

Financial Results for the First Half of FY2023

November 2023
HANWA CO., LTD.

Summary of Financial Results

Summary of Financial Results for the First Half of FY2023

- Ordinary income for the first half of FY2023 was 27.4 billion yen, making 55% progress toward the full-year forecasts of 50 billion yen. The Full-year Forecasts remain unchanged.

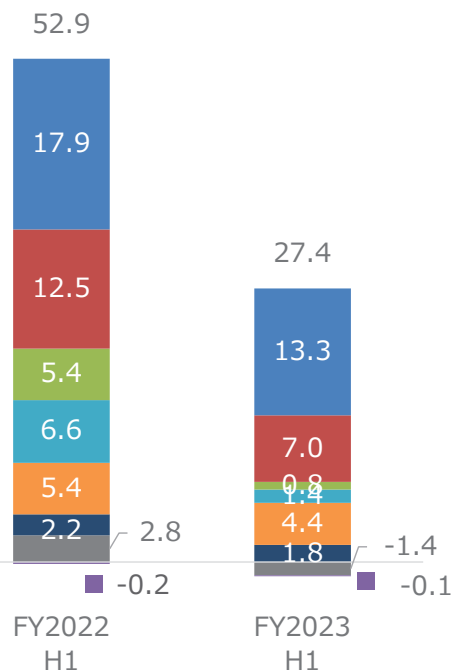
(billions of yen)	FY2022 H1	FY2023 H1	Y on Y change (Y on Y Rate)	FY2023 Forecast	Progress
Net Sales	1,338.9	1,201.2	-137.6 (-10%)	2,700.0	44%
Ordinary Income	52.9	27.4	-25.5 (-48%)	50.0	55%
Net Income Attributable to Owners of the Company	37.1	19.0	-18.1 (-49%)	36.0	53%
Consolidated Trading volume of Steels (million tons) *1	7.47	6.82	-0.64 (-9%)	-	-
	Mar. 2023	Sep. 2023	Change	FY2023 Target	
Net DER (taking account of hybrid loan)	98% (83%)	97% (83%)	-1pt	100% or Less	

*1: This is a simple sum of the volume of steels handled by the parent company and its all consolidated subsidiaries.

Segment Information (Consolidated)

(billions of Yen)

Income by Segment



Business Segments	FY2022 H1	FY2023 H1	Y on Y Change(Rate)
Steel	17.9	13.3	-4.6 (-26%)
Primary Metal	12.5	7.0	-5.5 (-44%)
Metal Recycling	5.4	0.8	-4.5 (-85%)
Foods	-0.2	-0.1	0.1 (+45%)
Energy & Living Materials	6.6	1.4	-5.2 (-78%)
Overseas Sales Subsidiaries	5.4	4.4	-0.9 (-17%)
Others	2.2	1.8	-0.4 (-18%)
Adjustment	2.8	-1.4	-4.3 -
Total	52.9	27.4	-25.5 (-48%)

Main Factors

- Margins shrunk mainly at overseas coil center subsidiaries due to falling steel product prices
- Due to falls in dividend income from strategic investments and equity in earnings of affiliates from SAMANCOR.
- Due to decreasing appraisal gain from commodity forward contracts in hedge transactions.
- The increase in the cost of salmon, prawns and chicken started to be sufficiently reflected in the selling prices.
- Due to the sharp decrease in petroleum product prices.
- Due to sluggish demand for steel in overseas markets mainly in Indonesia and the U.S.
- Wood : Product prices remained sluggish due to the backlash from the wood shock.
- Machinery : Several large-scale projects completed

