

# ***FINANCIAL RESULTS***

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*for the Fiscal Year ended March 31, 2017*

*May 22, 2017*

***HANWA CO., LTD.***

# Operating Results ( consolidated )

- Net sales increased slightly as higher sales of ferroalloys and lumber offset the impact of low prices of petroleum and steel products.
- SG&A expenses increased by 7%, including a 2% increase resulting from newly consolidated subsidiaries. Personnel expenses were up about 1 billion yen.
- Ordinary income increased by 49% due mainly to a decrease in equity in losses of affiliates.
- Net income attributable to owners of parent decreased by 36% because of a decline in extraordinary gains and the absence of items that can reduce corporate income taxes.

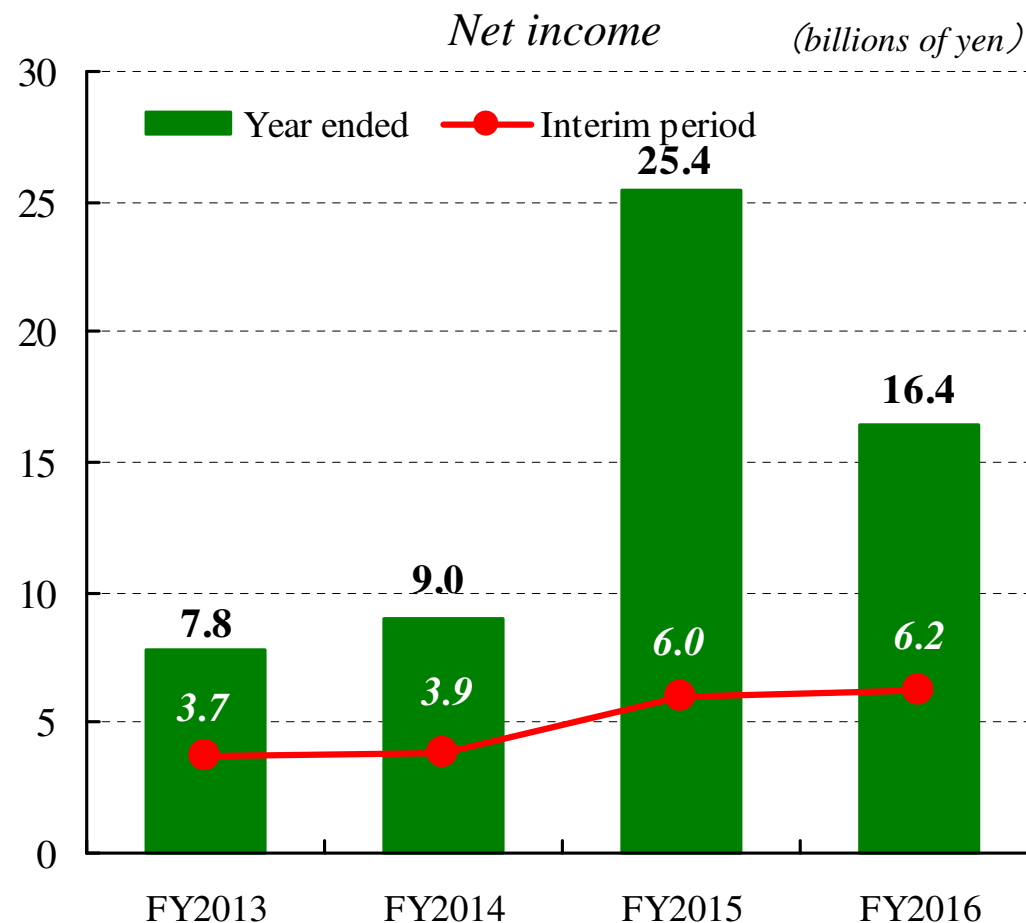
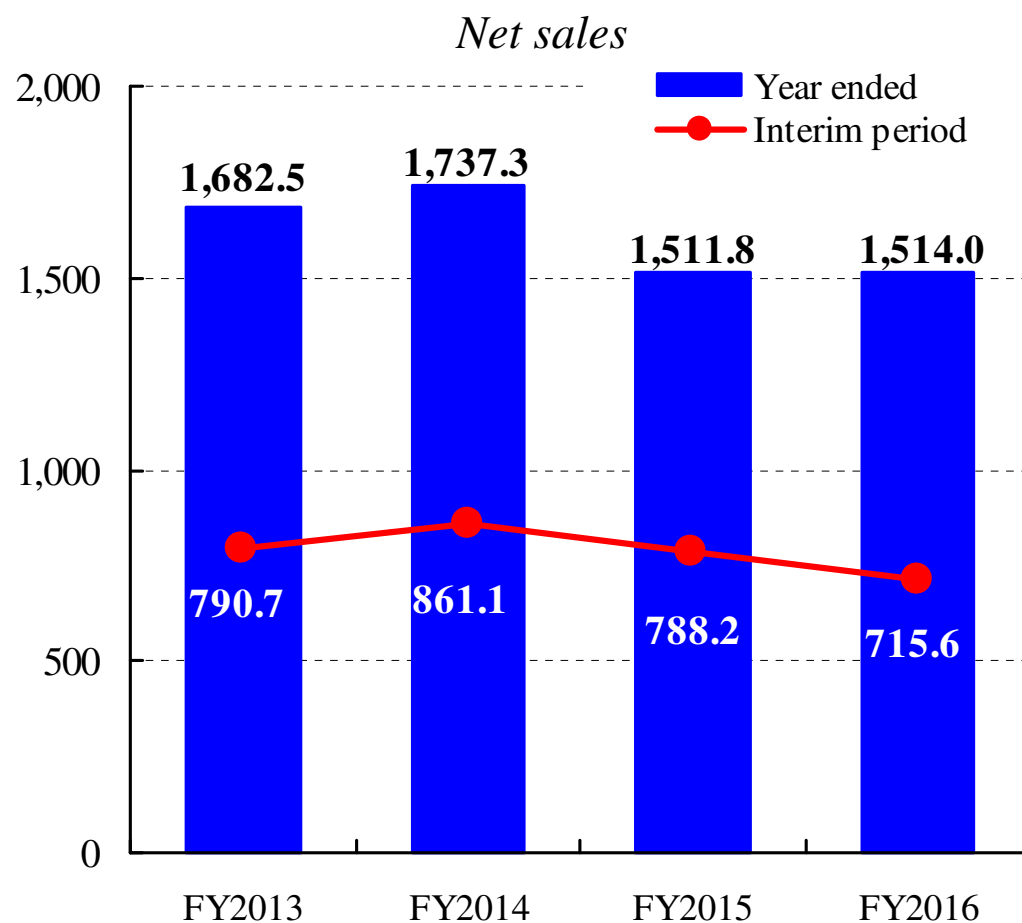
(billions of yen)

	<i><b>FY2015</b></i>	<i><b>FY2016</b></i>	<i><b>Rate of changes</b></i>
<i>Net sales</i>	1,511.8	1,514.0	+0%
<i>Gross profit</i>	56.5	64.5	+14 %
<i>SG&amp;A</i>	38.3	41.0	+7 %
<i>Operating income</i>	18.1	23.4	+29 %
<i>Ordinary income</i>	15.4	22.9	+49 %
<i>Net income attributable to owners of the parent</i>	25.4	16.3	−36 %
<i>EPS</i>	122.92yen	80.18yen	−35%
<i>Comprehensive income</i>	16.7	20.9	+25 %

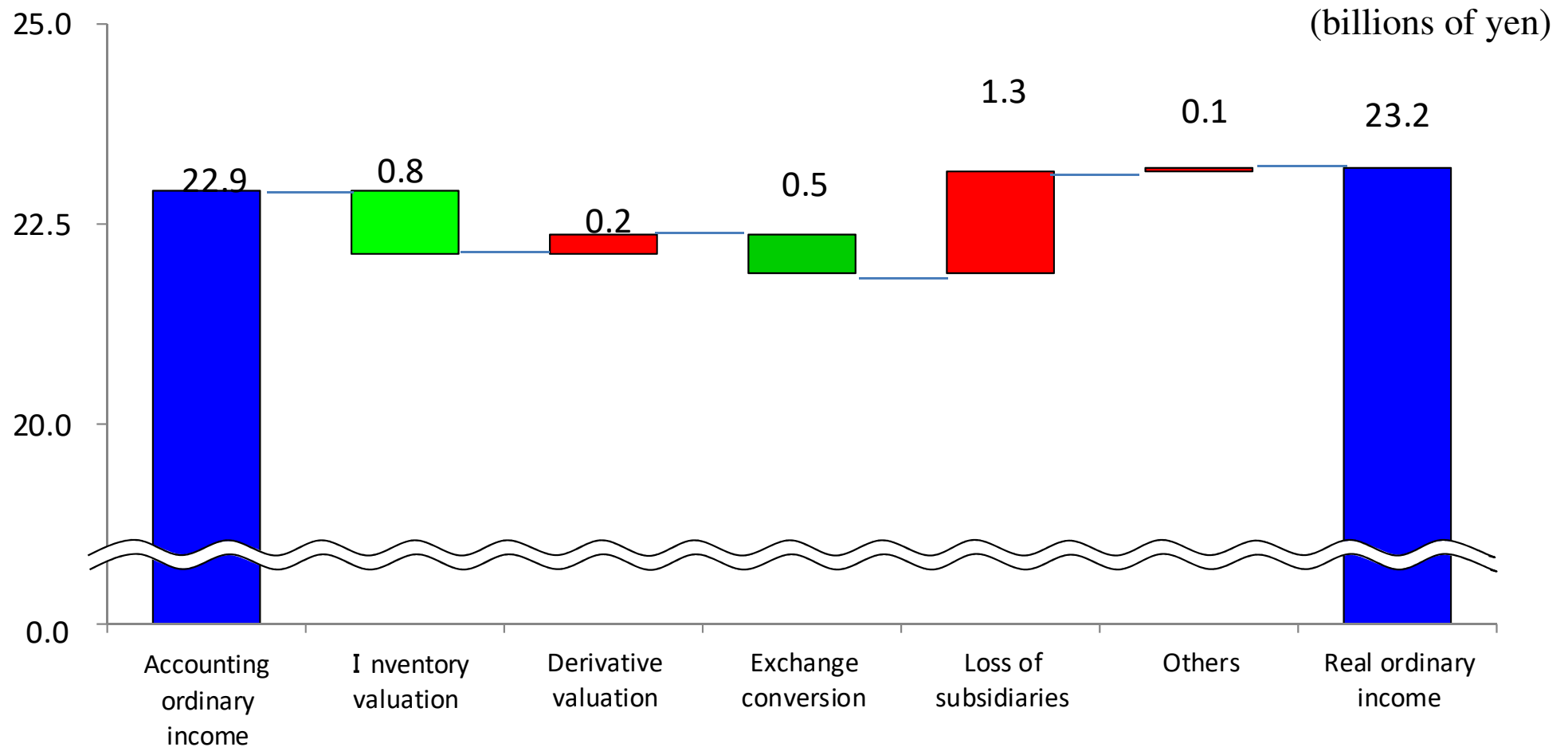
# Changes in Business Results (consolidated)

*Although monetary sales decreased because of low prices of commodities, the transaction volume was generally steady.*

*Net income remained strong compared with prior years after excluding the one-time contribution to FY2015 net income from the gain on the sale of logistics center land.*



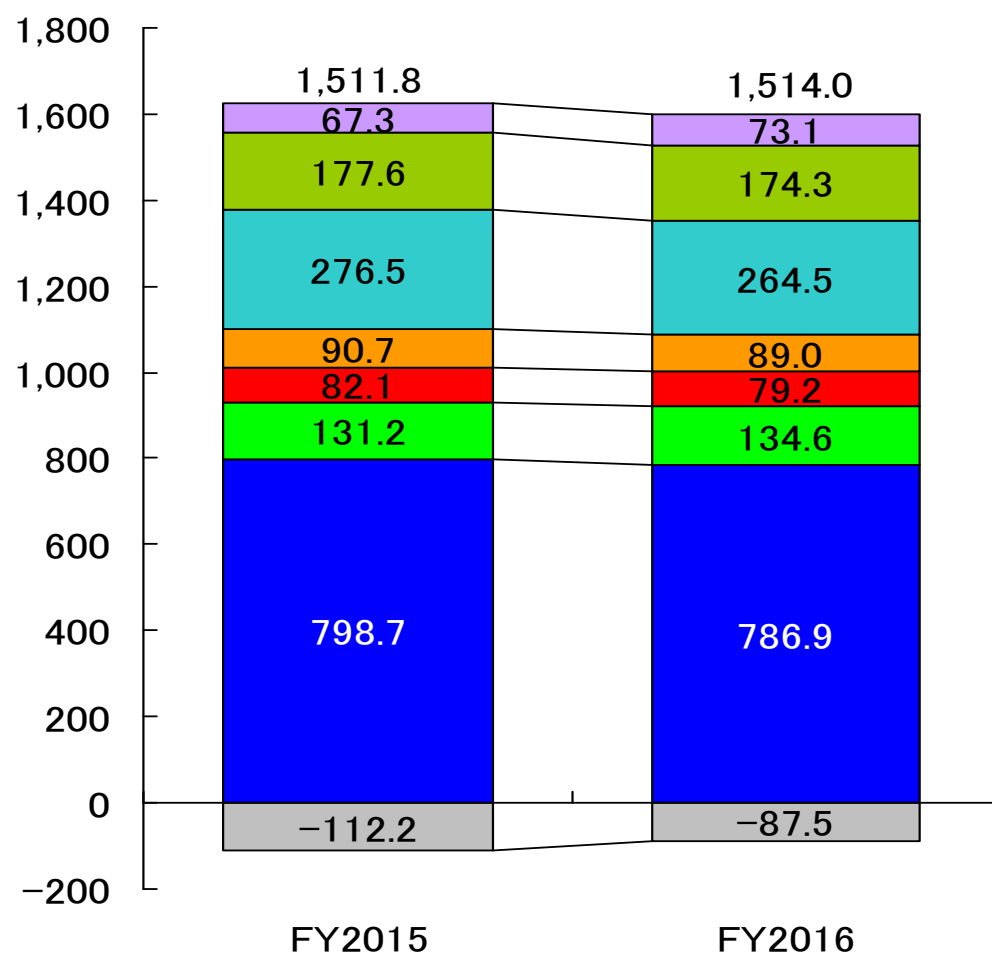
*Reported ordinary income of 22.9 billion yen includes one-time factors such as fiscal year-end valuation gains and losses for inventories, derivatives and other items and a one-time loss at subsidiaries. After excluding these factors, ordinary income was 23.2 billion yen compared with 17.7 billion yen one year earlier.*



