MITSUI KINZOKU

Annual Report 2008

MITSUI MINING AND SMELTING CO., LTD.

Profile

Mitsui Mining & Smelting Co., Ltd. (Mitsui Kinzoku), supplies nonferrous metal intermediates that play key roles in high-tech industries. Since its establishment in 1950, the Company has also been known as a leading supplier of such nonferrous metals as zinc and copper and one of the world's largest producers of zinc.

The Company has technological expertise in the production of such electronics-related materials as copper foil and semiconductor packaging tapes, which are presently indispensable for information-related and telecommunications devices. The Company maintains its technological leadership through aggressive R&D accompanied with its "material intelligence" obtained through its extensive background in smelting and refining operations in the nonferrous metals field. In addition, the Company is known as a producer of highly evaluated automobile door-related parts and systems.

Superior quality is the hallmark of Mitsui Kinzoku products and services. A team of nearly 10,000 talented employees strives to ensure this quality and, in doing so, has maintained the integrity of the Mitsui Kinzoku name and its long-standing reputation for innovation.

Contents

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains statements about Mitsui Kinzoku's future business plans, strategies, and beliefs. Statements regarding the Company's projected future business results are not based on historical facts and are subject to various risks and uncertainties. These risks and uncertainties relate to economic conditions in Mitsui Kinzoku's business environment, the state of private-sector and public-sector capital investment, currency exchange rates, competitive pricing pressures in the marketplace, and Mitsui Kinzoku's ability to continue designing and developing products that will be accepted in markets. However, it should be noted that elements affecting performance are not limited to the previously mentioned factors. In this report, fiscal 2007 represents the year ended March 31, 2008.

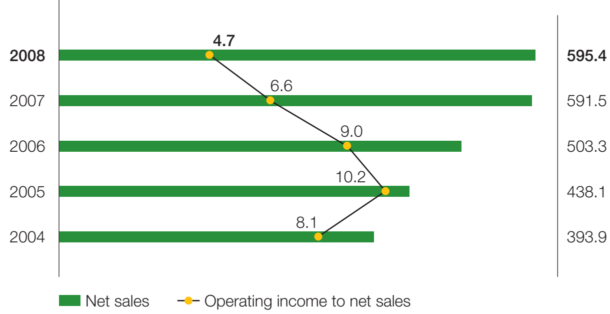
Financial Highlights

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31

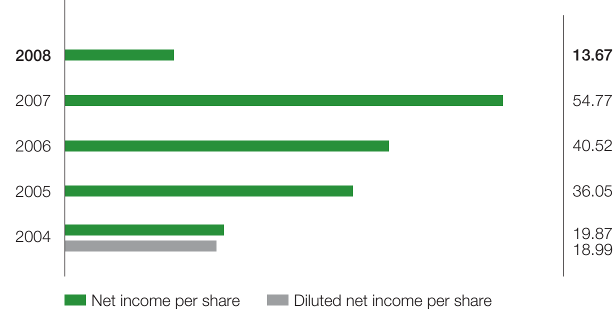
	Millions of yen			Thousands of U.S. dollars (Note)
	2008	2007	2006	**2008**
Consolidated Performance				
Net sales	**¥595,463**	¥591,518	¥503,370	**$5,943,337**
Operating income	**27,993**	38,865	45,052	**279,399**
Net income	**7,830**	31,370	23,374	**78,151**
Total assets	**486,238**	483,397	460,225	**4,853,158**
Net assets	**199,545**	197,890	159,772	**1,991,665**
Net income per share (¥, $)	**13.67**	54.77	40.52	**0.14**
Cash dividends per share (¥, $)	**12.00**	12.00	10.00	**0.12**

Note: All U.S. dollar figures are translated from Japanese yen amounts, for convenience only, at the rate of ¥100.19 to US$1.00, the rate prevailing at March 31, 2008.

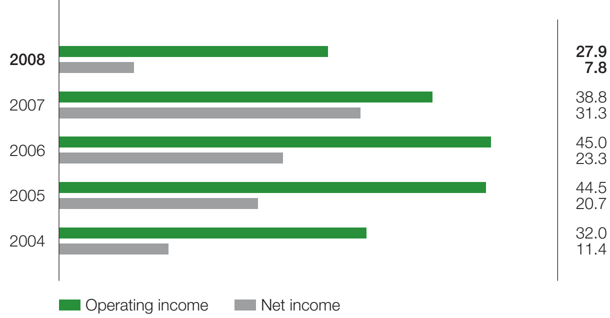
Net Sales and Operating Income to Net Sales
(Billions of yen, %)



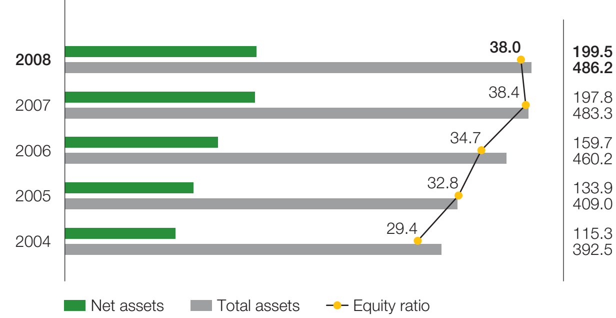
Net Income per Share and Diluted Net Income per Share
(Yen)



Operating Income and Net Income
(Billions of yen)



Net Assets, Total Assets, and Equity Ratio
(Billions of yen, %)



A Message from the President

President and Chief Executive Officer
Yoshihiko Takebayashi

Looking Back at Fiscal 2007

In fiscal 2007, the year ended March 31, 2008, Mitsui Kinzoku was able to increase its net sales to ¥595.4 billion, or 0.7% above the fiscal 2006 level, but the Company's operating income was down considerably, dropping 28.0% year on year, to ¥27.9 billion. A major reason for the drop was competitors' moves to increase production and intensify competition in the field of semiconductor mounting materials (TAB and COF tapes), which are among our mainstay products. We reduced our selling prices in an effort to regain market share, but quality problems and other issues made it impossible to win back market share, while our inability to make large progress in cost-reduction programs meant that selling-price reductions led directly to losses.

Because of the unlikelihood of a recovery in semiconductor mounting materials business performance in the near future, we recorded a ¥17.7 billion impairment loss in connection with fixed assets related to

Milestones in 2007 and 2008

2007

August	Mitsui Kinzoku (Shanghai) Management Co., Ltd., established in Shanghai to serve as a regional headquarters for operations in China
November	Decision made to transfer Mitsui Kinzoku mining rights for the Quechua Mining Area in Peru to a Peru-based subsidiary of Pan Pacific Copper Co., Ltd.

2008

April	Wholly owned subsidiary Aichi Instrumentation Engineering Co., Ltd., amalgamated via a short-form procedure
	New lithium-ion battery technology developed
	New catalyst for diesel-fueled vehicles developed
	Production capacity of electrodeposited copper foil (thin products) significantly enhanced in Asia

that business. Consequently, our net income amounted to ¥7.8 billion, substantially lower than the level we originally were projecting.

I am extremely concerned about the trend of decline in operating income seen in both fiscal 2006 and fiscal 2007, and I am giving top priority to measures aimed at rebuilding a solid profit base.

Results of the Previous Medium-Term Management Plan

The medium-term management plan covering the three years from April 2005 through March 2008 had the goals of "aiming to achieve long-term growth by strengthening existing operations and creating additional operations with the potential for contributing to a new surge in corporate development in the future."

During fiscal 2007, the last year of the medium-term management plan, Mitsui Kinzoku was not able to attain the plan's objective of generating ¥55.0 billion or more of operating income. The reason, in brief, was the deterioration of TAB and COF tape business and the inability of the Company's other businesses to compensate for that deterioration, although the profitability of metals operations has been elevated by the surge in metals prices.

Capital investments implemented during the course of the medium-term management plan amounted to ¥124.7 billion, more than envisioned in the plan's original version. We are not necessarily positioned to generate strong returns on some of those investments, however, as is reflected in such factors as the impairment loss recorded on our new TAB/COF plant, which was a key item in our capital investment strategy.

Regarding the strengthening of our financial position, Mitsui Kinzoku did not attain its debt/equity ratio target of 0.6, although the 0.82 level at the end of fiscal 2007 reflects the considerable progress made in that regard. We also enhanced our equity ratio, which was 38% at the end of fiscal 2007.

On the other hand, seeking to create a solid basis for a surge of dynamic corporate development, the Company has successfully augmented its R&D activities that are centered on Companywide "CTO projects" under the direct management of its Chief Technology Officer (CTO). These activities are generating revolutionary new technologies and products in our existing business fields, and we expect them to contribute to growth in the future.

Particularly promising among our new product development themes is our development of a new silicon-based negative electrode (SILX®) able to boost the capacity and power of next-generation lithium-ion batteries. We anticipate a large and growing demand for SILX® products and are seeking to initiate full-scale business in those products from 2010.

Another noteworthy R&D success story is our development of a new silver-based catalyst for purifying diesel engine emissions. This achievement reflects our determination to move forward expeditiously with related R&D work in view of the increasing strictness of environmental protection regulations.

We have great hopes for these new products and believe they have the potential for becoming powerful drivers of Mitsui Kinzoku's future development.

Prospects and Tasks in Fiscal 2008

Regarding our consolidated performance in fiscal 2008, we are projecting ¥591.0 billion in net sales, down 0.7% from the previous year; ¥28.2 billion in operating income, up 0.7%; and ¥12.0 billion in net income, up 53.2%. It goes without saying that we are dissatisfied with our fiscal 2007 performance, and we are, therefore, undertaking various strategic activities to restore our profit base in fiscal 2008. These activities are described in a preliminary medium-term plan that we are implementing before starting the next three-year, medium-term management plan, which will begin from fiscal 2009.

Our biggest task this year is the rebuilding of our Intermediate Materials Group's TAB/COF tape operations. For the time being, we are anticipating that selling prices will continue decreasing by almost 20% each year; so, additional cost reductions are required. Another urgent task is to quickly create mass-manufacturing systems and improve quality-assurance performance with respect to high-value-added, fine-pitch products 25μm or less in thickness, which are in strong demand. We intend to begin implementing these measures during the first half of fiscal 2008, with an eye to ensuring that our TAB/COF tape operations are profitable in fiscal 2009 and subsequently.

On the other hand, we have sustained a strong performance in business involving such other electronics materials as electrodeposited copper foil products and thin-film materials (sputtering targets). In particular, we have an approximately 60% share of the rapidly growing global market for resin coated copper products, which are in great demand for mobile phone related applications, and we are working to make the capital investments required to further expand our manufacturing capacity for these products. We are also moving ahead with plans to expand production in Taiwan and Malaysia of thin electrodeposited copper foil products 12μm or less in thickness. Morover, the quality- and cost-related benefits of our technological innovation have become increasingly evident with respect to thin-film materials, and the rapid growth in our sales of such materials augurs well for the future success of our operations in that field.

The performance of our Parts Manufacturing & Assembly Group's functional automotive parts operations is also improving. We handle more than 20,000 products in our mainstay door-lock mechanism field, and the complex worldwide distribution systems required in connection with various processes from development through delivery have made it difficult to maintain profit margins, but we have considerably reduced related manufacturing and distribution costs since fiscal 2006 as well as are taking effective measures at the initial design stage to reduce costs.

In view of these trends, it appears that Mitsui Kinzoku's performance prospects are beginning to brighten up in fiscal 2008 and can be expected to become still brighter in fiscal 2009. Accordingly, we are expecting to see our performance bottom out in fiscal 2008 and subsequently stay on track for steady growth.

Drafting of the New Medium-Term Management Plan

Since fall 2007, I have been working with the new medium-term management plan drafting team on reform plans designed to enable a new surge in the Mitsui Kinzoku Group's development. These plans have five principal themes.

The first theme is the "comprehensive strengthening of manufacturing strengths." Regarding quality, speed, yields, and other essential manufacturing issues, we are going back to the manufacturing basics and building on those basic skills to upgrade our capabilities, aiming to create manufacturing strengths that are the most powerful in Japan as well as elsewhere in the world.

The second theme is "restructuring the business portfolio." The Mitsui Kinzoku Group's operations currently involve approximately 50 kinds of products, and the new medium-term management plan drafting team is evaluating each Group business and working to make top-down decisions that promote a "selection and concentration" strategy. While we are still discussing the evaluation standards to be employed, it is expected that they will include (1) net present value, (2) growth potential, (3) the prospect of becoming the top company in Japan or worldwide, and (4) synergies with core businesses. Based on the evaluations, we will be implementing measures to buy and sell various businesses and redistribute Group resources.

The third theme is "reforming management systems," with emphasis on capabilities for making speedy management decisions. We are considering ways to reform decision-making methods, and the reforms will probably entail some reallocation of decision-making authority.

The fourth theme is "organizational reform." We are noting that organizational structures that emphasize short-term profits and risks may have a negative effect on a company's long-term growth potential. To attain our targets, it may be important to avoid clinging to our existing business department system. In the future, when we have a clear understanding of the directions we want to be moving in, we plan to proactively reform the current business department system and avoid attaching too much importance to precedents in this regard.

The fifth theme is "human resource development." We recognize that manufacturing strengths fundamentally stem from human resources, and we want to promote more-dynamic human resource development programs for all the Group's roughly 15,000 employees in Japan and overseas. We are intending to fundamentally change our training and personnel systems.

After the new medium-term management plan drafting team comes up with a more-specific draft of the plan, plans call for the team and top managers to discuss the draft during this summer. The new plan will be officially announced next March, but the plan's framework and elements will be announced ahead of time, as soon as they are finalized.

