HANWA CO., LTD.
阪和興業株式会社

2016
ANNUAL REPORT
Year ended March 31, 2016

Coping with changing times and markets quickly, Hanwa makes a great contribution to society by satisfying various needs of customers as a "distribution specialist"

Success in today's markets demands speed and the ability to meet a broad range of needs. Change is occurring on an unprecedented scale. Only companies that can adapt quickly will survive. Hanwa has experience and accomplishments in the field of "distribution" that span 69 years.

We know how to build powerful businesses and move quickly in the pursuit of value creation and customer satisfaction.

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

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

To Our Stakeholders

Shuji Kita
Chairman
北　修爾

Hironari Furukawa
President
古川　弘成

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 range of customers.

Since our inception, we have focused our operations on the mission of serving our customers as "distribution specialists." Each year, we have used our specialized expertise and an extensive service network to meet customer 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, and from which they can receive outstanding products and services.

The current economic environment surrounding the Group remains challenging. Against this backdrop, in order to build a medium- to long-term sustainable profit structure and a stronger foundation, we launched the new Medium-Term Business Plan for the three-year. For the fiscal year ending March 31, 2017, the first year of this plan, we aims to focus its efforts on maintaining and improving its business performance by gaining an accurate and thorough understanding of the demand trends in each business category. We will implement sales/inventory policies that address precisely the needs of its clients and actively pursue the development of a new customer base.

The sincere advice and support of all stakeholders forms the basis of all our activities. We place great value on each 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 unique to Hanwa, while serving as a trading company known for outstanding footwork.

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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.

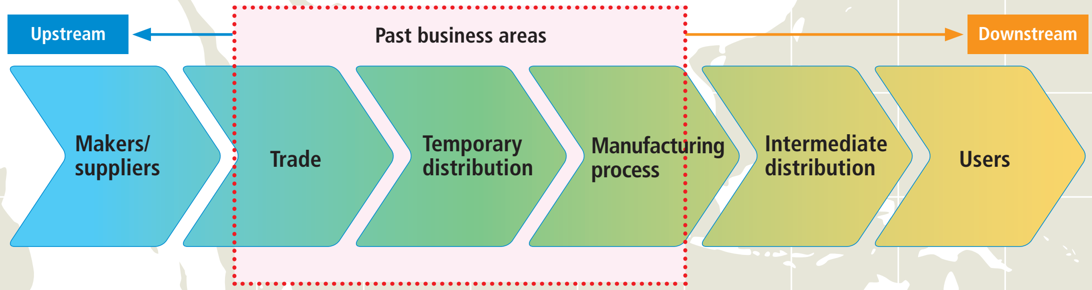
DISTRIBUTION SPECIALIST

"Customers first" is Hanwa's core business policy. Our business calls for growing with our customers.

Since its inception in 1947, Hanwa has continuously pursued growth in its corporate value. The Group has achieved steady growth in its core steel business as well as metals and alloys, non-ferrous metals, food products, petroleum and chemicals, lumber, machinery and other business.

Hanwa aims to be a different type of trading company, using a vertically aligned organization to earn profits by serving as an intermediary for business transactions and investing mainly to boost relationships that generate such profits. We are dedicated to putting our customers first and prospering together with them. This is why we use horizontal collaboration that goes far beyond conventional vertical organizational structures. Using this approach produces ideas and improvements that originate from strong partnerships between Hanwa and its customers. Only this type of trading firm can function as a "true trading company" that performs a valuable role in society.

To further solidify its relationships, Hanwa follows a business model innovation based on three strategic concepts in the activities of all segments: (1) always stay close to the viewpoint of users, (2) diversify business activities, and (3) manage activities for the Group as a whole. Targeting efficiency and optimization across the value chain, extending from manufacturers and other suppliers to users, we are diversifying the Group's business domains within the supply chain to achieve the greatest possible user satisfaction.



Three Strengths

FOOTWORK

The footwork required to act with speed and agility

Hanwa firmly believes in positioning markets at the center of its operations. Front-line activities are a source of information and lessons that are available nowhere else. Speed and agility are vital to being in the right place at the right time to gather this knowledge. Recognizing the importance of spending time in the field, Hanwa business professionals use swift footwork to move from one location to another. This constant focus on the essence of business activities allows Hanwa to supply customers with solutions of the highest caliber.

NETWORK

The foundation for skills in information and sales

Hanwa has a powerful network that spans the globe. In Japan, Hanwa offices and distribution centers work closely together to serve customers. Overseas, we have an extensive network of offices and subsidiaries, particularly in Asia. Skills in information and sales that originate from this network are a critical component of our business operations. With these capabilities, we can meet the expectations of every customer as "distribution specialists."

TEAMWORK

A cohesive organization that thrives on teamwork

Conventional general trading companies operate by making each business a largely autonomous unit. Hanwa's operations go beyond this vertical structure. Our business operations benefit from powerful teamwork among all departments and people in our organization. All available resources are used to meet our customers' needs. Teamwork has one more important benefit: the ability to build mutually beneficial ("win-win") relationships by creating the best possible partnership with each customer.

Developing Globally While Expanding and Deepening Business Fields

Hanwa has built a solid position in the market as a trading company handling a board range of products, including steel, metals and alloys, non-ferrous metals, food products, petroleum and chemicals, lumber, machinery and many other items. As a "trading company that makes a difference," we are expanding our business fields in accordance with the changing times and society to satisfy customers' diverse requirements.

Steel

Dedicated to meeting the needs of customers in a broad spectrum of industries, the Steel Division handles everything from steel plates, sheets and bars to construction materials.

Metals and Alloys

Metals and alloys Division fulfills an important social responsibility as a supplier of many metals resources such as chromium, manganese, silicon ore and ferroalloys of primary products.

Non-Ferrous Metals

One of the first companies to recycle aluminum, copper, nickel and chromium, Hanwa is at the forefront of effective resource recycling.

Food Products

Handling prawns, crab and other seafood, and enjoying the top market shares in several product categories, we bring fine food products from around the world to tables throughout Japan.

Petroleum and Chemicals

As a trader in petroleum products, chemical products and paper materials, we cultivate durable relationships with customers by providing accurate information and responding swiftly to market needs.

Overseas Sales Subsidiaries

This segment includes trading of various goods and relevant business activities handled by overseas sales subsidiaries in North America and Asia.

Other Business

This segment mainly comprises the Lumber and Plywood Division, which imports quality forest products around the world, and the Machinery Division, which handles a variety of amusement facilities and industrial machinery.

Number of Overseas Bases

47

Number of Subsidiaries and Associated Companies

41

Number of Overseas Processing Plants

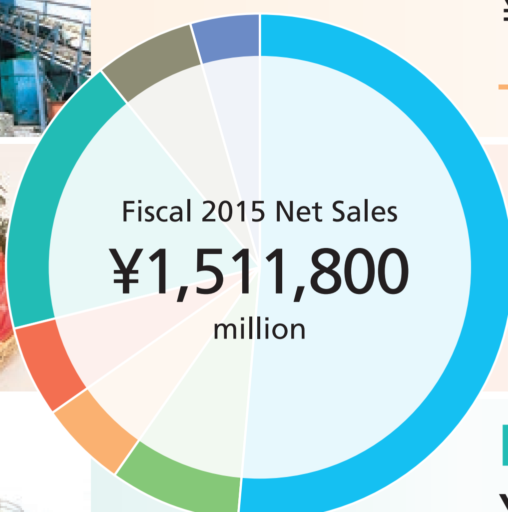
30

Number of Employees (consolidated)

2,977

At a Glance

Net Sales / Year-on-Year Change



Steel

¥778,738 million

–9.2%

Metals and Alloys

¥127,759 million

+1.6%

Non-Ferrous Metals

¥80,895 million

–1.3%

Food Products

¥89,542 million

+3.0%

Petroleum and Chemicals

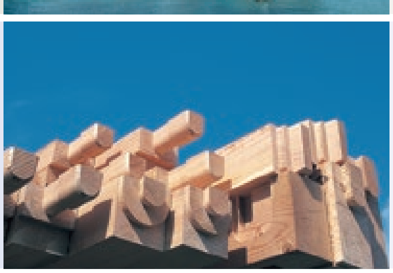
¥271,602 million

–35.7%

Overseas Sales Subsidiaries

¥97,468 million

–3.8%



Other Business

¥65,796 million

+6.8%

Principal Items

Steel Bars
Steel bars of various shapes, screw-type reinforcement steels, steel pipe piles, H-beam, flat bars, square steel, light gauge sections, cement, various construction works

Steel Sheets
Steel plates, hot-rolled steel sheets, cold-rolled steel sheets, surface-treated steel sheets, electrical steel sheets

Special steels and others
Special steels, cast steels, stainless steels, steel wires, steel pipes, ferrous raw material

Nickel, chromium, ferro-alloys, stainless steel scrap, titanium scrap, silicon, solar cell materials

Copper, aluminum, zinc, lead

Prawns and shrimp, crab, salmon, herring roe, horse mackerel, mackerel, Capelin, octopus, eel, herring, flounder, Matsubara's red rockfish, fish paste, processed goods

Petroleum products in general, marine oil, petrochemicals, synthetic resin, paper products

Wholesale trade, general merchandise

Lumber and Plywood
Structural lumber for housing, various plywood

Machinery
Various amusement facilities, steel-related industrial machinery, environment-related machinery

Other
Environment-related business

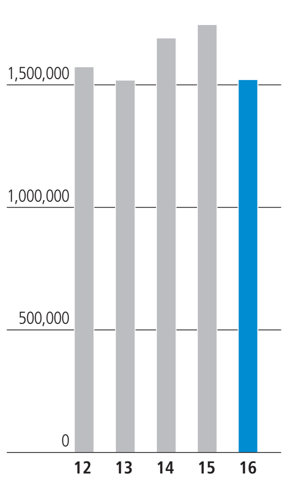
Consolidated Financial Highlights

	Millions of yen, except for number of employees		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
For the year:			
Net sales	**¥1,511,800**	¥1,737,398	**$13,416,755**
Operating income	**18,178**	19,107	**161,324**
Net income attributable to owners of the parent	**25,470**	9,086	**226,038**
Comprehensive income	**16,779**	19,450	**148,908**
At year-end:			
Cash and cash equivalents	**¥ 25,805**	¥ 24,515	**$ 229,011**
Total assets	**599,694**	651,457	**5,322,098**
Total net assets	**156,139**	142,750	**1,385,685**
Number of employees	**2,977**	2,772	
	Yen		U.S. dollars (Note 1)
Per share data:			
Net income attributable to owners of the parent	**¥ 122.92**	¥ 43.85	**$ 1.091**
Cash dividends	**18.00**	15.00	**0.160**
Net assets attributable to owners of the parent	**747.40**	682.46	**6.633**
	%		
Key financial ratios:			
Return on assets (ROA)	**4.1**	1.5	
Return on equity (ROE)	**17.2**	6.9	
Net debt/equity ratio (Note 2)	**140**	180	

Notes: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥112.68=$1.00.
2. Net debt/equity ratio = Net interest-bearing debt/equity.
Net interest-bearing debt = Interest-bearing debt – cash.

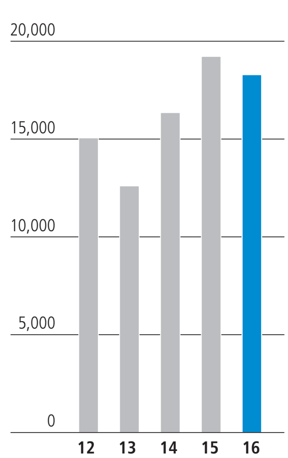
Net Sales

(Millions of yen)



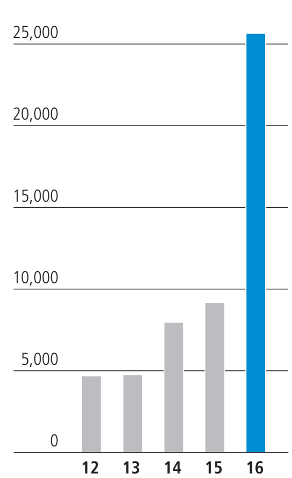
Operating Income

(Millions of yen)



Net Income Attributable to Owners of the Parent

(Millions of yen)



Looking at the present and the future of the Hanwa Group

Hironari Furukawa, *President*
代表取締役社長　古川　弘成

Q1 Please share your opinion about the economic environment during the fiscal year ended March 31, 2016.

A With regard to the world economy in the fiscal year under review, the U.S. economy maintained a gradual recovery centered on personal consumption and housing investment, but showed signs of stagnation after the U.S. federal funds rate hike in December 2015. The European economy remained uncertain due to political instability despite a continuous economic recovery on the whole. With China in a transition phase to stable growth under its new economic policy, the pace of economic growth slowed. Other emerging countries also experienced continuing stagnation on the whole.

The Japanese economy experienced a stagnation in production activities in the manufacturing industry due to such factors as sluggish growth in exports and the trend of yen appreciation, despite partly modest improvement in personal consumption. Consequently, reflecting sluggish capital expenditures and a continuing decline in public investment, the economic ripple effects of government measures began to fade.

Q2 Please summarize operating results of the fiscal year ended March 31, 2016.

A Given the background as mentioned above, the Group posted consolidated net sales of ¥1,511,800 million for the consolidated fiscal year ended March 31, 2016, representing a year-on-year decrease of 13.0%, due mainly to a price decline in steel products accompanying weak demand and excess supply. Operating income fell 4.9%, to ¥18,178 million, primarily reflecting lower profit in the metals and alloys business. Net income attributable to owners of the parent jumped 180.3% to ¥25,470 million, due to such factors as a decrease in the foreign exchange loss, a gain on sales of property and equipment, and a drop in income taxes paid reflecting a tax deduction for the impairment loss of the relevant assets recorded in previous fiscal years, despite a share of loss of entities accounted for using the equity method.

Q3 What is your outlook for the fiscal year ending March 31, 2017?

A

Although the U.S. economy is showing signs of slow recovery, close attention should be paid to such factors as the trends in monetary policy, while its European counterpart still faces an uncertainty stemming from economic and social instability despite a gradual economic recovery. Chinese government authorities, which has been promoting the "new normal" policy of sustainable growth, rather than aggressive expansion, found it hard to launch large-scale economic stimulus measures. Therefore, the condition of uncertainty is expected to remain unchanged.

The Japanese economy has been experiencing few signs of an upturn in personal consumption and capital expenditure in the face of an uncertain economic outlook, despite expectations of demand recovery in the construction industry.

In this operating environment, the Group aims to focus its efforts on maintaining and improving its business performance by gaining an accurate and thorough understanding of the demand trends in each business category. It will implement sales/inventory policies that address precisely the needs of its clients and actively pursue the development of a new customer base.

Based on the factors described above, in terms of consolidated operating results for the next fiscal year, we expect net sales of ¥1,600,000 million (up 5.8% compared with the previous year), operating income of ¥21,000 million (up 15.5%), and net income attributable to owners of the parent of ¥13,000 million (down 49.0%).

Q4 Please share your vision for business management in the future.

A

In May 2016, the Group launched the new Medium-Term Business Plan for the three-year period from April 2016 to March 2019, which essentially calls for action needed to commit to the "Three S" initiatives (Steady, Speedy, Strategic), to build a medium- to long-term sustainable profit structure and a stronger foundation. The business plan includes three objectives: "steady" growth of the Company by earning profits in current business domains; "speedy" gaining of returns from strategic investments in the Group companies both in Japan and abroad; and "strategic" mergers, acquisitions, and alliances to add more sources of earnings in the future. Against the backdrop of these initiatives, regarding consolidated operating results for the fiscal year ending March 31, 2019, the final year of the Medium-Term Business Plan, we expect net sales of ¥2,000,000 million, ordinary income of ¥20,000 million, and 2,000 new customers.

Q5 What is your message for Hanwa investors with regard to shareholders return?

A

The Company gives top priority to the payment of a higher and stable dividend to shareholders. As for the distribution of retained earnings for the fiscal year under review, we decided to pay a year-end dividend of ¥10 per share, bringing the total dividend for the year to ¥18 per share, including an interim dividend of ¥8 per share. We made this decision because we managed to generate stable operating revenue without greater downside while the business environment remained challenging.

For the fiscal year ending March 31, 2017, we plan to pay an annual dividend of ¥18 per share if the targeted results are achieved.

In all our activities, we ask sincerely for your continued understanding and support.

Close Up

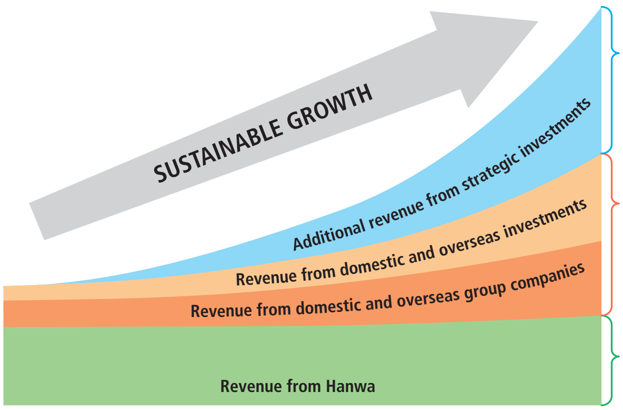
An Overview : The New Medium-Term Business Plan (FY2016–FY2018)

For the next decade, this business plan sets the objectives of steady growth for Hanwa by earning profits in current business domains while achieving speedy earnings growth driven by group companies and strategic investments. In addition, there will be more strategic mergers, acquisitions and alliances to add more future sources of earnings.

Medium-Term Business Plan Theme

The "Three S" Commitment: Steady, Speedy, Strategic

Build a medium- to long-term sustainable profit structure and a stronger foundation



STRATEGIC
Establish future sources of additional earnings by continuing strategic investments

SPEEDY
Speed up to produce benefits from investments in group companies and strategic investments in Japan and overseas

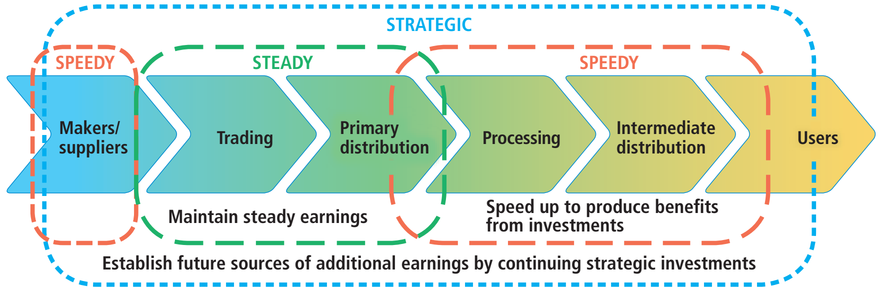
STEADY
Maintain and increase earnings in well-established businesses

Quantitative Objectives

Our aim for the next three to five years is "2 x 4": Sales of ¥2,000 billion, ordinary income of ¥20 billion, 2,000 new customers, and net assets of ¥200 billion. In the final year of the Medium-Term Business Plan (the fiscal year ending March 31, 2019), the quantitative objectives are listed in the chart on the right.

