

Financial Results for the First Half of FY2019

Nov 19, 2019

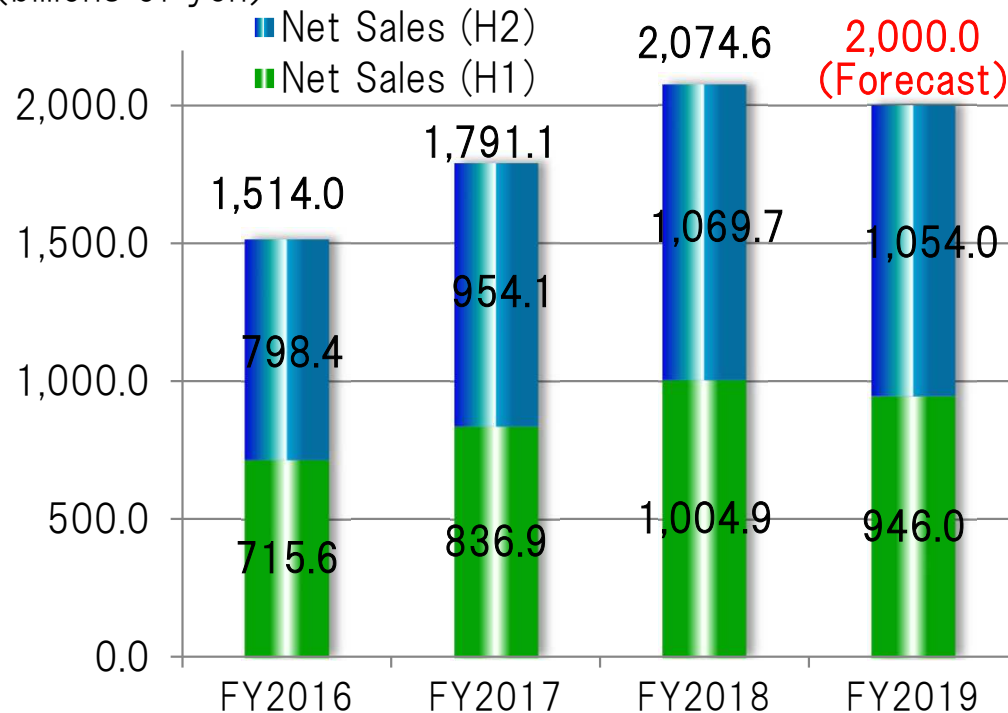
HANWA CO., LTD.

	H1 (ended September 30)			
	FY2018	FY2019	Y on Y Change	Y on Y Rate
(billions of yen)				
Net Sales	1,004.9	946.0	▲ 58.9	▲ 6%
Gross Profit	37.9	39.7	+1.7	+5%
SG&A	24.7	26.0	+1.2	+5%
Operating income	13.1	13.6	+0.4	+4%
Ordinary income	10.8	10.8	▲ 0.0	▲ 0%
Net income attributable to owners of the Company	6.5	5.1	▲ 1.4	▲ 21%
EPS	161.53 yen	126.91 yen	▲ 34.62 yen	▲ 21%
Comprehensive income	5.1	2.6	▲ 2.4	▲ 47%

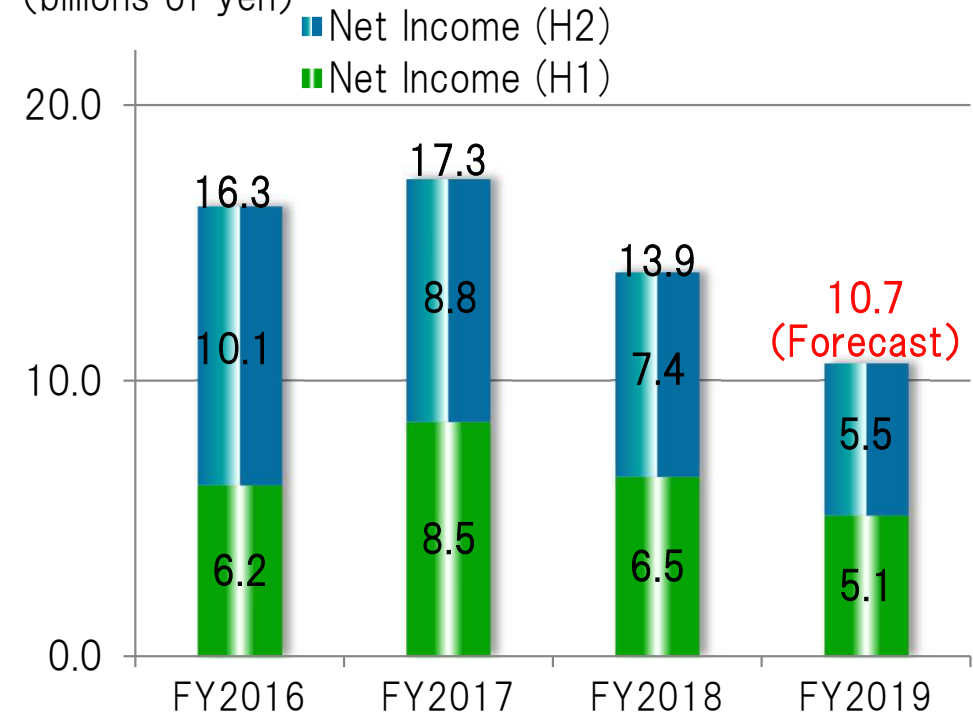
- Net sales have decreased by 6% from the same period of the previous year. This was mainly due to weak global market of metals and petroleum, as well as decline of volumes and sales in reporting segments.
- SG&A expenses have increased by 5% (of which 3% was due to increase of number of consolidated subsidiaries). Personnel expenses have increased 0.7 billion yen.
- Ordinary income have decreased by 0.2%, due to increases of interest expenses and equity method investment losses.
- Net income attributable to owners of the Company have decreased by 21%, due to extraordinary losses mainly comprised of loss on devaluation of investments securities.

Changes in Business results (Consolidated)

(billions of yen)



(billions of yen)



- Net sales have decreased slightly from the same period of the previous year, due to weak demand in each reporting segment.
- Net income have decreased from the same period of the previous year, due to impact of extra incomes and losses.

(*breakdown of extra incomes and losses)

Loss on valuation of investment securities: 3.7 billion yen

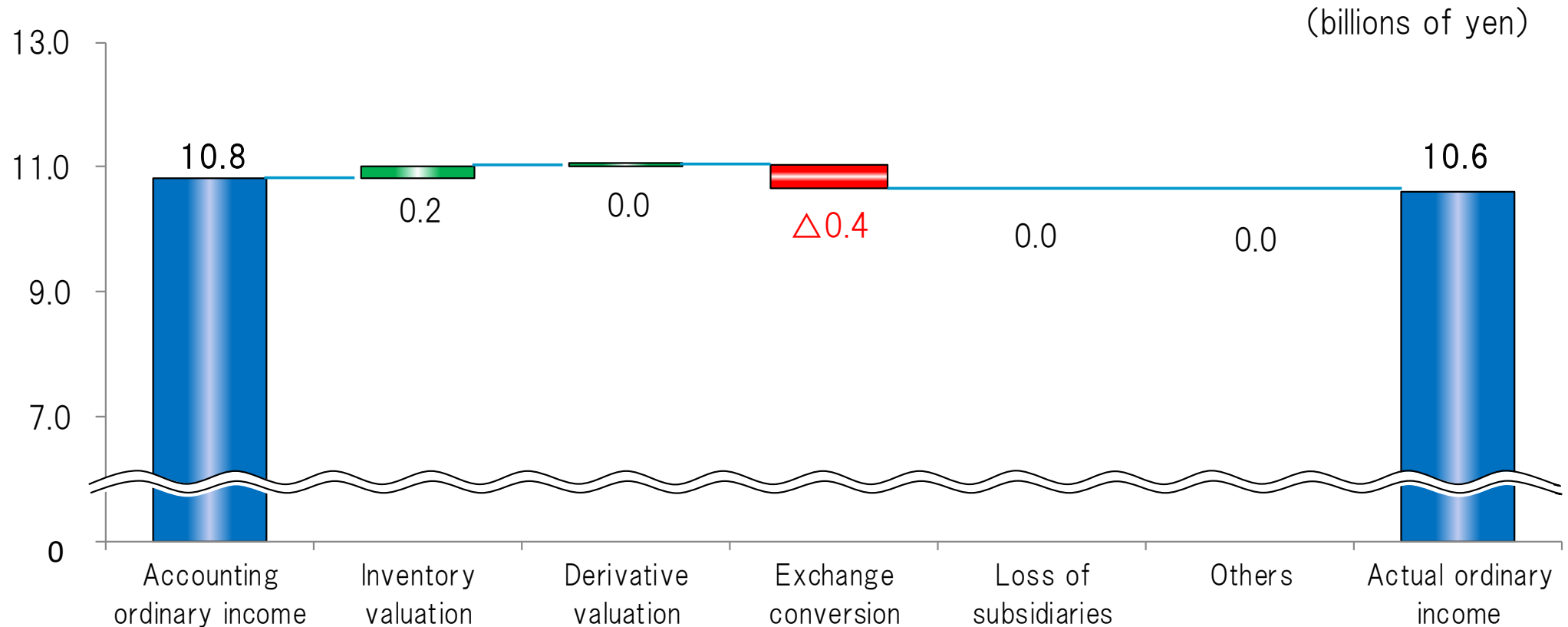
Gain on sales of investment securities: 0.7 billion yen

Loss on impairment of property and equipment: 0.1 billion yen

Gain on sales of property and equipment: 0.2 billion yen

Provision of allowance for doubtful accounts of affiliates: 0.1 billion yen

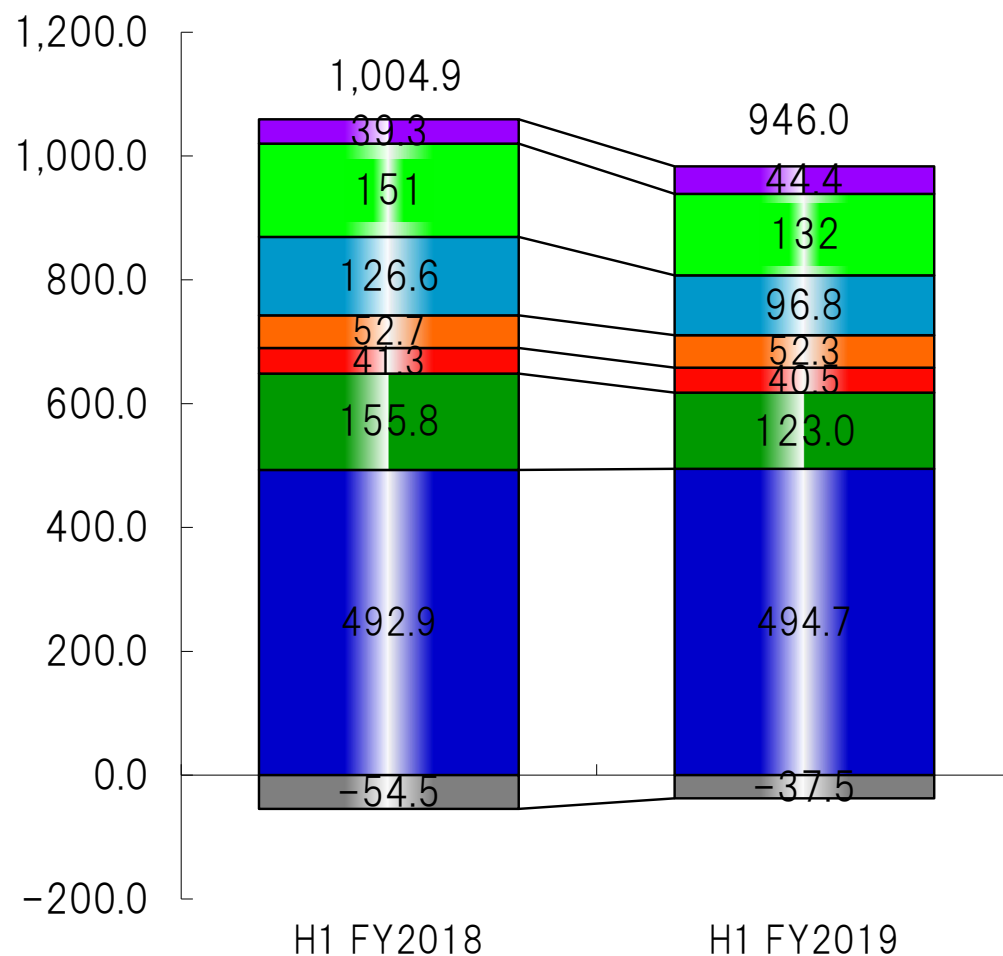
Effect of Profit/Loss from Market value Accounting and Temporary factors



- Reported Ordinary income was 10.8 billion yen but can be translated into about 10.6 billion yen after excluding one-time factors such as period-end valuation gains and losses for inventories, derivatives, foreign exchange and other items.

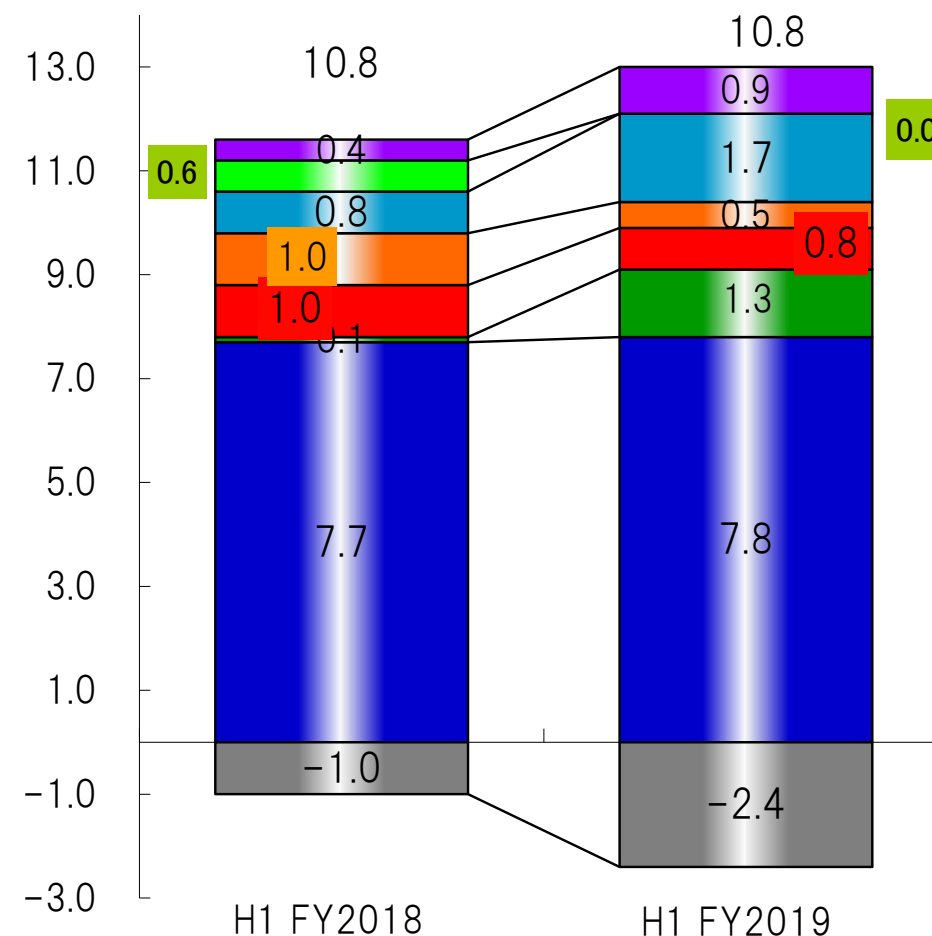
Segment Information (consolidated)

Net Sales



Segment income

(billions of yen)



■ Steel ■ Primary Metal ■ Metal Recycling ■ Foods
■ Petroleum & chemicals ■ Overseas sales subsidiaries ■ Others ■ Adjustment

- Net Sales have decreased in each segment except Steel and Others.
- Profits in total have been flat from the same period of the previous year, as Primary Metal, Petroleum & chemicals and Others have increased, while Overseas sales subsidiaries and Foods have decreased.

