HANWA CO., LTD.
阪和興業株式会社

2017
ANNUAL REPORT
Year ended March 31, 2017

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 more than 70 years.

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

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

Through such activities, 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
北　修爾
Chairman

Hironari Furukawa
古川　弘成
President

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

In the current fiscal year, Hanwa launched the Medium-Term Business Plan centered on the "Three S" Commitment—STEADY, SPEEDY, STRATEGIC. Our goal is to build a profit structure that is sustainable in the medium to long term and a stronger foundation. Looking ahead through the next decade, this plan is designed to improve our operations in three ways. First is the STEADY growth of Hanwa itself from earnings generated by our current business domains. Second is the SPEEDY generation of earnings from Hanwa Group companies and from strategic investments in Japan and overseas. Third are additional earnings from continual STRATEGIC investments. Another key goal is building a corporate infrastructure capable of supporting our growing size and number of group companies. To accomplish this goal, we will take steps to improve our financial soundness, oversight of group companies and corporate governance.

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.

Contents

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

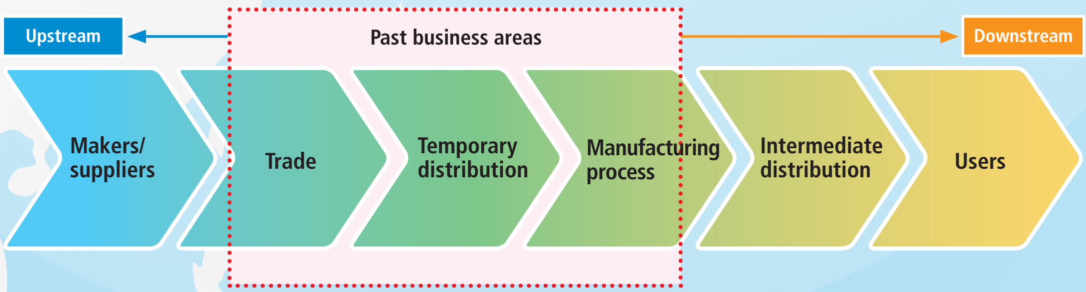
Distribution Specialist

"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 broad 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

48

Number of Subsidiaries and Associated Companies

50

Number of Overseas Processing Plants

30

Number of Employees (consolidated)

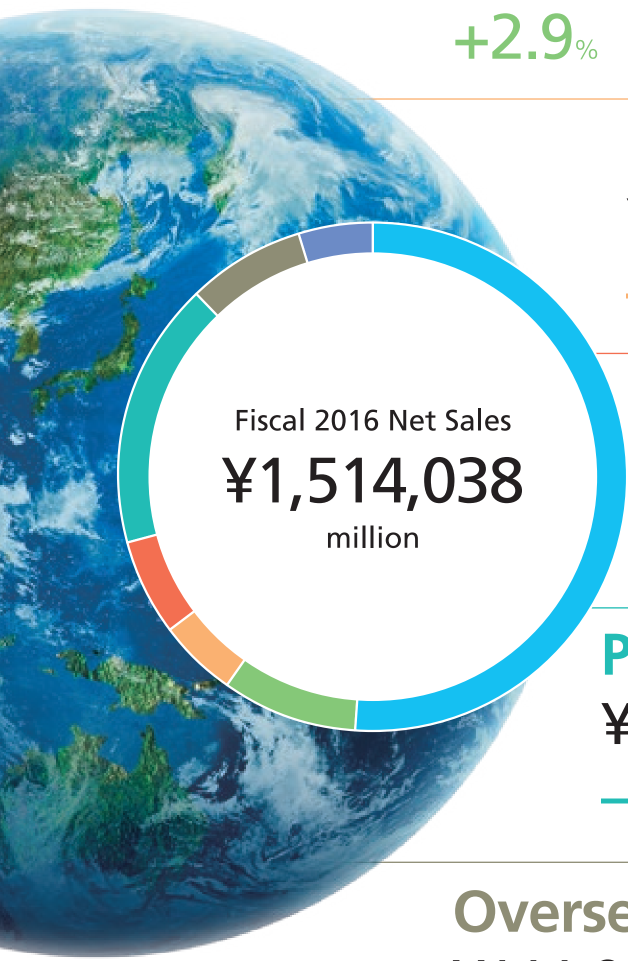
3,155

At a Glance

Net Sales / Year-on-Year Change

Steel
¥775,726 million
–0.4%

Metals and Alloys
¥131,414 million
+2.9%



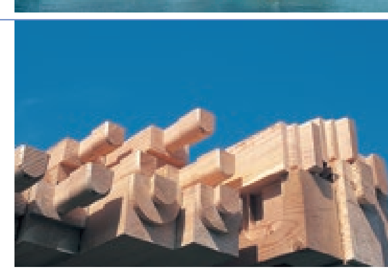
Non-Ferrous Metals
¥77,674 million
–4.0%

Food Products
¥88,671 million
–1.0%

Petroleum and Chemicals
¥257,165 million
–5.3%

Overseas Sales Subsidiaries
¥111,994 million
+14.9%

Other Business
¥71,394 million
+8.5%



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 materials

Nickel, chromium, ferro-alloys, stainless steel scrap, titanium scrap, silicon

Copper, aluminum, zinc, lead, e-scrap

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, bunker oil, petrochemicals, synthetic resin, paper products, biomass fuel, refuse plastics and paper fuel (RPF)

Wholesale trade, general merchandise

Lumber and Plywood
Structural lumber for housing, various plywoods

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

Other
Environment-related business

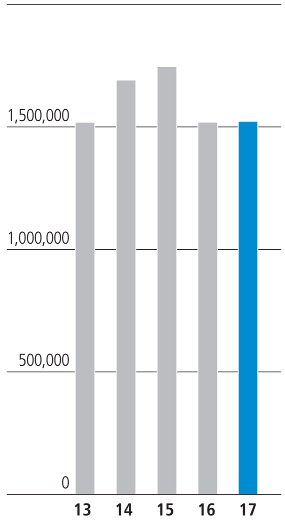
Consolidated Financial Highlights

	Millions of yen, except for number of employees		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
For the year:			
Net sales	**¥1,514,038**	¥1,511,800	**$13,495,303**
Operating income	**23,426**	18,178	**208,806**
Net income attributable to owners of the parent	**16,364**	25,470	**145,860**
Comprehensive income	**20,992**	16,779	**187,111**
At year-end:			
Cash and cash equivalents	**¥ 27,206**	¥ 25,805	**$ 242,499**
Total assets	**694,233**	599,694	**6,188,011**
Total net assets	**171,637**	156,139	**1,529,878**
Number of employees	**3,155**	2,977	
	Yen		U.S. dollars (Note 1)
Per share data:			
Net income attributable to owners of the parent	**¥ 80.18**	¥ 122.92	**$ 0.715**
Cash dividends	**19.00**	18.00	**0.169**
Net assets attributable to owners of the parent	**838.70**	747.40	**7.476**
	%		
Key financial ratios:			
Return on assets (ROA)	**2.5**	4.1	
Return on equity (ROE)	**10.1**	17.2	
Net debt/equity ratio (Note 2)	**140**	140	

Notes: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥112.19=$1.00.
2. Net debt/equity ratio = Net interest-bearing debt/equity.
Net interest-bearing debt = Interest-bearing debt – cash.

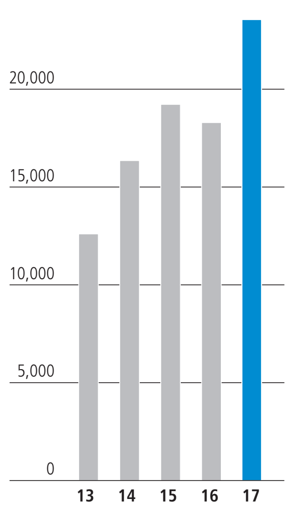
Net Sales

(Millions of yen)



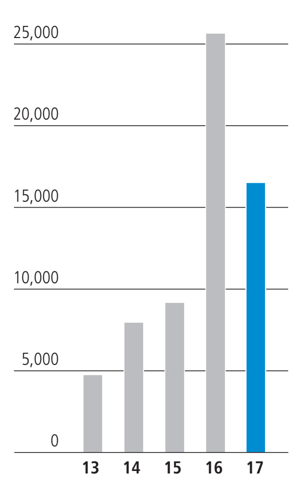
Operating Income

(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, 2017.

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, despite signs of slight stagnation in industrial production and capital expenditures. The European economy remained firm on the whole, but showed political instability caused by factors such as Brexit (the United Kingdom's withdrawal from the European Union). In China, the trend toward slowing economic growth relaxed reflecting a recovery in infrastructure and other investment, and personal consumption due to the effects of economic stimulus measures. In the other emerging countries, Asian countries experienced relatively stable growth, driven primarily by domestic demand. South American nations and Russia trended upward reflecting a recovery in resource prices and other factors.

The Japanese economy saw sluggish growth in exports due to overseas economic conditions and exchange rate fluctuations. However, it remained relatively stable reflecting a modest upward shift in housing investment, signs of recovery in the operating rate of manufacturing industries, and gradual improvement in personal consumption and capital expenditures due to the effects of inbound tourism demand.

Q2 Please summarize operating results of the fiscal year ended March 31, 2017.

A In these circumstances, the Group posted consolidated net sales of ¥1,514,038 million for the consolidated fiscal year ended March 31, 2017, representing a year-on-year increase of 0.1%. This result was due mainly to higher sales volume of metal raw materials and lumber, despite lower prices of petroleum and steel products compared with the previous consolidated fiscal year. Operating income rose 28.9%, to ¥23,426 million, mainly reflecting higher profit in the food products business and the steel business. Conversely, net income attributable to owners of the parent decreased 35.8%, to ¥16,364 million, due to factors such as a decrease in extraordinary profits and the absence of a reduction in income taxes paid reflecting a tax deduction recorded in the previous fiscal year.

Q3 What is your outlook for the fiscal year ending March 31, 2018?

A The U.S. economy is likely to remain on a modest recovery track, although close attention should be paid to factors such as the economic policies of the Trump administration. In Europe, despite a gradual economic recovery, the political situation remains uncertain due mainly to Brexit. On the other hand, the Chinese economy is expected to continue its stable growth reflecting the effects of stimulus measures to counter the economic slowdown. In other emerging countries, it is anticipated that the economic outlook will remain uncertain as a result of changes in the global financial environment.

As the Japanese economy continues a gradual recovery trend, construction demand related to the Tokyo Olympic Games is expected to increase gradually. In the manufacturing sector, production activity is likely to remain steady reflecting solid growth in exports.

In this operating environment, the Hanwa 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 ¥1,700,000 million (up 12.3% compared with the previous year), operating income of ¥25,500 million (up 8.9%), and net income attributable to owners of the parent of ¥16,000 million (down 2.2%).

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

A In May 2016, the Group launched the Medium-Term Business Plan for the three-year period from April 2016 to March 2019 and has sought to realize the objectives of the plan. In the fiscal year under the review, due to the achievement of the final year's target for ordinary income and foreseeable returns from existing strategic investments, such as natural resources, we decided to revise the Medium-Term Business Plan and extended it by one year. Regarding consolidated operating results for the fiscal year ending March 31, 2020, the final year of the Medium-Term Business Plan, we expect net sales of ¥2,000,000 million and ordinary income of ¥35,000 million.

Q5 What is your message for Hanwa investors with regard to shareholder 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 ¥19 per share, including an interim dividend of ¥9 per share. We made this decision because our business earnings exceeded the initial forecast.

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

Close Up

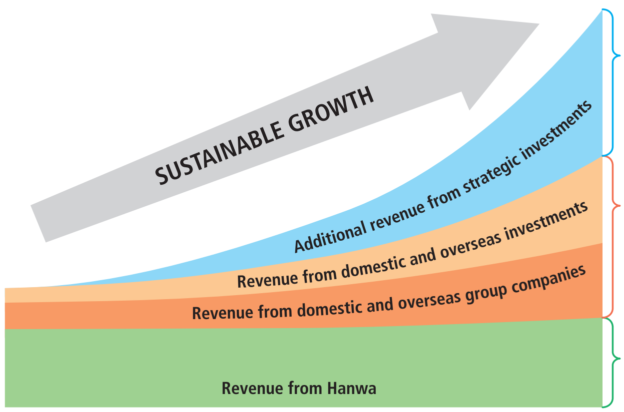
An Overview : The Revised Medium-Term Business Plan (FY2016–FY2019)

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

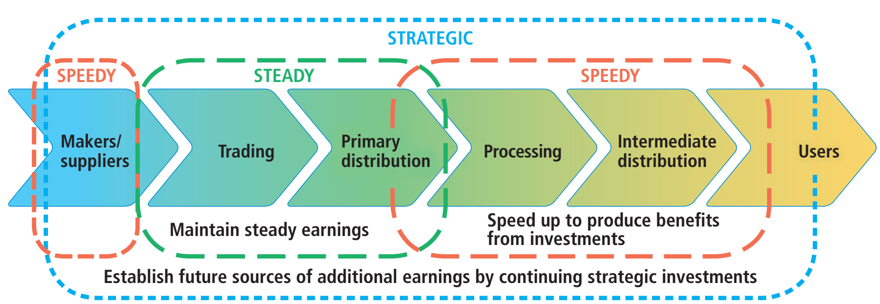
STEADY
Maintain and increase earnings in well-established businesses

Quantitative Objectives

(Billions of yen)

		FY2016 (Actual)	FY2017	FY2018	FY2019
Net sales		¥1,514.0	¥1,700.0	¥1,850.0	¥2,000.0
Ordinary income	1. STEADY	¥ 19.1	¥ 18.0	¥ 19.0	¥ 20.0
	2. SPEEDY	3.1	4.5	5.0	6.0
	3. STRATEGIC	0.7	1.5	8.0	9.0
	Total	¥ 22.9	¥ 24.0	¥ 32.0	¥ 35.0

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

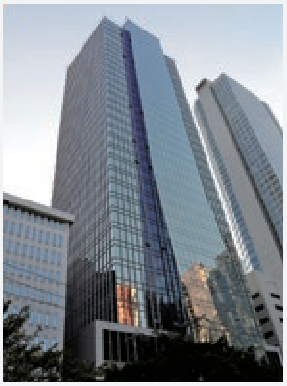
- **SPEEDY: Speed up to produce benefits from investments**
  —Make group companies in Japan and overseas more profitable
  —Moving up to secure returns from current business investments that are performing well or have excellent prospects

- **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 China, Southeast Asia and North America.

TOPICS

Hanwa Opens a Manila Representative Office

In July 27, 2016, Hanwa opened a Manila representative office in Makati City, the Philippines. Following the investment in SOHBI KOHGEI (PHILS.), INC. in 1999, we have been dispatching personnel to the company. Going forward, based on the new Manila office, we will promote development of new business partners and products by gathering information related to the expansion of our business in the booming Philippines market.



Manila representative office

STAINLESS PIPE KOGYO Co., Ltd. Becomes a Subsidiary

Hanwa has moved forward with the procedure for regeneration of STAINLESS PIPE KOGYO Co., Ltd. following approval for support from the Regional Economy Vitalization Corporation of Japan in May 13, 2016. In September 1, 2016, we acquired 58.2% of the shares of STAINLESS PIPE KOGYO Co., Ltd., and turned it into a subsidiary. Founded in May 1954, the pipe manufacturer has more than 60 years of experience and makes many sizes of stainless steel pipes, ranging from small to large diameter. In cooperation with Hanwa, new business opportunities are expected through sales expansion to chemical shipbuilding and overseas projects.

Production of stainless steel pipe

Promotion of the HKQC

We have been implementing the principles of Hanwa Knowledge Quality Control (HKQC) aimed at improving the quality of our operations by thoroughly evaluating the risks and controlling processes in all of our departments.

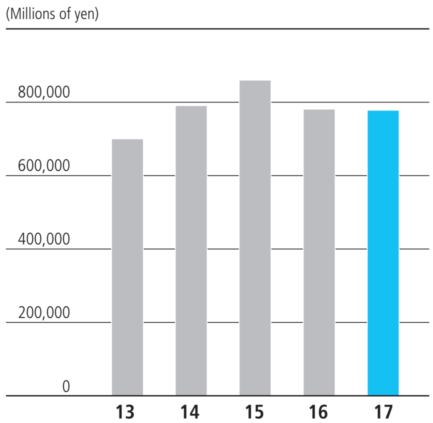
Toward this end, from October 2016 to February 2017, HKQC kick-off conferences were held for all employees of the Company to deepen their awareness of HKQC. At the conferences, we announced the actual conditions of risk occurrence, identification of problems and checking systems in each department, and shared the information with all domestic employees.

We will continue to work steadily to overcome the challenges in each department and achieve reliable earnings by preventing losses, reflecting improvement of the quality of our operations through HKQC.

