

Semiannual Report 2004

DOWA MINING CO., LTD. SEMIANNUAL REPORT 2004

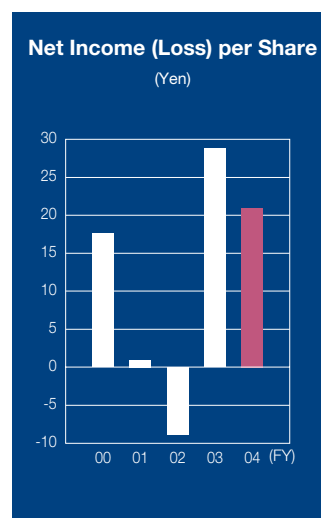
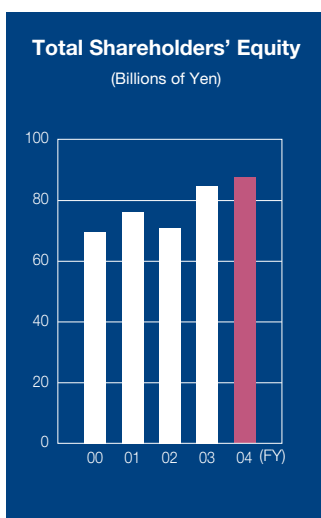
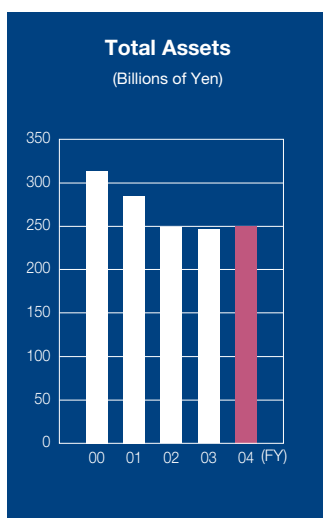
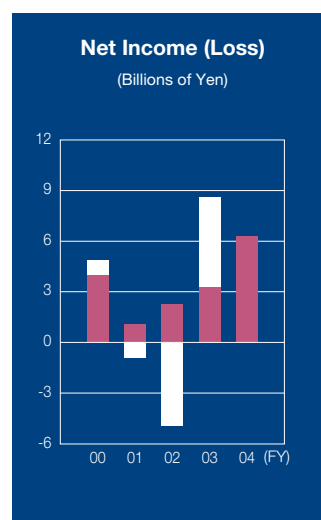
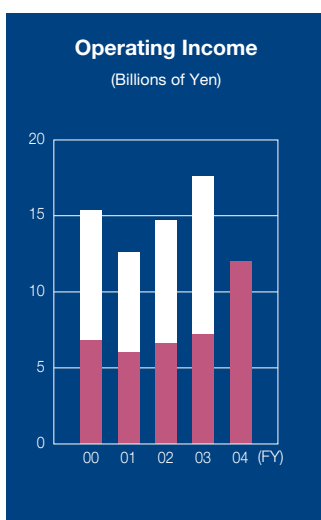
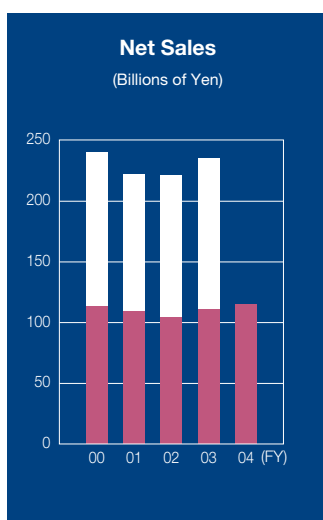
Consolidated Financial Highlights

Dowa Mining Co., Ltd. and Its Consolidated Subsidiaries
For the six months ended September 30, 2004 and 2003

| | Millions of Yen | | Thousands of U.S. Dollars (Note) |
|----------------------------------|-----------------------------------|-----------------------------------|--|
| | FY2004 (September 30, 2004) | FY2003 (September 30, 2003) | FY2004 (September 30, 2004) |
| Net sales..... | ¥115,064 | ¥110,444 | \$1,036,147 |
| Operating income | 11,980 | 7,165 | 107,883 |
| Net income | 6,297 | 3,263 | 56,704 |
| Total assets | 249,984 | 248,084 | 2,251,090 |
| Total shareholders' equity | 87,389 | 76,058 | 786,936 |
| Interest-bearing debt | 103,727 | 122,996 | 934,062 |

| | Yen | | U.S. Dollars (Note) |
|--|--------|--------|------------------------|
| | ¥ | ¥ | \$ |
| Net income per share | 20.99 | 10.88 | 0.19 |
| Total shareholders' equity per share | 291.40 | 253.53 | 2.62 |

Note: ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.



□ Full Year
■ Interim Period

Message from the Management



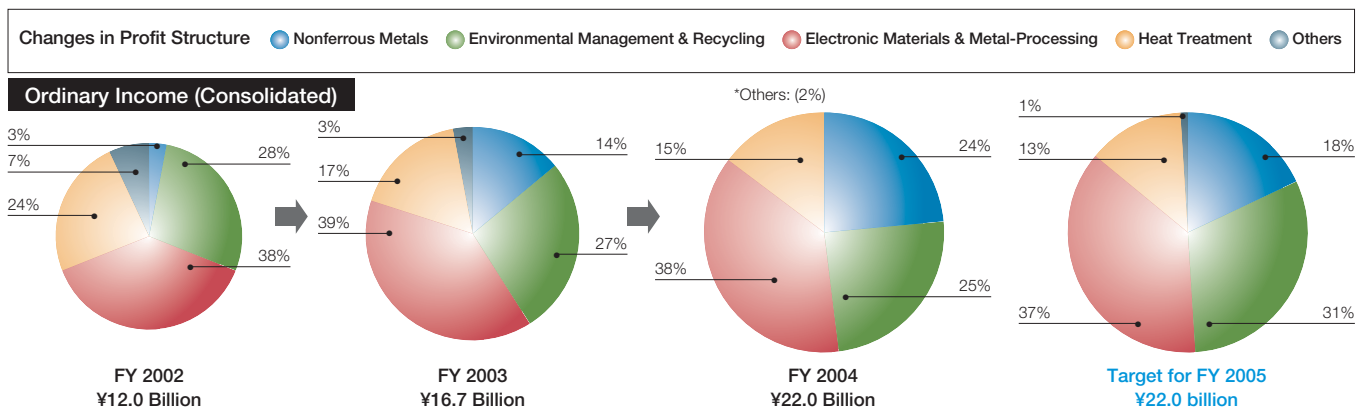
**President & CEO, Representative Director
Hirokazu Yoshikawa**

