HANWA CO., LTD.
阪和興業株式会社

# Annual Report 2011

For the year ended March 31, 2011

HANWA CO., LTD.

# Profile

Since its establishment in 1947, Hanwa has contributed to the development of the Japanese economy as a trading company handling industrial materials, such as steel—the Company's leading product—and metals and alloys, non-ferrous metals, food products, lumber, machinery, petroleum and chemicals, and cement. Our steel division in particular is equipped with quay and warehouse transportation facilities as well as complete processing sites that enable us to both handle large quantities purchased from major steel manufacturers and to cater to the special needs of our customers. This is why we have long been known in Japan as a "steel trading company."

Recently, with the changes and diversification in the domestic market, we have demonstrated new capabilities as a trading company by handling seafood products, rides for amusement parks, and non-ferrous metal recycling. We have created numerous businesses in these fields that command the top market share. The basic strategies underlying such success are internationalization, business diversification, and value enhancement.

Hanwa's ideal function as a trading company is to be more than just a distributor. Based on our insight into the international market and our information-gathering capabilities, we aim to develop new products, as well as coordinate ventures among businesses. As a trading company with such operating skills at our disposal, we will continue to develop new unique businesses.

## Contents



**Forward-Looking Statements**
The plans, strategies and other statements related to the outlook of future results in this annual report reflect the assumptions and beliefs of management based on currently available information. However, it should be noted that there is a possibility for actual results to differ significantly owing to such factors as changing social and economic conditions.

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

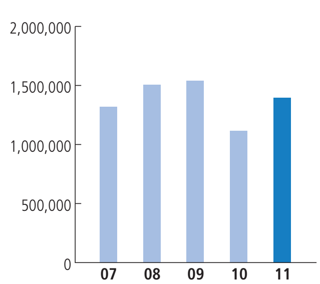
# Consolidated Financial Highlights

For the years ended March 31, 2011 and 2010.

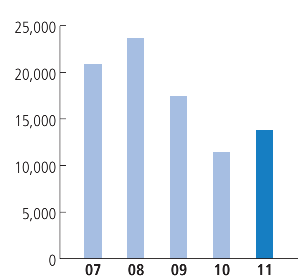
| | Millions of yen | | Thousands of U.S. dollars (Note) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| **For the year:** | | | |
| Net sales | **¥ 1,396,103** | ¥ 1,116,629 | **$16,790,174** |
| Operating income | **13,854** | 11,420 | **166,615** |
| Net income | **5,794** | 11,579 | **69,681** |
| Comprehensive income | **6,104** | 14,537 | **73,410** |
| **At year-end:** | | | |
| Total assets | **¥ 532,798** | ¥ 443,445 | **$ 6,407,673** |
| Total net assets | **110,459** | 106,855 | **1,328,431** |
| | Yen | | U.S. dollars (Note) |
| **Per share data:** | | | |
| Net income | **¥ 27.95** | ¥ 55.46 | **$ 0.336** |
| Cash dividends | **12.00** | 12.00 | **0.144** |

Note: The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥83.15 = $1.00.

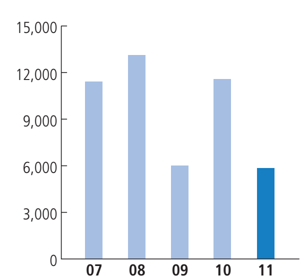
**Net Sales**
(Millions of yen)



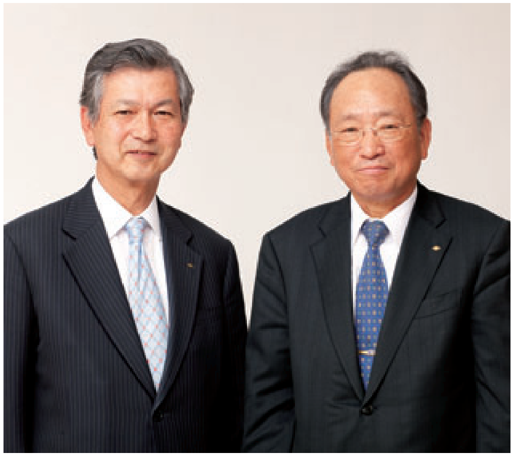

**Operating Income**
(Millions of yen)




**Net Income**
(Millions of yen)



# To Our Shareholders



Left: Shuji Kita, Chairman
Right: Hironari Furukawa, President

Hanwa supplies a broad range of products, including steel, metals and alloys, non-ferrous metals, food products, petroleum and chemicals, lumber, machinery and many other items, to an equally diverse of customers.

Since our inception, we have based operations on the mission of serving our customers as "distribution specialists." Year after year, we have used specialized skills and an extensive service network to meet customers' needs with precisely the right solutions. This skill has earned Hanwa a reputation as a trading company in which customers know they can place their trust, receiving outstanding products and services in return.

In the fiscal year ended March 31, 2011, Hanwa's operating results improved in terms of sales, thanks to the recovery of the overall economy to a certain level. The success was also attributable to Hanwa's commitment to offering to customers through the delivery of value-added products and services as well as ideas anchored on our expertise, all in an effort to function as each customer's "best partner," capable of solving their challenges by working closely with them.

On April 1, 2011, a new management team was instituted with Shuji Kita serving as Chairman, and Hironari Furukawa as President. The new, stronger management team will allow Hanwa to successfully cope with today's difficult economic environment and boost profitability so that the trust accorded to us by our shareholders will be rewarded.

The sincere advice and support of all stakeholders forms the basis for all our activities. We place great value on every customer relationship together with the accompanying opportunities. As we pursue further growth and progress, we will retain our devotion to contributing to society by performing functions that are unique to Hanwa, while serving as "a trading company known for outstanding footwork."

**Shuji Kita**
**Chairman**

**Hironari Furukawa**
**President**

## Looking at the Present and the Future of the Hanwa Group

First of all, I would like to thank you for your continued support. It is my pleasure to provide this overview of operating results for fiscal 2010, the fiscal year ended March 31, 2011.

### Q1 Please share your opinion about the economic environment of the fiscal year ended March 31, 2011.

The world economy during the period was underscored by the general firmness of demand, especially from emerging nations; however, recovery momentums diminished somewhat, as negative factors began to surface, including sovereign risk in Europe and the slowdown in the U.S. economic recovery. Even in China, which has been a key driver behind the global economic recovery, the government tightened the fiscal reins in a move to correct its partially overheated economy.

In Japan, demand for construction and capital goods remained at a low level, and the export-led sectors that were in the recovery mode began to experience sluggishness due to a change in the underlying tone of external demand and the stronger yen. The Great East Japan Earthquake of March 2011 further clouded the visibility of Japan's outlook.

### Q2 Please summarize operating results of the fiscal year ended March 31, 2011.

**A** The Group posted consolidated net sales of ¥1,396,103 million, representing an increase of 25.0% from the previous fiscal year. This expansion was due to improvements in the general economic picture compared with the previous fiscal year, although the pace of recovery slowed somewhat at the midpoint of the fiscal year. Operating income rose 21.3%, to ¥13,854 million, on the back of a rebound in earnings derived from sales. Net income amounted to ¥5,794 million, which represented a drop of 50.0% from the previous fiscal year, in which the Company had enjoyed a reduction in income taxes paid and thus higher earnings as a result of the recording of deferred tax assets in conjunction with real estate transfers.

### Q3 What is your outlook for the fiscal year ending March 31, 2012?

**A** For the world economy, the slowdown in the U.S. and European economic recovery has a destabilizing effect on the financial markets and foreign exchange movements. China's economy is still supported by real demand, but its government is rolling out an increasing number of financial regulations and other moves with corrective undertones to curb inflation.

Japan's economy is plagued by a low level of domestic demand for capital goods and construction, among others. Concerns about shrinking demand have been mounting, especially since the government's incentives designed to boost consumption came to an end. Japan's manufacturing sector is supported by external demand to a large extent, with performance resting heavily on fluctuating external demand and foreign exchange movements. Moreover, if little progress is made in the restoration of procurement and distribution systems for raw materials and components, damaged by the earthquake and short fall of the power supply, the economic sluggishness could be exacerbated both in Japan and abroad. Uncertainty looms on the economic horizon.

Despite the difficult business environment, the Group is striving to maintain and even improve its business performance, by accurately assessing demand trends for each business segment, implementing appropriate sales and inventory strategies that reflect customers' needs, and proactively seeking new clients to expands its customer base. For the fiscal year ending March 31, 2012, we project ¥1,485 billion in net sales (up 6.4%), ¥17.4 billion in operating income (up 25.6%), ¥15 billion in ordinary income (up 11.2%) and ¥9 billion in net income (up 55.3%).

## Q4 How do you plan to cope with business challenges?

**A** In May 2010, the Group launched its Sixth Medium-Term Business Plan for the three-year period from April 2010 to March 2013. It calls for the actions needed to adapt to rapid changes in the business environment and build a highly unique and powerful operational base and profit structure. We are rolling out actions in line with the growth strategies mapped out in the plan.

Now in the second year of the plan, the Group is working aggressively to build a solid profit structure by properly addressing the saturated market of Japan on one hand and growing markets elsewhere on the other, continually responding precisely and rapidly to meet users' requirements, and actively seeking new business opportunities.

## Q5 Please share some additional thoughts with your shareholders and investors.

**A** We offer our deepest sympathy to our shareholders and their families affected by the Great East Japan Earthquake and sincerely hope for the earliest possible recovery of the affected areas.

Deeper uncertainty now looms over the Japanese economy in the aftermath of the March 2011 earthquake; nevertheless, the Hanwa Group remains committed to raising its comprehensive corporate value even further and achieving sustainable corporate growth to boost customer satisfaction. To do so, we are acting vigorously to put into practice the business strategies that allow optimal execution of the Sixth Medium-Term Business Plan.

In this regard, in all our efforts, we greatly appreciate our shareholders' continued support, guidance and encouragement.

### The Sixth Medium-Term Business Plan: An Overview

The Group formulated a Sixth Medium-term Business Plan, whose main objective is to adapt to rapid changes in the operating environment and build a highly original and powerful base of operations and profit structure. To establish a powerful business base, the Group targets business operations to both the saturated market of Japan and emerging economies abroad where robust expansion is expected to continue and delivers Hanwa's promise of consistently providing solutions in a timely manner to meet users' needs. To build a solid profit structure, new business opportunities are actively sought.

**Central themes**

1) Become even more competitive in Japan
2) Expand operations involving the environment and recycling
3) Continue to grow outside Japan

**Key Initiatives**

1) Reinforce and differentiate capabilities
2) Enhance capabilities to do business on a global scale
3) Adopt the perspective of users and target directly end users
4) Effectively utilize a diverse range of human resources

**Strategies for growth**

1) Strengthen capabilities in our core business as a trading company with strong ties to end users
2) Grow rapidly in overseas markets by enlarging the business network and workforce
3) Reinforce and expand the scope of recycling operations
4) Increase business activities involving the environment and energy
5) Make business investments and build partnerships aggressively
6) Establish a team of professionals with outstanding skills

# At a Glance

| Section | Overview |
|---|---|

## STEEL

Steel is Hanwa's major product, accounting for about half of total sales. We sells steel bars, building materials, sheets, pipes, wires, and many other steel products. With this broad lineup, we can meet the requirements of customers in almost any industry. With some of Japan's largest steel distribution centers and a network of overseas coil centers, Hanwa ranks among the leaders in terms of inventories and steel processing volume. In recent years, offshore trading has become another source of growth in the steel business.

## METALS AND ALLOYS

Hanwa fulfills an important social responsibility as a supplier of many metals for which there are no resources in Japan, such as nickel, chromium, manganese, silicon and ferroalloys of primary products. We procure these metals directory from procedures in China, South Africa, Kazakhstan, India, Turkey, Germany, Russia, Brazil and other countries. Using our own global network as well as relationships with strategic partners, we are constantly seeking to increase supplies of metal resources through various measures that include investment.

## NON-FERROUS METALS

Hanwa was one of the first companies in Japan to establish a non-ferrous metals and specialty metals recycling business. Operations involve mainly aluminum, copper, zinc, lead and other metals where demand is substantial in Japan. We have solid positions in there 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 fully utilize expertise in collection, inventory and supply activities to aluminum rolling plants.

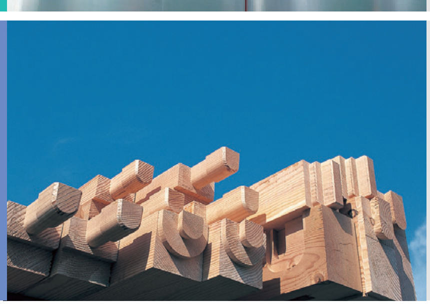
## FOOD PRODUCTS

Hanwa's food business is Japan's largest importer of seafood, handling a diverse selection of products. Developing products with a higher degree of processing has been a central theme in recent years. We have tie-ups with many seafood processing plants in China, Thailand, Vietnam and other countries. All these facilities are highly competitive in terms of cost, quality and hygiene. Furthermore, Hanwa also uses its own purchasing method for processed food products. We send special staffs to plants so they can monitor quality assurance programs.

## PETROLEUM AND CHEMICALS


In the petroleum business, Hanwa supplies fuel, lubricants and other products to companies in the steel, chemicals, papermaking and other industries. Overseas, we sell fuel for shipping companies and are involved in the import and export of petroleum products. In the chemicals business, Hanwa's primary export is synthetic resin raw materials. Major imports include synthetic resin raw materials and polyethylene products. In paper category, we have a recycling business and we expert recycled paper to Southeast Asian countries.

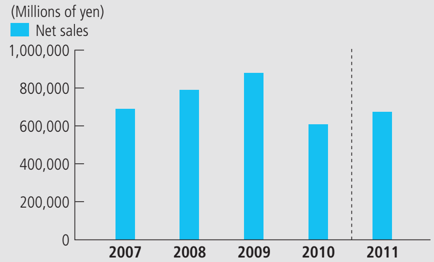
## OTHER BUSINESS

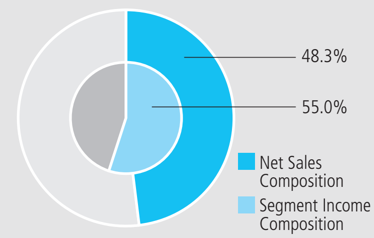


Hanwa that imports lumber, plywood and other wood products are selling to building material trading companies, building material manufactures, sales agents, wholesalers, home builders and many other companies. We are supplying to the thriving construction market in the Middle East and other regions by focusing on offshore trade. The machinery business has two components: amusement facilities, mainly amusement park rides and other facilities; and industrial machinery, mainly steel processing machinery.

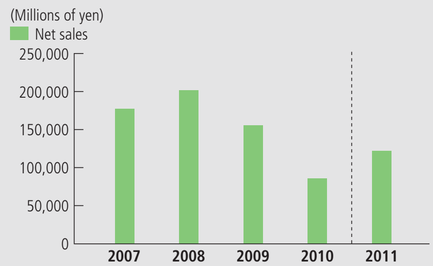
| Main Items | Net Sales | Composition of Net Sales/Segment Income |
|---|---|---|

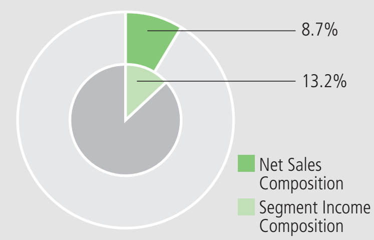
- Steel bars
- Steel shapes
- Steel sheets
- Wire rods
- Special steel
- Steel scrap



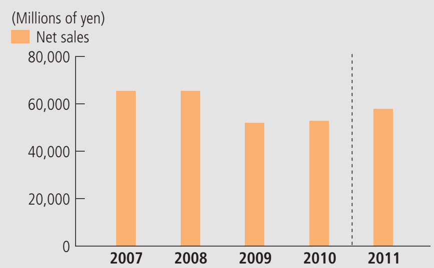



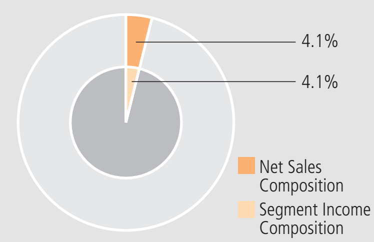

- Nickel
- Chromium
- Silicon
- Manganese
- Solar cell materials



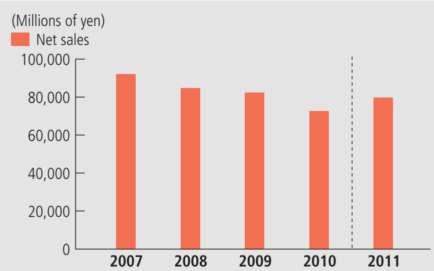



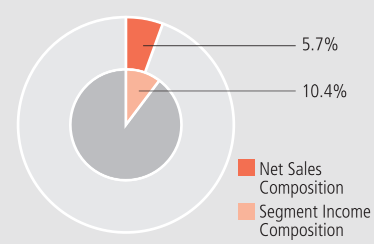

- Copper
- Aluminum
- Zinc
- Lead
- Tin



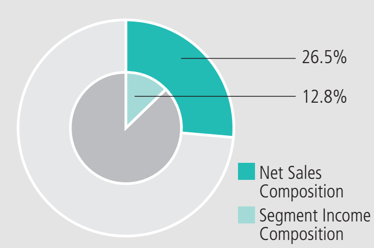




- Prawns and shrimp
- Crab
- Salmon
- Horse mackerel
- Mackerel
- Capelin

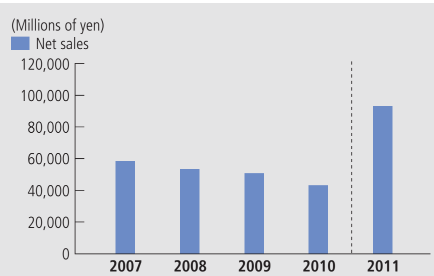


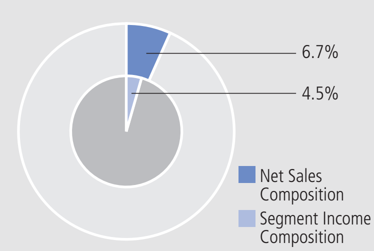




- Petroleum: gasoline, kerosene, heavy oil, LPG, bunker oil
- Chemical: PE, PP, household products, interleaving paper, used paper


- Lumber & Plywood
- Leisure facilities
- Industrial machinery



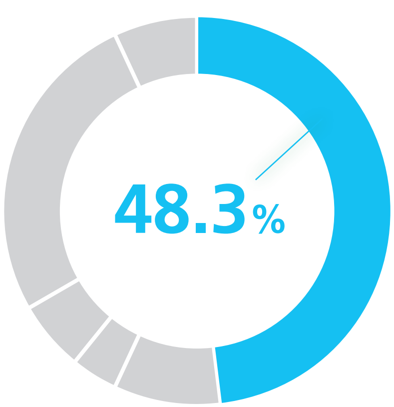

Note: Effective from the year ended March 31, 2011, in line with the application of the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, revised March 27, 2009), the Company changed its classification of consolidated business segments from one based on product similarities to one based on a "management approach." Segment data for prior years have not been adjusted retroactively to match the new classification.

# Steel (Domestic)

## Fiscal 2010 Results

Japan's steel industry experienced drastic changes in the external environment in fiscal 2010. First of all, under the new system of determining prices of raw materials, prices are now revised every three months, instead of the yearly contracts used previously. Second, Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. announced a merger in fiscal 2011, which has acted to accelerate the business consolidation of steelmakers. Third, the Great East Japan Earthquake near the end of fiscal 2010 caused the largest damage in Japan since World War II.

