

Increases in Total Assets and Debt of HANWA —No Immediate Impact on Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the increases in total assets and interest-bearing liabilities of HANWA CO., LTD. (security code: 8078) due to increase in guarantee deposits for derivatives transactions.

- (1) On March 14, 2022, HANWA CO., LTD. (the "Company") announced an increase of 133.1 billion yen in long-term guarantee deposits related to derivative transactions due to a sharp rise in commodity futures prices on the London Metal Exchange. The purpose of this derivative transaction is to hedge the commodities handled by the Primary Metal and Metal Recycling businesses. In addition, the Company borrowed 120 billion yen as financing for this transaction.
- (2) This guarantee money is deposited with financial institution for hedging transactions of commodities handled by the Company. Valuation gains/losses are attributed to the counterparty, etc. Therefore, JCR believes that the risk of deterioration of business performance due to impairment or valuation loss of the guarantee deposits is small and that there is no need to immediately revise the rating. On the other hand, interest-bearing debt is expected to increase from 385.4 billion yen (after taking into account the equity content of subordinated loans) at the end of the third quarter of the fiscal year ending March 2022 due to an increase in borrowings, and the financial structure will deteriorate. Although this will not lead to a substantial deterioration of the Company's financial structure, as it is a demand for financing generated as a part of business transactions based on actual demand, there is a possibility that its financial burden will further increase if commodity prices rise further. JCR will continue closely monitoring market trends and the Company's financial structure.

Masayoshi Mizukawa, Akihiro Kondo

<Reference>

Issuer: HANWA CO., LTD.

Long-term Issuer Rating: A- Outlook: Stable

Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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