

Financial Results for the Third Quarter ended December 31, 2018

(Japan GAAP)

February 13, 2019

Company name: **HANWA Co.,Ltd.**

Listed stock exchange: Tokyo

Stock exchange code: 8078

(URL <http://www.hanwa.co.jp>)

Representative: Hironari Furukawa President

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Scheduled date of issue of audited financial statements: February 14, 2019

Scheduled date of payout of dividend: —

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the Third Quarter ended December 31, 2018 (April 1, 2018 to December 31, 2018)

(1) Consolidated operating results (Percentage indicate a change from the corresponding period of the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the Company	
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)
For the 3rd Quarter ended December 31, 2018	1,558,271	19.3	21,334	13.5	18,746	3.4	11,331	(7.5)
ended December 31, 2017	1,306,566	18.9	18,799	15.1	18,130	20.5	12,248	26.0

Note: Comprehensive income For the 3rd Quarter ended December 31, 2018 1,718 million yen (89.3) %
For the 3rd Quarter ended December 31, 2017 16,051 million yen 26.9 %

	Net income per share	Net income per share(diluted)
	(yen)	(yen)
For the 3rd Quarter ended December 31, 2018	278.86	—
ended December 31, 2017	301.40	—

* Effective October 1, 2017, HANWA consolidated its common shares at the ratio of 5 shares to 1 share. Accordingly, net income per share has been calculated as if the said share consolidation was conducted at the beginning of the previous fiscal year.

* In the fiscal year ended March 31, 2018, HANWA finalized the provisional accounting treatment for the allocation of acquisition costs of additional investment securities. Numbers for the 3rd Quarter ended December 31, 2017 are reflected such finalization of the provisional accounting treatment.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share
	(Millions of yen)	(Millions of yen)	(%)	(yen)
As of December 31, 2018	952,042	200,735	19.5	4,578.76
As of March 31, 2018	860,344	203,700	21.8	4,621.96

Note: Shareholders' equity As of December 31, 2018 186,060 million yen
As of March 31, 2018 187,828 million yen

* From the beginning of the 1st Quarter of the fiscal year ending March 31, 2019, HANWA adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28, February 16, 2018) and its relevant Guidance. The results for the fiscal year ended March 31, 2018 are those after retrospective application.

2. Cash dividends

(effective date)	Cash dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
	(yen)	(yen)	(yen)	(yen)	(yen)
Year ended March 31, 2018	—	10.00	—	75.00	—
Year ending March 31, 2019	—	75.00	—		
Year ending March 31, 2019 (estimated)				75.00	150.00

* Effective October 1, 2017, HANWA consolidated its common shares at the ratio of 5 shares to 1 share. Accordingly, the amount for the total annual dividends per share for the year ended March 31, 2018 is omitted and shown as a dash.

In case the share consolidation was taken into consideration, the 2nd Quarter dividend and annual dividend for the fiscal year ended March 31, 2018 would be 50.00 yen and 125.00 yen, respectively.

3. Forecast of consolidated financial results for fiscal year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(Percentage indicate a change from the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the Company		Net income per share
	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(Millions of yen)	(%)	(yen)
Full year	2,000,000	11.7	31,000	18.2	26,000	2.0	16,800	(3.2)	413.43

* The above forecasts reflect assumptions and prospects based on the information currently available. They are subject to a various risks and uncertainties that could cause actual results to differ materially from this information.

Financial Results for the Third Quarter ended December 31, 2018

《Consolidated Balance Sheets》

(Amounts less than one million yen are rounded down)