# Segment Information ( consolidated )

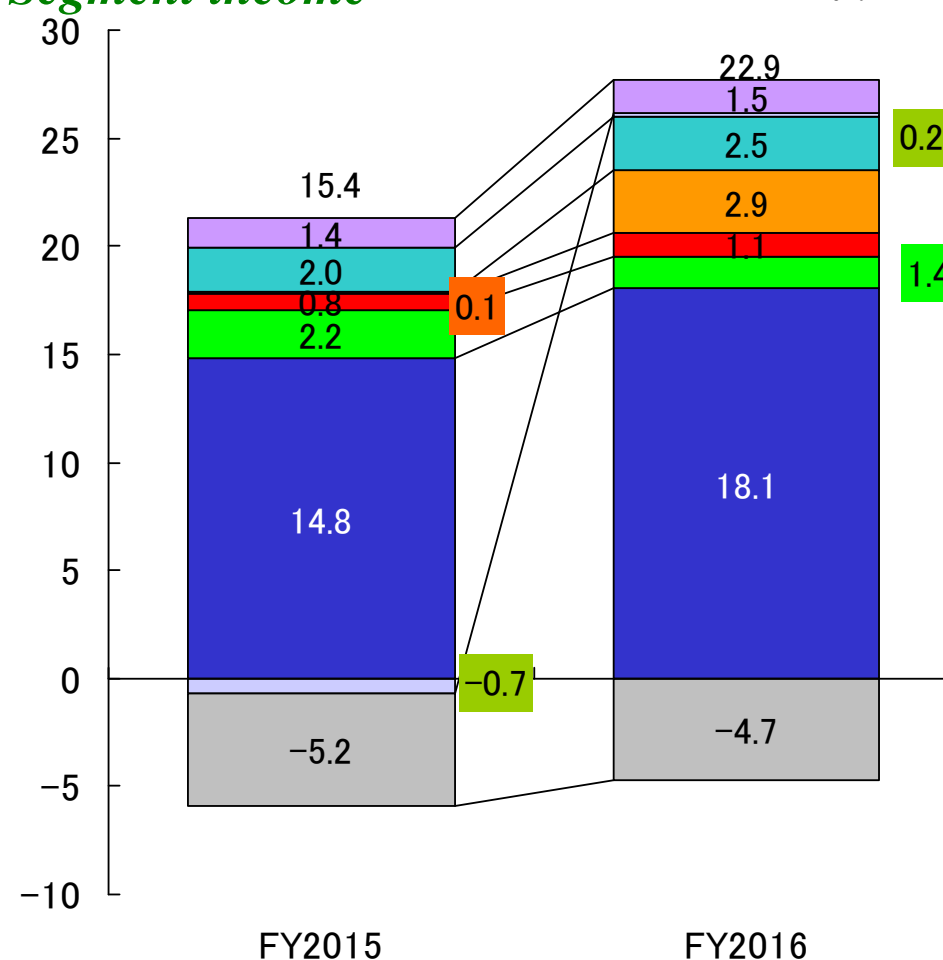
*Lower commodity prices caused sales to decline in all segments except metals & alloys. Earnings increased mainly because of higher steel earnings and an improvement in the profitability of the food product segment.*

## Net sales



## Segment income

(billions of yen)



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

## Financial Position ( consolidated )

- Total assets increased by 16% from the end of the previous fiscal year primarily because of an increase in trade receivables from the gradual increase in sales.
- Interest-bearing debt increased by 9% in part due to the higher demand for funds in association with the gradual increase in sales. The net debt-equity ratio was largely flat at 135.7%.
- Net assets increased by 10% primarily because of the fiscal year's net income and an increase in valuation difference on available-for-sale securities.

(billions of yen)

	<i>FY2015</i>	<i>FY2016</i>	<i>Rate of changes</i>
<i>Total assets</i>	599.6	694.2	+16 %
<i>Total liabilities</i>	443.5	522.5	+18%
<i>Interest-bearing debt</i>	237.5	259.6	— 1 %
<i>Net DER</i>	135.9%	135.7%	— 0.2pt
<i>Net assets</i>	156.1	171.6	+10 %
<i>Shareholders' equity</i>	154.8	170.4	+10 %
<i>Shareholders' equity ratio</i>	25.8 %	24.5 %	—1.3pt
<i>BPS</i>	747.40 yen	838.70 yen	+12 %

## Cash Flows Situation ( consolidated )

- Operating activities provided net cash of 3.9 billion yen because of an increase in revenue from business operations..
- Investing activities used net cash of 18.4 billion yen because of cash used for short-term loans receivable.
- Financing activities provided net cash of 15.4 billion yen mainly due to increases in proceeds from short-term loans and commercial paper.

(billions of yen)

	<i>FY2015</i>	<i>FY2016</i>	<i>Change</i>
<i>Cash flows from operating activities</i>	53.0	3.9	−49.1
<i>Cash flows from investing activities</i>	(10.4)	(18.4)	− 7.9
<i>Cash flows from financing activities</i>	(41.7)	15.4	+57.1
<i>Cash and cash equivalents at end of the period</i>	25.8	27.2	+1.4

· *Net sales forecast*

*Forecast a 12% increase in part because of the increase in commodity prices.*

· *Profit forecast*

*Expect an improvement in earnings at subsidiaries with weak performances in the prior fiscal year and higher steel prices to contribute to earnings growth. But forecast only a small increase because of narrower profit margins for construction work, which was highly profitable in prior fiscal years, and the downturn of amusement ride projects.*

*(billions of yen)*

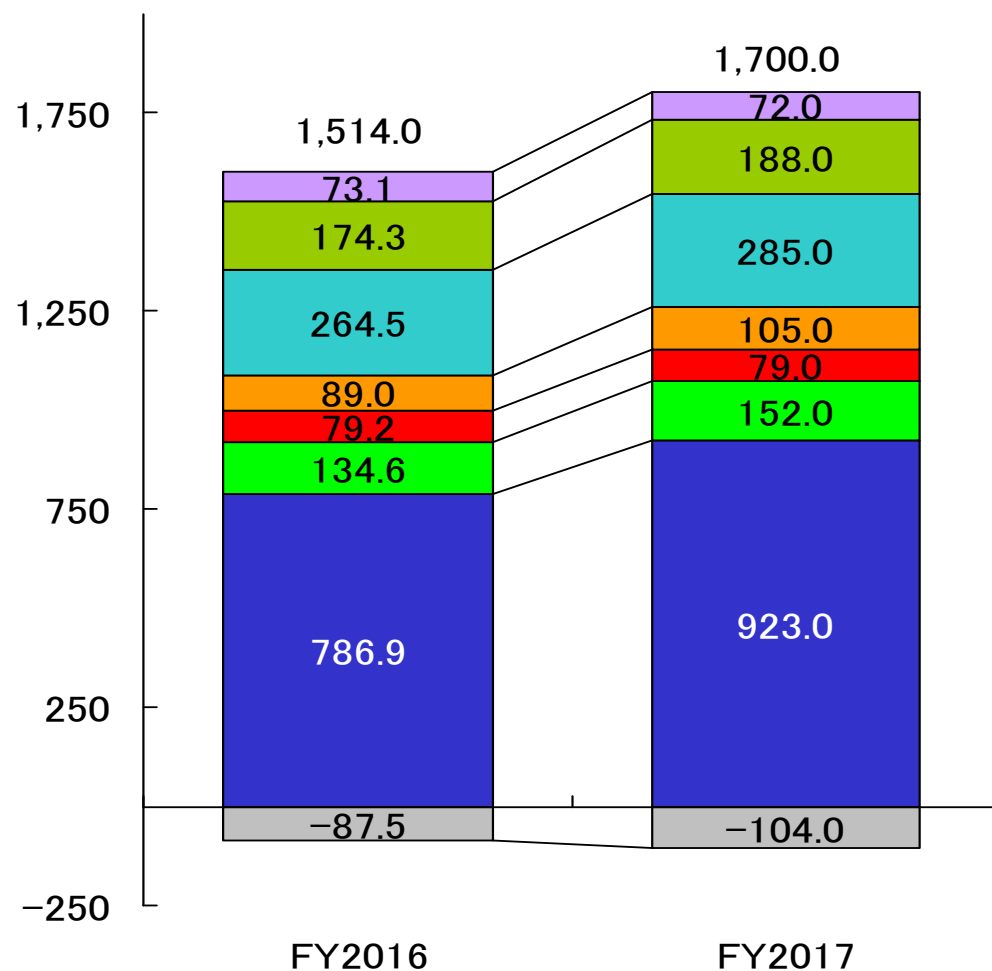
	<i>FY2016</i>	<i>FY2017 (forecast)</i>	<i>Rate of change</i>
<i>Net sales</i>	1,514.0	1,700.0	+12 %
<i>Operating income</i>	23.4	25.5	+9 %
<i>Ordinary income</i>	22.9	24.0	+5 %
<i>Net income attributable to owners of the parent</i>	16.3	16.0	−2 %



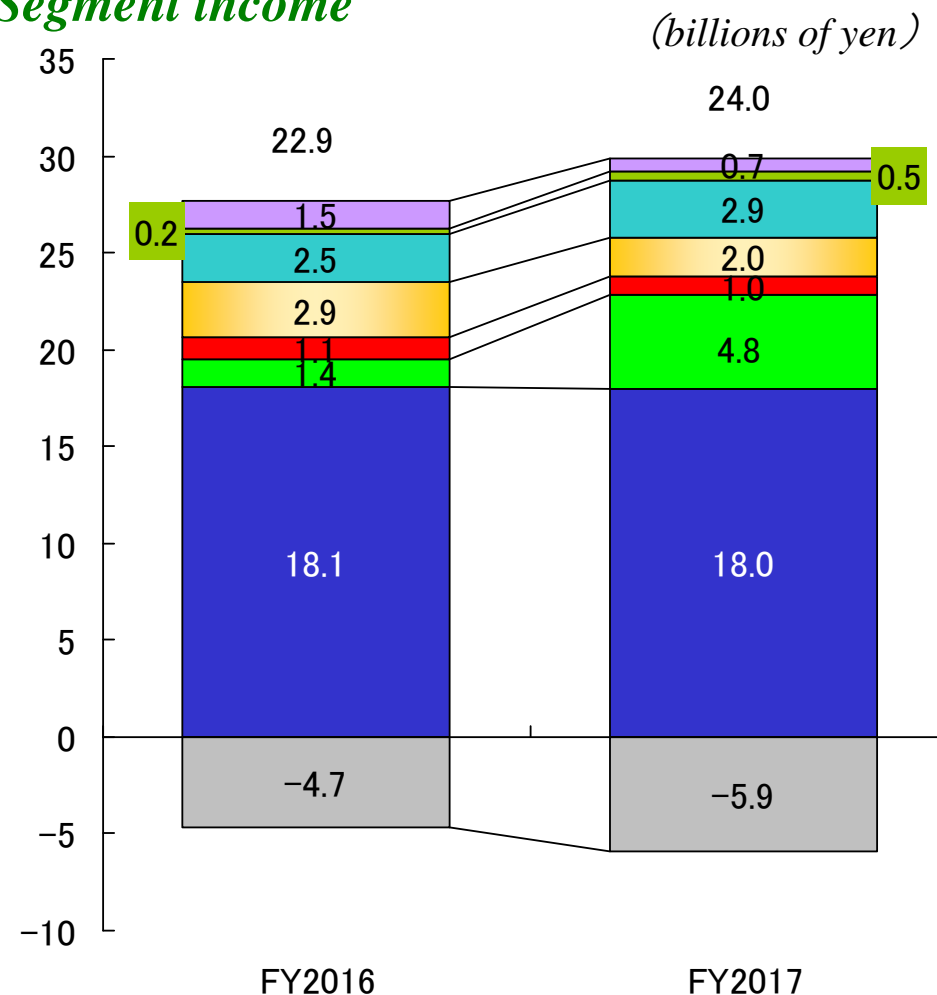
# Forecast of Segment Information

*Anticipate higher sales in most segments mainly because of higher prices.  
Expect higher earnings in the metals & alloys segment due to an increase in earnings at subsidiaries and growth in equity-method income.*

## Net sales



## Segment income



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

## 【Dividend Policy】

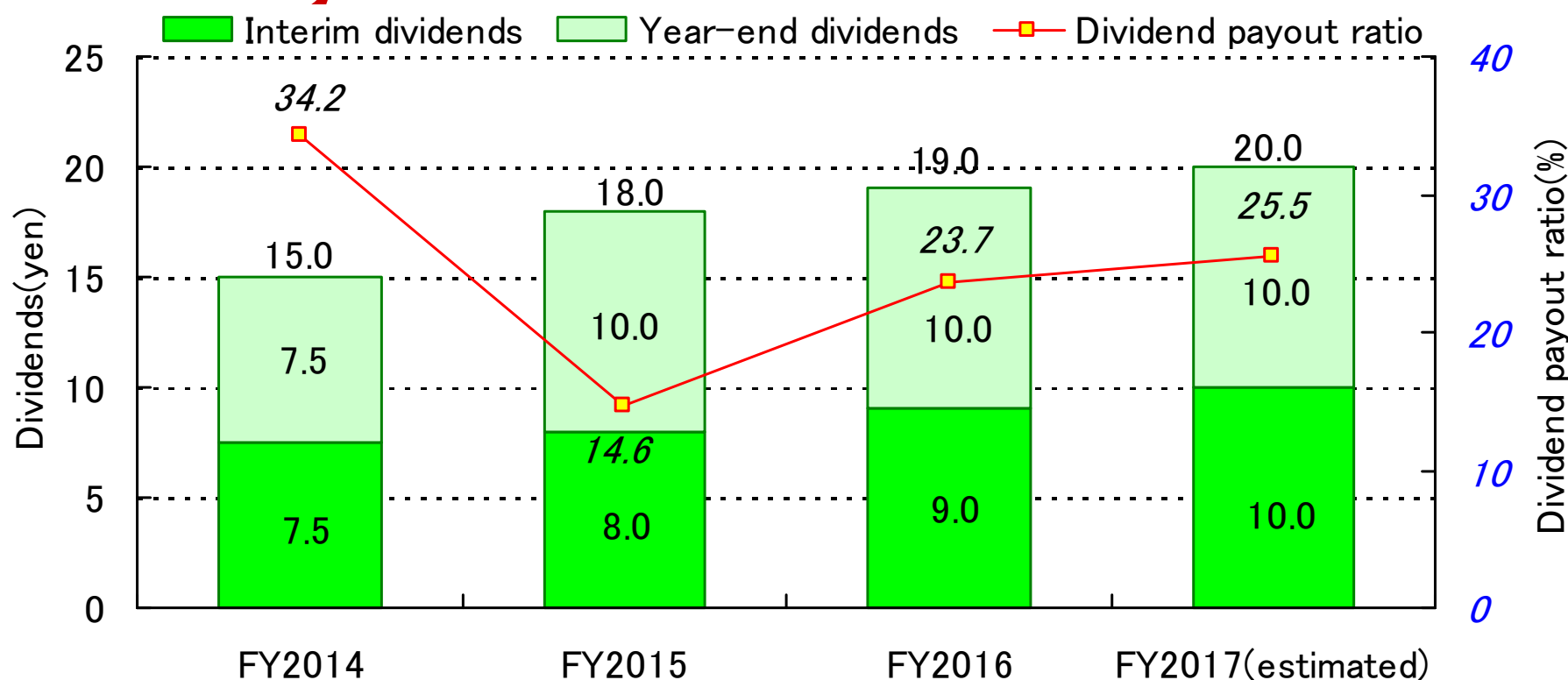
*Our policy is to pay a stable dividend to shareholders. In addition, our aim is to increase the dividend based on growth in basic earnings resulting from actions to improve profitability and to reflect the level of returns from strategic investments.*