**Net Sales Composition**




In this environment, Hanwa more or less achieved its projected levels of sales and operating income. Demand recovered to 80% of the level prior to the global financial crisis triggered by the collapse of Lehman Brothers. In particular, the nation's manufacturing industry remained robust, aided by the government subsidy program for eco-cars and the eco-point system for energy-efficient products, while the housing industry performed well.

Reflecting blast furnace steelmakers' move to raise prices in line with surging prices of raw materials in the first half of fiscal 2010, the market price rose in the April–June quarter, followed by a slight decline in the July–September quarter due to changes in supply and demand overseas.

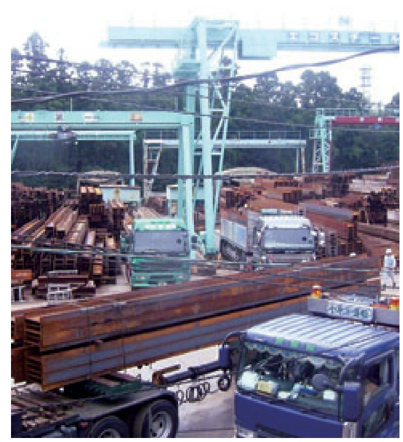
In the second half, falling demand after the end of the government subsidy program for eco-cars forced steelmakers to suspend price hikes continued from the first half. As a result, the market price declined further in the October–December quarter. In the January–March quarter, the market price rose on speculative demand in anticipation of higher steel prices after prices of raw materials resumed their upward trend. However, the earthquake caused extensive damage to manufacturing industries, which discouraged the price to go up.

## Looking Ahead and Key Strategies

The major concern for the first half of fiscal 2011 is how the Great East Japan Earthquake in March will affect the steel business. The construction industry is expected to benefit from reconstruction efforts in the second half. In particular, the rebuilding of infrastructure, such as riverbanks, roads, railways and telecommunications networks, is a challenge that must be addressed urgently. Concurrently, the auto and other manufacturing industries are expected to expand production sharply to make up for the disruption in the first half.

Steel prices are expected to drop, as manufacturing industries have been forced to cut operations sharply due to the earthquake in the first half. In addition, price gaps between ordinary steel products manufactured by electric furnace steelmakers and blast furnace steelmakers are likely to widen, and low prices of products manufactured by electric furnace steelmakers and imported steels will dominate the market. We project that prices will start to rise in the second half, backed by recovery of manufacturing industries and demand related to reconstruction efforts. Meanwhile, it is necessary to closely monitor the development of the Chinese market and pricing policies of electric furnace steelmakers.

Amid the impact of the earthquake and the acceleration of industry reorganization in the run-up to the merger of Nippon Steel and Sumitomo Metal Industries, Hanwa will enter the second year of its Sixth Medium-Term Business Plan. The domestic steel business has set up specific project teams to pursue measures in the following areas: (1) expansion of domestic sales bases to tap niche demand in provincial markets; (2) focused efforts to conduct business with small and medium-sized companies with a healthy business outlook; (3) bolstering of sales initiatives for urban redevelopment and other projects; and (4) strengthening of environment and energy-related businesses.



# Steel (Overseas)

## Fiscal 2010 Results

Hanwa's steel exports totaled 1.45 million tons in fiscal 2010, up 2.3% from the previous year. The world's crude steel output totaled 1.4 billion tons on a calendar-year basis, up 15.2% year on year, reflecting economic recovery around the world, supported by demand in emerging countries.

Japan's total steel exports amounted to 43.64 million tons in fiscal 2010, representing a year-on-year increase of 11.9%, while exports of ordinary steels also rose 13% from the previous year to 29.16 million tons.

Export prices of steel remained on an upward trend throughout the year, buoyed by sharp price hikes in iron ores and coking coals. Reflecting the increased oligopoly of raw material producers mainly in Australia and Brazil, the ability of steelmakers to negotiate on prices declined in comparison. Now that contract prices of raw materials for steel are determined every three months, it is becoming more difficult to conclude long-term sales contracts for steel with clients.

China, which influences the supply and demand of raw materials for steel, reported a high crude steel output of 630 million tons, up 9.2% year on year. In anticipation of higher prices of main raw materials, China's steel prices have generally trended upward since the second half.

As a result, we saw price fluctuation in fiscal 2010, dominated by the movement on the spot price of Indian iron ores purchased by Chinese buyers.

## Looking Ahead and Key Strategies

Going forward, we plan to carry out aggressive investments overseas, especially in the field of steel sheets and construction materials. We will proactively consider our investments, such as in Nippon EGalv Steel Sdn. Bhd. in Malaysia, which will enable us to supply mother coils for the project.

In overseas steel markets, prices are likely to remain high in general, as long as raw materials are dominated by a handful of suppliers. On the demand side, demand related to building infrastructure is accelerating mainly in emerging countries; demand for cars and other consumer goods is expected to continue to grow especially in China and India, the two countries in the world with very large populations.


Concurrently, excess supply may occur, as steel output in China exceeded 600 million tons in the fiscal year and further growth is likely in the current fiscal year. With China increasing its influence on the demand side as well, monetary tightening by the Chinese government may affect demand. If housing and car industries become slump, steel prices are certain to fall, which may lead to an adjustment phase during the summer.

We intend to direct more efforts than ever in the Hanwa Group's target markets, in addition to China. Specifically, we opened an office in Chennai, our third base in India. We will adopt a long-term perspective and are focusing efforts in the emerging markets.

# Metals and Alloys

## Fiscal 2010 Results

In the context of high demand for raw materials and a tight supply in the metals and alloys business in general, we increased the number of trading partners, expanded our product line-up and combined products in response to business changes and the necessity for rapid responses.

In the recycling business, we established Osaka-Nanko Branch Office with a collection and sorting yard. Showa Metal Co., Ltd., a processing company for titanium and special metal scrap, became a Hanwa subsidiary. Stronger business relationships with major wholesalers in Thailand and South Korea also led to the expansion of import business into Japan, contributing to sales and profit.

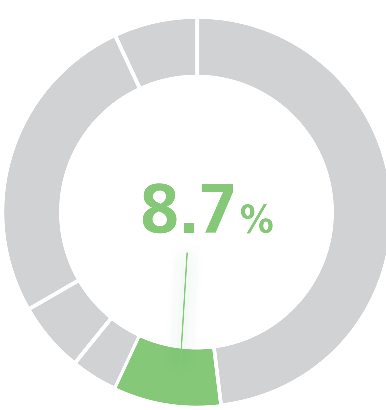
The nickel business reported a high level of LME inventory, but prices fluctuated sharply at a higher level. We successfully concluded long-term virgin metal contracts in China and increased the handling volume of chemical products for the battery industry.

In the ferroalloy business, we flexibly captured market fluctuations as a result of constraint power outage in China, and boosted our share of sales to electric furnace steelmakers with a 50% utilization rate, while secured yearly contracts with blast furnace steelmakers that were enjoying strong results. In the ferrochrome market, where the price increased due to higher costs in South Africa, we started to sell chrome ores from the Middle East to India and China, to compensate for the decline in sales in Japan with brisk demand overseas. In addition, we began selling ferroalloy produced in South Africa in the ASEAN region.

The silicon business reported a recovery in sales and profit, as the price rose and sales of chemical grade silicons expanded.

In the solar cell business, we concluded long-term import contracts with polysilicon manufacturers in Germany and South Korea. We also concluded contracts to export wafers to Taiwan, South Korea, China and India.

**Net Sales Composition**




## Looking Ahead and Key Strategies

We aim to expand the number of trading partners and boost the range of products for trade on a global scale, in an effort to build reliable partnerships in key areas in future.

In the recycling business, we will focus on specialization in logistics, stockpiling, sorting and processing functions. We will seek to build trading opportunities by maximizing synergy effects with Showa Metal and the Osaka-Nanko Branch Office. In the nickel business, we aim to tap new clients in South Korea, Taiwan and Thailand for raw materials for chemical products for the chemical and battery industries. We will also center efforts on sales of nickel ores from the Philippines to Japan and China.

In the ferroalloy business, we plan to further diversify our suppliers. By bolstering relationships with producers that own ore mines, we aim to increase sales to blast furnace steelmakers, special steelmakers and electric furnace steelmakers. In the chrome business, we seek to expand trading mainly of products and ores from Samancor Chrome Holdings (Proprietary) Ltd. in South Africa. We will also consider taking part in projects to be carried out by the Ruukki Group plc.

In the solar cell business, we intend to be more selective of partners in respective countries, so that we can focus on and enhance the raw material, wafer and panel businesses.

In the metal silicon business, following the full-fledged operation of Dalian Solar Valley Silicon Industry Co., Ltd., we plan to build stable sales channels in South Korea, Japan and Taiwan and thereby put more efforts on high purity products.

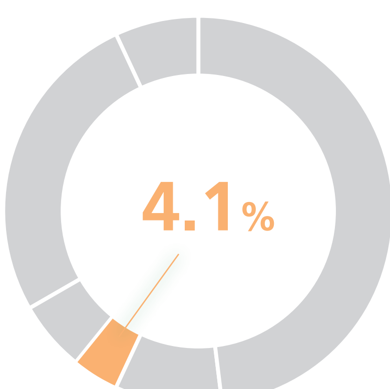
# Non-Ferrous Metals

## Fiscal 2010 Results

The copper price fell to $6,000 per ton and aluminum slid to $1,900 per ton on the London Metal Exchange due to concerns at the beginning of the fiscal year when Greece faced the risk of default. Lead, zinc and tin followed suit, but subsequently rose on the back of robust demand in emerging countries as well as the inflow of capital into commodities futures market amid easy monetary policies around the world. The copper price hit an all-time high in February 2011, while aluminum rose above $2,600 per ton at the end of the fiscal year.

Against this background, in the domestic aluminum recycling business, demand for raw materials for secondary alloy remained firm, partly due to a falling volume of scraps as the construction and manufacturing industries slumped in Japan, and partly because of healthy performance in the manufacturing of complete cars for exports and of knock-down components for assembly overseas. Of special note is the fact that the price of secondary alloy exceeded that of primary aluminum between the early and middle periods of the fiscal year. Amid stiff competition for procurement in the aluminum industry in general, high-quality scraps, which are an alternative to primary aluminum, suffered a steep decline in profit margin, pushing down our operating income.

**Net Sales Composition**




For copper, lead, zinc and tin, we benefited from a positive combination of domestic, import, export and trilateral trading, and pushed ahead with new commodities. In particular, trilateral trading with offices in Southeast Asia as bases expanded sharply, contributing to sales and profit.

## Looking Ahead and Key Strategies

The Great East Japan Earthquake seriously impacted the non-ferrous metals industry, as outlined below:

(1) Auto production both in Japan and abroad suffered disruption, due to damage sustained by the components industry.
(2) The operation rate at manufacturing plants in eastern Japan fell due to the power shortage.
(3) The earthquake disrupted the collection cycle of materials for recycling.
(4) The release of radiation resulting from the accident at the Fukushima Dai-ichi Nuclear Power Plant required a revision of collection, shipment and export systems.

We think that resolving these problems will require at least six months, which may act to curb profitability in the first half of the current fiscal year.

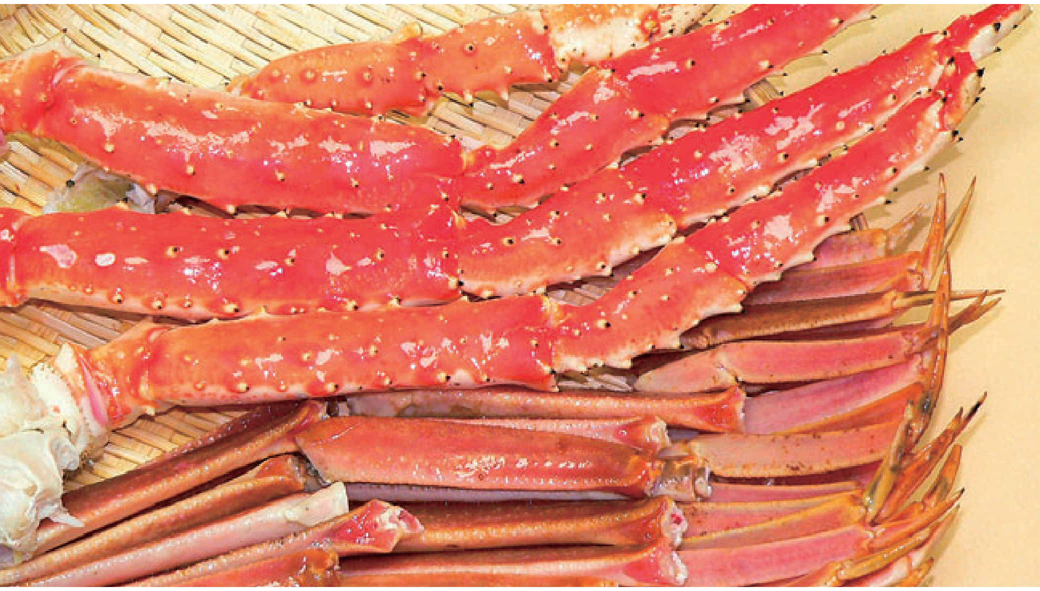
The market is expected to fluctuate at a higher level, as China is likely to tighten its monetary policy while robust demand is forecasted to continue in other emerging countries.

In the current fiscal year, we will aim to boost profitability further by continuing to implement the following programs.

(1) We will add value to products by expanding collection and processing bases in Japan and stabilizing the supply of products to domestic users in terms of quality and price.
(2) We will expand the sales network overseas, mainly in Southeast Asia, China and India.
(3) We will optimize logistics and save labor by expanding collection and processing bases overseas.
(4) We will explore new commodities and make our product line-up even more comprehensive.

In the non-ferrous metals segment, we will draw on our sales strength in the international market and draw on effective hedging strategies and our ability to maintain a stable supply, to strengthen the global recycling network.

# Food Products



## Fiscal 2010 Results

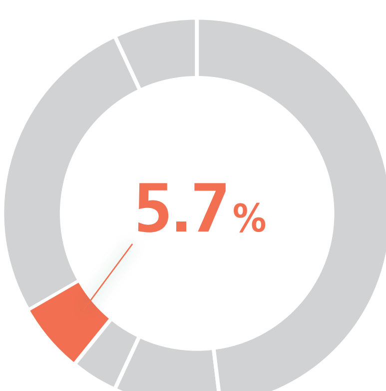
Reflecting the spread of fish consumption around the world, prices in supplier countries soared, and this in turn pushed up domestic prices. Import prices led the movement of the prices in the Japanese market, while the yen's appreciation against the U.S. dollar benefited the food products industry.

Seattle Shrimp & Seafood Company, Inc., a seafood sales subsidiary in the United States, steadily expanded its operations on the back of brisk demand in that country and an improved organizational structure. The company reported the best business results since its foundation, pointing to the type of strategy we should adopt overseas.

Although the prices rose for all seafood products that we handle, except for shrimp and herring roe, demand held firm, as the yen's appreciation against the dollar helped domestic prices remain at reasonable levels. Given the low level of stockpiles, the supply and demand balance was relatively stable. On the other hand, crabs, octopus and eels experienced short supply and their prices surged in Japan, contributing significantly to profit. Fillets of salmon and mackerel, as well as other common fish sold well, contributing to growth in terms of volume.

As part of the food products segment's basic policy, sales to overseas markets expanded, with the Thai market taking the lead, while sales to China improved gradually.

**Net Sales Composition**




## Looking Ahead and Key Strategies

Prices of the items that enjoyed high profitability during the previous fiscal year have soared to such a high level that caution is required going forward. Given the projected shortage in the supply of food products produced in Japan in the wake of the earthquake, it is important for us to procure in a flexible manner, depending on the types of fish and food items.

We plan to continue to center efforts on the United States in particular, as in the fiscal year under review. We will consider expanding overseas bases and adopting other concrete measures to increase sales in Asia, including China and Thailand.

In view of the damage caused by the earthquake, domestic supply of mackerel, saury and salmon is expected to fall. Already, overseas producers are demanding higher prices. We will procure common fish such as salmon and mackerel in large volume in principle, while dealing steadily in higher-priced premium seafood, such as crabs and prawns, by maintaining close contact with clients. The mood of self-restraint surrounding Japan's consumer spending is likely to be dispelled in due course. The environments for common fish and overseas processing are expected to greatly affect future supply and demand, in light of the decline in domestic supply and the lower production capacity of seafood processing companies in Japan's Tohoku region.

# Petroleum and Chemicals

## Fiscal 2010 Results


The world's crude oil market traded at a high level, contrary to the expectations of many at the beginning of the fiscal year. Furthermore, when democratization movements in several Middle East countries caused a historic change in political regimes, concerns emerged about a shortage of oil supply, with the price of WTI crude oil shooting above $100 per barrel.

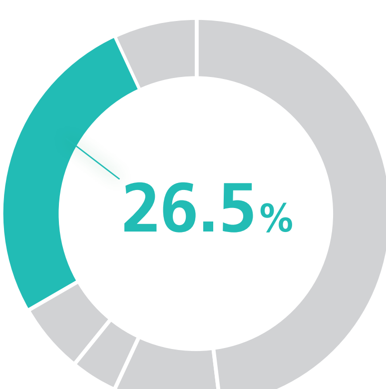
Concurrently, Japanese oil producers sharply reduced their refining capacities in preparation for the implementation of the Law for Sophisticated Methods of Energy Supply Structures as well as the Non-Fossil Energy Act. Accordingly, the number of oil tanks and gas stations was also reduced. The number of gas stations in Japan fell below 40,000 for the first time in 43 years and continues to decline.

Sales volume of bunker oil rose 12% year on year, thanks to increased sales to shipping companies that were enjoying strong results on the back of growing demand in Asia.

The chemicals business suffered greatly reduced profit on much lower sales, due to a decline in the supply of imported synthetic resin and a slump in the Chinese market. We recorded their largest monthly sales for March as sales of imported synthetic resin rose after the Great East Japan Earthquake to cover for Japanese manufacturers.

The paper business enjoyed greatly increased profit on much higher sales, as the three key areas of used paper, refuse paper and plastic fuel (RPF) and paper products reported strong results.

**Net Sales Composition**




## Looking Ahead and Key Strategies

Global demand for oil, led by emerging countries, is forecast to rise 37% over the next 20 years. In particular, oil consumption in China is expected to double from its current level in 2030, with China overtaking the United States as the world's largest user of oil. We expect the crude oil price to remain at a high level for the foreseeable future, as demand in the emerging countries continues to expand and the U.S. economy recovers, while geopolitical risk spreads in parts of the Middle East.

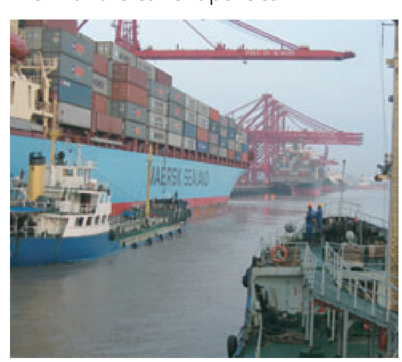
On the other hand, petroleum consumption in Japan is predicted to continue to shrink 3% annually. Given the current widespread concern over the safety of nuclear power generation, however, it is certain that we will see a temporary shift to fossil fuel and gas as an alternative energy source for power generation. We plan to increase our capacity to expand sales of fuel oil rapidly.

In the petroleum products business, we aim to establish a system designed to achieve large sales and profit, in cooperation with Toyo Energy Co., Ltd., which became a subsidiary last year.

In the chemicals business, where synthetic resin is the core product, we will work to expand sales of imported synthetic resin, as production by Japan's comprehensive chemical companies remains disrupted. With demand for synthetic resin for use in gas and water pipes in China growing 20% annually, we will seek to tap new clients, while monitoring the price movements closely.

