HANWA CO., LTD.
阪和興業株式会社

2018
ANNUAL REPORT
Year ended March 31, 2018

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

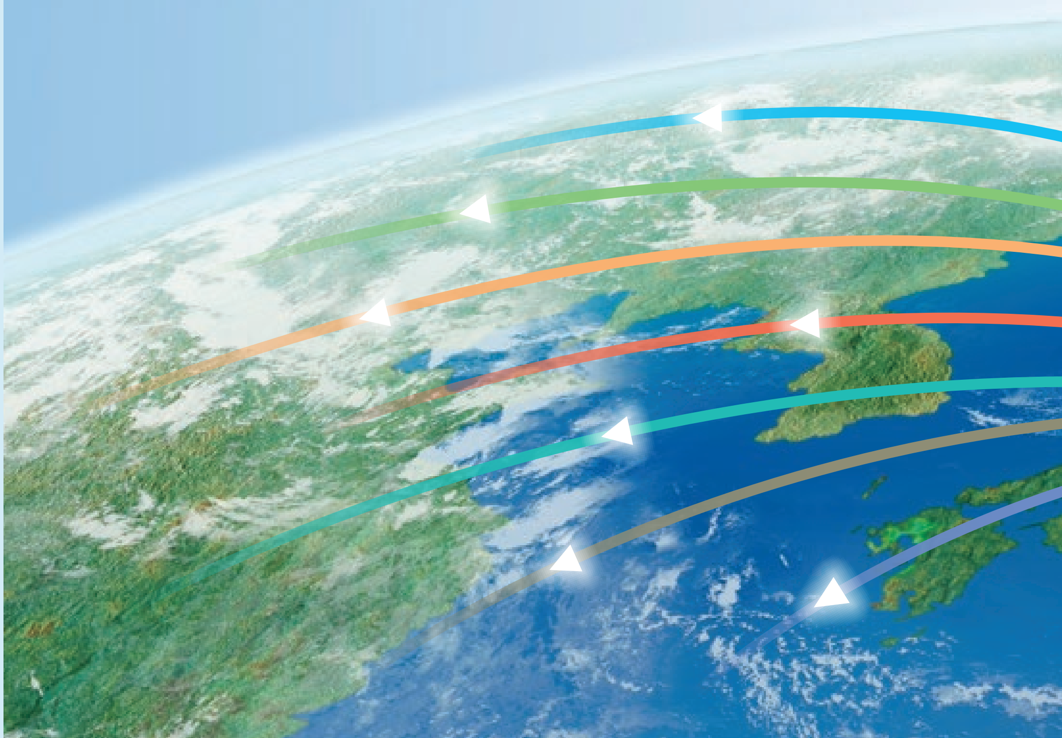
Coping with changing times and markets quickly, Hanwa makes a great contribution to society by satisfying various needs of customers as a "distribution specialist"

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 making 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

Hironari Furukawa
President
古川　弘成

Hanwa supplies a broad range of products, including steel, metals and alloys, non-ferrous metals, food products, petroleum and chemicals, lumber, machinery and many other items, to a diverse range of customers. Since our inauguration, by our specialized expertise and an extensive service network, we have been serving our customers as "distribution specialists" 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.

During the fiscal year ended March 31, 2018, economic conditions in general maintained a growth trend both in Japan and abroad. Hanwa completed the second year of its Medium-Term Business Plan, which covers the period from April 2016 to March 2020, and posted higher sales and profits. We intend to continue to ensure that our third year of the plan progresses steadily by gaining an accurate and thorough understanding of the demand trends in each business category. We will implement sales/inventory policies that address precisely the needs of our clients and actively pursue the development of a new customer base.

The sincere advice and support of all stakeholders forms the basis of all our activities. We place great value on each customer relationship. As we pursue sustainable 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.

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

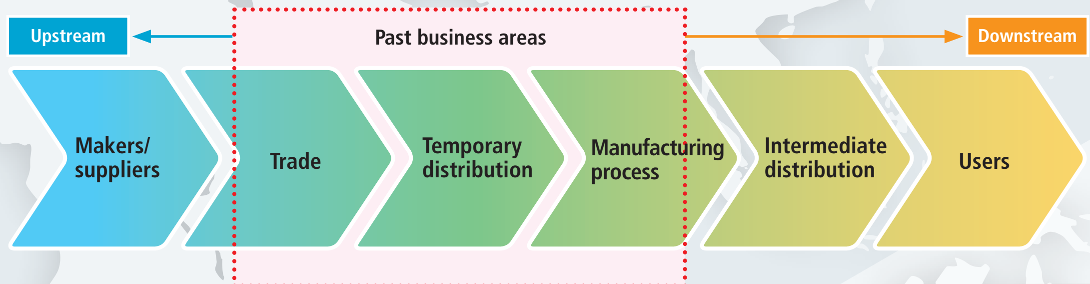
DISTRIBUTION SPECIALIST

"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, other seafood, and meat products, 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

50

Number of Subsidiaries and Associated Companies

55

Number of Overseas Processing Plants

16

Number of Employees (consolidated)

3,576

At a Glance

Net Sales / Year-on-Year Change

Steel

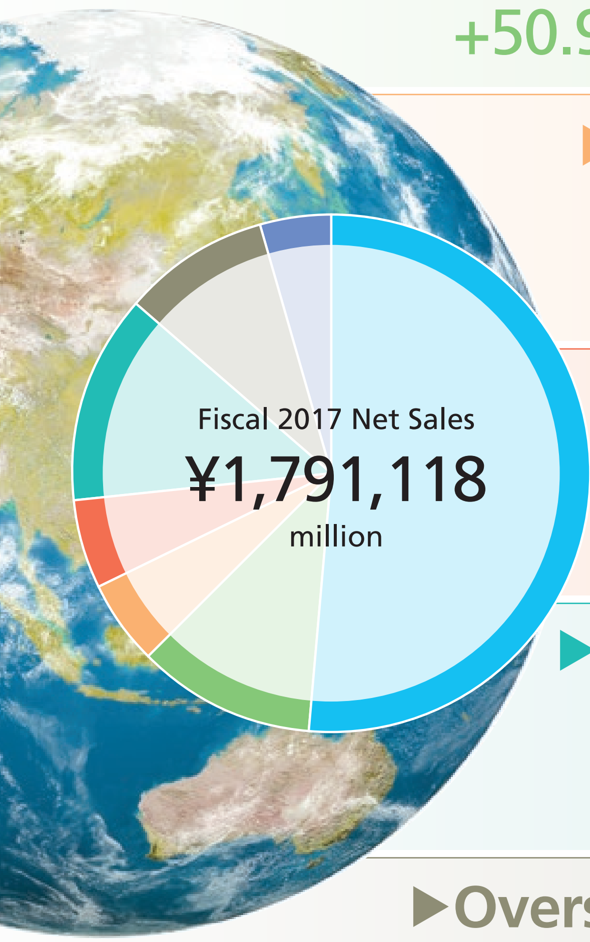
¥920,269 million

+18.6%

Metals and Alloys

¥198,330 million

+50.9%



Non-Ferrous Metals

¥97,356 million

+25.3%

Food Products

¥98,876 million

+11.5%

Petroleum and Chemicals

¥233,926 million

–9.0%

Overseas Sales Subsidiaries

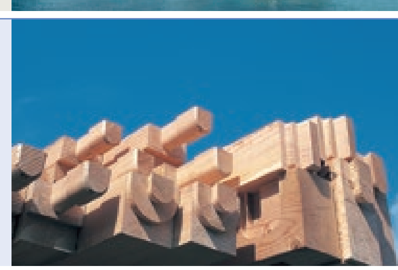
¥167,388 million

+49.5%

Other Business

¥74,970 million

+5.0%



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, meat products

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

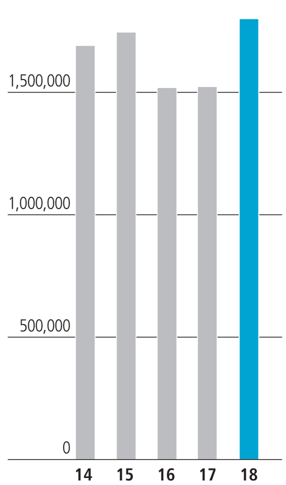
Consolidated Financial Highlights

	Millions of yen, except for number of employees		Thousands of U.S. dollars (*1)
	2018	2017	**2018**
For the year:			
Net sales	**¥1,791,118**	¥1,514,037	**$16,859,167**
Operating income	**26,217**	23,426	**246,771**
Net income attributable to owners of the parent	**17,354**	16,363	**163,347**
Comprehensive income	**22,532**	20,991	**212,085**
At year-end:			
Cash and cash equivalents	**¥ 34,855**	¥ 27,206	**$ 328,077**
Total assets	**861,965**	694,232	**8,113,375**
Total net assets	**203,700**	171,637	**1,917,356**
Number of employees	**3,576**	3,155	
	Yen		U.S. dollars (*1)
Per share data (*2)**:**			
Net income attributable to owners of the parent	**¥ 427.04**	¥ 400.89	**$ 4.019**
Cash dividends (*3 and *4)	**85.00**	19.00	**0.800**
Net assets attributable to owners of the parent	**4,621.96**	4,193.50	**43.504**
	%		
Key financial ratios:			
Return on assets (ROA)	**2.2**	2.5	
Return on equity (ROE)	**9.7**	10.1	
Net debt/equity ratio (*5)	**150**	140	

*1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥106.24=$1.00.
2. The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017.
Accordingly, per share data (except for cash dividends) are calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal 2017.
3. Dividends per share of ¥85.00 for the year ended March 31, 2018 consisted of interim dividends of ¥10.00 per share before the consolidation of shares and year-end dividends of ¥75.00 per share after the consolidation.
4. Year-end dividends per share of ¥75.00 for the year ended March 31, 2018 included the 70th anniversary commemorative dividend of ¥10.00.
5. Net debt/equity ratio = Net interest-bearing debt/equity.
Net interest-bearing debt = Interest-bearing debt – cash.

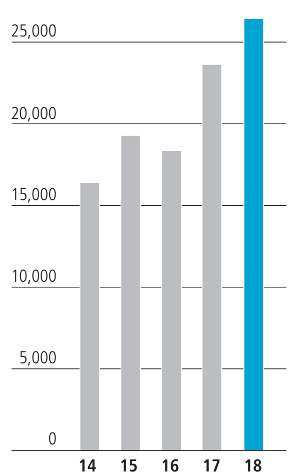
Net Sales

(Millions of yen)



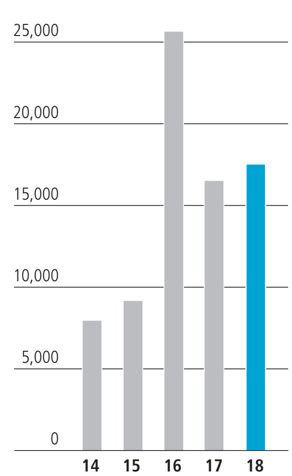
Operating Income

(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

Steadily Advancing the Medium-Term Business Plan for Sustainable Growth

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, 2018.

A With regard to the world economy in the fiscal year under review, the U.S. economy maintained a growth trend, driven primarily by continued steady growth in personal consumption and private investment, and a recovery in production and exports in the public sector. The European economy continued to expand gradually on the real economy front, but showed political instability due to national elections held in some of its member countries. The Chinese economy maintained a growth trend, reflecting a recovery in capital investment in infrastructure and real estate due to the effects of economic measures taken by the Chinese government, and higher personal consumption reflecting an improvement in employment and income conditions due to substantial corporate activity. In other emerging nations, domestic demand as seen in personal consumption and capital expenditures remained firm, affected by factors such as a recovery in exports accompanying steady economic growth in Western countries and China and a recovery in resource prices.

In Japan, exchange rates, interest rates and stock markets were affected by issues such as North Korea and U.S.–China trade friction, but the overall economy remained firm. There was a recovery in exports following the moderate recovery in overseas economies, and an improvement in employment and income conditions supporting an upturn in housing investment and consumption. This contributed to a gradual recovery in corporate production activities and an upturn in construction demand and capital expenditures.

Q2 Please summarize operating results for the fiscal year ended March 31, 2018.

A Given this background, the Group posted consolidated net sales of ¥1,791,118 million for the consolidated fiscal year ended March 31, 2018, representing a year-on-year increase of 18.3%. This result was due mainly to higher prices of steel and metal resources compared to the previous consolidated fiscal year. Operating income rose 11.9%, to ¥26,217 million, mainly reflecting higher profit in the metals and alloys business. Net income attributable to owners of the parent climbed 6.1%, to ¥17,354 million, due to factors such as a foreign exchange gain versus a foreign exchange loss recorded in the previous fiscal years, despite a decrease in extraordinary income and an increase in income taxes.

Q3 What is your outlook for the fiscal year ending March 31, 2019?

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 and fiscal policies of the Trump administration, trade issues, and additional interest rate hikes by the Federal Reserve. In Europe, despite political instability caused by factors such as Brexit (the United Kingdom's withdrawal from the European Union) and immigration issues, the real economy is expected to maintain steady growth. The Chinese economy shows strong personal consumption as well as a growth trend in corporate activities and noncurrent asset investment, and is expected to remain robust, supported by the Chinese government's policy to continue fiscal stimulus measures. In other emerging countries, it is anticipated that the economy will experience moderate growth.

In the Japanese economy, personal consumption and housing investment are expected to remain firm due to policy effects such as improvements in employment and income conditions and work-style reform, and construction demand is likely to remain high. In the manufacturing sector, production activity is expected to be steady and capital expenditures will also recover due to rising domestic demand and higher export growth driven by overseas economic recovery.

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 just described, in terms of consolidated operating results for the next fiscal year, we expect net sales of ¥2,000,000 million (up 11.7% compared with the previous year), operating income of ¥31,000 million (up 18.2%), and net income attributable to owners of the parent of ¥19,500 million (up 12.4%).

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

A The Group has formulated the Medium-Term Business Plan for the four-year period from April 2016 to March 2020 and sought to realize the objectives of the plan. For the final year of the plan, we expect net sales of ¥2,100,000 million, ordinary income of ¥35,000 million, and acquisition of a cumulative total of 2,700 new customers over four years.

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

A Delivery of a stable dividend to shareholders is one of the top prior issues for the Company. As for the distribution of retained earnings for the fiscal year under review, we decided to distribute a year-end dividend of ¥65 per share and a commemorative dividend of ¥10, for a total dividend of ¥75 per share, taking into consideration the fact that our business earnings exceeded the initial forecast and celebration of the 70th anniversary of our foundation. We have already declared and delivered an interim dividend of ¥10 per share (¥50 per share equivalent after the five-to-one share consolidation on October 1, 2017), bringing the total dividend for the year to ¥125 per share.

