

# Financial Results for the First Half of FY2018

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November 21, 2018

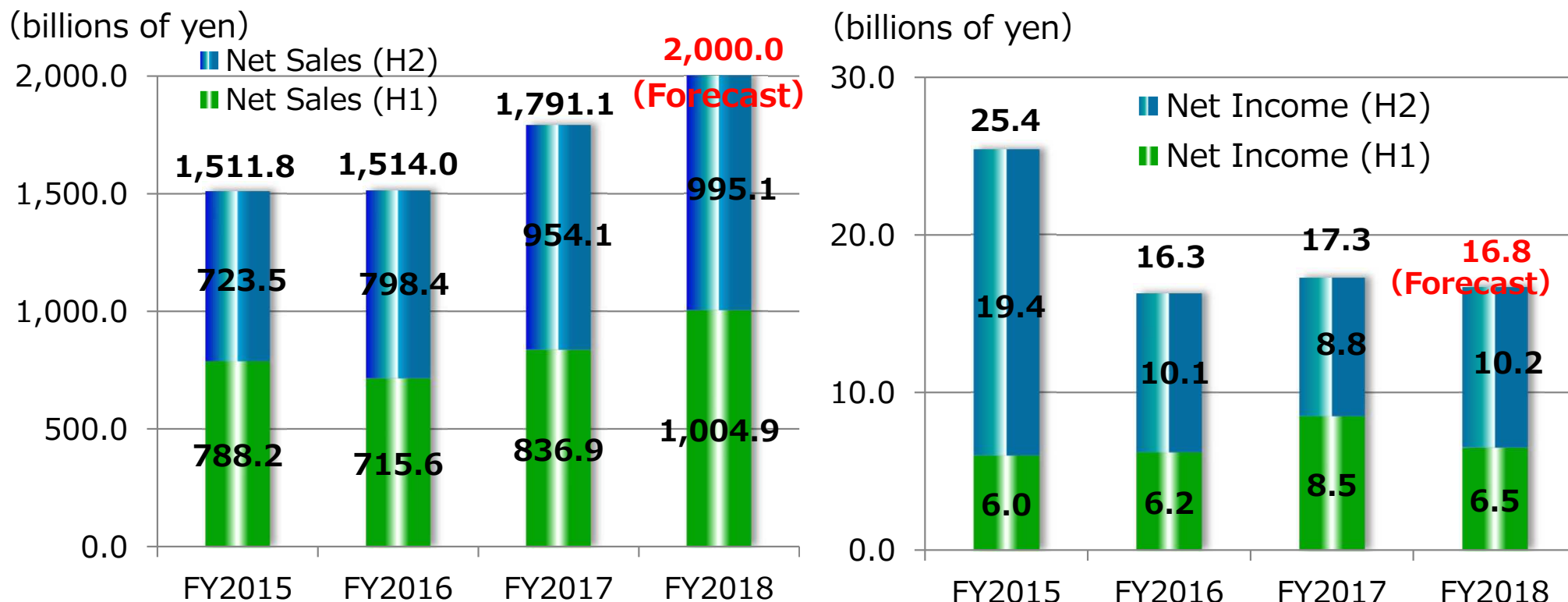
HANWA CO., LTD.

# Operating Results (Consolidated)

	H 1 (ended September 30)			
	FY2017	FY2018	Y on Y Change	Y on Y Rate
(billions of yen)				
Net Sales	836.9	1,004.9	+167.9	+20%
Gross Profit	33.5	37.9	+4.3	+13%
SG&A	22.1	24.7	+2.6	+12%
Operating income	11.4	13.1	+1.6	+15%
Ordinary income	13.1	10.8	▲ 2.2	▲ 17%
Net income attributable to owners of the Company	8.5	6.5	▲ 1.9	▲ 23%
EPS	210.40 yen	161.53 yen	▲ 48.87 yen	▲ 23%
Comprehensive income	10.9	5.1	▲ 5.8	▲ 54%

- Net Sales have increased by 20% from the same period of the previous year, due to rising market of steel products and sales expansion of ferro-alloy.
- SG&A expenses have increased by 12% (of which 7% was due to increase of number of consolidated subsidiaries). Personnel expenses have increased 1.7 billion yen.
- Ordinary income have decreased by 17%, due to impacts of foreign exchange loss (2.4 billion yen) and loss on investment in affiliates (0.1 billion yen).
- Net income attributable to owners of the Company have decreased by 23%, due to extraordinary losses mainly comprised of loss on devaluation of investments securities.

# Changes in Business results (Consolidated)



- Net Sales have been increasing trend as steel and resource markets have been risen.
- Net income attributable to owners of the Company have decreased from the same period of the previous year due to impact of extraordinary loss.

(Breakdown of extraordinary loss and gain of H1 in FY2018)

Loss on devaluation of investments securities : approximately 1 billion yen

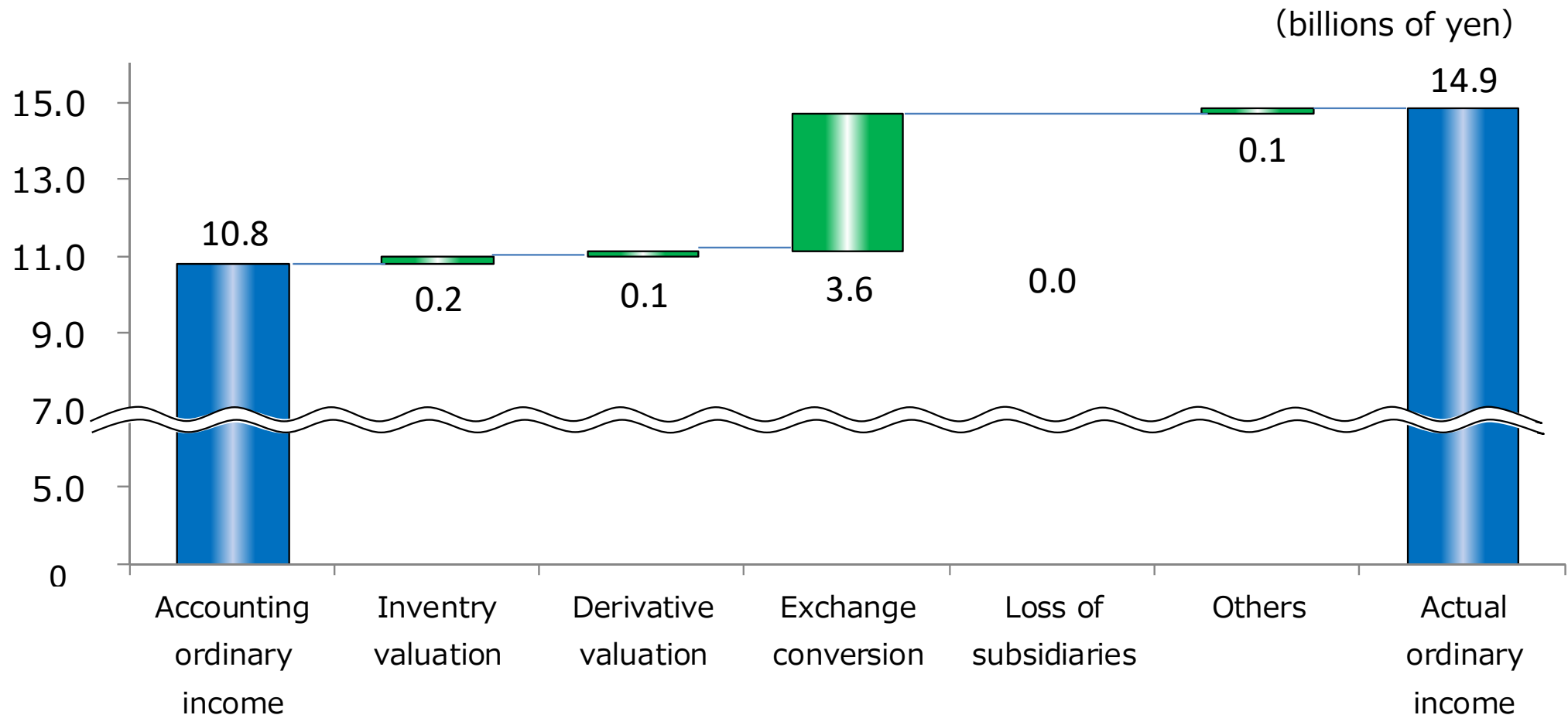
Gain on sale of property and equipment : approximately 0.4 billion yen

Loss on sale of property and equipment : approximately 0.1 billion yen

Loss on natural disaster : 0.1 billion yen

\*Net income of FY2015 increased due to the impact of decrease in taxes for the sale of real estate.

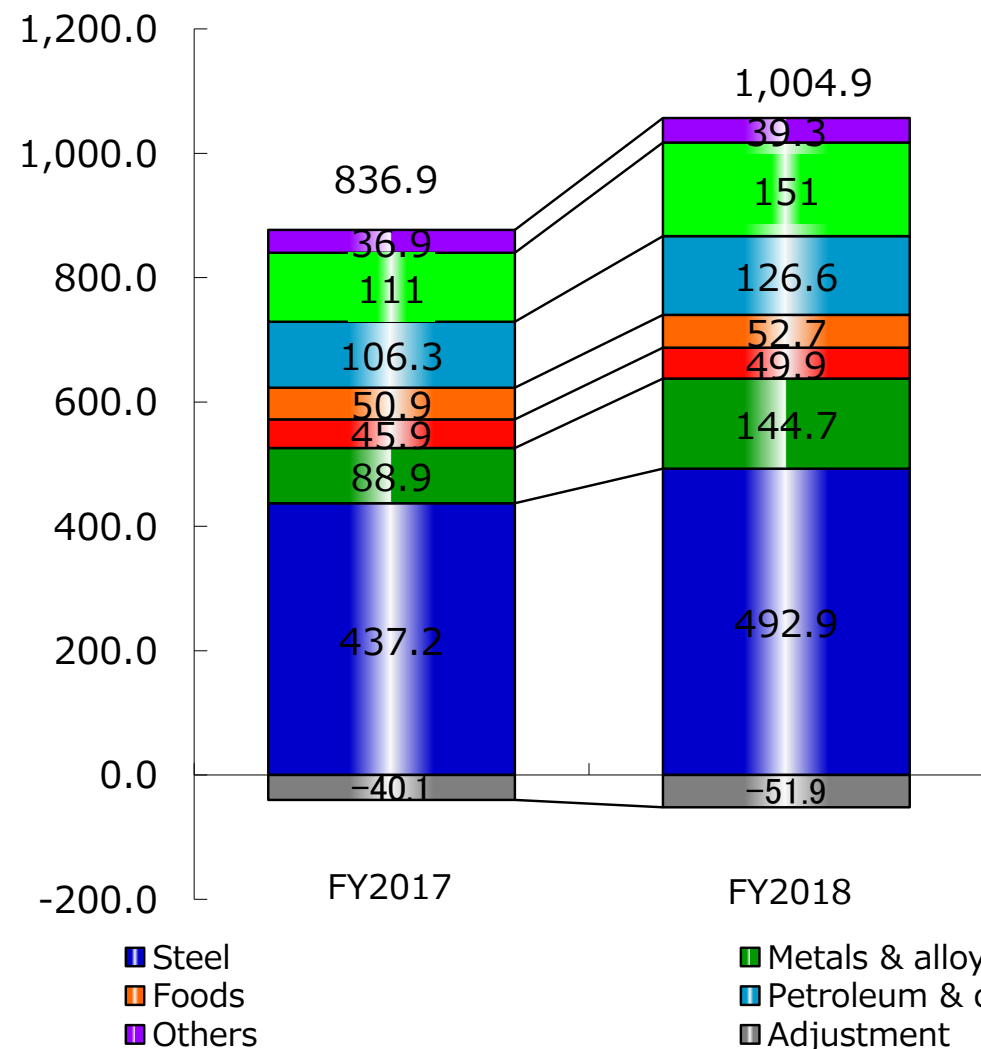
# Effect of Profit/Loss from Market value Accounting and Temporary factors



- Reported Ordinary income was 10.8 billion yen but can be translated into about 14.9 billion yen after excluding one-time factors as period-end valuation gains and losses for inventories, derivatives and other items, one-time losses at subsidiaries.

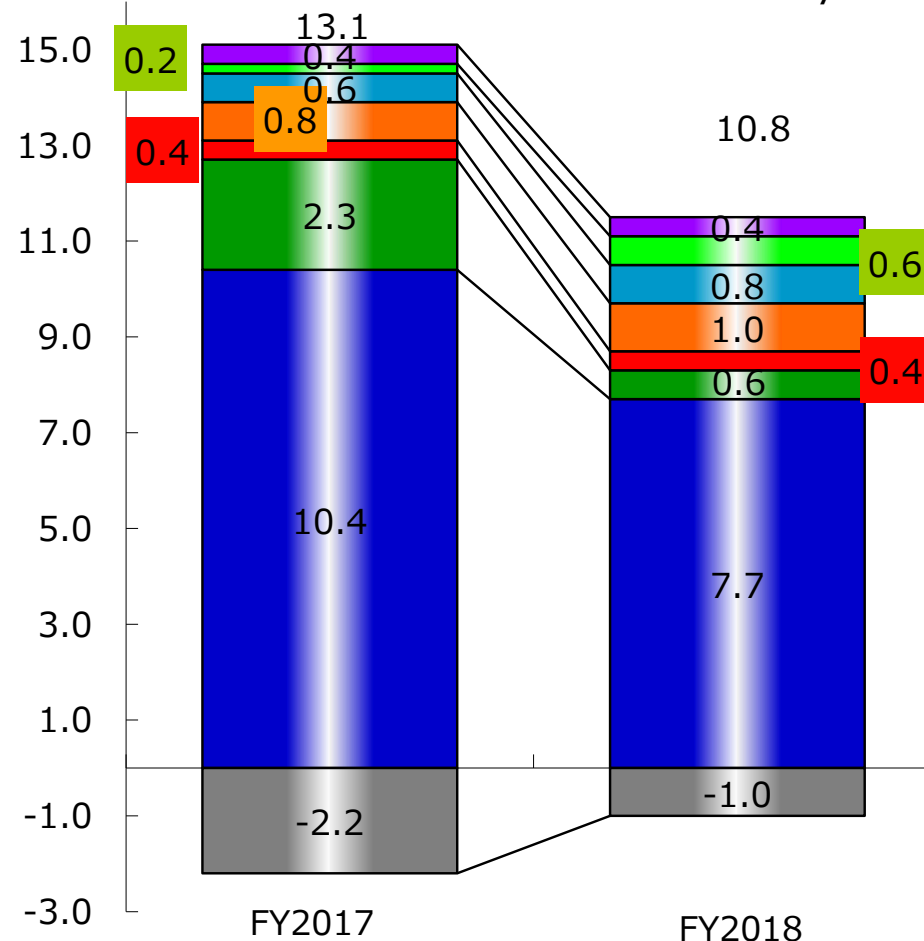
# Segment Information (consolidated)

Net Sales



Segment income

(billions of yen)



- Net Sales have been increased in all segments.
- Meanwhile, segment income has been decreased, due to the pace of the market rise being slowed down in Steel segment and due to impacts of foreign exchange loss and investment in affiliates in Metals & Alloys segment.

