accounting Standard for Share-based Payment" (ASBJ Guidance No.11, May 31, 2006). The stock options granted on and after the date on which the Corporate Law took effect in May 2006 are within the scope of this standard. The Company expensed the services rendered as compensation and credited them as stock acquisition rights in net assets of the consolidated balance sheet for the stock options granted on July 26, 2006. Due to the adoption of this standard, operating income, income before special items, and income before income taxes and minority interests decreased by 181 million yen for each.

#### (5) Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures

Effective for the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Business Combinations" (Accounting Standards, issued on October 31, 2003 by the Business Accounting Council in Japan), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, December 27, 2005).

Goodwill related to the consolidation adjustment account as well as goodwill related to business rights are presented as "Goodwill" in the consolidated financial statements since the fiscal year ended March 31, 2007, with goodwill in the credit account presented as "Negative goodwill."

Based upon to these standards, the purchase method has been applied to the following accounting transactions in the fiscal year ended March 31, 2007;

- Acquisition of copper smelting and refining business
- Acquisition of the company owning copper deposit

#### (6) Accounting Standard for Measurement of Inventories

Effective for the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries early adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9, July 5, 2006), which shall be effective from the fiscal year beginning on or after April 1, 2008 and may also be applied to fiscal years prior to the date. The write-downs of inventories due to decreased profitability shall be recognized as cost of sales, in the case that the net

selling value falls below the acquisition cost at the end of period, in the same manner as if these inventories were stated at the lower of cost or market. As a result of this adoption, inventories as of March 31, 2007 decreased by 8,255 million yen and gross profit, operating income, income before special items, and income before income taxes and minority interests also decreased by the same amount, respectively.

#### B) For the fiscal year ended March 31, 2008

##### (1) Change in Depreciation Method for Property, Plant and Equipment

Effective for the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries applied the depreciation method prescribed in the revised Corporate Tax Law in line with the 2007 Tax Reform, for property, plant and equipment acquired on and after April 1, 2007. As a result of this application, compared to the previous depreciation method, depreciation costs increased by 766 million yen (7,645 thousand dollars) and operating income decreased by 727 million yen (7,256 thousand dollars), and income before special items and income before income taxes and minority interests decreased by 728 million yen (7,266 thousand dollars) respectively for the fiscal year ended March 31, 2008.

##### (Additional information)

Concurrently, the Company and its domestic consolidated subsidiaries also applied the depreciation method for the property, plant and equipment acquired before April 1, 2007, which allowed them to depreciate those assets to 1 yen of the residual value using the straight-line method evenly over a period of five years after they reach the depreciable limits. Due to this additional depreciation, depreciation costs increased by 5,755 million yen (57,441 thousand dollars), operating income decreased by 5,396 million yen (53,858 thousand dollars) and income before special items and income before income taxes and minority interests decreased by 5,404 million yen (53,938 thousand dollars) respectively for the fiscal year ended March 31, 2008, as compared with the case in which the previous method were applied.

##### (2) Revision of Accounting for Deferred Income Taxes

In accordance with the revision of "Practical Guidelines of Accounting for Deferred Income Taxes in the Consolidated Financial Statements" (Accounting Practice Committee Report No.6, issued by Japanese Institute of Certified Public Accountants) on March 29, 2007, the Company charged off the deferred tax assets related to the elimination of unrealized gains on inter-company transactions from transfers of subsidiaries' and affiliates' stocks. Deferred income tax increased by 3,966 million yen (39,585 thousand dollars) and net income decreased by the same amount for the fiscal year ended on March 31, 2008.

### Note 3 – SECURITIES AND INVESTMENTS IN SECURITIES

Market value of marketable securities and investments in securities as of March 31, 2007 and 2008 were as follows:  
Equity securities

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Acquisition cost	¥19,275	¥24,574	\$245,274
Market value	77,565	63,475	633,546
Gross unrealized gain	¥58,290	¥38,901	\$388,272

The book values of non-marketable investments in securities as of March 31, 2007 and 2008 were 14,223 million yen and 8,452 million yen (84,360 thousand dollars), respectively.

### Note 4 – INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Marketable equity securities	¥ 23,628	¥ 37,288	\$ 372,173
Non-marketable equity securities	147,646	165,762	1,654,476
Other	948	948	9,462
Total	¥172,222	¥203,998	\$2,036,111

### Note 5 – LAND REVALUATION

Pursuant to the Law for Land Revaluation, the Company and certain group companies in Japan revalued their land used for business activities at March 31, 2000. The resultant adjustment was reflected, net of taxes, in surplus from land revaluation in net assets of the accompanying consolidated balance sheets.

