HANWA CO., LTD.

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VEGETABLE OIL INK

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INTEGRATED REPORT 2019

Year ended March 31, 2019

HANWA CO., LTD.

For Users, With Users

Corporate Philosophy

Coping with changes of the times and the market quickly, we, as a "distribution specialist", aspire to make a broad contribution to society by satisfying various needs of customers.

Success in today's markets demands speed and the ability to meet a broad range of needs. Great change has come about on an unprecedented scale. Only companies that can adapt quickly will survive.

Hanwa has accumulated experience and accomplishments in the field of "distribution" that spans more than 70 years. We know how to build powerful businesses and move quickly in the pursuit of value creation and customer satisfaction.

Dedicated to corporate citizenship, we want our business operations to help make communities and the world a better place to live. This is why we prioritize compliance and other activities that enable us to fulfill our obligation to society.

Through such activities, we keep nurturing a corporate culture that will enhance the value and reliability of our Company. We aim to make greater contributions by fulfilling our social responsibilities.

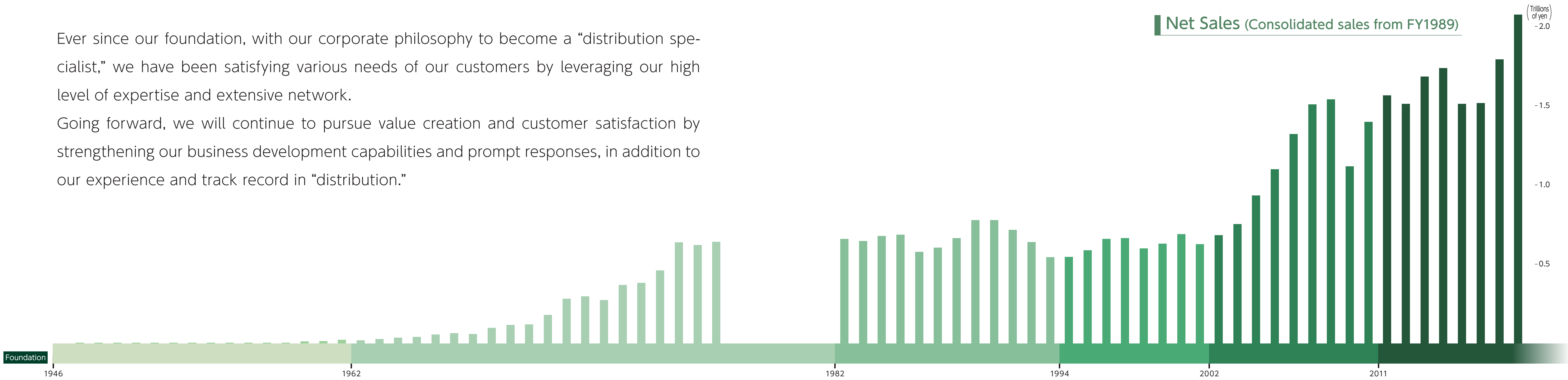
Corporate Policy

Accomplishment of social responsibilities	We contribute to the global society and the community through our business activities with sound management practices that attach importance to compliance.
Improvement of "Hanwa's Value"	We raise our corporate value steadily by effective utilization of the management resources offered from various stakeholders.
Pursuit of trading company distribution with strong presence	Under a customer-oriented policy, we pursue sustainable customer satisfaction by providing value-added distribution and proposal-driven marketing.

CONTENTS

The History of Hanwa Together with Our Users

Ever since our foundation, with our corporate philosophy to become a “distribution specialist,” we have been satisfying various needs of our customers by leveraging our high level of expertise and extensive network.
Going forward, we will continue to pursue value creation and customer satisfaction by strengthening our business development capabilities and prompt responses, in addition to our experience and track record in “distribution.”

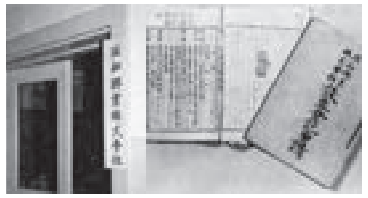


70-year history and major CSR activities of Hanwa

● Environment ● Society ● Corporate Governance

Period of foundation

(1946 - 1961)



Hanwa’s procurement expertise helped postwar recovery.
The Company strengthened its business foundation as “Round Bar is about Hanwa.” Established Hanwa Scholarship Foundation to celebrate its 10th anniversary.

Hanwa Shokai was founded in December 1946 by three brothers, Jiro Kita, Ryosaku Naide, and Shigeru Kita. In April of the following year, it was reorganized into Hanwa Co., Ltd. and Jiro Kita assumed the post of President. Sales of steel materials to the Forestry Agency and Forestry Bureaus increased, and thereafter, sales of round bars to construction companies increased significantly. The business foundation of “Round Bar Hanwa” was strengthened. We built our own warehouses one after another, and also established branches in Tokyo and Nagoya to expand our sales channels.

- Established employee mutual aid society (1948)
- Osaka Head Office purchased first employee dormitory, in Sakai (1948)
- Completed Ishibashi dormitory (1952)
- Started ship scrapping business (1955)
- Established Hanwa Scholarship Foundation (1957)
- First issue of in-house magazine “Nenrin” (Annual Ring) (1960)

Period of diversification

(1962- 1981)

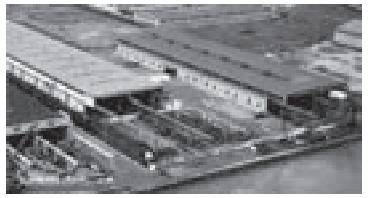
Business diversified to include petroleum, lumber, non-ferrous metal, food products, leisure facilities, etc. Opened overseas offices in Hong Kong, New York, Seattle, etc.

Listed on the second section of the Osaka Stock Exchange in 1963, and established a position as a trading company specializing in the steel business. With its improved social creditworthiness and financial strength upon its listing, the Company diversified its operations into petroleum, lumber, non-ferrous metals, and food products businesses, centering on its steel business.

- Established employee training program (1966)
- Implemented pre-entry training/new-employee instructor program (1968)
- Implemented two-day weekends (once a month) (1972)
- Established leave program for employees in recognition of long-time service (1973)
- Established Hanwa Health Insurance Society (1976)

Period of business scope expansion

(1982 - 1993)



Hanwa achieved strong development, boosted by a growing economy in Japan and economic development in Asia.

In response to the demand for construction columns, which rapidly became popular from 1982, we secured a leadership role by utilizing our steel distribution centers in Osaka and Nagoya. We also saw significant growth in the food product business, such as shrimp, herring roe and capelin, as well as in leisure-related businesses. In addition, we established steel processing centers in China and the United States, and assertively expanded overseas operations by establishing local subsidiaries in Malaysia and Taiwan.

- Implemented new personnel system (mandatory retirement age extension, qualified pension plan, new job rank system, etc.) (1989)

Period of structural reform

(1994 - 2001)

A complete withdrawal from zai-tech (speculative financial technology) to a focus on our core businesses

At the time of the bubble economy, the Company was said to be one of the most famous companies with zai-tech, but suffered great losses in the aftermath of the bursting of the bubble. In 1994, the newly appointed president of the Company, Mr. Shuji Kita, declared “a complete withdrawal from zai-tech to a focus on our core businesses” and made a start as new Hanwa. In order to expand distribution functions in Japan, in addition to the existing three-office structure (Osaka, Tokyo and Nagoya Offices), we established Kyushu and Tohoku branches. Overseas, we expanded our steel processing operations mainly in China.

- Started “refresh leave” program for persons winning commendation for long service (1994)
- Launched Investment and Lending Examination Committee (1996)
- Established rules on maternity protection, childcare leave, and nursing care leave (1997)
- Launched Safety and Health Committee (1997)
- Launched Safety Association (1998)
- Obtained ISO 14001 certification (2000)

Period of restored growth

(2002 - 2010)

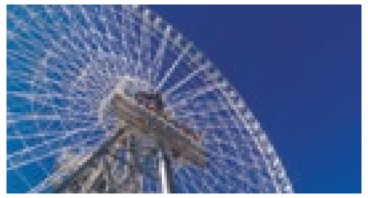
Established Medium-Term Business Plan by all staff. Adopted an “assertive management” approach.

Having promoted business-oriented management measures and financial soundness, the Company resumed dividend payments for the first time in 2002 after eight fiscal years. In the formulation of the Fourth Medium-term Business Plan, which was launched in FY2004, one-quarter of the employees, about 300 people, participated in the formulation and the execution of the Business Plan through open application. A Medium-Term Business Plan with an “assertive management” approach was formulated with “all-employee participation.” In addition, we established offices in Japan and overseas, including the establishment of Hanwa Steel Service and the expansion of the chromium business in South Africa.

- Established Corporate Ethics Code of Conduct (2003)
- Held financial results briefings in Tokyo and Osaka, began full-scale IR activities (2003)
- Took first order in Japan to detoxify materials contaminated with dioxin onsite (2004)
- Hanwa Steel Service obtained ISO 14001 certification (2004)
- Launched CSR Committee (2004)
- Obtained FSC-CoC forest certification (2005)
- Established Internal Control Committee (2006)
- Newly established Food Quality Control Office (2008)
- Diversity Promotion Office established in the Personnel Department (2009)
- Obtained PEFC forest certification (2009)
- Obtained MSC-CoC certification for preservation of marine resources (2010)
- Published Hanwa’s first CSR & Environmental Report (2010)

Period of great strides

(2011 -)



M&A strategy and accelerating global expansion.

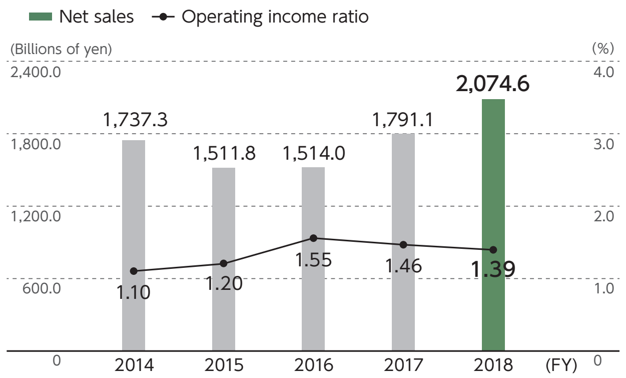
In April 2011, Hironari Furukawa assumed the position of president and advocated for a “user-oriented trading company.” With a view to expanding trading volume with small and mid-sized companies, through “M&A plus A (alliances)” of companies with unique characteristics, we have advanced “SOKOKA” (Just-In-Time delivery, small lot, processing) strategy and cultivated the markets. In the Eighth Medium-Term Business Plan, we adopted the “Three S Commitment - STEADY, SPEEDY, STRATEGIC” - Build a medium- to long-term sustainable profit structure and a stronger foundation - to expand our business.

- Introduced executive officer system (2012)
- Merged Audit Office with Internal Control Promotion Office to establish Internal Audit Department (2012)
- Newly established CSR & Environment Section (2013)
- Received Medal with Dark Blue Ribbon in recognition of Japan Public-Private Partnership Donation Program to Support Students Studying Abroad (2015)
- Publicly disclosed Policy for Responding to the Corporate Governance Code (2015)
- Established Lumber Procurement Policy (2017)
- Newly established Chemical Product Quality Control Office (2017)

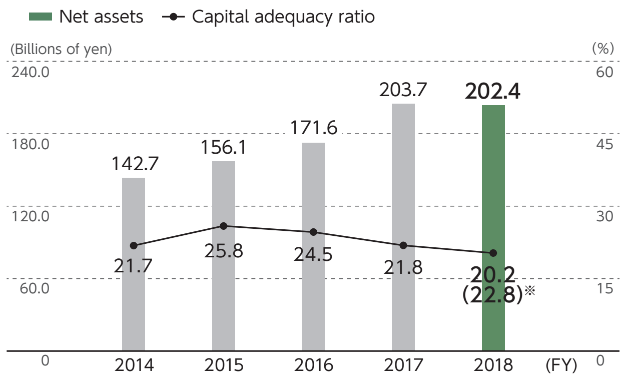
Financial and Non-financial Highlights

Financial indicators

Net sales/Operating income ratio

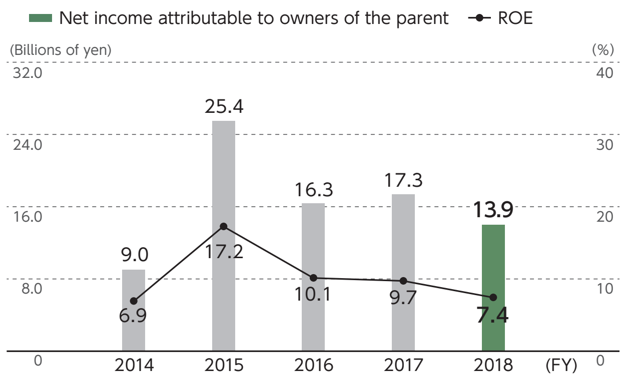


Net assets/Capital adequacy ratio

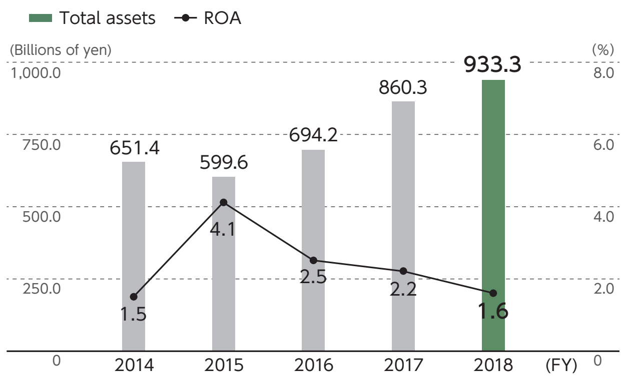


Note: Calculated by taking into account the equity credit attributes evaluated by ratings institutions (50%) of the ¥50.0 billion subordinated loan (hybrid loan) implemented in March 2019.

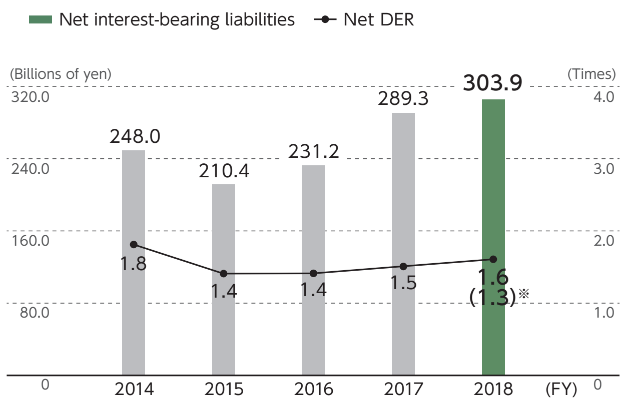
Net income attributable to owners of the parent/ROE



Total assets/ROA

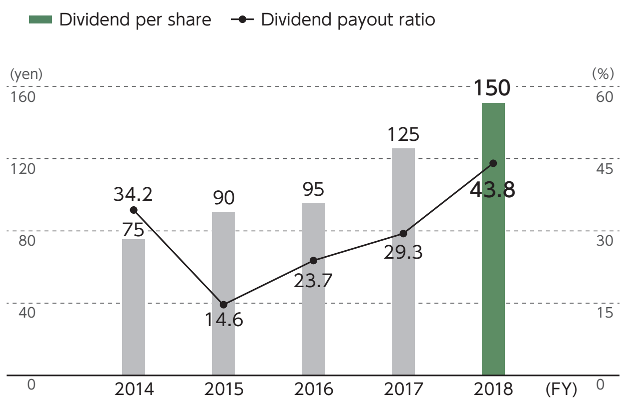


Net interest-bearing liabilities/Net DER



Note: Calculated by taking into account the equity credit attributes evaluated by ratings institutions (50%) of the ¥50.0 billion subordinated loan (hybrid loan) implemented in March 2019.

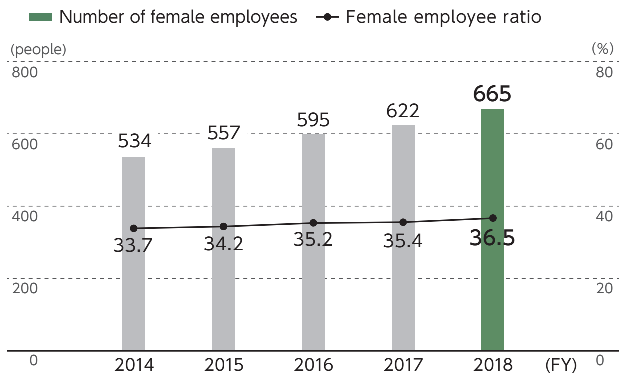
Dividend per share/Dividend payout ratio



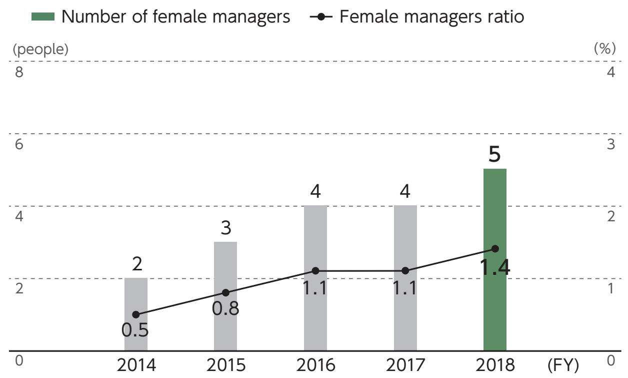
Note: The Company consolidated its shares at a ratio of 5 shares to 1 share on October 1, 2017.
Dividend per share is the amount taking into account the consolidation of shares.

Non-financial indicators

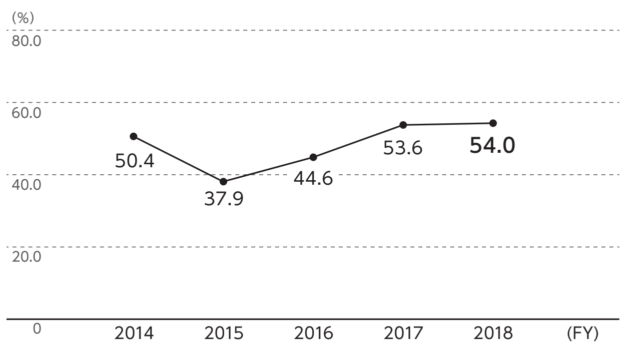
Number of female employees/Female employee ratio (as of April 30, 2019)



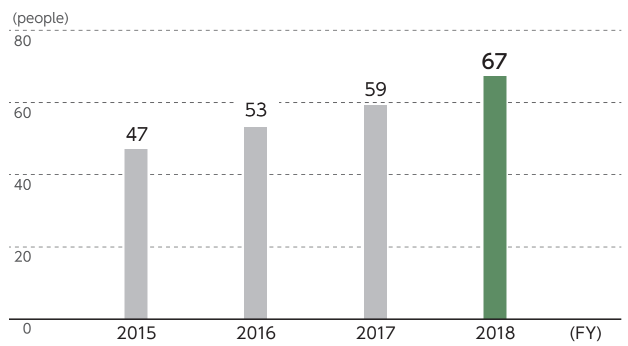
Number of female managers/Female managers ratio (as of April 30, 2019)



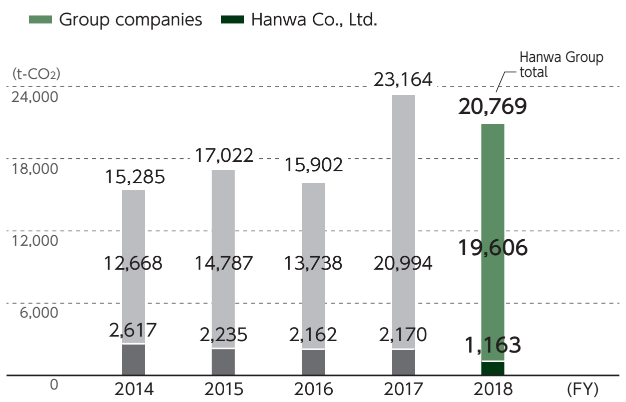
Paid leave acquisition rate



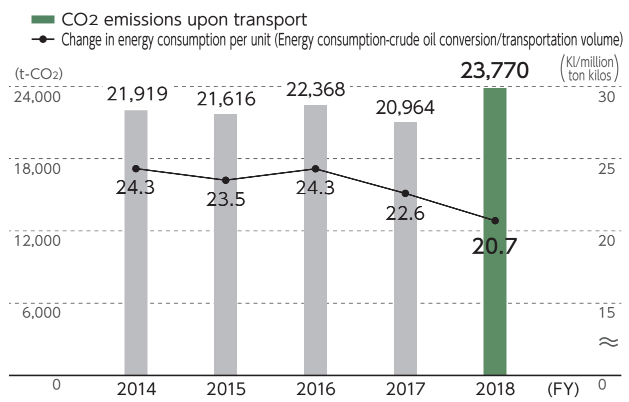
Number of persons taking childcare leave (as of April 1)



CO_2 emission at domestic offices



Change in CO_2 emission upon transport and energy consumption per unit of GDP (gross domestic product)



Scope: Domestic shipping where Hanwa is the consignor

Hironari Furukawa
Representative Director
and President

Our Message

We live in an era of acceleration and globalization, with instant access to all kinds of information. As diversity of the world deepens, environment surrounding us continues to change rapidly day by day.

While no one can predict the future, we, Hanwa Co., Ltd. - as a user-oriented trading company, will maintain our own individuality and continue to open up the world by walking along with customers. We consider tasks from the customer's perspective, work hard and resolve our challenges. To this end, we are working to strengthen our functions of the entire Group through affiliation of small and mid-sized companies with superior functions into Group companies and our business alliances.

At the same time, we offer a path to the future that will lead to medium- and long-term growth. We are striving to invest in resources with distinctive characteristics, such as investing in cathode materials for rechargeable batteries used in electric vehicles, which will create new aspects of the Company.

Please take a look at the present state of Hanwa, a company which is constantly evolving.

The DNA of a user-oriented trading company

Since our foundation, we have provided our customers with a variety of products such as steel, non-ferrous metals, metals and alloys, food products, petroleum, lumber and machinery. Since I, Hironari Furukawa, assumed the position of president in April 2011, I have clearly defined our stance as a user-oriented trading company.

We are not a major general trading company (Sogo Shosha) with a large group of companies, nor are we a trading company affiliated with a major manufacturer. We cannot hope for intra-affiliate transactions or business created by parent manufacturers. Since we are an independent trading company without protections from a corporate parent or affiliates, we need to find a place where we can exist under our own merits.

Therefore, the most important thing for us is our position as a user-oriented trading company. We identify the needs of customers, focus on realizing these needs and respond to their requests ahead of other companies. We will not only leverage our high level of expertise and extensive network, but also lavish our labors, take effort and toil for the sake of customer satisfaction. I am convinced that this is the true essence of a user-oriented trading company and the raison d'etre of our company.

This idea was not started by me. Rather, it has been ingrained into our DNA from the beginning.

When I was a new recruit in my twenties, the presence of Ryosaku Naide, one of our founders, was very significant. Mr. Naide would severely scold employees who made profit by simply moving products from right to left. He knew that such a temporary profit would never last long.

On the other hand, when someone sold the product in response to the customer's detailed request, even if it was a small lot, he praised them well. He was a person who valued the work of the employees who work hard to satisfy customers on a daily basis. That attitude was engraved in my young heart and led me to learn what business was really like.

The Meaning of Efforts to Streamline Inefficiencies

In the Eighth Medium-Term Business Plan formulated in 2016 with the aim for sustainable growth together with our customers, we have set the theme, "Three S - Commitment - STEADY, SPEEDY, STRATEGIC." Through the three "S," we are aiming for a sustainable profit structure and a stronger management foundation.

The first "S," "STEADY" means maintaining and increasing earnings from the existing business foundation. This is the very basis of our business that we have nurtured carefully since our foundation.

The Japanese market is mature and demand is likely to shrink as the population declines. However, by thoroughly responding to customer needs, we should be relatively able to improve our strength.

The key point here is the expansion of transactions with small and mid-sized companies. The SOKOKA (a Japanese abbreviation for SOkuno [Just-In-Time delivery], KOguchi [small lot sales] and KAko [processing]) approach to operations is the one key feature common to each of those stages. We have put together in one word, and it is called "SOKOKA" so that everyone can understand.

"M&A plus A (Alliance)" is one of the effective means for enhancement of the "SOKOKA" functions. We have been actively promoting the acquisition as subsidiaries of or capital alliance with small and mid-sized companies with distinctive characteristics in steel and metal process-

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ing as well as small-lot logistics. Through those acquisitions, it has become possible to implement transactions that, until now, could not be handled in terms of labor and cost.

In addition, at the Kita-Kanto Steel Center, which was newly established in Isesaki City, Gunma Prefecture, we are targeting to expand sales channels with high value-added processing, including through the introduction of three-dimensional laser cutting machines, which will go beyond conventional warehouse functions. In this way, we have thoroughly refined our business style by ourselves through Just-In-Time delivery systems, improvement of small-lot sales and enhancement of processing functions in accordance with users' demand.

In recognition of our efforts, the number of new customers that have made transactions with us has also been steadily increasing with a total of 2,020 companies in the three years from FY2015. We can continue to grow by cultivating the existing markets more carefully and deeply, by, for example, increasing sales offices and sales networks.

In this way, we have enhanced our capabilities as a trading company, but we cannot change our nature as a trading company that handles a variety of materials.

From the standpoint of a trading company as an intermediary agent, if we were to increase the profit margins too much, our customers would try to reduce the transaction cost as much as possible. Whatever function we offer as a trading company, it is natural for customers to search for the trading company with the lowest cost, and some would seek direct trading with manufacturers. As well, it would be natural for manufacturers to create their own trading company to sell their own products, and retain profits as much as possible within the group. In this way, the higher the Company's profit margin, the more it becomes a contradiction that threatens the existence of itself.

An age of business has ended where the seller settled on a position of the old seller-oriented perspectives without functions for users. Working hard, working as a user-oriented trading company, and earning a proper profit; this is my basic stance. In other words, our aim is to conduct business in a way that the Company can grow sustainably even if the profit margin is low.

"SOKOKA" is an inefficient field by nature. It takes time and effort, and the profit margin is not high. However, we are venturing into inefficient fields. By continuing to make efforts to streamline inefficient areas, we can discover its value of existence, and can survive the competition. This is exactly what we mean by our Company's philosophy - to work with sweat on our foreheads.

The second "S" is "SPEEDY." It means to speed up the realization of benefits from investments in group companies in Japan and overseas.

The number of companies acquired through "M&A plus A" has already exceeded 30, and the ordinary income in FY2018, which is the sum of revenues from group companies including those acquired, was ¥4.3 billion. The performance of domestic group companies centered on the "SOKOKA" business and overseas sales subsidiaries has been strong, and they now account for about 20% of our operating income.

The target number of group companies through "M&A plus A" that I am considering is 100. If we can make profits of ¥0.2 to ¥0.3 billion per company by pursuing "SOKOKA," we will be able to make profits of about ¥20.0 billion yen to ¥30.0 billion in addition to our main business, and we can still continue to grow in the domestic market.

Each company acquired has a history and different corporate culture from ours.

Therefore, after the acquisition of a company, we take time to carefully manage the company and its culture so that it blends gently with the culture of our Company.

One of the particular examples is that we do not change the name of the company acquired after it becomes our group company. If you think about it from the mindset of the previous owner, it will be painful to see a change of the company name that the owner brought up with such hardships, and I think that it would also be regrettable from the perspectives of officers and employees who work there. We therefore keep the company name as it is and work to improve the compensation and other benefits of employees after joining the group, in order to encourage them to work even harder once they join the group. In this way, we are proud that our "M&A plus A" is one of the solutions to the shortage of successors to excellent small and mid-sized companies that continue to do excellent business in various areas of Japan.

Overseas, we are promoting "Create another Hanwa in Southeast Asia" strategy. We are currently investing in Thailand, Indonesia, Singapore, Vietnam, Malaysia, the Philippines, and Myanmar, working with leading local distributors to establish alliances and promoting the entry into the markets together with other Japanese companies. We are aiming to expand local transactions by transplanting our business model represented by "SOKOKA" into the ASEAN region and providing the same level of service as practiced in Japan.

This strategy is particularly successful in Indonesia. The number of locally hired employees, which used to be more than a few dozen, is now more than 160. Like Japan, it being an island nation may be one of the reasons for success.

Southeast Asia is still a region with great potential for growth.

The importance of "Characteristic Resource Investment"

The third "S" is "STRATEGIC." This represents our strategic investment into the future and the additional revenue we can derive from it.

As a user-oriented trading company, we conduct business development in the areas of STEADY and SPEEDY, which are our basic business activities, and we also invest strategically towards the future.

In particular, investment in resources, such as iron ore and coal, or copper and aluminum, requires funds in the range of a hundred billion yen. The most important investment philosophy in resource investment is that we invest in metal resources with strong demand in China, which is a large consumer of resources, and at the same time have limited production in China, such as nickel, chromium, and cobalt. We call this "Resource Investment with Distinctive Characteristics." Unlike investments in iron ore and coal, investments in these metal resources require funds in the range of ten billion yen, which is a level possible for us to make investments with our corporate capability.

The production of stainless steel requires nickel as a secondary material. Indonesia is the largest producer of nickel ore, but due to its government policy of banning the export of raw ore, structural supply shortages have continued in China, where stainless steel is in high demand.
Therefore, the Company invested in a stainless steel manufacturing project (on the island of Sulawesi, Indonesia) led by Tsingshan Holding Group Co., Ltd., the world's largest stainless steel manufacturer. Already on track for stable production, our handling volume of nickel pig iron as well as stainless steel slabs and hot rolled coils has increased dramatically.

In addition to Asia, we also have resource investment with distinctive characteristics in South Africa.

Since 2017, SAMANCOR CHROME HOLDINGS PROPRIETARY LTD. (hereinafter "SAMANCOR"; headquarters: Johannesburg), our equity-method affiliate, has multiple mining areas in the northern part of South Africa, which is said to contain more than half of the world's chromium resources. Due to the huge amount of resources, stable chromium ore production is expected over a long period of time.

Although this business did not contribute to our profits due to a temporary decline in operating capacity attributable to natural disasters in 2018, since the oligopoly of chromium supply is increasing, we believe that we can expect continuous earnings in this area in the long run.

Investing ahead of the curve

In the area of "STRATEGIC," we are currently paying the most attention to materials for rechargeable batteries mainly for electric vehicles, such as nickel, lithium, cobalt, manganese, and other metal resources. These are the cathode materials for rechargeable batteries, and they are important resources that are indispensable for the lives of people all over the world for the future. Under the catchphrase of "Battery Cathode Materials Hanwa," we are currently investing in strategic resources.

In September 2018, the Company invested in nickel and cobalt compounds manufacturing company led by Tsingshan Holding Group Co., Ltd., which we have been partnering with, CATL, the world's largest automotive lithium-ion battery manufacturer, and GEM, China's largest battery recycling company. Plant construction is steadily progressing toward the start of operations in 2020.

When we expand our business overseas, especially in collaboration with Chinese companies, we need to bear in mind the existence of a gap in the sense of time.

In the Japanese-style, I think decision-making practice is often built up in the order of first dispatching the personnel in charge, followed by the section managers and general managers, officers and finally the president. With this practice, half a year or a year would pass quickly before everything would be decided.

However, in the case of foreign companies, I think generally that top executives discuss with each other to quickly reach a conclusion, and then the details of the project are organized by other managers and staff in charge. Therefore, unless the conclusion of the leaders of the two parties is made within three months at the latest, the counterparty would lose interest.

In overseas markets, we are expected to have the ability and flexibility to respond as if we are the owner of an individually-run company, and therefore are continuing our efforts to meet that. If we continue to chase after foreign companies that can make quick decisions, we will fall behind at some point. Then, there is the risk of abandoning an ideal investment that both sides are hoping for.

For this reason, we are looking and staying ahead of the curve. We aim to improve our analytical skills and to make the workplace more sensitive to our sense of business. At the same time, we think it is also important to establish a system that can prevent undisciplined decisions, while retaining agile decision making ability.

HKQC, the common assets of employees

The Company has about 1,400 employees on a non-consolidated basis and about 4,000 on a consolidated basis. As the number of employees increases, quality control becomes even more important.

I have created various catchphrases such as "a user-oriented trading company" and "SOKOKA," and devised them so that the Company's policies could be widely understood not only by the employees but also the general public.

One of these ideas is HKQC (Hanwa Knowledge Quality Control).

In the idea of incorporating the idea of manufacturer's quality control (QC) into a trading company, the basic principle is to implement this concept to every person working for us, from officer class to regular position employees, general office workers and temporary staff. In particular, it is important to have employees with various business functions on the front line of the business participate without exception.

First, we analyze each business flow in detail. We confirm where and what risks exist, whether response measures are available, how to eliminate unnecessary work and ensure efficiency thoroughly. It is important to note that waste often causes mistakes. Through these activities, we aim to prevent accidents, save energy, and ultimately improve our performance and corporate value.

However, no matter how thorough we are, sometimes mistakes occur. If there is a failure, we will find the cause, and the wisdom obtained there will be an important asset. After systematizing the tangible and intangible wisdom accumulated in the Group, it will be utilized through advanced ICT (Information and Communication Technology) such as RPA (Robotic Process Automation) and will be incorporated into the business flow as a common asset of all employees.

These methods promote HKQC and eliminate potential risks in advance. We will enhance our superiority as a user-centric trading company by thoroughly enforcing compliance.

Every day is an extension of the Medium-Term Business Plan

So far I have been talking about management based on the "Three S Commitment –STEADY, SPEEDY, STRATEGIC," but I think the most important aspect of management going forward is to enhance the sensitivity to change.

It does not mean gaining superficial knowledge that can be obtained from stereotypical information, but does mean nurturing a sense of smell for survival, such as a lion or a wolf to identify the smell of prey, so to speak, and to judge the risk in the immediate moment correctly. Animals take action at the moment they notice a change, so it goes without saying that we also need to be able to act quickly.

This idea is also a part of our recruitment criteria.

Our basic recruitment standard is "people with an edge." Rather than a well-rounded person, a person who has a sharp sense of smell even if he/she has an uneven ability, that is, someone who has a weak defensive ability but has a hard-hitting ability, compared to someone who has enough all-round defensive and offensive ability. A rugged and angular type of person is close to our style.

