

Financial Results for the First Quarter ended June 30, 2019

(Japanese GAAP)

August 9, 2019

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

Listed stock exchange: Tokyo

Stock exchange code: 8078

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

Representative: Hironari Furukawa President

Enquiries: Yoichi Nakagawa Director, Senior Managing Executive Officer Phone +81-3-3544-2000

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

Scheduled date of payout of dividend: —

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the First Quarter ended June 30, 2019 (April 1, 2019 to June 30, 2019)

(1) Consolidated operating results (Percentage indicate a change from 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 1st Quarter ended June 30, 2019	472,424	(5.0)	6,935	12.5	6,431	17.5	4,140	16.0
ended June 30, 2018	497,464	21.8	6,165	16.7	5,474	(17.3)	3,569	(19.5)

Note: Comprehensive income For the Fiscal Year ended June 30, 2019 1,899 million yen (13.8) %
For the Fiscal Year ended June 30, 2018 2,202 million yen (41.8) %

	Net income per share	Net income per share(diluted)
	(yen)	(yen)
For the 1st Quarter ended June 30, 2019	101.88	—
ended June 30, 2018	87.84	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	(%)	(yen)
As of June 30, 2019	923,110	201,834	20.3	4,160.27
As of March 31, 2019	933,307	202,459	20.2	4,632.55

Note: Shareholders' equity As of June 30, 2019 187,351 million yen
As of March 31, 2019 188,245 million yen

2. Cash dividends

	Cash dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
	(yen)	(yen)	(yen)	(yen)	(yen)
Year ended March 31, 2019	—	75.00	—	75.00	150.00
Year ended March 31, 2020	—				
Year ending March 31, 2020 (estimated)		75.00	—	75.00	150.00

3. Forecast of consolidated financial results for fiscal year ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(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)
Annual	2,200,000	6.0	35,500	22.8	28,000	19.7	19,200	38.0	472.50

* 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 First Quarter ended June 30, 2019

《Consolidated Balance Sheets》

(Amounts less than one million yen are rounded down)

	<i>Millions of yen</i>	
	March 31, 2019	June 30, 2019
Assets		
Current assets;		
Cash and deposits	59,307	63,494
Trade notes and accounts receivable	416,394	392,229
Electronically recorded monetary claims	36,637	44,122
Securities	1,190	1,162
Inventories	140,633	140,666
Other	71,328	77,960
Allowance for doubtful receivables	(504)	(483)
Total current assets	724,987	719,151
Investments and noncurrent receivables;		
Investment securities	101,900	92,917
Other	33,853	32,949
Allowance for doubtful receivables	(1,327)	(1,373)
Total investments and other assets	134,426	124,493
Property and equipment;		
Land	33,864	34,221
Other	34,997	39,661
Total property and equipment	68,862	73,883
Other assets		
Intangible assets	5,031	5,581
Total other assets	5,031	5,581
Total	933,307	923,110
Liabilities and Net Assets		
Current liabilities;		
Short-term loans payable	92,851	111,506
Current portion of bonds payable	10,021	10,021
Trade notes and accounts payable	280,858	230,176
Electronically recorded obligations	4,964	18,582
Accrued bonuses	2,647	1,503
Provision for product warranties	253	248
Income taxes payable	3,486	2,222
Other	59,833	71,508
Total current liabilities	454,916	445,770
Noncurrent liabilities;		
Long-term loans payable	208,936	208,847
Bonds payable	50,034	50,034
Retirement benefits liabilities	5,950	5,974
Other	11,010	10,649
Total noncurrent liabilities	275,931	275,506
Net assets		
Shareholders' equity;		
Common stock	45,651	45,651
Retained earnings	139,036	140,128
Treasury stock	(3,737)	(3,727)
Total shareholders' equity	180,949	182,051
Accumulated other comprehensive income;		
Valuation difference on available-for-sale securities, net of taxes	10,800	9,485
Deferred gains or losses on hedges, net of taxes	61	62
Land revaluation difference, net of taxes	3,343	3,343
Foreign currency translation adjustments	(1,435)	(2,290)
Remeasurements of defined benefit plans	(5,473)	(5,300)
Total accumulated other comprehensive income	7,295	5,300
Non-controlling interests	14,214	14,482
Total net assets	202,459	201,834
Total	933,307	923,110

