

Consolidated Financial Summary for First Three Quarters of Fiscal Year Ending March 2009



February 9, 2009

Company name: Dowa Holdings Co., Ltd.

Exchange: First Section of Tokyo Stock Exchange, First Section of Osaka Securities Exchange, First Section of Nagoya Stock Exchange, Fukuoka Stock Exchange, and Sapporo Securities Exchange

Stock code: 5714

URL: <http://www.dowa.co.jp/>

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(Rounded down to nearest million yen)

1. Consolidated business results for the first three quarters of the fiscal year ending March 2009 (April 1, 2008 – December 31, 2008)

(1) Consolidated business results

(%: Change from previous year)

	Net Sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three quarters to December 2008	290,736	—	-4,965	—	-7,911	—	-16,710	—
Three quarters to December 2007	352,715	4.0	34,087	-7.8	34,515	-8.6	17,316	-26.0

	Net income per share	Net income per share (fully diluted)
	Yen	Yen
Three quarters to December 2008	-55.84	—
Three quarters to December 2007	57.79	55.00

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2008	354,704	115,698	31.1	368.02
As of March 31, 2008	367,931	150,281	39.2	481.85

(Reference) Shareholders' equity: As of December 31, 2008: 110,137 million yen
As of March 31, 2008: 144,202 million yen

2. Dividends

(Record date)	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 2008	—	—	—	20.00	20.00
Fiscal year ending March 2009	—	—	—	—	—
Fiscal year ending March 2009 (forecast)	—	—	—	10.00	10.00

(Note) Revisions of expected dividends in the first three quarters under review: None

3. Forecast consolidated results for the fiscal year ending March 2009 (April 1, 2008 – March 31, 2009)

(%: Change from the same period of the previous year)

	Net Sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	345,000	-27.5	-8,000	—	-10,000	—	-18,000	—	-60.15

(Note) Revisions of estimated consolidated results in the first three quarters under review: None

4. Other information

- (1) Significant changes in subsidiaries during the term (change in scope of consolidation): None
- (2) Application of simplified accounting and accounting specific to the preparation of quarterly consolidated financial statements: Yes
- (3) Changes in the accounting principles, procedures and presentation related to the preparation of the quarterly consolidated financial statements
(those that are described in changes in the basis of the quarterly consolidated financial statements)
- (i) Changes due to amendments to accounting standards: Yes
- (ii) Changes due to other reasons than item (i): Yes
- (4) Number of outstanding shares (common shares)
- (i) Number of outstanding shares (including treasury stock) at the end of the period
- | | |
|----------------------|--------------------|
| As of December 2008: | 303,790,809 shares |
| As of March 2008: | 303,790,809 shares |
- (ii) Number of shares of treasury stock at the end of the period
- | | |
|----------------------|------------------|
| As of December 2008: | 4,518,416 shares |
| As of March 2008: | 4,522,038 shares |
- (iii) Average number of shares during the period (first three quarters)
- | | |
|--|--------------------|
| First three quarters of fiscal year ending March 2009: | 299,269,086 shares |
| First three quarters of fiscal year ended March 2008: | 299,649,540 shares |
- (Note) The results forecasts and other forward-looking statements included in this document are based on information available to the Company as of the date of the announcement and certain assumptions that the Company has judged to be reasonable. Actual results may differ materially from the statements in the document, due to various factors.

Qualitative Information, Financial Statements, etc.

*We have included year-on-year changes in the qualitative information for reference.

1. Qualitative information on consolidated operating results

During the first three quarters under review, the Japanese economy experienced a steep decline, with a bottoming out not yet in sight. Corporate earnings fell, and the employment situation worsened because of the appreciation of the yen and falling stock prices caused by the global credit crunch triggered by the U.S. subprime mortgage crisis. Demand from the auto and IT industries continued to plummet from the second quarter, which had wide reaching effects on each business division of the Dowa Group. Moreover, the appreciation of the yen and plummeting metal prices adversely affected the earnings of the Group.

In the Nonferrous Metals division, prices of copper, zinc, and other nonferrous metals continued to decline. In the Metal Processing division, sales fell because of a plunge in demand in the auto, electronic components, and semiconductor industries. In the Environmental Management & Recycling division, sales in the soil remediation business were weak due to a continuing fall in demand caused by the revision of the Building Standards Law last year. Sales in the waste treatment business and recycling business also slipped because of decreasing quantities of waste materials and other factors.