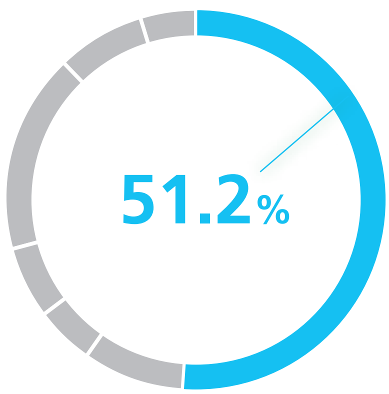
HKQC kick-off conference

Steel (Domestic)

Net Sales



Net Sales Composition



Fiscal 2016 Results

The domestic economy during fiscal 2016 remained solid as a whole despite some differences among industries. In the manufacturing sector, for example, domestic automobile production increased 1.9% year on year in fiscal 2016, while the amount of construction machinery shipments decreased 2.2% year on year.

Domestic demand for steel products from the construction industry remained sluggish due to construction delays, although it appeared to remain solid according to construction start statistics.

Consumer spending and capital investment showed signs of recovery. As a whole, a gradual recovery track was seen.

As for steel market conditions, international steel market prices started to increase in early 2016, and continued their upward trend until the third quarter. In and after the second quarter in particular, these prices jumped significantly as China's steel exports decreased and coking coal prices soared. As a result, domestic steel market prices increased in line with international prices, and conditional sales prices charged to domestic customers also jumped significantly.

Although domestic demand for steel products did not rise considerably, the Company was able to implement the fast delivery/small-lot/processing strategy and increase its product handling volume. Profit margins for steel product transactions improved due to increases in the prices of steel products in the second half of the fiscal year, as well as the continuous recording of high-margin construction work project contracts.

Looking Ahead and Key Strategies

In late 2016, Chinese steel market prices started to fall due to increased production volumes and concerns over a slowdown in domestic demand in China, and East Asian market prices also started to decline. Coking coal prices that soared sharply due to the effects of a hurricane in Australia also started to fall. As a result, there is currently a growing sense of future uncertainty about steel market prices.

Due to the decline in market prices in China, low prices are currently offered to Chinese mills that export products to Japan, and there are concerns over relevant effects on domestic market prices.

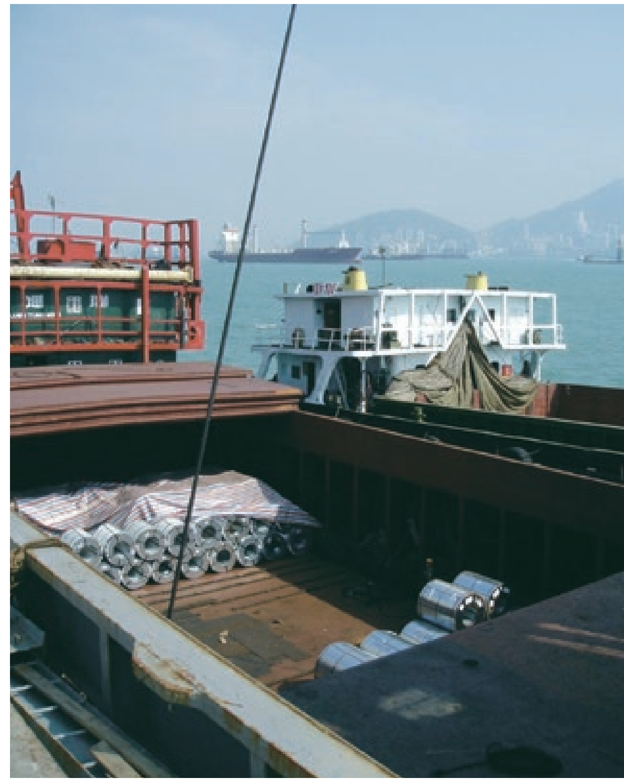
Steel demand for fiscal 2017 in the manufacturing sector is expected to remain continuously solid mainly in terms of automobiles and construction machines. Such demand in the construction industry is also forecasted to remain strong as a whole, supported by Olympics-related demand and urban redevelopment projects, and an improvement in demand is expected in the second half of the fiscal year in particular.

In Japan, the Company will strive to continuously gain new customers among small- to medium-sized enterprises, and further explore direct demand.

At the same time, we will implement the fast delivery/small-lot/processing strategy, thus seeking to improve the Hanwa Group's functions through M&A+A (Alliance) and alliances formed with partner companies. We will also strive to expand and strengthen regional facilities, aiming to meet further regional demand.

Steel (Overseas)

Fiscal 2016 Results



China's economic growth slowed, but was underpinned by infrastructure, real estate, and the automobile industries. After most of Chinese mills fell into the red in fiscal 2015, restructuring in the steel industry, such as the merger of Baoshan Iron and Steel Co., Ltd. and Wuhan Iron and Steel Corporation, as well as the movement towards the elimination of excess capacity, started on a full-scale basis.

In the United States, despite strong consumer spending on automobiles, etc., steel demand from the oil and gas sectors decreased markedly, pressured by crude oil prices falling further early in the fiscal year. During the latter half of the fiscal year, crude oil prices remained stable in the 40-50 dollar range, and were on a recovery trend mainly with respect to pipes.

While demand in the ASEAN region remained firm in general, despite variations among member countries, Vietnam and other countries prepared their plans successively to increase steel production and started to actively suppress large inflows of China-made steel products. The energy sector continued to experience weak growth due to crude oil price declines.

During fiscal 2016, Japan's steel exports decreased 1% year on year to 41 million tons, representing four consecutive years of decreases. Due mainly to yen appreciation, steel mills did not take an active stance towards receiving export orders. In this environment, although the Company's steel exports were continuously weak due to declining steel plate trading in the shipbuilding and energy sectors in Asian countries such as South Korea, the trading volume remained flat year on year due to expanded exports to the Middle East and Europe, where demand was relatively strong, and increased trading of stainless products, high-performance materials, and others.

Looking Ahead and Key Strategies

Reflecting violent fluctuations in main steel raw material prices from the beginning of the year, purchasing activities tend to be suspended mainly in ASEAN countries. International steel market prices are uncertain because Chinese mills are expected to actively increase their exports as China's growth rate declines. According to Japanese mills, an increased portion of raw material costs should be passed on to customers, but this idea is not readily accepted. As domestic demand for steel sheets and the like is strong, the export ceiling has been set at a lower amount. Market prices of thick steel plates and the like are expected to soften in and after the autumn due to a decline in shipbuilding demand.

On the demand front, as countries are actively implementing their protection policies, steel products may be subject to restrictions at certain destinations and distribution channels may become complex. On the other hand, it is expected that positive effects of government-led infrastructure improvement and consumption stimulus measures for automobiles and houses will be exerted. As crude oil prices have bottomed out, it appears that energy-related projects are being launched in the U.S. and other nations.

We will focus on promoting package sales in line with customer needs through endeavors that leverage the high quality and credibility of Japan-made products mainly in high-grade product market segments in which they compete little against Chinese products, and also seek to expand trading by 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 increasingly deal in Chinese, South Korean, and Indian steel products with price competitiveness, and strengthen trading with overseas users.

In Asia, North and Central Americas, Europe, and the Middle East, we will continue to conduct sales activities that can enhance our presence, exploring the possibility of starting business activities in emerging countries.

Metals and Alloys

Fiscal 2016 Results

Nickel prices that were at around the $8,500-per-ton level at the beginning of the year started to rise due to a tight demand-supply situation caused by declined ore production and an export reduction in connection with environmental problems in the Philippines, and tentatively reached the $12,000-per-ton level in the second half of the year. In 2017, these prices started to decline as Indonesia partially lifted its ore export ban, and on rumors that the Philippines' Environment Minister who vigorously pushed forward the reduction of environmental burdens from mining would be dismissed, and they reached the $10,000-per-ton level at the end of the year.

As for ferroalloys, production was successively suspended or reduced in the previous fiscal year because selling prices were below costs. However, these prices bottomed out as a whole at the end of fiscal 2015, rose gradually in the first half of fiscal 2016, increased sharply in the second half due to a tight demand-supply situation, and remained at high levels until year-end.

Under a favorable environment for specialty metal products, the Company expanded relevant business steadily by developing new products such as battery raw materials and chemical products, and by increasing new transactions with companies such as Tsingshan Iron & Steel Group.

The ferroalloy business also regained its profitability amid a favorable environment, significantly increased ferrochromium trading, and took measures for new investment.

However, profit decreased as Showa Metal Co., Ltd., a consolidated subsidiary, incurred a loss on disposal of long-term inventories.

Looking Ahead and Key Strategies

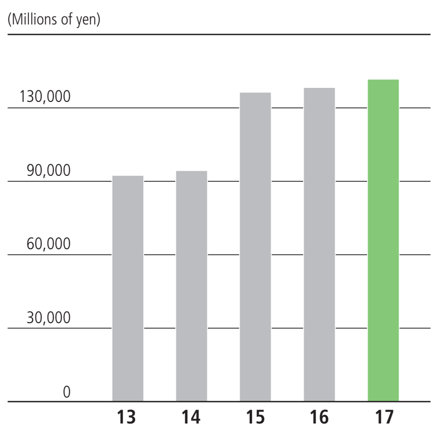
It appears that prices of specialty metals, chemical products and ferroalloys are entering a downward phase tentatively in the first half as the demand-supply situation is easing.

The Company will be facing a difficult pricing situation. However, the stainless steel raw material business will actively increase new customers and products, and the chemical product business will also vigorously strive to develop new products and markets, aiming to expand the entire business by increasing investment in upstream business areas for new products through the expansion of businesses arising from existing investment.

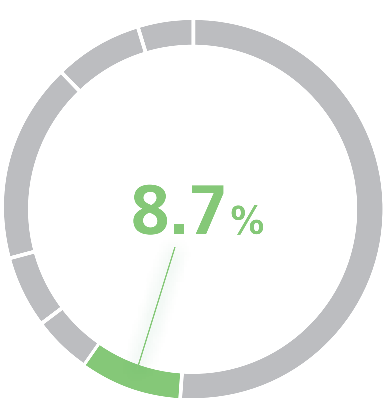
As for scrap raw materials, the Company will secure its profit rates by streamlining and multi-functionalizing processing facilities, although domestic cargo collection volume and sales are not expected to increase.

In ferroalloy markets, the Company will strive to expand sales volumes, product types and sales regions, increase investment in upstream business areas based on careful examinations, secure sources of future earnings, and make existing investment profitable. As for profit, the Company expects to receive equity investment income from Samancor Chrome Limited, to which additional capital was contributed. In addition, Showa Metal Co., Ltd. will post earnings, although it incurred a loss for the previous fiscal year.

Net Sales



Net Sales Composition



Non-Ferrous Metals

Fiscal 2016 Results

Aluminum prices that were at the mid-$1,500-per-ton level at the beginning of the fiscal year fluctuated repeatedly within a small range, but were on an upward track persistently, surpassing $1,900 per ton at year-end. Copper prices were in the $4,700- to 4,900-per-ton range in the first half of the year and rose sharply after that, surpassing $6,000 per ton in the latter half due to the effects of the Trump Rally. Then the prices remained at the $5,800-per-ton level until year-end. Prices of lead and zinc continued to rise persistently from the beginning of the fiscal year as demand and supply were kept in balance. Zinc prices almost reached $3,000 per ton tentatively.

Aluminum raw material prices remained strong without special factors such as last year's sharp decline in the premium on new aluminum ingots. This business achieved a turnaround despite posting a loss last year.

As for copper products, the Company secured stable profit as new product sales took off despite no expansion in demand. The movement of copper raw material demand and supply did not improve significantly, but export and import transactions generated more earnings. In addition, the Company increased transaction volumes and earnings under the given market conditions.

As for metal raw materials and precious metals, the Company posted considerable earnings thanks to new product development and diversification of suppliers and customers, started a new joint venture in Europe, and strengthened the cargo collection and inspection system.

Looking Ahead and Key Strategies

As for nonferrous metals in general, last year is considered to be a year of recovery from the bottom prices (i.e. prices below the break-even points), but these prices are thought to have peaked at the end of last year after the effects of the Trump Rally.

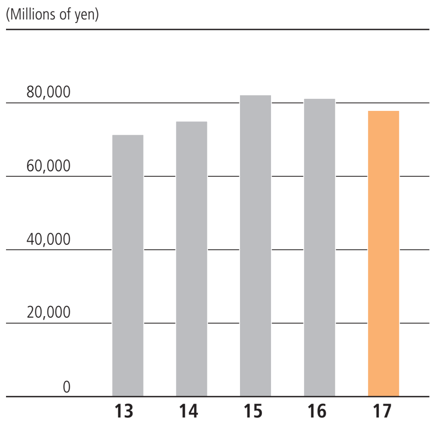
Future price development is considered to be affected by actual demand movement, mainly in China and the U.S. However, as China's economic adjustments and Trump Rally rebound are thought to be inevitable, metal prices will enter a phase of adjustment, after decreasing once in and after the first half of the current fiscal year.

Overall demand movement is also anticipated to be slow, affected by both markets that can exert large effects.

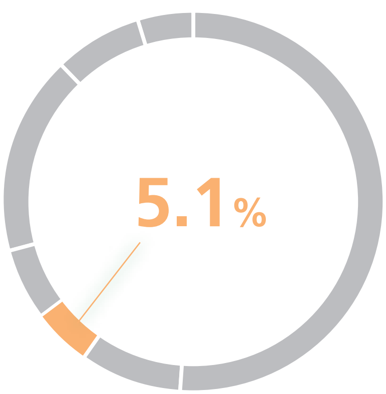
In Japan, demand will not decline significantly thanks to underpinning factors such as special demand driven by the Olympics and the progress of IoT.

In this environment, the Company aims to further streamline its processing facilities to continuously create high added value, diversify its suppliers, customers and products, and achieve globalization through investment in foreign countries, although relevant investment has been mainly domestic so far.

Net Sales



Net Sales Composition



Food Products

Fiscal 2016 Results

Prices of Atlantic salmon rose due to growing global demand. In addition, as Japanese autumn salmon catches were poor, the prices of Chilean silver salmon, a main product sent to Japan, rose sharply from ¥650 per kilogram in summer to the record high price of ¥920 per kilogram.

Crab prices also rose as the upper limit of catches was substantially lowered in Alaska. Prices for both king crabs and snow crabs hit an all-time high.

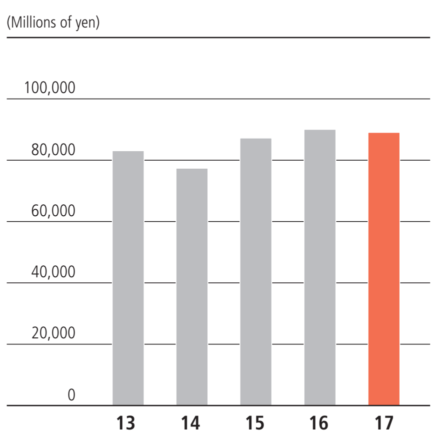
Shrimp prices were relatively stable in comparison with other marine products. However, the volume of cultured black tiger shrimp decreased significantly because its feed efficiency is worse than vannamei shrimp's. As a result, supply was tentatively inadequate across the globe.

As prices of marine products rose as a whole, the price spread of almost all products was positive, contributing to profit growth.

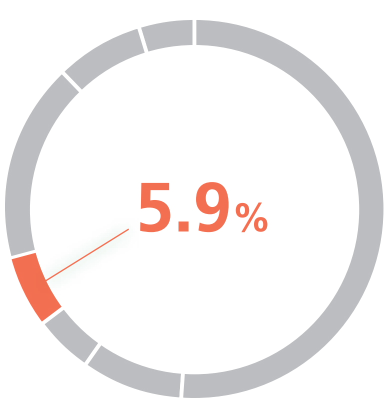
Hanwa Foods Co., Ltd. came to be gradually recognized in the industry, and achieved a turnaround because product unit purchase costs fell due to the effects of yen appreciation.

Seattle Shrimp & Seafood Company also achieved a turnaround as southern king crab sales contributed to profit growth considerably.

Net Sales



Net Sales Composition



Looking Ahead and Key Strategies

Prices of marine products are anticipated to be continuously high as a whole due to the effects of decreased natural fish supply caused by climate change, as well as increased demand for marine products.

However, the domestic market is shrinking due to the effects of high prices, and there is a strong possibility that prices will be adjusted in the short run. As for salmon in particular, the supply of Chilean silver salmon, a main product, is expected to increase next year. Japanese autumn salmon catches are also expected to recover this year. Accordingly, the current price ranges will not be maintained.

As for European mackerel, the upper limit of catches is expected to increase by 14% this year, and there is a high probability that prices will be adjusted in line with the limit increase.

There are concerns over worsened resource conditions regarding crabs. However, the current price ranges will not decline considerably despite decreased supply and increased demand in the U.S. market.

The business performance of restaurants has been strong thanks to increased consumption by foreign tourists. However, some online shopping companies are currently being forced to partially scale down their business plans due to the inadequate number of home delivery drivers, although such shopping has boosted domestic consumption so far. Consumers have started shifting from volume sellers to online shopping, but this trend may reverse.

