

Financial Results

for the Fiscal Year ended March 31, 2023

May 2023
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 contributed to these results that reached record highs.

■ Ordinary Income / Net Income Attributable to Owners of the Company

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

(Billions of yen)	FY2021 Full year	FY2022 Full year	Y on Y Change (Y on Y Rate)
Net Sales	2,164.0	2,668.2	+504.1 +23%
Gross Profit	119.0	128.5	+9.5 +8%
Operating Income	62.3	64.1	+1.7 +3%
Ordinary Income	62.7	64.2	+1.5 +2%
Net Income Attributable to Owners of the Company	43.6	51.5	+7.8 +18%

*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).

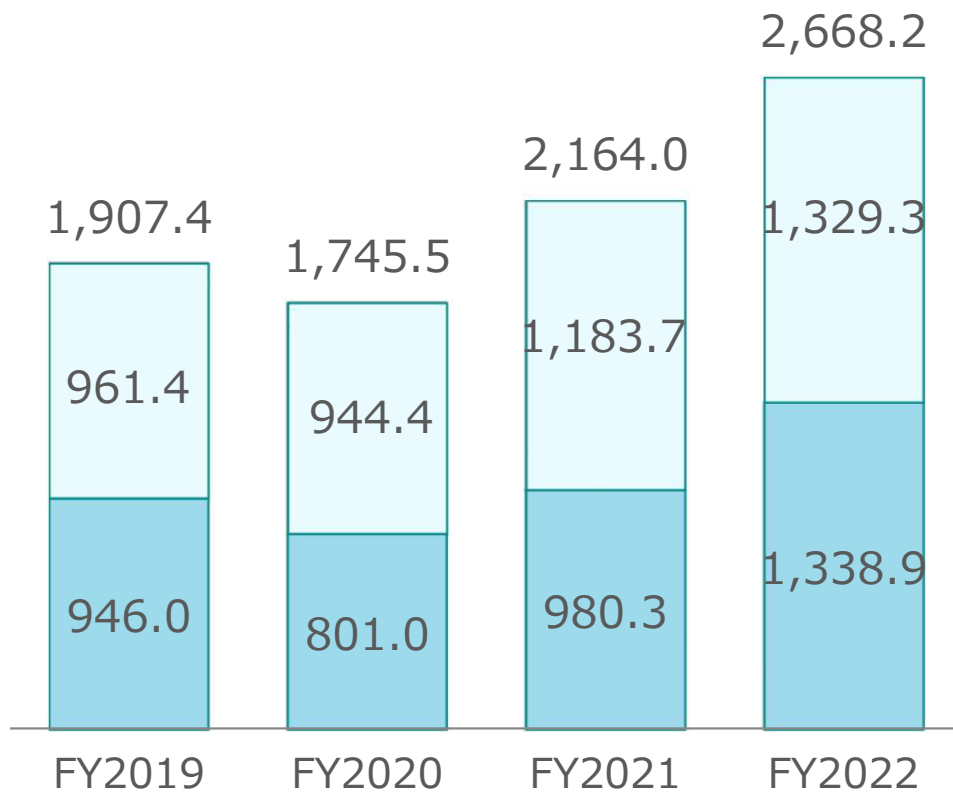
Changes in Business Results (Consolidated)

■ Semi-annual Changes in Business Results

Both net sales and income reached record highs in two consecutive years.

(billions of yen)

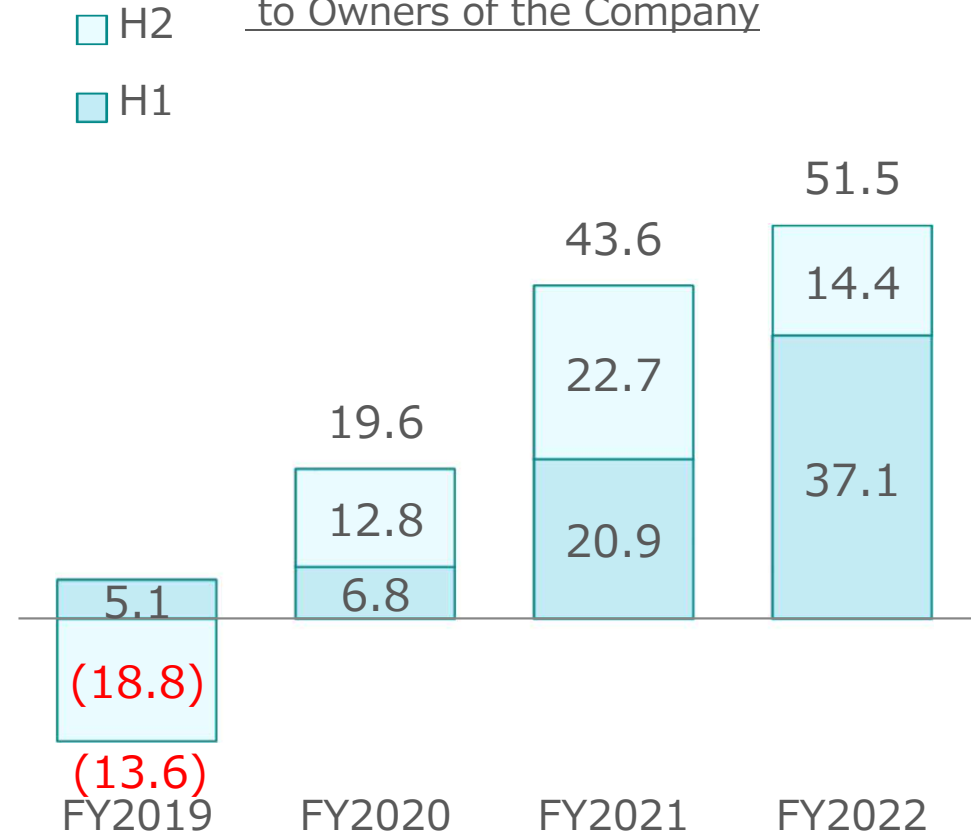
Net Sales



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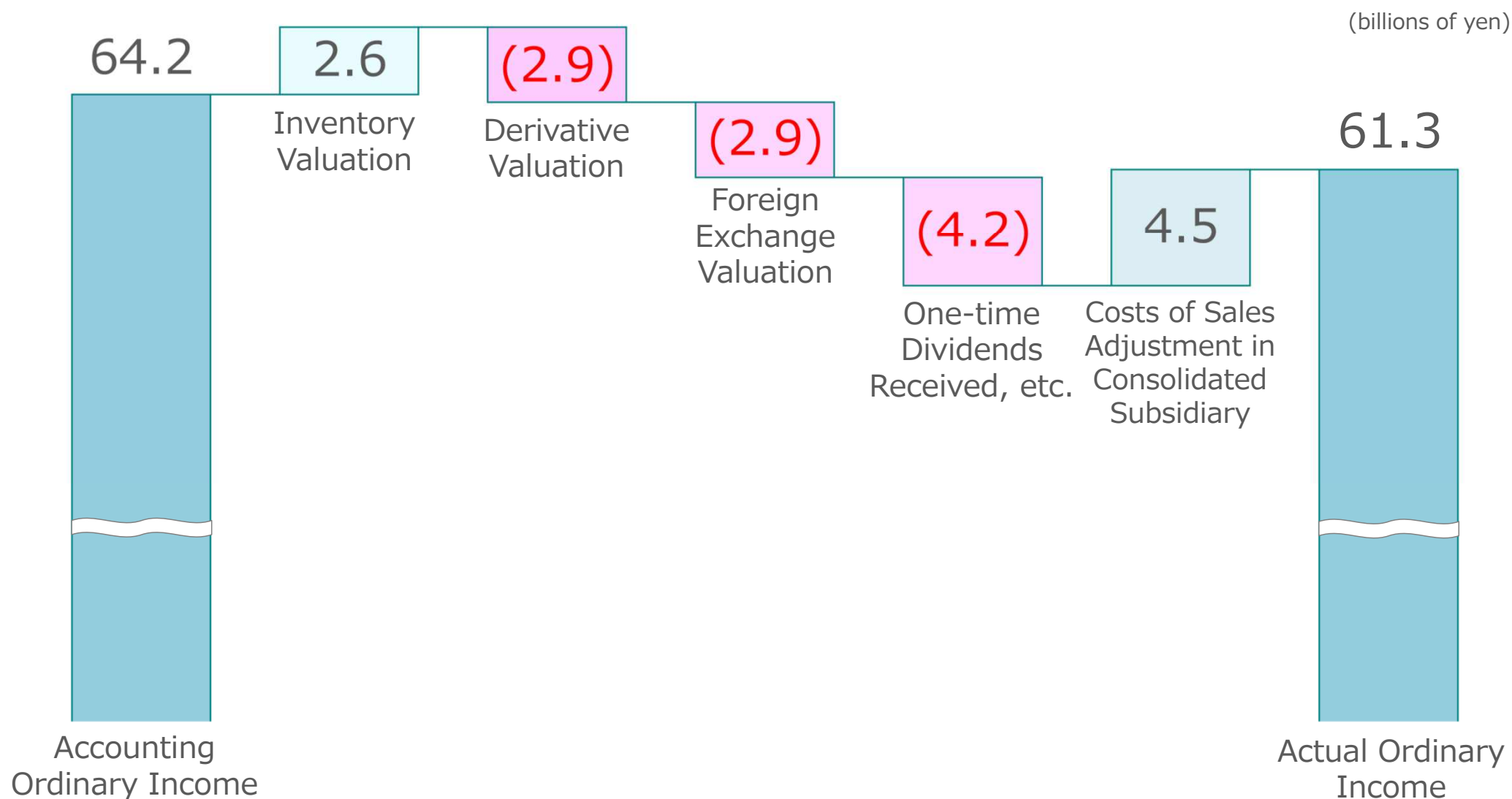
Net Income Attributable

to Owners of the Company



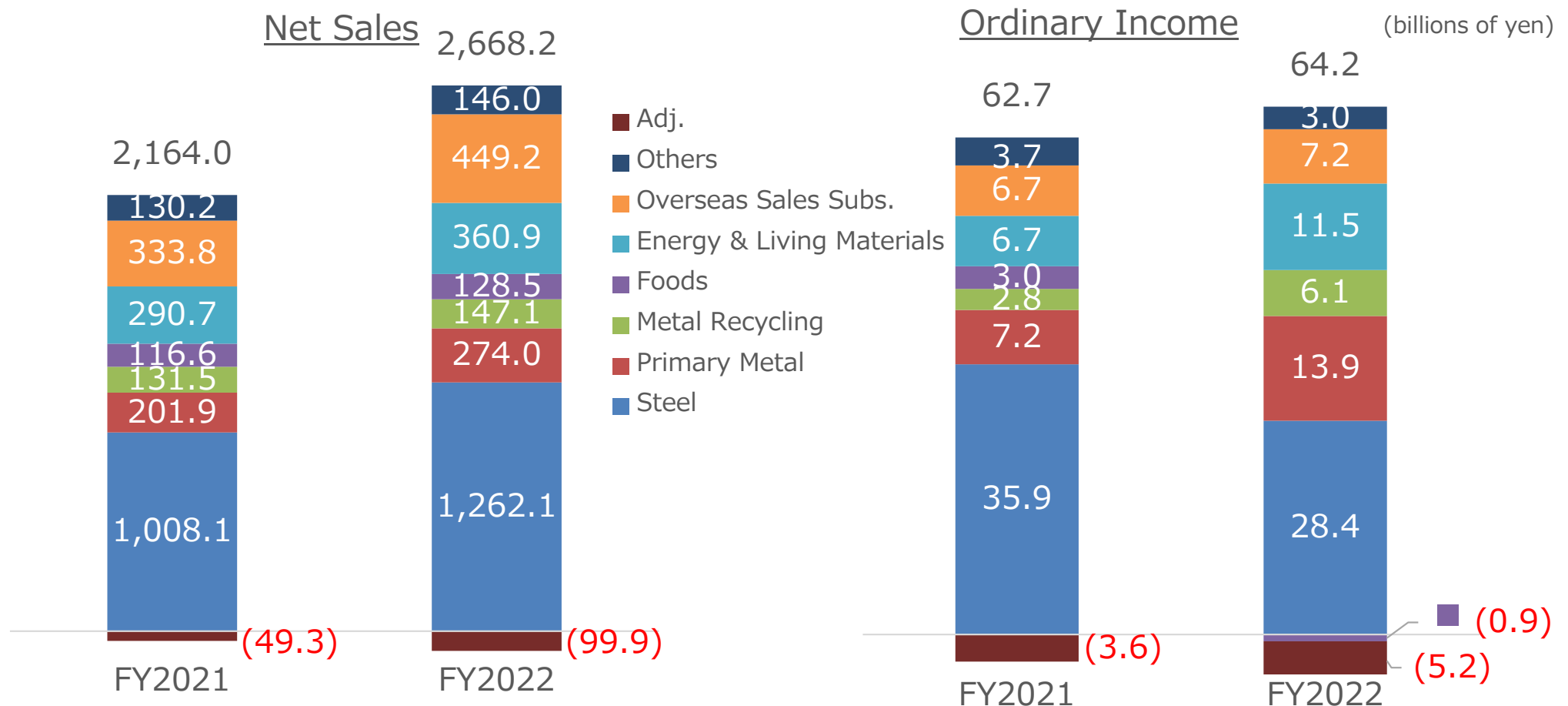
Impacts of Profits/Losses from Market Value Accounting and Temporary Factors

- The reported ordinary income was 64.2 billion yen but can be translated into about 61.3 billion yen after excluding one-time factors such as period-end valuation gains and losses.



