

Financial Results for the First Half of FY2022

November 2022
HANWA CO., LTD.

Operating Results (Consolidated)

■ Net Sales

In addition to commodity prices such as steel materials, non-ferrous metals, and crude oil remaining at high levels due to high resource prices, growing business at overseas sales subsidiaries also contributed to these results.

■ Ordinary income and net income attributable to owners of the company

In addition to the increase in operating income, income increased significantly due to dividend income from strategic investment, etc., and an increase in equity in earnings of affiliates in the primary metal business segment.

(billions of yen)	FY2021 H1	FY2022 H1	Y on Y Change (Y on Y Rate)
Net Sales	980.3	1,338.9	+358.6 (+37%)
Gross Profit	57.5	71.1	+13.5 (+24%)
Operating income	30.4	41.3	+10.9 (+36%)
Ordinary income	30.6	52.9	+22.3 (+73%)
Net income attributable to owners of the Company	20.9	37.1	+16.1 (+77%)

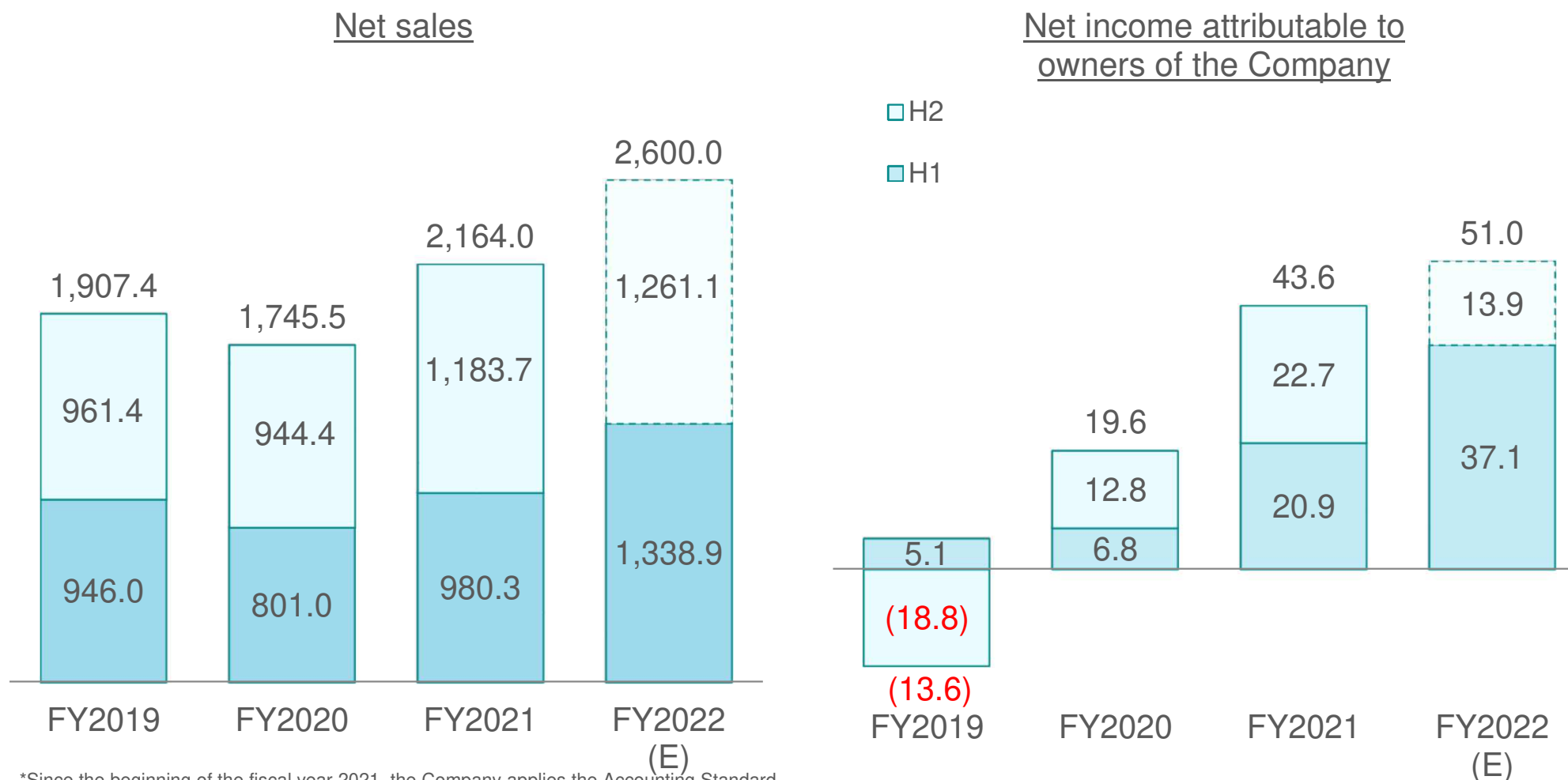
*Since the beginning of the fiscal year 2021, the Company applies the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29).

Changes in Business results (Consolidated)

■ Semi-annual Changes in Business Results

Both net sales and income reached record highs in the first half.
Full-year results are also expected to reach record income.

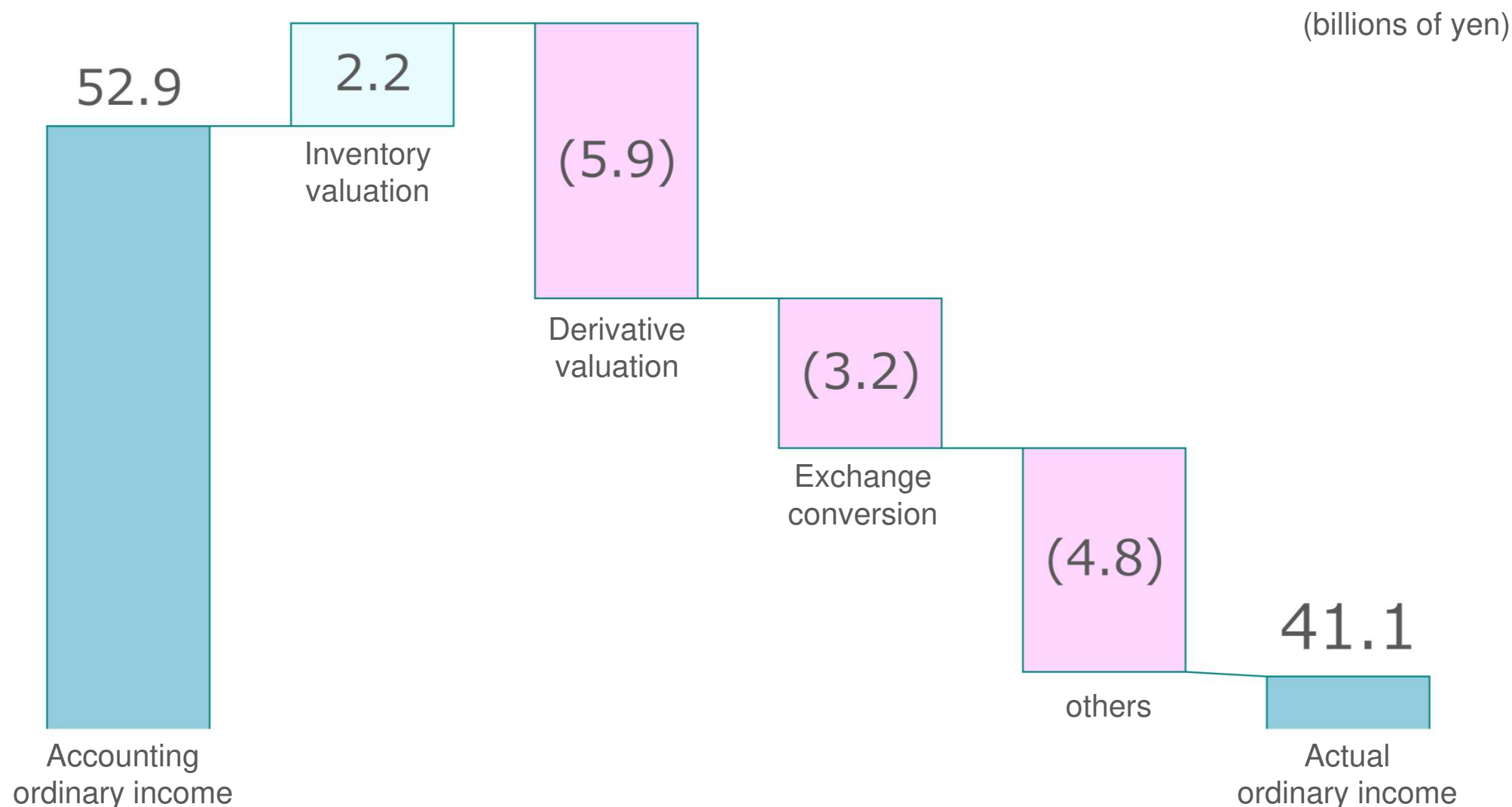
(billions of yen)



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

- Reported ordinary income was 52.9 billion yen, but can be translated into about 41.1 billion yen after excluding one-time factors such as period-end valuation gains and losses.



Segment Information (consolidated)

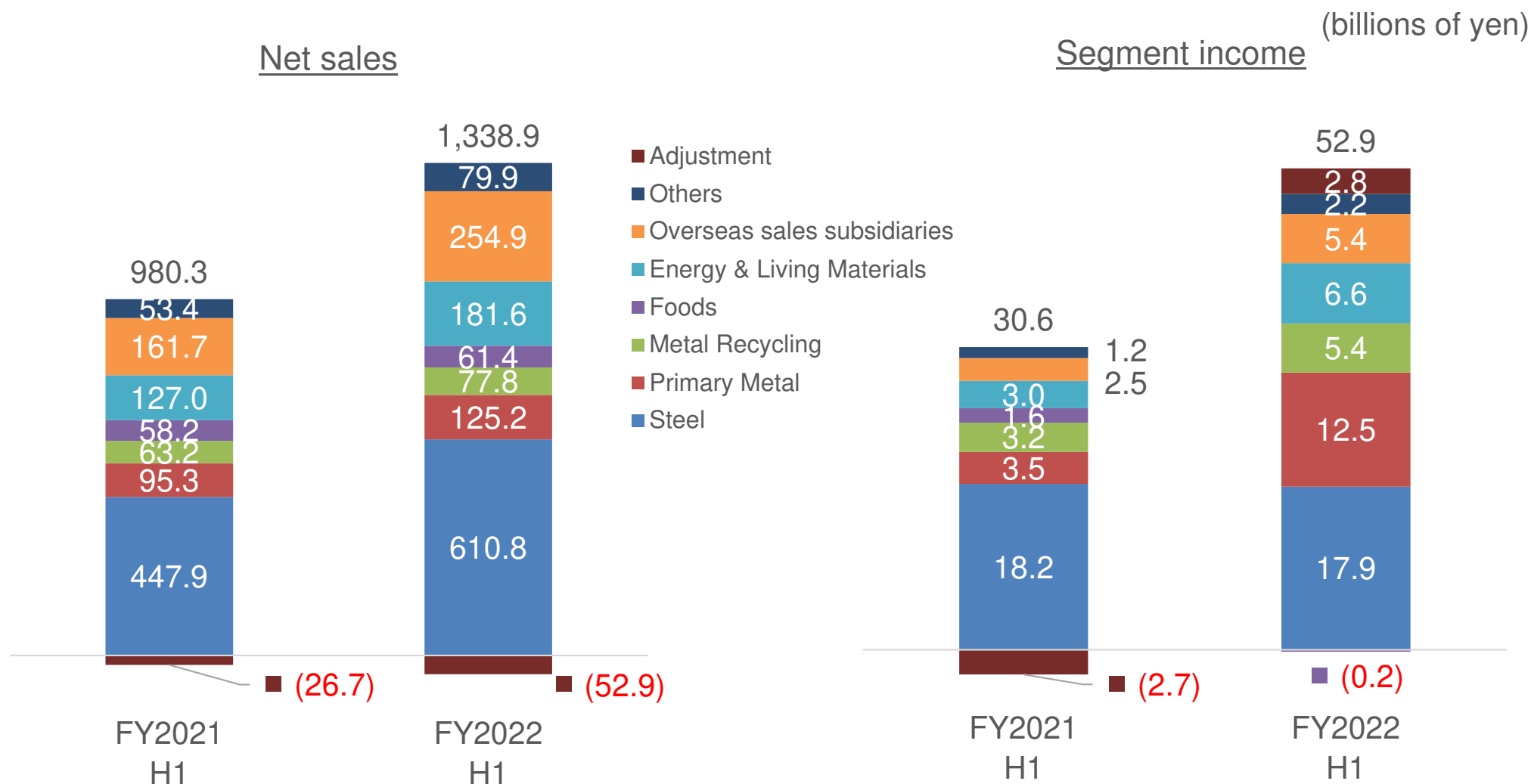
■ Information by each segment

Profits expanded in all business segments except for Steel and Foods business.