	Consolidated Financial Position			
	Mar-2018	Sep-19	Y on Y Change	Y on Y Rate
(billions of yen)				
Total assets	933.3	892.7	▲ 40.5	▲ 4%
Total liabilities	730.8	690.9	▲ 39.9	▲ 5%
Interest-bearing debt	363.2	358.6	▲ 4.6	▲ 1%
Net DER	161.5%	159.6%	▲ 1.9pt	—
	130.8%	* 129.1%	▲ 1.7pt	—
Net assets	202.4	201.8	▲ 0.6	▲ 0%
Shareholder's equity	188.2	187.6	▲ 0.5	▲ 0%
Shareholder's equity ratio	20.2%	21.0%	+0.8pt	—
	* 22.8%	* 23.8%	+1.0pt	—
BPS	4,632.55 yen	4618.28 yen	▲ 14.27 yen	▲ 0%

* Ratio taken account of evaluation for equity credit on 50% of Hybrid Loan (Subordinated Loan) that HANWA raised 50 billion yen in March 2019.

- Total assets decreased by 4% from the end of the previous year, due to decrease in trade receivables by fall of sales.
- Interest-bearing debt and Net DER decreased compared with the end of the previous year.
- Net assets slightly decreased from the end of the previous year, due to decrease in accumulated other comprehensive income including foreign currency translation adjustments and other factors. On the other hand, Shareholder's equity ratio increased, as decline in liabilities was greater than decline in shareholder's equity.

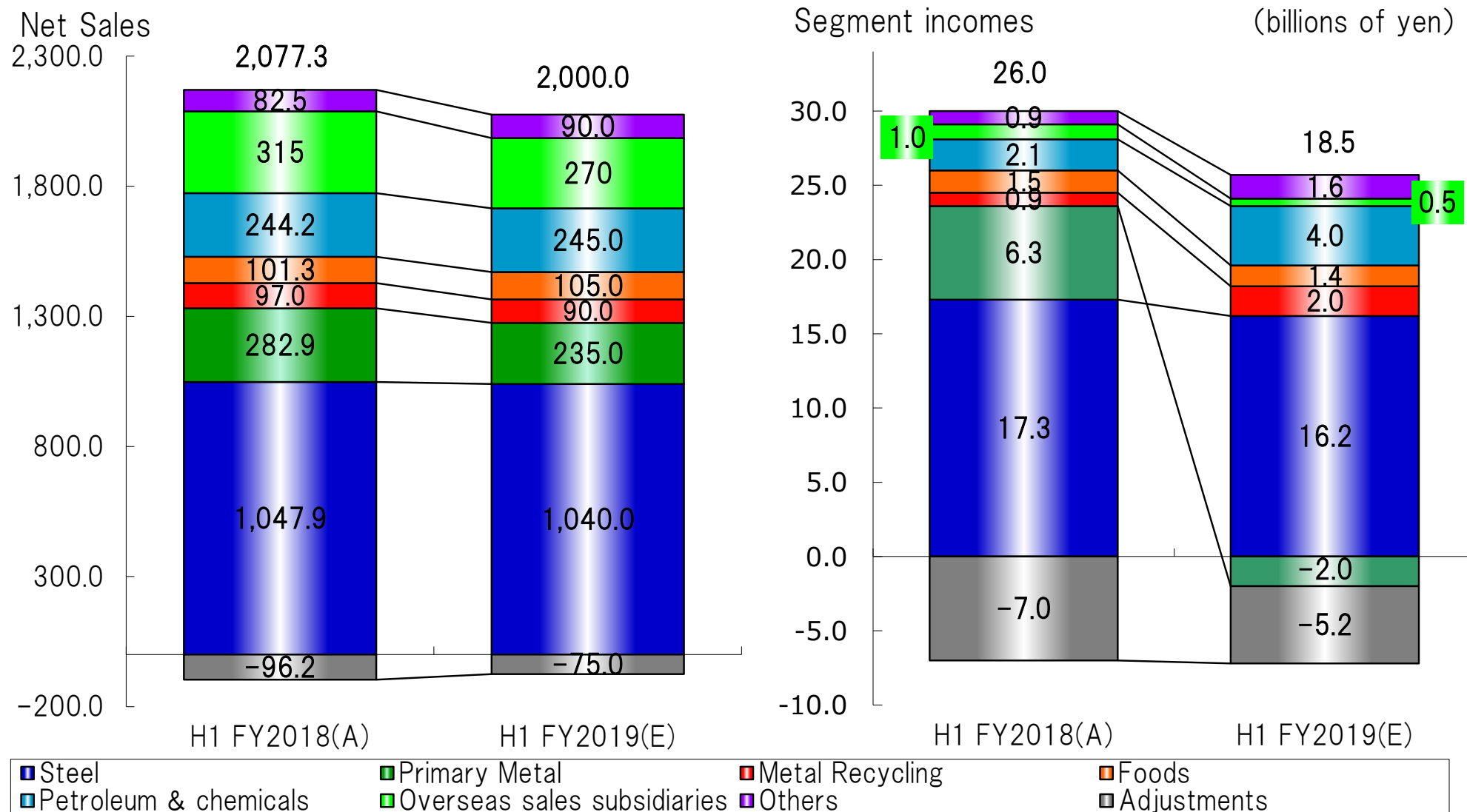
(billions of yen)	H1 (ended September 30)			
	FY2018	FY2019	Y on Y Change	Y on Y Rate
CF from operating activities	▲ 39.2	14.3	+53.6	—
CF from investing activities	▲ 7.3	▲ 5.0	+2.2	▲ 31%
FCF	▲ 46.6	9.2	+55.8	—
CF from financing activities	48.4	▲ 10.6	▲ 59.1	—
Cash and cash equivalents	37.6	59.1	+21.4	+57%

- Cash flow from operating activities was 14.3 billion yen, due to increase in deposits received and slowdown in demand for working capital, in addition to revenue.
- Cash flow from investing activities was ▲5.0 billion yen, due to acquisition of investment securities, purchase of property and equipment.
- Cash flow from financing activities was ▲10.6 billion yen, mainly due to redemption of bonds.

	Fiscal Year (ending March 31)			
	FY2018 (Actual)	FY2019 (Previous forecast)	FY2019 (Revised forecast)	Y on Y Rate
(billions of yen)				
Net Sales	2,074.6	2,200.0	2,000.0	▲4%
Operating income	28.9	35.5	31.0	+7%
Ordinary income	23.3	28.0	18.5	▲21%
Net income attributable to owners of the Company	13.9	19.2	10.7	▲23%

- Based on recent business performance, the forecast of consolidated financial results for FY2019 was amended.
- Net sales are expected to be lower than previously announced forecast, under weak demands in each business segment, due to decrease of total transaction volume and decline in commodity prices including petroleum and non-ferrous metal products.
- Result of SAMANCOR, our equity-method affiliate, could not meet our expectation at the beginning of the fiscal year and business environment surrounding SAMNCOR is expected to remain severe for the time being, hence ordinary income and net income attributable to owners of the parent company are also expected to be lower than previously announced forecast.

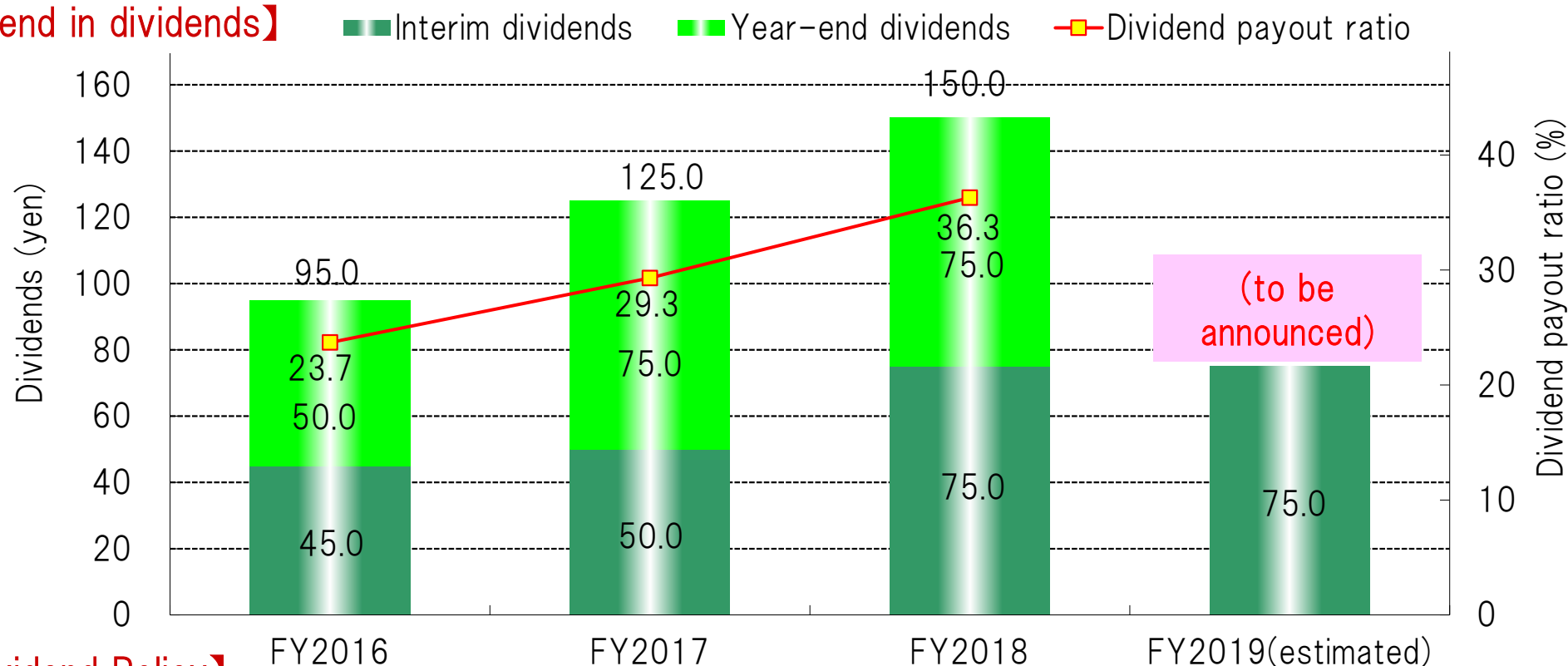
Forecast of Segment Information



- Net Sales are expected to decrease mainly in Primary Metal and Metal Recycling segments.
- Segment income is expected to increase in mainly Petroleum & chemicals, however to decrease significantly in Primary Metal due to equity in losses of affiliates from SAMANCOR.