	FY2015		FY2018
Net sales (Million Yen)	¥1,511,800	→	¥2,000,000
Ordinary Profit OP Margin (%)	¥15,424 1.0%	→	¥20,000 1.0%
New customers (Aggregate in three years)	2,075	→	2,000

Growth Strategy: "Three S"



- **STEADY: Maintain and increase earnings in well-established business**
  —Use HKQC (quality assurance using the Hanwa Group's collective knowledge) to eliminate the risk of losses in all business processes.
  —Increase cash flow generation by improving the efficiency of purchases, inventories, sales and the receipt of payments

- **SPEEDY: Speed up to produce benefits from investments**
  —Make companies (36 in Japan and 33 overseas) more profitable
  —Moving up to secure returns from current business investments that are performing well or have excellent prospects

- **STRATEGIC: Continuing strategic investments**
  —Execute diversified mergers and acquisitions and flexible alliance investments in high-quality small and midsize companies.
  —Create opportunities for strategic investments in the food products, petroleum and chemicals, lumber and other business sectors.
  —Make strategic investments in natural resource sectors with distinctive characteristics.
  —Make carefully targeted strategic investments in Southeast Asia and North America.

Acquisition of Shares of Daisun Co., Ltd.

In July 2015, Hanwa acquired a 100% stake in Daisun Co., Ltd., a company headquartered in Osaka that deals in general steel, steel building materials and related products. The company was subsequently made into a subsidiary.

Daisun was founded in 1946 and in 1957 opened a liaison office in Tokyo (now a branch office). Among many a general steel dealer (secondary wholesaler) in Osaka, the company is the only distributor with sales bases in both eastern and western Japan, and ranks fifth in net sales.

View of warehouse

Daisun's main products include steel shapes, such as I-beams and unequal angle steel, with the former employed in shipbuilding, crane garters, elevators, driving rails for high-speed building cleaning gondolas, and construction. In terms of size range and stocks of I-beams, the company is unmatched in Japan.

Head office (Distribution warehouse)

Opening Ceremony of Hanwa Steel Service Mexicana, S.A. de C.V.

Hanwa Steel Service Mexicana, S.A. de C.V. (HSSM) was established in 2012 as the Company's wholly owned subsidiary. Following the start of operations in 2013, the third phase of facilities expansion works was completed in November 2015. To commemorate this milestone, HSSM held an opening ceremony on site.

As is widely known, Mexico has already developed into the seventh largest automobile manufacturer in the world, and it is projected to become the fifth largest, with annual production of five million vehicles.

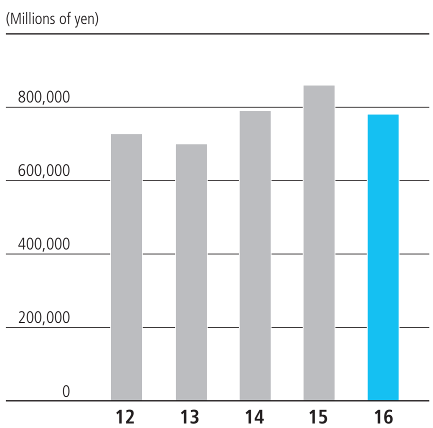
In particular, the state of Guanajuato, which is home to many Japanese manufacturers including the major automobile companies, is expected to become the world's leading manufacturing industrial park. Given this background, HSSM anticipates soaring steel demand from manufacturers centered on Mexico's automobile industry, and is leveraging the effects of the third phase of its expansion to further develop its business.

Production lines

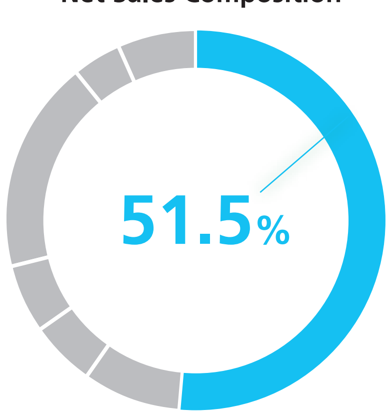
HSSM head office

Steel (Domestic)

Net Sales



Net Sales Composition



Fiscal 2015 Results

Global crude steel production for calendar year 2015 totaled 1,600 million tons, down 2.3% year on year, marking the first decline in the last 34 years, yet it was still at an elevated level. In China in particular, prices of raw materials such as iron ore and coking coal dropped in the face of lackluster domestic demand. This caused China-made steel to be exported at low prices to foreign markets, resulting in the nation's steel exports for 2015 reaching 110 million tons, up 20% year on year, which induced international steel market prices to continue falling. In Japan, meanwhile, domestic steel market prices continued to decline almost every month as shipments were slack amid falling international market prices, putting the Company's business of sales to wholesalers in a challenging environment.

On the demand front, Japan's domestic demand for steel products from the manufacturing industry was generally sluggish in fiscal 2015 as the year's domestic automobile production decreased 4.2% year on year to 9,187,500 units with construction machinery shipment value also falling year on year in response to the stagnant Chinese and Asian economies. Meanwhile, domestic demand for steel products from the construction industry showed signs of stagnation due to budget revisions, design changes and project schedule delays on the part of customers although labor shortage was in the process of being resolved.

During fiscal 2015, the Company continued to pursue the fast delivery/small-lot/processing strategy and carefully capture demand from regional customers and small- to medium-sized enterprises with the result that its product handling volume declined only slightly year on year. Profits were underpinned by the completion and recording of relatively high-margin construction work project contracts which had been won at the early stage of the Abenomics initiative, and by the Company correctly setting its purchasing timing amid the downturn of market prices.

Looking Ahead and Key Strategies

After the start of 2016, international steel market prices climbed on expectations for a potential recovery in China's steel demand. There are, however, some signs of steel prices turning lower again while elevated levels of steel production continues in China. With iron ore market prices moving violently, rising and falling repeatedly, it is difficult to predict the market conditions for fiscal 2016.

The Japanese economy, with various indicators weakening slightly, is showing a growing sense of future uncertainty. The nation's manufacturing industry is currently in a challenging climate due to declining domestic automobile sales as well as to the falling construction and industrial machinery order intake stemming from the decelerating Chinese and emerging market economies and the accelerated yen's appreciation.

The construction and civil engineering industries will probably experience a demand recovery in the second half of fiscal 2016, supported by Olympics-related demand and urban redevelopment projects. However, due to their work capacity constraints, players in these industries are unlikely to enjoy a substantial increase in demand.

In Japan, the Company will strive to gain new customers among small- to medium-sized enterprises, becoming more oriented towards direct demand. At the same time, in order to further explore direct demand, we will continue to implement the fast delivery/small-lot/processing strategy, thus seeking to improve the Hanwa Group's functions through M&A and forming alliances with partner companies. To this end, we will revise our logistics strategy, establishing medium-sized warehouses in locations near where demand exists, thereby developing a platform for the Company to provide attentive service. As for demand from construction and civil engineering industry customers, we will bolster our project-focused sales activities targeting demand from various projects, including Olympics-related and Tokyo metropolitan zone redevelopment projects, and make efforts to capture such demand.

Steel (Overseas)

Fiscal 2015 Results

Global crude steel production for calendar year 2015 totaled 1,621.10 million tons, marking the first year-on-year decline for six years. Among it, crude production in China stood at 803.82 million tons, down year on year, yet it was still at an elevated level.

Japan's steel exports for fiscal 2015 came to 41.45 million tons, falling for the third consecutive year. Yen depreciation did not translate into larger exports.

In China, the decelerating economy prevented steel demand from growing with the demand affected by the yuan devaluation as well as the falling prices of Chinese stocks and real estate.

In the United States, despite strong demand from the housing and automobile sectors, steel demand from the oil and gas sectors decreased markedly, pressured by crude oil prices falling further.

While demand in the ASEAN region remained firm in general, despite variations among member countries, the region encountered trouble caused by increased inflows of China-made steel products to member countries, and was shown to be affected by the downturn of the Chinese economy and the falling crude oil prices.

In this environment, although the Company's steel exports struggled due to the declining steel plate trading in the shipbuilding and energy sectors in Asian countries such as South Korea, increased trading of stainless products offset the lower trading volume of steel plates. Nevertheless, China's sluggish domestic demand prompted its annual steel exports to exceed 110 million tons while expanded inflows of China-made steel products to the international market lowered overall world market prices, which was a contributing factor for the reduced export sales of the Company for fiscal 2015.

Looking Ahead and Key Strategies

Some regions will likely see steel demand recover in the base infrastructure, automobile and housing sectors thanks to economic assistance measures implemented by the government.

However, depressed crude oil prices will increasingly give rise to suspensions and postponements of energy-related projects, causing industry-wide restructuring to accelerate.

The existing global excess production capacity for steel products is expected to remain during fiscal 2016. Depending on the operation of Chinese mills, international steel market prices will likely move unstably during the year. Although the nation's domestic demand will fail to rise, mills in China will likely continue to be eager to export aggressively. China-made steel products, barred from some countries due to international trade issues involving the imposition of anti-dumping duties (ADs), may potentially flow to other countries at an accelerated pace to replace non-China-made steel products, thus putting steel distribution in a complicated state.

We will continue to focus on promoting Japan-made steel products in market segments in which they compete little against Chinese products and through, in particular, endeavors that leverage the high quality and credibility of Japan-made products. We seek to expand trading by correctly identifying user needs and taking advantage of our own processing facilities and inventories, among other resources, as well as those of our business partners.

As for general-purpose commodities, rather than adhering to products made in Japan, we will deal in Chinese and South Korean steel products with price competitiveness, and strive to actively expand their sales to overseas users in Asia, North and Central Americas, Europe and the Middle East through our network.

Metals and Alloys

Fiscal 2015 Results

Although it is in a challenging environment, the primary special metal business dealing mainly with nickel cathode and other chemicals saw substantial growth in terms of business results as the Company gained new customers such as those in the battery industry, secured suppliers and rolled out new products, all in a smooth manner. Affected by the nickel ore export ban in place in Indonesia, nickel pig iron production in China became sluggish, which allowed us to tap the growing demand for nickel metal, a substitute raw material.

After peaking out at $14,500 per ton in May 2015, nickel prices continued to fall before hitting a low of $7,500 per ton in February 2016. Meanwhile, the special metals recycling business, consisting mainly of stainless scrap and special metal scrap, was weak in terms of earnings, including at the Company's affiliates, affected by lower collection volume and reduced handling fee amid the plunging nickel prices.

The ferroalloy business, targeting steel mills and stainless steelmakers, suffered profitability deterioration in the first half of fiscal 2015 amid falling demand and plunging prices. In the second half, however, this business succeeded in growing handling volume, posting improved earnings thanks to the market rebounding.

Fiscal 2015 was an extremely challenging year for the metal raw materials business as the adverse climate marked generally by the falling demand and prices continued during the year. Meanwhile, rather than becoming cautious, the Company aggressively continued to invest in upstream business areas, a source of its future earnings, by taking the opportunity of costs related to holding interests in natural resources being revised downward.

Looking Ahead and Key Strategies

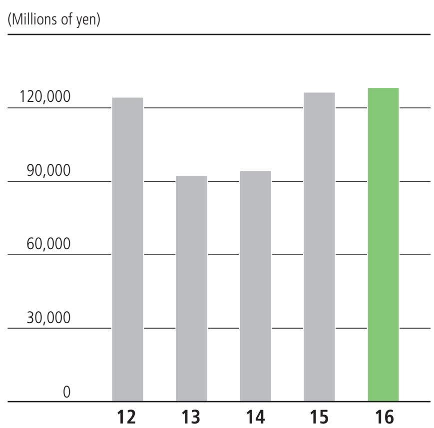
It appears that prices of metal raw materials such as nickel, chromium, manganese, silicon and molybdenum have more or less hit the bottom, and some mines have been subjected to production reduction, operation suspension and closure. Meanwhile, a period of about six months is not long enough for the industry to resolve the gap between the world's total demand volume and supply capacity, a process that will go into full swing from now on. Therefore, there will probably be no significant upside for demand and prices over the next year with another period of price downturn potentially looming.

In this environment, the specialty metals recycling business consisting mainly of stainless scrap is unlikely to achieve significant growth in terms of volume. Consequently, the Company and its related companies will seek to stabilize earnings by cutting costs and retaining sales volume.

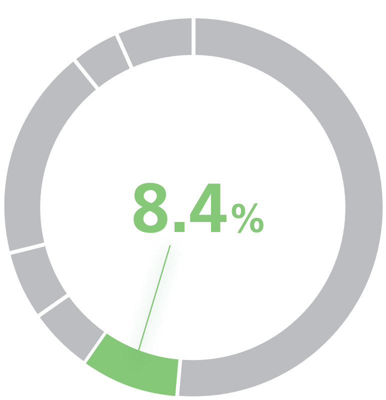
Raw materials for primary specialty metals are not expected to post substantial growth either, meaning it will be important for the Company to expand into new business segments and develop new products. In chemicals markets such as for sulfuric acid that are still growing even in this environment, we will pursue operations aggressively including through loan and investment programs.

As for the ferroalloy business, the environment for metal raw materials is likely to become even more challenging. The Company will leverage loan and investment programs that had been implemented until the previous fiscal year to specifically secure new products and business interests, translating them into profits.

Net Sales



Net Sales Composition



Non-Ferrous Metals

Fiscal 2015 Results

Early in fiscal 2015, in May, copper and aluminum prices both peaked at $6,500 per ton and about $2,000 per ton, respectively, before continuing to decline persistently in the first half of the fiscal year amid the slowing economy, mainly in China, and a flight of cash from natural resources and commodities as a whole. Copper and aluminum prices stopped falling temporarily in September 2015 only to turn lower again to explore new lows, hitting $4,300 per ton in January 2016 and $1,400 per ton in December 2015, respectively. Although rebounding slightly toward the fiscal year-end, copper and aluminum prices each failed to break out of their bottom ranges. In addition to commodity prices dropping, CIF Japan premium on new aluminum ingots declined sharply from $425 per ton at the fiscal year-start to below $100 per ton in six months. This premium drop-off, albeit predicted in advance, caused a significant loss to the Company's aluminum raw materials business because this is a commodity category for which no effective hedging vehicle is available.

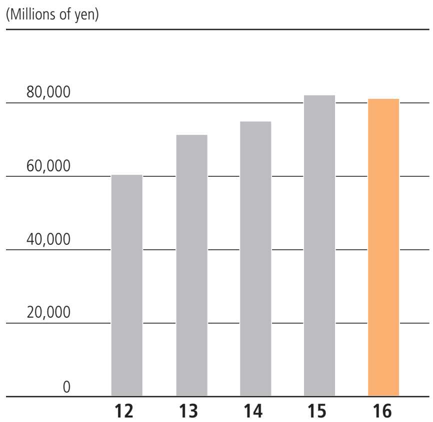
Meanwhile, in the business for white metals such as copper, precious metal, tin, lead and zinc, the Company achieved higher volumes and sales in this environment, securing earnings more or less in line with the plan. Although strong financial results were posted by SEIKI Co., Ltd., an aluminum scrap processing and aluminum-deoxidizing material manufacturing company that was newly converted into a consolidated subsidiary of Hanwa Co., Ltd., it failed to fully compensate for the loss incurred by the aluminum business.

Looking Ahead and Key Strategies

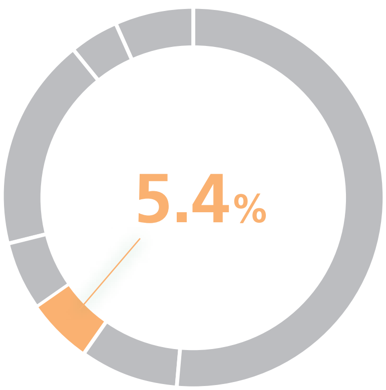
The second half of fiscal 2015 saw prices of metals fall below the break-even points for mines developed in recent years with some mines resorting to production cuts and suspensions. Although metal prices are thought to be close to the bottom, any rebound should be rather limited in extent at a time when demand is not expected to grow much and global demand is highly likely to decline gradually given China's current conditions. Prices of metals will most probably fail to break out of the bottom range in light of their supply-demand balance despite the fact that metals are free of the kind of structural and man-made problems involved in the previous fiscal year's CIF Japan premium drop-off.

In this environment, the Company aims to expand earnings through the development of new products for the recycling market, an initiative underway to grow its handling volume and sales, as well as through the processing work performed in Japan to create added values and efforts to increase sales and handling volume abroad. In particular, regarding our strategic product categories, such as precious metals, white metal raw materials and products targeted by the Basel Convention, we will consider making investments and participating in a joint venture arrangement, if any opportunity is available, in order to grow our volume, expand the types of products and raise the number of procurement regions and sales regions.

Net Sales



Net Sales Composition



Food Products

Fiscal 2015 Results

Prices of shrimp, our mainstay, continued to decline until the summer of 2015 in a persistent price slide that began in fiscal 2014.

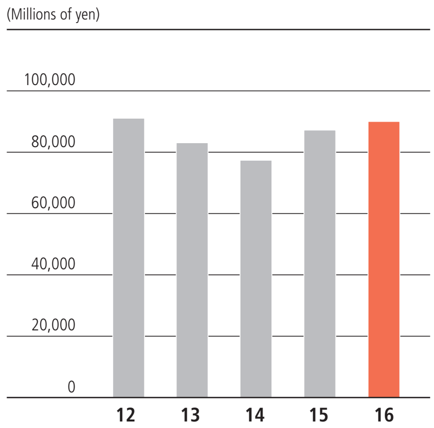
Prices of other raw materials for marine products rose as supply generally decreased. Among such raw materials was salmon, whose prices climbed markedly, affected by salmon farming failures in Chile.

Although China's import volume of raw materials for marine products declined, pressured by its decelerating economy, it did not have much effect on global supply-demand balance.

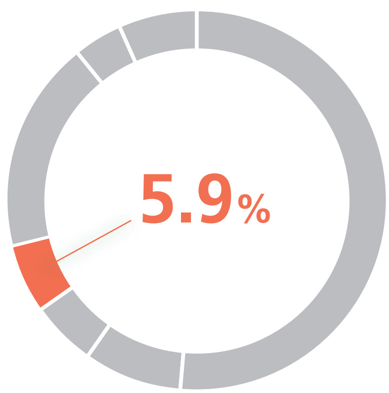
While domestic consumption continued to decrease, the Company recorded relatively strong product sales in Japan, helped by the falling shrimp prices. On the other hand, a significant loss was posted for the second consecutive year due to inventory disposal sales by Seattle Shrimp & Seafood Company, Inc. our distributor in North America of seafood products consisting mainly of shrimp, which stemmed from a shrimp price drop-off in North America.

On the domestic front, Hanwa Foods Co., Ltd., a distributor of processed food products for downstream categories, failed to achieve profitability due to a raw material purchasing failure, yen weakness-induced cost rises and product quality issues.

Net Sales



Net Sales Composition



Looking Ahead and Key Strategies

Although prices of overall raw materials for marine products remain at high levels due to falling supply, some products have entered into a price adjustment as their consumption has decreased in response to the high prices. However, prices of salmon and crab, items for which the market is large in North America, are staying at high levels with their shipment volumes to Japan being on the decline.

Sales of marine products to restaurants in Japan are strong, supported by growing consumption by foreign tourists. A growing proportion of high-priced products are now being sold gradually through online distributors rather than through mainly mass retailers. Thus, the Company needs to gain or explore new customers strong in new sales routes, in addition to its existing customers.

Beset with the challenge of labor shortage caused by Japan's decreasing working-age population, the nation's food processing factory operators are increasingly outsourcing processing operations to overseas vendors. Given food processing companies' accelerated shift away from China and the effects of the Trans-Pacific Partnership (TPP), the Company must urgently secure processing bases in the Southeast Asian region. We aim to expand our operations by leveraging our network in the region to assist customers in expanding to foreign countries.

Hanwa Foods Co., Ltd., Marumoto Honma Suisan Co., Ltd. and Seattle Shrimp & Seafood Company, Inc. will make greater efforts to exchange information closely with the Food Department of the parent company Hanwa Co., Ltd., and strive to lower risks for quality and the market to the extent possible, thereby seeking to achieve profitability and higher profits.