	Consolidated Financial Position			
(billions of yen)	Mar. 2018	Sep. 2018	Y on Y Change	Y on Y Rate
Total assets	860.3	954.8	+94.4	+11%
Total liabilities	656.6	747.6	+91.0	+14%
Interst-bearing debt	325.5	379.8	+54.2	+17%
Net DER	154%	180%	+26pt	-
Net assets	203.7	207.1	+3.4	+2%
Shareholder's equity	187.8	192.4	+4.6	+2%
Shareholder's equity ratio	21.8%	20.2%	▲ 1.6pt	-
BPS	4,621.96 yen	4,737.13 yen	115.17 yen	+2%

- Total assets increased by 11% from the end of the previous year, due to increase in Inventories and Advance payment.
- Interest-bearing debt was 14% higher compared with the end of the previous year, because of increased loans payable and commercial paper for greater needs for working capital. Net debt-equity ratio increased to 180%.
- Net assets increased 2% from the end of the previous year, due to the carryover of retained earnings. Meanwhile shareholder's equity ratio was 20.2%, which is 1.6% points lower than the end of the previous year.

# Cash Flow Situation (consolidated)

(billions of yen)	H 1 (ended September 30)			
	FY2017	FY2018	Y on Y Change	Y on Y Rate
CF from operating activities	▲ 7.2	▲ 39.2	▲ 31.9	+440%
CF from investing activities	▲ 33.5	▲ 7.3	+26.1	▲ 78%
FCF	▲ 40.8	▲ 46.6	▲ 5.8	+14%
CF from financing activities	44.1	48.4	+4.3	+10%
Cash and cash equivalents	31.6	37.6	+6.0	+19%

- Cash flow from operating activities was ▲39.2 billion yen, due to increase in Inventories and Advanced payment.
- Cash flow from investing activities was ▲7.3 billion yen, due to purchase of property and equipment and increase in short-term loans receivable.
- Cash flow from financing activities was 44.1 billion yen , due to increase in short-term loans.

	Full-year			
	FY2017 Acctual	FY2018 Original Forecast	FY2018 Modified Forecast	Y on Y Rate
(billions of yen)				
Net Sales	1,791.1	2,000.0	2,000.0	+12%
Operating income	26.2	31.0	31.0	+18%
Ordinary income	25.5	30.0	26.0	+2%
Net income attributable to owners of the Company	17.3	19.5	16.8	▲4%

➤ Net Sales Forecast

There are no changes to the fiscal year forecast because first half sales were over 50% of the forecast.

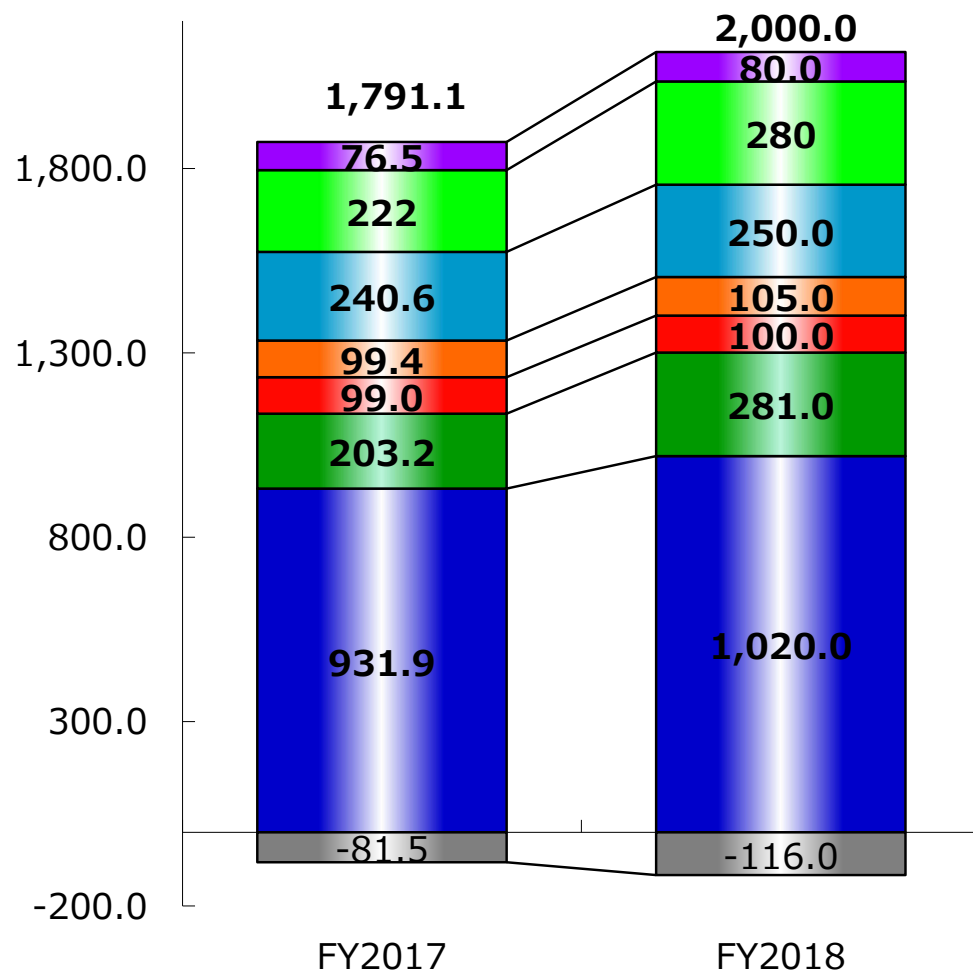
➤ Profit Forecast

Although Operating income has not been changed, Ordinary income and Net income attributable to owners of the Company is changed, as SAMANCOR CHROME HOLDINGS PROPRIETARY LTD., our equity-method affiliate, would not be expected to contribute to profit of FY2018 and impacts of foreign exchange loss.



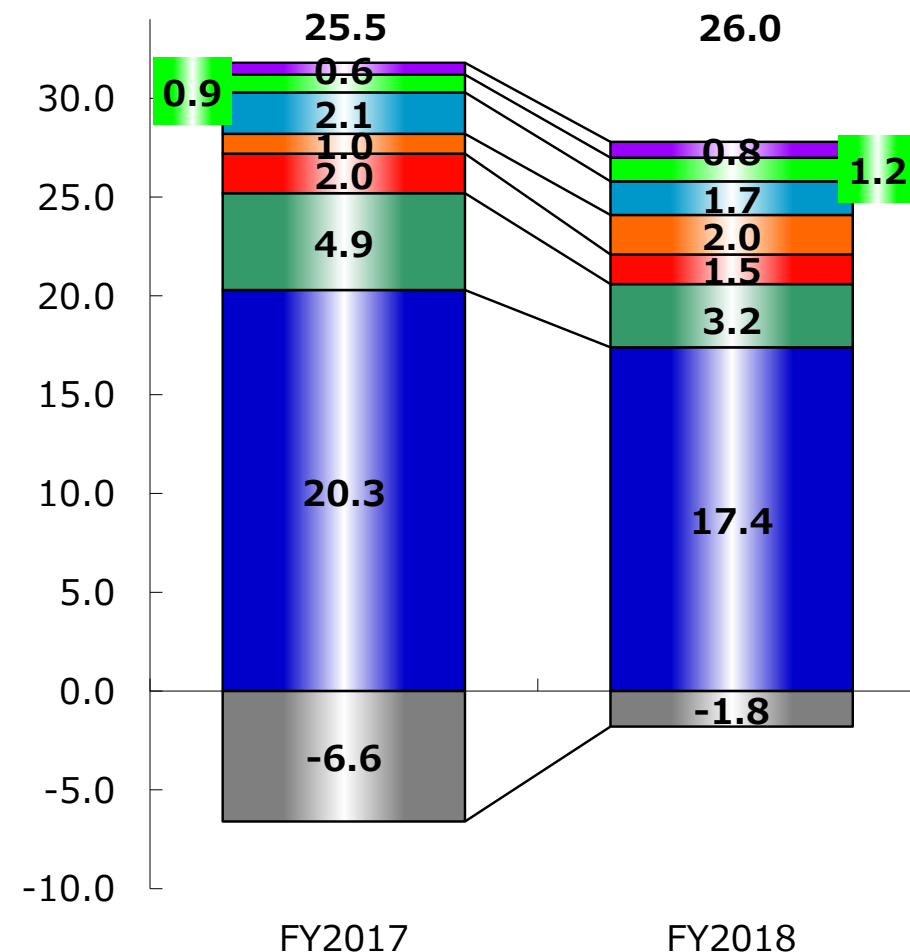
# Forecast of Segment Information

Net Sales



Segment incomes

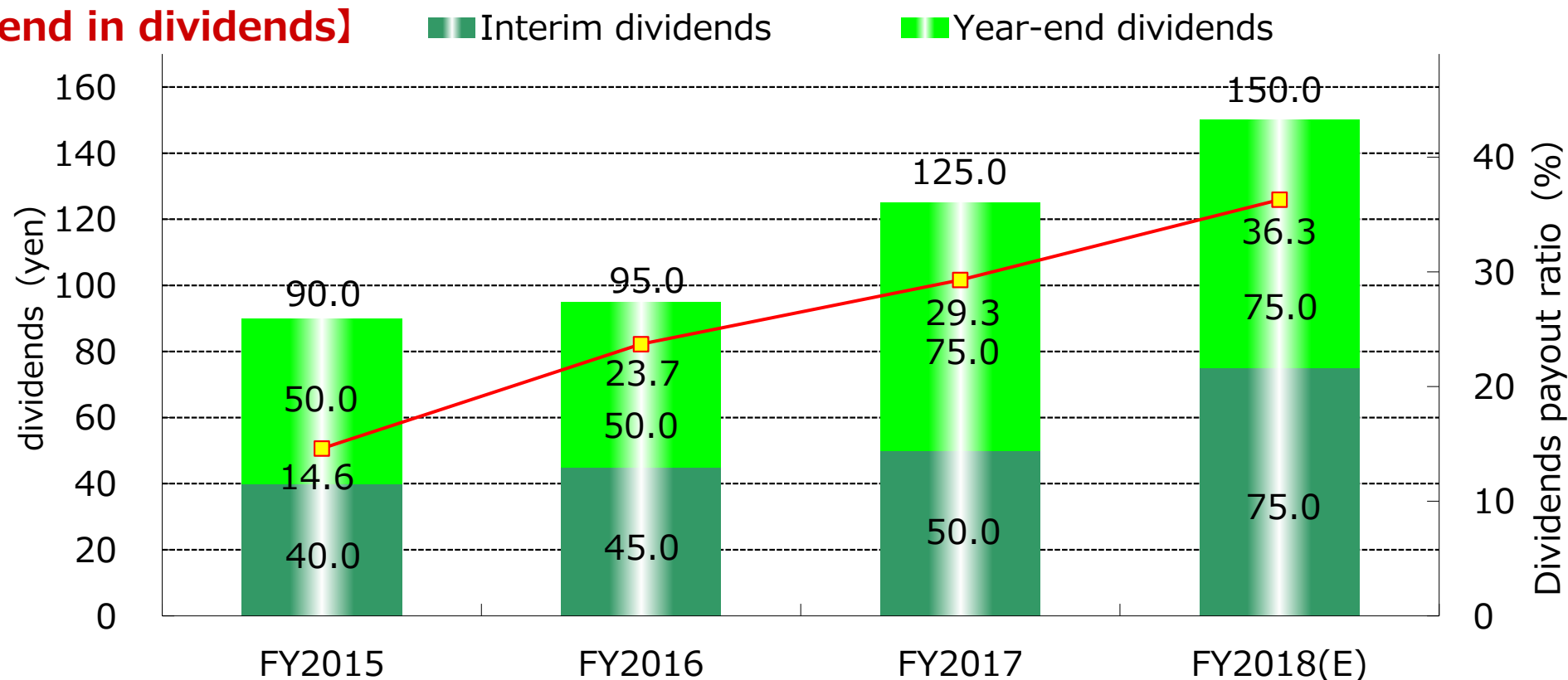
(billions of yen)



■ Steel
 ■ Metals & alloys
 ■ Non-ferrous metals
 ■ Foods
 ■ Petroleum & chemicals
 ■ Overseas sales subsidiaries
 ■ Other
 ■ Adjustment

- Net Sales is expected to increase in all segments.
- Segment income is expected to increase in total, despite decrease of profit in mainly Steel and Metals & alloys segments.