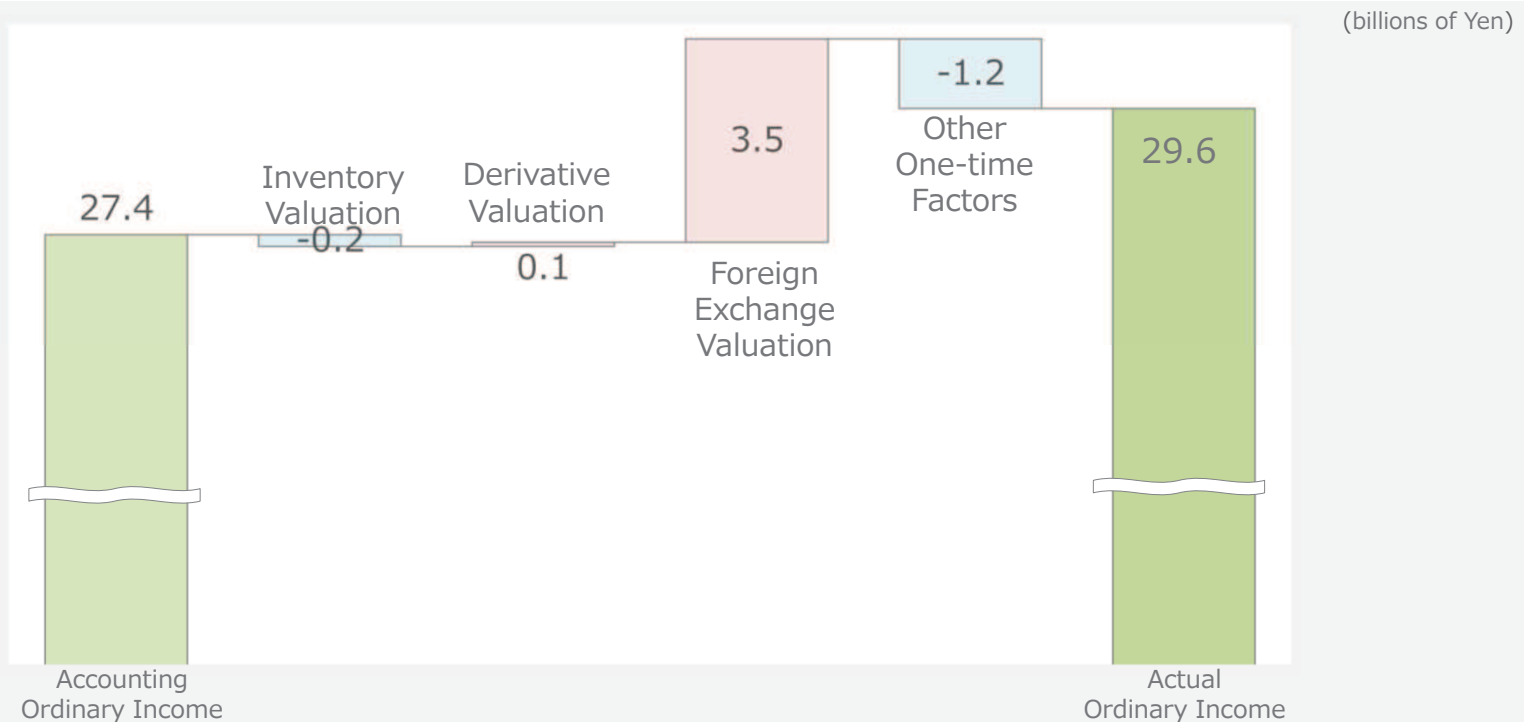
Segment Income Forecast

(billions of Yen)

Business Segment	FY2023 Forecast	FY2023 H1 Results	Progress	Main Factors
Steel	29.0	13.3	46%	Falling steel product market prices
Primary Metal	5.7	7.0	123%	SAMANCOR's performance exceeded expectations. Transaction volume of chromium and manganese increased.
Metal Recycling	2.7	0.8	30%	International prices of base metals remain low. The transaction volume decreased due to the weak demand, mainly for stainless steel scrap.
Foods	1.5	-0.1	—	Struggling in the first half due to the continued impact of the crab market slump. In the second half, the impact is expected to disappear.
Energy & Living Materials	6.8	1.4	21%	Sales volume slightly declined, and subsidies to oil distributors suppressed price movements in the domestic market, making it difficult to secure profit margins.
Overseas Sales Subsidiaries	9.0	4.4	49%	Although the volume of transactions declined, it has made steady progress in response to the demand.
Others	2.2	1.8	82%	Inspection and acceptance of general-purpose products and machine tool-related products are expected in the second half of the fiscal year.
Adjustment	-6.9	-1.4	—	
Total	50.0	27.4	55%	

Impacts of Profits/Losses from Market Value Accounting and Temporary Factors

- The reported ordinary income was 27.4 billion yen but can be translated into about 29.6 billion yen after excluding one-time factors such as period-end valuation gains and losses.



Financial Position (Consolidated)

(billions of Yen)

	Mar 2023	Sep 2023	Change (Rate)	Main Factors
Total Assets	1,157.7	1,183.2	+25.4 (+2%)	Increase in trade receivables and investment securities
Shareholder's Equity	270.8	288.3	+17.4 (+6%)	Accumulation of retained earnings, etc
Owner's Equity	303.1	330.7	+27.6 (+9%)	
Owner's equity ratio (%) (taking account of hybrid loan)	26.2% (28.3%)	28.0% (30.1%)	+1.8pt	
Interest-bearing Debt	380.9	398.3	+17.3 (+5%)	Maintained the target level of the Mid-Term Management Plan
Net Interest-bearing Debt	296.7	320.8	+24.0 (+8%)	
Net DER (taking account of hybrid loan)	98% (83%)	97% (83%)	-1pt	

Cash Flows (Consolidated)

(billions of Yen)

	FY2022 H1	FY2023 H1	Y on Y change
Cash Flows from Operating Activities	110.1	-15.1	-125.2
<u>Core Operating Cash Flow*</u>	<u>26.0</u>	<u>13.1</u>	<u>-12.9</u>
*Cash Flows from Operating Activities – Increase/Decrease in Working Capital			
Cash Flows from Investing Activities	-8.6	-1.9	+6.6
Free Cash Flows	101.5	-17.0	-118.5
Cash Flows from Financing Activities	-122.5	10.2	+132.8
Cash and Cash Equivalents	137.8	77.4	-60.3

Investments in business

Segments	Amount	Major Investments
Steel	5.9	Capacity expansion of domestic and overseas subsidiaries
Metal Recycling	0.2	Capacity expansion of domestic metal recycling subsidiary
Energy & Living Materials	0.2	Recycled Fuel Business
Overseas Subsidiaries	0.3	
Others	0.5	Capacity expansion of domestic subsidiaries
Whole Company	1.0	Building and Enhancing the New Core System
Total Amount	8.2 bil. yen	<div> Cumulative investment amount in the mid-term business plan 80.0 bil. yen (Progress:10%) </div>

Shareholder Return Policy (Announced in May 2023)