Dividend Policy

【Trend in dividends】



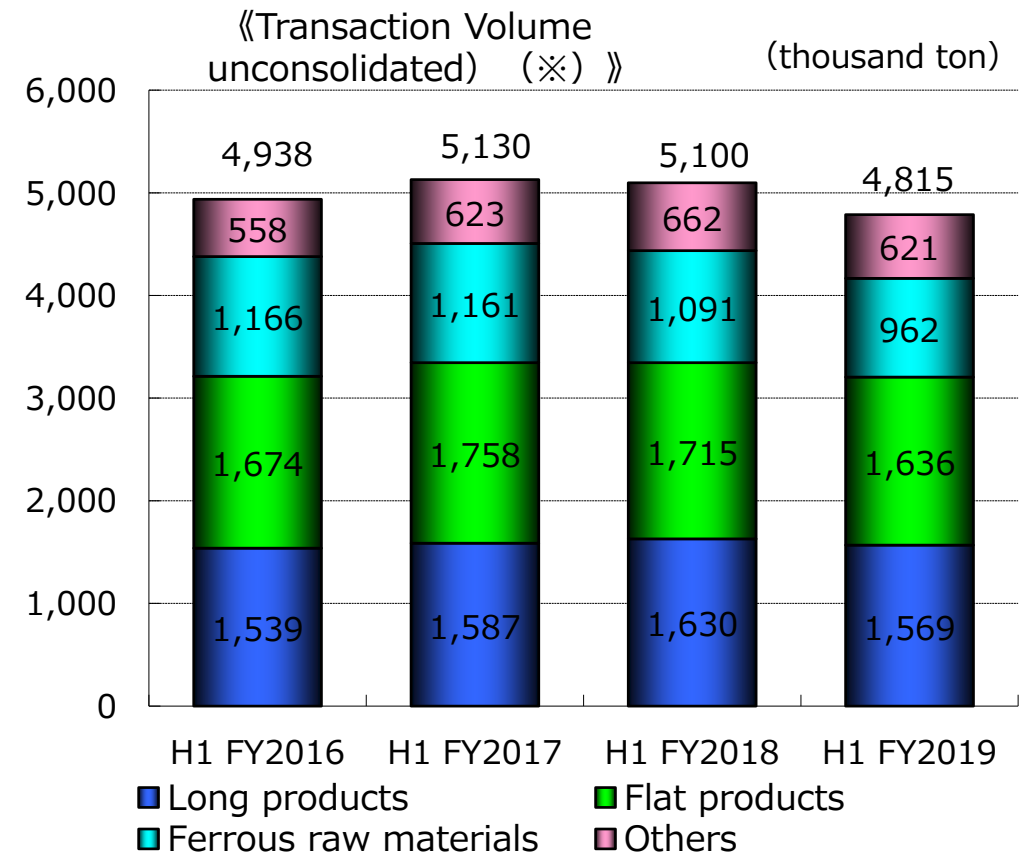
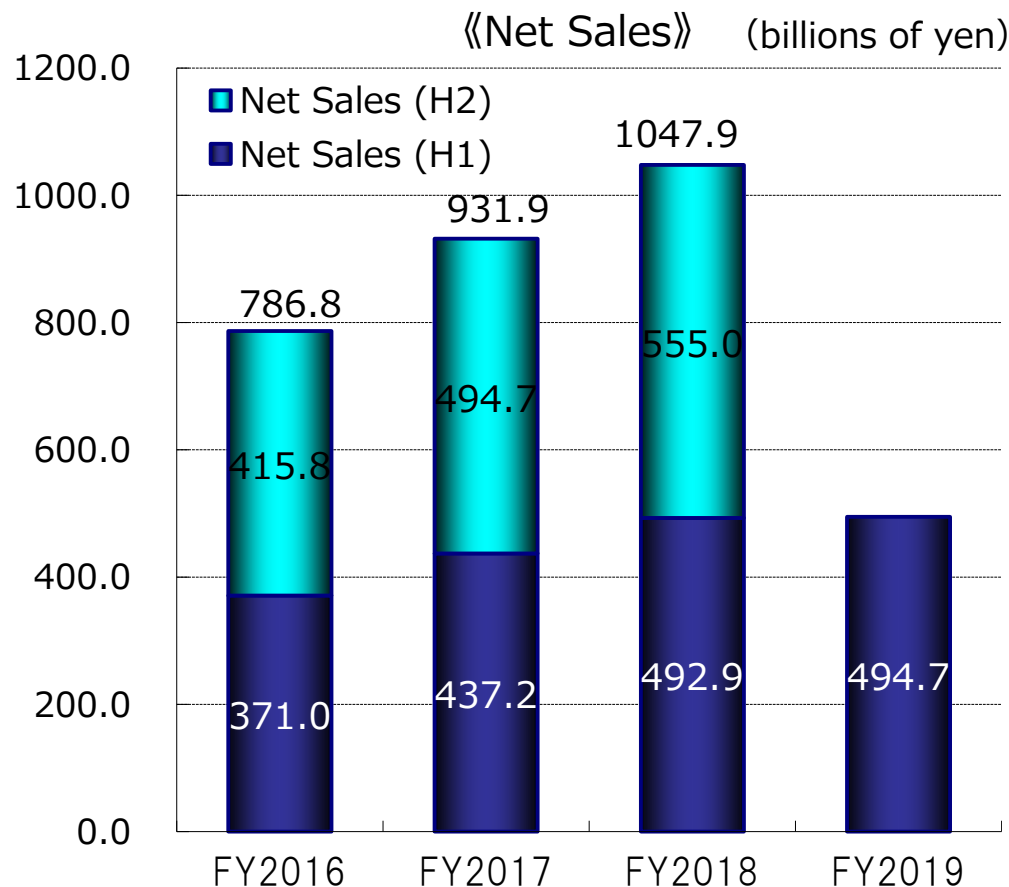
【Dividend Policy】

- Our policy is to pay stable dividends to shareholders. In addition, our aim is to increase the dividends based on growth in basic earnings resulting from actions to improve profitability and to reflect the level of returns from strategic investments.
- However, there are many uncertain factors that cannot be taken into account in the forecasts of financial results for FY2019 at this point. As a result, we will promptly announce the forecast for the year-end dividends as soon as forecast for the future performance becomes available.
- FY2019 Interim dividends : 75 yen per share Year-end dividends : to be announced

(Dividends in FY2016 and 2017 are taken account of share consolidation at the ratio of 5 to 1 share)

	H1 (ended Sep 30)		
	FY2018	FY2019	Y on Y Rate
(billions of yen)			
Net Sales	492.9	494.7	+0%
Segment Income	7.7	7.8	+1%

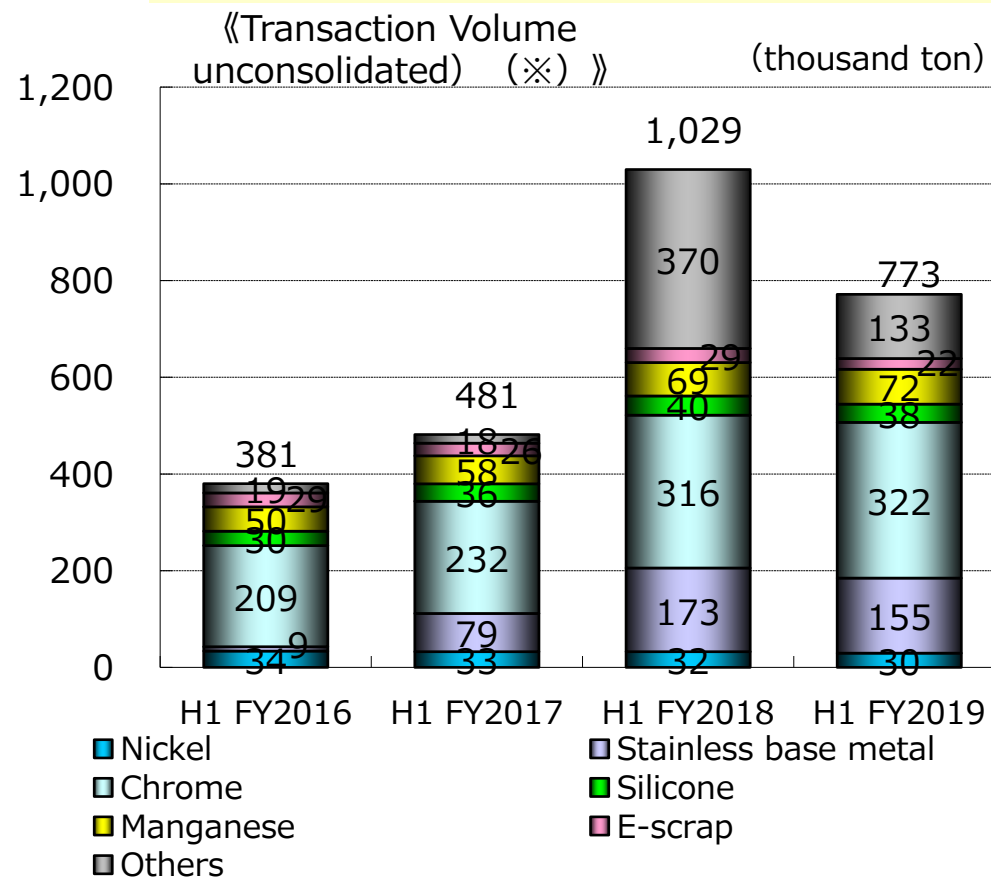
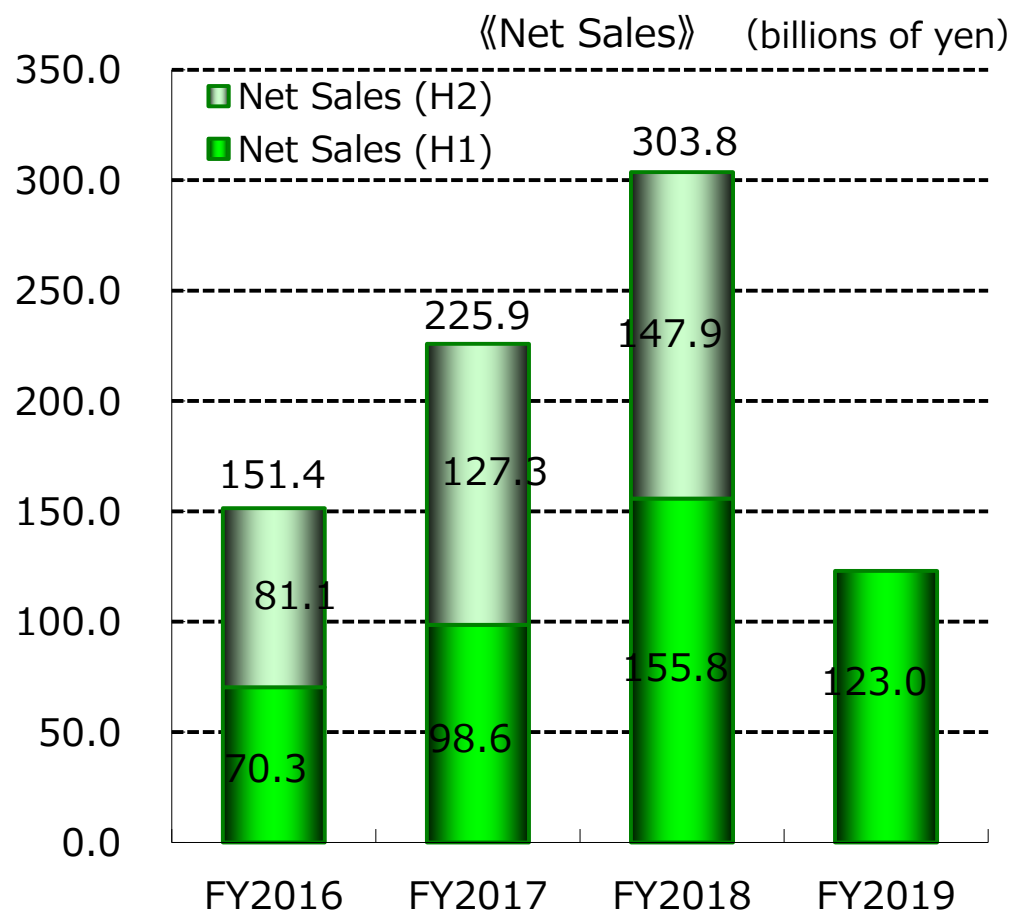
➤ Despite decrease in the sales volume, net sales and segment income increased, due to revenue from large-scale property construction projects as well as high level of market price of steel products.



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

	H1 (ended Sep 30)		
	FY2018	FY2019	Y on Y Rate
(billions of yen)			
Net Sales	155.8	123.0	▲21%
Segment Income	0.1	1.3	+1291%

➤ Despite the increase of loss on investment in affiliates in SAMANCOR, segment income increased by the turnaround of foreign exchange losses in the same period of previous year to foreign exchange gains in this fiscal year.

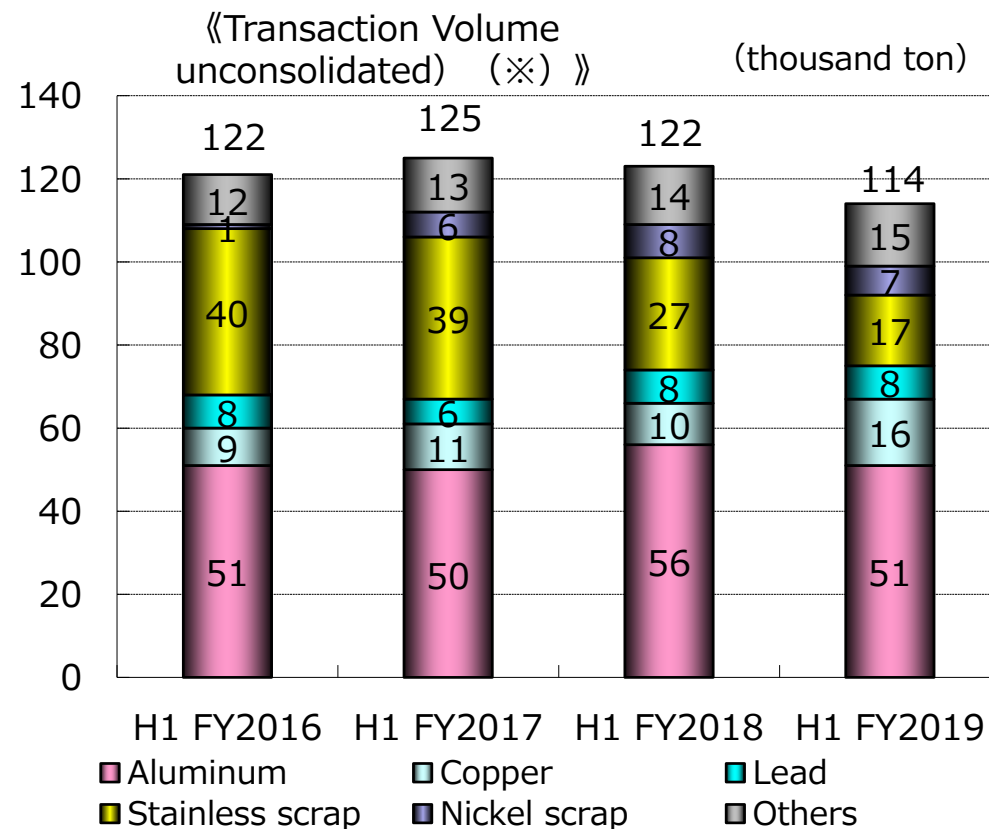
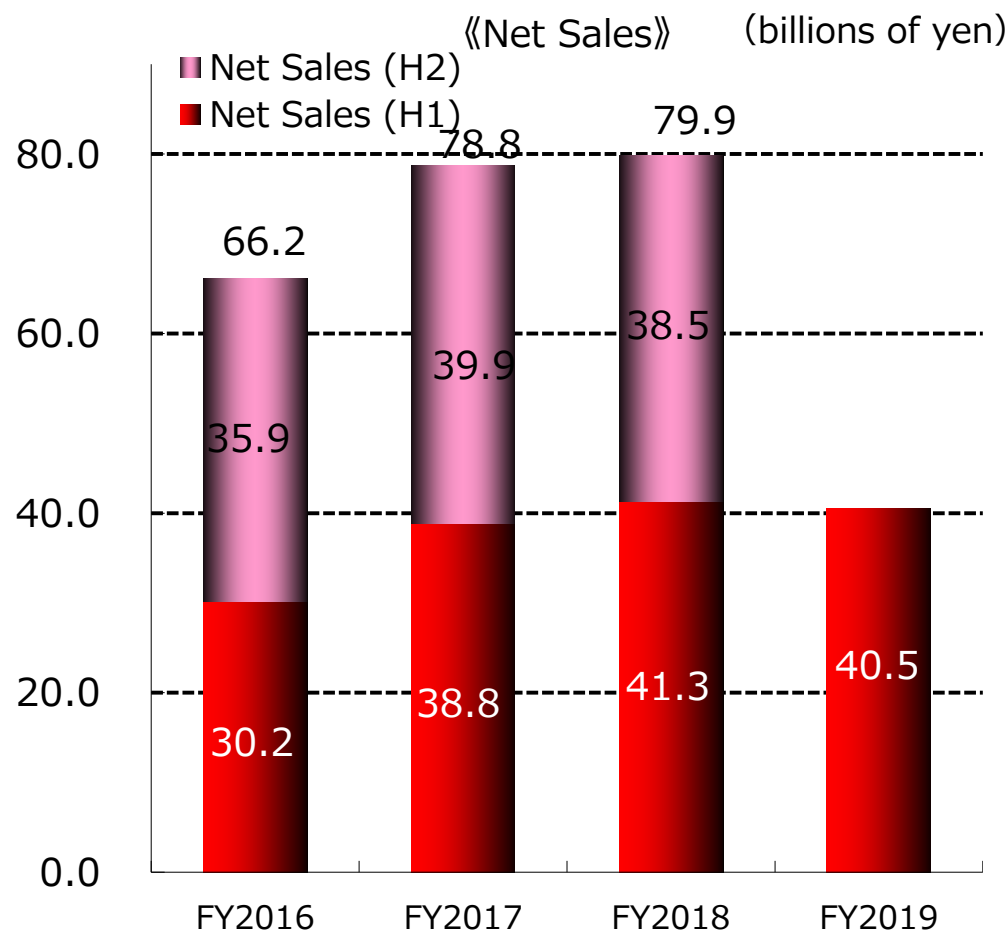


※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

Metal Recycling Business Segment

	H1 (ended Sep 30)		
	FY2018	FY2019	Y on Y Rate
(billions of yen)			
Net Sales	41.3	40.5	▲2%
Segment Income	1.0	0.8	▲18%

➤ 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 of both stainless and copper scrap.