## 【Trend in dividends】



## 【Dividend Policy】

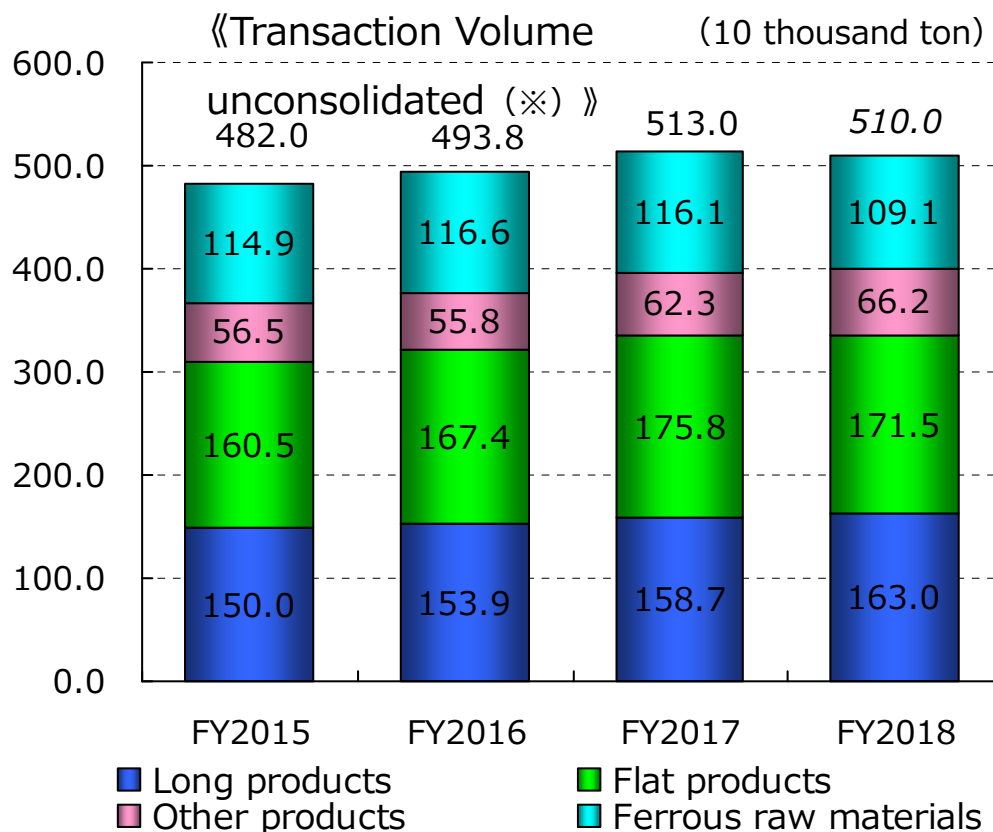
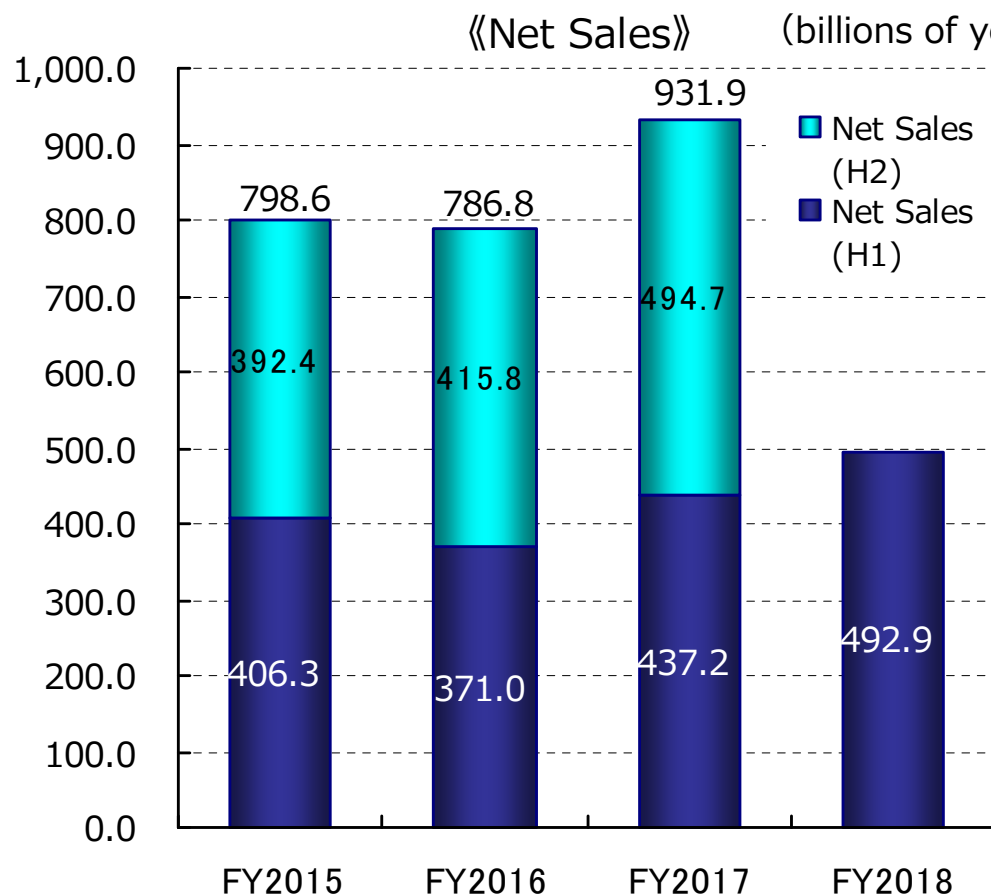
- Our policy is to pay a stable dividend to shareholders. In addition, our aim is to increase the dividend based on growth in basic earnings resulting from actions to improve profitability and to reflect the level of returns from strategic investments.

(dividend forecast)

Interim dividends : 75 yen per share    Year-end dividends : 75 yen per share

	H 1 (ended September 30)		
	FY2017	FY2018	Y on Y Rate
(billions of yen)			
Net Sales	437.2	492.9	+13%
Segment Income	10.4	7.7	▲26%

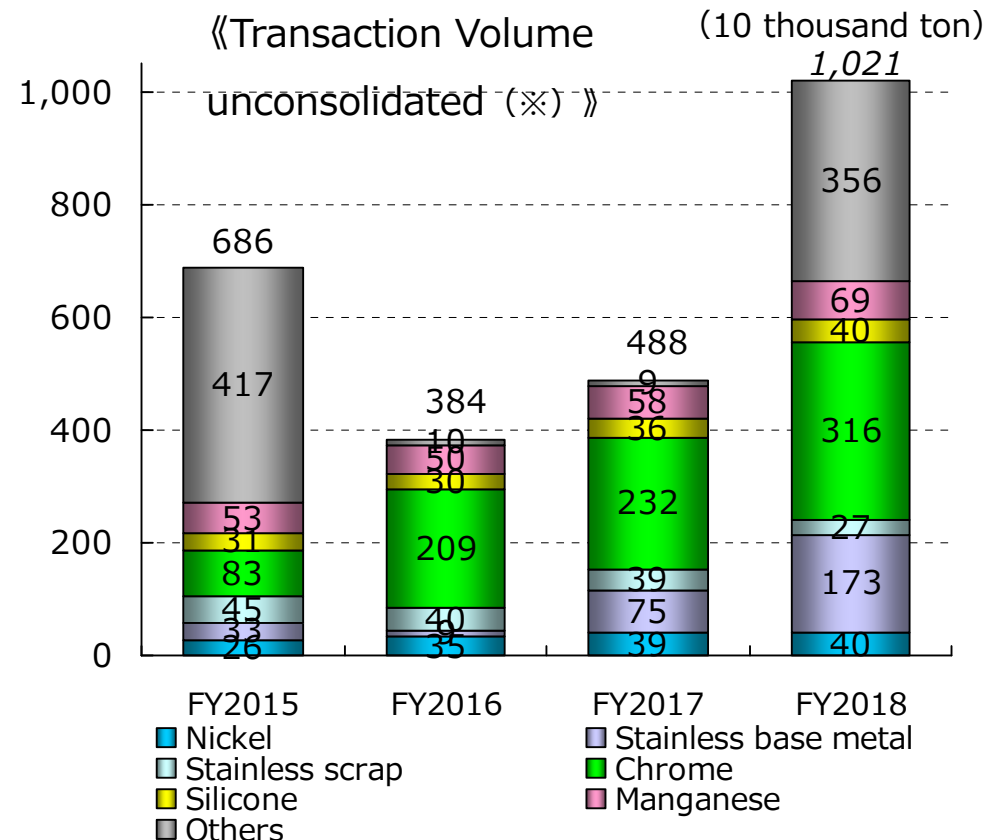
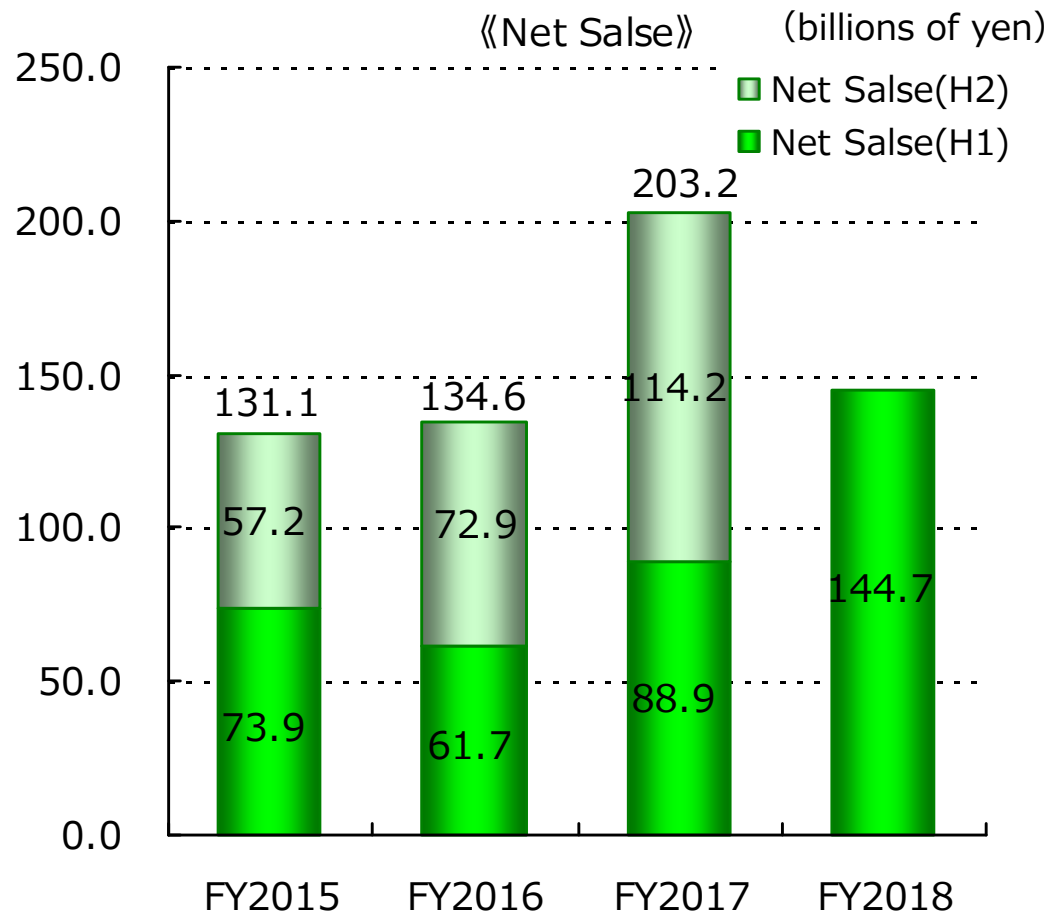
- Net sales increased, due to strong steel demands.
- Segment income decreased, due to the pace of the market rise being slowed down.



※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

	H 1 (ended September 30)		
	FY2017	FY2018	Y on Y Rate
(billions of yen)			
Net Sales	88.9	144.7	+63%
Segment Income	2.3	0.6	▲71%

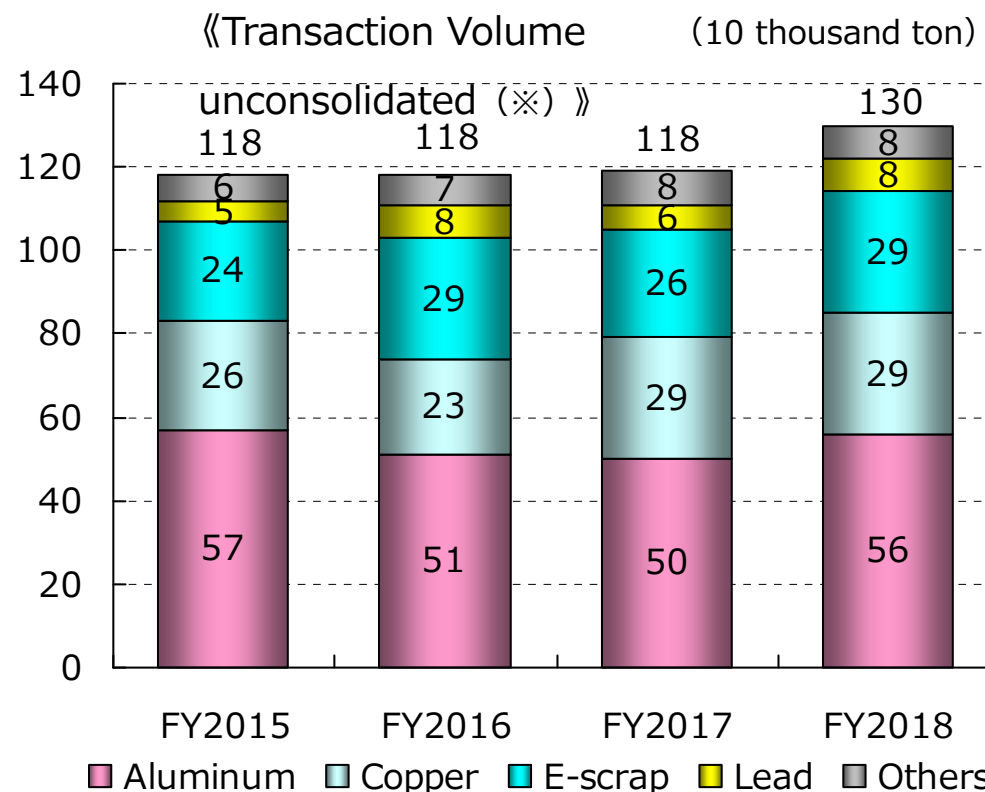
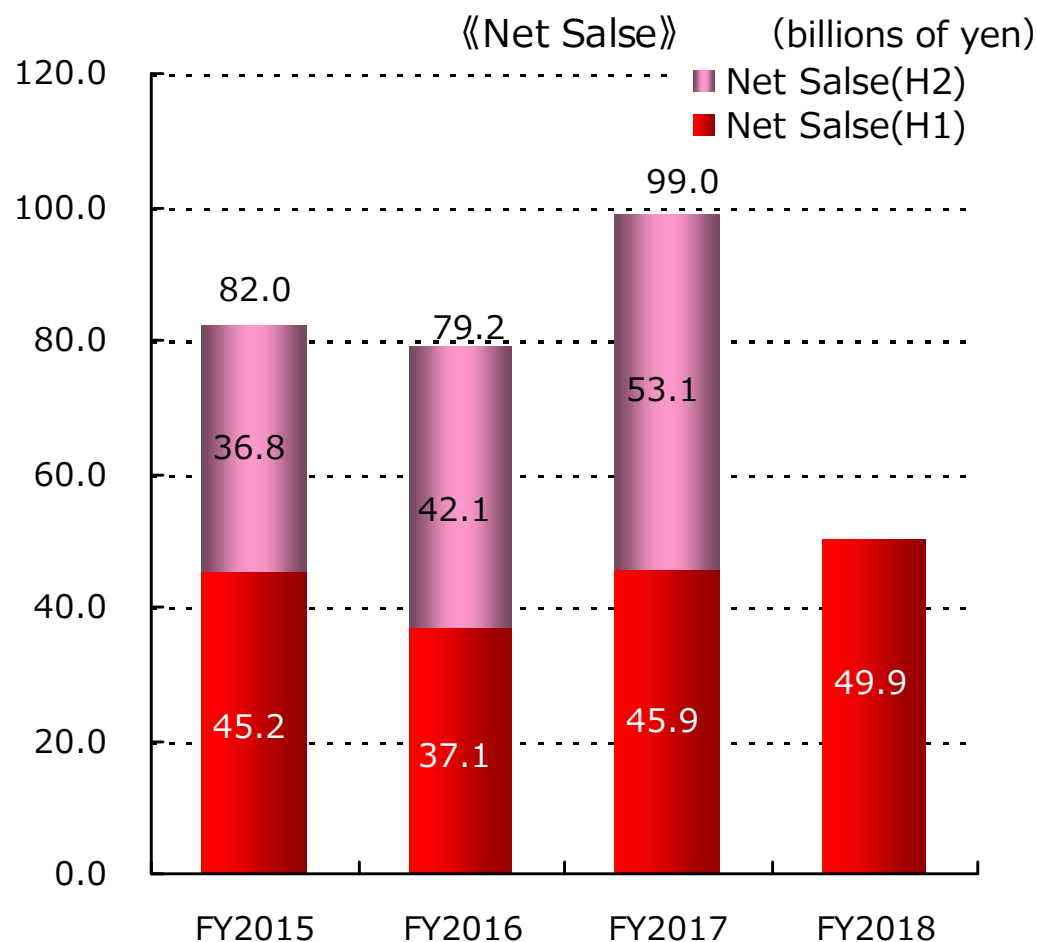
- Net sales increased, due to rising price level and sales expansion of stainless steel and ferroalloy.
- Segment income decreased, due to impacts of foreign exchange loss and loss on investment in affiliates.