Primary metals business : +9.0 billion yen (YoY)

Energy & Living Materials business : +3.5 billion yen (YoY)

Overseas sales subsidiaries : +2.9 billion yen (YoY)



Financial Position (consolidated)

- **Shareholder's equity 257.1billion yen** (From the end of FY2021,+35 billion yen) because of accumulation of retained earnings.
- **Net Interest-bearing debt 473.5billion yen** (From the end of FY2021, (83.9)billion yen) because of decreases in long-term guarantee deposits
- **Net debt-equity ratio 163%/142*%** (From the end of FY2021, -72pt)

*Reflecting equity credit attributes of the subordinated loan

(billions of yen)	Mar-22	Sep-22	Y on Y Change (Y on Y Rate)
Total assets	1,715.3	1,362.1	-353.2 -20.6%
Shareholder's equity	237.1	289.7	+52.6 22.2%
Shareholder's equity ratio	13.8%	21.3%	+7.5pt(+54%)
Taking account of Hybrid loan	*15.3%	*23.1%	-
Interest-bearing debt	722.9	611.3	-111.6 -15.4%
Net interest-bearing debt	557.4	473.5	-83.9 -15.1%
Net DER	235%	163%	-72pt
Taking account of Hybrid loan	203%	142%	-

Cash Flow Situation (consolidated)

- **Cash flow from operating activities** was 110.1 billion yen
Due mainly to decrease in long-term guarantee deposits (187.3 billion yen) and accounts receivable-other (127.5 billion yen) .
- **Cash flow from investing activities** was (8.6) billion yen
Due mainly to purchase of tangible fixed assets and investment securities.
- **Cash flow from financing activities** was (122.5) billion yen
Due mainly to repayment of loans payable with collection of long-term guarantee deposits.

	FY2021 H1	FY2022 H1	Y on Y change (Y on Y Rate)	
(billions of yen)				
CF from operating activities	(66.1)	110.1	+176.2 (-)	
(Major factors)				
Income before income taxes	30.6	53.4	+22.8 (+75%)	
(Increase)decrease in working capital	(69.8)	(67.2)	+2.5 (-4%)	* (Increase)decrease in working capital
(Increase)decrease in accounts receivable-other	(5.7)	127.5	+133.3 (-)	= (Increase)decrease in trade receivables and contract assets
(Increase)decrease in long-term guarantee deposits	(5.5)	187.3	+192.9 (-)	+(Increase)decrease in inventories +Increase(decrease) in trade notes and accounts payable
CF from investing activities	(8.5)	(8.6)	(0.0) (+1%)	
CF from financing activities	78.6	(122.5)	(201.2) (-)	
Cash & cash equivalents	56.2	137.8	+81.5 (+145%)	

Business Forecast FY2022

■ Amendments to Forecasts

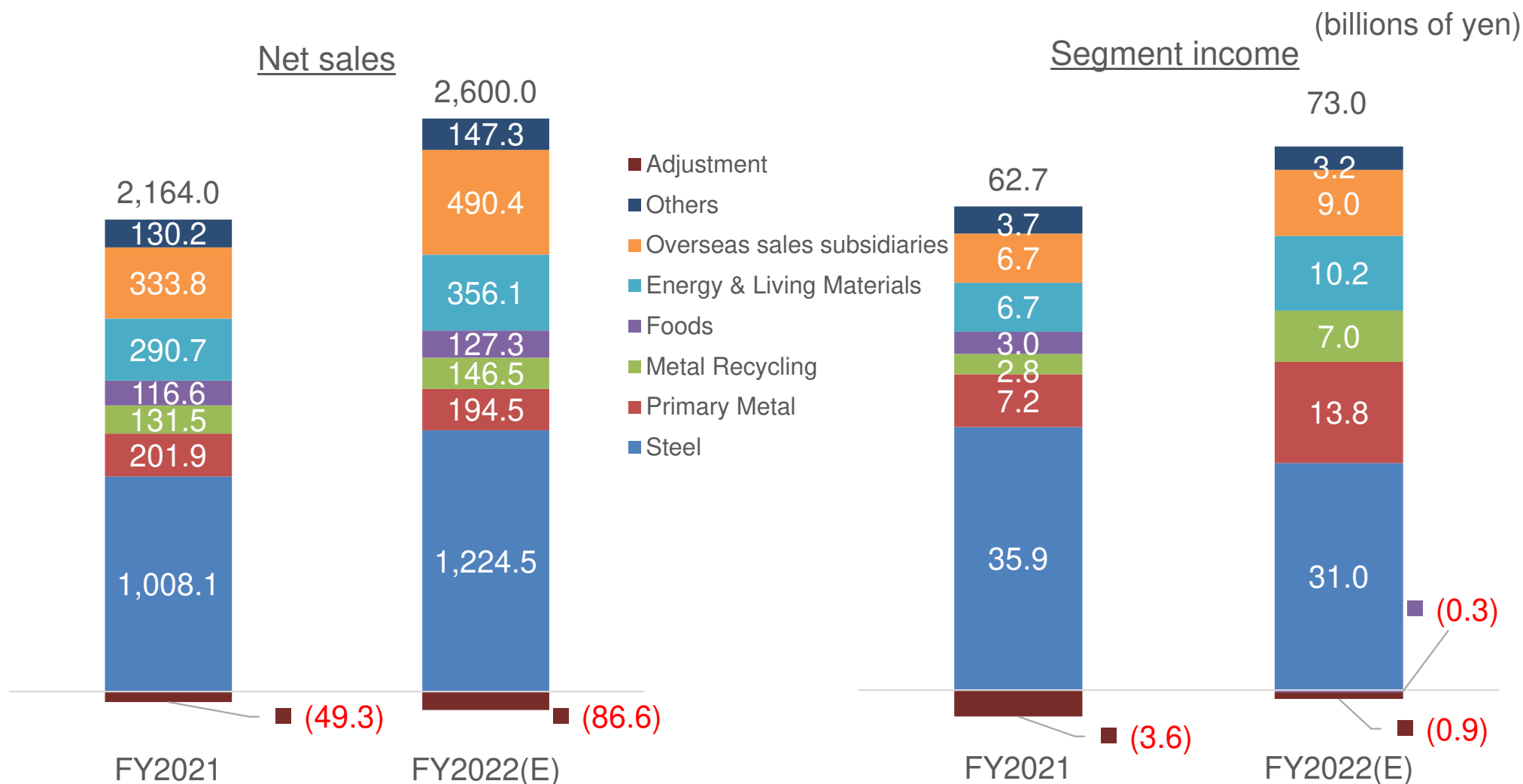
Based on recent business performance, we have amended the forecast of consolidated financial results for FY2022.

(billions of yen)	FY2021 Actual	FY2022 H1	FY2022 Revised forecast	Y on Y rate
Net sales	2,164.0	1,338.9	2,600.0 (Compared to 1Q forecast±0)	51%
Operating income	62.3	41.3	70.0 (Compared to 1Q forecast+5.0)	59%
Ordinary income	62.7	52.9	73.0 (Compared to 1Q forecast+8.0)	73%
Net income attributable to owners of the Company	43.6	37.1	51.0 (Compared to 1Q forecast+5.0)	73%

Forecast of Segment Information

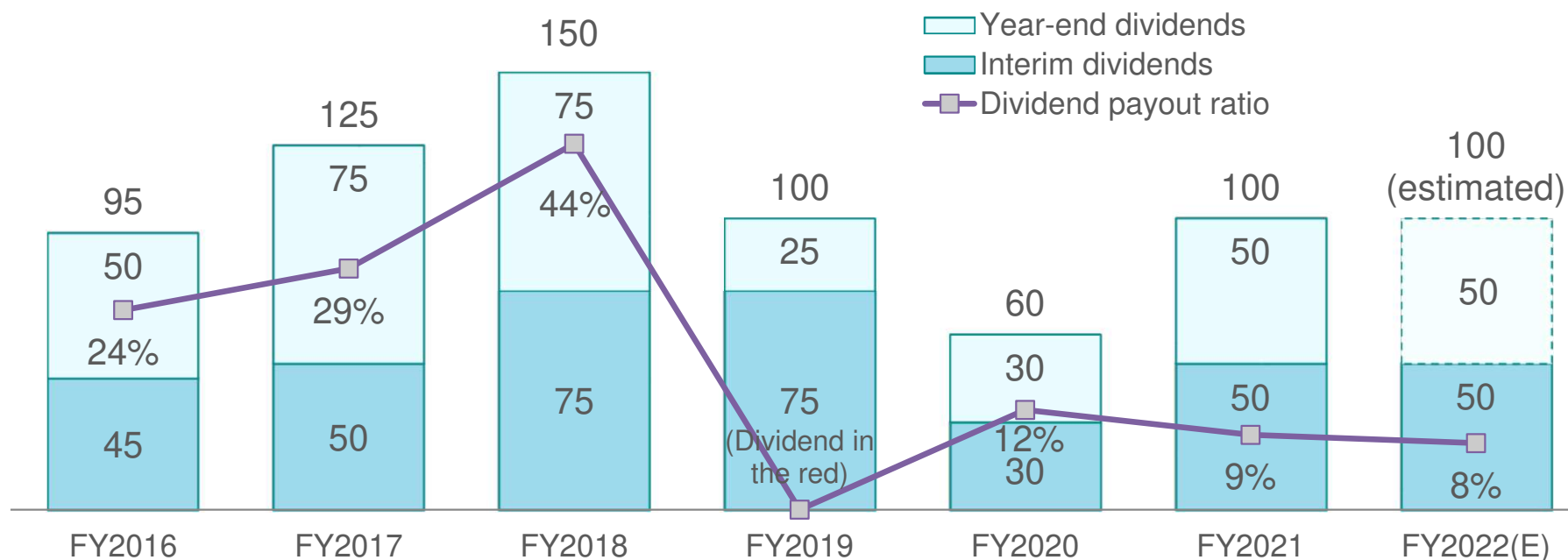
■ Progress rate of segment income (ordinary income) against full-year forecast

Steel	58%	Energy & Living Materials	65%
Primary metals	91%	Overseas sales subsidiaries	60%
Metal recycling	77%	Others	71%
Foods	—		



Dividend Policy

- We will strive to improve our financial position and cash flow in order to achieve stable and continuous dividends and growth investments.
- We plan to present a new dividend policy at the time of announcing the full-year financial results for this fiscal year.



Net income	16.3	17.3	13.9	(13.6)	19.6	43.6	51.0
Shareholders' equity	159.7	172.9	180.9	161.3	179.7	222.0	-

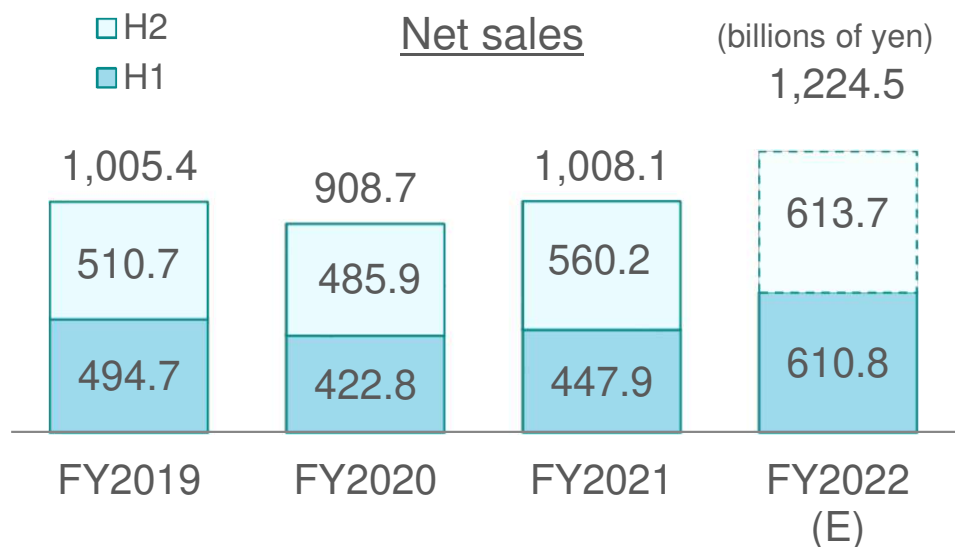
(billions of yen)

8th Plan
(Medium-Term Business Plan 2019)

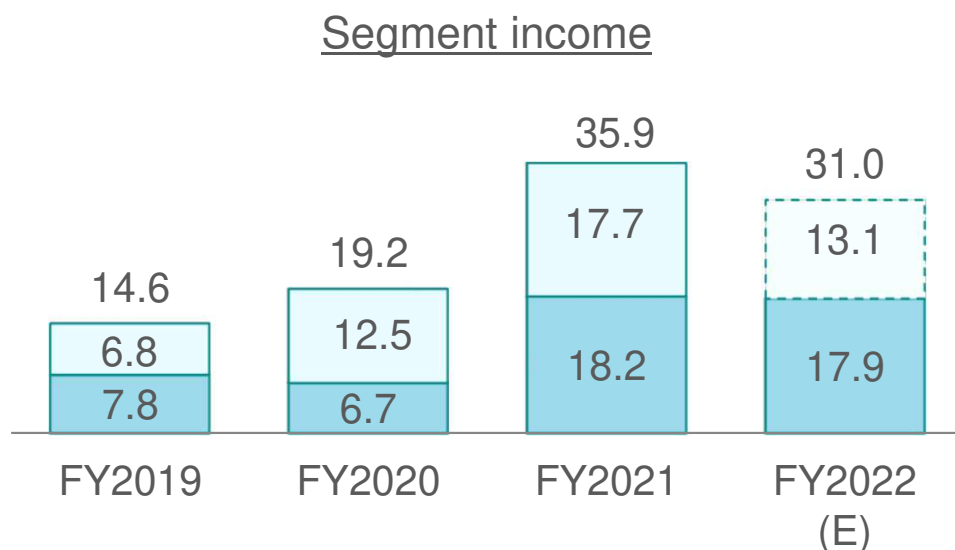
9th Plan
(Medium-Term Business Plan 2022)

Steel Business Segment

- Profit margin shrank due to a rise in purchase prices, despite transaction volume remaining strong. Segment income also decreased due to a decrease in equity in earnings of affiliates from overseas investments.