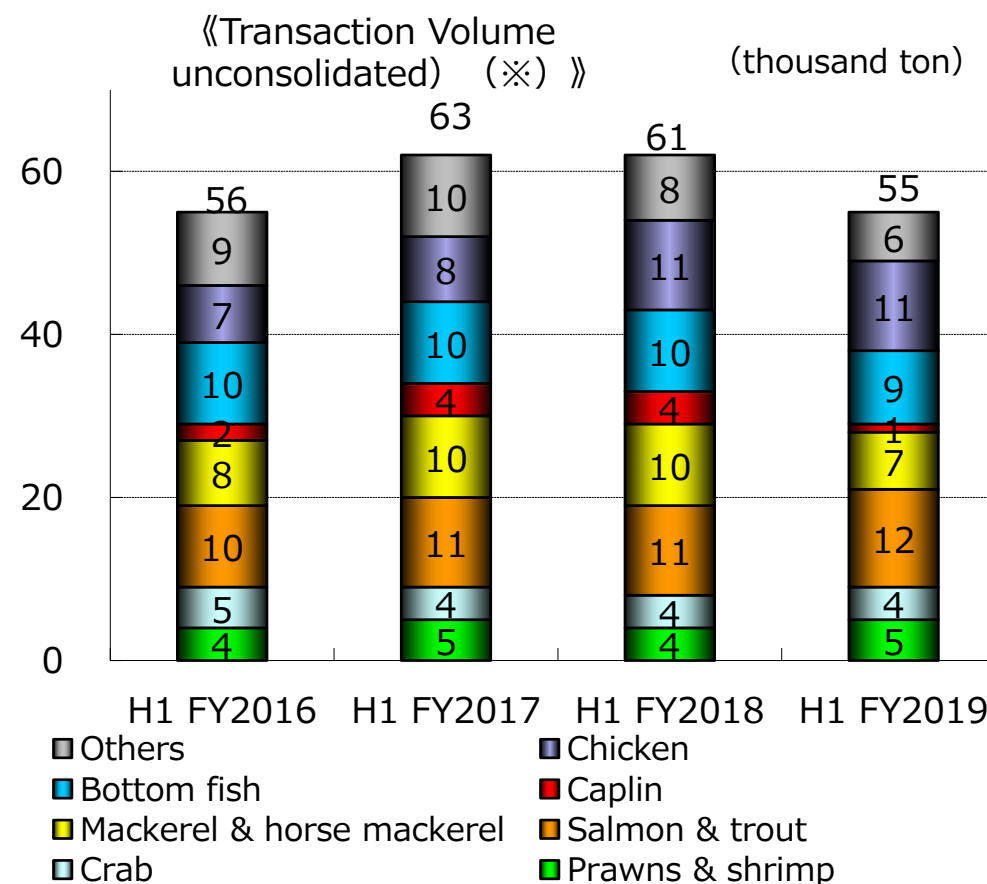
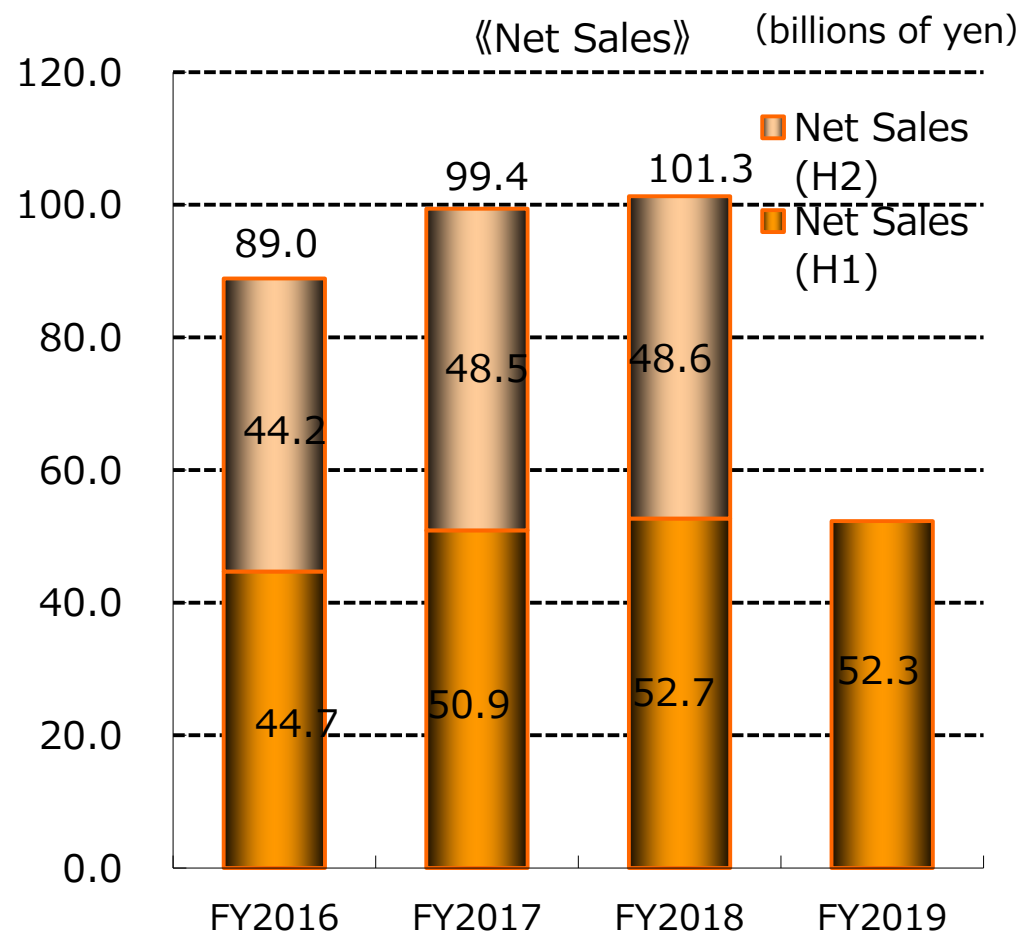


※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

Foods Business Segment

	H1 (ended Sep 30)		
	FY2018	FY2019	Y on Y Rate
(billions of yen)			
Net Sales	52.7	52.3	▲ 1%
Segment Income	1.0	0.5	▲ 50%

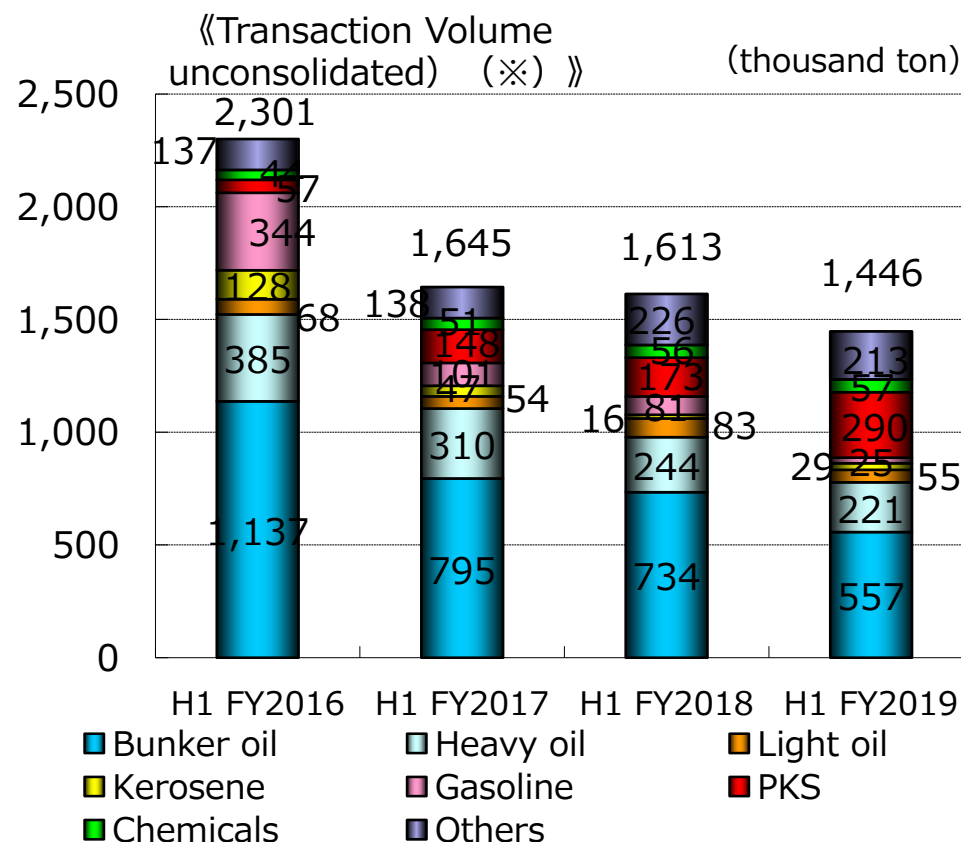
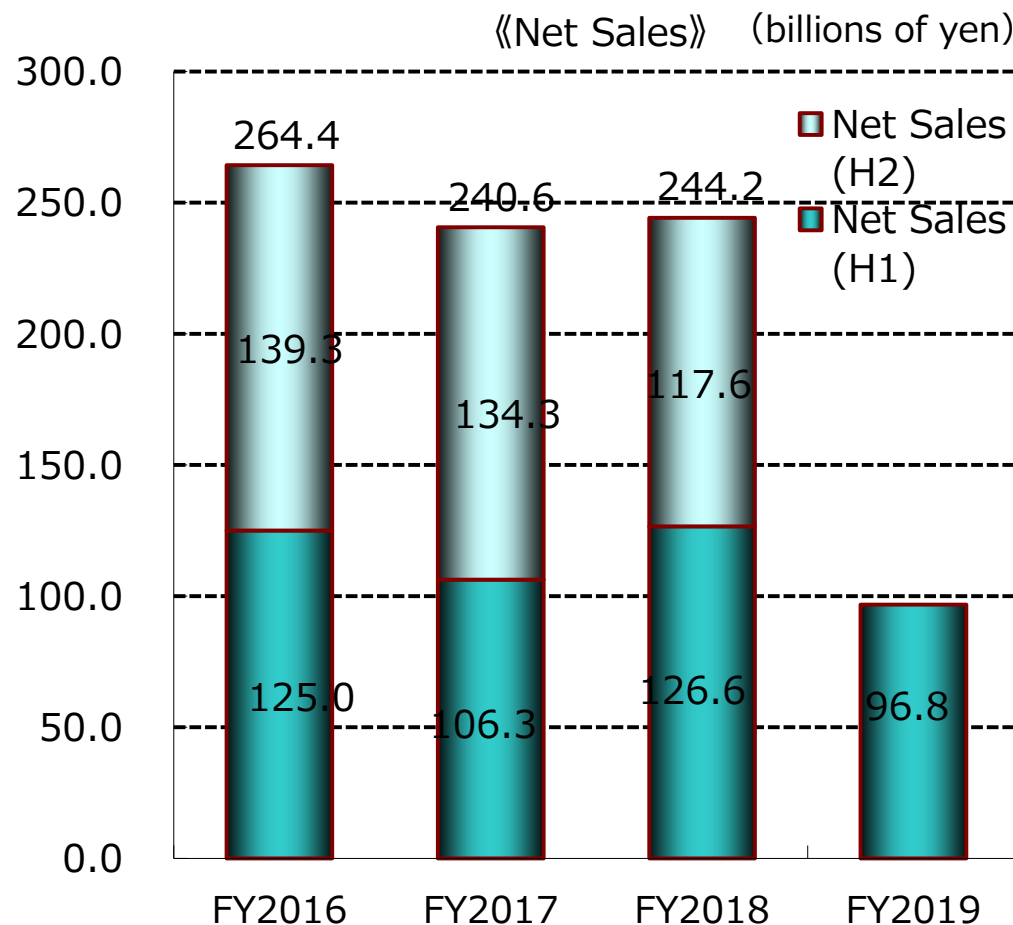
➤ Net sales and segment income decreased mainly due to stagnant market condition for shrimp and shrinking margins of consolidated subsidiaries.