In a rapidly deteriorating business environment, the Group is improving productivity and extensively reducing costs and inventories through reforms in job sites at each business. The Group is also cutting fixed costs, including personnel costs and repair expenses, and is reviewing all investment projects.

Sales in the first three quarters under review amounted to ¥290,736 million, down 18% year on year. The Group posted a loss of ¥25.4 billion on the difference between the market value and book value of delivered raw materials and a revaluation loss on inventories at the end of the period, caused by plunging prices of nonferrous metals. As a result, an operating loss of ¥4.9 billion was posted, down ¥39.0 billion from operating income of ¥34.0 billion recorded in the same period of the previous fiscal year. With the recording of an exchange loss from a stronger yen and equity in losses of affiliates, the ordinary loss was ¥7.9 billion, a decrease of ¥42.4 billion from ordinary income of ¥34.5 billion for the same period of the previous fiscal year.

Because of the decline in income and an impairment loss on shares owned of ¥8.6 billion resulting from the stock market slump, the Group posted a net loss of ¥16.7 billion, a fall of ¥34.0 billion from net income of ¥17.3 billion.

The results in each major segment are as follows:

Nonferrous Metals

Conditions for sourcing ores, including copper and zinc, as raw materials were tougher compared with the year-ago period. From the second quarter, prices of metals plummeted. Sales volumes of zinc and platinum group metals for auto parts fell in the third quarter.

Operating income weakened in the copper and precious metals business and in the zinc business because of the appreciation of the yen, plunging metal prices, and weakness with new smelting facilities. The Group also posted a revaluation loss on inventories of ¥9.3 billion, because of plunges in the prices of copper and zinc toward the end of the third quarter, further contributing to the profit decline.

As a result, consolidated net sales in the segment totaled ¥143,804 million, down 31% year on year, and an operating loss of ¥12,763 million was posted, a decrease of ¥31,375 million yen from operating income of ¥18,612 million recorded in the same period of the previous fiscal year.

Environmental Management & Recycling

Although the quantity of waste materials was on a downward trend, waste treatment contracts were almost on a par with the year-ago level, thanks to the Group's advanced refractory waste treatment technology and its efforts to increase the amount of general waste collected and treated. In the soil remediation business, sales fell year on year because of declining construction starts associated with the revision of the Building Standards Law. In the recycling business, the volume of shredder residues and home appliances collected and treated declined in the third quarter.

As a result, net sales in the segment amounted to ¥57,612 million, decreasing 3%, and operating income was ¥4,192 million, down 22%.

Electronic Materials

Due to the sluggish semiconductor market since the second half of the previous year, the sales volume of high-purity gallium and gallium arsenide wafers declined. The sales volume of light-emitting diode chips for mobile phone infrared data communications also fell in the face of declining demand overseas. In contrast, in the functional materials business, sales of silver powders for plasma display panels, metal powders for magnetic recording applications, carrier powder for copiers, and iron powder were relatively solid, although orders slipped in the third quarter.

Consequently, net sales in the segment were ¥44,501 million, down 2%, and operating income was ¥4,101 million, declining 19%.

Metal Processing

As demand in the auto industry plunged, the sales volume of copper alloy strips and tin plating for terminals and connectors declined from the second quarter. Sales of products for electronic components and semiconductors were weak. Sales of precious metal electroplated products for automobiles and mobile phones slipped.

Operating income fell because of falling sales associated with plummeting demand, an increase in depreciation expense associated with the revision of the tax system, and a revaluation loss on inventories of ¥1.8 billion in relation to declines in the prices of copper and nickel.

Net sales in the segment stood at ¥65,898 million, falling 3%, and an operating loss of ¥3,077 million was posted, a decrease of ¥4,974 million from operating income of ¥1,896 million recorded a year ago.

Heat Treatment

In the Heat Treatment division, sales fell because of a sharp decline in demand from the auto industry. As demand plummeted, the Dowa Group secured earnings by continuing to cut costs extensively (as in the previous fiscal year) and increasing orders received for machine tools and construction machinery.