Shareholder Returns and a Message to Shareholders

Our fundamental dividend policy is to maintain a level of internal funds in line with the Company's requirements while doing our utmost to maintain continuous shareholder returns. Based on this policy, we have distributed ¥12 per share of dividends applicable to fiscal 2007, the same level as for the previous fiscal year. We plan to sustain this dividend level for the current fiscal year as well despite the harshness of our operating environment.

As mentioned, we are extremely concerned about the current weakness of Mitsui Kinzoku's performance, but we are also quite confident that the Company continues to have great potential for future growth. We supply product components in such markets as those for automobiles and electronics products (such as LCD televisions and mobile phones), in which global demand is projected to steadily increase, and there is still considerable potential for us to expand into fields adjacent to such existing businesses as those in copper foil, thin films, functional automobile components, and catalysts. We also are supported by the long-standing relationships of mutual trust we have developed with our customers, particularly Japan-based companies. Many of our products are generally considered to be the best in Japan or the best in the world in terms of quality, and we are pleased to note that our outstanding quality standards are a key factor in inspiring our customers' trust and loyalty. Moreover, besides our superior technologies in many individual business fields, we have technological synergies underlying capabilities for supplying diverse products that are beyond the ability of any other company. For example, our recent development of next-generation lithium-ion battery technology required the concerted application of diverse technologies related to copper foil, functional automobile parts, functional metal powders, and other products.

Since becoming Mitsui Kinzoku's president and CEO, I have visited each of the Group's facilities, conversed with employees at those facilities, and reconfirmed my conception of the extremely high quality of the Group's human resources. I believe my main responsibility is to fully develop the potential power of those human resources and effectively leverage that power to drive the Group's dynamic development and growth.

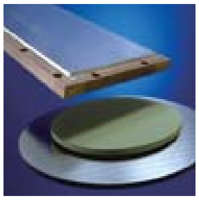
July 2008

President and Chief Executive Officer
Yoshihiko Takebayashi

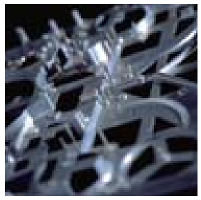
Review of Operations

Mining & Fundamental Materials Group

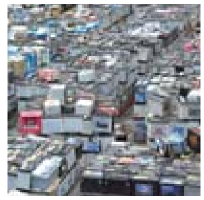
Intermediate Materials Group



Parts Manufacturing & Assembly Group



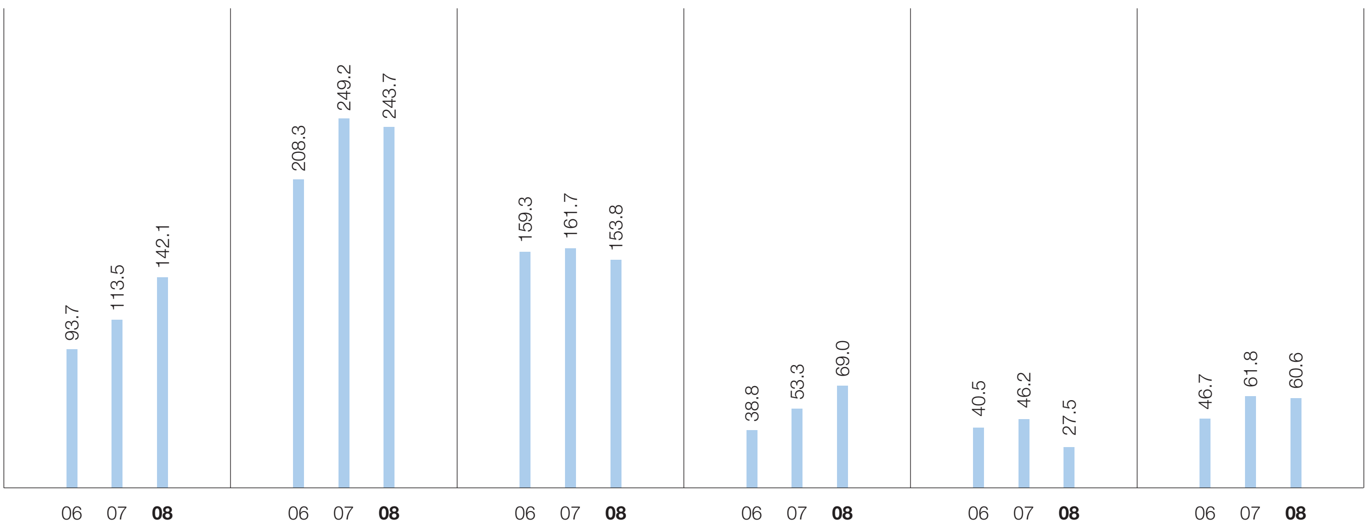
Environmental Engineering & Metals Recycling Group



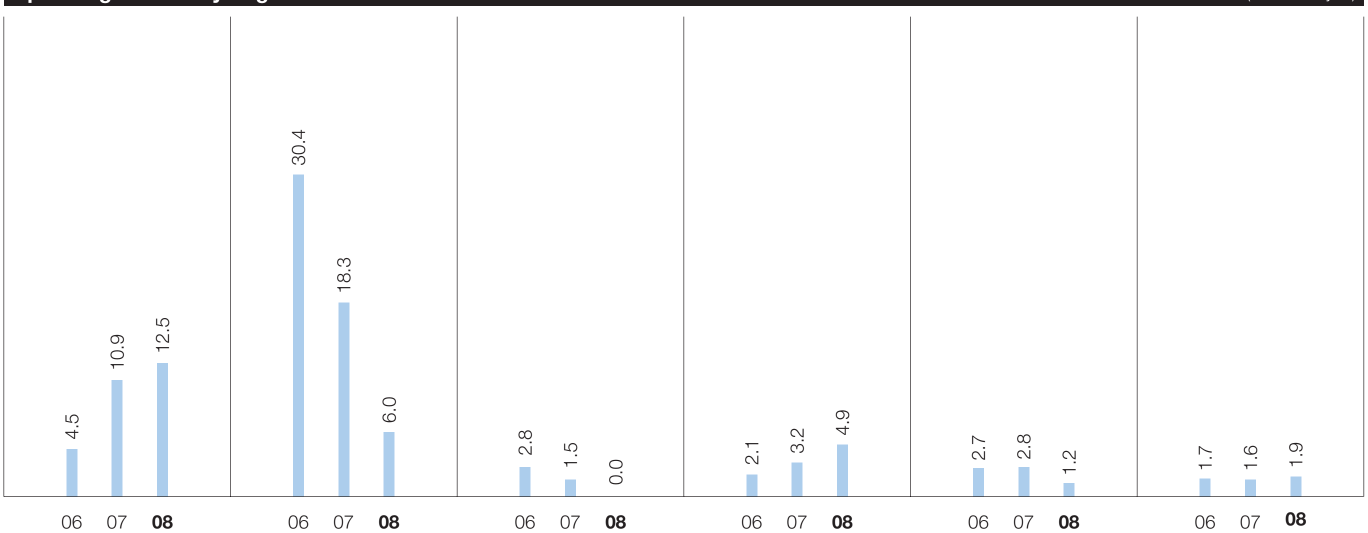
Engineering Group

Services Group

Net Sales by Segment (Billions of yen)



Operating Income by Segment (Billions of yen)



Mining & Fundamental Materials Group

Higher Profitability due to Rise in Effective Zinc Prices

Operations

- Nonferrous-metal smelting—Mitsui Kinzoku is Japan's top zinc producer, with three domestic primary smelters producing approximately 240,000 tons of zinc annually.
- Mining—While Mitsui Kinzoku procures approximately half of the ore it smelts from other mining companies, it operates two mines producing zinc and lead in Peru.

Smelting operations

Business Conditions and Strategies

Zinc prices have been sustained at high levels for several years due to such factors as rapidly rising demand from China and certain other countries, but factors that include concerns regarding a possible recession in the United States in the wake of the subprime loan crisis caused prices to soften during the latter half of fiscal 2007.

Zinc ore procurement conditions have begun improving due to a relaxation of the supply-demand balance as a consequence of the start of operations at large-scale mines and other factors.

Operations at the newly developed Pallca Mine in Peru were initiated in March 2006, but plans call for efforts to obtain stable supplies of raw materials going forward by emphasizing mining exploration programs as well as measures to increase recycled raw materials processing.

Mitsui Kinzoku upgraded its competitiveness in copper-smelting business by integrating its Tamano Smelter into Pan Pacific Copper Co., Ltd. (PPC), the existing copper-smelting joint enterprise with Nippon Mining & Metals Co., Ltd. (NM&M), in April 2006 to further take advantage of operational tie-ups with NM&M and the LS Group of South Korea. Currently, PPC is implementing a project to develop the Caserones copper mine in Chile, and Mitsui Kinzoku has sold its mining rights for the Quechua Mining Area of Peru to a local subsidiary of PPC.

Regarding copper ore procurement conditions, in addition to a tight supply-demand balance, moves to eliminate or cap price participation formulas providing for profit distributions at times of rising copper prices are extremely detrimental to copper smelters' interests.

Location of Pallca Mine

Fiscal 2007 Performance

A strong performance was sustained, particularly with respect to zinc associated with zinc-coated steel, which is the largest domestic demand segment. Although international prices softened, a rise in the Company's effective zinc prices (prices hedged with futures contracts) supported higher profitability.

From fiscal 2006, copper-smelting business has been accounted for by the equity method.

Intermediate Materials Group

LCD-Related Materials—Continued Intensification of Competition

Operations

- Electronics materials—Electronics-related materials comprise the main product category within the Intermediate Materials Group. The Company's principal electronics materials products include electrodeposited copper foil, an indispensable material for printed circuit boards crucial to the operation of electronic equipment, and TAB and COF tapes for tape-automated bonding of semiconductors, used mainly in the mounting of driver IC chips for LCD panels and other flat panel displays. Mitsui Kinzoku is the world's top manufacturer in these two product categories in terms of technological superiority, production capacity, and market share. In addition, the Company produces diverse metal intermediates, including powders, sputtering targets, and single crystals for use in the latest electronic components production.
- Other intermediate materials—The Company manufactures rolled copper and zinc, perlite, specialty ceramics, and other materials that are crucial for such primary industries as construction and automobile manufacturing.

Single crystal (calcium fluoride)

Business Conditions and Strategies

In the mainstay field of electronics materials, demand for electrodeposited copper foil products was firm in fiscal 2007. Recent efforts to increase the compactness of electronics products have spurred demand for increasingly thin copper foil products, and Mitsui Kinzoku responded to this by doubling the production capacity of its facilities in Taiwan and Malaysia for copper foil products 12μm or less in thickness.

Mitsui Kinzoku's business in LCD panel related materials (TAB/COF tapes) has expanded in step with growth in demand associated with flat panel displays, but a downtrend in the number of tapes used per display panel has slowed growth in the volume of demand. This and competing companies' moves to expand production capacity have led to intensifying price competition that has greatly reduced Mitsui Kinzoku's sales and profit in this segment. While the Company completed its third domestic TAB/COF tape manufacturing plant in October 2006 and had planned to gradually expand the output of new production lines, the depreciation expenses stemming from capital investments in this segment became excessive and threatened to prevent any future recovery in profitability. In view of this, the Company recorded ¥17.7 billion in impairment losses on these facilities during fiscal 2007. Going forward, however, the Company is determined to maintain the top global market share for these products by establishing superior cost-competitiveness that enables it to overcome the challenges of intense competition. A particularly rapid rise in demand is projected for fine pitch products, and the Company is emphasizing efforts to respond to this by further upgrading its related capabilities regarding technologies and cost-competitiveness.

Regarding various metal powders and other electronics materials, overall demand is strong, being supported by firm demand for digital electronics equipment products. Mitsui Kinzoku is sustaining its strategy of seeking to maintain large shares of niche markets.

Electrodeposited copper foil

Fiscal 2007 Performance

While sharply surging raw materials prices had a negative effect on operations in this business segment in general, segment performance was particularly impacted by increasingly intense competition in TAB/COF tape markets and by a sputtering target inventory valuation loss.

Parts Manufacturing & Assembly Group

Door-Lock Sales Bottom Out but Die-Cast Product Business Faces Challenges

Operations

- Functional automotive parts—Functional automotive parts are the key product category within the Parts Manufacturing & Assembly Group. Mitsui Kinzoku operates automotive component factories in five major automobile manufacturing countries—Japan, the United States, Thailand, China, and the United Kingdom. These factories primarily manufacture automobile door-related components, including door locks, for which the Company's share of the global market is 20% or higher. These products are supplied principally, but not exclusively, to Japan-affiliated automakers.
- Others—In addition to long-standing operations manufacturing die-cast products used in automobiles and electric appliances, Mitsui Kinzoku has, in recent years, manufactured aluminum die-cast products for use in automobiles, and its sales of such products are rising in step with the growing vehicular weight reduction needs.

Door-lock mechanism

Other products in this category include catalysts for detoxifying motor vehicle exhaust emissions. In addition to mainstay products supplied for use with mini-vehicles in Japan, the increasing strictness of overseas exhaust gas regulations has led to growing demand for catalysts for use with motorcycles. In response, the Company has constructed manufacturing plants in India and China.

The Company has developed a new silver-based catalyst for purifying diesel engine emissions in place of relatively expensive platinum-based catalysts, and plans call for commercializing this catalyst in the near future.

Die-cast products

Business Conditions and Strategies

While the automobile markets of North America, Europe, and Japan are entering their mature period, the markets of other Asian countries and other newly industrializing countries are expected to keep growing in the future. The Japan-affiliated automakers that are important to Mitsui Kinzoku customers have, in recent years, expanded their sales by constructing new plants in growth markets. Amid these trends, as the world's leading manufacturer of door locks—an important type of component with respect to automotive safety—the Company plans to further strengthen its cost-competitiveness by consolidating manufacturing operations in Thailand or China as well as working to expand operations in growing markets for high-value-added system products (sliding-door systems, etc.).