Due to increasing demand for marine products on a global basis, the need to secure suppliers is higher. To increase sales and profit, the Company will cooperate with Seattle Shrimp & Seafood Company in drawing up action plans such as joint procurement, and enhance its skills in negotiating with suppliers.

Petroleum and Chemicals

Fiscal 2016 Results

All commodity market prices stopped declining in early 2016, and crude oil prices finally started to increase. The WTI crude oil price remained at around $50, but domestic oil companies faced competition to gain customer shares, likely due to the need to prepare for wholesale companies' realignment in the country. In this environment, it was continuously difficult to secure profit margins, and the Petroleum Department's consumer business faced challenging conditions. However, as a winter cold snap arrived in November, the kerosene oil sales environment improved after a long interval, recovering enough to compensate for poor sales of other products.

The bunker oil business environment remains poor, and losses continued in the first half. However, this business achieved a turnaround for the first time in one and a half years partly because purchasing conditions improved at long last in the second half.

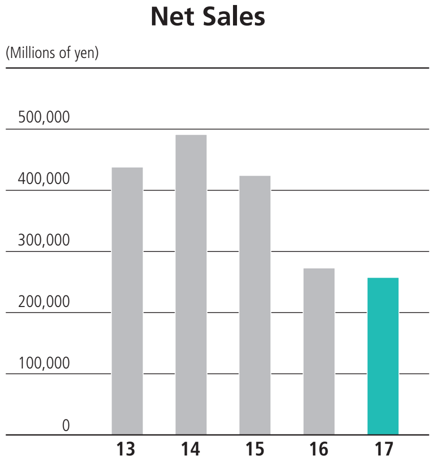
The lubricant business grew in a stable manner by increasing new materials such as inorganic materials, and by expanding existing product sales steadily.

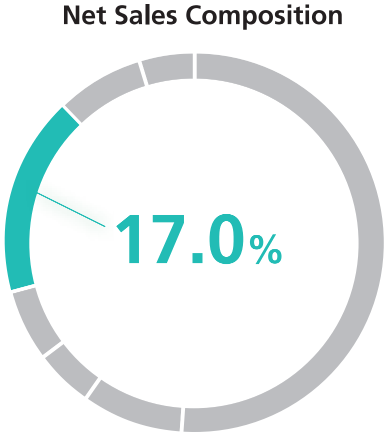
The chemicals business continued to see its product sales increase, steadily developed new products and customers, and achieved performance significantly above target figures, contributing to the Company's earnings.

The chemical raw material business was affected by cheap prices offered by domestic makers due to decreased naphtha prices and struggled to sell imported raw materials, but its performance remained almost unchanged thanks to continuous sales to customers wishing to procure materials in a stable manner.

The paper business achieved a turnaround at long last in the second half thanks to cheaper yen, sharply higher waste paper prices affected by expanded demand in China, and other factors. It also increased RPF sales gradually.

The new energy business is continuously struggling to generate operating profit because demand for PKS will not pick up on a full-scale basis until 2018. However, this business posted a profit by conducting capital transactions aiming to build collaborative relationships with long-term suppliers. The Company also started the pellet business to fulfill PKS supply shortage, establishing the foundation for concluding long-term contracts, etc.



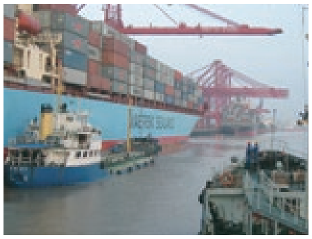


Looking Ahead and Key Strategies

In the fuel business, challenging sales activities will continue as the effects of wholesale companies' realignment are unforeseeable. To remain in business, the Company is planning to comprehensively incorporate customer needs partly because there is a strong possibility that such realignment leads to distributor realignment. This business also aims to keep its performance on par with previous results by sharing information with Toyo Energy Co., Ltd. so that stronger synergy can be created. The bunker oil and lubricant businesses are expected to be on par with the second half results.

The chemicals business has finished activities, for now, to develop large customers buying conventional disposable plastic shopping bags, etc. This business will shift its focus to the development of new products such as new high-performance plastic bags and office supplies offered to consumption-related companies, aiming to increase transactions.

The paper business has achieved certain domestic sales results, as well as export performance, and developed its basic capability for generating stable profits. Thanks to increased sales of RPF, etc., this business is expected to generate stable profits that are on par with the second half.



The new energy business is expected to increase its transaction volume month by month. To achieve stable delivery, this business will accumulate its performance, eliminate problems, and prepare for next year in which full-scale demand is expected to arise.

Overseas Sales Subsidiaries

Fiscal 2016 Results

During fiscal 2016, international commodity prices remained weak. However, unit prices stopped declining, and prices of certain commodities bottomed out.

In North America, the steel business struggled to secure its procurement routes due to the imposition of anti-dumping duties (ADD) on China-made steel products, and the commencement of investigations on Vietnamese exports suspected to be of Chinese origin. In the food business, the volume of sales to a US sales subsidiary decreased last year, but sales recovery stalled. In the metal raw materials business, rare earth shipments to chemical makers were strong, but costs were incurred prior to shipment. The non-ferrous metals business maintained the volume of precious metal scrap trading as leading US metal pickup service providers scaled back their business operations.

China experienced the lowest economic growth in 26 years, but the volume of crude steel production increased 1.2% year on year. Chinese steelmakers' profitability improved as market prices recovered thanks to government-led capacity reduction policies. In this environment, the Company actively pursued the restructuring and structural reform of each facility, and transformed its business from one focusing on given instruction-based trading to the autonomous-based business. Inland China areas (Wuhan, Chongqing, and Chengdu) have seen strong growth. In these areas, the Company also expanded its business.

ASEAN economies experienced strong growth. However, the automobile industry grew only slightly, affected by increased production in Mexico. Construction demand was mostly steady in these countries. As a result, all local subsidiaries of the Company in ASEAN countries posted profit.

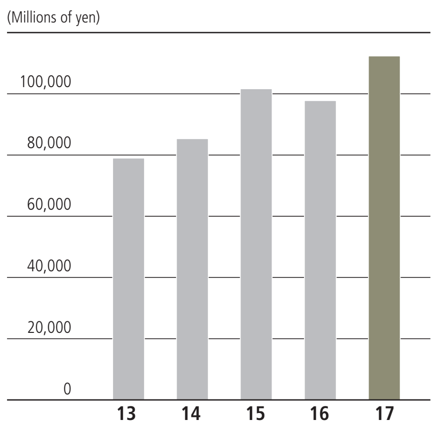
Looking Ahead and Key Strategies

In North America, the Company will find new steel mills to avoid ADD, narrow down the customer base to select preferred customers, and also build country- and region-based business operations. The food business will pursue collaboration with Group companies in the U.S., Mexico and Canada, and expand sales in North and Latin American markets. The metal raw materials business conducts the pure raw material/scrap business, dealing with chemical, catalyst, battery, and related companies. The non-ferrous metals business focuses on byproducts of non-ferrous metal refineries, in addition to precious metal scraps. The waste paper business will expand areas of procurement and increase its business volume.

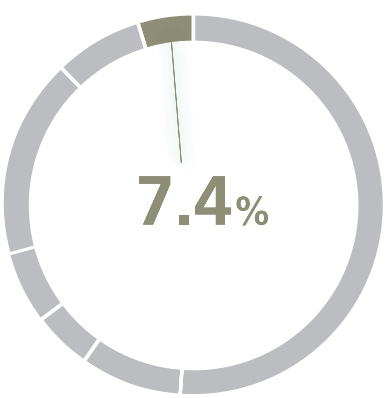
In China, the Company will increase transactions both inside and outside China by expanding and enhancing its trading company functions, make relevant investment if necessary, and promote growth strategies. The Company will also implement a personnel system suitable for China's actual conditions, revitalize local staff, and localize its business. Each industry is clearly divided into two groups (i.e. winners and losers). The Company's business partners will deal with social changes in China through cooperation with winning companies with distinct features.

The ASEAN region's economic growth is anticipated to slow down slightly. However, steady growth can be expected, particularly in Myanmar and the Philippines. New business creation and additional capital investment will increase more than ever so that local demand can be met. The Company will flexibly capture business opportunities by forming a cooperation system or by other means.

Net Sales



Net Sales Composition



Other Business (Lumber and Machinery)

Fiscal 2016 Results

Lumber

Housing starts totaled 960,000 units in fiscal 2016 (a year on year increase of 6.4%), of which 408,000 units were conventional timber-based construction (a year on year increase of 8.8%). These results were driven particularly by rental housing, condominiums, and detached housing. Non-residential properties also increased.

Since demand for housing, etc., increased more than expected, housing supply always appeared tight. As a result, there were no considerable price changes.

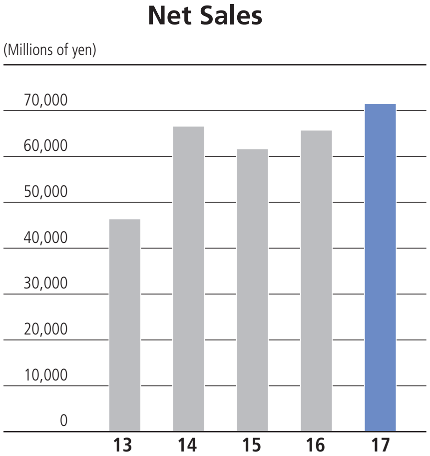
In and after summer, prices were supported by various factors that arose successively, such as a fire broke out at a plywood maker, European laminated wood makers' production adjustment caused by log shortages, and JAS problems.

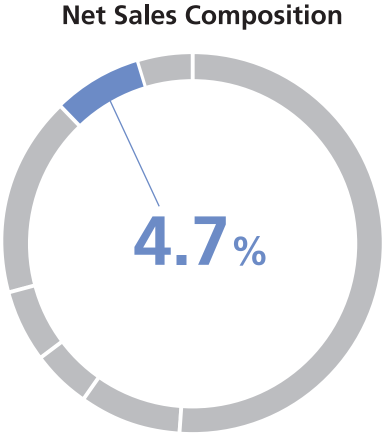
A consumption tax hike was postponed during the fiscal year ended March 2016, but sales increased as special demand (for conventional housing in particular) arose due to the effects of low interest rate levels. Transactions remained stable despite poor profit, little price decline, and product shortages.

Machinery

In the leisure facilities business, we delivered Japan's tallest Ferris wheel to the EXPOCITY complex and Japan's first medium-sized models to Fuji-Q Highland and Sagamiko Resort Pleasure Forest. We also delivered a pool with running water to Japan Monkey Park (Inuyama City, Aichi Prefecture). In addition, we have built a post-delivery maintenance system by hiring experienced personnel from outside.

In the industrial machinery business, we won new contracts to deliver Japan-made slitter lines used for electrical steel and vacuum heat treating furnaces to China. In Japan, we also delivered whole production lines, including foundation work such as shutter molding lines and continuous drawing machines, rather than standalone facilities only.





Looking Ahead and Key Strategies

Lumber

As demand and supply will be in balance, except for some products (flat square redwood laminate), profit rates may decline.

Despite continuous field worker shortages and soaring raw material prices, it will be difficult to pass on increased costs with higher selling prices.

In the housing industry, requests for presentation of wood product cost reduction will become more demanding. However, since fewer companies are able to respond to such requests, oligopoly will prevail further.

Housing starts are anticipated to be around 900,000 to 920,000 units in fiscal 2017. A certain level of demand can be anticipated, but procurement worth the selling price will be difficult. We will face severe business conditions.

In this business, we will stabilize the main import transactions, develop products (building materials) that meet direct demand, and promote the steel ceiling joist business and the fast delivery/small-lot/processing (e.g. delivery to worksites) of wood products by boosting sales activities targeting housing makers and building mutually beneficial relationships.

Machinery

The leisure facilities business has seen amusement parks gradually become eager to make investments for the future with their customer traffic recovering. However, since a lot of construction work will be completed in or after fiscal 2018, contract workloads are light in fiscal 2017.

The industrial machinery business will continue joint sales activities actively with the domestic steel business and accelerate the acquisition of new customers.

This business needs to urgently develop products other than cranes and secure new suppliers, striving to enhance its facility product lineups for steel makers.

Other issues are the expansion of Japan-made product sales in overseas markets, including China, and the development of attractive foreign products.

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, the management decision-making and business supervisory body, 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, and meets at least twice 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. In addition, the Compensation Committee, which determines each officer's compensation, and the Election Committee, which governs the nomination of officers, both operate under the Evaluation Committee.

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 FY1994, 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, and added an outside director in FY2011, making a total of two 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

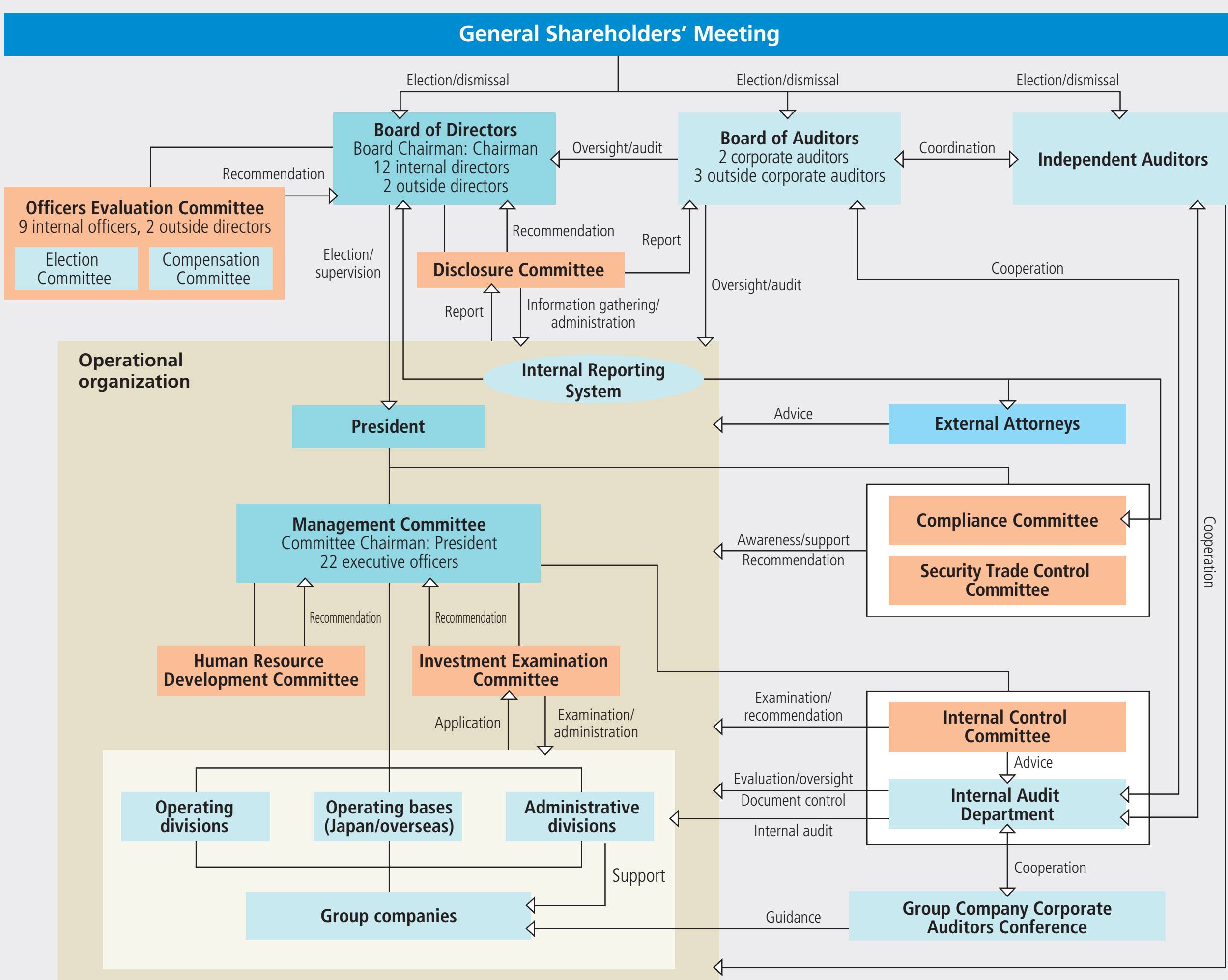
An internal audit is performed by the audit division in the Internal Audit Department and the Overseas Audit HKQC promotion division on the Company's domestic and overseas bases as well as other national group companies and overseas subsidiaries. The audit is centered mainly on monitoring their accounting, 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 Personnel Department, Internal Audit Department and Corporate Planning Department 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 Group Company Management Rules and Group Company Financial Management Rules, the Company manages properly the risks related to its subsidiaries by establishing the appropriate authority management system and reporting system.

g) Each business department and subsidiary of the Company promotes the Hanwa Knowledge Quality Control (HKQC) activities to properly control operational risks by identifying risks inherent in operational procedures and organizing countermeasures for them.

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.