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

CLOSE UP

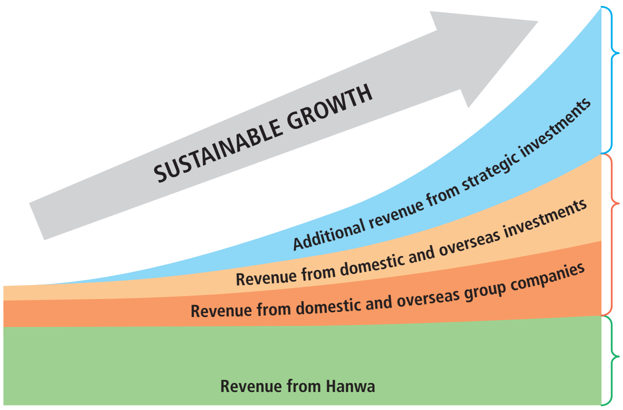
An Overview : The Revised Medium-Term Business Plan (FY2016–FY2019)

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

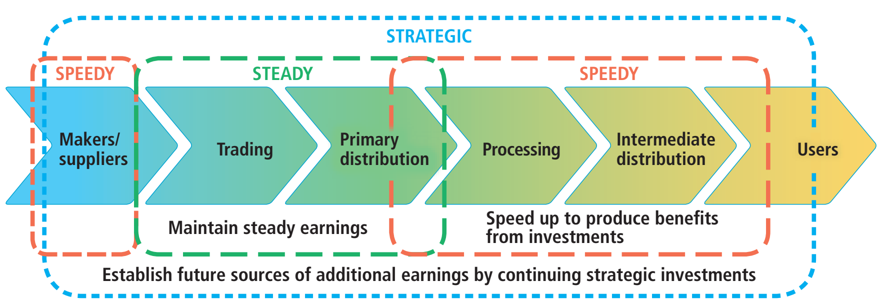
STEADY
Maintain and increase earnings in well-established businesses

Quantitative Objectives

(Billions of yen)

		FY2016 (Actual)	FY2017 (Actual)	FY2018 (Planned)	FY2019 (Planned)
Net sales		¥1,514.0	¥1,791.1	¥2,000.0	¥2,100.0
Ordinary income	1. STEADY	¥ 19.1	¥ 20.1	¥ 21.0	¥ 22.0
	2. SPEEDY	3.1	5.8	6.0	7.0
	3. STRATEGIC	0.7	(0.6)	3.0	6.0
	Total	¥ 22.9	¥ 25.5	¥ 30.0	¥ 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

Launch of Joint Venture Business for Comprehensive Steel Processing Center with Da Ming International Holdings Limited

In November 2017, Hanwa decided to invest in a new comprehensive steel processing center that Da Ming International Holdings Limited will establish in Jiaxing, Zhejiang Province, China. The Da Ming International Group, led by a holding company, Da Ming International Holdings Limited, is the largest stainless distribution processing corporate group in China.

The Da Ming Group's business development is consistent with the "fast delivery/small-lot/processing" strategy that the Company has pursued. It is expected to build a supply chain from raw materials procurement to finished products, aiming for further global expansion. The start of operation is scheduled for the end of 2018, with annual handling volume of 1,100,000 tons (stainless steel of 300,000 tons and carbon steel of 800,000 tons).

Signing ceremony

Hanwa's 70th Anniversary

Hanwa reached the foundation its 70th anniversary on April 1, 2017. The Group pledges to perform the mission with pride in the 70-year history, making every effort to achieve sustainable growth and to improve general corporate value.


70th anniversary celebration

Promotion of the M&A+A (Alliance) Strategy

Outside Japan, as a distinctive resource investment, in April 2017 we made a joint investment in Japan South Africa Chrome Company Limited, who invests Samancor Chrome Holdings Proprietary Limited, producer of ferro-chrome, material for stainless steel, with Japan Oil, Gas and Metals National Corporation (JOGMEC). We also invested in Bacanora Minerals Ltd. that plans to produce lithium for positive electrode materials for automotive batteries in Mexico.

In Japan, we included Sanyo Kouzai Co., Ltd. and Kamei Co., Ltd., major steel dealers (regional wholesalers) in western Japan, in the Company's scope of consolidation. We also invested in Ohmi-sangyo Co., Ltd. a major coil center in the Kansai region. In addition, Japanlife Co., Ltd., the Japan's largest manufacturer of metal hardware products for construction, became a subsidiary. In this way, we will pursue further the "fast delivery/small-lot/processing" strategy in Japan.


Special metal fittings manufactured by Japanlife Co., Ltd.

Steel (Domestic)

Fiscal 2017 Results

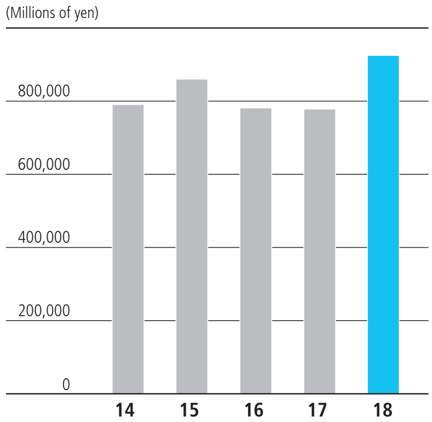
Domestic demand during fiscal 2017 remained strong. In the manufacturing sector, for example, domestic automobile production increased 3.4% year on year in fiscal 2017, and the amount of construction machinery shipments and orders received for machine tools also significantly increased—17.6% and 38.1% year on year, respectively.

Domestic demand for both steel bars and sheets was solid thanks to strong demand driven by the Tokyo Olympics and Paralympics demand for infrastructure and civil engineering, as well as strong private demand mainly in the non-residential sector.

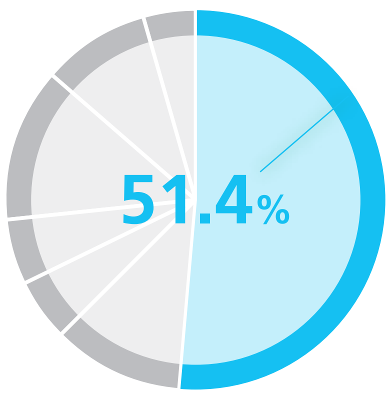
Steel products prices rose significantly mainly because of rising international market prices due to tight supply in China. In addition, supported by strong domestic demand and raw material price increase, blast furnace mills continue a price raise policy, and production remained weak at steel mills.

The Company promoted the fast delivery/small-lot/processing strategy further and increased sales volume by capturing end-user demand supported by strong domestic demand. The Company was also able to improve its profit margins and achieve strong performance thanks to higher inventory profit from on-market products along with rising long contracts prices, higher profit generated by rising conditional prices, domestic subsidiaries' profit improvement through price increases, and through increased operation.

Net Sales



Net Sales Composition



Looking Ahead and Key Strategies

In fiscal 2018, domestic demand for steel is expected to remain continuously strong in the manufacturing industry mainly in the sectors of automobiles, construction machines, and industrial machines. Demand in the construction industry is also forecast to remain solid as a whole, mainly supported by the Tokyo Olympics and Paralympics-related demand, urban redevelopment projects, and hotel construction in response to demand of incoming foreigners.

Prices are unlikely to plunge because tight demand-supply conditions appear to continue while steel makers' unused production capacity remains inadequate, and it is difficult for them to increase production amid continuously strong demand environment in the construction and manufacturing industries. Regarding global market conditions, it is difficult to forecast the effects of U.S. protectionist trade policies and China's counter-tariff measures. In China, however, adequate demand exists even as steel production is increasing and market conditions remain solid. Accordingly, negative effects do not appear to be exerted on domestic market conditions.

As a user-oriented trading company, the Company will promote the fast delivery/small-lot/processing strategy for its domestic steel business by improving the Hanwa Group's functions through M&A+A (Alliance) and alliances formed with partner companies, continue to explore existing customer demand, gain new customers, and expand and strengthen regional facilities, aiming to meet further regional demand. The Company will also strengthen the sales of drawings, combined sales, sales activities targeting property owners who are considering construction, and other sales activities using the networks of subsidiaries with relevant functions and processing partners.

Steel (Overseas)

Fiscal 2017 Results

China's real GDP growth rate for 2017 was 6.9% (year on year), higher than the government target of 6.5%. As a result of tighter steel demand and supply conditions caused by the elimination of low-quality steel from as part of excess capacity reduction measures, China's domestic market surged and performance of Chinese mills improved significantly.

The U.S. economy remained solid, and sluggish steel demand from the oil and gas sectors started to recover. As steel and aluminum tariffs took effect in March (end of the fiscal year) under Section 232 of the Trade Expansion Act of 1962, the future of steel exports to North America is unclear.

While demand in the ASEAN region remained firm in general despite variations among member countries, their imports of China-made steel products declined substantially due to the effects of excess capacity reduction in China. The energy sector continued to experience weak growth, although it bottomed out with the exception of Vietnam.

During fiscal 2017, Japan's steel exports decreased 7.3% year on year to 37.72 million tons, representing five consecutive years of decreases. As strong domestic demand continued, steel makers put limits on order receipt for steel products exported, creating a difficult environment to ensure adequate volume. The Company's steel export volume remained flat year on year thanks to increased pipe transactions and steady trading of steel sheets and shaped steel products although the supply of steel plates and high-performance materials was limited during a certain period of time.

Looking Ahead and Key Strategies

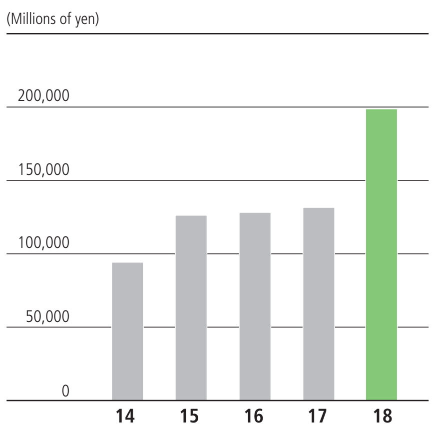
The prospects for steel exports are unpredictable amid many trade issues that have arisen in the U.S. and Europe, but global market conditions are expected to remain stable at the current level due to declining steel exports from China. Market prices of reinforcing bar, shaped steel, etc. are forecast to possibly be affected by the new construction of many electric furnaces in China. In Japan, domestic demand for steel sheets is still strong, and allocation for export is anticipated to be limited.

Demand is forecast to be strong in North America and continues to be stable in ASEAN countries. Projects that have been behind schedule in the Middle East appear to be restarting thanks to the oil price recovery. Japanese mills request that increased raw material costs be passed on with higher prices, but it might be difficult to make users accept price increases.

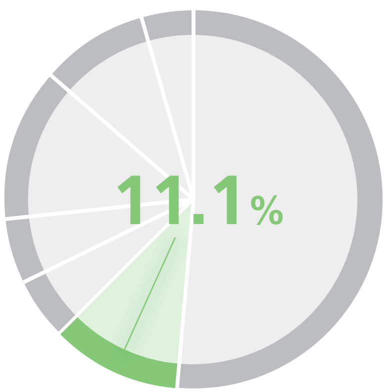
We seek to expand our business by taking advantage of our own processing facilities that exist across the world, as well as those of our business partners, and by making necessary capital contributions. To this end, we engage in endeavors that leverage the high quality and credibility of Japan-made products and customer-oriented service mainly in high-grade and niche product market segments in the field with a little competition with Chinese products. As for general-purpose commodities, we will strengthen the trading of competitively priced steel materials that can meet the needs of customers in China, South Korea, India, and ASEAN countries. In Asia, North and Central America, Europe, and the Middle East where we currently conduct business, we will enhance our presence, and also explore the possibility of starting new business activities in emerging countries such as Myanmar and the Philippines.

Metals and Alloys

Net Sales



Net Sales Composition



Fiscal 2017 Results

Nickel prices, which hit the bottom (about $9,000 per ton) at the beginning of the year due to Indonesia's partial lifting of its ore export ban and poor demand prospects, started to rise around July due to the effects of the earthquake in Sichuan province and in anticipation of a tighter demand-supply situation in China, and surpassed $12,000 per ton in September. Amid consistently strong forecasts including a forecast for the rapid expansion of electric vehicle-related demand, nickel prices reached the $13,500-per-ton level at the end of the year, despite some price fluctuations in the second half of the year.

Prices of silicon and manganese-based ferroalloys were solid earlier this year, but remained high thereafter due to the effects of decreased production in China and an extremely tight demand-supply situation caused by China's strict regulations on environmental problems. For example, prices of ferrosilicon and silico-manganese surpassed $2,000 per ton and $1,600 per ton, respectively, at year end, although they were corrected towards the end of the year.

The price of ferrochromium was still high earlier this year after reaching highs in January through March 2017, but declined significantly due to underselling by some makers from around May in anticipation of a loosened demand-supply situation. Then the price recovered from the middle of the year as the progress of South African supplier's M&A deal was favorably accepted. The price at year end was solid.

Prices fluctuated significantly as a whole, but we were able to create an advantageous positioning amid solid market sentiment. As a result, we have steadily increased new transactions including investments, generating a source of income.

Looking Ahead and Key Strategies

Trade conflicts mainly between the U.S., China and Russia, as well as economic sanctions, exert significant influence on demand for and supply of specialty metals and ferroalloys such as nickel (i.e. exchange-traded products), and eventually on market prices.

This year, unstable demand-supply conditions and violent market fluctuations (i.e. rapid market price surges and significant declines) are forecast to be observed repeatedly and with considerable frequency.

The Company will be facing violent market fluctuations. However, new customers and products will actively increased in stainless steel raw material business.

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

The metal compound with chemicals product business will also vigorously strive to develop new products and markets, and turn existing investment into actual businesses, aiming to expand the entire business by actively making new upstream investments in growing markets.

In ferroalloy markets, the Company will strive to expand sales volumes, product types and sales regions in an appropriate manner, while continuing to make investment in upstream business areas.

▶ Non-Ferrous Metals

Fiscal 2017 Results

Aluminum prices that were at the $1,950-per-ton level at the beginning of the fiscal year fluctuated repeatedly, but surpassed $2,000 per ton at mid-year and $2,200 per ton in the fourth quarter. The year-end price settled down at the $2,000-per-ton level.

Copper prices increased gradually from the $5,800-per-ton level at the beginning of the fiscal year and rose sharply after that, surpassing $7,000 per ton in the second half of the fiscal year due to the effects of China's environmental regulations and the Trump Effect on the markets. The year-end price settled down at $6,600 per ton.

Zinc prices fluctuated repeatedly within the $2,500- to $2,700-per-ton range in the first half of the fiscal year, but rose to the $3,500 level in the middle of year as the demand-supply balance became tight. The year-end price settled down at the $3,200-per-ton level.

Lead prices were in the $2,100- to $2,300-per-ton range in the first half of the fiscal year, but settled down at the $2,400-per-ton level after tentatively rising to the $2,600-per-ton level in the second half of the fiscal year.

This business achieved high profitability as a whole thanks to solid demand and an upward market trend.

The aluminum raw material business achieved a huge turnaround through diversification of suppliers and customers.

As for copper products, the Company secured a certain profit in a stable manner thanks to solid demand. The copper raw material business increased its profit by ensuring the supply of raw materials amid rising prices.

As for white raw materials and e-scraps, the Company posted earnings thanks to new product development and diversification of suppliers and customers, and started new joint venture operations in Europe.

Looking Ahead and Key Strategies

As for nonferrous metals in general, the first half of last year is considered to be a period when prices started to rise, but these prices jumped in the second half of the year due to the effects of China's environmental regulations and Trump's policies. Future price development is considered to be largely affected by China's environmental regulations and policies toward the U.S., U.S. policies toward various countries, and global geopolitical risk. However, a tight supply situation is considered to continue due to solid fundamentals.

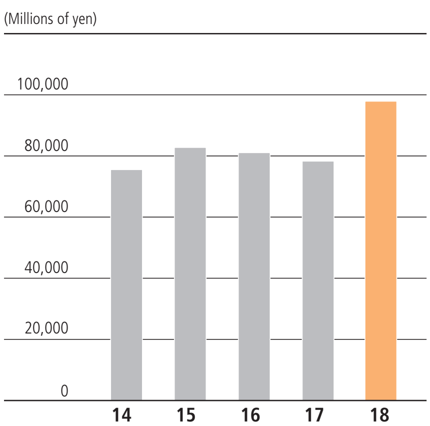
Metal prices will remain high in the first half of the current fiscal year, and enter a phase of adjustment in the second half of the year due to the effects of U.S. sanctions against Russia, China, etc.

Demand movement is expected to occur particularly in automobile, semiconductor and electronic component markets because fundamentals are quite solid.