The land value for the revaluation was determined based on the market prices in the official notice of the Commissioner of the National Tax Agency in accordance with Article 2, Paragraph 4 of the Enforcement Ordinance Concerning Land Revaluation, with reasonable adjustments to the market price made by the Company Group. The revaluation is permitted only one time.

### Note 6 – ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Investments in securities	¥ 11,186	¥ 15,441	\$ 154,117
Property, plant and equipment (at net book value)	354,301	354,426	3,537,539
Other current assets (time deposits)	1,195	1,153	11,508
Other	759	338	3,374
Total	¥367,441	¥371,358	\$3,706,538

In addition, the stock of a consolidated subsidiary used as collateral as of March 31, 2007 and 2008 was 3,051 million yen and 3,051 million yen (30,452 thousand dollars), respectively, which has been eliminated in the consolidated financial statements.

### Note 7 – SHORT-TERM BORROWINGS AND LONG-TERM DEBT

A) Short-term borrowings as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Loans principally from banks with the weighted average interest rate of 1.07% as of March 31, 2007 and 1.36% as of March 31, 2008	¥353,159	¥345,932	\$3,452,759
Commercial paper	26,000	126,000	1,257,611
Total	¥379,159	¥471,932	\$4,710,370

B) Long-term debt as of March 31, 2007 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
1.37% unsecured bonds, due 2013	¥ —	¥ 15,000	\$ 149,716
Loans principally from banks, due 2007 to 2017 with the weighted average interest rate of 1.94% as of March 31, 2007 and due 2008 to 2018 with the weighted average interest rate of 1.72% as of March 31, 2008			
Collateralized	90,599	62,280	621,619
Unsecured	219,679	246,688	2,462,202
	310,278	323,968	3,233,537
Less: Amounts due within one year	(94,476)	(58,242)	(581,316)
	¥215,802	¥265,726	\$2,652,221

Annual maturities of long-term debt as of March 31, 2008 are as follows:

Fiscal years ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 58,242	\$ 581,316
2010	38,477	384,040
2011	75,290	751,472
2012	36,156	360,874
2013	99,925	997,355
2014 and thereafter	15,878	158,480
	¥323,968	\$3,233,537

### Note 8 – RETIREMENT BENEFITS

The Company's domestic consolidated subsidiaries have defined benefit plans and severance indemnity plans. Certain domestic consolidated subsidiaries also have defined contribution pension plans. A premium on employees' retirement benefit may be added upon retirement of the employee. Certain of the Company's foreign consolidated subsidiaries have defined benefit plans and defined contribution plans.

A) Allowance for retirement benefits as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Projected benefit obligation*	¥(110,021)	¥(84,030)	\$(838,706)
Plan assets at fair value*	45,374	23,573	235,283
Unfunded projected benefit obligation	(64,647)	(60,457)	(603,423)
Unrecognized net transition liabilities	3,300	2,200	21,959
Unrecognized net actuarial losses	101	296	2,954
Unrecognized prior service cost	—	—	—
Prepaid pension cost	(58)	(76)	(759)
Allowance for retirement benefits recognized in consolidated balance sheets *	¥ (61,304)	¥(58,037)	\$(579,269)

\* Gould Electronics Inc., a U.S. consolidated subsidiary of the Company transferred the pension liabilities related to its defined benefit pension plan to a U.S. insurance company in September 2007, subsequently to the closure of its foil plant in April 2006. As a result of the transfer, the projected benefit obligation decreased by 23,116 million yen (230,722 thousand dollars), the plan assets by 17,733 million yen (176,994 thousand dollars), and the allowance for retirement benefits by 5,383 million yen (53,728 thousand dollars), respectively.

B) Net retirement benefit expenses for the fiscal years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Service cost	¥ 3,559	¥ 3,364	\$ 33,577
Interest cost on projected benefit obligation	3,134	2,406	24,014
Expected return on plan assets	(1,665)	(1,234)	(12,317)
Amortization of unrecognized net transition liabilities	1,100	1,100	10,979
Amortization of unrecognized net actuarial losses *	966	2,916	29,105
Amortization of unrecognized prior service cost **	552	—	—
Net retirement benefit expenses ***	¥ 7,646	¥ 8,552	\$ 85,358

\* The unrecognized net actuarial losses shall be all recorded as a liability due to a new accounting standard issued in September 2006 in the United States and the corresponding increment was recorded at a time by the amount of 1,377 million yen in the fiscal year ended March 31, 2007.

\*\* The effect of the partial revision of the retirement benefit plan in the Metals segment in April 2007, the amount of 545 million yen recognized at a time, was included in the fiscal year ended March 31, 2007.