Segment Information (Consolidated)

■ Steel	: - 7.5 billion yen (YoY, -21%)
Primary metals	: +6.7 billion yen (YoY, +92%)
Metal Recycling	: +3.3 billion yen (YoY, +113%)
Foods	: -
Energy & Living Materials	: +4.8 billion yen (YoY, +71%)
Overseas sales subsidiaries	: +0.5 billion yen (YoY, +8%)
Others	: - 0.7 billion yen (YoY, -17%)



Financial Position (Consolidated)

- **Shareholder's Equity 270.8 billion yen** (From the end of FY2021, +48.7 billion yen) because of accumulation of retained earnings.
- **Net Interest-bearing Debt 296.7 billion yen** (From the end of FY2021, -260.6 billion yen) because of decreases in long-term guarantee deposits.
- **Net Debt-Equity Ratio 98%/82%*** (From the end of FY2021, -137pt)
*Net DER after taking account of hybrid loan

(billions of yen)	FY2021 Full year	FY2022 Full year	Y on Y Change (Y on Y Rate)
Total Assets	1,715.3	1,157.7	-557.6 -33%
Shareholder's Equity	222.0	270.8	+48.7 +22%
Owner's Equity	237.1	303.1	+66.0 +28%
Interest-bearing Debt	722.9	380.9	-341.9 -47%
Net Interest-bearing Debt	557.4	296.7	-260.6 -47%
Net DER	235%	98%	-137pt
taking account of hybrid loan	203%	83%	-120pt

Cash Flows (Consolidated)

- **Cash flows from operating activities** was +284.2 billion yen.
Due mainly to decrease in long-term guarantee deposits (483.5 billion yen) and accounts receivables-other (415.0 billion yen).
- **Cash flows from investing activities** was -6.5 billion yen.
Due mainly to acquisition of tangible fixed assets and investment securities.
- **Cash flows from financing activities** was -351.8 billion yen.
Due mainly to repayment of loans payable with collection of long-term guarantee deposits.

(billions of yen)	FY2021	FY2022	Y on Y Change (Y on Y Rate)	
Cash Flows from Operating Activities	(280.7)	284.2	+564.9 (-)	
(Major Factors)				
Income before Income Taxes	63.1	75.9	+12.8(+20%)	* (Increase)decrease in working capital
(Increase)Decrease in Working Capital	(109.5)	(21.1)	+88.4(-81%)	= (Increase)decrease in trade receivables and contract assets
(Increase)Decrease in Accounts Receivables-Other	(216.2)	198.8	+415.0(-)	+(Increase)decrease in inventories
(Increase)Decrease in Long-term Guarantee Deposits	(240.0)	243.4	+483.5(-)	+Increase(decrease) in trade notes and accounts payable
Cash Flows from Investing Activities	(14.9)	(6.5)	+8.4 (-56%)	
(Major Factors)				
Purchase of property, plant and equipment	(12.3)	(23.6)	-11.3(+92%)	
Purchase of shares of subsidiaries resulting in change in scope of consolidation				
Proceeds from sales of property, plant and equipment	2.4	18.8	+16.4(+684%)	
Proceeds from redemption of investment securities				
Cash Flows from Financing Activities	406.8	(351.8)	-758.6 (-)	
Cash and Cash Equivalents	165.0	84.1	-80.9 (-49%)	

Forecasts for FY2023

■ Consolidated Full-year Forecast

Profit is expected to decline due to hitting the ceiling in estimated steel prices, reflecting concerns about a slowdown in the economy caused by worldwide inflation and monetary tightening.

Net Sales : 2,700.0 billion yen
Operating Income : 60.0 billion yen
Ordinary Income : 50.0 billion yen
Net Income Attributable to Owners of the Company : 36.0 billion yen

(billions of yen)	FY2022 Actual	FY2023 Forecast	Y on Y Change (Y on Y Rate)
Net Sales	2,668.2	2,700.0	+31.7 +1%
Operating Income	64.1	60.0	-4.1 -6%
Ordinary Income	64.2	50.0	-14.2 -22%
Net Income Attributable to Owners of the Company	51.5	36.0	-15.5 -30%

Forecasts by Segment

■ Ordinary Income Forecast by Segment for FY2023

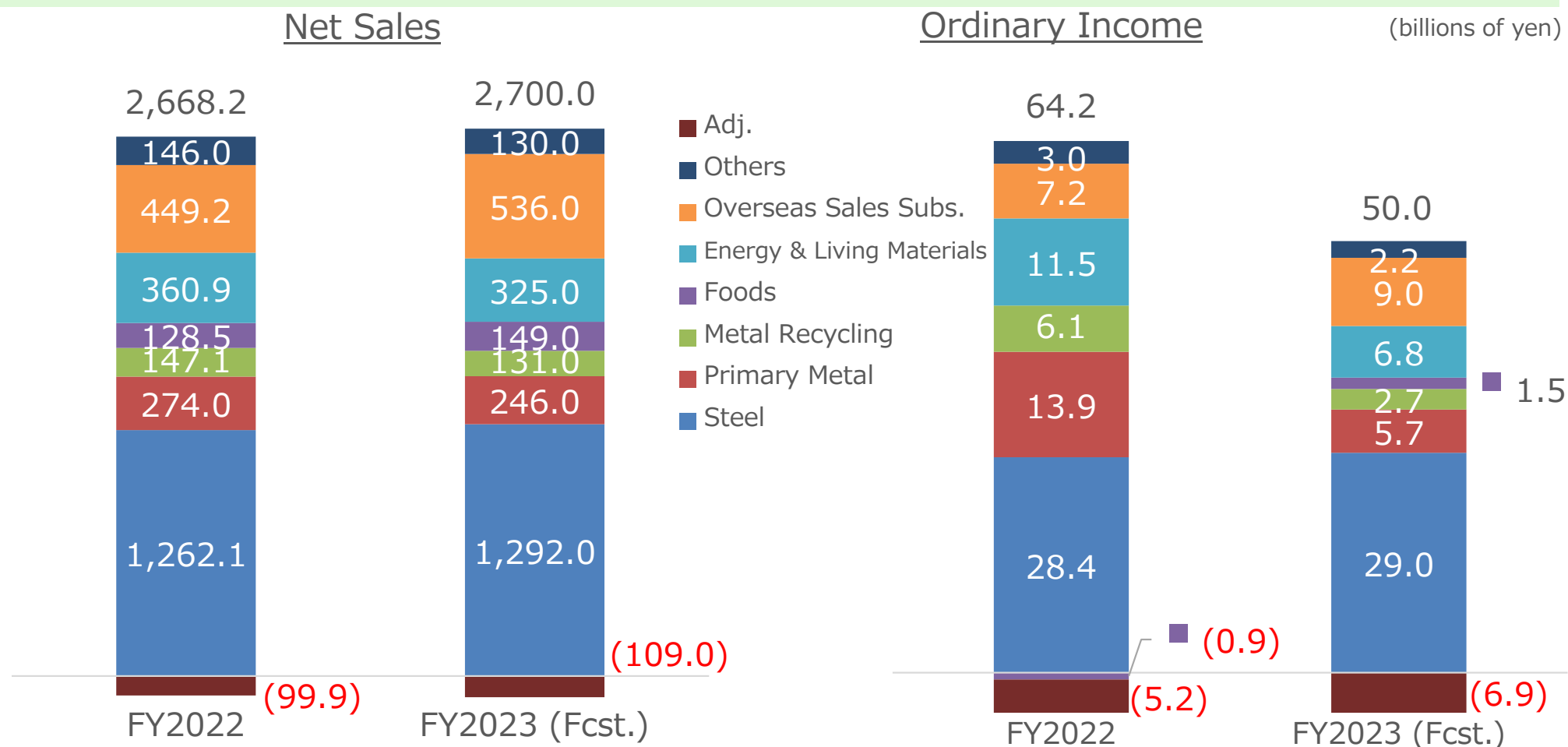
Steel: Expected to increase due to improvement in one-time factors, etc.

Primary Metal: Expected to decrease because of decrease in dividend income from strategic investments and in equity in earnings of affiliates.

Metal Recycling: Expected to decrease due to a rebound from in reaction of gain on valuation of derivatives in FY2022.

Energy & Living Materials: Expected to decrease due to a rebound from in reaction of soaring market prices in FY2022.

Overseas Sales Subsidiaries: Expected to increase due to the higher trading volume.



Shareholder Returns Policy

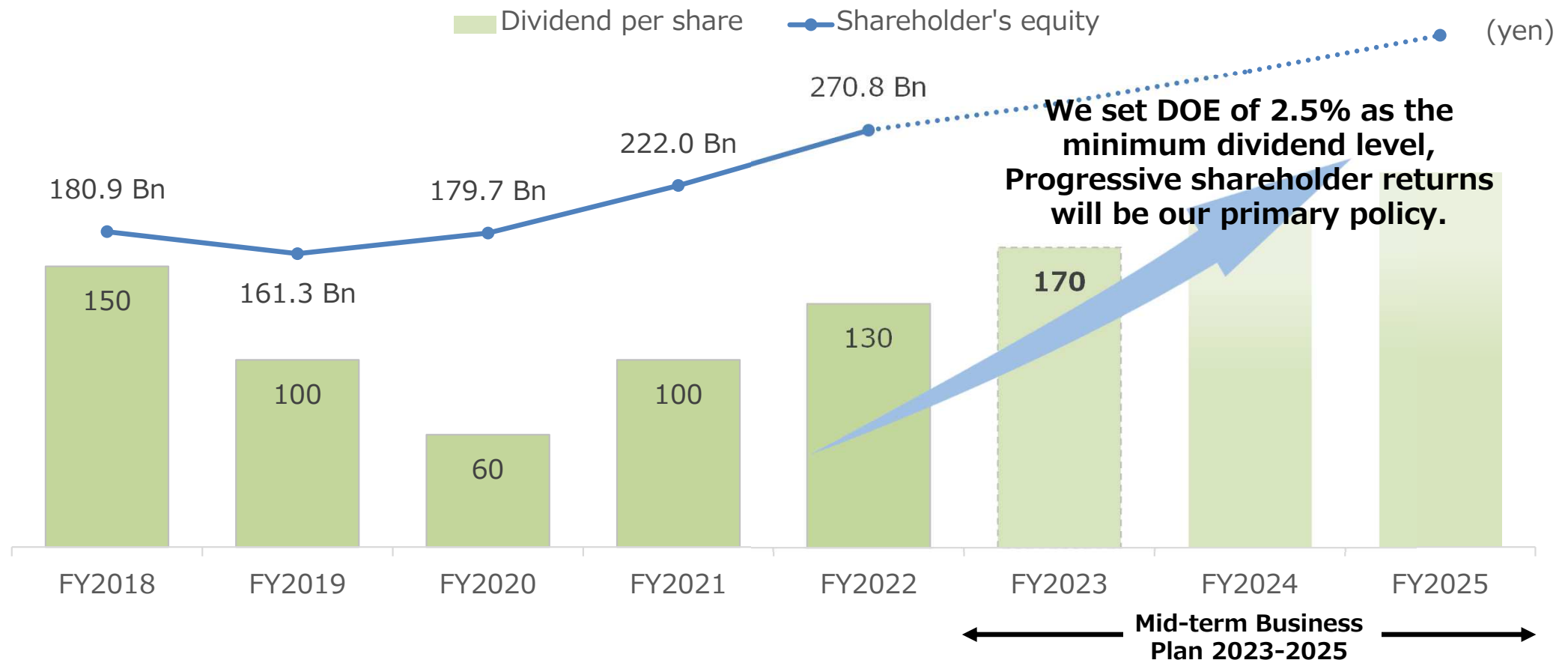
We have always made consistent distribution of stable dividends to shareholders our primary policy.

■ Our New Shareholder Returns Policy

We dedicate to sustainable growth of our corporate value, aiming increase dividend amount over the medium to long term. During the period of the “Mid-term business plan 2023-2025”, in addition to setting DOE of 2.5% as the minimum dividend level for consolidated shareholder’s equity at the beginning of the fiscal year, we will flexibly consider additional shareholder returns such as the acquisition of treasury stock.

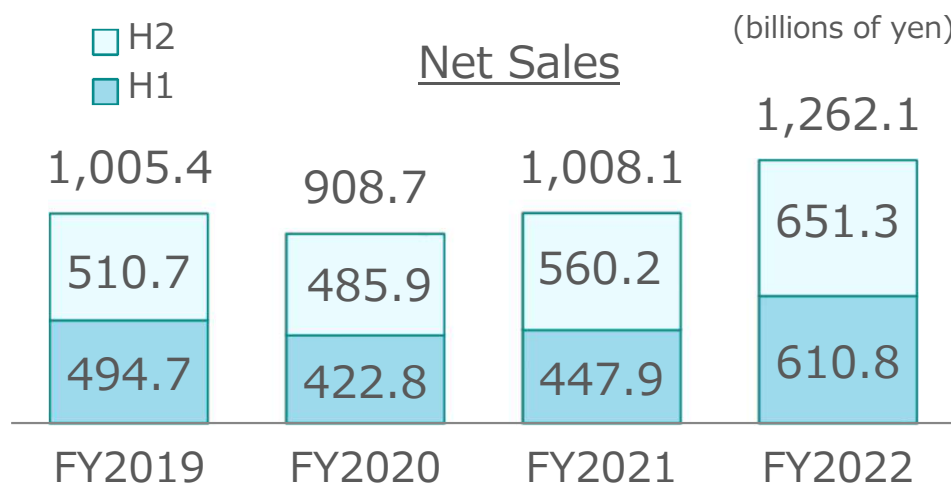
■ Dividend for FY2023

Expect to pay an annual dividend of 170 yen per share (DOE 2.55%).