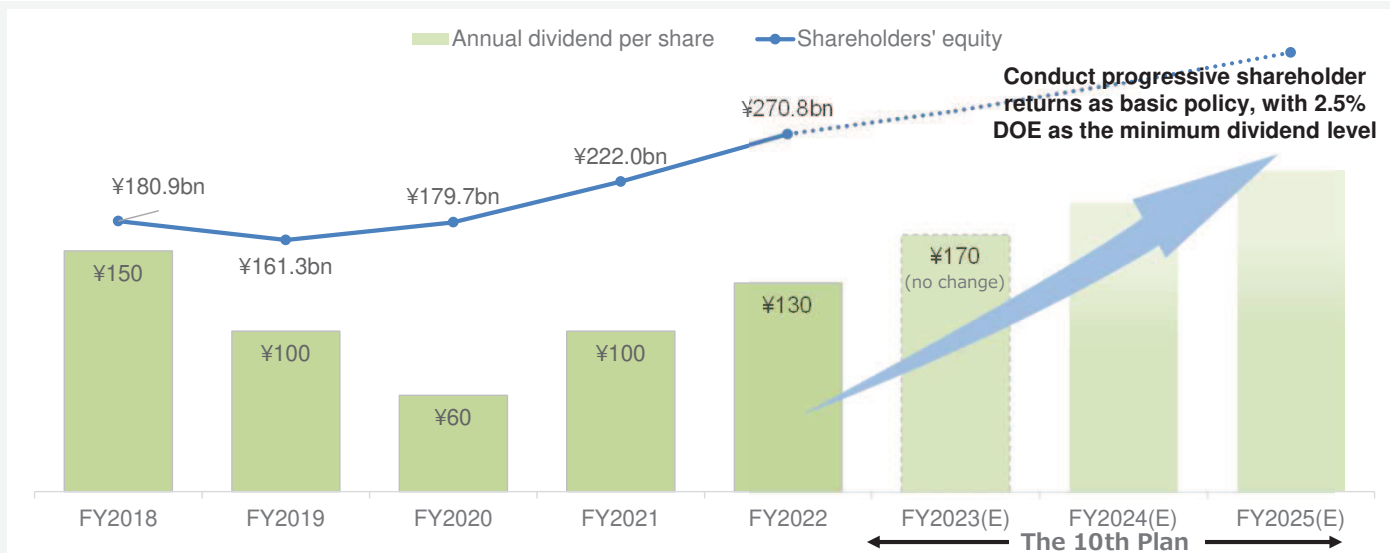
■ New shareholder return policy

Strive for sustainable growth of corporate value with aim to increase dividends over the medium to long term

- Dividends will be conducted with dividend on equity ratio (DOE) of 2.5% of beginning consolidated shareholders' equity as the minimum dividend level
- Flexibly consider additional shareholder returns through the acquisition of treasury stock, etc.

■ FY2023 (Forecast)

The annual dividend per share is expected to be ¥170 (DOE of 2.55%) (no change from the last announcement)

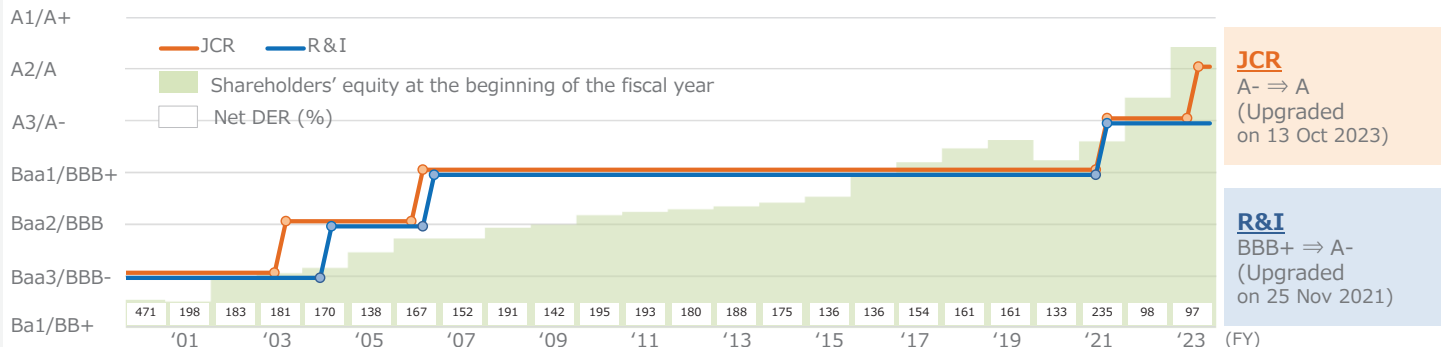


Our Stock Price, P/B Ratio & Credit Ratings

Trends in Our Stock Price & P/B Ratio



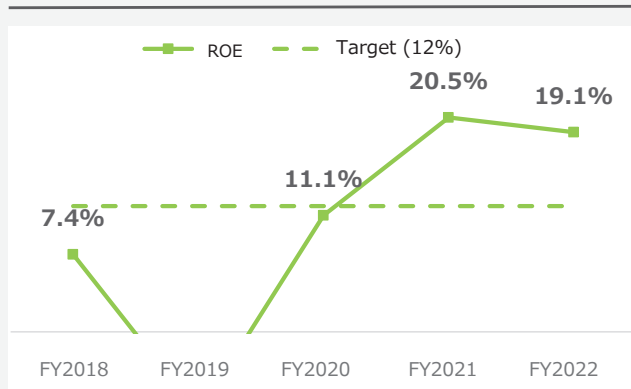
Historical Changes in Our Credit Ratings



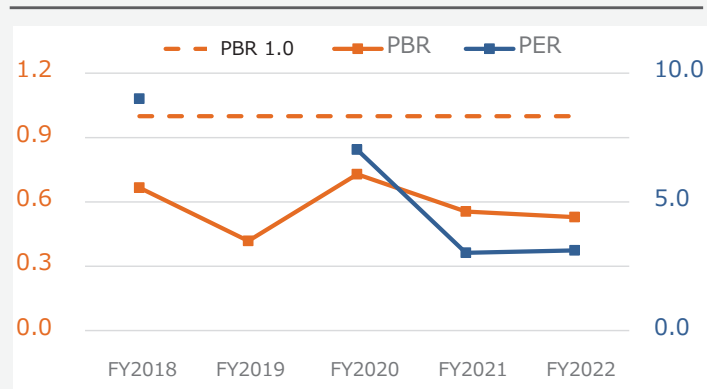
Actions to Implement Management that is conscious of cost of capital and stock prices

- ROE significantly enhanced thanks to the ongoing company activities as well as the recovery of economic activities after the COVID-19 pandemic.
- On the other hand, despite the improvement in ROE, there is uncertainty about the sustainability and growth potential of earnings levels from FY2019 onward, partly due to the Samancor impairment, resulting in higher cost of equity, lower PER and consequently no improvement in PBR.

ROE



PER・PBR



Approaches for Improvement in the Future

- ✓ We will endeavor to promote stakeholders' understanding, including our shareholders, by disclosing detailed information on our business activities and investment for growth.
- ✓ We will improve our basic profitability by reviewing our business and assets, utilizing the cash generated for investment for growth and dividends.
- ✓ We will endeavor to increase Company's value in a sustainable way by further strengthening our governance, which includes risk management.
- ✓ We will promote ROIC management with the cost of capital in mind.
- ✓ To provide incentives for sustainable improvement of our corporate value, we have reviewed executive compensation and introduced a restricted stock compensation system.