\*\*\* In addition to the above "net retirement benefit expenses," special retirement benefit costs of 156 million yen and 61 million yen (609 thousand dollars) and the contributions to defined contribution pension plans of 385 million yen and 442 million yen (4,412 thousand dollars) were charged to income for the fiscal years ended March 31, 2007 and 2008, respectively. Moreover, the required contributions to the corporate pensions under multi-employer pension plans of 389 million yen (3,883 thousand dollars) were also charged to income for the fiscal year ended March 31, 2008.

C) The assumptions used in the calculation of the above information were as follows:

	2007	2008
Discount rate for projected benefit obligation	mainly 2.5%	mainly 2.5%
Expected return on plan assets	mainly 3.0%	mainly 3.0%
Amortization period of prior service cost	mainly 1 year	mainly 1 year
Amortization period of net actuarial losses	mainly 1 year	mainly 1 year
Amortization period of net transition liabilities	10 years	10 years

## Note 9 – BUSINESS COMBINATIONS

A) For the fiscal year ended March 31, 2007

1) Acquisition of copper smelting and refining business

Effective on April 1, 2006, the Company's consolidated subsidiary, Pan Pacific Copper Co., Ltd. (PPC) acquired the copper smelting and refining business from Mitsui Mining and Smelting Co., Ltd.

The Company's wholly-owned subsidiary, Nippon Mining & Metals Co., Ltd. has been promoting a comprehensive business alliance with Mitsui Mining and Smelting Co., Ltd. mainly through PPC, the joint venture between the two companies. Consequently the refining function operated by the two parent companies was combined into PPC so that it might promote to further strengthen competitiveness.

The purchase method of accounting has been applied to this acquisition of business as follows :

	Millions of yen
Assets	¥ 29,439
Liabilities	(16,496)
Goodwill	10,922
Minority interests in the consolidated subsidiary	(1,508)
<b>Acquisition cost</b>	<b>22,357</b>
Cash and cash equivalents received	(19)
Net acquisition cost	¥ 22,338

2) Acquisition of the company owning copper deposit

Effective on May 12, 2006, the wholly-owned Canadian subsidiary of PPC acquired through a tender offer bid the majority of outstanding shares of Regalito Copper Corp., a Canadian local company which owns the rights to Caserones Copper Deposit, and is expected to be an integrated production platform to promote mining and production of electrolytic copper and copper products in Chile.

The purchase method of accounting has been applied to this acquisition of business as follows :

	Millions of yen
Assets *	¥21,542
Liabilities *	(7,236)
Minority interests in the consolidated subsidiary	(98)
Acquisition cost	14,208
Acquisition cost paid in the previous fiscal year	(64)
<b>Acquisition cost paid in the fiscal year ended March 31, 2007</b>	<b>14,144</b>
Cash and cash equivalents received	(131)
Net acquisition cost	¥14,013

\* The rights to mineral property after the tax effect consideration are included in the assets above and are evenly amortized over 5 years. Its related deferred tax liabilities are also included in the liabilities above.

The ownership of outstanding shares was 90.2% as a result of the tender offer bid on May 12, 2006, together with the shares acquired in the previous fiscal year, and currently it is 93.9% after an additional acquisition held in July 2006.

B) For the fiscal year ended March 31, 2008

There was no material business combination.

**Note 10 – INCOME TAXES**

A) The components of deferred tax assets and liabilities as of March 31, 2007 and 2008 were as follows:

As of March 31, 2007	Millions of yen
Net operating loss carryforward	¥ 38,060
Retirement benefit obligation	23,644
Eliminations of inter-company transactions	9,018
Securities	23,565
Land	15,539
Impairment of land	7,134
Property, plant and equipment	3,826
Allowance for periodic repair works	3,641
Other investments	1,632
Inventories	4,070
Accrued bonuses to employees	3,603
Accrued enterprise tax	2,497
Loss on business withdrawal	7,561
Other	28,351
Subtotal	172,141
Valuation allowance	(98,155)
Total deferred tax assets	¥ 73,986
Land	¥ (45,308)
Unrealized gain on marketable securities	(22,657)
Difference between market value and cost of assets and liabilities of consolidated subsidiaries	(6,107)
Reserve for losses on overseas investments	(1,990)
Undistributed earnings of foreign affiliates	(22,424)
Unrealized gain on the rights to mineral property	(6,058)
Deferred hedge gain	(3,939)
Other	(3,245)
Total deferred tax liabilities	¥(111,728)
Net deferred tax liabilities	¥ (37,742)