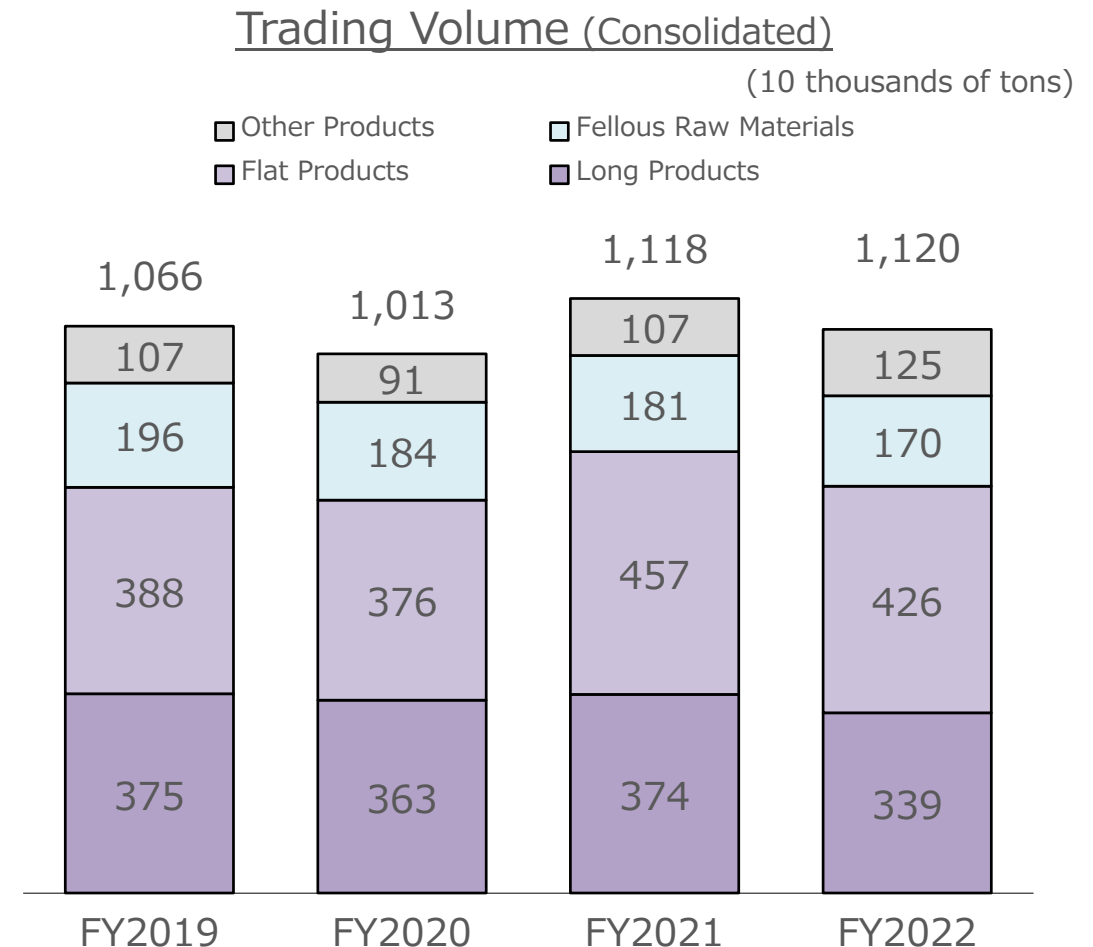
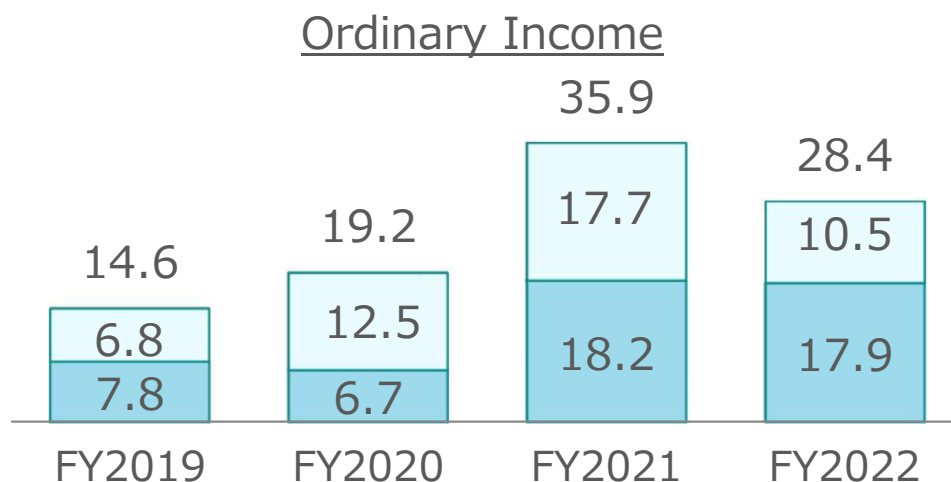


Steel Business Segment

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



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

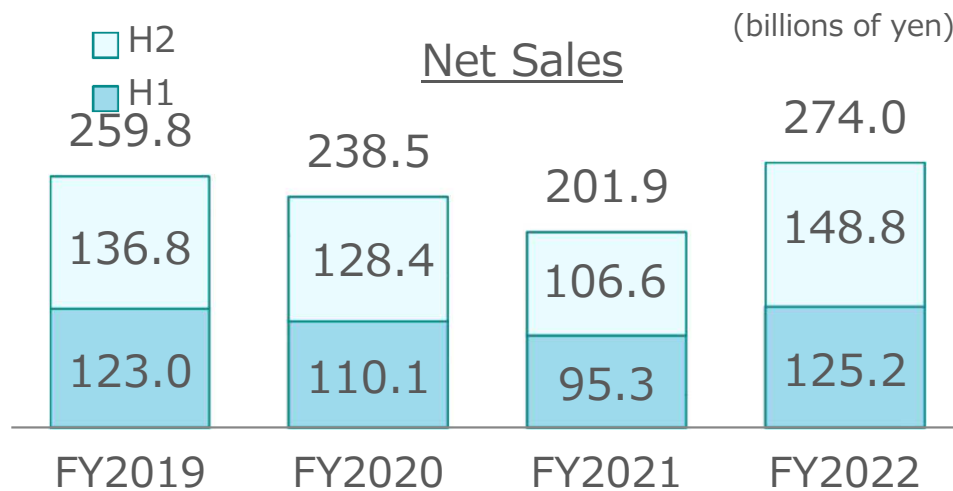


*The consolidated transaction volume for steel in steel business segment is based on the simple sum of the company and its consolidated subsidiaries. Please refer to page 17 for the total volume handled of steel in all business segments.

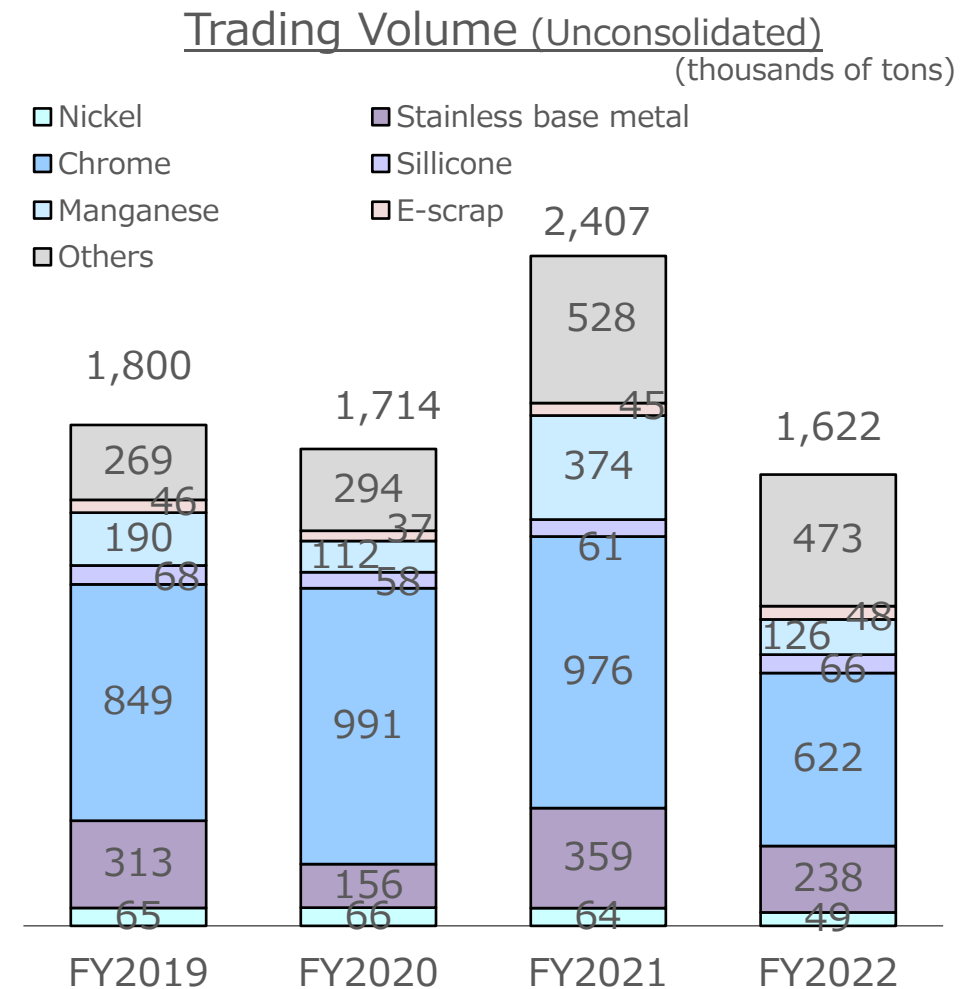
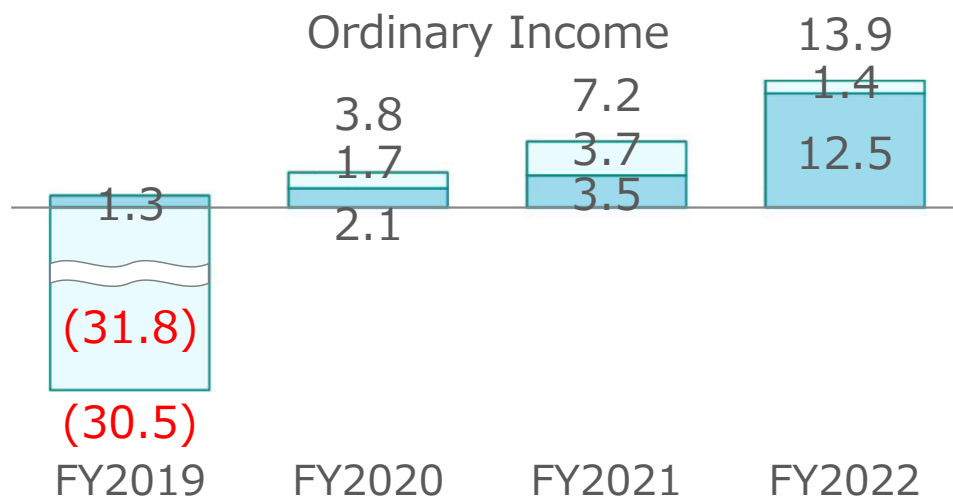
*We record transaction volume in each business segment as management approach, previously recorded in classification of products.

