

Consolidated Financial Summary for First Half of Fiscal Year Ending March 2009



November 11, 2008

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

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(Rounded down to nearest million yen)

1. Consolidated business results for the first half of the fiscal year ending March 2009 (April 1, 2008 – September 30, 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	%
First half to September 2008	215,193	—	11,566	—	11,297	—	5,287	—
First half to September 2007	237,212	9.0	27,360	17.5	27,446	14.7	12,118	-12.6

	Net income per share	Net income per share (fully diluted)
	Yen	Yen
First half to September 2008	17.67	16.82
First half to September 2007	40.42	38.47

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September, 2008	363,683	145,166	38.1	463.20
As of March 31, 2008	367,931	150,281	39.2	481.85

(Reference) Shareholders' equity: As of September, 2008: 138,621 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	—	—	—	—	20.00
Fiscal year ending March 2009 (forecast)	—	—	—	20.00	20.00

(Note) Revisions of expected dividends in the first half 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
First half	—	—	—	—	—	—	—	—	—
Full year	400,000	-15.9	22,000	-50.4	22,000	-51.0	12,000	-51.1	40.10

(Note) Revisions of estimated consolidated results in the first half 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
(Note) For details, please see the statement under “4. Others,” (2) of the section “Qualitative Information, Financial Statements, Etc.” on page 6.
- (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
(Note) For details, please see the statement under “4. Others,” (3) of the section “Qualitative Information, Financial Statements, Etc.” on page 7.
- (4) Number of outstanding shares (common shares)
- | | |
|--|--------------------|
| (i) Number of outstanding shares (including treasury stock) at the end of the period | |
| As of September 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 September 2008: | 4,524,476 shares |
| As of March 2008: | 4,522,038 shares |
| (iii) Average number of shares during the period (first half) | |
| First half of fiscal year ending March 2009: | 299,268,020 shares |
| First half of fiscal year ended March 2008: | 299,811,610 shares |

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 half under review, the Japanese economy slowed further due to an unusual climate in the global economy triggered by the U.S. subprime mortgage crisis.

Demand from the auto and IT industries plunged in the second quarter, which had a wide range of effects on each business division of the Dowa Group.

In the Nonferrous Metals division, the prices of copper, silver, and other nonferrous metals plummeted toward the end of the second quarter. In the Metal Processing division, sales declined because of a sharp fall in demand in the auto, electronic components, and semiconductor industries. In the Environmental Management & Recycling division, performance in the waste treatment business was solid, while sales in the soil remediation business were weak. This was due to a decline in the number of large-scale projects and delays in construction starts on the back of a continuing fall in demand caused by the revision of the building standards law last year.

In the rapid deterioration of the business environment, the Group is cutting costs extensively in each business, and will carry out additional initiatives to enhance productivity and quality, thereby securing earnings.

Sales in the first half under review amounted to ¥215,193 million, down 9% year on year. The Group posted a revaluation loss on inventories of ¥6.1 billion due to a rapid fall in the prices of nonferrous metals. As a result, operating income was ¥11,566 million (falling 58% year on year), ordinary income was ¥11,297 million (falling 59%), and net income was ¥5,287 million (declining 56%).

The Group made Akita Zinc Recycling Co., Ltd., which engages in the recycling of zinc, a newly consolidated subsidiary in the first half under review. Construction of Akita Zinc Recycling's zinc recovery facility will commence in December 2008, with the facility planned to start operating in January 2010.

The results in each major segment are as follows:

Nonferrous Metals

Due in part to the effect of the outflow of speculative funds triggered by the financial instability, the prices of major metals plummeted, especially in the second quarter. Gold and silver sales volumes fell in association with a shift to a new process in Kosaka. On the other hand, sales of zinc and platinum group metals increased.

With regard to profit, income from copper fell because of the deterioration in conditions for sourcing ores as raw materials. Income from zinc also declined due to falling prices. The Group also posted a revaluation loss on inventories of ¥5.4 billion because of plunges in the prices of copper and silver toward the end of the second quarter, further contributing to the profit decline.

As a result, consolidated net sales in the segment totaled ¥108,898 million, down 25% year on year, and operating income was ¥2,523 million, falling 85% year on year.

Environmental Management & Recycling

Although more and more companies are treating waste materials themselves, waste treatment contracts were solid thanks to the Group's advanced refractory waste treatment technology. In the recycling business, the Group increased the volume of precious metals recycled and improved the rate of recovery of valuable resources in home appliance recycling. In the soil remediation business, sales fell year on year due to the effect of declining construction starts associated with the revision of the building standards law.