If one enters a company and gets knocked around in the business world, many people will get rounded off on the corners. So at the start, we prefer people with an edge like rough rocks.

I often have doubts about the Medium-Term Business Plan in the sense that I work with my hands-on instincts. The society we face changes drastically in the span of six months to a year. The influence of changes in the natural environment is significant, and the political situation of each country also affects. Even if we prepare a three-year Medium-Term Business Plan, we might not get the society we expect after three years. It is no wonder that our various objectives shall be changed whenever necessary.

Management is a serious game every day. In this sense, it is better to consider the Medium-Term Business Plan as an extension of day-to-day activities, rather than a future three years later. Therefore, my idea is that "every day is an extension of the Medium-Term Business Plan."

For over 70 years since our foundation, we have grown in spite of experiencing many hardships. In response to changes in the world that will become larger and faster we will not be able to survive unless we change ourselves.

Every day, hair grows, skin is renewed, and life evolves. In the same way, we must continue to evolve step-by-step by looking forward while maintaining a realistic view of our own skills and capabilities.

Of course, it will be difficult to make a big transformation in a short period of time. However, it is said that if you train your muscles little by little every day, you will see changes in about two weeks. Do it little by little every day, and you can continue to improve. The effort you put into doing so will bear fruit in some way.

I disagree with superficial authoritarian things. I think that once you are confined in a place like the president's room decorated to symbolize authority, you will only lose your sense of smell that you get being in the field. Therefore, the President's office is open at all times and I call employees in and talk with them. I like that style of work, and I think that it is a great way to sharpen your sense of smell.

Both human beings and companies must have continuous input because the output cannot surpass the input. We endeavor to be a company that will continue to seek input on a daily basis and will steadily produce output going towards the future.

"Seek the truth, do your best," "God gives us beautiful fruit as a result of sincere and unrelenting efforts," "The image of a hard working person is beautiful. May Hanwa be a place where people working there are respected and loved". These are words left behind by Mr. Ryosaku Naide who I introduced earlier. Please look forward to seeing the Company as a user-oriented trading company, which is not only faithful to the basics of business but is also evolving with the new era.

Value Creation Process

We have been growing with the policy "For Users, With Users" for over 70 years. We continue to improve our corporate value over the medium to long term, aiming for sustainable growth of the Company and society by investing an array of capital, carrying out business activities while using our strengths, and providing the value that we have gained to all of our stakeholders.

Changes in business environment

Management resources

Human resources
Total number of Group employees
4,080 people

Organizational resources
Group companies as a source of revenue

Japan	Overseas
52 companies	56 companies

Financial resources
Sound financial structure
Total assets
¥933.3 billion
Shareholders' equity
¥188.2 billion

7 business fields
→ pages 41 – 56

- Steel
- Metals and Alloys
- Non-Ferrous Metals
- Food Products
- Petroleum and Chemicals
- Overseas Sales Subsidiaries
- Other Business

Corporate Philosophy and Corporate Policy
→ page 01

For Users, With Users

P&G
Professional & Global
→ pages 31 – 33

HK

HKQC
Hanwa Knowledge Quality Control
→ page 26

Coexistence with Society/Environmental Management
→ pages 33 – 40

Corporate Governance
→ pages 19 – 30

Business Strategy
→ pages 15 – 18

Medium-Term Business Plan
"Three S Commitment"

STEADY
STEADY growth by generating earnings from existing business domains.

SPEEDY
SPEEDY generation of revenue from Hanwa Group companies and from strategic investments.

STRATEGIC
Accumulation of revenue from the continuation of forward-looking STRATEGIC investments.

The creation of value
(FY2019)

Net sales
¥2,200.0 billion

Ordinary income
¥28.0 billion

New customers
2,700 companies
(4 years cumulative)

Contributing to society through long-term corporate growth

Review of Management Strategy

We formulate a medium-term business plan that shows the medium-term business policies, the point of its achievement, and the strategy and tactics for achieving them. In the Eighth Medium-Term Business Plan formulated in 2016, we adopted the "Three S Commitment - STEADY, SPEEDY, STRATEGIC" with the aim to build a sustainable profit structure and a stronger management foundation.

Period	Sixth Period FY2010 - FY2012	Seventh Period FY2013 - FY2015
Theme	"Adapt to rapid changes in the operating environment and build a highly original business foundation and profit structure."	"Establish businesses and reinforce the management foundation by envisaging medium and long-term changes in markets in Japan and overseas."
Basic policy	Target opportunities in both Japan, where the market is saturated, and overseas markets that are expected to continue expanding. Establish a solid business foundation by achieving Hanwa's mission of quickly meeting the demands of users. At the same time, establish a reliable profit structure by aggressively pursuing new business opportunities.	The Medium-Term Business Plan is the first three-year period for adapting to changes in the business environment that are anticipated over the next decade. Hanwa will establish businesses that can generate solid earnings and strengthen the management foundation that supports those businesses.
Outline of measures	1) Strengthen core business as a user-oriented trading company We adopt the perspective of users to upgrade and differentiate capabilities that we can offer, in order to reinforce and enhance our existing commercial foundation while horizontally extending it to peripheral areas. As a result, we aim to increase the number of customer by 1,000. (An increase of 800 companies in the period of the previous Medium-Term Business Plan) 2) Active entry into overseas markets by strengthening business bases and workforce To benefit from anticipated growth of demand in markets outside Japan, we plan to further strengthen sales offices and processing sites and aggressively introduce people. By doing so, we enter new markets by using strategies that match the characteristics of each region. 3) Reinforce and expand the scope of recycling operations Expand recycling operations to provide a comprehensive line of services in line with the global recycling industry promoting the integration of business by mergers. Use these capabilities to build a stronger foundation for recycling operations and speed up global development. 4) Strengthen the environment- and energy-related operations Environmentally-friendly businesses are expected to grow considerably in the coming years. The outlook for growth is also good in the energy infrastructure field in Japan and overseas. Hanwa is committed to growing in these fields in order to play a part in protecting the environment. 5) Actively invest in businesses and build partnerships To achieve sustained long-term growth, we will further enhance our business capabilities and promote "assertive management" through business investments and the strengthening of partnerships with close business partners. 6) Establish a team of professionals with outstanding skills To realize business growth strategies, we train and strengthen the team of professionals that will execute these strategies. We concentrate on creating a more powerful workforce that allows the Group to create sustainable corporate value.	Professional and Global (Human resources) A team of professionals with expertise, management capabilities and the ability to solve issues of users People with a global mindset who understand the distinctive characteristics and diversity of different regions of the world and have outstanding communication skills (Organization) A professional organization that can bring highly skilled individuals together and boost organizational capabilities A global organization that integrates domestic and overseas organizations together to reproduce the Hanwa model in overseas operations Resonant Management – Value Chain Optimization 1) Always close to the viewpoint of users ・Target problems and issues of users and create the best possible solutions. ・View users as suppliers and build mutually beneficial partnerships. 2) Diversification of business activities ・Create business variations that can meet new needs that emerge along the value chain. ・Embrace different cultures through M&A, global recruiting and other measures in order to preserve organizational flexibility that can realize the full potential of everyone. 3) Manage the group as a whole ・To make the entire group more profitable, create a framework for group companies with the proper balance between autonomy and control. ・To pursue earnings efficiently, streamline business domains among group companies and improve operations. 4) Strengthen management foundation ・Strengthen management foundation of the Group as a whole ・Strengthen corporate governance ・Maintain and strengthen risk management capabilities

Results	Sixth Period: Final fiscal year results	Seventh Period: Final fiscal year results	Target	Target comparison
Net sales	**¥1,511,324 million**	**¥1,511,800 million**	¥1,800,000 million	−16.0%
Ordinary income	**¥8,871 million**	**¥15,424 million**	¥15,000 million	+2.8%
Number of new customers acquired (cumulative)	**1,992 companies**	**2,075 companies**	2,000 companies	+3.8%
Special notes	・Total investment of ¥30.8 billion in Japan and overseas ・Establishment of new sales offices: Six offices in Japan and four offices overseas ・Enhancement of logistics functions: Distribution centers in Sakai and Kyushu ・Enhancement of processing centers: New bases (Mexico), Joint ventures (Wuhan)	・Total investment in Japan and overseas amounted to ¥46.8 billion and net investment accounted for ¥22.0 billion ・Establishment of new sales locations: Three branches in Japan and two offices overseas		

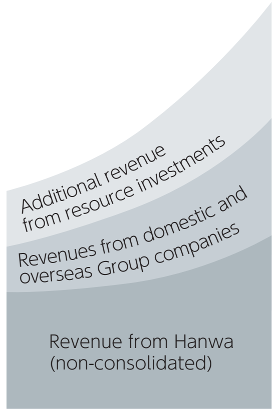
Period	Eighth Period FY2016 - FY2019
Theme	"Three S Commitment – STEADY, SPEEDY, STRATEGIC" Build a medium to long-term sustainable profit structure and a stronger management foundation
Basic policy	Taking over the concepts of the last Medium-Term Business Plan, we aim for sustainable growth based on the ideal state of business envisioned over the next decade. To this end, we aim to achieve STEADY growth from current business areas, realize SPEEDY generation of profits from Group companies and strategic investments, and accumulate earning capacity through the continuation of STRATEGIC investments with an eye toward the future.
Growth strategy	● STEADY : Secure and increase earnings from current business areas ● Eliminate the risk of losses in all business processes through HKQC (quality control using the Group's collective knowledge) activities. ● Increase cash flow generation capability by improving efficiency of purchase, inventory, sales and collection of payments ● SPEEDY : Speed up the realization of benefits from investments in group companies and strategic investments in Japan and overseas ● Enhance earnings power of the Group companies ● Secure prompt returns from current business investments that are performing well or have excellent prospects ● STRATEGIC : Secure future sources of additional earnings by continuing strategic investments of about ¥50.0 billion over four years ● Form flexible alliances through M&As or strategic investments in small and mid-sized companies. ● Create opportunities for strategic investments in food products, petroleum and chemicals and lumber business segments. ● Make strategic investments in natural resources with distinctive characteristics. ● Make carefully targeted strategic investments in Southeast Asia and North America.
Outline of measures	● Self-sustained growth - further enhancement of function ● Cultivation of current businesses ○ Promotion of the "SOKOKA" strategy ・Utilize "M&A plus A" to add partners with complementary functions ・Restructure inventory function of our centers ○ Upgrade and expand supply chain management ・Improve ability to meet customers' needs by upgrading coil center capabilities ・Increase ability to offer the best possible proposals for meeting user needs ● Chasing two hares to catch two hares ○ "Create another Hanwa in Southeast Asia" strategy ・Strong demand for steel, including demand for energy and housing due to population concentration in cities ・Expansion of supply chain within the local area ○ Strengthen our North American business ・Expectation of long-term economic growth in the United States ・Business expansion in North America, where we have room to develop markets ● Ensuring the diversity of our business - diversity of functions ● Constant diversified investments: rather than making sporadic large acquisitions, execute diversified investments ● Building an extensive alliance: expanding the Hanwa Group in a wide range of ways ● Balance of investment efficiency and profitability - maximizing return ● Compatibility of individual investment income with synergy and complementary factors: improving the overall profitability of the Group ● Sustainable investment: about ¥50.0 billion in four years ● Strengthen business foundation 1) Strengthen financial discipline and optimize capital structure 2) Strengthen group management framework 3) Upgrade information systems and strengthen ICT investments 4) Foster and allocate human resources in accordance with the business environment ● Active CSR activities mindful of ESG management 1) Build a recycling-based society and reduce environmental burden 2) Promote diversity as a management strategy for enhancing the Group ability 3) Promote social contribution in line with the growth of the Company 4) Strengthen and enrich the corporate governance system

Results	FY2018 results	Final year target
Net sales	**¥2,074,600 million**	¥2,200,000 million
Ordinary income	**¥23,395 million**	¥28,000 million
Number of new customers acquired (cumulative)	**2,023 companies**	2,700 companies
Special notes	・Total investment of ¥57.3 billion in Japan and overseas ・Establishment of new sales bases: Two bases in Japan and one base overseas	

Progress of the Eighth Medium-Term Business Plan

Progress of the "Three S" strategy

Under the Eighth Medium-Term Business Plan, we are promoting the "Three S" strategy. Specifically, the Group aims to 1) secure and increase earnings from current business areas (STEADY), 2) speed up the realization of benefits from investments in group companies and strategic investments in Japan and overseas (SPEEDY), 3) secure future sources of additional earnings by continuing strategic investments of about ¥50.0 billion in four years (STRATEGIC), in order to generate net sales of ¥2,200.0 billion and ordinary income ¥28.0 billion in the final fiscal year. Progress in the current fiscal year is as follows:



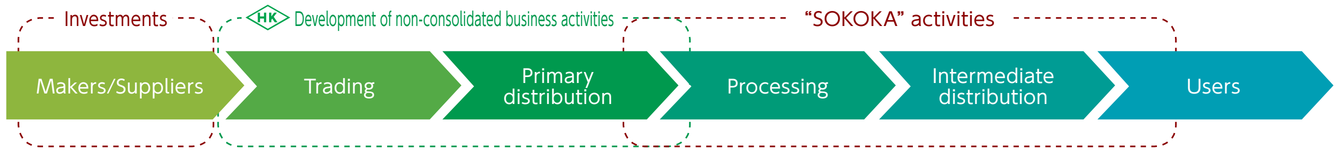
3S - Ordinary income	Target (FY2018)	Result (FY2018)	% of achievement (FY2018)	Target (FY2019)	FY2018 status
STRATEGIC Equity in earnings of affiliates from resource investees / Dividends from strategic investments	—	0	—%	¥0.5 billion	SAMANCOR, an equity-method affiliate, did not contribute to profit at this point due to the decline in the price of chromium and the start-up costs of establishing a subsidiary.
SPEEDY Ordinary income from consolidated subsidiaries + dividends from non-consolidated subsidiaries, etc.	¥6.0 billion	¥4.3 billion	73.3%	¥7.0 billion	The domestic "SOKOKA" business and overseas sales subsidiaries performed well. On the other hand, overseas coil centers have not achieved their targets due to the impact of foreign exchange losses caused by the depreciation of local currencies.
STEADY Non-consolidated ordinary income (after deducting dividend income from subsidiaries)	¥20.0 billion	¥18.8 billion	94.4%	¥20.5 billion	We significantly increased transaction revenue mainly in the metals and alloys business. On the other hand, due to strong demand for funds, interest expenses and foreign exchange losses had a negative effect on profits.
Total	¥26.0 billion	¥23.3 billion	89.6%	¥28.0 billion	

Priority measures 1 Strategy for growth of the value chain in Japan

As a domestic business strategy, we are promoting a "SOKOKA (Just-In-Time delivery, small lot sales, processing)" strategy to expand the functions required by the Company as a distribution specialist through the "M&A plus A" (Alliance) strategy. As a part of this, we have made capital participation in and alliances with small and mid-sized companies that have such functions and have been working to create a system that can respond to business areas that, until now, could not be addressed in terms of labor and cost.

In the current fiscal year, Sodensha Co., Ltd., which has an established reputation for processing residential foundation rebar units, was acquired and made into our subsidiary.

In addition, the Kita-Kanto Steel Center, which was newly established in Isesaki City, has enhanced its processing functions to meet the processing needs of the surrounding area.



NAKAYAMA STEEL WORKS, LTD.
Tokyo Kohtetsu Co., Ltd.

Distribution centers
- Narashino
- Sakai
- Nagoya (Tobishima)
- Sendai
- Tomakomai
- Chikushino

Steel center
- Isesaki

Hanwa Steel Service Ltd.
Hirouchi Atsuen Kogyo Co., Ltd.
OHMI SANGYO CO., LTD.

Tohan Steel Co., Ltd
Hokuriku Column Co., Ltd.
Daiko Sangyo Co., Ltd.
Metaltech Co., Ltd. IZUMO TEC Co., Ltd.
STAINLESS PIPE KOGYO Co., Ltd WING Co., Ltd.
Japanlife Co., Ltd. Sodensha Co., Ltd.

San Ei Metal Co., Ltd.
Matsuoka Kozai Co., Ltd.
Fukuoka Kogyo Co., Ltd.
Daisun Co., Ltd.
Matsuyama Shizai Co., Ltd. *1
Hiyoshi Kouzai Hanbai Co., Ltd. *1
KAMEI Co., Ltd.
SANYO KOUZAI Co., Ltd.
Santo Steel Co., Ltd. *2

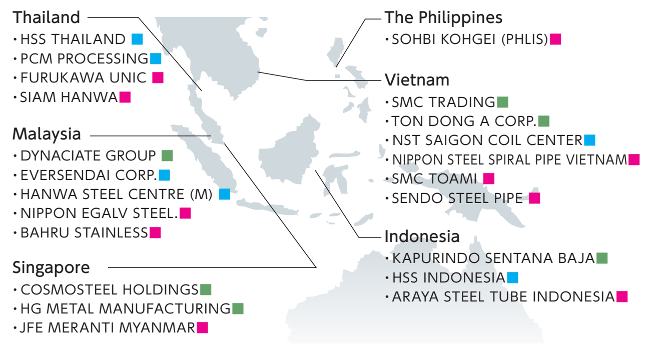
Daikoh Steel Co., Ltd. Taiyokozai Co., Ltd. Kaneki Co., Ltd.
Mie Kogyo Co., Ltd. Subaru Steel Co., Ltd.

*1 Matsuyama Shizai and Hiyoshi Kouzai Hanbai were merged to form MS Hiyoshi Kouzai on April 1, 2019.
*2 Acquired the business of Owano Shoten on April 1, 2019 and commenced business as Owano Shoten.

Priority measures 2 "Create another Hanwa in Southeast Asia" strategy

For our overseas business, we are promoting "Create another Hanwa in Southeast Asia" strategy. We are aiming to expand local transactions by reproducing functions represented by "SOKOKA" in ASEAN. Through alliances with leading local distributors and by promoting the entry into the markets together with other Japanese companies, We are able to grasp demand trends of each region. Also, by providing technical guidance to local affiliated processing manufacturers, we are working to build a network of steel bar processers and can manufacturing processers, such as those of pallets, to provide the same service level as that in Japan.

[Major alliance partners] ■Distributor ■Processer ■Manufacturer



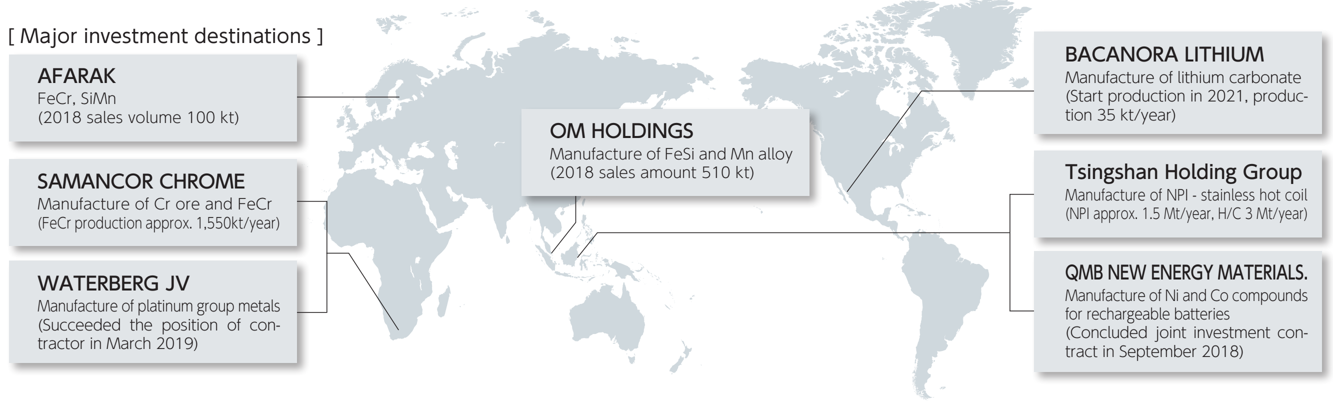
Priority measures 3 Strategic investments

We are making strategic investments in resource sectors with distinctive characteristics. South African SAMANCOR (an equity-method affiliate of the Company), one of the world' s leading chromium producers, did not make a profit contribution in the current fiscal year, but it is expected to make a consistent profit contribution in the future, along with the increasing oligopoly of chromium supply.

In addition, as a result of the accelerating business expansion of China' s leading stainless steel manufacturer Tsingshan Holding Group Co., Ltd. in Indonesia, our handling volume of stainless steel materials has been expanding steadily. We have also established a nickel-cobalt compound production company for rechargeable batteries in collaboration with the Tsingshan Holding Group and three other leading Chinese companies. We are moving forward with plant construction in Indonesia, aiming to start operations in 2020.

We will continue strategic investments in metal resources which, while have small market sizes, are essential for various industries but production is scarce in China, the largest demand area.

[Major investment destinations]



Priority measures 4 Business investments

Concerning investments to build up profits, we are actively sowing seeds for future source of profits, including the launch of comprehensive steel processing center with Daming International Holdings in China and the extension of the Kita-Kanto Steel Center, as well as the development of processing centers in Japan and overseas. The total amount of investment in the current fiscal year amounted to about ¥17.0 billion.

To ensure that these investments are linked to revenue growth, we will not only strengthen the measurement at the investment stage but also strengthen the monitoring after implementation.

[Major business investments in the current fiscal year]

	Total amount	Major investments
Steel	¥7.4 billion	・Launched comprehensive steel processing center with Daming International Holdings ・Extended Kita-Kanto Steel Center ・Invested in JFE MERANTI MYANMAR HOLDING ・Made additional investments in and acquired TATT GIAP STEEL CENTRE* as a subsidiary
Metals and alloys / non-ferrous metals	¥5.9 billion	・Invested in Waterberg Project JV ・Established an overseas subsidiary
Petroleum and chemicals	¥0.2 billion	・Invested in new energy business fields
Overseas sales subsidiaries	¥3.3 billion	・Increased capital of subsidiaries
Total	¥17.0 billion	

* Changed company name to HANWA STEEL CENTRE (M) SDN. BHD. in February 2019.

Corporate Governance

Basic Policy of Corporate Governance

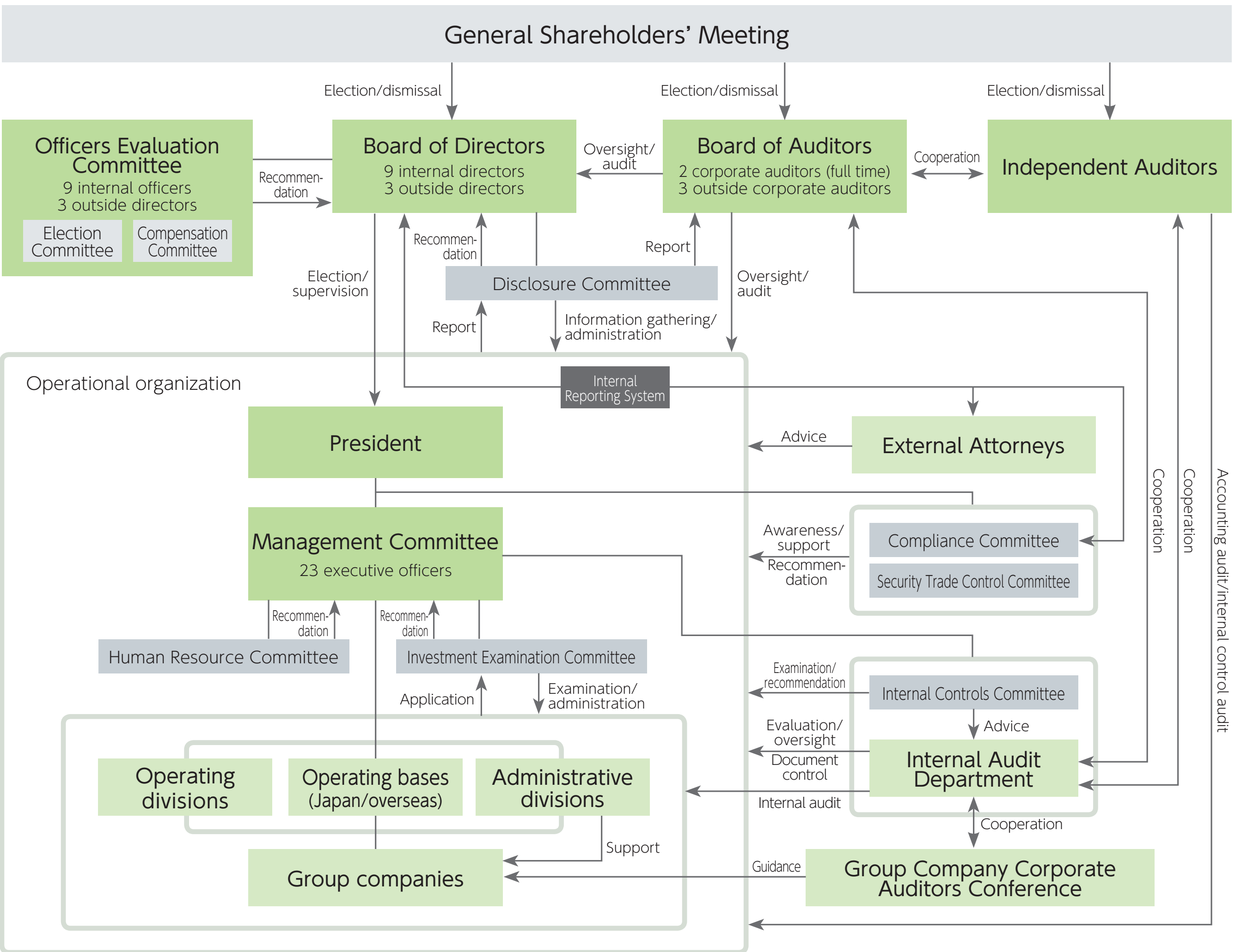
Basic approach to corporate governance

We aim to fulfill our social responsibilities as a good corporate citizen so that we can gain and retain respect from our stakeholders and be recognized as a valuable enterprise. We work to establish a high degree of transparency in management systems to ensure full legal and regulatory compliance and respect for social norms. In addition, to assertively promote corporate social responsibility (CSR) activities and make our corporate brand even more respected, we have established the CSR Committee and promote management initiatives with a focus on CSR.

Corporate governance structure

We have adopted a corporate auditors' system. We have expanded our business over the years across a wide range of business fields, while making optimal use of the high level of expertise we can offer as a "distribution specialist." Business matters of significance are discussed and decided at the Board of Directors meeting by our internal directors, who understand thoroughly our operations, and outside directors, who have a wide range of experience and a high degree of insight. We believe that the model we have adopted, in which a separate Board of Auditors (including outside corporate auditors) is set up to perform an audit and inspection, is the most appropriate for our company. In addition, we introduced an executive officer system to establish a system that enables more detail-oriented business operations and to promote quicker and more efficient decision-making.

[Corporate Governance Structure]



Directors and the Board of Directors

Composition of the Board of Directors

The Board of Directors consists of three outside directors and nine internal directors. In addition to the president, We have five directors in charge of the Steel business, one in charge of the Metals and Alloys business, one in charge of the Food, Petroleum and Chemical products business, and one in charge of the administrative divisions. Based on their wealth of knowledge and experience, they each oversee business administration and business execution. The term of office of each director is one year to respond flexibly to changes in the business environment.

Role of outside directors

Outside directors are expected to act as representatives for stakeholders, including shareholders. They are expected to evaluate and consider business decisions as well as the appropriateness of the execution of business from an objective point of view. Therefore, candidates with competence and experience suitable for this demanding position are selected.

Functions of the Board of Directors

In principle, the Board of Directors meetings are held once a month, and in addition to the matters stipulated in laws and regulations and the Articles of Incorporation, plan and execute important management operations for the Hanwa Group. Moreover, the Board of Directors receives reports on business execution from each director and is responsible for overseeing the execution of duties by the directors of the Hanwa Group.

Reasons for appointment of outside directors

Name	Independent officer	Reason for appointment	Attendance at the FY2018 Board of Directors meetings	Significant concurrent positions (As of June 21, 2019)
Ryuji Hori	○	Mr. Hori has extensive knowledge in legal affairs, cultivated through his many years of experience mainly in risk management at a general trading company, along with his experience as a university professor. The Company believes that he can provide supervision towards the Company's management decisions and business execution from a general and multilateral perspective; therefore he was appointed for the position of outside director.	16 out of 16 meetings	Outside Director, Riskmonster.com Outside Corporate Auditor, Lotte Co., Ltd.
Tatsuya Tejima	○	Mr. Tejima has extensive knowledge and business experience cultivated through many years of his career as an executive of a non-ferrous metal smelting company. He was appointed for the position of outside director because the Company believes that with his noble character and deep insight, he can provide supervision towards the Company's management decisions and business execution from a practical and objective standpoint.	12 out of 13 meetings (Since taking office in June 2018)	Outside Director, Furukawa Co., Ltd. Advisor, Toho Zinc Co., Ltd.
Kamezo Nakai	○	Mr. Nakai has extensive knowledge and abundant experience cultivated through his many years of corporate management in the securities industry and real estate industry. He was appointed for the position of outside director because the Company believes that he can provide supervision towards the Company's management decisions and business execution from a practical and multilateral perspective especially in finance and investment.	— (Assumed office in June 2019)	Outside Director, DSB Co., Ltd. Outside Director, BIC CAMERA INC.

Corporate Auditors and the Board of Auditors

Composition of the Board of Auditors

The Board of Auditors consists of three outside corporate auditors and two internal corporate auditors. Full-time corporate auditors, who are from within the Company, mainly attend the Management Committee to gather information related to the business management and explain to outside corporate auditors with their own perspectives to support the understanding of outside corporate auditors. They also hold meetings with management and express their opinions, as necessary.

Functions of the Board of Auditors

The corporate auditors and the Board of Auditors endeavor to make appropriate assessments from an independent and objective standpoint, and in order to do so, they work to monitor the Company by attending the Management Committee and the Board of Directors, conducting audits of the Group companies, conducting interviews with senior executives and sharing information regularly with the Internal Audit Department and an external independent auditor. In addition, the Board of Auditors places great importance on preventive audits of misconduct and strives to conduct not only legality audits but also validity audits. We have appointed three outside corporate auditors with a wealth of insights into corporate activities and they conduct appropriate business audits while maintaining their independence from the Board of Directors and express their opinions to the Board of Directors.

Reasons for appointment of outside corporate auditors

Name	Independent officer	Reason for appointment	Attendance in FY2018	Significant concurrent positions (As of June 21, 2019)
Yasuo Naide	○	Mr. Naide was appointed as a corporate auditor because he was judged to be able to utilize his extensive practical experience with heavy equipment manufacturers and his broad knowledge and experience gained through corporate management.	Board of Directors meeting 16 out of 16 meetings Board of Auditors meeting 16 out of 16 meetings	—
Katsunori Okubo	○	Mr. Okubo has expertise and extensive knowledge cultivated through his many years of business experience at a financial institution along with his considerable international experience. He was appointed as a corporate auditor because the Company believes that he can audit the Company's management from a global perspective.	Board of Directors meeting 16 out of 16 meetings Board of Auditors meeting 16 out of 16 meetings	—
Mitsuo Hirakata	○	In addition to having expertise and extensive knowledge gained through many years of involvement in the operations of financial institutions and construction companies, Mr. Hirakata also has management experience. He was appointed as a corporate auditor because it was judged that he could audit the management of the Company from a multifaceted perspective.	Board of Directors meeting 16 out of 16 meetings Board of Auditors meeting 16 out of 16 meetings	Outside Director, NIPPON STEEL KOWA REAL ESTATE CO., LTD.

Independence Standards for Outside Officers

When an outside officer (outside director and outside corporate auditor) of the Company does not fall under any of the following cases, he or she is judged independent from the Company.

(1) A major shareholder of the Company (meaning a shareholder who holds either directly or indirectly 10% or more of the total voting rights of the Company at the end of the most recent fiscal year), or an executing person thereof.

(2) A person belonging to or an executing person of a company of which the Company is a major shareholder (holding 10% or more of the total voting rights of the Company at the end of the most recent fiscal year).

(3) A major business partner of the Company (whose annual transactions with the Company exceed 2% of the consolidated net sales of the Company during the most recent fiscal year), or an executing person thereof.

(4) A major lender to the Company (whose outstanding loans to the Company at the end of the most recent fiscal year exceeds 2% of the consolidated total net assets of the Company), or an executing person thereof.

(5) A representative or an employee who belongs to the audit corporation that is the accounting auditor of the Company.

(6) A consultant, legal professional, certified public accountant, tax accountant, or other person providing a specialist service who received ¥10 million or more of monetary consideration nor other properties per year from the Company other than officer remuneration in the most recent fiscal year (referring to a person belonging to the organization if the one who received the relevant property is an organization such as a corporation or association.)

(7) A person who received the annual total of ¥10 million or more of donations or aid funds from the Company in the most recent fiscal year (referring to an executing person who belongs to the organization if the one who received the relevant donations or aid funds is an organization such as a corporation or association.)

(8) A person who falls under any of (1) to (7) above in the past three years.

(9) A person whose close relative falls under any of (1) to (8) above.

Notes: 1. An executing person refers to an executive director, executive officer, corporate officer, or staff executing business of an entity.
2. A close relative means a relative within the second degree of kinship.

Even if a person falls under any of the above criteria, such person may be elected as a candidate for independent outside officer if the person satisfies the requirements of an outside director or an outside corporate auditor under the Companies Act, has specialization and experience necessary in view of the Company's current situations and his/her knowledge and viewpoint are judged to be beneficial to the Company's management, on the condition that the Company provides explanations to shareholders of the reasons for its judgment and the fact that the person satisfies the requirements of an independent outside officer.

Role of the Officers Evaluation Committee

In order to strengthen the independence and objectivity of the Board of Directors, the Company has established an Officers Evaluation Committee, in which outside directors participate as an advisory body to the Board of Directors. The Officers Evaluation Committee includes an Election Committee, which is equivalent to a nominating committee, and a Compensation Committee, which is equivalent to a remuneration committee.

Election Committee	Based on the results of officer evaluations and employee performance evaluations, we consider the composition of executive officers for the next fiscal year, prepare a draft, and report it to the Board of Directors.
Compensation Committee	Based on the results of the comprehensive evaluation of each officer at the Officers Evaluation Committee, we compile a regular fixed salary plan, which is a monthly fixed remuneration, and report it to the Board of Directors.