As of March 31, 2008	Millions of yen	Thousands of U.S. dollars
Net operating loss carryforward	¥ 36,493	\$ 364,238
Retirement benefit obligation	22,853	228,097
Eliminations of inter-company transactions	4,543	45,344
Securities	27,253	272,013
Land	15,256	152,271
Impairment of land	7,023	70,097
Property, plant and equipment	3,725	37,179
Allowance for periodic repair works	3,746	37,389
Other investments	1,617	16,139
Inventories	6,814	68,011
Accrued bonuses to employees	3,070	30,642
Accrued enterprise tax	1,751	17,477
Loss on business withdrawal	3,525	35,183
Other	20,043	200,049
Subtotal	157,712	1,574,129
Valuation allowance	(88,731)	(885,627)
Total deferred tax assets	¥ 68,981	\$ 688,502
Land	¥ (44,453)	\$ (443,687)
Unrealized gain on marketable securities	(15,404)	(153,748)
Difference between market value and cost of assets and liabilities of consolidated subsidiaries	(6,255)	(62,431)
Reserve for losses on overseas investments	(4,675)	(46,661)
Undistributed earnings of foreign affiliates	(29,490)	(294,341)
Unrealized gain on the rights to mineral property	(5,712)	(57,012)
Deferred hedge gain	(2,690)	(26,849)
Other	(1,575)	(15,720)
Total deferred tax liabilities	¥(110,254)	\$(1,100,449)
Net deferred tax liabilities	¥ (41,273)	\$ (411,947)

B) Net deferred tax liabilities as of March 31, 2007 and 2008 were included in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Other current assets	¥ 17,362	¥ 19,231	\$ 191,945
Deferred tax assets – non-current	11,237	8,252	82,364
Other current liabilities	(3,602)	(4,529)	(45,204)
Deferred tax liabilities – non-current	(62,739)	(64,227)	(641,052)
Net deferred tax liabilities	¥(37,742)	¥(41,273)	\$(411,947)

C) Reconciliation of statutory tax rate and the effective income tax rate for the fiscal years ended March 31, 2007 and 2008 was as follows:

2007		2008	
Statutory tax rate	40.7%	Statutory tax rate	40.7%
Increase (decrease) in taxes resulting from:		Increase (decrease) in taxes resulting from:	
Eliminations of dividend income	2.2	Eliminations of dividend income	1.8
Changes in valuation allowance	3.5	Equity in income of non-consolidated subsidiaries and affiliates	(19.9)
Equity in income of non-consolidated subsidiaries and affiliates	(17.6)	Deferred tax liabilities for undistributed earnings of foreign affiliates	9.2
Deferred tax liabilities for undistributed earnings of foreign affiliates	11.2	Deferred tax assets charged off due to elimination of unrealized gains from transfer of subsidiaries' and affiliates' stocks	2.1
Other	(1.2)	Other	1.0
Effective income tax rate	38.8%	Effective income tax rate	34.9%

## Note 11 – COMMITMENTS AND CONTINGENT LIABILITIES

Commitments and contingent liabilities as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Contingent liabilities based on debt assumption agreements	¥ 3,900	¥ —	\$ —
Notes receivable discounted	11	—	—
Debt guarantees:			
Non-consolidated subsidiaries and affiliates	2,725	2,030	20,262
Other companies and employees	3,509	2,422	24,174
Total	¥10,145	¥4,452	\$44,436

## Note 12 – LEASES

Financing lease transactions whose ownership are not to be transferred were as follows:

A) Lessee

(1) Estimated purchase cost, estimated accumulated depreciation, estimated accumulated impairment losses, and estimated book value of the leased assets as of March 31, 2007 and 2008 were as follows:

	Millions of yen			
	Estimated purchase cost	Estimated accumulated depreciation	Estimated accumulated impairment losses	Estimated book value
As of March 31, 2007				
Machinery and equipment	¥7,938	¥3,724	¥ 52	¥4,162
Other	914	564	54	296
Total	¥8,852	¥4,288	¥106	¥4,458
As of March 31, 2008				
Machinery and equipment	¥7,186	¥3,424	¥ 3	¥3,759
Other	653	357	8	288
Total	¥7,839	¥3,781	¥11	¥4,047

As of March 31, 2008	Thousands of U.S. dollars			
	Estimated purchase cost	Estimated accumulated depreciation	Estimated accumulated impairment losses	Estimated book value
Machinery and equipment	\$71,723	\$34,175	\$ 30	\$37,518
Other	6,518	3,563	80	2,875
Total	\$78,241	\$37,738	\$110	\$40,393

The above estimated purchase cost includes related interest expenses.

(2) Lease payments due under the financing lease transactions as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥1,623	¥1,336	\$13,335
Due after one year	2,858	2,712	27,068
Total	¥4,481	¥4,048	\$40,403

The above obligations included the allowance for impairment losses on leased assets of 23 million yen and 1 million yen (10 thousand dollars) as of March 31, 2007 and 2008.

The above obligations under finance leases included related interest expenses.