	<i>Millions of yen</i>	
	March 31, 2018	December 31, 2018
Assets		
Current assets;		
Cash and deposits	36,198	39,036
Trade notes and accounts receivable	400,317	396,046
Electronically recorded monetary claims	25,416	29,649
Securities	683	469
Inventories	134,877	145,170
Others	47,128	139,326
Allowance for doubtful receivables	(481)	(479)
Total current assets	644,140	749,221
Fixed assets;		
Property and equipment;		
Land	32,402	33,436
Others	32,066	34,557
Total property and equipment	64,469	67,994
Intangible assets	3,426	4,830
Investments and other assets;		
Investment securities	109,781	95,465
Others	39,429	35,654
Allowance for doubtful receivables	(902)	(1,123)
Total investments and other assets	148,308	129,996
Total fixed assets	216,204	202,821
Total assets	860,344	952,042
Liabilities;		
Current liabilities;		
Trade notes and accounts payable	266,595	256,071
Short-term loans payable	116,245	166,793
Commercial paper	10,000	10,000
Current portion of bonds payable	10,121	10,121
Income taxes payable	5,050	1,977
Accrued bonuses	2,474	1,479
Provision for product warranties	391	390
Others	40,851	87,385
Total current liabilities	451,730	534,219
Long-term liabilities;		
Bonds payable	40,055	50,045
Long-term loans payable	147,601	151,469
Retirement benefits liabilities	4,943	4,787
Others	12,312	10,785
Total long-term liabilities	204,913	217,087
Total liabilities	656,643	751,306
Net assets;		
Shareholders' equity;		
Common stock	45,651	45,651
Retained earnings	131,045	136,833
Treasury stock	(3,726)	(3,736)
Total shareholders' equity	172,969	178,748
Accumulated other comprehensive income		
Net unrealized holding gains on securities	14,342	8,178
Deferred hedge profit and loss	(169)	843
Land revaluation difference	2,963	2,963
Foreign currency translation adjustments	3,110	202
Remeasurements of defined benefit plans	(5,388)	(4,874)
Total accumulated other comprehensive income	14,858	7,312
Minority interests	15,872	14,674
Total net assets	203,700	200,735
Total liabilities and net assets	860,344	952,042

Financial Results for the Third Quarter ended December 31, 2018

《Consolidated Statements of Income and Comprehensive Income》

(Amounts less than one million yen are rounded down)

	<i>Millions of yen</i>	
	3rd Quarter ended December 31, 2017	3rd Quarter ended December 31, 2018
Net sales	1,306,566	1,558,271
Cost of sales	1,253,847	1,499,359
Gross profit	52,719	58,911
Selling, general and administrative expenses	33,920	37,577
Operating income	18,799	21,334
Other income;		
Interest income	1,328	3,172
Dividend income	1,081	1,317
Foreign exchange gain	399	—
Others	1,431	871
Total other income	4,240	5,360
Other expenses;		
Interest expenses	2,454	3,566
Loss on investment in affiliates	1,158	604
Foreign exchange loss	—	2,380
Guarantee commission	537	405
Others	759	991
Total other expenses	4,909	7,948
Ordinary income	18,130	18,746
Extraordinary income		
Gain on sale of property and equipment	—	412
Reversal of allowance for business loss of affiliates	512	—
Total extraordinary income	512	412
Extraordinary loss;		
Loss on sale of property and equipment	—	191
Loss on natural disaster	—	43
Loss on devaluation of investments securities	—	1,846
Loss on devaluation of investments in capital	198	—
Total extraordinary loss	198	2,081
Income before income taxes and minority interest	18,443	17,078
Income taxes	6,637	6,004
Net income	11,806	11,073
Net income attributable to		
Net income attributable to owners of the Company	12,248	11,331
Net income(loss) attributable to non-controlling interests	(442)	(258)
Other Comprehensive Income		
Net unrealized holding gains on securities	4,648	(6,173)
Deferred hedge profit and loss	(654)	1,012
Foreign currency translation adjustments	15	(206)
Remeasurements of defined benefit plans	558	541
Share of other comprehensive income of affiliates	(320)	(4,529)
Total other comprehensive Income	4,245	(9,354)
Comprehensive Income	16,051	1,718
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	16,515	3,779
Comprehensive income(loss) attributable to non-controlling interest	(463)	(2,060)

Financial Results for the Third Quarter ended December 31, 2018

《Segment information》

Segment information by business category for the 3rd Quarter ended December 31, 2017 and 2018, is as follows:

(Amounts less than one million yen are rounded down)

3rd Quarter ended December 31, 2017

Millions of yen

	Reportable segment							Other	Total	Adjustment	Consolidated
	Steel	Metals & alloys	Non-ferrous metals	Foods	Petroleum & chemicals	Overseas sales subsidiaries	Sub-total				
Net sales											
Customers	663,740	145,839	70,626	79,198	168,405	122,778	1,250,588	55,978	1,306,566	—	1,306,566
Inter-segment	8,383	3,246	973	255	4,811	39,992	57,662	1,265	58,928	(58,928)	—
Total	672,123	149,086	71,599	79,454	173,217	162,770	1,308,250	57,244	1,365,494	(58,928)	1,306,566
Segment income(loss)	15,356	2,016	922	1,288	1,495	613	21,693	502	22,195	(4,065)	18,130