※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

	H 1 (ended September 30)		
	FY2017	FY2018	Y on Y Rate
(billions of yen)			
Net Sales	45.9	49.9	+9%
Segment Income	0.4	0.4	▲6%

- Due to rise in international commodity markets and increase in copper and aluminum sales volume, Net Sales increased.
- Segment income decreased, due to the reduction of margin under stabilization of prices and foreign exchange loss.

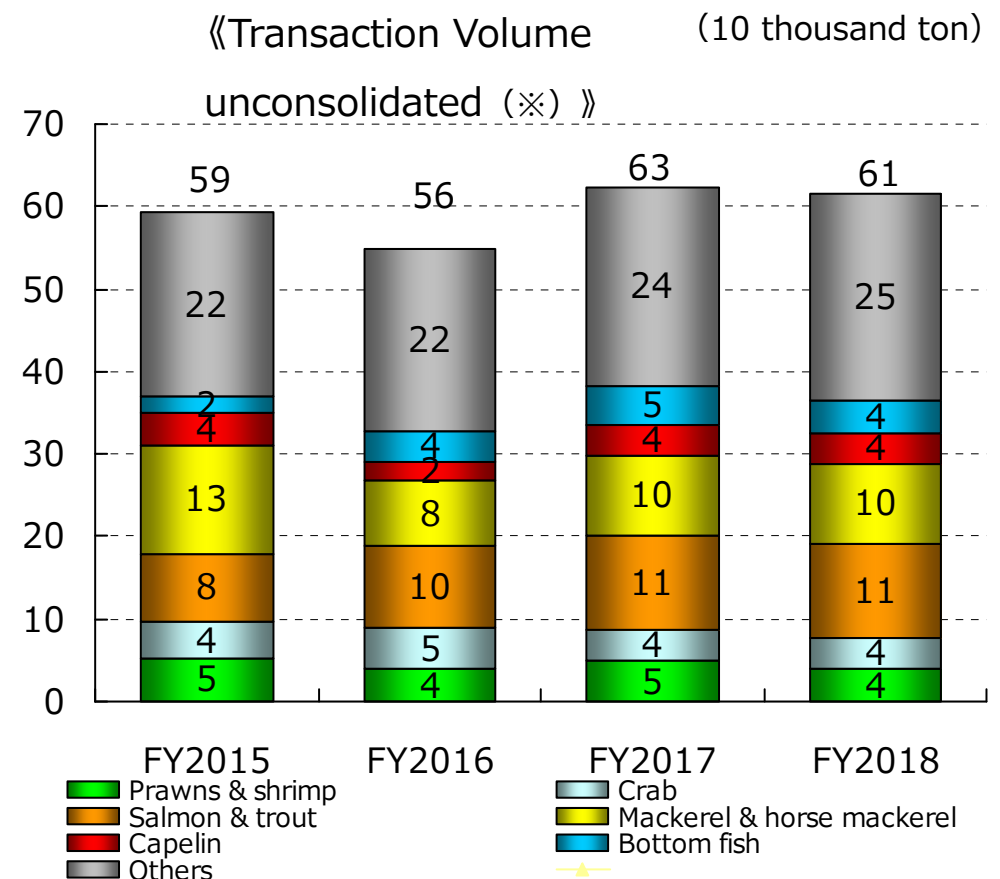
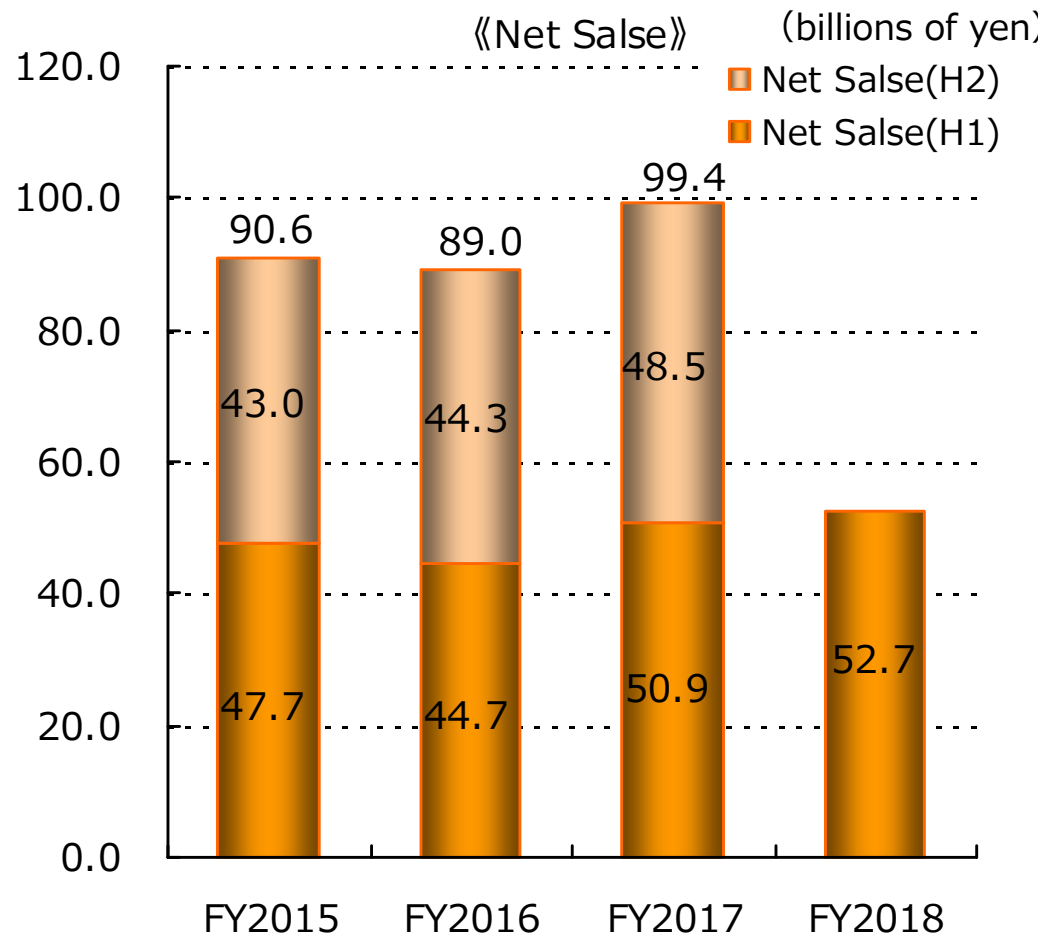


※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

# Foods Business Segment

	H 1 (ended September 30)		
	FY2017	FY2018	Y on Y Rate
(billions of yen)			
Net Sales	50.9	52.7	+4%
Segment Income	0.8	1.0	+20%

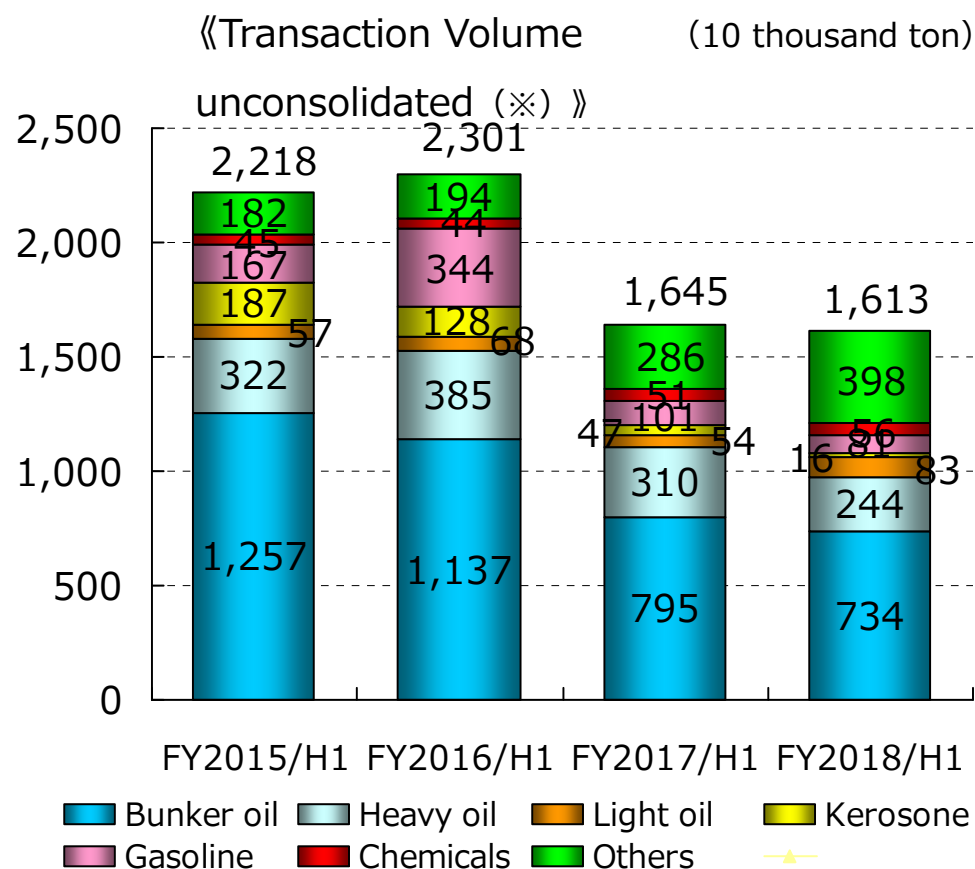
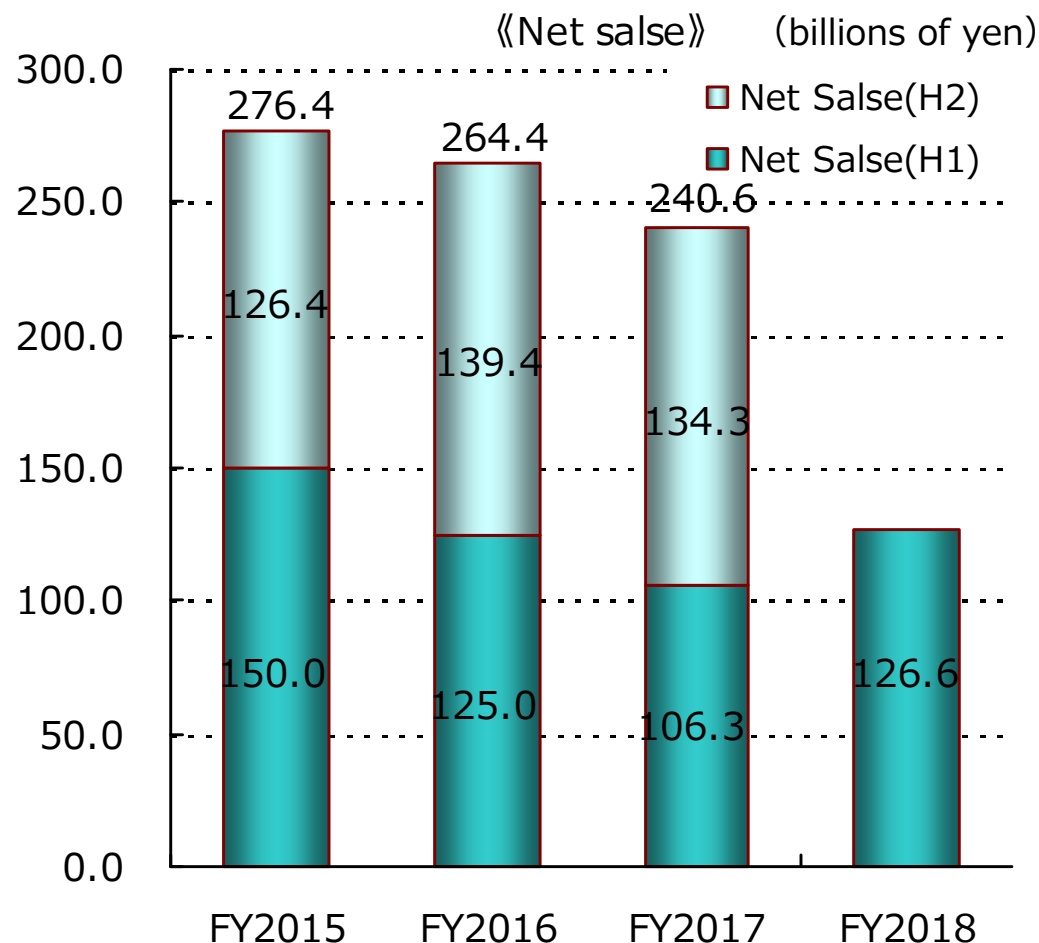
➤ Rising price of salmon and strong sales of chicken increased net sales and segment income.