Petroleum and Chemicals

Fiscal 2015 Results

The crude oil price decline triggered two years ago by the shale revolution continued throughout fiscal 2015, and February 2016 saw the WTI crude oil price drop to $26/BBD. In the domestic oil market, product selling prices continued to fall in an unrestrained manner despite oil wholesale companies' policy to maintain their prices.

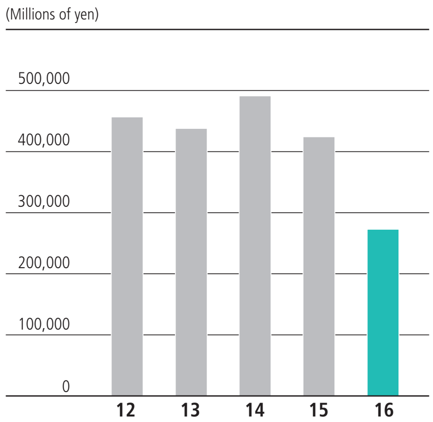
The Petroleum Department continued to suffer challenging conditions with sales of heavy oil to utility companies falling and kerosene oil sales plunging due to a warm winter. The department, however, achieved favorable results above expectations as it was able to take nimble steps for procurement and price hedging, and captured price fall-induced customer demand for heavy oil boiler reactivation while expanding sales of coal, lubricants and base oil. Meanwhile, the bunker oil business experienced a significant deterioration, affected by the declining product prices and slack vessel demand as well as a structural change marked by US bunker oil prices falling below Asian ones.

The chemicals business saw its product profitability improve as prices of raw materials for synthetic resins declined. Meanwhile, although yen weakness caused the profitability of imported raw materials to deteriorate, product volume stabilized, allowing the chemicals business to achieve strong results.

In the paper business, both earnings and volume deteriorated as the price advantage of old and waste paper diminished due to China-made products becoming cheaper following declines in pulp market prices, while waste paper occurrence volume decreased.

In the new energy business, both volume and profits failed to grow as sales competition intensified with the scope of customers for palm kernel shell (PKS) being still limited.

Net Sales



Looking Ahead and Key Strategies

Crude oil prices broke out of the bottom range in April 2016 to rebound to the $40 level. However, price coordination meetings of OPEC member and other petroleum producing countries ended unsuccessfully, suggesting that crude oil prices could potentially drop again and significant price rises are unlikely to take place.

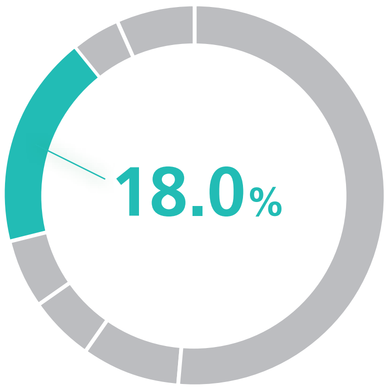
Domestic demand is expected to keep decreasing, causing the challenging environment to continue further as wholesale companies' realignment in the country will likely give rise to fierce price competition with players seeking to secure their existing levels of sales allocation. The Petroleum Department aims to survive in the industry by focusing its efforts more intensely on the industrial heavy oil business, in which it excels. The Petroleum Department will review the operations of our subsidiary Toyo Energy Co., Ltd. and bolster the collaboration with the subsidiary, thus achieving an increased synergy effect. The bunker oil business will seek to stabilize its earnings by revising its hedging methods and altering the terms and conditions of term agreements.

The chemicals business will continue striving to gain new customers, and expand volume while considering the option of making investment for logistics overhaul purposes.

The paper business will seek to grow sales in Asia by posting its staff to the United States, and expand business operations with the involvement of an RPF manufacturing subsidiary previously acquired.

The new energy business will likely enjoy increased demand starting from the second half of fiscal 2016 with its sales volume and earnings becoming stable. Thus, this business will bolster its procurement, striving to build a stable supply platform.

Net Sales Composition



Overseas Sales Subsidiaries

Fiscal 2015 Results

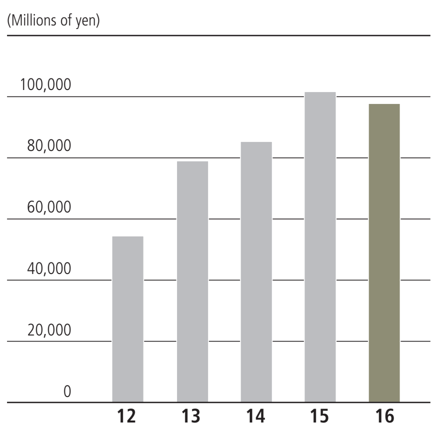
Prices of steel, non-ferrous metals and crude oil continued to fall markedly almost throughout 2015 before rebounding slightly after the start of 2016.

Steel handling volume in North America declined sharply as anti-dumping duties (ADDs) were imposed on China-made steel products. The marine products business also suffered a fall in handling volume due to a drastic inventory adjustment by Seattle Shrimp & Seafood Company, Inc. Although the non-ferrous metals business received growing scrap collection requests from users, i.e. Japanese precious metal smelting companies, the overall poor performance of metal market prices led to reduced scrap generation, pressuring profits for this business.

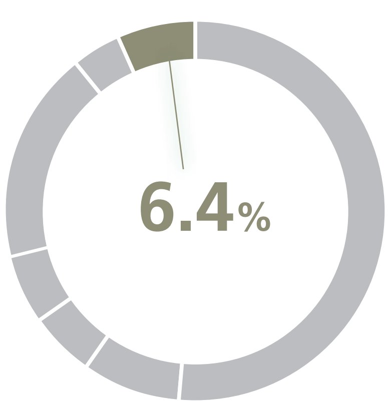
Fiscal 2015 proved to be a challenging year in which most of steel mills in China recorded losses due to excess production-induced unit price declines. The Hanwa Group accelerated efforts to expand its entirely China-based business operations and engage in export trading targeting overseas markets, consisting mainly of ASEAN countries, while performing its existing functions to: 1) procure raw materials and goods bound for Japan and 2) serve as instruction/trading bases for the export of Japan-made products.

It was a year in which ASEAN economies experienced growth rate slowdowns with their demand trends varying greatly from one country to another and from one industry to another amid currency depreciation. Although the Company's handling volume in the ASEAN region grew thanks to transaction transfers from Japan and new item deployments, lower prices resulted in sales declining year on year.

Net Sales



Net Sales Composition



Looking Ahead and Key Strategies

With regard to commodity prices, steel prices will likely continue to fluctuate in response to the China factors. Meanwhile, nonferrous metal and crude oil prices, although expected to be stronger compared to fiscal 2015, are thought by many experts to involve instability factors including the foreign exchange rate trend.

In North America, the steel business will continue its efforts to grow the number of product offerings while seeking to secure non-China-based procurement routes given that ADDs on steel products from the country are still in place. The marine product business will expand sales to Japan as well as within the Americas, including Canada, the United States and Mexico. The nonferrous metals business will seek to expand E-scrap procurement sources and pursue entirely Americas-based trading of metals such as zinc and lead while promoting sales of nickel and cobalt products to chemicals and battery materials manufacturers.

China's GDP growth rate for 2016 is forecast at 6.6% to 6.8%, below the growth rate for 2015, and the nation's steel industry restructuring is still in its early stage. The Company will modify the operations of its Chinese bases according to the changing circumstances, and focus its efforts on inland China regions (Chongqing and Chengdu) in particular, while expanding its automobile-related business and the non-steel business.

The ASEAN region is expected to develop steadily with each national economy forecast to grow at least 4% to 5% annually. However, the region's export-oriented automobile and home appliance businesses are prone to be affected by the economic conditions of their export destinations comprising Europe and the United States.

The Company will continue to deploy its domestic the fast delivery/small-lot/processing model in overseas markets while focusing its efforts for the time being on overseas trading consisting mainly of intra-region, local and China transactions.

Other Business (Lumber and Machinery)

Fiscal 2015 Results

Lumber

Housing starts grew to 910,000 units in fiscal 2015 due to the resolution of the decrease stemming from a backlash from the surge in rush demand before the consumption tax hike of fiscal 2014 as well as to low interest rates. Of this total, 370,000 units were conventional timber-based constructions.

Although the supply of European lumber decreased, there was an increase in the Company's supply to house building companies of items other than non-precut lumber products, including steel products. On the earnings front, the Company benefitted from market prices stabilizing due to reduced supply of imported lumber and lumber business downsizing by rival companies as well as from growing trading with house building companies.

As a result, the Company succeeded in retaining its top market share in imported wood products composed mainly of European, Russian, US, and Canadian lumber products.

The domestic lumber business grew due to rising log exports to China and specification solution sales activities during the design stages towards house building companies as well as increasing deliveries of floor panel plywood products.

Machinery

In the leisure facilities business, we delivered large-sized amusement rides (15 models) to Yomiuri Land. Meanwhile, the work on a large-sized Ferris wheel for the EXPOCITY complex was underway with its completion slated for the first half of fiscal 2016. Moreover, we engaged in solution sales activities towards amusement park operators for projects in fiscal 2017 onwards.

In the industrial machinery business, we delivered large-sized systems such as steel-frame primary processing equipment and a large semi-automated welding system. By bolstering its equipment sales to blast furnace and electric furnace steel manufacturers, the Company won new specific contracts while its efforts to gain new customers were still underway.

We conducted recommendation-based sales of automation and labor-saving production equipment, targeting mainland China, a nation suffering from surging labor costs. Furthermore, we strove to sell precision machinery/equipment products whose performance cannot technologically be matched by products made in China and Southeast Asian countries.

Looking Ahead and Key Strategies

Lumber

Housing starts for fiscal 2016 are expected to stand at approximately 930,000 units, helped consistently by the positive effect of low interest rates. Conventional timber-based construction single homes will probably remain strong owing to the surging condominium prices.

Meanwhile, demand is likely to decline in fiscal 2016 onwards due to the country's falling population, low birth rate and aging society. In this respect, we will further bolster our downstream strategy, expanding sales to house building companies and other end users. Specifically, we will: 1) increase sales of precut and peripheral products to house building companies: 2) grow sales of steel products for homes; 3) stabilize the trading of imported products by bolstering our downstream business; 4) expand the biomass material business; 5) grow our home, panel and floor plywood products and increase our domestic products for export; and 6) expand sales of floor base material and surface material products.

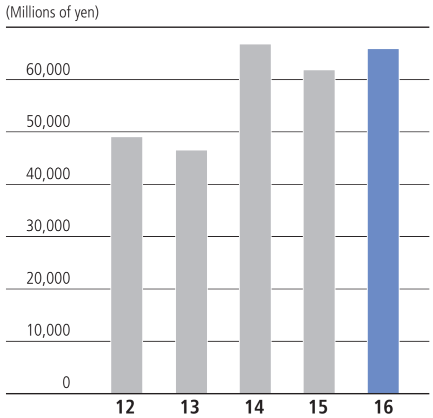
Machinery

The leisure facilities business has seen amusement park operations gradually become eager to make investments for the future with their customer traffic recovering. Such operators are all seeking to keep the customer drawing trend by differentiating them from rivals, which puts the Company's recommendation-based sales, its strength, at an advantage. We plan to conduct from now on sales activities further towards amusement parks and commercial facilities, businesses serving inbound tourist demand. Thus, we will refine our recommendation capabilities to meet their needs.

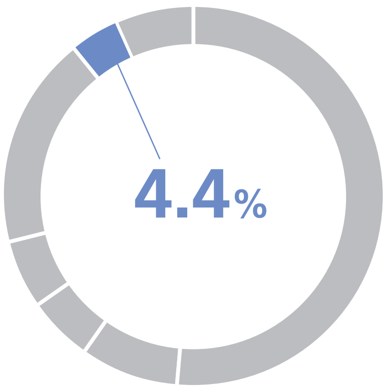
The industrial machinery business will continue joint sales activities with the domestic steel business, seeking to acquire new customers and expand the number of repeat customers, while focusing efforts on sales of equipment to steelmakers as well.

We will introduce Japan-made machinery/equipment to Chinese automobile-related companies while making recommendations in earnest on labor-saving and automatic production line systems targeting users in China.

Net Sales



Net Sales Composition



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 the CSR Committee and use a commitment to CSR management to make our corporate brand even more respected.

Corporate Governance Structure

Basic overview of the corporate governance structure

We have adopted a corporate auditors' system, which includes the Board of Auditors that comprises five corporate auditors (of whom three are outside corporate auditors) selected at the General Shareholders' Meeting. The system is used to audit and perform oversight on the Board of Directors and to monitor the performance of duties by the Company's administrative organizations operating under the Management Committee. We then report our findings at the General Shareholders' Meeting after completing our own reviewing process.

In April 2012, we introduced an executive officer system to establish a system that enables more detail-oriented business operations and to promote more efficient and quicker decision-making.

The Board of Directors, which comprises 14 directors, including two outside directors, meets once a month as a rule to deliberate and decide on important business plans and proposals concerning the Group, and to oversee business operations.

As a rule, the Management Committee meets twice a month. The members of this committee, all of whom are executive officers, discuss issues of significance concerning management and reach decisions. They also submit issues to the Board of Directors that involve the Group's management and promote the efficient performance of duties in accordance with the management policy determined by the Board of Directors.

The Officers Evaluation Committee, chaired by the president and attended by the outside directors, conducts an evaluation of the officers' performance. The Compensation Committee, which determines each officer's compensation, and the Election Committee, which governs the selection of officers, both operate under the Evaluation Committee.

The Officers Evaluation Committee meets at least once a year to perform a comprehensive evaluation of the officers' performance. This includes an assessment of the level of commitment that each officer has set at the beginning of the fiscal year and a mutual evaluation process for all the officers.

The results of the evaluation provided by the Officers Evaluation Committee are used by the Compensation Committee, which includes outside directors, to determine each officer's compensation. The fixed monthly compensation is then submitted as a regular salary plan to the Board of Directors. In terms of the officers' bonuses, we use a system that awards a bonus directly linked to profits and clearly reflects each individual Officer's achievement level. The Board of Directors approves this profit-based calculation model after the Officers Evaluation Committee reviews it. The corporate auditors have also approved this system.

To select Officers, the Selection Committee, which includes outside directors, reviews the coming year's members based on their evaluation and their performance. A draft is then submitted to the Board of Directors. A proposed list of candidates is then forwarded to the Regular General Shareholders' Meeting.

Advisory Committees

The Investment Examination Committee meets twice a month as a rule. Its members conduct multilateral analyses of important investment projects proposed by business departments, divisions, and group companies, in terms of their consistency with the Company's management policy, profitability, risks, etc., and submit the Committee's opinions to the Management Committee.

The Disclosure Committee meets on an as-needed basis to discuss the significance of information on decisions made by the Group and facts and events occurring within the Group, and determines whether they should be disclosed to the public, as well as looks into the appropriateness of details of such disclosures. It also formulates rules and basic policies and develops corporate structures for legal disclosures and timely disclosures.

The Compliance Committee meets on an as-needed basis to check, investigate, and discuss measures to establish, maintain, and manage the overall compliance structure of the Group, along with individual cases and issues where necessary, and develops subsequent preventive measures.

The Security Trade Control Committee meets on an as-needed basis to promote compliance with laws and regulations related to the Group's security trade, plan for export control reviewing system and processes, and manages and supervises such reviews.

The Internal Control Committee meets on an as-needed basis. Delegated by the Management Committee, the Committee provides advice and assistance for examinations performed by the Internal Audit Department on the effectiveness of the internal control systems of the Group, and offers its opinions in Internal Control Reports. It also studies issues involving internal controls of the Group, and submits the results of these studies to the Management Committee.

Explanation of why this system was adopted

We have expanded its business over the years across a wide range of business fields, while making optimal use of the high level of expertise we can offer as a distribution specialist. We are fully aware of the responsibility entrusted to us by our shareholders. Our daily business decisions are therefore carefully made with the leadership of our directors, who understand thoroughly our operations. In addition, business matters of significance are put through the Board of Directors for discussion. We believe that the model we have adopted, in which a separate Board of Auditors (including outside corporate auditors) is set up to perform an audit and inspection, is the most appropriate for our company. In 1994, as part of our efforts to remain accountable and improve the transparency of our business decisions for our stakeholders, including our shareholders, we began hiring outside directors. They provide us with a more objective point of view and act as a checking mechanism.

We also believe that we enable our corporate auditors to perform their duties effectively by allowing them to attend important meetings, including managers' meetings, and to request advance information before important plans are finalized. Moreover, we have adopted a system in which preliminary reviews of management issues are performed in various committees such as the Officers Evaluation Committee, the Investment Examination

Committee, and the Compliance Committee. Enhancement of these management systems makes our corporate governance system highly effective.

Internal Audit and Auditing by Corporate Auditors

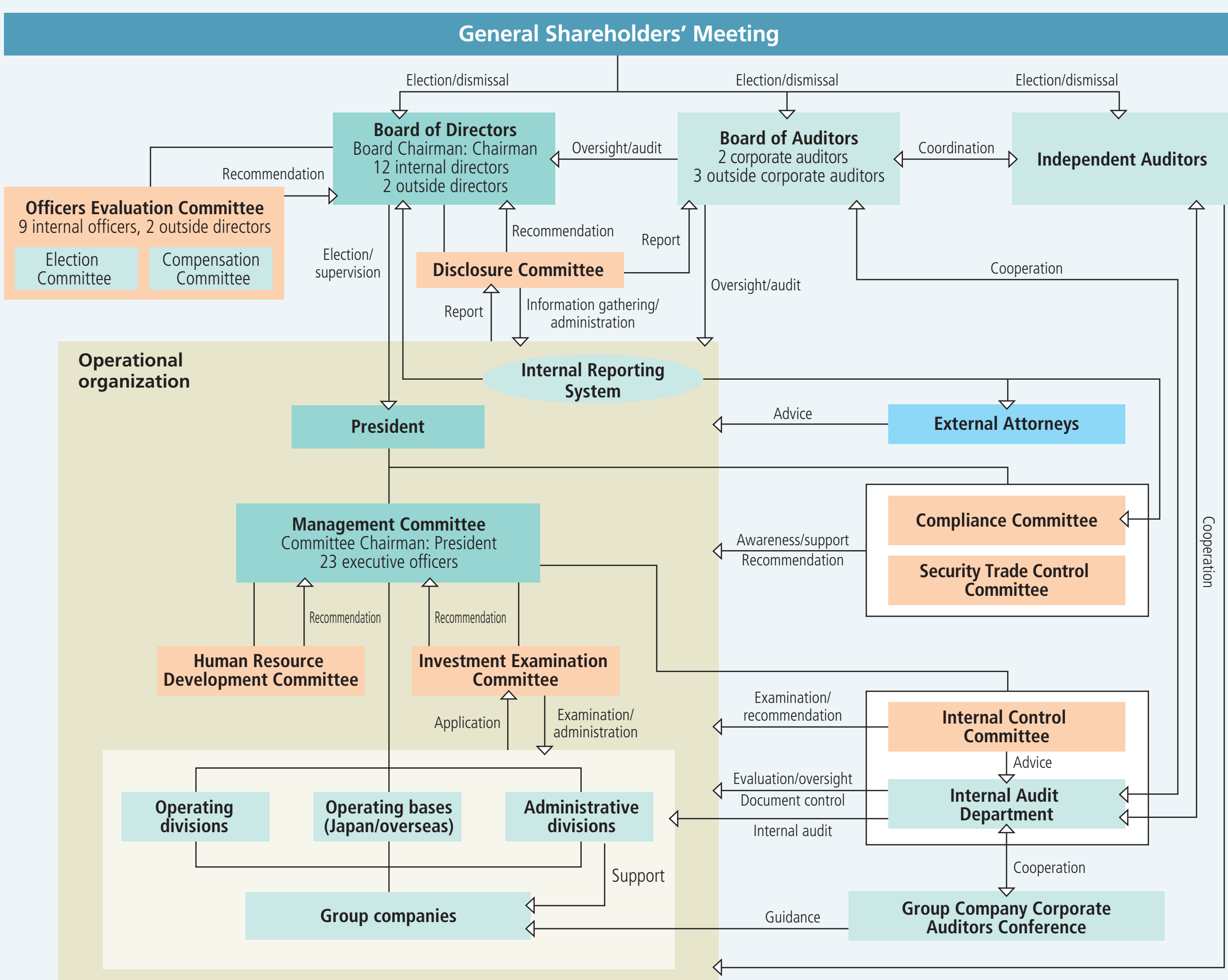
An internal audit is performed by the audit division in the Internal Audit Department and the Overseas Audit HKQC promotion division on the Company's domestic and overseas bases as well as other national group companies and overseas subsidiaries. The audit is centered mainly on monitoring their accounting, compliance, and internal control practices. The monthly internal audit report is then directly submitted to the president, while the Management Committee is also kept informed when appropriate. The Management Committee may also choose to report to the Board of Directors on issues that are deemed relevant and important. The audit division, which collaborates continually with the corporate auditors, may also act as support staff for the auditors and prepare reports as requested by the Board of Auditors. The director responsible reports quarterly on the overseas bases to the Board of Directors. Furthermore, the Office prepares reports when requested by the Board of Auditors.