*(Estimated Dividend)*

*FY2016 Year end dividend 10.0 yen.*

*FY2017 Interim dividend 10.0 yen, Year end dividend 10.0 yen*

## 【Trend in dividends】



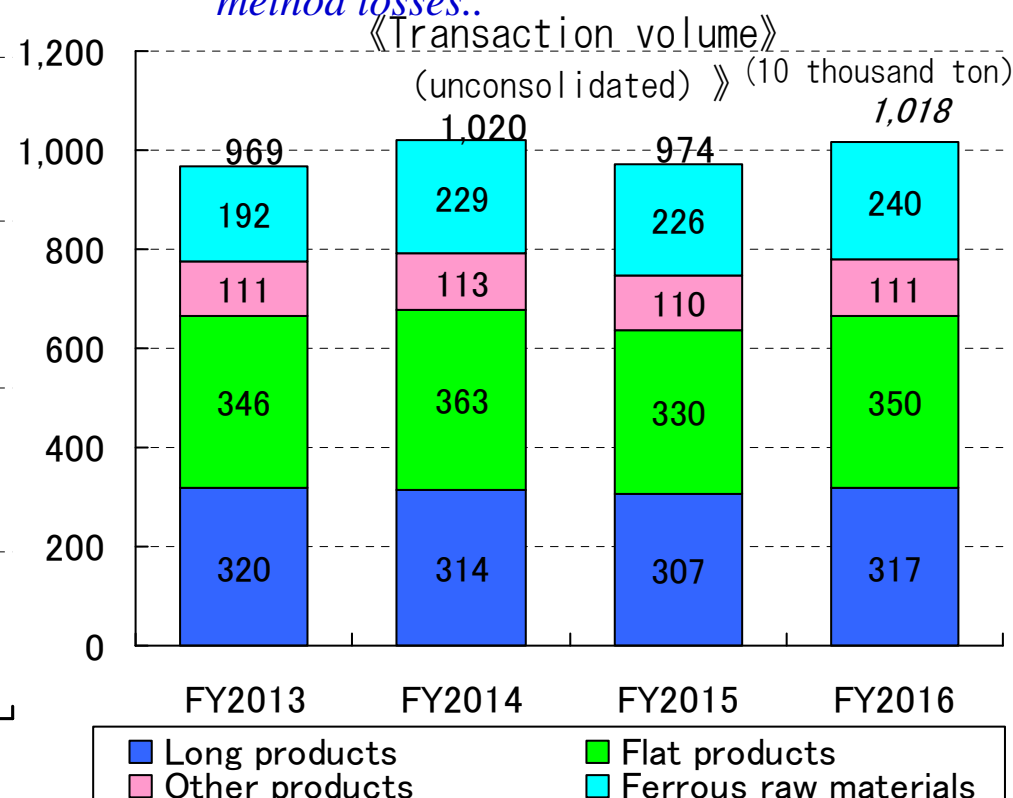
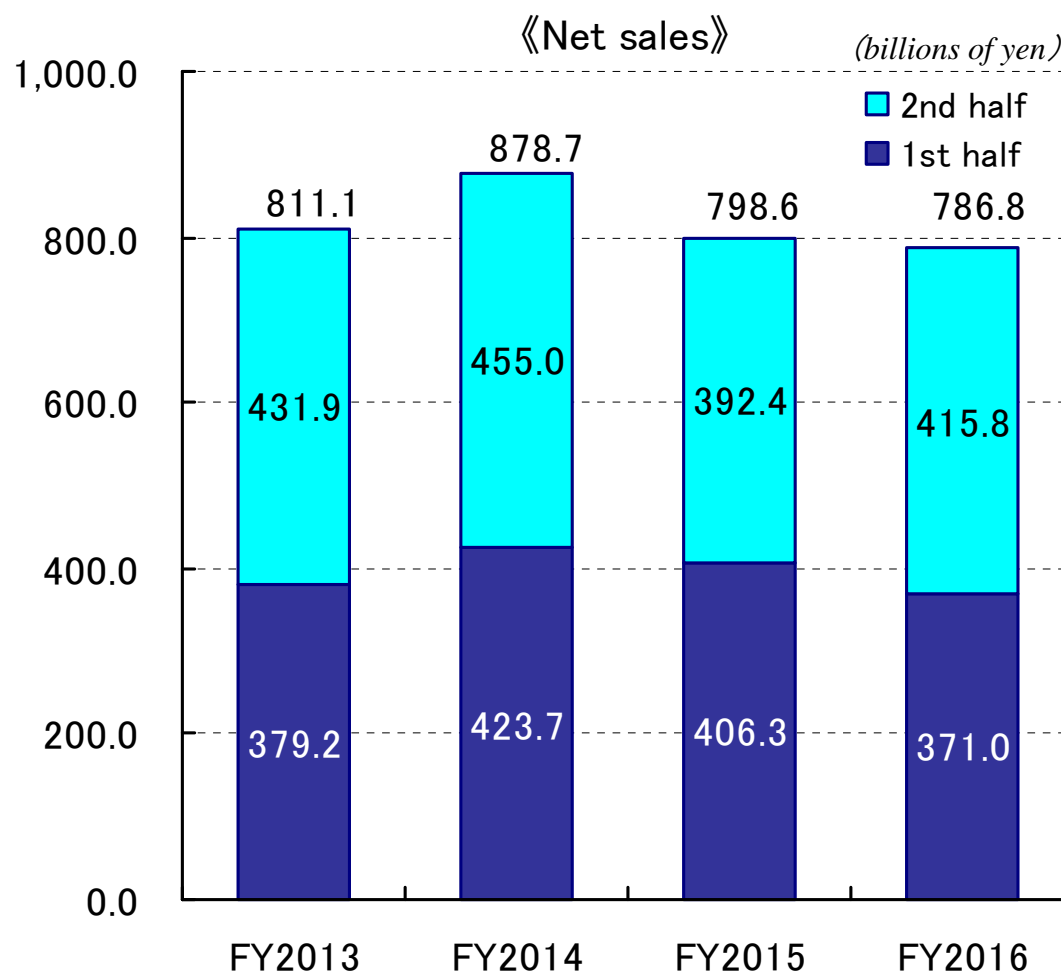
(billions of yen) • Net sales

	FY2015	FY2016	Rate of change
Net sales	798.6	786.8	−2%
Segment income	14.8	18.0	+22%

Demand was firm but still somewhat sluggish and price hikes following the prior year's price reductions are still ongoing. The result was lower segment sales..

• Segment income

Earnings increased because of the completion of construction projects with high profit margins and a luck of the negative impact in the previous fiscal year of substantial equity-method losses..



# Metals & Alloys Business Segment

(billions of yen)

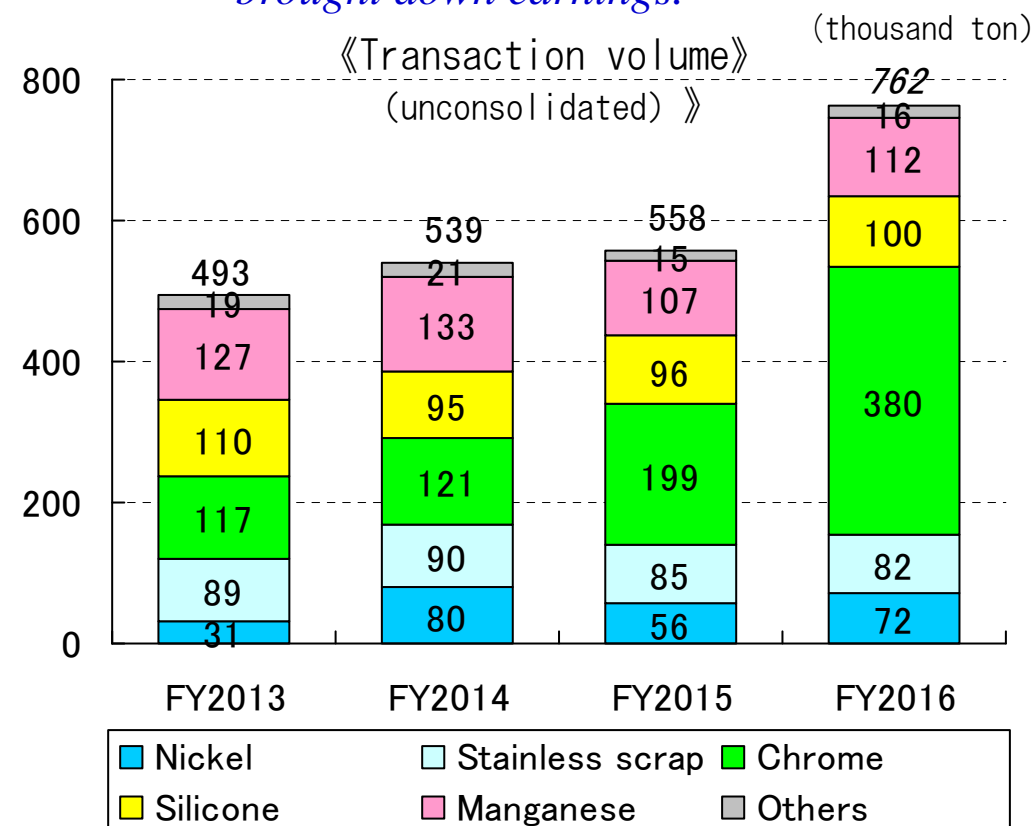
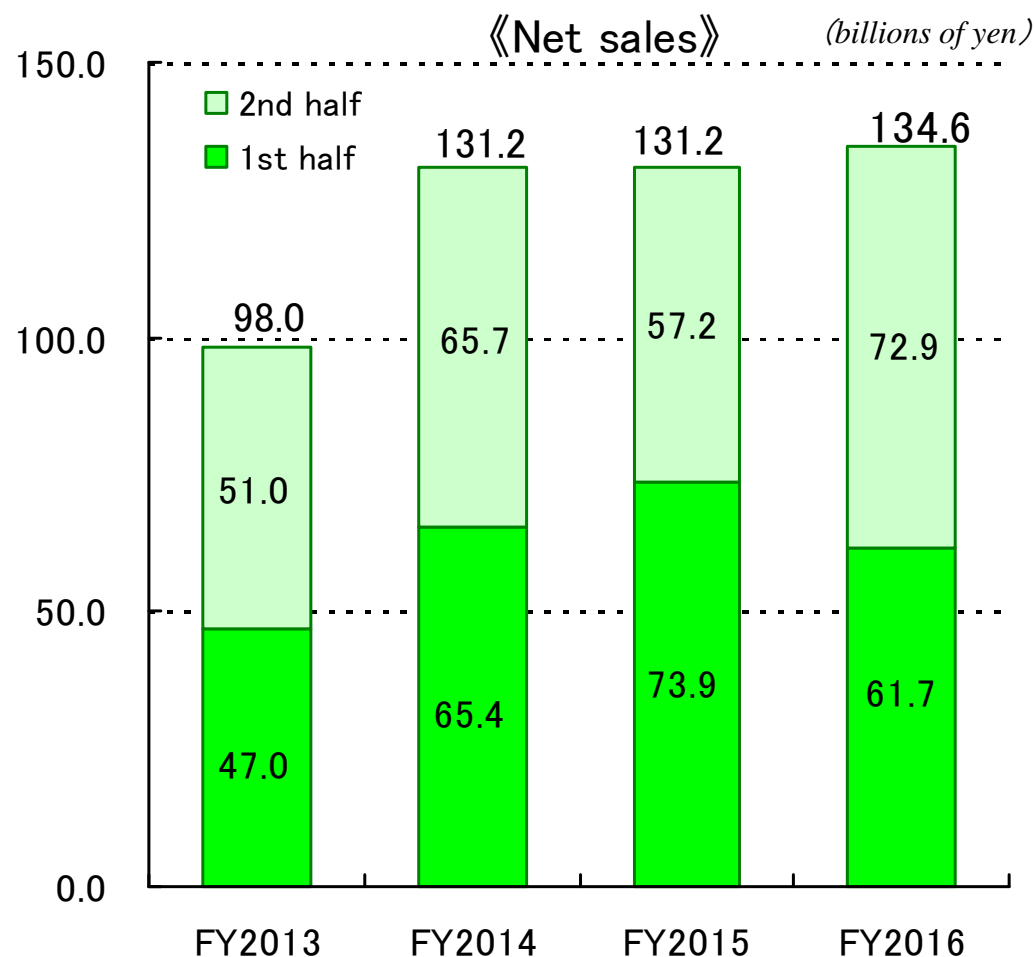
	FY2015	FY2016	Rate of change
Net sales	131.1	134.6	+3%
Segment income	2.2	1.4	-36%

## Net sales

Although prices of metals were generally flat, sales increased mainly because of higher sales of ferrochrome and nickel compounds..

## Segment income

Foreign exchange losses and the disposal of long-term inventories at Showa Metal brought down earnings.



# Non-ferrous Metals Business Segment

(billions of yen)

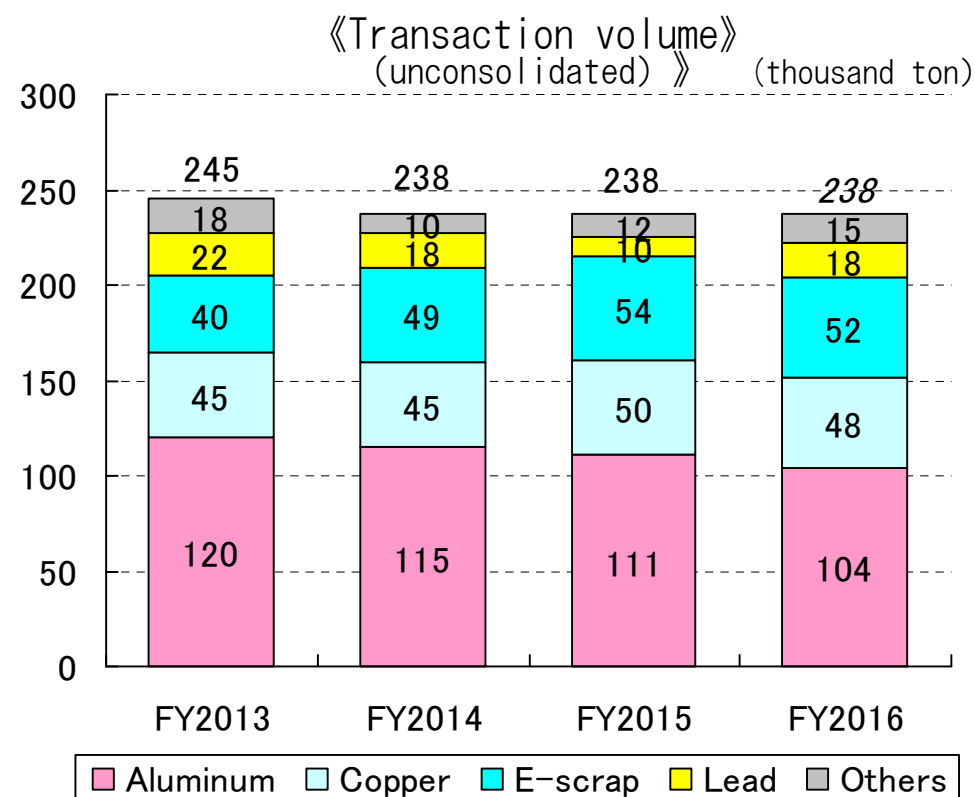
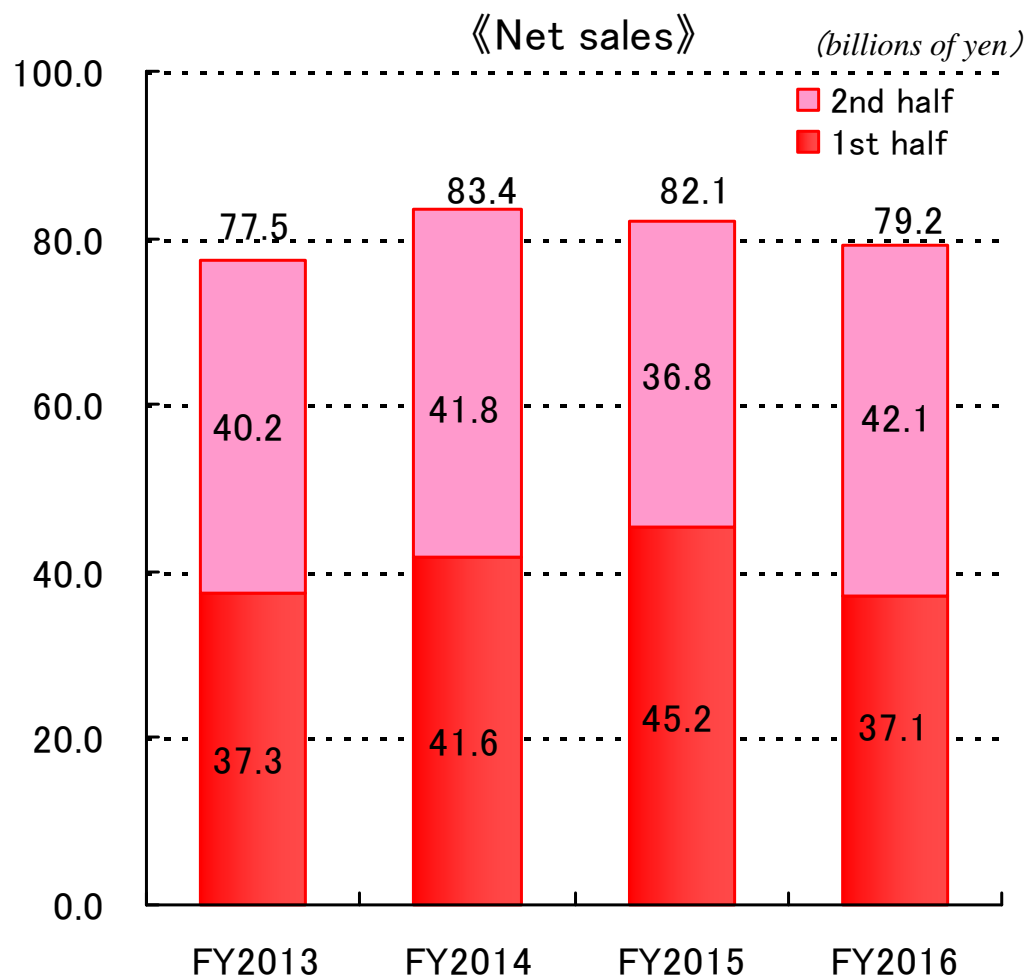
	FY2015	FY2016	Rate of change
Net sales	82.0	79.2	−4%
Segment income	0.8	1.0	+28%