Major favorable developments influencing the performance of Dowa Mining Co., Ltd., included strong demand in the automobile industry, a growing market for digital appliances, and increased metal prices. However, factors detracting from performance included an accident at one of our consolidated subsidiaries and temporary, voluntary suspension of certain operations in the interest of maintaining safety. Nevertheless, our policy of selection and concentration in the allocation of our resources—which has led us to withdraw from unprofitable businesses—as well as the positive impact of cost-cutting measures and forging of business alliances are producing good results in the form of expanded sales and profits. On a consolidated basis, net sales for the interim period under

review expanded 4%, to ¥115.1 billion, operating income leapt 67%, to ¥12.0 billion, and ordinary income climbed to ¥11.2 billion, representing a gain of 67% over the same period of the previous year.

With these results in mind, I would like to review the progress we have made toward the goals of our medium-term management plan: “Business Structure Reform Plan II—Charge² & Expansion.”

One of the goals of this plan is to reform our earnings structure. We are making steady progress as reflected in changes that are bringing us closer to a balanced earnings composition through steady expansion in our Environmental Management & Recycling and Electronic Materials & Metal-Processing segments, which we have identified as key businesses for expansion. According to our outlook for the full fiscal year, ending March 31, 2005, increases in these two core businesses will continue through the year. As a consequence, we are forecasting ¥22.0 billion in ordinary income. Moreover, during the



Steady Progress toward Business Structure Reform

We are aiming for a balanced earnings structure through expansion in the Environmental Management & Recycling and Electronic Materials & Metal-Processing segments, while strengthening the base of our Nonferrous Metals segment.

Positive Factors: Rising Metal Prices and Favorable Foreign Exchange Trends

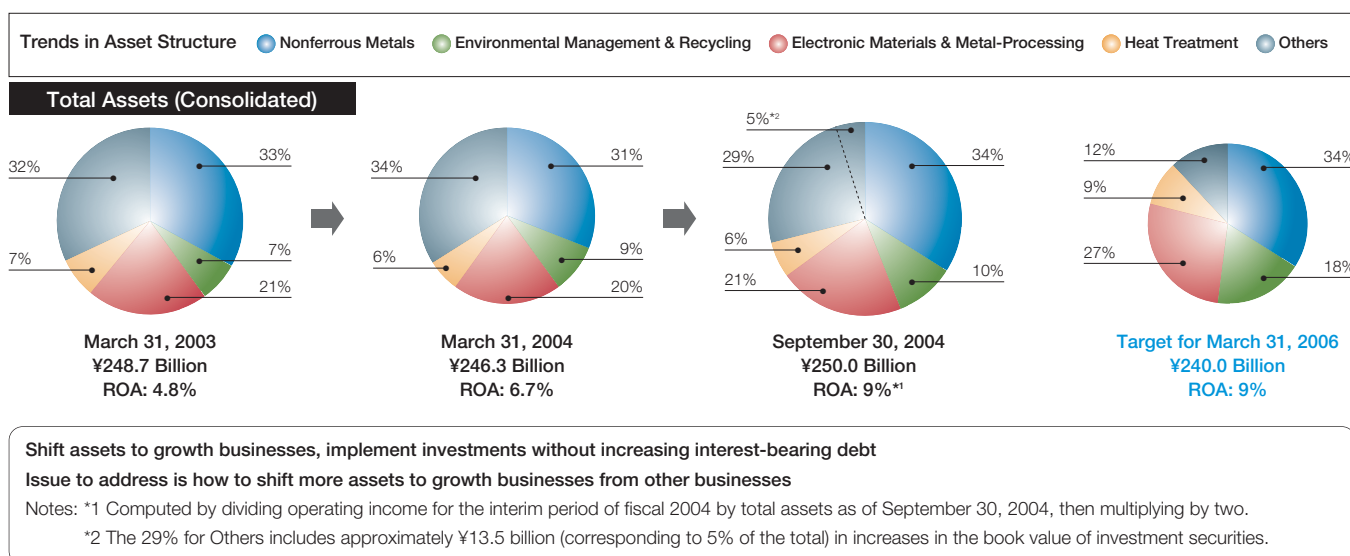
The outlook is for attaining profit goals for fiscal 2005 one year ahead of schedule.

Continuing to steadily implement policies to reach medium-term goals and create a stable and efficient business structure capable of sustained growth

Message from the Management

fiscal year in progress, we anticipate that we will attain the earnings structure by operating segment that we had set as a target for fiscal 2005, a full year ahead of time. We plan to continue to implement each of the policies set forth in our medium-term plan, with the objective of creating a business structure that can attain stable growth and is not easily influenced by changes in the external business environment.

Moreover, to strengthen our financial position, we will continue to reduce interest-bearing debt, while aggressively allocating resources to growth sectors. During the interim period under review, we reported valuation gains on securities in the Others segment division, but we shifted management resources from this division to more profitable core business divisions as a strategy to increase overall return on assets.



During the second half of the fiscal year in progress, there have been undeniable signs that the operating environment may become more challenging because of uncertainties in overseas economies and the appreciation of the yen. Our approach will continue to be to emphasize speed in addressing each of the issues we face and to do our utmost to attain our goals for reforming our business structure. We will continue to practice selection and concentration and actively invest in the Environmental Management & Recycling and Electronic Materials & Metal-Processing segments. On the other hand, we will closely evaluate and take appropriate measures regarding our assets in non-core businesses and assets in low-margin businesses, with the aim of increasing return on assets.

Through these efforts, we will achieve the goals of our medium-term plan for the year ending March 31, 2006, namely consolidated ordinary income of ¥22 billion, ROA of 9%, and interest-bearing debt of ¥100 billion.