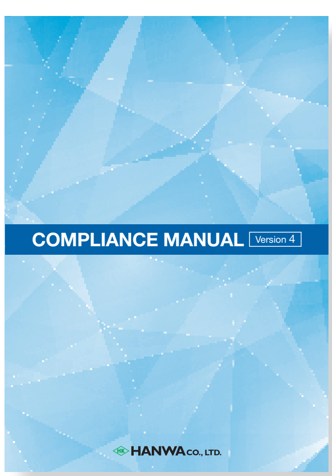
Companies both within Japan and overseas are internationally finding it more necessary to become globalized in terms of economic activity and to create sustainable developments. Hanwa is going to continue making efforts toward development as a single corporation existing within the world society with 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. Diligent information disclosure
5. Consideration of environment
6. Global harmony
7. Ensuring a free and generous workplace environment
8. Promoting activities contributing to society as a "Good Corporate Citizen"
9. Making people familiar with ethical standards
10. Appropriate corporate managements

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.

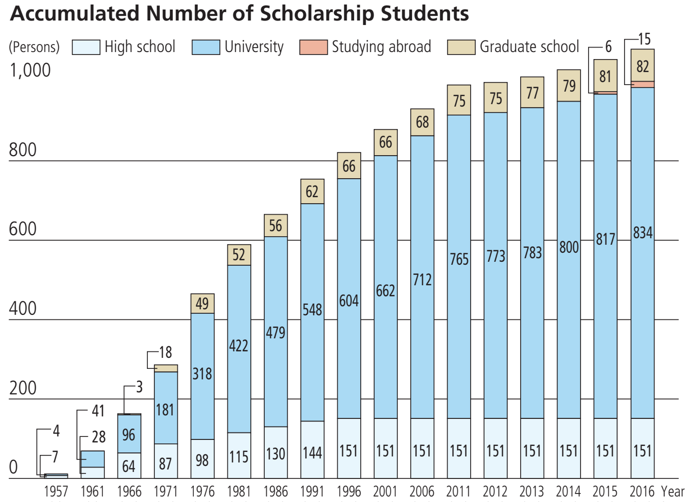
Social Contribution

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 60th 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, 2017, the program had distributed a total of ¥654 million in scholarships, and the accumulated number of scholarship students had grown to 1,082.

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



HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Five-Year Summary

For the years ended March 31

	Millions of yen, except for number of employees					Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2014	2013	**2017**
For the year:						
Net sales	**¥ 1,514,038**	¥ 1,511,800	¥ 1,737,398	¥ 1,682,504	¥ 1,511,325	**$13,495,303**
Operating income	**23,426**	18,178	19,107	16,253	12,491	**208,806**
Net income attributable to owners of the parent	**16,364**	25,470	9,086	7,897	4,721	**145,860**
Comprehensive income	**20,992**	16,779	19,450	14,648	6,600	**187,111**
Net cash provided by (used in) operating activities	**3,959**	53,099	1,791	343	19,381	**35,288**
Net cash provided by (used in) investing activities	**(18,428)**	(10,447)	(13,693)	(5,244)	(5,107)	**(164,257)**
Net cash provided by (used in) financing activities	**15,448**	(41,752)	19,339	(4,928)	(16,364)	**137,695**
At year-end:						
Cash and cash equivalents	**¥ 27,206**	¥ 25,805	¥ 24,515	¥ 15,920	¥ 23,198	**$ 242,499**
Total assets	**694,233**	599,694	651,457	593,352	552,908	**6,188,011**
Total net assets	**171,637**	156,139	142,750	125,362	120,674	**1,529,878**
Number of employees	**3,155**	2,977	2,772	2,610	2,208	

	Yen					U.S. dollars (Note 1)
	2017	2016	2015	2014	2013	**2017**
Per share data:						
Net income attributable to owners of the parent	**¥ 80.18**	¥ 122.92	¥ 43.85	¥ 38.11	¥ 22.78	**$ 0.715**
Cash dividends	**19.00**	18.00	15.00	12.00	12.00	**0.169**
Net assets attributable to owners of the parent	**838.70**	747.40	682.46	591.68	570.50	**7.476**

	%				
	2017	2016	2015	2014	2013
Key financial ratios:					
Return on assets (ROA)	**2.5**	4.1	1.5	1.4	0.8
Return on equity (ROE)	**10.1**	17.2	6.9	6.6	4.1
Net debt/equity ratio (Note 2)	**140**	140	180	190	180

Notes: 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥112.19=$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, 2017

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, despite signs of slight stagnation in industrial production and capital expenditures. The European economy remained firm on the whole, but showed political instability caused by factors such as Brexit (the United Kingdom's withdrawal from the European Union), refugee issues and geopolitical risk. In China, the effects of over-production and excess debt continued, but the trend toward slowing economic growth relaxed reflecting a recovery in infrastructure and real estate investment, and personal consumption, which had been sluggish under the new normal economic policy, due to the effects of economic stimulus measures. Other emerging countries were affected by factors such as economic conditions in developed countries, changes in financial environments and resource prices, together with political and geopolitical issues. Asian countries experienced relatively stable growth, driven primarily by domestic demand, with the situation varying by country. South America and Russia, which had been stagnant, trended upward reflecting a recovery in resource prices and other factors.

The Japanese economy saw sluggish growth in exports due to overseas economic conditions and exchange rate fluctuations. However, it remained relatively stable, reflecting a modest upward shift in housing investment, signs of recovery in the operating rate of manufacturing industries, and gradual improvement in personal consumption and capital expenditures due to the effects of inbound tourism demand.

In these circumstances, the Group posted consolidated net sales of ¥1,514,038 million for the consolidated fiscal year ended March 31, 2017, representing a year-on-year increase of 0.1%, due mainly to higher sales volume of metal raw materials and lumber, despite lower prices of petroleum and steel products compared with the previous consolidated fiscal year. Operating income rose 28.9%, to ¥23,426 million, mainly reflecting higher profit in the food products business and the steel business. Conversely, net income attributable to owners of the parent decreased 35.8% to ¥16,364 million due to factors such as a decrease in extraordinary profits and the absence of reductions in income taxes paid reflecting a tax deduction recorded in the previous fiscal years.

Net Sales

Net sales increased 0.1% year on year to ¥1,514,038 million, due mainly to higher sales volume of ferro-alloys and lumber, even though many of the business segments saw decreased net sales, reflecting lower sales prices accompanying declines in commodity prices in the previous consolidated fiscal year. Domestic sales rose 0.6% to ¥1,136,629 million, while overseas sales fell 1.1%, to ¥377,409 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 0.4% to ¥1,449,523 million. This was due mainly to a drop in purchase prices reflecting lower market prices and a decrease in loss on write-down of inventories.

SG&A expenses rose 7.1% to ¥41,089 million, primarily reflecting increases in salaries and bonuses, rent, income taxes, and a rise in expenses due to the inclusion of newly consolidated subsidiaries.

Operating Income

Operating income for the consolidated fiscal year under review expanded 28.9% to ¥23,426 million from ¥18,178 million a year earlier due mainly to an increase in earnings related to contracted works in the steel business, higher profit in the overseas coil center, and a return to profitability at Seattle Shrimp & Seafood Company, Inc., which had recorded an operating loss in the previous consolidated fiscal year. The result raised the ratio of operating income to net sales by 0.3 percentage point from the previous consolidated fiscal year, to 1.5%.

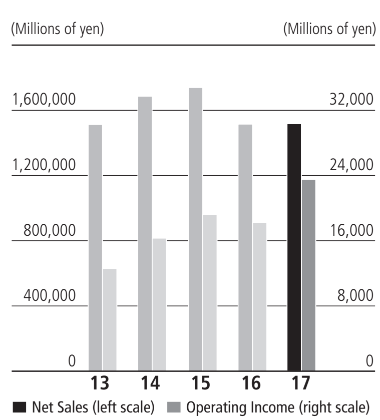
Other Income (Expenses)

Net other expenses amounted to ¥263 million, versus income of ¥8,566 million in the previous consolidated fiscal year. This reflected primarily a decrease in gain on sales of property and equipment due mainly to a sale of real estate in the distribution center located in Chiba Prefecture a year earlier and a decrease in gain on bargain purchase. These factors were partly offset by decreases in loss on valuation of investment securities, loss on valuation of investments in capital, share of loss of entities accounted for using equity method, and foreign exchange loss.

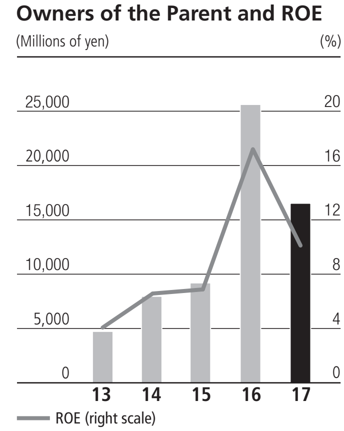
Income Taxes

Income taxes increased 432.2% from the previous consolidated fiscal year to ¥6,728 million, reflecting the absence of significant reductions in income taxes paid a year earlier due to such factors as a tax deduction for impairment loss of sold real estate that was recognized in previous years.

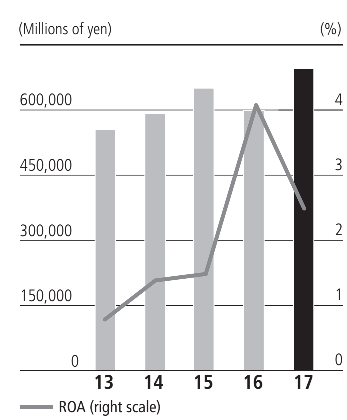
Net Sales and Operating Income



Net Income Attributable to Owners of the Parent and ROE



Total Assets and ROA



Management's Discussion and Analysis

Net Income Attributable to Owners of the Parent
Net income declined 35.5% to ¥16,435 million. Net income attributable to owners of the parent within net income decreased 35.8% to ¥16,364 million. Accordingly, net income per share fell to ¥80.18, from ¥122.92 in the prior year.

Sources of Capital and Cash Liquidity

Financial Condition
Total assets increased 15.8% to ¥694,233 million from the previous consolidated fiscal year, reflecting higher trade receivables resulting from gradual higher sales during the period.

Liabilities rose 17.8% to ¥522,596 million as a result of increases in trade notes and accounts payable and bank borrowings reflecting a gradual sales increase, and interest-bearing debt rose 9.3% to ¥259,671 million. The net debt/equity ratio (net interest-bearing debt as a percentage of equity) stood at 140% as of March 31, 2017.

Net assets grew 9.9% to ¥171,637 million. The expansion was attributable mainly to the accumulation of retained earnings from net income attributable to owners of the parent and an increase in the valuation difference on available-for-sale securities, net of taxes. Conversely, the equity ratio at March 31, 2017 fell to 24.5% from 25.8% a year ago, due to an increase in debt.

Cash Flows
Net cash provided by operating activities totaled ¥3,959 million, down ¥49,140 million from the previous consolidated fiscal year. This was due primarily to higher working capital requirements reflecting an upturn in sales, compared with an improvement in working capital turnover a year ago, which reflected decreases in trade notes and accounts receivable and inventories accompanying lower sales affected by a price decline in petroleum products.

Net cash used in investing activities amounted to ¥18,428 million, up ¥7,981 million from the previous consolidated fiscal year. This was primarily attributable to a decrease in proceeds from sale of property and equipment, and loans to investment-related parties despite a decline in purchase of investment securities and property and equipment.

Net cash provided by financing activities amounted to ¥15,448 million, compared with net cash used of ¥41,752 million in the previous consolidated fiscal year. This resulted primarily from net increases in short-term loans payable and commercial paper due to an upturn in working capital requirements, compared to net decreases in the items a year earlier.

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. In addition, the Group has entered into a commitment line agreement totaling ¥80,000 million with financial institutions.

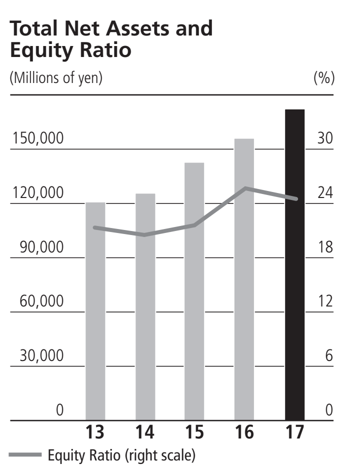
The Group meets its working capital requirements principally through long-term borrowings from banks to secure stable funds, while short-term bank borrowings are used for day-to-day funding. Short-term borrowings as at March 31, 2017 stood at ¥68,883 million, mostly denominated in yen. The Group's outstanding long-term loan was ¥144,612 million, including the current portion of long-term loan of ¥38,380 million.

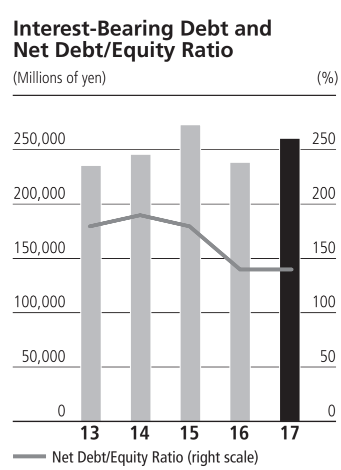
The Group issues bonds primarily to fund working capital. As of March 31, 2017, bonds outstanding consisted of straight bonds amounting to ¥40,098 million. To increase its flexibility to issue bonds in a timely manner to take advantage of or to meet changing market environments and internal financial requirements, the Company has filed for shelf registration. As of March 31, 2017, the unused aggregate principal amount of the shelf registration for straight bonds for subscription in Japan amounted to ¥30,000 million.

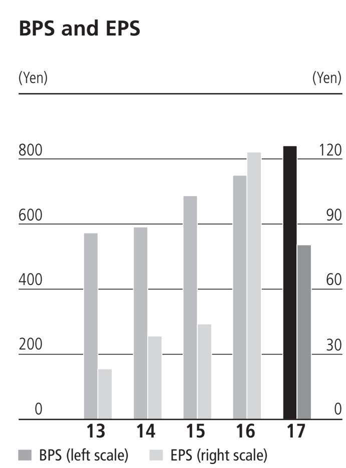
Advocating overall corporate value improvement and sustainable growth, the Group attempts to conduct efficient management to secure funds needed for business growth and maintain a healthy financial balance.

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 the 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, most 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 individuals' 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.

Consolidated Balance Sheets

As at March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2017**	2016	**2017**
Current assets:			
Cash and cash equivalents (Note 3)	**¥ 27,206**	¥ 25,805	**$ 242,499**
Receivables:			
Trade notes and accounts (Note 3):			
Unconsolidated subsidiaries and affiliates	**9,792**	8,733	**87,281**
Other	**298,062**	251,419	**2,656,761**
Electronically recorded monetary claims (Note 3)	**30,743**	16,141	**274,026**
Loans:			
Unconsolidated subsidiaries and affiliates	**3,606**	2,409	**32,142**
Other	**13,691**	196	**122,034**
Allowance for doubtful receivables	**(334)**	(287)	**(2,977)**
Securities (Notes 3 and 4)	**487**	—	**4,341**
Inventories (Note 6)	**111,040**	106,051	**989,750**
Deferred tax assets—current (Note 10)	**1,920**	2,085	**17,114**
Other current assets (Note 7)	**41,561**	38,702	**370,451**
Total current assets	**537,774**	451,254	**4,793,422**
Investments and noncurrent receivables:			
Investment securities (Notes 3, 4 and 7)	**58,786**	45,062	**523,986**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 3)	**13,738**	13,609	**122,453**
Loans receivable (Note 3):			
Unconsolidated subsidiaries and affiliates	**561**	—	**5,000**
Other	**10,282**	12,384	**91,648**
Other investments and noncurrent receivables	**11,787**	14,107	**105,063**
Allowance for doubtful receivables	**(505)**	(485)	**(4,501)**
Total investments and noncurrent receivables	**94,649**	84,677	**843,649**
Property and equipment (Note 7)**:**			
Land (Note 11)	**29,640**	30,145	**264,195**
Buildings and structures	**37,964**	38,829	**338,390**
Other	**29,189**	28,555	**260,175**
Accumulated depreciation	**(37,300)**	(35,966)	**(332,472)**
Total property and equipment	**59,493**	61,563	**530,288**
Other assets:			
Deferred tax assets—noncurrent (Note 10)	**283**	244	**2,523**
Intangibles and other assets	**2,034**	1,956	**18,129**
Total other assets	**2,317**	2,200	**20,652**
Total	**¥ 694,233**	¥ 599,694	**$ 6,188,011**