In the paper business, we will focus efforts to expand sales of used paper in Southeast Asia and diversify our client base for RPF to boost both sales and profit.

In the lubricants and daily sundries business, we will strengthen exploring new markets and overseas businesses in line with the current policies.



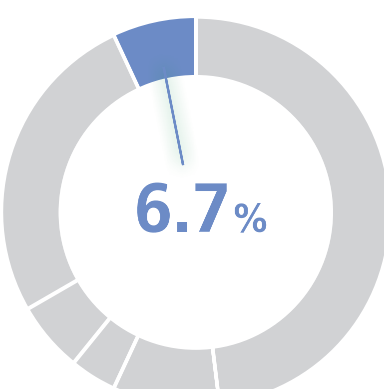
# Other Business (Lumber and Machinery)

## Fiscal 2010 Results

**Lumber**

Housing starts in fiscal 2010 totaled 810,000, up 2.5% from the previous year. Reflecting the recovery in housing starts, we reported stable transactions of imported lumber and plywood. Together with growing sales to new builders, the volume handled totaled some 650,000 cubic meters for the year. Overseas sales also grew steadily to some 350,000 cubic meters. Overall, we handled approximately 1 million cubic meters. Sales also expanded 36% from the previous year, the first year-on-year growth since the global financial crisis triggered by the collapse of Lehman Brothers.

**Net Sales Composition**




**Machinery**

In the leisure facilities business, we completed renewal work for a swimming pool at the Enakyo Wonderland. Although we concluded a contract for an indoor rollercoaster at the Tokyo Joypolis amusement park, which is to be manufactured by Gerstlauer of Germany, the environment for contracts slumped in the wake of the Great East Japan Earthquake.

In the industrial machinery business, the number of concluded sales contracts for hoist cranes rose thanks to close cooperation between different segments, and we concluded a sales contract for a magnetic steel sheet beveled cutter manufactured by Yutani Co., Ltd. with a Chinese company. We also expanded marketing activities in the transformer industry in Thailand. Furthermore, we sold aluminum melting furnaces manufactured by Hokuriku Techno Co., Ltd. in Indonesia, Thailand and China and secured additional contracts for steel fabrication business for factories, and both of these achievements contributed to profit.

## Looking Ahead and Key Strategies

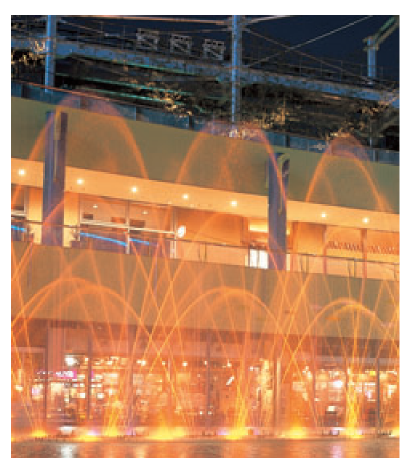
**Lumber**

The current fiscal year began amid the confusion in the wake of the Great East Japan Earthquake that occurred on March 11, 2011. Some 35% of the manufacturing capability for softwood plywood in Japan has been damaged. As Japan still faces a great number of unresolved problems, including the accident at the Fukushima Dai-ichi Nuclear Power Plant and the power shortage, we expect demand for housing to decrease for the foreseeable future, except for that for temporary housing. From the second half of the fiscal year onward, demand related to full-fledged reconstruction efforts is likely to emerge. We set up International Wood Sales Department during the current fiscal year, as we have secured a purchase contract of lumber to fill an entire ship from a new supplier in the United States. We have assigned two sections to tap demand in China and explore business opportunities in India, in addiction to the Middle East, South Korea and Taiwan. In the current fiscal year, we are targeting 700,000 cubic meters in overseas sales. Together with our key domestic lumber segment, we aim to achieve sales of 1.4 million cubic meters this fiscal year.

**Machinery**

In the leisure facilities business, we will step up our sales efforts, as demand for large rides is recovering. We plan to continue to develop new attractions for children and swimming pool-related facilities. In our joint venture with Halos Co., Ltd., we will develop game machines and commence full-scale external sales. We will also explore business opportunities in the Middle East, India and China in collaboration with Sega Corporation.

In the industrial machinery business, we will conduct aggressive sales activities, targeting the capital spending projects of our trading partners, and formulate comprehensive business proposals that encompass sales of cranes and system architecture. We also intend to bolster efforts on steel processing lines, and steel fabrication business at factories and export projects, to expand away from the broking business of single machines.



# Topics

## Capital Participation in Showa Metal Co., Ltd.

Head office of Showa Metal

In April 2010, Hanwa acquired a 51% stake in Showa Metal Co., Ltd., the leader in rare metal recycling business in Asia, and completed the integration of Hanwa's titanium material business and special metal scrap business into Showa Metal. In today's recycling of special metals, for which business growth increasingly requires global orientation, the integration allows the Group to seamlessly handle all recycling steps by itself, from the procurement of materials to the delivery to users, for greater managerial efficiency and capability to select and process scrap.

## Toyo Energy Becomes a New Subsidiary of Hanwa


Oil tanks and oil station operated by Toyo Energy

In October 2010, Hanwa acquired a 100% stake in Toyo Energy Co., Ltd. and transformed it into a wholly owned subsidiary. A wholesaler of petroleum products and authorized importer/wholesaler of diesel oil, Toyo Energy distributes petroleum products and liquefied petroleum gas (LPG) extensively from the Kanto region to Kyushu. Under its umbrella are a company with an oil tank accommodating 27,000 kiloliters of oil and an operator of gas stations, which are expected to create synergies with Hanwa's Petroleum Department for further business growth.

## Expansion of Our Domestic Office Network

Appearance of branch office

The Sixth Medium-Term Business Plan calls for stepped-up efforts to reach deep into the regional user base in Japan by expanding and strengthening regional offices. In October 2009, the Kitakanto Branch Office opened its doors, followed by the Okinawa Branch Office (April 2010) and the Osaka-Nanko Branch Office (September 2010). In April 2011, we strengthened our operations in the Kanto region with two additional branch offices in Mito and Atsugi. In addition, we established an office affiliated with the Tohoku Branch Office in Hachinohe.

The locally oriented sales structure enables the Group to exchange local information in a more timely manner with customers, respond more quickly to their needs, and boost the service quality we offer. Through these efforts, we hope to boost even further our contribution to local economies.

Hanwa's domestic sales network now has 14 locations throughout Japan, consisting of two head offices, 12 branch offices.

# Corporate Governance

## Basic corporate governance policy

We aim to fulfill our social responsibilities as a good corporate citizen so that we can gain and retain the respect from 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 participating in many corporate social responsibility (CSR) activities, we have established a CSR Committee and use a commitment to CSR management to make our corporate brand even more respected.

## Corporate governance structures

We have adopted a corporate auditors' system. Our Board of Directors, which comprises 21 directors, including two outside directors, meets as a rule once a month to deliberate and decide important business plans and proposals concerning the Hanwa Group, and to oversee business operation. There are five auditors in total, including three outside auditors. Each auditor follows auditing policies and auditing plans in carrying out stringent audits. In addition, the corporate auditors attend the Board of Directors, the Management Committee and other important meetings, monitor and verify the execution of the management.

We have also adopted a system to perform preliminary review of management issues in various committees such as the Directors Evaluation Committee, the Investment Examination Committee, and the Compliance Committee. By enhancing these management systems, our corporate governance system will be established to good purpose.

## Internal control and risk management system

We have resolved on basic policies regarding the development of internal control systems at our Board of Directors' meetings and are currently developing internal control systems, including the establishment of frameworks for risk management and taking the conditions of internal audit into consideration.

The overview of the basic policies is as follows.

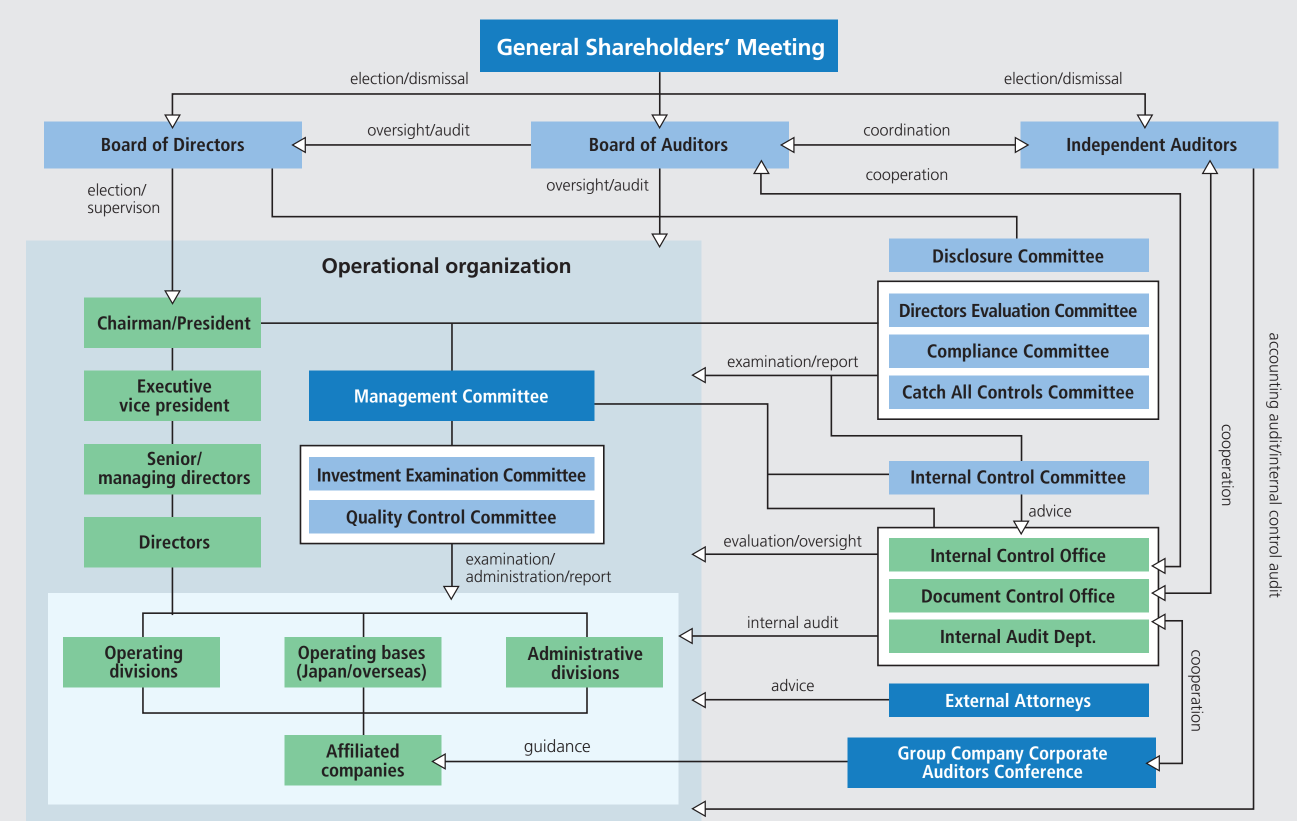
### ● Systems to ensure that performance of duties by the directors and employees complies with laws and regulations and the articles of incorporation

- Hanwa has established standards for corporate ethics and ethical behavior in accordance with the Company's creed. The Compliance Committee, chaired by Hanwa's president, distributes a compliance manual to all Hanwa executives and employees as well as verifies that compliance programs are being used effectively. In addition, we take determined action against anti-social influences and block all contact with such entities.
- Hanwa has established a consultation service (using the Compliance Committee and external attorneys) where all Hanwa Group executives and employees can obtain advice concerning compliance matters, providing a means of directly reporting compliance problems.

### ● Systems to store and control information related to duties performed by the directors

- Information related to duties performed by the directors is

**The corporate governance structures and internal control systems for the Hanwa Group.**



properly stored in written document or electronically, and these records are stored and managed in accordance with laws, regulations and Hanwa's regulations for document management.

### ● Regulations and systems related to management of risk of loss

- Directors and department managers work with the Legal & Credit Department to manage and reduce risks associated with business activities. In addition, there is the Investment Examination Committee, which manages investment risks by studying proposals for new business ventures and new investments.
- Each business department cooperates with the General Affairs Department, the Information Systems Department, the Legal & Credit Department and other units concerning compliance, environmental management, emergency responses, information security, export management and other matters. These risks are managed in accordance with internal rules, manuals and other guidelines. The Compliance Committee, the Catch All Controls Committee and other applicable committees assist the departments by providing advice and educational support. Advice from external attorneys and other experts is used as required.
- To verify the effectiveness of risk management, the Internal Audit Department and the Overseas Administrative Department monitor all Hanwa business sites and group companies based on a pre-determined auditing plan, and their reports are submitted mainly to the Management Committee and the Board of Directors.
- The Disclosure Committee reaches decisions concerning the importance and suitability of information to be disclosed to ensure that information is released to the public in a fair, timely and appropriate manner.

### ● Systems to ensure efficient execution of directors' duties

- As a rule, the directors meet once each month to reach decisions concerning important group management matters and to supervise the execution of business operations. As a rule, the Management Committee meets twice each month. The members of this committee discuss important matters concerning management and reach decisions. They also submit issues to the Board of Directors that concern important matters involving the Group's management.
- The Directors Evaluation Committee chaired by the president meets twice each year to perform a comprehensive evaluation of the directors' performance. This includes an assessment of the commitments and performance of each director and a mutual evaluation process for all directors. The results are used to determine directors' compensation and for the selection of directors.

### ● Systems to ensure proper operations in the corporate group

- Hanwa has established regulations for the oversight of affiliated companies. Based on the regulations, the Affiliated Enterprises Department and the Overseas Administrative Department are responsible for support and management activities concerning affiliated companies to ensure efficient management of operations.
- Compliance, risk management and other systems apply to operations across the entire Hanwa Group. Committees and other supervisory units provide guidance and education concerning the use of these systems.
- The Group Company Corporate Auditors Conference holds meetings as necessary. The meetings provide for exchanges of information involving audits of Hanwa and affiliated companies to provide for the sharing of information.

### ● Systems relating to employees assigned to assist the corporate auditors, and the independence of such employees from the directors

- There are a few employees assigned to assist the corporate auditors. In addition, these employees receive no orders or instructions from the directors or anyone else concerning the directives and orders received from the corporate auditors.

### ● Systems for the directors and employees to report to the corporate auditors and systems otherwise pertaining to reporting to corporate auditors

- In addition to submitting reports on important items concerning compliance, the directors submit reports to the corporate auditors on the execution of business operations and important decisions.
- The directors and employees must quickly and accurately respond to requests for reports by the corporate auditors.
- The Internal Audit Department submits reports as required to the corporate auditors concerning internal audits.

### ● Other systems to ensure effective auditing by the corporate auditors

- The corporate auditors announce opinions at meetings of the Board of Directors as necessary. In addition, the corporate auditors collaborate with the independent auditor concerning the financial audit.
- Hanwa has a system that allows the corporate auditors to attend meetings of the Board of Directors and other important meetings, inspect important documents, perform studies of important departments and subsidiaries, and perform other tasks.

### ● Systems to ensure the reliability of financial reports

- In accordance with the Fundamental Policy concerning Internal Controls for Financial Reports, the Hanwa Group operates the internal controls reporting system in an efficient and effective manner. The Internal Control Office supervised directly by the Management Committee checks and evaluates the establishment and operation of internal controls and submits reports to the Management Committee.
- The Internal Control Committee studies issues involving internal controls and submits reports on the results of these studies to the Management Committee. In addition, the Internal Control Committee provides advice and assistance for the examinations performed by the Internal Control Office and describes its opinions in an Internal Control Report.

# CSR Activities

## Hanwa's Framework for Promoting Corporate Social Responsibility (CSR)

As a trading company, Hanwa's broad spectrum of stakeholders and operations spans the globe. We place CSR at the center of our management and continually reinforce our CSR activities. We believe this stance will lead to even more growth in our enterprise value.

We already have several CSR units in place at Hanwa, notably the Compliance Committee, Environmental Committee and Hanwa Scholarship Program. The CSR Committee oversees the activities of these and other organizations associated with CSR to ensure that all activities are performed efficiently and seamlessly.

### Positioning of the CSR Committee

Board of Directors

Management Committee

**CSR Committee**

- Environmental Committee Secretariat
- Security Trade Control Committee
- Internship System
- Compliance Committee
- Harassment Consultation Office
- Voluntary Activity Support System

IR and PR activities

Donations

NPO/NGO

Activities to make employees more aware of CSR

Hanwa Scholarship Program

Support for Overseas Exchange Students

**Hanwa's basic policy on CSR**

1) Thorough legal compliance
2) Consideration of the environment
3) Good corporate citizenship
4) Transparent management, proactive disclosure
5) Maintaining of financial soundness
6) Workplaces geared to employee self-realization

## Ethical Principle

Hanwa has established the Compliance Committee with a view to making all the employees at the Hanwa Group, including those at affiliated companies and overseas subsidiaries, fully aware of the importance of corporate compliance and ethics. It has set up consultation counters both on-site and off-site. In addition, the Company has drawn up, under the Corporate Policy, the Corporate Ethical Standards (composed of 10 items) and the Ethical Standards of Behavior (composed of 25 items) as guidelines for employee behavior to promote legal, fair and sensible corporate conduct.

The Hanwa Ethical Standards for Employee Behavior

**Corporate Policy**

- Earn confidence with honesty and effort
- Act as a specialist in the field with vigor and initiative
- Boost efficiency with originality and cooperation
- Promote corporate business and build happy homes
- Recognize responsibility and contribute to society

## Measures for Crisis Management

**Hanwa has compiled a list of grave risk scenarios that might cause serious damage to the safety of its employees, officers and their families, in addition to its assets and business operations. Should such a risk scenario materialize, we will seek to minimize any resultant damage and put priority on ensuring the safety of our employees and officers and their families. We have established the measures necessary to maintain and resume our core operations in such an eventuality.**

### New Revision of Crisis Management Manual

Hanwa began reviewing the content of its manual for disaster prevention in Japan, which had previously been revised in September 2007, and in May 2011 created an updated manual for crisis management that applies to the entire Hanwa Group, including affiliate companies and offices overseas. The move is part of our efforts to ensure crisis management for employees posted overseas and local staff, given Hanwa's increasing globalization of operations.

### Revision of Measures against Earthquakes

The Great East Japan Earthquake on March 11 caused massive damage mainly in the northeastern part of Japan. Hanwa set up an emergency headquarters immediately after the earthquake and confirmed the safety of its employees and officers and their families via Mobile i-Call, an emergency communication system provided by Docomo Mobile Tokai Inc. At the same time, respective departments and sections swiftly confirmed the safety of their staff, using the emergency "telephone tree." Hanwa's Tohoku branch, which was initially thought to have sustained damage, confirmed two hours after the earthquake that all of its employees were safe. We are currently reviewing countermeasures against earthquakes. Specific measures include stepping up disaster prevention drills, checking emergency supplies, introducing satellite telephones, adopting measures to prevent OA equipment from falling off desks and increasing reserve stock.

### Compilation of a Manual to Combat a New Outbreak of Influenza

In its efforts to contain the spread of new influenza in Japan and abroad, Hanwa is drawing up a business continuity plan to ensure the safety of its employees and officers, and keep potential damage to a minimum.