## · Net sales

Low yen-denominated prices of non-ferrous metals caused sales to decline.

## · Segment income

Earnings increased due to an improvement in earnings from aluminum and precious metal scrap as prices moved up in the fiscal year's second half.



# Foods Business Segment

(billions of yen)

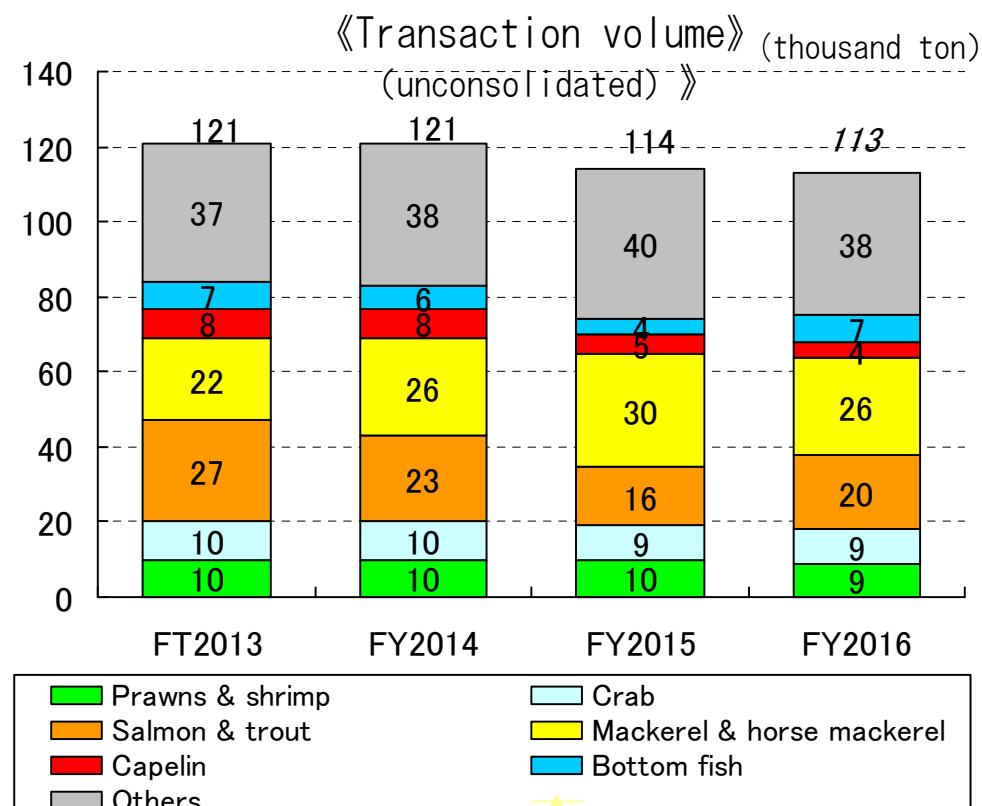
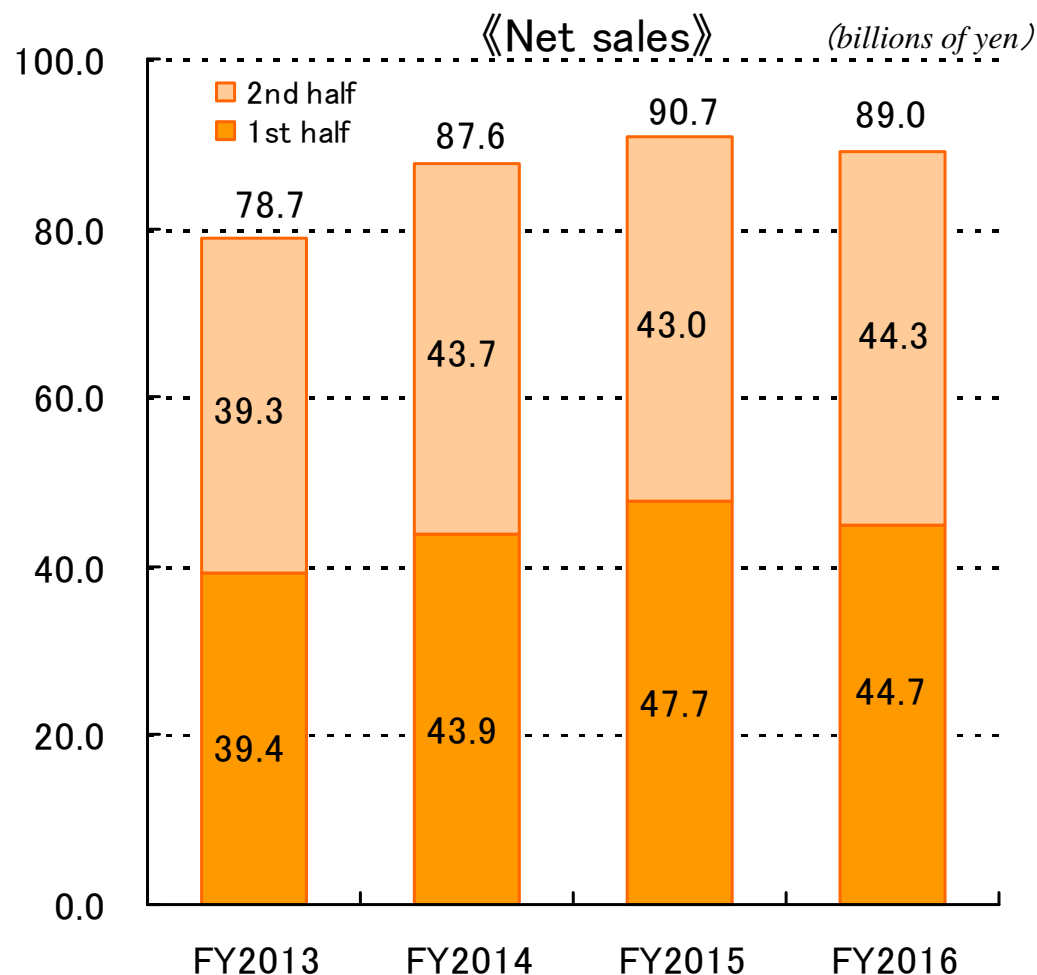
	FY2015	FY2016	Rate of change
Net sales	90.6	89.0	−2%
Segment income	0.0	2.8	—%

## Net sales

Sales in Japan remained sluggish and weak demand for shrimp in the United States reduced the volume of sales. The result was a decrease in segment sales.

## Segment income

Earnings increased because of higher profit margins on products whose prices rose and a profit at Seattle Shrimp and Seafood following the prior year's loss.



# Petroleum & Chemicals Business Segment

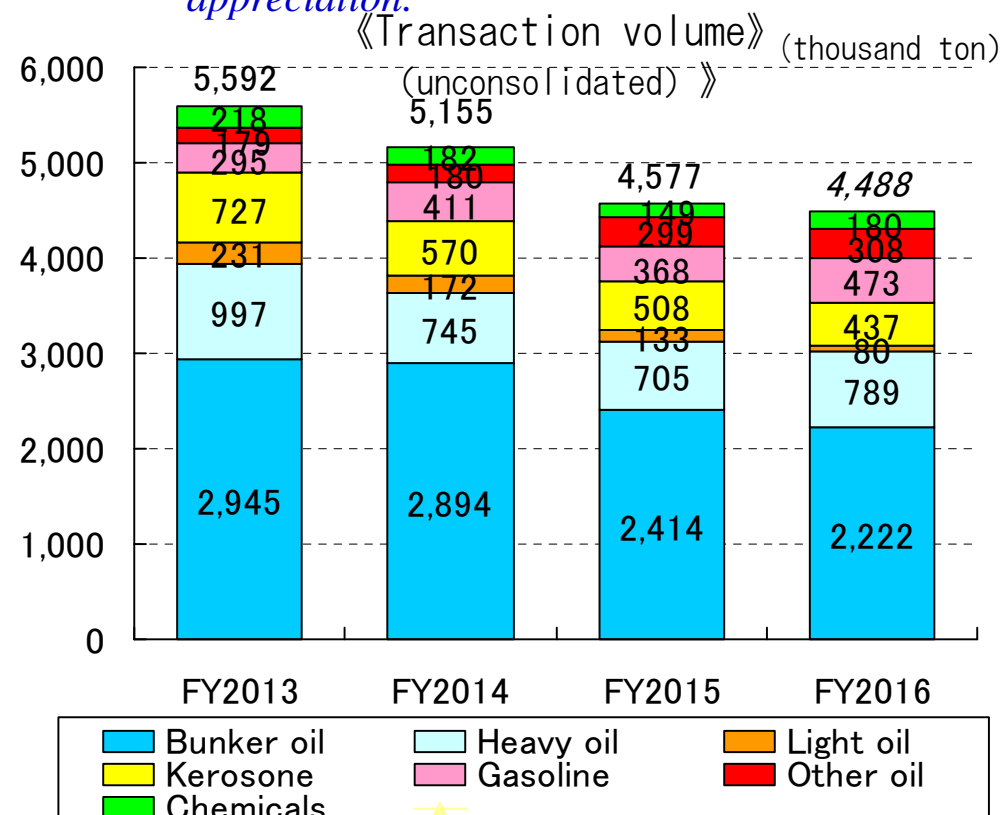
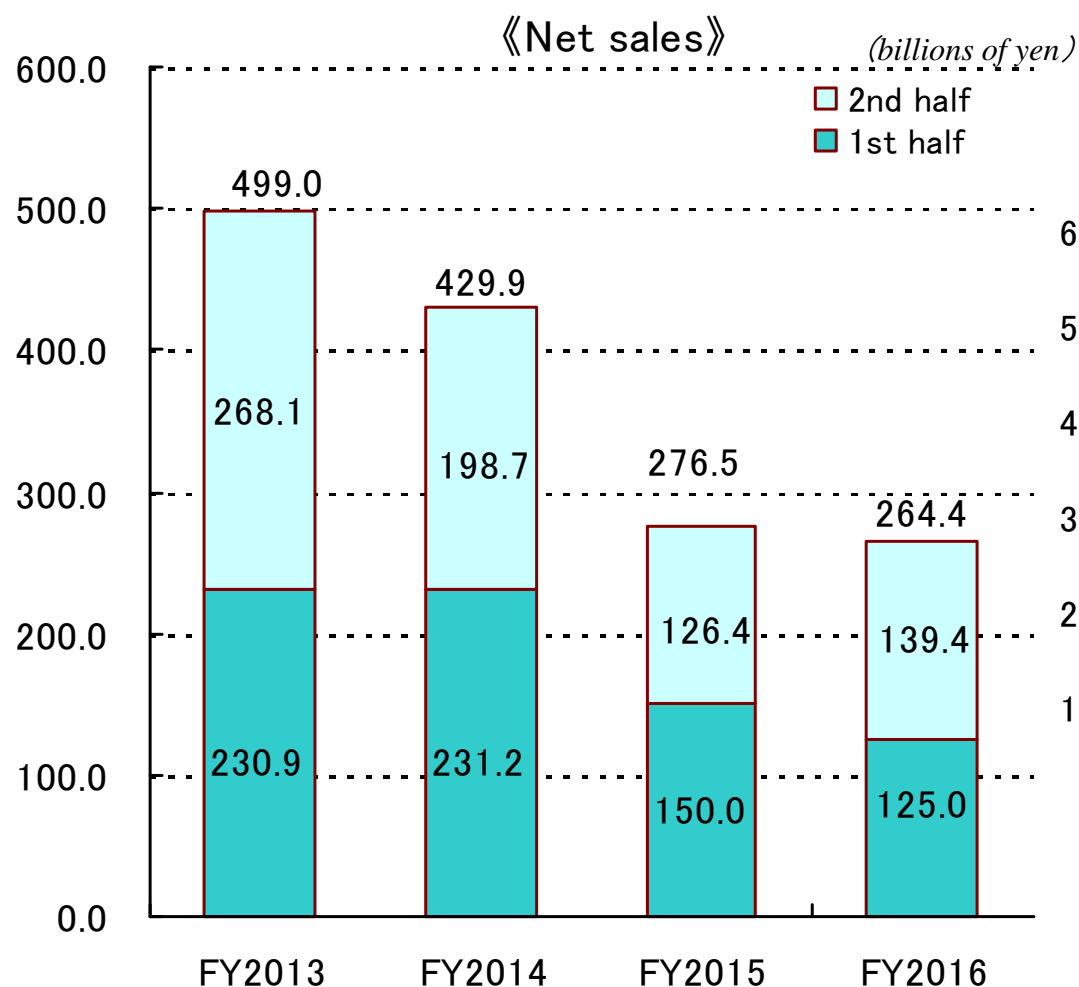
(billions of yen) Net sales

	FY2015	FY2016	Rate of change
Net sales	276.4	264.4	−4%
Segment income	1.9	2.4	+25%

Prices of petroleum products were lower than in the previous fiscal year and weakness in the global shipping industry reduced demand for bunker fuel. Segment sales decreased as a result.