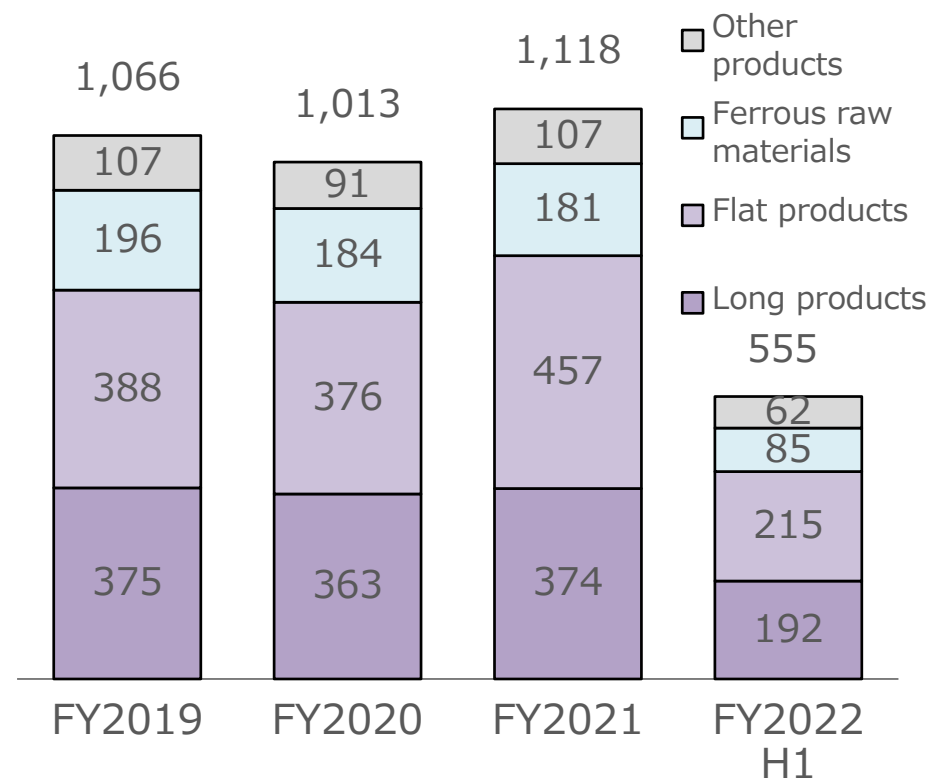
*Since the beginning of the fiscal year 2021, the Company applies the Accounting Standard for Revenue Recognition.



Transaction Volume(Consolidated)

(Ten thousand ton)

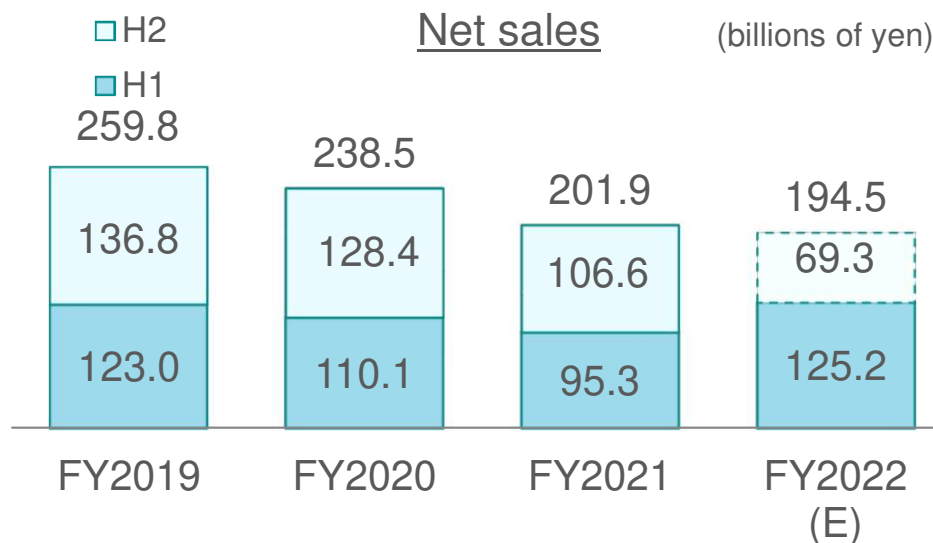
*The consolidated transaction volume for steel in steel business segment is based on the simple sum of the company and its consolidated subsidiaries. Please refer to page 17 for the total volume handled of steel in all business segments.



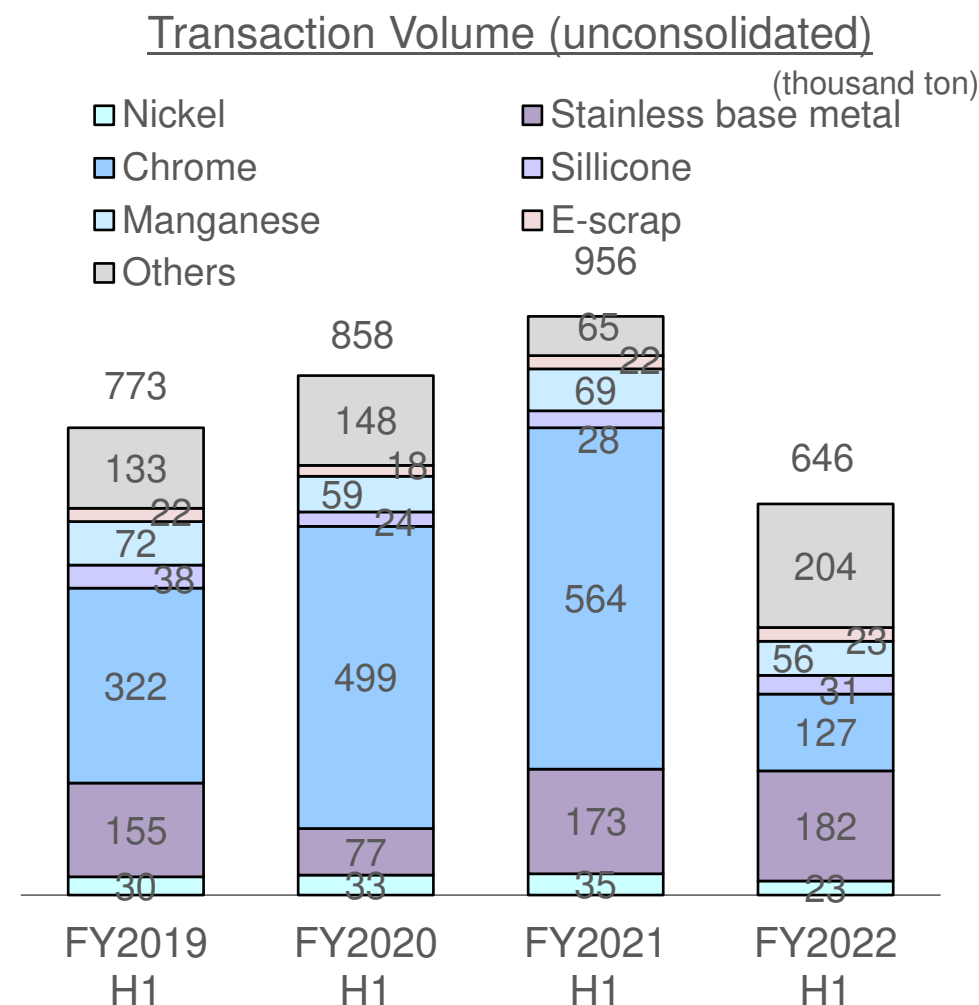
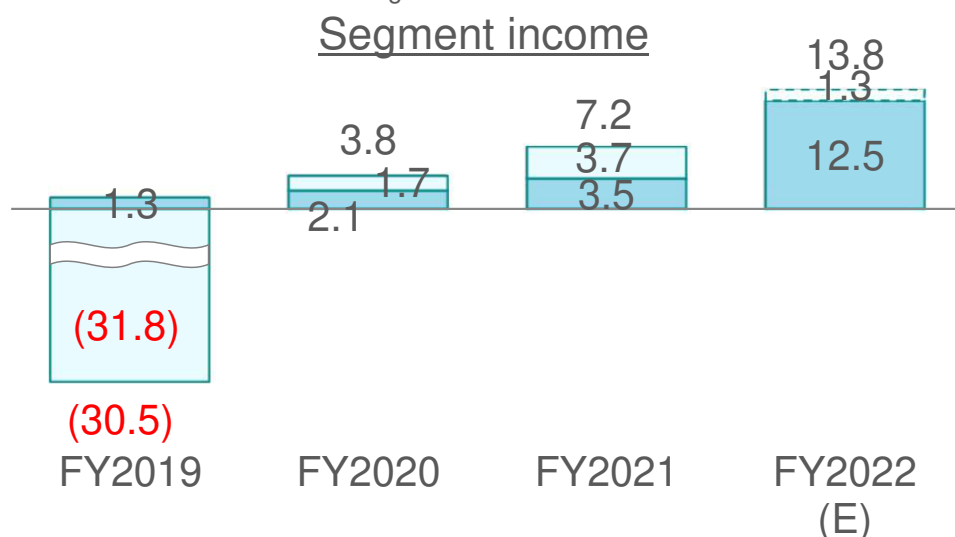
*We record transaction volume in each business segment as management approach, previously recorded in classification of products.

Primary Metal Business Segment

- Prices of some commodities such as nickel and silicon-based ferroalloy remained at relatively high levels. Segment income increased, because dividend income from strategic investments and equity in earnings of affiliates from SAMANCOR boosted profits.



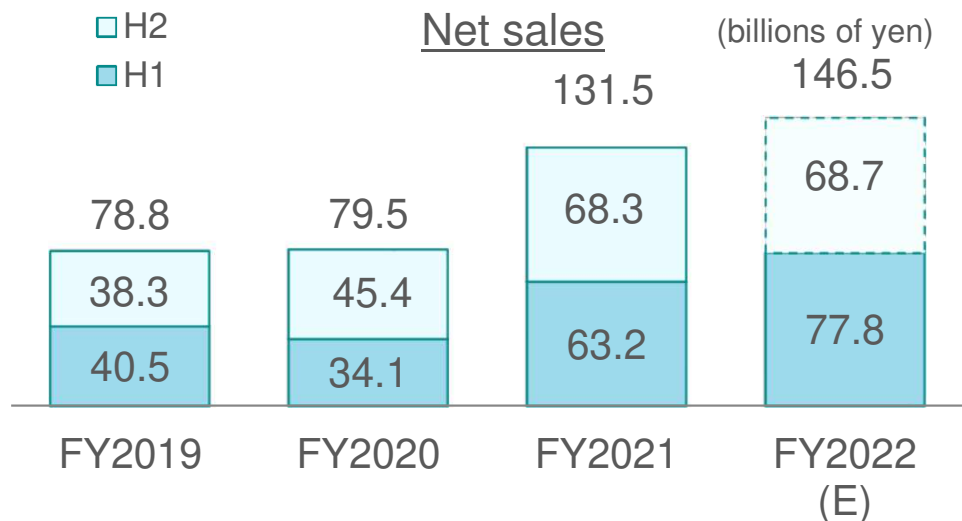
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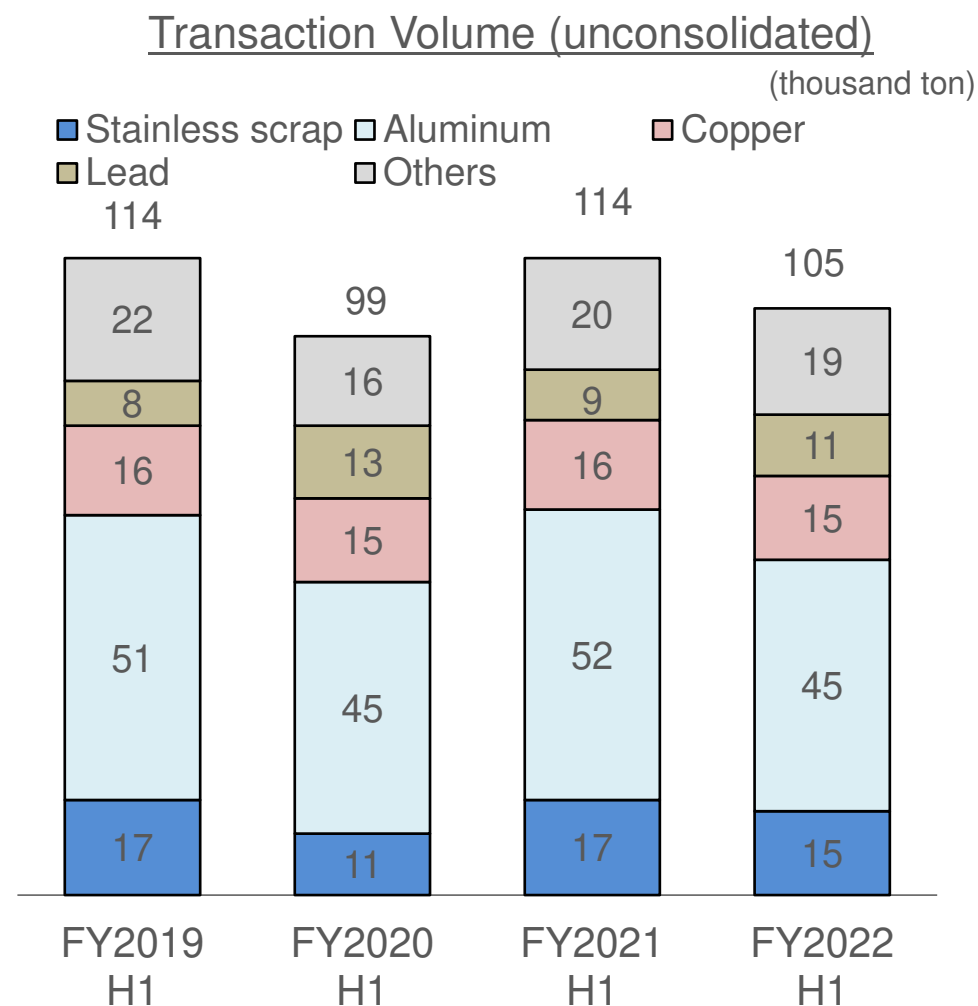
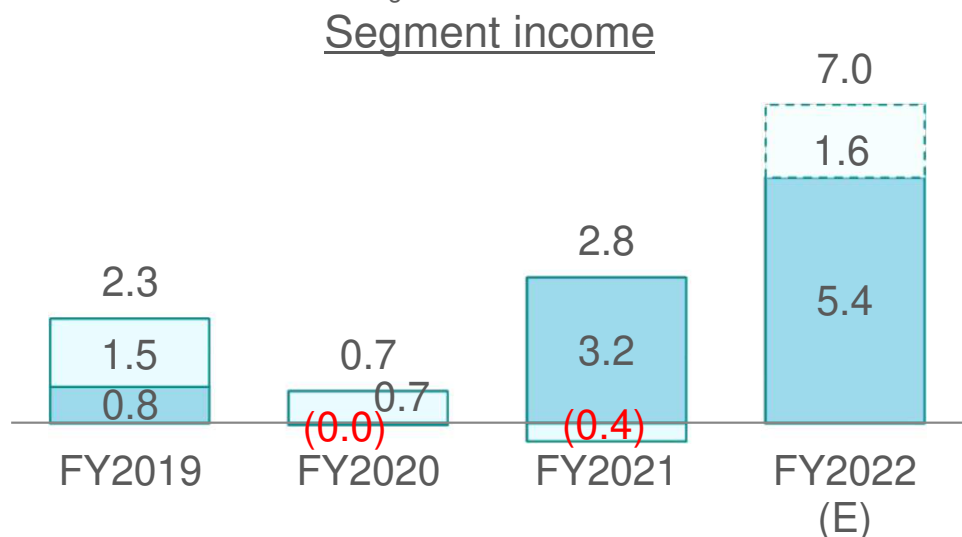
*We record transaction volume in each business segment as management approach, previously recorded in classification of products.

