

Fiscal 2014 First Half Business Result

November 10, 2014

DOWA HOLDINGS CO.,LTD.

* Forward-looking statements made in this document, such as business forecasts, are based on the information available at this time and on certain premises that the Company assumes to be reasonable. Actual performance may differ materially from such forecasts due to a variety of factors.

Highlights of Income Statements

■ Consolidated Income Statements

Billion yen

	FY2013 Results		FY2014		Change			
	H1	Full Year	H1 Results	Full Year Forecasts	H1		Full Year	
Net Sales	211.8	443.9	223.6	470.0	11.7	6%	26.0	6%
Operating Income	16.3	31.7	16.8	36.5	0.4	3%	4.7	15%
Ordinary Income	17.8	35.0	18.4	38.0	0.6	4%	2.9	9%
Net Income	11.7	23.3	12.1	25.0	0.4	4%	1.6	7%

- Both sales and income rose year on year in the first half of fiscal 2014.

Income increased in electronic materials and metal processing, reflecting the capturing of demand for multifunctional portable devices and new forms of energy, in addition to the effect of a weaker yen in the nonferrous metals segment.

- Full-year forecasts, including assumptions, remain unchanged from the initial forecasts.

Business Environment

■ Market situation

- Environmental Management & Recycling-related market: Waste volume remained at the same level in Japan, but expanded overseas, especially in Asia.
- Automotive-related market: There was a slowdown in the domestic market due to the fall in demand that followed the last-minute surge before the consumption tax hike. Overseas, sales remained relatively firm in mainly North America and Central America, although the situation varied by region.
- Electronic Materials and Semiconductor-related market: While the markets for computers, TVs and flip phones continued to stagnate, demand for multifunctional portable devices such as smartphones grew.

■ Metal prices and foreign exchange rates

- Metal prices: Generally, large price movements were not observed in precious metals, but prices were trending downward at the end of the first half partly because of the stronger dollar. Zinc and indium prices remained higher year on year, reflecting firm demand.
- Foreign exchange rates: The yen hovered around a low 100JPY/USD range, but weakened to the 109JPY/USD level in some phases toward the end of the first half.

	FY2013 Average			FY2014		
	H1	H2	Full Year	H1 average	Assumption for H2	Assumption for Full Year
Exchange Rate: (¥/\$)	98.9	101.6	100.2	103.0	100.0	101.5
Copper: (\$/t)	7,112	7,095	7,104	6,890	6,500	6,695
Zinc: (\$/t)	1,850	1,969	1,910	2,192	2,000	2,096
Indium: (\$/kg)	565	683	624	692	600	646

Trends in Major Products

Indexes (100 for Q1 of FY2012)

		FY2013				FY2014	
		1Q	2Q	3Q	4Q	1Q	2Q
Environmental Management & Recycling	Intermediate waste processing volume in Japan	100	96	104	91	101	86
	Recycling materials collection volume (Kosaka)	100	102	108	109	118	106
	Waste processing amount in South East Asia	100	115	112	109	137	130
Nonferrous Metals	Silver production (Kosaka)	100	96	113	103	94	93
	Zinc production (Akita)	100	69	99	96	103	67
Electronic Materials	Compound semiconductor materials sales volume	100	109	99	111	139	108
	LED sales volume	100	88	78	90	113	93
	Silver powder sales volume	100	89	119	117	121	110
Metal Processing	Copper alloy strip products sales volume	100	99	105	103	110	103
Heat Treatment	Heat treatment processing volume	100	103	102	101	112	109

Year-on-Year Comparison by Segment

Billion Yen

	FY2013 H1 Results			FY2014 H1 Results			Change			Details of Changes to Operating Income
	Net Sales	Operating Income	Ordinary Income	Net Sales	Operating Income	Ordinary Income	Net Sales	Operating Income	Ordinary Income	
Environmental Management & Recycling	48.1	4.6	4.5	49.4	3.1	3.7	1.3	(1.4)	(0.8)	-Decline in income due to a fall in the volume of low-contaminated PCB waste that was treated -Business in Southeast Asia continued to grow and enjoyed higher income
Nonferrous Metals	102.8	4.5	5.8	110.7	4.6	5.7	7.8	0.0	(0.0)	-Copper and zinc smelter operations remained steady -Boost to profit from a weaker yen -Higher costs due to rising electricity charges
Electronic Materials	41.0	3.2	3.8	41.2	4.5	4.8	0.2	1.2	1.0	-Expansion in sales of LEDs and silver powder to growth markets
Metal Processing	39.8	2.6	2.7	42.6	2.9	3.1	2.7	0.3	0.3	-Firm demand for automotive terminals, connectors, and plating -Recovery in demand for metal-ceramic substrates used in industrial machinery
Heat Treatment	11.6	0.9	0.8	13.4	1.1	1.1	1.7	0.2	0.2	-Heat treatment and industrial furnace sales increased in overseas markets
Other/ Elimination	(31.6)	0.3	(0.0)	(33.8)	0.3	(0.1)	(2.2)	0.0	(0.0)	
Total	211.8	16.3	17.8	223.6	16.8	18.4	11.7	0.4	0.6	