Primary Metal Business Segment

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



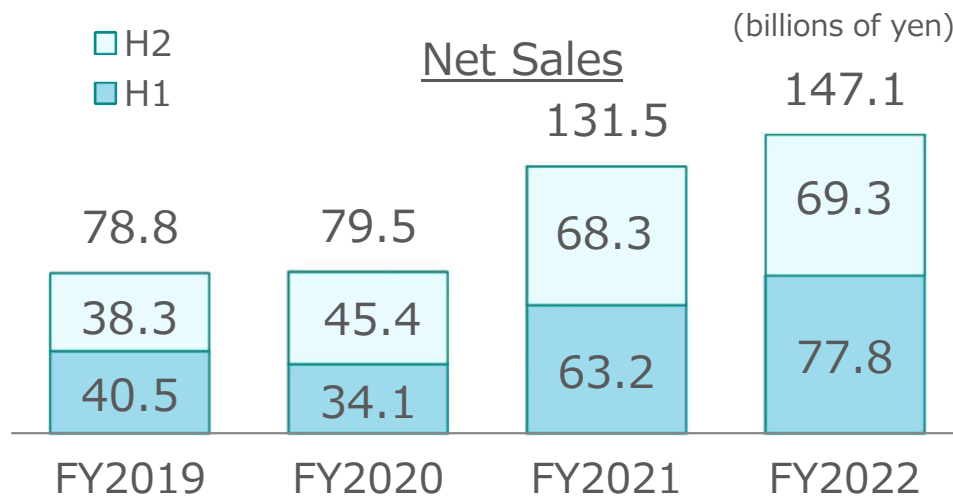
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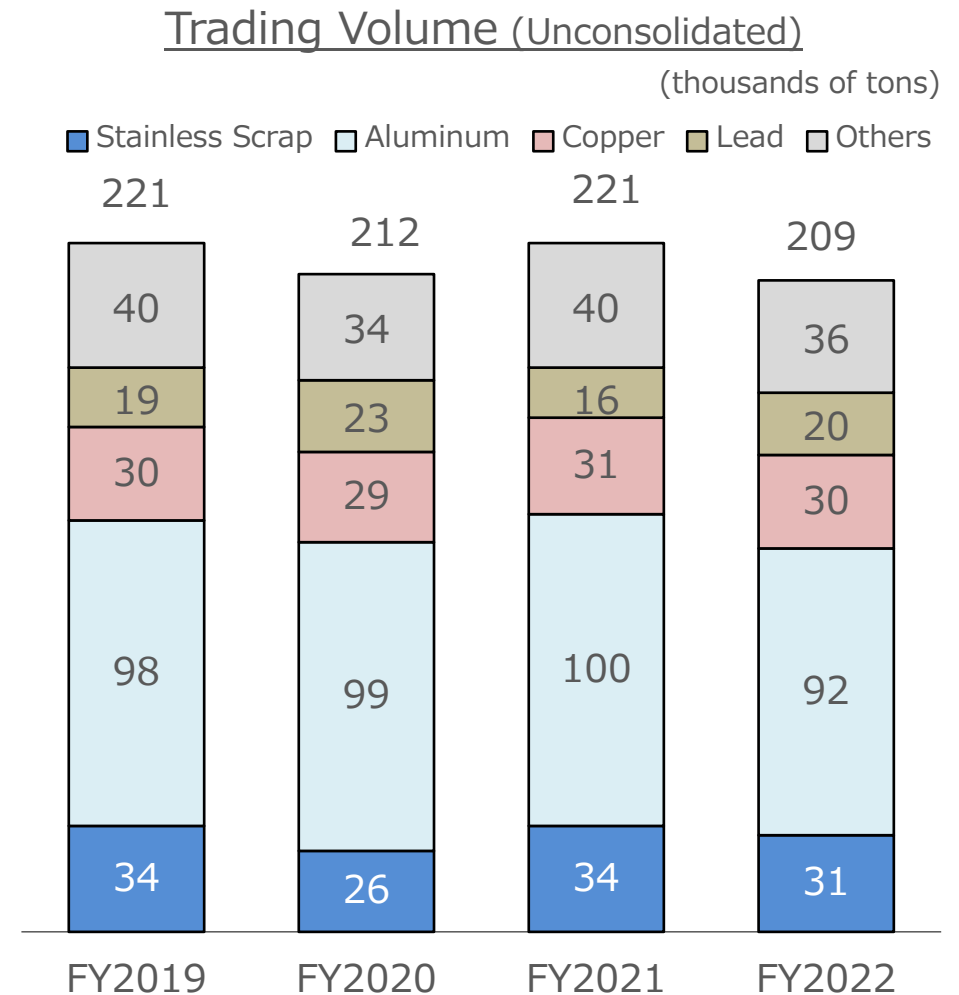
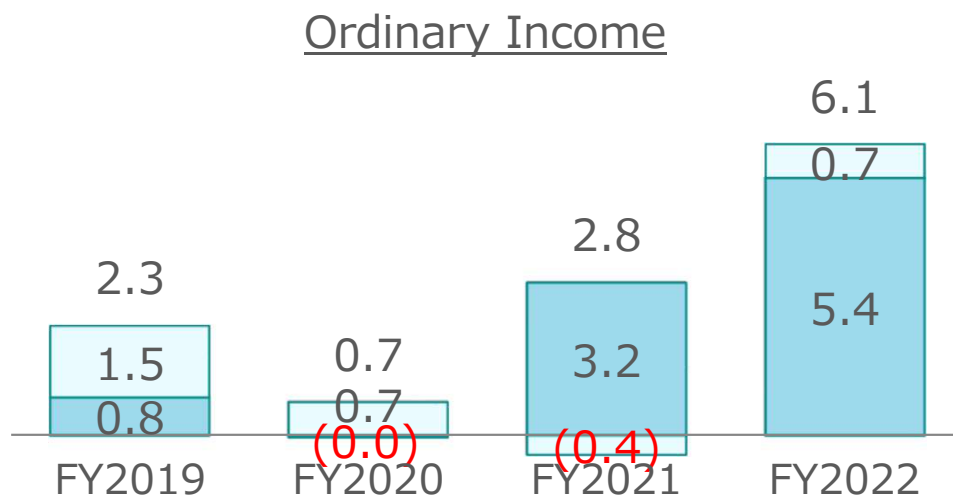
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Metal Recycling Business Segment

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



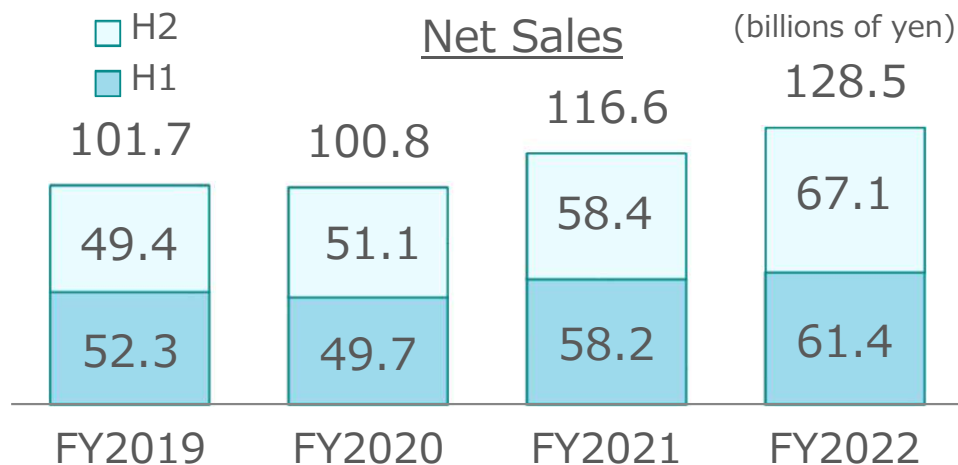
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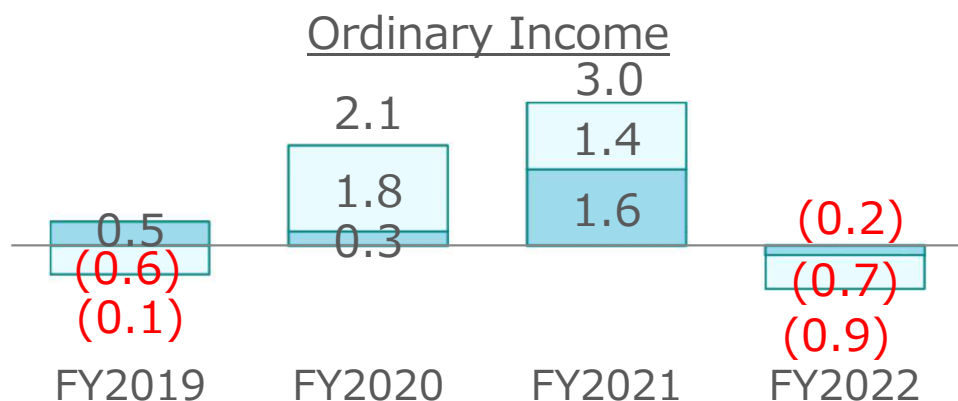
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Foods Business Segment

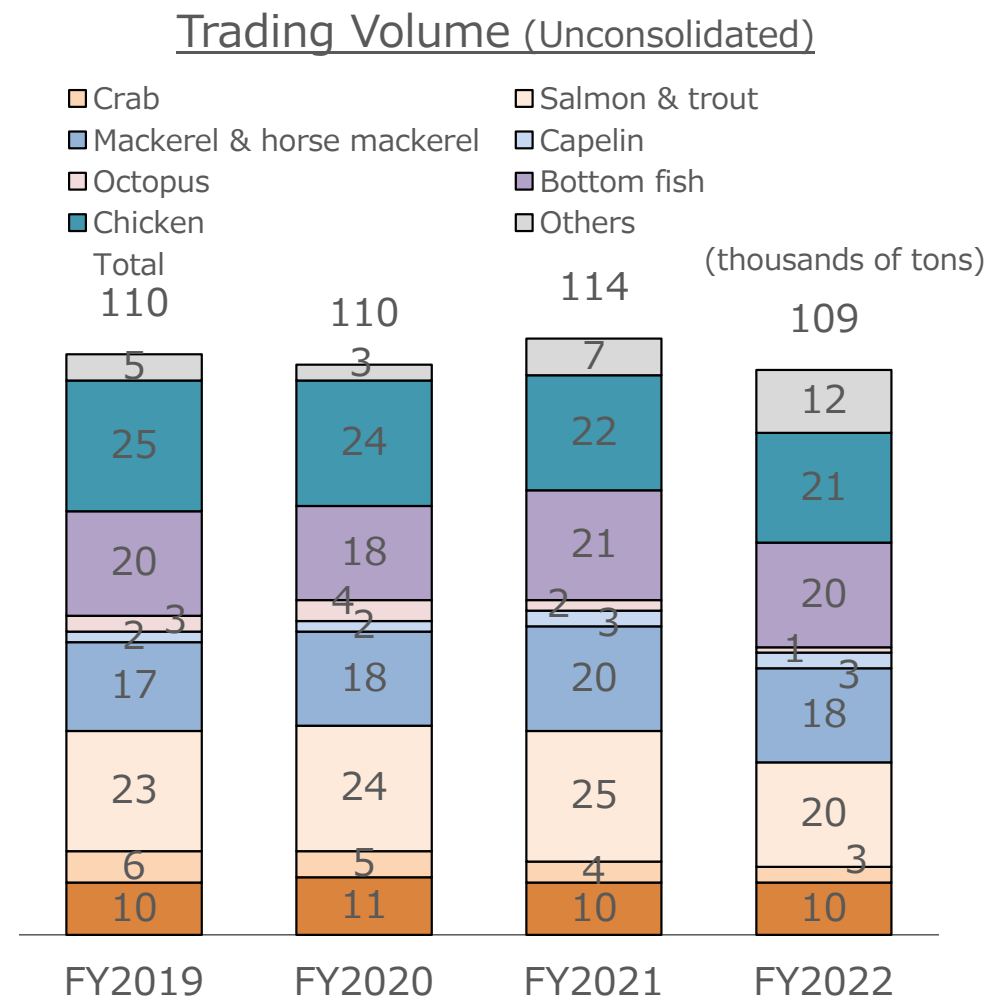
- Segment income decreased because an appraisal loss on the products was posted due to the decline in crab market prices due to import measures and reduced demand for crabs from Russia and the inability to fully reflect raw material prices in products for the increase in procurement costs caused by factors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



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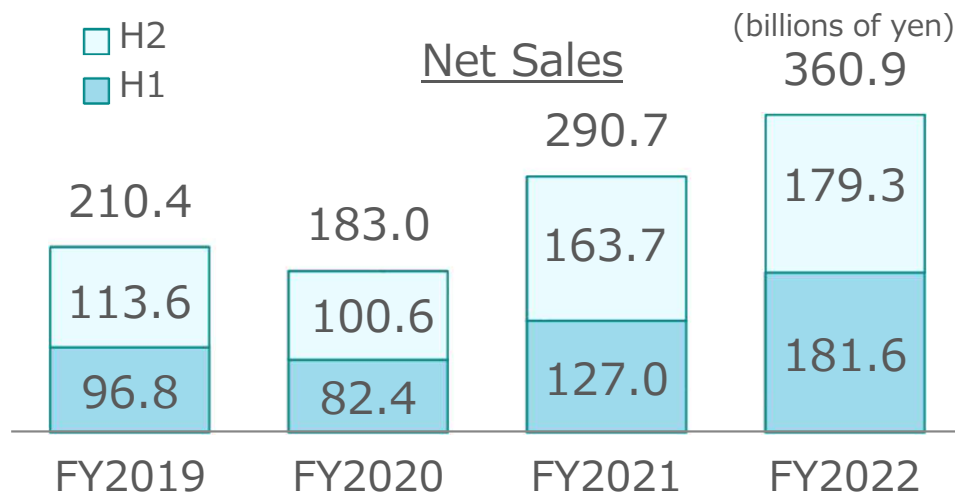
※Since January 2022, the Company has changed its method of classification of business segments, integrating a part of the Overseas sales subsidiaries business into the Foods business.