## Diverse Work Style and Promote Diversity

**The Diversity Promotion Office is responsible for taking measures related to diversity. We define diversity as an environment in which individual employees acknowledge various backgrounds and points of view, and in which a variety of work styles can be pursued. We consider diversity as a business challenge in which all employees should play their part. We have introduced a mentor scheme especially for female employees in general positions with a chance of promotion and for new non-Japanese employees. An employee in a different section with a longer work experience at the Company is assigned as a mentor to provide intellectual and psychological support, to create a better working environment.**

### Helping Employees Balance Work and Family

As part of our efforts to help employees balance family and work more easily, we have introduced a child care system and shorter working hours for employees with small children, both of which are more generous than those required under Japanese law. In September 2010, a male employee took child care leave for the first time in Hanwa's history. We also actively assist those who return to work after child care leave.

### Employment of the Handicapped

In staffing handicapped employees, we take care that they are assigned to a section where they can perform to the best of their abilities. As of March 2011, handicapped employees accounted for 1.8% of the employee total.

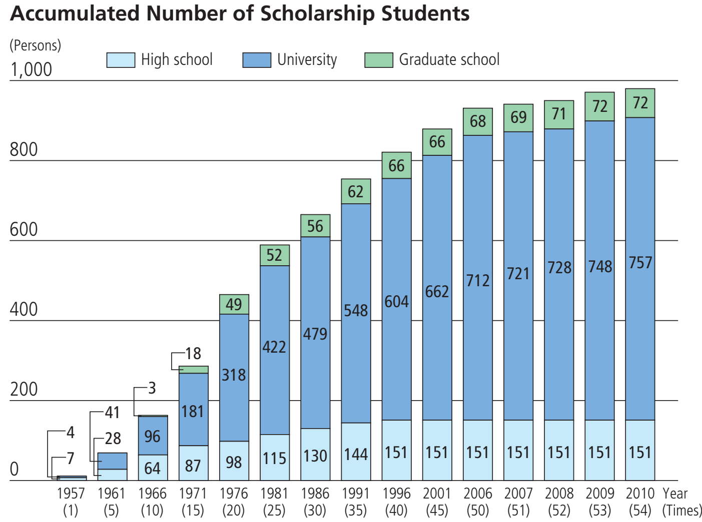
## Social Contribution

### Hanwa Scholarship Program

The Hanwa Scholarship Foundation was established in 1957 as part of activities to commemorate the 10th anniversary of Hanwa's establishment, and marked its 54th anniversary. Jiro Kita, the first president of Hanwa, decided to establish the foundation based on the philosophy of "contributing to society based on an awareness of a company's social responsibilities." The foundation began with a contribution of ¥10 million, at a time when Hanwa's own capital was ¥100 million. As of 2009, the program had distributed a total of ¥542 million in scholarships, and the accumulated number of scholarship students had grown to more than 980.

The Hanwa Scholarship Program looks forward to using political, economic and cultural insight to assist a growing number of outstanding students around the world to realize their goals as globalization continues to advance in the 21st century.

**Accumulated Number of Scholarship Students**



# Five-Year Summary

For the years ended March 31



| | Millions of yen, except for number of employees | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 | **2011** |
| **For the year:** | | | | | | |
| Net sales | **¥ 1,396,103** | ¥ 1,116,629 | ¥ 1,539,282 | ¥ 1,507,509 | ¥ 1,320,022 | **$16,790,174** |
| Operating income | **13,854** | 11,420 | 17,451 | 23,705 | 20,865 | **166,615** |
| Net income | **5,794** | 11,579 | 5,997 | 13,118 | 11,423 | **69,681** |
| Comprehensive income | **6,104** | 14,537 | — | — | — | **73,410** |
| Net cash provided by (used in) operating activities | **(46,949)** | 46,250 | (5,742) | 21,430 | (36,192) | **(564,630)** |
| Net cash used in investing activities | **(7,611)** | (12,992) | (19,536) | (8,443) | (5,956) | **(91,533)** |
| Net cash provided by (used in) financing activities | **51,272** | (43,669) | 46,592 | (9,144) | 34,325 | **616,621** |
| **At year-end:** | | | | | | |
| Cash and cash equivalents | **¥ 20,586** | ¥ 24,515 | ¥ 35,046 | ¥ 14,179 | ¥ 10,229 | **$ 247,577** |
| Total assets | **532,798** | 443,445 | 479,379 | 482,014 | 476,179 | **6,407,673** |
| Total net assets | **110,459** | 106,855 | 94,913 | 100,926 | 98,254 | **1,328,431** |
| Number of employees (persons) | **2,060** | 1,952 | 1,818 | 1,715 | 1,637 | |

| | Yen | | | | | U.S. dollars |
|---|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 | **2011** |
| **Per share data:** | | | | | | |
| Net income | **¥ 27.95** | ¥ 55.46 | ¥ 28.47 | ¥ 62.07 | ¥ 54.03 | **$ 0.336** |
| Cash dividends | **12.00** | 12.00 | 12.00 | 12.00 | 12.00 | **0.144** |
| Net assets | **529.65** | 512.16 | 450.05 | 473.70 | 461.21 | **6.370** |

| | % | | | | |
|---|---|---|---|---|---|
| | **2011** | 2010 | 2009 | 2008 | 2007 |
| **Key financial ratios:** | | | | | |
| Return on assets (ROA) | **1.2** | 2.5 | 1.2 | 2.7 | 2.6 |
| Return on equity (ROE) | **5.4** | 11.6 | 6.2 | 13.3 | 12.4 |
| Net debt/equity ratio | **200** | 140 | 190 | 150 | 170 |

Notes: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥83.15=$1.00.
2. Net debt/equity ratio = Net interest-bearing debt/equity.
Net interest-bearing debt = Interest-bearing debt – cash.
3. The cash dividends per share for the year ended March 31, 2007 included a ¥2 commemorative dividend in celebration of the 60th anniversary of the Company's establishment.
4. Effective from the year ended March 31, 2011, the Companies adopted "Accounting Standard for Presentation of Comprehensive income" (ASBJ Statement No. 25 issued on June 30, 2010). As a result of the adoption of these standards, the Company has represented comprehensive income for the year ended March 31, 2011 and 2010.

# Management's Discussion and Analysis

## Operating Results

### Operating Results for the Fiscal Year Ended March 2011

During the consolidated fiscal year under review, the world economy was generally underscored by solid demand primarily from emerging economies, but at the same time it was overshadowed by signs of decelerating economic recovery, including concerns over certain European countries' sovereign risk and the slowdown in the U.S. economic recovery. Even China—a key driver pulling the world economy out of the recession—showed signs of economic overheating, and this prompted the Chinese government to take an increasing number of measures aimed at fiscal tightening. Japan's economy also remained lackluster, as demand for construction and capital investments stayed at a low level. In addition, the export-led sectors and others that were on a recovery trajectory began to experience sluggishness, as demand from overseas changed its tone and the yen appreciated in value. The visibility of Japan's economic outlook was clouded further by the Great East Japan Earthquake that struck in March 2011.

In this operating environment, the Group posted consolidated net sales of ¥1,396,103 million for the consolidated fiscal year ended March 31, 2011, representing a year-on-year increase of 25.0%. Operating income grew 21.3%, to ¥13,854 million, reflecting a rise in earnings derived from sales. Net income amounted to ¥5,794 million, representing a 50.0% drop from the previous fiscal year. In the fiscal year ended March 31, 2010, income taxes had been reduced, and thus higher earnings had been recorded as a result of the recording of deferred tax assets in conjunction with real estate transfers. The decrease was also attributable to a loss on valuation on investment securities for which a transfer agreement had been executed recorded in the period under review.

### Net Sales

Net sales rose 25.0% year on year, to ¥1,396,103 million. The increase reflected a rise in sales volume in addition to the economy's recovery to a certain level, although the speed of the recovery slowed somewhat at the midpoint of the period under review. Domestic sales were up 26.3%, to ¥1,054,082 million, while overseas sales were up 21.2%, to ¥342,021 million.

For a discussion of sales by segment, see "Review of Operations" (pages 6 through 12) and "Segment Information" (pages 40 and 41).

### Cost of Sales, and Selling, General and Administrative (SG&A) Expenses

Cost of sales increased 25.7%, to ¥1,352,359 million. The increase was due to higher prices of procured goods combined with higher quantities procured in line with the increase in quantities sold.

SG&A expenses increased 2.5%, to ¥29,890 million, due to the rent connected to the Tokyo head office relocation and an increase in personnel expenses.

### Operating Income

Operating income rose 21.3% from the previous consolidated fiscal year's total of ¥11,420 million, to ¥13,854 million. This was attributable to the relatively slight increase in SG&A expenses and higher sales revenues. The ratio of operating income to net sales was 1.0%, the same level as the previous consolidated fiscal year.

### Other Income (Expenses)

Other expenses net of other income decreased 27.1% year on year, to ¥3,848 million. Other income increased 11.4%, to ¥2,724 million, reflecting mainly higher interest and dividend income.

Other expenses totaled ¥6,572 million, representing a decrease of 14.9% from the previous consolidated fiscal year. They included loss on valuation of investment securities amounting to ¥2,791 million for an impairment loss claimed for investment securities, for which a transfer agreement was executed but for which the handover would take place only in the following fiscal year, and for which the price of listed stocks fell. They also reflected loss on impairment of long-lived assets amounting to ¥430 million in conjunction with the steel sheet processing plant at a logistics center and loss on disaster amounting to ¥264 million, which represented the valuation loss with respect to the Group's inventories damaged by the Great East Japan Earthquake.

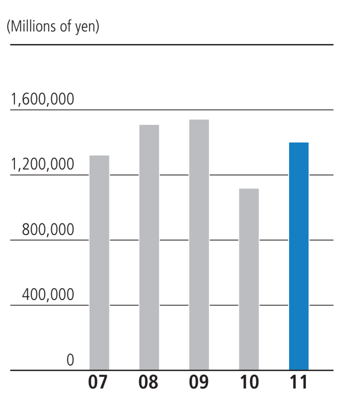
### Income Taxes

Income taxes paid amounted to ¥4,154 million in the consolidated fiscal year under review, in contrast to ¥5,404 million in reversal of income taxes in the previous fiscal year, during which a tax deduction had been obtained as the impairment losses posted in prior years for land and properties sold were recognized for deductible expenses in the said fiscal year.

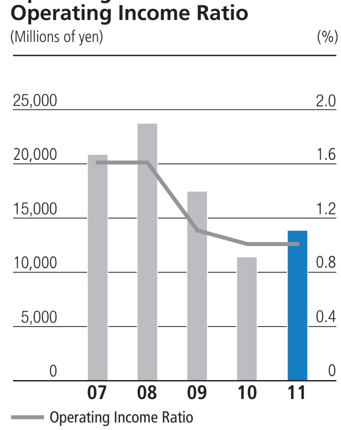
### Net Income

Net income decreased 50.0% from the previous consolidated fiscal year, to ¥5,794 million. Accordingly, net income per share decreased to ¥27.95, from ¥55.46.

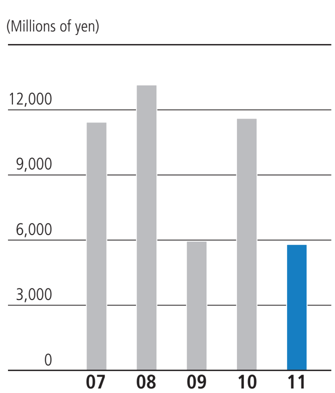
**Net Sales**




**Operating Income/ Operating Income Ratio**




**Net Income**



## Sources of Capital and Cash Liquidity

### Financial Condition

Total assets increased 20.1%, to ¥532,798 million, from the previous consolidated fiscal year, reflecting higher trade receivables and inventories accompanying higher sales.

Liabilities expanded 25.5%, to ¥422,339 million, as a result of a rise in borrowings and commercial paper to meet growing needs for working capital and an increase in trade payables attributable to a rebound in sales. Interest-bearing liabilities grew 34.0%, to ¥235,204 million. The net debt/equity ratio (net interest-bearing debt as a percentage of equity) stood at 200% as of March 31, 2011.

Net assets increased 3.4%, to ¥110,459 million. The increase was attributable mainly to higher retained earnings. Owing to the proportionately greater rise in liabilities, the equity ratio at March 31, 2011 fell to 20.7%, from 24.0% a year ago.

### Cash Flows

Net cash used in operating activities amounted to ¥46,949 million during the consolidated fiscal year under review, in contrast to net cash provided of ¥46,250 million recorded in the previous consolidated fiscal year. Major factors that contributed to net cash outflow included an increase in trade receivables and inventories (combined increase of ¥85,121 million) accompanying a rebound in sales, with a year-on-year net increase amounting to ¥122,073 million.

Net cash used in investing activities totaled ¥7,611 million, representing a net decrease of ¥5,381 million. This was primarily attributable to smaller cash disbursements related to the acquisition of tangible fixed assets and investment securities (¥6,283 million), representing a year-on-year net reduction of ¥8,172 million.

Net cash provided by financing activities amounted to ¥51,272 million, compared to net cash used of ¥43,669 million in the previous consolidated fiscal year. This was largely attributable to a higher level of funding through borrowings and issuance of commercial paper in response to higher sales.

### Financial Policy

The Group depends primarily on bank borrowings to meet its working capital requirements and to fund its investing and financing activities. Yet, as part of its efforts to diversify funding sources to ensure stable liquidity and agility in liquidity management, it may fund its activities by issuing bonds and commercial paper in the capital markets from time to time.

The Group meets its working capital requirements principally by floating-rate long-term borrowings from banks to secure stable funds, while short-term bank borrowings are used for day-to-day funding. Overseas subsidiaries borrow from their respective local banks. Capital investments and other long-term funding needs in Japan and abroad are, in principle, met by long-term borrowings from Japanese sources. Short-term borrowings as at March 31 2011 stood at ¥79,609 million, mostly denominated in Japanese yen. The Group's outstanding long-term debt was ¥136,658 million, including the current portion of long-term debt of ¥11,583 million.

The Group issues straight bonds primarily to fund working capital. As of March 31, 2011, bonds outstanding consisted of straight bonds amounting to ¥10,250 million. To increase its flexibility in issuing bonds in a timely manner to take advantage of or to meet changing market environments and internal financial requirements, the Company has filed for shelf registration. As of March 31, 2011, the unused aggregate principal amount of the shelf registration for straight bonds for subscription in Japan amounted to ¥20,000 million.

Advocating overall corporate value improvement and sustainable growth, the Group attempts to conduct efficient management to secure funds needed for business growth and maintain a healthy financial balance.

## Business and Other Risks

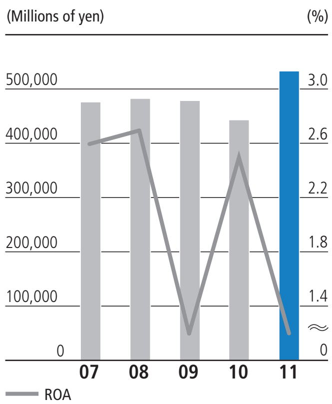
### Changes in the Macroeconomic Environment

The Hanwa Group's worldwide operating revenue is subject to macroeconomic conditions of the countries and regions where it sells its products. An economic slowdown in any of the primary markets, including Japan, North America, Europe and Asia (especially East Asia with China being the key market) with an accompanying decrease in demand could have an adverse impact on the Group's business performance and financial condition.

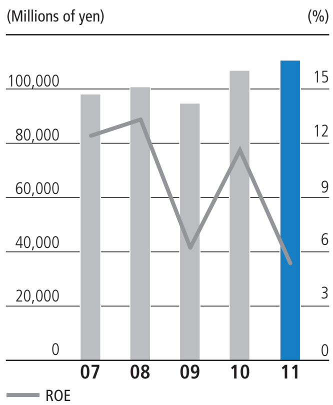
### Commodity Price Fluctuations

The Group holds inventories for distribution that include steel products, metals and alloys, non-ferrous metals, foods, and petroleum/chemical products. These are commodities whose prices are highly susceptible to fluctuations in supply and demand and movements in foreign exchange. The Group's business performance and financial position could be adversely affected, in the event of the Group's inability to respond adequately to price fluctuations of such commodities.

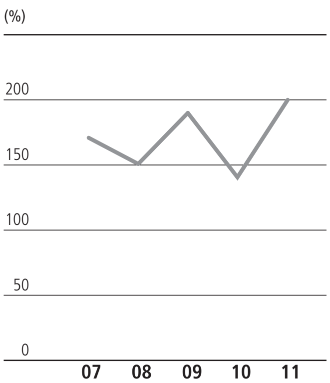
**Total Assets/ ROA**




**Total Net Assets/ ROE**




**Net Debt/Equity Ratio**



### Foreign Exchange Fluctuations
The Group is engaged in worldwide procurement and sales of goods. Foreign currency-denominated profits or loss, costs, assets, liabilities and other accounting records associated with areas outside Japan are translated into Japanese yen amounts in the preparation of financial statements. While the amounts reported in original currencies remain unchanged, the post-translation amounts are subject to the conversion rate applied to them. Generally speaking, a stronger yen relative to other currencies (especially against U.S. dollars, which account for a substantial portion of the Group's sales) adversely affects the Group's export transactions, while it favorably affects the Group's import transactions.

### Interest Rate Fluctuations
The Group funds its operating, investing and financing activities by borrowing from financial institutions and by tapping into the bond and other capital markets. To hedge against interest rate fluctuations, the Group may execute interest rate swaps to cover certain funds subject to floating interest rates. However, the Group's business performance and financial position may be adversely affected if interest rates change in a direction unfavorable to the Group.

### Stock Price Fluctuations
The Group holds marketable securities mostly of which are issued by its business counterparties that are subject to price fluctuations. Price fluctuations of the securities it holds could impact the business performance and financial position of the Group.

### Counterparty Credit Risk
The majority of trade receivables held by the Group are based on prior granting of credit limits to its business counterparties. While the Group has put in place stringent and skillful credit management, there is no guarantee that all such receivables can be fully recovered. In the event of unanticipated bankruptcy or commencement of the civil rehabilitation proceedings filed on behalf of or against a business counterparty, the business performance and financial condition of the Group could be adversely affected.

### Business Investment Risk
The Group makes business investments to strengthen existing businesses and to expand the scope of its business. Such investments are carried out upon completion of prescribed approval procedures specific to investment characteristics and monetary amounts to be invested, including scrutiny by the investment committee. However, if the value of any company in which the Group has invested deteriorates or profits generated are less than initially anticipated, the Group's business performance and financial condition could be adversely affected.

### Liquidity Risk Associated with Funding Activities
The Group funds its operating, investing and financing activities by borrowing funds from financial institutions and issuing bonds and other instruments in capital markets. For funding, the Group strives to secure cash on hand based on estimated funding requirements. However, factors such as disruptions in financial markets, regulatory changes affecting the financial industry in Japan or elsewhere, the downgrading of the Group's credit ratings or changes in financial institutions' lending policies could significantly affect the Group's funding environment. These changes could restrict the Group's funding activities and result in higher funding costs, thus impacting the business performance and financial condition of the Group.

### Risks Associated with Global Activities and Entry to Overseas Markets
The Group has stepped up efforts recently to enter Chinese and other Asian markets as well as markets in the United States and Europe. The Group may face a number of risks inherent in overseas business activities, as the following:

(1) Unanticipated changes in foreign trade regulations, especially in terms of laws and customs duties.
(2) Political and/or economic changes and fluctuations in international currencies unfavorable to the Group.
(3) Difficulty in recruiting and retaining human resources.
(4) The possibility of immature infrastructure exerting negative impacts on the Group's activity or resulting in deteriorating customer satisfaction with respect to the Group's products and services.
(5) Changes in taxation unfavorable to corporate activity.
(6) Acts of terrorism, war and social turmoil caused by other factors.