Factor Analysis of Ordinary Income

Billion yen

FY2013 H1 – FY2014 H1	Environmental Management & Recycling	Nonferrous Metals	Electronic Materials	Metal Processing	Heat Treatment	Other	Total
Effect of various measures, increase/decrease in sales, etc.	(1.7)	(0.3)	1.2	0.3	0.3	0.1	(0.1)
Of the above, free metal income difference (volume difference)	–	(0.6)	–	–	–	–	(0.6)
Free metal income difference (price difference)	–	0.9	–	–	–	–	0.9
Conditions of raw material (changes in exchange rate and base conditions)	–	1.0	–	–	–	–	1.0
Difference between the market value and book value at sale, and between market value and valuation prices at end of period	–	(1.0)	–	–	–	–	(1.0)
Electricity charges, etc.	–	(1.0)	–	–	–	–	(1.0)
Depreciation	0.2	0.5	0.0	(0.0)	(0.0)	(0.0)	0.6
Increase/decrease in operating income	(1.4)	0.0	1.2	0.3	0.2	0.0	0.4
Effect of non-operating income/expenses							
- Equity method income or loss	0.4	(0.3)	0.0	(0.0)	–	0.0	0.1
- Other	0.2	0.2	(0.3)	0.1	0.0	(0.1)	–
Increase/decrease in ordinary income	(0.8)	(0.0)	1.0	0.3	0.2	(0.0)	0.6

Financial Highlights (1)

■ Consolidated Balance Sheets

Billion yen

	March 31, 2014	Sep. 30, 2014	Change		March 31, 2014	Sep. 30, 2014	Change
Current Assets	173.9	188.4	14.4	Current Liabilities	131.8	146.7	14.9
				Noncurrent Liabilities	59.9	55.0	(4.9)
Noncurrent Assets	184.7	188.4	3.7	Equity	8.7	8.7	(0.0)
				Minority Interests	158.2	166.4	8.2
Total Assets	358.7	376.9	18.2	Total Liabilities and Net Assets	358.7	376.9	18.2

- Total assets increased, reflecting higher inventories of unprocessed ore for production in the second half, and an increase in investment securities due to a rise in their market value.
- Interest-bearing debt rose from ¥99.6 billion to ¥108.2 billion. This increase was largely due to an increase in working capital, funds to pay taxes, and the payment of dividends.
- The equity ratio stayed at 44%, despite a rise in total assets.

Financial Highlights (2)

■ Consolidated Statements of Cash Flows

Billion Yen

	FY2013 H1	FY2014 H1	Change
Cash Flows from Operating Activities	3.2	5.0	1.7
Income before income taxes and minority interest	17.5	18.1	0.5
Depreciation	7.9	7.5	(0.4)
Income taxes paid	(6.1)	(9.2)	(3.0)
Other, net	(16.0)	(11.4)	4.6
Cash Flows from Investing Activities	(7.8)	(8.0)	(0.2)
Acquisition of property, plant and equipment	(7.2)	(8.1)	(0.8)
Other investments	(0.5)	0.0	0.6
Cash Flows from Financing Activities	3.6	4.2	0.6
Total	(0.9)	1.2	2.1

- Cash flows from operating activities were less than cash spent in investing activities due to the payment of corporate tax and the accumulation of inventories in the first half. We expect cash flows from operating activities will substantially surpass cash to be spent in investing activities in the second half.

