

Financial Results for the Second Quarter ended September 30, 2019

(Japanese GAAP)

November 11, 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: November 11, 2019

Scheduled date of payout of dividend: December 2, 2019

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the Second Quarter ended September 30, 2019 (April 1, 2019 to September 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 2nd Quarter ended September 30, 2019	946,024	(5.9)	13,618	3.6	10,814	(0.2)	5,157	(21.4)
ended September 30, 2018	1,004,927	20.1	13,147	14.7	10,839	(17.3)	6,564	(23.2)

Note: Comprehensive income For the Fiscal Year ended September 30, 2019 2,692 million yen (48.5) %
For the Fiscal Year ended September 30, 2018 5,100 million yen (53.5) %

	Net income per share	Net income per share(diluted)
	(yen)	(yen)
For the 2nd Quarter ended September 30, 2019	126.91	—
ended September 30, 2018	161.53	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	(Millions of yen)	(Millions of yen)	(%)	(yen)
As of September 30, 2019	892,732	201,800	21.0	4,618.28
As of March 31, 2019	933,307	202,459	20.2	4,632.55

Note: Shareholders' equity As of September 30, 2019 187,677 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	—	75.00	—	—	—
Year ending March 31, 2020 (estimated)	—	—	—	—	—

* For more information, please refer to "Notice Concerning Amendments to Forecasts of consolidated financial results and Dividend for FY2019" announced on November 11, 2019.

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)	(yen)
Annual	2,000,000	(3.6)	31,000	7.3	18,500	(20.9)	10,700	(23.1)	263.32	—

* For more information, please refer to "Notice Concerning Amendments to Forecasts of consolidated financial results and Dividend for FY2019" announced on November 11, 2019.

* 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 Second Quarter ended September 30, 2019

《Consolidated Balance Sheets》

(Amounts less than one million yen are rounded down)

	<i>Millions of yen</i>	
	March 31, 2019	September 30, 2019
Assets		
Current assets;		
Cash and deposits	59,307	59,148
Trade notes and accounts receivable	416,394	368,742
Electronically recorded monetary claims	36,637	40,875
Securities	1,190	1,157
Inventories	140,633	143,219
Other	71,328	78,723
Allowance for doubtful receivables	(504)	(475)
Total current assets	724,987	691,390
Investments and noncurrent receivables;		
Investment securities	101,900	92,647
Other	33,853	30,561
Allowance for doubtful receivables	(1,327)	(1,414)
Total investments and other assets	134,426	121,794
Property and equipment;		
Land	33,864	34,128
Other	34,997	39,736
Total property and equipment	68,862	73,865
Other assets		
Intangible assets	5,031	5,682
Total other assets	5,031	5,682
Total	933,307	892,732
Liabilities and Net Assets		
Current liabilities;		
Short-term loans payable	92,851	103,898
Current portion of bonds payable	10,021	10,021
Trade notes and accounts payable	280,858	219,641
Electronically recorded obligations	4,964	17,862
Accrued bonuses	2,647	2,699
Provision for product warranties	253	150
Income taxes payable	3,486	3,085
Other	59,833	73,503
Total current liabilities	454,916	430,862
Noncurrent liabilities;		
Long-term loans payable	208,936	203,367
Bonds payable	50,034	40,024
Retirement benefits liabilities	5,950	5,951
Other	11,010	10,726
Total noncurrent liabilities	275,931	260,069
Net assets		
Shareholders' equity;		
Common stock	45,651	45,651
Retained earnings	139,036	141,277
Treasury stock	(3,737)	(3,727)
Total shareholders' equity	180,949	183,200
Accumulated other comprehensive income;		
Valuation difference on available-for-sale securities, net of tax:	10,800	10,282
Deferred gains or losses on hedges, net of taxes	61	(548)
Land revaluation difference, net of taxes	3,343	3,277
Foreign currency translation adjustments	(1,435)	(3,407)
Remeasurements of defined benefit plans	(5,473)	(5,127)
Total accumulated other comprehensive income	7,295	4,476
Non-controlling interests	14,214	14,123
Total net assets	202,459	201,800
Total	933,307	892,732

Financial Results for the Second Quarter ended September 30, 2019

《Consolidated Statements of Income and Comprehensive Income》

(Amounts less than one million yen are rounded down)