### Legal and Regulatory Risks
The Group is subject to a variety of governmental regulations imposed by the nations where it operates, including business and investment approvals/licenses, export/import and sales restrictions on grounds of national security and otherwise, customs duties and other foreign trade regulations. In addition, laws and regulations relevant to the Group's business activity, including those concerning trade, antimonopoly, patent, taxation, foreign exchange control, food safety, environment and recycling, must be fully observed. Such regulations may not only limit the Group's business activities but also entail a higher cost of doing business, as more funds may be needed to be disbursed to ensure compliance. Therefore, the business performance and financial condition of the Group may be impacted by such regulations.

### Risks Associated with Natural Disasters
To prepare for natural disasters such as an earthquake or the outbreak of pandemic diseases such as influenza, the Group has formulated crisis management manuals and business continuity plans and set in place a system for confirming individual safety. It also administers anti-seismic measures and conducts disaster drills. However, due to the dispersion of the business locations and areas where employees conduct their business, the Group may not be able to avert all the negative consequences of a natural disaster. If damages beyond the Group's projected level are inflicted, the business performance and financial condition of the Group could be impacted.

### Retirement Benefit Obligations
Retirement benefit costs and obligations are calculated based on actuarial assumptions on discount rates and expected returns on plan assets, among others. If actual results differ from such assumptions or if such assumptions are revised, the effect of such difference or revision will be subsequently accrued and recognized over a period of years on a periodic basis, thus affecting costs and obligations to be recognized or posted over such years. Deteriorating discount rates and poorer returns on plan assets resulting from such changes could adversely affect the Group's business performance and financial position.

# Consolidated Balance Sheets

As at March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **Assets** | **2011** | 2010 | **2011** |
| **Current Assets:** | | | |
| Cash and cash equivalents | **¥ 20,586** | ¥ 24,515 | **$ 247,577** |
| Receivables: | | | |
| Trade notes and accounts: | | | |
| Unconsolidated subsidiaries and affiliates | **7,397** | 5,266 | **88,960** |
| Other | **266,952** | 209,150 | **3,210,487** |
| Loans: | | | |
| Unconsolidated subsidiaries and affiliates | **3,555** | 2,086 | **42,754** |
| Other | **707** | 240 | **8,502** |
| Allowance for doubtful receivables | **(1,072)** | (892) | **(12,892)** |
| Inventories (Note 6) | **101,351** | 72,352 | **1,218,894** |
| Deferred tax assets—current (Note 10) | **3,155** | 3,357 | **37,943** |
| Other current assets (Note 7) | **20,573** | 17,092 | **247,420** |
| Total current assets | **423,204** | 333,166 | **5,089,645** |
| **Investments and noncurrent receivables:** | | | |
| Investment securities (Notes 4 and 7): | **35,512** | 37,162 | **427,084** |
| Investments in and advances to unconsolidated subsidiaries and affiliates | **6,022** | 3,240 | **72,423** |
| Loans receivable: | **188** | 257 | **2,261** |
| Other investments and noncurrent receivables | **22,731** | 22,889 | **273,373** |
| Allowance for doubtful receivables | **(2,677)** | (2,975) | **(32,195)** |
| Total investments and noncurrent receivables | **61,776** | 60,573 | **742,946** |
| **Property and equipment** (Note 7)**:** | | | |
| Land (Note 11) | **29,249** | 28,294 | **351,762** |
| Buildings and structures | **23,184** | 23,459 | **278,822** |
| Other | **14,967** | 14,348 | **180,000** |
| Accumulated depreciation | **(20,358)** | (19,801) | **(244,835)** |
| Total property and equipment | **47,042** | 46,300 | **565,749** |
| **Other assets:** | | | |
| Deferred tax assets—noncurrent (Note 10) | **91** | 2,653 | **1,095** |
| Intangibles and other assets (Note 7) | **685** | 753 | **8,238** |
| Total other assets | **776** | 3,406 | **9,333** |
| **Total** | **¥ 532,798** | ¥ 443,445 | **$ 6,407,673** |

See accompanying Notes to Consolidated Financial Statements.

| Liabilities and Net Assets | Millions of yen 2011 | 2010 | Thousands of U.S. dollars (Note 1) 2011 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term loans payable (Note 8) | **¥ 79,609** | ¥ 25,623 | **$ 957,414** |
| Commercial paper (Note 8) | **18,000** | 1,000 | **216,476** |
| Long-term debt due within one year (Note 8) | **11,583** | 34,103 | **139,302** |
| Trade notes and accounts payable: | | | |
| Unconsolidated subsidiaries and affiliates | **3,537** | 1,388 | **42,538** |
| Other | **153,010** | 133,412 | **1,840,168** |
| Accrued bonuses to employees | **1,767** | 1,856 | **21,251** |
| Income taxes payable | **442** | 233 | **5,316** |
| Other current liabilities | **20,125** | 17,475 | **242,033** |
| Total current liabilities | **288,073** | 215,090 | **3,464,498** |
| **Noncurrent liabilities:** | | | |
| Long-term debt due after one year (Note 8) | **125,075** | 114,355 | **1,504,209** |
| Employees' severance and retirement benefits (Note 9) | **134** | 19 | **1,611** |
| Deferred tax liabilities—noncurrent (Note 10) | **4,488** | 2,684 | **53,975** |
| Other noncurrent liabilities | **4,569** | 4,442 | **54,949** |
| Total noncurrent liabilities | **134,266** | 121,500 | **1,614,744** |
| **Contingent liabilities** (Note 13) | | | |
| **Net assets** (Note 11) | | | |
| **Shareholders' equity:** | | | |
| Common stock | | | |
| Authorized: 570,000,000 shares | | | |
| Issued: 211,663,200 shares | **45,651** | 45,651 | **549,020** |
| Capital surplus | **5** | 5 | **60** |
| Retained earnings | **67,608** | 64,302 | **813,085** |
| Treasury stock, at cost: 4,391,507 shares in 2011 and 4,367,348 shares in 2010 | **(1,424)** | (1,415) | **(17,126)** |
| Total shareholders' equity | **111,840** | 108,543 | **1,345,039** |
| **Accumulated other comprehensive income:** | | | |
| Unrealized gains on securities, net of taxes | **952** | 889 | **11,449** |
| Unrealized gains on hedging derivatives, net of taxes | **107** | (772) | **1,287** |
| Land revaluation difference, net of taxes | **(183)** | (183) | **(2,201)** |
| Foreign currency translation adjustments | **(2,935)** | (2,308) | **(35,297)** |
| Total accumulated other comprehensive income | **(2,059)** | (2,374) | **(24,762)** |
| **Minority interests** | **678** | 686 | **8,154** |
| Total net assets | **110,459** | 106,855 | **1,328,431** |
| **Total** | **¥ 532,798** | ¥ 443,445 | **$ 6,407,673** |

# Consolidated Statements of Income and Comprehensive Income

For the years ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| **Net sales** | **¥ 1,396,103** | ¥ 1,116,629 | **$16,790,174** |
| **Cost of sales** | **1,352,359** | 1,076,039 | **16,264,089** |
| Gross profit | **43,744** | 40,590 | **526,085** |
| **Selling, general and administrative expenses** | **29,890** | 29,170 | **359,470** |
| Operating income | **13,854** | 11,420 | **166,615** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **1,197** | 995 | **14,396** |
| Interest expense | **(2,821)** | (3,215) | **(33,927)** |
| Foreign exchange gain | **1,526** | 1,451 | **18,352** |
| Loss on valuation of investment securities | **(2,791)** | — | **(33,566)** |
| Loss on impairment of long-lived assets (Note 14) | **(430)** | (3,271) | **(5,171)** |
| Loss on disaster | **(264)** | — | **(3,175)** |
| Other, net | **(266)** | (1,238) | **(3,199)** |
| **Income before income taxes and minority interests** | **10,005** | 6,142 | **120,325** |
| **Income taxes** (Note 10)**:** | | | |
| Current | **407** | 390 | **4,895** |
| Deferred | **3,747** | (5,794) | **45,063** |
| | **4,154** | (5,404) | **49,958** |
| **Income before minority interests** | **5,851** | 11,546 | **70,367** |
| **Minority interests in income of consolidated subsidiaries** | **(57)** | 33 | **(686)** |
| **Net income** | **5,794** | 11,579 | **69,681** |
| **Minority interests in income of consolidated subsidiaries** | **(57)** | 33 | **(686)** |
| **Income before minority interests** | **5,851** | 11,546 | **70,367** |
| **Other comprehensive income** | | | |
| Valuation difference on available-for-sale securities | **63** | 4,103 | **758** |
| Deferred gains or losses on hedges | **879** | (523) | **10,571** |
| Foreign currency translation adjustments | **(689)** | (589) | **(8,286)** |
| Total other comprehensive income | **253** | 2,991 | **3,043** |
| **Comprehensive income** | **6,104** | 14,537 | **73,410** |
| **Comprehensive income attributable to:** | | | |
| **Owners of the parent** | **6,109** | 14,561 | **73,470** |
| **Minority interests** | **(5)** | (24) | **(60)** |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| **Net income per share** | **¥ 27.95** | ¥ 55.46 | **$ 0.336** |
| **Cash dividends per share** | **12.00** | 12.00 | **0.144** |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2011 and 2010

| | Numbers of shares in thousands/ Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| **Number of shares of common stock** | | | |
| Balance at beginning of year | **211,663** | 211,663 | |
| Balance at end of year | **211,663** | 211,663 | |
| **Shareholders' equity:** | | | |
| **Common stock** | | | |
| Balance at beginning of year | **¥ 45,651** | ¥ 45,651 | **$ 549,020** |
| Balance at end of year | **¥ 45,651** | ¥ 45,651 | **$ 549,020** |
| **Capital surplus** | | | |
| Balance at beginning of year | **¥ 5** | ¥ 5 | **$ 60** |
| Balance at end of year | **¥ 5** | ¥ 5 | **$ 60** |
| **Retained earnings** | | | |
| Balance at beginning of year | **¥ 64,302** | ¥ 54,651 | **$ 773,326** |
| Cash dividends paid | **(2,488)** | (2,512) | **(29,922)** |
| Increase resulting from increase in consolidated subsidiaries | **—** | 582 | **—** |
| Other changes | **—** | 2 | **—** |
| Net income | **5,794** | 11,579 | **69,681** |
| Balance at end of year | **¥ 67,608** | ¥ 64,302 | **$ 813,085** |
| **Treasury stock, at cost** | | | |
| Balance at beginning of year | **¥ (1,415)** | ¥ (756) | **$ (17,018)** |
| Purchases of treasury stock | **(9)** | (660) | **(108)** |
| Disposal of treasury stock | **—** | 1 | **—** |
| Balance at end of year | **¥ (1,424)** | ¥ (1,415) | **$ (17,126)** |
| **Total shareholders' equity at end of year** | **¥ 111,840** | ¥ 108,543 | **$ 1,345,039** |
| **Accumulated other comprehensive income:** | | | |
| **Unrealized gains on securities, net of taxes** | | | |
| Balance at beginning of year | **¥ 889** | ¥ (3,213) | **$ 10,691** |
| Net changes of items other than shareholders' equity | **63** | 4,102 | **758** |
| Balance at end of year | **¥ 952** | ¥ 889 | **$ 11,449** |
| **Unrealized gains on hedging derivatives, net of taxes** | | | |
| Balance at beginning of year | **¥ (772)** | ¥ (249) | **$ (9,284)** |
| Net changes of items other than shareholders' equity | **879** | (523) | **10,571** |
| Balance at end of year | **¥ 107** | ¥ (772) | **$ 1,287** |
| **Land revaluation difference, net of taxes** | | | |
| Balance at beginning of year | **¥ (183)** | ¥ (180) | **$ (2,201)** |
| Net changes of items other than shareholders' equity | **—** | (3) | **—** |
| Balance at end of year | **¥ (183)** | ¥ (183) | **$ (2,201)** |
| **Foreign currency translation adjustments** | | | |
| Balance at beginning of year | **¥ (2,308)** | ¥ (1,711) | **$ (27,757)** |
| Net changes of items other than shareholders' equity | **(627)** | (597) | **(7,540)** |
| Balance at end of year | **¥ (2,935)** | ¥ (2,308) | **$ (35,297)** |
| **Total accumulated other comprehensive income at end of year** | **¥ (2,059)** | ¥ (2,374) | **$ (24,762)** |
| **Minority interests** | | | |
| Balance at beginning of year | **¥ 686** | ¥ 715 | **$ 8,250** |
| Net changes of items other than shareholders' equity | **(8)** | (29) | **(96)** |
| Balance at end of year | **¥ 678** | ¥ 686 | **$ 8,154** |
| **Total net assets at end of year** | **¥ 110,459** | ¥ 106,855 | **$ 1,328,431** |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

For the years ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | **¥ 10,005** | ¥ 6,142 | **$ 120,325** |
| Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities | | | |
| Depreciation | **2,705** | 2,560 | **32,531** |
| Loss on impairment of long-lived assets | **430** | 3,271 | **5,171** |
| Decrease in allowance for doubtful receivables | **(133)** | (89) | **(1,600)** |
| Interest and dividend income | **(1,197)** | (995) | **(14,396)** |
| Interest expense | **2,821** | 3,215 | **33,927** |
| Gain on sales of investment securities | **(22)** | — | **(265)** |
| Loss on disaster | **264** | — | **3,175** |
| Loss on valuation of investment securities | **2,791** | — | **33,566** |
| Decrease (increase) in trade receivables | **(55,819)** | 13,942 | **(671,305)** |
| Decrease (increase) in inventories | **(29,302)** | 23,010 | **(352,399)** |
| Increase in trade notes and accounts payable | **19,264** | 4,394 | **231,678** |
| Other, net | **929** | (5,201) | **11,173** |
| Subtotal | **(47,264)** | 50,249 | **(568,419)** |
| Cash flows during the year for: | | | |
| Interest and dividends received | **1,199** | 995 | **14,420** |
| Interest paid | **(2,837)** | (3,346) | **(34,119)** |
| Income taxes paid | **1,953** | (1,648) | **23,488** |
| Net cash provided by (used in) operating activities | **(46,949)** | 46,250 | **(564,630)** |
| **Cash flows from investing activities:** | | | |
| Decrease in time deposits, net | **26** | — | **313** |
| Additions to property and equipment | **(3,227)** | (7,735) | **(38,809)** |
| Proceeds from sale of property and equipment | **26** | 3,596 | **313** |
| Additions to investment securities | **(3,056)** | (6,720) | **(36,753)** |
| Proceeds from sale and redemption of investment securities | **155** | 186 | **1,864** |
| Increases from purchase of consolidated subsidiaries resulting in change in scope of consolidation | **1,284** | — | **15,442** |
| Increase in short-term loans receivable, net | **(1,526)** | (1,297) | **(18,352)** |
| Additions to long-term loans receivable | **(7)** | (13) | **(84)** |
| Proceeds from long-term loans receivable | **91** | 61 | **1,094** |
| Other, net | **(1,377)** | (1,070) | **(16,561)** |
| Net cash used in investing activities | **(7,611)** | (12,992) | **(91,533)** |
| **Cash flows from financing activities:** | | | |
| Increase (decrease) in short-term loans payable, net | **50,832** | (40,991) | **611,329** |
| Increase in commercial paper, net | **17,000** | 1,000 | **204,450** |
| Proceeds from long-term debt, issuance of bonds | **20,775** | 16,063 | **249,850** |
| Repayments of long-term debt, redemption of bonds | **(34,558)** | (16,420) | **(415,610)** |
| Payment of cash dividends | **(2,490)** | (2,512) | **(29,946)** |
| Cash dividends paid to minority interests in consolidated subsidiaries | **(4)** | (4) | **(48)** |
| Other, net | **(283)** | (805) | **(3,404)** |
| Net cash provided by (used in) financing activities | **51,272** | (43,669) | **616,621** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(641)** | (263) | **(7,710)** |
| **Net decrease in cash and cash equivalents** | **(3,929)** | (10,674) | **(47,252)** |
| **Cash and cash equivalents at beginning of year** | **24,515** | 35,046 | **294,829** |
| **Effect of change in scope of consolidation** | **—** | 143 | **—** |
| **Cash and cash equivalents at end of year** | **¥ 20,586** | ¥ 24,515 | **$ 247,577** |

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, 2011, which was ¥83.15 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.

## 2. Significant accounting policies

**Consolidation**—The consolidated financial statements include the accounts of the Company and its 15 (14 in 2010) significant subsidiaries (together "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. Investments in 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.

**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 receivables**—The allowance for doubtful receivables 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 receivables, 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. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income. Realized gains on the sale 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 long-lived assets has been deducted from acquisition costs. Depreciation is principally provided on the declining-balance 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 especially 5 years for computer software for internal use.

**Bonuses**—The Companies follow the Japanese practice of paying bonuses to employees in June and December. At the balance sheet date, bonus liabilities are estimated and accounted for on an accrual basis.

**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**—Substantially all employees of the Company and its domestic consolidated subsidiaries are covered by qualified funded pension plans. The amount of the retirement benefit is, in general, based on length of service, base salary at the time of retirement, and cause of retirement. Annual contributions, which consist of normal cost and the amortization of prior service cost, are charged to income.

Liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

Because pension assets exceeded the deduction for unrecognized actuarial differences and unrecognized prior service cost from projected benefit obligation in the Company, the excess amount was included in "Other investments and noncurrent receivables" at March 31, 2011 and 2010.

As discussed in Note 2, "Changes in accounting policies," the Company and its domestic consolidated subsidiaries adopted "Partial Amendments to Accounting Standard For Retirement Benefits (Part 3)." (Accounting Standards Board of Japan ("ASBJ") Statement No.19 issued on July 31, 2008) from the year ended March 31, 2010.

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

Balance sheets of overseas 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 overseas 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. Finance lease transactions in which the ownership of the leased assets was not transferred to lessee and contracted before April 1, 2008 are accounted for as operating lease transactions and "as if capitalized" information is disclosed in the note 11 to the Company's consolidated financial statements.

**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 item is recognized.

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.

**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 fiscal year.

**Changes in accounting policies**—

**Partial amendments to accounting standard for retirement benefits**

Effective from the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No.19 issued on July, 2008). The change had no impact on net income and projected benefit obligation.

**Accounting policies in revenues and cost of construction**

Effective from the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No.15 issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No.18 issued on December 27, 2007). The change had no impact on net income.

**Accounting standard for asset retirement obligations**

Effective from the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18 issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21 issued on March 31, 2008). The adoption of this standard had no material impact on consolidated financial statements for the year ended March 31, 2011.

**Accounting standards for business combinations and related matters**

The Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22 issued on December 26, 2008), "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No.23 issued on December 26, 2008), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7 (Revised 2008) issued on December 26, 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16 (Revised 2008) released on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 (Revised 2008) issued on December 26, 2008), as business combinations occurred during the year ended March 31, 2011.

**(Additional Information)**

Effective from the year ended March 31, 2011, the Companies adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25 issued on June 30, 2010).

The amounts of "accumulated other comprehensive income" and "total accumulated other comprehensive income" as at March 31, 2010, included in the consolidated balance sheets and statements of changes in net assets, correspond to "valuation and translation adjustments" and "total valuation and translation adjustments," respectively, included in the consolidated balance sheets of the previous year's annual report.

As a result of the adoption of these standards, the Company has presented the consolidated statement of income and comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011 and 2010.

## 3. Financial instruments

At March 31, 2011 and 2010, information on financial instruments was as follows.

### (A) Qualitative information on financial instruments

**Policy for financial instruments**

The Group's 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 Group also engages in other business activities such as steel material processing, non-ferrous metal processing and amusement park management and operations. While the Group depends primarily on bank borrowings to procure funds necessary for these operational transactions as well as investing and financing activities, the Group 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 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.