(3) Lease expenses, reversal of the allowance for impairment losses on leased assets and estimated depreciation for the fiscal years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease expenses	¥1,646	¥1,425	\$14,223
Reversal of allowance for impairment losses on leased assets	42	22	220
Estimated depreciation	1,604	1,403	14,003

(4) Method of calculation of amount of estimated depreciation

Depreciation is calculated based on the straight-line method over the lease term of the leased assets assuming no residual value.

B) Lessor

(1) Purchase cost, accumulated depreciation, and book value of the leased assets as of March 31, 2007 and 2008 were as follows:

As of March 31, 2007	Millions of yen		
	Purchase cost	Accumulated depreciation	Book value
Machinery and equipment	¥4,582	¥2,795	¥1,787
Other	332	268	64
Total	¥4,914	¥3,063	¥1,851

As of March 31, 2008	Millions of yen		
	Purchase cost	Accumulated depreciation	Book value
Machinery and equipment	¥4,116	¥2,463	¥1,653
Other	206	161	45
Total	¥4,322	¥2,624	¥1,698

As of March 31, 2008	Thousands of U.S. dollars		
	Purchase cost	Accumulated depreciation	Book value
Machinery and equipment	\$41,082	\$24,583	\$16,499
Other	2,056	1,607	449
Total	\$43,138	\$26,190	\$16,948

(2) Lease revenues due under the financing lease transactions as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Due within one year	¥ 688	¥ 601	\$ 5,999
Due after one year	1,416	1,351	13,484
Total	¥2,104	¥1,952	\$19,483

The above claims under finance leases included related interest income.

(3) Lease incomes and depreciation for the fiscal years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Lease incomes	¥851	¥724	\$7,226
Depreciation	684	629	6,278

### Note 13 – UNREALIZED GAINS (LOSSES) ON DERIVATIVES

The Company Group primarily utilizes various derivative financial instruments in order to offset the risks of assets and liabilities due to fluctuations in commodity prices, foreign currency exchange rates and interest rates and applies hedge accounting. The Company Group does not utilize derivative financial instruments for speculative purposes.

Principal hedging instruments and hedged items are as follows:

Hedging instruments	Hedged items
Forward currency contracts and currency option contracts	Import of raw materials and export of products
Interest rate swap contracts and interest rate cap contracts	Long-term debt and loans
Commodity forward contracts and commodity swap contracts	Purchase of raw materials and sale of products

Unrealized gains (losses) on derivatives as of March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Currency-related transactions	¥ 1	¥466	\$4,651
Commodity-related transactions	(294)	246	2,455
Total unrealized gains (losses)	¥(293)	¥712	\$7,106

The amounts presented above exclude derivatives accounted for as hedges.

### Note 14 – SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Freight	¥36,200	¥35,735	\$356,672
Sales commission	9,105	9,121	91,037
Fees for outsourced services	10,757	12,335	123,116
Rental expenses	13,909	13,826	137,998
Employees' salaries	23,248	23,478	234,335
Employees' bonuses	8,294	6,989	69,757
Retirement benefit expenses	2,368	5,561	55,505
Depreciation and amortization	9,439	12,845	128,206

### Note 15 – RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in manufacturing cost and selling, general and administrative expenses for the years ended March 31, 2007 and 2008 were 10,047 million yen and 11,759 million yen (117,367 thousand dollars), respectively.

**Note 16 – IMPAIRMENT LOSSES**

For the years ended March 31, 2007 and 2008, the Company Group recognized impairment losses on fixed assets related to the significant decline in the market value of its land as well as to the overall deterioration of its business environment, which consisted of the following :

For the fiscal year ended March 31, 2007	Millions of yen
Domestic:	
Unutilized assets (land, constructions and others)	¥1,462
Assets for rent (land)	91
Assets for Petroleum business (land)	324
Domestic subtotal	1,877
Total	¥1,877

In Japan, the recoverable amounts of the assets for the Petroleum business and the assets for rent were primarily measured as value in use equivalent to the present value of their future cash flows, discounted at 5%, with the unutilized assets' measured as net selling price.

For the fiscal year ended March 31, 2008	Millions of yen	Thousands of U.S. dollars
Domestic:		
Unutilized assets (land, machinery and equipment and others)	¥1,864	\$18,605
Assets for rent (land, buildings and others)	80	798
Domestic subtotal	1,944	19,403
Overseas:		
Assets for Metals business (machinery and equipment and others)	734	7,326
Total	¥2,678	\$26,729

In Japan, the recoverable amounts of the assets for the assets for rent were primarily measured as value in use equivalent to the present value of their future cash flows, discounted at 5%, with the unutilized assets' measured as net selling price.