Dialogue with shareholders

Results (FY2022)

Events	Frequency	Details
Business Results Briefing	2	Two briefings on the financial results were held, with the attendance of the Chairman, President, and Directors.
Small meetings with investors and analysts	3	The President delivered briefings on financial and business strategy, followed by the director responsible for China, providing details on current market and business conditions in China.
1 on 1 meetings with investors and analysts	69	Active discussions were led by the executive officer in charge of the Corporate Planning Dept. and the corporate officer in charge of the Accounting, Finance, and Corporate Planning Depts.
Buy side(Company)	(30)	
Sell side(Company)	(8)	

Main Topics

1. Business Results	<ul style="list-style-type: none"> Results by segment Market condition and supply-demand situation for each product
2. Mid-Term Business Plan	<ul style="list-style-type: none"> Business strategies by segment Profit Contribution of Strategic Investments Progress of Mid-term Business Plan
3. Shareholder Return and Stock Price	<ul style="list-style-type: none"> Policies for dividend payment and the acquisition of treasury stock Approach for future dividends Evaluation and challenges of the current stock price
4. Others	<ul style="list-style-type: none"> Reduction in cross-shareholdings and future policy Status of promoting women's active engagement and measures to increase a retention rate of younger employees

Feedback and Action

Feedback to Executives	Frequency	Details
Quarterly IR and Financial Results Briefing	4	Significant investor interests, opinions and requests identified through IR activities were reported to the Management Committee, the Board of Directors and other appropriate officers. Analyst report summaries were reported to relevant officers.
Others (Investors and Analysts Related)	2	Information such as shareholder distribution and trend of shareholding by institutional investors was reported to the Board of Directors.

Main Requests from Investors and Our Action Plan

Enhancement of Business results explanations	Requests	More detailed Explanation Materials including Q1 and Q3, quarterly updates on reduction of cross-shareholdings, and disclosure of progress and breakdown of quantitative targets in the Mid-term Business Plan
	Action Plan	We are planning to respond to the opinions and requests through various materials including the Explanation Materials for Financial Results in the future.
Clarification of shareholder return policy	Requests	Company's policies for acquisition of treasury stock etc. should be clearly disclosed.
	Action Plan	The feedback from our briefings and individual interviews will be reported to management and the policy will be redefined.

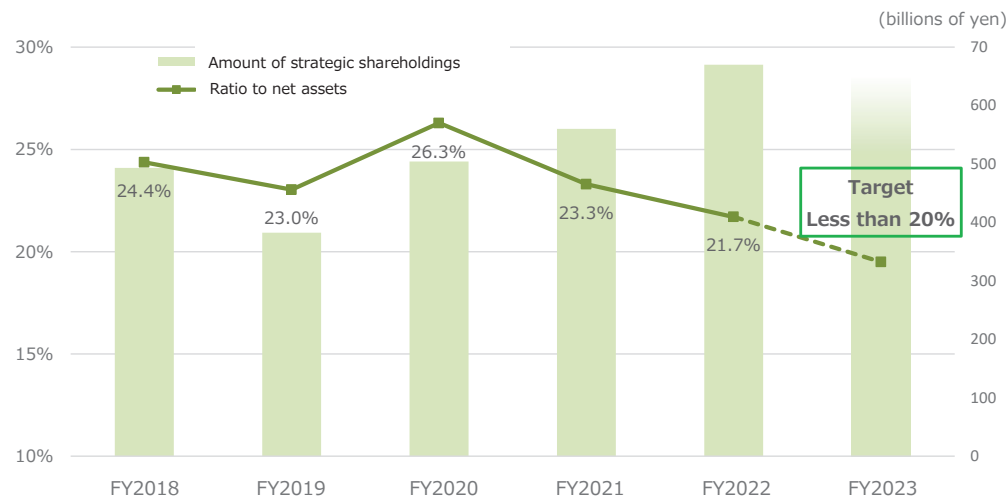
Target for reducing strategic shareholdings

The Company evaluates whether the benefits of holding shares justify the cost of capital. Our current Medium-term Business Plan aims to enhance capital efficiency by targeting an ROE of 12% or higher. To reach this objective, we conducted a thorough examination of strategic shareholdings and establish a specific quantitative target for reducing them.

We have already completed the evaluation and initiated the sales process to meet our target.

Target

Reduce strategic shareholdings to **less than 20%** of consolidated net assets by the end of March 2024



Details by Segment

Steel Business Segment

Segment income decreased as profit margins shrunk at some overseas sales subsidiaries due to declining steel product prices.

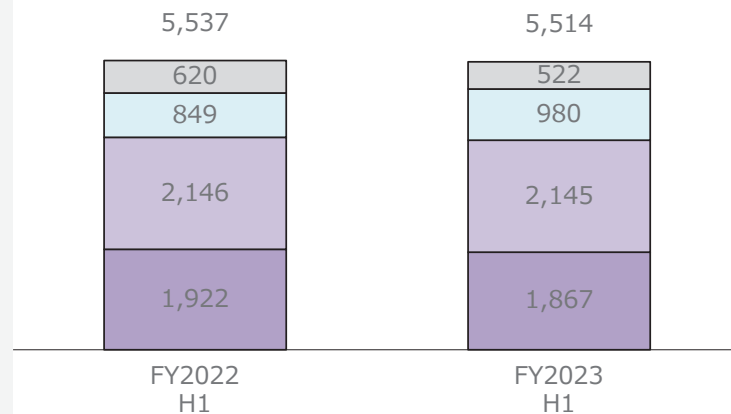
(billions of yen)	FY2022 H1	FY2023 H1	Y on Y Change (Y on Y Rate)
Net Sales	610.8	628.5	+17.7 (+3%)
Ordinary income	17.9	13.3	-4.6 (-26%)
Parent only	14.2	12.1	-2.1 (-15%)
Domestic consolidated subsidiaries	2.5	2.3	-0.2 (-9%)
Overseas consolidated subsidiaries	2.6	0.8	-1.9 (-70%)
Equity in earnings of affiliates	0.4	-0.2	-0.7 -
Adjustment	-1.9	-1.6	+0.3 (-15%)

Transaction Volume (Consolidated)

(Thousand tons)

■ Long ■ Flat ■ Ferrous raw materials ■ Others

The consolidated steel transaction volume in the steel business segment is the sum of the company's volume and that of its consolidated subsidiaries. Please refer to page 2 for the total volume of steel handled in all business segments.