Investment securities mainly consist of listed 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 employees of the Company.

Foreign currency denominated 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 future 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 future 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" (page 28) 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 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 and trade notes and accounts payable are exposed by means of derivatives trading.

Because price fluctuation risks associated with investment securities mainly affect listed stocks of the Company's business partners, the Company reports the regularly assessed market values 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, bonds and long-term debt, the Company creates a fund procurement plan based on the outlook of the Group's 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 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 director in charge of supervising financial affairs 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.

In regard to the contract balance of derivatives trading, the Accounting Department directly checks the balance with the contractor on a regular basis and reports it to the supervising director of each department. At the same time, internal auditing is regularly implemented by the 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, 2011 and 2010 were as follows:

**March 31, 2011**

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Book value | Fair value | Difference | Book value | Fair value | Difference |
| (1) Cash and cash equivalents | **¥ 20,586** | **¥ 20,586** | **¥ —** | **$ 247,577** | **$ 247,577** | **$ —** |
| (2) Trade notes and accounts receivable | **274,349** | | | **3,299,447** | | |
| Allowance for doubtful receivables | **(1,030)** | | | **(12,387)** | | |
| Net | **273,319** | **273,319** | **—** | **3,287,060** | **3,287,060** | **—** |
| (3) Investment securities | | | | | | |
| a) Held-to-maturity debt securities | **5,009** | **5,085** | **76** | **60,241** | **61,155** | **914** |
| b) Available-for-sale securities | **27,017** | **27,017** | **—** | **324,917** | **324,917** | **—** |
| (4) Long-term loans receivable | **188** | | | **2,261** | | |
| Allowance for doubtful receivables | **(1)** | | | **(12)** | | |
| Net | **187** | **187** | **—** | **2,249** | **2,249** | **—** |
| Total assets | **¥ 326,118** | **¥ 326,194** | **¥ 76** | **$3,922,044** | **$3,922,958** | **$ 914** |
| (1) Short-term loans payable | **¥ 79,609** | **¥ 79,609** | **¥ —** | **$ 957,414** | **$ 957,414** | **$ —** |
| (2) Commercial paper | **18,000** | **18,000** | **—** | **216,476** | **216,476** | **—** |
| (3) Long-term debt due within one year | **11,583** | **11,583** | **—** | **139,302** | **139,302** | **—** |
| (4) Trade notes and accounts payable | **156,547** | **156,547** | **—** | **1,882,706** | **1,882,706** | **—** |
| (5) Long-term debt due after one year | **125,075** | **125,105** | **(30)** | **1,504,209** | **1,504,571** | **(362)** |
| Total liabilities | **¥ 390,814** | **¥ 390,844** | **¥ (30)** | **$4,700,107** | **$4,700,469** | **$ (362)** |
| Derivatives | | | | | | |
| To which hedge accounting is not applied | **¥ 560** | **¥ 560** | **¥ —** | **$ 6,735** | **$ 6,735** | **$ —** |
| To which hedge accounting is applied | **253** | **88** | **(165)** | **3,043** | **1,058** | **(1,985)** |
| Total derivatives | **¥ 813** | **¥ 648** | **¥ (165)** | **$ 9,778** | **$ 7,793** | **$ (1,985)** |

March 31, 2010

| | Millions of yen | | |
|---|---|---|---|
| | Book value | Fair value | Difference |
| (1) Cash and cash equivalents | ¥ 24,515 | ¥ 24,515 | ¥ — |
| (2) Trade notes and accounts receivable | 214,416 | | |
| Allowance for doubtful receivables | (802) | | |
| Net | 213,614 | 213,614 | — |
| (3) Investment securities | | | |
| a) Held-to-maturity debt securities | 5,010 | 5,033 | 23 |
| b) Available-for-sale securities | 28,422 | 28,422 | — |
| (4) Trade notes and accounts payable | 257 | | |
| Allowance for doubtful receivables | (1) | | |
| Net | 256 | 256 | — |
| Total assets | ¥ 271,817 | ¥ 271,840 | ¥ 23 |
| (1) Short-term loans payable | ¥ 25,623 | ¥ 25,623 | ¥ — |
| (2) Commercial paper | 1,000 | 1,000 | — |
| (3) Long-term debt due within one year | 34,103 | 34,131 | (28) |
| (4) Trade notes and accounts payable | 134,800 | 134,800 | — |
| (5) Long-term debt due after one year | 114,355 | 114,355 | — |
| Total liabilities | ¥ 309,881 | ¥ 309,909 | ¥ (28) |
| Derivatives | | | |
| To which hedge accounting is not applied | ¥ 187 | ¥ 187 | ¥ — |
| To which hedge accounting is applied | (1,579) | (1,801) | (222) |
| Total derivatives | ¥ (1,392) | ¥ (1,614) | ¥ (222) |

Allowance for doubtful receivable recognized in trade notes and accounts receivable 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**

The book values of cash and cash equivalents and trade notes and accounts receivable approximate fair value due to their short maturities.

**Investment 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 approximates fair value due to their floating interest rates. The fair value of corporate bonds is based on the quoted price provided 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, 2011 and 2010:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| | Book value | Book value | Book value |
| (a) Equity securities issued by unconsolidated subsidiaries and affiliated companies | **¥ 6,022** | ¥ 3,240 | **$ 72,423** |
| (b) Available-for-sale securities | | | |
| Unlisted stocks | **¥ 2,121** | ¥ 2,217 | **$ 25,508** |
| Unlisted foreign stocks | **1,270** | 1,399 | **15,274** |
| Investment in limited partnerships | **95** | 114 | **1,143** |
| Total | **¥ 3,486** | ¥ 3,730 | **$ 41,925** |

The maturities of receivables and securities with maturities outstanding at March 31, 2011 were as follows:

| Year ending March 31 | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | From 2013 to 2016 | From 2017 to 2021 | Thereafter |
| Cash and cash equivalents | ¥ 20,586 | ¥ — | ¥ — | ¥ — |
| Trade notes and accounts receivable | 274,349 | — | — | — |
| Held-to-maturity debt securities | — | 2,000 | 3,010 | — |
| Long-term loans receivable | 47 | 109 | 40 | 39 |
| Total | ¥ 294,982 | ¥ 2,109 | ¥ 3,050 | ¥ 39 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2012 | From 2013 to 2016 | From 2017 to 2021 | Thereafter |
| Cash and cash equivalents | $ 247,577 | $ — | $ — | $ — |
| Trade notes and accounts receivable | 3,299,447 | — | — | — |
| Held-to-maturity debt securities | — | 24,053 | 36,200 | — |
| Long-term loans receivable | 565 | 1,311 | 481 | 469 |
| Total | $3,547,589 | $ 25,364 | $ 36,681 | $ 469 |

## 4. Securities

(A) The following table summarizes book values and fair values of held-to-maturity debt securities as of March 31, 2011 and 2010:

**March 31, 2011**

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Corporate bonds | **¥ 5,009** | **¥ 5,085** | **¥ 76** | **$ 60,241** | **$ 61,155** | **$ 914** |

March 31, 2010

| | Millions of yen | | |
|---|---|---|---|
| | Book value | Fair value | Difference |
| Corporate bonds | ¥ 5,010 | ¥ 5,033 | ¥ 23 |

(B) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available market values as of March 31, 2011 and 2010:

**March 31, 2011**

| | 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 | **¥ 6,080** | **¥ 12,076** | **¥ 5,996** | **$ 73,121** | **$ 145,232** | **$ 72,111** |
| Securities with book values not exceeding acquisition costs: | | | | | | |
| Equity securities | **¥ 19,412** | **¥ 14,941** | **¥ (4,471)** | **$ 233,457** | **$ 179,687** | **$ (53,770)** |

March 31, 2010

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Difference |
| Securities with book values exceeding acquisition costs: | | | |
| Equity securities | ¥ 5,337 | ¥ 12,476 | ¥ 7,139 |
| Securities with book values not exceeding acquisition costs: | | | |
| Equity securities | ¥ 21,914 | ¥ 15,946 | ¥ (5,968) |

(C) Total sales of available-for-sale securities in the year ended March 31, 2011 amounted to ¥46 million ($553 thousand), and resulted in a net gain of ¥22 million ($265 thousand). The loss resulting from the valuation of the listed securities in the year ended March 31, 2011 was ¥2,791 million ($33,566 thousand).

## 5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2011 and 2010 for the derivatives to which hedge accounting has not been applied:

**March 31, 2011**
**Currency related**

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Contract or notional amount | Fair value | Net recognized gain or loss | Contract or notional amount | Fair value | Net recognized gain or loss |
| Foreign exchange forward contracts: | | | | | | |
| Selling | | | | | | |
| U.S. dollars | **¥ 33,669** | **¥ (250)** | **¥ (250)** | **$ 404,919** | **$ (3,007)** | **$ (3,007)** |
| Other currencies | **10,614** | **20** | **20** | **127,649** | **241** | **241** |
| Buying | | | | | | |
| U.S. dollars | **9,281** | **77** | **77** | **111,618** | **926** | **926** |
| Other currencies | **2,399** | **57** | **57** | **28,851** | **685** | **685** |
| Currency swap agreements: | | | | | | |
| Japanese yen received for U.S. dollars | **10,146** | **1,014** | **1,014** | **122,020** | **12,195** | **12,195** |
| Total | | | **¥ 918** | | | **$ 11,040** |

**Commodity related**

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Contract or notional amount | Fair value | Net recognized gain or loss | Contract or notional amount | Fair value | Net recognized gain or loss |
| Forwards: | | | | | | |
| Petroleum | | | | | | |
| Selling | **¥ 8,288** | **¥ (237)** | **¥ (237)** | **$ 99,675** | **$ (2,850)** | **$ (2,850)** |
| Buying | **8,115** | **261** | **261** | **97,595** | **3,139** | **3,139** |
| Non-ferrous metals | | | | | | |
| Selling | **19,467** | **(719)** | **(719)** | **234,119** | **(8,647)** | **(8,647)** |
| Buying | **6,965** | **240** | **240** | **83,764** | **2,886** | **2,886** |
| Commodity swap agreements: | | | | | | |
| Petroleum | | | | | | |
| Selling | **1,206** | **(89)** | **(89)** | **14,504** | **(1,070)** | **(1,070)** |
| Buying | **2,756** | **186** | **186** | **33,145** | **2,237** | **2,237** |
| Total | | | **¥ (358)** | | | **$ (4,305)** |

March 31, 2010
Currency related

| | Millions of yen | | |
|---|---|---|---|
| | Contract or notional amount | Fair value | Net recognized gain or loss |
| Foreign exchange forward contracts: | | | |
| Selling | | | |
| U.S. dollars | ¥ 20,268 | ¥ (406) | ¥ (406) |
| Other currencies | 10,772 | 678 | 678 |
| Buying | | | |
| U.S. dollars | 7,634 | 115 | 115 |
| Other currencies | 4,167 | (35) | (35) |
| Currency swap agreements: | | | |
| Japanese yen received for U.S. dollars | 10,744 | 499 | 499 |
| Total | | | ¥ 851 |

Commodity related

| | Millions of yen | | |
|---|---|---|---|
| | Contract or notional amount | Fair value | Net recognized gain or loss |
| Forwards: | | | |
| Petroleum | | | |
| Selling | ¥ 10,175 | ¥ (327) | ¥ (327) |
| Buying | 9,517 | 445 | 445 |
| Non-ferrous metals | | | |
| Selling | 14,535 | (1,318) | (1,318) |
| Buying | 7,538 | 599 | 599 |
| Commodity swap agreements: | | | |
| Petroleum | | | |
| Selling | 4,495 | (222) | (222) |
| Buying | 5,904 | 159 | 159 |
| Total | | | ¥ (664) |

(B) The following tables summarize fair value information as of March 31, 2011 for the derivatives to which hedge accounting has been applied:

**March 31, 2011**
**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 | **¥ 11,200** | **¥ 5,000** | **¥ (165)** | **$ 134,696** | **$ 60,132** | **$ (1,984)** |

**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 | **¥ 22,522** | **¥ —** | **¥ 582** | **$ 270,860** | **$ —** | **$ 6,999** |
| Buying | **14,085** | **—** | **(329)** | **169,393** | **—** | **(3,957)** |

March 31, 2010
Interest rate related

| | Millions of yen | | |
|---|---|---|---|
| | Contract or notional amount | Due after one year | Fair value |
| Interest rate swap for long-term loans | | | |
| Floating rate received for fixed rate | ¥ 10,900 | ¥ 10,900 | ¥ (222) |

Commodity related

| | Millions of yen | | |
|---|---|---|---|
| | Contract or notional amount | Due after one year | Fair value |
| Forwards for inventories and commitments | | | |
| Non-ferrous metals | | | |
| Selling | ¥ 14,618 | ¥ — | ¥ 17,797 |
| Buying | 8,254 | — | 9,854 |

## 6. Inventories

Inventories at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Merchandise and finished products | **¥ 95,790** | ¥ 68,797 | **$1,152,015** |
| Work-in-process | **620** | 338 | **7,456** |
| Raw materials and supplies | **4,941** | 3,217 | **59,423** |
| Total | **¥ 101,351** | ¥ 72,352 | **$1,218,894** |

## 7. Pledged assets

At March 31, 2011 and 2010, assets were pledged as collateral for short-term loans payable in the amount of ¥1,578 million ($18,978 thousand) and ¥1 million, respectively, and as guaranty as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Other current assets | **¥ 13** | ¥ 13 | **$ 156** |
| Investment securities | **1,493** | 1,531 | **17,956** |
| Property and equipment, net of accumulated depreciation | **686** | 789 | **8,250** |
| Intangibles | **112** | 125 | **1,347** |
| Total | **¥ 2,304** | ¥ 2,458 | **$ 27,709** |

## 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, 2011 and 2010 was 1.21% and 1.61%, respectively.

The Company has entered into a yen denominated domestic commercial paper program. There was an outstanding balance of ¥18,000 million ($216,476 thousand) and ¥1,000 million at March 31, 2011 and 2010, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Issued in 2007, 1.53% unsecured straight bonds, due 2010 | **¥ —** | ¥ 10,000 | **$ —** |
| Issued in 2008, unsecured straight bonds, due 2011 (*1) | **¥ 200** | ¥ — | **$ 2,405** |
| Issued in 2009, unsecured straight bonds, due 2011 (*2) | **¥ 50** | ¥ — | **$ 601** |
| Issued in 2010, 0.79% unsecured straight bonds, due 2013 | **¥ 10,000** | ¥ — | **$ 120,265** |
| Loans from banks with weighted average interest rates of 1.00% and 1.18% at March 31, 2011 and 2010, respectively, maturing serially through 2016 | **¥ 126,408** | ¥ 138,458 | **$1,520,240** |
| Less amounts due within one year | **11,583** | 34,103 | **139,302** |
| | **¥ 125,075** | ¥ 114,355 | **$1,504,209** |

(*1) Issued by Toyo-Energy Co., Ltd., at interest rates of TIBOR 6 months plus 0.3% (04/01/2009 - 09/30/2011).

(*2) Issued by Toyo-Energy Co., Ltd., at interest rates of 0.71% (10/01/2009 - 03/31/2010) and TIBOR 6 months (04/01/2010 - 09/30/2011).

The annual maturities of long-term debt outstanding at March 31, 2011 were as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2012 | ¥ 11,333 | $ 136,296 |
| 2013 | 10,133 | 121,864 |
| 2014 | 71,567 | 860,698 |
| 2015 | 17,755 | 213,530 |
| 2016 and thereafter | 15,620 | 187,853 |
| Total | ¥ 126,408 | $1,520,241 |

## 9. Employees' severance and retirement benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2011 and 2010, consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Projected benefit obligation | **¥ 23,843** | ¥ 22,910 | **$ 286,747** |
| Less fair value of pension assets | **(21,547)** | (21,153) | **(259,134)** |
| Unrecognized actuarial differences | **(7,949)** | (7,636) | **(95,598)** |
| Unrecognized prior service costs | **(626)** | (706) | **(7,529)** |
| Prepaid pension costs | **6,413** | 6,604 | **77,125** |
| Liability for severance and retirement benefits | **¥ 134** | ¥ 19 | **$ 1,611** |

Included in the consolidated statements of income and comprehensive income for the years ended March 31, 2011 and 2010, severance and retirement benefits expenses comprised the following:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | |
| Service costs - benefits earned during the year | ¥ | **963** | ¥ | 873 | $ | **11,582** |
| Interest costs on projected benefit obligation | | **455** | | 433 | | **5,472** |
| Expected return on plan assets | | **(630)** | | (490) | | **(7,577)** |
| Amortization of actuarial differences | | **843** | | 949 | | **10,138** |
| Amortization of prior service costs | | **81** | | 81 | | **974** |
| Additional retirement benefits | | **4** | | 19 | | **48** |
| Severance and retirement benefit expenses | ¥ | **1,716** | ¥ | 1,865 | $ | **20,637** |

Prior service costs and actuarial differences are amortized or recognized over a stated number of years that does not exceed the average remaining service period of active employees expected to receive benefits under the plan.

Assumptions used for the years ended March 31, 2011 and 2010 were as follows:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | **2.0%** | 2.0% |
| Expected rate of return on plan assets | **3.0%** | 3.0% |
| Amortization period of prior service costs | **14 years** | 14 years |
| Amortization period of actuarial differences | **14 years** | 14 years |

## 10. Income taxes

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2011 | | 2010 | | 2011 | |
| Deferred tax assets: | | | | | | |
| Temporary differences resulting from the merger with consolidated subsidiaries | ¥ | **14,642** | ¥ | 14,651 | $ | **176,091** |
| Loss on impairment of long-lived assets | | **2,699** | | 2,543 | | **32,459** |
| Net operating loss carryforwards | | **1,775** | | 6,979 | | **21,347** |
| Loss on sale-repurchase agreements of land | | **1,719** | | 1,719 | | **20,674** |
| Land revaluation difference, net of taxes unrealized loss | | **1,667** | | 1,667 | | **20,048** |
| Accrued bonuses to employees | | **718** | | 755 | | **8,635** |
| Other | | **5,846** | | 5,380 | | **70,307** |
| Total deferred tax assets | | **29,066** | | 33,694 | | **349,561** |
| Valuation allowance | | **(23,009)** | | (22,868) | | **(276,717)** |
| Net deferred tax assets | | **6,057** | | 10,826 | | **72,844** |
| Deferred tax liabilities: | | | | | | |
| Land revaluation difference, net of taxes unrealized gain | | **2,684** | | 2,684 | | **32,279** |
| Prepaid pension costs | | **2,610** | | 2,687 | | **31,389** |
| Other | | **2,005** | | 2,129 | | **24,113** |
| Total deferred tax liabilities | | **7,299** | | 7,500 | | **87,781** |
| Net deferred tax assets (liabilities) | ¥ | **(1,242)** | ¥ | (3,326) | $ | **(14,937)** |

Deferred tax assets and deferred tax liabilities were included in the consolidated balance sheets at March 31, 2011 and 2010, respectively, as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Current assets: Deferred tax assets | **¥ 3,155** | ¥ 3,357 | **$ 37,943** |
| Other assets: Deferred tax assets | **91** | 2,653 | **1,095** |
| Current liabilities: Deferred tax liabilities | **—** | — | **—** |
| Noncurrent liabilities: Deferred tax liabilities | **4,488** | 2,684 | **53,975** |

The Note concerning differences between the aggregate statutory income tax rate and the Company's effective tax rate for financial statement purposes is omitted because the difference was less than 5 percent of the aggregate statutory income tax rate.