	<i>Millions of yen</i>	
	2nd Quarter ended September 30, 2018	2nd Quarter ended September 30, 2019
Net sales	1,004,927	946,024
Cost of sales	966,984	906,316
Gross profit	37,942	39,707
Selling, general and administrative expenses	24,795	26,089
Operating income	13,147	13,618
Other income;		
Interest income	1,635	1,051
Dividend income	863	1,181
Other	694	710
Total other income	3,193	2,944
Other expenses;		
Interest expense	2,067	2,880
Share of loss of entities accounted for using equity method	172	551
Foreign exchange loss	2,418	1,619
Other	842	697
Total other expenses	5,501	5,748
Ordinary income	10,839	10,814
Extraordinary income;		
Gain on sales of property and equipment	410	201
Gain on sales of investment securities	—	780
Total extraordinary income	410	981
Extraordinary loss;		
Loss on sale of property and equipment	182	—
Loss on impairment of property and equipment	—	163
Loss on natural disaster	166	—
Loss on valuation of investment securities	1,011	3,718
Provision of allowance for doubtful accounts of affiliates	—	101
Total extraordinary loss	1,360	3,983
Income before income taxes	9,890	7,812
Income taxes	3,553	2,971
Net income	6,336	4,840
Net income attributable to		
Owners of the parent	6,564	5,157
non-controlling interests	(227)	(317)
Other Comprehensive Income		
Valuation difference on available-for-sale securities, net of taxes	2,855	(515)
Deferred gains or losses on hedges, net of taxes	887	(609)
Land revaluation difference	—	(66)
Foreign currency translation adjustment	(671)	(803)
Remeasurements of defined benefit plans, net of taxes	360	357
Share of other comprehensive income of entities accounted for using equity method	(4,668)	(577)
Total other comprehensive income	(1,236)	(2,214)
Comprehensive Income	5,100	2,625
Comprehensive income attributable to;		
Owners of the parent	7,127	3,017
non-controlling interests	(2,027)	(391)

Financial Results for the Second Quarter ended September 30, 2019

《Consolidated Statements of Cash Flows》

(Amounts less than one million yen are rounded down)

Millions of yen

	2nd Quarter ended September 30, 2018	2nd Quarter ended September 30, 2019
Cash flows from operating activities;		
Income before income taxes	9,890	7,812
Depreciation and amortization	2,324	2,500
Amortization of goodwill	425	265
Increase(decrease) in allowance for doubtful receivables	186	31
Interest and dividend income	(2,498)	(2,233)
Interest expense	2,067	2,880
Share of loss(profit) of entities accounted for using equity method	172	551
Gain on sale of property and equipment	(410)	(201)
Gain on sales of investment securities	—	(780)
Loss on sale of property and equipment	182	—
Loss on impairment of property and equipment	—	163
Loss on natural disaster	166	—
Loss on valuation of investments securities	1,011	3,718
Provision of allowance for doubtful accounts of affiliates	—	101
(Increase)decrease in trade receivables	1,872	47,179
(Increase)decrease in inventories	(14,375)	5,420
Increase(decrease) in trade notes and accounts payable	1,341	(53,402)
Increase(decrease) in deposits received	2,093	9,284
Increase(decrease) in advance received	23,479	6,592
(Increase)decrease in advance payments	(71,133)	(8,219)
Increase(decrease) in retirement benefits	494	496
Other, net	8,584	(3,885)
Sub total	(34,123)	18,275
Interest and dividends received	1,713	2,447
Interest paid	(2,030)	(2,986)
Income taxes paid	(4,854)	(3,387)
Net cash provided by (used in) operating activities	(39,293)	14,349
Cash flows from investing activities;		
Payment for time deposits	(1,114)	(675)
Proceeds from refund of time deposits	1,260	1,600
Payment for purchase of property and equipment	(3,418)	(3,760)
Proceeds from sale of property and equipment	1,018	477
Payment for acquisition of investment securities	(2,263)	(2,924)
Proceeds from sale and redemption of investment securities	255	22
(Increase)decrease in short – term loans receivable, net	(2,585)	224
Increase in long – term loans receivable	(363)	(861)
Collection of long–term loans receivable	853	2,112
Other, net	(984)	(1,312)
Net cash provided by (used in) investing activities	(7,342)	(5,096)
Cash flows from financing activities;		
Increase(decrease) in short–term loans, net	32,153	4,184
Increase(decrease) in commercial paper, net	10,000	—
Proceeds from long–term debt	295	5,374
Repayments of long–term debt	(833)	(6,745)
Proceeds from issuance of bonds	19,892	—
Payment for redemption of bonds	(10,010)	(10,010)
Payment for cash dividends	(2,892)	(3,046)
Cash dividends paid to minority interest in consolidated subsidiaries	(48)	(79)
Purchase of investments in subsidiaries resulting in no change in scope of consolidation	—	(187)
Other, net	(98)	(150)
Net cash provided by (used in) financing activities	48,457	(10,661)
Effect of exchange rate changes on cash and cash equivalents	418	(303)
Net increase(decrease) in cash and cash equivalents	2,239	(1,711)
Cash and cash equivalents at beginning of year	34,855	58,384
Increase in cash and cash equivalents from newly consolidated subsidiaries	576	2,460
Increase in cash and cash equivalents resulting from mergers with unconsolidated subsidiaries	25	—
Cash and cash equivalents at end of period	37,696	59,133