Fiscal 2007 Performance

The shift of mainstay door-lock product manufacturing operations to plants in Asian countries other than Japan is proceeding smoothly. Although the effect of a recent drop in North American sales has been considerable, gradually emerging cost reduction benefits have enabled a bottoming out and incipient recovery in profitability. Performance in fiscal 2007 was affected by a temporary ¥1 billion rise in expenses associated with the exclusion of intra-company transactions from this segment's performance.

Environmental Engineering & Metals Recycling Group

Contributing to Resource Recycling While Recording Higher Sales and Profitability Supported by Rising Metals Prices

Operations

- Metals recycling—The Environmental Engineering & Metals Recycling Group uses domestic smelting facilities to recover precious metals from recyclable electronics products and components, lead from automotive batteries, and zinc from steelmaking electric arc furnace dust.

Business Conditions and Strategies

Amid increasing concern about environmental protection, there is a rising understanding about the need to recycle resources that were previously thrown away. Mitsui Kinzoku views this recycling business as a promising extension of its metal-smelting operations and a means of the stable procurement of raw materials. In cooperation with Pacific Metals Co., Ltd., a leading ferronickel producer, the Company inaugurated a unique system for completely recycling fly ash from waste-melting furnaces in May 2006.

By means of recycling businesses that leverage their strong capabilities regarding the application of mining and refining technologies, Mitsui Kinzoku intends to make a sustained contribution to improving the global environment.

Metal recycling

Fiscal 2007 Performance

Sales and profit increased against the backdrop of a rise in prices of a diverse range of metals, including zinc, lead, gold, and silver.

Engineering and Services Groups

Providing Support for Mitsui Kinzoku Group Companies

Operations

- Engineering—The Engineering Group provides design and engineering execution services for customers within and outside the Mitsui Kinzoku Group. The sophisticated manufacturing facilities designed by the Engineering Group for the Company's main products are one of Mitsui Kinzoku's important strengths.
- Services—The Services Group supports Mitsui Kinzoku Group companies by providing services related to trading and information processing.

The information processing department has excellent capabilities, as reflected in its adept customization of SAP R/3, a well-known enterprise resource planning software package, for use within the Mitsui Kinzoku Group. The advantages of the customizing programs were so highly evaluated that they are now being marketed to other companies as a template.

MESCO, Inc.

FINANCIAL SECTION

Five-Year Summary

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31

	Millions of yen				
	2008	2007	2006	2005	2004
For the year:					
Net sales	**¥595,463**	¥591,518	¥503,370	¥438,143	¥393,928
Cost of sales	**510,085**	500,734	412,003	350,565	319,725
Gross profit	**85,378**	90,784	91,366	87,578	74,202
Selling, general and administrative expenses	**57,384**	51,918	46,314	43,062	42,167
Operating income	**27,993**	38,865	45,052	44,515	32,035
Income before income taxes and minority interests	**22,655**	49,133	38,636	35,914	13,329
Net income	**7,830**	31,370	23,374	20,780	11,452
At year-end:					
Total current assets	**¥227,923**	¥218,436	¥208,754	¥172,912	¥156,658
Total assets	**486,238**	483,397	460,225	409,019	392,545
Total current liabilities	**154,782**	160,847	162,170	139,369	147,791
Long-term liabilities	**131,911**	124,658	126,558	125,022	118,947
Net assets*	**199,545**	197,890	159,772	133,963	115,398
Per share data:					
Net income (¥)	**¥13.67**	¥54.77	¥40.52	¥36.05	¥19.87
Diluted net income (¥)	**—**	—	—	—	18.99
Cash dividends applicable to the year (¥)	**12.00**	12.00	10.00	7.00	5.00
Number of employees	**11,369**	10,403	9,965	9,701	9,397

Note: In accordance with the previous presentation rules, net assets figures for the fiscal years from fiscal 2004 through fiscal 2006 actually represent total shareholders' equity.

Financial Review

References to the future reflect the Company's expectations as of March 31, 2008.

Net Sales

On a consolidated basis, the Company's net sales during fiscal 2007, ended March 31, 2008, increased 0.7%, or ¥3.9 billion, above the level in the previous fiscal year, to ¥595.4 billion.

The Mining & Fundamental Materials Group's net sales grew ¥28.5 billion, primarily due to a rise in nonferrous metal prices and sales promotion efforts. The Intermediate Materials Group enjoyed robust demand for its electronics materials products, but the group's net sales declined ¥5.5 billion, mainly because of the considerable impact of intensifying competition accompanied by a drop in selling prices. The net sales of the Environmental Engineering & Metals Recycling Group grew ¥15.7 billion. However, factors including a decrease in the number of construction projects caused the Engineering Group's net sales to fall ¥18.6 billion, and the Parts Manufacturing & Assembly Group's net sales were down ¥7.9 billion.

SGA Expenses

Selling, general and administrative (SGA) expenses increased ¥5.4 billion, to ¥57.3 billion, owing to a rise in retirement benefit expense and other factors.

Operating Income

Operating income decreased 28.0%, or ¥10.8 billion, to ¥27.9 billion. The Mining & Fundamental Materials Group increased its operating income ¥1.5 billion, reflecting such factors as a rise in nonferrous metal prices and sales promotion efforts. The operating income of the Intermediate Materials Group fell ¥12.2 billion, owing to price competition and other factors. The Parts Manufacturing & Assembly Group's operating income declined ¥1.5 billion as a consequence of such factors as selling price reductions. The Environmental Engineering & Metals Recycling Group expanded its operating income ¥1.7 billion, mainly because of strong domestic demand for lead used in batteries as well as such factors as a sharp rise in LME prices.

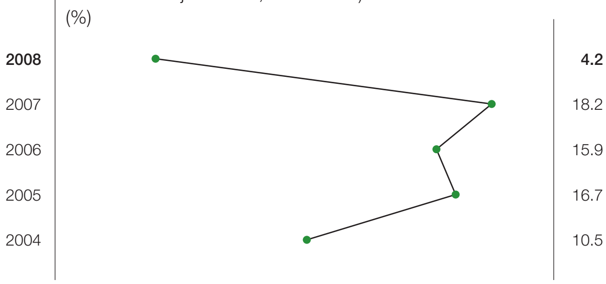
Other Income (Expenses)

Other income, net, deteriorated ¥15.6 billion, to a loss of ¥5.3 billion. Factors that increased other income, net, included ¥3.6 billion in gain on sale of mining rights, a ¥6.3 billion decrease in the loss from the liquidation of subsidiaries, and a ¥3.0 billion drop in environmental countermeasure expenses. Countervailing factors included a ¥17.1 billion rise in the loss on the impairment of fixed assets, an ¥11.5 billion fall in gain on transfer of business, a ¥2.8 billion decrease in investment gains on equity method, and a ¥0.9 billion decline in dividend income.

Income Taxes

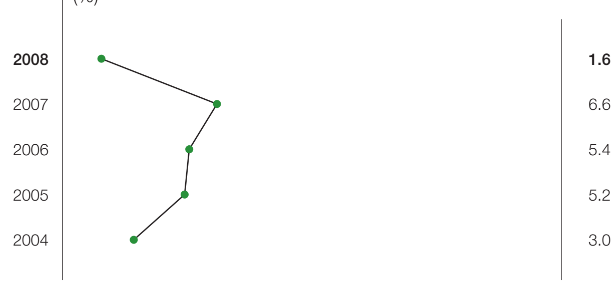
The ratio of income taxes to income before income taxes and minority interests increased 23.5 percentage points, to 53.2%, due to factors that included a rise in impairment losses not covered by tax-effect accounting methods.

ROE
(Net Income to Average Owner's Equity and Valuation, Translation Adjustments, and Others)
(%)



In accordance with the previous presentation rules, net income to net asset figures for the fiscal years from fiscal 2004 through fiscal 2006 actually represent net income to total shareholders equity.

ROA
(Net Income to Average Total Assets)
(%)



Net Income

As a result of a ¥10.8 billion drop in operating income, a ¥15.6 billion deterioration of other income, a ¥2.5 billion decrease in income taxes, and a ¥0.4 billion decline in minority interests, net income fell 75.0%, or ¥23.5 billion, to ¥7.8 billion.

FINANCIAL POSITION

Total Assets

On a consolidated basis, the Company's total assets increased ¥2.8 billion, amounting to ¥486.2 billion at fiscal year-end. While rising nonferrous metals prices and growing demand led to increases in receivables and inventories, fixed assets decreased, owing to impairment and other factors. Investment securities grew, reflecting such factors as a capital increase of an affiliated company and investment gains on equity method.

Net Assets

Factors that included ¥6.8 billion in dividend payments, ¥7.8 billion in net income, unrealized gains on hedging derivatives (net of tax), and minority interests led to an increase in total net assets of ¥1.6 billion, to ¥199.5 billion. Consequently, the Company's equity ratio declined 0.4 percentage point, to 38.0%.

Interest-Bearing Debt

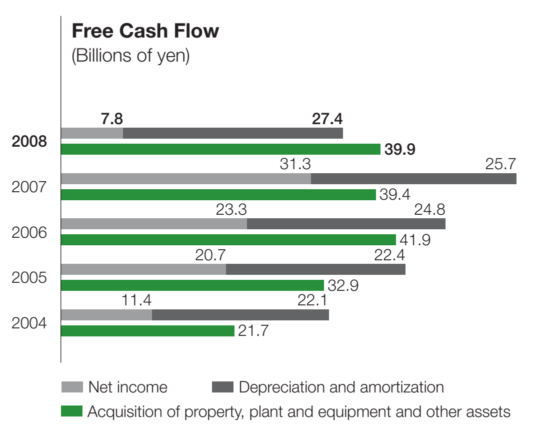
Short- and long-term interest-bearing debt increased ¥8.7 billion, to ¥151.9 billion.

CASH FLOWS

Net cash provided by operating activities increased ¥7.5 billion, to ¥41.6 billion, reflecting such factors as the recording of ¥27.9 billion in operating income and ¥27.4 billion in depreciation and amortization, which were partially offset by such factors as ¥13.5 billion in income taxes paid and a ¥6.2 billion rise in notes and accounts receivable.

Net cash used in investing activities increased ¥8.0 billion, to ¥38.0 billion, due to such factors as the recording of ¥39.9 billion in the acquisition of fixed assets.

Net cash used in financing activities decreased ¥4.0 billion, to ¥0.7 billion, due to such factors as the recording of ¥6.8 billion in dividend payments and a ¥7.6 billion rise in bonds and borrowings.



Consolidated Balance Sheets

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Assets			
Current assets:			
Cash and time deposits (Note 4)	**¥ 20,645**	¥ 17,306	**$ 206,058**
Notes and accounts receivable (Note 7):			
Trade	**96,925**	90,937	**967,411**
Unconsolidated subsidiaries and affiliates	**1,224**	1,891	**12,216**
Loans receivable:			
Unconsolidated subsidiaries and affiliates	**500**	354	**4,990**
Others	**10**	5	**99**
Inventories (Note 7)	**92,719**	88,560	**925,431**
Deferred tax assets (Note 12)	**3,755**	6,486	**37,478**
Other current assets	**12,782**	13,543	**127,577**
Less: Allowance for doubtful accounts	**(640)**	(649)	**(6,387)**
Total current assets	**227,923**	218,436	**2,274,907**
Investments and other assets:			
Investment securities (Notes 3 and 7):			
Unconsolidated subsidiaries and affiliates	**41,867**	34,060	**417,876**
Others	**13,785**	17,721	**137,588**
Loans receivable:			
Unconsolidated subsidiaries and affiliates	**255**	337	**2,545**
Others	**659**	617	**6,577**
Deferred tax assets (Note 12)	**8,490**	8,046	**84,738**
Others	**9,277**	8,815	**92,594**
Less: Allowance for doubtful accounts	**(188)**	(241)	**(1,876)**
	74,146	69,356	**740,053**
Property, plant and equipment (Note 7):			
Land	**34,527**	34,934	**344,615**
Buildings and structures	**151,010**	154,773	**1,507,236**
Machinery and equipment	**368,986**	357,177	**3,682,862**
Construction in progress	**6,604**	9,295	**65,914**
	561,128	556,180	**5,600,638**
Less: Accumulated depreciation	**(376,959)**	(360,575)	**(3,762,441)**
	184,168	195,604	**1,838,187**
	¥486,238	¥483,397	**$4,853,158**