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

	H1 (ended Sep 30)		
	FY2018	FY2019	Y on Y Rate
(billions of yen)			
Net Sales	126.6	96.8	▲ 24%
Segment Income	0.8	1.7	+100%

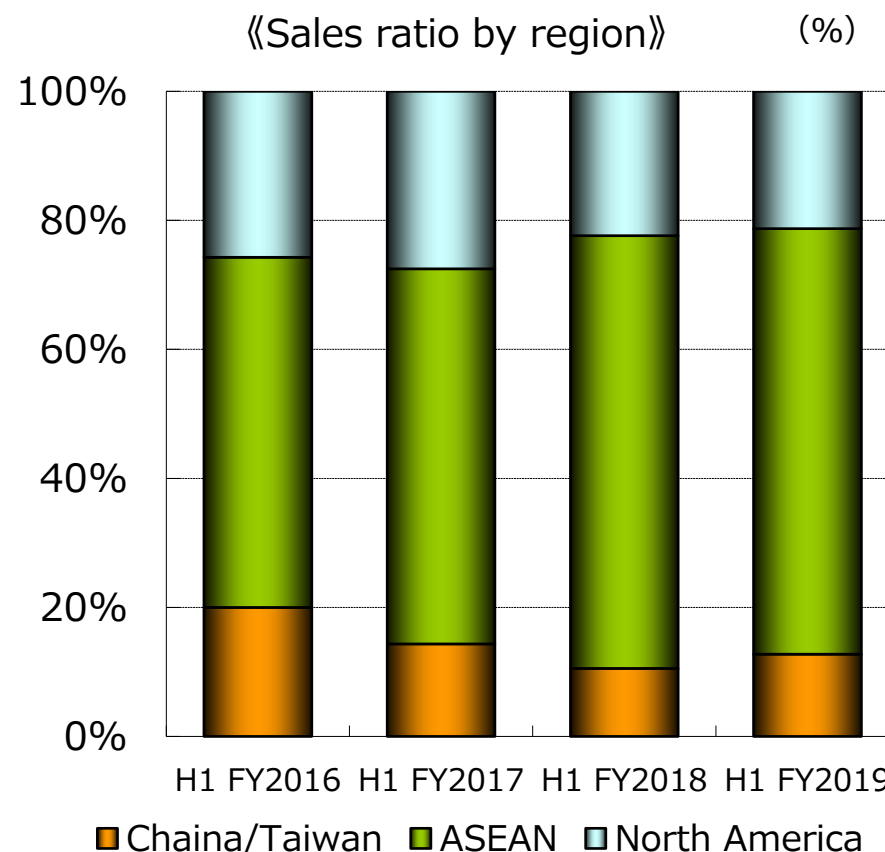
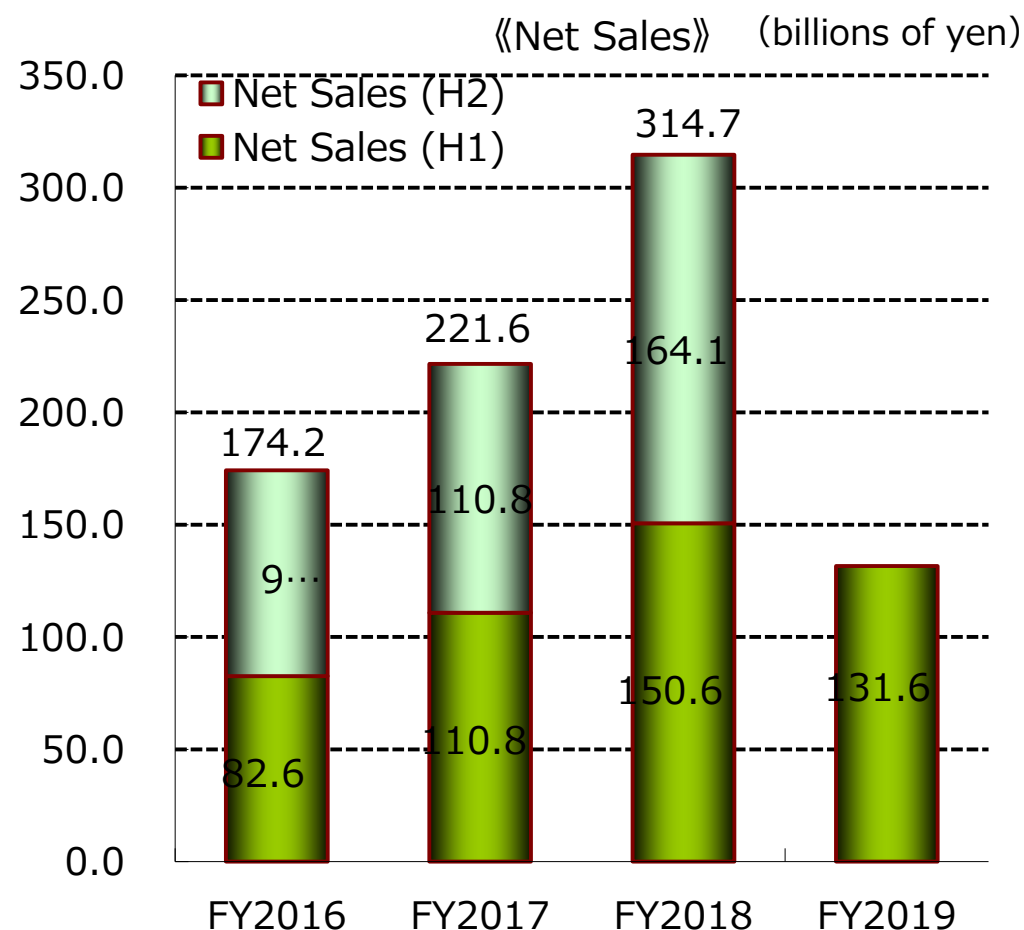
➤ Despite decreased volume by weak market of petroleum products, segment income increased mainly due to the expansion of profit margins of bunker fuel oil and biomass fuels such as palm kernel shells(PKS).



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

	H1 (ended Sep 30)		
	FY2018	FY2019	Y on Y Rate
(billions of yen)			
Net Sales	150.6	131.6	▲13%
Segment Income	0.6	0.0	▲95%

➤ Net sales and segment income decreased due to price downturn in metal and nonferrous metal in Singapore, volume decrease in U.S. and increase of finance cost in Indonesia.

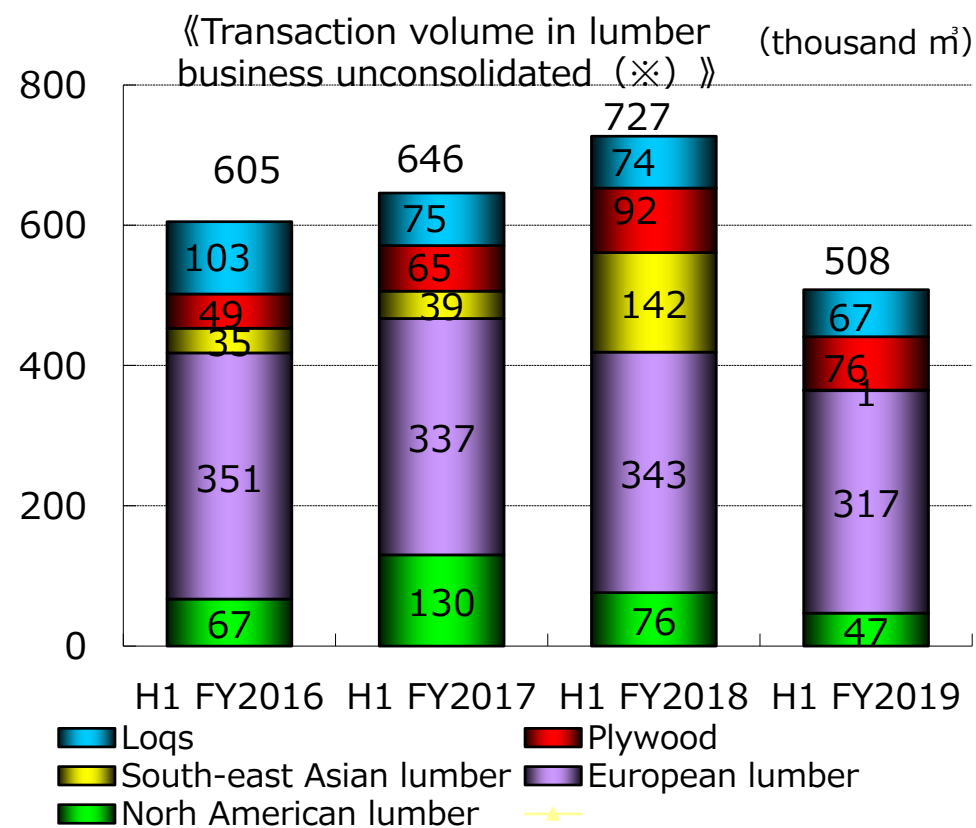
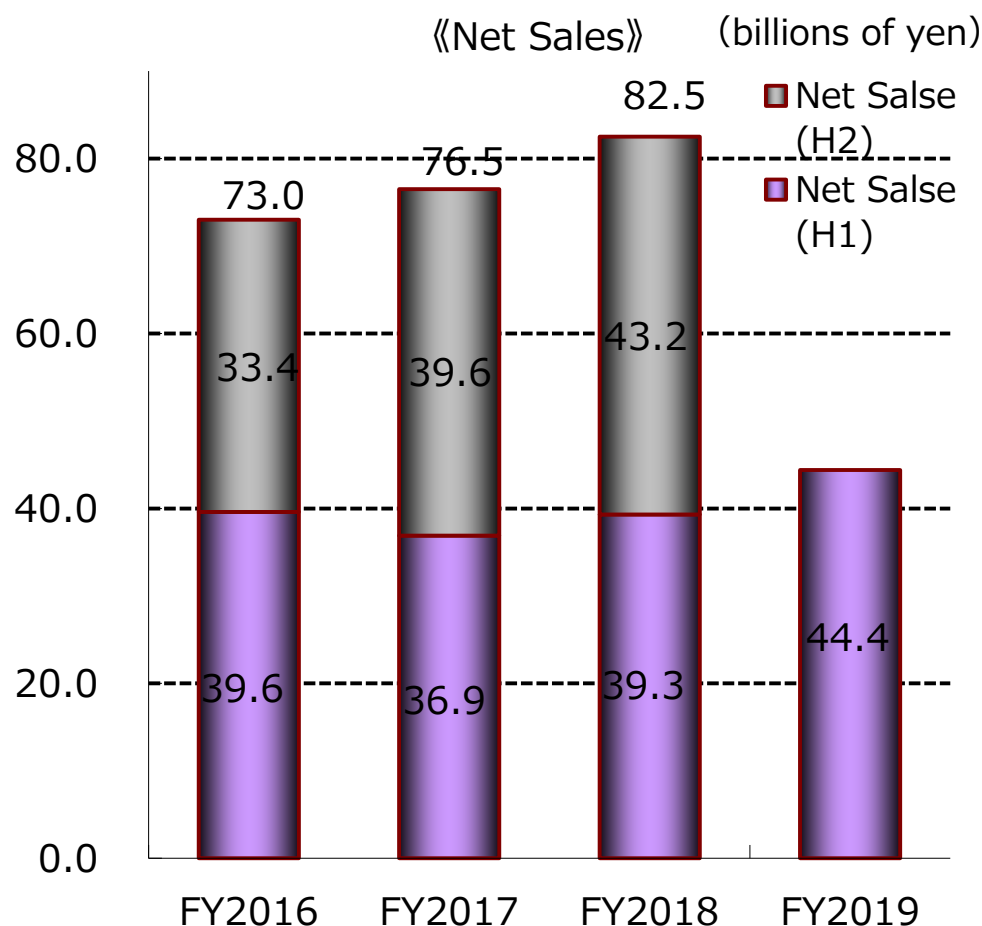


※ We record transaction volume in business segment as management approach, previously recorded in classification of products.

Other Business Segment

	H1 (ended Sep 30)		
	FY2018	FY2019	Y on Y Rate
(billions of yen)			
Net Sales	39.3	44.4	+13%
Segment Income	0.4	0.9	+117%

- In the lumber business, net sales and segment income increased due to increase in sales volumes to housing manufacturers. Lower duties by effectuation of EPA with EU also contributed.
- In machinery business, revenue from the construction also contributed to earnings.



※ The volume does not include lumber products for sales to Housing manufacturers.

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

		FY2019				
(billions of yen)		Ordinary income	H1	Previous forecast	Progress	Revised forecast
<div>Additional revenue from strategic investments</div> <div>Revenue from domestic and Overseas Group companies</div> <div>Revenue from HANWA</div>	STRATEGIC Equity in earnings of affiliates from resource investees and dividends from strategic investments	△0.5	0.5	—%	△6.5	
	SPEEDY Ordinary income from consolidated subsidiaries & dividends from nonconsolidated subsidiaries	1.7	7	24.4%	5.0	
	STEADY Ordinary income from HANWA after deducting dividend Income from subsidiaries	9.6	20.5	46.9%	20.0	
	Total	10.8	28.0	38.6%	18.5	

- ▶**STEADY**: Although total transaction volume has decreased, business has progressed generally as planned with efforts to stabilize and improve profitability.
- ▶**SPEEDY**: Profit margin of domestic group companies including “SOKOKA (quick delivery, small lot, processing)” businesses has declined and sales volumes of overseas sales subsidiaries have also decreased.
- ▶**STRATEGIC**: Result of SAMANCOR could not meet our expectation at the beginning of the fiscal year due to decline of chromium price, decrease of sales volume and increase of production costs.

		Track of Quantitative indices			
		FY2016	FY2017	FY2018	FY2019 (H1)
ROE		10.1%	9.7%	7.4%	5.4% (2.7%)
	ROS	1.1%	1.0%	0.7%	+0.5%
	Total assets turnover	2.3	2.3	2.3	2.0 (1.0)
	Financial leverage	4.0	4.3	4.8	4.9
ROIC		6.2%	6.1%	5.3%	5.8% (2.9%)
Net DER		136%	154%	162% * 131%	160% *129%
Number of New customers		697	601	725	344

* Ratio taken account of evaluation for equity credit on 50% of Hybrid Loan (Subordinated Loan) that HANWA raised 50 billion yen in March 2019.