In the overseas, the recoverable amounts of the assets for the Metals business were measured as value in use equivalent to the present value of their future cash flows, discounted at 10%.

**Note 17 – REORGANIZATION AND RESTRUCTURING COSTS**

For the fiscal year ended March 31, 2007, reorganization and restructuring costs comprised additional restructuring costs of electronic materials business in the United States of 3,234 million yen and special loss related to withdraw from metal manufacturing business in Korea of 1,754 million yen. For the fiscal year ended March 31, 2008, it was not charged to income.

**Note 18 – STOCK OPTION PLAN**

## A) Expensed amount

Expensed amount on stock options for the fiscal years ended March 31, 2007 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2008	2008
Selling, general and administrative expenses	¥181	¥189	\$1,886

## B) Information on stock options

	Exercise period	Number of shares initially granted
Stock options granted on July 1, 2005	From July 2, 2005 to June 30, 2025	362,000
Stock options granted on July 26, 2006	From July 27, 2006 to June 30, 2026	210,500
Stock options granted on August 9, 2007	From August 10, 2007 to June 30, 2027	204,000

## C) Changes in number and unit price

Changes in the number and the unit price of stock options outstanding for the fiscal year ended March 31, 2008 were as follows:

## (1) Changes in number of stock options

	Number of shares		
	Stock options granted on July 1, 2005	Stock options granted on July 26, 2006	Stock options granted on August 9, 2007
As of March 31, 2007	340,500	210,500	—
Vested	—	—	204,000
Exercised	36,500	10,000	—
Expired	—	—	—
As of March 31, 2008	304,000	200,500	204,000

## (2) Unit price of stock options

	Yen		
	Stock options granted on July 1, 2005	Stock options granted on July 26, 2006	Stock options granted on August 9, 2007
Exercise price	¥ 1	¥ 1	¥ 1
Average market price of share at exercise	867	1,009	—
Fair value per stock option at grant date *	—	860	926

\* Stock options granted on July 1, 2005 were issued at no cost under the former Corporate Law (the Commercial Code), while those issued thereafter under the Corporate Law implemented in 2006.

**Note 19 - SEGMENT INFORMATION**

## A) Business segment information

The operations of the Company Group for the fiscal years ended March 31, 2007 and 2008 were summarized by product group as follows:

As of and for the fiscal year ended March 31, 2007	Millions of yen				Eliminations or Corporate	Consolidated
	Petroleum	Metals	Other Operations	Total		
Sales:						
Outside customers	¥2,750,827	¥1,021,563	¥30,057	¥3,802,447	¥ —	¥3,802,447
Inter-segment	4,877	2,525	35,640	43,042	(43,042)	—
Total	2,755,704	1,024,088	65,697	3,845,489	(43,042)	3,802,447
Operating costs and expenses	2,679,793	971,757	62,280	3,713,830	(43,641)	3,670,189
Operating income	75,911	52,331	3,417	131,659	599	132,258
Income before special items	81,918	134,050	7,590	223,558	678	224,236
Identifiable assets, depreciation and amortization, impairment losses and capital expenditures						
Assets	1,236,312	780,669	474,402	2,491,383	(434,976)	2,056,407
Depreciation and amortization	29,054	21,996	514	51,564	31	51,595
Impairment losses	1,610	127	—	1,737	140	1,877
Capital expenditures	62,257	85,453	791	148,501	118	148,619

## Breakdown of Metals segment

	Millions of yen				
	Resources and Metals	Electronic Materials	Metal Manufacturing	Eliminations	Total
Sales:					
Outside customers	¥844,795	¥124,218	¥52,550	¥ —	¥1,021,563
Inter-segment	42,241	5,333	17,846	(62,895)	2,525
Total	887,036	129,551	70,396	(62,895)	1,024,088
Operating costs and expenses	841,897	130,294	64,320	(64,754)	971,757
Operating income (loss)	45,139	(743)	6,076	1,859	52,331
Income (loss) before special items	127,762	(2,198)	6,627	1,859	134,050

As of and for the fiscal year ended March 31, 2008	Millions of yen					Eliminations or Corporate	Consolidated
	Petroleum	Metals	Other Operations	Total			
Sales:							
Outside customers	¥3,189,776	¥1,116,736	¥32,960	¥4,339,472	¥ —		¥4,339,472
Inter-segment	4,158	2,909	43,578	50,645	(50,645)		—
Total	3,193,934	1,119,645	76,538	4,390,117	(50,645)		4,339,472
Operating costs and expenses	3,131,472	1,084,748	70,701	4,286,921	(50,635)		4,236,286
Operating income	62,462	34,897	5,837	103,196	(10)		103,186
Income before special items	67,847	113,395	11,254	192,496	(470)		192,026
Identifiable assets, depreciation and amortization, impairment losses and capital expenditures							
Assets	1,409,106	769,690	677,197	2,855,993	(604,785)		2,251,208
Depreciation and amortization	35,725	26,506	519	62,750	113		62,863
Impairment losses	1,892	759	10	2,661	17		2,678
Capital expenditures	68,773	33,749	645	103,167	487		103,654

