

Financial Results for the Second Quarter ended September 30, 2020

(Japan GAAP)
November 9, 2020

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 9, 2020

Scheduled date of payout of dividend: December 1, 2020

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the Second Quarter ended September 30, 2020 (April 1, 2020 to September 30, 2020)

(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, 2020	801,053	(15.3)	11,077	(18.7)	10,248	(5.2)	6,861	33.0
ended September 30, 2019	946,024	(5.9)	13,618	3.6	10,814	(0.2)	5,157	(21.4)

Note: Comprehensive income For the Fiscal Year ended September 30, 2020 4,820 million yen 79.1 %
For the Fiscal Year ended September 30, 2019 2,692 million yen (47.2) %

	Net income per share	Net income per share(diluted)
	(yen)	(yen)
For the 2nd Quarter ended September 30, 2020	168.84	—
ended September 30, 2019	126.91	—

(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, 2020	773,088	170,820	21.8	4,140.99
As of March 31, 2020	798,442	166,097	20.5	4,027.01

Note: Shareholders' equity As of September 30, 2020 168,280 million yen
As of March 31, 2020 163,648 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, 2020	—	75.00	—	25.00	100.00
Year ended March 31, 2021	—	30.00	—	—	—
Year ending March 31, 2021 (estimated)	—	—	—	30.00	60.00

3. Forecast of consolidated financial results for fiscal year ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(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	1,700,000	(10.9)	25,000	(8.5)	23,000	—	15,500	—	381.42	—

* For more information, please refer to "Notice Concerning Amendments to Forecasts of consolidated financial results for FY2020" announced on November 9, 2020.

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

Financial Results for the Second Quarter ended September 30, 2020

《Consolidated Balance Sheets》

(Amounts less than one million yen are rounded down)

	<i>Millions of yen</i>	
	March 31, 2020	September 30, 2020
Assets		
Current assets;		
Cash and deposits	67,256	80,001
Trade notes and accounts receivable	341,559	311,395
Electronically recorded monetary claims	21,281	27,682
Securities	1,167	1,134
Inventories	127,460	122,412
Other	69,949	63,011
Allowance for doubtful receivables	(1,046)	(1,483)
Total current assets	627,629	604,153
Fixed assets;		
Property and equipment;		
Land	34,165	33,755
Others	40,997	39,743
Total property and equipment	75,162	73,499
Intangible assets	6,331	6,888
Investments and other assets;		
Investment securities	56,892	59,702
Others	33,496	29,157
Allowance for doubtful receivables	(1,070)	(313)
Total investments and other assets	89,318	88,546
Total fixed assets	170,812	168,934
Total assets	798,442	773,088
Liabilities		
Current liabilities;		
Trade notes and accounts payable	202,671	188,684
Electronically record obligations	19,146	18,405
Short-term loans payable	67,177	64,091
Current portion of bonds payable	10,021	24
Income taxes payable	2,466	4,311
Accrued bonuses	2,774	2,837
Provision for product warranties	481	455
Others	59,913	61,845
Total current liabilities	364,653	340,653
Long-term liabilities;		
Bonds payable	40,013	40,000
Long-term loans payable	212,372	205,688
Retirement benefits liabilities	6,162	6,242
Others	9,142	9,682
Total long-term liabilities	267,691	261,613
Total liabilities	632,344	602,267
Net assets;		
Shareholders' equity;		
Common stock	45,651	45,651
Retained earnings	119,475	126,390
Treasury stock	(3,728)	(3,728)
Total shareholders' equity	161,398	168,313
Accumulated other comprehensive income		
Net unrealized holding gains on securities	6,042	7,351
Deferred hedge profit and loss	745	(88)
Land revaluation difference	3,277	3,191
Foreign currency translation adjustments	(2,434)	(5,471)
Remeasurements of defined benefit plans	(5,380)	(5,016)
Total accumulated other comprehensive income	2,250	(32)
Minority interests	2,448	2,540
Total net assets	166,097	170,820
Total liabilities and net assets	798,442	773,088