※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

	H 1 (ended September 30)		
(billions of yen)	FY2017	FY2018	Y on Y Rate
Net Sales	106.3	126.6	+19%
Segment Income	0.6	0.8	+26%

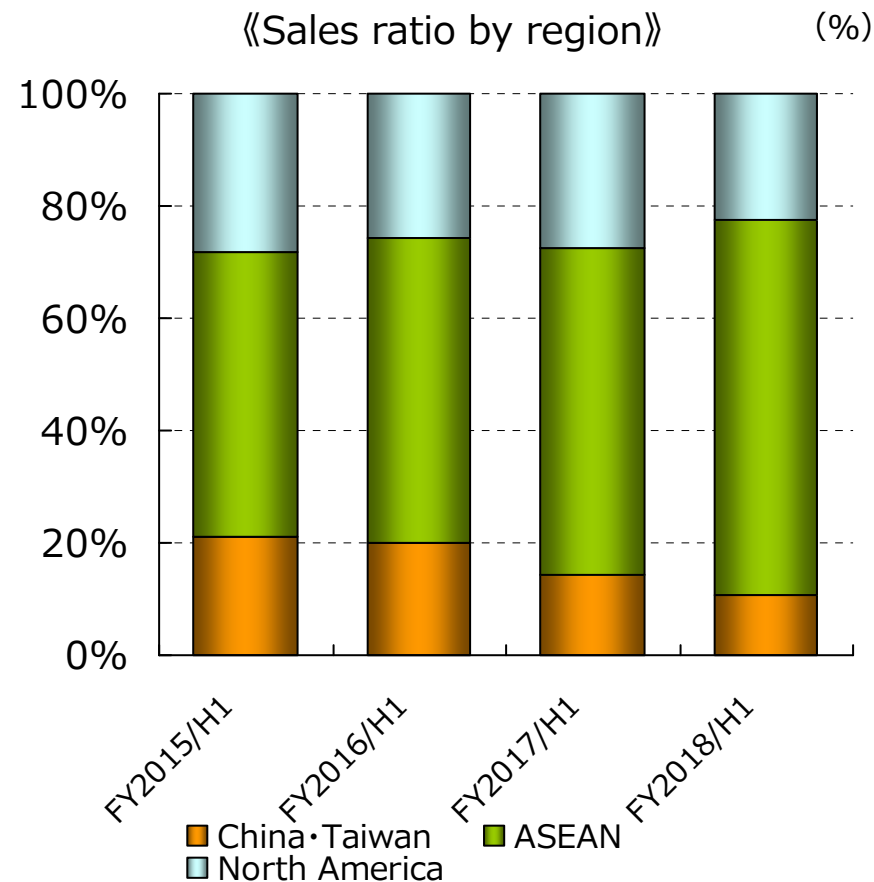
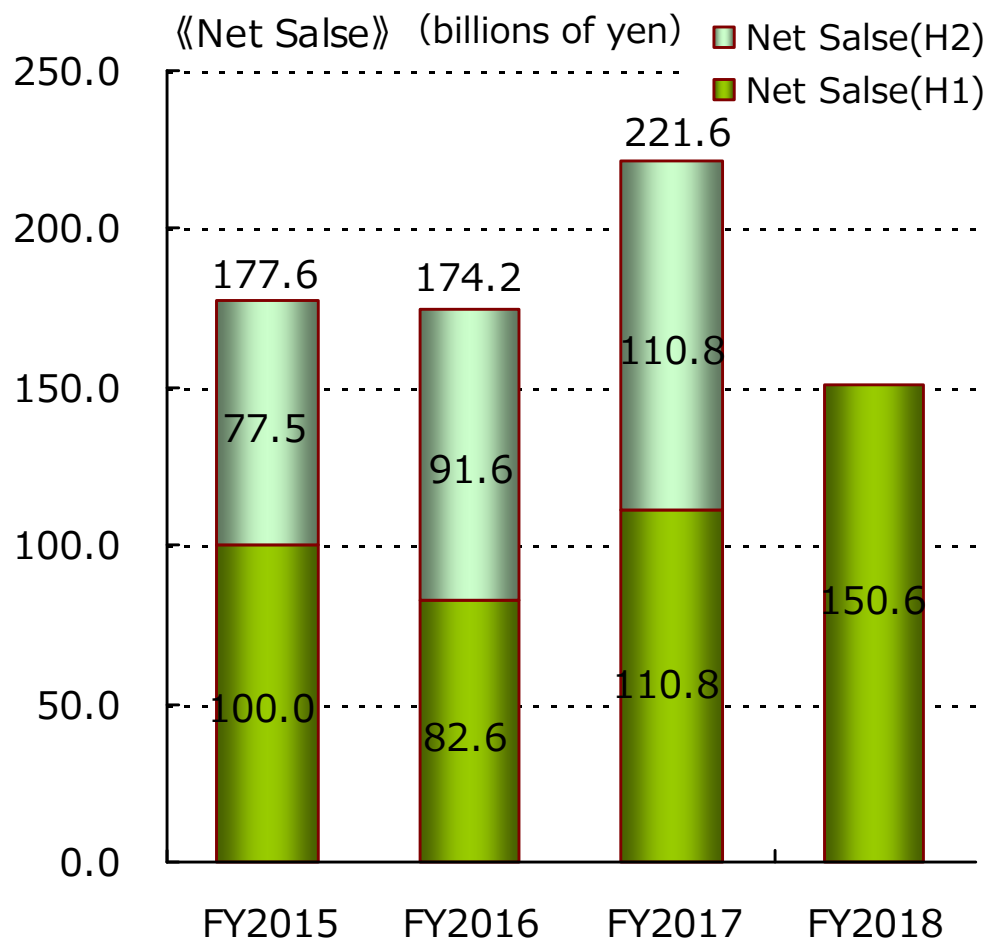
➤ Due to high market of petroleum products, net sales and segment income increased.



※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

	H 1 (ended September 30)		
	FY2017	FY2018	Y on Y Rate
(billions of yen)			
Net Sales	110.8	150.6	+36%
Segment Income	0.2	0.6	+210%

➤ Net Sales increased, due to rising level of bunker fuel price and increased sales of metal scrap in Singapore and steel in Indonesia. Improvement of the profitability in steel business in US contributed to segment income.

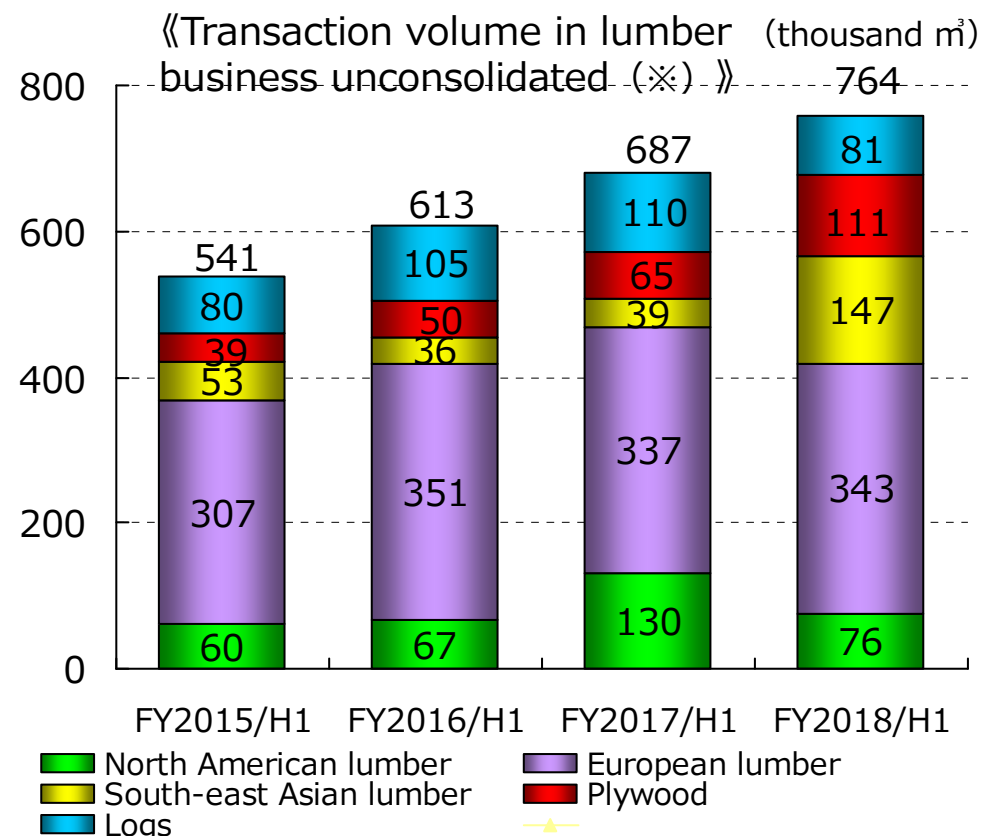
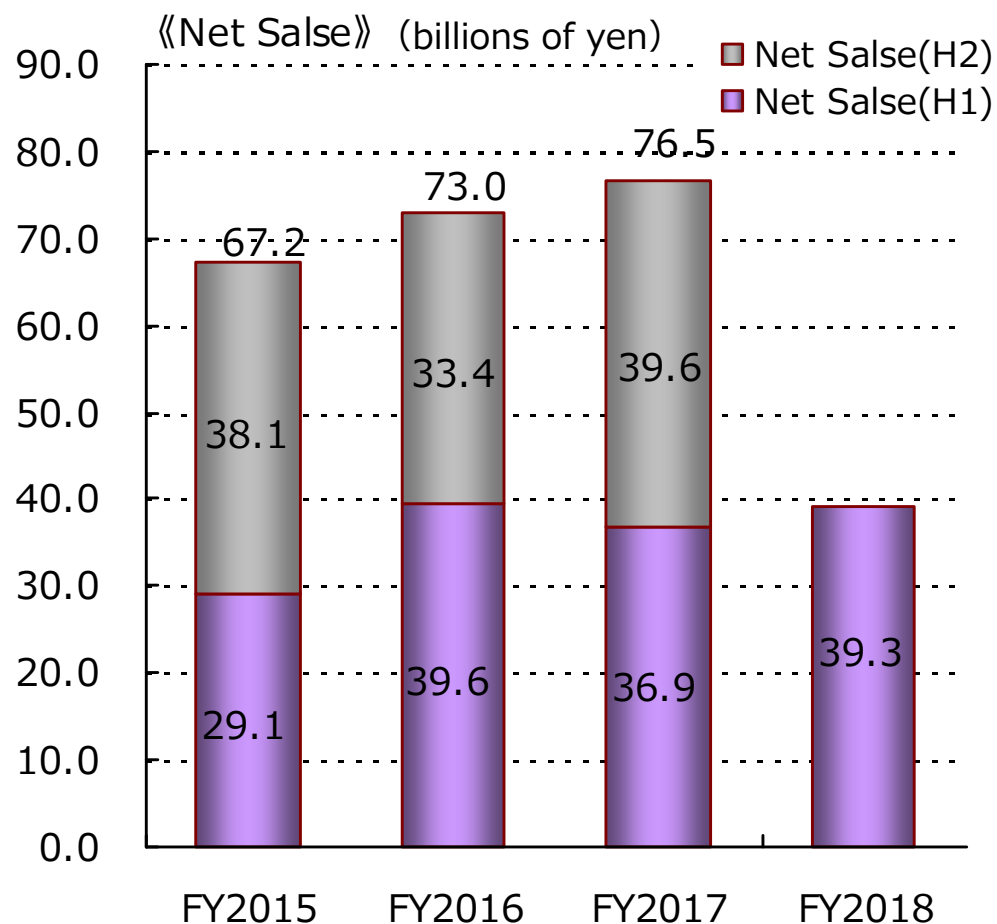




# Other Segment

	H 1 (ended September 30)		
	FY2017	FY2018	Y on Y Rate
(billions of yen)			
Net Sales	36.9	39.3	+6%
Segment Income	0.4	0.4	+10%

➤ Net Sales of lumber to homebuilders was strong, and revenue from investment in affiliates contributed to segment income.




※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

		Transition of Quantitative indicators			
		FY2015	FY2016	FY2017	FY2018 (H1)
ROIC		4.5%	6.2%	6.1%	4.8% (2.4%)
Net DER		136%	136%	154%	180%
New customers ( <i>number</i> )		705	697	601	392
ROE		17.2%	10.1%	9.7%	7.0% (3.5%)
	Net profit margin	1.7%	1.1%	1.0%	0.7%
	Total assets turnover	242%	234%	230%	220% (110%)
	Debt leverage ratio	422%	398%	434%	480%

(FY2018 ( ) : Interim base)

- As loans payable increased for greater needs for working capital, Net DER increased to 180%.
- Progress rate of number of new customers is 62.6% of the target for all 4 years (FY2016-FY2019) of the medium- term plan.

# Progress of Medium-term Business Plan **HANWA**CO., LTD.

(billions of yen)		FY2018	H1 Actual	Annual forecast	Progress rate
	<b>STRATEGIC</b> Equity in earnings of affiliates from resource investees and dividends from strategic investments		▲ 0.6	0.0	— %
	<b>SPEEDY</b> Ordinary income from consolidated subsidiaries & dividends from nonconsolidated subsidiaries		2.8	6.0	46.8%
	<b>STEADY</b> Ordinary income from HANWA after deducting dividend Income from subsidiaries		8.6	20.0	41.1%
		<b>Total</b>	<b>10.8</b>	<b>26.0</b>	<b>36.1%</b>