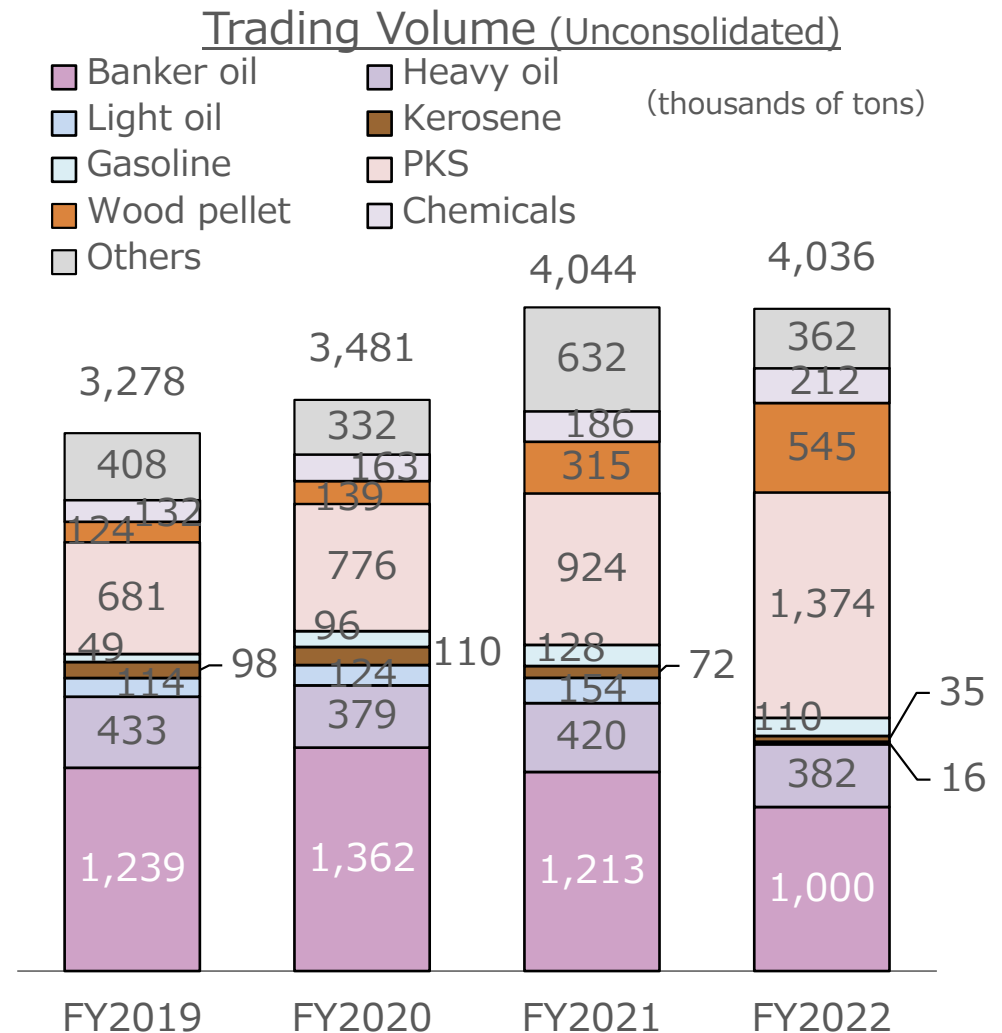
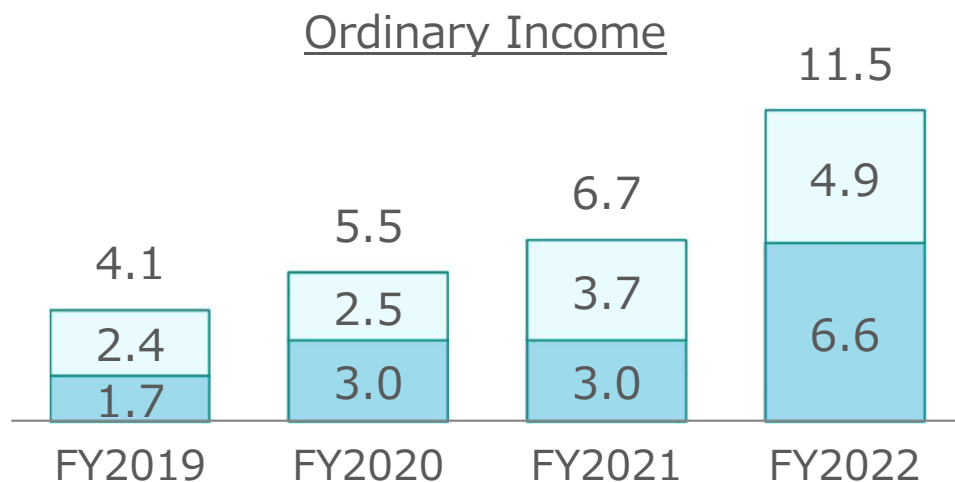
*We record trading volume in each business segment as management approach, previously recorded in classification of products.

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 the trading volume and unit price increased for PKS and wood pellets.



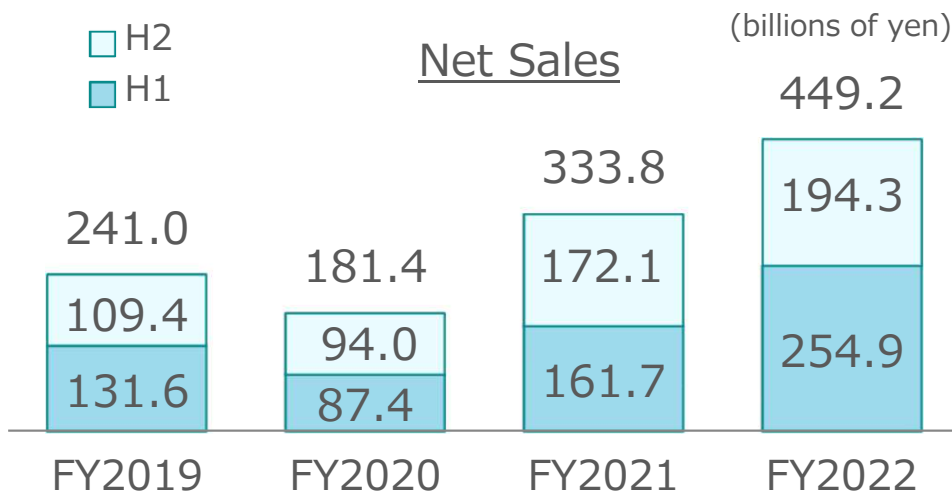
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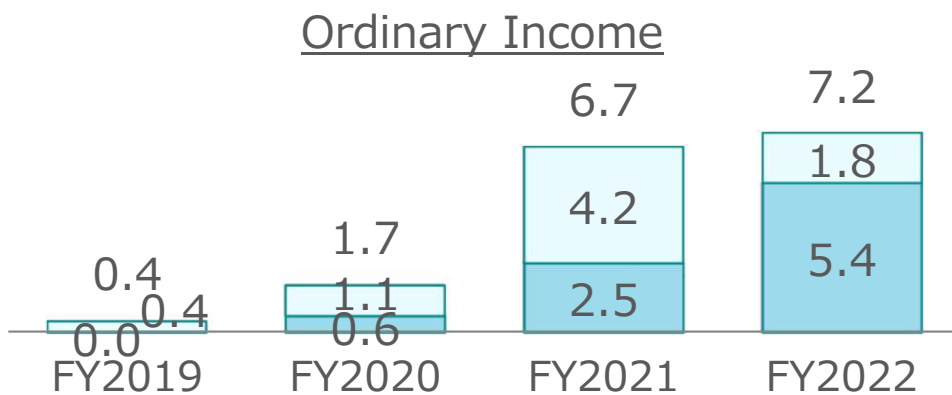
*We record trading volume in each business segment as management approach, previously recorded in classification of products.

Overseas Sales Subsidiaries Segment

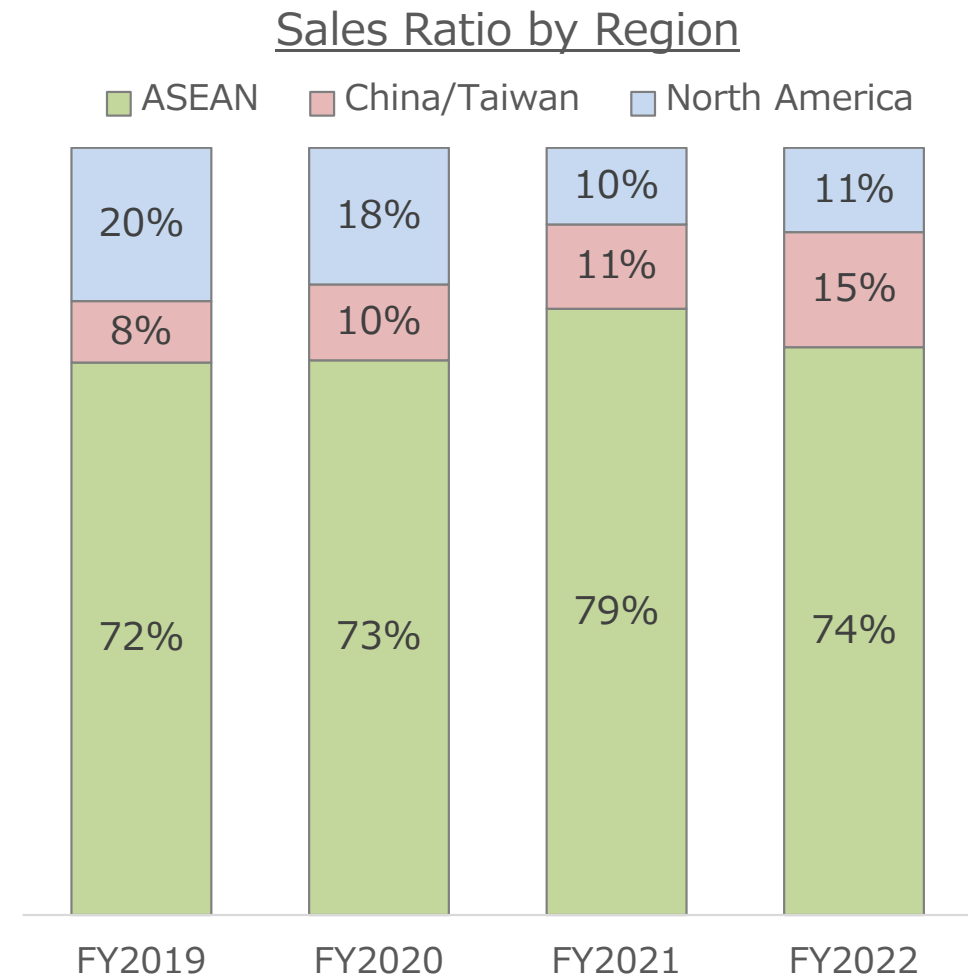
- Segment income increased because the trading volume of steel increased mainly in Indonesia and Singapore.



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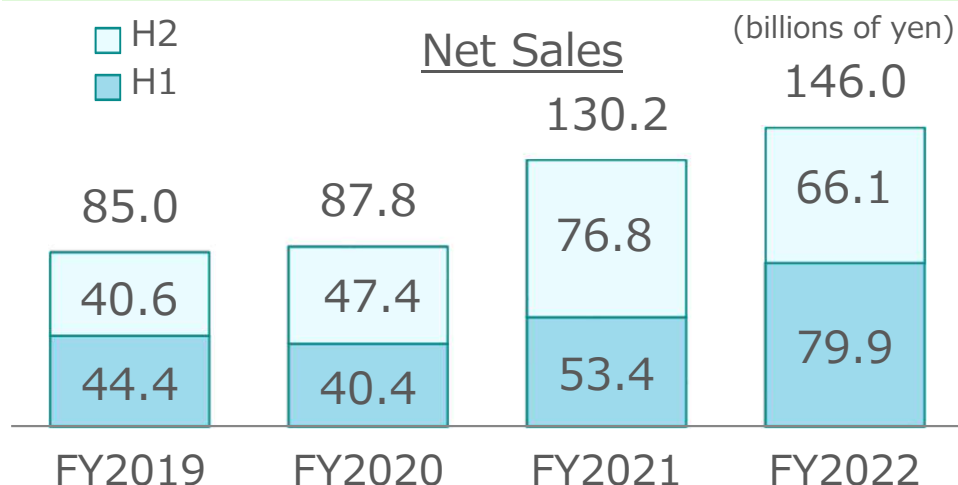