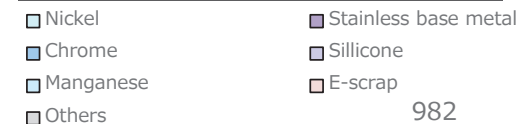
Transaction volume indicates the volume of products handled by each business segment as per the management approach.

Primary Metal Business Segment

Segment income decreased due to falls in dividend income from strategic investments and equity in earnings of affiliates from SAMANCOR CHROME HOLDINGS PROPRIETARY LTD.

(billions of yen)	FY2022 H1	FY2023 H1	Y on Y Change (Y on Y Rate)
Net Sales	125.2	110.7	-14.4 (-12%)
Ordinary income	12.5	7.0	-5.5 (-44%)
Parent only	6.6	5.0	-1.6 (-24%)
Domestic consolidated subsidiaries	-0.1	-0.1	—
Overseas consolidated subsidiaries	—	—	—
Equity in earnings of affiliates	5.9	2.0	-3.9 (-66%)
Adjustment	—	—	—

Transaction Volume (Unconsolidated) (Thousand tons)



Transaction volume indicates the volume of products handled by each business segment as per the management approach.

Metal Recycling Business Segment

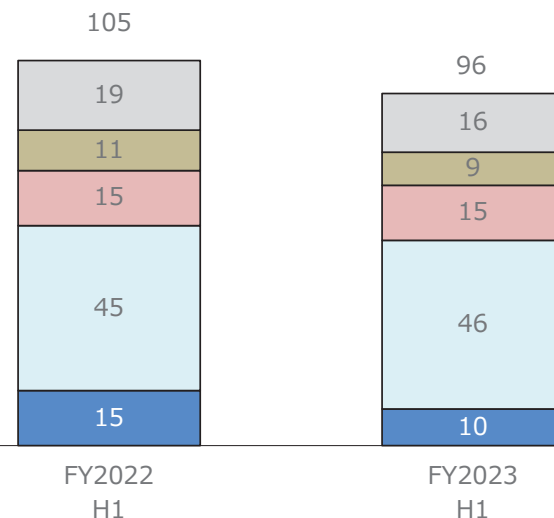
International prices of base metals have declined YoY due to economic slowdown concerns in various countries. The demand and transaction volume, especially for stainless scrap, has also decreased.

Additionally, a decrease in appraisal gain from commodity forward contracts in hedge transactions has contributed to the decline in segment income.

	FY2022 H1	FY2023 H1	Y on Y Change (Y on Y Rate)
(billions of yen)			
Net Sales	77.8	58.1	-19.6 (-25%)
Ordinary income	5.4	0.8	-4.5 (-85%)
Parent only	4.3	0.7	-3.6 (-83%)
Domestic consolidated subsidiaries	0.4	0.2	-0.2 (-49%)
Overseas consolidated subsidiaries	0.6	-0.1	-0.8 (-115%)
Equity in earnings of affiliates	0.1	0.1	-0.0 (-5%)
Adjustment	-0.1	-0.1	-0.0 (+43%)

Transaction Volume (Unconsolidated) (Thousand tons)

■ Stainless scrap
 ■ Aluminum
 ■ Copper
 ■ Lead
 ■ Others



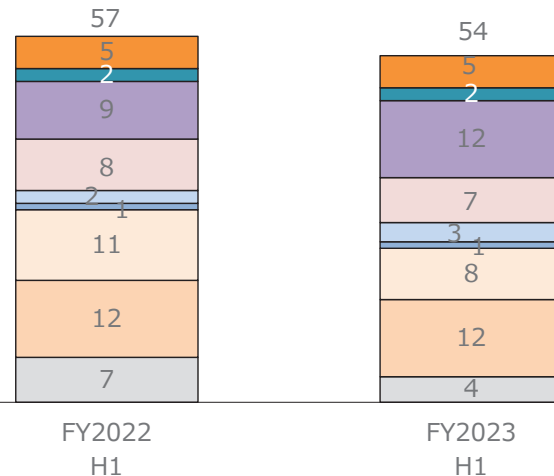
Transaction volume indicates the volume of products handled by each business segment as per the management approach.

Foods Business Segment

While the company successfully passed on increased procurement costs, specifically for salmon, prawns, and chicken, it was impacted by the downturn in the crab market.

(billions of yen)	FY2022 H1	FY2023 H1	Y on Y Change (Y on Y Rate)
Net Sales	61.4	61.3	-0.1 (-0%)
Ordinary income	-0.2	-0.1	+0.1 (-45%)
Parent only	0.3	-0.7	-1.1 (-298%)
Domestic consolidated subsidiaries	0.1	0.1	-0.1 (-41%)
Overseas consolidated subsidiaries	-0.8	-0.2	+0.6 (-68%)
Equity in earnings of affiliates	—	—	—
Adjustment	0.1	0.8	+0.7 (+588%)

Transaction Volume (Unconsolidated) (Thousand tons)