Nonferrous Metals

Major Products: Gold, silver, copper, platinum, palladium, rhodium, zinc, and lead

● Business Environment

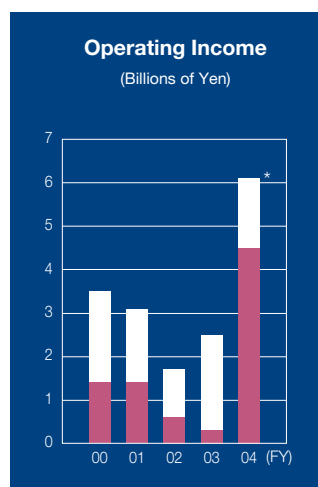
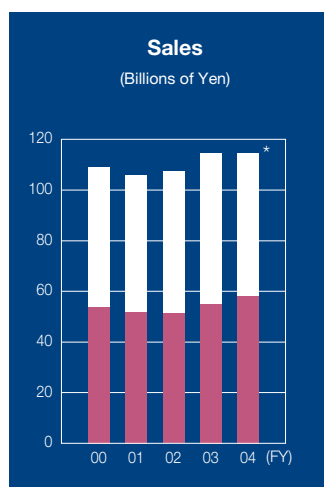
In the Nonferrous Metals business, the sales volumes of gold and silver declined because of the temporary suspension of operations at a consolidated subsidiary, but, as a result of robust conditions in the automobile industry, zinc sales were favorably affected by strong exports of galvanized steel sheets. The sales volume of platinum group metals decreased slightly because of a decline in the collection of scrap materials from overseas sources. Profit performance was strong as a result of increases in principal metal prices, despite the appreciation of the yen.

Sales for the interim period under review rose 6% from the interim period of the previous fiscal year, to ¥58,072 million. Although a temporary suspension of operations at a consolidated subsidiary had a reducing effect on profitability, operating income posted a substantial gain, rising to ¥4,488 million, compared with ¥288 million for the same period a year earlier.

● Review of Business Structure Plan II

Important initiatives in the Nonferrous Metals business included the establishment of a new sampling facility in North America, as part of operations to recover platinum, palladium, and rhodium from used automobile catalysts and thus increase the collection volumes of these metals. Also under way are efforts to shift to recycling-based smelting that include a doubling of capacity for recycling indium—which is rising in price because of expansion in demand—from scrap.

Activities to cut costs at the plant level are continuing along with other belt-tightening measures to enhance performance. In addition, Dowa is working to increase profitability by drawing on its unique combination of strengths in smelting and recycling.



□ Full Year
■ Interim Period

* Forecast for six-month period ending March 31, 2005 (FY04)

Environmental Management & Recycling

Major Services: Treatment of industrial waste and municipal waste, soil remediation, metal recycling, and environmental logistics

● Business Environment

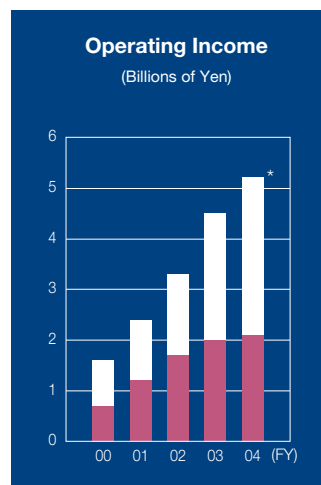
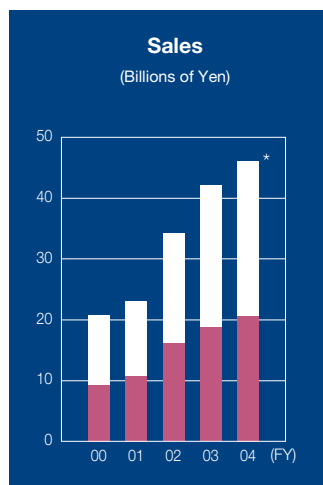
Conditions in the Environmental Management & Recycling business were strong during the interim period under review. In the waste intermediate treatment field, Dowa expanded its processing capacity, experienced expansion in the volume of difficult-to-treat wastes handled—which is a high-value-added business—and reported high levels of capacity utilization at its facilities. Sales in the soil remediation business were down marginally for the interim period, despite a high backlog of orders because of delays at the inspection and acceptance stages. In the metal recycling business, increases were reported for recycled precious metal materials. As a consequence, sales for the interim period expanded 10%, to ¥20,562 million, and operating income increased 7%, to ¥2,139 million.

● Review of Business Structure Plan II

Dowa has positioned the Environmental Management & Recycling business as a high-priority field for expansion and is actively expanding existing facilities and entering new businesses. In the waste treatment business, a new final or landfill disposal facility, which will be one of the largest in Japan, is under construction in Akita Prefecture and scheduled to begin operations in December 2004.

In the soil remediation business, Dowa expanded the processing capacity of its related facilities from 20,000 tons a month to 50,000 tons a month. In addition, Dowa developed and introduced a new product that can process volatile organic compounds on-site.

Major developments in the metal recycling business included the construction of a facility for recovering and recycling precious metals from electronic substrates in Suzhou, China. This facility is scheduled to begin operations in December 2004. Moreover, in Okayama, Japan, Dowa proceeded with the construction of a plant for the processing of automobile shredder residue (ASR), which will begin operations in January 2005 along with the implementation of new automobile recycling legislation.