Metal Recycling Business Segment

- Segment income increased, because reflection of raw material prices in products progressed amid strong transaction volume, and because revenue was boosted due to valuation gains from forward commodity transactions for hedging driven by the recent plunge in non-ferrous metal prices.



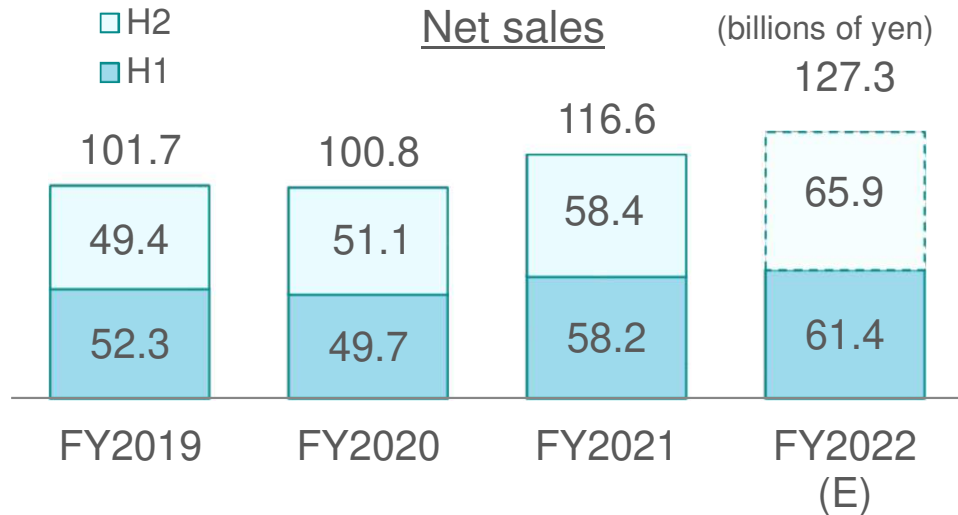
*Since the beginning of the fiscal year 2021, the Company applies the Accounting Standard for Revenue Recognition.



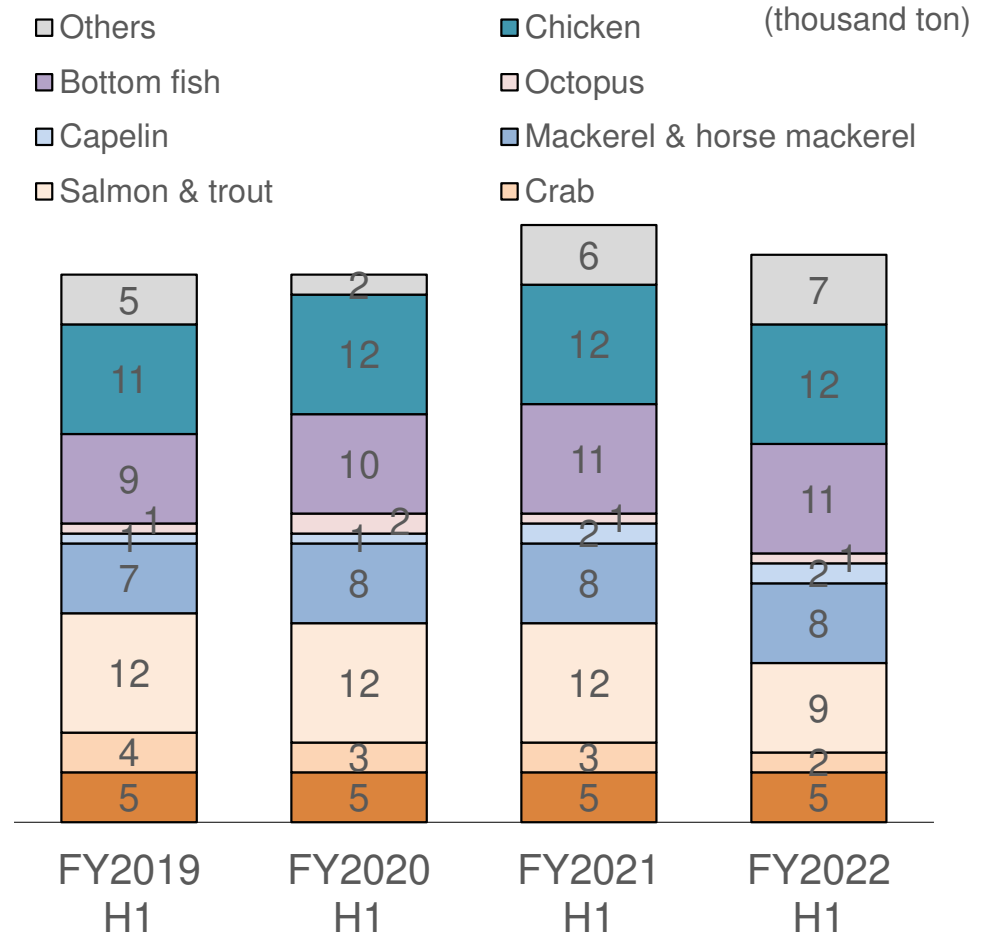
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Foods Business Segment

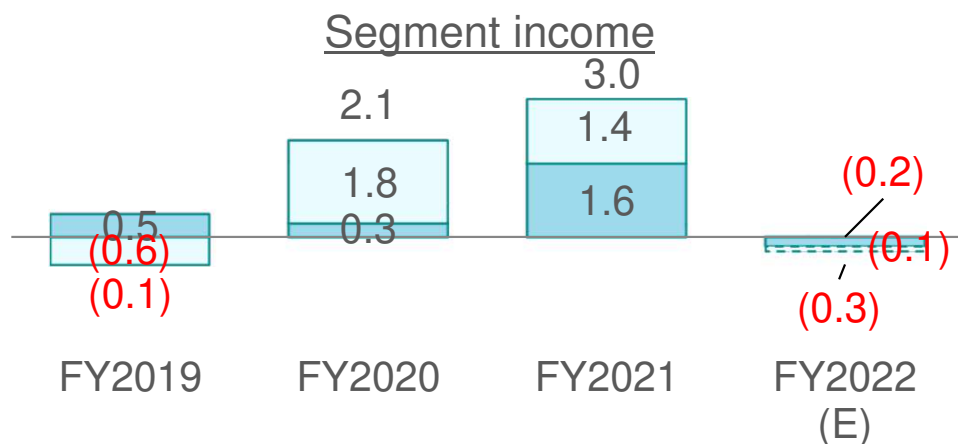
- Segment income decreased, because an appraisal loss on the products was posted due to the decline in crab market prices due to import measures and reduced demand for crabs from Russia and the inability to fully reflect raw material prices in products for the increase in procurement costs caused by factors such as the weakening yen.



Transaction Volume (unconsolidated)



*Since the beginning of the fiscal year 2021, the Company applies the Accounting Standard for Revenue Recognition.

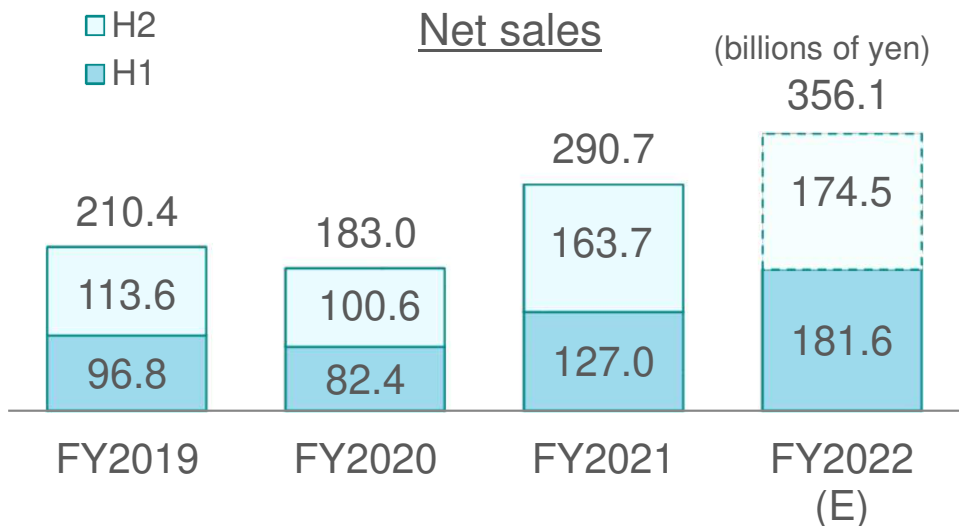


※Since January 2022, the Company has changed its method of classification of business segments, integrating a part of the Overseas sales subsidiaries business into the Foods business.