Financial Results for the Second Quarter ended September 30, 2019

《Segment information》

Segment information by business category for the 2nd Quarter ended September 30, 2018 and 2019, is as follows:

(Amounts less than one million yen are rounded down)

2nd Quarter ended September 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	487,763	151,560	38,041	51,969	120,574	116,868	966,779	38,148	1,004,927	—	1,004,927
Inter-segment	5,180	4,317	3,327	746	6,050	33,775	53,399	1,158	54,558	(54,558)	—
Total	492,943	155,878	41,369	52,716	126,625	150,644	1,020,178	39,307	1,059,485	(54,558)	1,004,927
Segment income(loss)	7,766	96	1,031	1,020	850	673	11,439	451	11,890	(1,050)	10,839

2nd Quarter ended September 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	489,225	120,846	39,973	51,481	94,036	107,533	903,097	42,927	946,024	—	946,024
Inter-segment	5,502	2,207	579	821	2,841	24,131	36,082	1,487	37,570	(37,570)	—
Total	494,727	123,054	40,552	52,302	96,877	131,665	939,179	44,415	983,595	(37,570)	946,024
Segment income(loss)	7,838	1,343	848	510	1,703	33	12,278	978	13,256	(2,442)	10,814

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 2nd Quarter of the previous fiscal year has been recomposed by the new classification method.

Highlights of Consolidated Financial Results for the 2nd Quarter of FY2019 (Japan GAAP)

HANWA Co., Ltd.

Outline of Financial Results for the 2nd Quarter of FY2019

- As for the interim result for this fiscal year, net sales have decreased by 6% in the same period of the previous year, hence reached to 946.0 billion yen, due to weak global market of metals and petroleum, as well as decline of volumes and sales in reporting segments.
- Regarding profit, operating profits have increased thanks to profit contributions from Petroleum & chemicals business, and also from Other business. However, ordinary income was 10.8 billion yen, decreased by 0.2%, mainly due to increase in interest payments and loss on investment in affiliates.
- We plan to pay 75 yen as the interim dividend, but the year-end dividend will be disclosed as soon as such forecast becomes available.

Operating Results	1Q-2Q of FY2019	1Q-2Q of FY2018	Year-on-year		Main Factors
			Change	rate	
Net sales	946.0	1,004.9	(58.9)	-6%	(Net sales) Net sales have decreased by 6% from the same period of the previous year. This was mainly due to weak global market of metals and petroleum, as well as decline of volumes and sales in reporting segments.
Gross profit	39.7	37.9	1.7	5%	
SG&A expenses	26.0	24.7	1.2	5%	(SG&A expenses) SG & A expenses have increased 1.2 billion yen from the same period of previous year. 0.6 out of 1.2 billion yen was accounted for newly consolidated subsidiaries.
Operating income	13.6	13.1	0.4	4%	Our personnel expenses have increased 0.7 billion yen, including 0.2 billion yen from newly consolidated subsidiaries.
Non-operating income	2.9	3.1	(0.2)	-8%	(Non-operating income/expenses) Non-operating income have decreased 0.2 billion yen and non-operating expenses have increased 0.2 billion yen. The breakdown of the main causes is as follows. Dividends: increase of 0.3 billion yen(YoY) Interest income: decrease of 0.5 billion yen(YoY)
Non-operating expenses	5.7	5.5	0.2	4%	Interest expenses: increase of 0.8 billion yen(YoY) Foreign exchange loss : decrease of 0.7 billion yen(YoY)
Ordinary income	10.8	10.8	(0.0)	-0%	(Extraordinary gain/loss) Gain on sales of investment securities 0.7 billion yen : due to sales of securities Loss on devaluation of investments securities 3.7billion yen : mainly due to decline in listed stocks
Extraordinary gain	0.9	0.4	0.5	—	
Extraordinary loss	3.9	1.3	2.6	—	
Income before income taxes and others	7.8	9.8	(2.0)	-21%	
Income taxes	2.9	3.5	(0.5)	-16%	
Net income	4.8	6.3	(1.4)	-24%	
Owners of the Company(loss)	5.1	6.5	(1.4)	-21%	
Non-controlling interests(loss)	(0.3)	(0.2)	(0.0)	39%	
EPS (yen)	126.91	161.53	(34.62)	-21%	
Comprehensive income	2.6	5.1	(2.4)	-47%	