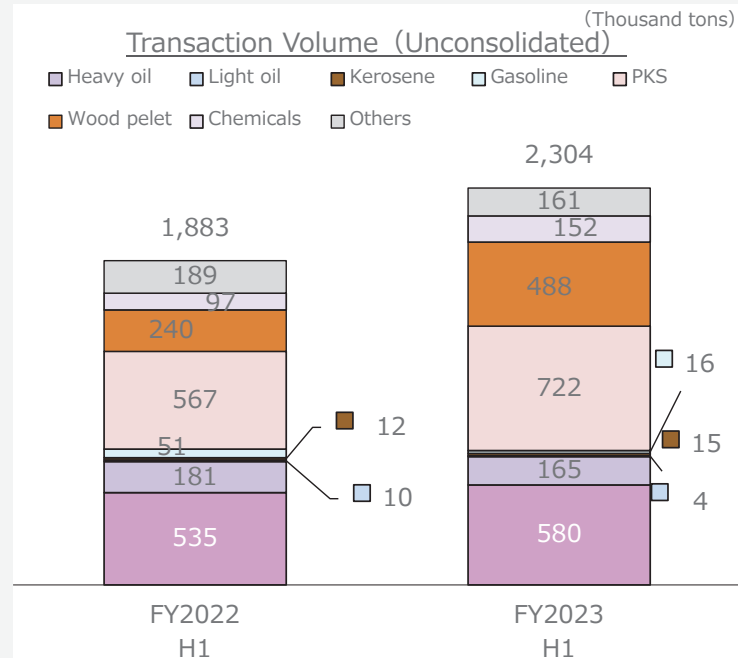


Transaction volume indicates the volume of products handled by each business segment as per the management approach.

Energy & Living Materials Business Segment

Although the transaction volume of the products such as palm kernel shells (PKS) and wood pellets has increased, the impact of lower petroleum product prices was significant, pushing down the segment income.

(billions of yen)	FY2022 H1	FY2023 H1	Y on Y Change (Y on Y Rate)
Net Sales	181.6	150.3	-31.3 (-17%)
Ordinary income	6.6	1.4	-5.2 (-78%)
Parent only	5.2	3.1	-2.1 (-39%)
Domestic consolidated subsidiaries	1.7	-0.8	-2.7 (-149%)
Overseas consolidated subsidiaries	—	—	—
Equity in earnings of affiliates	0.1	0.1	—
Adjustment	-0.4	-0.9	-0.5 (+99%)



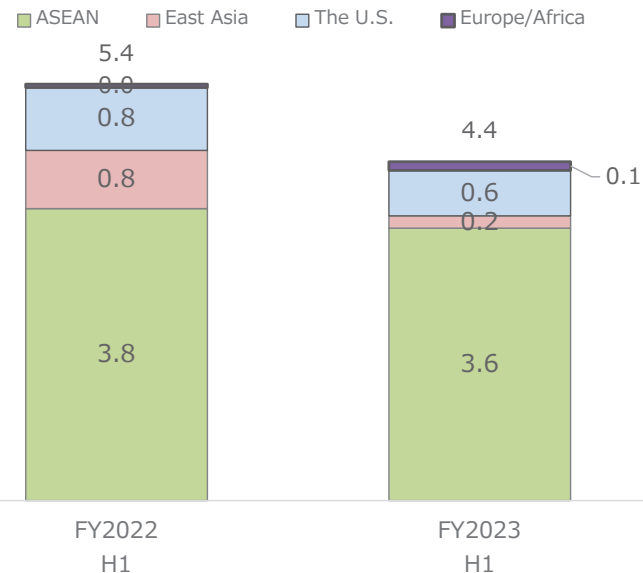
Transaction volume indicates the volume of products handled by each business segment as per the management approach.

Overseas Sales Subsidiaries Segment

Transaction volumes of sales subsidiaries, mainly in Indonesia and the U.S. decreased due to sluggish demand for steel in overseas markets. In addition, decreases in market prices of steel products and non-ferrous metal products put pressure on the profit margins of the overseas sales subsidiaries as a whole.

	FY2022 H1	FY2023 H1	Y on Y Change (Y on Y Rate)
(billions of yen)			
Net Sales	254.9	170.3	-84.6 (-33%)
Ordinary income	5.4	4.4	-0.9 (-17%)
Overseas consolidated subsidiaries	4.7	4.2	-0.5 (-11%)
Equity in earnings of affiliates	0.6	0.2	-0.5 (-69%)
Adjustment	-0.1	0.1	+0.1 —

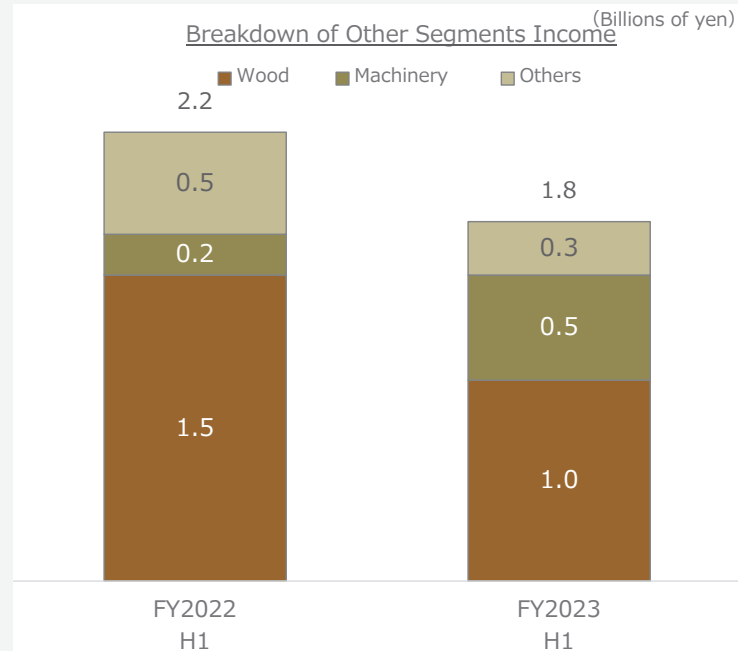
Ordinary Income by Region



Other Segments

Wood : Product prices remain sluggish due to the rebound from the wood shock.
Machinery : Several large-scale projects are completed

	FY2022 H1	FY2023 H1	Y on Y Change (Y on Y Rate)
(billions of yen)			
Net Sales	79.9	61.7	-18.2 (-23%)
Ordinary income	2.2	1.8	-0.4 (-18%)
Parent only	1.8	1.5	-0.3 (-18%)
Domestic consolidated subsidiaries	0.4	0.2	-0.1 (-26%)
Overseas consolidated subsidiaries	—	—	—
Equity in earnings of affiliates	—	—	—
Adjustment	-0.1	0.1	+0.0 —