Financial Results for the First Quarter ended June 30, 2019

《Consolidated Statements of Income and Comprehensive Income》

(Amounts less than one million yen are rounded down)

	<i>Millions of yen</i>	
	Year ended June 30, 2018	Year ended June 30, 2019
Net sales	497,464	472,424
Cost of sales	479,028	452,479
Gross profit	18,436	19,945
Selling, general and administrative expenses	12,270	13,010
Operating income	6,165	6,935
Other income;		
Interest income	482	521
Dividend income	787	1,069
Share of profit of entities accounted for using equity method	—	24
Other	345	328
Total other income	1,615	1,943
Other expenses;		
Interest expense	1,018	1,476
Share of loss of entities accounted for using equity method	357	—
Foreign exchange loss	539	610
Other	390	359
Total other expenses	2,306	2,446
Ordinary income	5,474	6,431
Extraordinary income;		
Gain on sales of property and equipment	—	162
Total extraordinary income	—	162
Extraordinary loss;		
Loss on valuation of investment securities	137	334
Total extraordinary loss	137	334
Income before income taxes	5,337	6,260
Income taxes	1,997	2,141
Net income	3,340	4,119
Net income attributable to		
Owners of the parent	3,569	4,140
non-controlling interests	(229)	(21)
Other Comprehensive Income		
Valuation difference on available-for-sale securities, net of taxes	202	(1,313)
Deferred gains or losses on hedges, net of taxes	14	1
Foreign currency translation adjustment	(830)	(859)
Remeasurements of defined benefit plans, net of taxes	180	178
Share of other comprehensive income of entities accounted for using equity method	(704)	(227)
Total other comprehensive income	(1,137)	(2,219)
Comprehensive Income	2,203	1,899
Comprehensive income attributable to;		
Owners of the parent	2,694	1,977
non-controlling interests	(491)	(78)

Financial Results for the First Quarter ended June 30, 2019

《Segment information》

Segment information by business category for the 1st Quarter ended June 30, 2018 and 2019, is as follows:

(Amounts less than one million yen are rounded down)

1st Quarter ended June 30, 2018

Millions of yen

	Reportable segment							Other	Total	Adjustment	Consolidated
	Steel	Primary Metal	Metal Recycling	Foods	Petroleum & chemicals	Overseas sales subsidiaries	Sub-total				
Net sales											
Customers	241,167	76,770	19,542	27,187	56,963	57,125	478,758	18,706	497,464	—	497,464
Inter-segment	2,286	2,345	1,682	294	2,544	12,920	22,073	493	22,566	(22,566)	—
Total	243,454	79,115	21,224	27,482	59,508	70,046	500,831	19,199	520,031	(22,566)	497,464
Segment income(loss)	4,418	(566)	630	580	471	411	5,945	71	6,017	(542)	5,474

1st Quarter ended June 30, 2019

Millions of yen

	Reportable segment							Other	Total	Adjustment	Consolidated
	Steel	Primary Metal	Metal Recycling	Foods	Petroleum & chemicals	Overseas sales subsidiaries	Sub-total				
Net sales											
Customers	238,686	59,292	21,118	26,392	48,027	58,299	451,816	20,608	472,424	—	472,424
Inter-segment	2,504	1,021	381	312	1,643	10,078	15,941	649	16,591	(16,591)	—
Total	241,191	60,313	21,499	26,704	49,670	68,377	467,758	21,258	489,016	(16,591)	472,424
Segment income(loss)	3,979	1,567	998	225	700	165	7,637	242	7,880	(1,448)	6,431

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. Since the 1st Quarter of the fiscal year, following the organizational change on April 1, 2019, Company reviewed the classification method for business segments and changed the reportable segments from "Metals & alloys" and "Non-ferrous metals" to "Primary Metal" and "Metal Recycling".