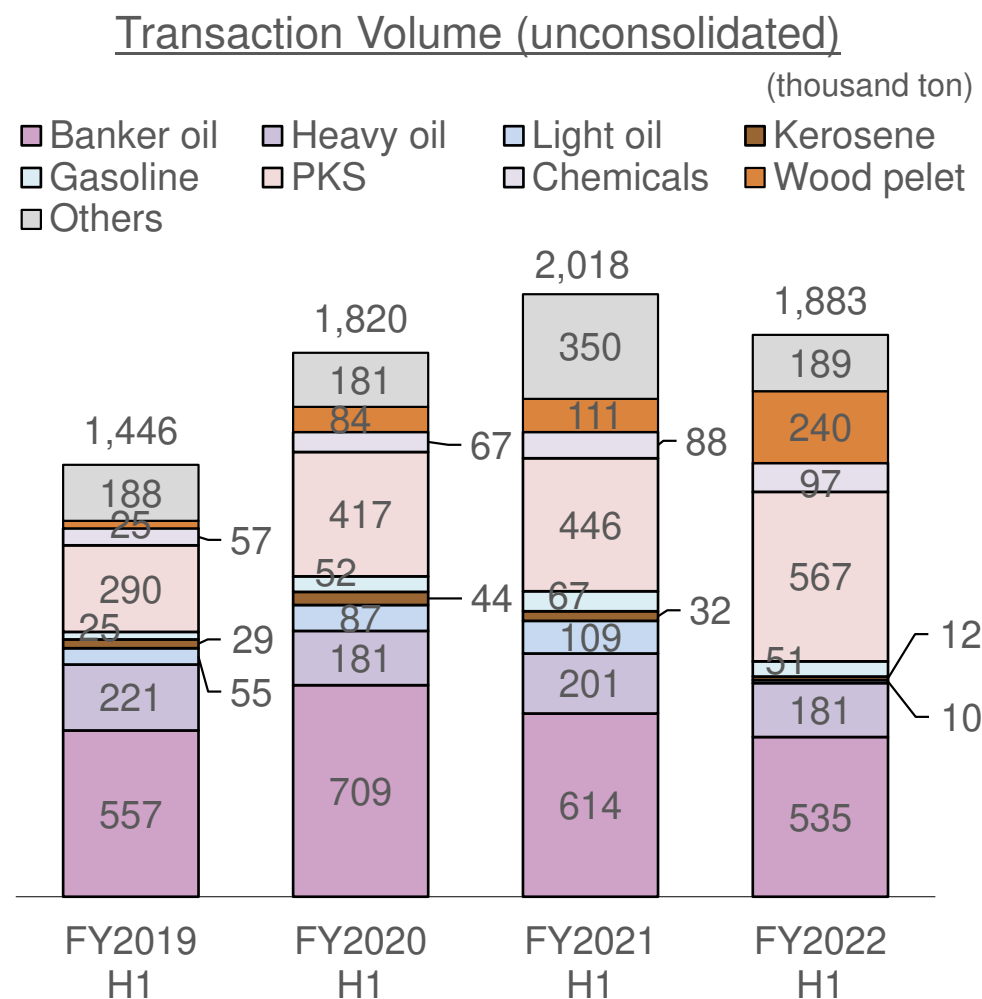
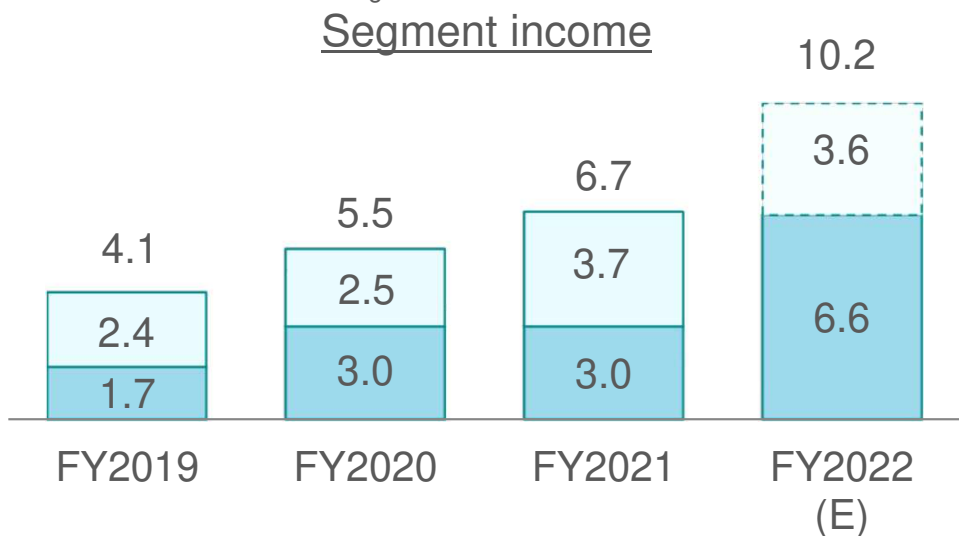
*We record transaction volume in each business segment as management approach, previously recorded in classification of products.

Energy & Living Materials Business Segment

- Segment income increased, because revenue increased mainly for bunker oil as a result of the further rise in crude oil and petroleum product prices due to the Ukraine crisis, and because transaction volume and unit price increased for PKS and wood pellets.



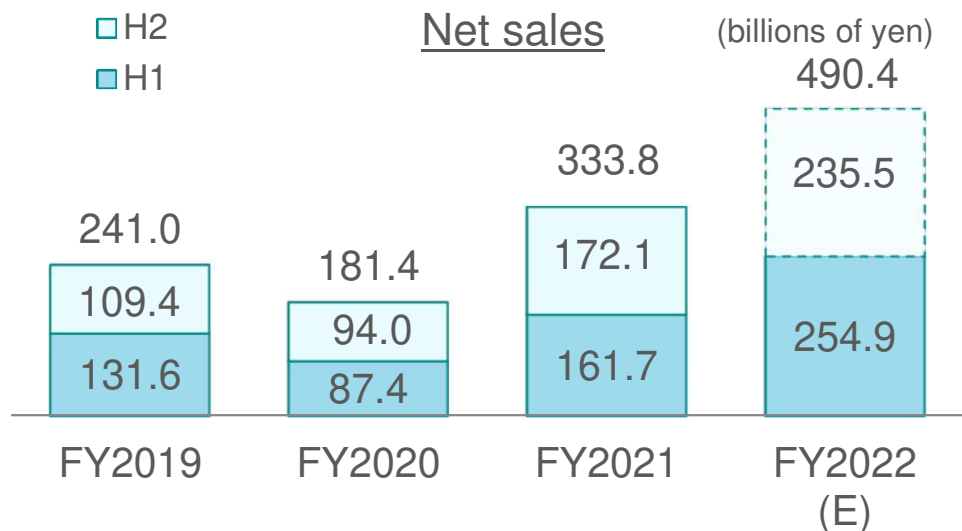
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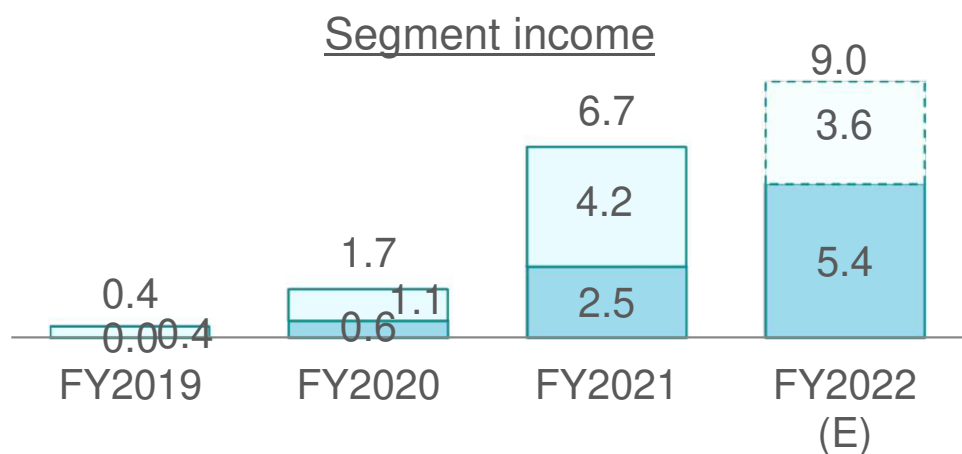
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Overseas Sales Subsidiaries Segment

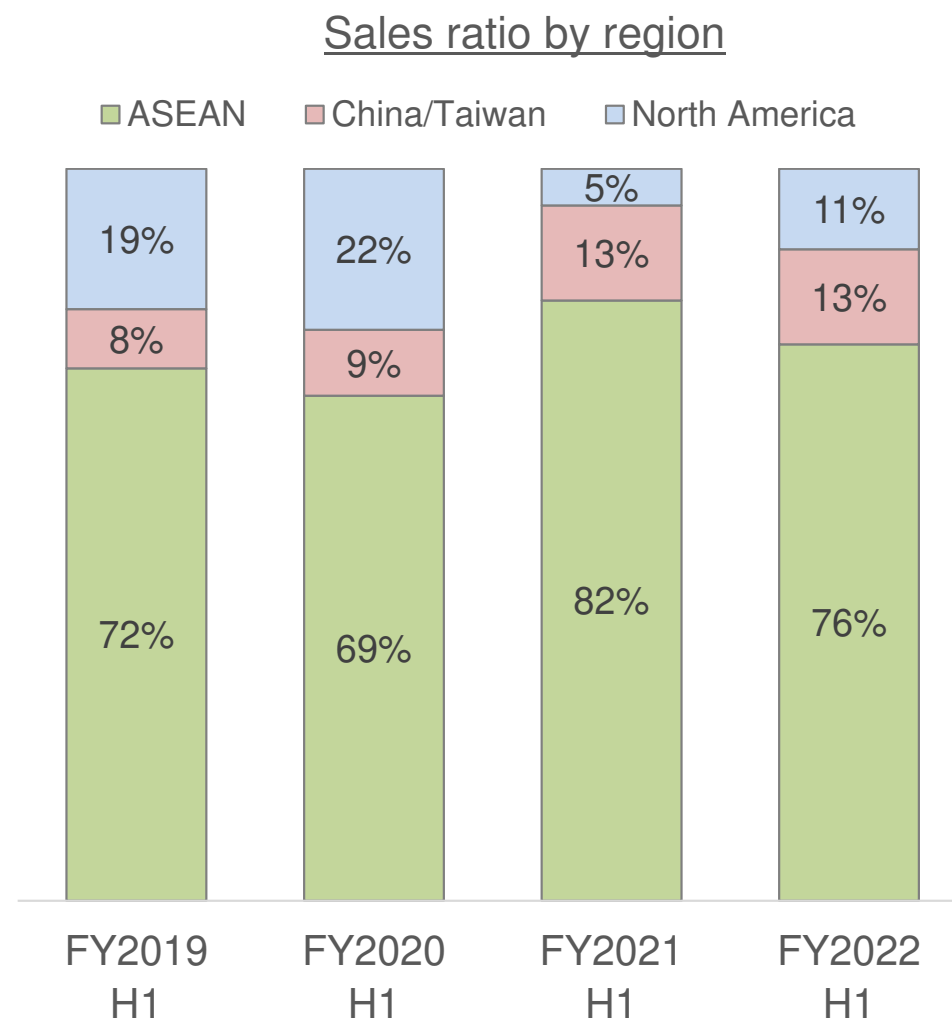
- Segment income increased, because transaction volume of steel increased mainly in Indonesia and Singapore, and because improved profitability at sales subsidiaries in the United States contributed to profit growth.



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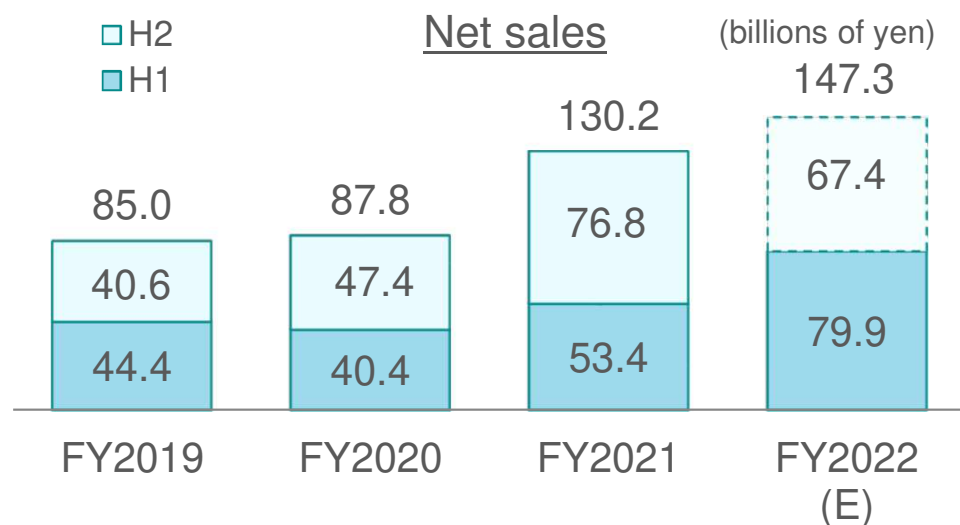
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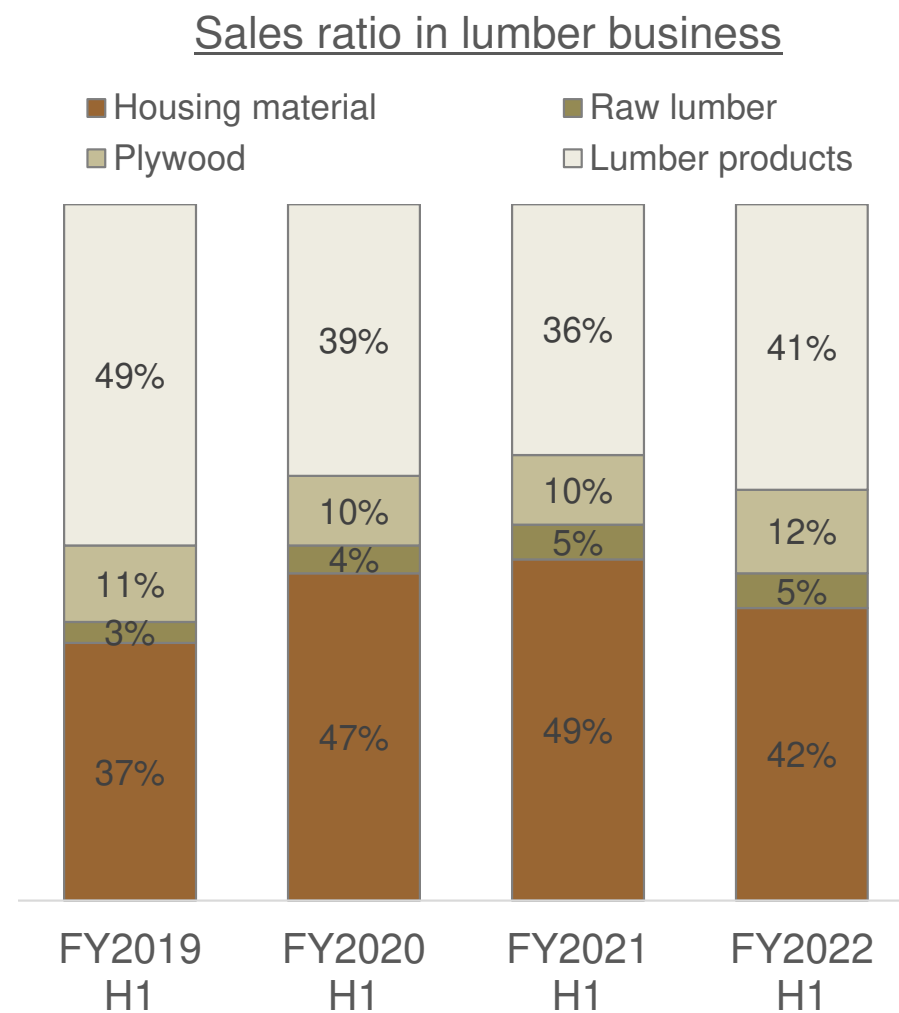
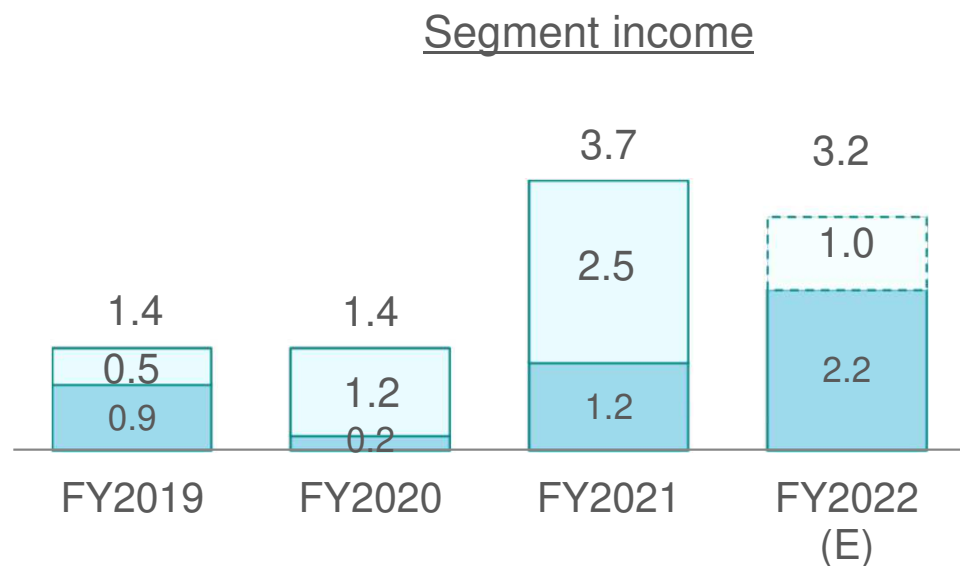
* We record transaction volume in each business segment as management approach, previously recorded in classification of products.