See accompanying notes.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Liabilities, Minority Interests and Net Assets			
Current liabilities:			
Short-term bank loans (Note 6)	**¥ 42,118**	¥ 35,561	**$ 420,381**
Current portion of long-term debt (Note 6)	**20,054**	24,282	**200,159**
Notes and accounts payable:			
Trade	**52,105**	47,504	**520,061**
Unconsolidated subsidiaries and affiliates	**847**	1,153	**8,453**
Others	**13,399**	18,280	**133,735**
Accrued income taxes	**4,652**	8,106	**46,431**
Accrued expenses	**8,533**	9,784	**85,168**
Deferred tax liabilities (Note 12)	**69**	25	**688**
Reserve for product warranties	**2,681**	2,232	**26,759**
Derivative liabilities	**1,146**	6,604	**11,438**
Other current liabilities	**9,173**	7,312	**91,556**
Total current liabilities	**154,782**	160,847	**1,544,884**
Long-term debt (Note 6)	**89,750**	83,376	**895,797**
Employees' retirement benefits (Note 15)	**33,382**	30,151	**333,186**
Directors' and corporate auditors' retirement benefits	**724**	917	**7,226**
Deferred tax liabilities (Note 12)	**1,777**	1,895	**17,736**
Goodwill	**245**	3,217	**2,445**
Other long-term liabilities	**6,029**	5,099	**60,175**
Commitments and contingent liabilities (Notes 9 and 13)			
Net Assets (Note 10):			
Common stock:			
Authorized—1,944,000 thousand shares			
Issued—572,966 thousand shares	**42,129**	42,129	**420,491**
Capital surplus	**22,557**	22,557	**225,142**
Retained earnings	**117,548**	117,181	**1,173,250**
Less: Treasury stock	**(131)**	(116)	**(1,307)**
Shareholders' equity	**182,103**	181,752	**1,817,576**
Net unrealized gains on securities, net of tax	**2,743**	5,081	**27,377**
Unrealized gains (loss) on hedging derivatives, net of tax	**2,354**	(1,160)	**23,495**
Foreign currency translation adjustments	**(2,206)**	(160)	**(22,018)**
Valuation, translation adjustments and others	**2,891**	3,760	**28,855**
Minority interests in consolidated subsidiaries	**14,550**	12,377	**145,224**
Total net assets	**199,545**	197,890	**1,991,665**
	¥486,238	¥483,397	**$4,853,158**

Consolidated Statements of Income

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales (Note 11)	¥595,463	¥591,518	$5,943,337
Cost of sales (Note 8)	510,085	500,734	5,091,176
Gross profit	85,378	90,784	852,160
Selling, general and administrative expenses (Note 8)	57,384	51,918	572,751
Operating income (Note 11)	27,993	38,865	279,399
Other income (expenses):			
Interest and dividend income	1,961	2,916	19,572
Interest expense	(3,053)	(2,696)	(30,472)
Gain on sale of securities	274	141	2,734
Loss on sale of securities of consolidated subsidiaries	—	(63)	—
Loss on sale and disposal of property, plant and equipment, net	(1,713)	(3,611)	(17,097)
Write-down of marketable securities and investments	(17)	(237)	(169)
Indemnity	(150)	(320)	(1,497)
Investment gains on equity method	11,601	14,445	115,789
Amortization of goodwill	2,971	2,991	29,653
Loss on impairment of fixed assets (Note 17)	(18,514)	(1,334)	(184,788)
Loss from liquidation of subsidiaries	—	(6,527)	—
Gain on transfer of business	—	11,519	—
Loss from environmental countermeasure	—	(3,511)	—
Gain on sale of mining rights	3,660	—	36,530
Other, net	(2,357)	(3,441)	(23,525)
	(5,338)	10,268	(53,278)
Income before income taxes and minority interests	22,655	49,133	226,120
Income taxes (Note 12):			
Current	10,114	14,753	100,948
Deferred	1,927	(183)	19,233
	12,041	14,569	120,181
Minority interests	2,783	3,193	27,777
Net income	¥ 7,830	¥ 31,370	$ 78,151

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (Note 16)	¥13.67	¥54.77	$0.14
Cash dividends applicable to the year	12.00	12.00	0.12

See accompanying notes.

Consolidated Statements of Changes in Net Assets

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Year ended March 31, 2008 and 2007

	(Thousands)	Millions of yen										
		Shareholders' equity					Valuation, translation adjustments and others					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings (Note 10)	Treasury stock	Total shareholders' equity	Net unrealized gains on securities, net of tax	Unrealized gains (loss) on hedging derivatives, net of tax	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Minority interests in consolidated subsidiaries	Total net assets
Shareholders' equity at March 31, 2006 as previously reported	572,966	¥42,129	¥22,557	¥ 91,275	¥ (93)	¥155,868	¥5,914	¥ —	¥(2,011)	¥3,903	¥ —	¥159,772
Reclassification due to adoption of new accounting standard for presentation of net assets in the balance sheet at April 1, 2006											11,724	11,724
Net assets at April 1, 2006	572,966	42,129	22,557	91,275	(93)	155,868	5,914	—	(2,011)	3,903	11,724	171,496
Cash dividends				(5,727)		(5,727)						(5,727)
Bonuses to directors				(167)		(167)						(167)
Bonuses to employees				(12)		(12)						(12)
Net income				31,370		31,370						31,370
Acquisition of treasury stock					(22)	(22)						(22)
Increase due to change in consolidated subsidiaries				398		398						398
Revaluation of assets in foreign consolidated subsidiary				45		45						45
Net changes during the year							(833)	(1,160)	1,850	(142)	653	510
Balance at March 31, 2007	572,966	¥42,129	¥22,557	¥117,181	¥(116)	¥181,752	¥5,081	¥(1,160)	¥ (160)	¥3,760	¥12,377	¥197,890

	(Thousands)	Millions of yen										
		Shareholders' equity					Valuation, translation adjustments and others					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings (Note 10)	Treasury stock	Total shareholders' equity	Net unrealized gains on securities, net of tax	Unrealized gains (loss) on hedging derivatives, net of tax	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Minority interests in consolidated subsidiaries	Total net assets
Net assets at April 1, 2007	572,966	¥42,129	¥22,557	¥117,181	¥(116)	¥181,752	¥5,081	¥(1,160)	¥ (160)	¥3,760	¥12,377	¥197,890
Cash dividends				**(6,872)**		**(6,872)**						**(6,872)**
Bonuses to employees				**(15)**		**(15)**						**(15)**
Net income				**7,830**		**7,830**						**7,830**
Acquisition of treasury stock					**(15)**	**(15)**						**(15)**
Decrease due to change in consolidated subsidiaries				**(411)**		**(411)**						**(411)**
Restatement accompanying a provision to the reserve for expenses related to the closure of mines of foreign consolidated subsidiary				**(164)**		**(164)**						**(164)**
Net changes during the year							**(2,337)**	**3,514**	**(2,046)**	**(869)**	**2,172**	**1,303**
Balance at March 31, 2008	**572,966**	**¥42,129**	**¥22,557**	**¥117,548**	**¥(131)**	**¥182,103**	**¥2,743**	**¥ 2,354**	**¥(2,206)**	**¥2,891**	**¥14,550**	**¥199,545**

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Valuation, translation adjustments and others					
	Common stock	Capital surplus	Retained earnings (Note 10)	Treasury stock	Total shareholders' equity	Net unrealized gains on securities, net of tax	Unrealized gains (loss) on hedging derivatives, net of tax	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Minority interests in consolidated subsidiaries	Total net assets
Net assets at April 1, 2007	$420,491	$225,142	$1,169,587	$(1,157)	$1,814,073	$50,713	$(11,578)	$ (1,596)	$37,528	$123,535	$1,975,147
Cash dividends			**(68,589)**		**(68,589)**						**(68,589)**
Bonuses to employees			**(149)**		**(149)**						**(149)**
Net income			**78,151**		**78,151**						**78,151**
Acquisition of treasury stock				**(149)**	**(149)**						**(149)**
Decrease due to change in consolidated subsidiaries			**(4,102)**		**(4,102)**						**(4,102)**
Restatement accompanying a provision to the reserve for expenses related to the closure of mines of foreign consolidated subsidiary			**(1,636)**		**(1,636)**						**(1,636)**
Net changes during the year						**(23,325)**	**35,073**	**(20,421)**	**(8,673)**	**21,678**	**13,005**
Balance at March 31, 2008	**$420,491**	**$225,142**	**$1,173,250**	**$(1,307)**	**$1,817,576**	**$27,377**	**$ 23,495**	**$(22,018)**	**$28,855**	**$145,224**	**$1,991,665**

See accompanying notes.

Consolidated Statements of Cash Flows

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥22,655**	¥49,133	**$226,120**
Depreciation and amortization	**27,467**	25,712	**274,149**
Loss on impairment of fixed assets (Note 17)	**18,514**	1,334	**184,788**
Gain on sale of securities	**(274)**	(141)	**(2,734)**
Write-down of marketable securities and investments	**17**	237	**169**
Gain on sale of mining rights	**(3,660)**	—	**(36,530)**
Gain on transfer of business (Note 5)	**—**	(11,519)	**—**
Loss on sale of securities of consolidated subsidiaries (Note 5)	**—**	63	**—**
Loss from liquidation of subsidiaries	**—**	6,527	**—**
Loss on sale and disposal of property, plant and equipment, net	**1,713**	3,611	**17,097**
Indemnity	**150**	320	**1,497**
Loss on provision for environmental countermeasure	**156**	3,074	**1,557**
Foreign exchange loss (gain)	**59**	(159)	**588**
Investment gains on equity method	**(11,601)**	(14,445)	**(115,789)**
Decrease in allowance for doubtful accounts	**(22)**	(41)	**(219)**
Increase in employees' retirement benefits	**3,279**	1,775	**32,727**
Interest and dividend income	**(1,961)**	(2,916)	**(19,572)**
Interest expense	**3,053**	2,696	**30,472**
Increase in notes and accounts receivable	**(6,210)**	(11,221)	**(61,982)**
Increase in inventories	**(4,479)**	(13,508)	**(44,705)**
Increase in notes and accounts payable	**1,128**	2,460	**11,258**
Other, net	**1,825**	2,606	**18,215**
Subtotal	**51,811**	45,600	**517,127**
Interest and dividend received	**6,477**	7,143	**64,647**
Interest paid	**(2,946)**	(2,712)	**(29,404)**
Indemnity paid	**(150)**	(320)	**(1,497)**
Income taxes paid	**(13,533)**	(15,634)	**(135,073)**
Net cash provided by operating activities	**41,657**	34,077	**415,780**
Cash flows from investing activities:			
Purchases of securities	**(1,760)**	(13,717)	**(17,566)**
Proceeds from sale of securities	**372**	242	**3,712**
Disbursements from sale of securities of consolidated subsidiaries (Note 5)	**—**	(224)	**—**
Proceeds from sale of securities of consolidated subsidiaries (Note 5)	**—**	456	**—**
Acquisition of property, plant and equipment and other assets	**(39,985)**	(39,422)	**(399,091)**
Proceeds from sale of property, plant and equipment	**1,640**	2,046	**16,368**
Proceeds from sale of mining rights	**3,936**	—	**39,285**
Decrease (Increase) in short-term loans receivable, net	**(674)**	658	**(6,727)**
Disbursement for long-term loans receivable	**(462)**	(863)	**(4,611)**
Collection of long-term loans receivable	**159**	167	**1,586**
Proceeds from transfer of business (Note 5)	**—**	22,337	**—**
Other, net	**(1,276)**	(1,702)	**(12,735)**
Net cash used in investing activities	**(38,049)**	(30,021)	**(379,768)**
Cash flows from financing activities:			
Increase (Decrease) in short-term bank loans, net	**4,751**	(6,915)	**47,419**
Proceeds from long-term debt	**17,414**	16,393	**173,809**
Repayment of long-term debt	**(23,543)**	(17,569)	**(234,983)**
Issuance of bonds	**10,000**	10,000	**99,810**
Redemption of straight bonds	**(1,000)**	—	**(9,981)**
Payment for cash dividends to the Company's shareholders	**(6,872)**	(5,727)	**(68,589)**
Payment for cash dividends to minority interests	**(1,344)**	(838)	**(13,414)**
Other, net	**(150)**	(87)	**(1,497)**
Net cash used in financing activities	**(744)**	(4,744)	**(7,425)**
Effect of exchange rate changes on cash and cash equivalents	**149**	529	**1,487**
Net increase (decrease) in cash and cash equivalents	**3,012**	(159)	**30,062**
Cash and cash equivalents at beginning of year	**17,304**	16,944	**172,711**
Effect of addition of consolidated subsidiaries	**328**	520	**3,273**
Cash and cash equivalents at end of year (Note 4)	**¥20,645**	¥17,304	**$206,058**

See accompanying notes.

Notes to Consolidated Financial Statements

Mitsui Mining and Smelting Company, Limited and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of changes in net assets) from the consolidated financial statements of Mitsui Mining and Smelting Company, Limited ("the Company") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Amounts less than one million yen have been rounded down in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen shown herein do not necessarily agree with the sums of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies"). All significant intercompany transactions, accounts and unrealized profits among the Companies have been eliminated in consolidation. Investments in certain significant affiliates, which the Company and its subsidiaries are able to influence, in a material degree, their financial and operating decision-making, other than consolidated subsidiaries, are accounted for by the equity method after the elimination of unrealized intercompany profits. Investments in the remaining unconsolidated subsidiaries and affiliates are not accounted for by the equity method because of their immaterial effect on the consolidated financial statements. Such investments, therefore, are carried at cost, adjusted for any substantial and non-recoverable decline in value, and income from such unconsolidated subsidiaries and affiliates is recognized only when the Companies receive dividends.

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

The consolidation difference between acquisition cost and net assets at the date of acquisition is shown as the goodwill and amortized mainly over five years.

(b) Foreign currency translation

Revenues and expenses are translated at the rates of exchange prevailing when transactions are made. Monetary claims and liabilities denominated in foreign currencies are generally translated into each reporting currency at the rates of foreign exchange prevailing at the balance sheet dates and the resulting translation gains or losses are included in earnings.

All assets, liabilities, revenues and expenses of consolidated foreign subsidiaries are translated into Japanese yen at the rates prevailing at their balance sheet dates for consolidation. The resulting translation adjustments are shown as "Foreign currency translation adjustments", a component of net assets.

(c) Cash and cash equivalents

In the accompanying consolidated statements of cash flows, cash and cash equivalents include cash on hand, demand deposits and short-term investments with maturities of three months or less from the date of acquisition which have high liquidity and negligible risk of price fluctuation.