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term loans payable (Notes 3 and 8)	**¥ 68,883**	¥ 56,412	**$ 613,985**
Commercial paper (Notes 3 and 8)	**5,000**	—	**44,567**
Long-term debt due within one year (Notes 3, 7 and 8)	**38,401**	20,361	**342,285**
Trade notes and accounts payable (Note 3):			
Unconsolidated subsidiaries and affiliates	**1,058**	686	**9,430**
Other	**190,932**	149,172	**1,701,863**
Accrued bonuses to employees	**2,306**	2,193	**20,554**
Provision for product warranties	**146**	—	**1,301**
Provision for loss on business of subsidiaries and associates	**512**	512	**4,564**
Income taxes payable	**6,752**	327	**60,184**
Other current liabilities	**45,069**	39,743	**401,721**
Total current liabilities	**359,059**	269,406	**3,200,454**
Noncurrent liabilities:			
Long-term debt due after one year (Notes 3, 7 and 8)	**146,309**	159,518	**1,304,118**
Net defined benefit liabilities (Note 9)	**4,518**	4,076	**40,271**
Deferred tax liabilities—noncurrent (Note 10)	**7,001**	4,994	**62,403**
Other noncurrent liabilities	**5,709**	5,561	**50,887**
Total noncurrent liabilities	**163,537**	174,149	**1,457,679**
Contingent liabilities (Note 13)			
Net assets (Note 11)			
Shareholders' equity:			
Common stock:			
Authorized: 570,000,000 shares			
Issued: 211,663,200 shares	**45,651**	45,651	**406,908**
Capital surplus	**—**	5	**—**
Retained earnings	**117,778**	104,601	**1,049,808**
Treasury stock, at cost: 8,464,473 shares in 2017 and 4,455,897 shares in 2016	**(3,720)**	(1,450)	**(33,158)**
Total shareholders' equity	**159,709**	148,807	**1,423,558**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes	**12,581**	8,026	**112,141**
Deferred gains or losses on hedges, net of taxes	**142**	(377)	**1,266**
Land revaluation difference, net of taxes	**2,966**	2,966	**26,437**
Foreign currency translation adjustments	**1,062**	1,843	**9,466**
Remeasurements of defined benefit plans (Note 9)	**(6,037)**	(6,398)	**(53,811)**
Total accumulated other comprehensive income	**10,714**	6,060	**95,499**
Non-controlling interests	**1,214**	1,272	**10,821**
Total net assets	**171,637**	156,139	**1,529,878**
Total	**¥ 694,233**	¥ 599,694	**$ 6,188,011**

Consolidated Statements of Income and Comprehensive Income

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales	¥ 1,514,038	¥ 1,511,800	$ 13,495,303
Cost of sales	1,449,523	1,455,240	12,920,252
Gross profit	64,515	56,560	575,051
Selling, general and administrative expenses	41,089	38,382	366,245
Operating income	23,426	18,178	208,806
Other income (expenses):			
Interest and dividend income	2,685	2,080	23,933
Interest expense	(2,553)	(2,684)	(22,756)
Foreign exchange loss	(285)	(1,039)	(2,540)
Share of profit (loss) of entities accounted for using equity method	(88)	(1,304)	(784)
Gain on sales of property and equipment (Note 14)	877	13,075	7,817
Gain on bargain purchase	—	1,101	—
Gain on sales of investment securities	675	742	6,017
Loss on sales of property and equipment (Note 15)	(227)	(261)	(2,023)
Loss on valuation of investment securities	(815)	(2,385)	(7,264)
Loss on valuation of investments in capital	—	(888)	—
Loss on liquidation of business (Note 16)	(253)	—	(2,255)
Loss on revision of retirement benefit plan	—	(64)	—
Other, net	(279)	193	(2,488)
Income before income taxes	23,163	26,744	206,463
Income taxes (Note 10)**:**			
Current	7,354	1,120	65,550
Deferred	(626)	144	(5,580)
	6,728	1,264	59,970
Net income	¥ 16,435	¥ 25,480	$ 146,493
Net income attributable to:			
Owners of the parent	¥ 16,364	¥ 25,470	$ 145,860
Non-controlling interests	71	10	633
Other comprehensive income (Note 17)**:**			
Valuation difference on available-for-sale securities, net of taxes	4,555	(3,597)	40,602
Deferred gains or losses on hedges, net of taxes	519	(1,903)	4,626
Land revaluation difference, net of taxes	—	102	—
Foreign currency translation adjustment	(724)	(675)	(6,453)
Remeasurements of defined benefit plans, net of taxes	361	(2,738)	3,217
Share of other comprehensive income of entities accounted for using equity method	(154)	110	(1,374)
Total other comprehensive income	4,557	(8,701)	40,618
Comprehensive income	¥ 20,992	¥ 16,779	$ 187,111
Comprehensive income attributable to:			
Owners of the parent	¥ 21,018	¥ 16,822	$ 187,343
Non-controlling interests	(26)	(43)	(232)

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Net income per share	¥ 80.18	¥ 122.92	$ 0.715
Cash dividends per share	19.00	18.00	0.169

See accompanying Notes to Consolidated Financial Statements.

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2017 and 2016

	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, 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)
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Sales of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(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
Balance at April 1, 2016	**211,663**	**45,651**	**5**	**104,601**	**(1,450)**	**8,026**	**(377)**	**2,966**	**1,843**	**(6,398)**	**1,272**	**156,139**
Cash dividends paid	—	—	—	**(3,901)**	—	—	—	—	—	—	—	**(3,901)**
Change of scope of consolidation	—	—	—	**220**	—	—	—	—	—	—	—	**220**
Change of scope of equity method	—	—	—	**701**	—	—	—	—	—	—	—	**701**
Reversal of revaluation reserve for land	—	—	—	—	—	—	—	—	—	—	—	—
Net income attributable to owners of the parent	—	—	—	**16,364**	—	—	—	—	—	—	—	**16,364**
Purchases of treasury stock	—	—	—	—	**(2,270)**	—	—	—	—	—	—	**(2,270)**
Purchase of shares of consolidated subsidiaries	—	—	**(5)**	**(202)**	—	—	—	—	—	—	—	**(207)**
Sales of shares of consolidated subsidiaries	—	—	—	**(0)**	—	—	—	—	—	—	—	**(0)**
Other changes	—	—	—	**(5)**	—	—	—	—	—	—	—	**(5)**
Net changes of items other than shareholders' equity	—	—	—	—	—	**4,555**	**519**	—	**(781)**	**361**	**(58)**	**4,596**
Balance at March 31, 2017	**211,663**	**¥ 45,651**	**¥ —**	**¥ 117,778**	**¥ (3,720)**	**¥ 12,581**	**¥ 142**	**¥ 2,966**	**¥ 1,062**	**¥ (6,037)**	**¥ 1,214**	**¥ 171,637**

	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, 2016	**211,663**	**$406,908**	**$ 45**	**$ 932,356**	**$(12,925)**	**$ 71,539**	**$ (3,360)**	**$26,437**	**$16,427**	**$(57,028)**	**$11,338**	**$1,391,737**
Cash dividends paid	—	—	—	**(34,771)**	—	—	—	—	—	—	—	**(34,771)**
Change of scope of consolidation	—	—	—	**1,961**	—	—	—	—	—	—	—	**1,961**
Change of scope of equity method	—	—	—	**6,248**	—	—	—	—	—	—	—	**6,248**
Reversal of revaluation reserve for land	—	—	—	—	—	—	—	—	—	—	—	—
Net income attributable to owners of the parent	—	—	—	**145,860**	—	—	—	—	—	—	—	**145,860**
Purchases of treasury stock	—	—	—	—	**(20,233)**	—	—	—	—	—	—	**(20,233)**
Purchase of shares of consolidated subsidiaries	—	—	**(45)**	**(1,801)**	—	—	—	—	—	—	—	**(1,846)**
Sales of shares of consolidated subsidiaries	—	—	—	**(0)**	—	—	—	—	—	—	—	**(0)**
Other changes	—	—	—	**(45)**	—	—	—	—	—	—	—	**(45)**
Net changes of items other than shareholders' equity	—	—	—	—	—	**40,602**	**4,626**	—	**(6,961)**	**3,217**	**(517)**	**40,967**
Balance at March 31, 2017	**211,663**	**$406,908**	**$ —**	**$1,049,808**	**$(33,158)**	**$112,141**	**$ 1,266**	**$26,437**	**$ 9,466**	**$(53,811)**	**$10,821**	**$1,529,878**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥ 23,163	¥ 26,744	$ 206,463
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation	3,971	4,344	35,395
Amortization of goodwill	218	232	1,943
Increase (decrease) in allowance for doubtful receivables	68	(633)	606
Interest and dividend income	(2,685)	(2,080)	(23,933)
Interest expense	2,553	2,684	22,756
Share of (profit) loss of entities accounted for using equity method	88	1,304	784
Gain on sales of property and equipment	(877)	(13,075)	(7,817)
Gain on bargain purchase	—	(1,101)	—
Gain on sales of investment securities	(675)	(742)	(6,017)
Loss on sales of property and equipment	227	261	2,023
Loss on valuation of investment securities	815	2,385	7,264
Loss on valuation of investments in capital	—	888	—
Loss on liquidation of business	253	—	2,255
Loss on revision of retirement benefit plan	—	64	—
Decrease (increase) in trade receivables	(60,932)	49,176	(543,114)
Decrease (increase) in inventories	(3,992)	31,641	(35,582)
Increase (decrease) in trade notes and accounts payable	39,538	(38,116)	352,420
Increase (decrease) in net defined benefit liabilities	959	4,603	8,548
Other, net	47	(10,266)	419
Subtotal	2,739	58,313	24,413
Cash flows during the year for:			
Interest and dividends received	2,767	2,025	24,664
Interest paid	(2,562)	(2,703)	(22,836)
Income taxes (paid) refund	1,015	(4,536)	9,047
Net cash provided by (used in) operating activities	3,959	53,099	35,288
Cash flows from investing activities:			
Payments into time deposits	(1,246)	(1,547)	(11,106)
Proceeds from withdrawal of time deposits	1,262	701	11,249
Additions to property and equipment	(3,656)	(6,360)	(32,588)
Proceeds from sale of property and equipment	1,454	20,682	12,960
Additions to investment securities	(2,884)	(13,392)	(25,706)
Proceeds from sale and redemption of investment securities	1,161	2,107	10,349
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(2,165)	—
Net decrease (increase) in short-term loans receivable	(14,830)	(430)	(132,186)
Additions to long-term loans receivable	(808)	(10,325)	(7,202)
Proceeds from long-term loans receivable	28	24	250
Other, net	1,091	258	9,723
Net cash provided by (used in) investing activities	(18,428)	(10,447)	(164,257)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	12,344	(14,065)	110,028
Net increase (decrease) in commercial paper	5,000	(27,000)	44,567
Proceeds from long-term debt, issuance of bonds	25,290	26,026	225,421
Repayments of long-term debt, redemption of bonds	(20,499)	(23,160)	(182,717)
Purchase of treasury shares	(2,271)	(4)	(20,242)
Payment of cash dividends	(3,899)	(3,210)	(34,754)
Dividends paid to non-controlling interests	(29)	(35)	(258)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(220)	—	(1,961)
Other, net	(268)	(304)	(2,389)
Net cash provided by (used in) financing activities	15,448	(41,752)	137,695
Effect of exchange rate changes on cash and cash equivalents	(370)	(495)	(3,298)
Net increase (decrease) in cash and cash equivalents	609	405	5,428
Cash and cash equivalents at beginning of year	25,805	24,515	230,012
Increase in cash and cash equivalents from newly consolidated subsidiaries	792	885	7,059
Cash and cash equivalents at end of year	¥ 27,206	¥ 25,805	$ 242,499

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, 2017, which was ¥112.19 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 30 (28 in 2016) 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. All material unrealized profits included in assets resulting from intercompany transactions are eliminated.

Equity method

As of March 31, 2017, the Company had 42 unconsolidated subsidiaries and 17 affiliates. The equity method has been applied to the investments in 4 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 differences on available-for-sale securities are reported, net of applicable income taxes, as a separate component of accumulated other comprehensive income. Realized gains on the sales of such securities are computed using moving average cost. Other available-for-sale securities are stated at moving average cost.

Inventories

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

Property and equipment (except under lease)

Property and equipment are carried at cost. Recognized loss on impairment of non-current 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 product warranties

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

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 items are recognized. For certain overseas consolidated subsidiaries, fair value hedge accounting is applied.

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

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

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

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

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

Goodwill

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

Reclassifications

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

Amounts per share

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

Changes in accounting policies

Due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practice Issue Task Force No.32, June 17, 2016) from the current fiscal year and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired since April 1, 2016, from the declining balance method to the straight line method.

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

Additional Information

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the current fiscal year.

3. Financial instruments

At March 31, 2017 and 2016, 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 and electronically recorded monetary claims are exposed to credit risk of customers. Some of them are denominated in foreign currencies and exposed to the foreign exchange rate fluctuation risk as well.

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

Because price fluctuation risks associated with securities mainly affect 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, 2017 and 2016 were as follows:

March 31, 2017

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and cash equivalents	**¥ 27,206**	**¥ 27,206**	**¥ —**	**$ 242,499**	**$ 242,499**	**$ —**
(2) Trade notes and accounts receivable	**307,854**			**2,744,042**		
Allowance for doubtful receivables	**(268)**			**(2,389)**		
Net	**307,586**	**307,586**	**—**	**2,741,653**	**2,741,653**	**—**
(3) Electronically recorded monetary claims	**30,743**			**274,026**		
Allowance for doubtful receivables	**(30)**			**(267)**		
Net	**30,713**	**30,713**	**—**	**273,759**	**273,759**	**—**
(4) Securities						
a) Equity securities issued by affiliated companies	**2,671**	**1,051**	**(1,620)**	**23,808**	**9,368**	**(14,440)**
b) Available-for-sale securities	**38,621**	**38,621**	**—**	**344,246**	**344,246**	**—**
(5) Long-term loans receivable	**10,843**			**96,648**		
Allowance for doubtful receivables	**(11)**			**(98)**		
Net	**10,832**	**10,832**	**—**	**96,550**	**96,550**	**—**
Total assets	**¥ 417,629**	**¥ 416,009**	**¥ (1,620)**	**$3,722,515**	**$3,708,075**	**$ (14,440)**
(1) Short-term loans payable	**¥ 68,883**	**¥ 68,883**	**¥ —**	**$ 613,985**	**$ 613,985**	**$ —**
(2) Commercial paper	**5,000**	**5,000**	**—**	**44,567**	**44,567**	**—**
(3) Long-term debt due within one year	**38,401**	**38,401**	**—**	**342,285**	**342,285**	**—**
(4) Trade notes and accounts payable	**191,990**	**191,990**	**—**	**1,711,293**	**1,711,293**	**—**
(5) Long-term debt due after one year	**146,309**	**146,588**	**(279)**	**1,304,118**	**1,306,605**	**(2,487)**
Total liabilities	**¥ 450,583**	**¥ 450,862**	**¥ (279)**	**$4,016,248**	**$4,018,735**	**$ (2,487)**
Derivatives:						
Hedge accounting not applied	**¥ 10,444**	**¥ 10,444**	**¥ —**	**$ 93,092**	**$ 93,092**	**$ —**
Hedge accounting applied	**(49)**	**(640)**	**(591)**	**(437)**	**(5,705)**	**(5,268)**
Total derivatives	**¥ 10,395**	**¥ 9,804**	**¥ (591)**	**$ 92,655**	**$ 87,387**	**$ (5,268)**

March 31, 2016

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 25,805	¥ 25,805	¥ —
(2) Trade notes and accounts receivable	260,152		
Allowance for doubtful receivables	(243)		
Net	259,909	259,909	—
(3) Electronically recorded monetary claims	16,141		
Allowance for doubtful receivables	(17)		
Net	16,124	16,124	—
(4) Securities			
a) Equity securities issued by affiliated companies	2,894	826	(2,068)
b) Available-for-sale securities	31,669	31,669	—
(5) Long-term loans receivable	12,384		
Allowance for doubtful receivables	(12)		
Net	12,372	12,372	—
Total assets	¥ 348,773	¥ 346,705	¥ (2,068)
(1) Short-term loans payable	¥ 56,412	¥ 56,412	¥ —
(2) Long-term debt due within one year	20,361	20,372	(11)
(3) Trade notes and accounts payable	149,858	149,858	—
(4) Long-term debt due after one year	159,518	159,983	(465)
Total liabilities	¥ 386,149	¥ 386,625	¥ (476)
Derivatives:			
Hedge accounting not applied	¥ 2,124	¥ 2,124	¥ —
Hedge accounting applied	(486)	(1,329)	(843)
Total derivatives	¥ 1,638	¥ 795	¥ (843)

Allowance for doubtful receivables recognized in trade notes and accounts receivable, electronically recorded monetary claims and long-term loans receivable was offset.

Derivative assets and liabilities were on net basis.

