

Message from the Management



“Jump up to the New Stage”

Pushing ahead with structural reforms to build a strong management structure

The Dowa Group continues to “Jump up to the New Stage,” as we focus on further selection and concentration of operations, strengthening our front-line capabilities, pushing ahead with structural reforms through comprehensive cost reductions, and building a strong management structure which can generate profits even in the midst of an unprecedented and severe economic climate.

Results for Fiscal 2008

During the first half of fiscal 2008, the year ended March 31, 2009, the Japanese economy was supported by solid exports despite the effects of a stronger yen and high oil prices. However, a credit crunch that spread rapidly from the United States in the middle of the fiscal year affected real economies worldwide. The Japanese economy consequently experienced an unprecedented severe contraction.

Looking at the business environment for nonferrous metals, market prices of gold, silver, and copper were generally high in the first half of the fiscal year under review but plunged from their peak in July because of the withdrawal of

speculative funds and declining actual demand. In the second half of the year, prices were low. Prices of zinc and lead continued to decline virtually throughout the fiscal year, although they recovered slightly during certain periods. In the electronic materials, metal processing and heat treatment sectors, exports of automobiles and construction machinery components were favorable, and sales of electronic components for IT products and office automation equipment were strong in the first half. In the second half, however, production declined significantly in almost all industries. In our environmental management and recycling business, the distribution of waste and recycled materials plummeted as both production

and consumption fell. The domestic soil remediation business contracted.

As a result, both sales and income declined. Consolidated net sales decreased by ¥128.9 billion to ¥346.8 billion. The Group posted an operating loss of ¥8.4 billion, falling ¥52.8 billion from the operating income posted in the previous year. The ordinary loss was ¥13.3 billion, a decrease of ¥58.2 billion from the ordinary income posted the year before. The Group posted a net loss of ¥28.1 billion, a fall of ¥52.6 billion from the previous year's net income.

Response to Urgent Situation

In response to the worsening management environment, the Dowa Group has pushed ahead strongly with cost-cutting moves.

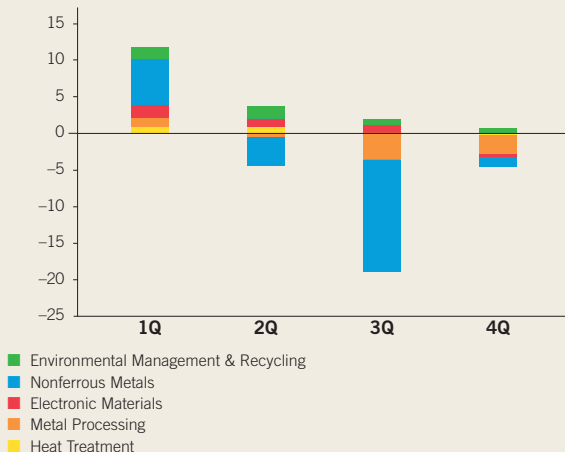
Recognizing that the business climate will continue to be difficult during the current fiscal year, the Group is working to build a strong organization capable of generating profits even under reduced operations, implementing site realignments, comprehensive cost reductions, and enacting structural reforms centered around a strategy of selection and concentration.

Specifically, measures include, in the electronic materials segment, the closing of our ferrite powder plant in Singapore and aggregation of that business to a domestic base, in the metal processing segment, the creation of an optimized production structure through the unification of rolled copper operations at two plants into one, and in the heat treatment segment, consolidation of production to our two most efficient plants, the Handa and Ota facilities. To increase production efficiency through operational improvements, we will optimize both labor costs and staffing, and rigorously cut expenses. On the capital investment front also, we will carefully select projects and curb cash outflows.

Looking Back at Business Structure Reform Plan III

In the three years between fiscal 2006 and fiscal 2008, the Dowa Group has promoted its medium-term business plan, Business Structure Reform Plan III. Under the slogan of "Jump up to the New Stage," the previous medium-term plan focused on exploiting the Group's strengths, and on growing the business through investments. In the Environmental Management & Recycling segment, we completed construction of Japan's largest rotary kiln waste incinerator, while also acquiring Modern Asia Environmental Holdings, a Southeast Asian waste management company, and in the Nonferrous Metals segment, we improved production through renovations to our new smelting facility. The Electronic Materials segment saw progress in the commercialization of our silver nano-materials and deep-UV LEDs, both expected to be growth products, while the Metal Processing business expanded through our acquisition of a rolled copper manufacturer from Yamaha. In the Heat Treatment business, we acquired Cemm Co., Ltd., a Nagoya-based heat processing manufacturer, and also established our new plant in Ota, Gunma Prefecture.

Change in Fiscal 2008 Quarterly Ordinary Income
(Billions of Yen)



Plan for the Current Fiscal Year

On the assumption that the management environment will continue to be extremely challenging in the current fiscal year, we plan for net sales of ¥240 billion (down ¥106.8 billion from the previous year), operating income of ¥5.0 billion (up ¥13.4 billion over the previous year), ordinary income of ¥3.0 billion (up ¥16.3 billion over the previous year), and current net income of ¥1.0 billion (up ¥29.1 billion over the previous year). Based on what we learned from Business Structure Reform Plan III, renewed efforts will take place under the slogan “Challenge the Uncharted Territory: Challenge to realize the underlying strength of manufacturing sites, the accomplishment of initiatives and high-quality management.” We will work toward a recovery in earnings by taking advantage of the effects of the major investments implemented through Business Structure Reform Plan III, and continuing our thorough-going cost-cutting efforts, while building on-site strengths backed by technology to achieve our plan.

Looking ahead to future growth, our basic policy is to carefully select projects for investment. At the same time, we will continue to actively expand businesses related to the environment and recycling, especially by entering undeveloped fields and regions through technological development and M&As. Furthermore, new product development is indispensable for future growth in the electronic materials business. Leveraging our high levels of momentum and front-line capabilities in this area, we will maintain and continue developing new products to quickly commercialize them.

In businesses other than these, the key word is the environment. We will strengthen our own environmental-related technology and products, and at the same time focus on supplying materials for such uses as clean-energy automobiles and solar-power batteries.

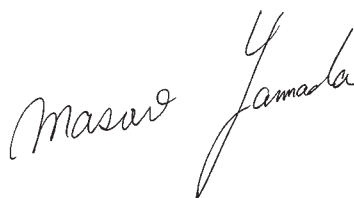
Vision and Dividend Policy

This fiscal year the Dowa Group will focus first on the immediate picture, working to lower our break-even point through comprehensive cost reductions and other fundamental structural reforms in each of our businesses, while shifting to a robust organization capable of generating revenue even amidst sluggish demand. We will remain firmly decisive as we continue our march toward growth through “challenging the uncharted territory.”

At the same time, we will continue our efforts to “select and concentrate,” investing in competitive businesses that will supply the growth for the Dowa Group in the next generation, and building a foundation for the growth of our business overall.

Note that the Dowa Group has positioned dividends to our shareholders as our most critical management issue, and our policy is to provide those dividends in line with our business results, and with due consideration to the need to strengthen our corporate structure while enhancing internal reserves for future business needs.

With these policies, we will continue to strengthen the foundation of the Dowa Group, and work toward continued growth and expansion.



MASAO YAMADA

President and Representative Director