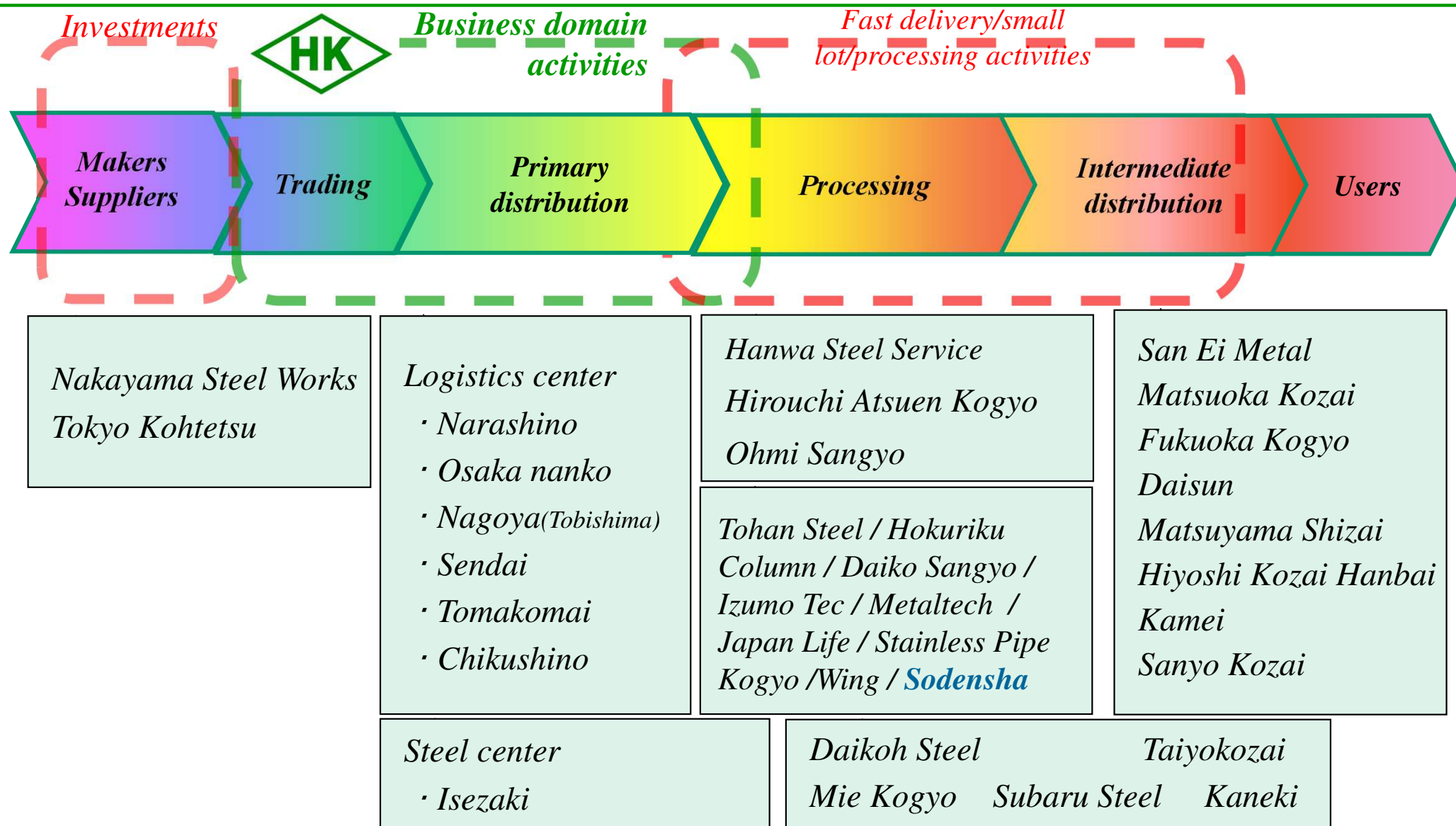
- **STEADY** : While Net sales in steel and metals have increased under the strong demands, progress has been less than standard rate (50%), due to foreign exchange loss.
- **SPEEDY** : Progress has been as planned, due to strong business results of consolidated subsidiaries and equity method affiliates.
- **STRATEGIC** : Although revenue from SAMANCOR has been positive, due to longer preparation time and preceding expenditure for start-up of its acquired consolidated subsidiary in the past years, STRATEGIC has not contributed to profit of H1.

## 【Ordinary income trend of subsidiaries by business segment】

(billions of yen)	H 1 (ended September 30)					
	FY2017		FY2018		Y on Y Change	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
Steel	2.3	0.5	1.3	0.4	▲ 1.0	▲ 0.1
Metals & alloys	0.1	0.0	0.0	0.1	▲ 0.1	+0.0
Non-ferrous metals	0.2	0.1	0.2	0.0	+0.0	▲ 0.1
Foods	0.1	▲ 0.1	▲ 0.0	▲ 0.1	▲ 0.1	▲ 0.0
Petroleum & chemicals	0.1	0.0	0.2	0.0	+0.1	▲ 0.0
Overseas sales subsidiaries	0.2	0.0	0.7	0.2	+0.5	+0.2
Others	0.2	0.1	0.2	0.2	+0.0	+0.1
<b>Total</b>	<b>3.0</b>	<b>0.8</b>	<b>2.6</b>	<b>0.8</b>	<b>▲ 0.4</b>	<b>▲ 0.0</b>

(Earnings are the sum of earnings at all companies. Consolidated and equity-method classifications for the prior fiscal year are adjusted for consistency with this fiscal year.)

- Ordinary income in steel segment decreased due to impact of currency decline in emerging countries on overseas coil canterers, although domestic subsidiaries increased their income.
- In Overseas sales subsidiaries segment, ordinary income increased due to rising level of bunker fuel price and increased sales of metal scrap in Singapore and steel in Indonesia. In addition, improvement of the profitability in steel business in US contributed to increase of the segment income.



Promoting a strategy of "SOKOKA (fast delivery, small lot, processing)" through the grouping of functional small and medium steel wholesalers and processors.

In the current fiscal year, Sodensha joined Hanwa Group.

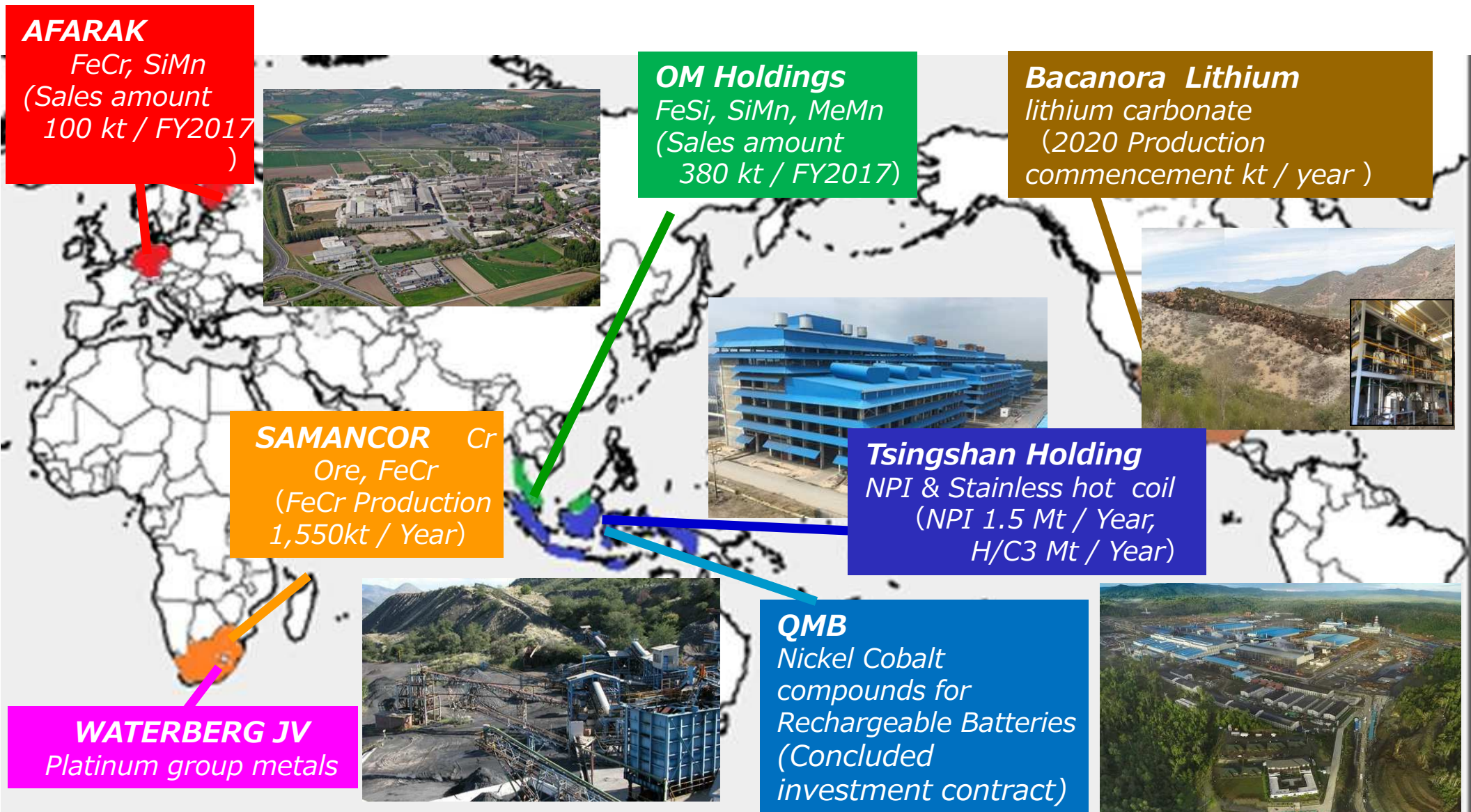
**【The major alliance partners】**

Country	Distributor	Processor	Manufacturer
Thailand		HSS Thailand PCM Processing	Furukawa Unic Siam Hanwa
Indonesia	Kapurindo Sentana Baja	HSS Indonesia	Araya Steel Tube Indonesia
Singapore	CosmoSteel Holdings HG Metal Manufacturing		JFE Meranti Myanmar
Vietnam	SMC Trading Ton Dong A Corp.	NSSB Saigon Coil Center	Nippon Steel & Sumikin Pipe Vietnam SMC Toami Sendo Steel Pipe
Malaysia	TATT GIAP Group	Eversendai Corp. TATT GIAP Steel Centre	Nippon Egalv Steel Bahru Stainless
Philippine			Sohbi Kohgei (Phlis)

Hanwa forms alliances with prominent local distribution companies and joint activities with Japanese companies to establish Hanwa's business model in the ASEAN region.



# Outline of strategic investment



Although the market is small, it is essential for industry, and it is targeted at metal resources that are not produced in China, which is the largest demand area.

## 【Current investment records】

(billions of yen)	Amounts	Major investments
Steel	4.5	<ul style="list-style-type: none"> <li>• Invested in Jiaxing Processing Center constructed by Daming International Holdings</li> <li>• Built an extension of Kita-Kanto Steel Center</li> <li>• Acquired additional stocks of and made our subsidiary Tatt Giap Steel Centre Sdn. Bhd.</li> </ul>
Metals & alloys / Non-ferrous metals	0.1	<ul style="list-style-type: none"> <li>• Capital expenditure in subsidiaries</li> </ul>
Petroleum & chemicals	0.1	<ul style="list-style-type: none"> <li>• Investment in Biomass fuel business</li> </ul>
Overseas sales subsidiaries	3.3	<ul style="list-style-type: none"> <li>• Recapitalization to subsidiary</li> </ul>
<b><u>Total</u></b>	<b><u>8.2</u></b>	

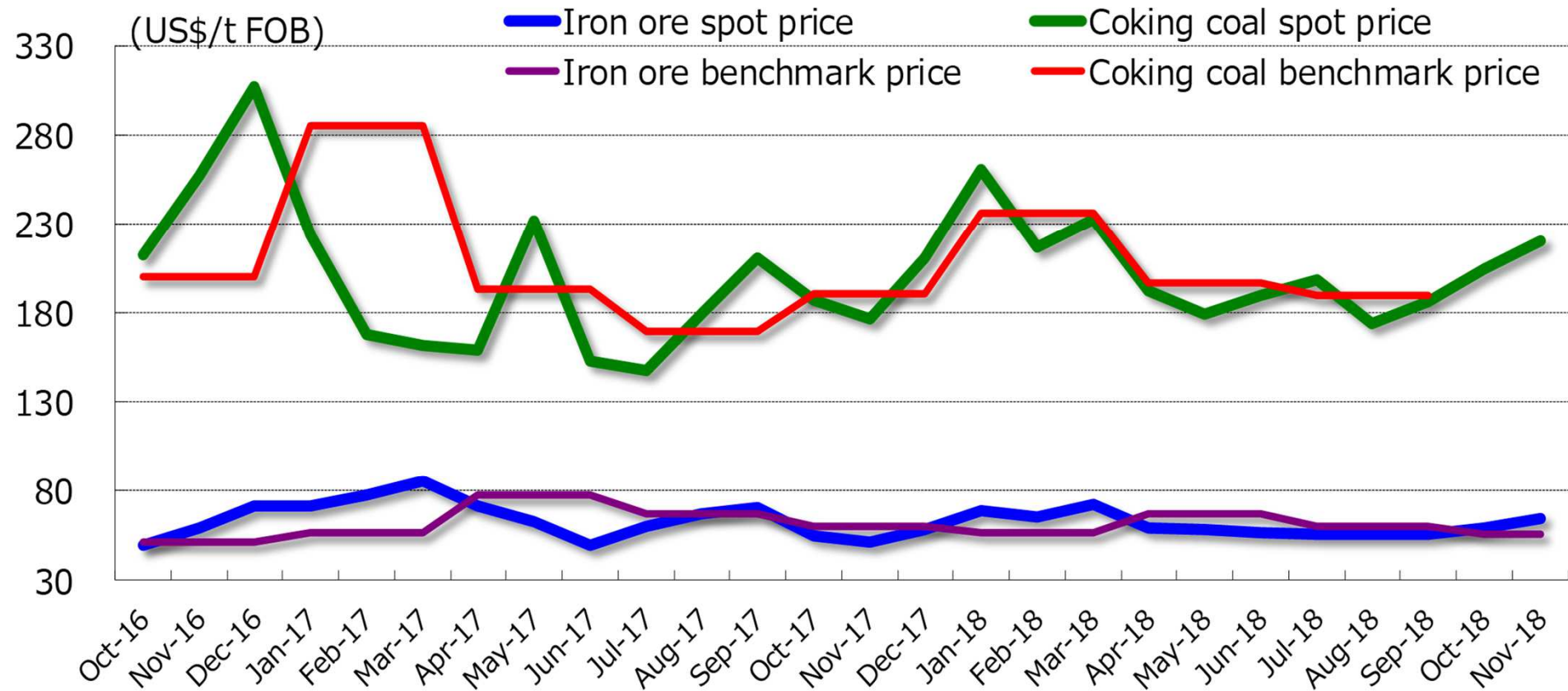
- Hanwa is continuing to make business investments in this fiscal year to build a base for more earnings in future.
- First half investments totaled about 8.2 billion yen, including investment in steel center inside and outside the country and recapitalization to overseas sales subsidiary.