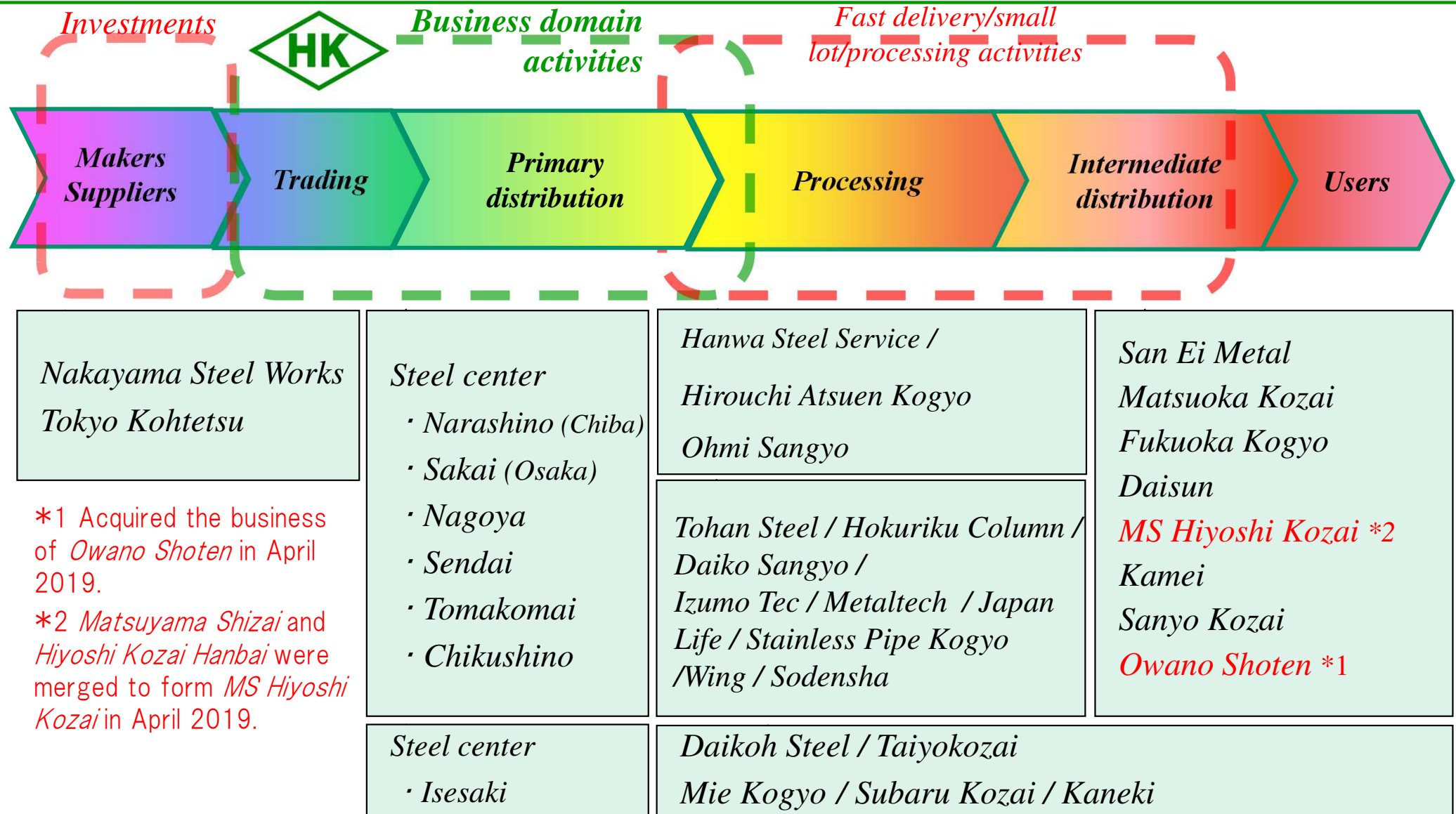
- ROE decreased by decline of ROS due to extraordinary losses mainly comprised of loss on devaluation of investments securities.
- Progress rate of number of new customers is 87.7% of the target for all 4 years (FY2016–FY2019).

【Ordinary income trend of subsidiaries by business segment】

(billions of yen)	H1(ended Sep 30)					
	FY2018		FY2019		Y on Y Change	
	Consolidated/ Equity method	Unconsolidated	Consolidated/ Equity method	Unconsolidated	Consolidated/ Equity method	Unconsolidated
Steel	1.6	0.0	0.9	0.1	▲ 0.7	+0.1
Primary Metal	▲ 0.1	–	▲ 0.1	–	▲ 0.0	–
Metal Recycling	0.3	–	0.5	–	+0.2	–
Foods	▲ 0.0	–	▲ 0.1	–	▲ 0.1	–
Petroleum & chemicals	0.2	▲ 0.0	0.4	0.0	+0.2	+0.0
Overseas sales subsidiaries	0.7	0.2	▲ 0.1	0.1	▲ 0.7	▲ 0.1
Others	0.2	–	0.2	–	▲ 0.0	–
Total	2.9	0.2	1.7	0.2	▲ 1.1	▲ 0.0

(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.)

- In Steel business segment, profit margin of domestic group companies including “SOKOKA (quick delivery, small lot, processing)” businesses have declined and overseas sales subsidiaries have also decreased sales volumes.
- In Petroleum & chemicals business segment, revenues from subsidiaries such as Seibu Service Co., Ltd. due to influences of import restrictions on industrial wastes in China and ASEAN.
- In Overseas sales subsidiaries segment, profits have decreased due to weak market of petroleum products and non-ferrous metals in Singapore, due to decrease in sales volume of metal products in U.S. and steel products in Indonesia.

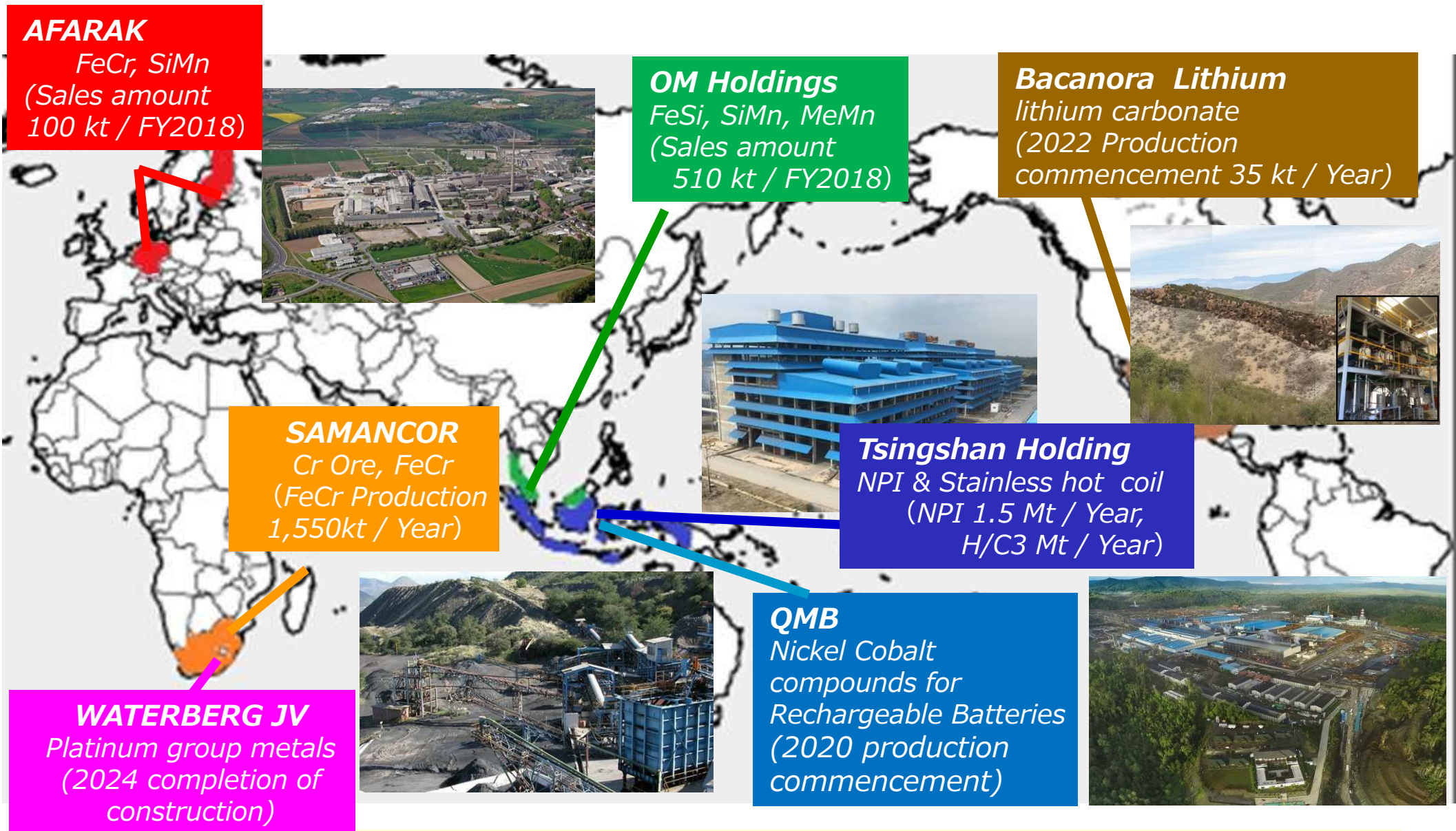


- Promoting a strategy of “SOKOKA (fast delivery, small lot, processing)” through the grouping of functional small and medium steel wholesalers and processors.

【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.	NST Saigon Coil Center Hanwa SMC Steel Service HA NOI *Completed to acquire 65% of stocks and change the name in Aug 2019.	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.



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

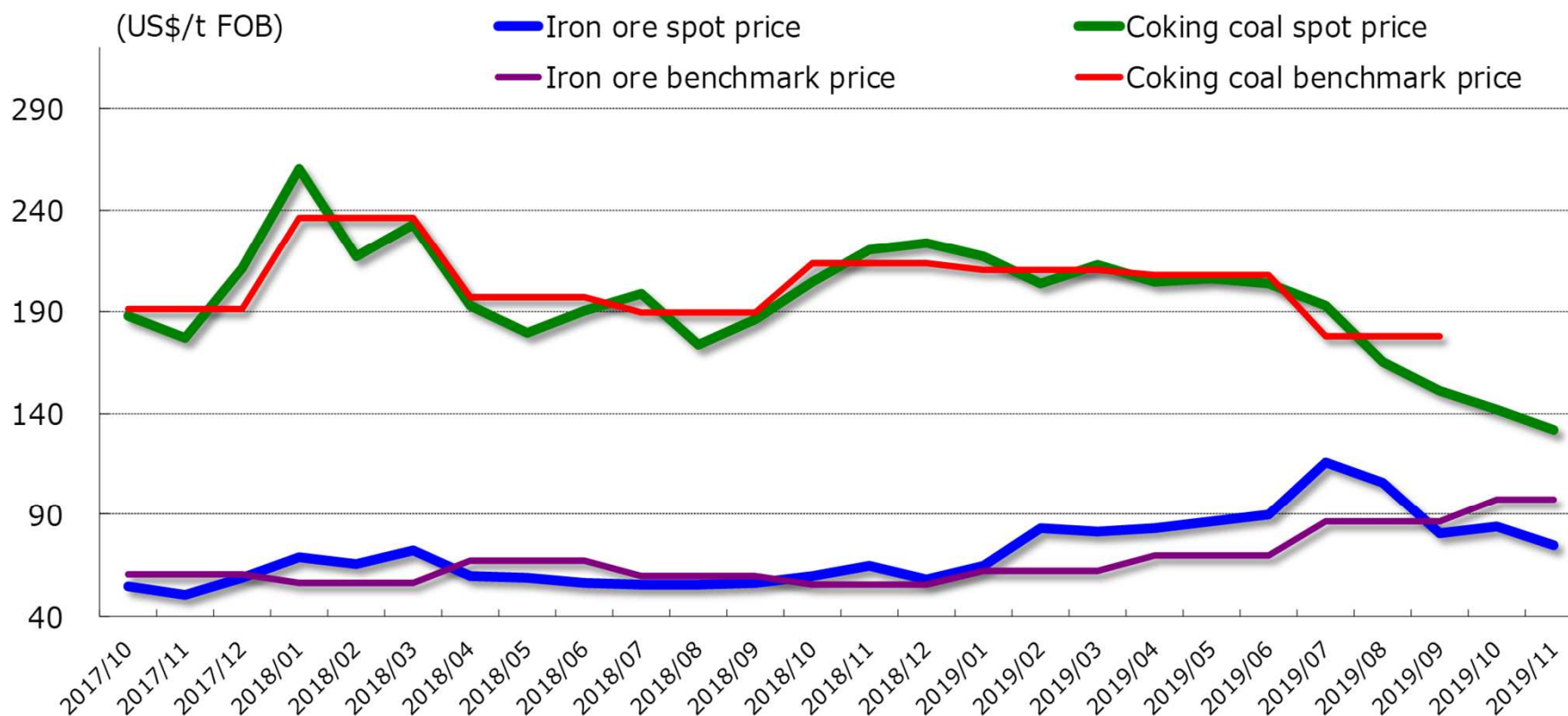
【Current investment records】

(billions of yen)	Amounts	Major investments
Steel	0.9	<ul style="list-style-type: none"> Acquired stocks of Hanwa SMC Steel Service HA NOI Capital expenditure in Steel center Iseaki
Primary Metal	0.6	<ul style="list-style-type: none"> Invested in overseas alliance partner
Metal Recycling	1.6	<ul style="list-style-type: none"> Capital increase of Hanwa Metals (Thailand) Acquired additional stocks of consolidated subsidiaries
<u>Total</u>	<u>3.1</u>	

- Hanwa is continuing to make business investments to build a base for more earnings in future.
- First half In FY2019 investments totaled about 3.1 billion yen, including investment in steel center inside and outside the country and recapitalization to overseas sales subsidiary.