Members of the Officers Evaluation Committee

Title	Name	Officers Evaluation Committee		
			Election Committee	Compensation Committee
Representative Director and President	Hironari Furukawa	Committee Chairperson	Chairman	Chairman
Director and Executive Vice President	Yasumichi Kato	○	○	○
Director and Senior Managing Executive Officer	Hidemi Nagashima	○	—	—
Director and Senior Managing Executive Officer	Yoichi Nakagawa	○	○	○
Director and Senior Managing Executive Officer	Yasuharu Kurata	○	—	—
Director and Senior Managing Executive Officer	Yasushi Hatanaka	○	—	—
Outside Director	Ryuji Hori	○	○	○
Outside Director	Tatsuya Tejima	○	○	○
Outside Director	Kamezo Nakai	○	○	○
Corporate Auditor (Full-time)	Hideo Kawanishi	○	○	○
Corporate Auditor (Full-time)	Akihiko Ogasawara	○	○	○
Executive Officer (In charge of personnel affairs)	Toshihiro Kawaguchi	○	—	○

Executive Compensation System

Process of compensation determination

Director's compensation is determined within the limits of the remuneration amount approved at the Ordinary General Shareholders Meeting.

With regard to individual compensation for directors and executive officers, the Officers Evaluation Committee, which is chaired by the president and composed of members including outside directors as advisory members, is held at least twice a year. Comprehensive evaluations are conducted, based on evaluations of the commitment from directors and executive officers and peer review by all directors and executive officers. A plan for a fixed amount periodical compensation as a regular salary plan is, based on the comprehensive evaluations by the Officers Evaluation Committee, reviewed by the Compensation Committee, which includes outside directors, and resolved by the Board of Directors. Regarding bonuses, we have adopted a performance-based compensation system that more clearly reflects the responsibility for the performance of the directors. The Board of Directors decides on the calculation rules for performance-based compensation for each fiscal year after reviewing the plan at the Officers Evaluation Committee and obtains the approval of the corporate auditors.

Corporate auditor's remuneration is determined by the Board of Auditors' discussion and within the limits of the amount of remuneration approved at the Ordinary General Shareholders Meeting.

Performance-based compensation system (FY2019)

a) The total amount of performance-based compensation paid to directors who execute duties shall be the amount produced by multiplying 1.5% by net income attributable to owners of the parent in the consolidated statements of income and comprehensive income (figures of less than ¥1 million are rounded down.) and not more than ¥250 million.
b) If net income attributable to owners of the parent is less than ¥3.0 billion, the performance-based compensation will not be paid.
c) The distribution of payments to each director shall be based on their title and position, and the pay distribution of compensation for each title and position is calculated by multiplying the total amount of performance-based compensation calculated in a) by the job position coefficient defined in d), and divided by the total of the coefficient of all directors who execute duties (figures of less than ¥100,000 are rounded down).
d) The coefficient for each title and position shall be: Chairman of the Board: 1.0, President: 1.0, Director and Executive Vice President: 0.9, Director and Senior Managing Executive Officer: 0.8, Director and Managing Executive Officer: 0.7, and Director and Executive Officer: 0.6.
e) The amount paid to each shall be: Chairman of the Board: ¥20 million, President: ¥20 million, Director and Executive Vice President: ¥18 million, Director and Senior Managing Executive Officer: ¥16 million, Director and Managing Executive Officer: ¥14 million, and Director and Executive Officer: ¥12 million.
f) Performance-based compensation shall not be paid to directors whose period of business execution does not reach half the term of the relevant fiscal period.
g) No performance-based compensation shall be paid to directors and corporate auditors who are not officers executing business.

Amount of executive compensation

Officer classification	Total amount of compensation (millions of yen)	Total amount of compensation by type (millions of yen)			Number of eligible officers
		Fixed amount periodical compensation	Performance-based compensation	Retirement benefits	
Directors (excluding outside directors)	619	447	172	—	13
Corporate Auditors (excluding outside corporate auditors)	49	49	—	—	3
Outside Officers	48	48	—	—	6

Management Committee

Structure and function of the Management Committee

It consists of all executive officers and meets twice a month as a rule. At the Management Committee, important issues related to the management decisions of the Group are submitted to the Board of Directors as agenda items, and as the highest body for business execution, it executes business in accordance with the management policy determined by the Board of Directors.

Internal Control

Internal control system

In order to improve corporate value through the appropriate and efficient implementation of business activities in compliance with laws and regulations and the Articles of Incorporation, the entire Group including its subsidiaries has established a basic policy related to the development and operation of an internal control system. We are working on the steady improvement and enhancement of internal control, after confirming the status of the operation.

Strengthening of the internal control system

We have established various committees related to internal control, as seen on the right, to enhance and improve the internal control system of the entire Group.

Internal Controls Committee	In addition to expressing opinions on "Internal Control Evaluation Report" and "Internal Control Report," which are prepared by the Internal Audit Department, the committee consisting of managerial staff who are general managers or higher in the administrative divisions, reviews various issues in the internal control of the Group and reports the results to the Management Committee.
Compliance Committee	The committee is chaired by a managing executive officer from the administrative divisions and is comprised of managerial staff who are general managers or higher in the administrative divisions. In addition to developing the Company's compliance system and maintaining and improving its effectiveness, the committee also raises awareness of and comprehensively manages issues concerning compliance with laws and regulations across the Group.
Security Trade Control Committee	This committee is chaired by an executive officer from the administrative divisions and is comprised of managerial staff who are section managers or higher in the administrative divisions and sales divisions. In order to appropriately and smoothly implement operations related to security trade control, the committee conducts company-wide management as well as plans and formulates internal education plans.
Investment Examination Committee	The committee is composed of managerial staff in the administrative divisions and is chaired by an executive officer or a corporate officer in the administrative divisions. The committee examines new business projects and investment and lending projects and provides opinions to the Management Committee and the Board of Directors.
CSR Committee	The committee is composed of managerial staff who are general managers or higher and the presidents of the Group companies and is chaired by a managing executive officer from the administrative divisions. The committee raises awareness of and comprehensively manages issues concerning CSR (corporate social responsibility) across the Hanwa Group.
Disclosure Committee	The committee is composed of managerial staff who are general managers or higher in the administrative divisions and is chaired by the person in charge of information management. By conducting timely and appropriate disclosure of management-related information, the committee aims to promote the understanding of all stakeholders, including shareholders, investors, and local communities.
Environmental Committee	The committee is composed of managerial staff who are general managers or higher and the presidents of the Group companies and is chaired by an executive officer in the administrative divisions. The committee has established a system to manage the environment and operates an environmental management system (EMS).

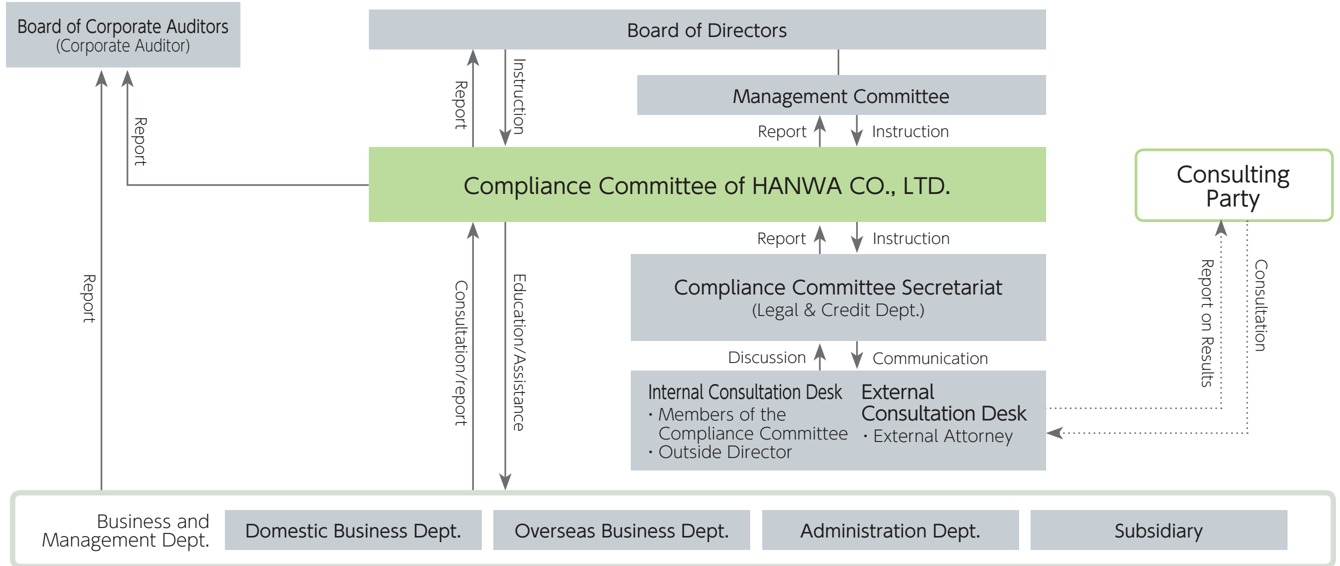
Compliance

In recent years, society is paying rigorous attention to corporate injustices, and news about corporate scandals have been emerging one after another. The Company is committed to ensuring that all officers and employees thoroughly adhere to compliance in their daily business activities, and to creating a corporate culture that is open to the public and with high ethical standards.

Basic stance

In order to embody the Corporate Ethics and Corporate Ethics Code of Conduct formulated based on the Company's creed, the Company promotes legitimate and fair corporate activities through various initiatives.

[Organization Chart of the Internal Compliance System]



Initiatives to ensure compliance

(1) Education of officers and employees

Since April 2006, the Company has created a compliance manual as a guideline to be observed by all officers and employees, and it has been prepared in various languages for all officers and employees of the Group around the world. This manual has been revised as necessary in line with changes in the environment and revisions in the law, and the fifth edition was issued on April 1, 2019. In addition, the Compliance Committee, whose members consist of managerial staff who are general managers or higher in the administrative divisions, is held regularly. The administrative divisions such as the Personnel Department and the Legal & Credit Department work together to improve the compliance awareness of each individual employee by conducting training for new employees and managers.

(2) Strengthening of the organization

The Company started its operation of HKQC (Hanwa Knowledge Quality Control) in 2015 and is working to further bolster management of a wide range of risks, including violations of laws and regulations related to Company's business operations.

(3) Responding to social change

On April 1, 2018, the Company established the "Hanwa Health and Productivity Management Declaration" and the Representative Director and President himself became the CHO (Chief Health Officer), establishing the Health and Productivity Management Office within the Personnel Department. This initiative shows the Company' s commitment to promoting the health of each and every one of the officers and employees, a basic foundation of a trading company, and its aim to create a worker-friendly environment for all officers and employees. It is also an initiative responding to the enforcement of laws related to work style reform. In this way, if there are any revisions to laws and regulations related to corporate activities, we will promptly respond to such revisions and ensure compliance with them.

(4) Consultation Desk

The Company has established multiple internal consultation desks to enable all officers and employees of the Hanwa Group to freely consult and report on compliance issues, as well as an external consultation desk supported by law firms. We have also established dedicated consultation desks for various types of harassment and so forth, which are making headlines in recent times. By establishing a number of consultation desks that are independent from the management, all Group officers and employees can feel free to consult on any matter without having to take it all on themselves. In addition, information and consultation contact points for external parties, including business partners, are provided on the Company' s website.

By enhancing these consultation points, we work to identify and resolve problems at an early stage.

Risk Management

Basic stance

As the Group operates a wide range of businesses around the world, it is exposed to a variety of risks. In order to prevent the occurrence of risks and to reduce the risks that occur, we have chosen departments to respond to each of these risks and developed various regulations and manuals.

Personal information protection policy

The Company regards the appropriate management of personal information as part of its corporate social responsibility, and for purpose of preventing the leakage or unauthorized use of personal information, the Company has established the Information Management Regulations and the Personal Information Protection Manual and has thoroughly conducted education to the officers and employees.

Crisis management measures

The Company has established the Crisis Management Manual to prepare against serious crisis that could cause serious damage to the Company's assets and the implementation of operations, as well as damage to officers and employees of our domestic and overseas companies and the Group companies as well as the safety of their families. In addition, all divisions of the Company have established the Business Continuity Plan (BCP) Manual for Large Scale Disasters and have set up a business continuity plan in the event of a major disaster. In the event of a crisis, we work to minimize the damage, ensure the safety of our officers and employees and their families, and establish a system necessary for the continuation and early resumption of core businesses.

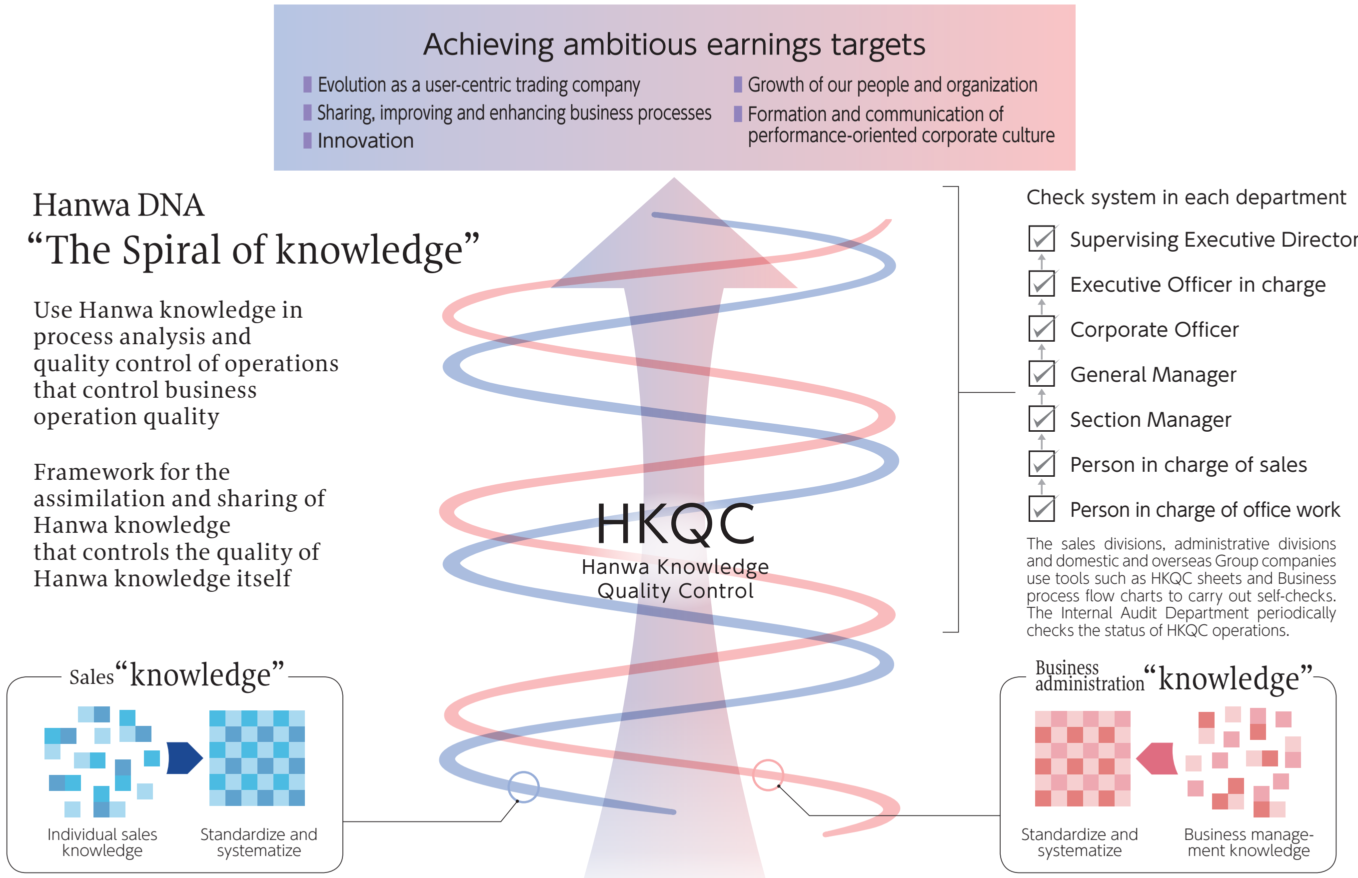
Quality control

In recent years, the social impact of quality defects has been increasing, requiring companies, including trading companies, to pay more attention to quality management. In this context, in April 2018, the Company established the Quality, Safety & Environment Control Department to strengthen the quality control system of the Company and its partner companies.

Feature

HKQC Initiatives

HKQC (Hanwa Knowledge Quality Control) is a unique activity aimed at passing on and developing the knowledge of the Hanwa Group.



Understanding HKQC

HKQC (Hanwa Knowledge Quality Control) is a program unique to the Hanwa Group. It aims to improve the quality of our operations by using the Group's accumulated collective wisdom for more thorough risk analysis and process control, and to pass the wisdom of the Group down and develop it further.

As part of HKQC initiatives, we conducted interviews in each division and prepared the "Integrated HKQC/RCM Version," which combines our business process flow chart with the previously existing Risk Control Matrix (RCM). Losses occur when checks do not function. We are preventing this kind of loss and raising profitability by making business process flows more visible and sharing that information.

Each year since FY2016, the Hanwa Group has held HKQC Events in which all employees, including temporary workers, participate. The purpose of these events is to raise awareness of HKQC and share sales and business administration knowledge. Knowledge of all types is shared at HKQC Events to improve work processes. For example, participants confirm business process flows, and individual divisions share case studies of close calls they have experienced and suggest ways to make business processes more efficient. HKQC Events have become firmly established throughout the Hanwa Group as an opportunity to form and transmit a results-oriented corporate culture. Individual Group companies, for example, independently hold their own HKQC Events as a way to pass down this Group culture, including the HKQC spirit.

Our Management Team

(As of June 21, 2019) *Number of shares (as of March 31, 2019)

Directors

Hironari Furukawa

Representative Director and President
*28,153 shares

March 1969 Joined the Company
April 1996 Executive Vice President of Hanwa Co., (Hong Kong) Ltd. and Vice General Manager of Asian Region (China & Hong Kong)
June 1997 Appointed Director
April 2011 Appointed Representative Director and President (current position)

Yasushi Hatanaka

Director and Senior Managing Executive Officer
*5,052 shares

April 1983 Joined the Company
August 2012 Appointed Corporate Officer In charge of Osaka HQ Steel Sheets Dept. 1, Steel Sheets Dept. 2, Steel Sheets Dept. 3 and Steel Processing Project Promote Team, Assistant to Director in charge of Tokyo HQ Steel Sheet International and General Manager of Osaka HQ Steel Sheets Dept. 3
June 2014 Appointed Director and Executive Officer
April 2019 Appointed Director and Senior Managing Executive Officer (current position)

Yasumichi Kato

Director and Executive Vice President
*24,521 shares

April 1978 Joined the Company
April 2009 Appointed Corporate Officer In charge of Osaka HQ Steel Plates, Structural Steel Sheets and Steel Sheets Sales
June 2010 Appointed Director
April 2019 Appointed Director and Executive Vice President (current position)

Yoichi Sasayama

Director and Managing Executive Officer
*1,220 shares

April 1984 Joined the Company
April 2012 Appointed Corporate Officer In charge of Tokyo HQ Steel Sheets, and General Manager of Steel Sheets Dept.
June 2017 Appointed Director and Managing Executive Officer (current position)

Hidemi Nagashima

Director and Senior Managing Executive Officer
*9,967 shares

April 1983 Joined the Company
April 2011 Appointed Corporate Officer In charge of Tokyo HQ Steel Plates, Steel Sheets Sales, Structural Steel Sheets Dept. 1, Structural Steel Sheets Dept. 2, and Hokkaido Branch Office
June 2015 Appointed Director and Executive Officer
April 2017 Appointed Director and Senior Managing Executive Officer (current position)

Chiro Ideriha

Director and Managing Executive Officer
*8,298 shares

April 1984 Joined the Company
April 2010 Appointed Corporate Officer In charge of Non-ferrous Metals and Special Metals & Alloys
June 2017 Appointed Director and Executive Officer
April 2018 Appointed Director and Managing Executive Officer (current position)

Yoichi Nakagawa

Director and Senior Managing Executive Officer
*4,501 shares

April 1986 Joined the Company
April 2013 Appointed Corporate Officer In charge of Accounting and Affiliated Enterprises, and General Manager of Accounting Dept. and Affiliated Enterprises Dept.
June 2015 Appointed Director and Executive Officer
April 2017 Appointed Director and Senior Managing Executive Officer (current position)

Takatoshi Kuchiishi

Director and Managing Executive Officer
*8,999 shares

April 1981 Joined the Company
April 2010 Appointed Corporate Officer In charge of Tokyo HQ Steel Bars & Construction Materials Dept.1, Dept.2, Ferrous Raw Materials, Steel Structure Marketing, Distributor Sales, Tohoku Branch Office, Niigata Branch Office, Kitakanto Branch Office, and in charge of Promotion and Coordination for Steel Structure business of all offices
June 2010 Appointed Director
June 2014 Appointed Executive Officer
June 2018 Appointed Director and Managing Executive Officer (current position)

Yasuharu Kurata

Director and Senior Managing Executive Officer
*1,600 shares

April 1982 Joined the Company
April 2011 Appointed Corporate Officer General Manager of Asian Region (ASEAN, India, Middle East) In charge of Departments excluding Steel and Machinery and Chairman of HANWA SINGAPORE (PRIVATE) LTD.
June 2016 Appointed Director and Managing Executive Officer
April 2017 Appointed Director and Senior Managing Executive Officer (current position)

Directors

Ryuji Hori Independent Officer

Outside Director
*940 shares

April 1966 Joined Iwai Sangyo Company Ltd. (currently Sojitz Corporation)
June 1996 Appointed Director of Nissho Iwai Corporation (currently Sojitz Corporation)
June 2000 Appointed Managing Director of Nissho Iwai Corporation
June 2002 Appointed Senior Managing Executive Officer of Nissho Iwai Corporation (Retired from the position in March 2003)
April 2003 Professor, School of Law, Waseda University
April 2004 Professor, Waseda Law School, Waseda University (Retired from the position in March 2014)
June 2005 Appointed Audit & Supervisory Board Member (External Auditor) of Tokuyama Corporation (Retired from the position in June 2017)
June 2011 Appointed Outside Director of Riskmonster.com (current position)
June 2012 Appointed Outside Director of T&D Holdings, Inc. (Retired from the position in June 2018)
April 2013 Managing Director and Principal of Waseda Osaka Gakuen (Retired from the position in December 2018)
April 2014 Advisor of TMI Associates (current position)
Professor Emeritus Waseda University (current position)
June 2014 Appointed Director of the Company (current position)
May 2016 Appointed Outside Director of NISHIKI Co., LTD. (current position)
June 2018 Appointed Outside Corporate Auditor of Lotte Co., Ltd. (current position)

Kamezo Nakai Independent Officer

Outside Director
* — shares

April 1974 Joined Nomura Securities Co., Ltd. (currently Nomura Holdings, Inc.)
June 1995 Appointed Director of Nomura Securities Co., Ltd.
April 1999 Appointed Managing Director of Nomura Securities Co., Ltd
April 2003 Appointed Director and Senior Managing Executive Officer of Nomura Asset Management Co., Ltd.
June 2003 Appointed Senior Managing Executive Officer of Nomura Asset Management Co., Ltd.
Executive Managing Director of Nomura Holdings, Inc. (Retired from the position in March 2006)
April 2008 Appointed Advisor of Nomura Asset Management Co., Ltd. (Retired from the position in March 2009)
June 2009 Appointed Director and President (Representative Director) of Nomura Land and Building Co., Ltd. (Retired from the position in March 2012)
June 2011 Appointed Director and President (Representative Director) of Nomura Real Estate Holdings, Inc
February 2012 Appointed Director and Executive Officer of Nomura Real Estate Development Co., Ltd.
April 2012 Appointed Director and President (Representative Director), Chief Executive Officer of Nomura Real Estate Development Co., Ltd.
May 2012 Appointed Director and President (Representative Director) and Chief Executive Officer of Nomura Real Estate Holdings, Inc.
April 2015 Appointed Chairman of the Board of Directors (Representative Director) of Nomura Real Estate Development Co., Ltd.
June 2015 Appointed Chairman of the Board of Directors (Representative Director) of Nomura Real Estate Holdings, Inc. (Retired from the position in June 2017)
April 2017 Appointed Director of Nomura Real Estate Development Co., Ltd. (Retired from the position in June 2017)
June 2017 Appointed Senior Advisor of Nomura Real Estate Development Co., Ltd. (current position)
Appointed Outside Director of DSB Co., Ltd. (current position)
November 2018 Appointed Outside Director of BIC CAMERA INC. (current position)
June 2019 Appointed Director of the Company (current position)

Tatsuya Tejima Independent Officer

Outside Director
*391 shares

April 1969 Joined Toho Zinc Co., Ltd.
June 1999 Appointed Director of Toho Zinc Co., Ltd.
June 2000 Appointed Executive Officer of Toho Zinc Co., Ltd.
January 2002 Appointed Managing Executive Officer of Toho Zinc Co., Ltd.
June 2002 Appointed Managing Director and Managing Executive Officer of Toho Zinc Co., Ltd.
June 2003 Appointed Representative Director and Managing Director, and Managing Executive Officer of Toho Zinc Co., Ltd.
June 2005 Appointed Representative Director and Senior Managing Director, and Senior Managing Executive Officer of Toho Zinc Co., Ltd.
June 2006 Appointed Representative Director and President, and COO of Toho Zinc Co., Ltd.
June 2008 Appointed Representative Director and President of Toho Zinc Co., Ltd. (Retired from the position in June 2017)
June 2017 Appointed Advisor of Toho Zinc Co., Ltd. (current position)
Appointed Outside Director of Furukawa Co., Ltd. (current position)
June 2018 Appointed Director of the Company (current position)

Our Management Team

(As of June 21, 2019) *Number of shares (as of March 31, 2019)

Corporate Auditors

Hideo Kawanishi

Corporate Auditor (full-time)
*22,618 shares

April	1973	Joined the Company
April	2005	Appointed Corporate Officer In charge of Osaka HQ Steel Plates, Steel Sheets Sales and Structural Steel Sheets
June	2005	Appointed Director
June	2017	Appointed Corporate Auditor (full-time) (current position)

Yasuo Naide Independent Officer

Outside Corporate Auditor
*48,200 shares

April	1971	Joined Sumitomo Heavy Industries, Ltd.
June	2001	Appointed Senior Vice President of Sumitomo Heavy Industries, Ltd.
June	2003	Appointed Executive Vice President of Sumitomo Heavy Industries, Ltd. (Retired from the position in March 2007)
December	2006	Appointed Representative Director and President of Sumitomo Heavy Industries Environment Co., Ltd. (Retired from the position in March 2010)
April	2010	Appointed Representative Director and President of Sumitomo Heavy Industries Business Associates Co., Ltd. (Retired from the position in March 2012)
June	2012	Appointed Corporate Auditor of the Company (current position)

Akihiko Ogasawara

Corporate Auditor (full-time)
*9,673 shares

April	1976	Joined the Company
April	2006	Appointed Corporate Officer In charge of Non-ferrous Metals, Metals & Alloys and Special Metals & Alloys and General Manager of Metals and Alloys Dept.
June	2006	Appointed Director
June	2018	Appointed Corporate Auditor (full-time) (current position)

Katsunori Okubo Independent Officer

Outside Corporate Auditor
* — shares

April	1978	Joined Sumitomo Bank (currently Sumitomo Mitsui Banking Corporation(SMBC))
April	2006	Appointed Executive Officer of SMBC
April	2010	Appointed Managing Executive Officer of SMBC (Retired from the position in April 2013)
May	2013	Appointed Advisor of SMBC (Retired from the position in August 2018)
June	2014	Appointed Corporate Auditor of the Company (current position)

Mitsuo Hirakata Independent Officer

Outside Corporate Auditor
* — shares

April	1977	Joined The Industrial Bank of Japan, Limited (currently Mizuho Bank, Ltd.)
April	2002	Appointed General Manager, Portfolio Management Dept. of Mizuho Corporate Bank, Ltd. (currently Mizuho Bank, Ltd.)
March	2006	Appointed Corporate Auditor (full-time) of Mizuho Corporate Bank, Ltd. (Retired from the position in April 2009)
April	2009	Appointed Managing Executive Officer of Mizuho Securities Co., Ltd. (Retired from the position in April 2012)
June	2012	Appointed Corporate Auditor (full-time) of TOYO CONSTRUCTION CO., LTD. (Retired from the position in June 2015)
September	2015	Appointed Representative Director and President of Tokyo Bay Hilton Co., Ltd. (Retired from the position in March 2018)
June	2016	Appointed Corporate Auditor of the Company (current position)
June	2018	Appointed Outside Director of Shin Nippon Steel Kowa Real Estate Co., Ltd. (currently Nippon Steel Kowa Real Estate Co., Ltd.) (current position)

Executive Officers

President

Hironari Furukawa

Executive Vice President

Yasumichi Kato
In charge of overall Steel Division and Lumber & Plywood Division

Senior Managing Executive Officers

Hidemi Nagashima
In charge of Tokyo HQ Steel Plates & Sheets Division, Hokkaido Branch Office, Tohoku Branch Office, Niigata Branch Office, Kitakanto Branch Office

Yoichi Nakagawa
In charge of Metal Recycling Division and Primary Metal Division and in charge of overall administrations and Machinery Division

Yasuharu Kurata
In charge of Energy Division, Food Division and in charge of Hedging Administration Office

Hiromasa Yamamoto
General Representative for Asia

Yasushi Hatanaka
Senior General Manager of Osaka Head Office
In charge of Osaka HQ Steel Bars & Construction Materials Division, Osaka HQ Steel Plates & Sheets Division, Steel Processing Project Promote, Kyushu Branch Office, Chugoku Branch Office, Hokuriku Branch Office

Managing Executive Officers

Yoichi Sasayama
General Manager of Nagoya Branch Office

Chiro Ideriha
In charge of Metal Recycling Division and Primary Metal Division and in charge of Hedging Administration Office

Takatoshi Kuchiishi
In charge of Tokyo HQ Steel Bars & Construction Materials Division, Steel Structure Marketing Division of all offices, Ferrous Raw Materials Division of all offices, Tokyo HQ Thermal-insulation Construction Dept. and in charge of Hokkaido Branch Office, Tohoku Branch Office, Kitakanto Branch Office

Keiji Matsubara
In charge of International Trade Dept.1, Dept.2, Trade Administration Dept., Wire Products & Special Steel Division of all offices

Ryuichi Takaba
General Representative for Americas and President of HANWA AMERICAN CORP. and Representative of Chicago Branch Office

Executive Officers

Isao Kimizu
In charge of Osaka HQ Steel Bars & Construction Materials Dept., Western Japan Steel Bars & Construction Materials Division, Osaka HQ Ferrous Raw Materials Division, Hokuriku Branch Office

Hideo Kobayashi
In charge of Osaka HQ Structural Steel Sheets Dept.1, Dept.2, Steel Sheets Sales Dept., Steel Plates Dept., Stainless Steel & Aluminum Sheet Dept., Western Japan Steel Sheets Division

Yoshimasa Ikeda
In charge of Legal & Credit Dept., Information System Dept., Quality, Safety & Environment Control Dept.

Yoshifumi Miyano
In charge of Energy Division, Food Division

Toshihiro Kawaguchi
In charge of Personnel Dept., General Affairs Dept., Accounting Dept., Finance Dept.

Hideki Kataoka
In charge of Lumber & Plywood Division and Machinery Dept.

Shoji Shirasawa
In charge of Asia (ASEAN, India, Middle East) except for Steel Division and Machinery Division and Chairman of HANWA SINGAPORE (PRIVATE) LTD.

Yukiaki Takada
In charge of Asia (ASEAN, India, Middle East) for Steel Division and Machinery Division and Chairman of PT.HANWA INDONESIA

Takeshi Amano
In charge of Metal Recycling Division and Primary Metal Division

Masahiko Fujitsuka
General Representative for China, Chairman and President of HANWA TRADING (SHANGHAI) CO., LTD., Chairman of HANWA (QINDAO) CO., LTD., Chairman of HANWA (DALIAN) CO., LTD., Chairman of RI HONG STAINLESS (SHANGHAI) CO.,LTD.

Shigeto Minamimura
In charge of Steel Structure Marketing Division of all offices, Tokyo HQ Steel Bars & Construction Materials Dept.2, Thermal-insulation Construction Dept., Niigata Branch Office

Human Resource Strategy

Basic Ideas on Human Resources

Jiro Kita, the founder of our company, believes that “trading companies have to cherish its Human resource” and has developed businesses believing that “the prosperity of a company and the welfare of employees are inseparable like the two halves of the whole.” Seventy years have passed since establishment, but this philosophy still remains as the basis of our Company’s approach to human resources.

Undergoing the changing social environment in the world, arranging personnel systems and welfare systems to create an ideal workplace is crucial to enlarge our business.

Our company’s employees mainly comprised of new-recruit male general workers and female office workers. However, to adapt to the wide variety of human talent, mid-career employees, employees of foreign nationality, and applying positions regardless of gender play a more active role. By reflecting the voices of our employees, Hanwa will continually improve working conditions.

With regard to human resources development, we have adopted the keyword “Professional & Global” (= “P&G”). While other major trading companies shift their revenue source from the trading business to the investment business, we continue to focus on trading. In order to cultivate employees who think and act on their own to create business, we have prepared the necessary training and challenging opportunities.

message

Toshihiro Kawaguchi
Executive Officer
In charge of the Personnel Dept., General Affairs Dept., Accounting Dept., Finance Dept.

“A message from the Personnel Executive Officer

Development of “Professional & Global” Talent”

Employees of Hanwa are highly motivated with a strong sense of responsibility to their work, and are inquisitive about the industry. Expanding their specialized sphere of knowledge has long helped employees develop a variety of businesses. In the past, such culture led to long working hours and affected the employees’ health.

However, today, many employees do not have this Japanese conventional way of thinking. We are seeing an increase in the number of employees who have time constraints, such as short-time working employees who have returned after childcare leave, and employees of foreign nationality. Henceforth, we will implement company-wide measures to improve working styles, including the encouragement for employees to take paid leave, reduction of overtime hours, as well as measures to maintain employee health.