□ Full Year
■ Interim Period

* Forecast for six-month period ending March 31, 2005 (FY04)

Electronic Materials & Metal-Processing

Major Products: Processed metals, semiconductor materials, electronic materials, and magnetic materials

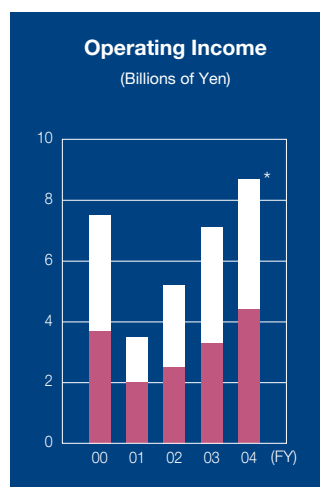
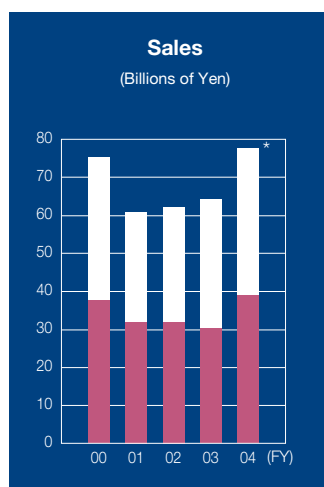
● Business Environment

In the Electronic Materials and Metal-Processing segment, a growing market for digital household appliances boosted the sales volume of indium for LCDs and silver powder for plasma display panels (PDPs). Similarly, sales of LEDs, plating products, copper powder, iron powder, ferrite powder, and certain other products were generally firm. Moreover, Dowaco withdrew from the lead frame business in April 2004 under our “selection and concentration” policy to increase our profitability. As a result, sales of the Electronic Materials & Metal-Processing business climbed 29%, to ¥38,872 million, and operating income advanced 34%, to ¥4,352 million.

● Review of Business Structure Plan II

Important initiatives during the interim period included the development and introduction of new structural components for the metal-ceramic substrates used in power semiconductor modules. In addition, its production capacity for spherical silver powder used in PDPs expanded to 50 tons a month.

In the Electronic Materials and Metal-Processing segment, measures were implemented to substantially improve profitability by expanding sales of key products, including silver powder and LEDs, while working to improve productivity and lower costs for other existing products. In addition, in areas related to these products and new product areas, Dowaco strengthened its R&D systems and worked toward the early commercialization of products under development.



□ Full Year
■ Interim Period

* Forecast for six-month period ending March 31, 2005 (FY04)

Heat Treatment

Major Services and Products: Heat treatment services, manufacturing, and maintenance services for industrial furnaces

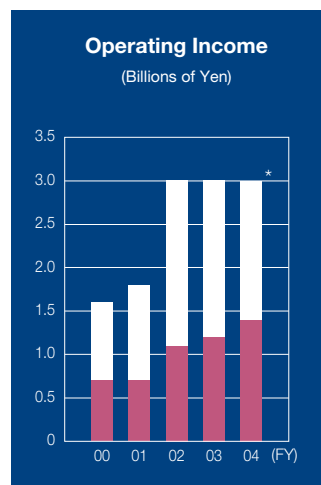
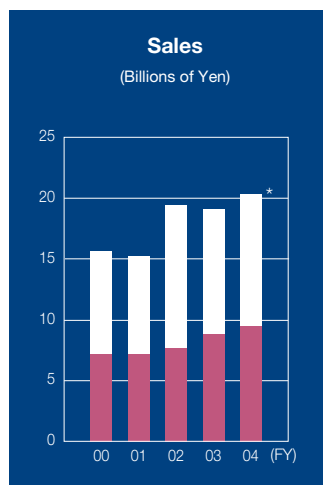
● Business Environment

In the Heat Treatment business, Dowa's six plants providing these services worked at near full capacity during the interim period, reflecting strong demand due to the expansion of exports by the automotive parts industry. Sales of industrial furnaces also expanded, and, as a result, sales of the Heat Treatment business grew 8%, to ¥9,537 million, and operating income posted a gain of 13%, rising to ¥1,368 million.

● Review of Business Structure Plan II

During the interim period under review, Dowa began to expand its capacity for providing heat treatment services at its Handa Plant in the Chukyo region in central Japan. In the industrial furnace business, Dowa developed a high-efficiency, variable gas-powered furnace together with Toho Gas Co., Ltd., and began marketing these units.

Also in the Heat Treatment business, the automobile industry, which is the main customer for these services, is undertaking a range of strategic initiatives in Japan and overseas. Dowa is responding by implementing measures to strengthen its capabilities in Japan and overseas. In addition, Dowa is working to expand sales and enhance its cost-competitiveness through the renewal of its equipment and expansion of its facilities, increasing productivity, and other measures.



□ Full Year
■ Interim Period

* Forecast for six-month period ending March 31, 2005 (FY04)

Topics—Forthcoming Initiatives

To reach the objectives of its Business Structure Reform Plan II—"Charge² & Expansion," Dowo is investing proactively overseas and in Japan to make way for continuing business expansion.

Outside Japan, Dowo is constructing a precious metals recycling plant at Dowo Environmental Management Co., Ltd., in Suzhou, China, which will be a first step toward establishing a position in the precious metals recycling business in China. In the United States, Dowo has completed a plant in New Jersey with capabilities for the rapid-turnaround sampling of used automobile exhaust catalysts, with the aim of boosting its capabilities for recovering platinum group metals in the U.S. market.

In Japan, Dowo is scheduled to begin operations shortly at a new type of managed final disposal center located in Kosaka in Akita Prefecture. This is the largest private-sector facility of its kind and will greatly expand Dowo's capabilities for offering integrated environmental business services, from collection through intermediate processing and final disposal.

In Okayama City, Dowo is constructing a facility for recovering metals and steam from automobile shredder residue (ASR) that will go into operation in the second half of the current fiscal year. When completed, this facility will provide Dowo with a second automobile recycling center in addition to the facility in Kosaka. The Kosaka Plant will serve customers in eastern Japan, and the Okayama Plant will provide services for customers in western Japan.



The first step in building a position in China: a precious metals recycling plant under construction (Suzhou, China)



Sampling facility for used automobile exhaust catalysts (New Jersey, U.S.A.)