(d) Marketable securities, investment securities and investments in unconsolidated subsidiaries and affiliates other than those accounted for by the equity method

Securities owned by Companies are classified into: (1) securities intended to be held to maturity (hereafter, "held-to-maturity securities"), (2) equity securities issued by subsidiaries and affiliated companies, or (3) all other securities that are not classified as trading securities or in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are mainly stated at average cost. Available-for-sale securities with fair market values are stated at fair market values, and the corresponding unrealized holding gains or losses, net of applicable income taxes, are reported as a component of net assets. Realized gains and losses on sale of such securities are computed using average cost or moving-average cost. Other available-for-sale securities with no available fair market value are mainly stated at average cost.

(e) Derivative transactions and hedge accounting

The Companies generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless they are used for hedging purposes. Gains and losses on derivative financial instruments held by certain consolidated foreign subsidiaries are still charged to income as settled.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies generally defer recognition of gains or losses resulting from changes in their fair value until the related gains or losses on the hedged items are recognized.

(f) Inventories

Inventories are stated primarily at cost based on the following methods:

Metals, Minerals & Environmental Engineering Sector—Precious metals and a subsidiary (MCS, Inc.): First-in, first-out

Copper Foil Division: Moving average

The Company's intermediate materials business divisions (the Battery Materials Division, the Engineered Metal Powders Division, and the Rare Metals Division) and certain subsidiaries (the engineered metal powders factory of Kamioka Mining & Smelting Company, Limited, and the battery materials factory and functional powders factory of Hikoshima Smelting Company, Limited, and Ohi Seisakusho Company, Limited): Average

Overseas subsidiaries: Lower of market or cost using average or first-in, first-out

Others: mainly last-in, first-out

(g) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is generally computed by the declining-balance method based on the estimated useful lives of these depreciable assets, except the straight-line method is applied to: (1) buildings, excluding building fixtures, acquired after March 31, 1998, (2) certain plant facilities of the Company and (3) property, plant and equipment of certain consolidated subsidiaries. The useful lives of these assets generally range from 7 to 50 years for buildings, 3 to 60 years for structures and 2 to 20 years for machinery and equipment.

(Changes in accounting policy)

Regarding the Company and consolidated subsidiaries in Japan, accompanying the revision of the Corporate Income Tax Law, property, plant and equipment acquired on or after April 1, 2007, are from the fiscal year under review depreciated based on the revised law.

This change had the effect of reducing operating income ¥1,040 million ($10,380 thousand) and reducing income before income taxes ¥1,041 million ($10,390 thousand).

(Additional information)
Regarding the Company and consolidated subsidiaries in Japan, accompanying the revision of the Corporate Income Tax Law, assets acquired on or before March 31, 2007, are depreciated based on the pre-revision law and, from the fiscal year following the fiscal year in which the assets are depreciated to 5% of acquisition cost, the difference between a figure corresponding to 5% of acquisition cost and memorandum value is depreciated according to the straight-line method over five years and associated depreciation expenses are included within depreciation expenses.

This change had the effect of reducing operating income ¥1,124 million ($11,218 thousand) and reducing income before income taxes ¥1,138 million ($11,358 thousand).

In addition, regarding machinery and equipment items used by MCS, Inc. (a consolidated domestic subsidiary), that have exceeded their ordinary operating time, additional depreciation had been applied proportionate to the period of time exceeding the ordinary operating time. Because that company has drafted a medium-term production plan on the occasion of the construction of a new plant, however, as a result of the calculation of average service lives based on actual operating time, it became clear that projected service lives calculated based on actual operating time were longer than the effective durable years based on additional depreciation. Consequently, additional depreciation was discontinued from the fiscal year under review.

This change had the effect of increasing operating income and income before income taxes ¥918 million ($9,162 thousand).

(h) Allowance for doubtful accounts
The Company and its domestic subsidiaries provide an allowance for doubtful accounts in an amount sufficient to cover probable losses on collection by estimating individually uncollectible amounts and applying a percentage based on collection experience to the remaining accounts.

(i) Reserve for product warranties
Reserve for product warranties is provided to accrue estimated costs of repairing products free of charge, based on individually estimated amounts, when feasible, and the ratio of actual repair costs incurred to net sales.

(j) Employees' retirement benefits
The Companies provided employees' retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date. The liabilities and expenses for employees' retirement benefits were determined based on the amounts actuarially calculated using certain assumptions.

(k) Directors' and corporate auditors' retirement benefits
Directors and corporate auditors are generally entitled to receive retirement benefits based on the Companies' internal rules. Their retirement benefits are accrued at the amount required to pay in accordance with the internal rules if the directors and corporate auditors had retired at the balance sheet date.

The Company abolished directors' and corporate auditors' retirement benefits system as a result of the action by the Board of Directors held on April 27, 2005. Consequently, the Company provided their retirement benefits corresponding to the tenure before June 2005.

(l) Lease transactions
Finance leases which do not transfer the ownership of the leased assets to the lessee ("non-capitalized finance leases") are accounted for in the same manner as operating leases.

(m) Research and development expenses
Research and development expenses are charged to expenses.

(n) Income taxes
The Companies recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income of each of the Companies, with certain adjustments required for consolidation and tax purposes.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(o) Net income, diluted net income and cash dividends per share
Net income per share is computed based on the weighted-average number of shares of common stock outstanding during the respective fiscal year.

Diluted net income per share is not presented as there were no shares with dilutive effects in 2008 and 2007.

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

(p) Accounting Standard for Directors' Bonus
Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Directors' Bonus" (Statement No. 4 issued by the ASBJ on November 29, 2005). As a result, provision for directors' bonuses for the fiscal year was reported as selling, general and administrative expenses.

(q) Accounting Standard for Business Divestitures and Accounting Standard for Business Divestitures
Effective from the year ended March 31, 2007, the Company adopted the new accounting standard, "Accounting Standard for Business Divestitures" (Statement No. 7 issued by the ASBJ on December 27, 2005) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (the Financial Accounting Standard Implementation Guidance No. 10 issued by the ASBJ on December 27, 2005).

(r) Accounting Standard for Presentation of Net Assets in the Balance Sheet
Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the ASBJ on December 9, 2005) and "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (the Financial Accounting Standard Implementation Guidance No. 8 issued by the ASBJ on December 9, 2005), (collectively, "the New Accounting Standards").

(s) Accounting Standard for Statement of Changes in Net Assets
Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the ASBJ on December 27, 2005), and "Implementation Guidance on Accounting Standard for Statement of Changes in Net Assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the ASBJ on December 27, 2005), (collectively, "the Additional New Accounting Standards").

(t) Additional information
(Change in accounting classification of gains and losses on the sale of inventories other than finished goods)
Gains and losses on the sale of inventories other than finished goods were previously accounted for in other income (expenses). Because of the increasing importance of such gains and losses, however, from the fiscal year under review, the Companies have adopted the method of including revenue generated by the sale of inventories other than finished goods within net sales, including the corresponding cost of those inventory items within cost of sales, and including the transportation expenses, etc. associated with the shipment of those inventory items within selling, general and administrative expenses.

This change had the effect of increasing net sales ¥7,581 million ($75,666 thousand), increasing cost of sales ¥7,406 million ($73,919 thousand), and increasing selling, general and administrative expenses ¥659 million ($6,577 thousand) as well as of decreasing operating income ¥484 million ($4,830 thousand), decreasing other income ¥837 million ($8,354 thousand), and decreasing other expenses ¥1,321 million ($13,184 thousand). However, the change had no impact on income before income taxes.

(u) Changes in presentation
In the year ended March 31, 2008, loss from liquidation of subsidiaries and loss from environmental countermeasure, amounted to ¥157 million ($1,567 thousand) and ¥418 million ($4,172 thousand), respectively, are accounted for in other, net due to decrease in importance of amounts.

3. Securities

(a) Acquisition costs and book values of available-for-sale securities with fair value as of March 31, 2008 and 2007 were as follows:

	Millions of yen		
Year ended March 31, 2008	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**¥2,780**	**¥7,368**	**¥4,587**
Bonds	**25**	**87**	**61**
Subtotal	**2,806**	**7,456**	**4,649**
Securities whose book value does not exceed acquisition cost:			
Stocks	**380**	**326**	**(53)**
Subtotal	**380**	**326**	**(53)**
Total	**¥3,186**	**¥7,782**	**¥4,596**

	Millions of yen		
Year ended March 31, 2007	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	¥3,102	¥11,553	¥8,451
Bonds	25	93	67
Subtotal	3,127	11,646	8,518
Securities whose book value does not exceed acquisition cost:			
Stocks	56	43	(12)
Subtotal	56	43	(12)
Total	¥3,184	¥11,689	¥8,505

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2008	Acquisition cost	Book value	Difference
Securities whose book value exceeds acquisition cost:			
Stocks	**$27,747**	**$73,540**	**$45,783**
Bonds	**249**	**868**	**608**
Subtotal	**28,006**	**74,418**	**46,401**
Securities whose book value does not exceed acquisition cost:			
Stocks	**3,792**	**3,253**	**(528)**
Subtotal	**3,792**	**3,253**	**(528)**
Total	**$31,799**	**$77,672**	**$45,872**

Losses on write-downs of available-for-sale securities with fair value amounted to ¥17 million ($169 thousand) for the year ended March 31, 2008.

The Companies write down securities when their fair value declines from cost by 50% or more. In case that the decline ranges at least 30% but less than 50%, the Companies determine whether the decline is temporary. If such a decline is judged to be other than temporary, securities are written down to their fair value.

(b) Available-for-sale securities sold for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Total sale amount	**¥372**	¥242	**$3,712**
Gains	**274**	141	**2,734**
Losses	**—**	—	**—**

(c) Book values of available-for-sale securities with no available fair value as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Available-for-sale securities:			
Unlisted equity securities	**¥5,763**	¥5,791	**$57,520**
Unlisted domestic bonds	**240**	240	**2,395**

(d) Maturities of available-for-sale securities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Bonds:			
Within one year	¥ —	¥ —	$ —
Over one year but within five years	—	—	—
Over five years	240	240	2,395

4. Amounts of Cash and Cash Equivalents

Amounts of cash and cash equivalents at March 31, 2008 and 2007 were reconciled with cash and time deposits as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash and time deposits	¥20,645	¥17,306	$206,058
Time deposits with maturities exceeding three months from the date of deposit	(0)	(1)	(0)
Total: Cash and cash equivalents	¥20,645	¥17,304	$206,058

5. Cash Proceeds (Cash Disbursements) from Sale of Consolidated Subsidiary and Cash Proceeds from Transfer of Business

Year ended March 31, 2007

(a) The Companies sold the securities of a consolidated subsidiary, Sagamihara Components Co., Ltd., in the year ended March 31, 2007. The book values of assets and liabilities, sales price and cash proceeds from the sale of the subsidiary are summarized as follows:

	Millions of yen
Current assets	¥353
Long-term assets	672
Current liabilities	(447)
Long-term liabilities	(34)
Loss on sale of securities of the consolidated subsidiary	(63)
Sales price	479
Cash and cash equivalents of the consolidated subsidiary sold	(23)
Cash proceeds from sale of the consolidated subsidiary	¥456

(b) The Companies sold the securities of a consolidated subsidiary, Mitsui-Eurocel S.A.S., in the year ended March 31, 2007. The book values of assets and liabilities, sales price and cash disbursements from the sale of the subsidiary are summarized as follows:

	Millions of yen
Current assets	¥2,858
Long-term assets	396
Current liabilities	(2,285)
Long-term liabilities	(42)
Loss on sale of securities of the consolidated subsidiary	(555)
Sales price	370
Accrued revenue involved above	(354)
Payments on activities in relation to sell the company	(229)
Cash and cash equivalents of the consolidated subsidiary sold	(10)
Cash disbursements from sale of the consolidated subsidiary	¥ (224)

(c) With the strengthening of the operational alliance, the Companies transferred the copper business and sold the securities of a consolidated subsidiary, Hibi Kyodo Smelting Co., Ltd., in the year ended March 31, 2007. The book values of assets and liabilities, sales price and cash proceeds from the sale of the subsidiary and the transfer of business are summarized as follows:

	Millions of yen
Current assets	¥ 4,873
Long-term assets	4,743
Current liabilities	(1,591)
Long-term liabilities	—
The book values of assets and liabilities transferred	8,025
Current assets	4,620
Long-term assets	11,592
Current liabilities	(8,685)
Long-term liabilities	(6,805)
Minority interests in consolidated subsidiaries	(2,187)
Net unrealized gains on securities	(28)
The book values of assets and liabilities of the consolidated subsidiary sold	(1,494)
The total book value of assets and liabilities decreased by the transfer of business	6,530
Gain on sale of assets	15,825
Transfer price	22,356
Cash and cash equivalents of the consolidated subsidiary sold	(18)
Cash proceeds from the transfer of business	¥22,337

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans, generally represented by short-term notes and bank overdrafts, bore interest at annual rates ranging from 0.841% to 7.250% and from 0.284% to 5.740% at March 31, 2008 and 2007, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
1.45% yen unsecured straight bonds due in 2012	**¥ 10,000**	¥ —	**$ 99,810**
1.71% yen unsecured straight bonds due in 2011	**10,000**	10,000	**99,810**
1.11% yen unsecured straight bonds due in 2010	**10,000**	10,000	**99,810**
0.93% yen unsecured straight bonds due in 2009	**10,000**	10,000	**99,810**
0.6% yen unsecured straight bonds due in 2008	**10,000**	10,000	**99,810**
2.15% yen unsecured straight bonds due in 2007	**—**	1,000	**—**
Banks, insurance companies and other financial institutions, maturing through 2013 at interest rates ranging from 0.790% to 6.885% at March 31, 2008:			
Secured	**3,526**	3,227	**35,193**
Unsecured	**52,117**	58,152	**520,181**
Government-owned banks and government agencies, maturing through 2023 at interest rates ranging from 1.1% to 7.0% at March 31, 2008:			
Secured	**4,162**	5,277	**41,541**
Unsecured	**—**	—	**—**
	109,805	107,658	**1,095,967**
Less: Current portion	**20,054**	24,282	**200,159**
	¥ 89,750	¥ 83,376	**$ 895,797**

The aggregate annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥ 20,054	$ 200,159
2010	20,587	205,479
2011	23,865	238,197
2012	19,773	197,355
2013	23,193	231,490
Thereafter	2,329	23,245
Total	¥109,805	$1,095,967

The 0.6% yen unsecured straight bonds due in 2008 were issued on May 29, 2003 by the Company.
The 0.93% yen unsecured straight bonds due in 2009 were issued on May 27, 2004 by the Company.
The 1.11% yen unsecured straight bonds due in 2010 were issued on October 27, 2005 by the Company.
The 1.71% yen unsecured straight bonds due in 2011 were issued on August 3, 2006 by the Company.
The 1.45% yen unsecured straight bonds due in 2012 were issued on May 22, 2007 by the Company.