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

Cash and cash equivalents, Trade notes and accounts receivable, and Electronically recorded monetary claims

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

Securities

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

Long-term loans receivable

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

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

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

Long-term debt

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

Derivatives

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

The following tables summarize book values of financial instruments whose fair values were hard to determine as of March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
	Book value	Book value	Book value
(1) Equity securities issued by unconsolidated subsidiaries and affiliated companies	**¥ 11,067**	¥ 10,715	**$ 98,645**
(2) Available-for-sale securities:			
Unlisted stocks	**¥ 4,190**	¥ 2,808	**$ 37,347**
Unlisted foreign stocks	**14,051**	8,160	**125,243**
Unlisted foreign convertible bonds	**2,406**	2,417	**21,446**
Investment in limited partnerships	**5**	8	**45**
Total	**¥ 20,652**	¥ 13,393	**$ 184,081**

The maturities of receivables and securities with maturities outstanding at March 31, 2017 were as follows:

Year ending March 31	Millions of yen			
	2018	From 2019 to 2022	From 2023 to 2027	Thereafter
Cash and cash equivalents	**¥ 27,206**	**¥ —**	**¥ —**	**¥ —**
Trade notes and accounts receivable	**307,854**	**—**	**—**	**—**
Electronically recorded monetary claims	**30,743**	**—**	**—**	**—**
Available-for-sale securities with maturity dates	**487**	**1,925**	**—**	**—**
Long-term loans receivable	**—**	**8,560**	**1,439**	**3**
Total	**¥ 366,290**	**¥ 10,485**	**¥ 1,439**	**¥ 3**

	Thousands of U.S. dollars			
	2018	From 2019 to 2022	From 2023 to 2027	Thereafter
Cash and cash equivalents	**$ 242,499**	**$ —**	**$ —**	**$ —**
Trade notes and accounts receivable	**2,744,042**	**—**	**—**	**—**
Electronically recorded monetary claims	**274,026**	**—**	**—**	**—**
Available-for-sale securities with maturity dates	**4,341**	**17,158**	**—**	**—**
Long-term loans receivable	**—**	**76,299**	**12,826**	**27**
Total	**$3,264,908**	**$ 93,457**	**$ 12,826**	**$ 27**

Long-term loans receivable of ¥841 million ($7,496 thousand) were excluded from the above table since due date for the redemption had not yet been determined.

4. Securities

(A) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available market values as of March 31, 2017 and 2016:

March 31, 2017

	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	**¥ 12,812**	**¥ 33,861**	**¥ 21,049**	**$ 114,199**	**$ 301,818**	**$ 187,619**
Securities with book values not exceeding acquisition costs:						
Equity securities	**¥ 6,884**	**¥ 4,760**	**¥ (2,124)**	**$ 61,360**	**$ 42,428**	**$ (18,932)**

March 31, 2016

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 11,518	¥ 26,171	¥ 14,653
Securities with book values not exceeding acquisition costs:			
Equity securities	¥ 8,532	¥ 5,498	¥ (3,034)

(B) The following tables summarize sales of available-for-sale securities in the years ended March 31, 2017 and 2016:

March 31, 2017

	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	**¥ 1,160**	**¥ 675**	**¥ —**	**$ 10,340**	**$ 6,017**	**$ —**

March 31, 2016

	Millions of yen		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 706	¥ 499	¥ 5

(C) The loss resulting from the valuation of the securities in the years ended March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Securities in subsidiaries and affiliates	**¥ 757**	¥ 644	**$ 6,747**
Other securities	**58**	1,741	**517**
Total	**¥ 815**	¥ 2,385	**$ 7,264**

5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2017 and 2016 for the derivatives to which hedge accounting has not been applied:

March 31, 2017
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	¥ 71,334	¥ —	¥ (348)	¥ (348)	$ 635,832	$ —	$ (3,102)	$ (3,102)
Other currencies	787	—	(2)	(2)	7,015	—	(18)	(18)
Buying:								
U.S. dollars	7,417	—	38	38	66,111	—	339	339
Other currencies	1,011	—	(4)	(4)	9,011	—	(36)	(36)
Currency swap agreements:								
Japanese yen received for U.S. dollars	12,088	—	(312)	(312)	107,746	—	(2,781)	(2,781)
Total				¥ (628)				$ (5,598)

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	¥ 3,230	¥ —	¥ 67	¥ 67	$ 28,790	$ —	$ 597	$ 597
Buying	2,361	—	31	31	21,045	—	276	276
Non-ferrous metals:								
Selling	7,878	—	(193)	(193)	70,220	—	(1,720)	(1,720)
Buying	4,106	—	(37)	(37)	36,599	—	(330)	(330)
Commodity swap agreements:								
Petroleum:								
Selling	139	—	(2)	(2)	1,239	—	(18)	(18)
Buying	1,107	—	17	17	9,867	—	152	152
Total				¥ (117)				$ (1,043)

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

	Millions of yen				Thousands of U.S. dollars			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:								
Non-ferrous metals:								
Selling	¥ 112,677	¥ —	¥ 11,661	¥ 11,661	$ 1,004,341	$ —	$ 103,940	$ 103,940
Buying	23,336	—	(472)	(472)	208,004	—	(4,207)	(4,207)
Total				¥ 11,189				$ 99,733

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

March 31, 2016
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	¥ 49,271	¥ —	¥ 1,678	¥ 1,678
Other currencies	676	—	(9)	(9)
Buying:				
U.S. dollars	12,878	—	(453)	(453)
Other currencies	1,172	—	(5)	(5)
Currency swap agreements:				
Japanese yen received for U.S. dollars	13,217	—	799	799
Total				¥ 2,010

Commodity related

	Millions of yen			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:				
Petroleum:				
Selling	¥ 1,751	¥ —	¥ 43	¥ 43
Buying	589	—	24	24
Non-ferrous metals:				
Selling	19,125	—	(139)	(139)
Buying	13,053	—	200	200
Commodity swap agreements:				
Petroleum:				
Selling	395	—	2	2
Buying	423	—	(17)	(17)
Total				¥ 113

(B) The following tables summarize fair value information as of March 31, 2017 and 2016 for the derivatives to which hedge accounting was applied:

March 31, 2017
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	**¥ 40,337**	**¥ 35,737**	**¥ (591)**	**$ 359,542**	**$ 318,540**	**$ (5,268)**

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	**¥ 87,881**	**¥ —**	**¥ 133**	**$ 783,323**	**$ —**	**$ 1,185**
Buying	**50,929**	**254**	**(182)**	**453,953**	**2,264**	**(1,622)**

March 31, 2016
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	¥ 39,947	¥ 39,947	¥ (842)

Commodity related

	Millions of yen		
	Contract or notional amount	Due after one year	Fair value
Forwards for inventories and commitments:			
Non-ferrous metals			
Selling	¥ 16,278	¥ —	¥ 279
Buying	13,465	511	(765)

6. Inventories

Inventories at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Merchandise and finished products	**¥ 101,650**	¥ 96,083	**$ 906,053**
Work-in-process	**1,918**	2,090	**17,096**
Raw materials and supplies	**7,472**	7,878	**66,601**
Total	**¥ 111,040**	¥ 106,051	**$ 989,750**

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 ¥655 million (gain of $5,838 thousand) and a net gain of ¥439 million for the years ended March 31, 2017 and 2016, respectively.

7. Pledged assets

At March 31, 2017 and 2016, assets pledged as collateral for loans payable in the amount of ¥932 million ($8,307 thousand) and ¥2,579 million, respectively, and for guaranty deposits, and for loans of third parties were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
For loans payable:			
Other current assets	**¥ 50**	¥ 50	**$ 445**
Buildings and structures, net of accumulated depreciation	**280**	296	**2,496**
Land	**1,112**	1,113	**9,912**
Total	**¥ 1,442**	¥ 1,459	**$ 12,853**
For guaranty deposits:			
Other current assets	**¥ 13**	¥ 13	**$ 116**
Investment securities	**5,299**	2,489	**47,232**
Total	**¥ 5,312**	¥ 2,502	**$ 47,348**
For loans of third parties:			
Investment securities	**¥ 1,705**	¥ —	**$ 15,197**
Total	**¥ 1,705**	¥ —	**$ 15,197**

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, 2017 and 2016 was 1.1% and 1.3%, respectively, regardless of borrowing currencies though the range of the interest rates varies by borrowing currency. There was an outstanding balance of ¥68,883 million ($613,985 thousand) and ¥56,412 million at March 31, 2017 and 2016, respectively.

The Company has entered into a yen denominated domestic commercial paper program. There was an outstanding balance of ¥5,000 million ($44,567 thousand) and zero at March 31, 2017 and 2016, respectively.

Bonds at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Issued in 2013, 0.74% unsecured straight bonds, due 2018	**¥ 10,000**	¥ 10,000	**$ 89,135**
Issued in 2013, 0.36% unsecured straight bonds, due 2016	**—**	10,000	**—**
Issued in 2014, 0.44% unsecured straight bonds, due 2019	**10,000**	10,000	**89,135**
Issued in 2015, 0.43% unsecured straight bonds, due 2020	**10,000**	10,000	**89,135**
Issued in 2016, 0.29% unsecured straight bonds, due 2021	**10,000**	—	**89,135**
Issued in 2011, 1.01% unsecured straight bonds, due 2016	**—**	8	**—**
Issued in 2011, unsecured floating rate bonds, due 2016	**—**	10	**—**
Issued in 2014, unsecured floating rate bonds, due 2021	**98**	119	**871**
Total	**¥ 40,098**	¥ 40,137	**$ 357,411**

Long-term loans payable at March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Loans from banks with weighted average interest rates of 0.6% and 0.7% at March 31, 2017 and 2016, respectively, maturing serially through 2024	**¥ 144,612**	¥ 139,743	**$1,288,992**
Less amounts due within one year	**38,380**	10,322	**342,098**
	¥ 106,232	¥ 129,421	**$ 946,894**

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, 2017 were as follows:

Years ending March 31

	Millions of yen	Thousands of U.S. dollar
2018	**¥ 38,380**	**$ 342,098**
2019	**43,858**	**390,926**
2020	**27,089**	**241,456**
2021	**11,280**	**100,544**
2022	**9,939**	**88,591**
Thereafter	**14,066**	**125,377**
Total	**¥ 144,612**	**$1,288,992**

9. Employees' severance and retirement benefits

(A) Overview of retirement benefit system adopted

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

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

In the defined benefit corporate pension 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.

(B) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 25,688**	¥ 23,650	**$ 228,969**
Service cost	**1,150**	1,062	**10,250**
Interest cost	**97**	325	**865**
Actuarial loss (gain)	**277**	4,788	**2,469**
Benefits paid	**(786)**	(731)	**(7,006)**
Decrease by partial termination of defined benefit plans	**—**	(3,415)	**—**
Other	**13**	9	**116**
Balance at end of year	**¥ 26,439**	¥ 25,688	**$ 235,663**

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 22,099**	¥ 24,661	**$ 196,978**
Expected return on plan assets	**663**	740	**5,910**
Actuarial gain (loss)	**(321)**	(1,236)	**(2,861)**
Contributions paid by the employer	**767**	916	**6,837**
Benefits paid	**(785)**	(730)	**(6,998)**
Decrease by partial termination of defined benefit plans	**—**	(2,252)	**—**
Balance at end of year	**¥ 22,423**	¥ 22,099	**$ 199,866**

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year	**¥ 487**	¥ 412	**$ 4,341**
Defined benefit costs	**104**	87	**927**
Benefits paid	**(63)**	(55)	**(562)**
Contributions paid by the employer	**(20)**	(21)	**(178)**
Other	**(5)**	64	**(45)**
Balance at end of year	**¥ 503**	¥ 487	**$ 4,483**

(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
	2017	2016	2017
Funded defined benefit obligations	¥ 26,680	¥ 25,925	$ 237,811
Plan assets	(22,628)	(22,293)	(201,694)
	4,052	3,632	36,117
Unfunded defined benefit obligations	466	444	4,154
Total net liability (asset) for defined benefits at end of year	4,518	4,076	40,271
Net defined benefit liability	4,518	4,076	40,271
Net defined benefit asset	—	—	—
Total net liability (asset) for defined benefits at end of year	¥ 4,518	¥ 4,076	$ 40,271

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 1,150	¥ 1,062	$ 10,250
Interest cost	97	325	865
Expected return on plan assets	(663)	(740)	(5,910)
Net actuarial loss amortization	1,056	909	9,413
Past service costs amortization	65	81	579
Retirement benefit costs based on the simplified method	104	87	927
Other	(5)	(16)	(44)
Total retirement benefit costs	¥ 1,804	¥ 1,708	$ 16,080
Loss on revision of retirement benefit plan	¥ —	¥ 64	$ —

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs	¥ 65	¥ 107	$ 579
Actuarial gains and losses	458	(3,913)	4,083
Total	¥ 523	¥ (3,806)	$ 4,662

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs that are yet to be recognized	¥ 131	¥ 196	$ 1,168
Actuarial gains and losses that are yet to be recognized	8,574	9,033	76,424
Total balance at end of year	¥ 8,705	¥ 9,229	$ 77,592

(8) Breakdown of plan assets

	2017	2016
Bonds	**15.7%**	18.4%
Equity securities	**12.0**	11.2
Cash and cash equivalents	**4.6**	5.6
General account assets	**24.0**	29.4
Other	**43.7**	35.4
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

	2017	2016
Discount rate	**0.4%**	0.4%
Long-term expected rate of return	**3.0**	3.0
Expected salary increase rate	**3.4**	3.4

(C) Defined contribution plans

The Companies were required to contribute ¥239 million ($2,130 thousand) and ¥144 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, 2017 and 2016, respectively.

(D) Multi-employer pension plans

Year ended March 31, 2017

Description is omitted because all the multi-employer pension plans, in which certain subsidiaries had participated, dissolved by the end of March, 2017 with approval of the Minister of Health, Labour and Welfare. Additional expenses resulting from the dissolution of the pension plans are not expected to accrue.

Year ended March 31, 2016

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 (as of the most recently available year-end date of the pension fund) were as follows:

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

The principle factors relating to the balance were the prior service costs of ¥9,871 million as at March 31, 2015, 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 was 0.90%. 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 30.9% and 33.1% for the years ended March 31, 2017 and 2016 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, 2017 and 2016.

	2017	2016
Statutory tax rate:	**30.9%**	33.1%
Tax effect of permanent differences	**0.8**	(1.1)
Valuation allowance recognized for deferred tax assets	**(2.3)**	(24.0)
Difference in tax rates for consolidated subsidiaries	**(0.5)**	0.1
Other	**0.2**	(3.4)
Effective tax rate	**29.1%**	4.7%

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Temporary differences resulting from the merger with consolidated subsidiaries	**¥ 2,732**	¥ 3,764	**$ 24,352**
Loss on valuation of investment securities, currently not deductible	**1,891**	3,221	**16,855**
Net defined benefit liabilities	**1,346**	1,220	**11,998**
Loss on sale-repurchase agreements of land	**1,294**	1,294	**11,534**
Tax losses carried forward	**1,076**	1,081	**9,591**
Loss on impairment of non-current assets	**796**	877	**7,095**
Accrued bonuses to employees	**706**	688	**6,293**
Land revaluation difference, net of taxes unrealized loss	**226**	226	**2,014**
Other	**3,806**	4,028	**33,924**
Total deferred tax assets	**13,873**	16,399	**123,656**
Valuation allowance	**(8,840)**	(11,062)	**(78,795)**
Net deferred tax assets	**5,033**	5,337	**44,861**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**5,693**	3,367	**50,744**
Land revaluation difference, net of taxes unrealized gain	**1,635**	1,635	**14,573**
Other	**2,502**	3,000	**22,302**
Total deferred tax liabilities	**9,830**	8,002	**87,619**
Net deferred tax liabilities	**¥ (4,797)**	¥ (2,665)	**$ (42,758)**

Deferred tax assets and deferred tax liabilities were included in the consolidated balance sheets at March 31, 2017 and 2016, respectively, as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets: Deferred tax assets	**¥ 1,920**	¥ 2,085	**$ 17,114**
Other assets: Deferred tax assets	**283**	244	**2,523**
Current liabilities: Other current liabilities (Deferred tax liabilities)	**0**	0	**0**
Noncurrent liabilities: Deferred tax liabilities	**7,001**	4,994	**62,403**

Revisions to the amounts of deferred tax assets and liabilities due to changes in the tax rates of the Japanese Corporation Tax

Since amendments to the Japanese tax regulations were enacted into law on November 18, 2016, the statutory tax rate utilized for the measurement of deferred tax assets and liabilities in the current fiscal year changed from the previous year.

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

11. Net assets

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

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

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

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

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

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

At the annual shareholders' meeting held on June 29, 2017, the shareholders approved cash dividends of ¥10.0 per share ($0.09) amounting to ¥2,032 million ($18,112 thousand). This appropriation had not been accrued in the consolidated financial statements as of March 31, 2017. 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, 2017, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥954 million ($8,503 thousand).

12. Leases

Operating leases

As Lessee

Obligations under noncancelable operating leases as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Due within one year	**¥ 530**	¥ 528	**$ 4,724**
Due after one year	**7,834**	8,342	**69,828**
Total	**¥ 8,364**	¥ 8,870	**$ 74,552**

13. Contingent liabilities

At March 31, 2017 and 2016, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Export letters of credit and trade notes discounted	**¥ 6,071**	¥ 4,320	**$ 54,114**
Trade notes endorsed	**195**	258	**1,738**
Guarantees of indebtedness	**2,077**	4,231	**18,513**

14. Gain on sales of property and equipment

The following table summarizes gain on sales of property and equipment in the years ended March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Land	**¥ 870**	¥ 13,066	**$ 7,755**
Other	**7**	9	**62**
Total	**¥ 877**	¥ 13,075	**$ 7,817**

15. Loss on sales of property and equipment

The following table summarizes loss on sales of property and equipment in the years ended March 31, 2017 and 2016:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Buildings and structures	**¥ 227**	¥ 257	**$ 2,023**
Other	**—**	4	**—**
Total	**¥ 227**	¥ 261	**$ 2,023**

16. Loss on liquidation of business

Year ended March 31, 2017

Due to the closing of some business facilities, the Companies recorded a loss on liquidation of business of ¥253 million ($2,255 thousand).