Automobile shredder residue (ASR) recycling facility under construction (Okayama City, Okayama Prefecture)



The largest private-sector managed final disposal facility (Kosaka, Akita Prefecture)





Consolidated Balance Sheets

Dowa Mining Co., Ltd. and Its Consolidated Subsidiaries

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------------------------|-----------------------------------|--|
| | FY2004 (September 30, 2004) | FY2003 (September 30, 2003) | FY2004 (September 30, 2004) |
| Assets | | | |
| Current Assets: | | | |
| Cash and time deposits (Note 4) | ¥ 2,437 | ¥ 5,542 | \$ 21,945 |
| Notes and accounts receivable: | | | |
| Trade | 37,030 | 35,916 | 333,455 |
| Non-consolidated subsidiaries and affiliates | 4,649 | 4,530 | 41,864 |
| Others | 2,702 | 2,205 | 24,333 |
| Subtotal | 44,381 | 42,651 | 399,652 |
| Inventories | 52,791 | 44,755 | 475,384 |
| Deferred tax assets, current | 2,741 | 3,946 | 24,682 |
| Other current assets | 2,869 | 1,640 | 25,836 |
| Allowance for doubtful accounts | (2,171) | (2,336) | (19,554) |
| Total current assets | 103,048 | 96,198 | 927,945 |
| Property, Plant and Equipment: | | | |
| Land | 23,803 | 25,541 | 214,350 |
| Buildings and structures | 78,641 | 82,513 | 708,154 |
| Machinery and equipment | 144,257 | 143,642 | 1,299,024 |
| Construction in progress | 7,050 | 4,262 | 63,486 |
| Subtotal | 253,751 | 255,958 | 2,285,014 |
| Accumulated depreciation | (160,973) | (157,658) | (1,449,558) |
| Total property, plant and equipment | 92,778 | 98,300 | 835,456 |
| Investments and Other Assets: | | | |
| Investments in securities (Note 5) | 24,026 | 22,355 | 216,355 |
| Investments in and advances to non-consolidated subsidiaries and affiliates (Note 5) | 22,339 | 23,163 | 201,164 |
| Long-term loans | 490 | 431 | 4,412 |
| Deferred tax assets, non-current | 3,960 | 4,492 | 35,659 |
| Other assets | 4,126 | 4,949 | 37,152 |
| Allowance for doubtful accounts | (783) | (1,804) | (7,053) |
| Total investments and other assets | 54,158 | 53,586 | 487,689 |
| Total Assets | ¥249,984 | ¥248,084 | \$2,251,090 |

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

*2. ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------------------------|-----------------------------------|--|
| | FY2004 (September 30, 2004) | FY2003 (September 30, 2003) | FY2004 (September 30, 2004) |
| Liabilities, Minority Interests and Shareholders' Equity | | | |
| Current Liabilities: | | | |
| Short-term borrowings..... | ¥ 28,896 | ¥ 30,602 | \$ 260,210 |
| Long-term debt due within one year | 17,553 | 19,652 | 158,067 |
| Commercial paper | — | 7,500 | — |
| Notes and accounts payable: | | | |
| Trade | 18,740 | 16,846 | 168,756 |
| Non-consolidated subsidiaries and affiliates | 1,409 | 672 | 12,685 |
| Others | 5,333 | 7,483 | 48,019 |
| Subtotal | 25,482 | 25,001 | 229,460 |
| Accrued expenses | 5,994 | 4,706 | 53,971 |
| Accrued income taxes | 5,213 | 1,235 | 46,945 |
| Metal loans | — | 1,300 | — |
| Other current liabilities..... | 2,988 | 2,186 | 26,911 |
| Total current liabilities..... | 86,126 | 92,182 | 775,564 |
| Long-Term Debt..... | 57,278 | 63,242 | 515,785 |
| Reserves for Employees' Retirement Benefits | 10,696 | 9,174 | 96,319 |
| Reserves for Directors' and Corporate Auditors' Retirement Benefits..... | 719 | 689 | 6,473 |
| Deferred Tax Liabilities, Non-Current..... | 1,009 | — | 9,082 |
| Other Long-Term Liabilities | 2,138 | 2,207 | 19,254 |
| Total liabilities | 157,966 | 167,494 | 1,422,477 |
| Minority Interests..... | 4,629 | 4,532 | 41,677 |
| Contingent Liabilities (Note 6) | | | |
| Shareholders' Equity: | | | |
| Common stock: | | | |
| Authorized: 795,073 thousand shares; | | | |
| Issued: 303,791 thousand shares at September 30, 2004 and 2003, respectively | 36,437 | 36,437 | 328,109 |
| Additional paid-in capital | 26,377 | 26,377 | 237,524 |
| Retained earnings | 19,044 | 9,508 | 171,493 |
| Unrealized gain on available-for-sale securities..... | 8,506 | 6,528 | 76,600 |
| Foreign currency translation adjustments | (727) | (605) | (6,549) |
| Treasury stock, at cost (3,901,204 shares in 2004 and 3,794,649 shares in 2003) | (2,248) | (2,187) | (20,241) |
| Total shareholders' equity | 87,389 | 76,058 | 786,936 |
| Total Liabilities, Minority Interests and Shareholders' Equity | ¥249,984 | ¥248,084 | \$2,251,090 |

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

*2. ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.



Consolidated Statements of Income

Dowa Mining Co., Ltd. and Its Consolidated Subsidiaries

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|---|---|---|
| | FY2004 (Period Ended September 30, 2004) | FY2003 (Period Ended September 30, 2003) | FY2004 (Period Ended September 30, 2004) |
| Net Sales | ¥115,064 | ¥110,444 | \$1,036,147 |
| Cost of Sales | 91,064 | 90,953 | 820,028 |
| Gross profit..... | 24,000 | 19,491 | 216,119 |
| Selling, General and Administrative Expenses | 12,020 | 12,326 | 108,236 |
| Operating income | 11,980 | 7,165 | 107,883 |
| Other Income (Expenses): | | | |
| Interest and dividend income | 409 | 301 | 3,687 |
| State subsidy | 235 | 943 | 2,113 |
| Interest expenses..... | (720) | (759) | (6,488) |
| Gain on sale of available-for-sale securities | 2,389 | — | 21,511 |
| Write-down and loss on liquidation of marketable and investment securities | (253) | — | (2,276) |
| Equity in earnings of affiliates | 266 | 207 | 2,391 |
| Amortization of initial transition obligation | (509) | (510) | (4,583) |
| Loss due to suspension of operations..... | (1,365) | — | (12,292) |
| Loss due to reorganization..... | — | (1,249) | — |
| Loss on sale or disposal of property, plant and equipment..... | (178) | (389) | (1,599) |
| Other, net | (1,354) | (361) | (12,188) |
| | (1,080) | (1,817) | (9,724) |
| Income before income taxes and minority interests..... | 10,900 | 5,348 | 98,159 |
| Income Taxes: | | | |
| Current | 5,082 | 1,292 | 45,767 |
| Deferred..... | (552) | 695 | (4,974) |
| | 4,530 | 1,987 | 40,793 |
| Minority Interests in Income | (73) | (98) | (662) |
| Net income | ¥ 6,297 | ¥ 3,263 | \$ 56,704 |
| | | Yen | U.S. Dollars (Note 1) |
| Per Share (Note 3): | | | |
| Primary net income..... | ¥ 20.99 | ¥ 10.88 | \$ 0.189 |
| Fully diluted net income | — | — | — |
| Cash dividends | — | — | — |

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

*2. ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.