3rd Quarter ended December 31, 2018

Millions of yen

	Reportable segment							Other	Total	Adjustment	Consolidated
	Steel	Metals & alloys	Non-ferrous metals	Foods	Petroleum & chemicals	Overseas sales subsidiaries	Sub-total				
Net sales											
Customers	758,019	212,937	73,495	79,333	182,274	193,430	1,499,491	58,780	1,558,271	—	1,558,271
Inter-segment	8,101	6,488	951	978	8,731	47,707	72,958	2,095	75,053	(75,053)	—
Total	766,121	219,425	74,447	80,311	191,005	241,137	1,572,449	60,875	1,633,325	(75,053)	1,558,271
Segment income(loss)	11,938	4,409	1,174	1,509	1,629	906	21,568	502	22,071	(3,324)	18,746

Notes:

1. "Other" comprises businesses that are not included in reportable segments, such as lumber section and machinery section.
2. Adjustments for segment income include inter-segment elimination and Group costs that have not been distributed to reportable segments. These group costs consist mainly of expenses of administrative departments.
3. Segment income or loss is adjusted between ordinary income on the consolidated statements of income and comprehensive income.
4. Segment income for the 3rd Quarter ended December 31, 2017 are reflected important revisions resulted from the finalization of the provisional accounting treatment.

Highlights of Consolidated Financial Results for the 3rd Quarter of FY2018 (Japan GAAP)

HANWA Co., Ltd.

Outline of Financial Results for the 3rd Quarter of FY2018

- As for the 3rd Quarter result for this fiscal year, net sales have increased by 20% in the same period of the previous year, hence reached to 1,558.2 billion yen, due to better markets of steel products and metal resources than the same period of previous year's level, as well as sales expansion of ferro-alloy and increase in net sales in overseas subsidiaries. Net profit was 11.3 billion yen, decreased by 8%, due to increase in interest expenses, foreign exchange loss as opposed to the gain in the same period of the previous year, and loss on devaluation of investments securities as extraordinary loss.
- We paid 75 yen as the interim dividend and plan to pay additional 75 yen as the year-end dividend.
- * Numbers for the 3rd Quarter of FY2017 are reflected important revisions resulted from the finalization of the provisional accounting treatment.

Operating Results	1Q-3Q of FY2018	1Q-3Q of FY2017	Year-on-year		Main Factors
			Change	rate	
Net sales	1,558.2	1,306.5	251.7	19%	(Net sales) Net sales have increased by 19% from the same period of the previous year. This was due to market of steel products being higher than the same period of previous year's level, increase in sales amounts of stainless steel and ferro-alloy and increase in sales in overseas subsidiaries. (SG&A expenses) SG & A expenses have increased 3.6 billion yen from the same period of the previous year. This was mainly due to increase in number of consolidated subsidiaries. Our personnel expenses have increased 2.4 billion yen, including 0.6 billion yen from newly consolidated subsidiaries. (Non-operating income/expenses) Non-operating income has increased 1.1 billion yen and Non-operating expenses increased 3.0 billion yen. The breakdown of the main causes is as follows. interest income: increase of 1.8 billion yen interest expenses: increase of 1.1 billion yen foreign exchange gain/loss: gain of 0.3 billion yen (last year) loss of 2.3 billion yen (this year) (Extraordinary gain/loss) •Loss on devaluation of investments securities 1.8 billion yen : mainly due to decline in listed stocks •Gain on sale of building 0.4 billion yen and loss on sale of property 0.1 billion yen : due to sale of company dormitory •Loss on natural disaster 0.04 billion yen
Gross profit	58.9	52.7	6.1	12%	
SG&A expenses	37.5	33.9	3.6	11%	
Operating income	21.3	18.7	2.5	14%	
Non-operating income	5.3	4.2	1.1	26%	
Non-operating expenses	7.9	4.9	3.0	62%	
Ordinary income	18.7	18.1	0.6	3%	
Extraordinary gain	0.4	0.5	(0.0)	-19%	
Extraordinary loss	2.0	0.1	1.8	947%	
Income before income taxes and others	17.0	18.4	(1.3)	-7%	
Income taxes	6.0	6.6	(0.6)	-10%	
Net income	11.0	11.8	(0.7)	-6%	
Owners of the Company(loss)	11.3	12.2	(0.9)	-8%	
Non-controlling interests(loss)	(0.2)	(0.4)	0.1	-42%	
EPS (yen)	278.86	301.40	(22.54)	-7%	
Comprehensive income	1.7	16.0	(14.3)	-89%	