Financial Results for the Second Quarter ended September 30, 2020

《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, 2019	2nd Quarter ended September 30, 2020
Net sales	946,024	801,053
Cost of sales	906,316	765,620
Gross profit	39,707	35,433
Selling, general and administrative expenses	26,089	24,355
Operating income	13,618	11,077
Other income;		
Interest income	1,051	1,151
Dividend income	1,181	1,370
Equity in earnings of affiliates	—	294
Others	710	726
Total other income	2,944	3,543
Other expenses;		
Interest expenses	2,880	1,986
Equity in losses of affiliates	551	—
Foreign exchange loss	1,619	1,645
Others	697	739
Total other expenses	5,748	4,372
Ordinary income	10,814	10,248
Extraordinary income;		
Gain on sale of property and equipment	201	578
Gain on sale of investment securities	780	—
Total extraordinary income	981	578
Extraordinary loss;		
Loss on impairment of property and equipment	163	—
Loss on devaluation of investment securities	3,718	—
Provision of allowance for doubtful accounts of affiliates	101	100
Total extraordinary loss	3,983	100
Income before income taxes and minority interest	7,812	10,726
Income taxes	2,971	3,814
Net income	4,840	6,912
Net income attributable to		
Net income attributable to owners of the Company	5,157	6,861
Net income(loss) attributable to non-controlling interests	(317)	50
Other Comprehensive Income		
Net unrealized holding gains(loss) on securities	(515)	1,316
Deferred hedge profit and loss	(609)	(834)
Foreign currency translation adjustments	(803)	(2,807)
Remeasurements of defined benefit plans	357	395
Share of other comprehensive income of associates accounted for using equity method	(577)	(162)
Total other comprehensive Income	(2,148)	(2,091)
Comprehensive Income	2,692	4,820
Comprehensive income attributable to;		
Comprehensive income attributable to owners of the parent	3,083	4,932
Comprehensive income(loss) attributable to non-controlling interests	(391)	(112)

Financial Results for the Second Quarter ended September 30, 2020

《Consolidated Statements of Cash Flows》

(Amounts less than one million yen are rounded down)
Millions of yen

	2nd Quarter ended September 30, 2019	2nd Quarter ended September 30, 2020
Cash flows from operating activities;		
Income before income taxes	7,812	10,726
Depreciation and amortization	2,500	2,659
Loss on impairment of property and equipment	163	—
Amortization of goodwill	265	259
Increase(decrease) in allowance for doubtful receivables	(70)	(406)
Interest and dividend income	(2,233)	(2,522)
Interest expense	2,880	1,986
Equity in earnings of affiliated companies (gain)	551	(294)
Gain on sale of property and equipment	(201)	(578)
Gain on sale of investment securities of unconsolidated subsidiaries	(780)	—
Loss on devaluation of investments securities	3,718	—
Provision of allowance for doubtful accounts of affiliates	101	100
(Increase)decrease in trade receivables	47,179	22,936
(Increase)decrease in inventories	5,420	4,668
Increase(decrease) in trade notes and accounts payable	(53,402)	(14,070)
Increase(decrease) in advance received	6,592	5,332
Increase(decrease) in retirement benefits	496	617
Other, net	(2,718)	2,484
Sub total	18,275	33,902
Interest and dividends received	2,447	2,065
Interest paid	(2,986)	(2,007)
Income taxes paid	(3,387)	(2,109)
Net cash provided by (used in) operating activities	14,349	31,851
Cash flows from investing activities;		
Payment for time deposits	(675)	—
Proceeds from refund of time deposits	1,600	60
Payment for purchase of property and equipment	(3,760)	(3,446)
Proceeds from sale of property and equipment	477	1,223
Payment for acquisition of investment securities	(2,924)	(1,023)
Proceeds from sale and redemption of investment securities	22	32
(Increase)decrease in short – term loans receivable, net	224	(860)
Increase in long – term loans receivable	(861)	(0)
Collection of long-term loans receivable	2,112	5,237
Other, net	(1,312)	(76)
Net cash provided by (used in) investing activities	(5,096)	1,145
Cash flows from financing activities;		
Increase(decrease) in short-term loans, net	4,184	(4,669)
Proceeds from long-term debt	5,374	13
Repayments of long-term debt	(6,745)	(6,361)
Payment for redemption of bonds	(10,010)	(10,010)
Payment for cash dividends	(3,046)	(1,020)
Cash dividends paid to minority interest in consolidated subsidiaries	(79)	(2)
Purchase of investments in subsidiaries resulting in no change in scope of consolidation	(187)	(31)
Other, net	(150)	(108)
Net cash provided by (used in) financing activities	(10,661)	(22,191)
Effect of exchange rate changes on cash and cash equivalents	(303)	1,283
Net increase(decrease) in cash and cash equivalents	(1,711)	12,089
Cash and cash equivalents at beginning of year	58,384	67,243
Increase in cash and cash equivalents from newly consolidated subsidiaries	2,460	632
Increase in cash and cash equivalents resulting from mergers with unconsolidated subsidiaries	—	22
Cash and cash equivalents at end of period	59,133	79,987