Consolidated Statements of Shareholders' Equity

Dowa Mining Co., Ltd. and Its Consolidated Subsidiaries

| | Number of Shares of Common Stock (Thousands) | Millions of Yen | | | | | |
|---|--|------------------------------------|----------------------------|-------------------|---|--|----------------|
| | | Common Stock | Additional Paid-in Capital | Retained Earnings | Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Treasury Stock |
| Balance at March 31, 2003 | 303,791 | ¥36,437 | ¥26,377 | ¥ 8,165 | ¥2,670 | ¥(552) | ¥(2,165) |
| Net income..... | — | — | — | 3,263 | — | — | — |
| Cash dividends paid..... | — | — | — | (2,126) | — | — | — |
| Bonuses to directors | — | — | — | (38) | — | — | — |
| Increase due to equity of subsidiaries newly consolidated at beginning of period..... | — | — | — | 249 | — | — | — |
| Decrease due to new affiliates accounted for by the equity method .. | — | — | — | (5) | — | — | — |
| Unrealized gain on available-for-sale securities..... | — | — | — | — | 3,858 | — | — |
| Foreign currency translation adjustments | — | — | — | — | — | (53) | — |
| Treasury stock held by affiliates | — | — | — | — | — | — | (20) |
| Purchase of treasury stock..... | — | — | — | — | — | — | (2) |
| Balance at September 30, 2003 | 303,791 | ¥36,437 | ¥26,377 | ¥ 9,508 | ¥6,528 | ¥(605) | ¥(2,187) |
| Balance at March 31, 2004 | 303,791 | ¥36,437 | ¥26,377 | ¥14,929 | ¥9,888 | ¥(737) | ¥(2,221) |
| Net income..... | — | — | — | 6,297 | — | — | — |
| Cash dividends paid..... | — | — | — | (2,127) | — | — | — |
| Bonuses to directors | — | — | — | (55) | — | — | — |
| Unrealized gain on available-for-sale securities..... | — | — | — | — | (1,382) | — | — |
| Foreign currency translation adjustments | — | — | — | — | — | 10 | — |
| Treasury stock held by affiliates | — | — | — | — | — | — | (24) |
| Purchase of treasury stock..... | — | — | — | — | — | — | (3) |
| Balance at September 30, 2004 | 303,791 | ¥36,437 | ¥26,377 | ¥19,044 | ¥8,506 | ¥(727) | ¥(2,248) |
| | | Thousands of U.S. Dollars (Note 1) | | | | | |
| Balance at March 31, 2004 | | \$328,109 | \$237,524 | \$134,432 | \$89,037 | \$(6,626) | \$(19,997) |
| Net income | | — | — | 56,704 | — | — | — |
| Cash dividends paid..... | | — | — | (19,147) | — | — | — |
| Bonuses to directors | | — | — | (496) | — | — | — |
| Unrealized gain on available-for-sale securities..... | | — | — | — | (12,437) | — | — |
| Foreign currency translation adjustments | | — | — | — | — | 77 | — |
| Treasury stock held by affiliates..... | | — | — | — | — | — | (220) |
| Purchase of treasury stock..... | | — | — | — | — | — | (24) |
| Balance at September 30, 2004 | | \$328,109 | \$237,524 | \$171,493 | \$76,600 | \$(6,549) | \$(20,241) |

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

*2. ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.



Consolidated Statements of Cash Flows

Dowa Mining Co., Ltd. and Its Consolidated Subsidiaries

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | FY2004 (Period Ended September 30, 2004) | FY2003 (Period Ended September 30, 2003) | FY2004 (Period Ended September 30, 2004) |
| Cash Flows from Operating Activities: | | | |
| Income before income taxes and minority interests | ¥10,900 | ¥ 5,348 | \$ 98,159 |
| Adjustments for: | | | |
| Depreciation | 4,418 | 5,124 | 39,781 |
| Loss on sale and loss on disposal of property, plant and equipment, net | 178 | 389 | 1,599 |
| Provision (reversal) of allowance for bad debts | (24) | 108 | (213) |
| Equity in earnings of affiliates | (266) | (207) | (2,391) |
| Change in liability for retirement benefits | 729 | 680 | 6,569 |
| Interest and dividend income | (409) | (301) | (3,687) |
| Interest expenses..... | 720 | 759 | 6,488 |
| Decrease in trade receivables | 3,890 | 4,011 | 35,028 |
| Increase in inventories..... | (13,305) | (4,500) | (119,814) |
| Increase (decrease) in trade payables | (1,185) | 678 | (10,675) |
| Other, net | (1,855) | 5,642 | (16,711) |
| Subtotal | 3,791 | 17,731 | 34,133 |
| Interest and dividend income received | 413 | 283 | 3,722 |
| Interest expenses paid | (721) | (751) | (6,492) |
| Income taxes paid | (1,524) | (1,666) | (13,723) |
| Net cash provided by operating activities | 1,959 | 15,597 | 17,640 |
| Cash Flows from Investing Activities: | | | |
| Proceeds from sale of marketable and investment securities..... | 3,133 | 150 | 28,213 |
| Acquisition of property, plant and equipment | (4,410) | (4,943) | (39,707) |
| Proceeds from state subsidy, etc..... | 235 | 943 | 2,113 |
| Increase in investments in securities..... | (503) | (136) | (4,532) |
| Decrease in investments in associates | — | 130 | — |
| Proceeds from disposal of non-current assets | 252 | 147 | 2,270 |
| Other, net | 243 | (210) | 2,191 |
| Net cash used in investing activities | (1,050) | (3,919) | (9,452) |
| Cash Flows from Financing Activities: | | | |
| Increase (decrease) in short-term bank loans, net | 9,318 | (14,250) | 83,906 |
| Decrease in metal loans, net | — | (3,318) | — |
| Increase (decrease) in commercial paper | (2,500) | 2,000 | (22,512) |
| Increase in long-term debt | 500 | 15,024 | 4,502 |
| Repayment of long-term debt | (7,948) | (9,395) | (71,577) |
| Cash dividends paid | (2,268) | (2,265) | (20,424) |
| Purchases of treasury stock..... | (3) | (1) | (24) |
| Net cash used in financing activities | (2,901) | (12,205) | (26,129) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 8 | 3 | 74 |
| Net Decrease in Cash and Cash Equivalents | (1,984) | (524) | (17,867) |
| Cash and Cash Equivalents at Beginning of Period | 4,415 | 5,624 | 39,755 |
| Cash and Cash Equivalents of Newly Consolidated Subsidiaries | — | 434 | — |
| Cash and Cash Equivalents at End of Period (Note 4) | ¥ 2,431 | ¥ 5,534 | \$ 21,888 |