## Breakdown of Metals segment

	Millions of yen				
	Resources and Metals	Electronic Materials	Metal Manufacturing	Eliminations	Total
Sales:					
Outside customers	¥947,620	¥116,241	¥52,875	¥ —	¥1,116,736
Inter-segment	51,895	5,086	20,836	(74,908)	2,909
Total	999,515	121,327	73,711	(74,908)	1,119,645
Operating costs and expenses	965,601	125,804	68,266	(74,923)	1,084,748
Operating income (loss)	33,914	(4,477)	5,445	15	34,897
Income (loss) before special items	114,438	(6,449)	5,391	15	113,395

As of and for the fiscal year ended March 31, 2008	Thousands of U.S. dollars					Eliminations or Corporate	Consolidated
	Petroleum	Metals	Other Operations	Total			
Sales:							
Outside customers	\$31,837,269	\$11,146,182	\$ 328,975	\$43,312,426	\$ —		\$43,312,426
Inter-segment	41,501	29,035	434,954	505,490	(505,490)		—
Total	31,878,770	11,175,217	763,929	43,817,916	(505,490)		43,312,426
Operating costs and expenses	31,255,335	10,826,909	705,669	42,787,913	(505,390)		42,282,523
Operating income	623,435	348,308	58,260	1,030,003	(100)		1,029,903
Income before special items	677,183	1,131,800	112,327	1,921,310	(4,692)		1,916,618
Identifiable assets, depreciation and amortization, impairment losses and capital expenditures							
Assets	14,064,337	7,682,304	6,759,128	28,505,769	(6,036,381)		22,469,388
Depreciation and amortization	356,573	264,557	5,180	626,310	1,128		627,438
Impairment losses	18,884	7,576	100	26,560	169		26,729
Capital expenditures	686,426	336,850	6,438	1,029,714	4,860		1,034,574

## Breakdown of Metals segment

	Thousands of U.S. dollars				
	Resources and Metals	Electronic Materials	Metal Manufacturing	Eliminations	Total
Sales:					
Outside customers	\$9,458,229	\$1,160,206	\$527,747	\$ —	\$11,146,182
Inter-segment	517,966	50,763	207,965	(747,659)	29,035
Total	9,976,195	1,210,969	735,712	(747,659)	11,175,217
Operating costs and expenses	9,637,698	1,255,655	681,365	(747,809)	10,826,909
Operating income (loss)	338,497	(44,686)	54,347	150	348,308
Income (loss) before special items	1,142,210	(64,368)	53,808	150	1,131,800

Main products for each segment are the following:

Petroleum	resource development, gasoline, naphtha, kerosene, gas oil, heavy fuel oil, petrochemicals, liquefied petroleum gas, lubricating oil, ship transport, etc.
Metals	<Resources and Metals> resource development, copper, gold, silver, sulfuric acid, ship transport, etc.
	<Electronic Materials > copper foils, sputtering targets, compound semiconductor materials, etc.
	<Metal Manufacturing > wrought copper and copper alloy products, special steel products, precision products, etc.
Other Operations	information service, engineering, electric wires, cables, titanium, land transport, common group administrative activities such as fund procurement, etc.

### Changes in segment classification

In April 2006, three core metals-related businesses of the Company Group, namely Nippon Mining & Metals Co., Ltd., Nikko Materials Co., Ltd. and Nikko Metal Manufacturing Co., Ltd. were merged to form a newly integrated company, Nippon Mining & Metals Co., Ltd. As a result, three segments, Resources and Metals, Electronic Materials and Metal Manufacturing, were integrated into the Metals segment. Concurrently, classification of businesses among segments was partially changed. For disclosure of the financial results of metals-related segments, the Metals segment is classified into three segments, Resources and Metals, Electronic Materials and Metal Manufacturing as in the past.

(Note)

(1) As noted in Note 2 - A (3), on November 29, 2005, ASBJ issued "Accounting Standard for Directors' Bonus." During the fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted this standard.

As a result of this adoption, in the fiscal year ended March 31, 2007, operating costs and expenses increased by 312 million yen and operating income and income before special items decreased by the same amount for the Petroleum segment and operating costs and expenses increased by 264 million yen and operating income and income before special items decreased by the same amount for the Metals segment and operating costs and expenses increased by 124 million yen and operating income and income before special items decreased by the same amount for the Other Operations segment.