Segment Information	Net sales			Segment income			Main Factors
	1Q-2Q of FY2019	1Q-2Q of FY2018	rate	1Q-2Q of FY2019	1Q-2Q of FY2018	rate	
Steel	494.7	492.9	0%	7.8	7.7	1%	(Steel business) Despite decrease in the sales volume, segment income increased due to revenue from large-scale property construction projects as well as high level of market price of steel products.
Primary Metal	123.0	155.8	-21%	1.3	0.0	—	(Primary metals business) Despite the increase of loss on investment in affiliates especially in SAMANCOR CHROME HOLDINGS PROPRIETARY LTD., segment income increased by the turnaround from foreign exchange losses in the same period of previous year to foreign exchange gains in this fiscal year.
Metal Recycling	40.5	41.3	-2%	0.8	1.0	-18%	(Metal recycling business) Segment income decreased due to decline of base metal prices in the same period of the previous year as well as decrease in the volume of both stainless and copper scrap.
Foods	52.3	52.7	-1%	0.5	1.0	-50%	(Foods business) Segment income decreased due to shrinking margins of consolidated subsidiaries by stagnant market condition for shrimp and foreign exchange losses.
Petroleum & chemicals	96.8	126.6	-23%	1.7	0.8	—	(Petroleum & chemicals business) Despite decreased volume by weak market of petroleum products, segment income increased mainly due to the expansion of profit margins of bunker fuel oil and biomass fuels such as palm kernel shells(PKS).
Overseas sales subsidiaries	131.6	150.6	-13%	0.0	0.6	-95%	(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	939.1	1,020.1	-8%	12.2	11.4	7%	
Other	44.4	39.3	13%	0.9	0.4	—	
Total	983.5	1,059.4	-7%	13.2	11.8	11%	
Adjustment	(37.5)	(54.5)	31%	(2.4)	(1.0)	—	
Consolidated	946.0	1,004.9	-6%	10.8	10.8	-0%	

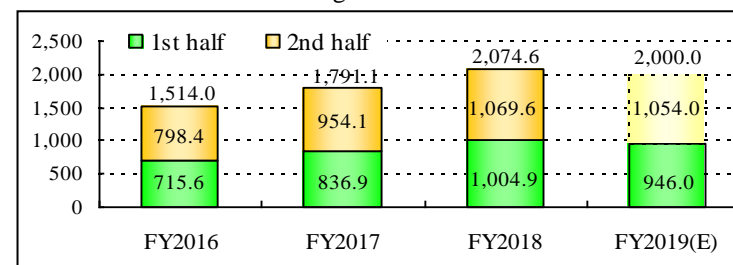
Topics	May	Aug
	Decided to acquire 65% of the stocks of the SMC HA NOI ONE MEMBER CO., LTD. which is a steel service center in Vietnam.(By August 21, transaction was completed and changed name to HANWA SMC STEEL SERVICE HA NOI CO., LTD..)	
		We have published our first integrated report to replace our Annual Report.