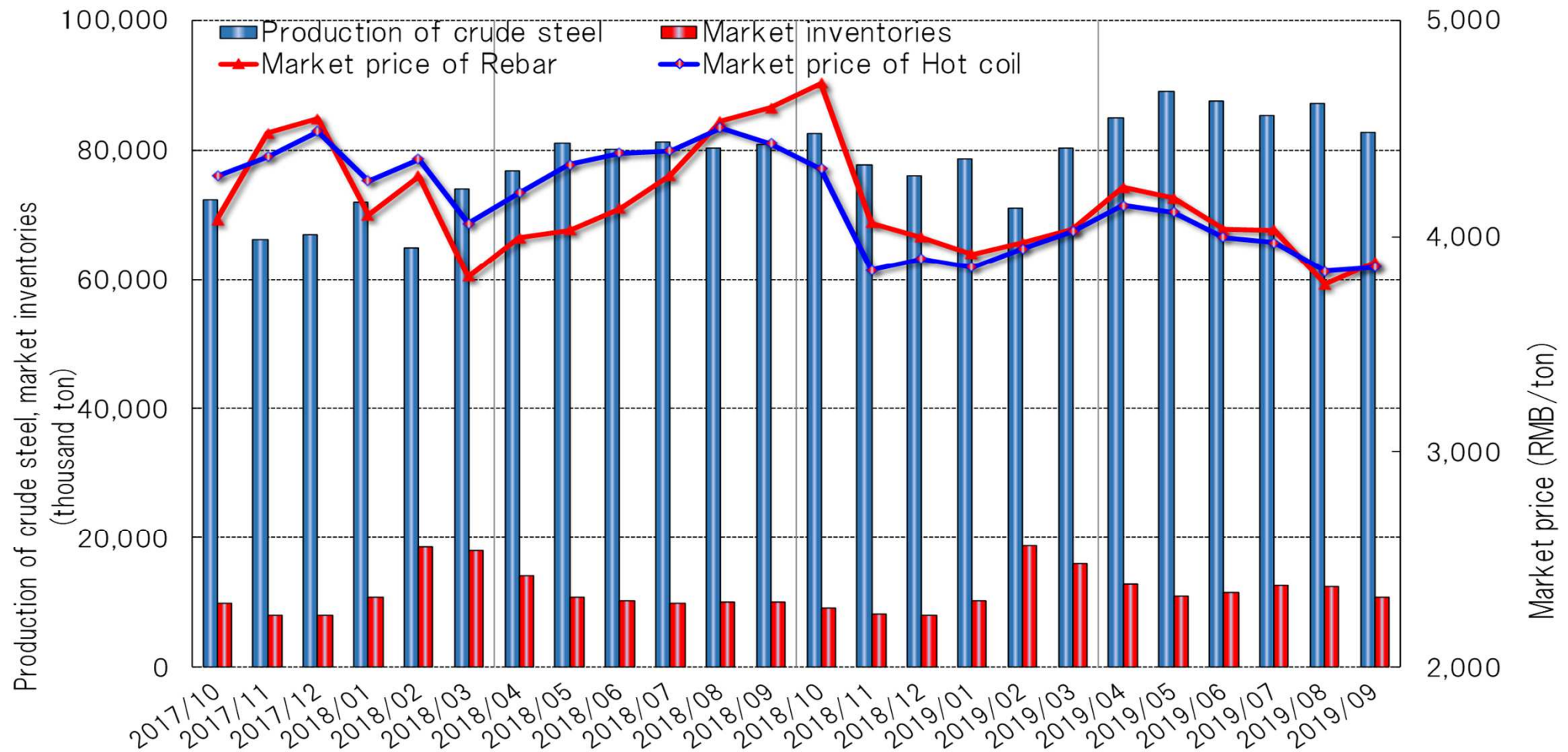
Appendix

【Transaction of steel raw materials price】



- Iron ore...The prices remained high, partly due to impact of collapse of tailing dam in Brazil and damage caused by cyclone in Australia. However, the prices have weakened recently due to decline in demand in China and other factors.
- Coking coal...The prices were on a downward trend after supply constraints were resolved, such as port troubles in Australia and stagnant logistics, reflecting a decline in demand in China, India, and other countries.

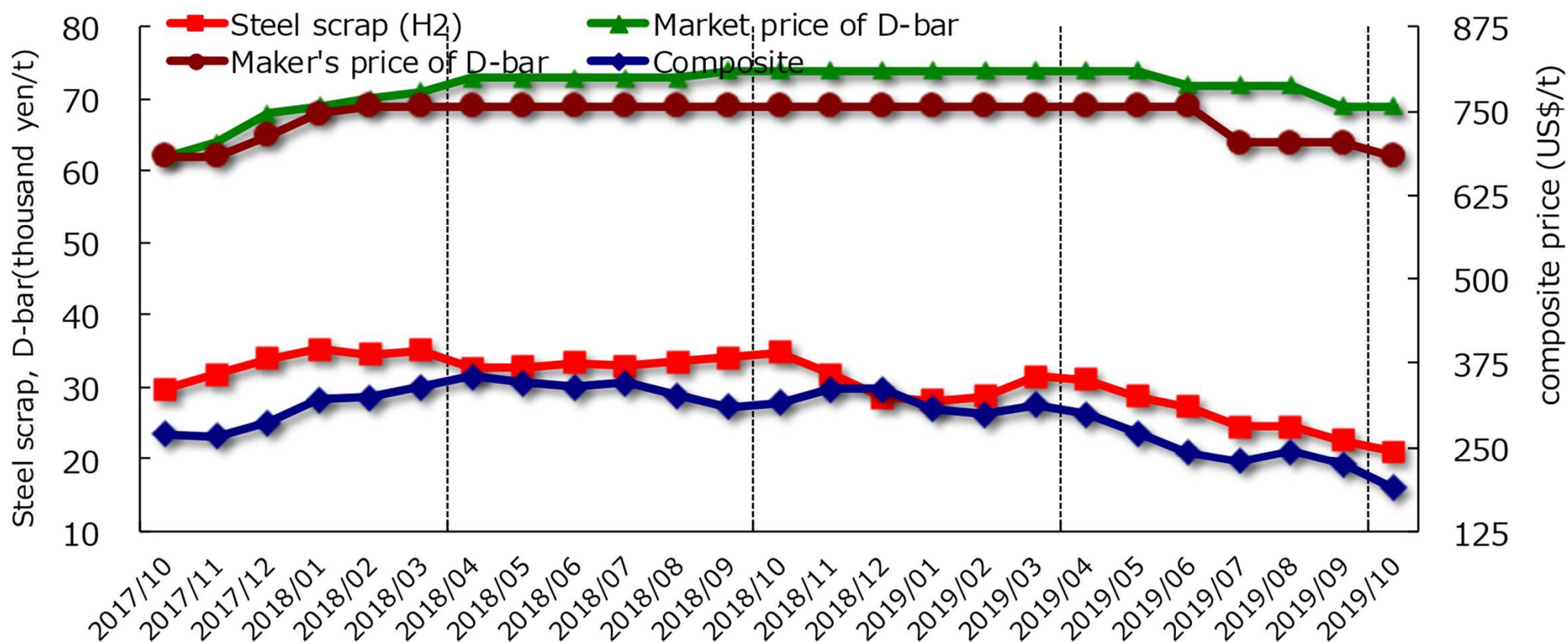
【Transition of steel market in China】



- Supply/Demand...Supply for steel products continued to be excessive, mainly due to easing of environmental regulations by the government and effects of measures to support economic activity by the government and local governments.
- Market price...Steel markets continue to be on moderate downward trend due to trade conflict between U.S. and China, and concerns about the future of domestic economy.

(Data source : The Japan Iron and Steel Federation)

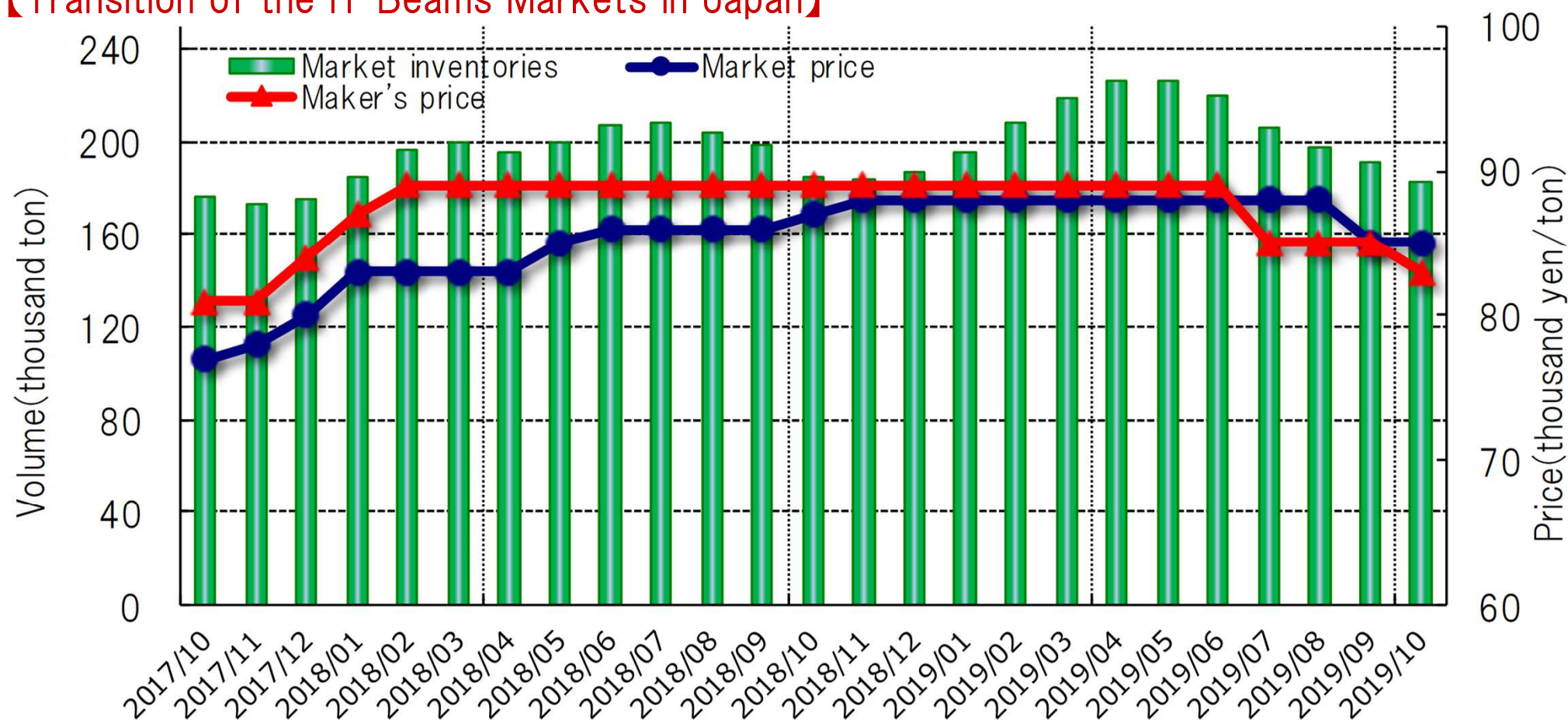
【Steel scrap and D-bar Market Price】



- Supply/Demand...Supply and demand remained sluggish generally, as electric furnaces in Japan have not positively purchased and demand declined in China and Southeast Asia.
- Market price...Market price continued to decline moderately in Japan and overseas, as price of electric furnaces' purchases continued to fall in Japan, and demand from Asia weakened.

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

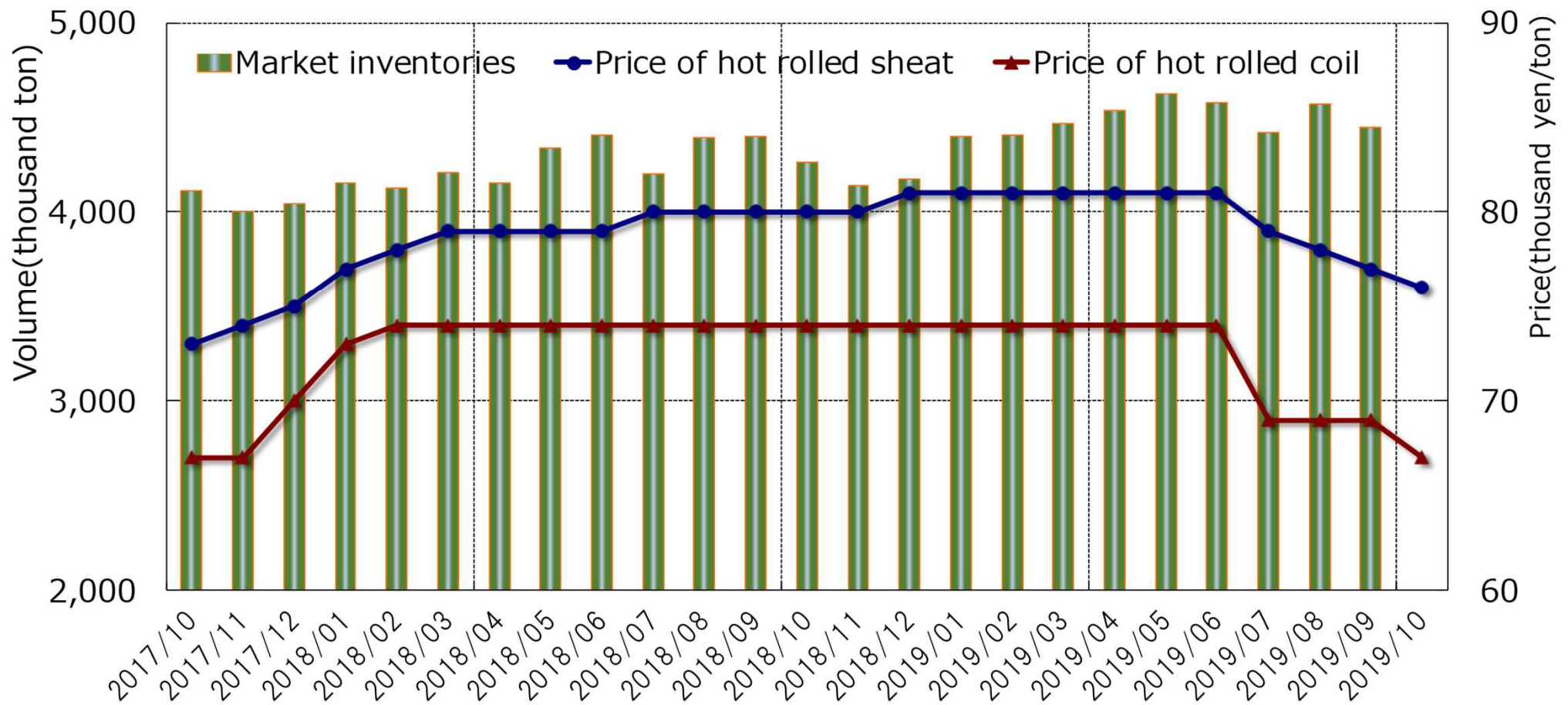
【Transition of the H-Beams Markets in Japan】



- Supply/Demand...Although demand for urban redevelopment and logistics facilities is expected, demand for construction and civil engineering work remained weak as demand for Olympic facilities had calmed down.
- Market price...Market prices have recently weakened, reflecting weak expectations of higher prices due to price policy of electric furnaces and decline in demand.