## Segment income

Earnings benefited from higher earnings from winter kerosene sales and higher earnings on imported goods due to the lower cost of raw materials for chemicals and the yen's appreciation.



# Overseas Sales Subsidiaries Segment

(billions of yen)

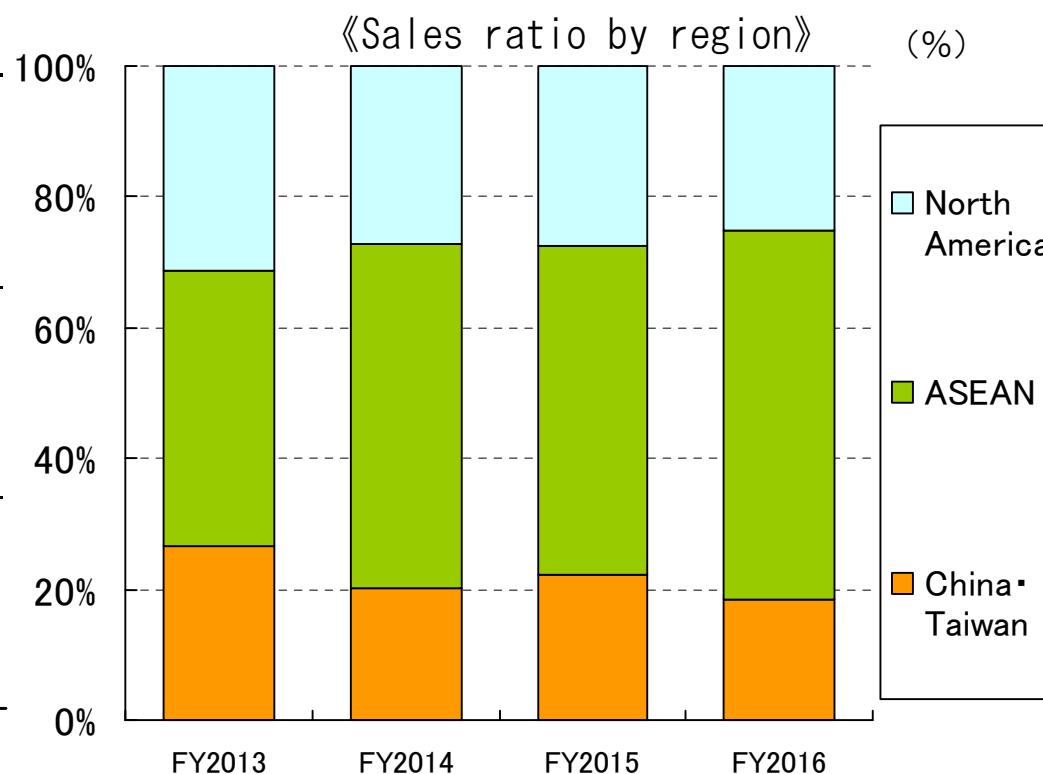
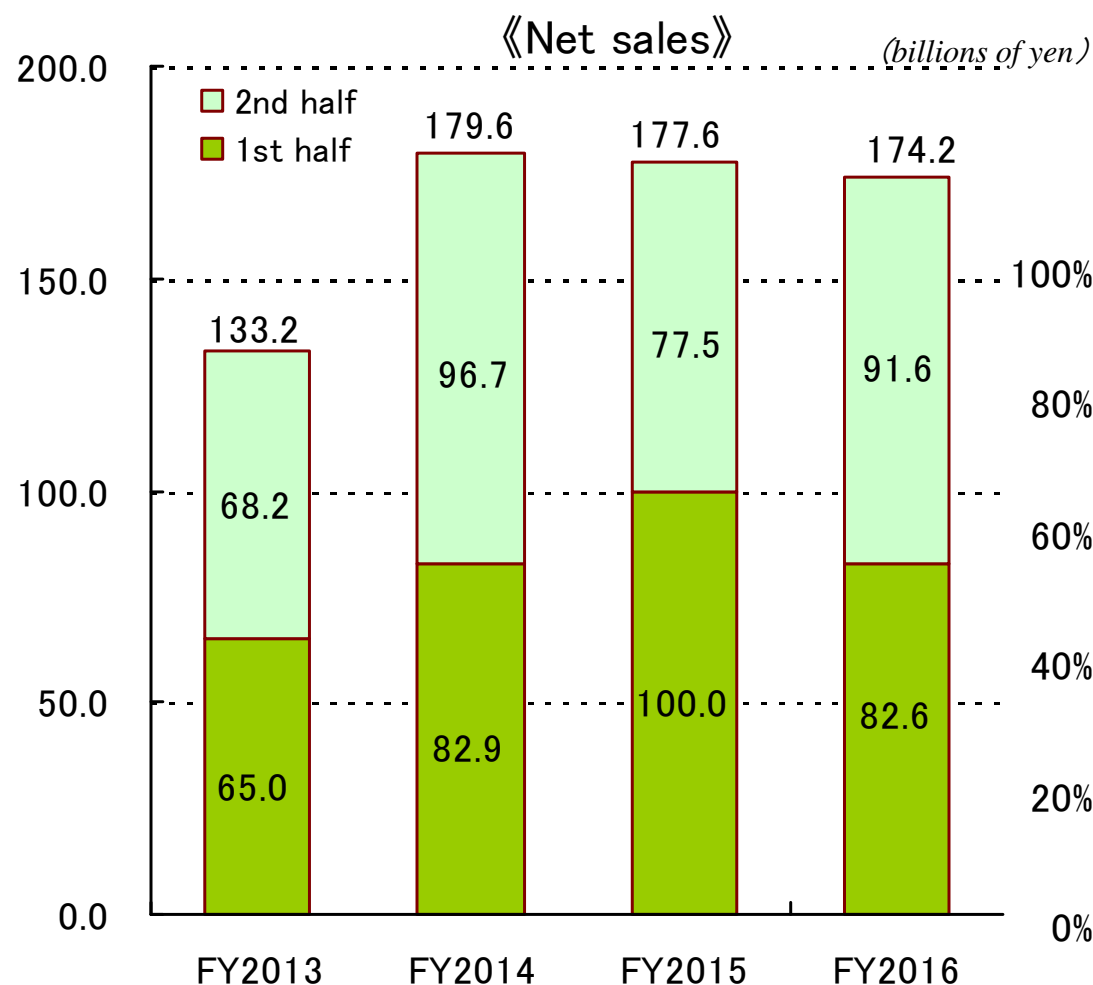
	FY2015	FY2016	Rate of change
Net sales	177.6	174.2	−2%
Segment income	(0.7)	0.1	—%

## Net sales

Sales were impacted by weak steel sales due to U.S. anti-dumping measures and lower yen conversions of sales because of the yen's appreciation.

## Segment income

The non-ferrous metals business in Singapore and a newly consolidated subsidiary in Indonesia were the main reasons for the increase in segment earnings.





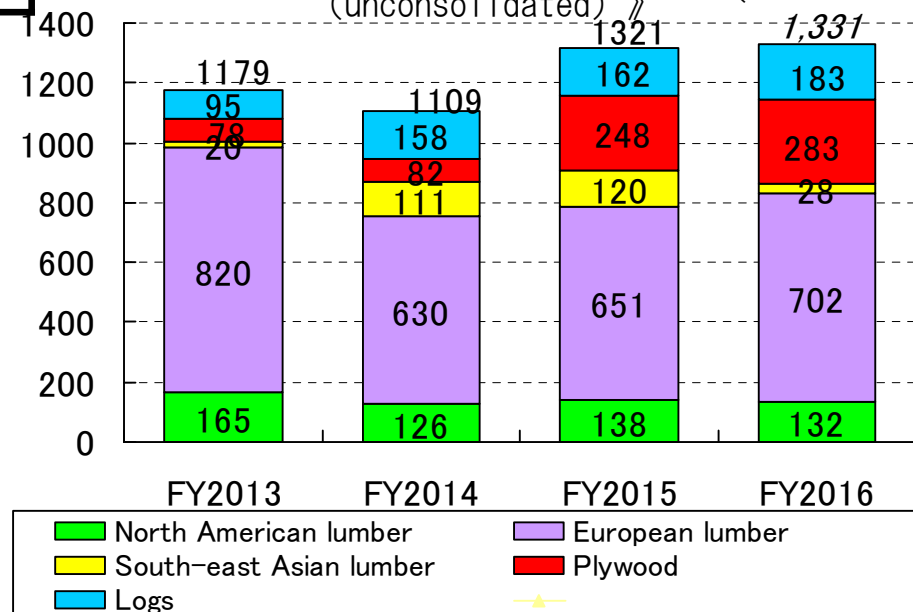
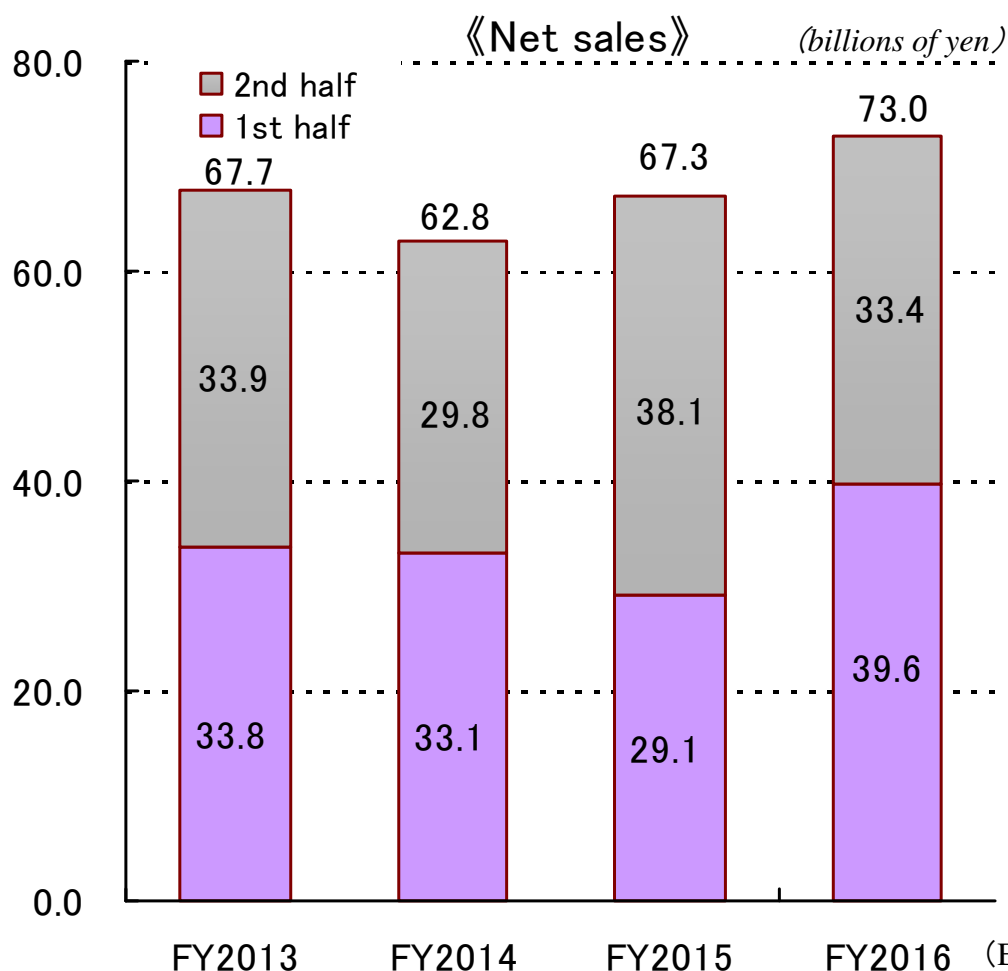
# Other Segment

(billions of yen)

	FY2015	FY2016	Rate of change
Net sales	67.2	73.0	+9%
Segment income	1.3	1.5	+11%

*Earnings growth was mainly attributable to the completion of amusement ride projects in the machinery business and higher sales of lumber imported from Europe.*

《Transaction volume in lumber business》  
(unconsolidated) (thousand m³)



(EXPOCITY/REDHORSE OSAKA WHEEL)



(Fuji-Q/Tentekomai)

*The return on invested capital (ROIC) improved due to the increase in ordinary income.*

*The net debt-equity ratio was unchanged despite an increase in debt because demand for working capital changed stronger.*

*The number of new customers has reached about one-third of the three-year goal of 2,000.*

## 【Key Financial Ratios】

		<i>FY2013</i>	<i>FY2014</i>	<i>FY20015</i>	<i>FY2016</i>
<i>ROIC</i> (%)		4.9	4.4	4.5	6.2
<i>Net DER</i> (%)		187.5	175.4	135.9	135.7
<i>New customers</i> (Number)		705	665	705	697
<i>ROE</i> (%)		6.6	6.9	17.2	10.1
	<i>Net profit margin</i> (%)	0.5	0.5	1.7	1.1
	<i>Total assets turnover</i> (%)	293.6	279.1	241.7	234.0
	<i>Debt leverage ratio</i> (%)	475.6	471.5	422.2	397.8

*The “Three S” Commitment - Steady, Speedy, Strategic - build our sustainable growth.*



## STRATEGIC

*Dividend and equity in earnings of affiliates  
from strategic investments 0.7 billion yen  
(+0.5 billion yen from the previous year)*

## SPEEDY

*Ordinary income from domestic subsidiaries 2.1 billion yen  
(+0.9 billion yen from the previous year)  
Ordinary income from overseas subsidiaries 1.0 billion yen  
(+4.1 billion yen from the previous year)  
(Ordinary income : Ordinary income of consolidated subsidiaries  
and dividends from non-consolidated subsidiaries)*

## STEADY

*Non-consolidated ordinary income  
less dividends from subsidiaries  
19.0billion yen (12.0% from the previous year)*

*Overall, consolidated and non-consolidated earnings were higher despite an inventory disposal loss at Showa Metal in the metals & alloys segment.*

## **【Ordinary income trend of subsidiaries by business segments】**

(millions of yen)

	FY2015		FY2016		Increase - Decrease	
	Consolidated	Unconsolidated	Consolidated	Unconsolidated	Consolidated	Unconsolidated
Steel	880	(320)	2,614	406	+1,733	+726
Metals & alloys	(395)	(27)	(673)	164	-278	+192
Non-ferrous metals	154	137	254	142	+99	+5
Foods	(876)	(3)	376	28	+1,252	+32
Petroleum & chemicals	125	122	322	134	+197	+12
Overseas sales subsidiaries	(446)	8	225	(148)	+672	-156
Others	68	169	215	149	+147	-19
<b>Total</b>	<b>(489)</b>	<b>86</b>	<b>3,334</b>	<b>878</b>	<b>+3,823</b>	<b>+792</b>

(Total : Simple sum of each income)

# Outline of strategic investment

*We will continue making small natural resource investments targeting niche sectors that are vital for various industries.*

*Another goal is building an overseas network for the collection of metal scrap.*

## **AFARAK**

Finland  
(South Africa, Turkey,  
Germany)  
FeCr, SiMn  
(about 300 thousand  
ton/ year)

## **MM METAL**

Holland  
Collection/inspection of  
E-scrap

## **HANWA ROYAL**

Indonesia  
Recycling of non-  
ferrous metals scrap

## **BACANORA**

Mexico  
lithium carbonate  
manufacturing  
(about 35thousand  
ton/year)