The audit performed by corporate auditors focuses on proactive auditing to prevent incidents. The process is mainly based on conversations regarding compliance, internal systems, and risk management. Auditors also attend meetings of the Board of Directors, the Management Committee, and others to monitor and audit the execution of duties by the management. With the participation of the outside corporate auditors, who have ample knowledge and experience in corporate activities, the Board of Auditors maintains its independence from the top management to perform auditing duties appropriately. It also exchanges views and opinions with the president as well as managing officers and presents the findings provided by the corporate auditors to the Board of Directors.

Corporate auditors and the Audit Division file audit reports to independent auditors periodically while continually exchanging information to keep abreast of progress. Our goal is to improve the monitoring function by increasing the level of collaboration.

The Audit Division also collaborates with the Internal Control HKQC promotion division, which is tasked with organizing and evaluating our internal control systems to efficiently share information and optimize the execution of duties.

The Corporate Governance Structures and Internal Control Systems for the Hanwa Group



Overview of Potential Conflict of Interests Due to Personal/Financial Relationships or Business Dealings between Outside Directors/Corporate Auditors and the Company

The Company has two outside directors and three outside corporate auditors, none of whom at the time of the submission of this report has any vested interest in the Company. This, we believe, ensures that no conflict of interest arises with the general stockholders.

Outside directors and outside corporate auditors are expected to act as representatives for stakeholders, including stockholders. They are expected to evaluate and consider business decisions as well as the appropriateness of the execution of duties from an objective point of view. Therefore, only candidates with competence and experience suitable for this demanding position are selected. We also make use of articles in the Enforcement Rules for Securities Listing Regulations and the Guideline for the Listing Management, both established by the Tokyo Stock Exchange, as a reference for determining the level of independence necessary for outside executives.

Organization of Internal Control and the Risk Management System

At our Board of Directors' meeting on May 10, 2006, we resolved on basic policies regarding the development of internal control systems, to ensure that the execution of duties by the directors complies with laws and regulations and that the duties are performed properly by other employees. Note that the basic policies below are as of the date of submission of our financial report.

Systems to ensure that the performance of duties by the directors, executive officers and employees of the Company and its subsidiaries (henceforth referred to as "the Group") complies with laws and regulations

a) The standards for the Group's corporate ethics and ethical behavior are established in accordance with the creed.
b) The Compliance Committee is created, which distributes a compliance manual in principle to all executives and employees of the Group and verifies that compliance programs are being used effectively.
c) The Company establishes a consultation service (using the Compliance Committee, outside directors and external attorneys) where all executives and employees of the Group can obtain advice on compliance matters, providing a means of directly reporting compliance problems. The Company also stipulates that whistleblowers will not suffer from any disadvantageous treatment due to their submission of reports. In the event of occurrence of such a situation, the Company engages in prompt and accurate disclosure of the event to society with established accountability, and strives to thoroughly determine the causes and implement measures to prevent recurrence.
d) The Company collaborates with authorities such as the police to take determined action against anti-social influences and block all contact with such entities.

Systems to store and control information related to duties performed by the directors of the Company

a) Information related to the duties performed by the directors is stored properly in written documents or electronically (henceforth referred to as "documents"), and these records are stored and managed in accordance with laws, regulations and the Hanwa's regulations for document management.
b) Personnel responsible for managing documents act proactively against loss or damage to stored documents and have installed a locking mechanism (including restricted access by passwords and other codes) and manage the documents accordingly.

Regulations and systems related to management of the risk of loss in the Group

a) Directors, executive officers, senior general managers, and department managers of the Company and presidents of the Group work with the Legal & Credit Department to educate employees thoroughly on regulations regarding credit management and business activities, so as to manage and reduce risks. The Company has also established the Investment Examination Committee, which manages investment risks by studying proposals for new business ventures and new investments. The committee reviews the investment risk for the Group and reports the results to those responsible for settling the matters.
b) Each business department of the Company cooperates with the General Affairs Department, the Information Systems Department, the Legal & Credit Department and the General Affaires Department on compliance, environmental management, emergency responses, information security, trade management, and other matters in accordance with internal rules, manuals, and other guidelines. The Compliance Committee, the Security Trade Control 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.
c) The Human Resources Department and Corporate Planning Office of the Company work in collaboration with other relevant departments to implement educational and informative programs to grasp thoroughly and accurately how to manage risks for the Group.
d) To verify the effectiveness of risk management for the Group, the Internal Audit Department monitors all the Company's domestic and overseas bases, domestic group companies and overseas subsidiaries based on a predetermined auditing plan. Their reports are then submitted to the Management Committee as well as the president when appropriate. The director responsible also submits a report quarterly to the Board of Directors to keep others informed of the status of the Group's companies.
e) With the respect to the disclosure of corporate information, the Company establishes the disclosure regulations, and the Disclosure Committee reaches decisions on 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.
f) In accordance with regulations for the oversight of subsidiaries, the Company manages properly the risks related to its subsidiaries by establishing the appropriate authority management system and reporting system.

Systems to ensure efficient execution of directors' duties in the Group

a) As a rule, the directors of the Company meet once a month to reach decisions on group management matters of significance and to supervise the execution of business operations. As a rule, the Management Committee meets twice a month. Its members discuss matters of significance concerning management and reach decisions. They also submit issues to the Board of Directors that concern matters involving the Group's management based on the Board's regulations and agenda standards.
b) The Company has its subsidiaries submit reports monthly on the status of business operations, and holds a monthly business

briefing at the Tokyo head office, Osaka head office and Nagoya branch office to receive reports from each sales department including some domestic subsidiaries, and verifies the business direction, operating efficiency and whether or not there is a risk for the Group.

c) The Company has established a medium-term business plan as well as a business plan for the fiscal year, to realize its medium- to long-term business strategies. Principally through the periodical meetings to achieve targets with its departments and subsidiaries, the Company inquires about assessment of duties performed and checks the progress of work (including a review of the plan and modification of methods to achieve the plan target), which improves the efficiency of operation.

d) The Officers Evaluation Committee, chaired by the president and comprised of members including the outside directors to provide advice, meets at least once a year to set forth issues of significance concerning the execution of duties of each director as well as to conduct a comprehensive evaluation for each director after following peer evaluation between directors. The results are used to determine each officer's compensation in the Compensation Committee and also in the selection of officers in the Election Committee; both operate under the Evaluation Committee.

Systems to ensure proper operations in the Group

a) Regulations for the oversight of subsidiaries are established. Through collaboration with these companies, the Company ensures efficient management of operations and plan for comprehensive business development.

b) The department or officers responsible of the Company must understand thoroughly the status of its domestic and overseas subsidiaries in order to manage duties in a comprehensive manner. Other relevant departments may provide support to ensure that duties are performed properly.

c) The Group Company Corporate Auditors Conference, comprised of full-time corporate auditors and auditors of the Internal Audit Department and subsidiaries, holds meetings as needed. These meetings provide an opportunity to exchange information related to audits of the Company and its subsidiaries.

Systems related to employees assigned to assist the corporate auditors, and the independence of such employees from the directors and ensuring the effectiveness of instruction to such personnel

A certain number of employees are assigned to assist the corporate auditors. These employees receive requests from the corporate auditors to investigate, report, and maintain a collaborative relationship with 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 Group's directors, executive officers, employees and the subsidiaries' corporate auditors to report to the corporate auditors and systems otherwise pertaining to reporting to the corporate auditors

a) In addition to submitting reports on issues of significance concerning compliance, the Group's directors, executive officers, employees and the subsidiaries' corporate auditors submit reports to the corporate auditors on occurrence of risks and matters related to infractions of laws and regulations. The Compliance Committee Chairperson also submits reports to the corporate auditors on reports made to the compliance consultation service. In addition, the directors report to the corporate auditors regarding important decisions and the status of business operations at important meetings such as the Board of Directors' meeting and the Management Committee meeting.

b) The Group's directors, executive officers, employees and the subsidiaries' corporate auditors must respond quickly and accurately to requests for reports by the corporate auditors.

c) The Internal Audit Department submits reports based on the schedule predetermined by the Audit Plan to the corporate auditors concerning internal audits. They also conduct an additional investigation and report on issues as requested by the corporate auditors.

d) The Company explicitly prohibits disadvantageous treatment of the Group's directors, executive officers, employees and the subsidiaries' corporate auditors who have reported to the corporate auditors and responded to the matter under the provisions listed in the preceding three items.

Systems to ensure effective auditing by the corporate auditors of the Company

a) The corporate auditors exchange opinions with the directors, executive officers as well as employees and announce their findings and views at meetings of the Board of Directors as needed. In addition, the corporate auditors collaborate and exchange their views with the independent auditors on the financial audit.

b) A system is established that allows the corporate auditors to attend meetings of the Board of Directors and other important meetings, inspect important documents, and investigate major departments and subsidiaries.

c) When a corporate auditor claims advance payments or the reimbursement of expenses incurred in relation to the performance of duties, the Company processes the relevant expense promptly unless cases where the expenses pertaining to such billing are deemed to be unnecessary for the performance of duties of the corporate auditor.

Systems to ensure the reliability of financial reports

a) In accordance with the Fundamental Policy concerning Internal Controls for Financial Reports, the Group operates the internal controls reporting system in an efficient and effective manner.

b) The Management Committee oversees the establishment and operation of the internal systems of the Group. The Internal Audit Department is supervised directly by the Management Committee. They check and evaluate the establishment and operation of internal controls and submit reports to the Management Committee. The Management Committee makes appropriate corrections and modifications as needed based on these reports.

c) The Internal Control Committee studies the Group's 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 examinations on the effectiveness of the internal control systems for the Group performed by the Internal Audit Department, and offers its views in an Internal Control Report.

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

Hanwa's corporate social responsibility (CSR) consists of six basic policies that Hanwa considers an integral part of management: (1) thorough legal compliance; (2) environmental considerations; (3) good corporate citizenship; (4) transparent management and proactive disclosure; (5) maintaining of financial soundness; and (6) workplaces geared to employee self-realization.

To promote CSR management, the CSR Committee, chaired by managing exsective officer of Management Division, incorporates organizations including the Compliance Committee, Environmental Committee, and the Hanwa Scholarship Foundation and engages in organized operation.

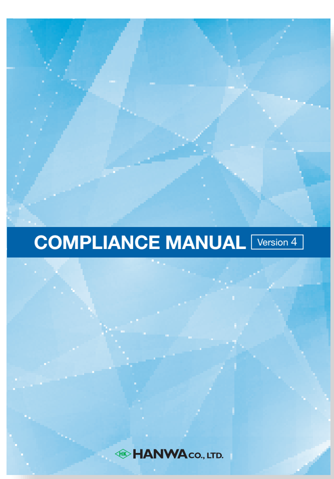
Companies both within Japan and overseas are internationally finding it more necessary to become globalized in terms of economic activity and to create sustainable developments. Hanwa is going to continue making efforts toward development as a single corporation existing within the world society with a focus on the ISO26000 international standard.

Positioning of the CSR Committee

Compliance

Hanwa has in place a Compliance Committee that promotes compliance with the Company's ethical principles and corporate ethical standards. The committee has drawn up a compliance manual for employee behavior, and has distributed the booklet to all officers and employees as part of its CSR efforts. Fully understanding the significance of compliance, Hanwa strives to practice CSR as a corporation by being both socially responsible and complying fully with all legal requirements.

The Company promotes openness and visibility to prevent any occurrence of misconduct.



Compliance manual distributed to all officers and employees

Corporate Ethical Standards

1. Compliance with laws and social norms
2. Fair business activities
3. Contribution to industrial society
4. Deligent information disclosure
5. Concern for the environment
6. Global harmony
7. Ensuring a free and generous workplace environment
8. Promoting good corporate citizenship through active social contribution activities
9. Making people familiar with ethical standards and developing the in-house compliance program
10. Preventing the recurrence of misconduct and providing appropriate information disclosure

Corporate Risk Management

The Company has simulated major potential risks that might threaten the safety of our employees and their families, as well as the Company's assets or the ability to continue business operations. We have established the necessary measures to minimize the damage in case such risks arise, including means to continue and restart the core business while ensuring the safety of employees and their families as a priority.

When the Great East Japan Earthquake took place in March 2011, Hanwa established an emergency response headquarters immediately and began checking on the safety of employees using the Mobile i-Call service, sending emergency supplies to stricken areas, and conducting other activities to assist with relief efforts in accordance with the Hanwa Disaster Prevention Manual in use at the time. In May 2011, we issued the Crisis Management Manual applicable for Hanwa Co., Ltd. and its affiliates. As for overseas efforts, when flooding occurred in Thailand in 2011, Hanwa remained in close contact with employees in the affected area to swiftly ensure their continued safety and provide assistance as necessary.

Using the information gained from these experiences, Hanwa will continue to conduct complete reviews of its disaster prevention practices and maintain management of emergency equipment, implementation of a satellite phone service, distribution of high-capacity storage batteries, use of measures designed to prevent office equipment from tipping over, and management of stockpiled disaster relief supplies. In addition, the Tokyo Head Office is working to increase its stockpile of disaster relief supplies in accordance with the disaster prevention policy released by the Tokyo metropolitan government.

Promoting Diversity by Realizing Various Working Styles

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.

Support Child Rearing and Nursing Working

Hanwa makes an effort to make it easier for employees who encounter important events in life, such as raising children or providing nursing care. We have placed employees who are currently working part-time on a child-care track in the Personnel department to form a business support team whose members work to support other departments by fulfilling requests for assistance with work duties. There are several employees from the entire Company in this team making effective use of the short time they are at work assisting others until they are ready and able to return to their regular duties full time.

Hiring Disable Persons

Hanwa makes an effort to provide a workplace where disable persons can fully utilize their talents and is involved in employment activities in order to observe the employment rate for persons with disabilities.

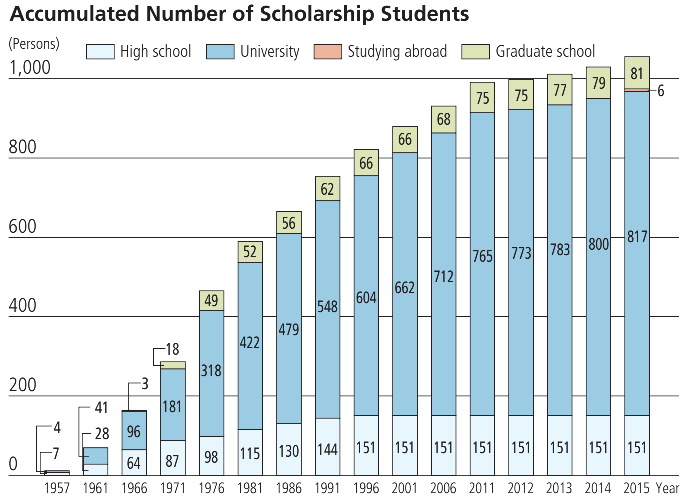
Social Contribution

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 59th 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 March 31, 2016, the program had distributed a total of ¥587 million in scholarships, and the accumulated number of scholarship students had grown to 1,055.

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 (Note 1)
	2016	2015	2014	2013	2012	**2016**
For the year:						
Net sales	**¥ 1,511,800**	¥ 1,737,398	¥ 1,682,504	¥ 1,511,325	¥ 1,564,251	**$13,416,755**
Operating income	**18,178**	19,107	16,253	12,491	14,977	**161,324**
Net income attributable to owners of the parent	**25,470**	9,086	7,897	4,721	4,633	**226,038**
Comprehensive income	**16,779**	19,450	14,648	6,600	6,214	**148,908**
Net cash provided by (used in) operating activities	**53,099**	1,791	343	19,381	11,970	**471,237**
Net cash provided by (used in) investing activities	**(10,447)**	(13,693)	(5,244)	(5,107)	(12,009)	**(92,714)**
Net cash provided by (used in) financing activities	**(41,752)**	19,339	(4,928)	(16,364)	1,596	**(370,536)**
At year-end:						
Cash and cash equivalents	**¥ 25,805**	¥ 24,515	¥ 15,920	¥ 23,198	¥ 23,411	**$ 229,011**
Total assets	**599,694**	651,457	593,352	552,908	582,405	**5,322,098**
Total net assets	**156,139**	142,750	125,362	120,674	115,957	**1,385,685**
Number of employees	**2,977**	2,772	2,610	2,208	2,201	

	Yen					U.S. dollars (Note 1)
	2016	2015	2014	2013	2012	**2016**
Per share data:						
Net income attributable to owners of the parent	**¥ 122.92**	¥ 43.85	¥ 38.11	¥ 22.78	¥ 22.35	**$ 1.091**
Cash dividends	**18.00**	15.00	12.00	12.00	12.00	**0.160**
Net assets attributable to owners of the parent	**747.40**	682.46	591.68	570.50	548.22	**6.633**

	%				
	2016	2015	2014	2013	2012
Key financial ratios:					
Return on assets (ROA)	**4.1**	1.5	1.4	0.8	0.8
Return on equity (ROE)	**17.2**	6.9	6.6	4.1	4.1
Net debt/equity ratio (Note 2)	**140**	180	190	180	190

Notes: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥112.68=$1.00.
2. Net debt/equity ratio = Net interest-bearing debt/equity.
Net interest-bearing debt = Interest-bearing debt – cash.

Management's Discussion and Analysis

Operating Results

Operating Results for the Fiscal Year Ended March 31, 2016

With regard to the world economy in the fiscal year under review, the U.S. economy maintained a gradual recovery centered on personal consumption and housing investment but showed signs of stagnation after the U.S. federal funds rate hike in December 2015. The European economy remained uncertain due to political instability provoked by such factors as financial problems, refugee issues and geopolitical risk, despite a continuous economic recovery on the whole. With China in a transition phase to stable growth under its new economic policy, the pace of economic growth slowed reflecting mainly a backlash against financial and real estate bubbles, and excess capacity. Other emerging countries also experienced a continuous economic downturn on the whole due to changes in their financial environments and a drop in resource prices, together with a number of political and geopolitical issues.

