

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)
Acquisition cost	22,357
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)
Acquisition cost paid in the fiscal year ended March 31, 2007	14,144
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