As a result, net sales in the segment totaled ¥18,781 million, down 6%, and operating income was ¥1,884 million, decreasing 10%.

2. Qualitative information on consolidated financial position

(1) Assets, liabilities, and net assets

Total assets at the end of the first three quarters under review fell ¥13,226 million from the end of the previous fiscal year, to ¥354,704 million. Current assets declined ¥5,320 million, and fixed assets down ¥7,906 million.

In current assets, the Group deliberately increased cash and time deposits in preparation for unforeseen circumstances, considering the current financial situation. On the other hand, notes and accounts receivable fell ¥19,910 million, and inventories declined ¥26,118 million. The reasons for the decline in inventories include a revaluation loss of ¥25.4 billion posted at the end of the period due to falls in metal prices, in addition to a drastic reduction of inventory. The fall in fixed assets reflects a rise in property, plant and equipment of ¥5,496 million due to capital expenditure for expanding businesses, mainly in the Environmental Management & Recycling division, more than offset by a decline in investments in securities of ¥13,349 million due to an impairment loss on shares owned of ¥8,600 million caused by the stock market slump.

Liabilities increased ¥21,355 million, with a decrease in trade payables of ¥22,473 million and a fall in accrued income taxes of ¥12,899 million through tax payments more than offset by an increase of ¥44,105 million in interest-bearing debt through tax payments and the payment of dividends.

Net assets declined ¥34,582 million. The primary factors for the decrease were a net loss of ¥16,710 million in the first three quarters, a fall of ¥22,780 million in shareholders' equity because of cash dividends paid and other factors, and a slip of ¥11,284 million in adjustments for valuation, foreign currency translation and others due to the estimated fair value of derivative transactions at the end of the period. As a result, the equity ratio fell 8% from the end of the previous fiscal year, to 31%.

(2) Consolidated cash flows

Consolidated cash and cash equivalents rose ¥23,431 million from the end of the previous fiscal year, to ¥27,725 million in the first three quarters under review.

Net cash provided by operating activities was ¥5,061 million with a loss before income taxes and minority interests of ¥17,405 million more than offset by an adjustment of non-financial expenses (depreciation and amortization) of ¥13,556 million, a decrease in trade receivables of ¥19,839 million, and a decrease in inventories of ¥26,799 million, among other factors.

Net cash used in investing activities was ¥18,581 million, reflecting total investments of ¥17,899 million, including capital expenditure for expanding businesses, mainly in the Environmental Management & Recycling division, and investments in equipment improvement for enhancing productivity and quality.

Net cash provided by financial activities was ¥36,967 million. Negative factors including cash dividends paid of ¥7,025 million were more than offset by an increase of ¥44,171 million in interest-bearing debt.

3. Qualitative information on consolidated results forecast

(1) Consolidated results forecast

The Group is improving productivity, slashing costs, and reducing inventory through reform at production sites in each business in response to the deterioration in the operating environment. We are reducing fixed expenses, including labor and repair costs. We are also reviewing all investments.

Through these initiatives, we will bolster the business structure so that each segment will be able to secure a certain level of profit in the current business environment.

The results forecast announced on January 20, 2009 has not been changed.

(2) Dividends

Dowa regards the payment of dividends to stockholders as one of its most important management issues. The Company's basic policy is pay dividends as performance allows, while ensuring sufficient internal reserves for strengthening the corporate structure and expanding business.

The dividend forecast announced on January 20, 2009 has not been changed.

4. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	End of first three quarters under review (December 31, 2008)	Condensed consolidated balance sheets for previous fiscal year (March 31, 2008)
(Million yen)		
(Assets)		
Current assets		
Cash and time deposits	27,885	4,316
Notes and accounts receivable	57,260	77,171
Merchandise and finished goods	16,594	26,676
Work in progress	7,572	7,365
Raw materials and stores	31,950	48,195
Deferred tax assets	12,363	4,156
Other current assets	18,493	9,588
Allowance for doubtful accounts	(19)	(46)
Total current assets	172,101	177,422
Fixed assets		
Property, plant and equipment		
Buildings and structures	78,439	75,121
Accumulated depreciation	(39,868)	(38,197)
Buildings and structures (net)	38,571	36,923
Machinery and equipment	167,555	161,174
Accumulated depreciation	(129,212)	(119,849)
Machinery and equipment (net)	38,342	41,325
Land	22,891	23,044
Construction in progress	14,898	7,934
Other fixed assets	11,465	10,860
Accumulated depreciation	(9,332)	(8,747)
Other fixed assets (net)	2,133	2,113
Total property, plant and equipment	116,836	111,340
Intangible fixed assets		
Goodwill	548	860
Other intangible fixed assets	1,483	1,368
Total intangible fixed assets	2,032	2,229
Investments and other assets		
Investments in securities	54,943	68,293
Long-term loans	26	29
Deferred tax assets	6,669	6,777
Other investments and assets	2,280	2,020
Allowance for doubtful accounts	(187)	(182)
Total investments and other assets	63,733	76,938
Total fixed assets	182,602	190,508
Total assets	354,704	367,931

(Million yen)

	End of first three quarters under review (December 31, 2008)	Condensed consolidated balance sheets for previous fiscal year (March 31, 2008)
(Liabilities)		
Current liabilities		
Notes and accounts payable	22,833	45,306
Short-term borrowings	80,055	38,661
Corporate bonds due within one year	10,007	7
Accrued income taxes	289	13,189
Accrued consumption taxes	532	25
Deferred tax liabilities	12	288
Reserves		
Accrued bonus	1,837	3,563
Accrued directors' bonus	193	477
Total reserves	2,030	4,041
Other current liabilities	29,256	12,175
Total current liabilities	145,017	113,695
Long-term liabilities		
Corporate bonds	7	10,014
Long-term debt	74,989	72,270
Deferred tax liabilities	1,281	2,933
Reserves		
Reserve for employees' retirement benefits	12,673	12,626
Reserve for directors' and corporate auditors' retirement benefits	717	723
Other reserves	1,254	1,107
Total reserves	14,646	14,458
Other long-term liabilities	3,063	4,278
Total long-term liabilities	93,988	103,954
Total liabilities	239,005	217,649
(Net assets)		
Shareholders' equity		
Common stock	36,436	36,436
Additional paid-in capital	26,361	26,367
Retained earnings	52,688	75,469
Treasury stock, at cost	(2,617)	(2,624)
Total shareholders' equity	112,869	135,649
Adjustment for valuation, foreign currency translation and others		
Unrealized gain on securities available for sale	4,848	7,854
Deferred gain (loss) on derivatives under hedge accounting	(6,668)	1,047
Foreign currency translation adjustments	(910)	(348)
Total adjustment for valuation, foreign currency translation and others	2,731	8,553
Minority interests	5,560	6,078
Total net assets	115,698	150,281
Total liabilities and net assets	354,704	367,931