Segment information for the 1st Quarter of the previous fiscal year has been recomposed by the new classification method.

Highlights of Consolidated Financial Results for the 1st Quarter of FY2019 (Japan GAAP)

HANWA Co., Ltd.

Outline of Financial Results for the 1st Quarter of FY2019

As for the 1st quarter result for this fiscal year, net sales have decreased by 5% in the same period of the previous year, hence reached to 472.4 billion yen, due to weak global market of nonferrous metals and petroleum, as well as decline of volumes and sales for domestic and export in steel business.

Ordinary income was 6.4 billion yen, increased by 18%, mainly due to dividend income from strategically invested companies and decrease in loss on investment in affiliates in the same period of the previous year.

We plan to pay 150 yen as the annual (75 yen as the interim and 75 yen as the year-end) dividend.

Operating Results	1Q of FY2019	1Q of FY2018	Year-on-year		Main Factors
			Change	rate	
Net sales	472.4	497.4	(25.0)	-5%	(Net sales) Net sales have decreased by 5% from the same period of the previous year. This was mainly due to weak global market of nonferrous metals and petroleum, as well as decline of volumes and sales for domestic and export in steel business.
Gross profit	19.9	18.4	1.5	8%	
SG&A expenses	13.0	12.2	0.7	6%	(SG&A expenses) SG & A expenses have increased 0.7 billion yen from the same period of previous year. 0.3 out of 0.7 billion yen was accounted for newly consolidated subsidiaries.
Operating income	6.9	6.1	0.7	13%	Our personnel expenses have increased 0.3 billion yen, including 0.1 billion yen from newly consolidated subsidiaries.
Non-operating income	1.9	1.6	0.3	20%	(Non-operating income/expenses) Non-operating income and expenses have increased 0.3 billion yen and 0.1 billion yen, respectively. The breakdown of the main causes is as follows. Dividends: increase of 0.3 billion yen(YoY)
Non-operating expenses	2.4	2.3	0.1	6%	Interest expenses: increase of 0.4 billion yen(YoY) Loss on investment in affiliates: decrease of 0.3 billion
Ordinary income	6.4	5.4	0.9	18%	(Extraordinary gain/loss) Gain on sales of fixed assets 0.1 billion yen : mainly due to sales of real estate by consolidated subsidiaries Loss on devaluation of investments securities 0.3 billion yen : mainly due to decline in listed stocks
Extraordinary gain	0.1	—	0.1	—	
Extraordinary loss	0.3	0.1	0.1	144%	
Income before income taxes and others	6.2	5.3	0.9	17%	
Income taxes	2.1	1.9	0.1	7%	
Net income	4.1	3.3	0.7	23%	
Owners of the Company(loss)	4.1	3.5	0.5	16%	
Non-controlling interests(loss)	(0.0)	(0.2)	0.2	-91%	
EPS (yen)	101.88	87.84	14.04	16%	
Comprehensive income	1.8	2.2	(0.3)	-14%	