Due to the management strategy of “M&A plus A,” the number of group company has increased not only in Japan but overseas. Proving the urgent need to develop management personnel who will manage group companies. In addition, as the number of employees near retirement is increasing, it is also necessary to develop nextgeneration employees. Under the concept of “P&G,” cultivation of employees who can play an active role in Japan and overseas, and expansion of their specialized sphere of knowledge is necessary. We will regularly perform personnel changes to prepare opportunities for employees to accumulate a variety of experience. Ultimately, leading to the development of future management personnel.

Creating a Worker-friendly Environment

Building a worker-friendly environment and condition leads to high performance.

Examples include the revision of our welfare programs, such as housing allowance and maternity allowance. Our employees also submit a declaration form once a year and various requests are brought to light. In addition, since FY2019, we have set a “suggestion box” which allows employees to express their opinions to the personnel department at any time, also resulting in a variety of requests coming to light. Based on such opinions, we plan to improve our personnel and welfare systems.

For employees who have difficulty in commuting due to disabilities etc., we allow them to work from home whenever necessary. In the future, we plan to improve the working environment by reviewing work operations so that all employees can work from home or telecommute.

In addition, we plan to establish a flexible work system and utilize RPA and AI to reduce overwork.

Promotion of Diversity

Promotion of Women’s Participation and Advancement in the Workplace

We have renewed a two-year action plan (April 1, 2018 to March 31, 2020) promote women’s participation and advancement with a view to obtain the Eruboshi Certification. In order to increase the number of female executives from within the company, we are committed to increasing the number of female managers and general employees. In addition, from November 2018 to February 2019, we conducted a total of 17 training sessions for all female employees to familiarize our action plan and to further improve their working environment. We conducted questionnaire surveys for each job group, age group, and region, and provided feedback multiple times with the aim to create a working environment where employees can continue to work while maintaining a high level of motivation.

Employment of people with disabilities

The statutory employment rate of people with disabilities has risen to 2.2% from April 2018. Currently, 35 people with disabilities are working to attain the statutory employment rate. Though low retention rate of people with disabilities are considered as a concern. We are conscious of creating a workplace which allows them to work with a peace of mind for a long period. We have a consulting contract with a company specialized in the employment of people with disabilities and have arranged consulting sessions on a monthly basis with people with disabilities to discuss their various concerns. We are also making efforts to provide a flexible work style that matches personal circumstances. For example, we have recruited three people with disabilities work-from-home employees in Kochi Prefecture. Their main job is to input data via PC. Every morning, team members actively communicate, checking in with each others health conditions. By communicating, they learn about the characteristic of one-another and lead to working as a team, bringing them joy. This effort also contributes to the job creation in rural areas.

Education of Human Resources

The concept underlying our Human Resources Education is the development of “P&G” resources.

“P” is the acronym of Professional and refers to the ability to solve user’s problems with a high level of expertise and management skill. “G” is for Global. This not only refers to human resources who communicate with the understanding of the uniqueness and the diversity of each region of the world, but also includes human resources who have an open-mind.

In order to develop “P&G” talent who are suitable for the aptitude and job requirements of each level, we are conducting personnel assignment and group OJT and OFF-JT training. In addition, always keeping our eyes on the social demand, we actively incorporate various trainings.

We believe that the continuous self-improvement of employees is an extremely important requirement for “P&G” talent. Employees constantly striving for self-development foster an “organization of continued learning.”

Health and Productivity Management

Hanwa views employee health management from a managerial perspective, and the company, employees and Hanwa Health Insurance Society work together to promote the health of the employees and their families. On April 1, 2018, the Company established the "Hanwa Health and Productivity Management Declaration," and the Representative Director and President Hironari Furukawa became the CHO (Chief Health Officer) and established the Health and Productivity Management Office within the Personnel Department.

We have employed a public health nurse, and intend to work on promoting the health of employees by collaborating with the Health Insurance Society and our occupational physicians.

With the establishment of HANWA HEALTH PLAN 2020, which outlines the goals for health and productivity management, the Company has set numerical targets for health promotion activities, such as disease prevention, severity prevention, and promotion of mental health care.

In addition, as a specific activity, we hold health improvement seminars by our public health nurse and also provide training to department managers to give feedback on the divisional analysis results of stress conditions of each department.

Going forward, we will continue to promote measures to promote the creation of an environment where all employees can continue to be healthy, both physically and mentally.

Coexistence with Society

Initiatives for Local Communities

The Company and its group companies conduct a variety of activities as "a corporation which responds to the expectations of society" and as good corporate citizens, to contribute broadly to the international community and local community.

Disaster support, international contribution and protection of the natural environment

The Company and its Group companies provide relief for domestic and foreign disasters and international support through donations to Keidanren (Japan Business Federation); Kankeiren (Kansai Economic Federation); the Tokyo and Osaka Chambers of Commerce and Industry; Japan Foreign Trade Council, Inc.; the Japanese Red Cross Society; and other organizations. In addition, we participate in international social contribution activities by joining the Action for a Better International Community (ABIC) to provide economic assistance for developing countries, support for foreign companies in Japan, and support for international students living in Japan. In addition, we support the arts, sports, and cultural activities in Japan through donation.

[Support for the arts, sports, education, and cultural activities]

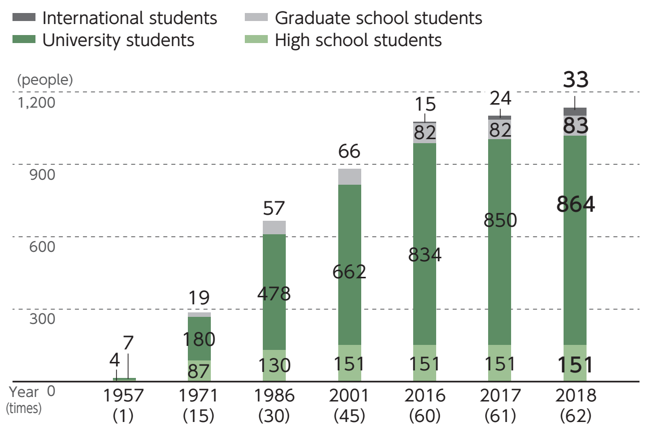
- Japanese Foundation For Cancer Research Project (upgrading cancer treatment facilities and improving cancer diagnostic services)
- Meieki Takigi Noh -outdoor firelight Noh (Executive Committee of Meieki Takigi Noh)
- Japan Symphony Foundation
- New Japan Philharmonic
- Japan Philharmonic Orchestra
- Sports Promotion Fund
- Kizuna Koshien Baseball Tournament
- All Japan Judo Federation
- Nagoya Philharmonic Orchestra
- OSAKA 2020 Dream Program

Hanwa Scholarship Foundation

Hanwa Scholarship Foundation was established in April 1957 to commemorate the 10th anniversary of the foundation of Hanwa Co., Ltd. The founder, Jiro Kita, recalling his own tough experience of learning, wished to develop talented human resources for Japanese society, and has been able to provide support to more than 1,100 scholarship students up to now. In 2015, we established a one-million-yen-per-person scholarship program for ambitious young people who are eager to study abroad to become talented people capable of competing internationally on a global level.

Hanwa Scholarship Foundation continues to develop its business by utilizing its unique characteristics as a private-sector scholarship foundation, so that young people who will lead the next generation can play an active role in society.

Cumulative number of scholarships up to FY2018



Environmental Management

The basic policy of the Hanwa Environmental Policy is that the Company strives "to realize sustainable development to pass on a rich global environment to the next generation." To that end, each employee works conscientiously, in the belief that by setting and achieving targets that improve our business results, we ultimately reduce our environmental footprint.

(Revised May 31, 2016)

The Environmental Policy of Hanwa Co., Ltd.

Basic policy

Living by our motto of "Footwork, Teamwork and Network" and our ongoing efforts to improve operations under the principles of Hanwa Knowledge Quality Control (HKQC), Hanwa Co., Ltd. and Hanwa Group companies—in our position as a trading company that makes a difference through our business activities—will do our utmost to attain sustainable development so that future generations will inherit a fertile global environment.

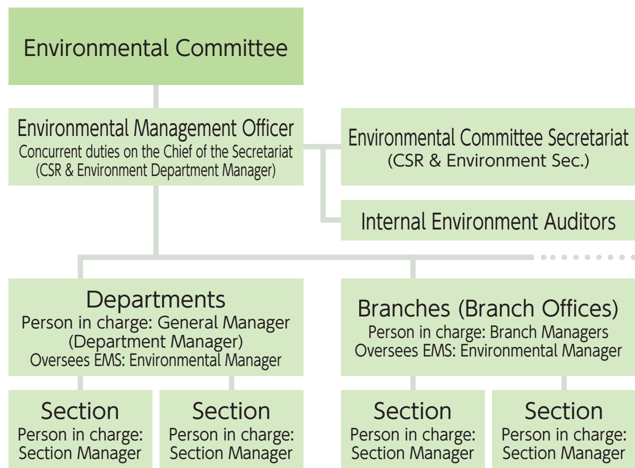
Guidelines for corporate action

1. Continuous improvement of the environmental management system.
   Hanwa Co., Ltd. will implement and review its environmental objectives and goals based on this environmental policy, and operate and continually improve the environmental management system.
2. Compliance with relevant environmental laws and regulations.
   Hanwa Co., Ltd. will comply with relevant environmental international treaties, laws and regulations of Japan and related countries, and other agreements and requirements, etc. of the trade industry which Hanwa Co., Ltd. agrees to obey.
3. Contribution to a sustainable recycling system for an economic society.
   By actively engaging in the recycling business etc., Hanwa Co., Ltd., will contribute to the realization of a sustainable recycling system for an economic society.
4. The effective use of natural resources and energy.
   Hanwa Co., Ltd. will give careful consideration to the preservation of the global environment and make use of resources and energy effectively.
5. Consideration of the natural environment.
   In addition to always considering the reduction of adverse environment impacts and making every effort to prevent pollution, Hanwa Co., Ltd. recognizes the critical importance of the conservation and sustainable use of biodiversity and will always take the natural environment into consideration.
6. Promotion of environmental awareness.
   Hanwa Co., Ltd. will inform all employees of this policy and actively encourage them to recognize the importance of environmental preservation. This environmental policy will also be made available to the public.

Environmental Management System (EMS)

We put an Environmental Committee in place, along with an environmental management program chaired by our executive officer of the management division. Accordingly, we run our Environmental Management System (EMS) under this framework. An environmental management officer is appointed by the Environmental Committee and bears the responsibility for the maintenance and control of the internal EMS. The CSR & Environment Section is established to provide organizational support for the Environmental Committee's Secretariat and the environmental management officer. Internal environment auditors are selected from among persons who have completed the internal auditor training course conducted by the inspection and registration companies and carry out audits twice a year. Each department, branch and business location appoints environmental managers who promote EMS-related practical work and internal education.

[Environmental Management System (EMS)]



FY2018 Environmental Activities Summary

Guidelines for Corporate Action	Goals & Objectives	Major Activities in FY2018
Continuous improvements in the EMS	Continuous improvements in the EMS/Transition to and use of new standard	Implementation of both internal and external audits Briefings on new standard for environmental managers
Compliance with relevant environmental laws and regulations	Compliance with relevant environmental international treaties, laws and regulations of Japan and countries concerned Strict observance of industry agreements, guidelines, etc.	Compliance with the Basel Convention (and its Domestic Laws) Compliance with Act on the Rational Use of Energy Compliance with Waste Management and Public Cleansing Law Participation in the Keidanren, Japan Foreign Trade Council, Inc.'s Voluntary Action Plan on the Environment
Contribution to a sustainable recycling system for an economic society	Promotion of recycling business	Promotion of steel scrap recycling/Sales of used steel/Promotion of the recycling of non-ferrous metal materials/Promotion of the recycling of used paper/Drafting of proposals for and sales of steel slag
The effective use of natural resources and energy	Involvement in activities related to renewable energy	Promotion of the development of biomass fuels Supply of parts and materials for solar power generation and wind power generation
Consideration of the natural environment	Reductions in CO_2 emissions produced by domestic plant and office locations	Measures to conserve energy
	Maritime pollution prevention measures	Maritime pollution prevention at the oil tank facility in Funabashi
	Promotion of sales of anti-pollutant products	Sales expansion of high-corrosion-resistant coated steel sheets/Sales expansion of steel pallets/Sales expansion of thermal insulation roofs called "Sure Roof"
	Careful consideration toward biodiversity	Acquired SGEC-CoC certification, expanded handling of related products
Promotion of environmental awareness	Promotion of environmental awareness activities for employees	Environmental education for newly appointed section managers and environmental managers

Continuous improvement of EMS

Internal Environment Audit

An internal environmental audit was conducted for 26 departments during June 11-20, 2018 and for 27 departments during November 12-16, 2018. The audit focused on reviewing whether measures to fulfill goals and objectives were clearly defined, whether appropriate reviews were being conducted, whether procedures and evaluations of risks including related legislation were appropriate, and whether measures were taken to improve on the recommendations made by the previous internal and external audits.

External Audit

LRQA (Lloyd's Register Quality Assurance Limited) conducted an external audit of 12 departments during July 9-11 2018. In addition, it was conducted from January 21-22, 2019 on 8 departments. The audits focused on whether the EMS was effectively implemented at the respective sections.

[The number of organizations that have acquired ISO 14001 certification]

Domestic offices	19
Domestic Group companies	3
Overseas Group companies	17

*An Environmental Management System (EMS) is developed in each overseas office or Group company and the necessary certifications are acquired.

Promotion of Environmental Awareness

Upon implementing the EMS, we conduct environmental education seminars every year for newly appointed section managers and environmental managers. In 2018, the sessions were conducted on March 23 for new section managers, and for new environmental managers on May 10 and 17. At each session, an outline of the ISO 14001 standard was given, and the environmental management manual was explained with a focus on legal compliance, crisis management, effective use of resources, and business improvement.

Management Review

A management review on activities in FY2017 was conducted during the Environmental Committee meeting on June 15, 2018.

Consideration for the natural environment-reduction of CO_2 emissions at domestic business sites

Endeavors as consignor

As a company involved in the distribution of goods, we have been working to reduce the energy volume of transportation since FY2006. Through the cooperation of our Group companies, Hanwa Logistics Tokyo Co., Ltd., Hanwa Logistics Osaka Co., Ltd., and Hanwa Logistics Nagoya Co., Ltd., we work to streamline shipping operations and seek the cooperation of partner forwarding companies.

Endeavors in the office

We have conducted environmental promotion activities and attempts to reduce energy spending and CO_2 emission throughout the month.

● Initiatives taken at the office

- Wearing "cool-biz" attire (May through September)
- Promoting installation of sensor lights, high efficiency lights and LED lights
- Using card verifiers and consolidating the use of OA machinery
- Promoting "paperless" office systems
- Reducing the number of business trips through the use of teleconferencing systems
- Promoting the use of hybrid cars for sales personnel
- Enrolling in the "Morino Chonai-Kai," and using paper created from thinned wood for internal publications, etc.

Careful Consideration Toward Biodiversity

We also exercise care toward the natural environment by recognizing the importance of the conservation of biodiversity and sustainable use of the environment.

Initiatives for exporting timber from forest thinning

We began exporting timber from forest thinning in 2006 and presently exports about 150,000 m^3 annually to China, Taiwan, and other markets. Timber export helps to lift timber prices by bringing in a more diverse range of buyers and help to maintain employment, thereby stimulating local economies. In addition, exports protect the land by promoting forest maintenance, which also helps the forest to absorb more carbon dioxide. We will continue to use our trading company function to develop markets in Japan and abroad and use timber exports to promote local revitalization and forest maintenance.

Obtaining forest certifications for forestry preservation and product use

We hold CoC certifications from the Forest Stewardship Council® (FSC®), Programme for the Endorsement of Forest Certification Schemes (PEFC) and Sustainable Green Ecosystem Council (SGEC) forest certification systems (FSC®C018719). SGEC is Japan's own forest certification system and promotes forest conservation and sustainable forest management with the aim of revitalizing forests and forestry. Timber with the CoC certification is guaranteed to be managed such that it is kept segregated from non-certified material during processing and distribution. With these certifications, we pledge our corporate commitment to further promoting eco-friendly timber production and thereby encouraging sustainable forest management.

SGEC-CoC certification

Obtaining MSC-CoC certification for preservation of marine resources

The MSC fishery certification, operated by the international non-profit organization Marine Stewardship Council, certifies that fishing operations were conducted with environmental considerations, making sure that;

1) Marine resources are maintained at a sustainable level.
2) The impact on the ecosystem is kept at a minimum level.
3) An effective management system is in place.

We obtained MSC-CoC certification to make sure the distributed fisheries are MSC-certified.

*CoC (Chain of Custody) certification proves that the product has been properly managed throughout the manufacturing, processing and distribution processes, that uncertified products are not mixed, and that the labeling is true.

A product manufactured by a Hanwa resource supplier that is marked with the MSC label

Hanwa's Environmental Business

In addition to its business development for the recycling of resources such steel scrap, metal raw material, and wastepaper, we aim to realize effective measures for "reducing (curtailing waste), reusing (reusing waste) and recycling (recycling waste)" in its activities, including its trade business approved by the relevant countries' regulatory environmental authorities under the Basel Convention provisions governing procedures for the international transfer of metallic industrial waste, and the biomass fuel/RPF business, in order to contribute to the evolution of a recycling-oriented society.

Renewable Energy Related Business

Our concern for the global environment is backed by efforts geared toward creating new forms of energy and contributing to CO_2 emissions reduction through business initiatives involving biofuels.

Providing a stable supply of woody biomass fuels to support electric power supply with biomass energy

We engage in business involving palm kernel shell (PKS) and forest biomass, as well as woody biomass fuels mainly derived from wood pellets from Europe, North America and Southeast Asia. Among the various renewable energy sources available, biomass fuels can be supplied on a consistent basis to enable stable generation of electric power unaffected by weather conditions around the clock all year long.

We are the No. 1 importer in Japan of PKS from which palm oil has been extracted. We import wood pellets formed out of sawdust from Southeast Asia and provide a stable supply of them to power generating businesses in Japan under long-term contracts of 10 years or more.

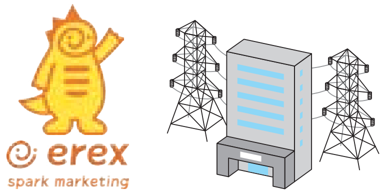
Before Japan's electric power market became fully deregulated, we established erex Spark Marketing Co., Ltd. as a joint venture with erex Co., Ltd., one of the long-established new power companies and the U.S. new power company Spark Energy LLC. Hanwa Group collaborates with wholesale dealers of petroleum and propane gas to sell electric power to residential customers. We have more than 110,000 customers for this service.

Wood pellets (imported)

PKS (imported)

Timber from forest thinning (made in Japan)

Power plant using wood-based biomass fuel



The Hanwa Group sells electric power through erex Spark Marketing Co., Ltd., in which the Group has invested

Recycled fuel RPF

We began handling RPF (solid fuel made from waste paper and waste plastic) in 2003. Currently, we handle more than 120,000 tons annually. In addition to our network of partner producers around Japan, RPF producer Seibu Service Group (consisting of Seibu Service Co., Ltd. and Alpha Forme Co., Ltd.) joined the Hanwa Group in 2015, helping to ensure a stable supply.

Kobe Plant (Seibu Service Co., Ltd)

RPF

Recycling of other materials

●Used paper

We have been selling a wide range of recyclable used paper ranging from old newspapers, cardboard, and other standard paper types to more specialized, high-quality types such as milk cartons to domestic paper mills for thirty years. In recent years, we have also been engaged in the handling of used office supply paper (such as shredded documents) and the export of used paper to Southeast Asian countries that have been seeing explosive growth. We have also begun working with environmentally friendly, recyclable packing materials made from recycled milk cartons.

Used office supply paper

●Reclaimed oil

We sells reclaimed oil that is reprocessed using used automotive engine oil and industrial lubricants to users who can make use of it Most of our customers use it as a replacement for Class A or Class C fuel oil at factories involved with aluminum melting and steel processing.

Taking on the Challenges of the "Urban Mining"

Japan is a country lacking in mineral resources and is dependent on imports for almost all of its mineral needs. In that light, initiatives to recycle useful metals such as steel and non-ferrous metals have an important role when it comes to making effective use of available resources. We are proactively engaged in the business of recycling steel and non-ferrous metals. We boast a rich track record in Japan and abroad for making the most of so-called "urban mining," and through this we are contributing toward the creation of a recycle-oriented society.

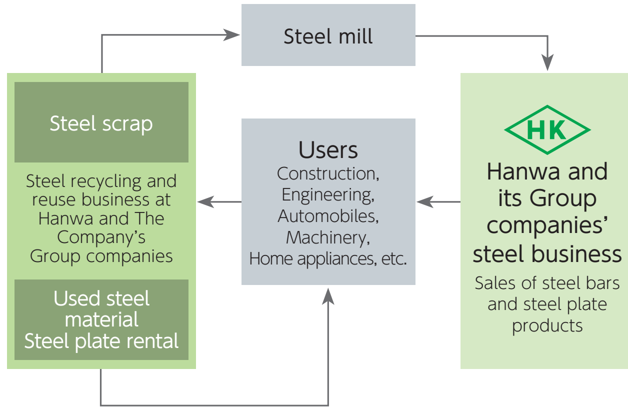
Recovered titanium scrap

Recycling of steel materials

Our steel business follows two different types of flow cycles, a primary cycle in which we are engaged in the sale of steel materials to users in a wide variety of fields, including construction, engineering, automotive, machinery, home appliances, and others, and a secondary cycle in which we are involved with the reuse of steel scrap and used steel.

To ensure that both flow cycles run smoothly, we work to respond to customers quickly and improve our abilities to produce the best arrangements that fit the needs of steel mills in our steel scrap business activities. We take used steel scrap materials and work in conjunction with affiliate scrap suppliers to transform the scrap into high-value-added scrap material for delivery to steel mills who can then use the scrap.

[Steel recycling at Hanwa]



Establishing reuse system of steel resources

Hanwa Eco Steel Corporation, a Hanwa Group company, reuses used steel such as H-beams and steel sheet piles under the motto, "Give steel another chance to be of use!" The number of users requesting the use of used steel due to its cost effectiveness is increasing. Hanwa Eco Steel Corporation contributes to the effective use of limited resources by responding to user demands through the Just-in-Time strategy.

With the smooth development of a reuse system for steel, we continue to make contributions to the effective use of steel resources.

Steel plates from Hanwa Eco Steel Corporation are being used in a variety of sites, including rentals for use as scaffolding in road repair in disaster areas

Recycling of non-ferrous materials

One of the Hanwa Group companies, Showa Metal Co., Ltd., is engaged in a complete recycling process of titanium and nickel scrap starting from the collection and quality control of the scrap to the sorting, shipping, and delivery to stainless steel and special metal manufacturers. Working together with Showa Metal, we are engaged in expanding a rare metal scrap processing business that caters to the specific needs of customers as a "global metal recycler."

A cleaning machine for degreasing, washing, and drying of finely broken titanium scrap (Naoetsu Plant, Showa Metal Co., Ltd.).

Recycling of stainless steel materials

Our Group leverages toward stable supply of scrap metal mainly through a Hanwa Group company, Hanwa Metals Co., Ltd., by collecting stainless steel scrap.

Stainless steel that has reached the end of its useful life as part of a regular product is collected by Hanwa Metals as scrap metal and checked thoroughly for problems and supplied to steel mills as scrap metal.

Stainless steel scrap is collected at and delivered from the scrap yard at Hanwa Metals Co., Ltd.

Recycling of aluminum

In August 2012, we acquired shares of SEIKI Co., Ltd., a company engaged in the production of aluminum deoxidizer for steel and aluminum can recycling. This has enabled us to establish a deoxidation material business through which we supply aluminum to blast-furnace steel mills for use in the deoxidization and decarburization processes in converter furnaces.

We also recover used aluminum cans, remove the impurities and other materials from the cans, and melt them down into recycled aluminum ingots that are analyzed for content and processed before being supplied to manufacturers. Our combined operations of Hanwa Logistics Nagoya Co., Ltd. and SEIKI further enable us to pursue business involving raw material sourcing, processing, and sales of aluminum products.

Can-to-Can aluminum recycling products. "Regenerated aluminum ingots"

Non-ferrous scrap metal business overseas

We engage in the non-ferrous scrap metal business outside Japan mainly at five overseas locations: HANWA THAILAND CO., LTD., HANWA SINGAPORE (PRIVATE) LTD., PT. HANWA INDONESIA, the LONDON BRANCH OF HANWA CO., LTD., and HANWA AMERICAN CORP. We operate in compliance with the Basel Convention in handling transactions involving import, export and offshore trade, provide users in Japan and elsewhere with consistent supplies of recycled materials and take steps to reduce environmental loads. In 2016, Hanwa established a joint venture with Mitsubishi Materials in the Netherlands that began its operation in 2018. This has further strengthened our business handling precious metal scrap contained especially in circuit board scrap.

We send our highly-skilled employees to other locations with the mission of expanding our network of suppliers so that we can better ensure quality and consistent supplies of non-ferrous scrap metal. In 2018, we began trade with Russia, the three Baltic nations, and several African nations including Nigeria, Botswana, and Morocco. In recent years, we have been further enhancing our ability to provide Just-In-Time deliveries to factories by successively setting up factories in the ASEAN member countries, as Japanese firms increasingly expand operations overseas.

topics

Hanwa, a company that has charted a course in global business based on the Basel Convention

Japan's Basel Convention Act was about 25 years old when it was amended in June 2017. The amended act came into force in October 2018. We are the first company to get into the business of recycling the sludge generated in the manufacturing process for semiconductors—which contain silver and copper—based on the Basel Convention. With the permission of the relevant authorities in Japan and Malaysia, we brought sludge from a company in Malaysia to a refining company in Japan and thus contributed to the reuse of silver and copper.

Hanwa's Basic Policy on Corporate Social Responsibility (CSR)

We established the CSR Committee and conduct activities to fulfill our corporate social responsibility. We have also established "Environmental Policy" and "Guidelines for Environmental Corporate Action," have acquired ISO 14001 certification, and promote an environmental management program, where internal committee members and outside experts conduct regular reviews.

With regard to our CSR activities, to work actively on CSR, we established the CSR Committee in March 2004, and engage in cross-organizational operations across the Compliance Committee, Environmental Committee, and the Hanwa Scholarship Program.

[Relationship between Hanwa and its Stakeholders]

[CSR Promotion System]

Expanding and deepening market positions in many sectors

We have established a firm position in the industry as a trading company dealing with a wide range of products, including steel, metal raw materials, non-ferrous metals, food products, petroleum and chemical products, lumber and machinery.

As a trading company that makes a difference, we are expanding our business fields in response to changes in the times and society to meet the business needs of our customers.

Steel

Metals and Alloys

Non-Ferrous Metals

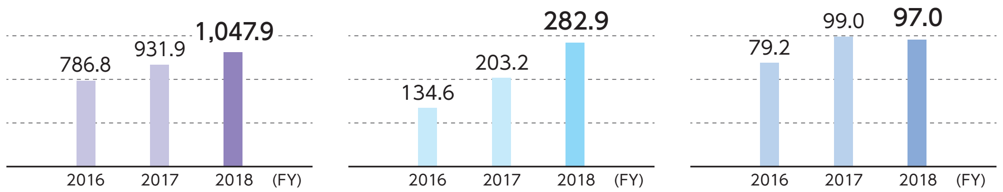
Food Products

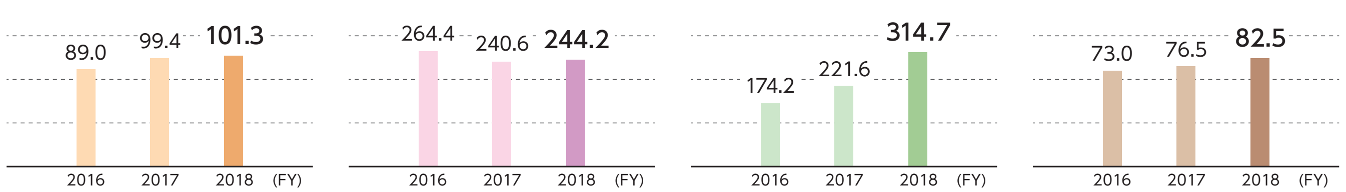
Petroleum and Chemicals

Overseas Sales Subsidiaries

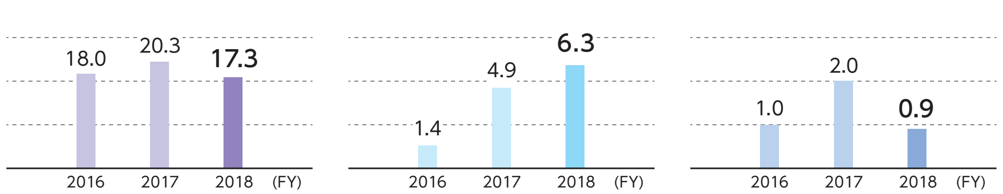
Other Business

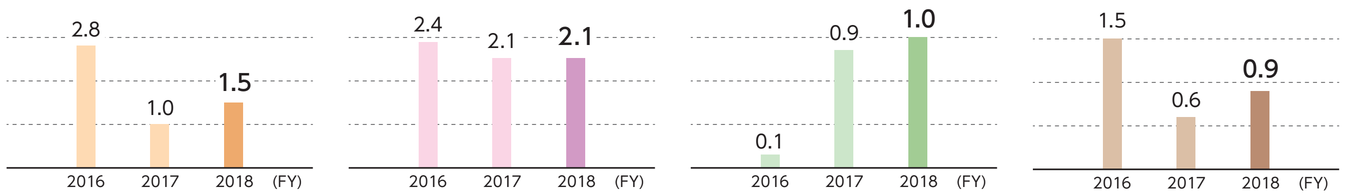
Gross sales trends
(Billions of yen)



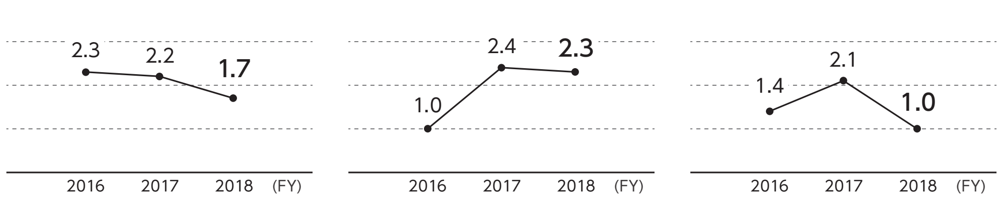


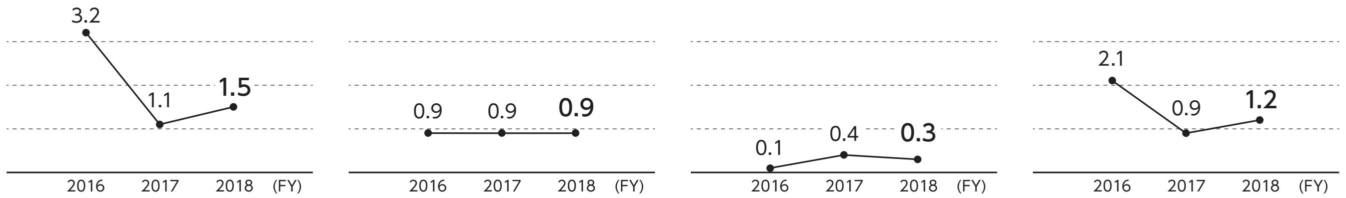
Segment income trends
(Billions of yen)





Segment income ratio trends
(%)





Business composition ratio (FY2018)

	Steel	Metals and Alloys	Non-Ferrous Metals	Food Products	Petroleum and Chemicals	Overseas Sales Subsidiaries	Others
Net sales	50.0%	13.3%	4.6%	4.8%	11.3%	12.2%	3.8%
Segment income	57.2%	21.0%	3.1%	5.1%	7.1%	3.4%	3.1%

*The business composition ratio is based on sales to external customers.

Steel

[Business summary] Steel is our major product, accounting for about half of total sales. We sell steel bars, building materials, steel sheets, steel pipes, wire rods and special steel and many other steel products. With this broad lineup, we can meet the requirements of various customers. In addition, we have one of the largest distribution centers in Japan and offer services that take advantage of our inventory and processing capabilities.

[Main products or services] Main products are steel bars, steel sheets, special steel, wire rods, steel pipes and steel scrap. We also undertake construction work as well as steel processing and storage.

Strengths and Characteristics

In the steel business, we are able to deal with a broad range of domestic and overseas steel mills by taking advantage of our characteristics of an independent trading company not affiliated with any steel mills, and also have the advantage of being able to conduct procurement with no constraints of having to procure from a particular group of steel mills. In addition to utilizing one of Japan's leading large-scale distribution centers located in various regions, we are promoting the "SOKOKA" (Just-In-Time delivery, small lot, processing) strategy to cover the entire value chain from upstream to downstream. We thoroughly adhere to the hands-on approach under user-first principle, accurately grasp user needs, and provide high value-added solutions such as information functions, inventory functions, and processing functions, in addition to steel distribution functions. In addition, under the banner of "Create another Hanwa in Southeast Asia," we are aiming to expand businesses with overseas users through the utilization of the network of Group companies, alliances with leading local distributors, and joint ventures with Japanese companies.

Environment and Challenges Surrounding the Business

While domestic demand remains strong, mainly in the construction industry, there is a high probability that there will be customers who will have difficulty in securing human resources in the medium to long-term, and this will lead to a progression of outsourcing of functions such as processing. As for other companies in the same industry, reorganization is taking place among a group of affiliated companies in response to the restructuring of domestic steel mills. In addition, there is a strong demand for higher functionality yet at lower prices for customers' steel materials, and in the medium to long-term, we believe that it is possible customers switch to other materials depending on the balance between functionality and price. Especially in construction-related products, there is no denying the possibility of shifting to products related to construction methods that can cope with the shortage of labor.

In such a business environment, in order to respond to the ever diversifying and sophisticated customer needs of the steel business, we believe that there is a need to work to further secure processing manufacturers with functions, diversify our products and services, and develop our business globally by taking advantage of the network of the Hanwa Group to seek overseas customers and broaden our relationships with overseas steel mills. At the same time, we believe it is necessary to develop human resources that are fully equipped with specialized knowledge and can play an active role in the global market, while at the same time foster efficient and labor-saving operations using AI and robots.