As a result, net sales in the segment amounted to ¥41,458 million, rising 7%, and operating income was ¥3,294 million, down 4%.

Electronic Materials

Given sluggish demand for semiconductors since the second half of the previous year, demand for LED (light-emitting diode) chips for mobile phone infrared data communication overseas declined in particular, leading to a fall in sales. On the other hand, 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 solid.

Consequently, net sales in the segment were ¥33,320 million, up 13%, and operating income was ¥3,028 million, declining 10%.

Metal Processing

Sales of copper alloy strips and tin plating for automotive terminals and connectors increased, while sales of products for electronic components and semiconductors fell due to a sharp decline in demand. Sales of precious metal electroplated products also dropped. Income decreased in relation to metal-ceramic substrates due to a temporary rise in costs associated with equipment enhancement. Overall, sales rose because of the effects of newly consolidated subsidiaries that were incorporated after the third quarter of the previous fiscal year. Operating income fell because of falling sales associated with declining demand, an increase in depreciation expense associated with the revision of the tax system, and a revaluation loss on inventories of ¥700 million in relation to declines in the prices of copper and nickel.

Net sales in the segment stood at ¥49,526 million, increasing 21%, and operating income was ¥613 million, down 65%.

Heat Treatment

In the Heat Treatment division, sales fell because of a sharp decline in demand from the auto industry. Sales of heat treatment furnaces were solid, along with maintenance services. As demand plummeted, the Dowa Group secured earnings by continuing to cut costs extensively (as in the previous fiscal year) and increasing the number of orders received for machine tools and construction machinery. Consequently, operating income rose year on year.

As a result, net sales in the segment totaled ¥13,898 million, up 5%, and operating income was ¥1,721 million, climbing 32%.

2. Qualitative information on consolidated financial position

(1) Assets, liabilities, and net assets

Total assets at the end of the first half under review fell ¥7,232 million from the end of the previous fiscal year, to ¥360,699 million. Current assets declined ¥9,032 million, and fixed assets rose ¥1,800 million.

The major factors contributing to the decrease in current assets were a fall of ¥8,295 million in notes and accounts receivable and a decline of ¥1,868 million in inventories. However, the decrease in inventories includes a revaluation loss on inventories of ¥6.1 billion, and inventories actually increased ¥4,215 million. This was because of a temporary increase in materials in preparation for enhancing the capacity of a new type of furnace that optimizes the treatment of recyclable materials in the Nonferrous Metals segment, along with a rise in construction work in progress in the soil remediation and industrial furnaces businesses. The rise in fixed assets reflects capital expenditure for business expansion and productivity enhancement in each division. Liabilities fell ¥2,117 million, with an increase of ¥16,993 million in interest-bearing debt through tax payments and the payment of dividends, and other factors more than offset by a decrease in trade payables of ¥13,516 million and a fall in accrued income taxes of ¥10,483 million through tax payments.

Net assets declined ¥5,114 million. Shareholders' equity slipped ¥784 million because of cash dividends paid and other factors. Adjustments for valuation, foreign currency translation and others dropped ¥4,797 million due to the estimated fair value of derivative transactions at the end of the period. As a result, the equity ratio fell one percentage point from the end of the previous fiscal year, to 38%.

(2) Consolidated cash flows

Consolidated cash and cash equivalents fell ¥297 million from the end of the previous fiscal year, to ¥3,996 million in the first half under review.

Net cash provided by operating activities was ¥1,848 million with the outflow (including a decrease in trade payables of ¥13,120 million and a payment of corporate taxes of ¥13,195 million) more than offset by the inflow (including income before income taxes and minority interests of ¥10,591 million, depreciation of ¥8,732 million, and a decrease in trade receivables of ¥8,294 million).

Net cash used in investing activities was ¥12,846 million due to total investments of ¥12,602 million, including capital expenditure for changing and expanding businesses, and investments in equipment improvement for enhancing productivity and quality in each division.

Net cash provided by financial activities was ¥10,627 million. Negative factors including cash dividends paid of ¥6,220 million were more than offset by an increase of ¥16,971 million in interest-bearing debt.

The difference between the quarterly consolidated balance sheets and the quarterly consolidated statements of cash flows in terms of the change in interest-bearing debt is caused by the effects of translation gains and losses, among other factors.

3. Qualitative information on consolidated results forecast

We have decided not to revise the forecast consolidated results for the full fiscal year ending March 2009, which were announced on October 14, although there is concern over the effects of a decline in demand from the automotive and IT sectors, falling prices of metals, and a stronger yen in association with an unusual climate in the global economy. This is because the outlook for the business environment is extremely uncertain, and it is now very difficult to estimate results in the second half. We will disclose our forecast results when a consolidated financial summary for the third quarter is announced, after we assess demand from the auto and IT industries and trends in the prices of metals.