Actual Ordinary Income by Segment

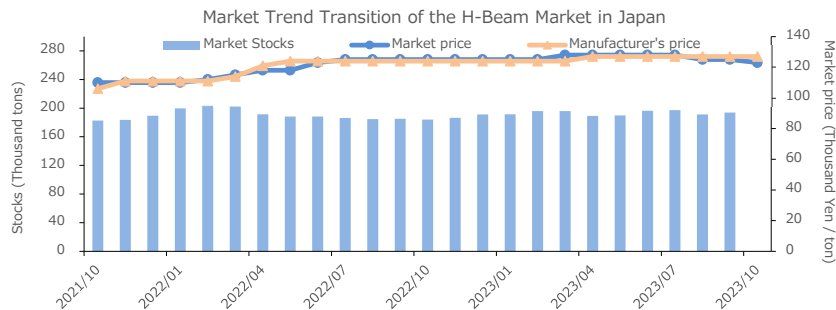
(billions of Yen)

Segments	Net Sales	Accounting Ordinary Income	Valuation and Temporary Items				Actual Ordinary Income
			Inventory Valuation	Derivative Valuation	Foreign Exchange Valuation	Other One-time Factors	
Steel	628.5	13.3	-0.2	0.0	0.8	0.5	12.2
Primary Metal	110.7	7.0	0.0	0.0	1.4	0.0	5.4
Metal Recycling	58.1	0.8	0.0	0.3	0.0	0.0	0.4
Foods	61.3	-0.1	0.2	0.0	0.1	0.0	-0.4
Energy & Living Materials	150.3	1.4	0.0	-0.7	0.0	0.0	2.2
Overseas Sales Subsidiaries	170.3	4.4	0.2	0.2	-0.1	0.6	3.5
Others	61.7	1.8	0.0	0.0	-0.2	0.0	2.1
Adjustment	-39.9	-1.4	0.0	0.0	-5.3	0.0	3.9
Total	1,201.2	27.4	0.2	0.0	-3.5	1.1	29.6

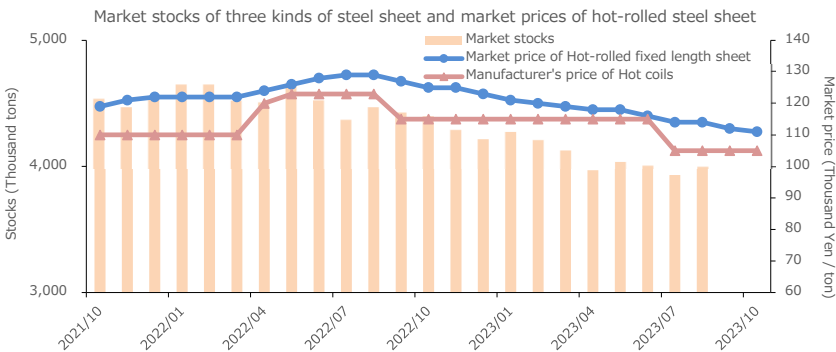
Appendix

Market Trend of Steel Products

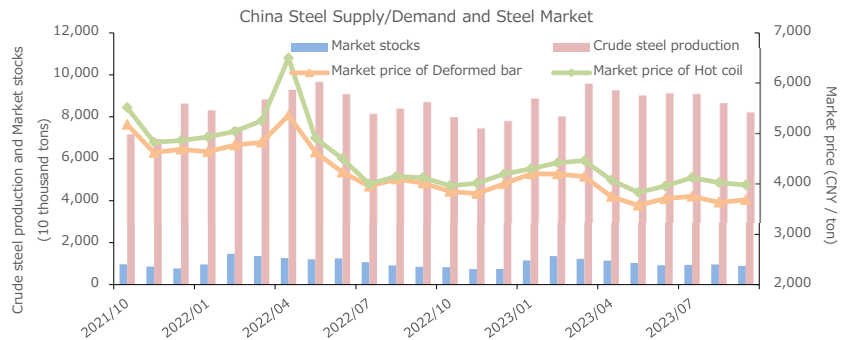
Long Products: Redevelopment projects and large construction projects remained strong in urban areas, while demand in non-urban areas was weak. Manufacturer's Prices remain unchanged.



Flat Product: Demand for the products for domestic automobile manufacturers was recovering, while demand for the products for construction and machine tool industries remained stagnant. As manufacturers decided to reduce prices due to inflow of less expensive imported materials, price correction is currently occurring.



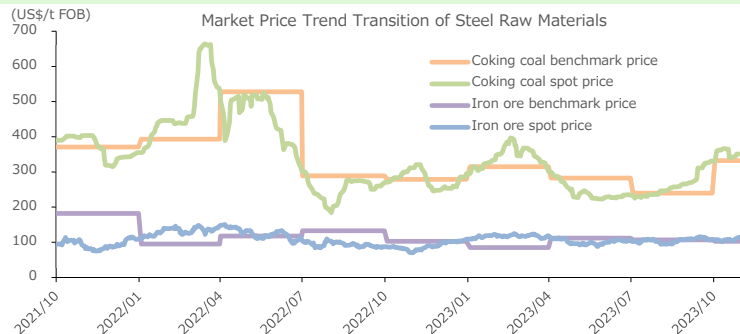
Chinese steel market: Although demand from construction industry was still sluggish and market prices of steel continued declining in September when the fall demand usually starts to increase. Inventory level in the market lowered due to a decrease in production had become clear. As a result, the price started to rise supported by expectation for the economic stimulation program as well as the increases in raw material prices.