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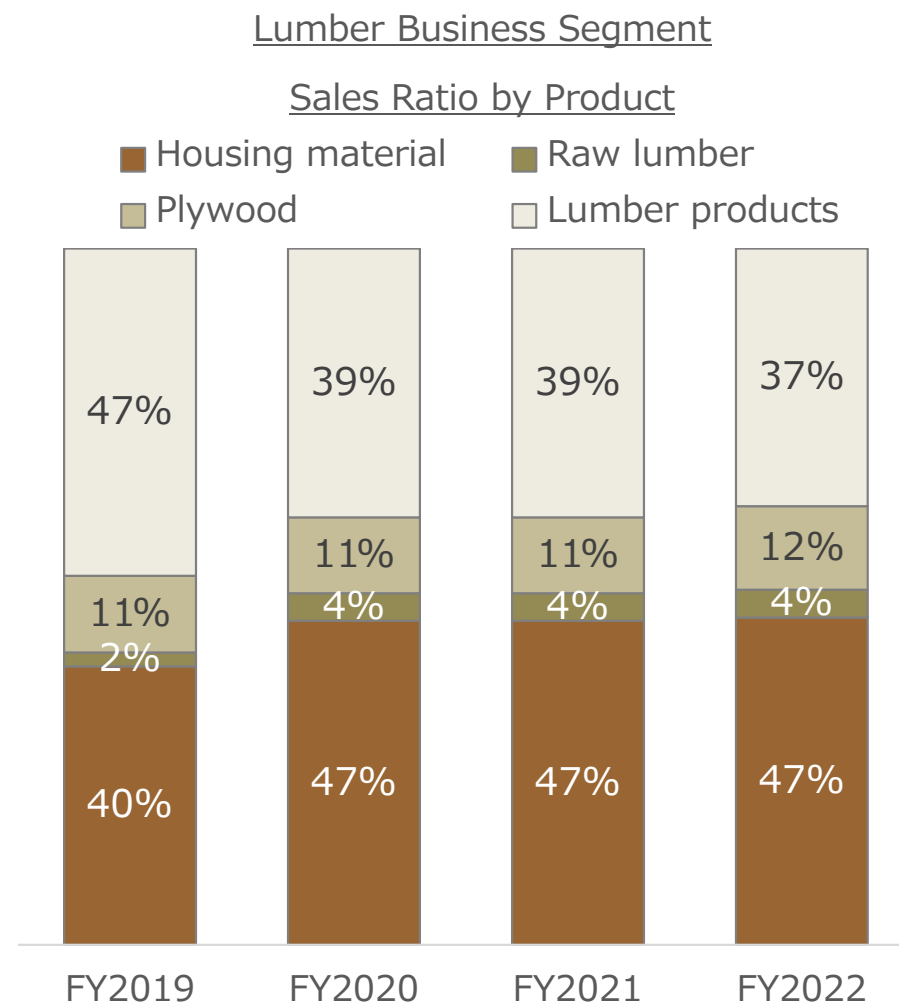
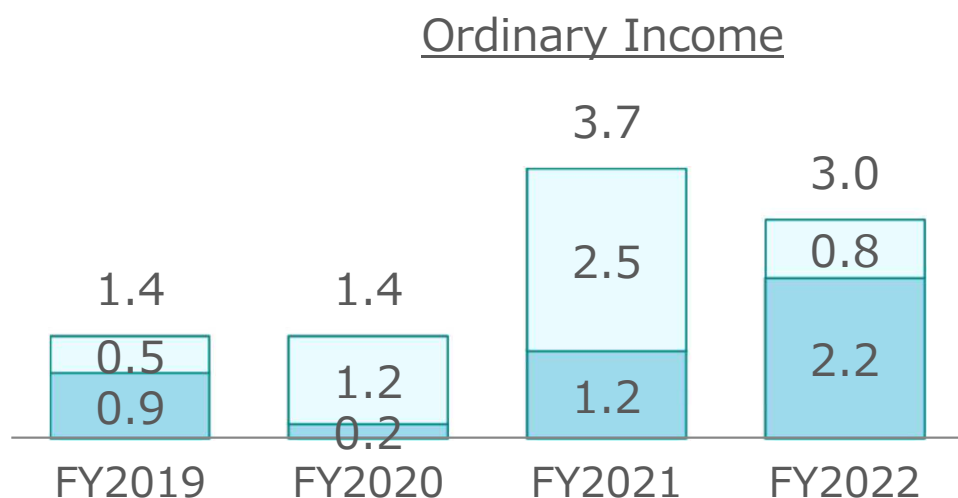


Other Segments

- In Lumber business segment, income decreased mainly for the inability to fully reflect raw lumber prices in products for the increase in procurement costs caused by factors such as the weakening yen. In Machinery business segment, income increased due to more large-scale completed projects year-on-year.



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

Quantitative Targets

- Expect net sales of 2,700 billion yen and ordinary income of 50.0 billion yen for full FY2023.
- The Trading volume of steel reached 14.6 million tons in FY2022 as trading increases due to the expansion of “locally produced and locally consumed” business overseas, especially in Asia(mainly ASEAN).

(billions of yen)	FY2020	FY2021	FY2022	FY2023
Net Sales	1,745.5	2,164.0	2,668.2	2,700.0
Ordinary Income	28.8	62.7	64.2	50.0
ROE	11.1%	20.5%	19.1%	-
Net DER	133%	235%	98%	-
taking account of hybrid loan	105%	203%	83%	-
Total Investments	15.0	36.4	62.8	-
Cumulative from FY2020				
Consolidated Trading volume of Steel (million tons)	12.3	14.4	14.6	-
Steel Business Segment	10.1	11.2	11.2	-
Other Segments	2.2	3.3	3.4	-
Consolidated Number of New Customers	1,953	2,249	2,228	-
Cumulative from FY2020	1,953	4,202	6,430	-

Profits of Group Companies

The ratio of consolidated profits to the parent company's profit in ordinary income was 126% because Both domestic and overseas group companies' earnings fell compared to FY2021.

- **Steel:** Profit margin shrank due to a rise in purchase prices and segment income decrease because the decrease in equity method income from overseas investments and cost of sales adjustments at the overseas subsidiary pushed down the margin.
- **Primary Metal:** Segment income increased because of the significant contribution from the investment gain on equity method from SAMANCOR.
- **Foods:** Segment income decreased because appraisal loss on the products was recorded at the consolidated subsidiary due to the impact of the falling crab market prices.

Ordinary Income of Group Companies

(billions of yen)	FY2021		FY2022		Y on Y Change	
	Domestic	Overseas	Domestic	Overseas	Domestic	Overseas
Steel	7.0	3.5	4.8	(2.1)	- 2.1	- 5.6
Primary Metal	(0.0)	1.1	(0.0)	3.3	- 0.0	+ 2.2
Metal Recycling	0.8	0.5	0.9	0.4	+ 0.1	- 0.0
Foods	0.5	1.0	0.5	(2.3)	+ 0.0	- 3.3
Energy & Living Materials	1.5	-	2.4	-	+ 1.0	-
Overseas Sales Subsidiaries	-	6.7	-	7.2	-	+ 0.5
Others	0.6	-	0.7	-	+ 0.1	-
Total	10.3	12.8	9.3	6.5	- 1.0	- 6.2

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

Investments in Business

- Move forward the investments totaling about 26.4 billion yen to build a base for an earnings increase in the future.

(billions of yen)	FY2022	Major Investments
Steel	17.2	Enhancement and reinforcement of processing facilities in both domestic and overseas subsidiaries Acquisition of subsidiaries through M&A
Metal Recycling	0.4	Enhancement and reinforcement of processing facilities in both domestic and overseas subsidiaries
Energy & Living Materials	0.5	Business investment mainly to wood pellet-related business, etc.
Overseas Sales Subsidiaries	4.0	Business investment mainly to steel-related business, etc.
Others	0.4	Expansion of amusement facilities, etc.
The whole company	3.8	Implementation of a new ERP System, etc.
Total	26.4	



HANWA CO., LTD.

本資料で記述されている業績予想並びに将来予測は、現時点で入手可能な情報に基づき当社が判断した予想であり、潜在的なリスクや不確実性が含まれています。そのため、様々な要因の変化により実際の業績は記述されている将来見通しとは大きく異なる結果となる可能性があることをご承知おき下さい。

Appendix

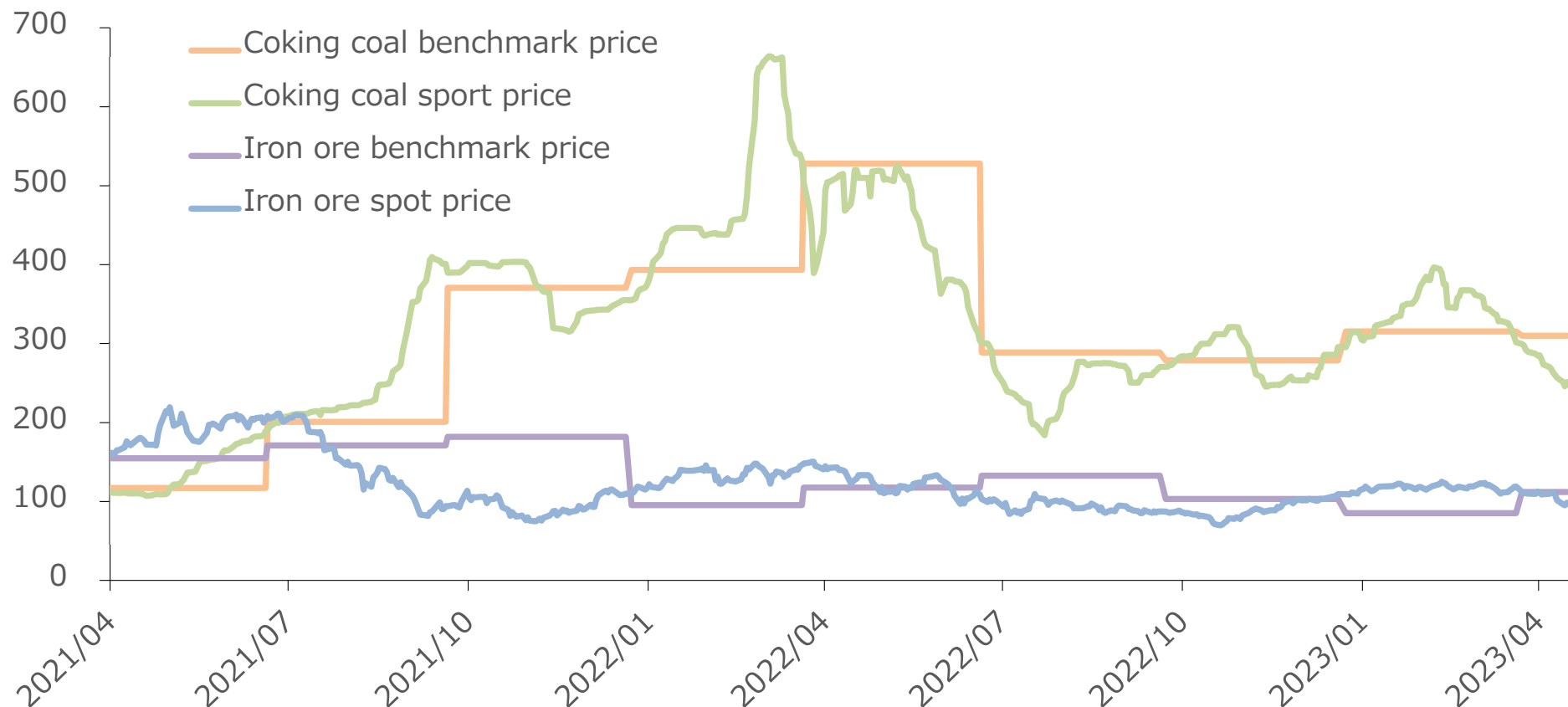
Market trend of Steel Raw Materials

Iron ore: Following the easing of the zero-COVID policy, blast-furnace manufacturers in China ramped up production, supporting firm demand for raw materials. However, weakness persisted in the market for steel products, putting downward pressure on demand. As a result, iron-ore prices are soft and trending sideways.

Coking coal: As 2023 began, prices for coking coal soared amid concerns about supplies, due to factors such as cyclones in Australia and heavy snowfalls in Russia and Canada, and expectations for a resumption of coal shipments from Australia to China. Later, however, market conditions subsided, as improving weather conditions eased anxieties and shipments of bargain-priced coking coal from Russia and Mongolia had a pronounced impact.

(US\$/t FOB)

Transition of Steel Raw Materials Prices

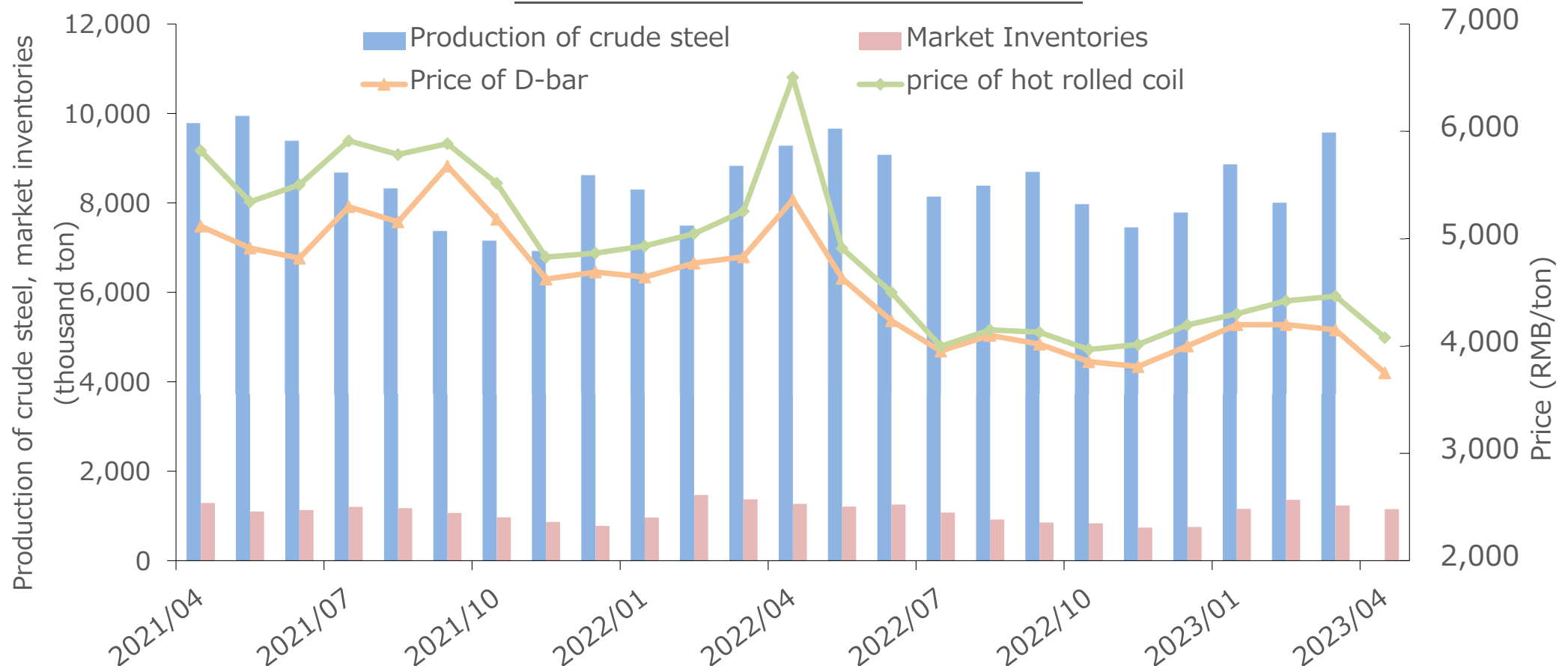


Steel Market Trend in China

Steel demands: Demand in China continued to struggle as worries about an economic slowdown persisted and the real-estate market softened. Prices rise temporarily as China eased its zero-COVID policy, however prices trended downward in the face of demand weakness.