7. Pledged Assets

Assets pledged as collateral for short-term bank loans, long-term debt and third-party loans at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Notes and accounts receivable	**¥ 3,062**	¥ 3,074	**$ 30,561**
Inventories	**2,026**	1,380	**20,221**
Investment securities	**3,239**	8,029	**32,328**
Property, plant and equipment, net book value	**31,912**	42,617	**318,514**
	¥40,240	¥55,102	**$401,636**

8. Research and Development Expenses

Research and development expenses included in production cost and selling, general and administrative expenses amounted to ¥8,314 million ($82,982 thousand) and ¥7,359 million for the years ended March 31, 2008 and 2007, respectively.

9. Contingent Liabilities

Contingent liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Notes receivable discounted	**¥ 614**	¥ 649	**$ 6,128**
Notes receivable endorsed	**87**	—	**868**
Notes receivable securitized with recourse	**3,007**	4,566	**30,012**
Loans guaranteed:			
Unconsolidated subsidiaries and affiliates	**48,148**	40,264	**480,566**
Others	**1,989**	2,416	**19,852**
	¥53,847	¥47,897	**$537,448**

10. Net Assets

The Japanese Company Law provides that an amount equal to 10% of cash dividends and other cash appropriations of retained earnings must be set aside as a legal earnings reserve included in retained earnings until the total amount of capital surplus and the legal earnings reserve equals 25% of common stock.

The excess of the total amount of capital surplus and the legal earnings reserve over 25% of common stock can be transferred to retained earnings by a resolution of the shareholders, which may be available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Japanese Company Law.

11. Segment Information

The operations of the Companies for the years ended March 31, 2008 and 2007 were summarized by business segment, geographic segment and sales outside Japan by the Companies as follows.

(a) Business segment information

	Millions of yen							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2008								
Sales:								
Outside customers	**¥109,657**	**¥223,511**	**¥150,211**	**¥47,895**	**¥14,002**	**¥50,185**	**¥ —**	**¥595,463**
Inter-segment	**32,462**	**20,261**	**3,610**	**21,197**	**13,592**	**10,494**	**(101,618)**	**—**
Total	**142,120**	**243,772**	**153,821**	**69,092**	**27,594**	**60,680**	**(101,618)**	**595,463**
Operating expenses	**129,537**	**237,682**	**153,747**	**64,152**	**26,301**	**58,740**	**(102,692)**	**567,469**
Operating income	**¥ 12,582**	**¥ 6,090**	**¥ 73**	**¥ 4,939**	**¥ 1,293**	**¥ 1,939**	**¥ 1,073**	**¥ 27,993**
Identifiable assets	**¥139,698**	**¥180,762**	**¥111,518**	**¥41,199**	**¥19,714**	**¥27,568**	**¥ (34,224)**	**¥486,238**
Depreciation expense	**6,068**	**17,095**	**6,113**	**1,844**	**147**	**225**	**(1,161)**	**30,333**
Loss on impairment of fixed assets	**7**	**17,819**	**10**	**67**	**—**	**610**	**—**	**18,514**
Capital expenditures	**10,216**	**18,771**	**6,834**	**3,323**	**96**	**11**	**(5)**	**39,248**

	Millions of yen							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2007								
Sales:								
Outside customers	¥ 93,117	¥225,242	¥160,858	¥37,709	¥23,752	¥50,837	¥ —	¥591,518
Inter-segment	20,446	24,045	897	15,641	22,463	10,991	(94,485)	—
Total	113,564	249,287	161,756	53,350	46,215	61,828	(94,485)	591,518
Operating expenses	102,566	230,951	160,170	50,148	43,367	60,143	(94,695)	552,653
Operating income	¥ 10,998	¥ 18,336	¥ 1,585	¥ 3,202	¥ 2,848	¥ 1,685	¥ 209	¥ 38,865
Identifiable assets	¥115,923	¥206,043	¥105,497	¥39,447	¥25,181	¥32,489	¥(41,185)	¥483,397
Depreciation expense	4,566	16,878	5,535	1,456	223	234	(286)	28,608
Loss on impairment of fixed assets	201	345	64	—	—	723	—	1,334
Capital expenditures	7,664	25,141	5,418	2,427	307	109	(759)	40,309

	Thousands of U.S. dollars (Note 1)							
	Mining & Fundamental Materials	Intermediate Materials	Parts Manufacturing & Assembly	Environmental Engineering & Metals Recycling	Engineering	Services	Elimination or corporate	Consolidated
Year ended March 31, 2008								
Sales:								
Outside customers	**$1,094,490**	**$2,230,871**	**$1,499,261**	**$478,041**	**$139,754**	**$500,898**	**$ —**	**$5,943,337**
Inter-segment	**324,004**	**202,225**	**36,031**	**211,568**	**135,662**	**104,740**	**(1,014,252)**	**—**
Total	**1,418,504**	**2,433,097**	**1,535,292**	**689,609**	**275,416**	**605,649**	**(1,014,252)**	**5,943,337**
Operating expenses	**1,292,913**	**2,372,312**	**1,534,554**	**640,303**	**262,511**	**586,286**	**(1,024,972)**	**5,663,928**
Operating income	**$ 125,581**	**$ 60,784**	**$ 728**	**$ 49,296**	**$ 12,905**	**$ 19,353**	**$ 10,709**	**$ 279,399**
Identifiable assets	**$1,394,330**	**$1,804,192**	**$1,113,065**	**$411,208**	**$196,766**	**$275,157**	**$ (341,590)**	**$4,853,158**
Depreciation expense	**60,564**	**170,625**	**61,014**	**18,405**	**1,467**	**2,245**	**(11,587)**	**302,754**
Loss on impairment of fixed assets	**69**	**177,852**	**99**	**668**	**—**	**6,088**	**—**	**184,788**
Capital expenditures	**101,966**	**187,354**	**68,210**	**33,166**	**958**	**109**	**(49)**	**391,735**

Notes: (a) As stated in note 2 (g), regarding the Company and consolidated subsidiaries in Japan, accompanying the revision of the Corporate Income Tax Law, property, plant and equipment acquired on or after April 1, 2007, are from the fiscal year under review depreciated based on the revised law.

As a result, operating expenses increased by ¥174 million ($1,736 thousand) in the "Mining & Fundamental Materials" segment, ¥713 million ($7,116 thousand) in the "Intermediate Materials" segment, ¥42 million ($419 thousand) in the "Parts Manufacturing & Assembly" segment, ¥55 million ($548 thousand) in the "Environmental Engineering & Metals Recycling" segment, ¥3 million ($29 thousand) in the "Engineering" segment, ¥51 million ($509 thousand) in the "Services" segment, and operating income decreased by the same amount.

(Additional information)

Regarding the Company and consolidated subsidiaries in Japan, accompanying the revision of the Corporate Income Tax Law, assets acquired on or before March 31, 2007, are depreciated based on the pre-revision law and, from the fiscal year following the fiscal year in which the assets are depreciated to 5% of acquisition cost, the difference between a figure corresponding to 5% of acquisition cost and memorandum value is depreciated according to the straight-line method over five years and associated depreciation expenses are included within depreciation expenses.

As a result, operating expenses increased by ¥241 million ($2,405 thousand) in the "Mining & Fundamental Materials" segment, ¥551 million ($5,499 thousand) in the "Intermediate Materials" segment, ¥181 million ($1,806 thousand) in the "Parts Manufacturing & Assembly" segment, ¥76 million ($758 thousand) in the "Environmental Engineering & Metals Recycling" segment, ¥11 million ($109 thousand) in the "Engineering" segment, ¥62 million ($618 thousand) in the "Services" segment, and operating income decreased by the same amount.

In addition, regarding machinery and equipment items used by MCS, Inc., that have exceeded their ordinary operating time, additional depreciation had been applied proportionate to the period of time exceeding the ordinary operating time. Because that company has drafted a medium-term production plan on the occasion of the construction of a new plant, however, as a result of the calculation of average service lives based on actual operating time, it became clear that projected service lives calculated based on actual operating time were longer than the effective durable years based on additional depreciation. Consequently, additional depreciation was discontinued from the fiscal year under review.

As a result, operating expenses decreased by ¥918 million ($9,162 thousand) in the "Intermediate Materials" segment, and operating income increased by the same amount.

(b) As stated in note 2 (t), gains and losses on the sale of inventories other than products were previously accounted for in other income (expenses). Because of the increasing importance of such gains and losses, however, from the fiscal year under review, the Companies have adopted the method of including revenue generated by the sale of inventories other than products within net sales, including the corresponding cost of those inventory items within cost of sales, and including the transportation expenses, etc. associated with the shipment of those inventory items within selling, general and administrative expenses.

As a result, net sales increased by ¥1,162 million ($11,597 thousand) in the "Mining & Fundamental Materials" segment, ¥4,092 million ($40,842 thousand) in the "Intermediate Materials" segment, ¥937 million ($9,352 thousand) in the "Parts Manufacturing & Assembly" segment, ¥1,388 million ($13,853 thousand) in the "Environmental Engineering & Metals Recycling" segment, and operating expenses increased by ¥1,882 million ($18,784 thousand) in the "Mining & Fundamental Materials" segment, ¥3,675 million ($36,680 thousand) in the "Intermediate Materials" segment, ¥817 million ($8,154 thousand) in the "Parts Manufacturing & Assembly" segment, ¥1,689 million ($16,857 thousand) in the

"Environmental Engineering & Metals Recycling" segment.

Consequently, operating income increased by ¥416 million ($4,152 thousand) in the "Intermediate Materials" segment, ¥120 million ($1,197 thousand) in the "Parts Manufacturing & Assembly" segment, however, operating income decreased by ¥720 million ($7,186 thousand) in the "Mining & Fundamental Materials" segment, ¥300 million ($2,994 thousand) in the "Environmental Engineering & Metals Recycling" segment.

(c) As stated in note 2 (p), effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Directors' Bonus".

As a result of adopting this standard, operating expenses increased by ¥33 million in the "Mining & Fundamental Materials" segment, ¥91 million in the "Intermediate Materials" segment, ¥42 million in the "Parts Manufacturing & Assembly" segment, ¥12 million in the "Environmental Engineering & Metals Recycling" segment, ¥28 million in the "Engineering" segment, and operating income decreased by the same amount.

(b) Geographic segment information

	Millions of yen					
	Japan	North America	Asia	Other Areas	Elimination or corporate	Consolidated
Year ended March 31, 2008						
Sales:						
Outside customers	**¥457,953**	**¥44,460**	**¥ 81,280**	**¥11,769**	**¥ —**	**¥595,463**
Inter-segment	**44,165**	**365**	**31,370**	**6,166**	**(82,066)**	**—**
Total	**502,118**	**44,825**	**112,650**	**17,935**	**(82,066)**	**595,463**
Operating expenses	**486,406**	**44,512**	**104,384**	**12,760**	**(80,594)**	**567,469**
Operating income	**¥ 15,712**	**¥ 313**	**¥ 8,265**	**¥ 5,174**	**¥ (1,472)**	**¥ 27,993**
Identifiable assets	**¥425,281**	**¥21,735**	**¥ 75,538**	**¥16,603**	**¥(52,919)**	**¥486,238**
Year ended March 31, 2007						
Sales:						
Outside customers	¥439,101	¥57,836	¥ 79,481	¥15,098	¥ —	¥591,518
Inter-segment	48,698	870	34,014	7,371	(90,954)	—
Total	487,800	58,706	113,496	22,469	(90,954)	591,518
Operating expenses	463,400	58,120	108,293	15,366	(92,528)	552,653
Operating income	¥ 24,400	¥ 585	¥ 5,202	¥ 7,102	¥ 1,573	¥ 38,865
Identifiable assets	¥426,527	¥27,662	¥ 65,418	¥14,832	¥(51,043)	¥483,397

	Thousands of U.S. dollars (Note 1)					
	Japan	North America	Asia	Other Areas	Elimination or corporate	Consolidated
Year ended March 31, 2008						
Sales:						
Outside customers	**$4,570,845**	**$443,756**	**$ 811,258**	**$117,466**	**$ —**	**$5,943,337**
Inter-segment	**440,812**	**3,643**	**313,105**	**61,543**	**(819,103)**	**—**
Total	**5,011,657**	**447,399**	**1,124,363**	**179,009**	**(819,103)**	**5,943,337**
Operating expenses	**4,854,835**	**444,275**	**1,041,860**	**127,358**	**(804,411)**	**5,663,928**
Operating income	**$ 156,822**	**$ 3,124**	**$ 82,493**	**$ 51,641**	**$ (14,692)**	**$ 279,399**
Identifiable assets	**$4,244,744**	**$216,937**	**$ 753,947**	**$165,715**	**$(528,186)**	**$4,853,158**

Notes: (a) As stated in note 2 (g), regarding the Company and consolidated subsidiaries in Japan, accompanying the revision of the Corporate Income Tax Law, property, plant and equipment acquired on or after April 1, 2007, are from the fiscal year under review depreciated based on the revised law.