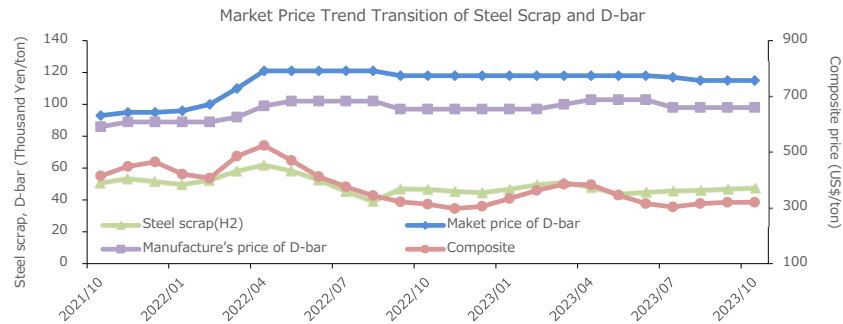
Market Trend of Steel and Metal Raw Materials

Iron ore: Although steel demand was sluggish on a global basis, prices remained high because of China's support buying resulted from the economic stimulation program.

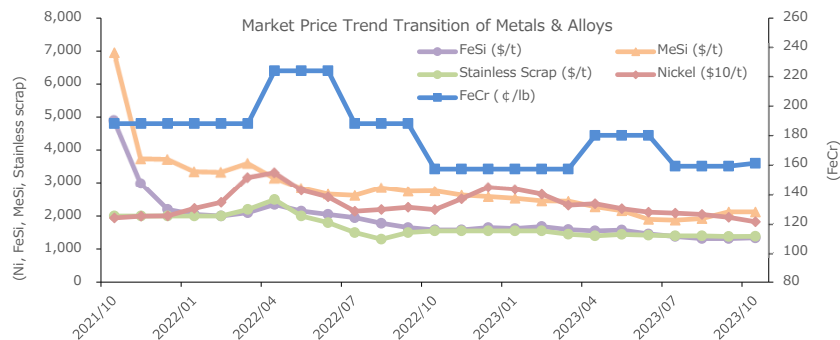
Coking coal: While supply of Australian coal remained at a low level, the price increased thanks to SPOT procurement by Indian companies supported by strong domestic demand.



Steel Scrap: While demand declined due to the decreases in real estate development projects in Asian countries, supply also decreased due to a shrink in domestic building demolish works as well as a decrease in operation of domestic manufactures' plants; supply-demand gap is becoming narrow.

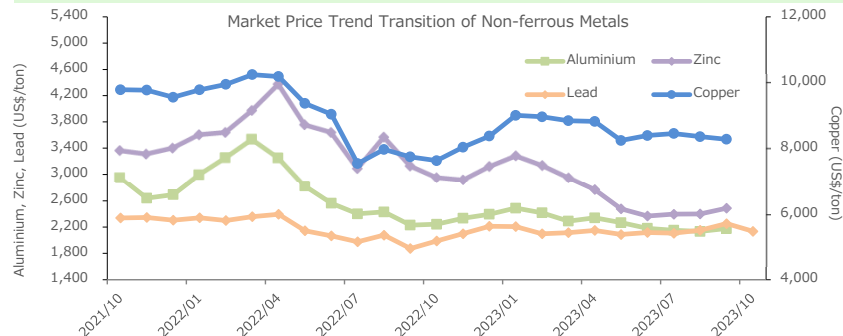


Nickel: The prices continued to stagnate due to weak stainless-steel demand on a global basis, slow-down of EV demand, and concerns for excessive supply in the future.



Aluminum: The price bottomed out due to soaring energy prices, although it declined due to concerns over China's economic slowdown and inventory buildup of Russian products.

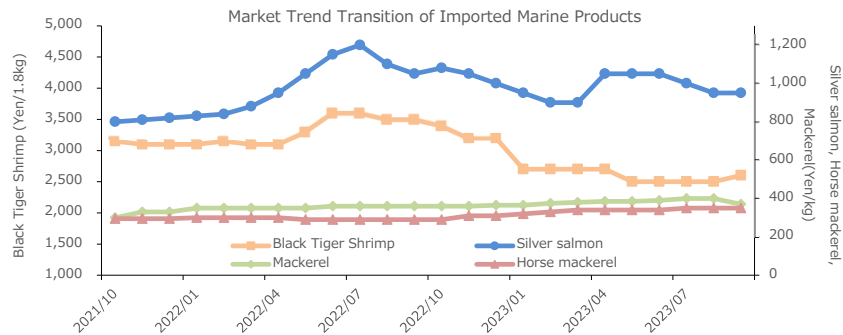
Copper: Declined due to concerns about economic slowdown of China and future oversupply.



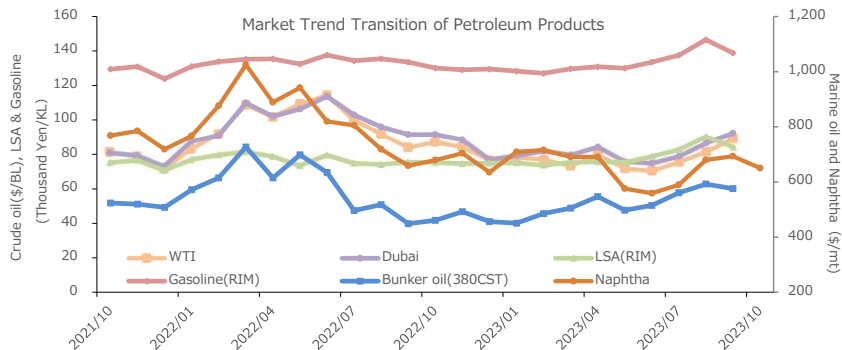
Market Trend of Imported Marine Products and Crude Oil & Petroleum Products

Salmon: Although prices remain strong due to the weakening yen and the season transitional period, there is a slight decline due to forecasts for an increase in the amount of catches.

Shrimp: Market prices remained due to declining demand in the U.S. and China and continued landings in India, a major production area.



Crude Oil: Prices have been at a standstill due to economic uncertainty in the U.S., Europe and China as well as Russia's high production, although it rose from around May due to OPEC's announcement of its crude oil production plan.





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This presentation contains forward-looking statements concerning future results, performance and achievements that are subject to risk and uncertainties and reflect management's views and assumptions formed by available information. Consequently, due to a range of possible factors, actual results may materially differ from the forecasts.