The loss consisted of loss on impairment of non-current assets of ¥111 million ($989 thousand), estimated removal cost of ¥110 million ($980 thousand), loss on disposal of property and equipment of ¥20 million ($178 thousand), and other costs of ¥12 million ($108 thousand).

Details of the loss on impairment of non-current assets were as follows:

		Millions of yen			Thousands of U.S. dollars
Location	Description	Buildings and structures	Other	Total	Total
Sodegaura, Chiba	Sodegaura yard	**¥ 111**	**¥ 0**	**¥ 111**	**$ 989**
Total		**¥ 111**	**¥ 0**	**¥ 111**	**$ 989**

The Companies reduced the book value of the non-current assets that were impaired to the memorandum values.

For the purpose of recognition and measurement, the Companies grouped the non-current assets based principally on the location of the business entity to which the assets belonged, and each idle asset was treated as a separate property.

17. Other comprehensive income

Years ended March 31, 2017 and 2016

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
	2017	2016	**2017**
Valuation difference on available-for-sale securities, net of taxes:			
Increase (decrease) during the year	**¥ 7,542**	¥ (6,227)	**$ 67,226**
Reclassification adjustments	**(663)**	662	**(5,910)**
Sub-total, before tax	**6,879**	(5,565)	**61,316**
Tax expense (benefit)	**2,324**	(1,968)	**20,714**
Sub-total, net of tax	**4,555**	(3,597)	**40,602**
Deferred gains or losses on hedges, net of taxes:			
Increase (decrease) during the year	**(287)**	592	**(2,558)**
Reclassification adjustments	**1,037**	(3,417)	**9,243**
Sub-total, before tax	**750**	(2,825)	**6,685**
Tax expense (benefit)	**231**	(922)	**2,059**
Sub-total, net of tax	**519**	(1,903)	**4,626**
Land revaluation difference, net of taxes:			
Increase (decrease) during the year	**—**	—	**—**
Reclassification adjustments	**—**	—	**—**
Sub-total, before tax	**—**	—	**—**
Tax expense (benefit)	**—**	(102)	**—**
Sub-total, net of tax	**—**	102	**—**
Foreign currency translation adjustments:			
Increase (decrease) during the year	**(724)**	(675)	**(6,453)**
Reclassification adjustments	**—**	—	**—**
Sub-total, before tax	**(724)**	(675)	**(6,453)**
Tax expense (benefit)	**—**	—	**—**
Sub-total, net of tax	**(724)**	(675)	**(6,453)**
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	**(602)**	(6,024)	**(5,366)**
Reclassification adjustments	**1,125**	2,218	**10,028**
Sub-total, before tax	**523**	(3,806)	**4,662**
Tax expense (benefit)	**162**	(1,068)	**1,445**
Sub-total, net of tax	**361**	(2,738)	**3,217**
Share of other comprehensive income of entities accounted for using equity method:			
Increase (decrease) during the year	**(154)**	110	**(1,374)**
Total other comprehensive income	**¥ 4,557**	¥ (8,701)	**$ 40,618**

18. Cash flow information

Significant non-cash transactions in the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Conversion of long-term loans receivable to investment securities	**¥ 3,682**	¥ —	**$ 32,819**
Total	**¥ 3,682**	¥ —	**$ 32,819**

19. 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.

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

Year ended March 31, 2017

The description on the book value, annual net increase and decrease amount and fair value of investment and rental properties is omitted because it is immaterial.

Year ended March 31, 2016

Millions of yen			
Book value			
Balance at beginning of year	Net increase	Balance at end of year	Fair value
¥ 4,014	¥ 3,295	¥ 7,309	¥ 7,099

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."

Rental profit from these properties was ¥381 million and was included in gross profit.

20. 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 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.

Net sales, profits, assets and others by reportable segment for the year ended March 31, 2017 were as follows:

Year ended March 31, 2017

	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	¥ 775,726	¥ 131,414	¥ 77,674	¥ 88,671	¥ 257,165	¥ 111,994	¥ 1,442,644	¥ 71,394	¥ 1,514,038	¥ —	¥ 1,514,038
Intersegment	11,166	3,211	1,533	340	7,300	62,287	85,837	1,661	87,498	(87,498)	—
Total	¥ 786,892	¥ 134,625	¥ 79,207	¥ 89,011	¥ 264,465	¥ 174,281	¥ 1,528,481	¥ 73,055	¥ 1,601,536	¥ (87,498)	¥ 1,514,038
Segment income (loss)	¥ 18,082	¥ 1,414	¥ 1,085	¥ 2,873	¥ 2,461	¥ 197	¥ 26,112	¥ 1,527	¥ 27,639	¥ (4,732)	¥ 22,907
Assets	¥ 371,789	¥ 114,436	¥ 21,773	¥ 34,075	¥ 41,128	¥ 32,305	¥ 615,506	¥ 27,395	¥ 642,901	¥ 51,332	¥ 694,233
Depreciation	2,972	121	268	41	42	51	3,495	362	3,857	114	3,971
Amortization of goodwill	141	33	44	—	—	—	218	—	218	—	218
Interest income	191	789	0	33	51	74	1,138	10	1,148	91	1,239
Interest expense	2,008	1,172	181	325	276	298	4,260	167	4,427	(1,874)	2,553
Share of profit (loss) of entities accounted for using equity method	(66)	—	—	—	—	(120)	(186)	98	(88)	—	(88)
Investment for entities accounted for equity method	2,671	—	—	—	—	49	2,720	778	3,498	—	3,498
Increase in property and equipment	3,480	69	310	59	36	84	4,038	345	4,383	52	4,435

Year ended March 31, 2017

	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	$ 6,914,395	$ 1,171,352	$ 692,344	$ 790,364	$ 2,292,228	$ 998,253	$ 12,858,936	$ 636,367	$ 13,495,303	$ —	$ 13,495,303
Intersegment	99,528	28,621	13,664	3,031	65,068	555,192	765,104	14,805	779,909	(779,909)	—
Total	$ 7,013,923	$ 1,199,973	$ 706,008	$ 793,395	$ 2,357,296	$ 1,553,445	$ 13,624,040	$ 651,172	$ 14,275,212	$ (779,909)	$ 13,495,303
Segment income (loss)	$ 161,173	$ 12,604	$ 9,671	$ 25,608	$ 21,936	$ 1,756	$ 232,748	$ 13,611	$ 246,359	$ (42,179)	$ 204,180
Assets	$ 3,313,922	$ 1,020,020	$ 194,073	$ 303,726	$ 366,592	$ 287,949	$ 5,486,282	$ 244,184	$ 5,730,466	$ 457,545	$ 6,188,011
Depreciation	26,491	1,079	2,389	365	374	455	31,153	3,226	34,379	1,016	35,395
Amortization of goodwill	1,257	294	392	—	—	—	1,943	—	1,943	—	1,943
Interest income	1,702	7,033	0	294	455	660	10,144	89	10,233	811	11,044
Interest expense	17,898	10,447	1,613	2,897	2,460	2,656	37,971	1,489	39,460	(16,704)	22,756
Share of profit (loss) of entities accounted for using equity method	(588)	—	—	—	—	(1,070)	(1,658)	874	(784)	—	(784)
Investment for entities accounted for equity method	23,808	—	—	—	—	437	24,245	6,934	31,179	—	31,179
Increase in property and equipment	31,019	615	2,763	526	321	749	35,993	3,075	39,068	463	39,531

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 ¥4,732 million (negative $42,179 thousand) for segment income include intersegment elimination and Group costs that were not allocated to reportable segments. These Group costs consist mainly of expenses of administrative departments.
   (2) Adjustments for segment assets amounting to ¥51,332 million ($457,545 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 ¥114 million ($1,016 thousand) include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥91 million ($811 thousand) and negative ¥1,874 million (negative $16,704 thousand) include intersegment elimination, revenue and expense that were not allocated to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥52 million ($463 thousand) are increases in Group assets.

Net sales, profits, assets and others by reportable segment for the year ended March 31, 2016 were 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

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 for segment income include intersegment elimination and Group costs that were not allocated to reportable segments. These Group costs consist mainly of expenses of administrative departments.
   (2) Adjustments for segment assets amounting to ¥56,486 million include Group assets that were not allocated to reportable segments. These Group assets consist mainly of cash and cash equivalents, investment securities and assets of administrative departments.
   (3) Adjustments for depreciation and amortization amounting to ¥90 million include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥173 million and negative ¥1,404 million include intersegment elimination, revenue and expense that were not allocated to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥710 million are increases in Group assets.

(B) Related information

Product information

Net sales information by products for the years ended March 31, 2017 and 2016 were as follows:

Year ended March 31, 2017

	Millions of yen						
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	**¥ 806,203**	**¥ 139,846**	**¥ 116,982**	**¥ 88,768**	**¥ 279,813**	**¥ 82,426**	**¥ 1,514,038**

Year ended March 31, 2017

	Thousands of U.S. dollars						
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	**$ 7,186,050**	**$ 1,246,510**	**$ 1,042,713**	**$ 791,229**	**$ 2,494,099**	**$ 734,702**	**$13,495,303**

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

Geographic information

(1) Net sales in different countries for the years ended March 31, 2017 and 2016 were as follows:

Year ended March 31, 2017

	Millions of yen			
	Japan	Asia	Other	Total
Net sales to external customers	**¥ 1,136,629**	**¥ 300,439**	**¥ 76,970**	**¥ 1,514,038**

Year ended March 31, 2017

	Thousands of U.S. dollars			
	Japan	Asia	Other	Total
Net sales to external customers	**$10,131,286**	**$ 2,677,948**	**$ 686,069**	**$13,495,303**

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

(2) Property and equipment in different countries for the years ended March 31, 2017 and 2016 were as follows:

Year ended March 31, 2017

	Millions of yen			
	Japan	Asia	Other	Total
Property and equipment	**¥ 53,141**	**¥ 6,251**	**¥ 101**	**¥ 59,493**

Year ended March 31, 2017

	Thousands of U.S. dollars			
	Japan	Asia	Other	Total
Property and equipment	**$ 473,670**	**$ 55,718**	**$ 900**	**$ 530,288**

Year ended March 31, 2016

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

Loss on impairment of non-current assets in reportable segment

Year ended March 31, 2017

Loss on impairment of non-current assets of ¥111 million ($989 thousand) was accrued from the assets in the metals and alloys segment and recorded as part of loss on liquidation of business on the consolidated statements of income.

Year ended March 31, 2016

Loss on impairment of non-current 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 years ended March 31, 2017 and 2016 were as follows:

Year ended March 31, 2017

	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
Balance at end of year	**¥ 148**	**¥ 67**	**¥ 111**	**¥ —**	**¥ —**	**¥ —**	**¥ 326**	**¥ —**	**¥ 326**	**¥ —**	**¥ 326**

Year ended March 31, 2017

	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
Balance at end of year	**$ 1,320**	**$ 597**	**$ 989**	**$ —**	**$ —**	**$ —**	**$ 2,906**	**$ —**	**$ 2,906**	**$ —**	**$ 2,906**

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

Year ended March 31, 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
Balance at end of year	¥ 289	¥ 100	¥ 155	¥ —	¥ —	¥ —	¥ 544	¥ —	¥ 544	¥ —	¥ 544

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

Gain on negative goodwill in reportable segment

Year ended March 31, 2017

There was no gain on negative goodwill for the year ended March 31, 2017.

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.

21. Significant subsequent events

Capital increase of subsidiary through third-party allotment

The Board of Directors meeting held on April 27, 2017 resolved to subscribe for a capital increase of a subsidiary, Japan South Africa Chrome Co., Ltd., through third party allotment of new shares issued for the purpose of its fundraising to acquire stakes of Samancor Chrome Holdings Proprietary Limited. The capital increase has been completed on April 28, 2017.

1. Details of the subsidiary
   (1) Company name
   Japan South Africa Chrome Co., Ltd.
   (2) Representative
   Takeshi Amano, President
   (3) Head office
   1-13-1, Tsukiji, Chuo-ku, Tokyo, Japan
   (4) Date of establishment
   April 3, 2017
   (5) Purposes
   Investment and management of securities and business transactions executed through holding shares and/or equity of a company of metal mining industry
   (6) Paid-in capital before capital increase
   ¥5,000 ($44.57)
   (7) Ownership before capital increase
   Hanwa Co., Ltd. 100%
2. Details of the capital increase
   (1) Amount of capital increase
   ¥27,216 million ($242,588 thousand)
   (2) Amount of subscription
   Hanwa Co., Ltd. ¥13,635 million ($121,535 thousand)
   Japan Oil, Gas and Metals National Corporation ¥13,581 million ($121,053 thousand)
   (3) Paid-in capital after capital increase
   ¥13,608 million ($121,294 thousand)
   (4) Date of capital increase
   April 28, 2017
   (5) Ownership after capital increase
   Hanwa Co., Ltd. 50.1%
   Japan Oil, Gas and Metals National Corporation 49.9%

New affiliate through share acquisition

On May 2, 2017, a subsidiary, Japan South Africa Chrome Co., Ltd. ("Japan South Africa Chrome") acquired 20% share of Samancor Chrome Holdings Proprietary Limited ("Samancor"). Samancor is expected to become Hanwa's equity-method affiliate by this acquisition.

1. Details of the share acquisition
   (1) Name of the counterparty
   Terris Chrome Limited
   (2) Main purpose of the share acquisition
   To obtain the right to supply Ferro-Chromium produced by Samancor for Japanese market
   (3) Date of the share acquisition
   May 2, 2017
   (4) Voting share after the share acquisition
   29% (Note: Hanwa has had a direct stake in Samancor since 2005 and our share-holding ratio was 9% as of the end of March, 2017. Considering the indirect stake acquisition through Japan South Africa Chrome, Hanwa substantially holds 29% voting share of Samancor.)
   (5) Acquisition cost
   ¥26,854 million ($239,362 thousand)
   (6) Funding and method of payment
   The Company paid by its own funds and loans.

Change in the number of shares constituting one unit of stock and Reverse stock split

The Board of Directors meeting held on May 12, 2017 resolved to change the number of shares constituting one unit of stock and to partially amend the Articles of Incorporation accordingly, and resolved to submit a proposal for a reverse stock split to the 70th Ordinary General Shareholders Meeting held on June 29, 2017 (the "Ordinary General Shareholders Meeting"). The proposal was approved and adopted as proposed at the Ordinary General Shareholders Meeting.

1. Change in the number of shares constituting one unit of stock
   (1) Reason for the change
   Stock exchanges nationwide aim to unify the number of shares constituting one unit of stock, which is the trading unit of shares of common stock of domestically listed companies, to 100 shares by October 1, 2018 in accordance with the Action Plan for Consolidating Trading Units. In keeping with this aim, Hanwa, as a company listed on the Tokyo Stock Exchange, has decided to change the number of its shares constituting one unit of stock from 1,000 shares to 100 shares effective October 1, 2017.
   (2) Details of the change
   Hanwa will change the number of shares constituting one unit of stock from 1,000 shares to 100 shares effective October 1, 2017.
   (3) Conditions for the change
   The change is subject to approval at the Ordinary General Shareholders Meeting of a proposal concerning "2. Reverse stock split" below.
2. Reverse stock split
   (1) Purpose of reverse stock split
   When changing the number of shares constituting one unit of stock from 1,000 shares to 100 shares as described in "1.

Change in the number of shares constituting one unit of stock" above, Hanwa has decided to implement a reverse stock split (a one-for-five consolidation: the "Reverse Stock Split") for the purpose of adjusting the investment unit to the level desired by stock exchanges in Japan (50,000 yen or more and less than 500,000 yen) while taking into consideration factors such as medium- and long-term share price fluctuation, etc. In accordance with the consolidation ratio of the Reverse Stock Split, Hanwa has decided to change the total number of shares authorized to be issued from the current 570 million shares to 114 million shares effective October 1, 2017.

(2) Details of the reverse stock split

1) Class of shares to be consolidated
Common stock

2) Consolidation ratio
Effective October 1, 2017, Hanwa will consolidate the shares held by shareholders recorded in the final shareholders register as of September 30, 2017 at a ratio of one for five.

3) Total number of shares authorized to be issued after consolidation
114,000,000 shares (570,000,000 shares before consolidation)
Pursuant to the provisions of the Companies Act, the provision of the Articles of Incorporation that stipulates the total number of shares authorized to be issued will be deemed to have changed as described above on the effective date of the Reverse Stock Split (October 1, 2017).