In response to the rapid deterioration in the business environment, we will do our best to secure earnings by promoting initiatives, including comprehensive cost cutting in each business.

(Million yen)

	Net sales	Operating income	Ordinary income	Net income
Previous forecast (A)	460,000	40,000	40,000	22,000
Revised forecast (B)	400,000	22,000	22,000	12,000
Change (B – A)	(60,000)	(18,000)	(18,000)	(10,000)
Rate of change	(13.0%)	(45.0%)	(45.0%)	(45.5%)
(Ref.) previous year's results (year ended March 2008)	475,826	44,319	44,888	24,520

1. Quarterly Consolidated Financial Statements
(1) Quarterly Consolidated Balance Sheets

(Million yen)

	End of first half under review (September 30, 2008)	Condensed consolidated balance sheets for previous fiscal year (March 31, 2008)
(Assets)		
Current assets		
Cash and time deposits	4,128	4,316
Notes and accounts receivable	68,875	77,171
Merchandise and finished goods	21,416	26,676
Work in progress	7,804	7,365
Raw materials and stores	51,146	48,195
Deferred tax assets	5,090	4,156
Other current assets	9,950	9,588
Allowance for doubtful accounts	(23)	(46)
Total current assets	168,389	177,422
Fixed assets		
Property, plant and equipment		
Buildings and structures	78,138	75,121
Accumulated depreciation	(39,252)	(38,197)
Buildings and structures (net)	38,886	36,923
Machinery and equipment	165,873	161,174
Accumulated depreciation	(126,078)	(119,849)
Machinery and equipment (net)	39,794	41,325
Land	22,893	23,044
Construction in progress	10,622	7,934
Other fixed assets	11,370	10,860
Accumulated depreciation	(9,115)	(8,747)
Other fixed assets (net)	2,254	2,113
Total property, plant and equipment	114,452	111,340
Intangible fixed assets		
Goodwill	608	860
Other intangible fixed assets	1,520	1,368
Total intangible fixed assets	2,129	2,229
Investments and other assets		
Investments in securities	66,674	68,293
Long-term loans	28	29
Deferred tax assets	6,899	6,777
Other investments and assets	2,308	2,020
Allowance for doubtful accounts	(183)	(182)
Total investments and other assets	75,727	76,938
Total fixed assets	192,309	190,508
Total assets	360,699	367,931

(Million yen)

	End of first half under review (September 30, 2008)	Condensed consolidated balance sheets for previous fiscal year (March 31, 2008)
(Liabilities)		
Current liabilities		
Notes and accounts payable	31,789	45,306
Short-term borrowings	53,198	38,661
Corporate bonds due within one year	7	7
Accrued income taxes	2,706	13,189
Accrued consumption taxes	495	25
Deferred tax liabilities	0	288
Reserves		
Accrued bonus	3,582	3,563
Accrued directors' bonus	107	477
Total accrued bonuses	3,690	4,041
Other current liabilities	17,842	12,175
Total current liabilities	109,729	113,695
Long-term liabilities		
Corporate bonds	10,007	10,014
Long-term debt	74,734	72,270
Deferred tax liabilities	3,066	2,933
Reserves		
Reserve for employees' retirement benefits	12,618	12,626
Reserve for directors' and corporate auditors' retirement benefits	674	723
Other reserves	1,313	1,107
Total accrued bonuses	14,606	14,458
Other long-term liabilities	3,389	4,278
Total long-term liabilities	105,802	103,954
Total liabilities	215,532	217,649
(Net assets)		
Shareholders' equity		
Common stock	36,436	36,436
Additional paid-in capital	26,367	26,367
Retained earnings	74,686	75,469
Treasury stock, at cost	(2,625)	(2,624)
Total shareholders' equity	134,865	135,649
Adjustment for valuation, foreign currency translation and others		
Unrealized gain on securities available for sale	6,730	7,854
Deferred gain (loss) on derivatives under hedge accounting	(2,595)	1,047
Foreign currency translation adjustments	(378)	(348)
Total adjustment for valuation, foreign currency translation and others	3,755	8,553
Minority interests	6,545	6,078
Total net assets	145,166	150,281
Total liabilities and net assets	360,699	367,931

(2) Quarterly Consolidated Statements of Income
First Half

(Million yen)