Market price: Demand declined as a result of an economic slump in China, while worldwide inflation and rising interest rates held back prices, until Chinese New Year brought a rising trend in prices. In response to economic measures from the Chinese government, steelmakers raised prices. Nonetheless, elements of uncertainty in market prospects persisted.

Transition of Steel Markets in China



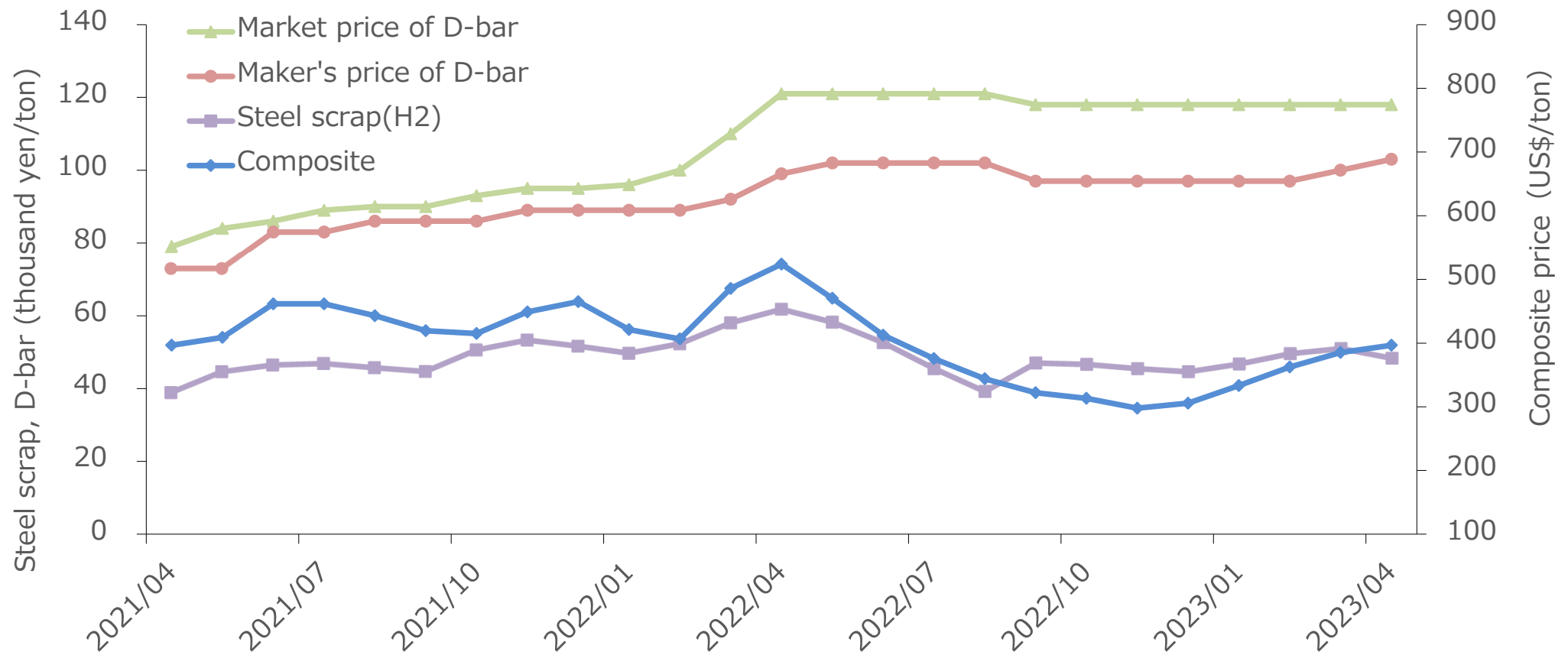
(Date source : The Japan Iron and Steel Federation)

Market Trend of Steel Scrap

Supply/Demand: Volume of steel scrap generated shrank in tandem with a decrease in demolition projects in Japan and a decline in scrapped vehicles. On the demand side, inquiries ebbed as demand for steel softened in Southeast Asia and demand from earthquake recovery in Turkey fell short of expectations.

Market trend: Overseas markets fell amid weak demand in China and Southeast Asia and concerns about faltering demand in Turkey. As a result, the Japanese market softened as well.

Transition of Steel Scrap and D-bar Market Prices



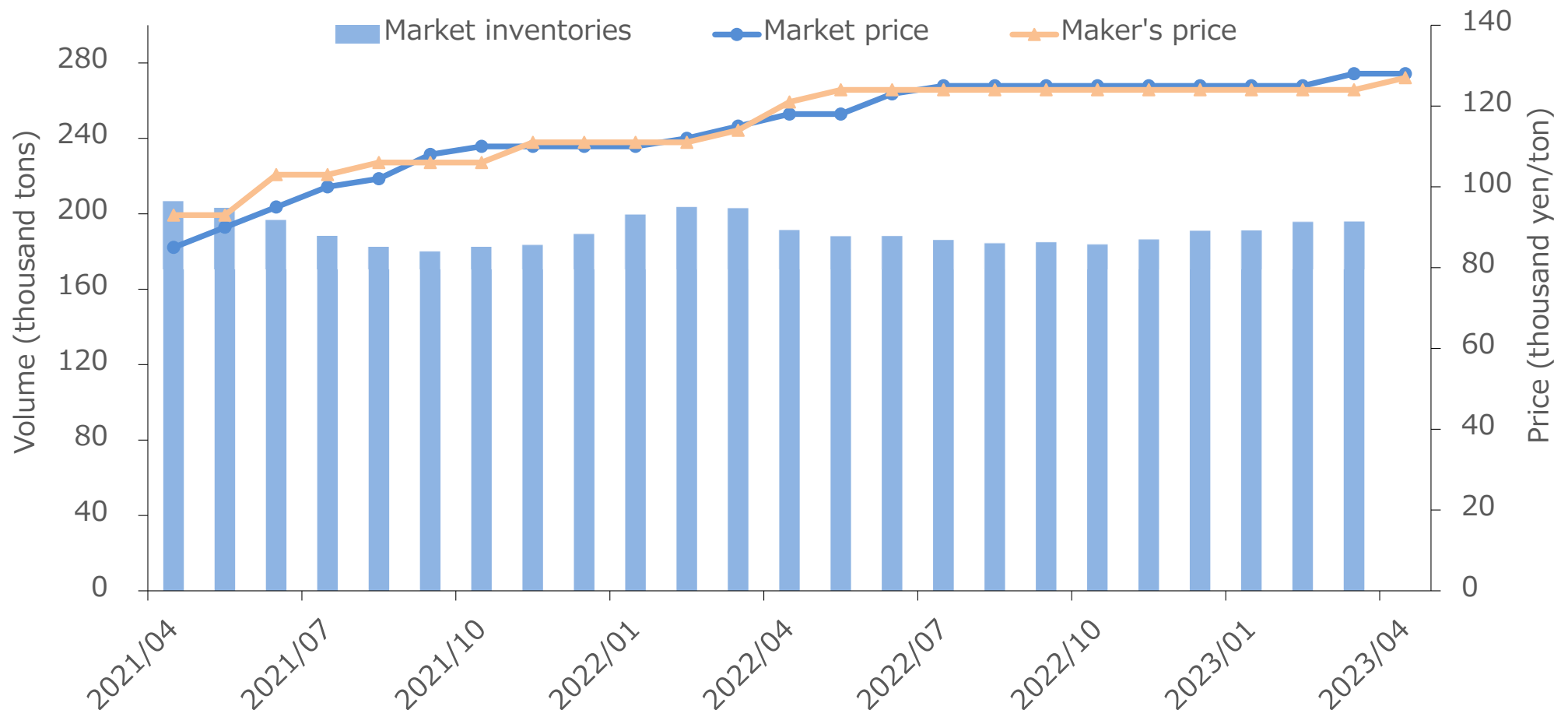
(Date source : The Japan ferrous raw materials association, Japan metal daily)

Market Trend of Long Products

Supply/Demand: Demand for long products for construction trended firm amid the rebound in demand from the COVID-19 pandemic. Factors such as redevelopment projects in urban areas fed a gradual increase in starts of major construction projects, creating a sense that construction demand had bottomed out. However demand for small and medium sized buildings in rural areas is weak.

Market trend: High prices for raw materials and energy drove up manufacturing costs, prompting manufacturers to raise prices intermittently. Retail prices lacked buoyancy, due in part to low scrap prices, causing this market to trend sideways.

Transition of the H-Beams Markets in Japan



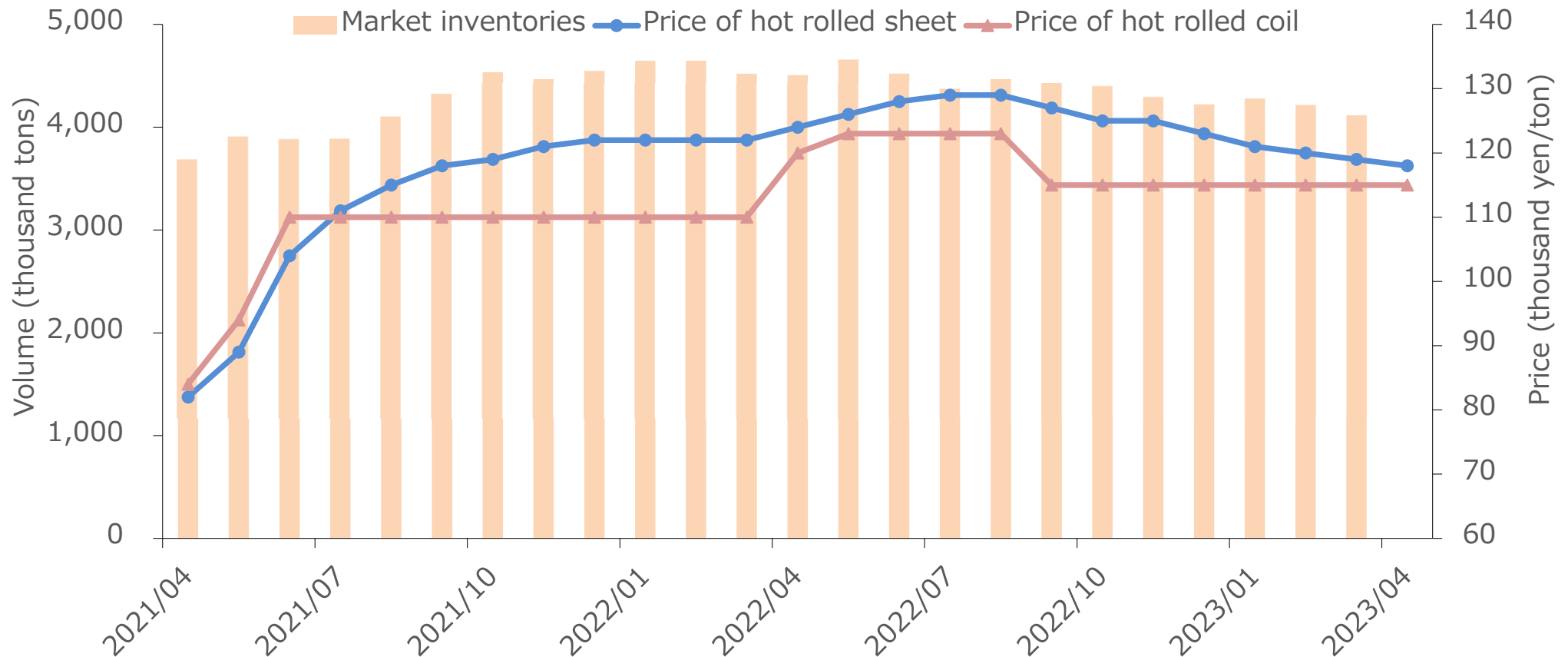
(Date source : Inventories: Tokiwa-kai / Price: Japan metal daily)

Market Trend of Flat Products

Supply/Demand: In Japan, demand for automobiles, construction and fabrication machinery, among others, declined. In Asia, demand continued to lack buoyancy.