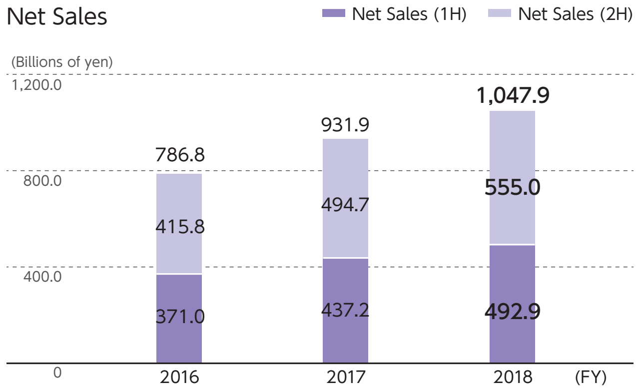
Medium to Long-Term Business Policy

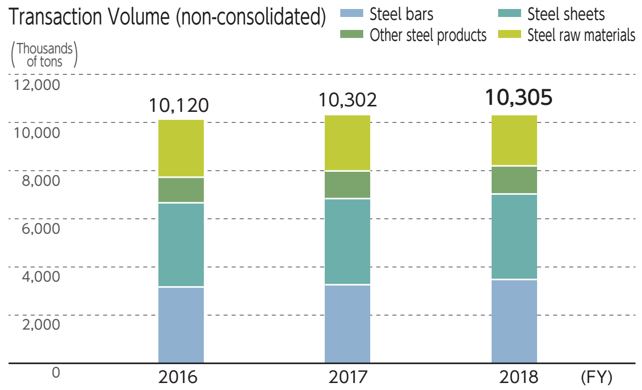
In order for our steel business to continue to grow over the medium to long-term, we believe it is necessary to provide high added value in response to customer needs in all business areas from up to down the supply chain. We intend to accurately respond to the diversifying customer needs by promoting the "SOKOKA" (Just-In-Time delivery, small lot sales, processing) strategy and acquiring more functions through M&A. Also, the Company's policy is to deepen business relationships with overseas steel mills and processing manufacturers, in addition to domestic steel mills as well as to develop markets in regions around the world, focusing on the Asian region, in order to provide functions to distribute a wide variety of products globally.

FY2018 Results

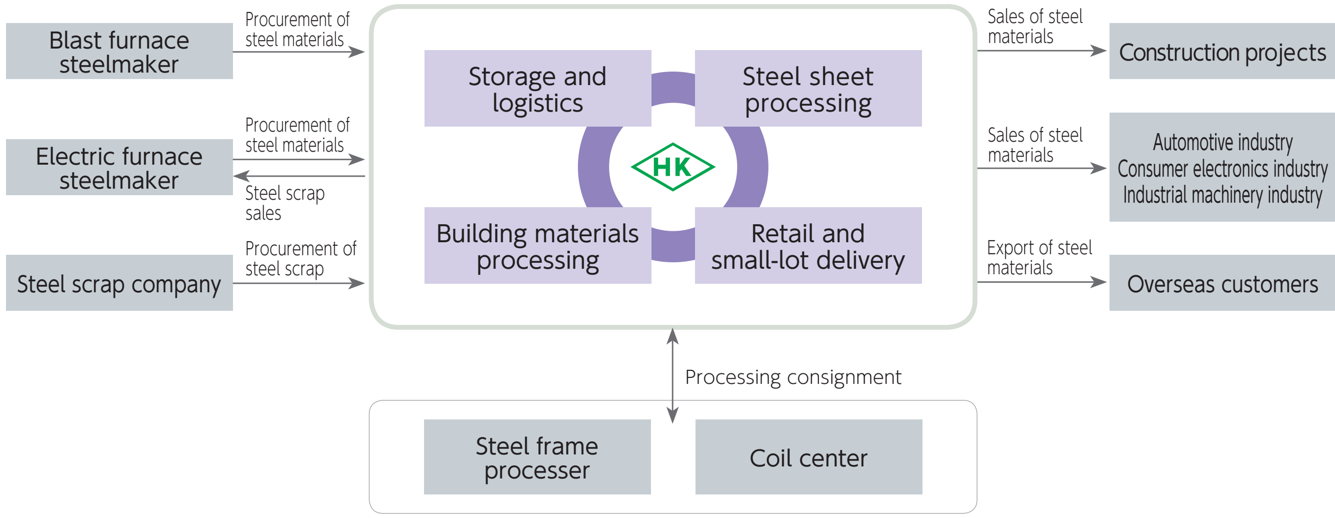
Net sales ¥1,047.9billion | Segment income ¥17.3billion | Segment employees 2,579people

In the steel business, since demand for steel materials remained firm in the manufacturing and civil engineering fields, and due to constraints in terms of supply, supply and demand condition remained tight. On the other hand, while the purchase prices of steel materials were at a high level reflecting the policy of steel mills to raise prices and tightening supply and demand conditions, profit margins decreased compared with the previous fiscal year since the pace of increase in selling prices was moderate compared with the previous fiscal year and time was required for the reflection on prices. As a result, sales in this business segment increased by 12.4% year-on-year, to ¥1,047.9 billion, while segment income decreased by 14.4% year-on-year, to ¥17.3 billion.





Value Chain



Metals and Alloys

[**Business summary**] In the metals and alloys business, we are trading such items as nickel, chromium, silicon, and manganese ferroalloys directly with resource countries such as Russia, South Africa, Kazakhstan, India, Brazil, Malaysia and Indonesia, as well as with producers in China which has an overwhelming supply capacity as well as demand.

[**Main products or services**] Main items are nickel, chromium, silicon, manganese ferroalloys as well as stainless steel materials and scrap metals.

Strengths and Characteristics

In the metals and alloys business, in terms of trade, we boast the largest transaction volume of ferroalloy products, such as ferrochrome and silicon-manganese, among Japanese distributors and we are responsible for the stable supply of raw materials all over the world by taking advantage of our hedging and the inventory functions. With regard to investments, we have invested in SAMANCOR, a leading company in the chromium business in South Africa and has acquired exclusive sales rights of ferrochrome for Japan, and has also invested in OM HOLDINGS, supplying ferrosilicon and manganese ferroalloys produced in Sarawak, Malaysia, to customers in and outside Japan.

Regarding nickel, we supply nickel metal, ferronickel, and stainless steel scrap to the stainless steel and special steel industries. In addition, we supply a wide range of products to customers around the world, such as nickel and cobalt chemical raw materials for the automobile rechargeable battery industry. In addition, since 2014 we have been participating in the Indonesia nickel pig iron project hosted by the Tsingshan Holding Group of China, which boasts the largest production of stainless steel in the world, in order to expand our supply system for stainless steel materials.

Environment and Challenges Surrounding the Business

About 70% of the world's reserves of chromium, which is one of the materials our metals and alloys business is focusing on, is unevenly distributed in South Africa, and of that, about 70% of its ore is owned by SAMANCOR, a company we have invested in. The oligopoly of chromium resources in the world is believed to lead to great benefits for suppliers in the stainless steel and special steel industries which require chromium resources over the medium to long-term, and these customers have high expectations for the Company. Also, the manganese business in the Sarawak state of Malaysia conducted by OM Holdings, in which the Company has invested, is regarded important production base outside the China continent by Japanese blast furnance steel manufucurers, electric furnance steel manufucturers and other companies which manufucure steel product in ASEAN region since it is free from export tariff and politically neutral.

Since materials handled by the metals and alloys business are the main and auxiliary raw materials that are essential for steel production and stainless steel/special steel production, we believe that ongoing demand will remain in the medium to long-term. In addition, we recognize that this business, which is based on trading and is characterized by distinctive resource investment, has a unique position in the industry and will continue to have a presence in the industry. Since major trading companies have already withdrawn from ferroalloy trading, there are many products in which the Company is the largest domestic handler. The challenge therefore is to strengthen our profitability in parallel with the increase in the handling volume, while taking advantage of our financial ability not to be struck by price competition with other ferroalloy resource companies and specialized ferroalloy wholesalers.

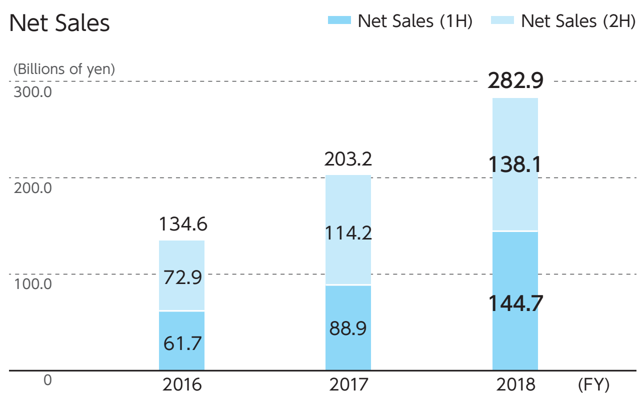
Medium to Long-Term Business Policy

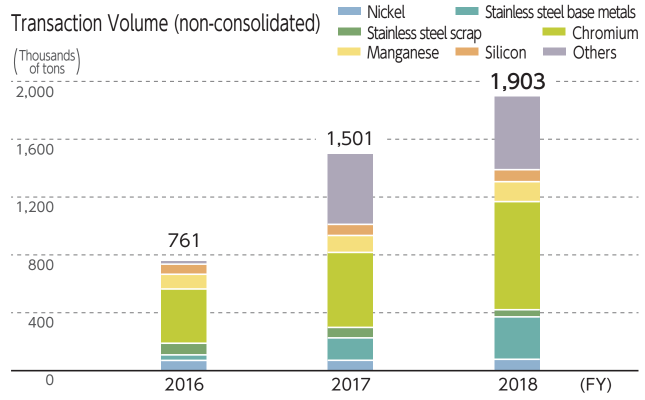
Based on our trading ability cultivated through long years of business experience, we provide a stable supply of useful metal resources for each customer such as steel, special steel, and non-ferrous metal smelting companies. At the same time, we will expand our business into the field of ferroalloy producers through characteristic resource investments and differentiate ourselves from our competitors. In addition, it is our policy to focus on business based in regions including South Africa, Indonesia, Malaysia, Australia and Kazakhstan, which we have already invested in, and to expand business into China and India by paying attention to political and economic trends and environmental issues. In this way, we aim to build a global value chain from upstream to downstream and to become a leading company with a medium to long-term presence in each product.

FY2018 Results

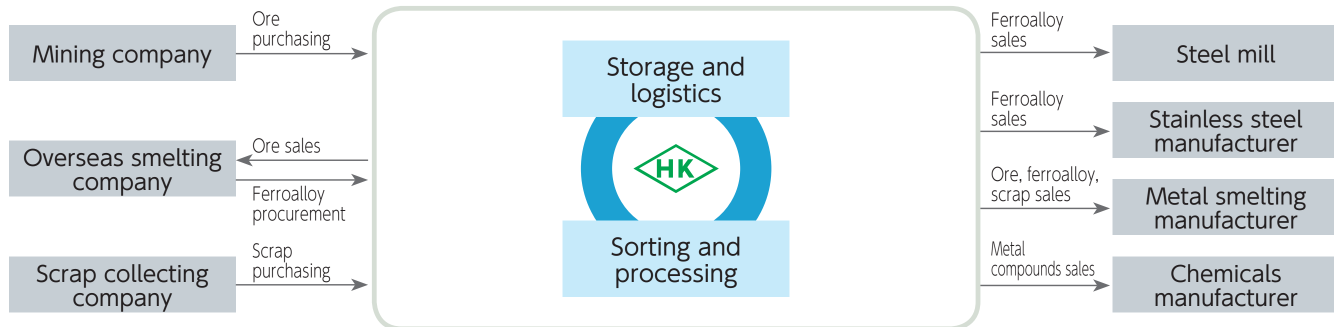
Net sales **¥282.9** billion | Segment income **¥6.3** billion | Segment employees **107** people

In the metals and alloys business, in addition to the fact that nickel prices were generally at a high level compared to the last fiscal year, expanded sales of chromium and manganese ferroalloy, stainless steel base metals and nickel compounds boosted earnings. As a result, sales in this business segment increased by 39.2% year-on-year, to ¥282.9 billion yen, while segment income was up by 28.8% year-on-year, to ¥6.3 billion.





Value Chain



Non-Ferrous Metals

[Business summary] In the non-ferrous metals business, we are one of the first companies in Japan to establish a non-ferrous metals recycling business. Operations involve mainly aluminum, copper, zinc, lead and other metals where demand is substantial in Japan. We have established solid positions in these market sectors, backed by expertise in organizing business activities on a global scale, an advantage that only a trading company can offer. In our recycling business of aluminum cans, we have our own sorting and processing facilities, and we fully utilize expertise in collection, inventory and supply activities to meet the needs of aluminum rolling companies.

[Main products or services] Our main products are aluminum, copper and zinc. We are also engaged in the recycling business.

Strengths and Characteristics

In the non-ferrous metals business, we have our own aluminum scrap processing facilities and have established a system to meet the demands of aluminum rolling companies. In addition, in the import and export of non-ferrous metal scrap and off-shore trade, we comply with the Basel Convention, and we provide a stable supply of recycling resources to customers both in Japan and overseas. In recent years, we have focused on the collection of waste circuit boards of electronic equipment (E-scrap) and are expanding our recycling business to recover valuable metals (gold, silver, copper, palladium, etc.) from urban mines. As for human resources development, we carry out business rotation to overseas offices from a young age in order to develop human resources who are familiar with trade practices and understanding of front-line practice and a global perspective.

Environment and Challenges Surrounding the Business

As China, which is the world's largest consumer of non-ferrous metal scrap, has taken some measures to ban the import of some types of scrap, this has led to a worldwide oversupply of non-ferrous metal scrap. In the medium to long-term, China's environmental regulations are expected to further progress and the export of most non-ferrous metal scrap to China is likely to cease. The situation of over-supply is therefore likely to continue unchanged. While domestic demand in Japan for scrap is expected to reach a plateau in the medium to long-term, and the domestic market is expected to shrink, other companies in this industry are strengthening their solidarity within the group by giving priority to buying and selling within their group as much as possible. We must not only endeavor to capture domestic demand, but also expand our business to overseas markets and ensure a wide range of profit opportunities. In addition, due to the stringent quality rules for the scrap imported into China, the generation of scrap consisting of complex components such as automobile panel materials, and a labor shortage as a result of work style reform, the separating and sorting capacity improvement by machinery and equipment has become an issue.

In this business environment, we believe that the non-ferrous metals business will need to further develop export markets in line with the times, strengthen the sorting and processing functions domestically, and reduce costs by mechanization and other means.

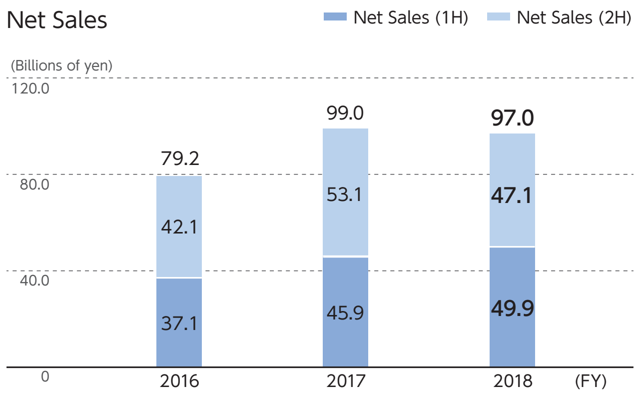
Medium to Long-Term Business Policy

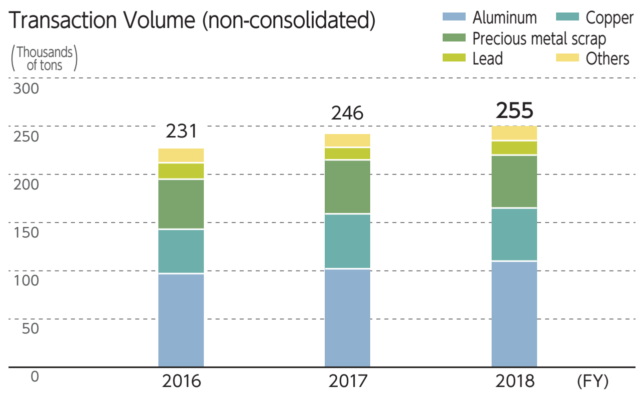
In anticipation of the plateauing of domestic demand for aluminum and copper scrap, the Company plans to expand its business with overseas customers in such areas as North America and China as well as to promote partnerships with companies with excellent sorting and processing capabilities. For non-ferrous products, we will seek to deal with non-ferrous semi-finished products and aluminum/copper compounds, which we have not dealt with before. In addition, we will expand the recycling business of valuable metals (gold, silver, copper, palladium, etc.) and the recycling business related to lithium-ion batteries by utilizing our Group network in North America, Europe and Southeast Asia.

FY2018 Results

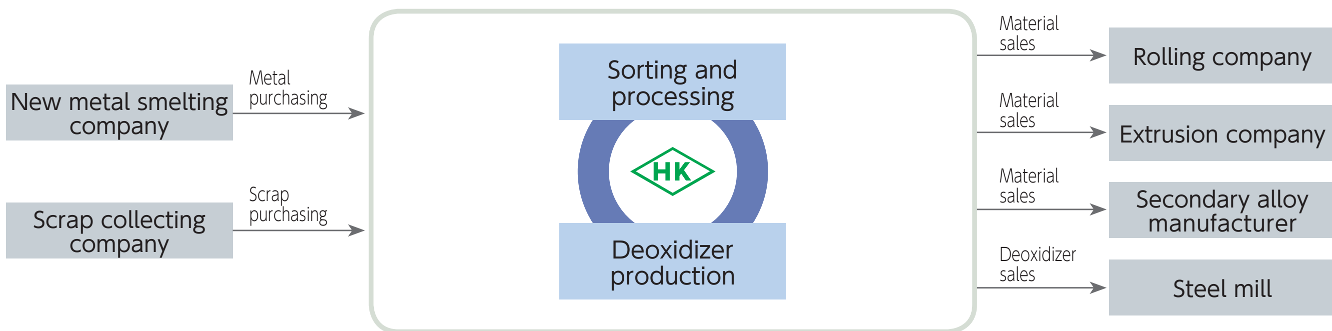
Net sales ¥97.0 billion　Segment income ¥0.9 billion　Segment employees 117 people

In the non-ferrous metals business, while the international price of base metals fluctuated due to factors such as trade policies in the United States and concerns about the future of the Chinese economy, it generally remained at the same level of the previous fiscal year. However, although the sales volume of aluminum scrap increased, sales volume and prices declined and overall sales revenue was down year-on-year, as China's import ban against copper scrap, precious metal scrap and other metal scrap led to an oversupply trend in Japan. As a result, sales of this business segment decreased by 2.0% year-on-year to ¥97.0 billion, and segment income fell by 53.4% year-on-year to ¥0.9 billion, due partly to the recording of foreign exchange losses, which was a gain in the previous fiscal year.





Value Chain



Food Products

[Business summary] In the food products business, we mainly handle marine products and maintain a top-level import share in many items. In recent years, in order to further develop the market, we have been actively working on establishing purchasing bases in Europe and South America and sales companies in the United States and Japan. In addition, the products we process at our overseas partner factories have strengthened traceability and we have a thorough quality control system.

[Main products or services] The main products handled are marine products such as salmon, shrimp and crab, and livestock products such as chicken.

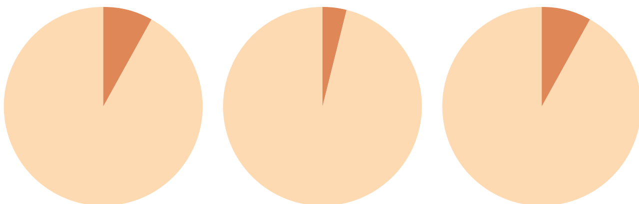
Strengths and Characteristics

In the food products business, we have established sales subsidiaries for the development of domestic consumer markets and are actively promoting the sale of products processed in such places as China, Thailand, and Vietnam, by leveraging our long-cultivated seafood raw material procurement capabilities and overseas processing experience. In addition, while the proportion of farmed products in the world's seafood resources is increasing, we have newly established our subsidiary in the Republic of Chile to strengthen procurement of farmed salmon, and at the same time, we are aiming to develop markets throughout South America.

Our employees with advanced product knowledge and good agility in business are personally involved in the procurement of raw materials, local processing, and final product sales, and supply safe, secure and high-quality food products through thorough production guidance and quality control.

Our share in the marine products market in Japan (2018)

Salmon	Shrimp	Crab
19,000tons/year	8,700tons/year	2,500tons/year
8.1%	3.9%	8.1%



Environment and Challenges Surrounding the Business

Against the backdrop of the strong growth in overseas demand, Japanese companies now have less say over suppliers. Going forward, if a company does not have a global sales network or the ability to respond to overseas demand, it is expected that procurement will become tougher. In addition, at present, vendors who can approach the end-users still have purchasing power, but in the medium to long-term, it is expected that the entire supply chain will be clustered and systemized by taking advantage of the functions of each company. At other trading companies in the same industry, the internal processing and other operations of each process is progressing within the group, and in the medium to long-term, it is expected that large companies that can expand globally and secure a large handling volume and have high information collection capacity will become strong. Overseas demand is pushing up purchase prices while domestic demand is continuing to depress selling prices, and in the medium to long-term it is possible that the business may shrink if we only focus on the Japanese market.

In this business environment, the food products business must shift to a global business model so that it can expand sales volume even in markets with soaring demand by strengthening its overseas network and also shift to a business model based on vertical integration from the upper and lower reaches of the company to increase the earning power of the entire Group.

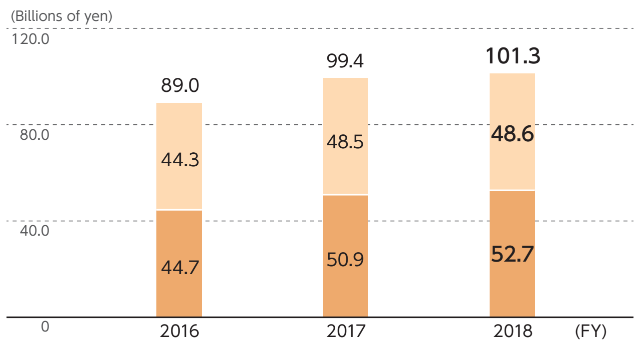
Medium to Long-Term Business Policy

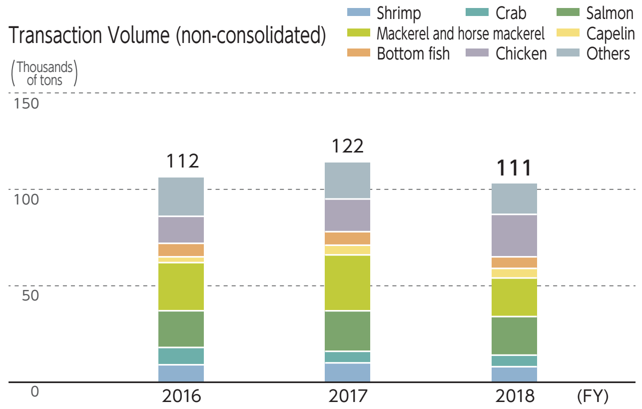
Through capital tie-ups and alliances, we will strengthen our relationships with overseas marine product processors and aquaculture operators, and as a downstream business, we will aim to expand sales channels for end users of our group companies. In addition, we will expand our business into other food products, rather than limiting ourselves to marine products, and expand into the markets of North America, South America, China, and Southeast Asia.

FY2018 Results

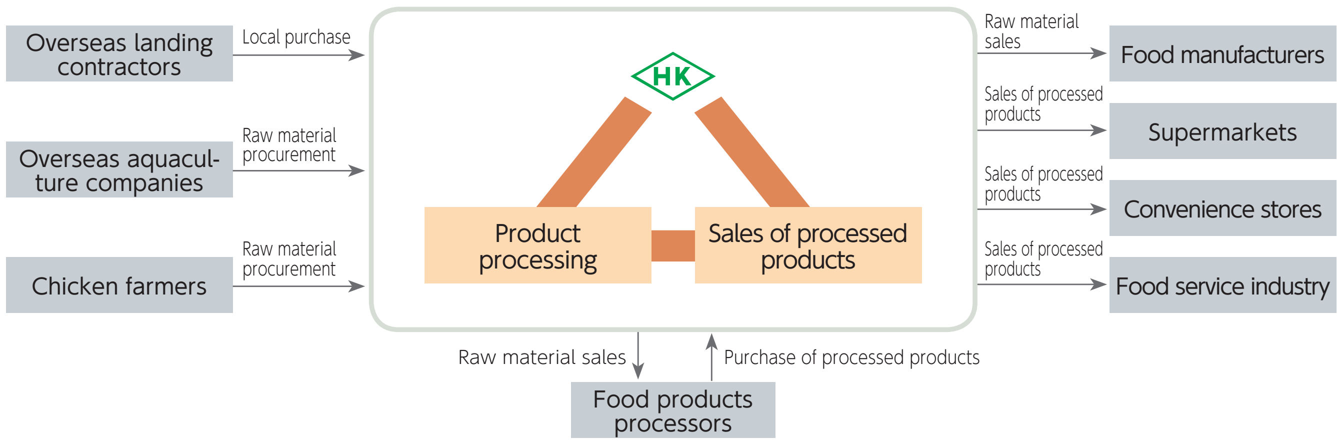
Net sales ¥101.3 billion | Segment income ¥1.5 billion | Segment employees 108 people

In the food products business, although domestic demand for marine products remained stagnant, prices of our main products such as salmon and crab trended at a higher level than last fiscal year. In addition, the increase in the handling volume of chicken products boosted earnings. In terms of profit, foreign exchange gains also contributed to the increase in profit. As a result, sales in this business segment increased by 1.9% to ¥101.3 billion, and segment income increased by 46.0% to ¥1.5 billion.





Value Chain



Petroleum and Chemicals

[Business summary] In the petroleum and chemicals business, we supply heavy oil and diesel oil to a wide range of industries such as steel, chemical, and pulp and paper in Japan. In overseas transactions, in addition to the sale of marine fuel, we are also focusing on the import and export of petroleum products. We sell chemical products mainly to foreign countries and handle such products as synthetic resin raw materials and plastic products such as polyethylene plastic bags and garbage bags. As for paper stock, we are promoting industrial paper sales and the waste paper recycling business.

[Main products or services] The main products are petroleum products, industrial chemicals, chemicals and waste fuel.

Strengths and Characteristics

In the fuel business, we have a wide variety of procurement sources and have been able to supply low-priced, high-quality fuel in a timely manner by fully leveraging our trading functions such as futures trading, import/export trading, and inventory management. We have about 300 customers and have several products which boast top market share in the industry such as C heavy oil for the domestic industry. We are also making efforts to build a system for supplying plant-derived biofuels (such as wood-based biomass fuels and palm kernel shells (PKS)), which are environmentally friendly energy sources.

In the chemical products business, we handle a wide range of products from raw materials (resins) to products (plastic bags and garbage bags) and provide customers with a full range of services from product development to package design, manufacturing, sales and delivery. In addition, we have a department dedicated to quality control and provide safe and secure products to our customers.

In the paper business, waste paper and scrap paper generated in Japan, which have a price advantage, are exported to ASEAN countries and elsewhere where paper usage is increasing due to economic growth. We are also expanding our environmental business, including the waste fuel business (such as RPF).

Environment and Challenges Surrounding the Business

In the fuel business, with the market oligopoly of domestic major oil companies continuing, sector peers with less advantageous functions become less profitable, thus forced to withdraw from the market, while there is an increased demand from customers for the stable supply of commercial materials including delivery capability.

Currently, biomass fuel, which we maintain a high market share, is expected to change from a buyer's market to a seller's market as demand increases.

In the chemical products business, we purchase mainly from overseas manufacturers such as those in Vietnam and the Philippines, and sell mainly to major retailers in Japan, and distributors are required to have a high level of procurement and quality control capabilities, and inventory distribution functions. In recent years, with the growing trend of plastic-free particularly in developed countries, there is a growing requirement for companies to carry out environmentally-conscious initiatives.

In the paper business, the overall amount of waste paper being generated has decreased due to the trend of paperless production worldwide, but the oversupply of used paper continues in Japan, and quality requirements are becoming stricter. Also, demand for developing export destinations other than China is increasing. With regard to RPF, we believe that demand will remain firm in the medium to long-term due to the global trend of refusing fossil fuel.

Medium to Long-Term Business Policy

In the fuel business, we continue to maintain business transactions with major oil companies in Japan and supply marine fuel and fuel oil C to shipping companies and various other manufacturers. On the other hand, in line with the growing interest in global environmental issues, we plan to expand the handling of wood pellets and PKS for the biomass power generation business.

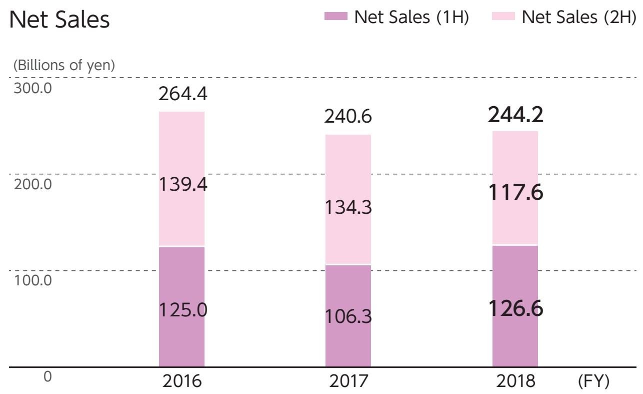
In the chemical products business, we will position major business partners in Japan as our main customers in the medium to long-term and aim to strengthen sales by offering product proposal and inventory distribution functions. With regard to the main products, we will shift our focus from the supplies used by consumers, such as plastic bags and garbage bags, to the products that our customers sell, such as stationery and daily necessities. As for our suppliers, Vietnam will be the country with focus for the time being, but we will also plan to restructure procurement from China.

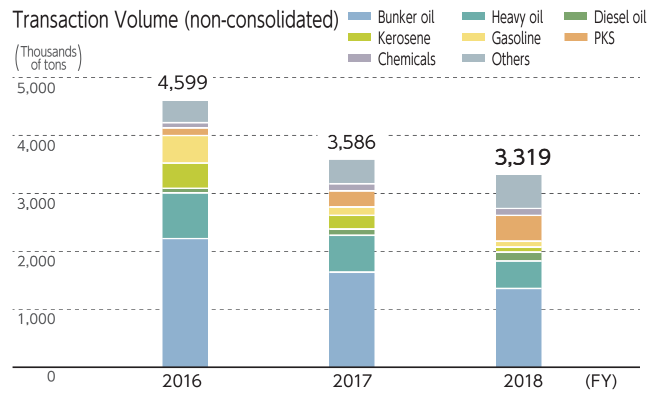
In the paper business, with regard to used paper, the Company plans to expand its exports mainly to the ASEAN region. As for RPF, which is an alternative for fossil fuel, we aim to increase its domestic market share as a supplier and also expand our business in the ASEAN region to build a recycling business.

FY2018 Results

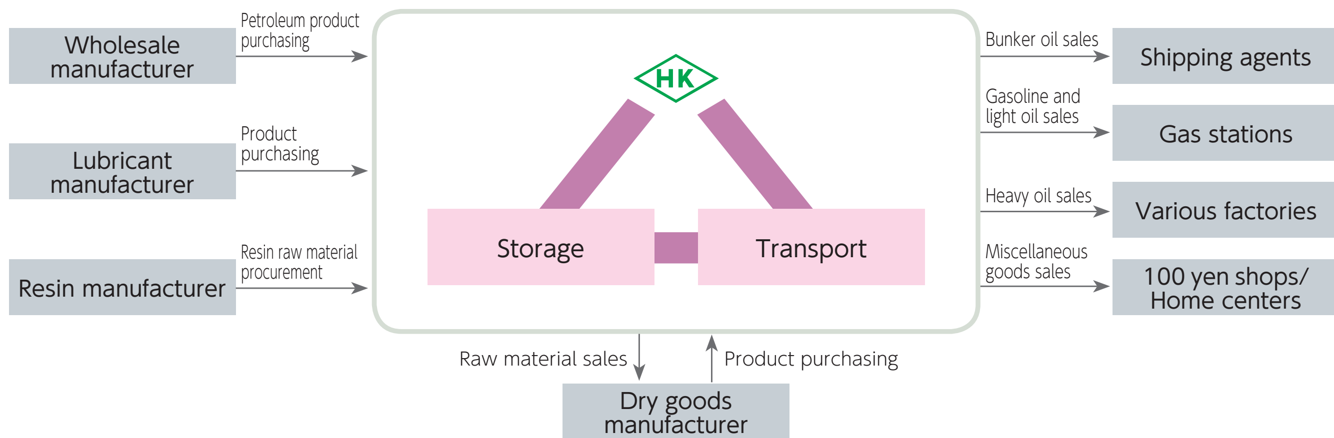
Net sales ¥244.2 billion | Segment income ¥2.1 billion | Segment employees 204 people

In the petroleum and chemicals business, the price of petroleum products in Japan was higher than last fiscal year as a result of the higher level of oil price associated with coordinated production reductions by oil-producing countries and rising geopolitical risks, in addition to the effects of the price policies of major oil companies and oil refinery problems in Japan. On the other hand, our handling volume decreased year on year due to the shrinking market for spot trading and supply-and-demand trading between wholesale companies due to the restructuring of the wholesale industry and the drop in demand for kerosene due to a warm winter. As a result, sales in this business segment increased by 1.5% to ¥244.2 billion, and segment income was flat at ¥2.1 billion.





Value Chain



Other Business

[Lumber]
[Machinery]

[Business summary] In the lumber business, we import fine lumber, plywood and other wood products from around the world and sell them to our customers like building material trading companies, building material manufacturers, sales agents, lumber wholesalers and house builders. In addition, we are focusing on offshore trading activities in markets such as the thriving construction market in the Middle East and other regions. The machinery business has two components: the leisure facilities business, which sells amusement machines and performance directions to theme parks; and industrial machinery business, which sells mainly various types of steel processing machines and various conveyance machines.

[Main products or services] The main products are lumber and machinery. We also manage and operate amusement facilities.

Lumber

Strengths and Characteristics

In the lumber business, we have the advantage of being able to propose the shortest commercial distribution route to the end-users, since there are no constraints in intermediate distribution of building material products. We particularly have a large lineup and a top share of imported Northern European and Russian products. In recent years, we have expanded our business scope downstream, and by taking advantage of our economy of scale as a major importer of lumber and the ability to handle steel products, we are creating a new business model by making proposals to the housing industry that make full use of our competitive products and information network. In addition, we have also focused on the domestic lumber business, and have gained a large market share in the export volume of logs to China, South Korea, Taiwan, and Southeast Asia.