4) Number of shares reduced through consolidation

Number of outstanding shares before consolidation (March 31, 2017)	211,663,200 shares
Number of shares reduced through consolidation	169,330,560 shares
Number of outstanding shares after consolidation	42,332,640 shares

Note: "Number of shares reduced through consolidation" and "Number of outstanding shares after consolidation" are theoretical values calculated based on the number of outstanding shares before consolidation and the share consolidation ratio.

5) Number of shareholders reduced through consolidation
Shareholder composition based on the shareholders register as of March 31, 2017 was as follows:

Number of shares held	Number of shareholders (ratio)	Number of shares held (ratio)
Less than 5 shares	206 (2.55%)	249 (0.00%)
5 shares or more	7,878 (97.45%)	211,662,951 (100.00%)
Total	8,084 (100.00%)	211,663,200 (100.00%)

If the Reverse Stock Split is implemented, the 206 shareholders who hold less than five shares (a total of 249 shares as of March 31, 2017) will lose their status as shareholders.

6) Handling of fractional shares of less than one share
If fractional shares of less than one share occur as a result of the Reverse Stock Split, pursuant to the provisions of the Companies Act, Hanwa will sell all such fractional shares in bulk and distribute the proceeds to the shareholders holding the fractional shares in accordance with the proportion of fractional shares held.

(3) Effect on per share data
Assuming the Reverse Stock Split had been implemented at the beginning of the previous fiscal year, per share data for the previous fiscal year and the current fiscal year would have been as follows:

	Yen		U.S. dollars
	2017	2016	**2017**
Net assets per share	**¥ 4,193.50**	¥ 3,737.00	**$ 37.379**
Net income per share	**400.89**	614.59	**3.573**

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, 2017 and 2016, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 21 to the consolidated financial statements, Hanwa completed payment for a capital increase of a subsidiary, Japan South Africa Chrome Co., Ltd., ("Japan South Africa Chrome") through third party allotment of new shares on April 28, 2017.
Japan South Africa Chrome acquired share of Samancor Chrome Holdings Proprietary Limited ("Samancor") on May 2, 2017.
In addition, Samancor is expected to become Hanwa's equity-method affiliate by this acquisition.

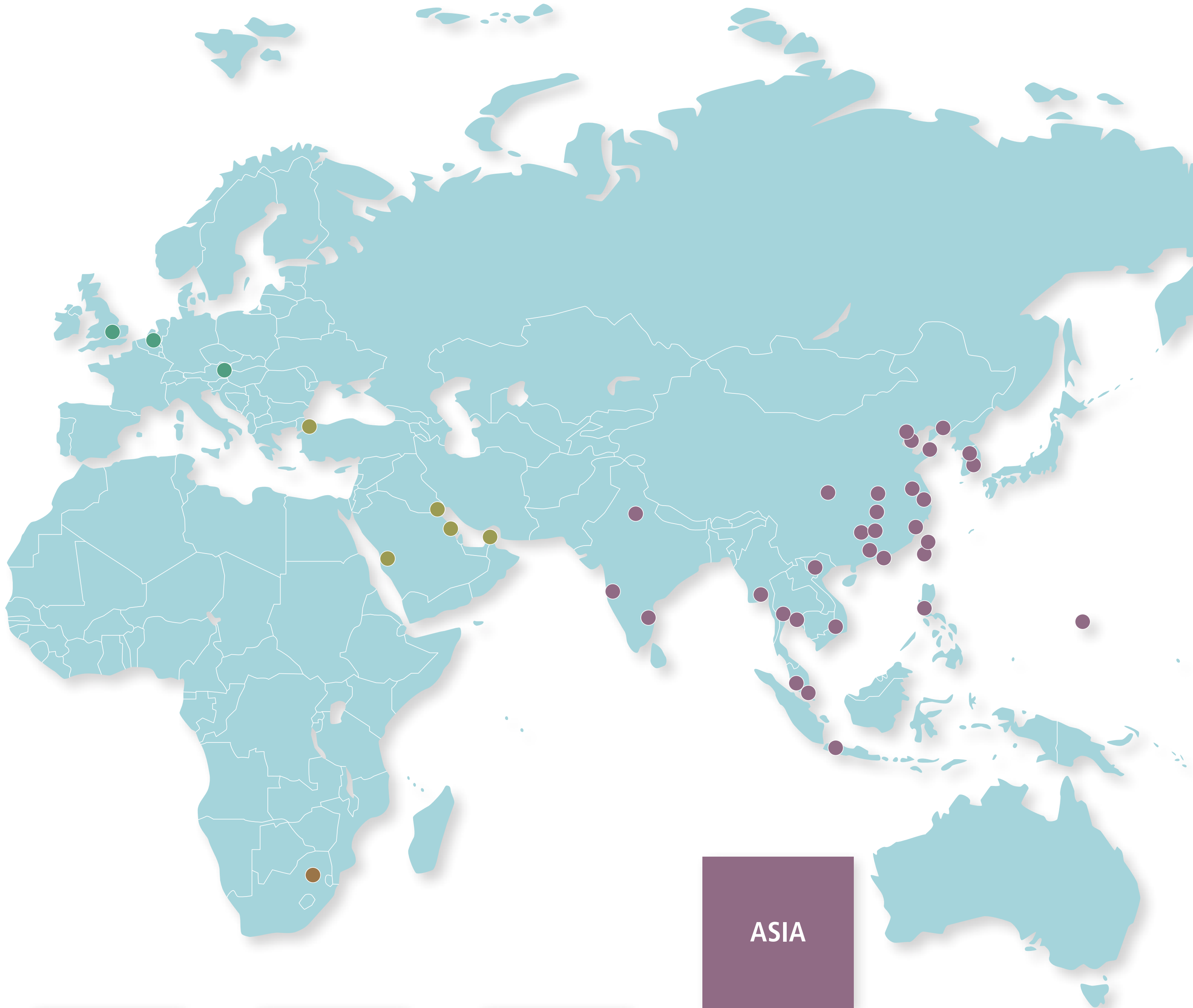
Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 28 2017
Osaka, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Global Network



EUROPE

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MIDDLE EAST

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AFRICA

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ASIA

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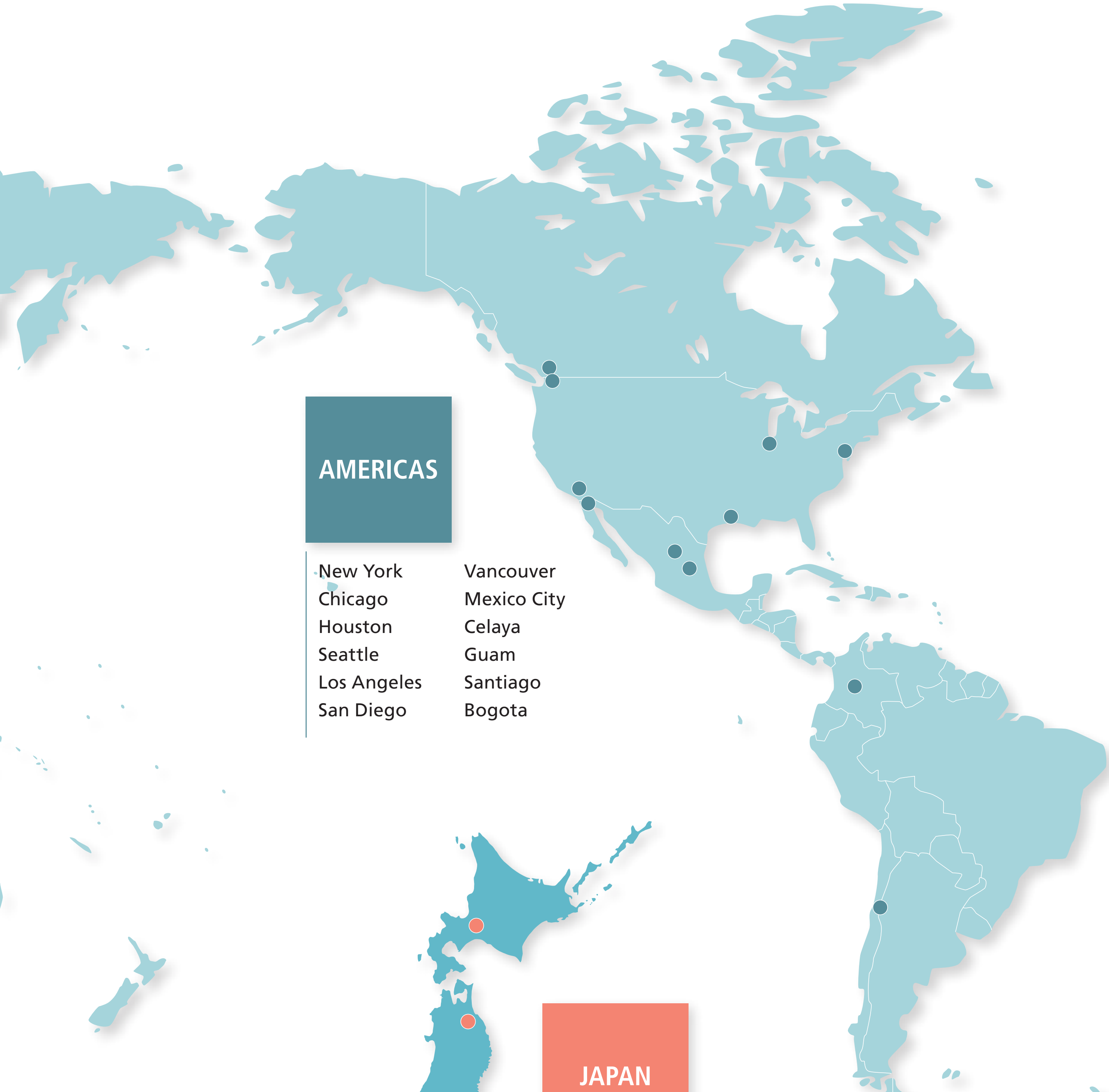

AMERICAS

New York	Vancouver
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JAPAN

Osaka	Mito
Tokyo	Atsugi
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Tohoku	Fukuyama
Kitakanto	Okinawa
Niigata	Iwaki
Chugoku	Hokuriku
Kyushu	Wakayama
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PT. HANWA STEEL SERVICE INDONESIA
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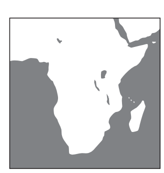

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Corporate Information (As of March 31, 2017)

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: 3,155 Non-consolidated: 1,272

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	JP Tower Nagoya Bldg., 1-1-1, Meieki, Nakamura-ku, Nagoya, Aichi 450-6335, Japan Tel: +81-52-977-3600 Fax: +81-52-977-3630

Board of Directors, Corporate Auditors and Executive Officers (As of June 29, 2017)

BOARD OF DIRECTORS

Chairman	Shuji Kita	北　修爾
President*	Hironari Furukawa	古川　弘成
Director,* Executive Vice President and Executive Officer	Hiroshi Serizawa	芹澤　浩
Directors, Senior Managing Executive Officers	Akihiko Ogasawara	小笠原朗彦
	Yasumichi Kato	加藤　恭道
	Hidemi Nagashima	長嶋 日出海
	Yoichi Nakagawa	中川　洋一
	Yasuharu Kurata	倉田　泰晴
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
	Yoichi Sasayama	篠山　陽一
Director, Executive Officer	Chiro Ideriha	出利葉知郎

CORPORATE AUDITORS

Corporate Auditors (Full-time)	Hideo Kawanishi	川西　英夫
	Naoyuki Togawa	十川　直之
Outside Corporate Auditors	Yasuo Naide	名出　康雄
	Katsunori Okubo	大久保克則
	Mitsuo Hirakata	平形　光男

EXECUTIVE OFFICERS

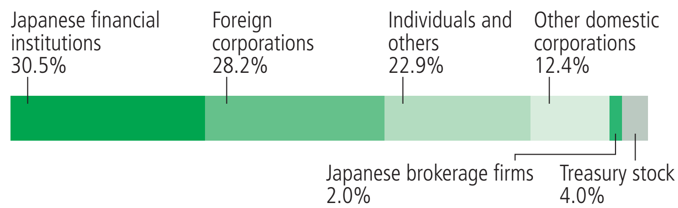
Senior Managing Executive Officer	Hiroshi Ebihara	海老原　弘
Managing Executive Officer	Takatoshi Kuchiishi	口石　隆敏
Executive Officers	Isao Kimizu	木水　勲
	Hideo Kobayashi	小林　秀雄
	Keiji Matsubara	松原　圭司
	Tsuneo Tsuiki	立木　恒雄
	Yoshimasa Ikeda	池田　佳正
	Ryuichi Takaba	竹迫　隆一
	Yoshifumi Miyano	宮野　好史
	Toshihiro Kawaguchi	川口　敏弘
	Hideki Kataoka	片岡　秀樹

*Representative Director

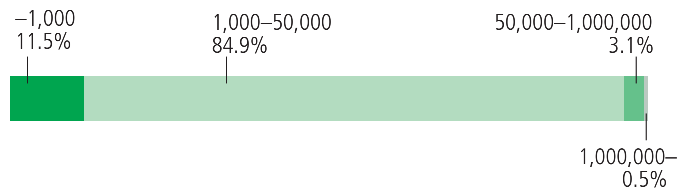
Stock Information

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	8,084

Breakdown by Type of Shareholder



Breakdown by Size of Holding

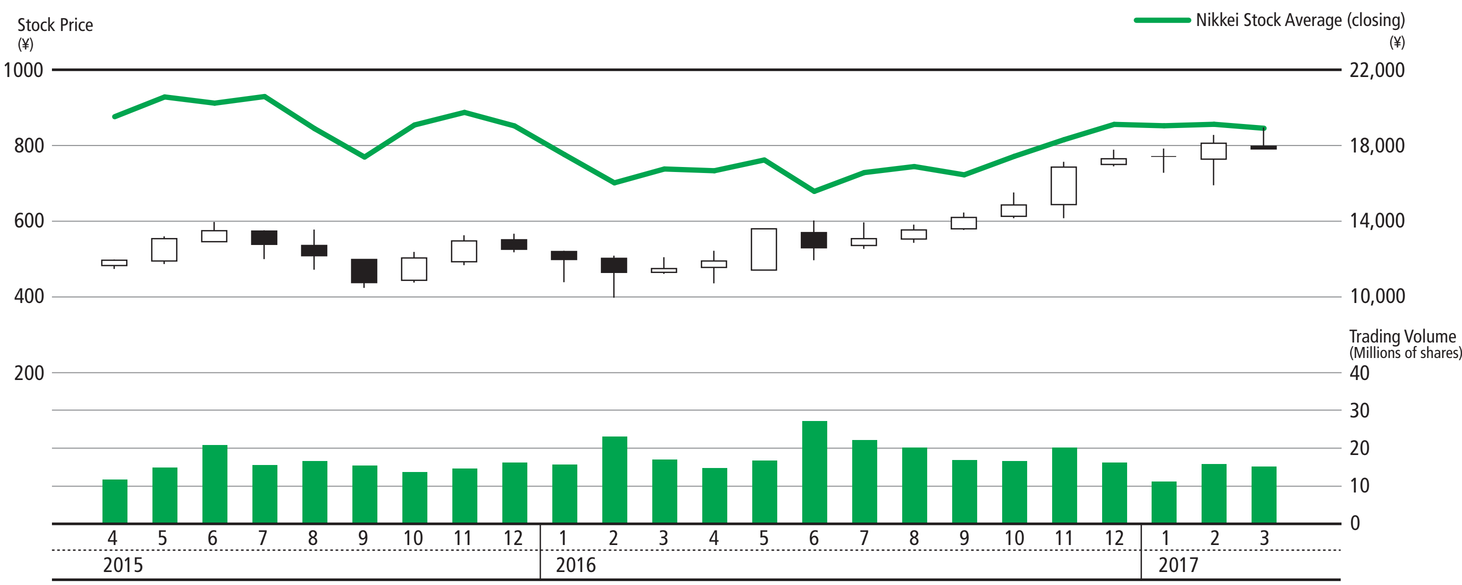


Principal Shareholders

Name of Shareholder	Number of Shares (thousands)	Percentage of Total Issued Share (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	14,843	7.30
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,025	4.44
Hanwa Clients' Stock Investment Association	7,980	3.93
Sumitomo Mitsui Banking Corporation	7,630	3.76
CBNY-GOVERNMENT OF NORWAY	6,285	3.09
Japan Trustee Services Bank, Ltd. (Trust Account 9)	6,092	3.00
Hanwa Employees' Stock Investment Association	4,242	2.09
Japan Trustee Service Bank, Ltd. (Trust Account 5)	3,622	1.78
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	3,278	1.61
Nippon Steel & Sumitomo Metal Corporation	3,001	1.48

Note: The Company holds 8,464,473 shares of treasury stock, which is excluded from the principal shareholders listed above.

Stock Price Range and Trading Volume (Common Stock)



HANWA CO., LTD.

http://www.hanwa.co.jp

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