(Ref.) Consolidated Income Statements

Million yen

	Previous Term (FY2013)			Current Term (FY2014)			Change		
	1Q	2Q	H1	1Q	2Q	H1	1Q	2Q	H1
Net Sales	108,658	103,227	211,885	109,671	113,969	223,640	1,013	10,741	11,754
Cost of Sales	92,071	88,627	180,698	92,268	98,576	190,844	197	9,949	10,146
Gross Profit	16,587	14,600	31,187	17,403	15,392	32,795	816	792	1,608
Selling, General, and Administrative Expenses, R&D Expenses	7,434	7,396	14,831	8,004	7,979	15,983	570	582	1,152
Operating Income	9,152	7,203	16,356	9,398	7,413	16,812	245	209	455
Other Income	2,305	616	2,922	1,515	1,535	3,050	△ 790	918	128
Interest and dividend income	(327)	(39)	(366)	(370)	(49)	(419)	(42)	(9)	(52)
Equity in earnings of affiliates	(810)	(119)	(930)	(486)	(566)	(1,053)	(△ 323)	(446)	(123)
Other income	(1,167)	(457)	(1,625)	(658)	(919)	(1,577)	(△ 509)	(462)	(△ 47)
Other Expenses	683	742	1,425	729	640	1,370	46	△ 101	△ 55
Interest expenses	(395)	(366)	(761)	(297)	(291)	(588)	(△ 98)	(△ 75)	(△ 173)
Equity in losses of affiliates	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Other expenses	(287)	(375)	(663)	(432)	(348)	(781)	(144)	(△ 26)	(118)
Ordinary Income	10,775	7,078	17,853	10,183	8,308	18,492	△ 591	1,230	639
Extraordinary income	65	129	195	20	104	125	△ 45	△ 25	△ 70
Gain on sales of noncurrent assets	(22)	(6)	(29)	(10)	(6)	(17)	(△ 12)	(-)	(△ 12)
Gain on sale of investment securities	(11)	(44)	(55)	(-)	(87)	(87)	(△ 11)	(42)	(31)
Compensation income	(-)	(83)	(83)	(3)	(-)	(3)	(3)	(△ 83)	(△ 79)
Other	(31)	(△ 4)	(27)	(6)	(10)	(17)	(△ 24)	(14)	(△ 10)
Extraordinary loss	48	408	457	45	383	429	△ 2	△ 25	△ 27
Loss on retirement of noncurrent assets	(42)	(99)	(142)	(25)	(105)	(130)	(△ 16)	(5)	(△ 11)
Impairment loss	(-)	(48)	(48)	(-)	(44)	(44)	(-)	(△ 3)	(△ 3)
Loss on disaster	(1)	(245)	(246)	(-)	(226)	(226)	(△ 1)	(△ 19)	(△ 20)
Other	(4)	(14)	(19)	(20)	(7)	(27)	(15)	(△ 7)	(7)
Income Before Income Taxes and Minority Interests	10,792	6,799	17,592	10,158	8,029	18,188	△ 633	1,230	596
Income Taxes	3,101	2,587	5,688	3,038	2,960	5,999	△ 62	373	310
Minority Interests in Income	143	26	169	89	△ 99	△ 10	△ 54	△ 125	△ 179
Net Income	7,548	4,185	11,733	7,030	5,168	12,199	△ 517	982	465
Depreciation	3,732	3,951	7,684	3,543	3,732	7,275	△ 189	△ 219	△ 408

