

HANWA CO., LTD.

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Status of Achievement of Medium-term Business Plan and Prospect of Next Plan
(1) Performance

Planned Period			FY2016—FY2019						
			FY2016	FY2017	FY2018	FY2019			
							Annual		
							(Actual)	(Actual)	(Actual)
Quantitative Objectives	Net Sales (bn)		1,514.0	1,791.1	2,074.6	2,100.0	2,000.0	1,907.4	95.4%
	Ordinary income (bn)	① STEADY	19.1	20.1	18.8	20.0	20.0	18.7	93.7%
		② SPEEDY	3.1	5.8	4.3	6.0	5.0	2.8	57.3%
		Sub total	22.2	26.0	23.2	26.0	25.0	21.6	86.4%
		③ STRATEGIC	0.7	(0.6)	0.0	9.0	(6.5)	(34.6)	-
		Adjustment	0.0	0.0	0.0	-	-	0.4	-
	Total	22.9	25.5	23.3	35.0	18.5	(12.5)	-	
New customers (In total)			697	601	725		677	643	95.0%
			(697)	(1,298)	(2,023)	(2,700)	(2,700)	(2,666)	(98.7%)
Investment Amount (bn) (In total)			11.2	29.1	17.0			19.5	
			(11.2)	(40.3)	(57.3)	(50.0)	(50.0)	(76.8)	(153.6%)

※① STEADY... Revenue from established business

(Ordinary income from HANWA after deducting dividend income from subsidiaries and resource investments)

② SPEEDY...Revenue from group companies

(Ordinary income from consolidated subsidiaries, dividends from non-consolidated subsidiaries and equity in earnings of affiliates (excluding resource investees))

③ STRATEGIC...Revenue from strategic investments

(Equity in earnings of affiliates from resource investees and dividends from strategic investments)

(2) Progress

Achievement rate of HANWA group business consisting of “STEADY” and “SPEEDY” was 86.4% to ordinary income forecast for the fiscal year. Meanwhile, “STRATEGIC” (natural resources investments) posted a loss of 34.6 billion yen. The situations of our “3S” are as follows.

- ① STEADY...Although total transaction volume has decreased in each business area due to the decline in demands, business performances were generally steady due to the shift to highly profitable products and transactions, such as Petroleum & chemicals business and Lumber business in Other business segment.
- ② SPEEDY...Profit margin of domestic group companies including “SOKOKA (quick delivery, small lot, processing)” businesses have declined due to sluggish steel demand. Transaction volume of steel and non-ferrous metals in overseas sales subsidiaries has also decreased mainly due to influence of trade frictions between U.S. and China. As a result, the actual achievements were significantly less than forecast.
- ③ STRATEGIC...While equity in losses of affiliates from SAMANCOR CHROME HOLDINGS PROPRIETARY LTD. (hereinafter SAMANCOR) has expanded, we have verified the medium-to long-term business plan submitted by SAMANCOR, with the participation of the third parties. As a result, we concluded that it was difficult to recover the full amount of our investment, and we devaluated the carrying amount of 27.3 billion yen of assets such as mining rights which are contained in our acquisition cost for SAMANCOR shares. Hereby, the total amount of equity in losses of affiliates from SAMANCOR was approximately 34.9 billion yen, and the total amount of loss in STRATEGIC was approximately 34.6 billion yen.

(3) Overview of results of Medium-term Business Plan (FY2016—FY2019)

In our Medium-Term Business Plan (FY2016—FY2019), we have been promoting our businesses under the theme of “Three S” Commitment—STEADY, SPEEDY, STRATEGIC. The results of the Medium-term Business Plan, which finished in the fiscal year, are summarized below.

Net sales fell short of the forecast in the final year of the plan due to decline in market prices and decline in demands, but were generally in line with expectations.

In terms of profitability, the transitions of our “3S” are as follows.

- ① **STEADY**...Until FY2017, businesses progressed steadily, including increase in our transaction volume due to an upward trend in the market for many of our products, increase in profit spread, and slow growth in the domestic and overseas economic conditions. However, in the latter half of the planning period, while the steel market peaked out, increase in purchase costs compressed the spread. In addition, demands declined due to the trade friction between U.S. and China and decrease in Olympic-related constructions, and increase in financial costs of procurement of foreign currencies as a result of the expansion of foreign exchange trading. Hereby, although we maintained a certain level of profit, the target was not achieved yet.
- ② **SPEEDY**...In the first half of the planning period, businesses continued to grow steadily, mainly at domestic group companies. In the latter half of the planning period, however, earnings declined due to dissipation of profit spreads during periods of rising prices of coils at overseas steel centers and foreign exchange losses caused by the depreciation of local currencies at overseas group companies. Subsequently, our domestic steel sales group companies also suffered decline in profit levels due to the economic slowdown, and there remained a sense of stagnation due to the effects of decline in demand caused by the trade friction between U.S. and China.
- ③ **STRATEGIC**...Regarding the Indonesian project of Tsingshan Holding Group Co., Ltd., transaction of the products and dividend income have contributed to our earnings. These results were generally in line with expectations. However, in SAMANCOR, which is expected to stably contribute to our earnings due to its high global share of chromium ore resources, the chromium market and demand for stainless steel stagnated in the three years since application of our equity method in FY2017. As a result, earnings fell sharply short of expectations, and in FY2019, we were forced to write off impairment losses on SAMANCOR due to the downward revision of its profit outlook.

The number of new customers was 2,666 companies, which was slightly less than target. However, we think that our efforts to expand the reach of our customers will contribute to future profits.

With regard to investments, 76.8 billion yen was recorded, exceeding the target of 50.0 billion yen due to large-scale resource investments. While the direct contribution from the investments to earnings during the current Medium-term Business Plan was limited due to impairment losses on SAMANCOR and due to many development-type investments, majority of the effects will appear in the next fiscal year and beyond.

(4) Prospect of Next Medium-term Business Plan

In the final year of the Medium-Term Business Plan (FY2016-FY2019), we recorded ordinary loss for the first time. We take the results seriously, and in our next Medium-Term Business Plan (FY2020-2022), which begins in FY2020, we will make our efforts to strengthen our financial position. At the same time, we will position this plan as a foundation to take full advantage of growth opportunities in Japan and overseas that were sown in the previous medium-term plan, and work toward next future developments.

Our basic business strategy is to take over the previous medium-term plan and maximize profits by strengthening “SOKOKA (quick delivery, small lot, processing)” strategy and Southeast Asian operations. At the same time, we will prioritize the following measures with an awareness of the *structural* improvements of our management foundation that will lead to *sustainable* growth.

- (1) Strengthening Financial Discipline and Improving Capital Efficiency
- (2) Strengthening Group management system
- (3) Sophistication and Diversification of human resources
- (4) Renewal of enterprise system and Improvement of effectiveness HKQC(Hanwa Knowledge Quality Control)
- (5) Promoting SDGs initiatives and Dialogue with Diverse Stakeholders

Details of the next medium-term business plan, including quantitative targets, are scheduled to be announced at the time of the announcement of financial results for the second quarter of FY2020, in view of the impact of novel corona virus on our consolidated financial results.