The Japanese economy remained weak despite signs of modest improvement in personal consumption and housing investment, and saw a stagnation in production activities in the manufacturing industry. Consequently, reflecting sluggish capital expenditures and a continuing decline in public investment, the economic ripple effects of government measures taken in line with "Abenomics" and monetary easing by the Bank of Japan began to fade.

In these circumstances, the Group posted consolidated net sales of ¥1,511,800 million for the consolidated fiscal year ended March 31, 2016, representing a year-on-year decrease of 13.0%, due mainly to a price decline in petroleum and steel products accompanying weak demand and excess supply. Operating income fell 4.9%, to ¥18,178 million, mainly reflecting lower profit in the metals and alloys business and the non-ferrous metals business, which were affected by market downturns. Net income attributable to owners of the parent jumped 180.3% to ¥25,470 million, due to such factors as a decrease in the foreign exchange loss, a gain on sales of property and equipment, and a drop in income taxes paid reflecting a tax deduction for the impairment loss of the relevant assets recorded in previous fiscal years, despite a share of loss of entities accounted for using equity method.

Net Sales

Net sales decreased 13.0% year on year to ¥1,511,800 million, due mainly to lower net sales in the petroleum and chemicals business and the steel business. Domestic sales were down 12.0% to ¥1,130,114 million, while overseas sales fell 15.8%, to ¥381,686 million. For a discussion of sales by segment, see "Review of Operations" and "Segment Information."

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

Cost of sales declined 13.5% to ¥1,455,240 million. This was due mainly to a drop in purchase prices and a decrease in purchase volume accompanying inventory reduction.

SG&A expenses rose 4.8% to ¥38,382 million, primarily reflecting a rise in salaries and bonuses, and an increase in expenses due to the inclusion of newly consolidated subsidiaries.

Operating Income

Operating income for the consolidated fiscal year under review fell 4.9% to ¥18,178 million, from ¥19,107 million a year earlier, due mainly to a lower profit margin on ingots and scraps in the metals and alloys business and the non-ferrous metals business, despite an increase in earnings related to contracted works in the steel business. The result raised the ratio of operating income to net sales by 0.1 percentage point from the previous consolidated fiscal year, to 1.2%.

Other Income (Expenses)

Net other income amounted to ¥8,566 million, up ¥14,655 million from the previous consolidated fiscal year. This reflected primarily a gain on sales of property and equipment of ¥13,075 million due to a sale of real estate in the distribution center located in Chiba Prefecture, a gain on bargain purchase of ¥1,101 million, and a decrease in the foreign exchange loss. These factors were partly offset by a share of loss of entities accounted for using equity method of ¥1,304 million due to the one-time amortization of goodwill accompanying the decline in stock prices of an equity-method affiliate, COSMOSTEEL HOLDINGS LIMITED, and a loss of ¥3,273 million, which consisted of a loss on valuation of investment securities and a loss on valuation of investment in capital.

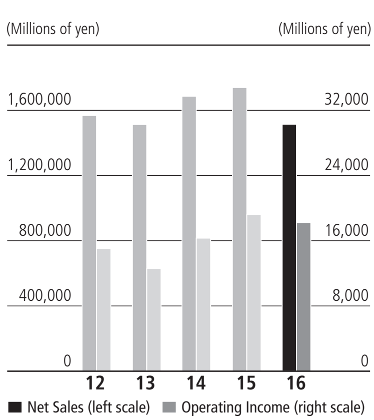
Income Taxes

Income taxes decreased 67.4% from the previous consolidated fiscal year to ¥1,264 million, reflecting a drop in taxable income due mainly to the tax deduction for impairment loss of sold real estate that was recognized in previous years.

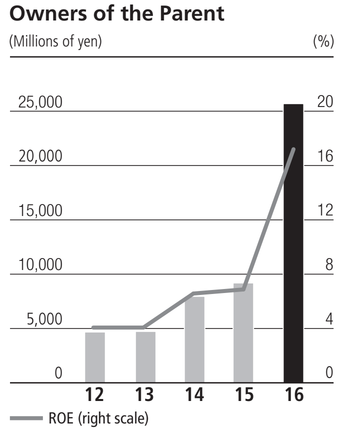
Net Income Attributable to Owners of the Parent

Net income advanced 178.7% to ¥25,480 million. Net income attributable to owners of the parent within net income jumped 180.3% to ¥25,470 million. Accordingly, net income per share rose to ¥122.92, from ¥43.85 in the prior year.

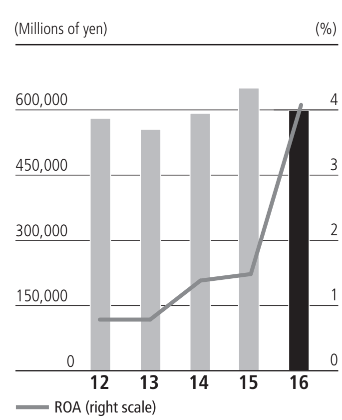
Net Sales and Operating Income



Net Income Attributable to Owners of the Parent



Total Assets and ROA



Sources of Capital and Cash Liquidity

Financial Condition

Total assets decreased 7.9% to ¥599,694 million from the previous consolidated fiscal year, reflecting lower inventories and trade receivables resulting from lower sales.

Liabilities declined 12.8% to ¥443,555 million as a result of decreases in trade notes and accounts payable and commercial paper, and interest-bearing debt fell 12.8% to ¥237,553 million. The net debt/equity ratio (net interest-bearing debt as a percentage of equity) stood at 140% as of March 31, 2016.

Net assets grew 9.4% to ¥156,139 million. The expansion was attributable mainly to the accumulation of retained earnings from net income attributable to owners of the parent, despite a decrease in the valuation difference on available-for-sale securities, net of taxes. Accordingly, the equity ratio at March 31, 2016 rose to 25.8% from 21.7% a year ago.

Cash Flows

Net cash provided by operating activities totaled ¥53,099 million, up ¥51,308 million from the previous consolidated fiscal year. This was due primarily to improvement in working capital turnover, which mainly reflected decreases in trade notes and accounts receivable and inventories accompanying lower sales affected by the price decline in petroleum products.

Net cash used in investing activities amounted to ¥10,447 million, down ¥3,246 million from the previous consolidated fiscal year. Although cash was used for the purchase of investment securities, which resulted mostly from corporate acquisitions and investments to form alliances, and the recording of loans to an investee, these were partly offset by cash inflows from a sale of real estate in the distribution center.

Net cash used in financing activities amounted to ¥41,752 million, versus net cash provided of ¥19,339 million in the previous consolidated fiscal year. This resulted primarily from decreases in commercial paper and short-term loans payable due to lower working capital requirements compared to the previous consolidated fiscal year.

Financial Policy

The Group depends primarily on bank borrowings to meet its working capital requirements and to fund its investing and financing activities. As part of its efforts to diversify funding sources to ensure stable liquidity and agility in liquidity management, however, 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 through 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, 2016 stood at ¥56,412 million, mostly denominated in yen. The Group's outstanding long-term loan was ¥139,743 million, including the current portion of long-term loan of ¥10,322 million.

The Group issues bonds primarily to fund working capital. As of March 31, 2016, bonds outstanding consisted of straight bonds amounting to ¥40,137 million. To increase its flexibility to issue 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, 2016, the unused aggregate principal amount of the shelf registration for straight bonds for subscription in Japan amounted to ¥40,000 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.

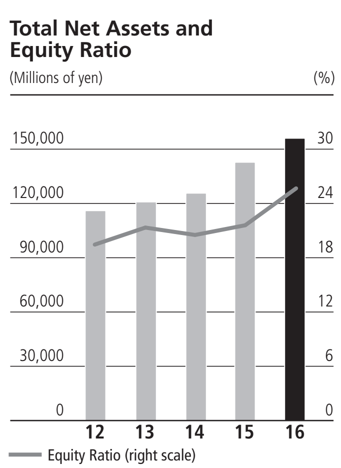
Business and Other Risks

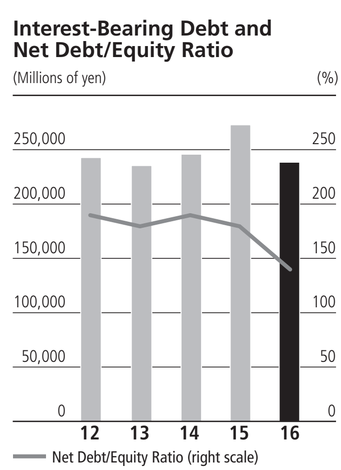
Changes in the Macroeconomic Environment

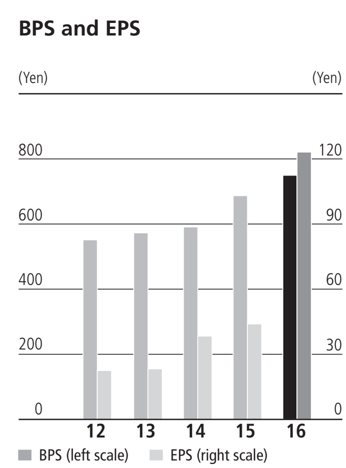
Hanwa Group's worldwide operating revenue is subject to macroeconomic conditions of the countries and regions where it sells its products. An economic slowdown in any of the primary markets, including Japan, North America, Europe and Asia (especially East Asia with China being the key market) with an 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.

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 at home and abroad 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 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, such 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 activities, 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 an 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 long-term 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, 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.

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As at March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2016**	2015	**2016**
Current assets:			
Cash and cash equivalents (Note 3)	**¥ 25,805**	¥ 24,515	**$ 229,011**
Receivables:			
Trade notes and accounts (Note 3):			
Unconsolidated subsidiaries and affiliates	**8,733**	15,114	**77,503**
Other	**267,560**	306,528	**2,374,512**
Loans:			
Unconsolidated subsidiaries and affiliates	**2,409**	2,225	**21,379**
Other	**196**	99	**1,739**
Allowance for doubtful receivables	**(287)**	(915)	**(2,547)**
Securities (Notes 3 and 4)	**—**	2,610	**—**
Inventories (Note 6)	**106,051**	133,056	**941,170**
Deferred tax assets—current (Note 10)	**2,085**	1,116	**18,504**
Other current assets (Note 7)	**38,702**	26,030	**343,468**
Total current assets	**451,254**	510,378	**4,004,739**
Investments and noncurrent receivables:			
Investment securities (Notes 3, 4 and 7)	**45,062**	43,782	**399,911**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 3)	**13,609**	14,512	**120,776**
Loans receivable (Note 3)	**12,384**	3,003	**109,904**
Other investments and noncurrent receivables	**14,107**	15,993	**125,195**
Allowance for doubtful receivables	**(485)**	(295)	**(4,304)**
Total investments and noncurrent receivables	**84,677**	76,995	**751,482**
Property and equipment (Note 7)**:**			
Land (Note 12)	**30,145**	31,676	**267,528**
Buildings and structures	**38,829**	34,587	**344,595**
Machinery, equipment and vehicles	**18,038**	15,894	**160,082**
Other	**10,517**	10,426	**93,335**
Accumulated depreciation	**(35,966)**	(31,636)	**(319,187)**
Total property and equipment	**61,563**	60,947	**546,353**
Other assets:			
Deferred tax assets—noncurrent (Note 10)	**244**	107	**2,165**
Net defined benefit asset	**—**	1,011	**—**
Intangibles and other assets	**1,956**	2,019	**17,359**
Total other assets	**2,200**	3,137	**19,524**
Total	**¥ 599,694**	¥ 651,457	**$ 5,322,098**

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen 2016	2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Short-term loans payable (Notes 3, 7 and 8)	**¥ 56,412**	¥ 70,211	**$ 500,639**
Commercial paper (Notes 3 and 8)	**—**	27,000	**—**
Long-term debt due within one year (Notes 3, 7 and 8)	**20,361**	21,944	**180,698**
Trade notes and accounts payable (Note 3):			
Unconsolidated subsidiaries and affiliates	**686**	3,816	**6,088**
Other	**149,172**	176,339	**1,323,855**
Advances received	**31,055**	22,620	**275,603**
Accrued bonuses to employees	**2,193**	2,051	**19,462**
Provision for loss on business of subsidiaries and associates	**512**	—	**4,544**
Income taxes payable	**327**	1,232	**2,902**
Other current liabilities	**8,688**	16,984	**77,104**
Total current liabilities	**269,406**	342,197	**2,390,895**
Noncurrent liabilities:			
Long-term debt due after one year (Notes 3, 7 and 8)	**159,518**	152,353	**1,415,673**
Net defined benefit liabilities (Note 9)	**4,076**	412	**36,173**
Deferred tax liabilities—noncurrent (Note 10)	**4,994**	8,140	**44,320**
Other noncurrent liabilities	**5,561**	5,605	**49,352**
Total noncurrent liabilities	**174,149**	166,510	**1,545,518**
Contingent liabilities (Note 14)			
Net assets (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized: 570,000,000 shares			
Issued: 211,663,200 shares	**45,651**	45,651	**405,138**
Capital surplus	**5**	5	**44**
Retained earnings	**104,601**	82,111	**928,301**
Treasury stock, at cost: 4,455,897 shares in 2016 and 4,449,160 shares in 2015	**(1,450)**	(1,446)	**(12,868)**
Total shareholders' equity	**148,807**	126,321	**1,320,615**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes	**8,026**	11,623	**71,229**
Deferred gains or losses on hedges, net of taxes	**(377)**	1,526	**(3,346)**
Land revaluation difference, net of taxes	**2,966**	3,250	**26,322**
Foreign currency translation adjustments	**1,843**	2,356	**16,356**
Remeasurements of defined benefit plans (Note 9)	**(6,398)**	(3,660)	**(56,780)**
Total accumulated other comprehensive income	**6,060**	15,095	**53,781**
Non-controlling interests	**1,272**	1,334	**11,289**
Total net assets	**156,139**	142,750	**1,385,685**
Total	**¥ 599,694**	¥ 651,457	**$ 5,322,098**

Consolidated Statements of Income and Comprehensive Income

For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net sales	**¥ 1,511,800**	¥ 1,737,398	**$ 13,416,755**
Cost of sales	**1,455,240**	1,681,668	**12,914,803**
Gross profit	**56,560**	55,730	**501,952**
Selling, general and administrative expenses	**38,382**	36,623	**340,628**
Operating income	**18,178**	19,107	**161,324**
Other income (expenses):			
Interest and dividend income	**2,080**	1,396	**18,459**
Interest expense	**(2,684)**	(2,868)	**(23,820)**
Foreign exchange loss	**(1,039)**	(2,882)	**(9,221)**
Share of profit (loss) of entities accounted for using equity method	**(1,304)**	207	**(11,573)**
Gain on sales of property and equipment (Note 15)	**13,075**	128	**116,037**
Gain on bargain purchase	**1,101**	—	**9,771**
Gain on sales of investment securities	**742**	—	**6,585**
Loss on sales of property and equipment (Note 16)	**(261)**	—	**(2,316)**
Loss on disposal of property and equipment	**—**	(213)	**—**
Loss on valuation of investment securities	**(2,385)**	(477)	**(21,166)**
Loss on valuation of investments in capital	**(888)**	(227)	**(7,881)**
Loss on business of subsidiaries and associates	**—**	(456)	**—**
Loss on revision of retirement benefit plan	**(64)**	—	**(568)**
Other, net	**193**	(697)	**1,714**
Income before income taxes	**26,744**	13,018	**237,345**
Income taxes (Note 10)**:**			
Current	**1,120**	3,809	**9,940**
Deferred	**144**	67	**1,278**
	1,264	3,876	**11,218**
Net income	**¥ 25,480**	¥ 9,142	**$ 226,127**
Net income attributable to:			
Owners of the parent	**¥ 25,470**	¥ 9,086	**$ 226,038**
Non-controlling interests	**10**	56	**89**
Other comprehensive income (Note 17)**:**			
Valuation difference on available-for-sale securities, net of taxes	**(3,597)**	4,137	**(31,922)**
Deferred gains or losses on hedges, net of taxes	**(1,903)**	1,887	**(16,889)**
Land revaluation difference, net of taxes	**102**	184	**905**
Foreign currency translation adjustment	**(675)**	2,175	**(5,990)**
Remeasurements of defined benefit plans, net of taxes	**(2,738)**	1,925	**(24,299)**
Share of other comprehensive income of entities accounted for using equity method	**110**	—	**976**
Total other comprehensive income	**(8,701)**	10,308	**(77,219)**
Comprehensive income	**¥ 16,779**	¥ 19,450	**$ 148,908**
Comprehensive income attributable to:			
Owners of the parent	**¥ 16,822**	¥ 19,271	**$ 149,290**
Non-controlling interests	**(43)**	179	**(382)**

	Yen		U.S. dollars (Note 1)
	2016	2015	**2016**
Net income per share	**¥ 122.92**	¥ 43.85	**$ 1.091**
Cash dividends per share	**18.00**	15.00	**0.160**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2015

	Thousands	Millions of yen										
	Number of shares of commom stock	Commom stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 2014	211,663	¥ 45,651	¥ 5	¥ 76,520	¥ (1,442)	¥ 7,485	¥ (361)	¥ 32	¥ 304	¥ (5,585)	¥ 2,753	¥ 125,362
Cumulative effects of changes in accounting policies	—	—	—	1,924	—	—	—	—	—	—	—	1,924
Balance at April 1, 2014 after accounting policies changed	211,663	45,651	5	78,444	(1,442)	7,485	(361)	32	304	(5,585)	2,753	127,286
Cash dividends paid	—	—	—	(2,797)	—	—	—	—	—	—	—	(2,797)
Change of scope of consolidation	—	—	—	412	—	—	—	—	—	—	—	412
Change of scope of equity method	—	—	—	—	—	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	(3,034)	—	—	—	—	—	—	—	(3,034)
Net income attributable to owners of the parent	—	—	—	9,086	—	—	—	—	—	—	—	9,086
Purchases of treasury stock	—	—	—	—	(4)	—	—	—	—	—	—	(4)
Other changes	—	—	—	—	—	4,138	1,887	3,218	2,052	1,925	(1,419)	11,801
Balance at March 31, 2015	211,663	45,651	5	82,111	(1,446)	11,623	1,526	3,250	2,356	(3,660)	1,334	142,750
Balance at April 1, 2015	**211,663**	**45,651**	**5**	**82,111**	**(1,446)**	**11,623**	**1,526**	**3,250**	**2,356**	**(3,660)**	**1,334**	**142,750**
Cash dividends paid	**—**	**—**	**—**	**(3,212)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,212)**
Change of scope of consolidation	**—**	**—**	**—**	**278**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**278**
Change of scope of equity method	**—**	**—**	**—**	**(433)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(433)**
Reversal of revaluation reserve for land	**—**	**—**	**—**	**387**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**387**
Net income attributable to owners of the parent	**—**	**—**	**—**	**25,470**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**25,470**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(4)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4)**
Other changes	**—**	**—**	**—**	**—**	**—**	**(3,597)**	**(1,903)**	**(284)**	**(513)**	**(2,738)**	**(62)**	**(9,097)**
Balance at March 31, 2016	**211,663**	**¥ 45,651**	**¥ 5**	**¥104,601**	**¥ (1,450)**	**¥ 8,026**	**¥ (377)**	**¥ 2,966**	**¥ 1,843**	**¥ (6,398)**	**¥ 1,272**	**¥ 156,139**