Financial Results for the Second Quarter ended September 30, 2020

《Segment information》

Segment information by business category for the 2nd Quarter ended September 30, 2019 and 2020, is as follows:

(Amounts less than one million yen are rounded down)

2nd Quarter ended September 30, 2019

Millions of yen

	Reportable segment							Other	Total	Adjustment	Consolidated
	Steel	Primary Metal	Metal Recycling	Foods	Energy & Living Materials	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

2nd Quarter ended September 30, 2020

Millions of yen

	Reportable segment							Other	Total	Adjustment	Consolidated
	Steel	Primary Metal	Metal Recycling	Foods	Energy & Living Materials	Overseas sales subsidiaries	Sub-total				
Net sales											
Customers	421,588	105,920	33,205	49,517	79,031	72,830	762,094	38,958	801,053	—	801,053
Inter-segment	4,099	1,266	917	228	3,427	14,647	24,586	1,469	26,056	(26,056)	—
Total	425,688	107,186	34,123	49,746	82,459	87,478	786,681	40,428	827,110	(26,056)	801,053
Segment income(loss)	6,641	2,106	(23)	368	3,056	699	12,848	207	13,055	(2,807)	10,248

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, Company reviewed the name of segment in order to express more appropriately the business, and changed the reportable segments from "Petroleum & chemicals" to "Energy & Living Materials".
The change was only name change, and segment information had no effect from the change.
Segment information for the 2nd Quarter of the previous fiscal year has been mentioned after name change.

Highlights of Consolidated Financial Results for the 2nd Quarter of FY2020 (Japan GAAP)

HANWA Co., Ltd.

Outline of Financial Results for the 2nd Quarter of FY2020

As for the 2nd quarter result for this fiscal year, net sales have decreased by 15% year on year, hence reached to 801.0 billion yen, due to decline in commodity prices including non-ferrous metal, as well as decrease in transaction volume due to decline in demand for steel materials and self-restraint of sales activities, as economic activities in each country shrink caused by the novel coronavirus outbreak. Operating income decreased 19% year on year, to 11.0 billion yen chiefly because profits declined in Primary metal, Metal Recycling business. Ordinary income decreased 5% year on year, to 10.2 billion yen, although interest expenses decreased and equity in losses of affiliates turned profitable. Net income attributable to owners of the company increased by 33% year on year to 6.8 billion yen partly because there were no loss on devaluation of investments securities that made in the previous fiscal year.

We plan to pay 60 yen as the annual (30 yen as the interim and 30 yen as the year-end) dividend.

Operating Results	1Q-2Q of FY2020	1Q-2Q of FY2019	Year-on-year		Main Factors
			Change	rate	
Net sales	801.0	946.0	(144.9)	-15%	<p>(Net sales) Net sales have decreased by 15% from the same period of the previous year. This was mainly due to decrease of transaction volume under weak demands and self-restraint of sales activities and decline in commodity prices including non-ferrous metal and petroleum.</p> <p>(SG&A expenses) SG & A expenses have decreased by approximately 1.7 billion yen from the same period of the previous year mainly due to decrease in travel expenses and entertaining expenses under self-restraint of sales activities. Our personnel expenses have increased 0.2 billion yen, including 0.1 billion yen from newly consolidated subsidiaries.</p> <p>(Non-operating income/expenses) Non-operating income have increased 0.5 billion yen, and Non-operating expenses have decreased 1.3 billion yen, respectively. The breakdown of the main causes is as follows. Dividend income: increase of 0.2 billion yen(YoY) Equity in earnings of affiliates: increase of 0.3 billion yen(YoY) Interest expenses: decrease of 0.9 billion yen(YoY) Equity in losses of affiliates: decrease of 0.6 billion yen(YoY)</p> <p>(Extraordinary gain/loss) Gain on sales of fixed assets 0.5 billion yen : mainly due to sales of property by consolidated subsidiaries.</p>
Gross profit	35.4	39.7	(4.2)	-11%	
SG&A expenses	24.3	26.0	(1.7)	-7%	
Operating income	11.0	13.6	(2.5)	-19%	
Non-operating income	3.5	2.9	0.5	20%	
Non-operating expenses	4.3	5.7	(1.3)	-24%	
Ordinary income	10.2	10.8	(0.5)	-5%	
Extraordinary gain	0.5	0.9	(0.4)	-41%	
Extraordinary loss	0.1	3.9	(3.8)	-97%	
Income before income taxes and others	10.7	7.8	2.9	37%	
Income taxes	3.8	2.9	0.8	28%	
Net income	6.9	4.8	2.0	43%	
Owners of the Company(loss)	6.8	5.1	1.7	33%	
Non-controlling interests(loss)	0.0	(0.3)	0.3	—	
EPS (yen)	168.84	126.91	41.93	33%	
Comprehensive income	4.8	2.6	2.1	79%	