Market trend: Production costs for flat products continued to rise amid high prices for raw materials and energy, prompting manufacturers to raise prices intermittently. Although prices continued to undergo adjustment, bottom prices proved elusive as inventories declined and prices for competitive imported steel rose.

Transition of Steel Sheets Markets in Japan



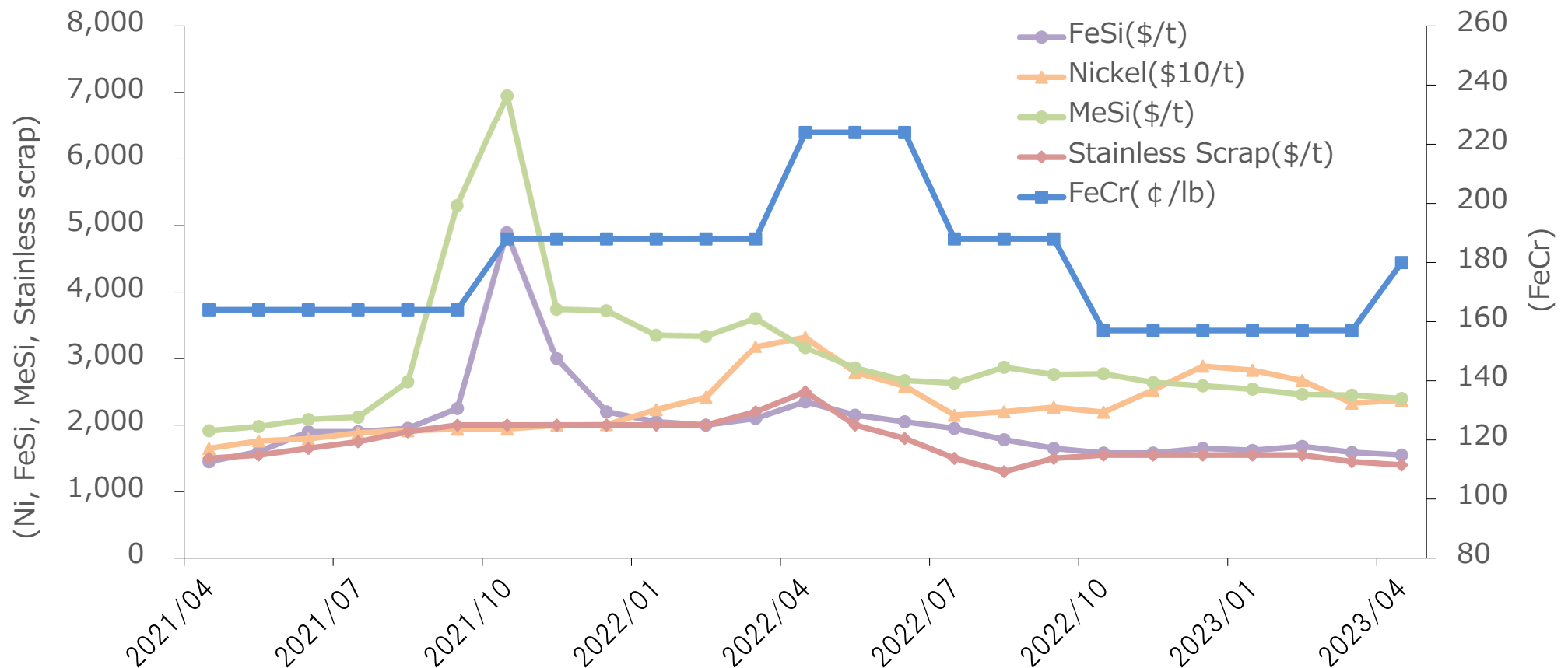
(Date source : Inventories: The Japan Iron and Steel Federation / Price: Japan metal daily)

Market Trend of Metals & Alloys

Nickle: The price of nickel leapt temporarily to over US\$30,000 a metric ton when the government of the Philippines announced a plan to ban ore exports. The price soon retreated to below US\$25,000, however, amid concerns about weak demand for stainless steel worldwide, particularly in China, as well as about blunted demand for EVs.

Ferrochrome: The ferrochrome market trended on a low ebb amid slack demand for stainless steel. Spot prices rose, however, buoyed by supply concerns in the midst of the earthquake in Turkey. Electricity prices spiked in South Africa, a key producer country and the benchmark for ferrochrome in the April-to-June period rose for the first time in a year.

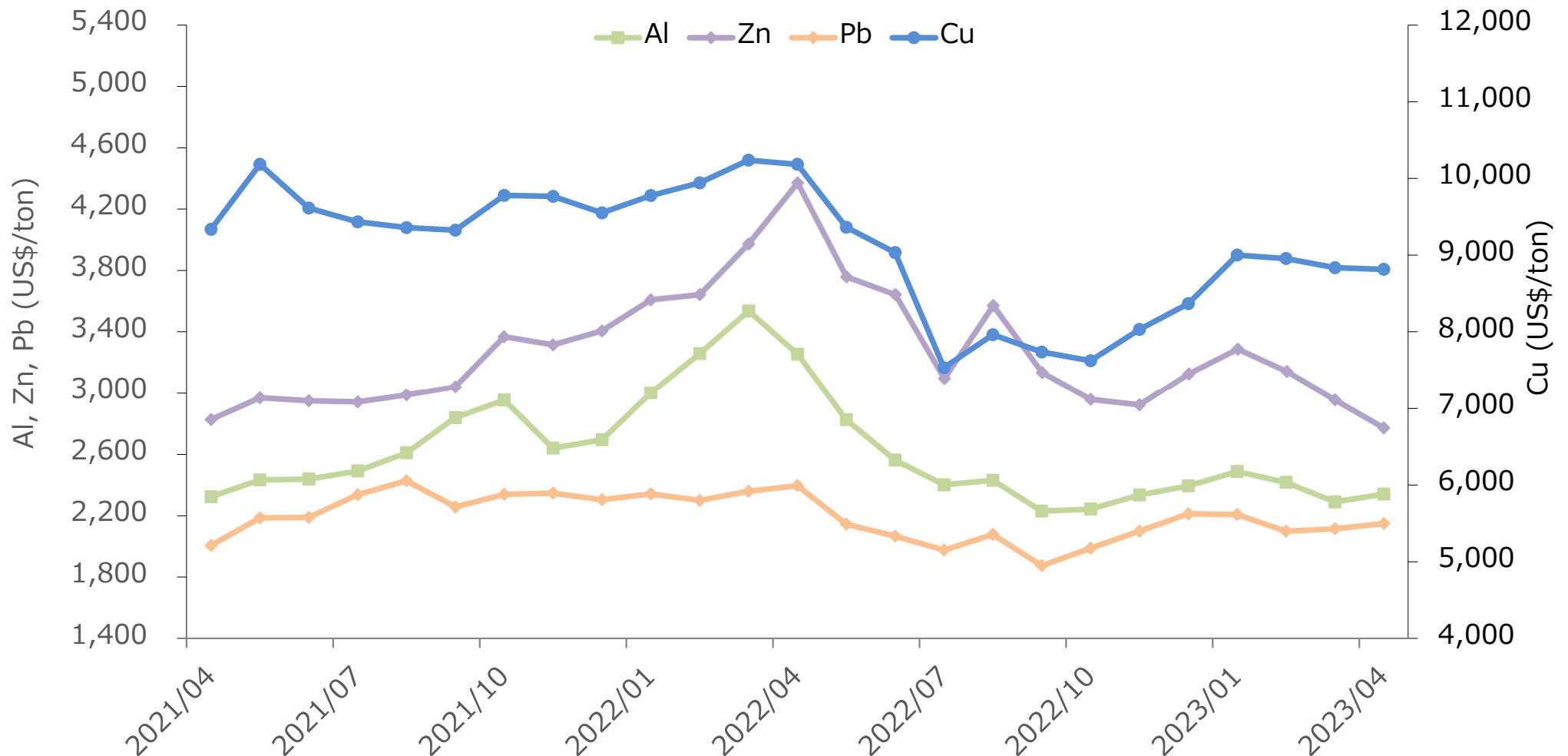
Silicon: After the experience of price spikes and collapses in the previous year, demand subsided worldwide, particularly in China. Market conditions maintained a slackened trend.



Market Trend of Non-ferrous Metals

Aluminum: As dollar appreciation paused and China eased its zero-COVID policy, prices began turning upward around October 2022. Later, however, prices fell, amid worries about a worldwide economic slowdown and instability in the financial sector due to financial instability in the United States.

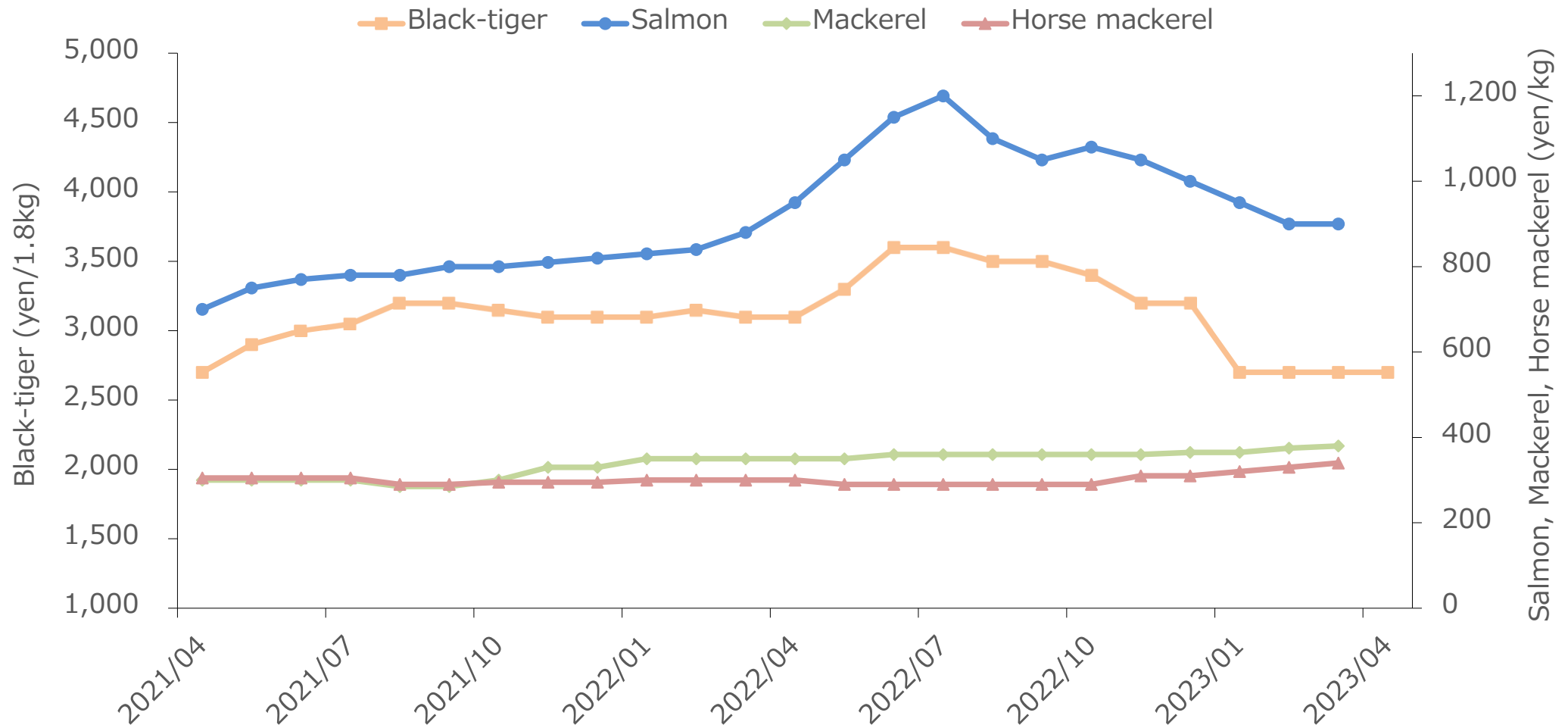
Copper: Prices recovered from an earlier relentless decline, which was driven by weakening demand due to US-dollar appreciation and economic slowdown. Prices rose but have entered a lowering phase again, restrained by factors such as fears of a sluggish economy.



Market Trend of Frozen Marine Products

Salmon: After hitting an all-time high in July 2022, prices trended downward in the face of demand weakness. In March 2023 supply vulnerabilities surfaced, causing prices to bottom out and strengthen.

Shrimp: Shrimp prices followed a slackened trend after a price collapse at the end of 2022 amid weak demand in the United States and China.



Market Trend of Crude Oil & Petroleum Products

Crude oil: As 2023 opened, crude-oil prices firmed amid a recovering trend in the Chinese economy and improvement in various economic indicators. They dropped again later, however, against a background of uncertainty about the financial space in North America and Europe. In April 2023 major oil-producing countries announced further cuts in production, creating an awareness of tightening demand. Prices have been on an upturn most recently.

Products: As 2023 began, prices for naphtha soared, Later, however, prices halted rising in early February and fell recently.