	Thousands	Thousands of U.S. dollars (Note 1)										
	Number of shares of commom stock	Commom stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 2015	**211,663**	**$405,138**	**$ 44**	**$728,710**	**$(12,833)**	**$103,151**	**$ 13,543**	**$28,842**	**$20,909**	**$(32,481)**	**$11,839**	**$1,266,862**
Cash dividends paid	**—**	**—**	**—**	**(28,506)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(28,506)**
Change of scope of consolidation	**—**	**—**	**—**	**2,467**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,467**
Change of scope of equity method	**—**	**—**	**—**	**(3,843)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(3,843)**
Reversal of revaluation reserve for land	**—**	**—**	**—**	**3,435**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,435**
Net income attributable to owners of the parent	**—**	**—**	**—**	**226,038**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**226,038**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(35)**	**—**	**—**	**—**	**—**	**—**	**—**	**(35)**
Other changes	**—**	**—**	**—**	**—**	**—**	**(31,922)**	**(16,889)**	**(2,520)**	**(4,553)**	**(24,299)**	**(550)**	**(80,733)**
Balance at March 31, 2016	**211,663**	**$405,138**	**$ 44**	**$928,301**	**$(12,868)**	**$ 71,229**	**$ (3,346)**	**$26,322**	**$16,356**	**$(56,780)**	**$11,289**	**$1,385,685**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Cash flows from operating activities:			
Income before income taxes	**¥ 26,744**	¥ 13,018	**$ 237,345**
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation	**4,344**	3,891	**38,552**
Amortization of goodwill	**232**	187	**2,059**
Increase (decrease) in allowance for doubtful receivables	**(633)**	(1,050)	**(5,618)**
Interest and dividend income	**(2,080)**	(1,396)	**(18,459)**
Interest expense	**2,684**	2,868	**23,820**
Share of (profit) loss of entities accounted for using equity method	**1,304**	(207)	**11,573**
Gain on sales of property and equipment	**(13,075)**	(128)	**(116,037)**
Gain on bargain purchase	**(1,101)**	—	**(9,771)**
Gain on sales of investment securities	**(742)**	—	**(6,585)**
Loss on sales of property and equipment	**261**	—	**2,316**
Loss on disposal of property and equipment	**—**	213	**—**
Loss on valuation of investment securities	**2,385**	477	**21,166**
Loss on valuation of investments in capital	**888**	227	**7,881**
Loss on business of subsidiaries and associates	**—**	456	**—**
Loss on revision of retirement benefit plan	**64**	—	**568**
Decrease (increase) in trade receivables	**49,176**	1,824	**436,422**
Decrease (increase) in inventories	**31,641**	(11,490)	**280,804**
Increase (decrease) in trade notes and accounts payable	**(38,116)**	(5,589)	**(338,268)**
Increase (decrease) in deposits received	**(6,638)**	(65)	**(58,910)**
Increase (decrease) in advances received	**8,435**	13,261	**74,858**
Decrease (increase) in advance payments	**(8,407)**	(7,082)	**(74,610)**
Increase (decrease) in net defined benefit liabilities	**4,603**	(5,109)	**40,850**
Other, net	**(3,656)**	4,788	**(32,446)**
Subtotal	**58,313**	9,094	**517,510**
Cash flows during the year for:			
Interest and dividends received	**2,025**	1,416	**17,971**
Interest paid	**(2,703)**	(2,858)	**(23,988)**
Income taxes (paid) refund	**(4,536)**	(5,861)	**(40,256)**
Net cash provided by (used in) operating activities	**53,099**	1,791	**471,237**
Cash flows from investing activities:			
Payments into time deposits	**(1,547)**	(31)	**(13,729)**
Proceeds from withdrawal of time deposits	**701**	91	**6,221**
Proceeds from redemption of securities	**—**	2,000	**—**
Additions to property and equipment	**(6,360)**	(3,807)	**(56,443)**
Proceeds from sale of property and equipment	**20,682**	1,646	**183,546**
Additions to investment securities	**(13,392)**	(12,774)	**(118,850)**
Proceeds from sale and redemption of investment securities	**2,107**	3,069	**18,699**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(2,165)**	—	**(19,214)**
Net decrease (increase) in short-term loans receivable	**(430)**	(412)	**(3,816)**
Additions to long-term loans receivable	**(10,325)**	(2,897)	**(91,631)**
Proceeds from long-term loans receivable	**24**	25	**213**
Other, net	**258**	(603)	**2,290**
Net cash provided by (used in) investing activities	**(10,447)**	(13,693)	**(92,714)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**(14,065)**	(7,876)	**(124,823)**
Net increase (decrease) in commercial paper	**(27,000)**	22,000	**(239,617)**
Proceeds from long-term debt, issuance of bonds	**26,026**	45,015	**230,973**
Repayments of long-term debt, redemption of bonds	**(23,160)**	(36,649)	**(205,538)**
Payment of cash dividends	**(3,210)**	(2,797)	**(28,488)**
Dividends paid to non-controlling interests	**(35)**	(47)	**(311)**
Other, net	**(308)**	(307)	**(2,732)**
Net cash provided by (used in) financing activities	**(41,752)**	19,339	**(370,536)**
Effect of exchange rate changes on cash and cash equivalents	**(495)**	624	**(4,393)**
Net increase (decrease) in cash and cash equivalents	**405**	8,061	**3,594**
Cash and cash equivalents at beginning of year	**24,515**	15,920	**217,563**
Increase in cash and cash equivalents from newly consolidated subsidiaries	**885**	534	**7,854**
Cash and cash equivalents at end of year	**¥ 25,805**	¥ 24,515	**$ 229,011**

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, 2016, which was ¥112.68 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 28 (24 in 2015) 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.

Equity method

As of March 31, 2016, the Company had 41 unconsolidated subsidiaries and 16 affiliates. The equity method has been applied to the investments in 3 of the unconsolidated subsidiaries and 1 of the affiliates. Investments in the remaining unconsolidated subsidiaries and affiliates are not accounted for by the equity method, as the application of the equity method would not have a material effect on net income and retained earnings, or on the consolidated financial statement as the whole. Where the fiscal year-ends of the entities accounted for by the equity method are different from that of the Company, the Company mainly used their financial statements as of their fiscal year-ends and for the years then ended for applying the equity method.

Cash and cash equivalents

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

Allowance for doubtful 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. Valuation difference on available-for-sale securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income. Realized gains on the sales of such securities are computed using moving average cost. Other available-for-sale securities are stated at moving average cost.

Inventories

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

Property and equipment (except under lease)

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

Software costs

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

Bonuses

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

Provision for loss on business of subsidiaries and associates

Provision for loss on business of subsidiaries and associates is recorded to cover probable losses on business of subsidiaries and associates.

Income taxes

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

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

Retirement benefits

1. Attribution of estimated retirement benefits
   To calculate benefit liabilities, the estimated amount of retirement benefits is attributed to the consolidated fiscal year under review based on the benefit formula.
2. Treatment of unrecognized actuarial differences and past service costs
   Past service costs are posted in expenses based on the straight-line method for a fixed period of years within the average remaining service years of employees when costs accrue from their service.

   Actuarial differences are posted in expenses mainly after the consolidated fiscal year following their accrual based on the straight-line method for a fixed period of years within the average remaining service years of employees.

3. Adoption of simplified method by small companies
   In calculating net defined benefit liability and retirement benefit expenses, certain subsidiaries adopt a simplified method that regards the benefits payable assuming the voluntary retirement of all employees at the fiscal year-end as retirement benefit obligations.

Translation of foreign currencies

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

Balance sheets of 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.

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.

Goodwill

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

Reclassifications

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

Amounts per share

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

Changes in accounting policies

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" [ASBJ Statement No.21, September 13, 2013 (hereinafter, "Statement No.21")], "Revised Accounting Standard for Consolidated Financial Statements" [ASBJ Statement No.22, September 13, 2013 (hereinafter, "Statement No.22")] and "Revised Accounting Standard for Business Divestitures" [ASBJ Statement No.7, September 13, 2013 (hereinafter, "Statement No.7")] (together, the "Business Combination Accounting Standards"), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

The impact on the consolidated financial statements as a result of this change was minimal.

In the consolidated statements of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities."

The effects of this change on per share information are negligible.

Accounting Standards Not Yet Applied

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016)

1. Overview
   Following the framework in Auditing Committee Report No.66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:
   (1) Treatment for an entity that does not meet any of the criteria in types 1 to 5;
   (2) Criteria for types 2 and 3;
   (3) Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
   (4) Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
   (5) Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.
2. Effective date
   Effective from the beginning of the fiscal year ending March 31, 2017
3. Effects of application of the Guidance
   The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of this change on the consolidated financial statements.

3. Financial instruments

At March 31, 2016 and 2015, 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.

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 suppliers of the Company and are exposed to credit risk.

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

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

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

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

With respect to derivatives trading related to interest rates associated with loans, the Company receives approval from a 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.

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

Supplementary explanation for items concerning fair values of financial instruments

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

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

(B) Fair values of financial instruments

Book values and fair values of the financial instruments (excluding those whose fair values were hard to determine) on the consolidated balance sheets at March 31, 2016 and 2015 were as follows:

March 31, 2016

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and cash equivalents	**¥ 25,805**	**¥ 25,805**	**¥ —**	**$ 229,011**	**$ 229,011**	**$ —**
(2) Trade notes and accounts receivable	**276,293**			**2,452,014**		
Allowance for doubtful receivables	**(260)**			**(2,307)**		
Net	**276,033**	**276,033**	**—**	**2,449,707**	**2,449,707**	**—**
(3) Securities						
a) Equity securities issued by affiliated companies	**2,894**	**826**	**(2,068)**	**25,683**	**7,330**	**(18,353)**
b) Available-for-sale securities	**31,669**	**31,669**	**—**	**281,053**	**281,053**	**—**
(4) Long-term loans receivable	**12,384**			**109,904**		
Allowance for doubtful receivables	**(12)**			**(106)**		
Net	**12,372**	**12,372**	**—**	**109,798**	**109,798**	**—**
Total assets	**¥ 348,773**	**¥ 346,705**	**¥ (2,068)**	**$3,095,252**	**$3,076,899**	**$ (18,353)**
(1) Short-term loans payable	**¥ 56,412**	**¥ 56,412**	**¥ —**	**$ 500,639**	**$ 500,639**	**$ —**
(2) Long-term debt due within one year	**20,361**	**20,372**	**(11)**	**180,698**	**180,796**	**(98)**
(3) Trade notes and accounts payable	**149,858**	**149,858**	**—**	**1,329,942**	**1,329,942**	**—**
(4) Long-term debt due after one year	**159,518**	**159,983**	**(465)**	**1,415,673**	**1,419,800**	**(4,127)**
Total liabilities	**¥ 386,149**	**¥ 386,625**	**¥ (476)**	**$3,426,952**	**$3,431,177**	**$ (4,225)**
Derivatives:						
To which hedge accounting is not applied	**¥ 2,124**	**¥ 2,124**	**¥ —**	**$ 18,850**	**$ 18,850**	**$ —**
To which hedge accounting is applied	**(486)**	**(1,329)**	**(843)**	**(4,313)**	**(11,794)**	**(7,481)**
Total derivatives	**¥ 1,638**	**¥ 795**	**¥ (843)**	**$ 14,537**	**$ 7,056**	**$ (7,481)**

March 31, 2015

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 24,515	¥ 24,515	¥ —
(2) Trade notes and accounts receivable	321,642		
Allowance for doubtful receivables	(852)		
Net	320,790	320,790	—
(3) Securities			
a) Equity securities issued by affiliated companies	6,481	4,890	(1,591)
b) Available-for-sale securities	36,474	36,474	—
(4) Long-term loans receivable	3,003		
Allowance for doubtful receivables	(9)		
Net	2,994	2,994	—
Total assets	¥ 391,254	¥ 389,663	¥ (1,591)
(1) Short-term loans payable	¥ 70,211	¥ 70,211	¥ —
(2) Commercial paper	27,000	27,000	—
(3) Long-term debt due within one year	21,944	21,951	(7)
(4) Trade notes and accounts payable	180,155	180,155	—
(5) Long-term debt due after one year	152,353	152,540	(187)
Total liabilities	¥ 451,663	¥ 451,857	¥ (194)
Derivatives:			
To which hedge accounting is not applied	¥ (2,046)	¥ (2,046)	¥ —
To which hedge accounting is applied	2,424	1,958	(466)
Total derivatives	¥ 378	¥ (88)	¥ (466)

Allowance for doubtful receivables 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.

Securities

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

Long-term loans receivable

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

Short-term loans payable, Commercial paper, and Trade notes and accounts payable

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

Long-term debt

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

Derivatives

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

The following tables summarize book values of financial instruments whose fair values were hard to determine as of March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
	Book value	Book value	Book value
(1) Equity securities issued by unconsolidated subsidiaries and affiliated companies	**¥ 10,715**	¥ 8,031	**$ 95,092**
(2) Available-for-sale securities:			
Unlisted stocks	**¥ 2,808**	¥ 3,373	**$ 24,920**
Unlisted foreign stocks	**8,160**	3,935	**72,418**
Unlisted foreign convertible bonds	**2,417**	2,577	**21,450**
Investment in limited partnerships	**8**	33	**71**
Total	**¥ 13,393**	¥ 9,918	**$ 118,859**

The maturities of receivables and securities with maturities outstanding at March 31, 2016 were as follows:

Year ending March 31	Millions of yen			
	2017	From 2018 to 2021	From 2022 to 2026	Thereafter
Cash and cash equivalents	**¥ 25,805**	**¥ —**	**¥ —**	**¥ —**
Trade notes and accounts receivable	**276,293**	**—**	**—**	**—**
Held-to-maturity debt securities	**—**	**—**	**—**	**—**
Available-for-sale securities with maturity dates	**—**	**2,417**	**—**	**—**
Long-term loans receivable	**—**	**8,413**	**3,121**	**5**
Total	**¥ 302,098**	**¥ 10,830**	**¥ 3,121**	**¥ 5**

	Thousands of U.S. dollars			
	2017	From 2018 to 2021	From 2022 to 2026	Thereafter
Cash and cash equivalents	**$ 229,011**	**$ —**	**$ —**	**$ —**
Trade notes and accounts receivable	**2,452,015**	**—**	**—**	**—**
Held-to-maturity debt securities	**—**	**—**	**—**	**—**
Available-for-sale securities with maturity dates	**—**	**21,450**	**—**	**—**
Long-term loans receivable	**—**	**74,663**	**27,698**	**44**
Total	**$2,681,026**	**$ 96,113**	**$ 27,698**	**$ 44**

Long-term loans receivable of ¥845 million ($7,499 thousand) were excluded from the above table since due date for the redemption had not yet been determined.

4. Securities

(A) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available market values as of March 31, 2016 and 2015:

March 31, 2016

	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	**¥ 11,518**	**¥ 26,171**	**¥ 14,653**	**$ 102,219**	**$ 232,260**	**$ 130,041**
Securities with book values not exceeding acquisition costs:						
Equity securities	**¥ 8,532**	**¥ 5,498**	**¥ (3,034)**	**$ 75,719**	**$ 48,793**	**$ (26,926)**

March 31, 2015

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 11,494	¥ 29,447	¥ 17,953
Securities with book values not exceeding acquisition costs:			
Equity securities	¥ 8,508	¥ 7,027	¥ (1,481)

(B) The following tables summarize sales of available-for-sale securities in the years ended March 31, 2016 and 2015:

March 31, 2016

	Millions of yen			Thousands of U.S. dollars		
	Proceeds from sales	Gains on sales	Losses on sales	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	**¥ 706**	**¥ 499**	**¥ 5**	**$ 6,266**	**$ 4,428**	**$ 44**

March 31, 2015

	Millions of yen		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 32	¥ 16	¥ —

(C) The loss resulting from the valuation of the securities in the years ended March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Securities in subsidiaries and affiliates	**¥ 644**	¥ 267	**$ 5,715**
Other securities	**1,741**	210	**15,451**
Total	**¥ 2,385**	¥ 477	**$ 21,166**

5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2016 and 2015 for the derivatives to which hedge accounting has not been applied:

March 31, 2016
Currency related

	Millions of yen				Thousands of U.S. dollars			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Foreign exchange forward contracts:								
Selling:								
U.S. dollars	¥ 49,271	¥ —	¥ 1,678	¥ 1,678	$ 437,265	$ —	$ 14,891	$ 14,891
Other currencies	676	—	(9)	(9)	5,999	—	(80)	(80)
Buying:								
U.S. dollars	12,878	—	(453)	(453)	114,288	—	(4,020)	(4,020)
Other currencies	1,172	—	(5)	(5)	10,401	—	(44)	(44)
Currency swap agreements:								
Japanese yen received for U.S. dollars	13,217	—	799	799	117,297	—	7,091	7,091
Total				¥ 2,010				$ 17,838

Commodity related

	Millions of yen				Thousands of U.S. dollars			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:								
Petroleum:								
Selling	¥ 1,751	¥ —	¥ 43	¥ 43	$ 15,540	$ —	$ 382	$ 382
Buying	589	—	24	24	5,227	—	213	213
Non-ferrous metals:								
Selling	19,125	—	(139)	(139)	169,728	—	(1,234)	(1,234)
Buying	13,053	—	200	200	115,841	—	1,775	1,775
Commodity swap agreements:								
Petroleum:								
Selling	395	—	2	2	3,506	—	18	18
Buying	423	—	(17)	(17)	3,754	—	(151)	(151)
Total				¥ 113				$ 1,003

March 31, 2015
Currency related

	Millions of yen			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Foreign exchange forward contracts:				
Selling:				
U.S. dollars	¥ 57,967	¥ —	¥ (606)	¥ (606)
Other currencies	590	—	15	15
Buying:				
U.S. dollars	11,571	48	179	179
Other currencies	2,572	288	(14)	(14)
Currency swap agreements:				
Japanese yen received for U.S. dollars	11,118	—	(2,114)	(2,114)
Total				¥ (2,540)

Commodity related

	Millions of yen			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:				
Petroleum:				
Selling	¥ 1,850	¥ —	¥ 17	¥ 17
Buying	964	—	(9)	(9)
Non-ferrous metals:				
Selling	17,986	—	400	400
Buying	7,814	—	140	140
Commodity swap agreements:				
Petroleum:				
Selling	550	—	(5)	(5)
Buying	1,065	—	(49)	(49)
Total				¥ 494

(B) The following tables summarize fair value information as of March 31, 2016 and 2015 for the derivatives to which hedge accounting has been applied:

March 31, 2016
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	**¥ 39,947**	**¥ 39,947**	**¥ (842)**	**$ 354,517**	**$ 354,517**	**$ (7,472)**

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	**¥ 16,278**	**¥ —**	**¥ 279**	**$ 144,462**	**$ —**	**$ 2,476**
Buying	**13,465**	**511**	**(765)**	**119,498**	**4,535**	**(6,789)**

March 31, 2015
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	¥ 34,937	¥ 34,437	¥ (466)

Commodity related

	Millions of yen		
	Contract or notional amount	Due after one year	Fair value
Forwards for inventories and commitments:			
Non-ferrous metals			
Selling	¥ 34,008	¥ —	¥ 4,617
Buying	19,328	904	(2,193)

6. Inventories

Inventories at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Merchandise and finished products	**¥ 96,083**	¥ 120,516	**$ 852,707**
Work-in-process	**2,090**	2,234	**18,548**
Raw materials and supplies	**7,878**	10,306	**69,915**
Total	**¥ 106,051**	¥ 133,056	**$ 941,170**

The provisions made or reversed in the year were determined after considering the realizable value of the inventories due to the decline in profitability. Such provisions recognized in the profit and loss were a net gain of ¥439 million (gain of $3,896 thousand) and a net loss of ¥1,043 million for the years ended March 31, 2016 and 2015, respectively.