(2) As noted in Note 2 - A (4), on December 27, 2005, ASBJ issued "Accounting Standard for Share-based Payment" and on May 31, 2006, "Guidance on Accounting Standard for Share-based Payment." During the fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted this standard.

As a result of this adoption, in the fiscal year ended March 31, 2007, operating costs and expenses increased by 118 million yen and operating income and income before special items decreased by the same amount for the Petroleum segment and operating costs and expenses increased by 63 million yen and operating income and income before special items decreased by the same amount for the Metals segment.

(3) As noted in Note 2 - A (6), the Company and its domestic consolidated subsidiaries early adopted "Accounting standard for Measurement of Inventories" from the fiscal year ended March 31, 2007.

As a result of this adoption, inventories as of March 31, 2007 decreased by 975 million yen and operating income and income before special items decreased by the same amount for the Petroleum segment, and in the same manner decreased by 7,210 million yen for the Metals segment, by 70 million yen for the Other Operations segment.

(4) As noted in Note 2 - B (1), effective for the fiscal year ended March 31, 2008, the Company and its domestic consolidated subsidiaries applied the depreciation method prescribed in the revised Corporate Tax Law in line with the 2007 Tax Reform, for property, plant and equipment acquired on and after April 1, 2007.

As a result of this application, in the fiscal year ended March 31, 2008, as for the Petroleum segment, depreciation costs increased by 504 million yen (5,030 thousand dollars), accordingly, operating costs and expenses increased by 498 million yen (4,971 thousand dollars) and operating income and income before special items decreased by the same amount, while assets decreased by 497 million yen (4,961 thousand dollars). As for the Metals segment, depreciation costs increased by 245 million yen (2,445 thousand dollars), operating costs and expenses increased by 214 million yen (2,136 thousand dollars), operating income decreased by the same amount and income before special items decreased by 215 million yen (2,146 thousand dollars), while assets decreased by 214 million yen (2,136 thousand dollars). As for the Other Operations segment, there was only a slight impact.

- (5) As noted in the additional information of Note 2 - B (1), the Company and its domestic consolidated subsidiaries applied the depreciation method for property, plant and equipment acquired before April 1, 2007, which allowed them to depreciate those assets to 1 yen of the residual value using the straight-line method evenly over a period of five years after they reach the depreciable limits.

As a result of this application, in the fiscal year ended March 31, 2008, as for the Petroleum segment, depreciation costs increased by 4,740 million yen (47,310 thousand dollars), operating costs and expenses increased by 4,451 million yen (44,426 thousand dollars) and operating income and income before special items decreased by the same amount, while assets decreased by 4,443 million yen (44,346 thousand dollars). As for the Metals segment, depreciation costs increased by 991 million yen (9,891 thousand dollars), operating costs and expenses increased by 933 million yen (9,312 thousand dollars), operating income decreased by the same amount and income before special items decreased by 941 million yen (9,392 thousand dollars), while assets decreased by 937 million yen (9,352 thousand dollars). As for the Other Operations segment, there was only a slight impact.

#### B) Overseas sales

Overseas sales, which represents sales to overseas customers, and the ratios of overseas sales to consolidated net sales for the fiscal years ended March 31, 2007 and 2008 were summarized by geographic region as follows:

For the fiscal year ended March 31, 2007	Millions of yen		
	Asia	Others	Total
Overseas sales	¥511,582	¥50,327	¥ 561,909
Consolidated net sales	—	—	3,802,447
Ratio of overseas sales to consolidated net sales (%)	13.5	1.3	14.8

For the fiscal year ended March 31, 2008	Millions of yen		
	Asia	Others	Total
Overseas sales	¥604,336	¥52,522	¥ 656,858
Consolidated net sales	—	—	4,339,472
Ratio of overseas sales to consolidated net sales (%)	13.9	1.2	15.1

For the fiscal year ended March 31, 2008	Thousands of U.S. dollars		
	Asia	Others	Total
Overseas sales	\$6,031,899	\$524,224	\$ 6,556,123
Consolidated net sales	—	—	43,312,426
Ratio of overseas sales to consolidated net sales (%)	13.9	1.2	15.1

## Report of Independent Auditors

The Board of Directors  
Nippon Mining Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Nippon Mining Holdings, Inc. and consolidated subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Mining Holdings, Inc. and consolidated subsidiaries at March 31, 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2, effective for the year ended March 31, 2007, Nippon Mining Holdings, Inc. and its domestic consolidated subsidiaries early adopted "Accounting Standard for Measurement of Inventories"(ASBJ statement No.9, July 5, 2006). As described in Note 19, effective in April 2006, the Company changed the classification of its business segments.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

*Ernst & Young ShinNihon*

June 19, 2008