## **OM Holding**

Malaysia  
FeSi, Mn-alloy  
manufacturing  
(about 500  
thousand ton/year)

## **Tsingshan Holding**

Indonesia  
NPI manufacturing  
(about 160  
thousand ton/year)

## **SAMANCOR**

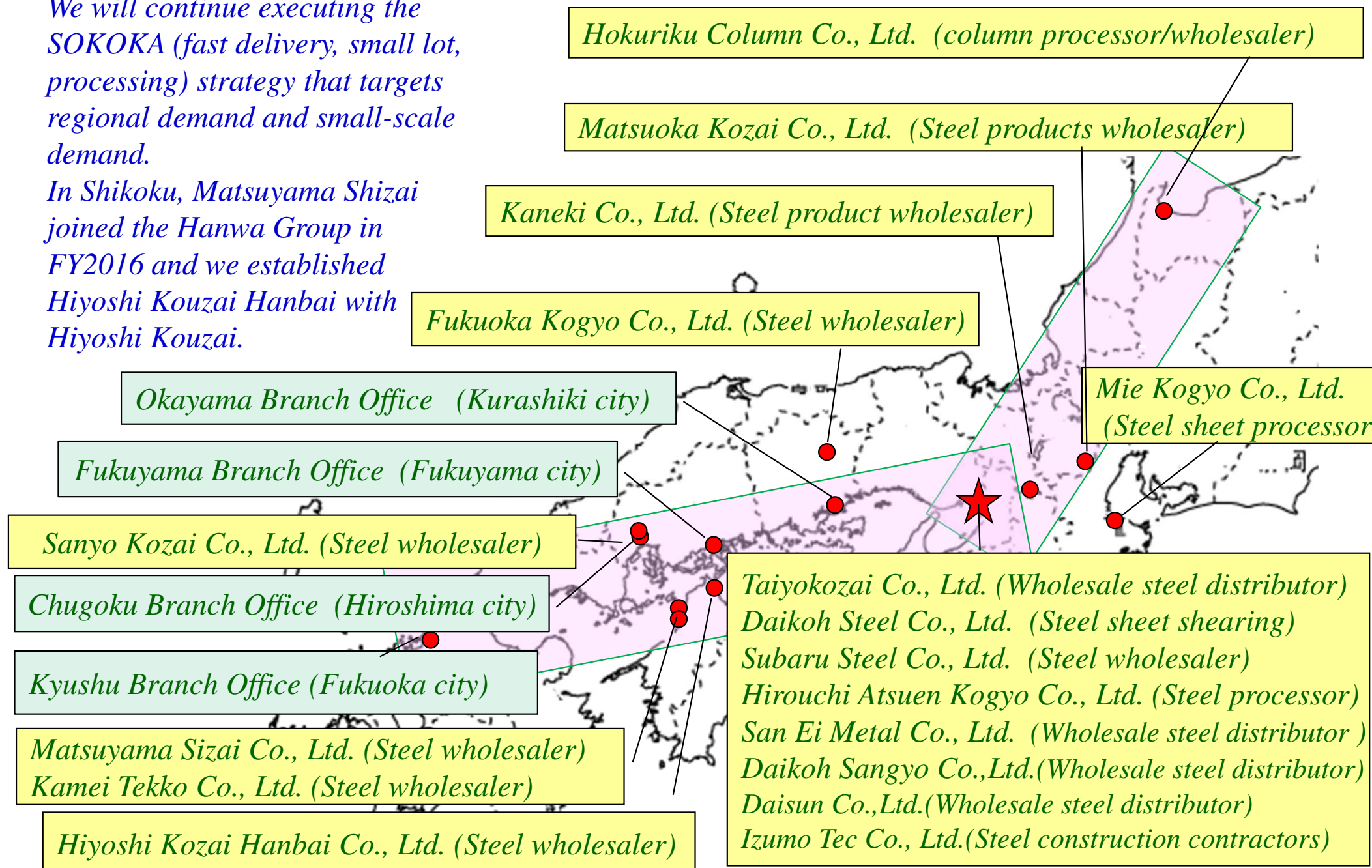
South Africa  
Cr Ore, FeCr  
(FeCr about 1.55  
million ton/year)



# Progress of QSP Business Strategy in Western Japan

We will continue executing the SOKOKA (fast delivery, small lot, processing) strategy that targets regional demand and small-scale demand.

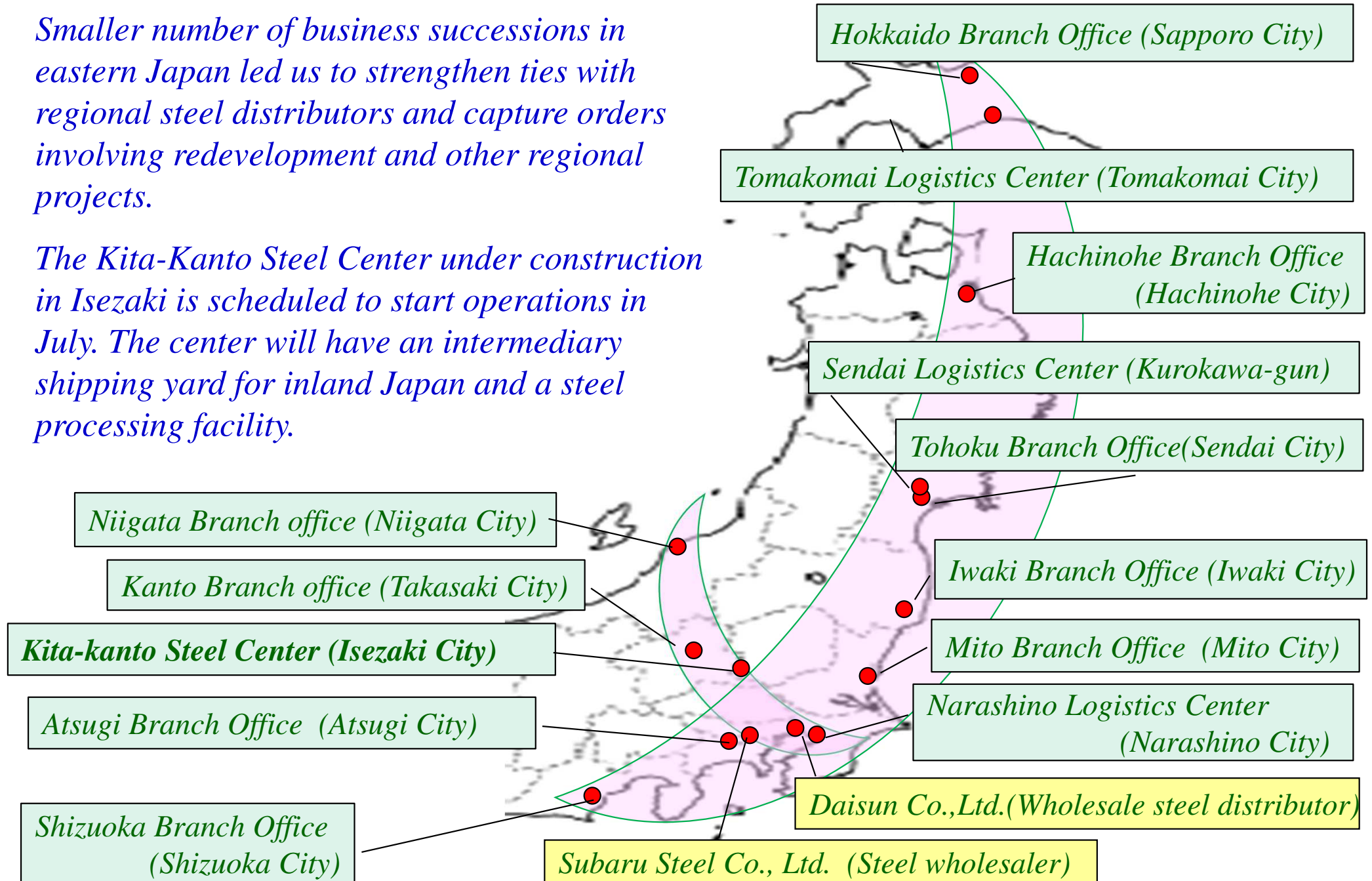
In Shikoku, Matsuyama Shizai joined the Hanwa Group in FY2016 and we established Hiyoshi Kouzai Hanbai with Hiyoshi Kouzai.



# Progress of QSP Business Strategy in Eastern Japan

*Smaller number of business successions in eastern Japan led us to strengthen ties with regional steel distributors and capture orders involving redevelopment and other regional projects.*

*The Kita-Kanto Steel Center under construction in Isezaki is scheduled to start operations in July. The center will have an intermediary shipping yard for inland Japan and a steel processing facility.*



# *“Create another Hanwa in Southeast Asia” Strategy*

*We want to make the growing demand in the ASEAN region a key component of our business model. To accomplish this, we will form more alliances with companies in this region and conduct more joint activities with Japanese companies.*

## *【The major alliance partners】*

### *Malaysia*

*Nippon Egalv Steel  
(Coated steel sheet manufacture)  
TATT GIAP group  
(Steel sheet processor and wholesaler)  
Eversendai Corp.  
(design, fabricator and constructor)  
TATT GIAP Steel Centre  
(Steel sheet processor)*

### *Singapore*

*HG Metal Manufacturing  
(Steel product wholesaler)  
Cosmosteel Holdings Ltd.  
(Steel product wholesaler)*

*PCM Processing (Thailand)  
(Colored steel sheet manufacture)  
Furukawa Unic (Thailand)  
(Parts for crane manufacture)*

### *Thailand*

### *Vietnam*

*SMC Trading Investment  
(Steel product wholesaler)  
Nippon Steel & Sumikin Pipe Vietnam  
(Steel pipe manufacture and seller)  
SMC Toami  
(Steel wire mesh manufacture and seller)  
Sendo Steel Pipe  
(Steel pipe manufacture)*

### *Indonesia*

*PT. Araya Steel Tube Indonesia (Steel pipe manufacture)  
PT. Hanwa Royal Metal (Nonferrous metal recycler)  
PT. Kapurindo Sentana Baja (Leasing company for scaffold)*



*We made business investments totaling about 11.2 billion yen in FY2016 to expand our base for earnings in the future. Investments are aimed at activities that can quickly contribute to earnings. We disposed about 3.2 billion yen of assets in FY2016.*

## *【Current investment records】*

*(billions of yen)*

<i>Business segment</i>	<i>Amounts</i>	<i>Major investment</i>
<i>Steel</i>	<i>4.4</i>	<ul style="list-style-type: none"> <li>· <i>Construction of Kita-Kanto steel center</i></li> <li>· <i>Acquired Stainless Pipe Kogyo</i></li> <li>· <i>Slitter Line in HSS Indonesia</i></li> </ul>
<i>Metals &amp; Alloys / Non-ferrous metals</i>	<i>4.4</i>	<ul style="list-style-type: none"> <li>· <i>Additional investment to Samancor Chrome</i></li> <li>· <i>Established MM METAL RECYCLING (Joint venture with Mitsubishi Materials )</i></li> <li>· <i>Replacement of facility in Seiki Metal</i></li> </ul>
<i>Overseas Sales Subsidiaries</i>	<i>1.6</i>	<ul style="list-style-type: none"> <li>· <i>Recapitalization to subsidiaries</i></li> </ul>
<i>Corporate</i>	<i>0.3</i>	<ul style="list-style-type: none"> <li>· <i>Constructed the core system</i></li> </ul>

# *Appendix*

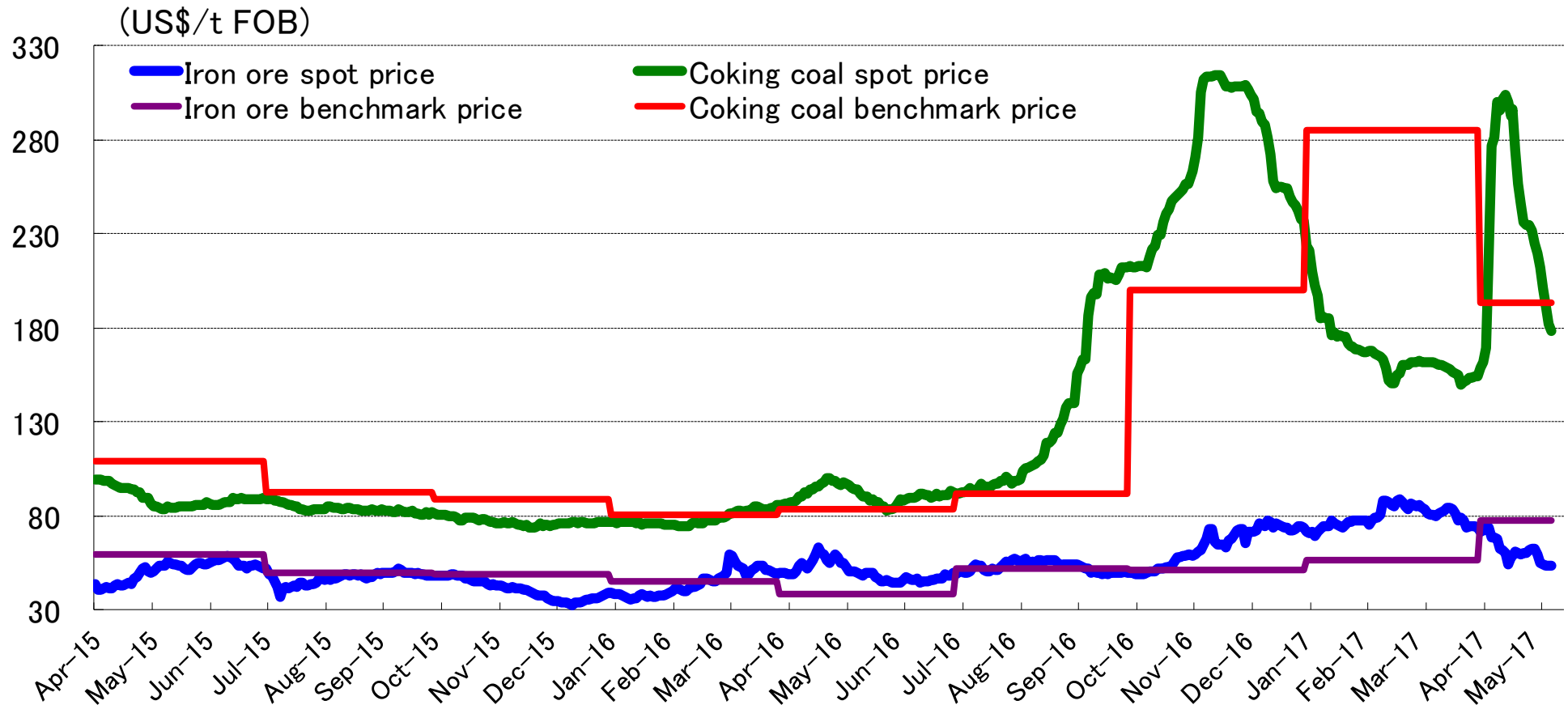
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# Market Trend of Steel Raw Materials

*Iron ore...The price increased along with rising steel prices in China but is currently weakening.*

*Coking coal...The price increased rapidly mainly in response to restrictions on coal mines and transportation disruptions caused by flooding in China and to an accident at an Australian mine. The price subsequently declined as the supply increased but then surged again due to a cyclone in Australia at the end of March that slowed coal shipments. Once this problem ended, the price plummeted.*