Segment Information	Net sales			Segment income			Main Factors
	1Q-2Q of FY2020	1Q-2Q of FY2019	rate	1Q-2Q of FY2020	1Q-2Q of FY2019	rate	
Steel	425.6	494.7	-14%	6.6	7.8	-15%	<p>(Steel business) Net sales and segment income decreased mainly due to transaction volumes declined due to delay in the recovery of manufacturing production and reflecting foreign exchange loss from local currency depreciation.</p> <p>(Primary metals business) Net sales decreased due to transaction volume declined caused by decreasing steel and non-ferrous metals manufacturers operating rate. On the other hand, segment income increased because there weren't equity in losses of affiliates and interest expenses were decreased.</p> <p>(Metal recycling business) Net sales and 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 due to reduction of production activities of manufacturers.</p> <p>(Foods business) Net sales and segment income decreased due to decline in market prices of salmon, as well as decrease in the transaction volume of processed goods due to self-restraint of the food-service industry.</p> <p>(Energy & Living Materials business) Segment income increased due to securing profit margin of petroleum products by coordinated production cut, and increasing revenue of the trading of the palm kernel shells(PKS) due to the long-term contract for biomass power plant.</p> <p>(Overseas sales subsidiaries) Segment income increased due to improved profitability of non-ferrous metal trading in Thailand, and decreasing of interest expenses.</p>
Primary Metal	107.1	123.0	-13%	2.1	1.3	57%	
Metal Recycling	34.1	40.5	-16%	(0.0)	0.8	—	
Foods	49.7	52.3	-5%	0.3	0.5	-28%	
* Energy & Living Materials	82.4	96.8	-15%	3.0	1.7	79%	
Overseas sales subsidiaries	87.4	131.6	-34%	0.6	0.0	—	
Total for reportable segments	786.6	939.1	-16%	12.8	12.2	5%	
Other	40.4	44.4	-9%	0.2	0.9	-79%	
Total	827.1	983.5	-16%	13.0	13.2	-2%	
Adjustment	(26.0)	(37.5)	-31%	(2.8)	(2.4)	15%	
Consolidated	801.0	946.0	-15%	10.2	10.8	-5%	

* Since the 1st Quarter of the fiscal year, Company changed the reportable segments from "Petroleum & chemicals" to "Energy & Living Materials".

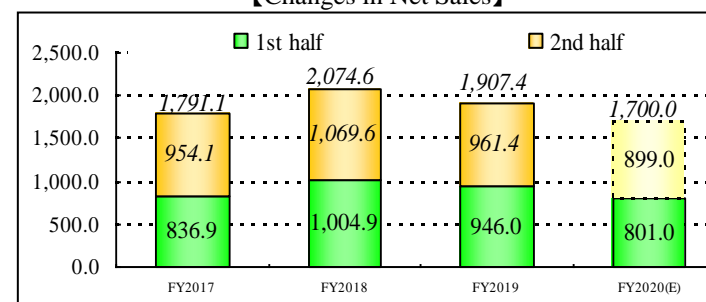
- Topics**
- Apr. Acquire 100% of the shares of TATSUTA CO., LTD. which is a steel material distributor in Osaka.
 - Oct. Acquire 100% of the shares of TEKKEN Industry CO., LTD. which is a fabricator in Fukui.