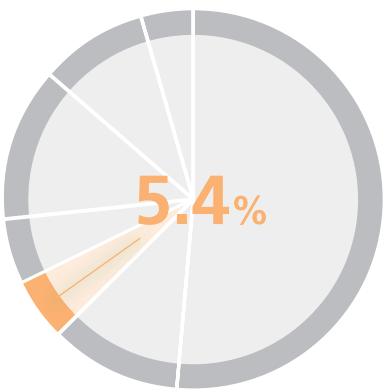
In Japan, demand will not decline significantly thanks to underlying factors such as special demand driven by the Olympics and the progress of IoT in automobiles and electronic devices.

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 the relevant investment has been mainly domestic.

Net Sales

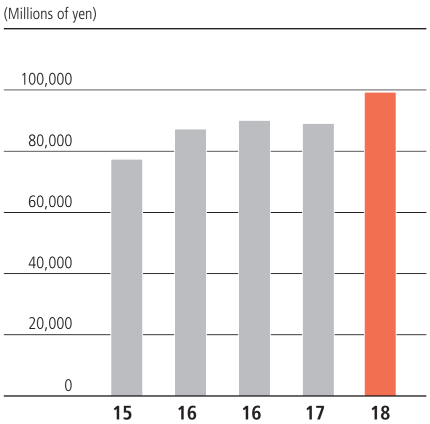


Net Sales Composition

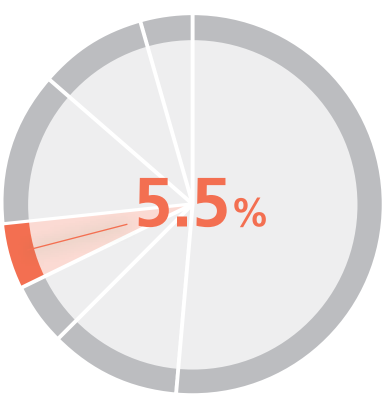


Food Products

Net Sales



Net Sales Composition



Fiscal 2017 Results

Fish prices remained high due to growing global demand and poor catches, but the prices of some fish products began to decline due to demand reduction caused by high prices.

Chilean silver salmon prices were gradually revised downward in and after October after hitting a record high in April due to the arrival of red salmon and Japanese white salmon.

Snow crab prices hit an all-time high again due to catch quotas for Alaska, Canada, and Russia (major snow crab fishing areas) that did not increase and tight demand across the world including the U.S. Demand for live crab is particularly strong in China and South Korea. The prices of king crab remained weak and decreased by about 10% in six months because consumers avoided buying them due to high prices.

Shrimp prices rose in the summer due to increased imports into the U.S. and China, but declined at the end of year and remained weak thereafter due to falling consumption caused by high prices and their arrival from India from October. Shrimp product sales to corporate customers remained strong thanks to the effects of incoming foreigners.

The prices of raw chicken meat materials remained high, started to decline in the fall due to increased arrivals in the summer, and were at bottom level at the end of year and thereafter due to over-stocking. Due to labor shortages at domestic food-processing factories, demand for processed foods imported into Japan is steadily growing mainly among convenience stores.

Hanwa Foods Co., Ltd. was not able to pass on increased raw materials costs to product prices, and faced a decline in profit rates.

Seattle Shrimp & Seafood Company's profit declined as a whole because an excess supply of shrimp (its main product) led to weak prices, and Chilean king crab prices that contributed to prior-year profit also fell.

Looking Ahead and Key Strategies

The supply situation will remain unchanged for all types of fish. As demand will continue to increase, fish prices will remain high.

Demand for salmon is growing globally, and its prices will remain high because no competition exists in particular in fish markets even in Japan even though current prices are forecast to remain at the current level or increase for some time.

As the snow crab quota for Canada has been reduced by 30%, prices are forecast to increase and the Company will face fiercer competition when ensuring supply. King crab prices will remain stable after declining because the fishing quota will not change from last year.

Shrimp prices will be somewhat weak at the beginning because suppliers (mainly India) are boosting their output and the U.S. has adequate stocks of shrimp. However, once these prices start to fall, consumption is expected to increase through mass market retailers. As the prices of shrimp products are also somewhat weak, we will carefully purchase them by paying attention to market conditions.

Chicken meat prices are expected to remain flat due to overstocking. As demand for overseas processed chicken products is expected to continuously increase, the Company will expand its sales channels (mainly convenience stores) to ensure stable profit.

Hanwa Foods Co., Ltd. will be expanding the sales of shrimp products to create a source of income by taking advantage of falling prices although it is continuously difficult to generate profit for a while under the current environment.

Seattle Shrimp & Seafood Company aims to expand programmed sales of Indian products whose production is expected to increase. The Company will also focus on creating a third pillar (other than shrimp and crab).

▶ Petroleum and Chemicals

Fiscal 2017 Results

The price of WTI crude oil, which remained at around $50 during the first half of the fiscal year, soared in the second half, reaching nearly $70 at the end of year. In Japan, a specific pricing policy was implemented in July after the realignment of wholesale companies. This policy aims to ensure refining margins are in line with global prices by exerting price control under the pricing framework. Due to higher purchase prices, and return to the series trade, the Company faced a challenging environment in spot markets, failing to ensure adequate quantities and profit. However, the Company was able to generate profit mainly thanks to its stocking strategy formulated in line with price fluctuations and higher prices of kerosene oil and heavy oil during severe winter weather.

The bunker oil business environment still remains severe due to weak shipping markets.

The lubricant business grew in a stable manner by increasing the quantities of base oils exported to Southeast Asia and new materials such as inorganic materials.

The profit of the chemicals business decreased due to the inability to pass on increased costs to customers while costs apparently increased in line with increased prices of polyethylene raw materials, etc. Sales of imported raw materials remained solid due to raw material shortages in Japan. Against this backdrop, the Company was able to steadily sell them, compensating for a decline in product sales.

The paper business faced rapid price changes because China prohibited or restricted the importation of used paper and waste plastics due to its environmental problems. However, the Company overcame this situation through flexible operations mainly in relation to Southeast Asian transactions.

The new energy business has continuously struggled because demand for PKS will be picking up on a full-scale basis in 2019. However, the Company strove to establish the wood pellet business foundation by concluding long-term contracts, etc. to fulfill the PKS supply shortage.

Looking Ahead and Key Strategies

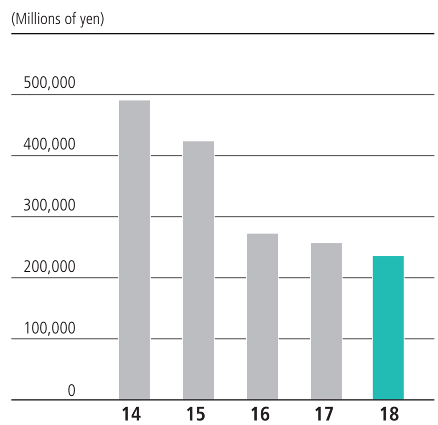
In the fuel business, the Company aims to remain in business and achieve mid-term growth by strengthening heavy oil stock blending functions, sharing information about foreign bunkers and cargos, improving compliance with the 2020 sulfur regulations, and developing global business amid decreasing demand for petroleum products.

The lubricant and paper businesses aim to improve their profit rates through new product development and cost reduction, respectively.

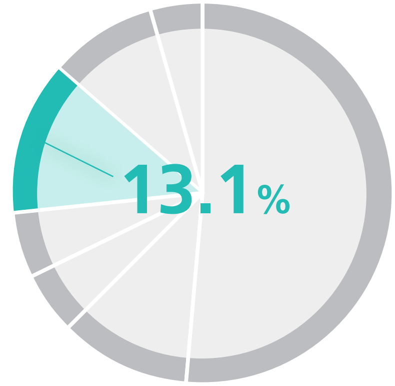
In the new energy business, the Company will develop procurement sources and strengthen relationships with them, aiming to expand sales of biomass fuels such as palm kernel shells (PKS) and wood pellets and chips. Regarding recycled fuels such as RPF (Refuse Paper and Plastic Fuel), the Company will also aim to create demand in collaboration with its subsidiaries (Seibu Service Co., Ltd. and Alpha Forme Co., Ltd.). In addition, the Company will strengthen its power retailing business in collaboration with Toyo Energy Co., Ltd. (subsidiary) and erex Co., Ltd. (investee) to prepare for the full-scale biomass power generation that is expected to start in or after 2019.

The chemicals business has achieved certain results in terms of development of large customers that purchase conventional disposable plastic shopping bags, etc. This year, this business will shift its focus to the development of new products such as new high-performance plastic bags and office suppliers offered to consumption-related companies, aiming to increase transactions.

Net Sales



Net Sales Composition



Overseas Sales Subsidiaries

Fiscal 2017 Results

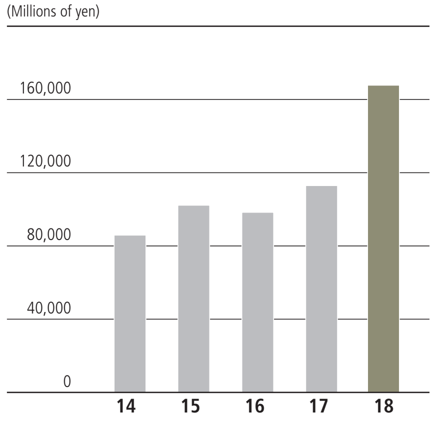
During fiscal 2017, international commodity prices remained relatively strong as a whole from the middle of the year.

In North America, the steel business was able to increase its trading volume even though it struggled to review transaction timing, customers, and suppliers, due to the effects of anti-dumping rules, measures against roundabout exports, and the Trump Administration's protectionist policies. The metal business also strengthened its operations by expanding products, suppliers, and customers.

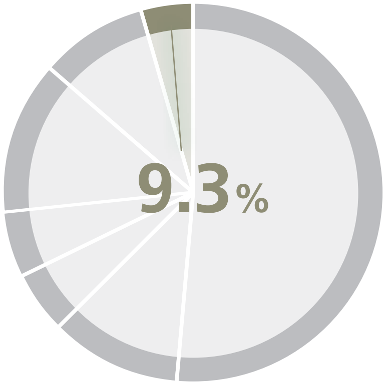
China started to accelerate its growth for the first time in seven years, achieving a GDP growth rate of 6.9% in 2017. Its crude steel production also hit a record high again due to the effects of expanded domestic demand through infrastructure improvement and the prohibition of induction furnace steel production (illegal steel materials). Steel prices jumped significantly due to increased steel demand. Each overseas base's earnings increased as a result of transforming its business from conventional commission-based operations to local business-oriented operations to keep up with the rapid changes in China's economy.

In ASEAN countries, there was strong demand. Infrastructure-related demand for construction materials and steel products within the region continued to increase. The scrap metal business remained vigorous. Regarding petroleum used in ships, the Company ensured profit by increasing the number of petroleum products that it handled although the competition was intensified even after the shipping market was bottoming out. Against the backdrop of strong economic growth, all local subsidiaries of the Company in ASEAN countries posted a profit.

Net Sales



Net Sales Composition



Looking Ahead and Key Strategies

In North America, the Company will evaluate actual demand and flexibly respond to environmental changes, paying attention to the Trump Administration's protectionist policies, worsening trade conflict, and rising interest rates. Regarding the steel business in particular, the Company will strive to solidify customer loyalty and build region-based business operations amid imposition of additional tariffs on steel and aluminum product imports under Section 232 of the Trade Expansion Act.

China's 2018 GDP growth is forecast to be 6.7%, and the steel market is expected to remain solid partly due to environmental regulations. As production of new energy vehicles is expected to increase under policies to promote the use of these vehicles, the Company will strengthen the handling of steel, materials for batteries in this business area. The Company will also establish a steel processing center together with Da Ming International Group, which is China's biggest stainless steel distributor listed on the Hong Kong Stock Exchange, improve processing functions, and propose one-stop solutions on steel processing.

In the ASEAN region, steel demand will remain solid, but in terms of supply, the effects of establishing new facilities in China and emerging nations are forecast to emerge gradually. However, investment strategies for supply chains ranging from raw materials to products, as well as business development results achieved through collaboration among offices in ASEAN countries, will materialize in future. In addition, the Company needs to change its business model in line with circumstantial changes because the steel, non-ferrous metal, paper, marine fuel, and other businesses that the Company conducts are affected by China's environmental regulations and expanded trade conflicts with the U.S.

▶ Other Business (Lumber and Machinery)

Fiscal 2017 Results

Lumber

Housing starts totaled 964,000 units in fiscal 2017 (almost flat year on year), of which 412,000 units were conventional wood-based construction (a year-on-year increase of 0.8%). These results were continuously driven by detached housing.

In the lumber business, our main customers were wholesale lumber distributors, but we have started to change our sales targets to direct sales for customers and housing makers. Sales to new target customers have expanded and currently represent about 40% of the entire sales. We have also started to handle more housing-related materials other than wood products (main products), such as steel products (ceiling joists and reinforcing units) and building materials.

We have struggled to generate adequate earnings due to the deteriorated market conditions caused by the importation of large quantities of lumber and failure to pass on increased costs with higher selling prices.

Machinery

In the leisure business, we made parts sales, etc. this year, but completed only the construction work DISK-O (one of the largest models in Japan for Yomiuri Land). We also began handling imported premium items for game facilities.

In the industrial machinery business, we delivered processing line facilities to foreign countries, and exported slitters used for electrical steel sheets to China. In Europe, we procured the conveyor lines used for e-scrap transport and delivered them to the Netherlands. In addition, we started to sell equipment such as cranes in the blast and electric furnace industries.

Looking Ahead and Key Strategies

Lumber

Housing starts are forecast to slightly decrease to 930,000 to 940,000 units in fiscal 2018. This is because the benefits of low interest rates and last-minute demand before the consumption tax hike can still be expected. Solid sales of low-priced detached housing will continue amid soaring condominium prices.

However, as the said demand will diminish next year and beyond and overall demand is forecast to decline year by year, the lumber business is focusing more on direct demand and has adopted a policy enabling the provision of total housing services in an active manner. Regarding labor-saving measures, we will also conduct the paneling, steel product, lumber delivery, and erection support businesses.

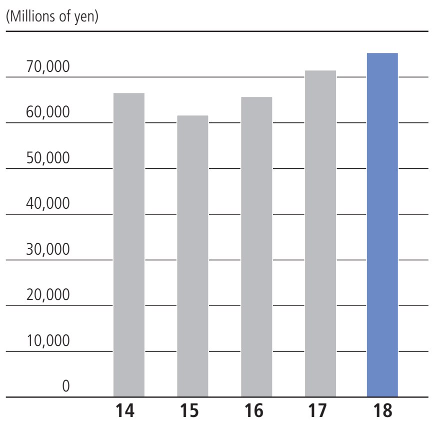
We will continuously strive to be able to supply imported lumber products (main products) in a stable manner, and conduct sales of domestic lumber products by actively proposing housing specifications.

Machinery

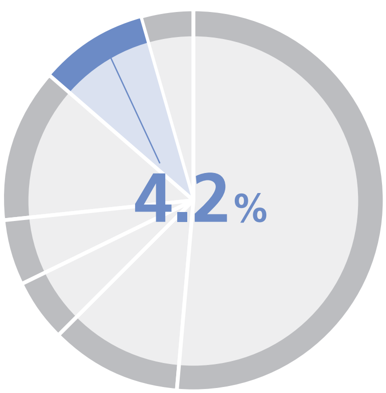
In the leisure facilities business, contract workloads for construction work to be completed have been light since fiscal 2017. As we have piled up official and unofficial orders for construction in and after 2019 and may be receiving additional orders, which we will actively seek out.

In the industrial machinery business, we will receive more orders for and inquiries about large cranes used for steel and steel-frame bridges. By further strengthening inter-departmental cooperation, we expect to develop new customers and suppliers. As Chinese markets are still vigorous, we will also strengthen our activities mainly to export machines from Japan.

Net Sales



Net Sales Composition



Corporate Governance

Basic Corporate Governance Policy

We aim to fulfill our social responsibilities as a good corporate citizen so that we can gain and retain the respect from stakeholders and be recognized as a valuable enterprise. We work to establish a high degree of transparency in management systems to ensure full legal and regulatory compliance and respect for social norms.