(Ref.) Consolidated Balance Sheet

Million yen

Accounts	March 31, 2014	September 30, 2014	Change	Accounts	March 31, 2014	September 30, 2014	Change
Assets				Liabilities			
Current Assets	173,998	188,432	14,433	Current Liabilities	131,803	146,720	14,917
Cash and deposits	5,857	7,457	1,599	Notes and accounts payable-trade	34,502	32,505	(1,996)
Notes and accounts receivable-trade	71,838	73,035	1,196	Short-term loans payable	41,521	47,571	6,050
Inventories	77,773	93,157	15,384	Commercial papers	10,000	20,000	10,000
Deferred tax assets	4,713	4,562	(150)	Current portion of bonds	10,000	10,000	
Other	13,893	10,291	(3,602)	Income taxes payable	7,630	4,256	(3,373)
Allowance for doubtful accounts	(77)	(71)	5	Ingot leasing liabilities	2,953	6,342	3,389
				Other	25,196	26,044	847
Noncurrent Assets	184,719	188,499	3,780	Noncurrent Liabilities	59,927	55,010	(4,916)
Property, plant and equipment	103,890	106,984	3,094	Bonds payable			
Intangible assets	11,841	11,369	(471)	Long-term loans payable	38,142	30,725	(7,417)
Investment securities	61,612	62,669	1,057	Provision for retirement benefits	12,230	14,328	2,098
Deferred tax assets	3,527	3,637	110	Deferred tax liabilities	2,940	3,332	391
Other	3,988	3,975	(12)	Other	6,614	6,624	10
Allowance for doubtful accounts	(139)	(138)	1	Total Liabilities	191,730	201,731	10,001
				Net Assets			
				Shareholders' Equity	144,910	151,131	6,221
				Capital stock	36,437	36,437	
				Capital surplus	26,362	26,362	
				Retained earnings	87,806	94,029	6,223
				Treasury stock	(5,695)	(5,697)	(2)
				Accumulated Other Comprehensive Income	13,343	15,335	1,992
				Valuation difference on available-for-sale securities	10,947	13,231	2,284
				Deferred gains or losses on hedges	315	169	(146)
				Foreign currency translation adjustment	2,604	2,373	(230)
				Retirement benefit adjustment	(523)	(439)	84
				Minority Interests	8,733	8,732	(1)
				Total Net Assets	166,987	175,199	8,212
Total Assets	358,717	376,931	18,213	Total Liabilities and Net Assets	358,717	376,931	18,213

Interest-bearing debt	99,663	108,297	8,633
Cash and deposits	5,857	7,457	1,599
Actual balance	93,806	100,840	7,034
Equity ratio	44.1%	44.2%	0.0%
ROA	9.9%	10.1%	0.2%

(Ref.) Consolidated Statements of Cash Flows

Million yen

	FY2013 H1	FY2014 H1	Change		FY2013 H1	FY2014 H1	Change
I. Cash Flows from Operating Activities				II. Cash Flows from Investing Activities			
Income before income taxes and minority interests	17,592	18,188	596	Acquisition of property, plant and equipment	(7,269)	(8,155)	(885)
Adjustments (non-cash)				Sale and acquisition of securities	(551)	8	560
Depreciation	7,943	7,521	(422)	Change in loans	(135)	131	266
Equity in (earnings) losses of affiliates	(930)	(1,053)	(123)	Proceeds from disposal and sale of noncurrent assets	39	39	
Change of business, impairment loss				Other, net	50	(103)	(153)
(Gain) loss due to sale or disposal of securities, property, plant and equipment	161	158	(3)	Net cash used in investing activities	(7,866)	(8,078)	(212)
Loss on valuation of investment securities	(55)	(87)	(31)	III. Cash Flows from Financing Activities			
Increase in allowance for doubtful accounts	330	166	(164)	Change in borrowings and corporate bonds	7,661	8,615	953
Interest income and expenses and dividends	2,237	67	(2,170)	Purchases of treasury stock and issuance of common stock	(3)	397	401
Income taxes paid	(6,170)	(9,265)	(3,095)	Cash dividends paid	(3,744)	(4,649)	(905)
Other, net	(223)	2,017	2,240	Other, net	(249)	(86)	162
Total for profit/loss items	20,886	17,713	(3,173)	Net cash used in financing activities	3,664	4,276	612
Increase/decrease in assets/liabilities				Effect of Exchange Rate Changes on Cash and Cash Equivalents	215	(53)	(268)
Increase/decrease in trade receivable/payable	(430)	(3,331)	(2,900)	Net Increase (Decrease) in Cash and Cash Equivalents	(690)	1,148	1,839
Increase/decrease in inventories	(7,453)	(15,241)	(7,788)	Cash and Cash Equivalents of Newly Consolidated Subsidiaries	102	450	348
Other, net	(9,706)	5,863	15,569	Cash and Cash Equivalents at Beginning of Term	6,129	5,823	(306)
Total for balance sheet items	(17,590)	(12,709)	4,881	Cash and Cash Equivalents at End of Term	5,541	7,422	1,881
Net cash provided by operating activities	3,296	5,004	1,707				
Free cash flow	(3,973)	(3,151)	821	(For reference)			
				Balance of interest-bearing debt	115,305	108,297	(7,008)

Forecasts for Fiscal 2014

Billion yen

	FY2013 Results	FY2014 Forecasts	Change
Net Sales	443.9	470.0	26.0
Operating Income	31.7	36.5	4.7
Ordinary Income	35.0	38.0	2.9
Net Income	23.3	25.0	1.6

- The forecasts announced on May 8, 2014 remain unchanged because there has been no change to our assumptions for foreign exchange rates and metal prices, etc.

