

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

HANWA Co., Ltd.

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

## 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&amp;A expenses) SG &amp; 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%	

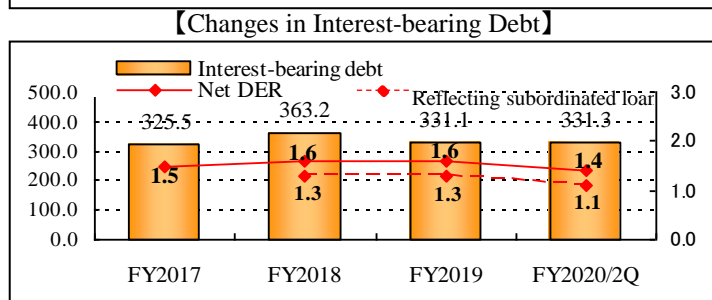
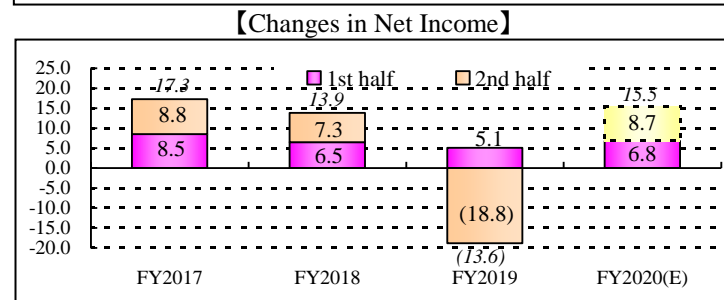
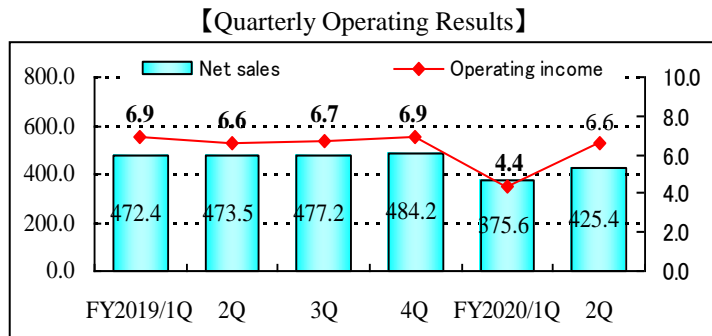
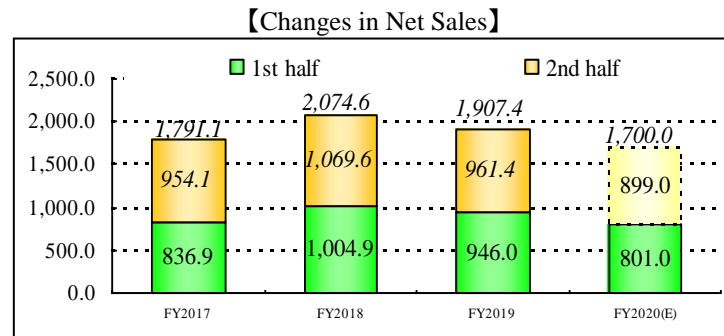
Segment Information	Net sales			Segment income			Main Factors
	1Q-2Q of FY2020	1Q-2Q of FY2019	rate	1Q-2Q of FY2020	1Q-2Q of FY2019	rate	
Steel	425.6	494.7	-14%	6.6	7.8	-15%	<p>(Steel business) Net sales and segment income decreased mainly due to transaction volumes declined due to delay in the recovery 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 &amp; 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.

Financial Position	Sep. 2020	Mar. 2020	Comparison with Mar. 2020		Main Factors
			Change	rate	
Total assets	773.0	798.4	(25.3)	-3%	<p>(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).</p>
(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%	<p>(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%).</p>
(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%	<p>(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.</p>
Total net assets	170.8	166.0	4.7	3%	
(Equity capital)	168.3	161.3	6.9	4%	
(Valuation & translation adjustments)	(0.0)	2.2	(2.2)	—	<p>*Reflecting equity credit attributes of the subordinated loan</p>
(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%	

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%	<p>(Operating cash flows) Due mainly to decrease in net sales and trade receivables.</p> <p>(Investment cash flows) Due mainly to collect long-term debts.</p> <p>(Financial cash flows) Due mainly to redemption of bonds and repayment of debt.</p>
Cash flows from investing activities	1.1	(5.0)	6.2	—	
Cash flows from financing activities	(22.1)	(10.6)	(11.5)	108%	
Cash and cash equivalents at end of period	79.9	59.1	20.8	35%	



Forecast (Annual)	FY2020 (estimated)	FY2019		Cash Dividends	FY2018	FY2019	FY2020 (estimated)
			change				
Net sales	1,700.0	1,907.4	-11%	Interim (yen)	75.00	75.00	30.00
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%