## 11. Net assets

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

Under the Japanese Corporate Law ("the Law"), in cases where 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 is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, 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 Law, 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 nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 29, 2011, the shareholders approved cash dividends of ¥6 per share ($0.07) amounting to ¥1,244 million ($14,961 thousand). This appropriation has not been accrued in the consolidated financial statements as of March 31, 2011. 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, 2011, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,370 million ($16,476 thousand).

## 12. Leases

### Finance leases

### As lessee

Finance leases that do not transfer ownership of the leased property to the lessee at the end of lease periods are as follows:

[1] Details of lease assets

Tangible assets, mainly amusement facilities and computer system.

[2] Depreciation method for lease assets

The straight-line method over the period of the finance leases, assuming no residual value.

Lease transactions entered into before April 1, 2008 continue to be accounted for as operating lease transactions with "as if capitalized" information as follows:

**As of March 31, 2011**

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net leased property | Acquisition cost | Accumulated depreciation | Net leased property |
| Other property and equipment | **¥ 685** | **¥ 541** | **¥ 144** | **$ 8,238** | **$ 6,507** | **$ 1,732** |
| Other assets | **13** | **11** | **1** | **156** | **132** | **12** |
| Total | **¥ 698** | **¥ 552** | **¥ 145** | **$ 8,394** | **$ 6,639** | **$ 1,744** |

As of March 31, 2010

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Net leased property |
| Other property and equipment | ¥ 995 | ¥ 665 | ¥ 330 |
| Other assets | 13 | 9 | 4 |
| Total | ¥ 1,008 | ¥ 674 | ¥ 334 |

Total lease payments, including financing charges, under finance leases that do not transfer ownership of the leased property to the Companies for the years ended March 31, 2011 and 2010 were ¥179 million ($2,153 thousand) and ¥297 million, respectively.

Depreciation expense and interest expense for finance leases that do not transfer ownership of the leased property are not reflected in the accompanying consolidated statements of income and comprehensive income. Depreciation expense, computed by the straight-line method, was ¥164 million ($1,972 thousand) and ¥275 million for the years ended March 31, 2011 and 2010, respectively. Interest expense, computed by the interest method, was ¥7 million ($84 thousand) and ¥15 million for the years ended March 31, 2011 and 2010, respectively.

Obligations, excluding financing charges, under such non-capitalized finance leases as of March 31, 2011 and 2010, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Due within one year | **¥ 108** | ¥ 195 | **$ 1,299** |
| Due after one year | **49** | 160 | **589** |
| Total | **¥ 157** | ¥ 355 | **$ 1,888** |

### Operating leases

### As Lessee

Obligations under noncancelable operating leases as of March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Due within one year | **¥ 44** | ¥ 32 | **$ 529** |
| Due after one year | **90** | 80 | **1,083** |
| Total | **¥ 134** | ¥ 112 | **$ 1,612** |

## 13. Contingent liabilities

At March 31, 2011 and 2010, the Companies were contingently liable as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| As endorsers of export letters of credit and notes discounted | **¥ 12,282** | ¥ 5,807 | **$ 147,709** |
| As guarantors of indebtedness | **3,197** | 2,509 | **38,449** |

## 14. Impairment of long-lived assets

**Year ended March 31, 2011**

(A) Logistics center in Chiba

Due to a continuing loss from steel sheet processing operations at logistics center in Chiba, the book value of these assets were reduced to the recoverable amounts and the reduced amounts were recorded as loss on impairment of long-lived assets in other income (expenses). The recoverable amounts of these assets were measured according to the estimated net sale value, which was based on the fair values reasonably estimated by the Company.

For the purpose of recognition and measurement, the Companies grouped the long-lived assets, based principally on the location of the business entity to which the assets belonged.

As a result of these procedures, a loss on impairment of long-lived assets of ¥430 million ($5,171 thousand) for the year ended March 31, 2011 was recognized in other expenses in the consolidated statements of income and comprehensive income.

The following tables summarize the losses on impairment of long-lived assets in the year ended March 31, 2011.

**Year ended March 31, 2011**

| | | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|
| Location | Purpose | Machinery and equipment | Machinery and equipment |
| Narashino, Chiba | Logistics center | **¥ 430** | **$ 5,171** |
| Total | | **¥ 430** | **$ 5,171** |

Year ended March 31, 2010

(A) Real estate for rent in Osaka

Due to a decline in profitability in real estate for rent in Osaka, the Company reduced the book value of the long-lived assets that were impaired to the recoverable amount.

To assess the recoverable amount of the long-lived assets, the appraised value was used as the basis for the measurement.

(B) Logistics center in Osaka

Due to a contract for sale of the assets of logistics center in Osaka, the Company reduced the book value of the long-lived assets that were impaired to the recoverable amount.

To assess the recoverable amount of the long-lived assets, the sales value in the contract was used as the basis for the measurement.

(C) Employee dormitory in Aichi

Due to a decision to dispose of the assets in an employee dormitory in Aichi Prefecture, the Company reduced the book value of the long-lived assets that were impaired to the recoverable amount.

To assess the recoverable amount of the long-lived assets, the appraised value was used as the basis for the measurement.

The following tables summarize the losses on impairment of long-lived assets in the year ended March 31, 2010.

Year ended March 31, 2010

| | | Millions of yen | | |
|---|---|---|---|---|
| Location | Purpose | Land | Buildings and structures | Total |
| Chuo, Osaka | Real estate for rent | ¥ 2,125 | ¥ — | ¥ 2,125 |
| Suminoe, Osaka | Logistics center | 730 | 201 | 931 |
| Kasugai, Aichi | Employee dormitory | 161 | 54 | 215 |
| Total | | ¥ 3,016 | ¥ 255 | ¥ 3,271 |

## 15. Investment and rental properties

Information about fair value of investment and rental properties is disclosed as follows:

The Company owns office buildings, logistics centers and other properties for rent in Tokyo and other cities.

Rental profit from these properties was ¥308 million ($3,704 thousand) and ¥116 million for the years ended March 31, 2011 and 2010, respectively, and were included in gross profit.

Book value, annual net increase amount and fair value, of investment and rental properties, were as follows:

**Year ended March 31, 2011**

| Millions of yen | | | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|---|---|
| Book value | | | | Book value | | | |
| Balance at beginning of year | Net increase | Balance at end of year | Fair value | Balance at beginning of year | Net increase | Balance at end of year | Fair value |
| **¥ 8,384** | **¥ 280** | **¥ 8,644** | **¥ 8,498** | **$ 100,830** | **$ 3,367** | **$ 104,197** | **$ 102,201** |

Book value is net of accumulated depreciation.

Fair values of these properties are measured mainly by the Company, based on "Standard for real-estate appraisal."

Year ended March 31, 2010

| Millions of yen | | | |
|---|---|---|---|
| Book value | | | |
| Balance at beginning of year | Net increase | Balance at end of year | Fair value |
| ¥ 4,542 | ¥ 3,842 | ¥ 8,384 | ¥ 9,244 |

Regarding net increase during the fiscal year ended March 31, 2010, a main factor of increase was the increase of ¥6,073 million resulting from the change in holding purpose for certain property from operating purpose to rental purpose, and main factor of decrease was the decrease of ¥2,124 resulting from impairment loss.

## 16. Segment information

### (Additional information)

Effective from the fiscal year ended March 31, 2011, the Company adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, revised March 27, 2009) and the "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008).

### (A) Overview of the Reportable Segments

The Group's 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 Group's 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 Group consists of business segments with the business department as the basis. The 5 reportable segments are "steel business," "metal and alloy business," "non-ferrous metal business," "food business," and "petroleum and chemical business."

The main products and services that fall under these reportable segments are listed below.

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

Metals and alloys: Nickel, chromium, steel alloys, and solar cell-related materials and products

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

Foods: Sea foods

Petroleum and chemicals: Petroleum products, industrial chemicals, and chemicals

The reportable segment income figures are based on operating income coupled with interest and dividend income, interest expense, and foreign currency translation adjustments. Intersegment transactions are presented based on the current market prices at the time of this report.

Information about sales, profits, assets and others by reportable segment, for the years ended March 31, 2011 was as follows:

**Year ended March 31, 2011**

| | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | | |
| | Steel | Metals and alloys | Non-ferrous metals | Foods | Petroleum and chemicals | Total | Other business | Total | Adjustment | Consolidated |
| Net sales | ¥ 674,300 | ¥ 121,785 | ¥ 57,942 | ¥ 79,585 | ¥ 369,423 | ¥ 1,303,035 | ¥ 93,068 | ¥ 1,396,103 | ¥ — | ¥ 1,396,103 |
| Intersegment | 18,748 | 2,252 | 2,085 | 482 | 613 | 24,180 | 31,333 | 55,513 | (55,513) | — |
| Total | ¥ 693,048 | ¥ 124,037 | ¥ 60,027 | ¥ 80,067 | ¥ 370,036 | ¥ 1,327,215 | ¥ 124,401 | ¥ 1,451,616 | ¥ (55,513) | ¥ 1,396,103 |
| Segment income | ¥ 9,423 | ¥ 2,265 | ¥ 715 | ¥ 1,778 | ¥ 2,198 | ¥ 16,379 | ¥ 763 | ¥ 17,142 | ¥ (3,651) | ¥ 13,491 |
| Assets | ¥ 261,693 | ¥ 62,325 | ¥ 20,869 | ¥ 31,287 | ¥ 69,845 | ¥ 446,019 | ¥ 41,060 | ¥ 487,079 | ¥ 45,719 | ¥ 532,798 |
| Depreciation | 1,632 | 46 | 30 | 27 | 60 | 1,795 | 853 | 2,648 | 57 | 2,705 |
| Interest income | 216 | 2 | 1 | — | 108 | 327 | 48 | 375 | 298 | 673 |
| Interest expense | 1,413 | 593 | 161 | 77 | 315 | 2,559 | 395 | 2,954 | (133) | 2,821 |
| Increase in property and equipment | 2,481 | 225 | 63 | 18 | 205 | 2,992 | 760 | 3,752 | 94 | 3,846 |

**Year ended March 31, 2011**

| | Thousands of U.S. dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reportable segment | | | | | | | | | |
| | Steel | Metals and alloys | Non-ferrous metals | Foods | Petroleum and chemicals | Total | Other business | Total | Adjustment | Consolidated |
| Net sales | $ 8,109,441 | $ 1,464,642 | $ 696,837 | $ 957,126 | $ 4,442,850 | $15,670,896 | $ 1,119,278 | $16,790,174 | $ — | $16,790,174 |
| Intersegment | 225,472 | 27,084 | 25,075 | 5,797 | 7,372 | 290,800 | 376,825 | 667,625 | (667,625) | — |
| Total | $ 8,334,913 | $ 1,491,726 | $ 721,912 | $ 962,923 | $ 4,450,222 | $15,961,696 | $ 1,496,103 | $17,457,799 | $ (667,625) | $16,790,174 |
| Segment income | $ 113,325 | $ 27,240 | $ 8,599 | $ 21,383 | $ 26,434 | $ 196,981 | $ 9,177 | $ 206,158 | $ (43,909) | $ 162,249 |
| Assets | $ 3,147,240 | $ 749,549 | $ 250,980 | $ 376,272 | $ 839,988 | $ 5,364,029 | $ 493,806 | $ 5,857,835 | $ 549,838 | $ 6,407,673 |
| Depreciation | 19,627 | 553 | 361 | 325 | 721 | 21,587 | 10,258 | 31,845 | 686 | 32,531 |
| Interest income | 2,598 | 24 | 12 | — | 1,299 | 3,933 | 577 | 4,510 | 3,584 | 8,094 |
| Interest expense | 16,994 | 7,132 | 1,936 | 926 | 3,788 | 30,776 | 4,750 | 35,526 | (1,599) | 33,927 |
| Increase in property and equipment | 29,838 | 2,706 | 758 | 216 | 2,465 | 35,983 | 9,140 | 45,123 | 1,131 | 46,254 |

1. "Other business" represents businesses such as lumber section, machinery section and overseas sales subsidiaries, which are not included in the above reportable segment.
2. Adjustments are as follows:
   (1) Adjustments of negative ¥3,651 million (negative $43,909 thousand) for segment income include intersegment elimination and Group costs that have not been distributed to reportable segments. These group costs consist mainly of expenses of administrative departments.
   (2) Adjustments for segment assets amounting to ¥45,719 million ($549,838 thousand) include Group assets that have not been distributed 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 ¥57 million ($686 thousand) include mainly depreciation and amortization expenses of group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥298 million ($3,584 thousand) and negative ¥133 million (negative $1,599 thousand) include intersegment elimination, revenue and expense that have not been distributed to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥94 million ($1,131 thousand) are increases in Group assets.
3. Due to the impracticability of applying a new accounting policy retrospectively to segment information, the Company shows the comparable segment information for the year ended March 31, 2011 created based on the previous approach of presentation of segment information for the year ended March 31, 2010, as below.

**Year ended March 31, 2011**

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Steel | Metals and alloys | Non-ferrous metals | Foods | Petroleum and chemicals | Other business | Total | Corporate | Consolidated |
| **Net sales** | **¥ 684,077** | **¥ 128,362** | **¥ 79,664** | **¥ 85,928** | **¥ 367,369** | **¥ 50,703** | **¥ 1,396,103** | **¥ —** | **¥ 1,396,103** |
| Costs and expenses | **674,190** | **126,152** | **78,685** | **83,641** | **365,328** | **48,564** | **1,376,560** | **5,689** | **1,382,249** |
| Operating income | **¥ 9,887** | **¥ 2,210** | **¥ 979** | **¥ 2,287** | **¥ 2,041** | **¥ 2,139** | **¥ 19,543** | **¥ (5,689)** | **¥ 13,854** |
| Assets | **¥ 260,533** | **¥ 51,673** | **¥ 24,437** | **¥ 36,868** | **¥ 68,052** | **¥ 15,941** | **¥ 457,504** | **¥ 75,294** | **¥ 532,798** |
| Depreciation | **1,644** | **47** | **32** | **31** | **61** | **827** | **2,642** | **63** | **2,705** |
| Loss on impairment of long-lived assets | **430** | **—** | **—** | **—** | **—** | **—** | **430** | **—** | **430** |
| Capital expenditure | **2,463** | **226** | **103** | **26** | **206** | **715** | **3,739** | **107** | **3,846** |

**Year ended March 31, 2011**

| | Thousands of U.S. dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Steel | Metals and alloys | Non-ferrous metals | Foods | Petroleum and chemicals | Other business | Total | Corporate | Consolidated |
| Net sales | **$ 8,227,022** | **$ 1,543,740** | **$ 958,076** | **$ 1,033,410** | **$ 4,418,148** | **$ 609,778** | **$16,790,174** | **$ —** | **$16,790,174** |
| Costs and expenses | **8,108,117** | **1,517,162** | **946,302** | **1,005,905** | **4,393,602** | **584,053** | **16,555,141** | **68,419** | **16,623,560** |
| Operating income | **$ 118,905** | **$ 26,578** | **$ 11,774** | **$ 27,505** | **$ 24,546** | **$ 25,725** | **$ 235,033** | **$ (68,419)** | **$ 166,614** |
| Assets | **$ 3,133,289** | **$ 621,443** | **$ 293,891** | **$ 443,391** | **$ 818,425** | **$ 191,714** | **$ 5,502,153** | **$ 905,520** | **$ 6,407,673** |
| Depreciation | **19,771** | **565** | **385** | **373** | **734** | **9,946** | **31,774** | **757** | **32,531** |
| Loss on impairment of long-lived assets | **5,171** | **—** | **—** | **—** | **—** | **—** | **5,171** | **—** | **5,171** |
| Capital expenditure | **29,621** | **2,718** | **1,239** | **313** | **2,477** | **8,599** | **44,967** | **1,287** | **46,254** |

Year ended March 31, 2010

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Steel | Metals and alloys | Non-ferrous metals | Foods | Petroleum and chemicals | Other business | Total | Corporate | Consolidated |
| Net sales | ¥ 606,206 | ¥ 86,081 | ¥ 52,824 | ¥ 72,557 | ¥ 255,868 | ¥ 43,093 | ¥ 1,116,629 | ¥ — | ¥ 1,116,629 |
| Costs and expenses | 596,437 | 83,526 | 52,007 | 71,609 | 254,278 | 41,516 | 1,099,373 | 5,836 | 1,105,209 |
| Operating income | ¥ 9,769 | ¥ 2,555 | ¥ 817 | ¥ 948 | ¥ 1,590 | ¥ 1,577 | ¥ 17,256 | ¥ (5,836) | ¥ 11,420 |
| Assets | ¥ 223,894 | ¥ 34,815 | ¥ 15,164 | ¥ 29,094 | ¥ 32,855 | ¥ 16,128 | ¥ 351,950 | ¥ 91,495 | ¥ 443,445 |
| Depreciation | 1,873 | 30 | 95 | 28 | 36 | 413 | 2,475 | 85 | 2,560 |
| Loss on impairment of long-lived assets | 2,438 | — | 28 | 141 | 113 | 140 | 2,860 | 411 | 3,271 |
| Capital expenditure | 7,301 | 67 | 50 | 42 | 126 | 571 | 8,157 | 88 | 8,245 |

1. The industry segments are determined in accordance with those major products
2. Major products
   (1) Steel: Steel bars and shapes, steel plates and sheets, special steels, wire products, steel pipes, and steelmaking raw materials
   (2) Metals and alloys: Nickel, chromium, steel alloys, and solar cell-related materials and products
   (3) Non-ferrous metals: Aluminium, copper, and zinc
   (4) Foods: Seafoods and meat products
   (5) Petroleum and chemicals: Petroleum products, chemical products, and cement
   (6) Other business: Lumber, machinery, and other
3. Corporate costs and expenses consist mainly of expenses of administrative departments.
4. Corporate assets consist mainly of cash and equivalents, investment securities and assets of administrative departments.

## (B) Related information in 2011 only

### Product information

Net sales information by products for the year ended March 31, 2011 was as follows:

**Year ended March 31, 2011**

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Steel | Metals and alloys | Non-ferrous metals | Foods | Petroleum and chemicals | Other | Total |
| Net sales to external customers | **¥ 684,077** | **¥ 128,362** | **¥ 79,664** | **¥ 85,928** | **¥ 367,369** | **¥ 50,703** | **¥ 1,396,103** |

**Year ended March 31, 2011**

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Steel | Metals and alloys | Non-ferrous metals | Foods | Petroleum and chemicals | Other | Total |
| Net sales to external customers | **$ 8,227,023** | **$ 1,543,740** | **$ 958,076** | **$ 1,033,409** | **$ 4,418,148** | **$ 609,778** | **$16,790,174** |

### Geographic information

Net sales in different countries for the year ended March 31, 2011 was as follows:

**Year ended March 31, 2011**

| | Millions of yen | | | |
|---|---|---|---|---|
| | Japan | Asia | Other | Total |
| Net sales to external customers | **¥ 1,054,082** | **¥ 306,084** | **¥ 35,937** | **¥ 1,396,103** |

**Year ended March 31, 2011**

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Japan | Asia | Other | Total |
| Net sales to external customers | **$12,676,873** | **$ 3,681,106** | **$ 432,195** | **$16,790,174** |

## (C) Impairment loss of long-lived assets in reportable segments

Impairment loss of long-lived assets by segment for the year ended March 31, 2011 was ¥430 million ($5,171 thousand) in Steel segment.