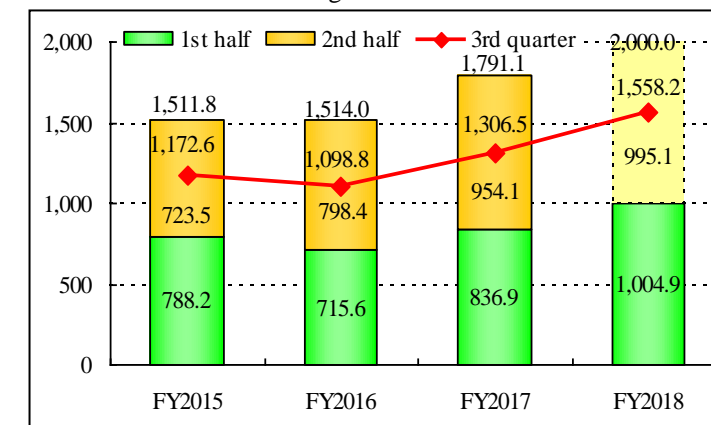
Segment Information	Net sales			Segment income			Main Factors
	1Q-3Q of FY2018	1Q-3Q of FY2017	rate	1Q-3Q of FY2018	1Q-3Q of FY2017	rate	
Steel	766.1	672.1	14%	11.9	15.3	-22%	(Steel business) While strong steel demands increased net sales, segment income decreased due to the pace of the market rise being slowed down and taking time to shift cost price onto selling price. (Metals & alloys business) Net sales and segment income increased due to rising price level of nickel and silicon and sales expansion of stainless steel and ferro-alloy. (Non-ferrous metals business) While international commodity markets have remained on a level with the same period of the previous year, due to increase in copper and aluminum sales volume, net sales and segment income increased. (Foods business) Rising price of salmon and crab and strong sales of chicken increased net sales and segment income. (Petroleum & chemicals business) Due to high market of petroleum products, net sales and segment income increased. (Overseas sales subsidiaries) Revenue increased due to rising price and sales expansion of bunker fuel and metal scrap in Singapore, and increase in net sales of steel products in Indonesia. Improvement of the profitability in US steel business contributed to segment income as well.
Metals & alloys	219.4	149.0	47%	4.4	2.0	119%	
Non-ferrous metals	74.4	71.5	4%	1.1	0.9	27%	
Foods	80.3	79.4	1%	1.5	1.2	17%	
Petroleum & chemicals	191.0	173.2	10%	1.6	1.4	9%	
Overseas sales subsidiaries	241.1	162.7	48%	0.9	0.6	48%	
Total for reportable segments	1,572.4	1,308.2	20%	21.5	21.6	-1%	
Other	60.8	57.2	6%	0.5	0.5	0%	
Total	1,633.3	1,365.4	20%	22.0	22.1	-1%	
Adjustment	(75.0)	(58.9)	—	(3.3)	(4.0)	—	
Consolidated	1,558.2	1,306.5	19%	18.7	18.1	3%	

- May. Acquired additional stocks of and made our subsidiary the steel processing center in Malaysia, Tatt Giap Steel Centre Sdn. Bhd.
- Jul. Succeeded business of insulation thermal and billing from Bridgestone Diversified Products Japan Co.,Ltd.

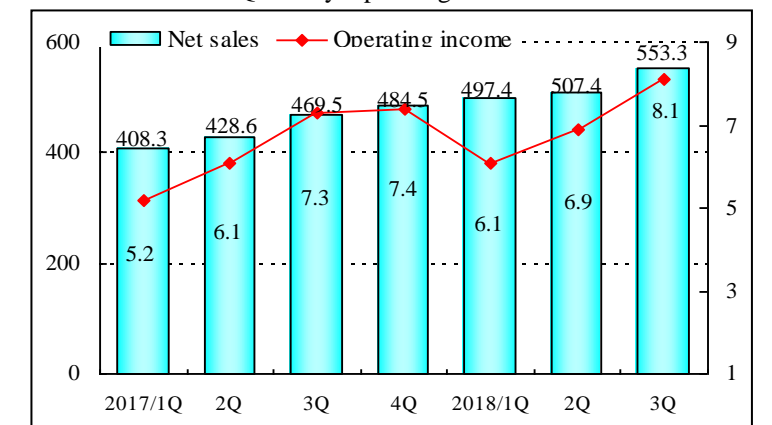
(Unit: billion yen, rounded down to 0.1 billions of yen)