Environment and Challenges Surrounding the Business

The sales force and purchasing power of the lumber business are well established, and we are responding to the needs of customers by utilizing our economy of scale, but in the medium to long-term, since it is expected that the business will shift towards small-lot production of diversified products and the use of steel components, it is necessary to build a system that can respond to the diverse needs of our customers. In addition, there is a possibility that "the survival of the fittest" will advance among our customers and shift away from intermediate distribution and towards direct trading. It is therefore expected that trading companies without an advantageous function will be weeded out.

In this business environment, we believe that it is important to build a system to provide integrated services to our end-users by promoting cooperation with other divisions within the Company and expanding the business area further upstream and downstream through M&A and other measures.

Medium to Long-Term Business Policy

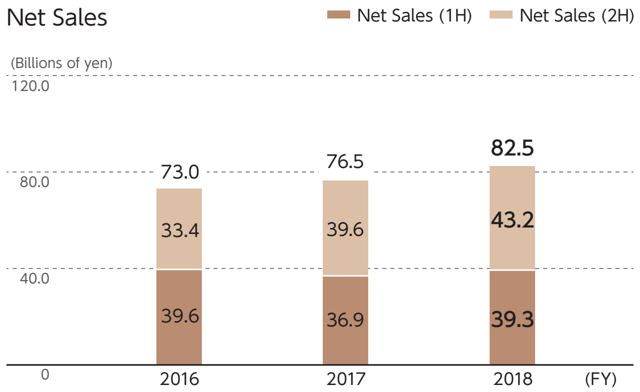
In order to meet the needs of house builders, our main customers, our policy is to offer a full range of services to customers. We shall not limit the materials handled to lumber products but rather expand them to include steel components and adhesive materials and build a network with strengths in distribution network and construction ability. We will continue to expand our sales network to Southeast Asia, where a number of housing manufacturers are making entry, while maintaining our purchasing and sales capabilities that take advantage of our existing economy of scale.

FY2018 Results

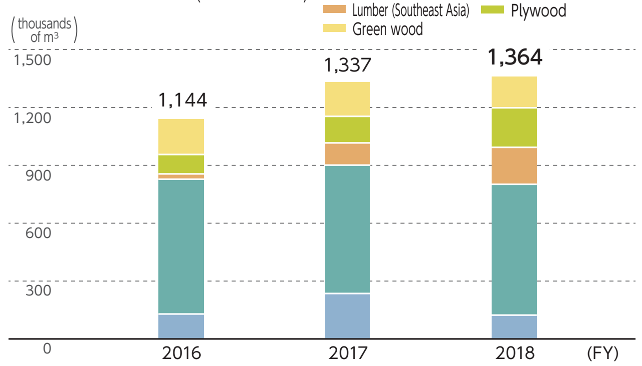
Net sales **¥82.5** billion | Segment income **¥0.9** billion | Segment employees **209** people

In other businesses, in the lumber business, sales to house builders and others increased, and in the machinery business, in addition to profits from the industrial machinery field, revenue from construction of leisure machines in the second half of the fiscal year contributed to profits. As a result, sales in this business segment increased by 7.7% to ¥82.5 billion, and segment income increased by 39.7% to ¥0.9 billion.

Net Sales



Transaction Volume of Lumber (non-consolidated)



Machinery

Strengths and Characteristics

Since the leisure facilities business has in-house engineers and supervisors, as well as strong networks with external experts and examination organizations, we provide users with a full range of services from the design of amusement machines to the procurement of materials and construction. In addition, we have established a strong relationship of trust with European and American manufacturers, which are the leading countries of the amusement machinery industry, and we have signed sole agent contracts with them to introduce the latest industry trends to the Japanese market.

In the industrial machinery business, we provide valuable solutions for users' capital investment plans by using our rich information network and engineering functions created by close cooperation with various leading industrial machinery manufacturers. In addition, a VE proposal system has been established to make suggestions on the capital investment plans of customers of other divisions of the Company, mainly in the steel sector, so that they can invest in efficient equipment.

Environment and Challenges Surrounding the Business

In the leisure facilities business, there are few competitors in the large-scale amusement park ride field, and due to our track record, we have seen an increase in the number of transaction requests from overseas manufacturers. We have a good relationship with major customers and expect to maintain a continuous business relationship with them in the future. Going forward, we will focus on the development of new customers.

In the industrial machinery business, transactions of general-purpose machinery such as simple cranes have remained difficult to expand. However, we have been designated as a prime contractor in a number of complicated projects, such as those of production line equipment, that require the consolidation of multiple vendors and ideas.

Going forward, we believe that it is necessary to develop a purchasing source that can deal with simple and small-scale facilities, build a sufficient organizational structure that can cope with prime contract work, and develop human resources who are familiar with English and trade practices.

Medium to Long-Term Business Policy

In the leisure facilities business, we continue to expand our business throughout Japan based on our advantage of being able to provide all services from design to material procurement and construction, and with strong, trusting relationships with European and American manufacturers. In addition, we expand and improve the maintenance business associated with the facilities.

In the industrial machinery business, we focus on areas where high added value is expected and where demand is expected to grow over the medium to long-term, such as by proposing measures to save labor in manufacturing equipment lines and providing proposals for automation. In addition, we will expand our business into the Hokkaido, Shikoku, and Kyushu regions, which has been slow to develop.

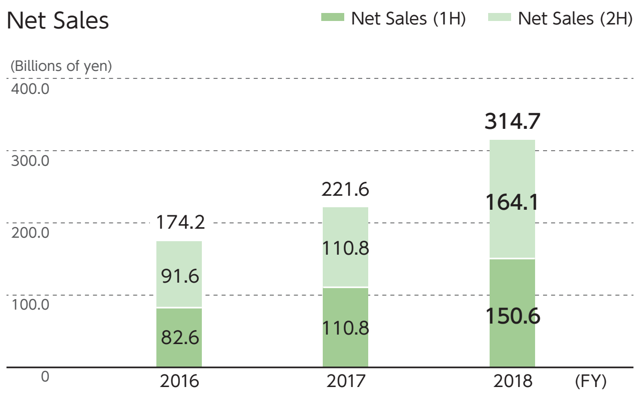
Overseas Sales Subsidiaries

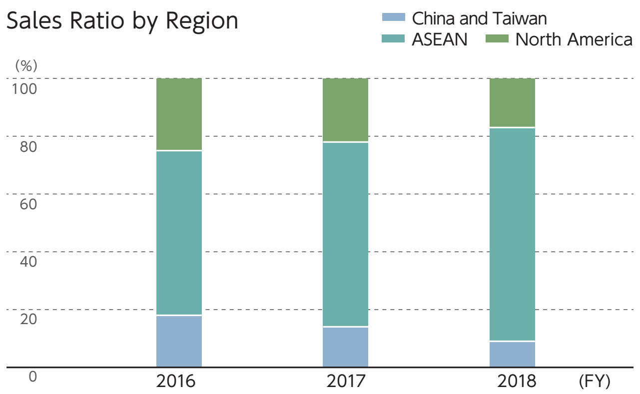
[**Business summary**] We sell a wide variety of products, as in Japan, at major overseas bases.

FY2018 Results

Net sales ¥314.7 billion | Segment income ¥1.0 billion | Segment employees 420 people

At overseas sales subsidiaries, in addition to the significant growth in sales of steel materials in Indonesia, an increased handling volume of bunker oil and non-ferrous metal scrap in Singapore boosted profits. As a result, sales in this business segment increased by 42.0% to ¥314.7 billion, and segment income increased by 7.8% to ¥1.0 billion.





Net Sales and Property and Equipment by Region

(1) Net sales

Japan (millions of yen)	Asia (millions of yen)	Other areas (millions of yen)	Total (millions of yen)
1,346,927	616,752	110,921	2,074,600

*Net sales are based on the location of the customer and are grouped into countries or regions.

(2) Property and equipment

Japan (millions of yen)	Asia (millions of yen)	Other areas (millions of yen)	Total (millions of yen)
61,629	7,168	64	68,862

Major Affiliated Companies

Name	Address	Capital or capital investments	Main businesses
(Consolidated subsidiaries) S.K. Engineering Co., Ltd.	Chuo-ku, Tokyo	¥222 million	Steel
Daisun Co., Ltd.	Nishi-ku, Osaka	¥200 million	Steel
Hanwa Logistics Tokyo Co., Ltd.	Narashino, Chiba	¥100 million	Steel
Hanwa Logistics Osaka Co., Ltd.	Sakai-ku, Sakai	¥100 million	Steel
Hanwa Logistics Nagoya Co., Ltd.	Tobishima-mura, Ama-gun, Aichi	¥100 million	Steel
Hanwa Steel Service Ltd.	Koka, Shiga	¥100 million	Steel
Hanwa Eco Steel Corporation	Kamagaya, Chiba	¥100 million	Steel
San Ei Metal Co., Ltd	Chuo-ku, Osaka	¥100 million	Steel
Tohan Steel Co., Ltd.	Funabashi, Chiba	¥64 million	Steel
Daikoh Steel Co., Ltd.	Suminoe-ku, Osaka	¥50 million	Steel
KAMEI Co., Ltd.	Matsuyama, Ehime	¥50 million	Steel
Taiyokozai Co., Ltd.	Chuo-ku, Osaka	¥10 million	Steel
Matsuoka Kozai Co., Ltd.	Koka, Shiga	¥10 million	Steel
Kaneki Co., Ltd.	Kumiyama-cho, Kuse-gun, Kyoto	¥20 million	Steel
Subaru Steel Co., Ltd.	Naniwa-ku, Osaka	¥57 million	Steel
Japanlife Co., Ltd.	Katsushika-ku, Tokyo	¥60 million	Steel
Hirouchi Atsuen Kogyo Co., Ltd.	Jyoto-ku, Osaka	¥100 million	Steel
SANYO KOUZAI Co., Ltd.	Naka-ku, Hiroshima	¥20 million	Steel
HANWA STEEL SERVICE (THAILAND) CO., LTD.	Chonburi, Thailand	THB 576,000 thousand	Steel
PT. HANWA STEEL SERVICE INDONESIA	Bekasi, Indonesia	US$ 18,000 thousand	Steel
HANWA STEEL SERVICE (DONGGUAN) CO., LTD.	Dongguan, China	US$ 15,000 thousand	Steel
CHANG FU STAINLESS STEEL CENTER (SUZHOU) CO., LTD.	Taicang, China	US$ 18,000 thousand	Steel
RI HONG STAINLESS (SHANGHAI) CO., LTD.	Shanghai, China	RMB 95,000 thousand	Steel
Showa Metal Co., Ltd.	Kawasaki-ku, Kawasaki	¥20 million	Metals and alloys
Japan South Africa Chrome Company Limited	Chuo-ku, Tokyo	¥13,608 million	Metals and alloys
Nikko Kinzoku Co., Ltd.	Moji-ku, Kitakyusyu	¥20 million	Metals and alloys / Non-ferrous metals
SEIKI Co., Ltd.	Taketoyo-cho, Chita-gun, Aichi	¥20 million	Non-ferrous metals
Hanwa Foods Co., Ltd.	Chuo-ku, Tokyo	¥200 million	Food products
SEATTLE SHRIMP & SEAFOOD COMPANY, INC.	Washington, U.S.A.	US$ 300 thousand	Food products
Toyo Energy Co., Ltd.	Chuo-ku, Osaka	¥120 million	Petroleum and chemicals
Seibu Service Co., Ltd.	Yodogawa-ku, Osaka	¥20 million	Petroleum and chemicals
Alpha Forme Co., Ltd.	Yodogawa-ku, Osaka	¥3 million	Petroleum and chemicals
HANWA AMERICAN CORP.	New Jersey, U.S.A.	US$ 40,000 thousand	Overseas sales subsidiaries
HANWA SINGAPORE (PRIVATE) LTD.	Singapore	US$ 13,827 thousand	Overseas sales subsidiaries
HANWA CO., (HONG KONG) LTD.	Hong Kong, China	HK$ 70,000 thousand	Overseas sales subsidiaries
HANWA THAILAND CO.,LTD.	Bangkok, Thailand	THB 200,000 thousand	Overseas sales subsidiaries
HANWA TRADING (SHANGHAI) CO., LTD.	Shanghai, China	US$ 2,500 thousand	Overseas sales subsidiaries
TAIWAN HANWA KOGYO CO., LTD.	Taipei, Taiwan	NT$ 15,000 thousand	Overseas sales subsidiaries
HANWA CANADA CORP.	Vancouver, Canada	CAN$ 2,300 thousand	Overseas sales subsidiaries
PT.HANWA INDONESIA	Jakarta, Indonesia	US$ 32,100 thousand	Overseas sales subsidiaries
HALOS Corporation	Chuo-ku, Tokyo	¥100 million	Others (Management and operation of amusement facilities)
(Equity-method affiliates) OHMI SANGYO CO., LTD.	Taisho-ku, Osaka	¥100 million	Steel
STAINLESS PIPE KOGYO Co., Ltd.	Mihara-ku, Sakai	¥100 million	Steel
COSMOSTEEL HOLDINGS LTD.	Singapore	S$ 56,324 thousand	Steel
SMC TRADING INVESTMENT JSC.	Ho Chi Minh, Vietnam	VND 549,983 million	Steel
SAMANCOR CHROME HOLDINGS PROPRIETARY LTD.	Johannesburg, South Africa	ZAR 2,555 million	Metals and alloys

A Message from the Financial Officer

Yoichi Nakagawa

Director and Senior Managing Executive Officer

Do not miss business opportunities, but rather make steady investments.

Summary of past business plans

The First Medium-Term Business Plan (hereinafter referred to as the "Medium-Term Plan") began in FY1994. We vowed to return to our core business because of the heavy shaking of the Company's foundation caused by past management of investments. We started by taking measures to improve the areas where financial conditions were weak, and this trend continued until FY2002, the final year of the Third Medium-Term Plan. Starting the Fourth Medium-Term Plan, which was launched in the following FY2003, the Company strove to find a way out from the past top-down approach of formulating business plans and created a corporate culture to carry out the plans across the entire company, centered on the business strategy subcommittee consisting of 300 employees gathered through internal open recruitment. From the Fourth to the Sixth Medium-Term Plans, we aimed for organic growth. When new business challenges were met, subsidiaries were created from scratch, and in some new businesses, a business incubation team was formed in the Corporate Planning Department. A turning point came at the Sixth Medium-Term Plan. At that time, it was during the era of the great revolution in the steel industry, which began in 2006 when Mittal of India acquired Arcelor of Luxembourg. After that, there was also the collapse of the Lehman Brothers. In this era of revolution, a Japan-centered independent steel trading company like us, which was not even affiliated with certain steel mills, had to make efforts to respond to global trends by creating our own way. While other companies launched plans to expand overseas, we dared to strengthen our domestic transactions, which are our forte, especially those with medium and small-sized companies. However, we felt that organic growth alone would not be enough to achieve this goal. The acquisition of Daikoh Steel Co., Ltd., which operates the steel sheet shearing business, in August 2010, was also a response to such a new trend.

The Seventh Medium-Term Plan, which began at the time Mr. Furukawa became the president in April 2011, saw the spread of "Catchphrase management" under his strong leadership. Although the direction we aimed for did not change, such as further strengthening our sales power, we felt that employees began to run in one direction by following the vectors with those catchphrases. In the midst of such changes, we began to acquire companies, including business partners. The Company started the "M&A plus A (Alliance)" strategy to diversify its business operations in and around the entire value chain and its surrounding areas by investing in and making alliances with medium and small-sized companies with the functions required by the Company as a distribution specialist.

From the Eighth Medium-Term Plan, under the "Three S Commitment - STEADY, SPEEDY, STRATEGIC," we made a new start in view of new growth.

Progress of the Medium-Term Plan in FY2018

In FY2018, the Group achieved 89.6% of its ordinary income forecast, which is based on "STEADY" and "SPEEDY." In addition, "STRATEGIC," which is income from resource investment, did not contribute to profits in FY2018. The situation of each of the three "S" is as follows.

In terms of "STEADY," while the Company increased its transaction revenue mainly in the metals and alloys business with generally strong demand, financing costs of foreign currency funds along with strong demands for capital put a downward pressure on profit. As a result, the Group achieved 94% of the forecast, which is slightly lower than initially expected.

In terms of "SPEEDY," the operating results of domestic group companies centered on the "SOKOKA" business, and overseas sales subsidiaries remained strong. However, the achievement rate stood at 73% against the forecast, since the expanded profit margins at overseas coil centers associated with increased contracted prices in FY2017 returned to normal in FY2018 and due to the effects of foreign exchange losses caused by the depreciation of local currencies.

For "STRATEGIC," regarding the business status of SAMANCOR, an equity-method affiliate, in addition to the fall in ferrochrome prices, time has been required for full-scale operation of the consolidated subsidiary that SAMANCOR acquired last year, and operations of some mines and smelters have fallen due to natural disasters and other factors. In addition, since the Company's depreciations and amortization of assets including mining rights will occur every fiscal year from FY2018 (about ¥1.6 billion in FY2018), it did not contribute to profits. However, transactions with strategic investment partners such as SAMANCOR and the Tsingshan Holding Group, a joint venture partner, have been steadily growing, and have already contributed to the Group's business revenue (STEADY, SPEEDY).

Investing cautiously yet boldly

In the domestic steel business, the Company implemented strategic investments for the SOKOKA (Just-In-Time delivery, small lot, processing) strategy. In the overseas steel business, the Company made partial investments to build alliances mainly in ASEAN countries. In an era when Japan was showing strong leadership, a Japanese investment style that required time for careful consideration was acceptable. But now that China and ASEAN business practices have become the mainstream, it has become necessary to make quick decisions in any situation. The investments we make are therefore limited to areas of expertise where we have information for making quick judgments, that is, in areas where we are constantly discussing. We do not invest in just anything. For new investment projects and progress management in existing investments, examinations of the investment and withdrawal are carried out by the Investment Examination Committee, which is independent from the sales division (chaired by the Legal & Credit Executive Officer; other members consist of the General Managers in charge of Legal & Credit Department, Information Systems Department, Internal Audit Department, Accounting Department, Finance Department, Personnel Department, and Corporate Planning Department, etc.). In FY2018, a total of 24 meetings of the Investment Examination Committees were held, with 24 new investment projects and 12 existing investment projects reviewed. In order to support small and medium-sized enterprises which joined the Group after being acquired or invested in, the Group Support Section and the Osaka Group Support Section set up within the Corporate Planning Department act as contact points for consultations concerning accounting standards and compliance issues.

With regard to overseas investments, we have a fundamental principle not to make investments that require a vast amount of funds such as those that general trading companies make. Rather, our investments are characterized by the fact that we limit investments in resources that have demand in China but are not produced in China.

We have a relaxed corporate culture with the president, officers, and employees being in close proximity to each other. Accordingly, we make investment decisions based on actual business experience through various opportunities, in addition to the meetings of the Board of Directors or the Management Committee.

Cash flow and shareholder return

We are a trading company. Therefore, unless our credit rating of the financial condition by the rating agencies is maintained, the financing cost will increase, and we will not be able to provide the functions of a trading company. The Group companies that have been invested in during the Seventh Medium-Term Plan have entered the harvesting period. However, more seeding is needed. Now is a time for patience and we are supplementing them with 10-year corporate bonds and hybrid bonds issued the other day to compensate against shortfalls. Although we are flexible in terms of financial discipline, we aim to achieve the net DER (net interest-bearing debt to net assets) of 1.5 times.

Unlike many Japanese companies, we need more money to invest in growth. Funding is necessary for growth, but we try to provide stable dividends as much as possible since we have caused a great deal of inconvenience to our shareholders in the past. Naturally, if the profit comes out in the future STRATEGIC investment, there is a possibility that the amount will be returned as a dividend. However, since the Company is supported not only by shareholders, but also by many stakeholders such as employees and business partners, we believe that the balance of profit distribution among stakeholders ultimately leads to a more fulfilling return to shareholders.

11-year Financial Summary

For the years ended March 31

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Millions of yen 2019	Thousands of U.S. dollars (*1) 2019
Results of Operations:												
Net sales	¥ 1,539,281	¥ 1,116,628	¥ 1,396,103	¥ 1,564,250	¥ 1,511,324	¥ 1,682,503	¥ 1,737,397	¥ 1,511,800	¥ 1,514,037	¥ 1,791,118	¥ 2,074,600	$ 18,691,774
Gross profit	47,712	40,589	43,744	46,346	44,762	51,365	55,729	56,559	64,514	72,195	79,222	713,776
Operating income	17,451	11,420	13,853	14,976	12,491	16,252	19,107	18,178	23,426	26,217	28,904	260,419
Ordinary profit	15,007	9,412	13,490	13,116	8,871	14,698	14,264	15,424	22,907	25,502	23,395	210,784
Net income attributable to owners of the parent	5,997	11,579	5,793	4,632	4,720	7,896	9,086	25,469	16,363	17,354	13,914	125,362
Cash Flows:												
Net cash provided by (used in) operating activities	(5,742)	46,250	(46,948)	11,970	19,380	343	1,790	53,098	3,959	(19,755)	15,417	138,904
Net cash provided by (used in) investing activities	(19,535)	(12,991)	(7,610)	(12,009)	(5,106)	(5,244)	(13,692)	(10,446)	(18,427)	(39,971)	(20,623)	(185,809)
Net cash provided by (used in) financing activities	46,591	(43,669)	51,271	1,596	(16,363)	(4,927)	19,339	(41,751)	15,447	66,435	28,132	253,464
Free cash flows (*3)	(25,277)	33,258	(54,559)	(39)	14,273	(4,901)	(11,902)	42,652	(14,468)	(59,727)	(5,205)	(46,896)
Financial Position at Year-End:												
Total assets	479,379	443,444	532,797	582,404	552,908	593,351	651,456	599,694	694,232	860,344	933,307	8,408,928
Total net assets	94,912	106,855	110,458	115,956	120,674	125,361	142,749	156,139	171,637	203,700	202,459	1,824,119
Gross interest-bearing liabilities (*4)	214,512	175,578	235,204	243,142	236,169	245,906	272,575	237,552	259,670	325,562	363,257	3,272,880
Net interest-bearing liabilities (*5)	179,311	150,909	214,497	219,594	212,883	229,899	248,032	210,437	231,205	289,346	303,949	2,738,525
Per share data: (*2)											Yen	U.S. dollars (*1)
Net income attributable to owners of the parent	28.47	55.46	27.95	22.35	22.78	38.11	43.85	122.92	80.18	427.04	342.41	3.085
Net assets attributable to owners of the parent	450.05	512.16	529.65	548.22	570.50	591.68	682.46	747.40	838.70	4,621.96	4,632.55	41.738
Cash dividends	12.00	12.00	12.00	12.00	12.00	12.00	15.00	18.00	19.00	85.00 (*9)	150.00	1.351
Key financial ratios:											%	
Return on assets (ROA) (*6)	1.2	2.5	1.2	0.8	0.8	1.4	1.5	4.1	2.5	2.2	1.6	
Return on equity (ROE) (*7)	6.2	11.6	5.4	4.1	4.1	6.6	6.9	17.2	10.1	9.7	7.4	
Capital adequacy ratio	19.7	24.0	20.6	19.5	21.4	20.6	21.7	25.8	24.5	21.8	20.2 (22.8)(*10)	
Net DER (times) (*8)	1.9	1.4	2.0	1.9	1.8	1.9	1.8	1.4	1.4	1.5	1.6 (1.3)(*10)	
Payout ratio	42.1	21.6	42.9	53.7	52.7	31.5	34.2	14.6	23.7	29.3	43.8	

*1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥110.99=$1.00.
2. The company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017. Accordingly, per share data (except for cash dividends) are calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal year 2018.
3. Free cash flow is defined as net cash provided by (used in) operating activities and net cash used in investing activities.
4. Gross interest-bearing liabilities is defined as short-term loans payable, commercial paper, long-term debt, bonds and lease debt.
5. Net interest-bearing liabilities is defined as gross interest-bearing liabilities minus cash and cash equivalents and time deposits.
6. ROA is calculated by dividing net income (loss) attributable to owners of the parent by the average of total assets at the beginning and end of the fiscal year.
7. ROE is calculated by dividing net income (loss) attributable to owners of the parent by the average of equity attributable to owners of the parent at the beginning and end of the fiscal year.
8. Net DER is calculated by dividing net interest-bearing liabilities by equity attributable to owners of the parent at the end of the fiscal year.
9. Dividends per share of ¥85.00 for the year ended March 31, 2018 consisted of interim dividends of ¥10.00 per share before the consolidation of shares and year-end dividends of ¥75.00 per share after the consolidation.
10. The values in parentheses of the capital adequacy ratio and the net debt/equity ratio (DER) are calculated by taking into account the equity credit attributes evaluated by ratings institutions (50%) of the ¥50.0 billion subordinated loan (hybrid loan) implemented in March 2019.

Consolidated Balance Sheets

As at March 31, 2019 and 2018

	Millions of yen 2019	2018	Thousands of U.S. dollars (Note 1) 2019
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	¥ 58,384	¥ 34,855	$ 526,029
Receivables:			
Trade notes and accounts (Note 3):			
Unconsolidated subsidiaries and affiliates	14,302	13,271	128,858
Other	402,092	387,045	3,622,776
Electronically recorded monetary claims (Note 3)			
Unconsolidated subsidiaries and affiliates	87	789	783
Other	36,549	24,627	329,299
Loans:			
Unconsolidated subsidiaries and affiliates	7,638	4,554	68,817
Other	3,996	3,779	36,003
Allowance for doubtful accounts	(504)	(481)	(4,540)
Securities (Notes 3 and 4)	1,190	683	10,721
Inventories (Note 6)	140,633	134,877	1,267,078
Advance payments-trade	49,361	19,054	444,733
Other current assets (Note 7)	11,255	21,084	101,405
Total current assets	724,987	644,140	6,532,002
Investments and noncurrent receivables:			
Investment securities (Notes 3, 4 and 7)	51,100	55,870	460,401
Investments in unconsolidated subsidiaries and affiliates (Note 3)	50,799	53,911	457,689
Loans receivable (Note 3):			
Unconsolidated subsidiaries and affiliates	1,484	1,459	13,370
Other	19,678	18,906	177,295
Other investments and noncurrent receivables	12,304	18,688	110,856
Allowance for doubtful accounts	(1,327)	(902)	(11,956)
Total investments and noncurrent receivables	134,040	147,934	1,207,676
Property and equipment (Note 7):			
Land (Note 11)	33,864	32,402	305,108
Buildings and structures	45,156	42,089	406,847
Other	35,625	32,054	320,974
Accumulated depreciation	(45,784)	(42,076)	(412,505)
Total property and equipment	68,862	64,469	620,434
Other assets:			
Deferred tax assets—noncurrent (Note 10)	385	374	3,468
Intangibles and other assets	5,031	3,426	45,328
Total other assets	5,417	3,801	48,806
Total	¥ 933,307	¥ 860,344	$ 8,408,928

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen 2019	2018	Thousands of U.S. dollars (Note 1) 2019
Liabilities and Net Assets			
Current liabilities:			
Short-term loans payable (Notes 3 and 8)	¥ 65,398	¥ 81,722	$ 589,224
Commercial paper (Notes 3 and 8)	—	10,000	—
Long-term debt due within one year (Notes 3, 7 and 8)	37,474	44,643	337,634
Trade notes and accounts payable (Note 3):			
Unconsolidated subsidiaries and affiliates	3,939	1,349	35,489
Other	281,883	265,246	2,539,715
Accrued bonuses to employees	2,647	2,474	23,848
Provision for product warranties	253	391	2,279
Income taxes payable	3,486	5,050	31,408
Other current liabilities	59,833	40,851	539,084
Total current liabilities	454,916	451,730	4,098,711
Noncurrent liabilities:			
Long-term debt due after one year (Notes 3, 7 and 8)	258,970	187,657	2,333,273
Retirement benefit liability (Note 9)	5,950	4,943	53,608
Deferred tax liabilities—noncurrent (Note 10)	4,765	6,155	42,931
Other noncurrent liabilities	6,245	6,157	56,266
Total noncurrent liabilities	275,931	204,913	2,486,088
Contingent liabilities (Note 13)			
Net assets (Note 11)			
Shareholders' equity:			
Common stock:			
Authorized: 114,000,000 shares in 2019 and 114,000,000 shares in 2018			
Issued: 42,332,640 shares in 2019 and 42,332,640 shares in 2018	45,651	45,651	411,307
Retained earnings	139,036	131,045	1,252,689
Treasury stock, at cost:1,697,328 shares in 2019 and 1,694,375 shares in 2018	(3,737)	(3,726)	(33,669)
Total shareholders' equity	180,949	172,969	1,630,318
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes	10,800	14,342	97,306
Deferred gains or losses on hedges, net of taxes	61	(169)	549
Land revaluation difference, net of taxes	3,343	2,963	30,119
Foreign currency translation adjustments	(1,435)	3,110	(12,929)
Remeasurements of defined benefit plans (Note 9)	(5,473)	(5,388)	(49,310)
Total accumulated other comprehensive income	7,295	14,858	65,726
Non-controlling interests	14,214	15,872	128,065
Total net assets	202,459	203,700	1,824,119
Total	¥ 933,307	¥ 860,344	$ 8,408,928

Consolidated Statements of Income and Comprehensive Income

For the years ended March 31, 2019 and 2018

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Net sales	¥ 2,074,600	¥ 1,791,118	$ 18,691,774
Cost of sales	1,995,378	1,718,922	17,977,998
Gross profit	79,222	72,195	713,776
Selling, general and administrative expenses	50,318	45,977	453,356
Operating income	28,904	26,217	260,419
Other income (expenses):			
Interest and dividend income	5,578	2,875	50,256
Interest expense	(5,052)	(3,245)	(45,517)
Share of profit (loss) of entities accounted for using equity method	(75)	(127)	(675)
Foreign exchange gain (loss)	(3,331)	316	(30,011)
Gain on sales of property and equipment (Note 14)	416	—	3,748
Gain on sales of investment securities	—	165	—
Reversal of provision for loss on business of subsidiaries and affiliates (Note 15)	—	512	—
Loss on sales of property and equipment (Note 16)	(202)	—	(1,819)
Loss on retirement of property and equipment (Note 17)	(236)	—	(2,126)
Loss on impairment of property and equipment (Note 18)	(251)	—	(2,261)
Loss on disaster (Note 19)	(32)	—	(288)
Loss on valuation of investment securities	(1,820)	(181)	(16,397)
Loss on valuation of investments in capital	—	(217)	—
Provision of allowance for doubtful accounts for subsidiaries and affiliates (Note 20)	(203)	—	(1,828)
Provision for product warranties (Note 21)	—	(345)	—
Loss on disposal of property and equipment (Note 22)	(109)	—	(982)
Other, net	(2,627)	(534)	(23,668)
Income before income taxes	20,955	25,435	188,800
Income taxes (Note 10):			
Current	7,396	8,410	66,636
Deferred	(266)	(95)	(2,396)
Total income taxes	7,130	8,315	64,240
Net income	¥ 13,825	¥ 17,120	$ 124,560
Net income attributable to:			
Owners of the parent	¥ 13,914	¥ 17,354	$ 125,362
Non-controlling interests	(88)	(233)	(792)
Other comprehensive income (Note 23):			
Valuation difference on available-for-sale securities, net of taxes	(3,549)	1,762	(31,975)
Deferred gains or losses on hedges, net of taxes	230	(311)	2,072
Foreign currency translation adjustment	(799)	316	(7,198)
Remeasurements of defined benefit plans, net of taxes	(79)	587	(711)
Share of other comprehensive income of entities accounted for using equity method	(6,183)	3,057	(55,707)
Total other comprehensive income	(10,381)	5,411	(93,530)
Comprehensive income	¥ 3,444	¥ 22,532	$ 31,029
Comprehensive income attributable to:			
Owners of the parent	¥ 5,964	¥ 21,501	$ 53,734
Non-controlling interests	(2,520)	1,031	(22,704)

	yen 2019	yen 2018	U.S. dollars (Note 1) 2019
Net income per share (*1)	¥ 342.41	¥ 427.04	$ 3.085
Cash dividends per share (*2 and *3)	150.00	85.00	1.351

*1. The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017.
Accordingly, per share data (exclude cash dividends) are calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal 2018.
2. Dividends per share of ¥85.00 for the year ended March 31, 2018 consisted of interim dividends of ¥10.00 per share before the consolidation of shares and year-end dividends of ¥75.00 per share after the consolidation.
3. Year-end dividends per share of ¥75.00 for the year ended March 31, 2018 included the 70th anniversary commemorative dividend of ¥10.00.
See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2019 and 2018

	Thousands	Millions of yen									
	Number of shares of commom stock(*)	Common stock	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 2017	211,663	¥ 45,651	¥ 117,778	¥ (3,720)	¥ 12,580	¥ 142	¥ 2,966	¥ 1,062	¥ (6,037)	¥ 1,214	¥ 171,637
Cash dividends paid	—	—	(4,063)	—	—	—	—	—	—	—	(4,063)
Change of scope of consolidation	—	—	(25)	—	—	—	—	—	—	—	(25)
Change of scope of equity method	—	—	—	—	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	2	—	—	—	—	—	—	—	2
Net income attributable to owners of the parent	—	—	17,354	—	—	—	—	—	—	—	17,354
Purchases of treasury stock	—	—	—	(6)	—	—	—	—	—	—	(6)
Consolidation of shares	(169,330)	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	1,762	(311)	(2)	2,047	648	14,658	18,803
Balance at March 31, 2018	42,332	45,651	131,045	(3,726)	14,342	(169)	2,963	3,110	(5,388)	15,872	203,700
Balance at April 1, 2018	42,332	45,651	131,045	(3,726)	14,342	(169)	2,963	3,110	(5,388)	15,872	203,700
Cash dividends paid	—	—	(6,095)	—	—	—	—	—	—	—	(6,095)
Change of scope of consolidation	—	—	569	—	—	—	—	—	—	—	569
Change of scope of equity method	—	—	(17)	—	—	—	—	—	—	—	(17)
Reversal of revaluation reserve for land	—	—	(379)	—	—	—	—	—	—	—	(379)
Net income attributable to owners of the parent	—	—	13,914	—	—	—	—	—	—	—	13,914
Purchases of treasury stock	—	—	—	(1)	—	—	—	—	—	—	(1)
Consolidation of shares	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	(9)	—	—	—	—	—	—	(9)
Net changes of items other than shareholders' equity	—	—	—	—	(3,542)	230	379	(4,545)	(85)	(1,657)	(9,220)
Balance at March 31, 2019	42,332	¥ 45,651	¥ 139,036	¥ (3,737)	¥ 10,800	¥ 61	¥ 3,343	¥ (1,435)	¥ (5,473)	¥ 14,214	¥ 202,459