Segment Information	Net sales			Segment income			Main Factors
	1Q of FY2019	1Q of FY2018	rate	1Q of FY2019	1Q of FY2018	rate	
Steel	241.1	243.4	-1%	3.9	4.4	-10%	(Steel business) While the market price of steel products remained at high levels, segment income decreased due to difficulties in passing costs increase to end-users, so it ended decline of profit margins.
Primary Metal	60.3	79.1	-24%	1.5	Δ0.5	—	(Primary metals business) Segment income increased mainly due to the reduction of loss on investment in affiliates especially in SAMANCOR CHROME HOLDINGS PROPRIETARY LTD. and the turnaround from foreign exchange losses in the same period of previous year to foreign exchange gains in this fiscal year.
Metal Recycling	21.4	21.2	1%	0.9	0.6	58%	(Metal recycling business) Segment income increased mainly due to high-profit margin sales on copper business by low procurement costs and foreign exchange gains.
Foods	26.7	27.4	-3%	0.2	0.5	-61%	(Foods business) Segment income decreased due to stagnant market condition for shrimp and foreign exchange losses.
Petroleum & chemicals	49.6	59.5	-17%	0.7	0.4	49%	(Petroleum & chemicals business) Despite decreased volume by weak market condition of petroleum products, segment income increased mainly due to the expansion of sales of biomass fuels such as palm kernel shells (PKS).
Overseas sales subsidiaries	68.3	70.0	-2%	0.1	0.4	-60%	(Overseas sales subsidiaries) Segment income decreased due to price downturn in metal and nonferrous metal and volume decrease, mainly in the U.S. and ASEAN region.
Total for reportable segments	467.7	500.8	-7%	7.6	5.9	28%	
Other	21.2	19.1	11%	0.2	0.0	238%	
Total	489.0	520.0	-6%	7.8	6.0	31%	
Adjustment	(16.5)	(22.5)	27%	(1.4)	(0.5)	-167%	
Consolidated	472.4	497.4	-5%	6.4	5.4	17%	

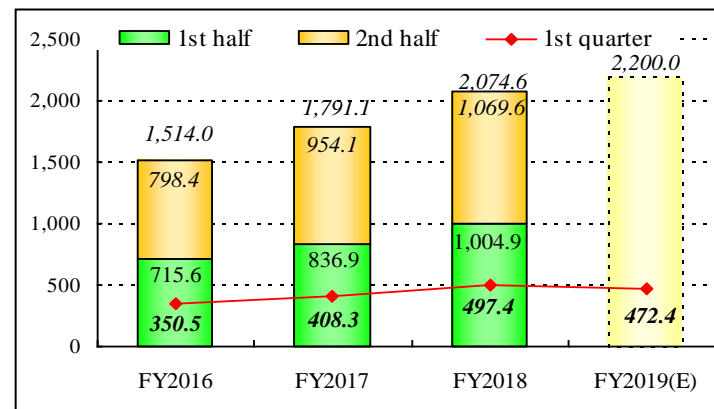
Topics

- May. Decided to acquire 65% of the stocks of the SMC HA NOI ONE MEMBER CO., LTD. which is a coil service center in Vietnam.

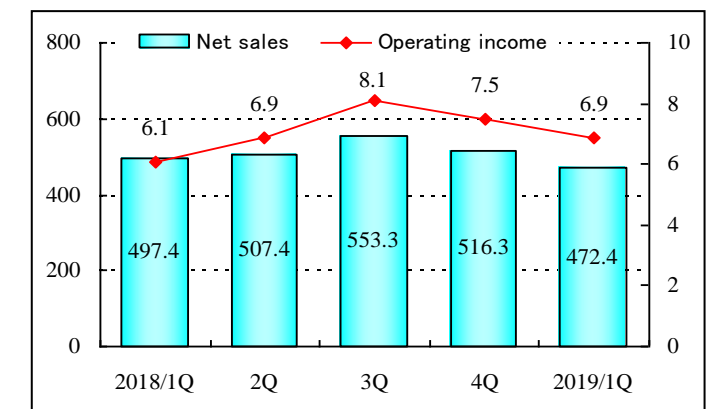
(Unit: billion yen, rounded down to 0.1 billions of yen)