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

2. ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.



Notes to Consolidated Financial Statements

Dowa Mining Co., Ltd. and Its Consolidated Subsidiaries

1. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by DOWA MINING CO., LTD. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥111.05=US\$1, the rate of exchange on September 30, 2004 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

This semi-annual report should be read in conjunction with the Company's annual report for the year ended March 31, 2004.

2. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in non-consolidated subsidiaries have not been accounted for by the equity method, but carried at cost, since the Company's equity in their combined earnings in aggregate does not have a material effect on the consolidated financial statements.

The excess of the purchase price over the underlying equity in net assets of businesses acquired is amortized on a straight-line basis within 20 years.

Investments in major affiliated companies in which the Company does not have control, but has the ability to exercise significant influence over the operating and financial policies, are accounted for by the equity method.

The Company liquidated Barium Chemicals Co., Ltd. on September 30, 2003. The results of this subsidiary are included in consolidated accounts for March 31, 2004 up to the time of the liquidation.

The consolidated financial statements for the six months ended September 30, 2003 include Zinc Excel Co., Ltd., Eco-recycle Co., Ltd., E & E Solutions, Inc. and Odate Bunseki Gijutsu Center Co., which were unconsolidated subsidiaries in the consolidated financial statements for the year ended March 31, 2003.

The consolidated financial statements for the six months ended September 30, 2003 include Acids Co., Ltd., which was not accounted for by the equity method for the year ended March 31, 2003.

3. NET INCOME PER SHARE

Primary net income per share is based on the weighted average number of shares of common stock of the Company issued during the respective six months. Fully diluted net income per share is not presented as the Company does not issue securities that have a dilutive effect.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

* ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.

Cash and cash equivalents at September 30, 2004 and 2003 consisted of:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------------------------|-----------------------------------|--|
| | FY2004 (September 30, 2004) | FY2003 (September 30, 2003) | FY2004 (September 30, 2004) |
| Cash and time deposits..... | ¥2,437 | ¥5,542 | \$21,945 |
| Time deposits with deposit terms of over three months..... | (6) | (8) | (57) |
| Cash and cash equivalents..... | ¥2,431 | ¥5,534 | \$21,888 |

5. MARKETABLE SECURITIES AND INVESTMENTS

Marketable securities and investments at September 30, 2004 and 2003 consisted of:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------------------------|-----------------------------------|--|
| | FY2004 (September 30, 2004) | FY2003 (September 30, 2003) | FY2004 (September 30, 2004) |
| Investments in non-consolidated subsidiaries and affiliates..... | ¥21,972 | ¥20,998 | \$197,861 |
| Advances to non-consolidated subsidiaries and affiliates..... | 367 | 2,165 | 3,303 |
| Available-for-sale securities with market quotations..... | 20,316 | 18,235 | 182,946 |
| Available-for-sale securities without market quotations | | | |
| Unlisted securities | 3,631 | 4,033 | 32,701 |
| Others..... | 79 | 87 | 708 |
| Subtotal | 3,710 | 4,120 | 33,409 |
| Total..... | ¥46,365 | ¥45,518 | \$417,519 |

6. CONTINGENT LIABILITIES

At September 30, 2004 and 2003, the Company and its consolidated subsidiaries were contingently liable as guarantor of loans incurred by affiliates and others in the amount of ¥325 million (\$2,931 thousand) and ¥577 million, respectively.

At September 30, 2004 and 2003, in connection with structured finance, the Company incurred potential repurchase obligations of ¥785 million (\$7,066 thousand) and ¥361 million, respectively.

7. CHANGE OF ACCOUNTING POLICY

The Company and its subsidiaries changed the accounting policy for inventory valuation for finished goods (copper, lead, zinc and cadmium), raw materials and some work in process from the last-in, first-out method to the first-in, first-out method from April 1, 2003 so that the ending balance of inventories reflects the fluctuation of the nonferrous metals international market. Inventories as well as operating income, income before income taxes and minority interests and net income for September 30, 2003, were increased by ¥577 million in connection with this change.

8. THE LOCAL ENTERPRISE TAX

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for the companies with capital in excess of ¥100 million, effective from April 1, 2004. Under the amended legislation, the enterprise tax was the sum of three tax components: a) an income-based component, b) a value-added component and c) a capital-based component. There was only an "income tax-based component" before the amendment.

The consolidated financial statements for the six months ended September 30, 2004 applied the new legislation and included the sum of the value-added component and the capital-based component in selling, general and administrative expenses.

* ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.

As a result of applying the new legislation, selling, general and administrative expenses increased ¥172 million (\$1,553 thousand). Operating income, income before income taxes and minority interests decreased ¥172 million (\$1,553 thousand), and minority interests decreased ¥5 million (\$48 thousand).

9. SUBSEQUENT EVENTS

The Company's board of directors resolved to entrust the issuance of unsecured straight bonds and the conditions of issuance to the representative director at the meeting held on October 28, 2003.