Other Segment

- Lumber...Revenue increased mainly for imported lumber because of high lumber prices due to the wood shock.
- Machinery...Net sales and income decreased due to fewer large-scale completed projects year-on-year.



*Since the beginning of the fiscal year 2021, the Company applies the Accounting Standard for Revenue Recognition.



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

Transition of Quantitative Indicators

- It is expected that ordinary income will be 73.0 billion yen in FY2022.
- Transaction volume of steel in all segments reached 7.47 million tons of the end of the second quarter, because transaction volume of steel increased in some countries, mainly Indonesia and Singapore.

	FY2020	FY2021	FY2021 H1	FY2022 H1
Net sales (billions of yen)	1,745.5	2,164.0	980.3	1,338.9
Ordinary income (billions of yen)	28.8	62.7	30.6	52.9
Net DER	133%	235%	152%	163%
Taking account of Hybrid loan	105%	203%	126%	142%
Investment Amount (billions of yen) (in total from FY2020)	150	364	268	464
Consolidated transaction volume of Steel (million ton)	12.3	14.4	7.1	7.5
Steel segment	10.1	11.2	5.5	5.5
Other	2.2	3.3	1.6	1.9
Consolidated number of new customers	1,953	2,249	1,096	1,046
(in total from FY2020)	1,953	4,202	3,049	5,248

Profits of Group Companies

- The ratio of consolidated profit to parent company's profit in ordinary income was 149% because the profits of group companies in both Japan and overseas countries increased.
- **Overseas sales subsidiaries**...The transaction volume of steel increased in some countries including Indonesia and Singapore, and profitability improved at sales subsidiaries in the U.S.
- **Food Business**...Appraisal loss on the products was recorded at consolidated subsidiaries due to the impact of the falling crab market prices.

Ordinary income trend of group companies(Consolidated subsidiaries/Equity method affiliates)

(billions of yen)	FY2021 H1		FY2022 H1		Y on Y Change	
	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas
Steel	3.7	2.1	2.7	2.9	(1.0)	+0.9
Primary Metal	(0.0)	(0.1)	(0.0)	5.9	-	+6.0
Metal Recycling	0.4	0.4	0.5	0.7	+0.1	+0.3
Foods	0.3	0.6	0.1	(0.9)	(0.1)	(1.4)
Energy & Living Materials	1.0	-	1.9	-	+0.9	-
Overseas sales subsidiaries	-	2.5	-	5.4	-	+2.9
Others	0.2	-	0.4	-	+0.2	-
Total	5.6	5.4	5.6	14.1	(0.1)	+8.7

* Calculate simple aggregation of ordinary income of consolidated subsidiaries & Equity in net income of affiliates.

Investments in business

- Moving forward the investments totaling about 10.0 billion yen to build a base for an earnings increase in the future

(billions of yen)	FY2022 H1	Major investments
Steel	2.4	Enhancement of processing facilities at domestic and overseas subsidiaries
Energy & Living materials	0.4	Business investment mainly to wood pellet-related business
Overseas sales subsidiaries	4.0	Business investment mainly to steel-related business
The whole company	3.0	Building new core system
Total	10.0	

Generating steady earnings from strategic investments



(million ton : Mlt)
(kilo ton : Kt)

- WATERBERG JV
(Platinum group metals)
— Operations from 2026
- BACANORA LITHIUM (Lithium carbonate)
— Operations from 2023/production 18Kt/year
- QMB NEW ENERGY(JV with CATL, Tsingshan Holdings, etc.)
(Ni and Co compounds for Rechargeable Batteries)
— Operations from 2022 / Ni production 50Kt/year,
Co production 4Kt/year
- PT.BIOMASA JAYA(Wood pellet)
— Operations from 2022 / production 0.15Mlt/year
— Operations at 2nd and 3rd plants from 2026 /production 0.45Mlt/year
- PT Dexin Steel Indonesia (steel blast furnace mill)
— Production at present 4Mlt/year
— Production from 2023 6Mlt/year
- OM HOLDINGS (FeSi, SiMn, FeMn) — FeSi, SiMn, FeMn production 0.6Mlt/year
- Tsingshan Holding (NPI & Stainless HRC) — NPI production 1.5Mlt/year、HRC production 3.0Mlt/year
※Started production of nickel matte
- SAMANCOR (Cr Ore, FeCr) — FeCr production 1.9Mlt/year(2021)

8th Plan

9th Plan (Medium-Term Business Plan 2022)

10th Plan

Appendix

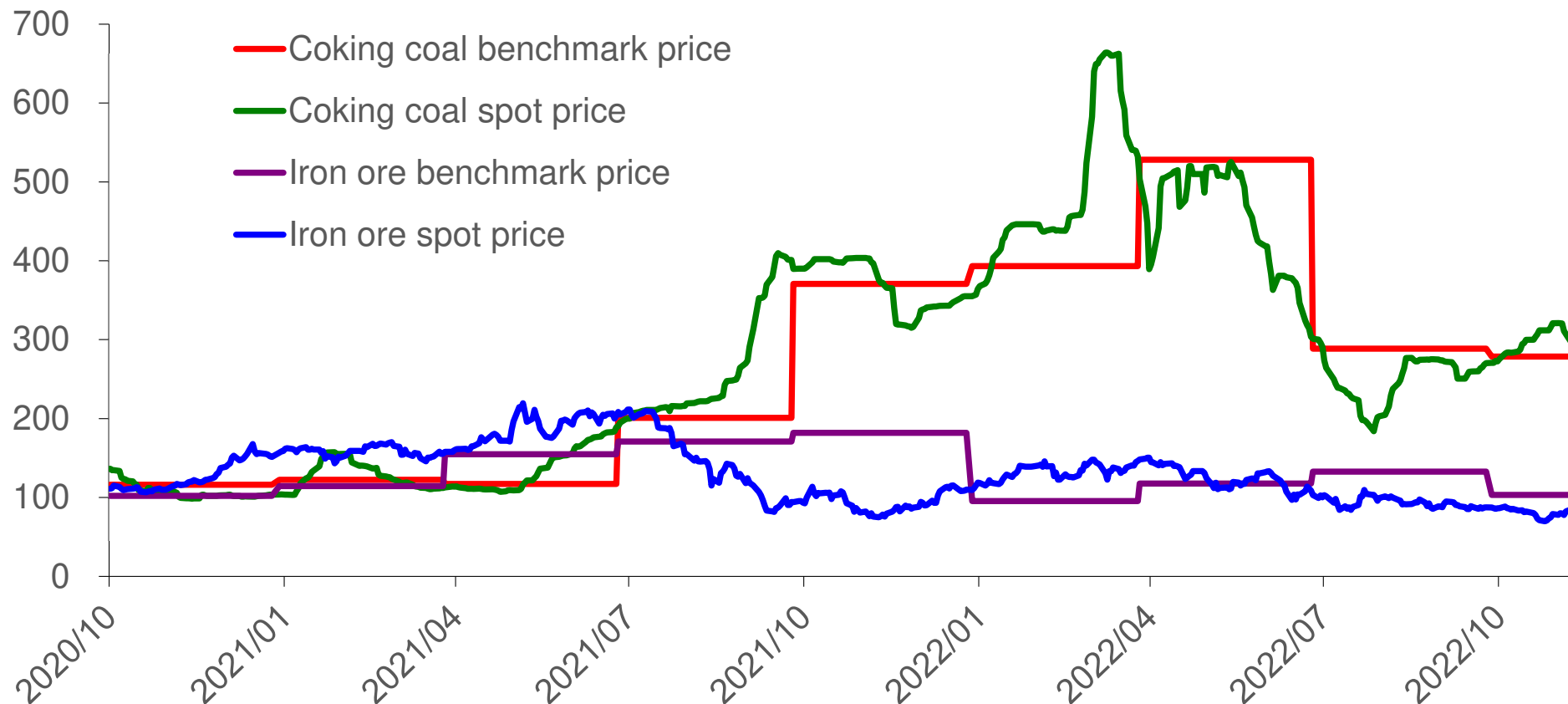
Market Trend of Steel Raw Materials

Iron ore...Expected recovery in demand after the Chinese New Year led to a gradual rise in the market price upon entering 2022. However, it was difficult to raise prices due to suppression of crude steel production caused by the zero-COVID policy and the sluggish real estate market in China.

Coking coal ...Prices surged in March due to supply concerns after the start of the conflict in Ukraine, and fell from April due to uncertainty about the future of the global economy. The soaring prices of energy resources and supply concerns in countries such as Australia and Canada have supported the prices, which have remained at a high level.

(US\$/t FOB)

Transition of steel raw materials price

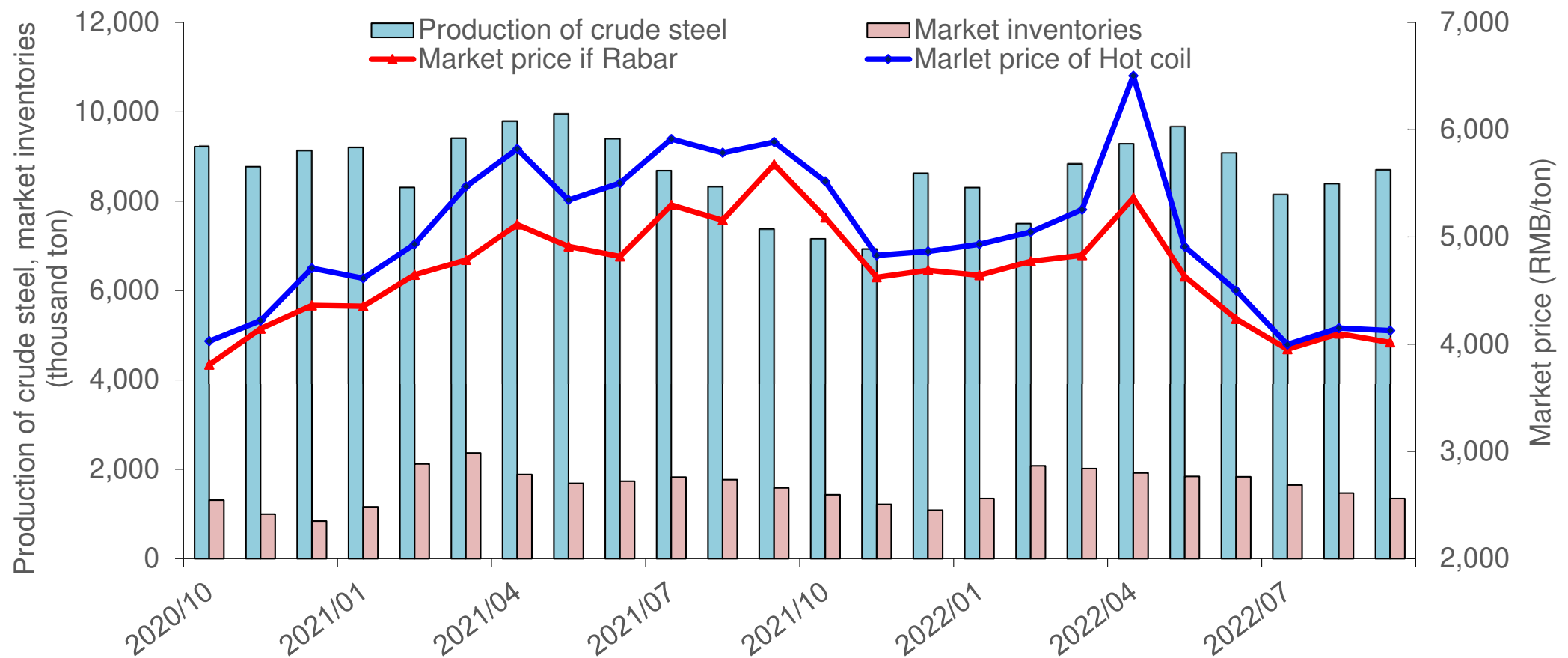


Steel Market Trend in China

Supply/Demand... Demand was sluggish due to factors including the zero-COVID policy and stagnant real estate market. In terms of production, from the summer of 2021, the Chinese government's directive to reduce carbon dioxide emissions led to a full-scale reduction in production and there is a general trend of suppression.