As a result, operating expenses increased by ¥1,040 million ($10,380 thousand) in the "Japan" segment and operating income decreased by the same amount.

(Additional information)

Regarding the Company and consolidated subsidiaries in Japan, accompanying the revision of the Corporate Income Tax Law, assets acquired on or before March 31, 2007, are depreciated based on the pre-revision law and, from the fiscal year following the fiscal year in which the assets are depreciated to 5% of acquisition cost, the difference between a figure corresponding to 5% of acquisition cost and memorandum value is depreciated according to the straight-line method over five years and associated depreciation expenses are included within depreciation expenses.

As a result, operating expenses increased by ¥1,124 million ($11,218 thousand) in the “Japan” segment and operating income decreased by the same amount.

In addition, regarding machinery and equipment items used by MCS, Inc., that have exceeded their ordinary operating time, additional depreciation had been applied proportionate to the period of time exceeding the ordinary operating time. Because that company has drafted a medium-term production plan on the occasion of the construction of a new plant, however, as a result of the calculation of average service lives based on actual operating time, it became clear that projected service lives calculated based on actual operating time were longer than the effective durable years based on additional depreciation. Consequently, additional depreciation was discontinued from the fiscal year under review.

As a result, operating expenses decreased by ¥918 million ($9,162 thousand) in the “Japan” segment, and operating income increased by the same amount.

(b) As stated in note 2 (t), gains and losses on the sale of inventories other than products were previously accounted for in other income (expenses). Because of the increasing importance of such gains and losses, however, from the fiscal year under review, the Companies have adopted the method of including revenue generated by the sale of inventories other than products within net sales, including the corresponding cost of those inventory items within cost of sales, and including the transportation expenses, etc. associated with the shipment of those inventory items within selling, general and administrative expenses.

As a result, net sales increased by ¥7,118 million ($71,045 thousand) in the “Japan” segment, ¥462 million ($4,611 thousand) in the “Asia” segment, and operating expenses increased by ¥7,950 million ($79,349 thousand) in the “Japan” segment, ¥115 million ($1,147 thousand) in the “Asia” segment.

Consequently, operating income increased by ¥347 million ($3,463 thousand) in the “Asia” segment, however, operating income decreased by ¥831 million ($8,294 thousand) in the “Japan” segment.

(c) As stated in note 2 (p), effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, “Accounting Standard for Directors’ Bonus”.

As a result of adopting this standard, operating expenses increased by ¥208 million in the “Japan” segment and operating income decreased by the same amount.

(c) Sales outside Japan by the Company and its consolidated subsidiaries

	Millions of yen			
	North America	Asia	Other Areas	Total
Year ended March 31, 2008				
Overseas sales	**¥46,481**	**¥114,193**	**¥18,054**	**¥178,729**
Consolidated net sales	**—**	**—**	**—**	**595,463**
Ratio of overseas sales to consolidated net sales	**7.81%**	**19.18%**	**3.03%**	**30.02%**
Year ended March 31, 2007				
Overseas sales	¥60,612	¥103,691	¥19,390	¥183,694
Consolidated net sales	—	—	—	591,518
Ratio of overseas sales to consolidated net sales	10.25%	17.53%	3.27%	31.05%

	Thousands of U.S. dollars (Note 1)			
	North America	Asia	Other Areas	Total
Year ended March 31, 2008				
Overseas sales	**$463,928**	**$1,139,764**	**$180,197**	**$1,783,900**
Consolidated net sales	**—**	**—**	**—**	**5,943,337**

12. Income Taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.4% for the years ended March 31, 2008 and 2007.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Deferred tax assets:			
Unrealized profits and losses	¥ 2,077	¥ 2,713	$ 20,730
Operating loss carryforward for tax purposes	4,709	4,452	47,000
Retirement benefits	13,360	11,828	133,346
Excess bad debt expenses	704	234	7,026
Excess accrued bonuses to employees	2,203	2,326	21,988
Excess product warranties	711	862	7,096
Enterprise taxes accrued	426	695	4,251
Loss on impairment of fixed assets	9,852	2,518	98,333
Reserve for environmental countermeasures	1,034	1,235	10,320
Reserve for losses of affiliated companies	95	174	948
Unrealized loss on hedging derivatives	462	2,501	4,611
Other	8,554	8,592	85,377
Subtotal	44,192	38,137	441,081
Valuation allowance	(20,747)	(11,703)	(207,076)
Total deferred tax assets	¥ 23,444	¥ 26,434	$ 233,995
Deferred tax liabilities:			
Net unrealized gains on securities	¥ (1,832)	¥ (3,452)	$ (18,285)
Deferral of capital gain related to certain sale of property, plant and equipment	(2,297)	(2,358)	(22,926)
Retained earnings of foreign subsidiaries	(6,434)	(5,657)	(64,217)
Unrealized gain on hedging derivatives	(484)	(236)	(4,830)
Other	(1,996)	(2,117)	(19,922)
Total deferred tax liabilities	(13,045)	(13,822)	(130,202)
Net deferred tax assets	¥ 10,398	¥ 12,611	$ 103,782

The net deferred tax assets at March 31, 2008 and 2007 were contained in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Deferred tax assets—current	¥3,755	¥6,486	$37,478
Deferred tax assets—noncurrent	8,490	8,046	84,738
Deferred tax liabilities—current	69	25	688
Deferred tax liabilities—noncurrent	1,777	1,895	17,736

The following table summarizes the significant differences between the statutory effective tax rate and the tax rate calculated based on the Company's consolidated financial statements for the years ended March 31, 2008 and 2007.

	2008	2007
Statutory effective tax rate	40.40%	40.40%
Effect of elimination of intercompany dividends received	16.01	7.17
Permanent difference due to non-deductible expense	1.80	0.61
Investment gains on equity method	(20.69)	(11.88)
Permanent difference due to non-taxable income	(12.18)	(6.66)
Amortization of goodwill	(5.30)	(2.46)
Valuation allowance	40.13	—
Others	(7.02)	2.47
Tax rate calculated based on the Companies' consolidated financial statements	53.15%	29.65%

13. Lease Transactions

(a) As lessees

(1) Information on non-capitalized finance leases for the years ended March 31, 2008 and 2007 is as follows:

Acquisition cost equivalents, accumulated depreciation equivalents and net book value equivalents of leased properties:

	Millions of yen		
Year ended March 31, 2008	Acquisition cost equivalents	Accumulated depreciation equivalents	Net book value equivalents
Machinery and equipment	**¥9,567**	**¥4,969**	**¥4,598**

	Millions of yen		
Year ended March 31, 2007	Acquisition cost equivalents	Accumulated depreciation equivalents	Net book value equivalents
Machinery and equipment	¥7,976	¥3,498	¥4,478

	Thousands of U.S. dollars (Note 1)		
Year ended March 31, 2008	Acquisition cost equivalents	Accumulated depreciation equivalents	Net book value equivalents
Machinery and equipment	**$95,488**	**$49,595**	**$45,892**

Lease obligations, lease expenses and depreciation equivalents:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Lease obligations due:			
Within one year	**¥1,401**	¥1,281	**$13,983**
Over one year	**3,199**	3,223	**31,929**
Total	**¥4,601**	¥4,505	**$45,922**
Lease expenses	**¥1,454**	¥1,471	**$14,512**
Depreciation equivalents	**1,454**	1,471	**14,512**

Since the amounts of lease obligations are relatively small, amounts shown above are inclusive of interest.

Assumed depreciation amounts are computed using the straight-line method over the lease terms assuming no residual value.

(2) Information on operating leases for the years ended March 31, 2008 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Lease obligations due:			
Within one year	**¥17**	¥212	**$169**
Over one year	**13**	359	**129**
Total	**¥30**	¥572	**$299**

(b) As lessors

Information on non-capitalized finance leases for the years ended March 31, 2008 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Lease receivables due:			
Within one year	**¥0**	¥ 5	**$ 7**
Over one year	**1**	21	**9**
Total	**¥2**	¥26	**$19**

All transactions of the Companies as lessors were subleases to third parties. The Companies subleased to lessees on the same terms that the Companies originally signed. The whole amount was included in the amount of lease obligations shown in (a).

Since the amounts of lease receivables were relatively small, amounts shown above are inclusive of interest.

14. Derivative Transactions

The Companies used currency forward contracts and options to hedge transactions, such as sales of commodities (mainly basic metals) and purchases of inventories (mainly imported materials), and to hedge its assets and liabilities denominated in foreign currencies against foreign currency exchange risk.

The Companies also entered into interest rate swaps to hedge their loans payable against interest rate risk. Further, the Companies utilized metal forward contracts to reduce the Companies' exposure to fluctuations in metal prices.

All of these contracts were based on actual demand and not for trading in the short term or for speculation. In particular, the Companies prohibited selling options in accordance with their respective internal transaction management rules.

Contract amounts shown in the tables below are notional amounts in derivative contracts. These amounts do not represent the Companies' market risk or credit risk incurred in derivative transactions.

Dealing market value was computed as a fair value based on the price shown by banking facilities or trading companies. These market values were presented for evaluations of derivatives, and they do not represent the amounts that the Companies pay or receive in the future.

The following tables summarize market value information as of March 31, 2008 and 2007 of derivative transactions for which hedge accounting had not been applied.

(a) Currency-related derivatives

			Millions of yen		Thousands of U.S. dollars (Note 1)
Type			**2008**	2007	**2008**
Forward contracts:					
	Selling U.S. dollars:	Contract amounts	**¥ —**	¥ 71	**$ —**
		Due over one year	**—**	—	**—**
		Market value	**—**	70	**—**
		Net unrealized gains	**—**	1	**—**
	Selling Euros:	Contract amounts	**¥ 130**	¥217	**$ 1,297**
		Due over one year	**—**	—	**—**
		Market value	**126**	219	**1,257**
		Net unrealized gains	**4**	(2)	**39**
	Buying U.S. dollars:	Contract amounts	**¥1,201**	¥258	**$11,987**
		Due over one year	**—**	—	**—**
		Market value	**1,199**	259	**11,967**
		Net unrealized gains	**(1)**	1	**(9)**
	Buying Thai baht:	Contract amounts	**¥ —**	¥361	**$ —**
		Due over one year	**—**	—	**—**
		Market value	**—**	351	**—**
		Net unrealized gains	**—**	(9)	**—**
	Buying Japanese yen:	Contract amounts	**¥ —**	¥413	**$ —**
		Due over one year	**—**	—	**—**
		Market value	**—**	403	**—**
		Net unrealized losses	**—**	(9)	**—**

Market values of forward currency contracts are based on future exchange rates or prices provided by financial institutions.

15. Employees' Retirement Benefits

The Company and its consolidated domestic subsidiaries provide two retirement benefit plans for employees, an unfunded retirement plan and a funded retirement plan, under which all eligible employees are entitled to benefits based on their length of service and basic rate of pay at the time of termination.

Employees' retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Projected benefit obligation	**¥37,973**	¥34,618	**$379,009**
Plan assets at fair value	**(4,022)**	(4,220)	**(40,143)**
Projected benefit obligation in excess of plan assets	**33,951**	30,398	**338,866**
Less: Unrecognized actuarial differences	**(447)**	(68)	**(4,461)**
Less: Unrecognized prior service costs	**(141)**	(179)	**(1,407)**
Payment on delivery plan expense	**(21)**	—	**(209)**
Employees' retirement benefits	**¥33,382**	¥30,151	**$333,186**

The employees' retirement benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Service costs—benefits earned during the year	**¥2,160**	¥2,979	**$21,559**
Interest cost on projected benefit obligation	**580**	552	**5,789**
Expected return on plan assets	**(157)**	(79)	**(1,567)**
Amortization of actuarial differences	**3,547**	1,341	**35,402**
Amortization of prior service costs	**145**	134	**1,447**
Additional retirement benefits	**—**	796	**—**
Employees' retirement benefit costs	**¥6,276**	¥5,724	**$62,640**

The actuarial assumptions for calculating the projected benefit obligation for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Attribution of benefits to periods of service	**Benefit/years-of-service approach**	Benefit/years-of-service approach
Discount rate used to determine the projected benefit obligation	**1.7%–2.4%**	1.7%–2.4%
Expected return on plan assets	**Mainly 4.5%**	Mainly 1.0%
Period to amortize prior service costs	**1–5 years**	1–5 years
Period to amortize the actuarial differences	**1–3 years**	1–3 years

16. Earnings per Share of Common Stock

Earnings per share of common stock at March 31, 2008 and 2007 were as follows:

Year ended March 31, 2008

	Net income (Millions of yen)	Weighted-average shares (Thousands)	Net income per share (Yen)	Net income per share (U.S. dollars (Note 1))
Net income available to common shareholders	**¥7,830**	**572,695**	**¥13.67**	**$0.14**

Year ended March 31, 2007

	Net income (Millions of yen)	Weighted-average shares (Thousands)	Net income per share (Yen)
Net income available to common shareholders	¥31,370	572,730	¥54.77

17. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2008 and 2007 consisted of the following.