The representative director decided the terms of the issuance of unsecured straight bonds and the conditions of the issuance on December 18, 2003 as follows based on the decision of the board of directors.

| | |
|------------------------------|--|
| (1) Type | Unsecured straight bonds |
| (2) Total amount of issuance | ¥3,000 million |
| (3) Issue price | 100% of the face amount of bonds |
| (4) Date of issuance | December 18, 2003 |
| (5) Date of repayment | December 18, 2006 |
| (6) Interest rate | 0.64% per annum |
| (7) Intended use of proceeds | To provide long-term funding for working capital for operations and general corporate purposes and for investments and loans to subsidiaries and affiliates. |

10. SEGMENT INFORMATION

The Company's business segments, which should be separately disclosed pursuant to regulations in Japan on consolidated financial statements, consist of the following:

| | |
|---|---|
| (1) Nonferrous metals: | Sale of electrolytic copper, zinc, electrolytic lead, electrolytic gold and electrolytic silver |
| (2) Environmental management and recycling: | Scrap metal recycling, industrial waste disposal, pollution control facility engineering, soil remediation and transportation business |
| (3) Electronics and metal-processing: | Sale of magnetic materials, semiconductor materials, chemical products, precious metal compounds, chemical synthesis, rolled copper and copper alloy products |
| (4) Heat treatment: | Heat treatment and sale of carburizing furnaces and vacuum furnaces |
| (5) Construction and real estate: | Construction, rental and sale of real estate |
| (6) Others: | Geothermal business and other |

Beginning from April 1, 2004, the commodity sales segment has been eliminated, for internal control purposes, because of the discontinuation of the sale of general materials at Tokyo Shoji Co., Ltd., which was a consolidated subsidiary. As a result, the information for the commodity sales division is no longer shown, and segment data of September 30, 2003 has been reclassified to reflect this change.

Segment information by business segment as of September 30, 2004 and 2003 is summarized as follows:

| | Millions of Yen | | | | | | | Total | Eliminations | Consolidated |
|--------------------------|-------------------|--|----------------------------------|----------------|------------------------------|--------|----------|----------|--------------|--------------|
| | Nonferrous Metals | Environmental Management and Recycling | Electronics and Metal-Processing | Heat Treatment | Construction and Real Estate | Others | | | | |
| 2004 | | | | | | | | | | |
| Net sales: | | | | | | | | | | |
| Outside customers | ¥49,283 | ¥12,795 | ¥37,740 | ¥9,537 | ¥4,922 | ¥ 787 | ¥115,064 | ¥ — | ¥115,064 | |
| Intersegment | 8,789 | 7,767 | 1,132 | — | 2,373 | 740 | 20,801 | (20,801) | — | |
| Total | 58,072 | 20,562 | 38,872 | 9,537 | 7,295 | 1,527 | 135,865 | (20,801) | 115,064 | |
| Operating expenses | 53,584 | 18,423 | 34,520 | 8,169 | 7,141 | 1,195 | 123,032 | (19,948) | 103,084 | |
| Operating income | ¥ 4,488 | ¥ 2,139 | ¥ 4,352 | ¥1,368 | ¥ 154 | ¥ 332 | ¥ 12,833 | ¥ (853) | ¥ 11,980 | |

* ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.

| 2003 | Millions of Yen | | | | | | | Total | Eliminations | Consolidated |
|--------------------------|-------------------|--|----------------------------------|----------------|------------------------------|---------|----------|----------|--------------|--------------|
| | Nonferrous Metals | Environmental Management and Recycling | Electronics and Metal-Processing | Heat Treatment | Construction and Real Estate | Others | | | | |
| Net sales: | | | | | | | | | | |
| Outside customers | ¥46,790 | ¥13,161 | ¥27,823 | ¥8,830 | ¥5,460 | ¥ 8,380 | ¥110,444 | ¥ — | ¥110,444 | |
| Intersegment | 8,097 | 5,574 | 2,352 | 0 | 2,516 | 4,303 | 22,842 | (22,842) | — | |
| Total | 54,887 | 18,735 | 30,175 | 8,830 | 7,976 | 12,683 | 133,286 | (22,842) | 110,444 | |
| Operating expenses | 54,599 | 16,738 | 26,920 | 7,619 | 7,739 | 12,353 | 125,968 | (22,689) | 103,279 | |
| Operating income | ¥ 288 | ¥ 1,997 | ¥ 3,255 | ¥1,211 | ¥ 237 | ¥ 330 | ¥ 7,318 | ¥ (153) | ¥ 7,165 | |

| 2004 | Thousands of U.S. Dollars (Note 1) | | | | | | | Total | Eliminations | Consolidated |
|--------------------------|------------------------------------|--|----------------------------------|-----------------|------------------------------|-----------------|--------------------|-------------------|--------------------|--------------|
| | Nonferrous Metals | Environmental Management and Recycling | Electronics and Metal-Processing | Heat Treatment | Construction and Real Estate | Others | | | | |
| Net sales: | | | | | | | | | | |
| Outside customers | \$443,787 | \$115,216 | \$339,851 | \$85,876 | \$44,325 | \$ 7,092 | \$1,036,147 | \$ — | \$1,036,147 | |
| Inter-segment | 79,148 | 69,944 | 10,186 | — | 21,371 | 6,660 | 187,309 | (187,309) | — | |
| Total | 522,935 | 185,160 | 350,037 | 85,876 | 65,696 | 13,752 | 1,223,456 | (187,309) | 1,036,147 | |
| Operating expenses | 482,521 | 165,901 | 310,847 | 73,559 | 64,311 | 10,757 | 1,107,896 | (179,632) | 928,264 | |
| Operating income | \$ 40,414 | \$ 19,259 | \$ 39,190 | \$12,317 | \$ 1,385 | \$ 2,995 | \$ 115,560 | \$ (7,677) | \$ 107,883 | |

Segment information by geographic area is not disclosed pursuant to regulations in Japan on consolidated financial statements, since net sales of the Company and its domestic consolidated subsidiaries, taken as a whole, were more than 90% of consolidated net sales.

Information for overseas sales is not disclosed pursuant to regulations in Japan on consolidated financial statements, since the aggregate overseas sales of the Company and its domestic subsidiaries and overseas consolidated subsidiaries were less than 10% of consolidated net sales.

* ¥111.05=US\$1, the rate of exchange on September 30, 2004, is used.