# Appendix

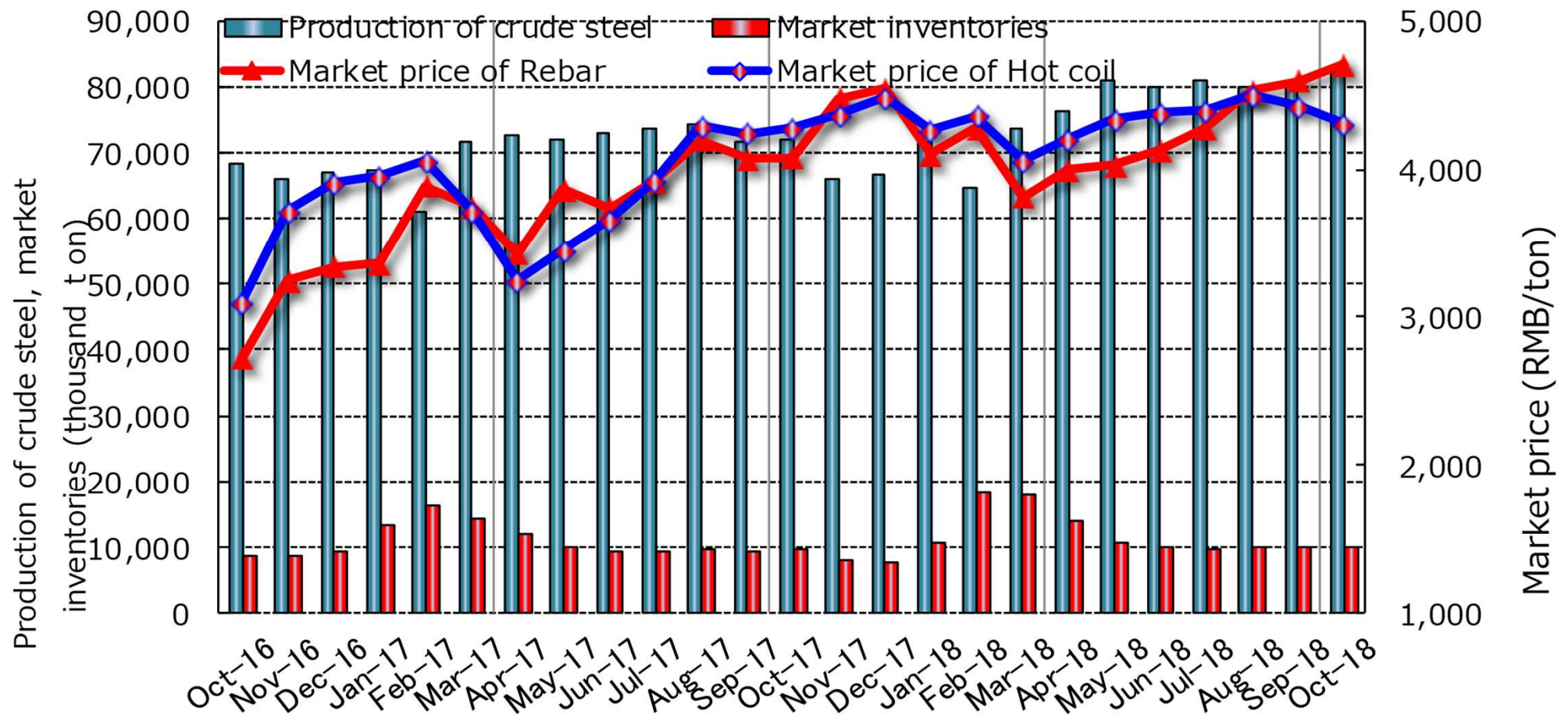
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## 【Transaction of steel raw materials price】



- Iron ore...Steel prices remain stable, partly due to the impact of environmental regulations by the Chinese authorities. Iron ore also performed strongly.
- Coking coal...The price gradually increased, due to tightness of domestic coal in China caused by environmental regulation and shifting to imported coal, as well as high demand from India and impact of port troubles and sluggishness in logistics.

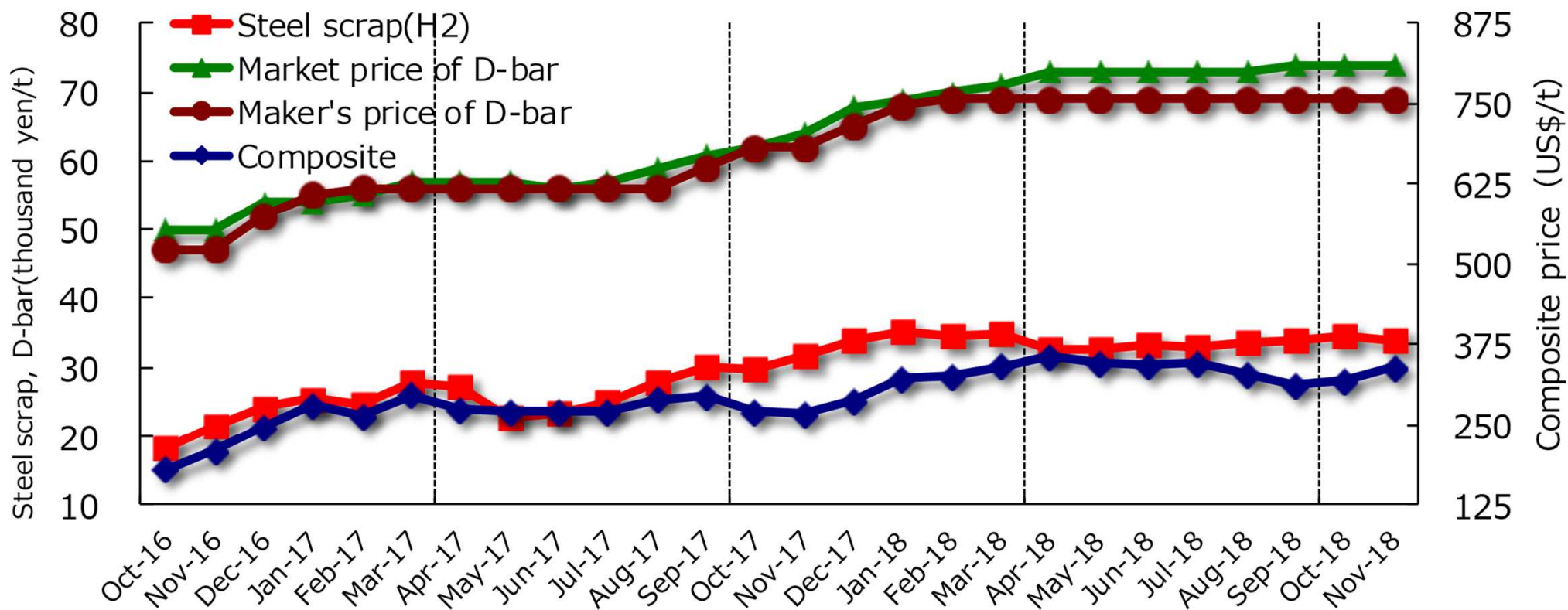
## 【Transition of steel market in China】



- Supply/Demand...Demand for legitimate steel products has increased since the termination of production of induction furnace steel, called *ditiaogang*. While mills tended to increase production, domestic supply and demand have been balanced partly due to the impact of environmental regulations by the China authorities.
- Market price...Stopping induction furnace mills operations has reduced inventories. Steel prices including steel sheets remained firm, partly due to production regulations.

(Data source : The Japan Iron and Steel Federation))

## [Steel scrap and D-bar Market Price]

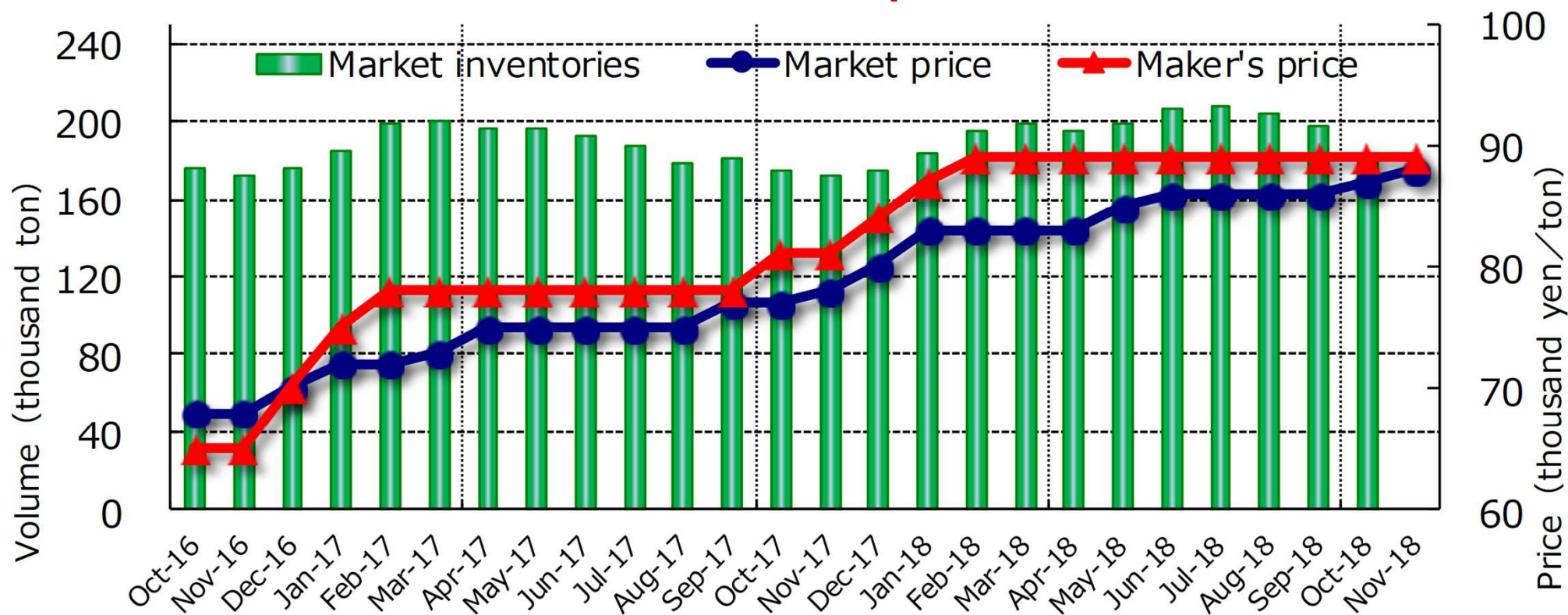


- Supply/Demand ...The supply/demand balance for steel scrap in Asia tightened due to an increase in the compositions of scrap and the shift to electric furnaces in China in response to environmental regulations, and the balance tightened also in Japan due to the sluggishness in logistics and occurrence of natural disasters.
- Market price...Purchasing prices of EAF steel mills in Japan continued on an upward trend due to steady international market conditions and domestic sluggishness in logistics. Currently, the domestic market has been on a downward trend due to demand in Asia has been declining, and the Asian market has been weakening.

(Data source : The Japan ferrous raw materials association, Japan metal daily)



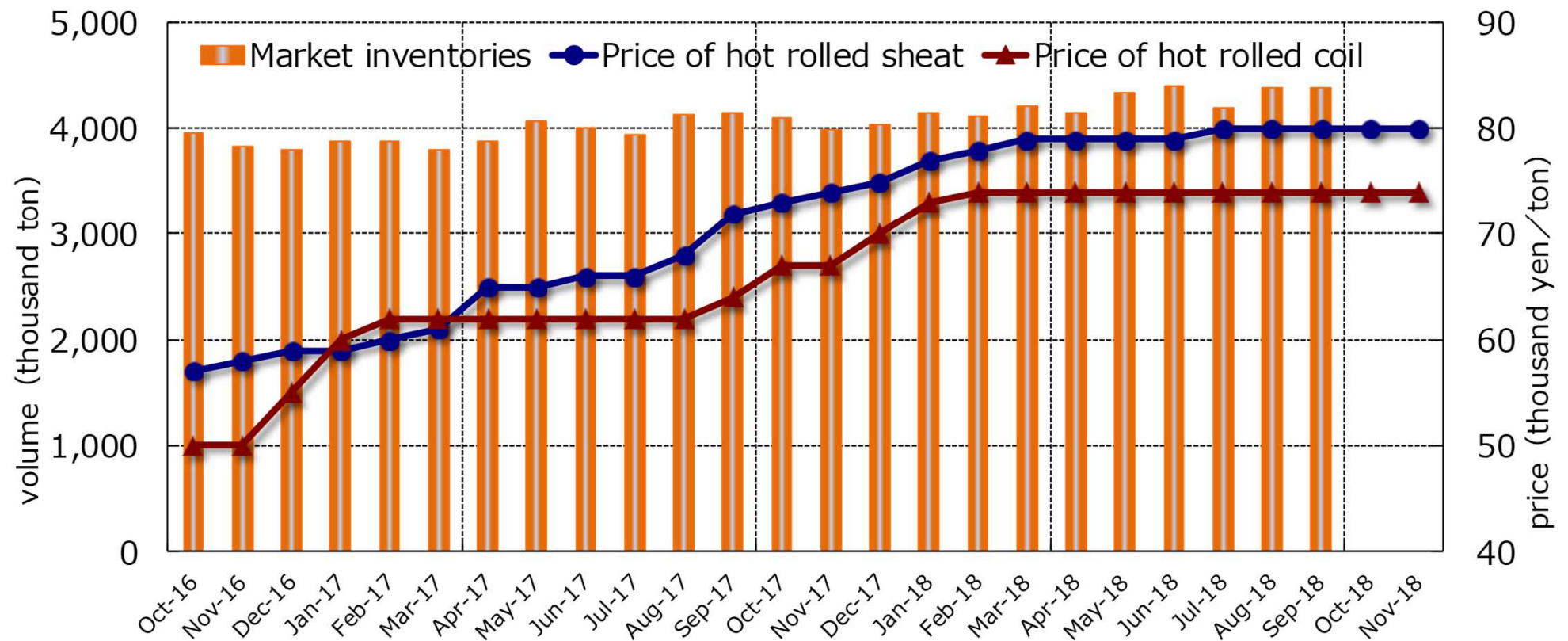
## 【Transition of the H-Beams Markets in Japan】



- Supply/Demand...Although demands for large-scale building construction and civil engineering works were firm, the construction period has been delayed and inventories tended to increase due to the impact of labor shortages in the fabricators and logistics.
- Market price...Market prices have been on an upward trend, reflecting the policy of price raising in steel mills and a strong demand, but the pace of upward trend of price is slowing.