Year ended March 31, 2008

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars (Note 1)
Shimonoseki City,	Production facilities	Buildings and structures	**¥6,462**	**$64,497**
Yamaguchi Prefecture, others		Machinery	**8,607**	**85,906**
		Others	**2,699**	**26,938**
Takehara City,	Lease assets	Buildings and structures	**15**	**149**
Hiroshima Prefecture, others		Land	**209**	**2,086**
Kita-ku, Tokyo, others	Idle assets	Land, others	**519**	**5,180**

The Company and its consolidated subsidiaries have grouped assets used for business activities by the units of the factory distinction and of the product distinction based on management accounting. Idle assets and lease assets that have a sign of impairment are assessed on an individual basis.

As for production facilities, the serious deterioration in the market conditions had weakened profitability, and, moreover, sale of these assets was extremely improbable. Consequently, the book values of these assets were lowered to the amount deemed to be recoverable estimated from the value of these assets in use.

As for lease assets, the book values of these assets were lowered to the amount deemed to be recoverable estimated from the value of these assets in use.

As for idle assets, the book values of the assets were reduced to zero in case that sale of these assets was extremely improbable. The book value of salable lands was reduced to net realizable value based on the fair value, provided by a real estate appraiser.

In computing the recoverable value estimated from the value of the assets in use, the rate for discounting future cash flows is 3.73%.

Year ended March 31, 2007

Location	Major use	Asset category	Millions of yen
Takehara City,	Production facilities	Buildings and structures	¥ 16
Hiroshima Prefecture, others		Machinery	23
		Others	65
Hachinohe City,	Welfare program	Land	50
Aomori Prefecture	assets	Buildings, others	96
Kita-ku, Tokyo, others	Idle assets	Land, others	1,083

The Company and its consolidated subsidiaries have grouped assets used for business activities by the units of the factory distinction and of the product distinction based on management accounting. Idle assets and lease assets that have a sign of impairment are assessed on an individual basis.

As for production facilities, there were no future cash flows expected since the serious deterioration in the market conditions had weakened profitability, and, moreover, sale of these assets was extremely improbable. Consequently, the book values of these assets were reduced to zero.

As for idle assets and welfare program assets, the book values of the assets were reduced to zero in case that there were no future cash flows expected and, moreover, sale of these assets was extremely improbable. The book value of salable lands was reduced to net realizable value based on the fair value, provided by a real estate appraiser.

18. Related Party Transactions

(a) The Company owns 34% of outstanding shares of Pan Pacific Copper Co., Ltd., which sells products related to copper refining and smelting business.

The transactions amount for the years ended March 31, 2008 and 2007, and account balances as of March 31, 2008 and 2007 with Pan Pacific Copper Co., Ltd. were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Guarantees of bank loans and other	**¥37,821**	¥35,111	**$377,492**
Business transfer			
Asset transfer total	**—**	9,617	**—**
Liability transfer total	**—**	1,591	**—**
Transfer price	**—**	22,356	**—**
Gain on business transfer	**—**	14,331	**—**

Terms of transactions:
In the preceding fiscal year, the Company transferred commissioned copper smelting and refining work handled by the Tamano Smelter of Hibi Kyodo Smelting Co., Ltd., and a portion of auxiliary management operations at the Company's Hibi Smelter. The transfer prices were determined based on discussions between the transactors after obtaining a third-party appraiser's objective evaluation.

(b) Nikko Smelting and Refining Co., Ltd. is an affiliate of Pan Pacific Copper Co., Ltd.
The transactions amount for the years ended March 31, 2008 and 2007, and account balances as of March 31, 2008 and 2007 with Nikko Smelting and Refining Co., Ltd. were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Guarantees of bank loans	**¥8,077**	¥—	**$80,616**

(c) The Company owns 50% of outstanding shares of MS Zinc Co., Ltd., which produces and sells products related to zinc refining and smelting business.
The transactions amount for the years ended March 31, 2008 and 2007, and account balances as of March 31, 2008 and 2007 with MS Zinc Co., Ltd. were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Mainly purchasing of zinc metals	**¥39,474**	¥ —	**$393,991**
Notes and account payable	**6,830**	—	**68,170**
Mainly sales of zinc metals	**—**	75,910	**—**
Notes and accounts receivable	**—**	51	**—**

Terms of transactions:
Terms of sales and purchase to MS Zinc Co., Ltd. are determined under general market conditions.

19. Subsequent Events

(a) Issuance of unsecured domestic straight bonds
On April 28, 2008, the Board of Directors of the Company approved a proposal for the issuance of unsecured domestic straight bonds.
Principal data on these bonds to be issued are as follows:

1. Total issue amount — Not more than ¥10,000 million ($99,810 thousand)
2. Term — Five years
3. Payment price — ¥100 for each ¥100 of face value
4. Offering period — From April 30, 2008 to September 30, 2008
5. Interest rate — Fixed rate not exceeding swap rate corresponding to the bond repayment term plus 0.5%
6. Redemption method — Redemption of maturing date (It is possible to attach a callable option.)
7. Application of funds — Proceeds will be used for capital investments, working capital, repayment of commercial paper and other debt and equity and financing investments.

(b) On June 27, 2008, at the shareholders' meeting, the following appropriations were approved: payment of cash dividends to shareholders of record on March 31, 2008 of ¥12.00 ($0.12) per share totaling ¥6,872 million ($68,589 thousand).

Independent Auditors' Report

To the Board of Directors of
Mitsui Mining and Smelting Company, Limited:

We have audited the accompanying consolidated balance sheets of Mitsui Mining and Smelting Company, Limited and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsui Mining and Smelting Company, Limited and subsidiaries as of March 31, 2008 and 2007, 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.

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 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 27, 2008

MITSUI KINZOKU

Corporate Data (As of July 1, 2008)

Established: May 1, 1950

Authorized capital: 1,944 million shares

Shares issued: 572,966,166 shares

Paid-in capital: ¥42,129 million

Stock listings: Common stock is listed on the Tokyo, Osaka, and three other domestic stock exchanges.

Number of shareholders: 62,442

Principal shareholders:

	Investment in the Company	
	Number of shares held (Thousands)	Percentage of total shares issued (%)
Japan Trustee Services Bank, Ltd. (Held in trust account)	33,042	5.76
The Master Trust Bank of Japan, Ltd. (Held in trust account)	32,637	5.69
Japan Trustee Services Bank, Ltd. (Held in trust account 4)	10,112	1.76
Mellon Bank, N.A. as Agent for its Client Mellon Omnibus US Pension	8,533	1.49
Mitsui Life Insurance Company, Limited	7,981	1.39
The Chase Manhattan Bank, N.A. London Secs Lending Omnibus Account	7,306	1.27
Trust & Custody Services Bank, Ltd. (Held in securities investment trust account)	6,347	1.10
BNP PARIBAS Securities (Japan) Limited	6,305	1.10
The Employees' Shareholding Association	6,177	1.07
Investors Bank and Trust Company (West) - Treaty	5,567	0.97

Notes: 1. Percentages of total shares issued are calculated based on the total number of shares issued excluding treasury stock (282,613 shares).
2. Figures are truncated to thousands of shares.

Principal subsidiaries:

	Paid-in capital (Millions)	Share (%)
Kamioka Mining & Smelting Co., Ltd.	¥4,600	100.0
Hachinohe Smelting Co., Ltd.	¥4,795	85.5
Hikoshima Smelting Co., Ltd.	¥460	100.0
Okuaizu Geothermal Co., Ltd.	¥100	100.0
Taiwan Copper Foil Co., Ltd.	NT$800	95.0
Mitsui Copper Foil (Malaysia) Sdn. Bhd.	RM50	90.0
MCS, Inc.	¥450	100.0 (8.9)
Mitsui Electronic Materials Co., Ltd.	NT$600	100.0
Ohi Seisakusho Co., Ltd.	¥2,766	100.0
GECOM Corp.	US$15.75	100.0
Mitsui Siam Components Co., Ltd.	Bh210	75.0
MESCO, Inc.	¥1,085	63.3
Mitsui Kinzoku Trading Co., Ltd.	¥240	100.0

Note: Parentheses around figures for percentages of shares owned by the Company indicate indirect ownership.

Directors, Auditors, and Executive Officers (As of June 27, 2008)

Board of Directors

Yoshihiko Takebayashi
President and Representative Director,
Chief Executive Officer,
Chief Operating Officer

Yoshiaki Kitagawa
Representative Director,
Senior Managing Executive Officer,
Metals, Minerals & Environmental Engineering Sector

Masao Ohmura
Director,
Senior Managing Executive Officer,
Micro Circuit Sector

Naoaki Ogawa
Senior Executive Officer,
Chief Technology Officer
Corporate Technology Center

Tomoharu Jogo
Director,
Senior Executive Officer,
Engineered Materials Sector

Masatoshi Eto
Director,
Senior Executive Officer,
Copper Foil Sector

Shimpei Miyamura
Director, Senior Adviser

Hiromichi Shibata
Outside Director

Corporate Auditors

Shoji Onoue
Tatsuhiko Takai
Yoshiro Kamata
(Outside Auditor)
Junya Sato
(Outside Auditor)

Senior Executive Officers

Kazuo Hirano
Parts Production Sector
Mitsuhiko Hasuo
Affiliates Coordination Sector
Osamu Higuchi
Chief Risk Management Officer
Toru Higuchi
Chief Financial Officer

Executive Officers

Wakaba Sakurai
Hirohisa Senzaki
Hideo Kuroda
Makoto Fukuda
Takashi Sato
Shigeru Mitsumori
Kosuke Watanabe
Mitsuru Uekawa
Toru Oshita
Hiroshi Sumida
Jun Fujii
Takao Shibue
Harufumi Sakai
Sadao Senda
Masashi Sato
Shinichi Sumi
Junichiro Tanaka
Masahisa Morita

Worldwide Operations (As of July 1, 2008)

	Japan	Asia	Americas and Europe
Offices/ Laboratories	**Head Office** (Shinagawa, Tokyo) **Osaka Branch** (Osaka, Osaka) **Corporate R&D Center** (Ageo, Saitama)	**Mitsui Kinzoku Trading (Shanghai) Co., Ltd.** (Shanghai, China) **Mitsui Kinzoku (Shanghai) Management Co., Ltd.** (Shanghai, China)	**Mitsui Mining & Smelting Co., Ltd., Sucursal del Perú** (Lima, Perú) **Oak-Mitsui Technologies LLC** (New York, U.S.A.)
Electronics-Related Materials	**Takehara Refinery** (Takehara, Hiroshima) **Ageo Copper Foil Plant** (Ageo, Saitama) **Miike Thin-film Materials Plant** (Omuta, Fukuoka) **Miike Rare Metals Plant** (Omuta, Fukuoka) **MCS, Inc.** (Shimonoseki, Yamaguchi) **NIHON KESSHO KOUGAKU Co., Ltd.** (Tatebayashi, Gunma)	**Taiwan Copper Foil Co., Ltd.** (Nantou, Taiwan) **Mitsui Copper Foil (Malaysia) Sdn. Bhd.** (Selangor Darul Ehsan, Malaysia) **Mitsui Copper Foil (Hong Kong) Co., Ltd.** (Hong Kong, China) **Mitsui Copper Foil (Suzhou) Co., Ltd.** (Jiangsu, China) **Mitsui Copper Foil (Guangdong) Co., Ltd.** (Guangdong, China) **Mitsui Electronic Materials Co., Ltd.** (Taichung, Taiwan) **Mitsui Kinzoku Korea Co., Ltd.** (Pyeongtaek-si, Korea) **Mitsui Micro Circuits Taiwan Co., Ltd.** (Taichung, Taiwan)	**Oak-Mitsui Inc.** (New York, U.S.A.) **Mitsui Zinc Powder LLC** (Pennsylvania, U.S.A.)
Metals and Environmental Services	**Kamioka Mining & Smelting Co., Ltd.** (Hida, Gifu) **Hachinohe Smelting Co., Ltd.** (Shinagawa, Tokyo) **Hikoshima Smelting Co., Ltd.** (Shimonoseki, Yamaguchi) **MS Zinc Co., Ltd.** (Minato, Tokyo) **Pan Pacific Copper Co., Ltd.** (Minato, Tokyo) **Okuaizu Geothermal Co., Ltd.** (Yanaizu, Fukushima)	**Shanghai Mitsui Xin Yun Precious and Rare Metal Recycle Co., Ltd.** (Shanghai, China)	**Compania Minera Santa Luisa S.A.** (Lima, Perú)
Automotive Parts	**Nirasaki Parts & Components Manufacturing Plant** (Nirasaki, Yamanashi) **Kamioka Catalyst Plant** (Hida, Gifu) **Ohi Seisakusho Co., Ltd.** (Yokohama, Kanagawa)	**Mitsui Siam Components Co., Ltd.** (Rayong, Thailand) **Mitsui-Huayang Automotive Components Co., Ltd.** (Guizhou, China) **Mitsui Components Guangdong Co., Ltd.** (Guangdong, China) **Wuxi Da Chong Industry Co., Ltd.** (Jiangsu, China) **Mitsui Kinzoku Components India Pvt. Ltd.** (Haryana, India) **Mitsui Kinzoku Catalyst Zhuhai Co., Ltd.** (Guangdong, China)	**GECOM Corp.** (Indiana, U.S.A.) **Mitsui Components Europe Ltd.** (Wales, U.K.)
Other	**Ageo Rolled Copper & Zinc Plant** (Ageo, Saitama) **Omuta Ceramics Plant** (Omuta, Fukuoka) **Kitakata Perlite Plant** (Kitakata, Fukushima) **Osaka Perlite Plant** (Kaizuka, Osaka) **MESCO, Inc.** (Sumida, Tokyo)	**Mitsui Grinding Technology (Thailand) Co., Ltd.** (Chonburi, Thailand)	

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