7. Pledged assets

At March 31, 2016 and 2015, assets pledged as collateral for loans payable in the amount of ¥2,579 million ($22,888 thousand) and ¥3,197 million, respectively, and for guaranty deposits were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
For loans payable:			
Other current assets	**¥ 50**	¥ —	**$ 444**
Buildings and structures, net of accumulated depreciation	**296**	213	**2,627**
Land	**1,113**	585	**9,877**
Investment securities	**—**	64	**—**
Total	**¥ 1,459**	¥ 862	**$ 12,948**
For guaranty deposits:			
Other current assets	**¥ 13**	¥ 13	**$ 115**
Investment securities	**2,489**	3,044	**22,089**
Total	**¥ 2,502**	¥ 3,057	**$ 22,204**

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, 2016 and 2015 was 1.3% and 1.0%, respectively, regardless of borrowing currencies though the range of the interest rates varies by borrowing currency. There was an outstanding balance of ¥56,412 million ($500,639 thousand) and ¥70,211 million at March 31, 2016 and 2015, respectively.

The Company has entered into a yen denominated domestic commercial paper program. There was an outstanding balance of zero and ¥27,000 million at March 31, 2016 and 2015, respectively.

Bonds at March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Issued in 2012, 0.54% unsecured straight bonds, due 2015	**¥ —**	¥ 10,000	**$ —**
Issued in 2013, 0.74% unsecured straight bonds, due 2018	**10,000**	10,000	**88,747**
Issued in 2013, 0.36% unsecured straight bonds, due 2016	**10,000**	10,000	**88,747**
Issued in 2014, 0.44% unsecured straight bonds, due 2019	**10,000**	10,000	**88,747**
Issued in 2015, 0.43% unsecured straight bonds, due 2020	**10,000**	—	**88,747**
Issued in 2011, 1.01% unsecured straight bonds, due 2016	**8**	24	**71**
Issued in 2011, unsecured floating rate bonds, due 2016	**10**	30	**89**
Issued in 2014, unsecured floating rate bonds, due 2021	**119**	139	**1,055**
Total	**¥ 40,137**	¥ 40,193	**$ 356,203**

Long-term loans payable at March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Loans from banks with weighted average interest rates of 0.7% and 0.8% at March 31, 2016 and 2015, respectively, maturing serially through 2023	**¥ 139,743**	¥ 134,297	**$1,240,176**
Less amounts due within one year	**10,322**	11,944	**91,605**
	¥ 129,421	¥ 122,353	**$1,148,571**

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

The annual maturities of long-term loans payable outstanding at March 31, 2016 were as follows:

Years ending March 31

	Millions of yen	Thousands of U.S. dollar
2017	**¥ 10,322**	**$ 91,605**
2018	**38,177**	**338,809**
2019	**43,815**	**388,845**
2020	**27,024**	**239,830**
2021	**11,280**	**100,106**
Thereafter	**9,125**	**80,981**
Total	**¥ 139,743**	**$1,240,176**

9. Employees' severance and retirement benefits

(A) Overview of retirement benefit system adopted

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

Under its defined benefit corporate pension plan, the Company provides employees with lump-sum or pension benefits after determining the amount of benefits based on their salary and years of service. In calculating pension benefits, the Company uses a life pension system with a guarantee period of 15 years in which pension conversion rates vary according to market interest rates. On April 1, 2016, the Company reduced a portion of the defined benefit life pension plan and adopted defined contribution life pension plan. This transition was accounted for in accordance with the "Accounting of Transitions Between Retirement Benefit Systems (Guidance on Accounting Standard for Retirement Benefit No. 1 dated January 31, 2002).

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

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

(B) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 23,650**	¥ 27,601	**$ 209,886**
Cumulative effects of changes in accounting policies	**—**	(2,990)	**—**
Balance at beginning of year after accounting policies changed	**23,650**	24,611	**209,886**
Service cost	**1,062**	1,133	**9,425**
Interest cost	**325**	337	**2,884**
Actuarial loss (gain)	**4,788**	(1,606)	**42,492**
Benefits paid	**(731)**	(825)	**(6,487)**
Decrease by partial termination of defined benefit plans	**(3,415)**	—	**(30,307)**
Other	**9**	—	**80**
Balance at end of year	**¥ 25,688**	¥ 23,650	**$ 227,973**

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 24,661**	¥ 23,462	**$ 218,859**
Expected return on plan assets	**740**	704	**6,567**
Actuarial gain (loss)	**(1,236)**	373	**(10,969)**
Contributions paid by the employer	**916**	947	**8,129**
Benefits paid	**(730)**	(825)	**(6,479)**
Decrease by partial termination of defined benefit plans	**(2,252)**	—	**(19,985)**
Balance at end of year	**¥ 22,099**	¥ 24,661	**$ 196,122**

(3) Movements in liability for defined benefits for plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year	**¥ 412**	¥ 344	**$ 3,656**
Defined benefit costs	**87**	88	**772**
Benefits paid	**(55)**	(30)	**(488)**
Contributions paid by the employer	**(21)**	(20)	**(186)**
Other	**64**	30	**568**
Balance at end of year	**¥ 487**	¥ 412	**$ 4,322**

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Funded defined benefit obligations	**¥ 25,925**	¥ 23,902	**$ 230,076**
Plan assets	**(22,293)**	(24,854)	**(197,843)**
	3,632	(952)	**32,233**
Unfunded defined benefit obligations	**444**	353	**3,940**
Total net liability (asset) for defined benefits at end of year	**4,076**	(599)	**36,173**
Net defined benefit liability	**4,076**	412	**36,173**
Net defined benefit asset	**—**	(1,011)	**—**
Total net liability (asset) for defined benefits at end of year	**¥ 4,076**	¥ (599)	**$ 36,173**

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Service cost	**¥ 1,062**	¥ 1,132	**$ 9,425**
Interest cost	**325**	337	**2,884**
Expected return on plan assets	**(740)**	(704)	**(6,567)**
Net actuarial loss amortization	**909**	1,196	**8,067**
Past service costs amortization	**81**	81	**719**
Retirement benefit costs based on the simplified method	**87**	89	**772**
Other	**(16)**	5	**(142)**
Total retirement benefit costs	**¥ 1,708**	¥ 2,136	**$ 15,158**
Loss on revision of retirement benefit plan	**¥ 64**	¥ —	**$ 568**

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Past service costs	**¥ 107**	¥ 81	**$ 950**
Actuarial gains and losses	**(3,913)**	3,175	**(34,727)**
Total	**¥ (3,806)**	¥ 3,256	**$ (33,777)**

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Past service costs that are yet to be recognized	**¥ 196**	¥ 303	**$ 1,740**
Actuarial gains and losses that are yet to be recognized	**9,033**	5,119	**80,165**
Total balance at end of year	**¥ 9,229**	¥ 5,422	**$ 81,905**

(8) Breakdown of plan assets

	2016	2015
Bonds	**18.4%**	20.3%
Equity securities	**11.2**	12.8
Cash and cash equivalents	**5.6**	4.2
General account assets	**29.4**	19.3
Other	**35.4**	43.4
Total	**100.0%**	100.0%

"Other" consists of investments mainly in hedge funds investing in domestic and foreign equities and bonds, foreign exchange, and various futures and derivatives.

Long-term expected rate of return

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

(9) Principal actuarial assumptions

	2016	2015
Discount Rate	**0.4%**	1.4%
Long-term expected rate of return	**3.0**	3.0
Expected salary increase rate	**3.4**	3.4

(C) Defined contribution plans

Consolidated domestic subsidiaries were required to contribute ¥144 million ($1,278 thousand) and ¥113 million to the defined contribution plan (including corporate pension fund plans under the multi-employer pension system in which accounting treatment is implemented in the same way as the defined contribution plan) for the years ended March 31, 2016 and 2015, respectively.

(D) Multi-employer pension plans

Multi-employer pension plans under which required contributions were accounted for as retirement benefit expenses. Items relating to overall status of pension plan reserves at March 31, 2015 and 2014 (as of the most recently available year-end date of the pension fund) were as follows:

	Millions of yen	
	2015	2014
Fair value of plan assets	¥ 88,297	¥ 78,199
Benefit obligation based on pension plan finance calculation	101,987	97,285
Balance at end of year	¥ (13,690)	¥ (19,086)

The principle factors relating to the balance were the prior service costs of ¥9,871 million and ¥10,385 million as at March 31, 2015 and 2014 respectively, based on pension plan finance calculations. Amortization of unamortized prior service costs was conducted using the straight-line method over a period of 20 years.

Percentage of total pension plan accounted for by contributions of the Group at March 31, 2015 and 2014 was 0.90% and 0.65%, respectively. The percentage does not match the actual amount contributed by the Group.

10. Income taxes

The Company is subject to a number of taxes based on income, which indicates an aggregate statutory income tax rate in Japan of approximately 33.1% and 35.6% for the years ended March 31, 2016 and 2015 respectively.

The following table summarizes the significant differences between the aggregate statutory income tax rate and the Company's effective tax rate for financial statement purposes for the years ended March 31, 2016 and 2015.

	2016	2015
Statutory tax rate:	**33.1%**	35.6%
Tax effect of permanent differences	**(1.1)**	(0.3)
Valuation allowance recognized for deferred tax assets	**(24.0)**	0.9
Reversal of revaluation reserve for land	**—**	(9.2)
Difference in tax rates for consolidated subsidiaries	**0.1**	(1.1)
Other	**(3.4)**	3.9
Effective tax rate	**4.7%**	29.8%

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Temporary differences resulting from the merger with consolidated subsidiaries	**¥ 3,764**	¥ 11,944	**$ 33,404**
Loss on valuation of investment securities, currently not deductible	**3,221**	909	**28,585**
Loss on sale-repurchase agreements of land	**1,294**	1,367	**11,484**
Net defined benefit liabilities	**1,220**	—	**10,827**
Loss on impairment of long-lived assets	**877**	1,955	**7,783**
Accrued bonuses to employees	**688**	682	**6,106**
Land revaluation difference, net of taxes unrealized loss	**226**	239	**2,006**
Other	**5,109**	4,256	**45,341**
Total deferred tax assets	**16,399**	21,352	**145,536**
Valuation allowance	**(11,062)**	(17,410)	**(98,172)**
Net deferred tax assets	**5,337**	3,942	**47,364**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**3,367**	5,336	**29,881**
Land revaluation difference, net of taxes unrealized gain	**1,635**	1,922	**14,510**
Net defined benefit assets	**—**	210	**—**
Other	**3,000**	3,393	**26,624**
Total deferred tax liabilities	**8,002**	10,861	**71,015**
Net deferred tax liabilities	**¥ (2,665)**	¥ (6,919)	**$ (23,651)**

Deferred tax assets and deferred tax liabilities were included in the consolidated balance sheets at March 31, 2016 and 2015, respectively, as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets: Deferred tax assets	**¥ 2,085**	¥ 1,116	**$ 18,504**
Other assets: Deferred tax assets	**244**	107	**2,165**
Current liabilities: Other current liabilities (Deferred tax liabilities)	**0**	2	**0**
Noncurrent liabilities: Deferred tax liabilities	**4,994**	8,140	**44,320**

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates

On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed from 32.3% to 30.9% and 30.6%, respectively, as of March 31, 2016.

The impact of this change on the financial statements has been immaterial.

11. Business Combination

Year ended March 31, 2016

(A) Outline of business combination

(1) Name and business of the company acquired
Daisun Co., Ltd.
Wholesale steel distributor

(2) Major reasons for the business combination
The business combination has made it possible for the Company to further improve its own distribution functionality by pursing the JIT/small-lot orders/processing strategy, which is the pillar of its marketing strategy, taking advantage of the Daisun's sales and distribution bases in Tokyo and Osaka.

(3) Business combination date
July 1, 2015

(4) Legal form for the business combination
Cash purchase of shares

(5) Name of the company after the business combination
Daisun Co., Ltd.

(6) Voting rights acquired
100.0%

(7) Reason for decision on the acquiring company
The Company acquired Daisun's shares with cash.

(B) Period of the acquired company's fiscal year included in the consolidated financial statements
From July 1, 2015 to March 31, 2016

(C) Details of the acquisition cost of the acquired company were as follows:

	Millions of yen	Thousands of U.S. dollar
Acquisition consideration (Cash)	¥ 2,300	$ 20,412
Acquisition cost	¥ 2,300	$ 20,412

(D) Main acquisition related costs

	Millions of yen	Thousands of U.S. dollar
Advisory fee, etc.	¥ 10	$ 89

(E) Amount of and reason for negative goodwill

(1) Amount of negative goodwill
¥1,101 million ($9,771 thousand)

(2) Reason for negative goodwill
The acquisition cost was lower than the net assets at fair value of the acquired company.

(F) Amounts of assets and liabilities acquired on the business combination date were as follows:

	Millions of yen	Thousands of U.S. dollar
Current assets	¥ 5,101	$ 45,270
Fixed assets	4,392	38,977
Total assets	9,493	84,247
Current liabilities	5,467	48,518
Long-term liabilities	624	5,538
Total liabilities	¥ 6,091	$ 54,056

(G) Estimated impact on the consolidated statement of income assuming the business combination had been completed as of the beginning of the fiscal year
Omitted because the impact is immaterial. This disclosure is unaudited.

12. Net assets

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

Under the Japanese Corporate Law ("the Law"), in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve and legal capital surplus are included in retained earnings and additional paid-in capital, respectively, 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, 2016, the shareholders approved cash dividends of ¥10.0 per share ($0.09) amounting to¥2,072 million ($18,388 thousand). This appropriation has not been accrued in the consolidated financial statements as of March 31, 2016. 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, 2016, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,224 million ($10,863 thousand).

13. Leases

Operating leases

As Lessee

Obligations under noncancelable operating leases as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Due within one year	**¥ 528**	¥ 128	**$ 4,686**
Due after one year	**8,342**	327	**74,032**
Total	**¥ 8,870**	¥ 455	**$ 78,718**

14. Contingent liabilities

At March 31, 2016 and 2015, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
As endorsers of export letters of credit and notes discounted	**¥ 4,320**	¥ 7,436	**$ 38,339**
As guarantors of indebtedness	**4,231**	3,345	**37,549**

15. Gain on sales of property and equipment

The following table summarizes gain on sales of property and equipment in the years ended March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Buildings and structures	**¥ —**	¥ 107	**$ —**
Machinery, equipment and vehicles	**2**	—	**18**
Land	**13,066**	14	**115,957**
Other	**7**	7	**62**
Total	**¥ 13,075**	¥ 128	**$ 116,037**

16. Loss on sales of property and equipment

The following table summarizes loss on sales of property and equipment in the years ended March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Buildings and structures	**¥ 257**	¥ —	**$ 2,281**
Machinery, equipment and vehicles	**4**	—	**35**
Other	**0**	—	**0**
Total	**¥ 261**	¥ —	**$ 2,316**

17. Other comprehensive income

Years ended March 31, 2016 and 2015

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Valuation difference on available-for-sale securities, net of taxes:			
Increase (decrease) during the year	**¥ (6,227)**	¥ 5,346	**$ (55,263)**
Reclassification adjustments	**662**	202	**5,875**
Sub-total, before tax	**(5,565)**	5,548	**(49,388)**
Tax expense (benefit)	**(1,968)**	1,411	**(17,466)**
Sub-total, net of tax	**(3,597)**	4,137	**(31,922)**
Deferred gains or losses on hedges, net of taxes:			
Increase (decrease) during the year	**592**	3,362	**5,254**
Reclassification adjustments	**(3,417)**	(521)	**(30,325)**
Sub-total, before tax	**(2,825)**	2,841	**(25,071)**
Tax expense (benefit)	**(922)**	954	**(8,182)**
Sub-total, net of tax	**(1,903)**	1,887	**(16,889)**
Land revaluation difference, net of taxes:			
Increase (decrease) during the year	**—**	—	**—**
Reclassification adjustments	**—**	—	**—**
Sub-total, before tax	**—**	—	**—**
Tax expense (benefit)	**(102)**	(184)	**(905)**
Sub-total, net of tax	**102**	184	**905**
Foreign currency translation adjustments:			
Increase (decrease) during the year	**(675)**	2,175	**(5,990)**
Reclassification adjustments	**—**	—	**—**
Sub-total, before tax	**(675)**	2,175	**(5,990)**
Tax expense (benefit)	**—**	—	**—**
Sub-total, net of tax	**(675)**	2,175	**(5,990)**
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	**(6,024)**	1,980	**(53,461)**
Reclassification adjustments	**2,218**	1,276	**19,684**
Sub-total, before tax	**(3,806)**	3,256	**(33,777)**
Tax expense (benefit)	**(1,068)**	1,331	**(9,478)**
Sub-total, net of tax	**(2,738)**	1,925	**(24,299)**
Share of other comprehensive income of entities accounted for using equity method:			
Increase (decrease) during the year	**110**	—	**976**
Total other comprehensive income	**¥ (8,701)**	¥ 10,308	**$ (77,219)**

18. Investment and rental properties

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

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

Rental profits from these properties were ¥381 million ($3,381 thousand) and ¥274 million for the years ended March 31, 2016 and 2015, respectively, and were included in gross profit.

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

Year ended March 31, 2016

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
¥ 4,014	**¥ 3,295**	**¥ 7,309**	**¥ 7,099**	**$ 35,623**	**$ 29,242**	**$ 64,865**	**$ 63,001**

Year ended March 31, 2015

Millions of yen			
Book value			
Balance at beginning of year	Net decrease	Balance at end of year	Fair value
¥ 7,385	¥ 3,371	¥ 4,014	¥ 3,668

Book value is net of accumulated depreciation and impairment loss.
Fair values of these properties are measured mainly by the Company, based on “Standard for real-estate appraisal.”

19. Segment information

(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 6 reportable segments are “steel business,” “metal and alloy business,” “non-ferrous metal business,” “food business,” “petroleum and chemical business,” and “overseas sales subsidiaries.” The “overseas sales subsidiaries,” which have been included in the “other business” in the previous fiscal year, is separately presented in the reportable segment since the quantitative importance has increased. In this regard, the segment information for the previous fiscal year has been prepared pursuant to the reportable segment classification subsequent to the changes.