Financial Position	Jun. 2019	Mar. 2019	Comparison with Mar. 2019		Main Factors
			Change	rate	
Total assets	923.1	933.3	(10.1)	-1%	(Total Assets) Total assets decreased by 1% from the end of the previous year, due to decrease in trade receivables along with sales decline. Trade notes and accounts receivables 392.2 billion yen (-6% from the end of the previous period)
(Current assets)	719.1	724.9	(5.8)	-1%	
(Fixed assets)	203.9	208.3	(4.3)	-2%	
Total liabilities	721.2	730.8	(9.5)	-1%	(Liabilities) Total liabilities decreased by 1% from the end of the previous year, due to the decrease in trade payables. As interest-bearing debt increased by 5%, net debt-equity ratio was turned into 170% (*138%).
(Interest-bearing debt)	381.8	363.2	18.5	5%	
(Net interest-bearing debt)	318.3	303.9	14.4	5%	
Net DER	170%/138%*	161%/131%	9pt	5%	
Total net assets	201.8	202.4	(0.6)	-0%	(Net assets) Total net assets decreased by 0.3% from the end of the previous year, due to the appropriation of surplus for year-end dividend and decrease in net unrealized holding gains on securities. Meanwhile shareholders' equity ratio was 20.3%(*23.0%), which is 0.1 percentage points higher than the end of the previous year.
(Equity capital)	182.0	180.9	1.1	1%	
(Valuation & translation adjustments)	5.3	7.2	(1.9)	-27%	
(Minority interests)	14.4	14.2	0.2	2%	
BPS (yen)	4,610.27	4,632.55	(22.28)	-0%	
Shareholders' equity	187.3	188.2	(0.8)	-0%	
Shareholders' equity ratio	20.3/23.0%*	20.2/22.8%*	0.1pt	—	*Reflecting equity credit attributes of the subordinated loan

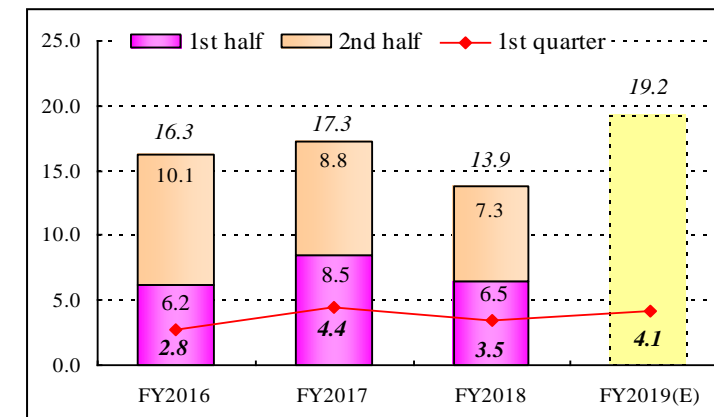
【Changes in Net Sales】



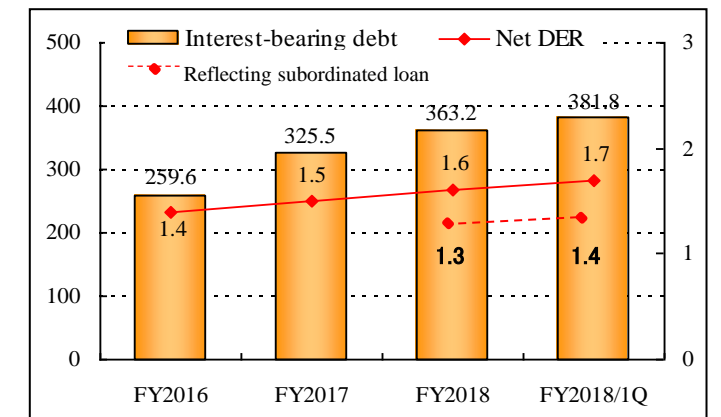
【Quarterly Operating Results】



【Changes in Net Income】



【Changes in Interest-bearing Debt】



Forecast (Annual)	FY2019	FY2018	change
Net sales	2,200.0	2,074.6	6%
Operating income	35.5	28.9	23%
Ordinary income	28.0	23.3	20%
Net income attributable to owners of parent	19.2	13.9	38%

Cash Dividends	FY2017	FY2018	FY2019 (estimated)
Interim (yen)	50.00	75.00	75.00
Year-end (yen)	75.00	75.00	75.00
Annual (yen)	125.00	150.00	150.00
Dividend payout ratio	29%	44%	32%