(2) Quarterly Consolidated Statements of Income
First Three Quarters

	(Million yen)
	First three quarters (From April 1, 2008 to December 31, 2008)
Net sales	290,736
Cost of sales	275,465
Gross profit	15,270
Selling, general and administrative expenses	
Transport charges	2,073
Sales charges	450
Directors' compensation	869
Salary and benefits	4,395
Welfare expense	1,031
Provision for bonuses	339
Retirement benefit expense	307
Provision for directors' retirement allowances	133
Rent expense	496
Taxes and public charges	543
Travel expense	1,043
Depreciation and amortization	554
Research and development expenditure	3,702
Amortization of goodwill	311
Other selling, general and administrative expenses	3,982
Total selling, general and administrative expenses	20,236
Operating loss	(4,965)
Non-operating income	
Interest income	330
Dividend income	846
Other non-operating income	2,155
Total non-operating income	3,332
Non-operating expenses	
Interest expense	1,808
Exchange loss	2,011
Equity in losses of affiliates	389
Other non-operating expenses	2,068
Total non-operating expenses	6,278
Ordinary loss	(7,911)
Extraordinary income	
Subsidies	32
Gain on sale of investment in securities	20
Gain on sale of property, plant and equipment	22
Other extraordinary income	123
Total extraordinary income	199
Extraordinary expenses	
Loss on devaluation of investment securities	8,666
Loss on disposal of fixed assets	490
Loss on impairment of property, plant and equipment	157
Other extraordinary expenses	379
Total extraordinary expenses	9,694
Loss before income taxes and minority interests	(17,405)
Income, inhabitants' and enterprise taxes	2,339
Deferred income taxes	(3,485)
Total income taxes	(1,145)
Minority interests	450
Net loss	(16,710)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	First three quarters (From April 1, 2008 to December 31, 2008)
Cash flows from operating activities:	
Loss before income taxes and minority interests	(17,405)
Depreciation and amortization	13,556
Loss on impairment of property, plant and equipment	157
Amortization of goodwill	331
Increase (decrease) in allowance for doubtful accounts	(21)
Increase (decrease) in other allowances	(1,919)
Interest and dividend income	(1,177)
Interest expense	1,808
Foreign exchange (gain) loss	41
Equity in (earnings) losses of affiliates	389
Loss (gain) on sale of fixed assets	(22)
Loss on disposal of marketable and fixed assets	490
Loss (gain) on sale of investment in securities, net	(20)
Loss (gain) on evaluation of investment securities	8,666
Decrease (increase) in trade receivables	19,839
Decrease (increase) in inventories	26,799
Increase (decrease) in trade payables	(21,990)
Increase (decrease) in accrued consumption taxes	506
Other	(7,335)
Subtotal	22,675
Interest and dividend income received	1,225
Interest expenses paid	(1,617)
Repayment (payment) of corporate taxes	(17,222)
Net cash provided by operating activities	5,061
Cash flows from investing activities:	
Decrease (increase) in fixed deposit	(140)
Acquisition of investments in subsidiaries and affiliates	(288)
Proceeds from sale of investments in affiliates	16
Acquisition of property, plant and equipment	(17,899)
Proceeds from sale of property, plant and equipment	118
Acquisition of investments in securities	(401)
Proceeds from sale of investment in securities	16
Payment for loans	(158)
Proceeds from collection of loans	219
Other	(64)
Net cash used in investing activities	(18,581)
Cash flows from financing activities:	
Increase (decrease) in short-term bank loans, net	38,923
Proceeds from long-term debt	16,400
Repayment of long-term debt	(11,144)
Purchase of treasury stock	(3)
Proceeds from sale of treasury stock	2
Expenditure for redemption of corporate bonds	(7)
Cash dividends paid	(6,075)
Cash dividends paid to minority shareholders	(950)
Repayment of finance lease obligations	(178)
Net cash provided by financing activities	36,967
Foreign currency translation adjustment on cash and cash equivalents	(116)
Net Increase (decrease) in Cash and Cash Equivalents	23,331
Cash and Cash Equivalents at Beginning of Term	4,294
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	100
Cash and Cash Equivalents at End of Term	27,725

(4) Segment information

(Segment information by business type)

First three quarters under review (April 1, 2008 to December 31, 2008)

(Million yen)

	Nonferrous Metals	Environmental Management & Recycling	Electronic Materials	Metal Processing	Heat Treatment	Other	Total	Eliminations or Company-wide	Consolidated
Sales									
(1) External customers	126,491	35,186	42,876	65,887	18,781	1,511	290,736	—	290,736
(2) Inter-segment	17,313	22,426	1,624	10	—	8,373	49,748	(49,748)	—
Total	143,804	57,612	44,501	65,898	18,781	9,885	340,484	(49,748)	290,736
Operating income/loss	(12,763)	4,192	4,101	(3,077)	1,884	216	(5,446)	480	(4,965)

First three quarters of previous fiscal year (April 1, 2007 to December 31, 2007)

(Million yen)

	Nonferrous Metals	Environmental Management & Recycling	Electronic Materials	Metal Processing	Heat Treatment	Other	Total	Eliminations or Company-wide	Consolidated
Sales									
(1) External customers	183,145	34,080	43,761	67,606	20,042	4,080	352,715	—	352,715
(2) Inter-segment	24,351	25,052	1,569	54	0	11,704	62,732	(62,732)	—
Total	207,497	59,133	45,330	67,661	20,042	15,784	415,448	(62,732)	352,715
Operating expenses	188,884	53,737	40,262	65,764	17,939	15,623	382,212	(63,583)	318,628
Operating income	18,612	5,395	5,067	1,896	2,103	160	33,236	851	34,087