Market prices... Market prices soared due to the Ukraine crisis and the economic recovery from the COVID-19 pandemic. However, prices are trending downward due to a decline in demand caused by economic stagnation in China, as well as to the effects of high global inflation and rapid interest rate hikes.

Transition of steel market in China



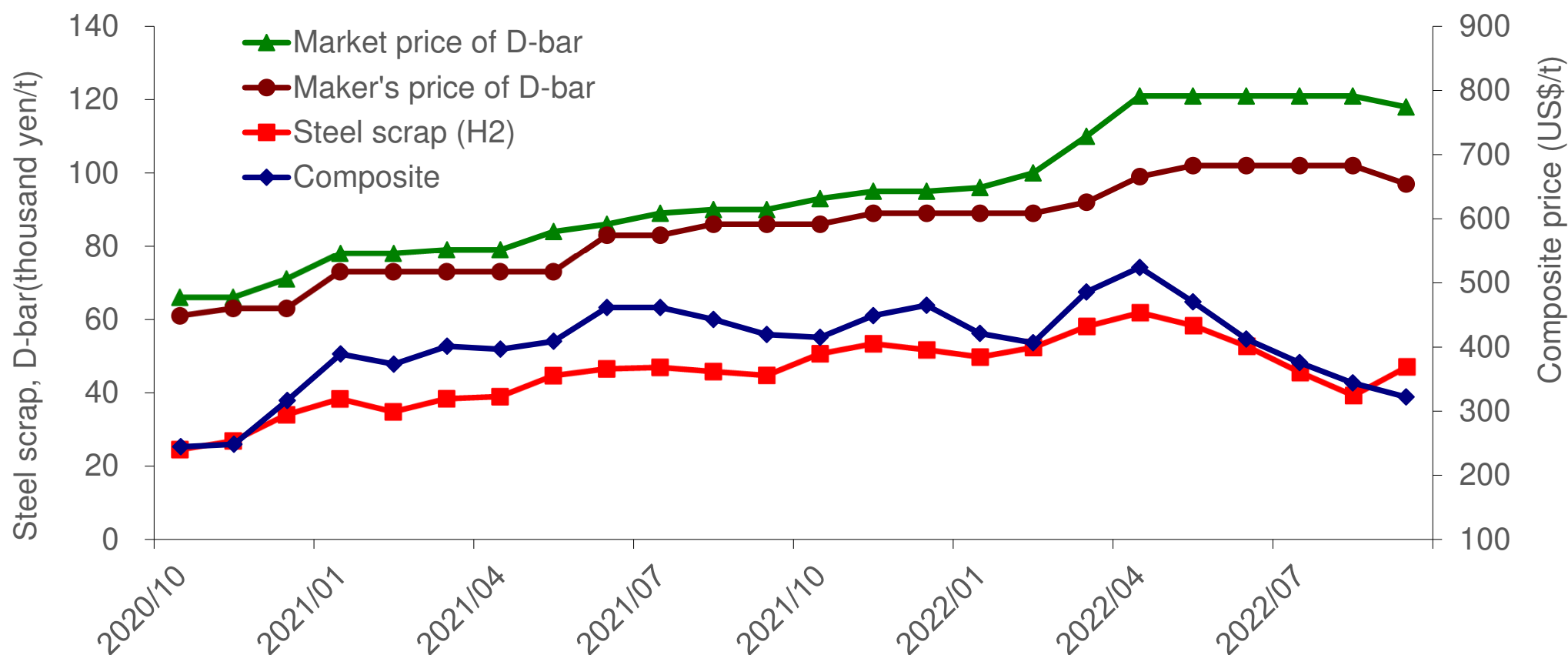
(Date source : The Japan Iron and Steel Federation)

Market Trend of Steel Scrap

Supply/Demand... Supply in the market decreased due to a reduction in construction/demolition work and a decrease in automobile production in Japan due to the shortage of semiconductors. Demand is weak in an environment where steel production is stagnant.

Market prices... Overseas market prices temporarily rose due to concern about tight supply and demand caused by factors such as the situation in Ukraine. However, demand for steel decreased due to lockdowns and sluggish real estate investment in China, pushing down market prices.

Transition of steel scrap and D-bar market price



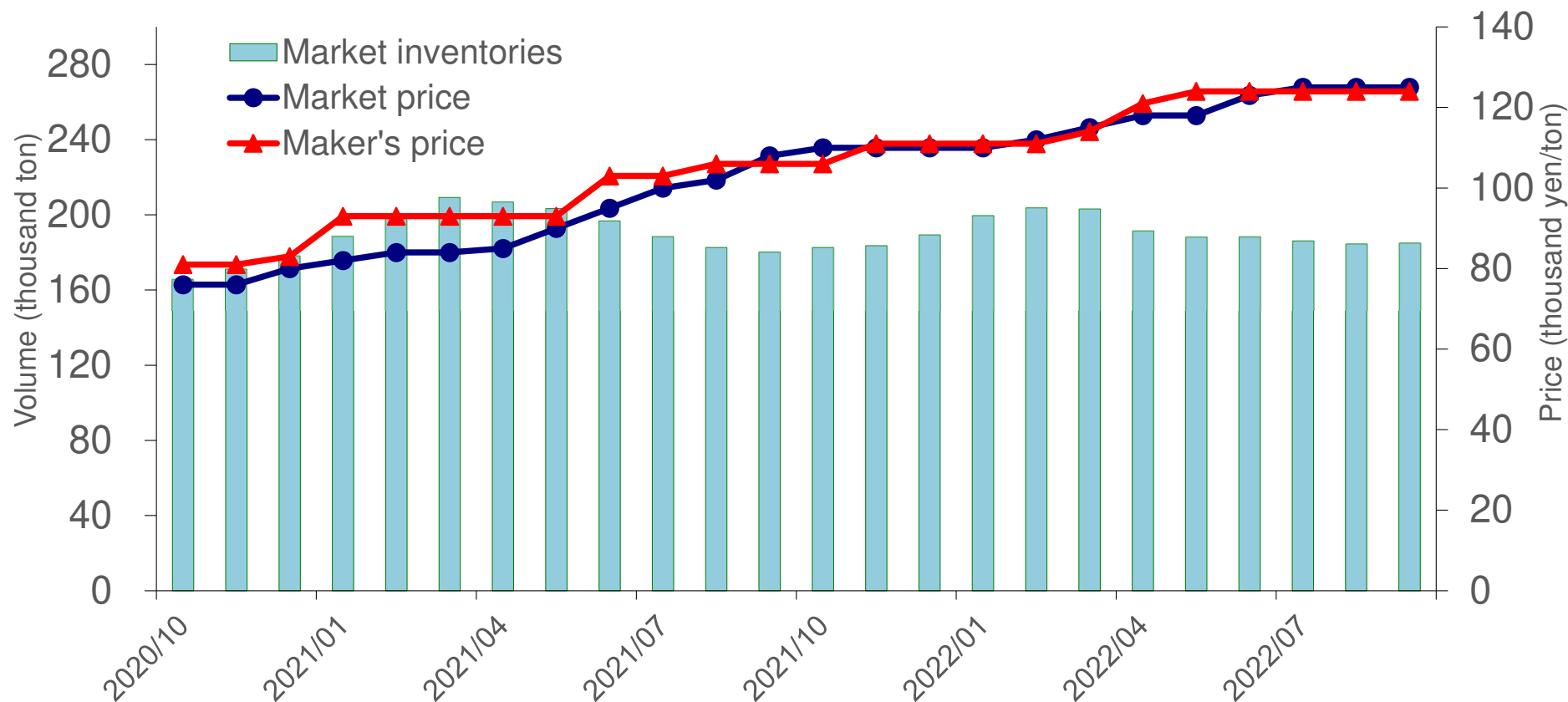
(Data source : The Japan ferrous raw materials association, Japan metal daily)

Market Trend of Long Products

Supply/Demand...Construction demand remained strong due to the recovery in demand from the COVID-19 pandemic. In addition to urban redevelopment, distribution warehouses, and data centers, demand for large-scale properties such as factory investment in the semiconductor industry is expected.

Market prices...Driven by price rising of raw materials, manufacturers have continued to reflect those prices in products. Although the upper end of the distribution price was resistant to rising due to cheap scrap, the increase in cost due to the rise in electricity prices is also contributing to the flat trend.

Transition of the H-Beams Markets in Japan



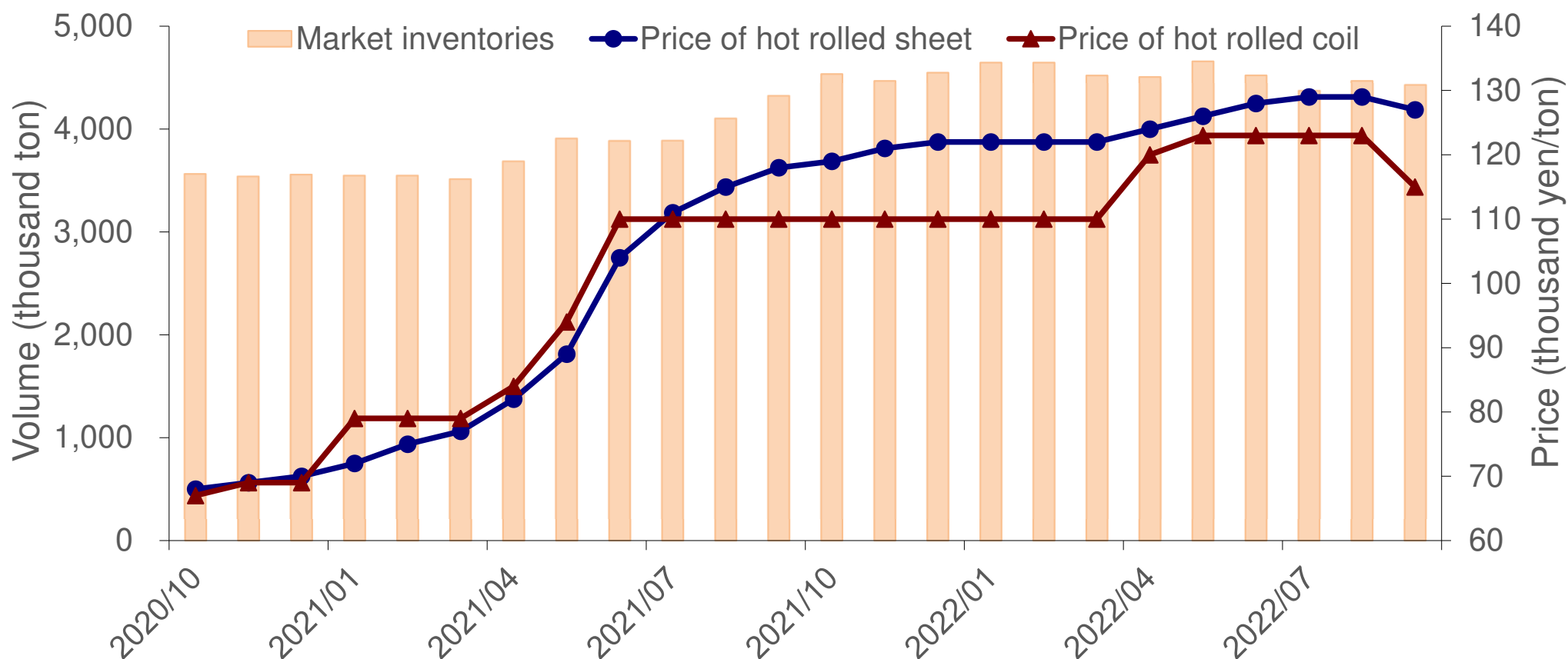
(Data source : Inventories _ Tokiwa-kai / Price _Japan metal daily)

Market Trend of Flat Products

Supply/Demand... Shipment did not increase due in part to the impact of reduced production in the automobile industry as a result of shortages of semiconductors and parts. Steel manufactures reduced production and adjusted their distribution inventory.