In addition to participating in many corporate social responsibility (CSR) activities, we have established the CSR Committee and use a commitment to CSR management to make our corporate brand even more respected.

Corporate Governance Structure

Basic overview of the corporate governance structure

We have adopted a corporate auditors' system, which includes the Board of Auditors that comprises five corporate auditors (of whom three are outside corporate auditors) selected at the General Shareholders' Meeting. The system is used to audit and perform oversight on the Board of Directors, 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 three 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 of each officer 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 performance and clearly reflects each individual Officer's achievement level. The Board of Directors approves this performance-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

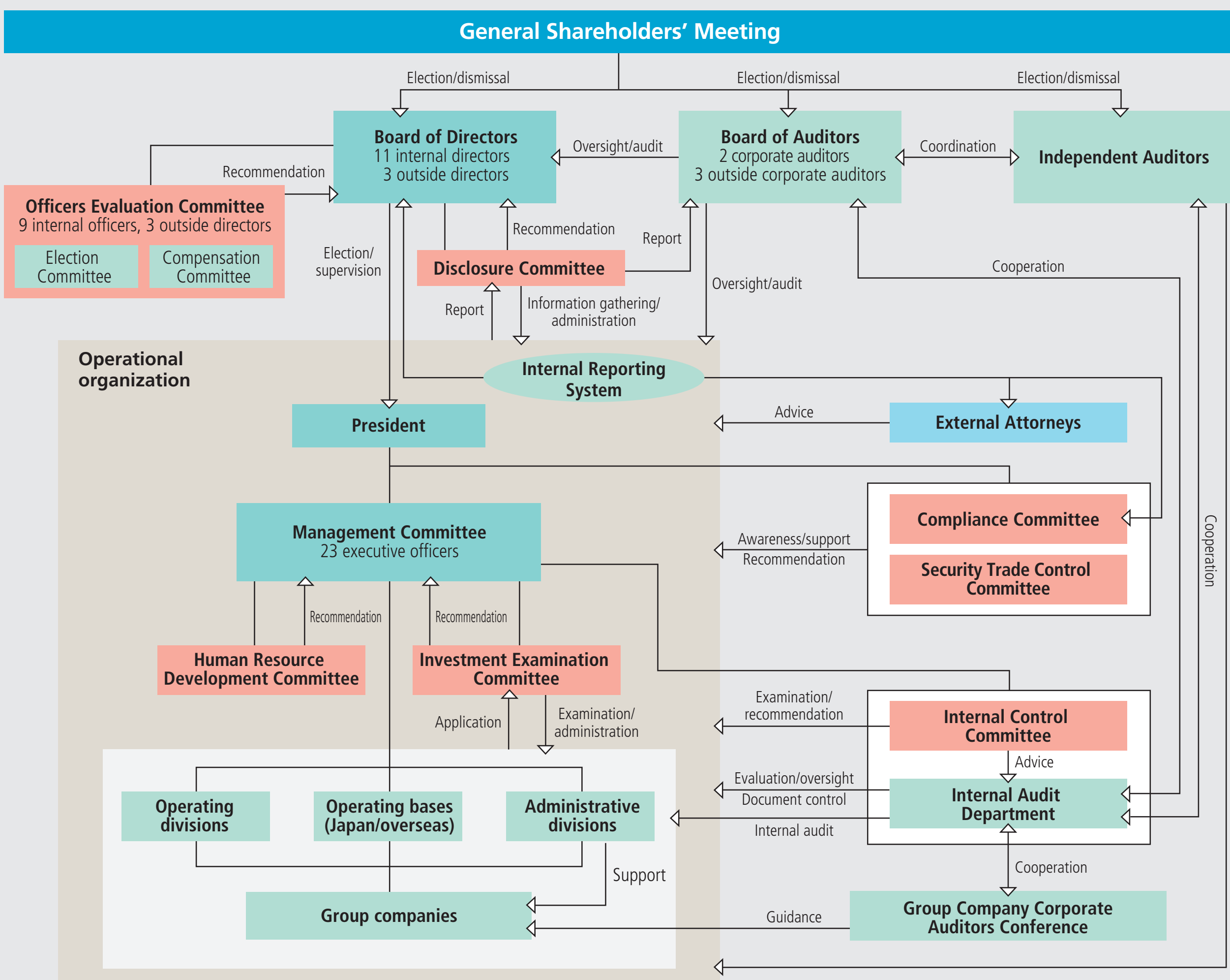
We have expanded its business over the years across a wide range of business fields, while making optimal use of the high level of expertise we can offer as a distribution specialist. We are fully aware of the responsibility entrusted to us by our shareholders. Our daily business decisions are therefore 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 additional outside director in FY2011 and another one in FY2018, making a total of three 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

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



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.

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 three outside directors and three outside corporate auditors, none of whom 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 have introduced the following Independence Standards for Outside Officers as a criteria for determining the level of independence.

• Independence standards for outside officers

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

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

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

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

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

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

(6) A consultant, legal professional, certified public accountant, tax accountant, or other person providing a specialist service who received ¥10 million or more of monetary consideration or other properties per year from the Company other than officer remuneration in the most recent fiscal year (referring to a person belonging to the organization if the one who received the relevant property is an organization such as a corporation or association.)

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

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

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

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

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

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 or makes it available for viewing at all time. The committee also disseminates compliance programs thoroughly and verifies that the 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, Legal & Credit 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, Group Company Financial Management Rules, and Domestic Group Company Accounting Treatment Uniformity Rules, the Company manages properly the risks related to the Group's companies 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 twice 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 for financial reports 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 for financial reports 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 financial reports of the Group performed by the Internal Audit Department. It also offers its views on the Internal Control Report to the Management Committee.

Overview of operation of systems to ensure proper operations (internal control systems) in the period under review is as stated below.

Activities for compliance

The Company has focused on developing a compliance structure by establishing the Corporate Ethics Philosophy, Corporate Ethical Standards, and Rules of Ethical Business Conduct in April 2003 and the Compliance Manual in April 2006. The manual has been distributed or made accessible at any time to ensure that everyone is made thoroughly aware of the contents. The Company also released the fourth edition of the Compliance Manual in October 2015 and expanded a compliance consultation service. With the goal of establishing a compliance structure involving Group companies, the Company has continued to expand the compliance structure in the fiscal year under review, such as by keeping all executives and employees of the Group including overseas subsidiaries informed of the Compliance Manual.

Activities for risk management

The Company manages risks related to new business ventures and new investments, environmental management, emergency responses, information security, trade security control, and other matters by designating business departments in charge of each risk. Various committees have been established as advisory bodies to support these departments.

The Company has maintained the Hanwa Knowledge Quality Control (HKQC) activities. Through the activities, the Company aims to properly control operational risks by identifying risks inherent in operational procedures and organizing countermeasures for such risks for each business department and Group company. The HKQC event was held in the fiscal year under review intended for all departments and Group companies in Japan to check the status of implementation and operation of HKQC activities, share information with other departments, and raise awareness of executives and employees toward risk management.

The Business Continuity Plan (BCP), which has been formulated to prepare for large-scale disasters and epidemics, is updated as appropriate.

Activities for Group management

The Company established the appropriate authority management system and reporting system for the Group companies by formulating the Group Company Management Rules, Group Company Financial Management Rules, and Domestic Group Company Standard Accounting Rules. In addition, efforts have been made to establish an efficient and effective group management system by creating the Group Support Section in the Corporate Planning Department. The Company amended the Group Company Management Rules in the fiscal year under review to clarify departments that support Group companies for each business while strengthening the Group management system, such as by clearly defining matters to be reported from Group companies to the Company. In addition, the Company held the Group Company Corporate Auditors Conference twice during the fiscal year under review, which has been created as a forum for the corporate auditors of the Company and subsidiaries to share information.

The performance of duties by the directors

As a rule, the Board of Directors meets once a month and the Management Committee meets twice a month in accordance with the Board of Directors Rules and other rules. The Board of Directors reaches decisions on matters required by laws and regulations and issues of significance concerning management which have been discussed at the Management Committee meetings that involve executive officers. The Board of Directors met 16 times and the Management Committee met 24 times during the fiscal year under review. In addition, the Board of Directors receives reports from each director regarding business operations, etc., in the Group and oversees duties performed by the directors.

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

Systems are in place where the Group's directors, executive officers, employees and the subsidiaries' corporate auditors submit reports to the corporate auditors on occurrence of significant risks and matters related to infractions of laws and regulations in addition to submitting reports on issues of significance concerning compliance.

The Compliance Committee Chairperson has secured a system to submit reports to the corporate auditors on reports made to the compliance consultation service.

In addition, the directors submit reports 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.

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. The representative directors and directors overseeing each department individually meet with corporate auditors and outside directors to exchange information on various matters.

The Company appoints two employees (concurrent position) to assist the corporate auditors in performing their duties including independent investigation and secures a system to support the performance of duties by the corporate auditors.

The Company has maintained the above systems during the fiscal year under review and ensured the effectiveness of the audit performed by corporate auditors.

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 executive officer of Management Division, incorporates organizations including the Compliance Committee, Environmental Committee, and the Hanwa Scholarship Foundation and engages in organized operation.

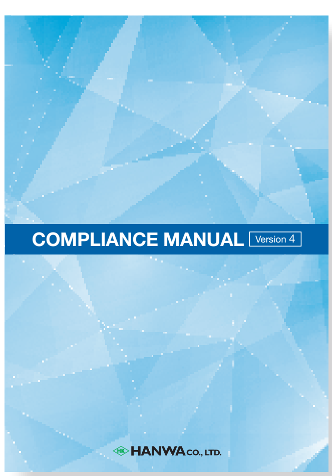
Companies both within Japan and overseas are internationally finding it more necessary to become globalized in terms of economic activity and to create sustainable developments. Hanwa is going to continue making efforts toward development as a single corporation existing within the world society with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

In March 2011, the Great East Japan Earthquake took place, and we issued the Crisis Management Manual applicable for Hanwa Co., Ltd. and its affiliates two months later.

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.

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.

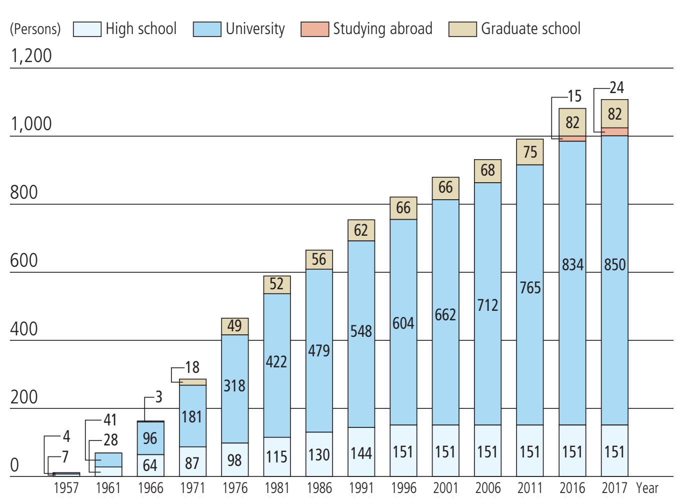
Social Contribution

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, 2018, the program had distributed a total of ¥678 million in scholarships, and the accumulated number of scholarship students had grown to 1,107.

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

Accumulated Number of Scholarship Students



Five-Year Summary

For the years ended March 31

	Millions of yen, except for number of employees					Thousands of U.S. dollars (*1)
	2018	2017	2016	2015	2014	**2018**
For the year:						
Net sales	**¥ 1,791,118**	¥ 1,514,037	¥ 1,511,800	¥ 1,737,397	¥ 1,682,503	**$16,859,167**
Operating income	**26,217**	23,426	18,178	19,107	16,252	**246,771**
Net income attributable to owners of the parent	**17,354**	16,363	25,469	9,086	7,896	**163,347**
Comprehensive income	**22,532**	20,991	16,778	19,450	14,647	**212,085**
Net cash provided by (used in) operating activities	**(19,755)**	3,959	53,098	1,790	343	**(185,946)**
Net cash provided by (used in) investing activities	**(39,971)**	(18,427)	(10,446)	(13,692)	(5,244)	**(376,233)**
Net cash provided by (used in) financing activities	**66,435**	15,447	(41,751)	19,339	(4,927)	**625,329**
At year-end:						
Cash and cash equivalents	**¥ 34,855**	¥ 27,206	¥ 25,804	¥ 24,515	¥ 15,919	**$ 328,077**
Total assets	**861,965**	694,232	599,694	651,456	593,351	**8,113,375**
Total net assets	**203,700**	171,637	156,139	142,749	125,361	**1,917,356**
Number of employees	**3,576**	3,155	2,977	2,772	2,610	

	Yen					U.S. dollars (*1)
	2018	2017	2016	2015	2014	**2018**
Per share data (*2):						
Net income attributable to owners of the parent	**¥ 427.04**	¥ 400.89	¥ 122.92	¥ 43.85	¥ 38.11	**$ 4.019**
Cash dividends (*3 and *4)	**85.00**	19.00	18.00	15.00	12.00	**0.800**
Net assets attributable to owners of the parent	**4,621.96**	4,193.50	747.40	682.46	591.68	**43.504**

	%				
	2018	2017	2016	2015	2014
Key financial ratios:					
Return on assets (ROA)	**2.2**	2.5	4.1	1.5	1.4
Return on equity (ROE)	**9.7**	10.1	17.2	6.9	6.6
Net debt/equity ratio (*5)	**150**	140	140	180	190

*1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥106.24=$1.00.
2. The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017. Accordingly, per share data (except for cash dividends) are calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal 2017.
3. Dividends per share of ¥85.00 for the year ended March 31, 2018 consisted of interim dividends of ¥10.00 per share before the consolidation of shares and year-end dividends of ¥75.00 per share after the consolidation.
4. Year-end dividends per share of ¥75.00 for the year ended March 31, 2018 included the 70th anniversary commemorative dividend of ¥10.00.
5. 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, 2018

With regard to the world economy in the fiscal year under review, the U.S. economy maintained a growth trend, driven primarily by continued steady growth in personal consumption and private investment, and a recovery in production and exports in the public sector. The European economy continued to expand gradually on the real economy front but showed political instability due to national elections held in some of its member countries. The Chinese economy maintained a growth trend that reflected a recovery in capital investment in infrastructure and real estate due to the effects of economic measures taken by the Chinese government, and higher personal consumption reflecting an improvement in employment and income conditions due to substantial corporate activity. In other emerging nations, domestic demand such as personal consumption and capital expenditures remained firm, affected by factors such as a recovery in exports accompanying steady economic growth in Western countries and China and a recovery in resource prices.

In Japan, exchange rates, interest rates and stock markets were affected by issues such as North Korea and U.S.–China trade friction, but the overall economy remained firm. There was a recovery in exports following the moderate recovery in overseas economies, and an improvement in employment and income conditions supporting an upturn in housing investment and consumption. This contributed to a gradual recovery in corporate production activities and an upturn in construction demand and capital expenditures.

Given this background, the Group posted consolidated net sales of ¥1,791,118 million for the consolidated fiscal year ended March 31, 2018, representing a year-on-year increase of 18.3%. This result was due mainly to higher prices of steel and metal resources compared to the previous consolidated fiscal year, which turned upward from the second half of the previous fiscal year. Operating income rose 11.9% to ¥26,217 million mainly reflecting higher profit in the metals and alloys business. Net income attributable to owners of the parent increased 6.1% to ¥17,354 million due to factors such as a foreign exchange gain, compared with a foreign exchange loss recorded in the previous fiscal years in addition to higher operating income, despite a decrease in extraordinary income and an increase in income taxes.