## 【Transition of steel raw materials price】

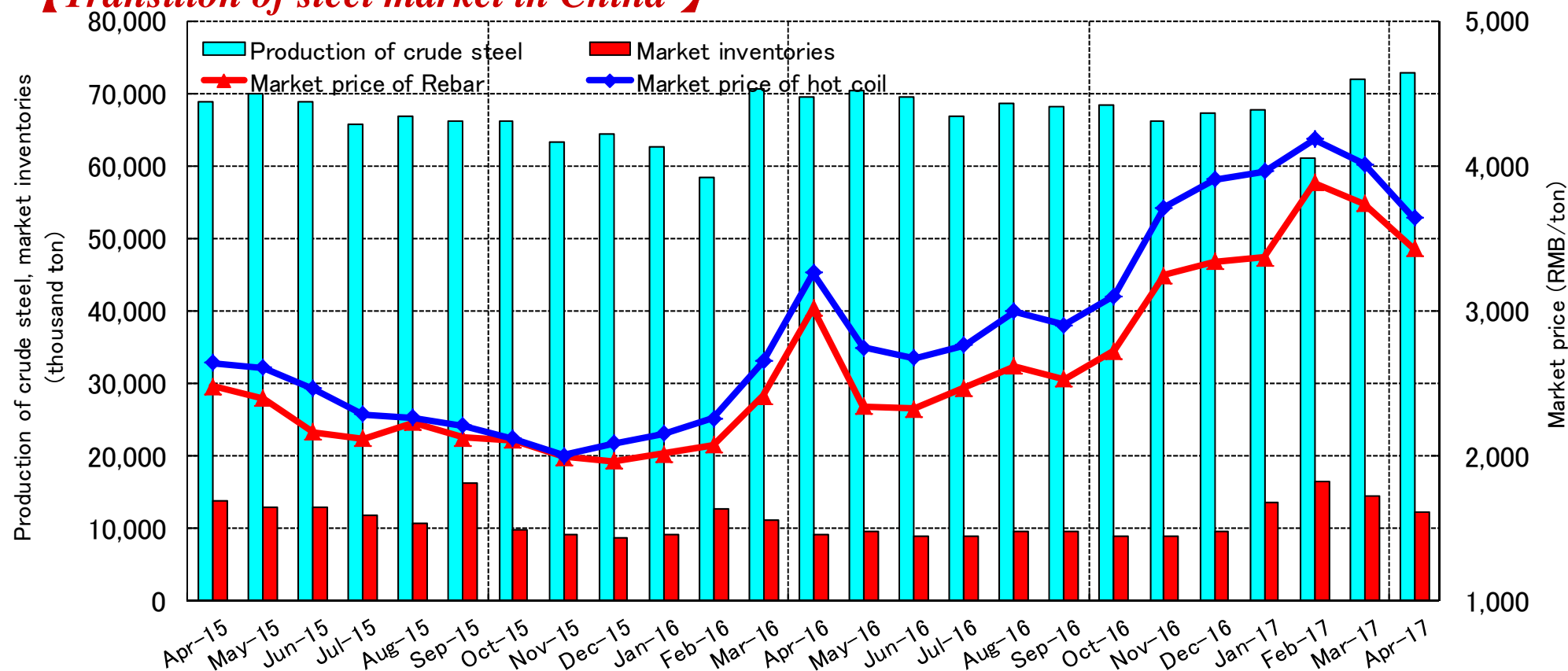


*Supply/Demand...Output remains high because of firm domestic demand and a positive outlook.*

*Currently, demand is changing and the pace of selling inventories of steel products is declining.*

*Market price...Although prices were moving up mainly because of the futures market, prices are currently weakening.*

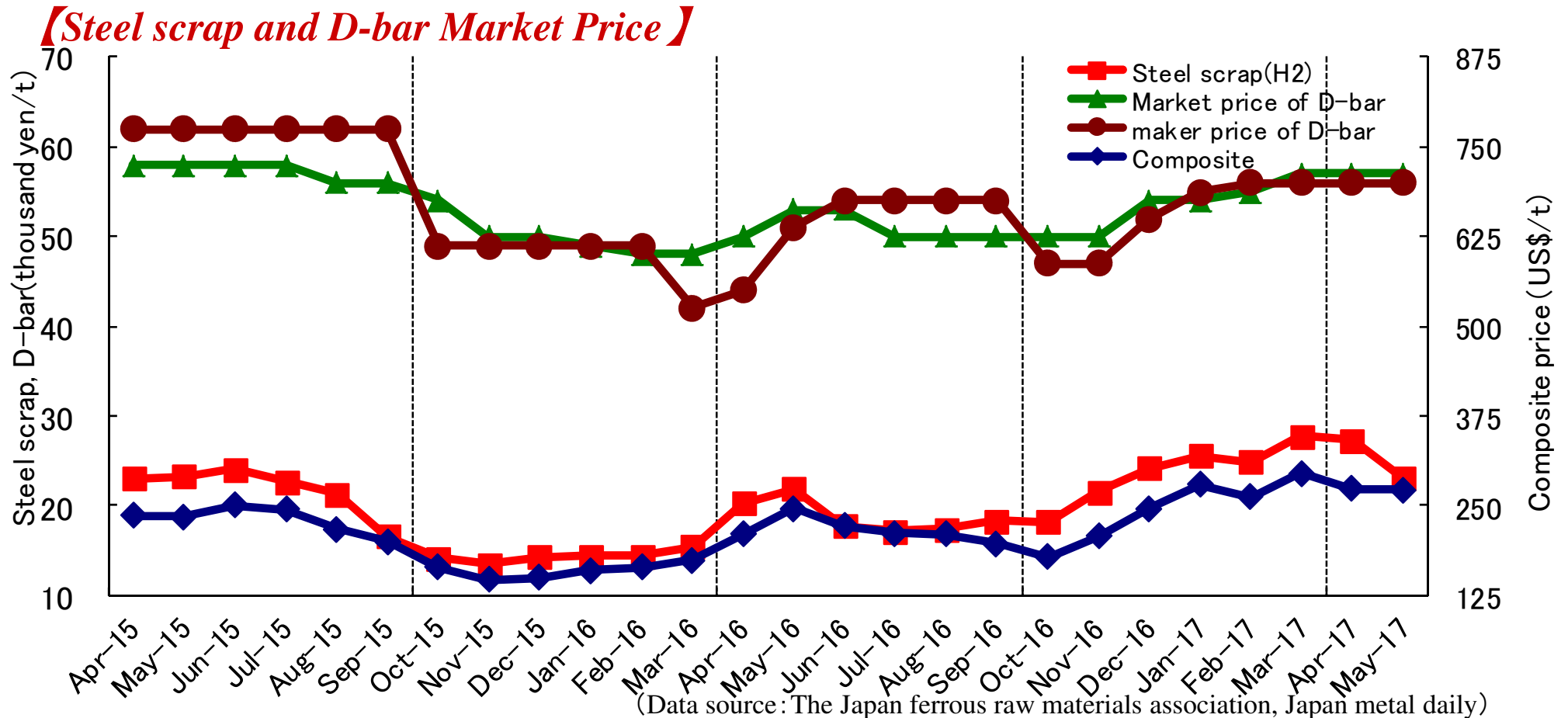
## 【Transition of steel market in China】



(Data source : The Japan Iron and Steel Federation)

*Supply/Demand...The volume of cheap billets from China decreased and overseas demand for scrap rose. Mainly due to scrap exports from China, supplies of scrap are no longer as tight as before.*

*Market price...Scrap prices in international markets are strong and scrap prices in Japan are rising because of competition with the export market. At present, international prices are weakening as steel prices decline.*

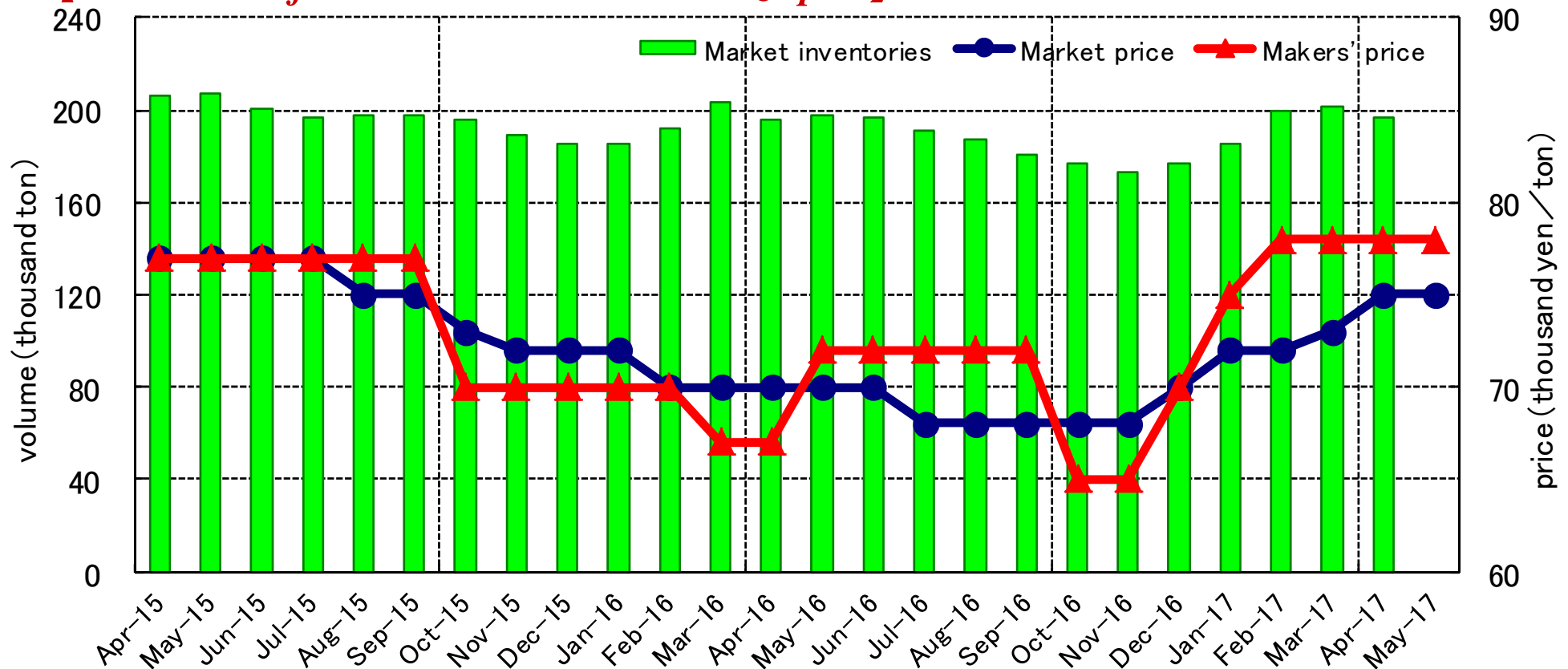


# Market Trend of Long Products

*Supply/Demand...The supply of long products was tight for a while because of growth in construction projects, declining inventories and restrictions on orders to manufacturers. But shipments are not recovering and inventories are increasing.*

*Market price...In the middle of 2016 the spot price started slowly climbing as manufacturers raised prices. But now, price has peaked out in spot market.*

## *[Transition of the H-Beams Markets in Japan]*

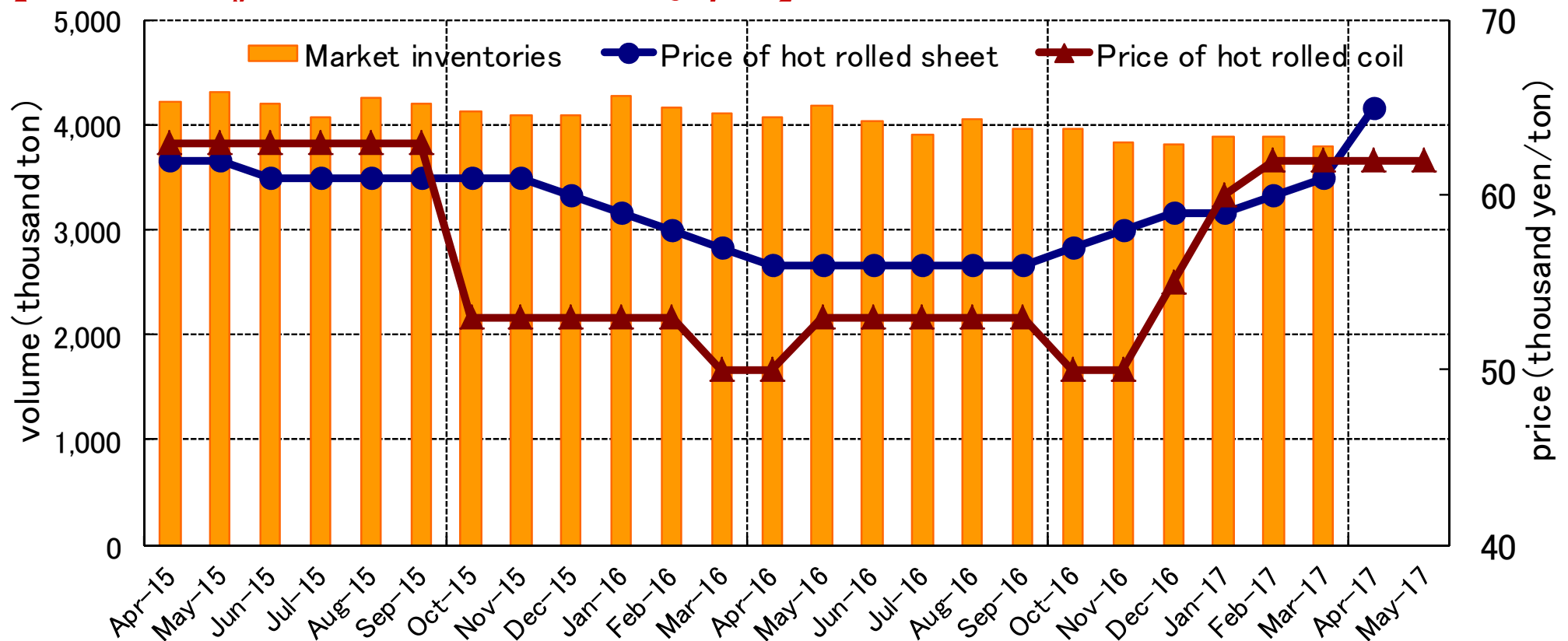


(Data source : Inventories \_ Tokiwa-kai / Price \_Japan metal daily)

*Supply/Demand...Demand was solid despite the lack of significant growth in demand in Japan.  
Supplies of some products were tight because of plant shutdowns, furnace maintenance and other reasons.*

*Market price...Steelmakers raised prices as the cost of raw materials increased, but price hikes have not yet been fully accepted in spot market.*