	First half (From April 1, 2008 to September 30, 2008)
Net sales	215,193
Cost of sales	189,949
Gross profit	25,244
Selling, general and administrative expenses	
Transport charges	1,394
Sales charges	322
Directors' compensation	541
Salary and benefits	2,384
Welfare expense	691
Provision for bonuses	880
Retirement benefit expense	205
Provision for directors' retirement allowances	86
Rent expense	322
Taxes and public charges	404
Travel expense	702
Depreciation and amortization	353
Research and development expenditure	2,469
Amortization of goodwill	251
Other selling, general and administrative expenses	2,668
Total selling, general and administrative expenses	13,678
Operating income	11,566
Non-operating income	
Interest income	251
Dividend income	540
Equity in earnings of affiliates	80
Other non-operating income	1,478
Total non-operating income	2,351
Non-operating expenses	
Interest expense	1,188
Exchange loss	23
Other non-operating expenses	1,408
Total non-operating expenses	2,620
Ordinary income	11,297
Extraordinary income	
Subsidies	32
Gain on sale of investment in securities	15
Gain on sale of property, plant and equipment	14
Other extraordinary income	69
Total extraordinary income	131
Extraordinary expenses	
Loss on disposal of fixed assets	350
Loss on impairment of property, plant and equipment	157
Other extraordinary expenses	329
Total extraordinary expenses	837
Income before income taxes and minority interests	10,591
Income, inhabitants' and enterprise taxes	2,801
Deferred income taxes	1,887
Total income taxes	4,688
Minority interests	614
Net income	5,287

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	First half (From April 1, 2008 to September 30, 2008)
Cash flows from operating activities:	
Income before income taxes and minority interests	10,591
Depreciation and amortization	8,732
Loss on impairment of property, plant and equipment	157
Amortization of goodwill	251
Increase (decrease) in allowance for doubtful accounts	(22)
Increase (decrease) in other allowances	(303)
Interest and dividend income	(791)
Interest expense	1,188
Foreign exchange (gain) loss	37
Equity in (earnings) losses of affiliates	(80)
Loss (gain) on sale of fixed assets	(14)
Loss on disposal of marketable and fixed assets	350
Loss (gain) on sale of investment in securities, net	(15)
Decrease (increase) in trade receivables	8,294
Decrease (increase) in inventories	2,960
Increase (decrease) in trade payables	(13,120)
Increase (decrease) in accrued consumption taxes	470
Other	(3,308)
Subtotal	15,378
Interest and dividend income received	827
Interest expenses paid	(1,161)
Repayment (payment) of corporate taxes	(13,195)
Net cash provided by operating activities	1,848
Cash flows from investing activities:	
Decrease (increase) in fixed deposit	(109)
Acquisition of investments in subsidiaries and affiliates	(288)
Proceeds from sale of investments in affiliates	16
Acquisition of property, plant and equipment	(12,602)
Proceeds from sale of property, plant and equipment	101
Acquisition of investments in securities	(3)
Proceeds from sale of investment in securities	8
Payment for loans	(28)
Proceeds from collection of loans	101
Other	(41)
Net cash used in investing activities	(12,846)
Cash flows from financing activities:	
Increase (decrease) in short-term bank loans, net	13,042
Proceeds from long-term debt	12,300
Repayment of long-term debt	(8,364)
Purchase of treasury stock	(2)
Proceeds from sale of treasury stock	0
Expenditure for redemption of corporate bonds	(7)
Cash dividends paid	(6,075)
Cash dividends paid to minority shareholders	(145)
Repayment of finance lease obligations	(120)
Net cash provided by financing activities	10,627
Foreign currency translation adjustment on cash and cash equivalents	(27)
Net Increase (decrease) in Cash and Cash Equivalents	(397)
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	* 3,996

(5) Segment information
(Segment information by business type)

First half under review (April 1, 2008 to September 30, 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	94,362	24,311	32,117	49,520	13,898	983	215,193	—	215,193
(2) Inter-segment	14,536	17,147	1,202	6	—	5,915	38,807	(38,807)	—
Total	108,898	41,458	33,320	49,526	13,898	6,898	254,001	(38,807)	215,193
Operating Income	2,523	3,294	3,028	613	1,721	232	11,413	153	11,566

(Ref.)

First half of previous fiscal year (April 1, 2007 to September 30, 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	129,204	22,412	28,516	40,736	13,227	3,115	237,212	—	237,212
(2) Inter-segment	16,860	16,422	1,055	51	0	6,468	40,858	(40,858)	—
Total	146,064	38,834	29,572	40,787	13,227	9,583	278,070	(40,858)	237,212
Operating Expenses	128,809	35,385	26,194	39,030	11,924	9,844	251,188	(41,337)	209,851
Operating Income	17,255	3,449	3,377	1,757	1,302	(260)	26,881	478	27,360