	Thousands	Thousands of U.S. dollars (Note 1)									
	Number of shares of commom stock	Common stock	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 2018	42,332	$ 411,307	$ 1,180,691	$ (33,570)	$ 129,218	$ (1,522)	$ 26,696	$ 28,020	$ (48,544)	$ 143,003	$ 1,835,300
Cash dividends paid	—	—	(54,914)	—	—	—	—	—	—	—	(54,914)
Change of scope of consolidation	—	—	5,126	—	—	—	—	—	—	—	5,126
Change of scope of equity method	—	—	(153)	—	—	—	—	—	—	—	(153)
Reversal of revaluation reserve for land	—	—	(3,414)	—	—	—	—	—	—	—	(3,414)
Net income attributable to owners of the parent	—	—	125,362	—	—	—	—	—	—	—	125,362
Purchases of treasury stock	—	—	—	(9)	—	—	—	—	—	—	(9)
Consolidation of shares	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	(81)	—	—	—	—	—	—	(81)
Net changes of items other than shareholders' equity	—	—	—	—	(31,912)	2,072	3,414	(40,949)	(765)	(14,929)	(83,070)
Balance at March 31, 2019	42,332	$ 411,307	$ 1,252,689	$ (33,669)	$ 97,306	$ 549	$ 30,119	$ (12,929)	$ (49,310)	$ 128,065	$ 1,824,119

* The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017.
See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥ 20,955	¥ 25,435	$ 188,800
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation	4,513	4,240	40,661
Amortization of goodwill	671	532	6,045
Increase (decrease) in allowance for doubtful accounts	422	(193)	3,802
Interest and dividend income	(5,578)	(2,875)	(50,256)
Interest expense	5,052	3,245	45,517
Share of profit (loss) of entities accounted for using equity method	75	127	675
Gain on sales of property and equipment	(416)	—	(3,748)
Gain on sales of investment securities	—	(165)	—
Reversal of provision for loss on business of subsidiaries and affiliates	—	(512)	—
Loss on sales of property and equipment	202	—	1,819
Loss on retirement of property and equipment	236	—	2,126
Loss on impairment of property and equipment	251	—	2,261
Loss on disaster	32	—	288
Loss on valuation of investment securities	1,820	181	16,397
Loss on valuation of investments in capital	—	217	—
Provision of allowance for doubtful accounts for subsidiaries and affiliates	203	—	1,828
Provision for product warranties	—	345	—
Loss on disposal of property and equipment	109	—	982
Decrease (increase) in trade receivables	(24,019)	(82,227)	(216,406)
Decrease (increase) in inventories	(4,357)	(21,619)	(39,255)
Increase (decrease) in trade notes and accounts payable	17,181	69,366	154,797
Increase (decrease) in advances received	21,097	(4,733)	190,080
Decrease (increase) in advance payments-trade	(29,789)	3,957	(268,393)
Increase (decrease) in retirement benefit liability	1,009	992	9,090
Other, net	13,731	(6,298)	123,713
Subtotal	23,404	(9,982)	210,865
Cash flows during the year for:			
Interest and dividends received	5,858	3,681	52,779
Interest paid	(4,919)	(3,257)	(44,319)
Income taxes (paid) refund	(8,926)	(10,196)	(80,421)
Net cash provided by (used in) operating activities	15,417	(19,755)	138,904
Cash flows from investing activities:			
Payments into time deposits	(2,030)	(3,039)	(18,289)
Proceeds from withdrawal of time deposits	2,446	3,553	22,038
Purchase of property and equipment	(7,718)	(4,650)	(69,537)
Proceeds from sales of property and equipment	1,261	144	11,361
Purchase of investment securities	(8,325)	(35,461)	(75,006)
Proceeds from sales and redemption of investment securities	1,156	1,137	10,415
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 24)	—	1,176	—
Net decrease (increase) in short-term loans receivable	(4,435)	11,665	(39,958)
Payments of long-term loans receivable	(5,049)	(15,037)	(45,490)
Collection of long-term loans receivable	4,224	978	38,057
Other, net	(2,153)	(436)	(19,398)
Net cash provided by (used in) investing activities	(20,623)	(39,971)	(185,809)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(19,091)	12,185	(172,006)
Net increase (decrease) in commercial paper	(10,000)	5,000	(90,098)
Proceeds from long-term debt and issuance of bonds	111,054	94,188	1,000,576
Repayments of long-term debt and redemption of bonds	(47,393)	(54,363)	(427,002)
Proceeds from share issuance to non-controlling shareholders	—	13,580	—
Dividends paid	(6,089)	(4,063)	(54,860)
Dividends paid to non-controlling interests	(48)	(28)	(432)
Other, net	(298)	(64)	(2,684)
Net cash provided by (used in) financing activities	28,132	66,435	253,464
Effect of exchange rate changes on cash and cash equivalents	(0)	(203)	(0)
Net increase (decrease) in cash and cash equivalents	22,926	6,504	206,559
Cash and cash equivalents at beginning of year	34,855	27,206	314,037
Increase in cash and cash equivalents from newly consolidated subsidiaries	576	1,144	5,189
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	25	—	225
Cash and cash equivalents at end of year	¥ 58,384	¥ 34,855	$ 526,029

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Hanwa Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with Japanese GAAP. The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act of Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2019, which was ¥110.99 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

As permitted, amounts of less than one million yen are omitted in the presentation for 2018 and 2019. As a result, the totals shown in the accompanying consolidated financial statements, both in yen and in U.S. dollars, do not necessarily agree with the sum of the individual amounts.

2. Significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and its 41(37 in 2018) significant subsidiaries (the "Companies"). The accounts of certain consolidated subsidiaries have been included on the basis of fiscal periods that ended three months or less prior to March 31, and significant transactions after these year-ends were appropriately adjusted in consolidation. Intercompany transactions and accounts have been eliminated. All material unrealized profits included in assets resulting from intercompany transactions are eliminated.

Equity method

As of March 31, 2019, the Company had 47 unconsolidated subsidiaries and 20 affiliates. The equity method has been applied to the investments in 6 of the unconsolidated subsidiaries and 5 of the affiliates. Investments in the remaining unconsolidated subsidiaries and affiliates are not accounted for by the equity method as the application of the equity method would not have a material effect on net income and retained earnings or on the consolidated financial statement as the whole. Where the fiscal year-ends of the entities accounted for by the equity method are different from that of the Company, the Company mainly used their financial statements as of their fiscal year-ends and for the years then ended for applying the equity method.

Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful accounts, the uncollectible amount is individually estimated.

Securities

The Companies classify securities as (a) securities held for trading purposes (hereafter "trading securities"), (b) debt securities intended to be held to maturity (hereafter "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter "available-for-sale securities").

The Companies do not hold trading securities. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Valuation differences on available-for-sale securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income. Realized gains on the sales of such securities are computed using moving average cost. Other available-for-sale securities are stated at moving average cost.

Inventories

Inventories are stated at the lower of cost (based principally on a moving average basis or a specific identification basis) or net realizable value.

Property and equipment (except under lease)

Property and equipment are carried at cost. Recognized loss on impairment of property and equipment has been deducted from acquisition costs. Depreciation is provided principally on the straight-line method over the estimated useful life of the asset. Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

Software costs

The Companies include software in "Intangibles and other assets" and depreciate it using the straight-line method over the estimated useful life, especially 5 years for computer software for internal use.

Bonuses

The Companies follow the Japanese practice of paying bonuses to employees. At the balance sheet date, Accrued bonuses to employee are estimated and accounted for on an accrual basis.

Provision for product warranties

Provision for product warranties is recorded to cover the payment of product warranty costs with the potential to occur within a certain period of time based on the ratio of the warranty costs to sales in the past.

For certain consolidated subsidiaries, the provision is recognized based on the amount individually estimated.

Income taxes

Income taxes comprise corporate tax, prefectural and municipal inhabitants taxes and enterprise tax. The Companies recognize the tax effects of loss carryforwards and the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of the temporary differences.

The Company and its wholly owned domestic subsidiaries file consolidated tax returns.

Retirement benefits

1. Attribution of estimated retirement benefits
   To calculate benefit liabilities, the estimated amount of retirement benefits is attributed to the consolidated fiscal year under review based on the benefit formula.
2. Treatment of unrecognized actuarial differences and past service costs
   Past service costs are posted in expenses based on the straight-line method for a fixed period of years within the average remaining service years of employees when costs accrue from their service.
   Actuarial differences are posted in expenses mainly after the consolidated fiscal year following their accrual based on the straight-line method for a fixed period of years within the average remaining service years of employees.
3. Adoption of simplified method by small companies
   In calculating net defined benefit liability and retirement benefit expenses, certain subsidiaries adopt a simplified method that regards the benefits payable assuming the voluntary retirement of all employees at the fiscal year-end as retirement benefit obligations.

Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end rates.

Balance sheets of foreign consolidated subsidiaries are translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates. Income statements of foreign consolidated subsidiaries are translated at average rates, except for transactions with the Company, which are translated at rates used by the Company.

The Companies report foreign currency translation adjustments in accumulated other comprehensive income.

Finance leases

Finance leases that do not transfer ownership of the leased property to the lessee at the end of the lease period are depreciated using the straight-line method over the period of the lease with a residual value assumed to be zero.

Derivatives and hedge accounting

The Company states derivative financial instruments at fair value and recognizes changes in the fair value as gain or loss unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company defers the recognition of gain or loss resulting from the changes in the fair value of the derivative financial instruments until the related gain or loss on the hedged items are recognized. For certain overseas consolidated subsidiaries, fair value hedge accounting is applied.

Also, if interest rate swap agreements are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap agreements is added to or deducted from the interest on the assets or liabilities for which the swap agreement was executed.

The following summarizes hedging derivative financial instruments used by the Company and items hedged:

Hedging instruments:
- Interest rate swap agreements
- Commodity forwards contracts

Hedged items:
- Interest expense on borrowings
- Inventories and commitments

The Company evaluates hedge effectiveness by comparing the cumulative changes in cash flows or changes in the fair value of the hedged items and the corresponding changes in the hedging derivative instruments.

Goodwill

Goodwill is amortized by the straight-line method over 5 years.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Amounts per share

Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period. Diluted net income per share is not disclosed because potentially dilutive securities are not issued. Cash dividends per share in the consolidated statements of income and comprehensive income are dividends applicable to the respective years, including dividends to be paid after the end of the consolidated fiscal year.

Changes in accounting policies

IFRS applied subsidiaries of Hanwa Group apply IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers) from the current consolidated fiscal year. The impact of the application of this accounting standard on the consolidated financial statements has been immaterial.

Accounting Standards Not Yet Applied

(A) The Company and domestic consolidated subsidiaries

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

1. Overview
   The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:
   Step 1: Identify contract(s) with customers.
   Step 2: Identify the performance obligations in the contract.
   Step 3: Determine the transaction price.
   Step 4: Allocate the transaction price to the performance obligation in the contract.
   Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.
2. Effective date
   Effective from the beginning of the fiscal year ending March 31, 2022
3. Effects of the application of the standards
   The Companies are currently in the process of evaluating the effects of these new standards on the consolidated financial statements.

Changes in presentation method

(Changes due to adoption of "Partial Amendments of Accounting Standard for Tax Effect Accounting")

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the current fiscal year, the Company and its consolidated subsidiaries changed the presentation, such that deferred tax assets and deferred tax liabilities are classified as part of "investments and other assets" and "noncurrent liabilities" , respectively.

As a result, deferred tax assets of ¥1,891 million classified as "current assets" have been included in deferred tax assets ¥374 million in "other assets" , and deferred tax liabilities of ¥0 million classified as "current liabilities" have been in deferred tax liabilities ¥4,522 million classified as "noncurrent liabilities" in the balance sheet as of the end of the previous fiscal year.

As the same taxation authority, deferred tax liabilities are offset by deferred tax assets in the consolidated balance sheets, total assets decreased by ¥1,620 million compared to the amounts that would have been reported without the change.

3. Financial instruments

At March 31, 2019 and 2018, information on financial instruments was as follows.

(A) Qualitative information on financial instruments

Policy for financial instruments

The Companies' main business is the sales of various products ranging from mainly steel, metals and alloys, non-ferrous metals to food products, petroleum and chemicals, lumber, and machinery. The Companies also engages in other business activities such as steel material processing, non-ferrous metal processing and amusement park management and operations. While the Companies depends primarily on bank borrowings to procure funds necessary for these operational transactions as well as investing and financing activities, the Companies seeks to diversify its financing instruments to ensure stable and flexible liquidity, funding these activities by issuing bonds and commercial paper in the capital markets in some cases. Temporary surplus funds are managed in low-risk financial assets.

It is the Companies' policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities.

Components of financial instruments and risks

Trade notes and accounts receivable and electronically recorded monetary claims are exposed to credit risk of customers. Some of them are denominated in foreign currencies and exposed to the foreign exchange rate fluctuation risk as well.

Securities mainly consist of stocks and are exposed to price fluctuation risk. Some of them are denominated in foreign currencies, which accompany foreign exchange rate fluctuation risk.

Long-term loans receivable are mainly for the suppliers of the Company and are exposed to credit risk.

Foreign currency denominated trade notes and accounts payable are exposed to foreign exchange rate fluctuation risk.

Short-term loans payable, commercial paper, bonds payable and long-term loans payable are used for raising working capital and investment funds, although they have liquidity risk related to changes in financial market environments.

Foreign exchange forward contracts and currency swap agreements are used to hedge foreign exchange rate fluctuation risk associated with certain assets and liabilities denominated in foreign currencies. Interest rate swap agreements are made use of for hedging fluctuations in forward interest rates. Commodity forward contracts and commodity swap agreements aim to hedge market risks associated with certain inventories and commitments.

Refer to No.2, "Significant accounting policies — Derivatives and hedge accounting" for an explanation of the Companies' hedging instruments, hedged items, and evaluation of hedge effectiveness.

Risk management system for financial instruments

With regard to credit risk to which trade notes and accounts receivable, electronically recorded monetary claims and long-term loans receivable are exposed, the Company sets a credit limit amount for each business partner and manages the outstanding balance in accordance with the "Credit administrative provisions" while monitoring the credit status on a regular basis. Furthermore, the Company is committed to reducing foreign exchange rate fluctuation risk to which trade notes and accounts receivable, electronically recorded monetary claims and trade notes and accounts payable are exposed by means of derivatives trading.

Because price fluctuation risks associated with securities mainly affect stocks of the Company's business partners, the Company reports the regularly assessed market values and their financial status to the Board of Directors. In regard to foreign exchange rate fluctuation risk, the Company is committed to reducing it by means of derivatives trading.

In regard to business investments, in compliance with the "Rules for the Review and Approval of New Businesses, Loans and Investments," the Company decides whether or not to invest after following the prescribed procedures. The Company continuously monitors the financial status and trading conditions of the issuing company and reviews its policies for the holding of stocks.

To deal with liquidity risk associated with procuring funds for short-term loans payable, commercial paper, and long-term debt, the Company creates a fund procurement plan based on the outlook of the Companies' financial requirements. Taking financial market trends into consideration as well, the Company works to diversify the funds procurement to ensure liquidity. In addition, with regard to interest rate risk and foreign exchange rate fluctuation risk, the Company seeks to reduce such risks through derivatives trading and other means.

The Company practices and manages the trading of derivatives related to currencies and products in compliance with the "Business Department Operating Rules," and each department receives the approval of a supervising director to engage in such trading. In addition, the trading authority and trading limit are clearly stated in the "Regulations for Administrative Authority" and the bylaws.

With respect to derivatives trading related to interest rates associated with loans, the Company receives approval from a supervising director in charge of administration department before engaging in such trading.

In order to reduce credit risk to which derivatives trading partners are exposed, the Company trades only with highly rated financial institutions.

With regard to the contract balances of derivatives trading related to products, the trading department reports it to the supervising director of each department and to the Internal Audit Department. The Hedging Administration Office checks the balance confirmations from the contractors and reports them to the supervising director of each department and the Internal Audit Department. At the same time, the Accounting Department checks the balance directly with the contractors. When necessary, internal auditing is implemented by the Internal Audit Department.

Supplementary explanation for items concerning fair values of financial instruments

The fair value of financial instruments is based on the market price, but in cases in which market prices are not available, the fair value is reasonably estimated. As variable factors are incorporated into the estimation of values, values may vary depending on the assumptions used.

The contract amount related to derivative transactions in Note 5, "Derivatives" does not express the market risk related to the derivative transactions themselves.

(B) Fair values of financial instruments

Book values and fair values of the financial instruments (excluding those whose fair values were hard to determine) on the consolidated balance sheets at March 31, 2019 and 2018 were as follows:

March 31, 2019

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 58,384	¥ 58,384	¥ —	$ 526,029	$ 526,029	$ —
(2) Trade notes and accounts receivable	416,394			3,751,635		
Allowance for doubtful accounts	(377)			(3,396)		
Net	416,017	416,017	—	3,748,238	3,748,238	—
(3) Electronically recorded monetary claims	36,637			330,092		
Allowance for doubtful accounts	(34)			(306)		
Net	36,602	36,602	—	329,777	329,777	—
(4) Securities						
a) Equity securities issued by affiliated companies	3,019	1,296	(1,723)	27,200	11,676	(15,523)
b) Available-for-sale securities	38,630	38,630	—	348,049	348,049	—
(5) Long-term loans receivable	21,162			190,665		
Allowance for doubtful accounts	(21)			(189)		
Net	21,141	21,141	—	190,476	190,476	—
Total assets	¥ 573,795	¥ 572,072	¥ (1,723)	$5,169,790	$5,154,266	$ (15,523)
(1) Short-term loans payable	¥ 65,398	¥ 65,398	¥ —	$ 589,224	$ 589,224	$ —
(2) Long-term debt due within one year	37,474	37,474	—	337,634	337,634	—
(3) Trade notes and accounts payable	285,822	285,822	—	2,575,204	2,575,204	—
(4) Long-term debt due after one year	258,970	259,247	(277)	2,333,273	2,335,768	(2,495)
Total liabilities	¥ 647,666	¥ 647,943	¥ (277)	$5,835,354	$5,837,850	$ (2,495)
Derivatives:						
Hedge accounting not applied	¥ 761	¥ 761	¥ —	$ 6,856	$ 6,856	$ —
Hedge accounting applied	(645)	(931)	(285)	(5,811)	(8,388)	(2,567)
Total derivatives	¥ 116	¥ (169)	¥ (285)	$ 1,045	$ (1,522)	$ (2,567)

March 31, 2018

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 34,855	¥ 34,855	¥ —
(2) Trade notes and accounts receivable	400,317		
Allowance for doubtful accounts	(363)		
Net	399,953	399,953	—
(3) Electronically recorded monetary claims	25,416		
Allowance for doubtful accounts	(23)		
Net	25,392	25,392	—
(4) Securities			
a) Equity securities issued by affiliated companies	3,712	1,892	(1,819)
b) Available-for-sale securities	43,813	43,813	—
(5) Long-term loans receivable	20,366		
Allowance for doubtful accounts	(20)		
Net	20,345	20,345	—
Total assets	¥ 528,073	¥ 526,253	¥ (1,819)
(1) Short-term loans payable	¥ 81,722	¥ 81,722	¥ —
(2) Commercial paper	10,000	10,000	—
(3) Long-term debt due within one year	44,643	44,643	—
(4) Trade notes and accounts payable	266,595	266,595	—
(5) Long-term debt due after one year	187,657	187,693	(36)
Total liabilities	¥ 590,619	¥ 590,655	¥ (36)
Derivatives:			
Hedge accounting not applied	¥ (5,722)	¥ (5,722)	¥ —
Hedge accounting applied	(460)	(867)	(407)
Total derivatives	¥ (6,182)	¥ (6,589)	¥ (407)

Allowance for doubtful accounts recognized in trade notes and accounts receivable, electronically recorded monetary claims and long-term loans receivable was offset.
Derivative assets and liabilities were on net basis.

Basis of determining the fair value of financial instruments is as follows:

Cash and cash equivalents, Trade notes and accounts receivable, and Electronically recorded monetary claims
The book values of cash and cash equivalents, trade notes and accounts receivable, and electronically recorded monetary claims approximate fair value due to their short maturities.

Securities
The fair value of securities is based on the quoted market price on the stock exchange. The fair value of bonds is based on the quoted price provided by financial institutions.

Long-term loans receivable
The book value of long-term loans receivable approximates fair value due to their floating interest rates.

Short-term loans payable, Commercial paper, and Trade notes and accounts payable
The book values of short-term loans payable, commercial paper and trade notes and accounts payable approximate fair value due to their short maturities.

Long-term debt
The book value of long-term loans payable with floating interest rates approximates fair value. The fair value of long-term loans payable with fixed interest rates is estimated by discounted cash flow analysis, using rates currently available for similar types of borrowings with similar terms and remaining maturities. The fair value of straight bonds is based on the quoted price provided mainly by Japan Securities Dealers Association.

Derivatives
The fair value of derivatives is based on the quoted price provided mainly by financial institutions and exchange members.

The following tables summarize book values of financial instruments whose fair values were hard to determine as of March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	Book value	Book value	Book value
(1) Equity securities issued by unconsolidated subsidiaries and affiliated companies	¥ 47,780	¥ 50,198	$ 430,489
(2) Available-for-sale securities:			
Unlisted stocks	¥ 3,849	¥ 4,307	$ 34,678
Unlisted foreign stocks	8,210	6,333	73,970
Unlisted foreign convertible bonds	1,190	1,822	10,721
Unlisted domestic convertible bonds	26	26	234
Unlisted domestic bonds	—	250	—
Investment in limited partnerships	384	—	3,459
Total	¥ 13,660	¥ 12,740	$ 123,074

The maturities of receivables and securities with maturities outstanding at March 31, 2019 were as follows:

Year ending March 31

Millions of yen	2020	From 2021 to 2024	From 2025 to 2029	Thereafter
Cash and cash equivalents	¥ 58,384	¥ —	¥ —	¥ —
Trade notes and accounts receivable	416,394	—	—	—
Electronically recorded monetary claims	36,637	—	—	—
Available-for-sale securities with maturity dates	1,190	—	26	—
Long-term loans receivable	—	17,299	3,020	9
Total	¥ 512,606	¥ 17,299	¥ 3,047	¥ 9

Thousands of U.S. dollars	2020	From 2021 to 2024	From 2025 to 2029	Thereafter
Cash and cash equivalents	$ 526,029	$ —	$ —	$ —
Trade notes and accounts receivable	3,751,635	—	—	—
Electronically recorded monetary claims	330,092	—	—	—
Available-for-sale securities with maturity dates	10,721	—	234	—
Long-term loans receivable	—	155,860	27,209	81
Total	$4,618,488	$ 155,860	$ 27,452	$ 81

Long-term loans receivable of ¥832 million ($7,496 thousand) were excluded from the above table since due date for the redemption had not yet been determined.

4. Securities

(A) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available market values as of March 31, 2019 and 2018:

March 31, 2019

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 10,635	¥ 29,825	¥ 19,190	$ 95,819	$ 268,717	$ 172,898
Bonds	—	—	—	—	—	—
Securities with book values not exceeding acquisition costs:						
Equity securities	¥ 12,270	¥ 8,798	¥ (3,471)	$ 110,550	$ 79,268	$ (31,273)
Bonds	10	6	(3)	90	54	(27)

March 31, 2018

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 15,470	¥ 38,906	¥ 23,436
Bonds	—	—	—
Securities with book values not exceeding acquisition costs:			
Equity securities	¥ 7,361	¥ 4,899	¥ (2,461)
Bonds	10	7	(2)

(B) The following tables summarize sales of available-for-sale securities in the years ended March 31, 2019 and 2018:

March 31, 2019

	Millions of yen			Thousands of U.S. dollars		
	Proceeds from sales	Gains on sales	Losses on sales	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 308	¥ 5	¥ 0	$ 2,775	$ 45	$ 0
Other	8	—	4	72	—	36

March 31, 2018

	Millions of yen		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 304	¥ 114	¥ 3

(C) The loss on valuation of investment securities in the years ended March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities in subsidiaries and affiliates	¥ 331	¥ 60	$ 2,982
Other securities	1,489	120	13,415
Total	¥ 1,820	¥ 181	$ 16,397

5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2019 and 2018 for the derivatives to which hedge accounting has not been applied:

March 31, 2019
Currency related

	Millions of yen				Thousands of U.S. dollars			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Foreign exchange forward contracts:								
Selling:								
U.S. dollars	¥ 100,486	¥ —	¥ (811)	¥ (811)	$ 905,360	$ —	$ (7,306)	$ (7,306)
Other currencies	1,455	—	12	12	13,109	—	108	108
Buying:								
U.S. dollars	12,926	—	55	55	116,460	—	495	495
Other currencies	2,262	57	(45)	(45)	20,380	513	(405)	(405)
Currency swap agreements:								
Japanese yen received for U.S. dollars	12,194	—	(284)	(284)	109,865	—	(2,558)	(2,558)
Total	¥ —	¥ —	¥ —	¥ (1,073)	$ —	$ —	$ —	$ (9,667)

Commodity related

	Millions of yen				Thousands of U.S. dollars			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:								
Petroleum:								
Selling	¥ 1,089	¥ —	¥ (50)	¥ (50)	$ 9,811	$ —	$ (450)	$ (450)
Buying	483	—	14	14	4,351	—	126	126
Non-ferrous metals:								
Selling	11,118	—	(162)	(162)	100,171	—	(1,459)	(1,459)
Buying	5,243	—	(87)	(87)	47,238	—	(783)	(783)
Commodity swap agreements:								
Petroleum:								
Fixed receipt / Fluctuated payment	—	—	—	—	—	—	—	—
Fluctuated receipt / Fixed payment	920	—	44	44	8,289	—	396	396
Total	¥ —	¥ —	¥ —	¥ (241)	$ —	$ —	$ —	$ (2,171)

Derivatives in which valuation gains or losses are attributable to counterparties based on the contracts were as follows:

	Millions of yen				Thousands of U.S. dollars			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:								
Non-ferrous metals:								
Selling	¥ 79,667	¥ —	¥ 2,191	¥ 2,191	$ 717,785	$ —	$ 19,740	$ 19,740
Buying	13,019	—	(114)	(114)	117,298	—	(1,027)	(1,027)
Total	¥ —	¥ —	¥ —	¥ 2,077	$ —	$ —	$ —	$ 18,713

The derivatives above are included in "Derivatives: Hedge accounting not applied" in Note 3,"Financial instruments."

March 31, 2018
Currency related

	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
				Millions of yen
Foreign exchange forward contracts:				
Selling:				
U.S. dollars	¥ 100,694	¥ —	¥ 2,791	¥ 2,791
Other currencies	533	—	(1)	(1)
Buying:				
U.S. dollars	15,621	—	(202)	(202)
Other currencies	2,679	26	(42)	(42)
Currency swap agreements:				
Japanese yen received for U.S. dollars	12,364	—	603	603
Total	¥ —	¥ —	¥ —	¥ 3,149

Commodity related

	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
				Millions of yen
Forwards:				
Petroleum:				
Selling	¥ 2,538	¥ —	¥ (24)	¥ (24)
Buying	1,882	—	79	79
Non-ferrous metals:				
Selling	6,907	—	407	407
Buying	3,513	—	(143)	(143)
Commodity swap agreements:				
Petroleum:				
Fixed receipt / Fluctuated payment	62	—	(0)	(0)
Fluctuated receipt / Fixed payment	513	—	(4)	(4)
Total	¥ —	¥ —	¥ —	¥ 313

Derivatives in which valuation gains or losses are attributable to counterparties based on the contracts were as follows:

	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
				Millions of yen
Forwards:				
Non-ferrous metals:				
Selling	¥ 112,025	¥ —	¥ (9,193)	¥ (9,193)
Buying	13,020	—	8	8
Total	¥ —	¥ —	¥ —	¥ (9,185)

The derivatives above are included in "Derivatives: Hedge accounting not applied" in Note 3,"Financial instruments."

(B) The following tables summarize fair value information as of March 31, 2019 and 2018 for the derivatives to which hedge accounting was applied:

March 31, 2019
Interest rate related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Due after one year	Fair value	Contract or notional amount	Due after one year	Fair value
Interest rate swap for long-term loans:						
Floating rate received for fixed rate	¥ 35,121	¥ 16,195	¥ (285)	$ 316,433	$ 145,914	$ (2,567)

Commodity related

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Due after one year	Fair value	Contract or notional amount	Due after one year	Fair value
Forwards for inventories and commitments:						
Non-ferrous metals						
Selling	¥ 29,258	¥ —	¥ (873)	$ 263,609	$ —	$ (7,865)
Buying	16,167	51	227	145,661	459	2,045

March 31, 2018
Interest rate related

	Contract or notional amount	Due after one year	Fair value
			Millions of yen
Interest rate swap for long-term loans:			
Floating rate received for fixed rate	¥ 40,626	¥ 35,171	¥ (407)

Commodity related

	Contract or notional amount	Due after one year	Fair value
			Millions of yen
Forwards for inventories and commitments:			
Non-ferrous metals			
Selling	¥ 32,549	¥ —	¥ (147)
Buying	22,066	170	(312)

6. Inventories

Inventories at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Merchandise and finished products	¥ 127,196	¥ 124,289	$1,146,013
Work-in-process	2,307	1,559	20,785
Raw materials and supplies	11,129	9,028	100,270
Total	¥ 140,633	¥ 134,877	$1,267,078

7. Pledged assets

At March 31, 2019 and 2018, assets pledged as collateral for loans payable in the amount of ¥136 million ($1,225 thousand) and ¥594 million, respectively, for guaranty deposits, and for loans of third parties were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
For loans payable:			
Buildings and structures, net of accumulated depreciation	¥ 239	¥ 432	$ 2,153
Land	1,798	2,726	16,199
Total	¥ 2,038	¥ 3,158	$ 18,362
For guaranty deposits:			
Other current assets	¥ 23	¥ 43	$ 207
Investment securities	5,534	5,604	49,860
Total	¥ 5,557	¥ 5,647	$ 50,067
For loans of third parties:			
Investment securities	¥ 1,665	¥ 1,594	$ 15,001
Total	¥ 1,665	¥ 1,594	$ 15,001

8. Short-term loans payable, commercial paper and long-term debt

The weighted average interest rate applicable to short-term loans outstanding at March 31, 2019 and 2018 was 3.4% and 1.4%, respectively, regardless of borrowing currencies though the range of the interest rates varies by borrowing currencies. There was an outstanding balance of ¥65,398 million ($589,224 thousand) and ¥81,722 million at March 31, 2019 and 2018, respectively.

The Company has entered into a yen denominated domestic commercial paper program. There was an outstanding balance of zero and ¥10,000 million at March 31, 2019 and 2018, respectively.

Bonds at March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Issued in 2013, 0.74% unsecured straight bonds, due 2018	¥ —	¥ 10,000	$ —
Issued in 2014, 0.44% unsecured straight bonds, due 2019	10,000	10,000	90,098
Issued in 2015, 0.43% unsecured straight bonds, due 2020	10,000	10,000	90,098
Issued in 2016, 0.29% unsecured straight bonds, due 2021	10,000	10,000	90,098
Issued in 2017, 0.27% unsecured straight bonds, due 2022	10,000	10,000	90,098
Issued in 2018, 0.24% unsecured straight bonds, due 2023	10,000	—	90,098
Issued in 2018, 0.59% unsecured straight bonds, due 2028	10,000	—	90,098
Issued in 2014, unsecured floating rate bonds, due 2021	55	76	495
Issued in 2016, 0.19% unsecured straight bonds, due 2019	—	100	—
Total	¥ 60,055	¥ 50,176	$ 541,084

Long-term loans payable at March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans from banks with weighted average interest rates of 0.8% and 0.5% at March 31, 2019 and 2018, respectively, maturing serially through 2054	¥ 236,389	¥ 182,124	$2,129,822
Less amounts due within one year	(27,453)	(34,522)	(247,346)
Total	¥ 208,936	¥ 147,601	$1,882,475

The interest rates represent weighted average rates regardless of borrowing currencies, though the range of the interest rates varies by borrowing currencies.

The annual maturities of long-term loans payable outstanding at March 31, 2019 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2020	¥ 27,453	$ 247,346
2021	27,139	244,517
2022	30,458	274,421
2023	31,919	287,584
2024	9,651	86,953
Thereafter	109,768	988,989
Total	¥ 236,389	$ 2,129,822

9. Employees' severance and retirement benefits

(A) Overview of retirement benefit system adopted

To provide retirement benefits for employees, the Company and its consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans. These Companies may also pay extra retirement allowances to employees at retirement.

Under its defined benefit corporate pension plan, the Company provides employees with lump-sum or pension benefits after determining the amount of benefits based on their salary and years of service. In calculating pension benefits, the Company uses a life pension system with a guarantee period of 20 years in which pension conversion rates vary according to market interest rates.

In the defined benefit corporate pension plans and lump-sum retirement payment plans which certain subsidiaries have, retirement benefit liability and retirement benefit costs are calculated mainly based on the simplified method.

Certain subsidiaries participate in corporate pension plans, which are classified as multi-employer plans. In regards to such pension plans, sufficient information to calculate the proportionate share of such plan assets cannot be obtained. Thus, the Company accounts for such pension plans in the same manner in which it recognizes defined contribution plans.