Net Sales

Net sales rose 18.3% year on year to ¥1,791,118 million. This result was due mainly to higher revenues, except for revenues in the petroleum and chemicals business, where the market size of spot trading is shrinking, as a result of higher prices of steel and metal resources compared to the previous consolidated fiscal year, which turned upward from the second half of the previous fiscal year, coupled with an increase in sales volumes mainly in the steel business and metals and alloys business. Domestic sales rose 14.6%, to ¥1,302,944 million while overseas sales jumped 29.3% to ¥488,174 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 increased 18.6% to ¥1,718,922 million. This was due mainly to a rise in purchase prices reflecting higher commodity prices and an increase in purchase volume accompanying sales expansion.

SG&A expenses rose 11.9%, to ¥45,977 million, primarily because of a rise in expenses due to the inclusion of newly consolidated subsidiaries in addition to an increase in personnel expenses such as salaries and welfare expenses.

Operating Income

Operating income for the consolidated fiscal year under review expanded 11.9% to ¥26,217 million from ¥23,426 million a year earlier, due mainly to higher profit in the metals and alloys business, while the operating margin remained at 1.5%.

Other Income (Expenses)

Net other expenses amounted to ¥781 million, up ¥518 million from the previous consolidated fiscal year. This reflected primarily decreases in gain on sales of property and equipment, and investment securities, increases in interest expense and bank charges accompanying higher interest-bearing debt, a rise in the share of profit loss of entities accounted for using the equity method, provision for product warranties of ¥345 million, and a loss of ¥217 million on valuation of investments in capital for a coil center, HANWA STEEL SERVICE (JIANGXI) CO., LTD., for which a transfer has been decided. These factors were partly offset by an increase in interest and dividend income, a foreign exchange gain compared to a loss in the previous consolidated fiscal year, and a reversal of ¥512 million in the provision for loss on business of subsidiaries and associates.

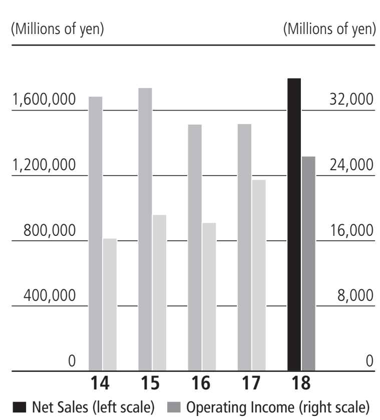
Income Taxes

Income taxes increased 23.6% to ¥8,315 million as the effective tax rate approached the statutory tax rate, although the effects of a tax deduction for an impairment loss on sold real estate that was recognized retrospectively were accounted for in the previous consolidated fiscal year.

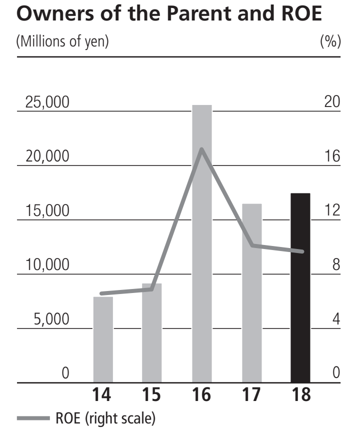
Net Income Attributable to Owners of the Parent

Net income increased 4.2% to ¥17,120 million. Net income attributable

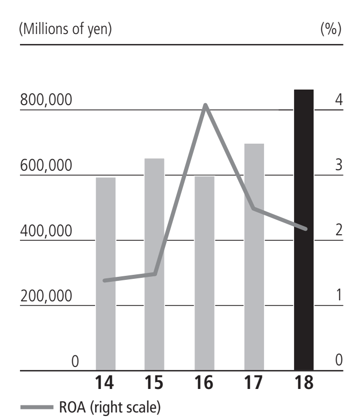
Net Sales and Operating Income



Net Income Attributable to Owners of the Parent and ROE



Total Assets and ROA



to owners of the parent within net income increased 6.1% to ¥17,354 million. Accordingly, net income per share rose to ¥427.04 from ¥400.89 in the prior year. (The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017. Accordingly, the net income per share was calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal 2017.)

Sources of Capital and Cash Liquidity

Financial Condition

Total assets increased to ¥861,965 million, up 24.2% from the previous consolidated fiscal year, reflecting higher trade receivables and investment securities.

Liabilities rose 26.0% to ¥658,264 million as a result of increases in trade notes and accounts payable and long-term debt after one year, and interest-bearing debt expanded 25.4% to ¥325,562 million. The net debt/equity ratio (net interest-bearing debt as a percentage of equity) stood at 150% as of March 31, 2018.

Net assets grew 18.7% to ¥203,700 million. This was attributable mainly to an increase in non-controlling interests arising from the consolidation of Japan South Africa Chrome Co., Ltd. and a rise in net income attributable to owners of the parent. Conversely, the equity ratio at March 31, 2018 fell to 21.8% from 24.5% a year ago due to greater increases in liabilities and non-controlling interests than in shareholders’ equity.

Cash Flows

Net cash used in operating activities totaled ¥19,755 million, compared to net cash provided by ¥3,959 million in the previous consolidated fiscal year. This was due primarily to higher working capital requirements reflecting increases in trade notes and accounts receivable and inventories arising from an upturn in sales, which continued from the middle of the previous consolidated fiscal year.

Net cash used in investing activities amounted to ¥39,971 million, up ¥21,543 million from the previous consolidated fiscal year. This was attributable mainly to increases in the purchase of investment securities, including shares of SAMANCOR CHROME HOLDINGS PROPRIETARY LTD., and long-term loans to investees.

Net cash provided by financing activities amounted to ¥66,435 million, up ¥50,987 million from the previous consolidated fiscal year. This resulted primarily from an expansion in proceeds from long-term debt and other items reflecting increases in investment funds for acquiring investment securities and demand for working capital arising from higher sales.

Financial Policy

The Group depends primarily on bank borrowings to meet its working capital requirements and to fund its investing and financing activities. 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, 2018 stood at ¥81,722 million, mostly denominated in yen. The Group’s outstanding long-term loan was ¥182,124 million, including the current portion of long-term loans of ¥34,522 million.

The Group issues bonds primarily to fund working capital. As of March 31, 2018, bonds outstanding consisted of straight bonds amounting to ¥50,176 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, 2018, the unused aggregate principal amount of the shelf registration for straight bonds for subscription in Japan amounted to ¥40,000 million.

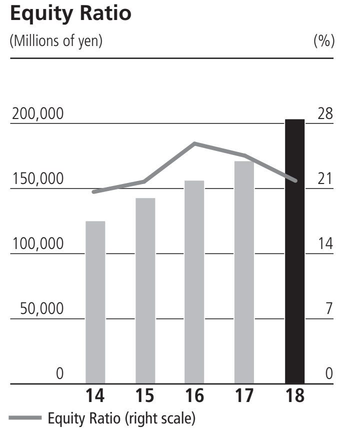
Advocating improvement of overall corporate value and sustainable growth, the Group attempts to conduct efficient management to secure funds needed for business growth and maintain a healthy financial balance.

Business and Other Risks

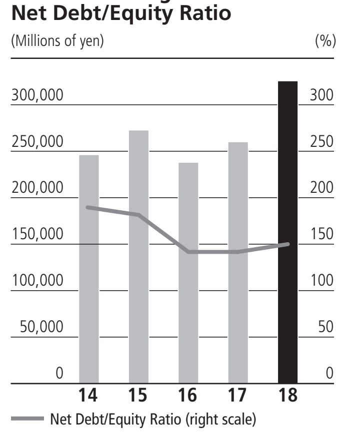
Changes in the Macroeconomic Environment

Hanwa Group’s worldwide operating revenue is subject to macro-economic 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.

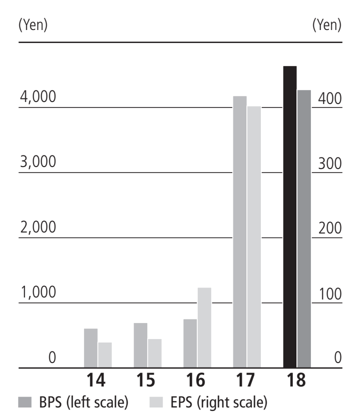
Total Net Assets and Equity Ratio



Interest-Bearing Debt and Net Debt/Equity Ratio



BPS and ESP (Note)



Note: The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017. Accordingly, BPS and EPS are calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal 2017.

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 the U.S. dollar which accounts 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 recently stepped up efforts 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 Quality of Products

Products and services offered by the Group are jointly provided with suppliers and outsourcing partners under appropriate quality control and inspection systems. The unlikely event of defects in products and services that leads to a large-scale recall or product liability compensation may trigger an accrual of a large amount of costs or damage to credibility and the corporate image, and may have significant adverse effects on the Group's business performance and financial position.

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, 2018 and 2017

Assets	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current assets:			
Cash and cash equivalents (Note 3)	**¥ 34,855**	¥ 27,206	**$ 328,077**
Receivables:			
Trade notes and accounts (Note 3):			
Unconsolidated subsidiaries and affiliates	**13,271**	9,791	**124,915**
Other	**387,045**	298,061	**3,643,119**
Electronically recorded monetary claims (Note 3)			
Unconsolidated subsidiaries and affiliates	**789**	—	**7,426**
Other	**24,627**	30,742	**231,805**
Loans:			
Unconsolidated subsidiaries and affiliates	**4,554**	3,606	**42,865**
Other	**3,779**	13,691	**35,570**
Allowance for doubtful receivables	**(481)**	(334)	**(4,527)**
Securities (Notes 3 and 4)	**683**	486	**6,428**
Inventories (Note 6)	**134,877**	111,039	**1,269,550**
Deferred tax assets—current (Note 10)	**1,891**	1,919	**17,799**
Other current assets (Note 7)	**40,138**	41,561	**377,804**
Total current assets	**646,032**	537,773	**6,080,873**
Investments and noncurrent receivables:			
Investment securities (Notes 3, 4 and 7)	**55,870**	58,786	**525,884**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 3)	**53,911**	13,737	**507,445**
Loans receivable (Note 3):			
Unconsolidated subsidiaries and affiliates	**1,459**	560	**13,733**
Other	**18,906**	10,281	**177,955**
Other investments and noncurrent receivables	**18,688**	11,787	**175,903**
Allowance for doubtful receivables	**(902)**	(504)	**(8,490)**
Total investments and noncurrent receivables	**147,934**	94,648	**1,392,451**
Property and equipment (Note 7)**:**			
Land (Note 12)	**32,402**	29,640	**304,988**
Buildings and structures	**42,089**	37,963	**396,169**
Other	**32,054**	29,188	**301,713**
Accumulated depreciation	**(42,076)**	(37,299)	**(396,046)**
Total property and equipment	**64,469**	59,492	**606,824**
Other assets:			
Deferred tax assets—noncurrent (Note 10)	**103**	283	**969**
Intangibles and other assets	**3,426**	2,034	**32,247**
Total other assets	**3,529**	2,317	**33,217**
Total	**¥ 861,965**	¥ 694,232	**$ 8,113,375**

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term loans payable (Notes 3 and 8)	¥ **81,722**	¥ 68,882	$ **769,220**
Commercial paper (Notes 3 and 8)	**10,000**	5,000	**94,126**
Long-term debt due within one year (Notes 3, 7 and 8)	**44,643**	38,401	**420,208**
Trade notes and accounts payable (Note 3):			
Unconsolidated subsidiaries and affiliates	**1,349**	1,057	**12,697**
Other	**265,246**	190,931	**2,496,667**
Accrued bonuses to employees	**2,474**	2,306	**23,286**
Provision for product warranties	**391**	146	**3,680**
Provision for loss on business of subsidiaries and associates	**—**	512	**—**
Income taxes payable	**5,050**	6,752	**47,533**
Other current liabilities	**40,851**	45,068	**384,516**
Total current liabilities	**451,730**	359,058	**4,251,976**
Noncurrent liabilities:			
Long-term debt due after one year (Notes 3, 7 and 8)	**187,657**	146,308	**1,766,349**
Net defined benefit liability (Note 9)	**4,943**	4,518	**46,526**
Deferred tax liabilities—noncurrent (Note 10)	**7,776**	7,000	**73,192**
Other noncurrent liabilities	**6,157**	5,709	**57,953**
Total noncurrent liabilities	**206,534**	163,536	**1,944,032**
Contingent liabilities (Note 14)			
Net assets (Note 12)			
Shareholders' equity (*):			
Common stock:			
Authorized: 114,000,000 shares in 2018 and 570,000,000 shares in 2017			
Issued: 42,332,640 shares in 2018 and 211,663,200 shares in 2017	**45,651**	45,651	**429,696**
Retained earnings	**131,045**	117,778	**1,233,480**
Treasury stock, at cost: 1,694,375 shares in 2018 and 8,464,473 shares in 2017	**(3,726)**	(3,720)	**(35,071)**
Total shareholders' equity	**172,969**	159,709	**1,628,096**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes	**14,342**	12,580	**134,996**
Deferred gains or losses on hedges, net of taxes	**(169)**	142	**(1,590)**
Land revaluation difference, net of taxes	**2,963**	2,966	**27,889**
Foreign currency translation adjustments	**3,110**	1,062	**29,273**
Remeasurements of defined benefit plans (Note 9)	**(5,388)**	(6,037)	**(50,715)**
Total accumulated other comprehensive income	**14,858**	10,713	**139,853**
Non-controlling interests	**15,872**	1,214	**149,397**
Total net assets	**203,700**	171,637	**1,917,356**
Total	¥ **861,965**	¥ 694,232	$ **8,113,375**

* The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017.

Consolidated Statements of Income and Comprehensive Income

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales	¥ 1,791,118	¥ 1,514,037	$ 16,859,167
Cost of sales	1,718,922	1,449,522	16,179,612
Gross profit	72,195	64,514	679,546
Selling, general and administrative expenses	45,977	41,088	432,765
Operating income	26,217	23,426	246,771
Other income (expenses):			
Interest and dividend income	2,875	2,684	27,061
Interest expense	(3,245)	(2,553)	(30,544)
Foreign exchange gain (loss)	316	(284)	2,974
Share of profit (loss) of entities accounted for using equity method	(127)	(88)	(1,195)
Gain on sales of property and equipment (Note 15)	—	876	—
Gain on sales of investment securities	165	674	1,553
Reversal of provision for loss on business of subsidiaries and associates (Note 16)	512	—	4,819
Loss on sales of property and equipment (Note 17)	—	(227)	—
Loss on valuation of investment securities	(181)	(814)	(1,703)
Loss on valuation of investments in capital	(217)	—	(2,042)
Loss on liquidation of business (Note 18)	—	(253)	—
Provision for product warranties (Note 19)	(345)	—	(3,247)
Other, net	(534)	(277)	(5,026)
Income before income taxes	25,435	23,163	239,410
Income taxes (Note 10)**:**			
Current	8,410	7,354	79,160
Deferred	(95)	(625)	(894)
Total income taxes	8,315	6,728	78,266
Net income	¥ 17,120	¥ 16,434	$ 161,144
Net income attributable to:			
Owners of the parent	¥ 17,354	¥ 16,363	$ 163,347
Non-controlling interests	(233)	71	(2,193)
Other comprehensive income (Note 20)**:**			
Valuation difference on available-for-sale securities, net of taxes	1,762	4,555	16,585
Deferred gains or losses on hedges, net of taxes	(311)	518	(2,927)
Foreign currency translation adjustments	316	(723)	2,974
Remeasurements of defined benefit plans, net of taxes	587	360	5,525
Share of other comprehensive income of entities accounted for using equity method	3,057	(154)	28,774
Total other comprehensive income	5,411	4,557	50,931
Comprehensive income	¥ 22,532	¥ 20,991	$ 212,085
Comprehensive income attributable to:			
Owners of the parent	¥ 21,501	¥ 21,017	$ 202,381
Non-controlling interests	1,031	(26)	9,704

	Yen		U.S. dollars (Note 1)
	2018	2017	2018
Net income per share (*1)	¥ 427.04	¥ 400.89	$ 4.019
Cash dividends per share (*2 and *3)	85.00	19.00	0.800

*1. The Company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017. Accordingly, per share data (except for cash dividends) were calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal 2017.