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

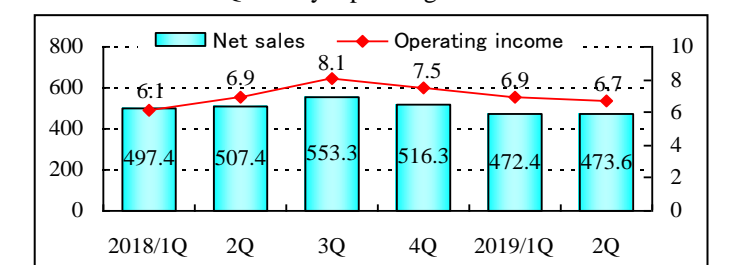
Financial Position	Sep. 2019	Mar. 2019	Comparison with Mar. 2019		Main Factors
			Change	rate	
Total assets	892.7	933.3	(40.5)	-4%	(Total Assets) Total assets decreased by 4% from the end of the previous year, due to decrease in trade receivables along with sales decline. Trade notes and accounts receivables 368.7 billion yen (-11% from the end of the previous period)
(Current assets)	691.3	724.9	(33.5)	-5%	
(Fixed assets)	201.3	208.3	(6.9)	-3%	
Total liabilities	690.9	730.8	(39.9)	-5%	(Liabilities) Total liabilities decreased by 5% from the end of the previous year, due to the decrease in trade payables. As interest-bearing debt decreased by 1%, net debt-equity ratio was turned into 160% (*130%).
(Interest-bearing debt)	358.6	363.2	(4.6)	-1%	
(Net interest-bearing debt)	299.5	303.9	(4.4)	-1%	
Net DER	160%/130%*	161%/131%*	-1pt	-1%	
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, mainly due to decrease in accumulated other comprehensive income including foreign currency translation adjustments. Meanwhile shareholders' equity ratio was 21.0%(*23.8%), which is 0.9 percentage points higher than the end of the previous year.
(Equity capital)	183.2	180.9	2.2	1%	
(Valuation & translation adjustments)	4.4	7.2	(2.8)	-39%	
(Minority interests)	14.1	14.2	(0.0)	-1%	
BPS (yen)	4,618.28	4,632.55	(14.27)	-0%	
Shareholders' equity	187.6	188.2	(0.5)	-0%	
Shareholders' equity ratio	21.0/23.8%*	20.2/22.8%*	0.9pt	—	*Reflecting equity credit attributes of the subordinated loan

Cash Flow	1Q-2Q of FY2019	1Q-2Q of FY2018	Year-on-year		Main Factors
			Change	rate	
Cash flows from operating activities	14.3	(39.2)	53.6	—	(Operating cash flows) Due to increase in Deposits received and a smaller increase in working capital.
Cash flows from investing activities	(5.0)	(7.3)	2.2	-31%	(Investment cash flows) Due to purchase of investment securities and tangible fixed assets.
Cash flows from financing activities	(10.6)	48.4	(59.1)	—	(Financial cash flows) Due mainly to the redemption of bonds.
Cash and cash equivalents at end of period	59.1	37.6	21.4	57%	

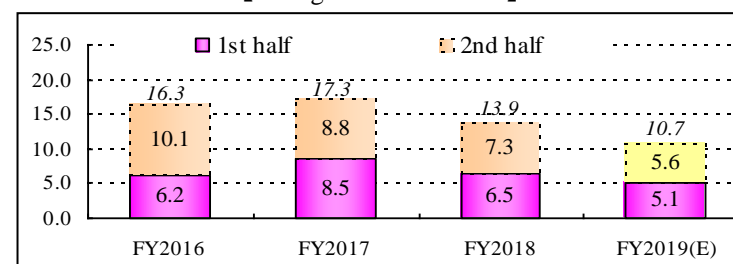
【Changes in Net Sales】



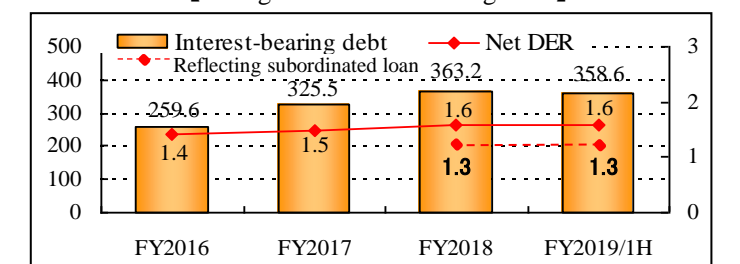
【Quarterly Operating Results】



【Changes in Net Income】



【Changes in Interest-bearing Debt】



Forecast (Annual)	FY2019		FY2018	change
	Previous	Revised		
Net sales	2,200.0	2,000.0	2,074.6	-4%
Operating income	35.5	31.0	28.9	7%
Ordinary income	28.0	18.5	23.3	-21%
Net income attributable to owners of parent	19.2	10.7	13.9	-23%

Cash Dividends	FY2018	FY2019	FY2019 (estimated)
Interim (yen)	75.00	75.00	—
Year-end (yen)	75.00	—	To be determined
Annual (yen)	150.00	—	—
Dividend payout ratio	44%	—	To be determined