Fiscal 2014 Assumptions and Sensitivities (H2)

Sensitivity (Operating Income/Year)			Million yen
	Assumptions	Fluctuation	Sensitivity
¥/\$	100.0 ¥/\$	±¥1/\$	190
Copper	6,500 \$/t	±100 \$/t	15
Zinc	2,000 \$/t	±100 \$/t	200
Indium	600 \$/kg	±100 \$/kg	300

*Sensitivity is based on assumptions that the Company assumes to be reasonable at the time of publication. Actual effects may differ materially due to a variety of factors.

Exchange rate and metal prices

	FY2013 Average		FY2014			(Ref.) Nearest
	H1	Full Year	Assumption for H1	H1 average	Assumption for H2	October average
Exchange Rate: (¥/\$)	98.9	100.2	100.0	103.0	100.0	108.0
Copper: (\$/t)	7,112	7,104	6,500	6,890	6,500	6,739
Zinc: (\$/t)	1,850	1,910	2,000	2,192	2,000	2,273
Indium: (\$/kg)	565	624	600	692	600	685

Year-on-Year Comparison by Segment

Billion yen

	FY2013 Results			FY2014 Forecasts			Change		
	Net Sales	Operating Income	Ordinary Income	Net Sales	Operating Income	Ordinary Income	Net Sales	Operating Income	Ordinary Income
Environmental Management & Recycling	101.4	9.4	9.8	107.0	8.5	9.0	5.5	(0.9)	(0.8)
Nonferrous Metals	217.6	7.0	9.3	227.0	10.2	11.3	9.3	3.1	1.9
Electronic Materials	83.2	6.7	7.8	88.0	7.6	8.2	4.7	0.8	0.3
Metal Processing	82.2	5.3	5.6	83.0	6.0	6.2	0.7	0.6	0.5
Heat Treatment	24.6	2.2	2.1	29.0	3.2	3.0	4.3	0.9	0.8
Other/ Elimination	(65.1)	0.8	0.2	(64.0)	1.0	0.3	1.1	0.1	0.0
Total	443.9	31.7	35.0	470.0	36.5	38.0	26.0	4.7	2.9

- Although there is no change in the overall figures, we have reflected the results for the first half by changing the breakdown of ordinary income to ¥9.0 billion for Environmental Management & Recycling, and ¥11.3 billion for Nonferrous Metals, as well as operating income to ¥8.5 billion for Environmental Management & Recycling, and ¥10.2 billion for Nonferrous Metals.

Investment

Billion yen

	FY2012 Results			FY2013 Results			FY2014 H1 Results			FY2014 Forecasts		
	Capital and stock investment	R&D investment	Total	Capital and stock investment	R&D investment	Total	Capital and stock investment	R&D investment	Total	Capital and stock investment	R&D investment	Total
Environmental Management & Recycling	5.8	0.4	6.2	5.6	0.4	6.0	2.0	0.1	2.2	6.0	0.4	6.4
Nonferrous Metals	2.8	0.6	3.5	3.0	0.9	3.9	1.2	0.5	1.7	2.0	0.9	2.9
Electronic Materials	3.6	2.8	6.5	3.1	2.6	5.8	1.2	1.2	2.4	2.5	2.7	5.2
Metal Processing	1.9	0.4	2.3	2.8	0.4	3.3	0.9	0.2	1.2	4.0	0.5	4.5
Heat Treatment	4.0	0.3	4.3	2.1	0.3	2.4	2.4	0.1	2.5	4.0	0.3	4.3
Companywide, Other	1.7	0.0	1.6	2.0	0.0	1.9	0.3	0.0	0.3	1.5	0.0	1.4
Total	20.1	4.6	24.7	18.8	4.6	23.5	8.1	2.4	10.6	20.0	5.0	25.0

(Ref.) Depreciation Expenses

	FY2012 Results	FY2013 Results	FY2014 H1 Results	FY2014 Forecasts
Environmental Management & Recycling	4.7	4.7	2.0	4.5
Nonferrous Metals	5.0	4.3	1.6	3.8
Electronic Materials	2.7	2.6	1.2	2.8
Metal Processing	2.2	2.2	1.0	2.4
Heat Treatment	1.7	1.7	0.8	1.8
Companywide, Other	0.4	0.4	0.4	0.9
Total	16.9	16.2	7.2	16.5

Changes in ordinary income and net income

(Billion yen)

