

June 10, 2016

**To Shareholders:**

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Hanwa Co., Ltd.  
(Securities Code: 8078  
Tokyo Stock Exchange 1st Section)  
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**Supplementary Explanation Concerning Proposal No. 3 of  
the 69th Ordinary General Shareholders Meeting**

Dear All Shareholders:

We have obtained information that a proxy advisory firm, Institutional Shareholder Services, Inc. (hereinafter "ISS"), has been making a recommendation to disapprove some of the candidates listed under Proposal No. 3 (Election of Three (3) Corporate Auditors) to be proposed at the 69th Ordinary General Shareholders Meeting of Hanwa Co., Ltd. (hereinafter "the Company") scheduled to be held on June 29, 2016, claiming that the candidates concerned are not sufficiently independent.

In view of the above, we would like to explain our position with respect to the circumstance which seems to have led ISS to make such recommendation.

We would ask you to make your own decision on this issue after reviewing the Notice of the 69th Ordinary General Shareholders Meeting of the Company and this Supplementary Explanation.

1. Mr. Yasuo Naide, a candidate for Corporate Auditor as listed under Proposal No. 3 (Election of Three (3) Corporate Auditors)

Mr. Yasuo Naide started his carrier upon graduation at Sumitomo Heavy Industries, Ltd., eventually to serve in senior positions such as Senior Vice President and Executive Vice President. Afterwards, he served as President of group companies of Sumitomo Heavy Industries, Ltd. before he retired in 2012. During the 41 years of his service at the Sumitomo Heavy Industries Group, Mr. Naide had never been involved in the business of the Company.

Meanwhile, the transactions of the Company with Sumitomo Heavy Industries, Ltd., where Mr. Naide served, have been immaterial, specifically, approximately five million yen in the fiscal year ended March 31, 2013, approximately 23 million yen in the fiscal year ended March 31, 2014, approximately 16 million yen in the fiscal year ended March 31, 2015 and approximately two million yen in the fiscal year ended March 31, 2016, which account for 0.0004%, 0.0016%, 0.0011% and 0.0002% of net sales of the Company in each fiscal year, respectively. This provides ground for us to believe that he is sufficiently independent from the Company.

When he was invited, after his retirement in 2012 from directorship of Sumitomo Heavy Industries Business Associates Co., Ltd., into the office of Corporate Auditor of the Company, he was expected to conduct effective audits from the viewpoint based on his wealth of experience at a manufacturer as proved by his board-level track record at Sumitomo Heavy Industries, Ltd., as well as his insight into business administration

issues. He has successfully met such expectation by attending all of the 61 Board of Directors meetings and 67 Board of Corporate Auditors meetings held during his term of office until now, providing appropriate suggestions to matters deliberated on, in particular, potential risks associated with investments and loans in Japan as well as overseas, based on his knowledge and experience, while actively carrying out visiting audits to subsidiaries both at home and abroad, giving advice on business administration issues through audits of business operations.

In view of the aforementioned circumstance, the Company believes that Mr. Naide will keep carrying out his duties adequately as an independent Outside Corporate Auditor.

## 2. Mr. Mitsuo Hirakata, a candidate for Corporate Auditor as listed under Proposal No. 3 (Election of Three (3) Corporate Auditors)

Mr. Mitsuo Hirakata (hereinafter “Mr. Hirakata” in this paragraph) started his carrier upon graduation at Mizuho Bank, Ltd. (formerly The Industrial Bank of Japan, Limited as well as Mizuho Corporate Bank, Ltd.) and worked until March 2006. After his retirement from the managerial position involved in the execution of business of Mizuho Bank, Ltd., Mr. Hirakata served in various positions including Corporate Auditor (full-time) of Mizuho Corporate Bank, Ltd., Managing Executive Officer of Mizuho Securities Co., Ltd. and Corporate Auditor (full-time) of Toyo Construction Co., Ltd., and he currently serves as Representative Director and President of Tokyo Bay Hilton Co., Ltd. It should be noted that ten years have already passed since he no longer engaged in the execution of business of Mizuho Bank, Ltd.

Mr. Hirakata is familiar with international business, thanks to his experience in serving overseas at multiple periods, on top of his financial and monetary expertise gained through his working experience at financial institutions. Besides, he has a profound insight into management in general, based on his experience as manager of business entities, which convinces us to believe that he is the most appropriate talent in carrying out audits and supervision over the management decisions and business execution within the Company, which is facing various challenges such as effective control over the Group companies and enhancement of business development in Asia and North America. He is, thus, expected to adequately perform his duties as an Outside Corporate Auditor.

Moreover, the Company evaluates the independence of outside officers with reference to the Enforcement Rules for Securities Listing Regulations and the Guidelines Concerning Listing Examination, etc. established by the Tokyo Stock Exchange. On such basis, Mr. Hirakata is believed to meet the criteria for an independent officer.

Meanwhile, the proxy voting guidelines of ISS describes that “individuals who work or worked at main lenders/banks to the company in question” should be regarded as non-independent. However, if a candidate for outside corporate auditor has specialization and experience necessary in view of the Company’s current management issues and his/her knowledge and viewpoint are judged to be beneficial to the Company’s management, we will not exclude, both now and in the future, the possibility of selecting such person as an outside corporate auditor with priority over the outward judgment of his/her independence; we will make our judgment based on the independence standards for judgment when electing independent outside directors provided in Principle 4.9 of the Principles for Responding to the Corporate Governance Code disclosed on December 8, 2015 as our own guidelines reflecting all 73 general principles of Corporate Governance Code, which are applied mutatis mutandis to outside corporate auditors.

We do not believe that there ought to be stereotypical conflicts of interest in the allocation of profit between shareholders and financial institutions that provide credit to us, but we regard both parties as important stakeholders who support us in carrying out our business operations. Helping business partners with their cash

flows through daily trading is one of the crucial roles originally expected of trading companies, which, to this extent, need to raise large amounts of funds. Accordingly, cooperation from financial institutions is essential for us to fully perform such a role. As such, opinions from a creditor’s viewpoint focused on security and stability are valuable for the purpose of enhancing the effectiveness of corporate governance, which does not necessarily compromise shareholders’ interest in pursuit of higher corporate value through the improvement in quality of operations. Historically, we found it very effective for the Company in controlling risks to have outside directors or corporate auditors from financial institutions as they provided appropriate advice and guidance based on their abundant professional knowledge and experience, along with suggestions about issues to be addressed based on the intelligence from their unique information sources.

As explained above, we believe that excluding individuals from candidates for directors/corporate auditors simply based on their surface facts, including but not limited to employment at financial institutions, would be nothing short of denying the opportunities to capitalize on their personal insight into management practice and business administration, thus compromising the common interest of a company and its stakeholders.

We would sincerely ask all shareholders to understand our position on this issue as described above, and kindly make your decision.

Sincerely yours,  
HANWA CO., LTD.

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