KPMG

# Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Hanwa Co., Ltd. (the Company) and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income and comprehensive income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hanwa Co., Ltd. and subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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

Osaka, Japan
June 29, 2011

# Global Network

## Domestic Offices

| OFFICE | ADDRESS | TELEPHONE | FAX |
|---|---|---|---|
| OSAKA | Hanwa Bldg., 4-3-9 Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan | 81-6-6206-3000 | 81-6-6206-3365 |
| TOKYO | 6-18-2 Ginza, Chuo-ku, Tokyo 104-8429, Japan | 81-3-3544-2171 | 81-3-3544-2351 |
| NAGOYA | NHK Nagoya Broadcasting Center Bldg., 1-13-3, Higashisakura, Higashi-ku, Nagoya, Aichi 461-8614, Japan | 81-52-952-8800 | 81-52-952-9300 |
| HOKKAIDO | NREG Kita-sanjo Bldg., 3-1-25, Kita-sanjo Nishi, Chuo-ku, Sapporo, Hokkaido 060-0003, Japan | 81-11-219-7375 | 81-11-219-7376 |
| TOHOKU | Sendai Dai-ichi Seimei Tower Bldg., 4-6-1 Ichiban-cho, Aoba-ku, Sendai, Miyagi 980-0811, Japan | 81-22-227-7981 | 81-22-227-7969 |
| HACHINOHE | Kyoei Hachinohe Bancho Bldg., 9-5, Bancho, Hachinohe, Aomori 031-0031, Japan | 81-178-73-1170 | 81-178-22-2211 |
| NIIGATA | Hokuetsu-daiichi Bldg., 1-2-25, Higashi Oodouri, Chuo-ku, Niigata 950-0087, Japan | 81-25-255-1777 | 81-25-255-1776 |
| CHUGOKU | Hiroshima-fukuromachi Bldg., 5-25, Fukuro-machi, Naka-ku, Hiroshima 730-0036, Japan | 81-82-543-2570 | 81-82-543-2561 |
| KYUSHU | Taihaku Center Bldg., 2-19-24 Hakata-ekimae, Hakata-ku, Fukuoka 812-0011, Japan | 81-92-471-7121 | 81-92-471-7060 |
| KITAKANTO | Takasaki East Center Bldg., 14-1 Sakae-cho, Takasaki, Gunma 370-0841, Japan | 81-27-310-6390 | 81-27-321-0952 |
| MITO | Mito Minami-machi, Dai-ichi Seimei Bldg., Minami-machi, Mito, Ibaraki 310-0021, Japan | 81-29-300-0351 | 81-29-226-8230 |
| ATSUGI | Nihonseimei Hon-Atsugi Bldg., 1-2-1, Asahi-cho, Atsugi, Kanagawa 243-0014, Japan | 81-46-226-9005 | 81-46-227-0121 |
| OSAKA-NANKO | Nanko Center Bldg., 2-3-44, Nanko-Minami, Suminoe-ku, Osaka 559-0032, Japan | 81-6-4703-4172 | 81-6-4703-4174 |
| OKINAWA | Mitsui Life Insurance Naha Bldg., 2-4-16, Kume, Naha, Okinawa 900-0033, Japan | 81-98-860-9115 | 81-98-861-5516 |

## Overseas Offices

| OFFICE | ADDRESS | TELEPHONE | FAX |
|---|---|---|---|
| **AMERICAS** | | | |
| NEW YORK | Parker Plaza, 12th Floor, 400 Kelby Street, Fort Lee, NJ 07024, U.S.A. | 1-201-363-4500 | 1-201-346-9890 |
| SEATTLE | 601 Union Street, Suite 626, Seattle, WA 98101, U.S.A. | 1-206-622-2102 | 1-206-622-6464 |
| HOUSTON | Suite 515, 9800 Richmond Avenue, Houston, TX 77042, U.S.A. | 1-713-978-7904 | 1-713-978-7790 |
| LOS ANGELES | 18100 Von Karman, Suite 320, Irvine, CA 92612, U.S.A. | 1-949-955-2780 | 1-949-955-2785 |
| VANCOUVER | Suite 303, 1001 West Broadway Vancouver, B.C., V6H 4B1, Canada | 1-604-876-1175 | 1-604-876-1085 |
| BOGOTA | Calle 97, No. 21-50, Edif: La Fontana Di Tivoli Oficina: 309 Bogota, D.C. Colombia | 57-1-473-4758 | 57-1-473-4754 |
| GUAM | 428, Chalan Antonio Suite, 102, Tamuning, 96913, Guam | 1-671-647-0133 | 1-671-647-0135 |
| **ASIA** | | | |
| SEOUL | Room 1703, Korea World Trade Center, 159-1, Samsung-Dong, Kangnam-ku, Seoul, 135-729, R.O. Korea | 82-2-551-5387 | 82-2-551-5575 |
| BUSAN | Room 504, Industry Bldg., 578, Gwaebeop-Dong, Sasang-gu, Busan, 617-726, R.O. Korea | 82-51-319-1006 | 82-51-319-1545 |
| BEIJING | Room 1201, Beijing Fortune Bldg., 5 Dong San Huan Bei-lu, Chaoyang District, Beijing 100004, P.R. China | 86-10-6590-8333 | 86-10-6590-8340 |
| QINGDAO | Crowne Plaza Qingdao, Room No.601, Hongkong Middle Road 76, Qingdao City, Shandong 266071, P.R. China | 86-532-8-577-9990 | 86-532-8-577-9630 |
| DALIAN | Senmao Bldg., 20F, 147 Zhongshan Street, Dalian City, Liaoning 116011, P.R. China | 86-411-8-368-6954 | 86-411-8-368-6934 |
| SHANGHAI | Room 902/904-907, Aetna Tower, No.107 Zhunyi Road, Shanghai 200051, P.R. China | 86-21-6237-5260 | 86-21-6237-5268 |
| CHONGQING | Room 1711, Metropolitan Tower, 68 Zhou Rong Lu, Central District, Chongqing 400010, P.R. China | 86-23-6381-1101 | 86-23-6381-7385 |
| FUZHOU | Room 2501, Lippo Tianma Plaza, No.1 Wu Yi Road, Fuzhou City, Fujian 350003, P.R. China | 86-591-8-3354165 | 86-591-8-3345202 |
| WUHAN | Room 1009, New World Center, Tower A, No. 634, Jiefang Avenue, Wuhan 430032, P.R. China | 86-27-8549-7132 | 86-27-8578-7196 |
| GUANGZHOU | Unit 3701-3704, Profit Plaza, No. 76 Westhuangpu Road, Guangzhou City, Guangdong 510623, P.R. China | 86-20-8732-0451 | 86-20-8732-0402 |
| DONGGUAN | D Block, Chashan Industrial Park, Chashan Town, Dongguan City, Guangdong 523380, P.R. China | 86-769-8182-1800 | 86-769-8182-1801 |
| ZHONGSHAN | Unit 1909-1910, 19th Floor, Bank Of China Tower, 18 Zhongshan 3rd Road, Zhongshan City, Guangdong, P.R. China | 86-760-2332-0706 | 86-760-2332-0696 |
| HONG KONG | Suites 2301-02 & 16, 23F, Cityplaza One, 1111 King's Road, Tai Koo Shing Island East, Hong Kong | 852-2545-0110 | 852-2542-2544 |
| TAIPEI | Room A, 9th Floor, No. 132, Minsheng East Road Sec. 3, Taipei 10596, Taiwan | 886-2-2545-7151 | 886-2-2545-7112 |
| KAOHSIUNG | Room B, 17th Floor, No.7 Su-Wei 4th Road, Kaohsiung, Taiwan | 886-7-338-5508 | 886-7-338-5433 |
| BANGKOK | 16th Floor, Unit 1602, Q.House Lumpini Bldg., 1 South Sathorn Road, Tungmahamek, Sathorn, Bangkok 10120, Thailand | 66-2-343-8877 | 66-2-343-8878 |
| KUALA LUMPUR | Suite 8-12B-3, Level 14 (12B), Menara Olympia 8, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia | 60-3-2078-2311 | 60-3-2078-2380 |
| SINGAPORE | 20 Cecil Street, #20-05/06/07, Equity Plaza, Singapore, 049705 | 65-6536-7822 | 65-6536-7855 |
| TAWAU | P.O. Box 1231 91037 Tawau, Sabah, Malaysia | 60-89-750016 | 60-89-750019 |
| HO CHI MINH | Unit 4, 19th Floor, A&B Tower, 76 Le Lai Street, District 1, Ho Chi Minh City, S.R. Vietnam | 84-8-3822-5715 | 84-8-3822-5725 |
| HANOI | 14th Floor, Vit Tower, 519 Kim Ma Street, Ba Dinh, Hanoi, S.R. Vietnam | 84-4-2220-9155 | 84-4-2220-9159 |
| JAKARTA | Menara Cakrawala 5th Floor, Jalan M.H. Thamrin No. 9, Jakarta 10340, Indonesia | 62-21-3983-3211 | 62-21-3983-3212 |
| MUMBAI | Unit No.208, 2nd Floor, B-Wing, Dynasty Business Park, 58, Andheri Kurla Road, Andheri (E), Mumbai 400 059, India | 91-22-2826-0884 | 91-22-2826-1097 |
| NEW DELHI | 203, Bestech Chambers, B Block, Sushant Lok 1, Gurgaon, Haryana 122002, India | 91-124-456-6100 | 91-124-456-6111 |
| CHENNAI | Regus Citi Centre, Level 6, Chennai Citi Centre, 10/11, Dr. Radhakrishnan Salai, Chennai 600 004, India | 91-44-4221-8259 | 91-44-4221-8222 |
| **EUROPE, MIDDLE EAST AND AFRICA** | | | |
| LONDON | 2nd Floor, Finland House, 56 Haymarket, London, SW1Y 4RN U.K. | 44-20-7839-4448 | 44-20-7839-3994 |
| AMSTERDAM | WTC Tower A-11F, Strawinskylaan 1111, 1077XX, Amsterdam, The Netherlands | 31-20575-2460 | 31-20575-2461 |
| VIENNA | Landstrasser Hauptstrasse 71/2 A1030, Wien, Austria | 43-1-717-28-200 | 43-1-717-28-110 |
| KUWAIT | C/O Al-Sabih Engineering & Trading Co., P.O. Box No. 1114 Dasman, 15462 Dasman, Kuwait<br>Room 24, 6th Floor, Danat Trading Center, Abdulla Al-Ahmad Street, Sharq, Kuwait | 965-2-243-7259 | 965-2-243-7263 |
| RIYADH | P.O. Box 68974, Riyadh 11537, Saudi Arabia | 966-1-473-1563 | 966-1-473-5624 |
| JEDDAH | Office No. 219, Kaki Center, P.O. Box 1224, Jeddah 21431, Saudi Arabia | 966-2-669-0648 | 966-2-669-0648 |
| DAMMAM | Office No.1, 1st Floor, Al-Hammam Center for Trading, King Fahad Bin Abdul Aziz Road, Dammam, Saudi Arabia | 966-3-8411745 | 966-3-8467937 |
| DUBAI | Dubai Airport Free Zone, East Wing Bldg., No. 6E, B-Block, Room No. 544, P.O. Box 293873 Dubai, U.A.E. | 971-4-609-1893 | 971-4-609-1895 |
| JOHANNESBURG | 2nd Floor, West Tower, Nelson Mandela Square, Maude Street, Sandton, 2196, South Africa | 27-11-881-5966 | 27-11-881-5611 |

# Corporate Information (As of March 31, 2011)

## Corporate Data

| | |
|---|---|
| **Company Name** | Hanwa Co., Ltd. |
| **Established** | April 1947 |
| **Capital** | ¥45,651 million |
| **Number of Employees** | Consolidated: 2,060<br>Non-consolidated: 1,154 |
| **Address** | |
| **Osaka Head Office** | Hanwa Bldg., 4-3-9 Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan<br>Tel: +81-6-6206-3000<br>Fax: +81-6-6206-3365 |
| **Tokyo Head Office** | 6-18-2 Ginza, Chuo-ku, Tokyo 104-8429, Japan<br>Tel: +81-3-3544-2171<br>Fax: +81-3-3544-2351 |
| **Nagoya Branch Office** | NHK Nagoya Broadcasting Center Bldg., 1-13-3, Higashisakura, Higashi-ku, Nagoya, Aichi 461-8614, Japan<br>Tel: +81-52-952-8800<br>Fax: +81-52-952-9300 |
| **Number of Subsidiaries** | Subsidiaries: 44<br>(20 in Japan, 24 overseas)<br>Affiliated companies: 9<br>(0 in Japan, 9 overseas) |

## Stock Information

| | |
|---|---|
| **Fiscal Year-End** | March 31 |
| **Annual Meeting of Shareholders** | June |
| **Independent Auditors** | KPMG AZSA & Co. |
| **Domestic Stock Exchange Listings** | The First Section of the Tokyo Stock Exchange<br>The First Section of the Osaka Securities Exchange |
| **Date of Record for Dividend Payout** | Interim dividend: September 30<br>Year-end dividend: March 31 |
| **Authorized Shares** | 570,000,000 shares |
| **Shares Issued and Outstanding** | 211,663,200 shares |
| **Number of Shareholders** | 13,871 |

## Board of Directors (As of June 29, 2011)

**Chairman**
Shuji Kita

**President**
Hironari Furukawa

**Senior Managing Director**
Tetsuro Akimoto

**Managing Directors**
Yoshifumi Nishi
Takuji Kita
Hideo Kawanishi
Hiroshi Serizawa
Hiroshi Ebihara
Akihiko Ogasawara

**Outside Directors**
Osamu Seki
Shiro Yabushita

**Directors**
Kazuhisa Majime
Masataka Toyoda
Hiroaki Tsujinaka
Yoshiaki Matsuoka
Atsuhiro Moriguchi
Tadahiko Kaida
Youichi Ejima
Naoyuki Togawa
Yasumichi Kato
Takatoshi Kuchiishi

## Corporate Auditors (As of June 29, 2011)

**Standing Auditors**
Toshiaki Shirakawa
Teruo Asai

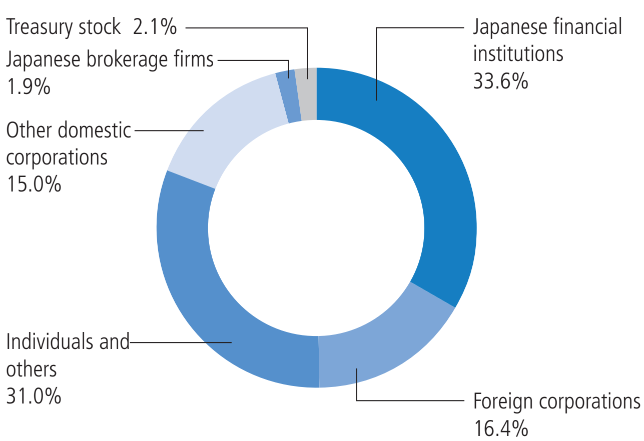
**Outside Auditors**
Toshiaki Taguchi
Hajime Yosano
Masanori Kobayashi

## Principal Shareholders

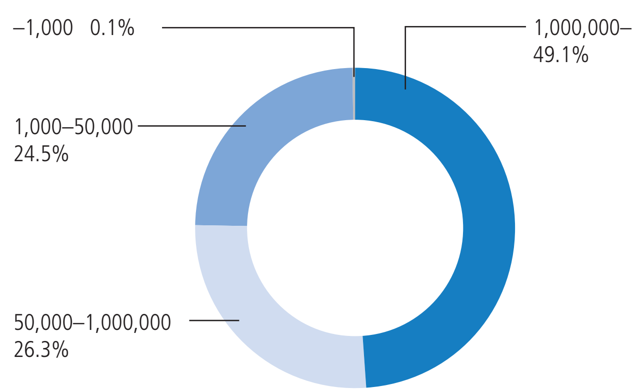
| Name of Shareholder | Number of Shares (thousands) | Percentage of Total Issued Share (%) |
|---|---|---|
| **Japan Trustee Services Bank, Ltd. (Trust Account)** | **19,921** | **9.6** |
| **The Master Trust Bank of Japan, Ltd. (Trust Account)** | **10,438** | **5.0** |
| **Sumitomo Mitsui Banking Corporation** | **7,630** | **3.7** |
| **Japan Trustee Services Bank, Ltd. (Trust Account 9)** | **4,818** | **2.3** |
| **Hanwa Clients' Stock Investment Association** | **4,816** | **2.3** |
| **Trust & Custody Services Bank, Ltd. (Investment Trust Account)** | **4,702** | **2.3** |
| **Hanwa Employees' Stock Investment Association** | **4,466** | **2.2** |
| **BBH FOR FIDELITY LOW-PRICED STOCK FUND** | **3,500** | **1.7** |
| **MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION** | **2,631** | **1.3** |
| **The Dai-ichi Mutual Life Insurance Company** | **2,614** | **1.3** |

Note: The Company holds 4,391,507 shares of treasury stock, which is excluded from the major shareholders listed above.

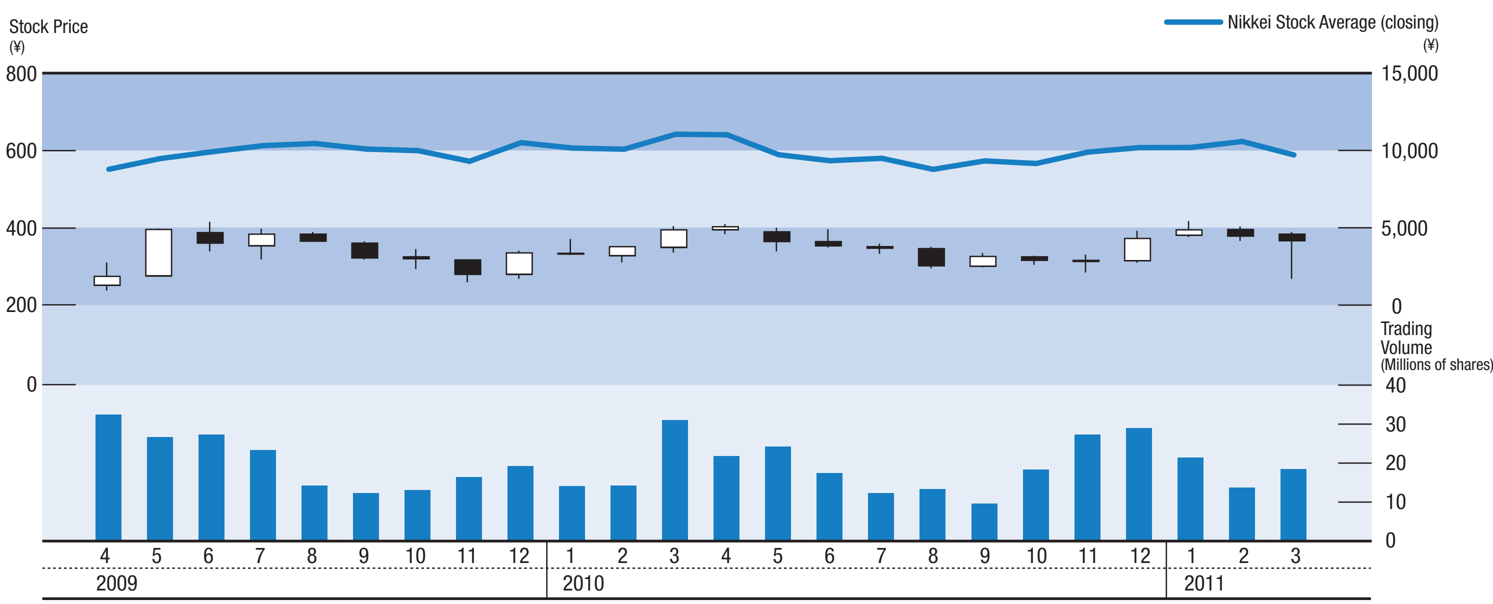
## Breakdown by Type of Shareholder




## Breakdown by Size of Holding




## Stock Price Range and Trading Volume (Common Stock)



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