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

Steel: Steel bars and shapes, steel plates and sheets, special steels, wire products, steel pipes, and steelmaking raw materials (steel processing and storage)
Metals and alloys: Nickel, chromium, silicon, manganese, steel alloys
Non-ferrous metals: Aluminum, copper, and zinc (recycling business)
Foods: Seafoods
Petroleum and chemicals: Petroleum products, industrial chemicals, and chemicals
Overseas sales subsidiaries: (Trading of various goods and related business activities)

The reportable segment income figures are based on operating income coupled with interest and dividend income, interest expense, 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 year ended March 31, 2016 was as follows:

Year ended March 31, 2016

	Millions of yen										
	Reportable segment										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 778,738	¥ 127,759	¥ 80,895	¥ 89,542	¥ 271,602	¥ 97,468	¥ 1,446,004	¥ 65,796	¥ 1,511,800	¥ —	¥ 1,511,800
Intersegment	19,954	3,429	1,187	1,130	4,848	80,149	110,697	1,459	112,156	(112,156)	—
Total	¥ 798,692	¥ 131,188	¥ 82,082	¥ 90,672	¥ 276,450	¥ 177,617	¥ 1,556,701	¥ 67,255	¥ 1,623,956	¥ (112,156)	¥ 1,511,800
Segment income (loss)	¥ 14,829	¥ 2,218	¥ 849	¥ 75	¥ 1,975	¥ (708)	¥ 19,238	¥ 1,376	¥ 20,614	¥ (5,189)	¥ 15,425
Assets	¥ 332,394	¥ 64,753	¥ 17,527	¥ 33,776	¥ 38,054	¥ 24,601	¥ 511,105	¥ 32,103	¥ 543,208	¥ 56,486	¥ 599,694
Depreciation	3,248	108	281	30	68	62	3,797	457	4,254	90	4,344
Amortization of goodwill	155	33	44	—	—	—	232	—	232	—	232
Interest income	204	526	0	0	53	70	853	13	866	173	1,039
Interest expense	2,213	765	212	224	283	265	3,962	126	4,088	(1,404)	2,684
Share of profit (loss) of entities accounted for using equity method	(1,031)	—	—	—	—	(273)	(1,304)	—	(1,304)	—	(1,304)
Investment for entities accounted for equity method	2,894	—	—	—	—	132	3,026	—	3,026	—	3,026
Increase in property and equipment	5,232	141	134	202	172	48	5,929	344	6,273	710	6,983

Year ended March 31, 2016

	Thousands of U.S. dollars										
	Reportable segment										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	$ 6,911,057	$ 1,133,822	$ 717,918	$ 794,658	$ 2,410,383	$ 864,998	$ 12,832,836	$ 583,919	$ 13,416,755	$ —	$ 13,416,755
Intersegment	177,086	30,431	10,534	10,028	43,025	711,298	982,402	12,948	995,350	(995,350)	—
Total	$ 7,088,143	$ 1,164,253	$ 728,452	$ 804,686	$ 2,453,408	$ 1,576,296	$ 13,815,238	$ 596,867	$ 14,412,105	$ (995,350)	$ 13,416,755
Segment income (loss)	$ 131,603	$ 19,684	$ 7,535	$ 665	$ 17,527	$ (6,283)	$ 170,731	$ 12,212	$ 182,943	$ (46,051)	$ 136,892
Assets	$ 2,949,893	$ 574,663	$ 155,547	$ 299,752	$ 337,717	$ 218,326	$ 4,535,898	$ 284,904	$ 4,820,802	$ 501,296	$ 5,322,098
Depreciation	28,825	958	2,494	266	604	550	33,697	4,056	37,753	799	38,552
Amortization of goodwill	1,376	293	390	—	—	—	2,059	—	2,059	—	2,059
Interest income	1,811	4,668	0	0	470	621	7,570	115	7,685	1,536	9,221
Interest expense	19,640	6,789	1,881	1,988	2,512	2,352	35,162	1,118	36,280	(12,460)	23,820
Share of profit (loss) of entities accounted for using equity method	(9,150)	—	0	—	—	(2,423)	(11,573)	—	(11,573)	—	(11,573)
Investment for entities accounted for equity method	25,683	—	—	—	—	1,172	26,855	—	26,855	—	26,855
Increase in property and equipment	46,432	1,251	1,189	1,793	1,527	426	52,618	3,053	55,671	6,301	61,972

1. "Other business" represents businesses such as lumber section and machinery section which are not included in the above reportable segment.
2. Adjustments are as follows:
   (1) Adjustments of negative ¥5,189 million (negative $46,051 thousand) for segment income (loss) include intersegment elimination and Group costs that have not been allocated to reportable segments. These Group costs consist mainly of expenses of administrative departments.
   (2) Adjustments for segment assets amounting to ¥56,486 million ($501,296 thousand) include Group assets that have not been allocated to reportable segments. These Group assets consist mainly of cash and cash equivalents, investment securities and assets of administrative departments.
   (3) Adjustments for depreciation and amortization amounting to ¥90 million ($799 thousand) include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥173 million ($1,536 thousand) and negative ¥1,404 million (negative $12,460 thousand) include intersegment elimination, revenue and expense that have not been allocated to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥710 million ($6,301 thousand) are increases in Group assets.

Information about sales, profits, assets and others by reportable segment for the year ended March 31, 2015 was as follows:

Year ended March 31, 2015

	Millions of yen										
	Reportable segment										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 857,396	¥ 125,768	¥ 81,978	¥ 86,923	¥ 422,450	¥ 101,276	¥ 1,675,791	¥ 61,607	¥ 1,737,398	¥ —	¥ 1,737,398
Intersegment	21,319	5,403	1,387	723	7,470	78,288	114,590	1,220	115,810	(115,810)	—
Total	¥ 878,715	¥ 131,171	¥ 83,365	¥ 87,646	¥ 429,920	¥ 179,564	¥ 1,790,381	¥ 62,827	¥ 1,853,208	¥ (115,810)	¥ 1,737,398
Segment income (loss)	¥ 14,737	¥ 343	¥ 1,146	¥ 583	¥ 2,481	¥ (59)	¥ 19,231	¥ 743	¥ 19,974	¥ (5,709)	¥ 14,265
Assets	¥ 354,475	¥ 72,533	¥ 23,270	¥ 34,127	¥ 48,406	¥ 38,116	¥ 570,927	¥ 23,594	¥ 594,521	¥ 56,936	¥ 651,457
Depreciation	3,024	105	38	17	66	52	3,302	543	3,845	46	3,891
Amortization of goodwill	154	33	—	—	—	—	187	—	187	—	187
Interest income	199	170	—	0	137	91	597	16	613	251	864
Interest expense	2,201	652	160	258	376	372	4,019	162	4,181	(1,313)	2,868
Share of profit (loss) of entities accounted for using equity method	207	—	—	—	—	—	207	—	207	—	207
Investment for entities accounted for equity method	2,009	—	—	—	—	—	2,009	—	2,009	—	2,009
Increase in property and equipment	3,140	79	34	40	64	115	3,472	355	3,827	106	3,933

1. "Other business" represents businesses such as lumber section and machinery section which are not included in the above reportable segment.
2. Adjustments are as follows:
   (1) Adjustments of negative ¥5,709 million for segment income include intersegment elimination and Group costs that have not been allocated to reportable segments. These Group costs consist mainly of expenses of administrative departments.
   (2) Adjustments for segment assets amounting to ¥56,936 million include Group assets that have not been allocated to reportable segments. These Group assets consist mainly of cash and cash equivalents, investment securities and assets of administrative departments.
   (3) Adjustments for depreciation and amortization amounting to ¥46 million include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥251 million and negative ¥1,313 million include intersegment elimination, revenue and expense that have not been allocated to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥106 million are increases in Group assets.

(B) Related information

Product information

Net sales information by products for the years ended March 31, 2016 and 2015 was as follows:

Year ended March 31, 2016

	Millions of yen						
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	**¥ 816,000**	**¥ 122,466**	**¥ 119,668**	**¥ 90,418**	**¥ 286,692**	**¥ 76,556**	**¥ 1,511,800**

Year ended March 31, 2016

	Thousands of U.S. dollars						
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	**$ 7,241,746**	**$ 1,086,848**	**$ 1,062,016**	**$ 802,432**	**$ 2,544,302**	**$ 679,411**	**$13,416,755**

Year ended March 31, 2015

	Millions of yen						
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	¥ 885,756	¥ 127,140	¥ 114,898	¥ 99,692	¥ 437,392	¥ 72,520	¥ 1,737,398

Geographic information

(1) Net sales in different countries for the years ended March 31, 2016 and 2015 were as follows:

Year ended March 31, 2016

	Millions of yen			
	Japan	Asia	Other	Total
Net sales to external customers	**¥ 1,130,114**	**¥ 308,943**	**¥ 72,743**	**¥ 1,511,800**

Year ended March 31, 2016

	Thousands of U.S. dollars			
	Japan	Asia	Other	Total
Net sales to external customers	**$10,029,411**	**$ 2,741,773**	**$ 645,571**	**$13,416,755**

Year ended March 31, 2015

	Millions of yen			
	Japan	Asia	Other	Total
Net sales to external customers	¥ 1,284,291	¥ 369,515	¥ 83,592	¥ 1,737,398

(2) Property and equipment in different countries for the year ended March 31, 2016 and 2015 were as follows:

Year ended March 31, 2016

	Millions of yen			
	Japan	Asia	Other	Total
Property and equipment	**¥ 54,365**	**¥ 7,123**	**¥ 75**	**¥ 61,563**

Year ended March 31, 2016

	Thousands of U.S. dollars			
	Japan	Asia	Other	Total
Property and equipment	**$ 482,473**	**$ 63,214**	**$ 666**	**$ 546,353**

Year ended March 31, 2015

	Millions of yen			
	Japan	Asia	Other	Total
Property and equipment	¥ 52,885	¥ 7,988	¥ 74	¥ 60,947

Loss on impairment of long-lived assets in reportable segment

Year ended March 31, 2016

Loss on impairment of long-lived assets in reportable segment is omitted because it is immaterial.

Outstanding balance of goodwill and amortization of goodwill in reportable segment

Outstanding balance of goodwill for the year ended March 31, 2016 and 2015 were as follows:

Year ended March 31, 2016

	Millions of yen									
	Reportable segment									
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Total	Other business	Total	Adjustment	Consolidated
Balance at end of year	**¥ 289**	**¥ 100**	**¥ 155**	**¥ —**	**¥ —**	**¥ 544**	**¥ —**	**¥ 544**	**¥ —**	**¥ 544**

Year ended March 31, 2016

	Thousands of U.S. dollars									
	Reportable segment									
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Total	Other business	Total	Adjustment	Consolidated
Balance at end of year	**$ 2,565**	**$ 887**	**$ 1,376**	**$ —**	**$ —**	**$ 4,828**	**$ —**	**$ 4,828**	**$ —**	**$ 4,828**

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

Year ended March 31, 2015

	Millions of yen									
	Reportable segment									
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Total	Other business	Total	Adjustment	Consolidated
Balance at end of year	¥ 442	¥ 134	¥ —	¥ —	¥ —	¥ 576	¥ —	¥ 576	¥ —	¥ 576

Gain on negative goodwill in reportable segment

Year ended March 31, 2016

The Company recorded gain on negative goodwill of ¥1,101 million due to acquisition of a 100% stake in Daisun Co., Ltd. in the steel segment, which was made into a subsidiary. The gain on negative goodwill is not included in the segment income because it is recorded as an extraordinary gain on the consolidated statements of income.

Independent Auditor's Report

KPMG

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Hanwa Co., Ltd. and its consolidated subsidiaries , which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hanwa Co., Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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

July 29, 2016
Osaka, Japan

Global Network

EUROPE

London
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Vienna

MIDDLE EAST

Kuwait
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Dammam
Dubai
Istanbul

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Johannesburg

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


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Chicago
Houston
Seattle
Los Angeles
San Diego
Vancouver
Mexico City
Celaya
Guam
Santiago
Bogota
JAPAN
Osaka
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Nagoya
Hokkaido
Tohoku
Kanto
Niigata
Chugoku
Kyushu
Hachinohe
Mito
Atsugi
Shizuoka
Okayama
Fukuyama
Okinawa
Iwaki
Hokuriku
Wakayama

Global Network

JAPAN

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KANTO
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KYUSHU
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OKAYAMA
Sumitomo life Insurance Bldg., 2-4-6, Showa, Kurashiki, Okayama 710-0057, Japan
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Meiji-Yasuda Seimei Fukuyama-ekimae Bldg., 1-25, Nobehiro-cho, Fukuyama, Hiroshima 720-0064, Japan
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OKINAWA
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HANWA TRADING (SHANGHAI) CO., LTD. CHONGQING BRANCH
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HANWA TRADING (SHANGHAI) CO., LTD. FUZHOU BRANCH
Room 1204, Shenglong Financial Center, No. 1 Guangming Road, Fuzhou, 350009, P.R. China
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HANWA VIETNAM CO., LTD. HA NOI BRANCH OFFICE
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PT. HANWA INDONESIA
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PT. HANWA STEEL SERVICE INDONESIA
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HANWA MIDDLE EAST FZE JEDDAH SATELLITE OFFICE
Tel: 966-55-118-4708

HANWA MIDDLE EAST FZE DAMMAM OFFICE
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Corporate Information (As of March 31, 2016)

Corporate Data

Company Name	Hanwa Co., Ltd. 阪和興業株式会社
Established	April 1947
Capital	¥45,651 million
Number of Employees	Consolidated: 2,977 Non-consolidated: 1,216

Address

Osaka Head Office	HK Yodoyabashi Garden Avenue Bldg., 4-3-9, Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan Tel: +81-6-7525-5000 Fax: +81-6-7525-5365
Tokyo Head Office	Ginza Shochiku Square Bldg., 1-13-1, Tsukiji, Chuo-ku, Tokyo 104-8429, Japan Tel: +81-3-3544-2171 Fax: +81-3-3544-2351
Nagoya Branch Office	NHK Nagoya Broadcasting Center Bldg., 1-13-3, Higashisakura, Higashi-ku, Nagoya, Aichi 461-8614, Japan Tel: +81-52-952-8800 Fax: +81-52-952-9300

Board of Directors, Corporate Auditors and Executive Officers (As of June 29, 2016)

BOARD OF DIRECTORS

Chairman*	Shuji Kita	北　修爾
President*	Hironari Furukawa	古川　弘成
Directors, Executive Vice President and Executive Officers	Hideo Kawanishi	川西　英夫
	Hiroshi Serizawa	芹澤　浩
Directors, Senior Managing Executive Officers	Akihiko Ogasawara	小笠原朗彦
	Naoyuki Togawa	十川　直之
	Yasumichi Kato	加藤　恭道
Outside Directors	Osamu Seki	関　收
	Ryuji Hori	堀　龍兒
Directors, Managing Executive Officers	Hiromasa Yamamoto	山本　浩雅
	Yasushi Hatanaka	畠中　康司
	Hidemi Nagashima	長嶋 日出海
	Yoichi Nakagawa	中川　洋一
	Yasuharu Kurata	倉田　泰晴

CORPORATE AUDITORS

Corporate Auditors (Full-time)	Yoichi Ejima	江島　洋一
	Atsuhiro Moriguchi	森口　淳宏
Outside Corporate Auditors	Yasuo Naide	名出　康雄
	Katsunori Okubo	大久保克則
	Mitsuo Hirakata	平形　光男

*Representative Director

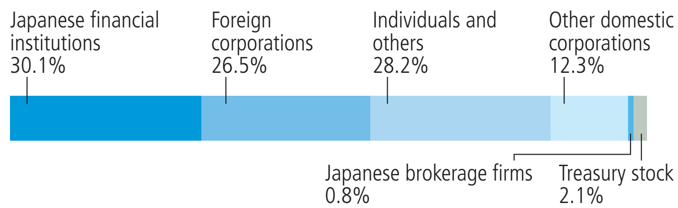
EXECUTIVE OFFICERS

Senior Managing Executive Officer	Hiroshi Ebihara	海老原　弘
Executive Officers	Takatoshi Kuchiishi	口石　隆敏
	Chiro Ideriha	出利葉知郎
	Isao Kimizu	木水　勲
	Yoichi Sasayama	篠山　陽一
	Hideo Kobayashi	小林　秀雄
	Keiji Matsubara	松原　圭司
	Tsuneo Tsuiki	立木　恒雄
	Yoshimasa Ikeda	池田　佳正
	Ryuichi Takaba	竹迫　隆一
	Yoshifumi Miyano	宮野　好史
	Toshihiro Kawaguchi	川口　敏弘

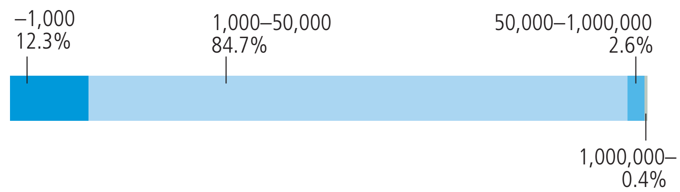
Stock Information

Fiscal Year-End	March 31
Annual Meeting of Shareholders	June
Independent Auditors	KPMG AZSA LLC
Domestic Stock Exchange Listings	The First Section of the Tokyo Stock Exchange
Date of Record for Dividend Payout	Interim dividend: September 30 Year-end dividend: March 31
Authorized Shares	570,000,000 shares
Issued and Outstanding Shares	211,663,200 shares
Number of Shareholders	10,585

Breakdown by Type of Shareholder



Breakdown by Size of Holding

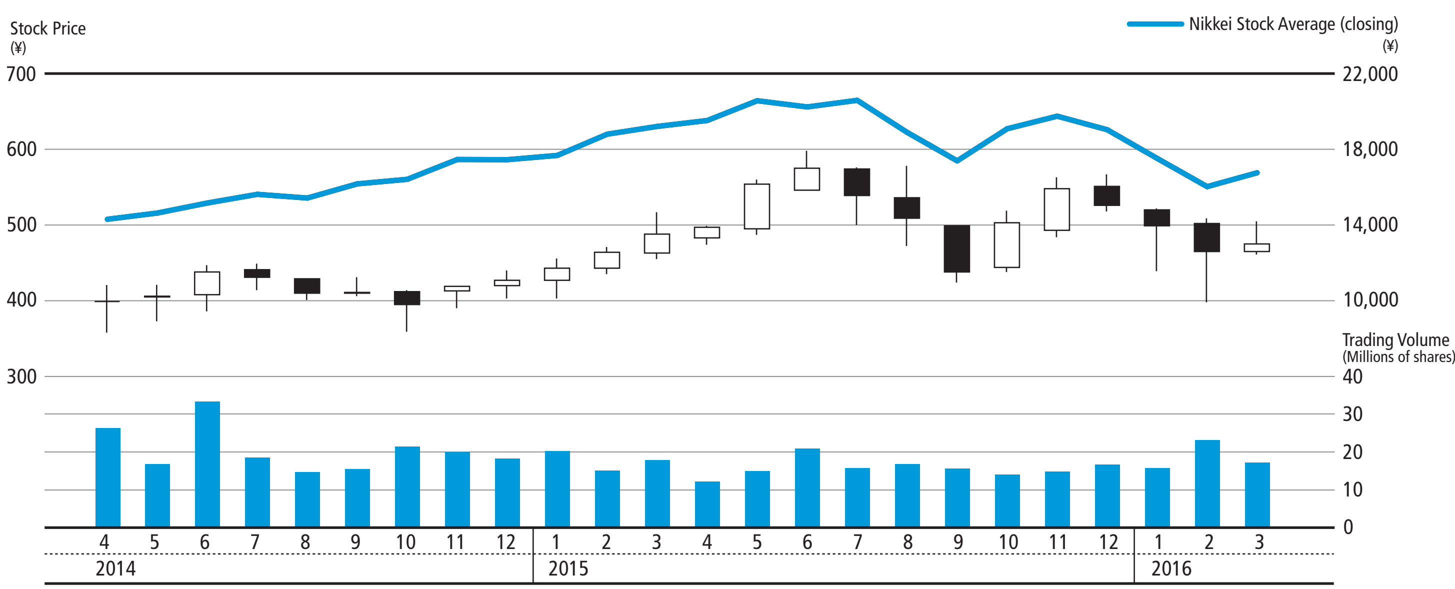


Principal Shareholders

Name of Shareholder	Number of Shares (thousands)	Percentage of Total Issued Share (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	15,426	7.44
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,294	4.00
Hanwa Clients' Stock Investment Association	7,789	3.76
Sumitomo Mitsui Banking Corporation	7,630	3.68
CBNY-GOVERNMENT OF NORWAY	5,575	2.69
Hanwa Employees' Stock Investment Association	4,656	2.25
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,299	2.07
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	3,680	1.78
Nippon Steel & Sumitomo Metal Corporation	3,001	1.45
State Street Bank And Trust Company	2,994	1.45

Note: The Company holds 4,455,897 shares of treasury stock, which is excluded from the principal shareholders listed above.

Stock Price Range and Trading Volume (Common Stock)



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