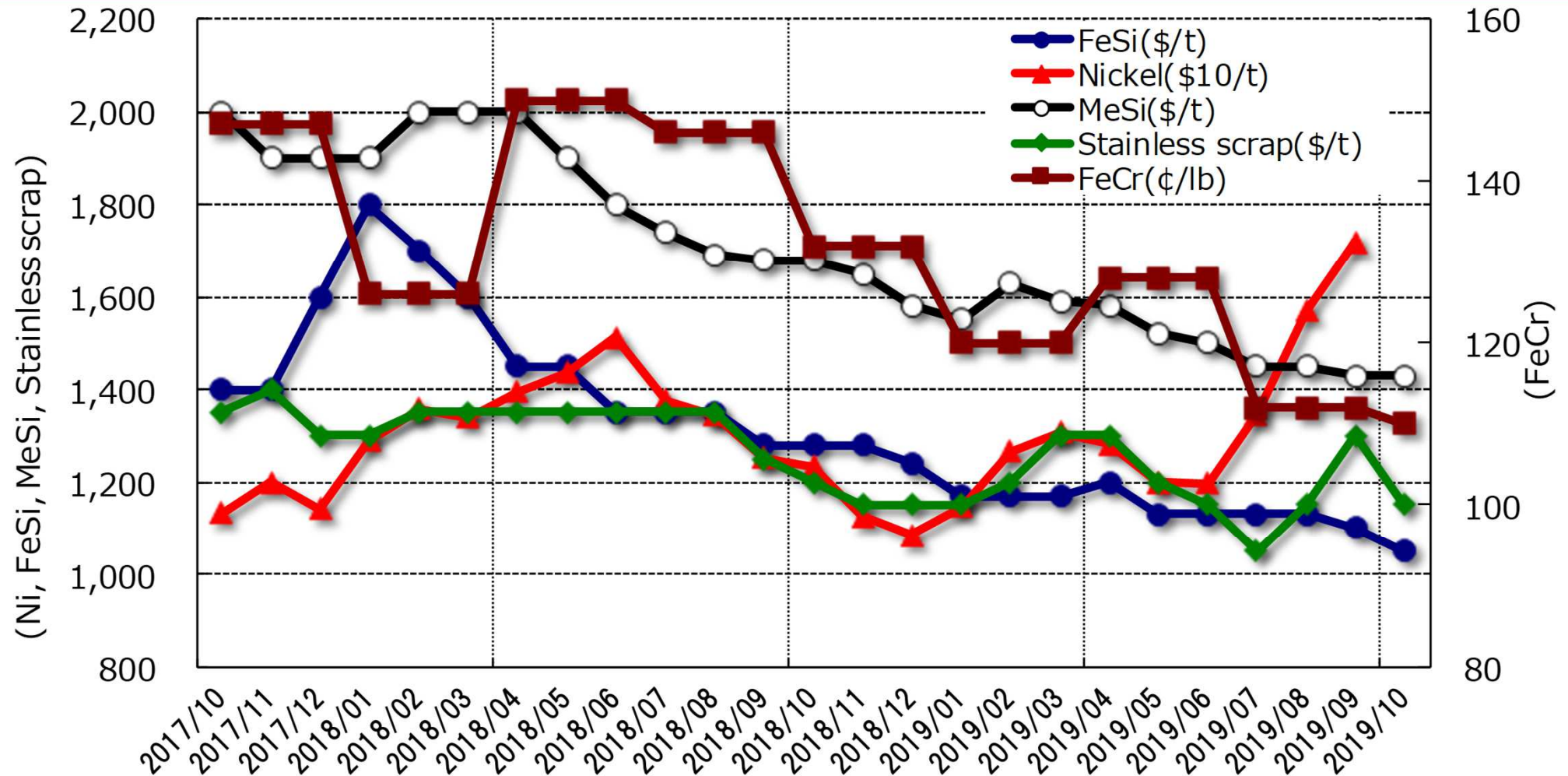
(Data source : Inventories _ Tokiwa-kai / Price _Japan metal daily)

【Transition of Steel Sheets Markets in Japan】

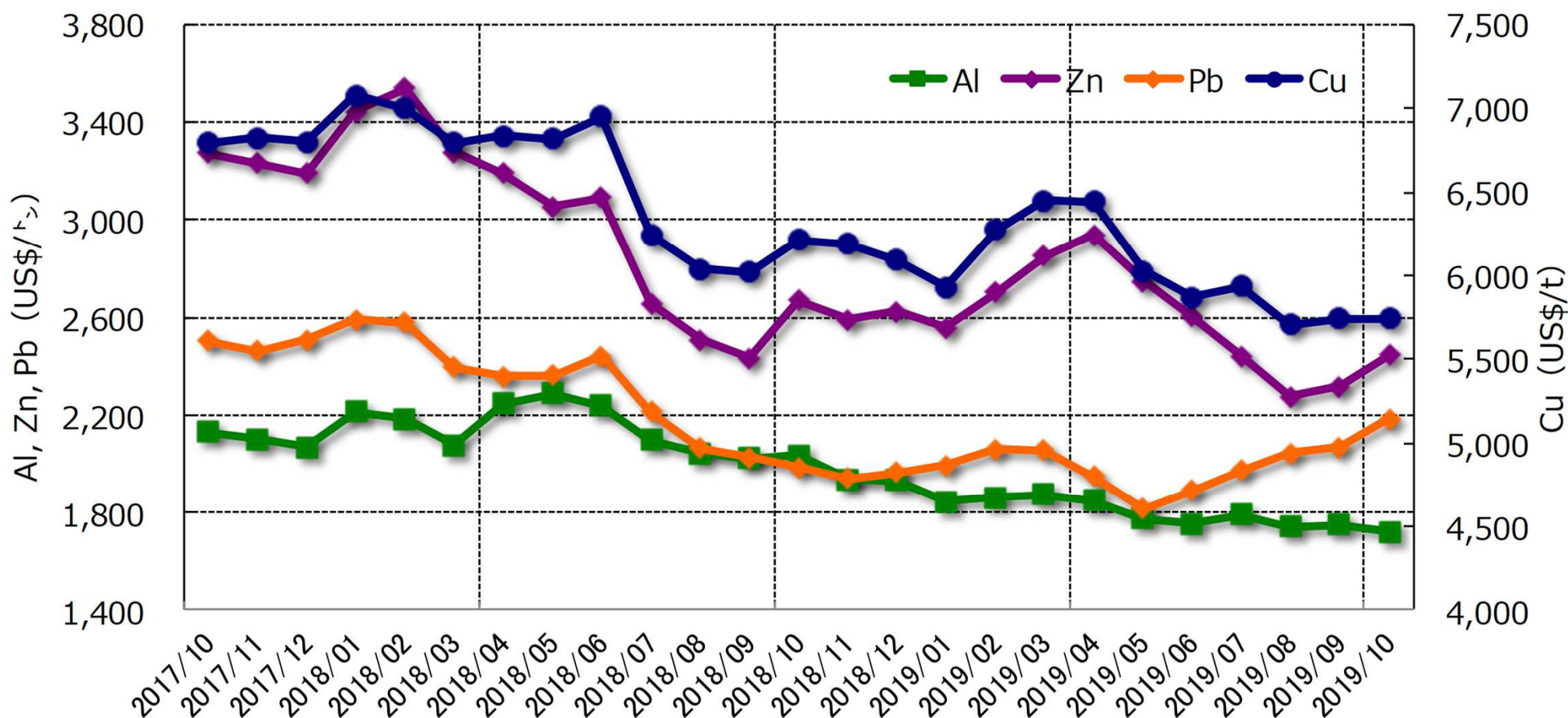


- Supply/Demand...Supply-demand balance remained sluggish generally, as exports of steel declined and production activity in the manufacturing industry weakened due to slowdown of economies in China and other countries,.
- Market price...Despite malfunction of steel mills caused by natural disasters, prices shifted from a phase of high price plateau to a phase of gradual decline.

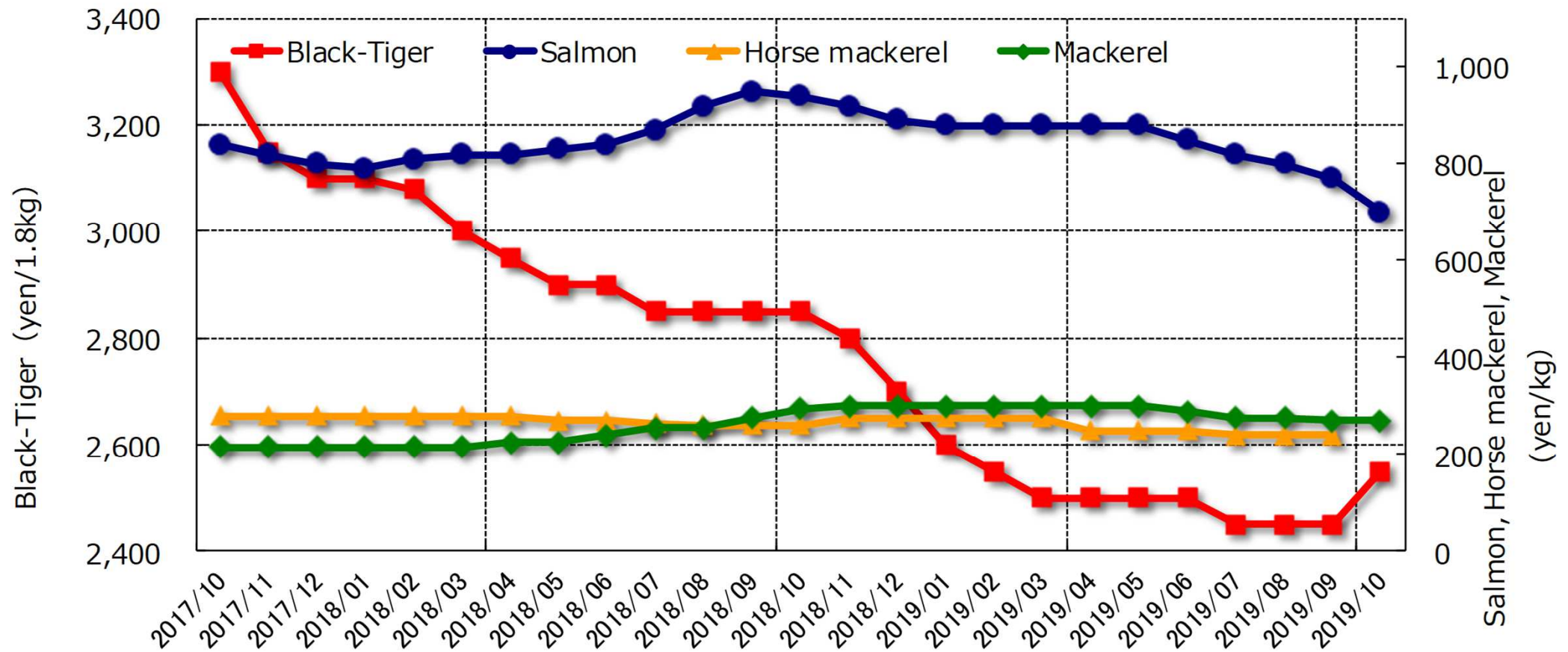
(Data source : Inventories _ The Japan Iron and Steel Federation / Price _Japan metal daily)



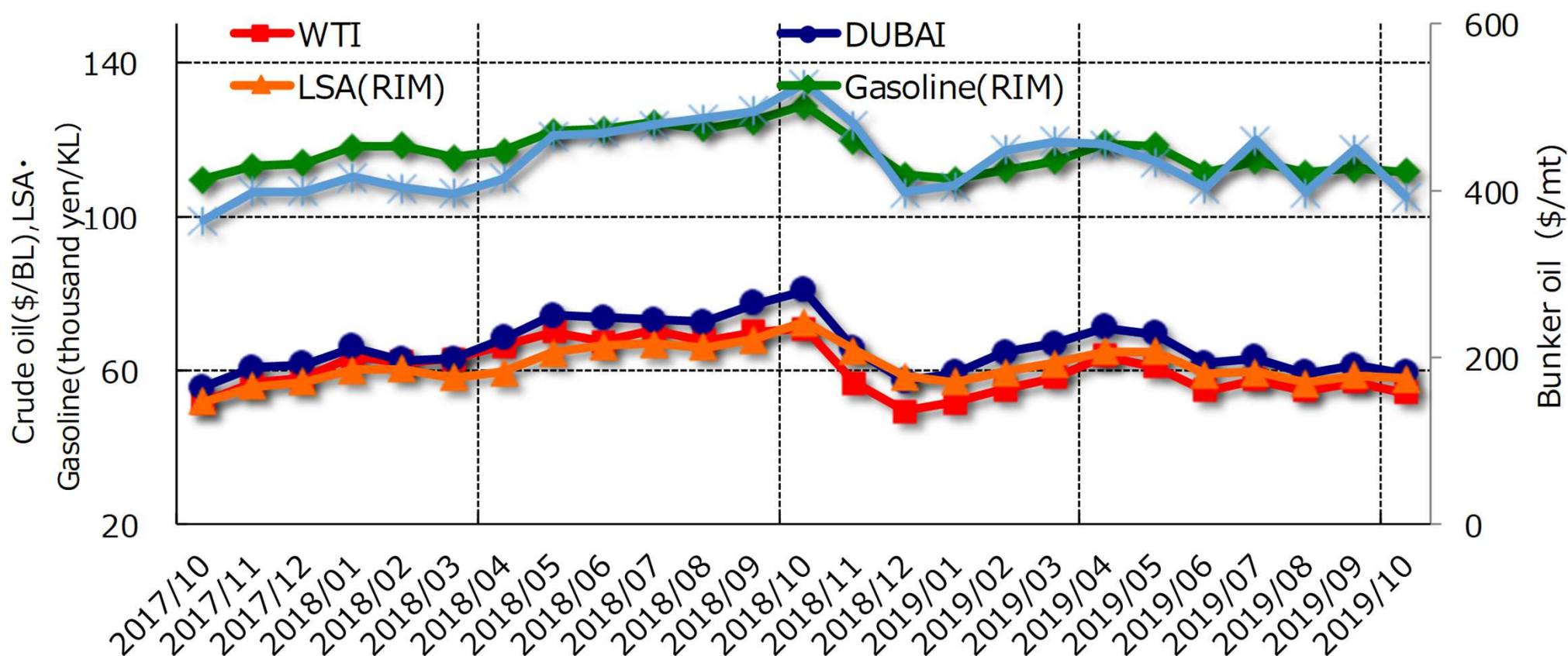
- Nickel...In addition to expectations for demand for secondary batteries and concerns over restrictions on export of ores from Indonesia, speculative purchases have led to a significant rise in nickel market since the beginning of this year.
- Alloys...In addition to concerns about economy slowdown in Europe and China, impact of inventory adjustments by stainless steel manufacturers also contributed to downward trend in alloys market.



- Aluminum...Although prices rose temporally due to concerns over restrictions on export of bauxite from Indonesia, prices have declined moderately due to trade friction between U.S. and China and concerns over economic slowdown in other countries.
- Copper...Prices continued to decline due to trade conflict between U.S. and China and concerns over the outlook for the Chinese economy, despite some occasions of upturn due to labor disputes at copper mines in various parts of South America and civil actions.



- Salmon...Despite continuance of decrease of Sockeye salmon caught in Russia and Alaska, inventory level has risen due to increase in supply of new Chilean Coho salmon. In result, prices have entered a downward revision phase.
- Shrimp...Despite decrease in supply from main production area especially India, market price continued to fall due to decline of demand in U.S. and China.



- Crude oil... price remained at a low level generally, despite an upward phase due to rising risks in the Middle East, as demand was expected to decline due to impact of trade conflict between U.S. and China, despite coordinated reduction of production by oil-producing countries.
- Petroleum products... Prices remained stable at a low level due to low crude oil price and impact of refinery troubles at primary distributors.