2. Dividends per share of ¥85.00 for the year ended March 31, 2018 consisted of interim dividends of ¥10.00 per share before the consolidation of shares and year-end dividends of ¥75.00 per share after the consolidation.

3. Year-end dividends per share of ¥75.00 for the year ended March 31, 2018 included the 70th anniversary commemorative dividend of ¥10.00.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	Thousands	Millions of yen										
	Number of shares of common stock (*)	Common 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	¥ 45,651	¥ 4	¥ 104,600	¥ (1,449)	¥ 8,024	¥ (376)	¥ 2,966	¥ 1,842	¥ (6,397)	¥ 1,272	¥ 156,139
Cash dividends paid	—	—	—	(3,900)	—	—	—	—	—	—	—	(3,900)
Change of scope of consolidation	—	—	—	219	—	—	—	—	—	—	—	219
Change of scope of equity method	—	—	—	700	—	—	—	—	—	—	—	700
Reversal of revaluation reserve for land	—	—	—	—	—	—	—	—	—	—	—	—
Net income attributable to owners of the parent	—	—	—	16,363	—	—	—	—	—	—	—	16,363
Purchases of treasury stock	—	—	—	—	(2,270)	—	—	—	—	—	—	(2,270)
Purchase of shares of consolidated subsidiaries	—	—	(4)	(200)	—	—	—	—	—	—	—	(205)
Sales of shares of consolidated subsidiaries	—	—	—	(0)	—	—	—	—	—	—	—	(0)
Consolidation of shares	—	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	(4)	—	—	—	—	—	—	—	(4)
Net changes of items other than shareholders' equity	—	—	—	—	—	4,555	518	—	(780)	360	(58)	4,596
Balance at March 31, 2017	211,663	45,651	—	117,778	(3,720)	12,580	142	2,966	1,062	(6,037)	1,214	171,637
Balance at April 1, 2017	**211,663**	**45,651**	**—**	**117,778**	**(3,720)**	**12,580**	**142**	**2,966**	**1,062**	**(6,037)**	**1,214**	**171,637**
Cash dividends paid	—	—	—	**(4,063)**	—	—	—	—	—	—	—	**(4,063)**
Change of scope of consolidation	—	—	—	**(25)**	—	—	—	—	—	—	—	**(25)**
Change of scope of equity method	—	—	—	—	—	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	**2**	—	—	—	—	—	—	—	**2**
Net income attributable to owners of the parent	—	—	—	**17,354**	—	—	—	—	—	—	—	**17,354**
Purchases of treasury stock	—	—	—	—	**(6)**	—	—	—	—	—	—	**(6)**
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Sales of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Consolidation of shares	**(169,330)**	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	**1,762**	**(311)**	**(2)**	**2,047**	**648**	**14,658**	**18,803**
Balance at March 31, 2018	**42,332**	**¥ 45,651**	**¥ —**	**¥ 131,045**	**¥ (3,726)**	**¥ 14,342**	**¥ (169)**	**¥ 2,963**	**¥ 3,110**	**¥ (5,388)**	**¥ 15,872**	**¥ 203,700**

	Thousands	Thousands of U.S. dollars (Note 1)										
	Number of shares of common stock (*)	Common 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, 2017	**211,663**	**$429,696**	**$ —**	**$1,108,603**	**$(35,015)**	**$118,411**	**$ 1,336**	**$27,917**	**$ 9,996**	**$ (56,824)**	**$ 11,426**	**$1,615,559**
Cash dividends paid	—	—	—	**(38,243)**	—	—	—	—	—	—	—	**(38,243)**
Change of scope of consolidation	—	—	—	**(235)**	—	—	—	—	—	—	—	**(235)**
Change of scope of equity method	—	—	—	—	—	—	—	—	—	—	—	—
Reversal of revaluation reserve for land	—	—	—	**18**	—	—	—	—	—	—	—	**18**
Net income attributable to owners of the parent	—	—	—	**163,347**	—	—	—	—	—	—	—	**163,347**
Purchases of treasury stock	—	—	—	—	**(56)**	—	—	—	—	—	—	**(56)**
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Sales of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Consolidation of shares	**(169,330)**	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	**16,585**	**(2,927)**	**(18)**	**19,267**	**6,099**	**137,970**	**176,986**
Balance at March 31, 2018	**42,332**	**$429,696**	**$ —**	**$1,233,480**	**$(35,071)**	**$134,996**	**$ (1,590)**	**$27,889**	**$29,273**	**$ (50,715)**	**$149,397**	**$1,917,356**

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 25,435	¥ 23,163	$ 239,410
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation	4,240	3,971	39,909
Amortization of goodwill	532	217	5,007
Increase (decrease) in allowance for doubtful receivables	(193)	67	(1,816)
Interest and dividend income	(2,875)	(2,684)	(27,061)
Interest expense	3,245	2,553	30,544
Share of (profit) loss of entities accounted for using equity method	127	88	1,195
Gain on sales of property and equipment	—	(876)	—
Gain on sales of investment securities	(165)	(674)	(1,553)
Reversal of provision for loss on business of subsidiaries and associates	(512)	—	(4,819)
Loss on sales of property and equipment	—	227	—
Loss on valuation of investment securities	181	814	1,703
Loss on valuation of investments in capital	217	—	2,042
Loss on liquidation of business	—	253	—
Provision for product warranties	345	—	3,247
Decrease (increase) in trade receivables	(82,227)	(60,931)	(773,974)
Decrease (increase) in inventories	(21,619)	(3,991)	(203,492)
Increase (decrease) in trade notes and accounts payable	69,366	39,538	652,917
Increase (decrease) in net defined benefit liability	992	959	9,337
Other, net	(7,073)	44	(66,575)
Subtotal	(9,982)	2,739	(93,957)
Cash flows during the year for:			
Interest and dividends received	3,681	2,766	34,647
Interest paid	(3,257)	(2,562)	(30,657)
Income taxes (paid) refund	(10,196)	1,015	(95,971)
Net cash provided by (used in) operating activities	(19,755)	3,959	(185,946)
Cash flows from investing activities:			
Payments into time deposits	(3,039)	(1,245)	(28,605)
Proceeds from withdrawal of time deposits	3,553	1,261	33,443
Additions to property and equipment	(4,650)	(3,656)	(43,768)
Proceeds from sale of property and equipment	144	1,453	1,355
Additions to investment securities	(35,461)	(2,883)	(333,782)
Proceeds from sale and redemption of investment securities	1,137	1,161	10,702
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 21)	1,176	—	11,069
Net decrease (increase) in short-term loans receivable	11,665	(14,829)	109,798
Additions to long-term loans receivable	(15,037)	(808)	(141,538)
Proceeds from long-term loans receivable	978	28	9,205
Other, net	(436)	1,090	(4,103)
Net cash provided by (used in) investing activities	(39,971)	(18,427)	(376,233)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	12,185	12,343	114,693
Net increase (decrease) in commercial paper	5,000	5,000	47,063
Proceeds from long-term debt, issuance of bonds	94,188	25,290	886,558
Repayments of long-term debt, redemption of bonds	(54,363)	(20,499)	(511,699)
Proceeds from share issuance to non-controlling shareholders	13,580	—	127,823
Purchase of treasury shares	(6)	(2,270)	(56)
Payment of cash dividends	(4,063)	(3,899)	(38,243)
Dividends paid to non-controlling interests	(28)	(29)	(263)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(220)	—
Other, net	(58)	(267)	(545)
Net cash provided by (used in) financing activities	66,435	15,447	625,329
Effect of exchange rate changes on cash and cash equivalents	(203)	(370)	(1,910)
Net increase (decrease) in cash and cash equivalents	6,504	609	61,219
Cash and cash equivalents at beginning of year	27,206	25,804	256,080
Increase in cash and cash equivalents from newly consolidated subsidiaries	1,144	791	10,768
Cash and cash equivalents at end of year	¥ 34,855	¥ 27,206	$ 328,077

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, 2018, which was ¥106.24 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

As permitted, amounts of less than one million yen are omitted in the presentation for 2017 and 2018. As a result, the totals shown in the accompanying consolidated financial statements, both in yen and in U.S. dollars, do not necessarily agree with the sum of the individual amounts.

2. Significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and its 37 (30 in 2017) 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, 2018, the Company had 53 unconsolidated subsidiaries and 18 affiliates. The equity method has been applied to the investments in 4 of the unconsolidated subsidiaries and 4 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 provided principally on the straight-line method over the estimated useful life of the asset. Major renewals and improvements are capitalized. Maintenance, repairs and minor renewals are expensed as incurred.

Software costs

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

Bonuses

The Companies follow the Japanese practice of paying bonuses to employees. At the balance sheet date, 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.

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

Provision for loss on business of subsidiaries and associates

Provision for loss on business of subsidiaries and associates is recorded to cover the 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 foreign consolidated subsidiaries are translated into Japanese yen at year-end rates, except for shareholders' equity accounts, which are translated at historical rates. Income statements of foreign consolidated subsidiaries are translated at average rates, except for transactions with the Company, which are translated at rates used by the Company.

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

Finance leases

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

Derivatives and hedge accounting

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

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

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

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

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

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

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

Goodwill

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

Reclassifications

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

Amounts per share

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

Accounting Standards Not Yet Applied

(A) The Company and domestic consolidated subsidiaries

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

1. Overview

   The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

   Step 1: Identify contract(s) with customers.
   Step 2: Identify the performance obligations in the contract.
   Step 3: Determine the transaction price.
   Step 4: Allocate the transaction price to the performance obligation in the contract.
   Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

2. Effective date

   Effective from the beginning of the fiscal year ending March 31, 2022

3. Effects of the application of the standards

   The Companies are currently in the process of evaluating the effects of these new standards on the consolidated financial statements.

(B) Foreign consolidated subsidiaries

Accounting standards which were newly established or amended before March 31, 2018, but not yet applied to the foreign consolidated subsidiaries set forth in the table below.

The Companies are in the process of evaluating the effects of the standards on the consolidated financial statements.

Accounting Standards	Overview	Effective date
IFRS 9, "Financial Instruments"	The Standard introduces new requirements for classification and measurement of financial instruments, impairment and hedge accounting.	Fiscal year ending March 31, 2019
IFRS 15, "Revenue from Contracts with Customers"	The standard introduces a single comprehensive model that is applied to account for revenues from contracts with customers.	Fiscal year ending March 31, 2019

3. Financial instruments

At March 31, 2018 and 2017, 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 stocks and are exposed to price fluctuation risk. Some of them are denominated in foreign currencies, which accompany foreign exchange rate fluctuation risk.

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

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

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

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

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

Risk management system for financial instruments

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

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

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

To deal with liquidity risk associated with procuring funds for short-term loans payable, commercial paper, and long-term debt, the Company creates a fund procurement plan based on the outlook of the 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 supervising director in charge of administration department before engaging in such trading.

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

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

Supplementary explanation for items concerning fair values of financial instruments

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

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

(B) Fair values of financial instruments

Book values and fair values of the financial instruments (excluding those whose fair values were hard to determine) on the consolidated balance sheets at March 31, 2018 and 2017 were as follows:

March 31, 2018

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and cash equivalents	**¥ 34,855**	**¥ 34,855**	**¥ —**	**$ 328,077**	**$ 328,077**	**$ —**
(2) Trade notes and accounts receivable	**400,317**			**3,768,044**		
Allowance for doubtful receivables	**(363)**			**(3,416)**		
Net	**399,953**	**399,953**	**—**	**3,764,617**	**3,764,617**	**—**
(3) Electronically recorded monetary claims	**25,416**			**239,231**		
Allowance for doubtful receivables	**(23)**			**(216)**		
Net	**25,392**	**25,392**	**—**	**239,006**	**239,006**	**—**
(4) Securities						
a) Equity securities issued by affiliated companies	**3,712**	**1,892**	**(1,819)**	**34,939**	**17,808**	**(17,121)**
b) Available-for-sale securities	**43,813**	**43,813**	**—**	**412,396**	**412,396**	**—**
(5) Long-term loans receivable	**20,366**			**191,698**		
Allowance for doubtful receivables	**(20)**			**(188)**		
Net	**20,345**	**20,345**	**—**	**191,500**	**191,500**	**—**
Total assets	**¥ 528,073**	**¥ 526,253**	**¥ (1,819)**	**$4,970,566**	**$4,953,435**	**$ (17,121)**
(1) Short-term loans payable	**¥ 81,722**	**¥ 81,722**	**¥ —**	**$ 769,220**	**$ 769,220**	**$ —**
(2) Commercial paper	**10,000**	**10,000**	**—**	**94,126**	**94,126**	**—**
(3) Long-term debt due within one year	**44,643**	**44,643**	**—**	**420,208**	**420,208**	**—**
(4) Trade notes and accounts payable	**266,595**	**266,595**	**—**	**2,509,365**	**2,509,365**	**—**
(5) Long-term debt due after one year	**187,657**	**187,693**	**(36)**	**1,766,349**	**1,766,688**	**(338)**
Total liabilities	**¥ 590,619**	**¥ 590,655**	**¥ (36)**	**$5,559,290**	**$5,559,629**	**$ (338)**
Derivatives:						
Hedge accounting not applied	**¥ (5,722)**	**¥ (5,722)**	**¥ —**	**$ (53,859)**	**$ (53,859)**	**$ —**
Hedge accounting applied	**(460)**	**(867)**	**(407)**	**(4,329)**	**(8,160)**	**(3,830)**
Total derivatives	**¥ (6,182)**	**¥ (6,589)**	**¥ (407)**	**$ (58,189)**	**$ (62,019)**	**$ (3,830)**

March 31, 2017

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 27,206	¥ 27,206	¥ —
(2) Trade notes and accounts receivable	307,853		
Allowance for doubtful receivables	(267)		
Net	307,586	307,586	—
(3) Electronically recorded monetary claims	30,742		
Allowance for doubtful receivables	(29)		
Net	30,712	30,712	—
(4) Securities			
a) Equity securities issued by affiliated companies	2,671	1,051	(1,619)
b) Available-for-sale securities	38,621	38,621	—
(5) Long-term loans receivable	10,842		
Allowance for doubtful receivables	(10)		
Net	10,831	10,831	—
Total assets	¥ 417,628	¥ 416,008	¥ (1,619)
(1) Short-term loans payable	¥ 68,882	¥ 68,882	¥ —
(2) Commercial paper	5,000	5,000	—
(3) Long-term debt due within one year	38,401	38,401	—
(4) Trade notes and accounts payable	191,989	191,989	—
(5) Long-term debt due after one year	146,308	146,587	(278)
Total liabilities	¥ 450,582	¥ 450,860	¥ (278)
Derivatives:			
Hedge accounting not applied	¥ 10,444	¥ 10,444	¥ —
Hedge accounting applied	(49)	(640)	(591)
Total derivatives	¥ 10,395	¥ 9,803	¥ (591)

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, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
	Book value	Book value	Book value
(1) Equity securities issued by unconsolidated subsidiaries and affiliated companies	**¥ 50,198**	¥ 11,066	**$ 472,496**
(2) Available-for-sale securities:			
Unlisted stocks	**¥ 4,307**	¥ 4,190	**$ 40,540**
Unlisted foreign stocks	**6,333**	14,049	**59,610**
Unlisted foreign convertible bonds	**1,822**	2,406	**17,149**
Unlisted domestic convertible bonds	**26**	—	**244**
Unlisted domestic bonds	**250**	—	**2,353**
Investment in limited partnerships	**—**	5	**—**
Total	**¥ 12,740**	¥ 20,651	**$ 119,917**

The maturities of receivables and securities with maturities outstanding at March 31, 2018 were as follows:

Year ending March 31	Millions of yen			
	2019	From 2020 to 2023	From 2024 to 2028	Thereafter
Cash and cash equivalents	**¥ 34,855**	**¥ —**	**¥ —**	**¥ —**
Trade notes and accounts receivable	**400,317**	**—**	**—**	**—**
Electronically recorded monetary claims	**25,416**	**—**	**—**	**—**
Available-for-sale securities with maturity dates	**683**	**1,396**	**26**	**—**
Long-term loans receivable	**—**	**18,169**	**1,388**	**11**
Total	**¥ 461,272**	**¥ 19,566**	**¥ 1,414**	**¥ 11**

	Thousands of U.S. dollars			
	2019	From 2020 to 2023	From 2024 to 2028	Thereafter
Cash and cash equivalents	**$ 328,077**	**$ —**	**$ —**	**$ —**
Trade notes and accounts receivable	**3,768,044**	**—**	**—**	**—**
Electronically recorded monetary claims	**239,231**	**—**	**—**	**—**
Available-for-sale securities with maturity dates	**6,428**	**13,140**	**244**	**—**
Long-term loans receivable	**—**	**171,018**	**13,064**	**103**
Total	**$4,341,792**	**$ 184,167**	**$ 13,309**	**$ 103**

Long-term loans receivable of ¥796 million ($7,492 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, 2018 and 2017:

March 31, 2018

	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	**¥ 15,470**	**¥ 38,906**	**¥ 23,436**	**$ 145,613**	**$ 366,208**	**$ 220,594**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
Securities with book values not exceeding acquisition costs:						
Equity securities	**¥ 7,361**	**¥ 4,899**	**¥ (2,461)**	**$ 69,286**	**$ 46,112**	**$ (23,164)**
Bonds	**10**	**7**	**(2)**	**94**	**65**	**(18)**

March 31, 2017

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 12,812	¥ 33,861	¥ 21,049
Securities with book values not exceeding acquisition costs:			
Equity securities	¥ 6,883	¥ 4,759	¥ (2,123)

(B) The following tables summarize sales of available-for-sale securities in the years ended March 31, 2018 and 2017:

March 31, 2018

	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	**¥ 304**	**¥ 114**	**¥ 3**	**$ 2,861**	**$ 1,073**	**$ 28**

March 31, 2017

	Millions of yen		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 1,160	¥ 674	¥ —

(C) The loss resulting from the valuation of the securities in the years ended March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Securities in subsidiaries and affiliates	**¥ 60**	¥ 757	**$ 564**
Other securities	**120**	57	**1,129**
Total	**¥ 181**	¥ 814	**$ 1,703**

5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2018 and 2017 for the derivatives to which hedge accounting has not been applied:

March 31, 2018
Currency related

	Millions of yen				Thousands of U.S. dollars			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Foreign exchange forward contracts:								
Selling:								
U.S. dollars	¥ 100,694	¥ —	¥ 2,791	¥ 2,791	$ 947,797	$ —	$ 26,270	$ 26,270
Other currencies	533	—	(1)	(1)	5,016	—	(9)	(9)
Buying:								
U.S. dollars	15,621	—	(202)	(202)	147,035	—	(1,901)	(1,901)
Other currencies	2,679	26	(42)	(42)	25,216	244	(395)	(395)
Currency swap agreements:								
Japanese yen received for U.S. dollars	12,364	—	603	603	116,378	—	5,675	5,675
Total	¥ —	¥ —	¥ —	¥ 3,149	$ —	$ —	$ —	$ 29,640

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	¥ 2,538	¥ —	¥ (24)	¥ (24)	$ 23,889	$ —	$ (225)	$ (225)
Buying	1,882	—	79	79	17,714	—	743	743
Non-ferrous metals:								
Selling	6,907	—	407	407	65,013	—	3,830	3,830
Buying	3,513	—	(143)	(143)	33,066	—	(1,346)	(1,346)
Commodity swap agreements:								
Petroleum:								
Selling	62	—	(0)	(0)	583	—	(0)	(0)
Buying	513	—	(4)	(4)	4,828	—	(37)	(37)
Total	¥ —	¥ —	¥ —	¥ 313	$ —	$ —	$ —	$ 2,946

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	¥ 112,025	¥ —	¥ (9,193)	¥ (9,193)	$ 1,054,452	$ —	$ (86,530)	$ (86,530)
Buying	13,020	—	8	8	122,552	—	75	75
Total	¥ —	¥ —	¥ —	¥ (9,185)	$ —	$ —	$ —	$ (86,455)

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

March 31, 2017
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	¥ 71,334	¥ —	¥ (347)	¥ (347)
Other currencies	787	—	(1)	(1)
Buying:				
U.S. dollars	7,416	—	37	37
Other currencies	1,010	—	(4)	(4)
Currency swap agreements:				
Japanese yen received for U.S. dollars	12,088	—	(311)	(311)
Total	¥ —	¥ —	¥ —	¥ (627)

Commodity related

	Millions of yen			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:				
Petroleum:				
Selling	¥ 3,229	¥ —	¥ 67	¥ 67
Buying	2,360	—	30	30
Non-ferrous metals:				
Selling	7,877	—	(192)	(192)
Buying	4,105	—	(36)	(36)
Commodity swap agreements:				
Petroleum:				
Selling	139	—	(2)	(2)
Buying	1,106	—	17	17
Total	¥ —	¥ —	¥ —	¥ (117)

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

	Millions of yen			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:				
Non-ferrous metals:				
Selling	¥ 112,676	¥ —	¥ 11,660	¥ 11,660
Buying	23,336	—	(471)	(471)
Total	¥ —	¥ —	¥ —	¥ 11,188

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

(B) The following tables summarize fair value information as of March 31, 2018 and 2017 for the derivatives to which hedge accounting was applied:

March 31, 2018
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	**¥ 40,626**	**¥ 35,171**	**¥ (407)**	**$ 382,398**	**$ 331,052**	**$ (3,830)**

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	**¥ 32,549**	**¥ —**	**¥ (147)**	**$ 306,372**	**$ —**	**$ (1,383)**
Buying	**22,066**	**170**	**(312)**	**207,699**	**1,600**	**(2,936)**

March 31, 2017
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	¥ 40,336	¥ 35,736	¥ (591)

Commodity related

	Millions of yen		
	Contract or notional amount	Due after one year	Fair value
Forwards for inventories and commitments:			
Non-ferrous metals			
Selling	¥ 87,880	¥ —	¥ 132
Buying	50,928	254	(181)

6. Inventories

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Merchandise and finished products	**¥ 124,289**	¥ 101,650	**$1,169,888**
Work-in-process	**1,559**	1,917	**14,674**
Raw materials and supplies	**9,028**	7,471	**84,977**
Total	**¥ 134,877**	¥ 111,039	**$1,269,550**

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 loss of ¥139 million ($1,308 thousand) and a net gain of ¥655 million for the years ended March 31, 2018 and 2017, respectively.

7. Pledged assets

At March 31, 2018 and 2017, assets pledged as collateral for loans payable in the amount of ¥594 million ($5,591 thousand) and ¥932 million, respectively, and for guaranty deposits, and for loans of third parties were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
For loans payable:			
Other current assets	**¥ —**	¥ 50	**$ —**
Buildings and structures, net of accumulated depreciation	**432**	280	**4,066**
Land	**2,726**	1,112	**25,658**
Total	**¥ 3,158**	¥ 1,442	**$ 29,725**
For guaranty deposits:			
Other current assets	**¥ 43**	¥ 13	**$ 404**
Investment securities	**5,604**	5,298	**52,748**
Total	**¥ 5,647**	¥ 5,311	**$ 53,153**
For loans of third parties:			
Investment securities	**¥ 1,594**	¥ 1,705	**$ 15,003**
Total	**¥ 1,594**	¥ 1,705	**$ 15,003**

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, 2018 and 2017 was 1.4% and 1.1%, respectively, regardless of borrowing currencies though the range of the interest rates varies by borrowing currencies. There was an outstanding balance of ¥81,722 million ($769,220 thousand) and ¥68,882 million at March 31, 2018 and 2017, respectively.

The Company has entered into a yen denominated domestic commercial paper program. There was an outstanding balance of ¥10,000 million ($94,126 thousand) and ¥5,000 million at March 31, 2018 and 2017, respectively.

Bonds at March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Issued in 2013, 0.74% unsecured straight bonds, due 2018	**¥ 10,000**	¥ 10,000	**$ 94,126**
Issued in 2014, 0.44% unsecured straight bonds, due 2019	**10,000**	10,000	**94,126**
Issued in 2015, 0.43% unsecured straight bonds, due 2020	**10,000**	10,000	**94,126**
Issued in 2016, 0.29% unsecured straight bonds, due 2021	**10,000**	10,000	**94,126**
Issued in 2017, 0.27% unsecured straight bonds, due 2022	**10,000**	—	**94,126**
Issued in 2014, unsecured floating rate bonds, due 2021	**76**	97	**715**
Issued in 2016, 0.19% unsecured straight bonds, due 2019	**100**	—	**941**
Total	**¥ 50,176**	¥ 40,097	**$ 472,289**

Long-term loans payable at March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Loans from banks with weighted average interest rates of 0.5% and 0.6% at March 31, 2018 and 2017, respectively, maturing serially through 2031	**¥ 182,124**	¥ 144,612	**$1,714,269**
Less amounts due within one year	**(34,522)**	(38,380)	**(324,943)**
Total	**¥ 147,601**	¥ 106,232	**$1,389,316**

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, 2018 were as follows:

Years ending March 31

	Millions of yen	Thousands of U.S. dollars
2019	**¥ 34,522**	**$ 324,943**
2020	**27,474**	**258,603**
2021	**27,134**	**255,402**
2022	**30,446**	**286,577**
2023	**30,941**	**291,236**
Thereafter	**31,605**	**297,486**
Total	**¥ 182,124**	**$1,714,269**

9. Employees' severance and retirement benefits

(A) Overview of retirement benefit system adopted

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

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

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

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

(B) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at beginning of year	**¥ 26,438**	¥ 25,687	**$ 248,851**
Service cost	**1,215**	1,149	**11,436**
Interest cost	**100**	96	**941**
Actuarial loss (gain)	**(111)**	277	**(1,044)**
Benefits paid	**(861)**	(785)	**(8,104)**
Other	**2**	12	**18**
Balance at end of year	**¥ 26,786**	¥ 26,438	**$ 252,127**

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at beginning of year	**¥ 22,423**	¥ 22,099	**$ 211,059**
Expected return on plan assets	**674**	662	**6,344**
Actuarial gain (loss)	**(345)**	(320)	**(3,247)**
Contributions paid by the employer	**806**	767	**7,586**
Benefits paid	**(861)**	(785)	**(8,104)**
Other	**3**	—	**28**
Balance at end of year	**¥ 22,700**	¥ 22,423	**$ 213,667**

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at beginning of year	**¥ 502**	¥ 487	**$ 4,725**
Defined benefit costs	**149**	104	**1,402**
Benefits paid	**(49)**	(62)	**(461)**
Contributions paid by the employer	**(22)**	(20)	**(207)**
Other	**277**	(5)	**2,607**
Balance at end of year	**¥ 857**	¥ 502	**$ 8,066**

(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
	2018	2017	**2018**
Funded defined benefit obligations	**¥ 27,077**	¥ 26,680	**$ 254,866**
Plan assets	**(22,906)**	(22,627)	**(215,606)**
	4,171	4,052	**39,260**
Unfunded defined benefit obligations	**772**	465	**7,266**
Total net liability (asset) for defined benefits at end of year	**4,943**	4,518	**46,526**
Net defined benefit liability	**4,943**	4,518	**46,526**
Total net liability (asset) for defined benefits at end of year	**¥ 4,943**	¥ 4,518	**$ 46,526**

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Service cost	**¥ 1,215**	¥ 1,149	**$ 11,436**
Interest cost	**100**	96	**941**
Expected return on plan assets	**(674)**	(662)	**(6,344)**
Net actuarial loss amortization	**1,019**	1,056	**9,591**
Past service costs amortization	**65**	65	**611**
Retirement benefit costs based on the simplified method	**149**	104	**1,402**
Other	**(12)**	(5)	**(112)**
Total retirement benefit costs	**¥ 1,864**	¥ 1,803	**$ 17,545**

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Past service costs	**¥ 65**	¥ 65	**$ 611**
Actuarial gains and losses	**785**	457	**7,388**
Total	**¥ 850**	¥ 523	**$ 8,000**

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Past service costs that are yet to be recognized	**¥ 65**	¥ 130	**$ 611**
Actuarial gains and losses that are yet to be recognized	**7,789**	8,574	**73,315**
Total balance at end of year	**¥ 7,854**	¥ 8,705	**$ 73,926**

(8) Breakdown of plan assets

	2018	2017
Bonds (*1)	**34.0%**	27.6%
Equity securities (*1)	**16.9**	16.5
Cash and cash equivalents	**0.6**	4.6
General account assets	**22.2**	24.0
Other (*2)	**26.3**	27.3
Total	**100.0%**	100.0%

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

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

(9) Principal actuarial assumptions

	2018	2017
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 ¥251 million ($2,362 thousand) and ¥239 million to the defined contribution plans (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 plans) for the years ended March 31, 2018 and 2017, respectively.

(D) Multi-employer pension plans

Year ended March 31, 2018

Description is omitted because the multi-employer corporate pension plan, in which certain subsidiaries participate, was newly established on April 1, 2017 and information about its funded status at March 31, 2018 has not yet been available.

Year ended March 31, 2017

Description is omitted because all the multi-employer welfare 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.

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% for the years ended March 31, 2018 and 2017.

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, 2018 and 2017.

	2018	2017
Statutory tax rate:	**30.9%**	30.9%
Tax effect of permanent differences	**0.8**	0.7
Valuation allowance recognized for deferred tax assets	**1.0**	(2.3)
Consolidation adjustment for equity method	**1.5**	0.2
Difference in tax rates for consolidated subsidiaries	**(0.9)**	(0.5)
Other	**(0.6)**	0.1
Effective tax rate	**32.7%**	29.1%

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Temporary differences resulting from the merger with consolidated subsidiaries	**¥ 2,731**	¥ 2,731	**$ 25,705**
Loss on valuation of investment securities, currently not deductible	**1,861**	1,890	**17,516**
Net defined benefit liability	**1,493**	1,345	**14,053**
Loss on sale-repurchase agreements of land	**1,293**	1,293	**12,170**
Tax losses carried forward	**1,292**	1,076	**12,161**
Loss on impairment of non-current assets	**795**	795	**7,483**
Accrued bonuses to employees	**761**	705	**7,163**
Land revaluation difference, net of taxes unrealized loss	**225**	225	**2,117**
Other	**4,026**	3,807	**37,895**
Total deferred tax assets	**14,482**	13,873	**136,314**
Valuation allowance	**(10,131)**	(8,840)	**(95,359)**
Net deferred tax assets	**4,351**	5,032	**40,954**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**6,342**	5,692	**59,695**
Land revaluation difference, net of taxes unrealized gain	**1,633**	1,634	**15,370**
Other	**2,156**	2,502	**20,293**
Total deferred tax liabilities	**10,132**	9,830	**95,368**
Net deferred tax liabilities	**¥ (5,781)**	¥ (4,797)	**$ (54,414)**

Deferred tax assets and deferred tax liabilities were included in the consolidated balance sheets at March 31, 2018 and 2017, respectively, as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets: Deferred tax assets	**¥ 1,891**	¥ 1,919	**$ 17,799**
Other assets: Deferred tax assets	**103**	283	**969**
Current liabilities: Other current liabilities (Deferred tax liabilities)	**0**	0	**0**
Noncurrent liabilities: Deferred tax liabilities	**7,776**	7,000	**73,192**

11. Business Combination

Transactions under common control
Capital increase of subsidiary through third-party allotment

(A) Outline of business transaction

(1) Name and business components of the company acquired
Japan South Africa Chrome Company Ltd. ("Japan South Africa Chrome")
Investment and management of securities and business transactions executed through holding shares and/or equity of a company of metal mining industry

(2) Business combination date
April 1, 2017 (deemed acquisition date)

(3) Legal form for business combination
Capital increase of subsidiary through third-party allotment

(4) Name of company after business combination
Not changed

(5) Other matters related to overview of transaction
On April 3, 2017, the Company established a wholly-owned subsidiary, Japan South Africa Chrome, with the intention of acquiring the stakes of SAMANCOR CHROME HOLDINGS PROPRIETARY LTD. ("SAMANCOR") and obtaining the right to supply Ferro-Chromium for Japanese market. The capital increase was aimed for procuring funds for the acquisition of the stock of SAMANCOR and smooth business operations.