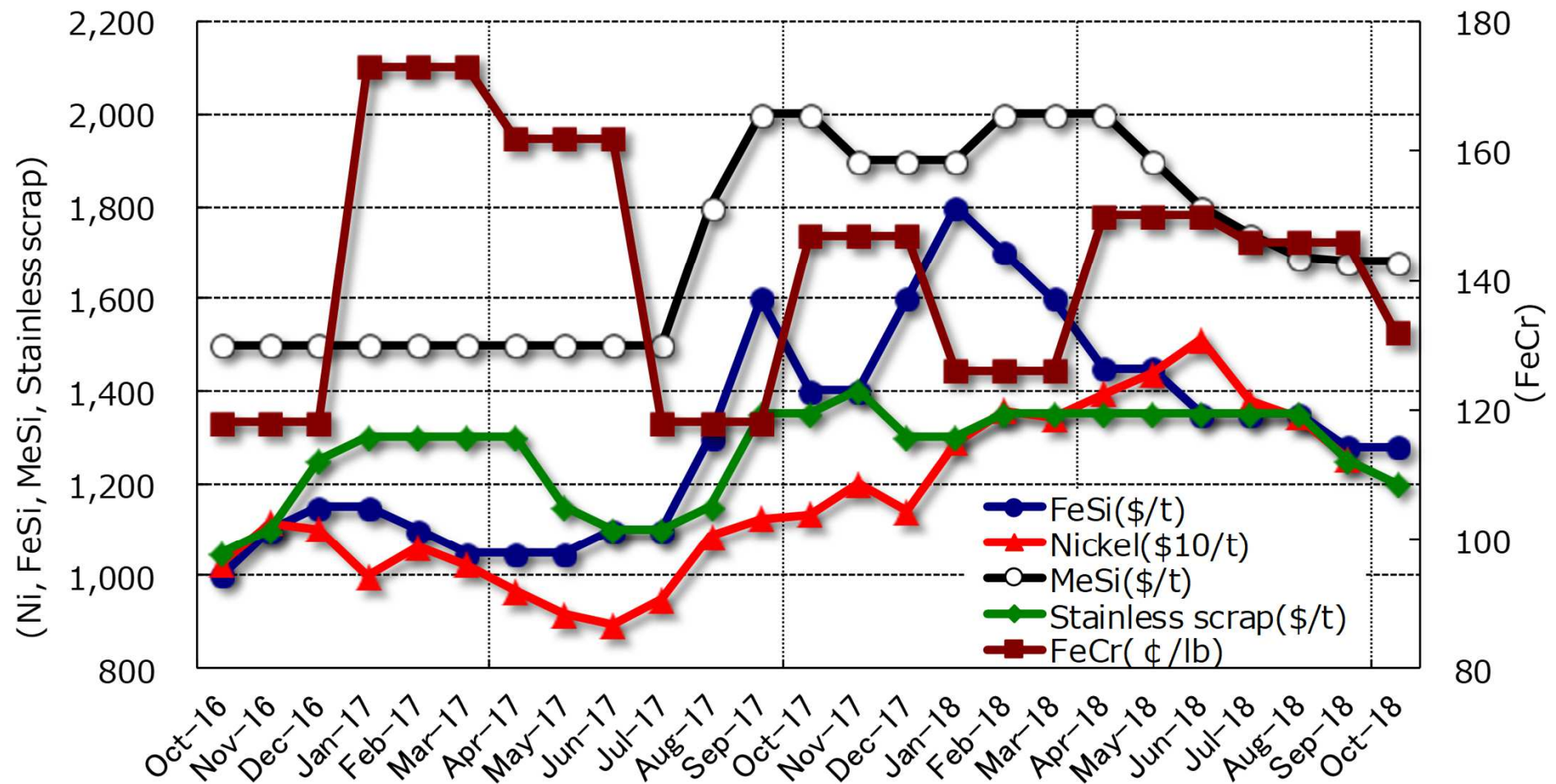
(Data source : Inventories \_ Tokiwa-kai / Price \_Japan metal daily)

## 【Transition of Steel Sheets Markets in Japan】



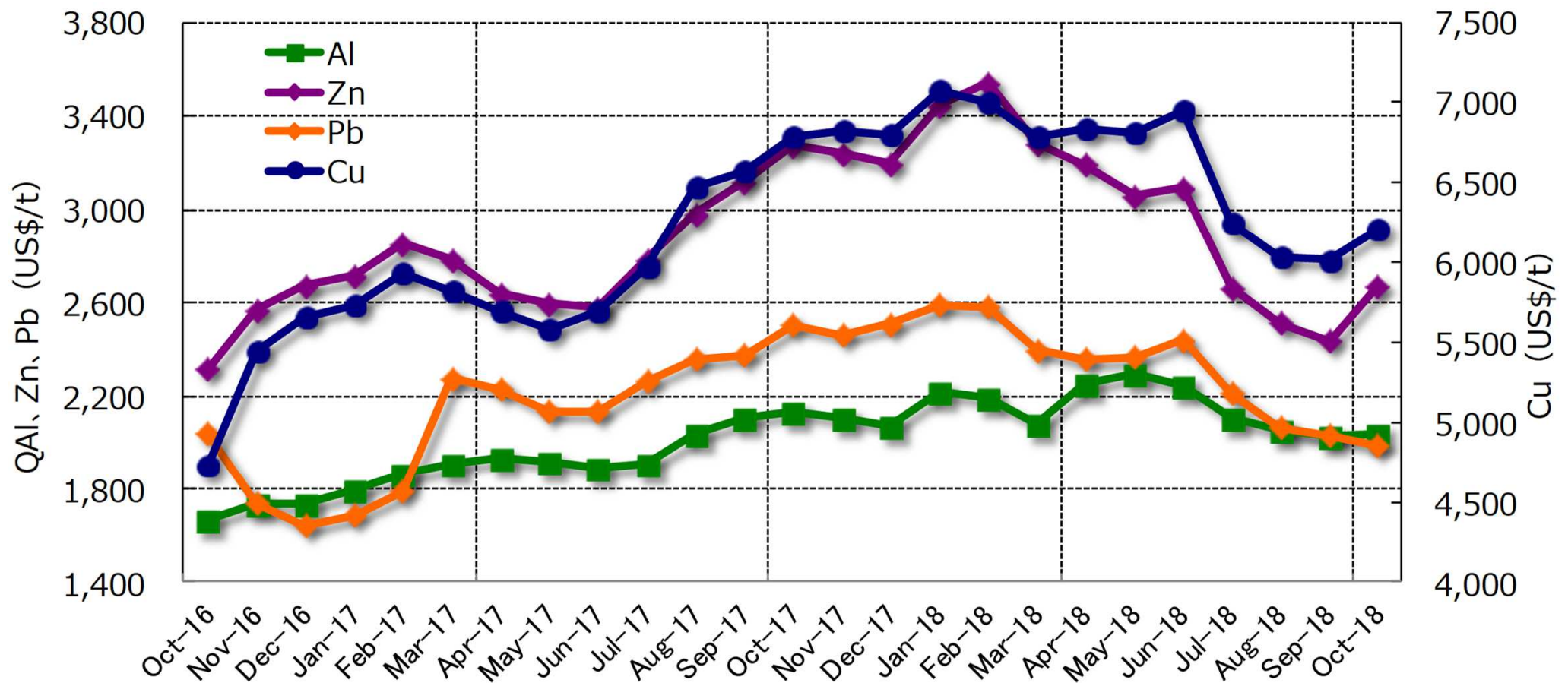
- Supply/Demand...Operations in the manufacturing industry were generally firm, and demand for steel sheets remained firm. There was a tightness in supply/demand balance of steel, partly due to the furnace repair of the steel mill and the effects of natural disasters.
- Market price...Market prices rose due to the stance of price raising in steel mill. The pace of upward trend of steel price is gradually slowing partly due to restriction of supply, although tightness has increased.

(Data source : Inventories \_ The Japan Iron and Steel Federation / Price \_Japan metal daily)



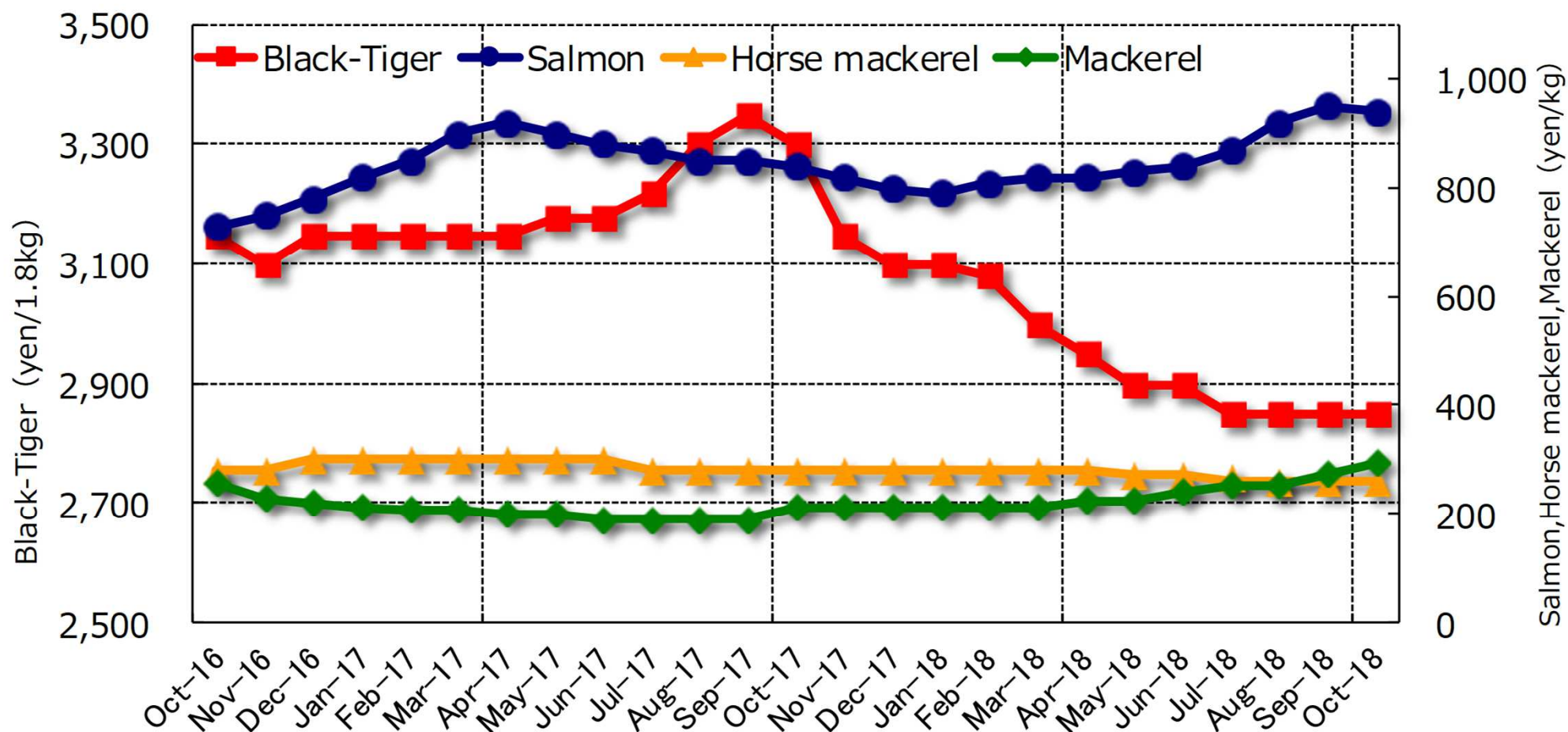
- Nickel...Market conditions continued to increase due to demand for stainless steel and expectations of demand for rechargeable batteries, but the currently adjustment phase has come due to concerns over U.S.-China trade disputes and other factors.



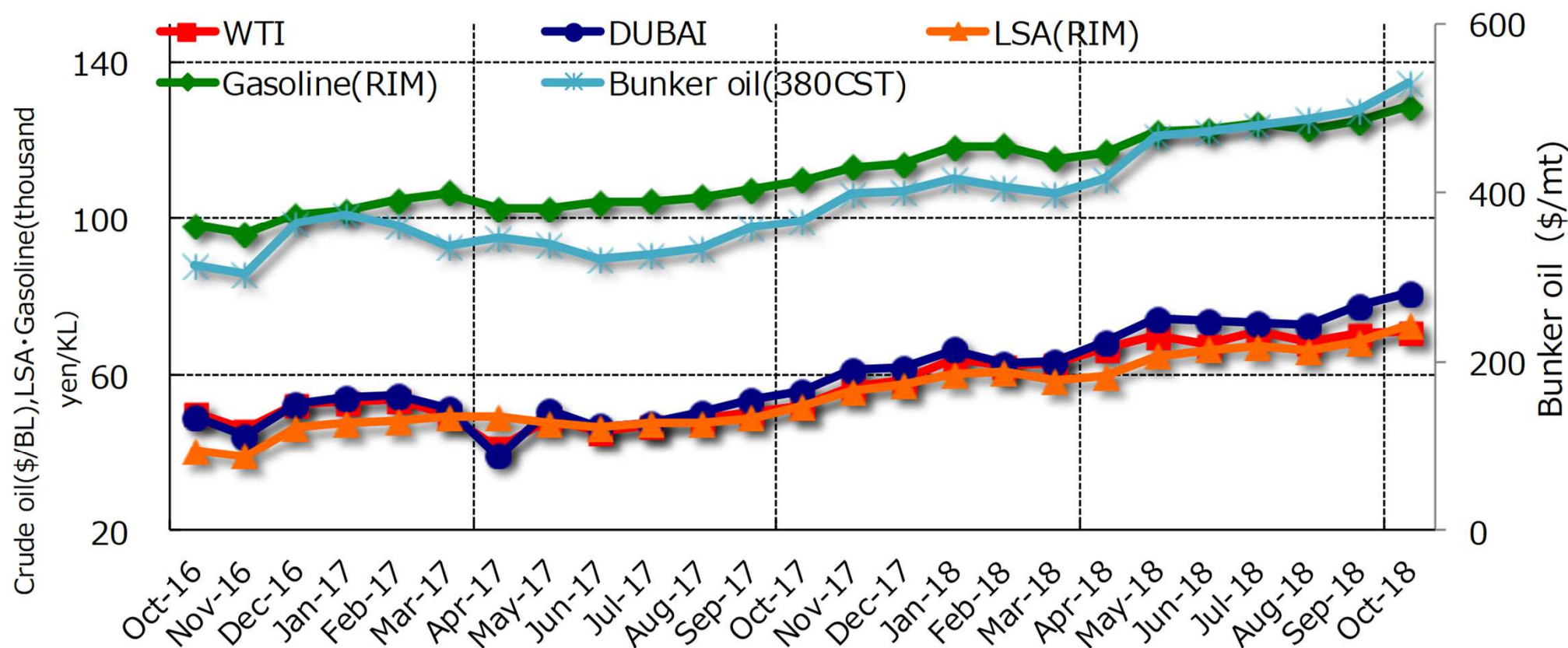


- Aluminum...Prices has been generally high, although there were price fluctuations due to the sanctions imposed by the U.S. on Russian companies and concerns over the impacts of U.S.-China trade disputes.
- Copper...Prices were generally on an upward trend due to expectations of demand in China and concerns about labor disputes at the Chilean copper Mine, but gradually they have been declined due to the impact of the U.S.-China trade disputes and the decline of the currencies of emerging countries.





- Salmon...In addition to the decrease in the amount of Sockeye salmon caught in Russia and Alaska, Chilean Coho salmon have been in short supply due to the transition period, and the domestic market has been on an upward trend.
- Shrimp...Prices declined due to an increase in harvest volume in each production region. Purchase appetite in North America and Japan also remain low and weak.



- Crude oil...Price has been on an upward trend due to the effects of the coordinated reduction of production by oil-producing countries and the U.S. withdrawal from the Iranian Nuclear Accord.
- Petroleum products...Prices have been high level on the whole due to oil refinery troubles at primary distributors as well as steady crude oil prices.