(B) Defined benefit plans

(1) Movements in defined benefit obligations, except plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥ 26,786	¥ 26,438	$ 241,337
Service cost	1,244	1,215	11,208
Interest cost	100	100	900
Actuarial loss (gain)	279	(111)	2,513
Benefits paid	(818)	(861)	(7,370)
Other	(8)	2	(72)
Balance at end of year	¥ 27,583	¥ 26,786	$ 248,517

(2) Movements in plan assets, except plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥ 22,700	¥ 22,423	$ 204,522
Expected return on plan assets	680	674	6,126
Actuarial gain (loss)	(876)	(345)	(7,892)
Contributions paid by the employer	794	806	7,153
Benefits paid	(818)	(861)	(7,370)
Other	(0)	3	(0)
Balance at end of year	¥ 22,480	¥ 22,700	$ 202,540

(3) Movements in retirement benefit liability for plans applying the simplified method

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Balance at beginning of year	¥ 857	¥ 502	$ 7,721
Retirement benefit costs	227	149	2,045
Benefits paid	(65)	(49)	(585)
Contributions paid by the employer	(47)	(22)	(423)
Other	(124)	277	(1,117)
Balance at end of year	¥ 847	¥ 857	$ 7,631

(4) Reconciliation from the balances of retirement benefit obligations and plan assets and the liability (asset) for retirement benefits

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Funded retirement benefit obligations	¥ 28,155	¥ 27,077	$ 253,671
Plan assets	(22,915)	(22,906)	(206,460)
	5,239	4,171	47,202
Unfunded retirement benefit obligations	710	772	6,396
Total net liability (asset) for retirement benefits at end of year	5,950	4,943	53,608
Retirement benefit liability	5,950	4,943	53,608
Total net liability (asset) for retirement benefits at end of year	¥ 5,950	¥ 4,943	$ 53,608

(5) Retirement benefit costs

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Service cost	¥ 1,244	¥ 1,215	$ 11,208
Interest cost	100	100	900
Expected return on plan assets	(680)	(674)	(6,126)
Net actuarial loss amortization	975	1,019	8,784
Past service costs amortization	65	65	585
Retirement benefit costs based on the simplified method	227	149	2,045
Other	(16)	(12)	(144)
Total retirement benefit costs	¥ 1,916	¥ 1,864	$ 17,262

(6) Remeasurements of defined benefit plans in other comprehensive income (before applicable tax effects)

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Past service costs	¥ 65	¥ 65	$ 585
Actuarial gains and losses	(179)	785	(1,612)
Total	¥ (114)	¥ 850	$ (1,027)

(7) Remeasurements of defined benefit plans in accumulated other comprehensive income (before applicable tax effects)

	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars 2019
Past service costs that are yet to be recognized	¥ —	¥ 65	$ —
Actuarial gains and losses that are yet to be recognized	7,969	7,789	71,799
Total balance at end of year	¥ 7,969	¥ 7,854	$ 71,799

(8) Breakdown of plan assets

	2019	2018
Bonds (*1)	17.6%	34.0%
Equity securities (*1)	22.2	16.9
Cash and cash equivalents	20.4	0.6
General account assets	14.2	22.2
Other (*2)	25.6	26.3
Total	100.0%	100.0%

*1. These consist of investment products that use mainly traditional assets and derivatives for hedging purposes.
2. "Other" consists of investments in investment products mainly targeting asset classes other than traditional assets, and various futures and derivatives.

Long-term expected rate of return
Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Principal actuarial assumptions

	2019	2018
Discount rate	0.4%	0.4%
Long-term expected rate of return	3.0	3.0
Expected salary increase rate	3.1	3.4

(C) Defined contribution plans

The Companies were required to contribute ¥318 million ($2,865 thousand) and ¥251 million to the defined contribution plans (including corporate pension fund plans under the multi-employer pension system accounted for in the same way as defined contribution plans) for the years ended March 31, 2019 and 2018, respectively.

10. Income taxes

The Company is subject to a number of taxes based on income, which indicates an aggregate statutory income tax rate in Japan of approximately 30.6% and 30.9% for the years ended March 31, 2019 and 2018 respectively.

The following table summarizes the significant differences between the aggregate statutory income tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2019 and 2018.

	2019	2018
Statutory tax rate:	30.6%	30.9 %
Tax effect of permanent differences	0.9	0.8
Valuation allowance recognized for deferred tax assets	1.0	1.0
Consolidation adjustment for equity method	1.2	1.5
Difference in tax rates for consolidated subsidiaries	0.2	(0.9)
Other	0.1	(0.6)
Effective tax rate	34.0%	32.7 %

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2019 and 2018 were as follows:

	Millions of yen 2019	2018	Thousands of U.S. dollars 2019
Deferred tax assets:			
Temporary differences resulting from the merger with consolidated subsidiaries	¥ 2,731	¥ 2,731	$ 24,605
Retirement benefit liability	1,798	1,493	16,199
Loss on valuation of investment securities, currently not deductible	1,561	1,861	14,064
Tax losses carried forward	1,452	1,292	13,082
Loss on sale-repurchase agreements of land	1,293	1,293	11,649
Loss on impairment of property and equipment	1,066	795	9,604
Accrued bonuses to employees	815	761	7,343
Land revaluation difference, net of taxes unrealized loss	80	225	720
Other	5,328	4,026	48,004
Total deferred tax assets	16,129	14,482	145,319
Valuation allowance	(10,306)	(10,131)	(92,855)
Net deferred tax assets	5,823	4,351	52,464
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	4,757	6,342	42,859
Land revaluation difference, net of taxes unrealized gain	1,591	1,633	14,334
Other	3,853	2,156	34,714
Total deferred tax liabilities	10,203	10,132	91,927
Net deferred tax liabilities	¥ (4,379)	¥ (5,781)	$ (39,454)

11. Net assets

Net assets comprise three subsections, which are shareholders' equity, accumulated other comprehensive income and non-controlling interests.

Under the Japanese Companies Act ("the Act"), the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Under the Act, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve and additional paid-in capital are included in retained earnings and legal capital surplus, respectively, in the accompanying consolidated balance sheets.

Under the Act, legal earnings reserve and additional paid-in capital are able to eliminate or reduce a deficit by a resolution of the shareholders' meeting.

Under the Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 21, 2019, the shareholders approved cash dividends of ¥75.00 per share ($0.67) amounting to ¥3,047 million ($27,452 thousand). This appropriation had not been accrued in the consolidated financial statements as of March 31, 2019. Such appropriations are recognized in the period in which they are approved by the shareholders.

Land revaluation difference

Pursuant to the Law Concerning Land Revaluation, the Company revaluated land used for business activities at March 31, 2002.

Unrealized gain (loss) on land revaluation is recorded as land revaluation difference in a separate component of accumulated other comprehensive income in the consolidated balance sheets until realized. The amounts are shown net of applicable income tax.

The revaluation of land was determined based on a declared land value with certain necessary adjustments in accordance with Article 2, Paragraph 1 of the Enforcement Ordinance Concerning Land Revaluation.

As of March 31, 2019, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥202 million ($1,819 thousand).

12. Leases

Operating leases
As Lessee

Obligations under noncancelable operating leases as of March 31, 2019 and 2018 were as follows:

	Millions of yen 2019	2018	Thousands of U.S. dollars 2019
Due within one year	¥ 576	¥ 551	$ 5,189
Due after one year	7,035	7,458	63,384
Total	¥ 7,612	¥ 8,009	$ 68,582

13. Contingent liabilities

At March 31, 2019 and 2018, the Companies were contingently liable as follows:

	Millions of yen 2019	2018	Thousands of U.S. dollars 2019
Export letters of credit and trade notes (including export bills) discounted	¥ 7,856	¥ 9,864	$ 70,781
Electronically recorded monetary claims discounted	104	79	937
Trade notes endorsed	176	233	1,585
Guarantees of indebtedness	5,341	4,859	48,121

14. Gain on sales of property and equipment

The following table summarizes gain on sales of property and equipment in the years ended March 31, 2019 and 2018:

	Millions of yen 2019	2018	Thousands of U.S. dollars 2019
Buildings and structures	¥ 402	¥ —	$ 3,621
Other	14	—	126
Total	¥ 416	¥ —	$ 3,748

15. Reversal of provision for loss on business of subsidiaries and affiliates

Year ended March 31, 2019

Not applicable.

Year ended March 31, 2018

The reversal of provision for loss on business of subsidiaries and affiliates had been recorded because the previously anticipated expenses such as debt guarantees for a subsidiary were no longer expected.

16. Loss on sales of property and equipment

The following table summarizes loss on sales of property and equipment in the years ended March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	¥ 8	¥ —	$ 72
Land	179	—	1,612
Other	13	—	117
Total	¥ 202	¥ —	$ 1,819

17. Loss on retirement of property and equipment

The following table summarizes loss on retirement of property and equipment in the years ended March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	¥ 157	¥ —	$ 1,414
Other	67	—	603
Intangibles and other assets	10	—	90
Total	¥ 236	¥ —	$ 2,126

18. Loss on impairment of property and equipment

Year ended March 31, 2019

The Company and its consolidated subsidiaries mainly use each business unit as a grouping unit, the grouping of assets to be disposed of was made for specific properties.

Because the assets below became assets to be disposed of complying with the decision to sell welfare facilities, in the current consolidated fiscal year, the book value was reduced to the recoverable value, and the amount of reduction was recorded as impairment loss - ¥251 million ($2,261 thousand) under other expense.

The recoverable value is measured by the net sales value calculated on the basis of the expected disposal amount.

Details of the loss on impairment of property and equipment were as follows:

		Millions of yen				Thousands of U.S. dollars
Location	Description	Buildings and structures	Land	Other	Total	Total
Minamiuonuma, Niigata	Sanatorium	¥ 9	¥ 0	¥ —	¥ 9	$ 81
Hirakata, Osaka	Company House	1	136	—	137	1,234
Kishiwada, Osaka	Company House	40	63	0	104	937
Total		¥ 50	¥ 200	¥ 0	¥ 251	$ 2,261

Year ended March 31, 2018

Not applicable.

19. Loss on disaster

Year ended March 31, 2019

The loss on disaster contains the disposed of inventories due to the typhoon damage.

Year ended March 31, 2018

Not applicable.

20. Provision of allowance for doubtful accounts for subsidiaries and affiliates

Year ended March 31, 2019

The provision of allowance for doubtful accounts for subsidiaries and affiliates is calculated by allowance for doubtful accounts on loans to affiliated companies.

Year ended March 31, 2018

Not applicable.

21. Provision for product warranties

Year ended March 31, 2019

Not applicable.

Year ended March 31, 2018

Provision for product warranties was recorded to cover probable product warranties.

The provision was recognized based on individually estimated amounts.

22. Loss on disposal of property and equipment

Year ended March 31, 2019

Loss on disposal of property and equipment is the expense calculated for the work related to the demolition of dormitories.

Year ended March 31, 2018

Not applicable.

23. Other comprehensive income

Years ended March 31, 2019 and 2018

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Valuation difference on available-for-sale securities, net of taxes:			
Increase (decrease) during the year	¥ (6,616)	¥ 2,220	$ (59,608)
Reclassification adjustments	1,488	190	13,406
Sub-total, before tax	(5,128)	2,411	(46,202)
Tax expense (benefit)	(1,579)	648	(14,226)
Sub-total, net of tax	(3,549)	1,762	(31,975)
Deferred gains or losses on hedges, net of taxes:			
Increase (decrease) during the year	505	(465)	4,549
Reclassification adjustments	(181)	22	(1,630)
Sub-total, before tax	323	(443)	2,910
Tax expense (benefit)	93	(131)	837
Sub-total, net of tax	230	(311)	2,072
Foreign currency translation adjustments:			
Increase (decrease) during the year	(799)	316	(7,198)
Reclassification adjustments	—	—	—
Sub-total, before tax	(799)	316	(7,198)
Tax expense (benefit)	—	—	—
Sub-total, net of tax	(799)	316	(7,198)
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	(1,154)	(225)	(10,397)
Reclassification adjustments	1,039	1,076	9,361
Sub-total, before tax	(114)	850	(1,027)
Tax expense (benefit)	(35)	263	(315)
Sub-total, net of tax	(79)	587	(711)
Share of other comprehensive income of entities accounted for using equity method:			
Increase (decrease) during the year	(6,183)	3,057	(55,707)
Total other comprehensive income	¥ (10,381)	¥ 5,411	$ (93,530)

24. Cash flow information

(A) Major breakdown of assets and liabilities of companies which became newly consolidated subsidiaries through share acquisition.

Year ended March 31, 2019

Not applicable.

Year ended March 31, 2018

The assets and liabilities of newly consolidated subsidiaries at the time of consolidation and the reconciliation between the acquisition costs of shares and net cash proceeds from purchase of shares were as follows:

	Millions of yen
	2018
Current assets	¥ 11,218
Noncurrent assets	3,044
Goodwill	1,808
Current liabilities	(6,842)
Noncurrent liabilities	(7,442)
Non-controlling interests	(46)
Acquisition costs of shares	¥ 1,739
Cash and cash equivalents of acquired companies	(2,915)
Net cash proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 1,176

25. Segment information

(A) Overview of the reportable segments

The Companies' reportable segments are determined on the basis that separate financial information for such segments is available and examined periodically by the Board of Directors, which makes decisions regarding the allocation of management resources and assesses the business performances of such segments.

The Companies' main business is buying and selling of various products with a focus on steel, and the business department, which is divided according to products handled or service contents, mainly carries out business activities. For this reason, the Companies consists of business segments with the business department as the basis. The 6 reportable segments are "steel business," "metal and alloy business," "non-ferrous metal business," "food business," "petroleum and chemical business," and "overseas sales subsidiaries."

The main products and services that fall under these reportable segments are listed as follows. (Shown in parentheses are contents of services.)

Steel: Steel bars and shapes, steel plates and sheets, special steels, wire products, steel pipes, steelmaking raw materials (steel processing and storage)

Metals and alloys: Nickel, chromium, silicon, manganese, steel alloys

Non-ferrous metals: Aluminum, copper, zinc (recycling business)

Foods: Seafood, meat products

Petroleum and chemicals: Petroleum products, industrial chemicals, chemicals, refuse plastics and paper fuel

Overseas sales subsidiaries: (Trading of various goods and related business activities)

The reportable segment income figures are based on operating income coupled with interest and dividend income, interest expense, foreign currency translation adjustments and share of profit (loss) of entities accounted for using equity method. Intersegment transactions are presented based on the current market prices at the time of this report.

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the current fiscal year, about the segment assets, reclassified figures reflect the changes in presentation method.

Net sales, profits, assets and others by reportable segment for the year ended March 31, 2019 were as follows:

Year ended March 31, 2019

Millions of yen

	Reportable segment										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 1,037,297	¥ 274,839	¥ 95,445	¥ 100,093	¥ 233,664	¥ 253,495	¥ 1,994,837	¥ 79,763	¥ 2,074,600	¥ —	¥ 2,074,600
Intersegment	10,676	8,085	1,640	1,296	10,585	61,259	93,543	2,751	96,294	(96,294)	—
Total	¥ 1,047,974	¥ 282,924	¥ 97,085	¥ 101,389	¥ 244,250	¥ 314,755	¥ 2,088,380	¥ 82,514	¥ 2,170,895	¥ (96,294)	¥ 2,074,600
Segment income	¥ 17,393	¥ 6,386	¥ 950	¥ 1,543	¥ 2,165	¥ 1,024	¥ 29,464	¥ 966	¥ 30,431	¥ (7,035)	¥ 23,395
Assets	¥ 494,499	¥ 197,548	¥ 21,966	¥ 45,120	¥ 40,319	¥ 57,045	¥ 856,500	¥ 31,445	¥ 887,945	¥ 45,362	¥ 933,307
Depreciation	3,499	97	224	30	183	58	4,093	328	4,421	91	4,513
Amortization of goodwill	465	56	67	—	82	—	671	—	671	—	671
Interest income	241	3,522	6	21	36	200	4,028	11	4,040	154	4,195
Interest expense	2,961	5,473	328	557	282	1,779	11,381	204	11,586	(6,533)	5,052
Share of profit (loss) of entities accounted for using equity method	(290)	74	—	—	—	(51)	(267)	192	(75)	—	(75)
Investment for entities accounted for equity method	3,670	35,493	—	—	—	246	39,410	1,095	40,505	—	40,505
Increase in property and equipment	8,034	163	228	60	144	41	8,671	458	9,130	76	9,207

Year ended March 31, 2019

Thousands of U.S. dollars

	Reportable segment										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	$ 9,345,859	$ 2,476,250	$ 859,942	$ 901,819	$ 2,105,270	$ 2,283,944	$ 17,973,123	$ 718,650	$ 18,691,774	$ —	$ 18,691,774
Intersegment	96,188	72,844	14,776	11,676	95,368	551,932	842,805	24,786	867,591	(867,591)	—
Total	$ 9,442,057	$ 2,549,094	$ 874,718	$ 913,496	$ 2,200,648	$ 2,835,886	$ 18,815,929	$ 743,436	$ 19,559,374	$ (867,591)	$ 18,691,774
Segment income	$ 156,707	$ 57,536	$ 8,559	$ 13,902	$ 19,506	$ 9,226	$ 265,465	$ 8,703	$ 274,177	$ (63,384)	$ 210,784
Assets	$ 4,455,347	$ 1,779,872	$ 197,909	$ 406,523	$ 363,266	$ 513,965	$ 7,716,911	$ 283,313	$ 8,000,225	$ 408,703	$ 8,408,928
Depreciation	31,525	873	2,018	270	1,648	522	36,877	2,955	39,832	819	40,661
Amortization of goodwill	4,189	504	603	—	738	—	6,045	—	6,045	—	6,045
Interest income	2,171	31,732	54	189	324	1,801	36,291	99	36,399	1,387	37,796
Interest expense	26,678	49,310	2,955	5,018	2,540	16,028	102,540	1,838	104,387	(58,861)	45,517
Share of profit (loss) of entities accounted for using equity method	(2,612)	666	—	—	—	(459)	(2,405)	1,729	(675)	—	(675)
Investment for entities accounted for equity method	33,066	319,785	—	—	—	2,216	355,077	9,865	364,942	—	364,942
Increase in property and equipment	72,384	1,468	2,054	540	1,297	369	78,124	4,126	82,259	684	82,953

1. "Other business" represents businesses such as lumber section and machinery section which are not included in the above reportable segments.
2. Adjustments are as follows:
   (1) Adjustments of negative ¥7,035 million ($63,384 thousand) for segment income include intersegment elimination and Group costs that were not allocated to reportable segments. These Group costs consist mainly of expenses of administrative departments.
   (2) Adjustments for segment assets amounting to ¥45,362 million ($408,703 thousand) include Group assets that were not allocated to reportable segments. These Group assets consist mainly of cash and cash equivalents, investment securities and assets of administrative departments.
   (3) Adjustments for depreciation and amortization amounting to ¥91 million ($819 thousand) include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥154 million ($1,387 thousand) and negative ¥6,533 million ($58,861 thousand) include intersegment elimination, revenue and expense that were not allocated to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥76 million ($684 thousand) are increases in Group assets.

Net sales, profits, assets and others by reportable segment for the year ended March 31, 2018 were as follows:

Year ended March 31, 2018

Millions of yen

	Reportable segment										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 920,269	¥ 198,330	¥ 97,356	¥ 98,876	¥ 233,926	¥ 167,388	¥ 1,716,148	¥ 74,970	¥ 1,791,118	¥ —	¥ 1,791,118
Intersegment	11,678	4,869	1,704	601	6,768	54,289	79,912	1,628	81,541	(81,541)	—
Total	¥ 931,948	¥ 203,200	¥ 99,060	¥ 99,477	¥ 240,695	¥ 221,678	¥ 1,796,060	¥ 76,598	¥ 1,872,659	¥ (81,541)	¥ 1,791,118
Segment income	¥ 20,324	¥ 4,958	¥ 2,038	¥ 1,057	¥ 2,164	¥ 950	¥ 31,494	¥ 691	¥ 32,185	¥ (6,683)	¥ 25,502
Assets	¥ 411,938	¥ 214,999	¥ 23,528	¥ 41,945	¥ 47,896	¥ 35,956	¥ 776,264	¥ 29,978	¥ 806,243	¥ 54,101	¥ 860,344
Depreciation	3,197	98	240	33	211	62	3,842	304	4,147	93	4,240
Amortization of goodwill	326	56	67	—	82	—	532	—	532	—	532
Interest income	182	1,227	5	20	52	110	1,599	10	1,610	137	1,747
Interest expense	2,358	2,607	270	391	253	685	6,568	204	6,772	(3,527)	3,245
Share of profit (loss) of entities accounted for using equity method	242	(513)	—	—	—	15	(255)	127	(127)	—	(127)
Investment for entities accounted for equity method	4,023	38,125	—	—	—	107	42,257	905	43,162	—	43,162
Increase in property and equipment	4,803	47	127	11	99	48	5,137	760	5,898	42	5,941

1. "Other business" represents businesses such as lumber section and machinery section which are not included in the above reportable segments.
2. Adjustments are as follows:
   (1) Adjustments of negative ¥6,683 million for segment income include intersegment elimination and Group costs that were not allocated to reportable segments. These Group costs consist mainly of expenses of administrative departments.
   (2) Adjustments for segment assets amounting to ¥54,101 million include Group assets that were not allocated to reportable segments. These Group assets consist mainly of cash and cash equivalents, investment securities and assets of administrative departments.
   (3) Adjustments for depreciation and amortization amounting to ¥93 million include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥137 million and negative ¥3,527 million include intersegment elimination, revenue and expense that were not allocated to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥42 million are increases in Group assets.

(B) Related information

Product information

Net sales information by products for the years ended March 31, 2019 and 2018 were as follows:

Year ended March 31, 2019

Millions of yen

	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	¥ 1,162,650	¥ 218,883	¥ 168,766	¥ 102,543	¥ 324,171	¥ 97,584	¥ 2,074,600

Year ended March 31, 2019

Thousands of U.S. dollars

	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	$10,475,268	$ 1,972,096	$ 1,520,551	$ 923,894	$ 2,920,722	$ 879,214	$18,691,774

Year ended March 31, 2018

	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
							Millions of yen
Net sales to external customers	¥ 987,386	¥ 169,309	¥ 155,056	¥ 100,178	¥ 284,363	¥ 94,823	¥ 1,791,118

Geographic information

(1) Net sales in different countries for the years ended March 31, 2019 and 2018 were as follows:

Year ended March 31, 2019

	Japan	Asia	Other	Total
				Millions of yen
Net sales to external customers	¥ 1,346,927	¥ 616,752	¥ 110,921	¥ 2,074,600

Year ended March 31, 2019

	Japan	Asia	Other	Total
				Thousands of U.S. dollars
Net sales to external customers	$ 12,135,570	$ 5,556,824	$ 999,378	$ 18,691,774

Year ended March 31, 2018

	Japan	Asia	Other	Total
				Millions of yen
Net sales to external customers	¥ 1,302,944	¥ 386,262	¥ 101,911	¥ 1,791,118

(2) Property and equipment in different countries for the years ended March 31, 2019 and 2018 were as follows:

Year ended March 31, 2019

	Japan	Asia	Other	Total
				Millions of yen
Property and equipment	¥ 61,629	¥ 7,168	¥ 64	¥ 68,862

Year ended March 31, 2019

	Japan	Asia	Other	Total
				Thousands of U.S. dollars
Property and equipment	$ 555,266	$ 64,582	$ 576	$ 620,434

Year ended March 31, 2018

The geographic information on property and equipment was omitted because the amount of property and equipment located in Japan exceeded 90% of the total amount reported in the consolidated balance sheets.

Loss on impairment of property and equipment in reportable segment

Year ended March 31, 2019

Loss on impairment of property and equipment was not allocated to reportable segments for year ended March 31, 2019 was ¥251 million ($2,261 thousand).

Year ended March 31, 2018

There was no impairment loss of property and equipment for the year ended March 31, 2018.

Outstanding balance of goodwill and amortization of goodwill in reportable segment

Outstanding balance of goodwill for the years ended March 31, 2019 and 2018 were as follows:

Year ended March 31, 2019

	Reportable segment									Millions of yen
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at end of year	¥ 1,107	¥ 34	¥ 56	¥ —	¥ 136	¥ —	¥ 1,335	¥ —	¥ —	¥ 1,335

Year ended March 31, 2019

	Reportable segment									Thousands of U.S.dollars
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at end of year	$ 9,973	$ 306	$ 504	$ —	$ 1,225	$ —	$ 12,028	$ —	$ —	$ 12,028

The information of amortization of goodwill was omitted here because it has been noticed in the overview of the reportable segments.

Year ended March 31, 2018

	Reportable segment									Millions of yen
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at end of year	¥ 1,629	¥ 90	¥ 123	¥ —	¥ 219	¥ —	¥ 2,063	¥ —	¥ —	¥ 2,063

The information of amortization of goodwill was omitted here because it has been noticed in the overview of the reportable segments.

26. Related party information

(A) Related party transactions

Year ended March 31, 2019

Type	Name	Location	Capital or investments	Business or profession	Voting rights held (%)	Relationship with the related parties	Transactions	Amount	Account name	Balance as of March 31, 2019
Company with a majority of the voting rights held by executive or close relative	Nakajo Co., Ltd. (*1)	Sanjo-shi Niigata Prefecture	¥30 million ($270 thousand)	Processing and sales of steel products	—	Business transactions	Purchase of steel products (*2)	¥13 million ($117 thousand) (*3)	—	—

*1. 100% directly held by a close relative of Mr. Ryuichi Takaba, an executive officer of Hanwa Co., Ltd.
2. The terms and conditions applicable to the above transaction have been determined by mutual agreement of both parties.
3. Consumption taxes are not included in the amount of transaction.

Year ended March 31, 2018

Type	Name	Location	Capital or investments	Business or profession	Voting rights held (%)	Relationship with the related parties	Transactions	Amount	Account name	Balance as of March 31, 2019
Company with a majority of the voting rights held by executive or close relative	Nakajo Co., Ltd. (*1)	Sanjo-shi Niigata Prefecture	¥30 million	Processing and sales of steel products	—	Business transactions	Sales of steel products (*2)	¥10 million (*3)	—	—

*1. 100% directly held by a close relative of Mr. Ryuichi Takaba, an executive officer of Hanwa Co., Ltd.
2. The terms and conditions applicable to the above transaction have been determined by mutual agreement of both parties.
3. Consumption taxes are not included in the amount of transaction.

(B) Notes on significant affiliates

A summary of the financial statements of SAMANCOR CHROME HOLDINGS PROPRIETARY LTD., which is defined as significant affiliate for the year ended March 31, 2019, was as follows:
(Condensed financial information of the last fiscal year are pertaining to the period from April 1, 2017 to December 31, 2017, and this fiscal year, January 1, 2018 to December 31, 2018)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total current assets	¥ 56,461	¥ 59,799	$ 508,703
Total noncurrent assets	65,932	78,604	594,035
Total current liabilities	34,311	32,211	309,135
Total noncurrent liabilities	42,699	53,242	384,710
Total net assets	45,384	52,949	408,901
Net sales	169,870	100,010	1,530,498
Income before income taxes	4,513	5,357	40,661
Net income	3,388	3,927	30,525

SAMANCOR CHROME HOLDINGS PROPRIETARY LTD. became an equity-method affiliate from the year ended March 31, 2018. The period of its income statement for which the equity method has been applied was from April 1, 2017 to December 31, 2017.

Independent Auditor's Report

KPMG

Independent Auditor's Report

To the Board of Directors of Hanwa Co., Ltd.:

We have audited the accompanying consolidated financial statements of Hanwa Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hanwa Co., Ltd. and its consolidated subsidiaries as at March 31, 2019 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August 2, 2019
Osaka, Japan

Global Network

[JAPAN]	
Head Offices	2 locations
Branch Offices	2 locations
Branches	5 locations
Sales Offices	10 locations
Business Offices	1 locations
Total	**20 locations**

[OVERSEAS 24 COUNTRIES]	
Local Subsidiaries	21 in 42 locations
Branches	2 locations
Business Offices	2 locations
Total	**46 locations**

MIDDLE EAST

- Kuwait
- Jeddah
- Dammam
- Dubai
- Istanbul

EUROPE

- London
- Amsterdam
- Vienna

AFRICA

- Johannesburg

ASIA

Seoul	Wuhan	Singapore
Busan	Guangzhou	Ho Chi Minh
Beijing	Zhongshan	Hanoi
Qingdao	Hong Kong	Jakarta
Dalian	Taipei	Surabaya
Tianjin	Kaohsiung	Manila
Shanghai	Bangkok	Mumbai
Chongqing	Yangon	New Delhi
Fuzhou	Kuala Lumpur	Chennai

THE AMERICAS

New York	Vancouver
Chicago	Mexico City
Houston	Guam
Seattle	Santiago
Los Angeles	Bogota

JAPAN

Osaka	Niigata	Wakayama
Tokyo	Chugoku	Okayama
Nagoya	Hachinohe	Fukuyama
Kyushu	Mito	Shikoku
Hokkaido	Atsugi	Okinawa
Tohoku	Shizuoka	Kushiro
Kitakanto	Hokuriku	

Corporate Data and Stock Information

(As of March 31, 2019)

Corporate Data

Company Name	Hanwa Co., Ltd.
Established	April 1, 1947
Capital	¥45,651 million
Fiscal Year	April 1 to March 31 of the following year
Number of Employees	1,390 (Consolidated: 4,080)
Tokyo Head Office	Ginza Shochiku Square Bldg., 1-13-1, Tsukiji, Chuo-ku, Tokyo 104-8429, Japan
Osaka Head Office	HK Yodoyabashi Garden Avenue Bldg., 4-3-9, Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan

Stock Information

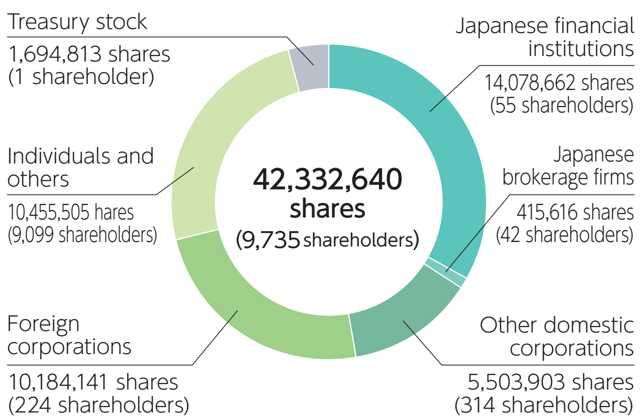
Annual Meeting of Shareholders	June every year
Administrator of Shareholder Registry and Account Management Institution for Special Accounts	1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited Mailing Address
Mailing Address	2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan Securities Agency Department, Sumitomo Mitsui Trust Bank, Limited
Telephone Number	0120-782-031 (Toll-free)
Unit Share	100 shares
Number of Shareholders	9,735
Authorized Shares	114,000,000 shares
Issued and Outstanding Shares	42,332,640 shares
Domestic Stock Exchange Listings	The First Section of the Tokyo Stock Exchange
Securities Code	8078

Principal Shareholders

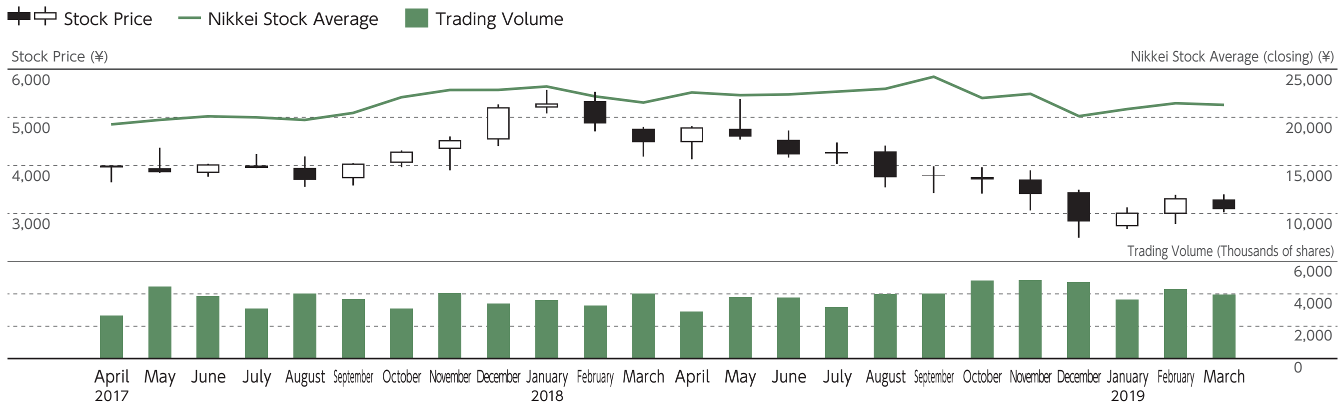
Name of Shareholders	Number of Shares (thousands)	Percentage of Total Issued Shares (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	3,801	9.35
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,510	6.18
JP MORGAN CHASE BANK 385632	1,698	4.18
Hanwa Clients' Stock Investment Association	1,686	4.15
Sumitomo Mitsui Banking Corporation	1,526	3.75
Hanwa Employees' Stock Investment Association	827	2.04
Japan Trustee Services Bank, Ltd. (Trust Account 5)	672	1.66
DFA INTL SMALL CAP VALUE PORTFOLIO	634	1.56
Nippon Steel & Sumitomo Metal Co., Ltd.	600	1.48
JP MORGAN CHASE BANK 385151	597	1.47

Notes: 1. The Company holds 1,694,813 shares of treasury stock, which is excluded from the principal shareholders listed above.
2. As of April 1, 2019, Nippon Steel & Sumitomo Metal Co., Ltd. changed its trade name to Nippon Steel Corporation.

Breakdown by Type of Shareholder



Stock Price Range and Trading Volume (Common Stock) (April 2017 to March 2019)



Notes: 1. The Company consolidated its shares at a ratio of 5 shares to 1 share on October 1, 2017.
2. The figures for the stock price and trading volume of the Company prior to September 2017 are the figures after adjusting the impact of the stock consolidation.

Editorial Policy

Editorial Policy

The Company has decided to publish an integrated report from this fiscal year so that our stakeholders can deepen their understanding of our medium-to long-term value creation. Through this report, we aim to further enhance our corporate value by deepening dialogue with our stakeholders.

Scope of Report

The Company and its subsidiaries

Period Covered

Fiscal 2018 (April 1, 2018 to March 31, 2019)
Some of the activities, prior to or after the period covered, are also included.

Cautionary statement regarding forward-looking Information

This report contains forward-looking information including future results of the Company. Such information reflects the Company's analysis based on information currently available to the Company and actual results may differ from these forecasts due to various factors, including economic trends and the surrounding business environment.

Reference Guidelines

"International Integrated Reporting Framework" published by International Integrated Reporting Council (IIRC)

"Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation" published by Ministry of Economy, Trade and Industry

Contact

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