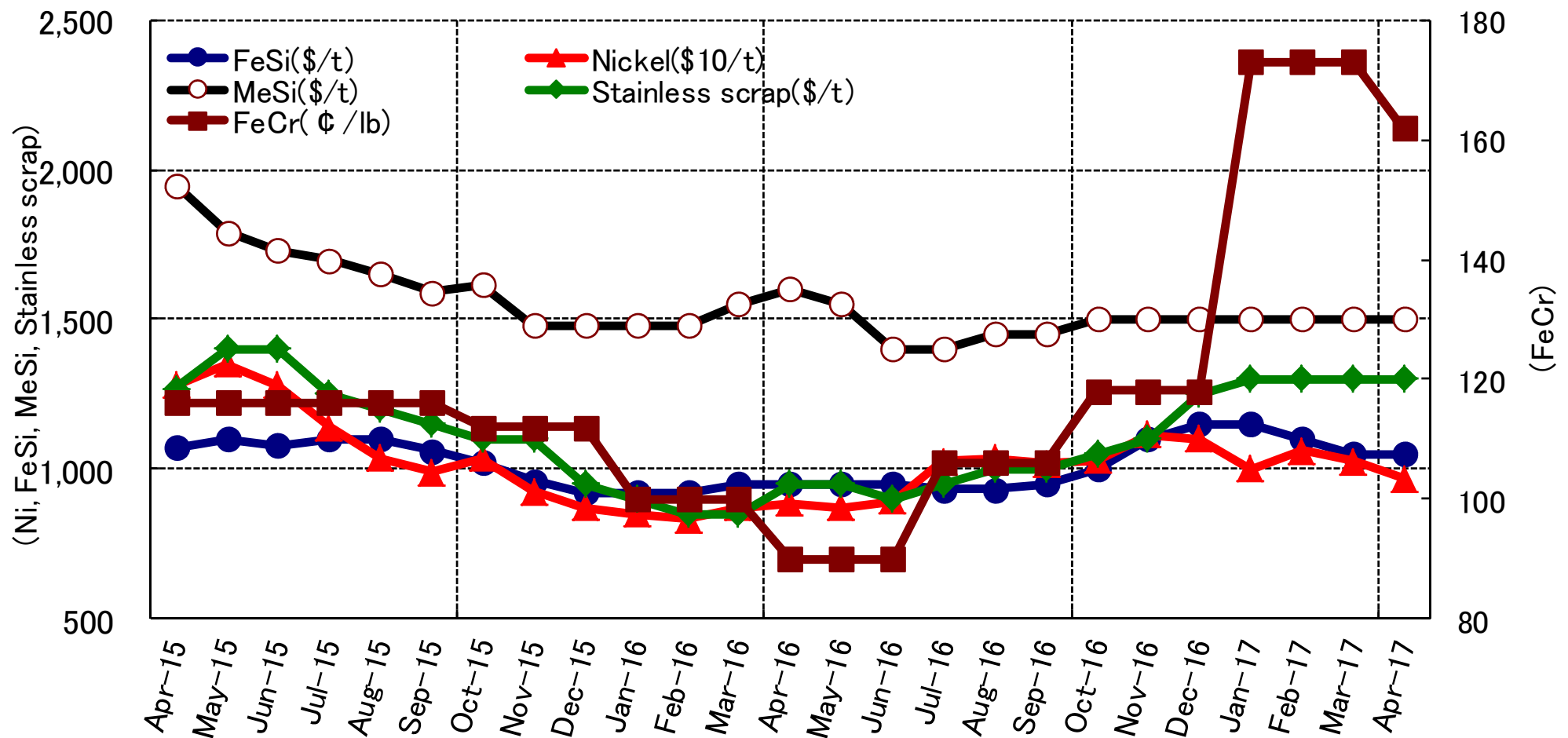
## 【Transition of Steel Sheets Markets in Japan】



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

*Nickel...The price was flat because of falling demand and consistently high inventories but prices started rising in response to mining restrictions in the Philippines. Currently, the price is moving down due to the resumption of nickel exports by Indonesia.*

*Ferroalloys...Prices started climbing in the second half as businesses were reorganized in China and South Africa and inventories decreased. But prices are currently retreating.*

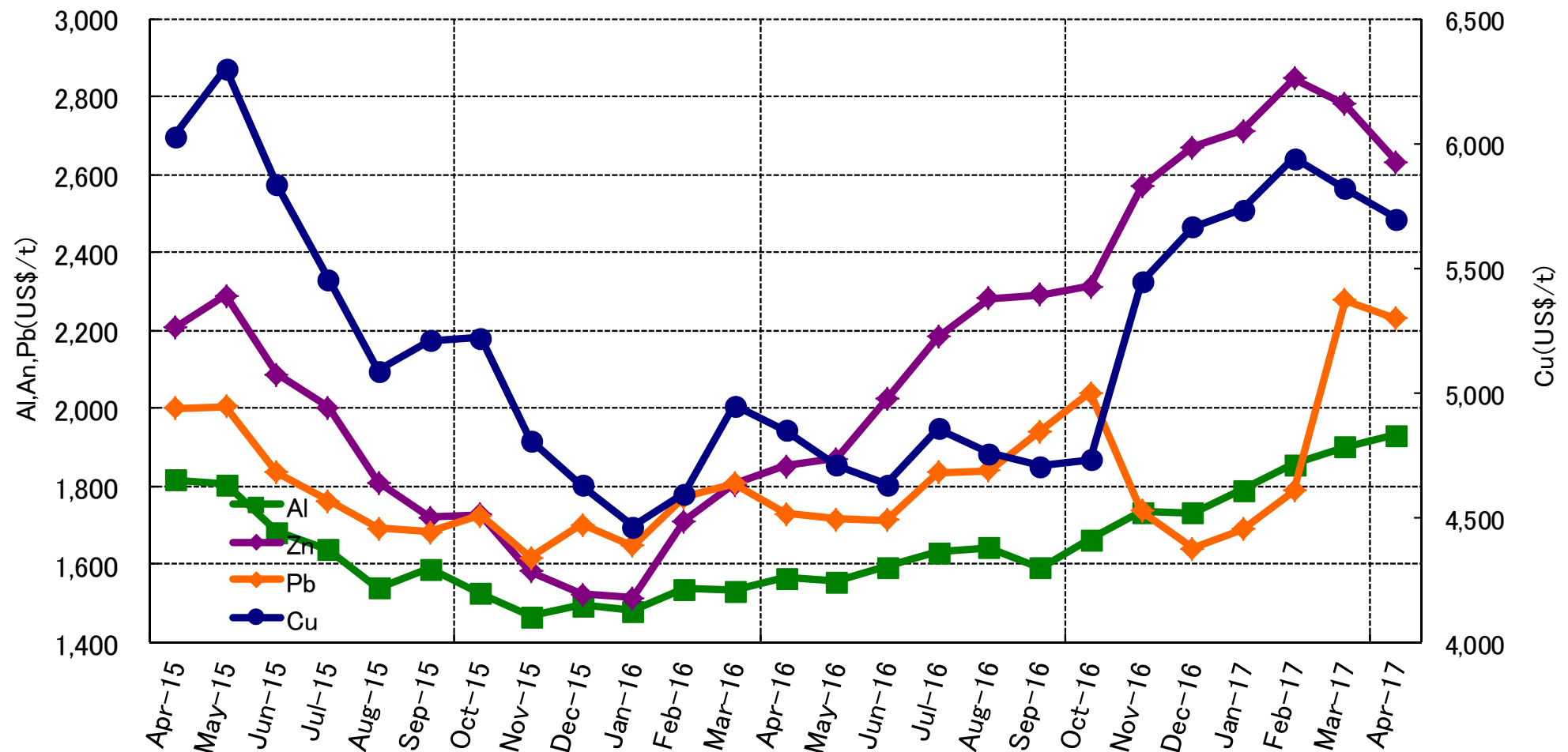




# Markets Trend of Non-ferrous Metals

*Aluminum...The LME price was flat in the fiscal year's first half but began to slowly increase in the second half because of declining inventories and expectations about policies of the Trump administration.*

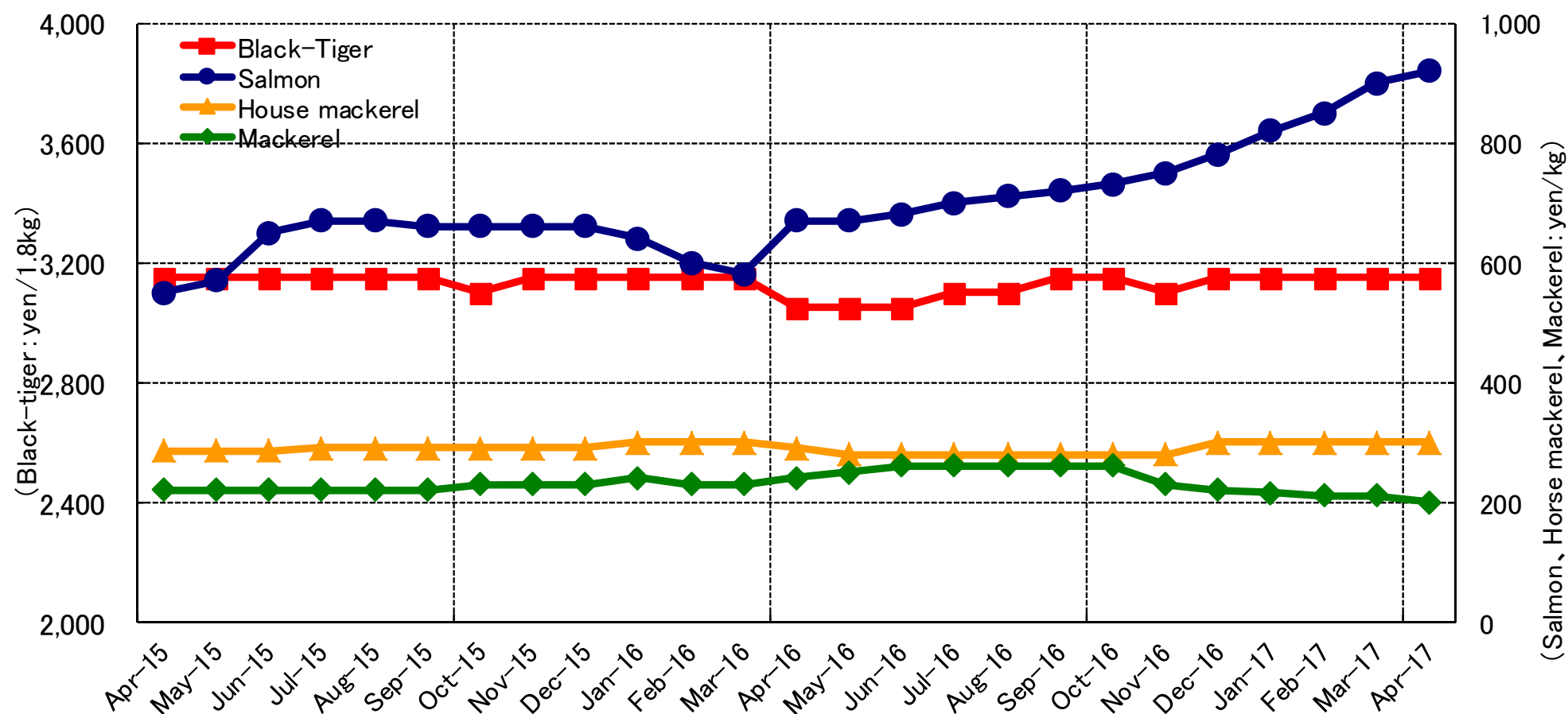
*Copper...The price was flat in the fiscal year's first half because of large inventories linked to an oversupply of copper. The price then increased due to expectations about policies of the Trump administration but is now somewhat lower as these expectations have weakened.*



# Market Trend of Frozen Marine Products

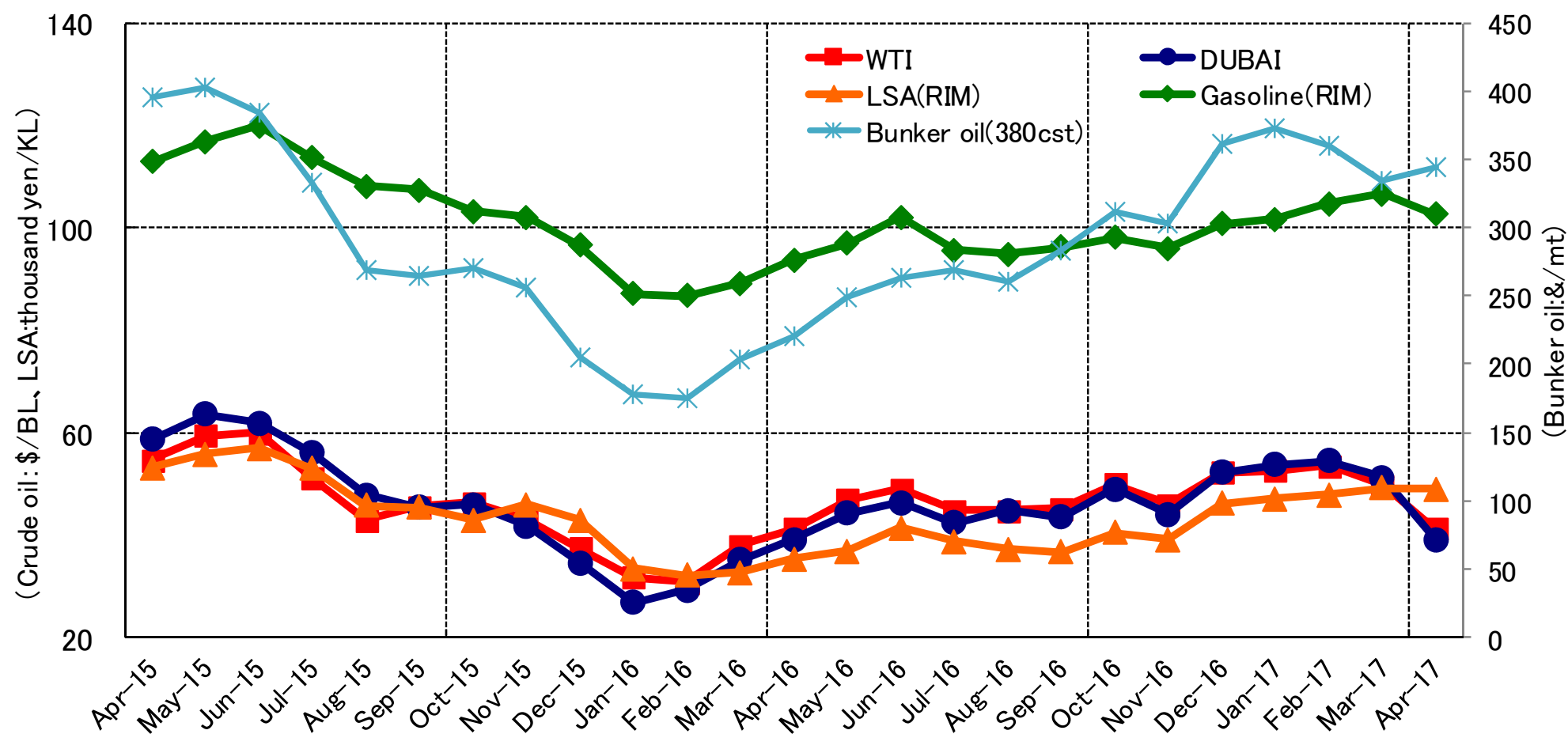
*Shrimp...Prices are high in Southeast Asia because of low shrimp production in this region. Low shrimp inventory level kept prices high in Japan, too.*

*Salmon...Prices are moving up in response to limited inventories caused primarily by the farmed salmon seaweed crisis in Chile in March 2016.*



*Crude oil...The price of crude oil slowly increased as the fiscal year began but then briefly dropped in response to Brexit. The price started moving up again following the September OPEC agreement to cut production.*

*Petroleum products...Price movements reflect changes in the price of crude oil. However, raising prices to pass on the higher cost of crude oil continues to be difficult because of soft demand.*



*For Users, With Users*



***HANWA CO., LTD.***

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