

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

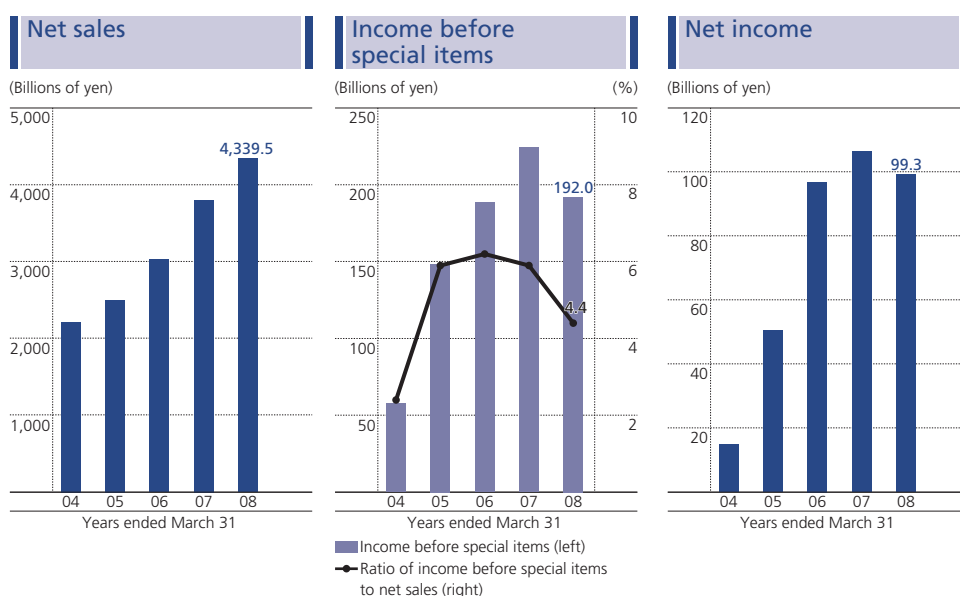
the period to as high as 377 cents per pound in October 2007. Subsequently, liquidation of long positions by speculative traders saw the price fall as low as 285 cents per pound for a brief time in December 2007, but in March 2008 the price recovered to reach an all-time record of 403 cents per pound. 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.

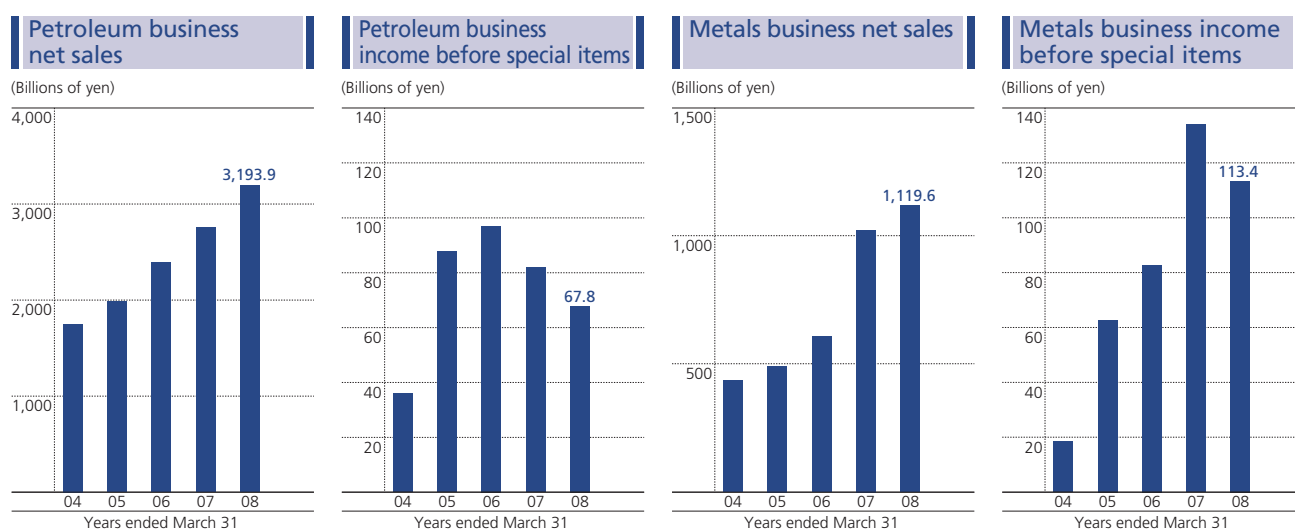
Electronic Materials

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

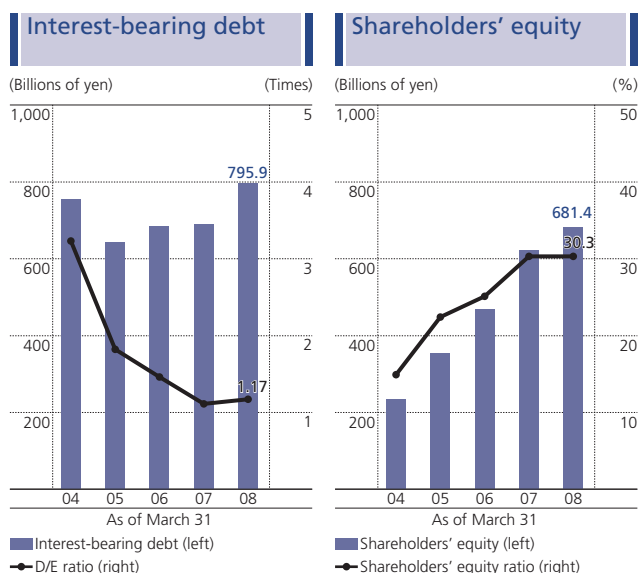
(Consolidated Balance Sheets)

(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.

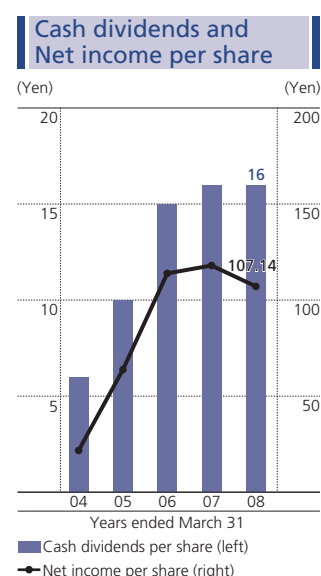
Net cash provided by financing activities amounted to ¥74.4 billion (US\$742.8 million). Cash dividends paid totaled ¥14.8 billion and cash dividends paid to minority shareholders amounted to ¥18.4 billion. These were outweighed by an increase in interest-bearing debt of ¥106.5 billion, including proceeds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