Market prices... Production costs continued to rise due to price rising of raw materials and energy, and domestic manufacturers raised prices intermittently. Market prices have rose as inventory adjustments progressed, but some prices were reduced due to worsening overseas market conditions.

Transition of Steel Sheets Markets in Japan



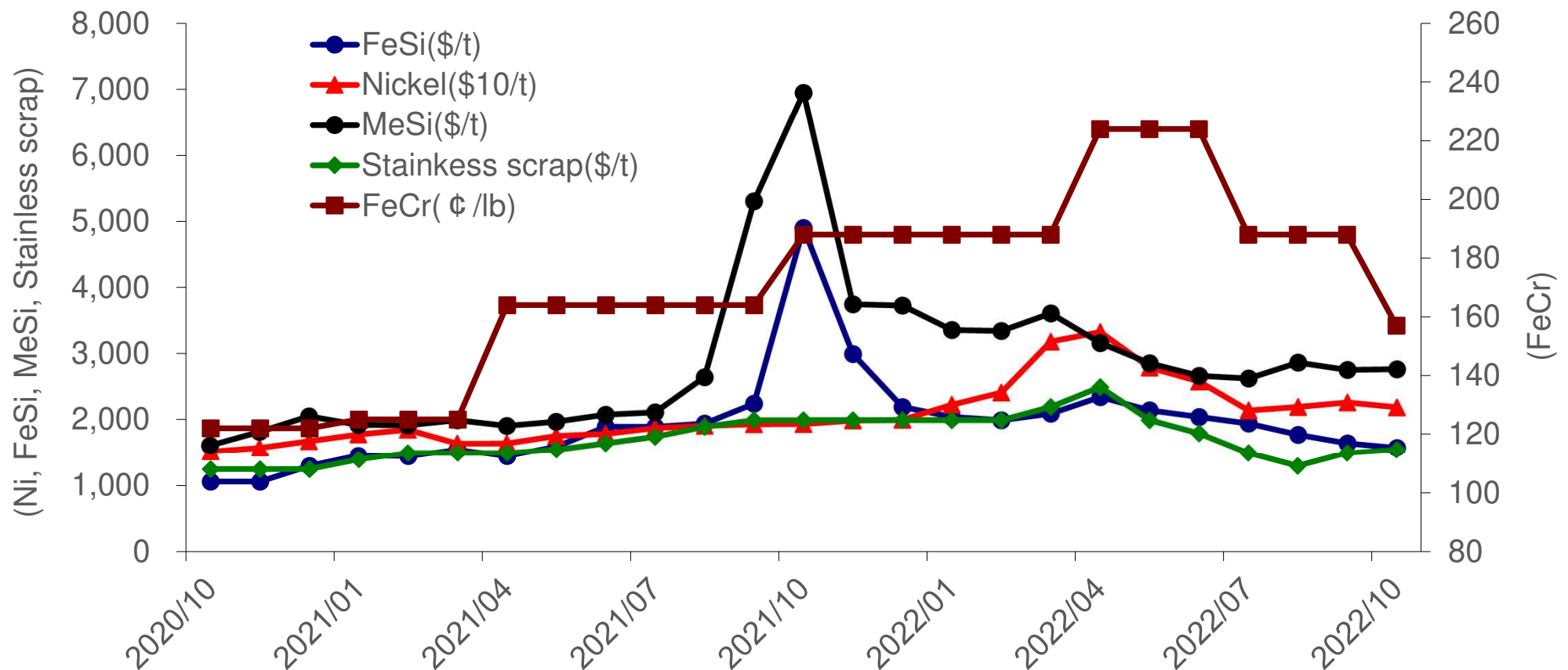
(Data source : Inventories _ The Japan Iron and Steel Federation / Price _Japan metal daily)

Market Trend of Metals & Alloys

Nickel...Prices rose in early March driven by concerns about supply from Russia. LME trading was temporarily suspended. After the trade suspension, the market price fell due to the appreciation of the dollar caused by interest rate rising and concerns about economic slowdown.

FeCr...Although the benchmark for the period from April to June increased significantly driven by soaring market prices in Europe, which is highly dependent on Russia, after that increase, relaxed supply and demand for chrome due to reduced production of stainless steel in China and Europe was reflected and benchmarks continued to fall for July to September and October to December.

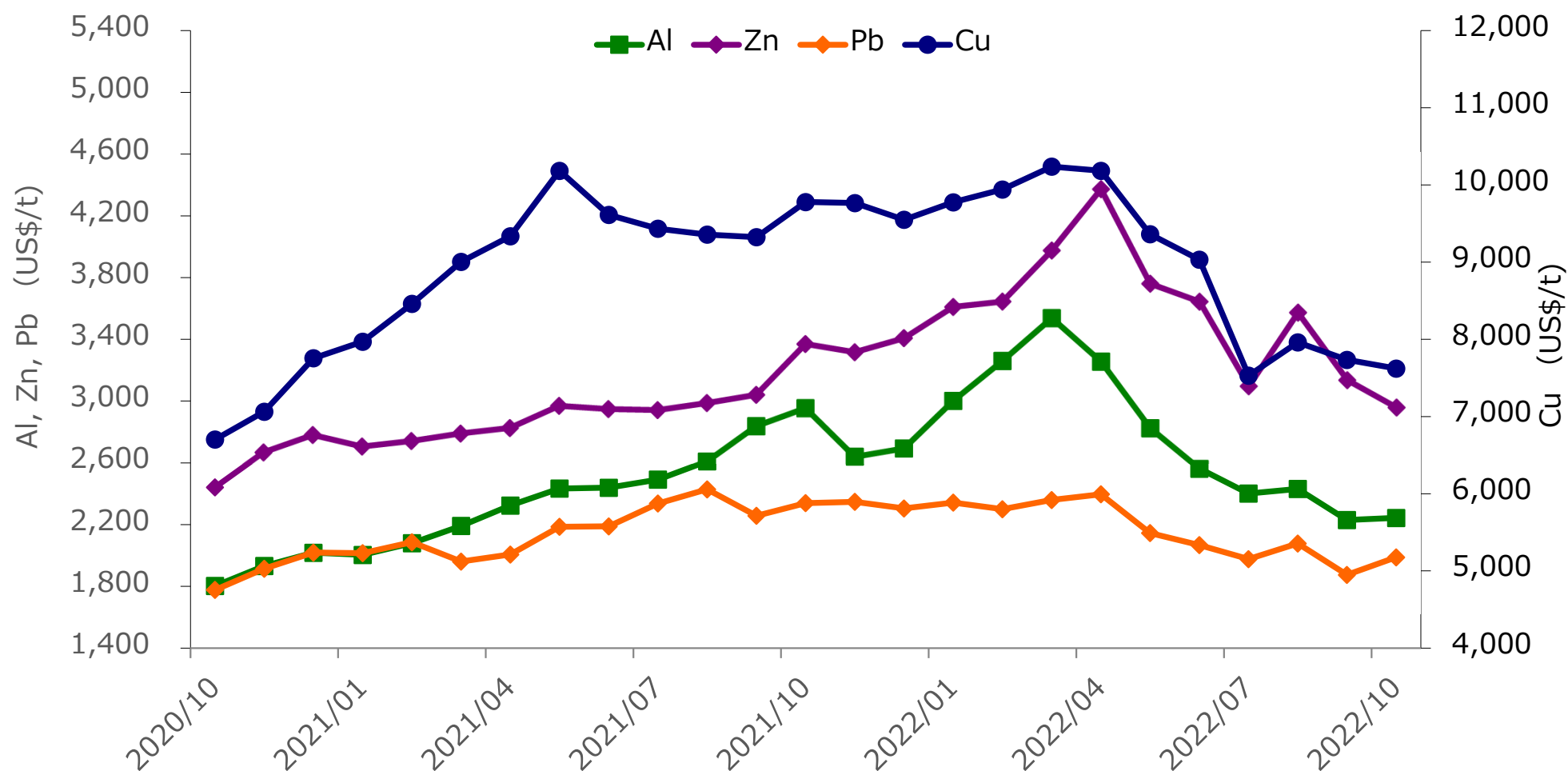
Silicon...Abnormal price rising was seen in the market at the end of the last year, due to large-scale reduction in production and non-operation in major production areas after the order to reduce usage of electricity had been issued by the Chinese government. After the government order, the market price fell sharply owing to weak actual demand. Currently, the price remains at a lower level due to weak demand in China.



Market Trend of Non-ferrous Metals

Aluminum...The price continued to rise after the Ukrainian conflict, but continued to fall on expectations that the supply-demand balance would loosen driven by a strong dollar due to interest rate hikes and concerns about an economic slowdown ahead.

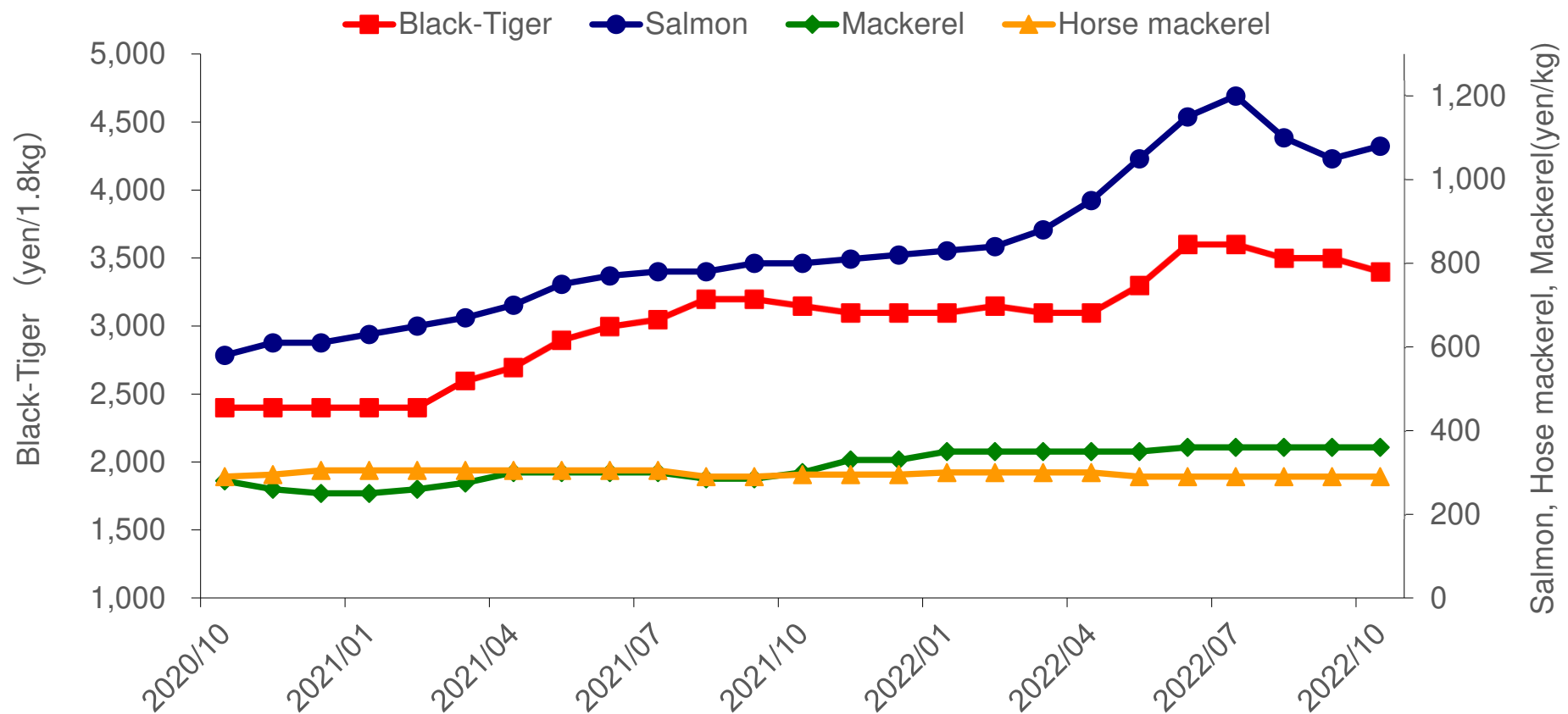
Copper...Prices fell almost unilaterally from April onwards due to a decline in real demand owing to the economic slowdown in China caused by lockdowns and a decline in the real estate market, in addition to an appreciation of the dollar caused by interest rate hikes and concerns about an economic slowdown.



Market Trend of Frozen Marine Products

Salmon...Driven by domestic shortages and the depreciating yen, the price has expanded since April. It hit an all-time high in July. Since then, the market has regained its composure and is currently showing signs of a struggle with price revisions.

Shrimp...While global supply is limited, rising market prices have temporarily stopped because U.S. demand that had supported the market price has weakened. Market prices trended downwards due to an increase in supply in the second half of August.



Market Trend of Crude Oil & Petroleum Products

Crude oil...Price rising continued driven by heightened tensions between Russia and Ukraine, but OPEC showed a willingness to cooperate with pressure from the West to increase production. This caused supply and demand to relax and market conditions to soften. The market price appears to be weakening amid strong concern of a global economic slowdown due to tight monetary policy.

Petroleum products...Domestic naphtha prices fell in the period from July to September. Price rising due to the conflict in Ukraine has stopped.