Financial Position	Dec. 2018	Mar. 2018	Comparison with Mar. 2018		Main Factors
			Change	rate	
Total assets	952.0	860.3	91.6	11%	(Total Assets) Total assets increased by 11% from the end of the previous year, due to increase in inventories and advance payment. inventories: 145.1 billion yen (+8% from the end of the previous year) advance payment: 95.1 billion yen (+399% from the end of the previous year) (Liabilities) Total liabilities increased by 14% from the end of the previous year, due to increase in short term loans and deposit received. As interest-bearing debt increased by 20%, net debt-equity ratio was turned into 189%. (Net assets) Total net assets decreased 2.9 billion yen from the end of the previous year, due to the carryover of retained earnings, appropriation of surplus for interim dividend and decrease in net unrealized holding gains on securities. Meanwhile shareholders' equity ratio was 19.5%, which is 2.3 percentage points lower than the end of the previous year.
(Current assets)	749.2	644.1	105.0	16%	
(Fixed assets)	202.8	216.2	(13.3)	-6%	
Total liabilities	751.3	656.6	94.6	14%	
(Interest-bearing debt)	389.8	325.5	64.3	20%	
(Net interest-bearing debt)	350.8	289.3	61.5	21%	
Net DER	189%	154%	35pt	—	
Total net assets	200.7	203.7	(2.9)	-2%	
(Equity capital)	178.7	172.9	5.7	3%	
(Valuation & translation adjustments)	7.3	14.8	(7.5)	-51%	
(Minority interests)	14.6	15.8	(1.1)	-8%	
BPS (yen)	4,578.76	4,621.96	(43.20)	-1%	
Shareholders' equity	186.0	187.8	(1.7)	-1%	
Shareholders' equity ratio	19.5%	21.8%	-2.3pt	—	

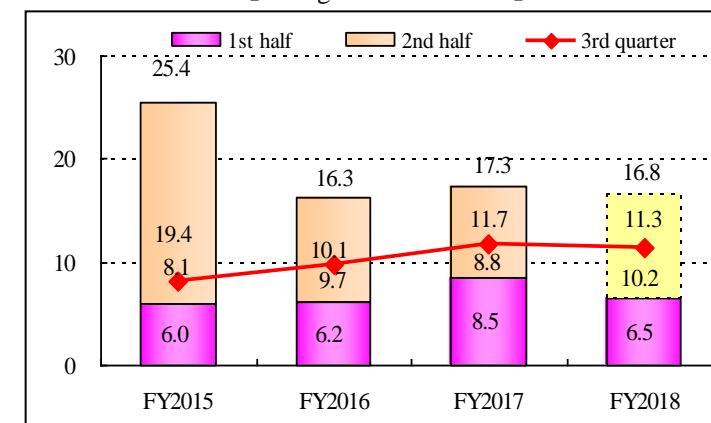
【Changes in Net Sales】



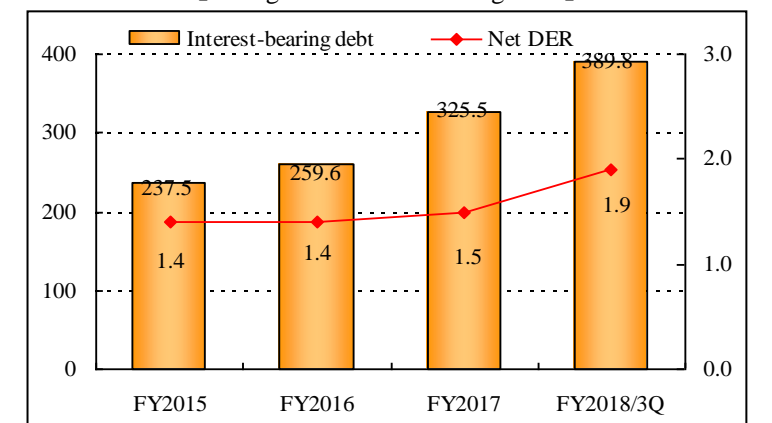
【Quarterly Operating Results】



【Changes in Net Income】



【Changes in Interest-bearing Debt】



Forecast (Annual)	FY2018	FY2017		Cash Dividends	FY2017	FY2018	FY2018 (estimated)
			change				
Net sales	2,000.0	1,791.1	12%	Interim (yen)	50.00	75.00	—
Operating income	31.0	26.2	18%	Year-end (yen)	75.00	—	75.00
Ordinary income	26.0	25.5	2%	Annual (yen)	125.00	—	150.00
Net income attributable to owners of parent	16.8	17.3	-3%	Dividend payout ratio	29%	—	36%