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

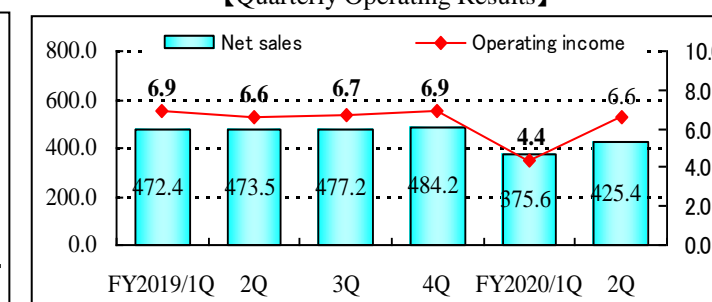
Financial Position	Sep. 2020	Mar. 2020	Comparison with Mar. 2020		Main Factors
			Change	rate	
Total assets	773.0	798.4	(25.3)	-3%	(Total Assets) Total assets decreased by 3% from the end of the previous year, due to decrease in trade receivables along with sales decline. Trade notes and accounts receivables 311.3 billion yen (-9% from the end of the previous year). Investment securities 59.7 billion yen (+5% from the end of the previous year).
(Current assets)	604.1	627.6	(23.4)	-4%	
(Fixed assets)	168.9	170.8	(1.8)	-1%	
Total liabilities	602.2	632.3	(30.0)	-5%	(Liabilities) Total liabilities decreased by 5% from the end of the previous year, due to decrease in trade payables and interest-bearing debt. As interest-bearing debt decreased by 6%, net debt-equity ratio was turned into 137% (*107%).
(Interest-bearing debt)	311.3	331.1	(19.7)	-6%	
(Net interest-bearing debt)	231.3	263.8	(32.4)	-12%	
Net DER	137%/107%*	161%/127%*	-24.0pt	-13%	
Total net assets	170.8	166.0	4.7	3%	(Net assets) Total net assets increased by 3% from the end of the previous year, due to accumulation from net income attributable to owners of the company. Shareholders' equity ratio was 21.8%(*25.0%), which is 1.3 percentage points higher than the end of the previous year.
(Equity capital)	168.3	161.3	6.9	4%	
(Valuation & translation adjustments)	(0.0)	2.2	(2.2)	—	
(Minority interests)	2.5	2.4	0.0	4%	
BPS (yen)	4,140.99	4,027.01	113.98	3%	
Shareholders' equity	168.2	163.6	4.6	3%	
Shareholders' equity ratio	21.8/25.0%*	20.5/23.6%*	1.3pt	6%	*Reflecting equity credit attributes of the subordinated loan

Cash Flow	1Q-2Q of FY2020	1Q-2Q of FY2019	Year-on-year		Main Factors
			Change	rate	
Cash flows from operating activities	31.8	14.3	17.5	122%	(Operating cash flows) Due mainly to decrease in net sales and trade receivables.
Cash flows from investing activities	1.1	(5.0)	6.2	—	(Investment cash flows) Due mainly to collect long-term debts.
Cash flows from financing activities	(22.1)	(10.6)	(11.5)	108%	(Financial cash flows) Due mainly to redemption of bonds and repayment of debt.
Cash and cash equivalents at end of period	79.9	59.1	20.8	35%	

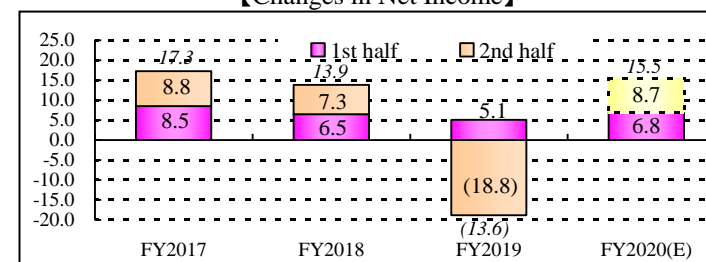
【Changes in Net Sales】



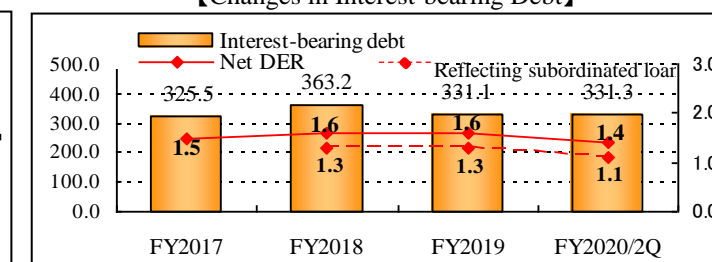
【Quarterly Operating Results】



【Changes in Net Income】



【Changes in Interest-bearing Debt】



Forecast (Annual)	FY2020 (estimated)	FY2019	change	Cash Dividends	FY2018	FY2019	FY2020 (estimated)
Operating income	25.0	27.3	-9%	Year-end (yen)	75.00	25.00	30.00
Ordinary income	23.0	(12.5)	—	Annual (yen)	150.00	100.00	60.00
Net income attributable to owners of parent	15.5	(13.6)	—	Dividend payout ratio	44%	—	16%