

**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.