As a result of the transaction, the ownership ratio held by the Company was changed from 100% to 50.1%.

(B) Overview of accounting treatment adopted

It is accounted for as a transaction under common control based on the "Accounting Standard for Business Combinations" and the "Guidance on the Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures."

(C) Matters related to additional acquisition of stocks of subsidiary: details of the acquisition cost were as follows:

	Millions of yen	Thousands of U.S. dollars
Acquisition consideration (Cash)	**¥ 13,635**	**$ 128,341**
Acquisition cost	**¥ 13,635**	**$ 128,341**

12. Net assets

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

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

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

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

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

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

At the annual shareholders' meeting held on June 22, 2018, the shareholders approved cash dividends of ¥75.0 per share ($0.70) amounting to ¥3,047 million ($28,680 thousand). This appropriation had not been accrued in the consolidated financial statements as of March 31, 2018. 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, 2018, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥741 million ($6,974 thousand).

13. Leases

Operating leases

As Lessee

Obligations under non cancelable operating leases as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Due within one year	**¥ 551**	¥ 529	**$ 5,186**
Due after one year	**7,458**	7,834	**70,199**
Total	**¥ 8,009**	¥ 8,364	**$ 75,385**

14. Contingent liabilities

At March 31, 2018 and 2017, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Export letters of credit and trade notes (including export bills) discounted	**¥ 9,864**	¥ 6,071	**$ 92,846**
Electronically recorded monetary claims discounted	**79**	—	**743**
Trade notes endorsed	**233**	194	**2,193**
Guarantees of indebtedness	**4,859**	2,076	**45,736**

15. Gain on sales of property and equipment

The following table summarizes gain on sales of property and equipment in the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Land	**¥ —**	¥ 869	**$ —**
Other	**—**	7	**—**
Total	**¥ —**	¥ 876	**$ —**

16. Reversal of provision for loss on business of subsidiaries and associates

Year ended March 31, 2018

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

Year ended March 31, 2017

Not applicable.

17. Loss on sales of property and equipment

The following table summarizes loss on sales of property and equipment in the years ended March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Buildings and structures	**¥ —**	¥ 227	**$ —**

18. Loss on liquidation of business

Year ended March 31, 2018

Not applicable.

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.

The loss consisted of loss on impairment of non-current assets of ¥111 million, estimated removal cost of ¥109 million, loss on disposal of property and equipment of ¥20 million, and other costs of ¥11 million.

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

		Millions of yen		
Location	Description	Buildings and structures	Other	Total
Sodegaura, Chiba	Sodegaura yard	¥ 111	¥ 0	¥ 111
Total		¥ 111	¥ 0	¥ 111

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.

19. Provision for product warranties

Year ended March 31, 2018

Provision for product warranties was recorded to cover probable product warranties. The provision was recognized based on individually estimated amounts.

Year ended March 31, 2017

Not applicable.

20. Other comprehensive income

Years ended March 31, 2018 and 2017

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
	2018	2017	**2018**
Valuation difference on available-for-sale securities, net of taxes:			
Increase (decrease) during the year	**¥ 2,220**	¥ 7,542	**$ 20,896**
Reclassification adjustments	**190**	(663)	**1,788**
Sub-total, before tax	**2,411**	6,879	**22,693**
Tax expense (benefit)	**648**	2,324	**6,099**
Sub-total, net of tax	**1,762**	4,555	**16,585**
Deferred gains or losses on hedges, net of taxes:			
Increase (decrease) during the year	**(465)**	(286)	**(4,376)**
Reclassification adjustments	**22**	1,036	**207**
Sub-total, before tax	**(443)**	749	**(4,169)**
Tax expense (benefit)	**(131)**	231	**(1,233)**
Sub-total, net of tax	**(311)**	518	**(2,927)**
Foreign currency translation adjustments:			
Increase (decrease) during the year	**316**	(723)	**2,974**
Reclassification adjustments	**—**	—	**—**
Sub-total, before tax	**316**	(723)	**2,974**
Tax expense (benefit)	**—**	—	**—**
Sub-total, net of tax	**316**	(723)	**2,974**
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	**(225)**	(602)	**(2,117)**
Reclassification adjustments	**1,076**	1,125	**10,128**
Sub-total, before tax	**850**	523	**8,000**
Tax expense (benefit)	**263**	162	**2,475**
Sub-total, net of tax	**587**	360	**5,525**
Share of other comprehensive income of entities accounted for using equity method:			
Increase (decrease) during the year	**3,057**	(154)	**28,774**
Total other comprehensive income	**¥ 5,411**	¥ 4,557	**$ 50,931**

21. Cash flow information

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

Year ended March 31, 2018

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

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 11,218**	**$ 105,591**
Noncurrent assets	**3,044**	**28,652**
Goodwill	**1,808**	**17,018**
Current liabilities	**(6,842)**	**(64,401)**
Noncurrent liabilities	**(7,442)**	**(70,048)**
Non-controlling interests	**(46)**	**(432)**
Acquisition costs of shares	**¥ 1,739**	**$ 16,368**
Cash and cash equivalents of acquired companies	**(2,915)**	**(27,437)**
Net cash proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	**¥ 1,176**	**$ 11,069**

Year ended March 31, 2017
Not applicable.

(B) Significant non-cash transactions

Significant non-cash transactions in the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Conversion of long-term loans receivable to investment securities	**¥ —**	¥ 3,682	**$ —**

22. 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, steelmaking raw materials (steel processing and storage)

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

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

Foods: Seafood, meat products

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

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

The reportable segment income figures are based on operating income coupled with interest and dividend income, interest expense, 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 segments for the year ended March 31, 2018 were as follows:

Year ended March 31, 2018

	Millions of yen										
	Reportable segments										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 920,269	¥ 198,330	¥ 97,356	¥ 98,876	¥ 233,926	¥ 167,388	¥ 1,716,148	¥ 74,970	¥ 1,791,118	¥ —	¥ 1,791,118
Intersegment	11,678	4,869	1,704	601	6,768	54,289	79,912	1,628	81,541	(81,541)	—
Total	¥ 931,948	¥ 203,200	¥ 99,060	¥ 99,477	¥ 240,695	¥ 221,678	¥ 1,796,060	¥ 76,598	¥ 1,872,659	¥ (81,541)	¥ 1,791,118
Segment income	¥ 20,324	¥ 4,958	¥ 2,038	¥ 1,057	¥ 2,164	¥ 950	¥ 31,494	¥ 691	¥ 32,185	¥ (6,683)	¥ 25,502
Assets	¥ 411,990	¥ 215,003	¥ 23,545	¥ 41,945	¥ 47,925	¥ 35,956	¥ 776,367	¥ 29,978	¥ 806,345	¥ 55,620	¥ 861,965
Depreciation	3,197	98	240	33	211	62	3,842	304	4,147	93	4,240
Amortization of goodwill	326	56	67	—	82	—	532	—	532	—	532
Interest income	182	1,227	5	20	52	110	1,599	10	1,610	137	1,747
Interest expense	2,358	2,607	270	391	253	685	6,568	204	6,772	(3,527)	3,245
Share of profit (loss) of entities accounted for using equity method	242	(513)	—	—	—	15	(255)	127	(127)	—	(127)
Investment for entities accounted for equity method	4,023	38,125	—	—	—	107	42,257	905	43,162	—	43,162
Increase in property and equipment	4,803	47	127	11	99	48	5,137	760	5,898	42	5,941

Year ended March 31, 2018

	Thousands of U.S. dollars										
	Reportable segments										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	$ 8,662,170	$ 1,866,810	$ 916,378	$ 930,685	$ 2,201,863	$ 1,575,564	$ 16,153,501	$ 705,666	$ 16,859,167	$ —	$16,859,167
Intersegment	109,920	45,830	16,039	5,657	63,704	511,003	752,183	15,323	767,516	(767,516)	—
Total	$ 8,772,100	$ 1,912,650	$ 932,417	$ 936,342	$ 2,265,577	$ 2,086,577	$ 16,905,685	$ 720,990	$ 17,626,684	$ (767,516)	$16,859,167
Segment income	$ 191,302	$ 46,667	$ 19,182	$ 9,949	$ 20,368	$ 8,942	$ 296,442	$ 6,504	$ 302,946	$ (62,904)	$ 240,041
Assets	$ 3,877,917	$ 2,023,748	$ 221,620	$ 394,813	$ 451,101	$ 338,441	$ 7,307,671	$ 282,172	$ 7,589,843	$ 523,531	$ 8,113,375
Depreciation	30,092	922	2,259	310	1,986	583	36,163	2,861	39,034	875	39,909
Amortization of goodwill	3,068	527	630	—	771	—	5,007	—	5,007	—	5,007
Interest income	1,713	11,549	47	188	489	1,035	15,050	94	15,154	1,289	16,443
Interest expense	22,195	24,538	2,541	3,680	2,381	6,447	61,822	1,920	63,742	(33,198)	30,544
Share of profit (loss) of entities accounted for using equity method	2,277	(4,828)	—	—	—	141	(2,400)	1,195	(1,195)	—	(1,195)
Investment for entities accounted for equity method	37,867	358,857	—	—	—	1,007	397,750	8,518	406,268	—	406,268
Increase in property and equipment	45,208	442	1,195	103	931	451	48,352	7,153	55,515	395	55,920

1. "Other business" represents businesses such as lumber section and machinery section which are not included in the above reportable segments.
2. Adjustments are as follows:
   (1) Adjustments of negative ¥6,683 million ($62,904 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 ¥55,620 million ($523,531 thousand) include Group assets that were not allocated to reportable segments. These Group assets consist mainly of cash and cash equivalents, investment securities and assets of administrative departments.
   (3) Adjustments for depreciation and amortization amounting to ¥93 million ($875 thousand) include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥137 million ($1,289 thousand) and negative ¥3,527 million ($33,198 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 ¥42 million ($395 thousand) are increases in Group assets.

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

Year ended March 31, 2017

	Millions of yen										
	Reportable segments										
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 775,725	¥ 131,413	¥ 77,674	¥ 88,671	¥ 257,165	¥ 111,993	¥ 1,442,643	¥ 71,394	¥ 1,514,037	¥ —	¥ 1,514,037
Intersegment	11,167	3,210	1,532	339	7,299	62,287	85,837	1,660	87,498	(87,498)	—
Total	¥ 786,892	¥ 134,624	¥ 79,206	¥ 89,011	¥ 264,465	¥ 174,280	¥ 1,528,481	¥ 73,054	¥ 1,601,535	¥ (87,498)	¥ 1,514,037
Segment income	¥ 18,082	¥ 1,413	¥ 1,084	¥ 2,872	¥ 2,461	¥ 196	¥ 26,111	¥ 1,526	¥ 27,638	¥ (4,731)	¥ 22,907
Assets	¥ 371,789	¥ 114,436	¥ 21,772	¥ 34,074	¥ 41,128	¥ 32,305	¥ 615,506	¥ 27,394	¥ 642,900	¥ 51,332	¥ 694,232
Depreciation	2,970	121	267	41	42	50	3,494	362	3,857	114	3,971
Amortization of goodwill	140	33	44	—	—	—	217	—	217	—	217
Interest income	190	790	0	32	50	73	1,138	10	1,148	90	1,238
Interest expense	2,008	1,171	180	324	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)	97	(88)	—	(88)
Investment for entities accounted for equity method	2,671	—	—	—	—	48	2,719	778	3,498	—	3,498
Increase in property and equipment	3,479	69	310	58	36	84	4,038	345	4,383	51	4,435

1. "Other business" represents businesses such as lumber section and machinery section which are not included in the above reportable segments.
2. Adjustments are as follows:
   (1) Adjustments of negative ¥4,731 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 ¥51,332 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 ¥114 million include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expense amounting to ¥90 million and negative ¥1,874 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 ¥51 million are increases in Group assets.

(B) Related information

Product information

Net sales information by products for the years ended March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018

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

Year ended March 31, 2018

	Thousands of U.S. dollars						
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	**$ 9,293,919**	**$ 1,593,646**	**$ 1,459,487**	**$ 942,940**	**$ 2,676,609**	**$ 892,535**	**$16,859,167**

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	¥ 116,981	¥ 88,768	¥ 279,812	¥ 82,425	¥ 1,514,037

Geographic information

(1) Net sales in different countries for the years ended March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018

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

Year ended March 31, 2018

	Thousands of U.S. dollars			
	Japan	Asia	Other	Total
Net sales to external customers	**$12,264,156**	**$ 3,635,749**	**$ 959,252**	**$16,859,167**

Year ended March 31, 2017

	Millions of yen			
	Japan	Asia	Other	Total
Net sales to external customers	¥ 1,136,629	¥ 300,439	¥ 76,969	¥ 1,514,037

(2) Property and equipment in different countries for the years ended March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018

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

Year ended March 31, 2017

	Millions of yen			
	Japan	Asia	Other	Total
Property and equipment	¥ 53,140	¥ 6,251	¥ 100	¥ 59,492

Loss on impairment of non-current assets in reportable segments

Year ended March 31, 2018

There was no loss on impairment of non-current assets for the year ended March 31, 2018.

Year ended March 31, 2017

Loss on impairment of non-current assets of ¥111 million 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.

Outstanding balance of goodwill and amortization of goodwill in reportable segments

Outstanding balance of goodwill for the years ended March 31, 2018 and 2017 were as follows:

Year ended March 31, 2018

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

Year ended March 31, 2018

	Thousands of U.S. dollars									
	Reportable segments									
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at end of year	**$ 15,333**	**$ 847**	**$ 1,157**	**$ —**	**$ 2,061**	**$ —**	**$ 19,418**	**$ —**	**$ —**	**$ 19,418**

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, 2017

	Millions of yen									
	Reportable segments									
	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at end of year	¥ 148	¥ 66	¥ 110	¥ —	¥ —	¥ —	¥ 325	¥ —	¥ —	¥ 325

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

23. Related party information

(A) Related party transactions
Year ended March 31, 2018

Type	Name	Location	Capital or investments	Business or profession	Voting rights held (%)	Relationship with the related parties	Transactions	Amount	Account name	Balance as of March 31, 2018
Company with a majority of voting rights held by executive or close relative	Nakajo Co., Ltd. (*1)	Sanjo-shi Niigata Prefecture	**¥30 million ($282 thousand)**	Processing and sales of steel products	—	Business transactions	Sales of steel products (*2)	**¥10 million ($94 thousand)** (*3)	—	—

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

Year ended March 31, 2017
Not applicable.

(B) Notes on significant affiliates

A summary of the financial statements from April 1, 2017 to December 31, 2017 of SAMANCOR CHROME HOLDINGS PROPRIETARY LTD., a significant affiliate for the year ended March 31, 2018, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Total current assets	**¥ 59,799**	¥ —	**$ 562,867**
Total noncurrent assets	**78,604**	—	**739,871**
Total current liabilities	**32,211**	—	**303,190**
Total noncurrent liabilities	**53,242**	—	**501,148**
Total net assets	**52,949**	—	**498,390**
Net sales	**100,010**	—	**941,359**
Income before income taxes	**5,357**	—	**50,423**
Net income	**3,927**	—	**36,963**

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

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, 2018 and 2017, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Hanwa Co., Ltd. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

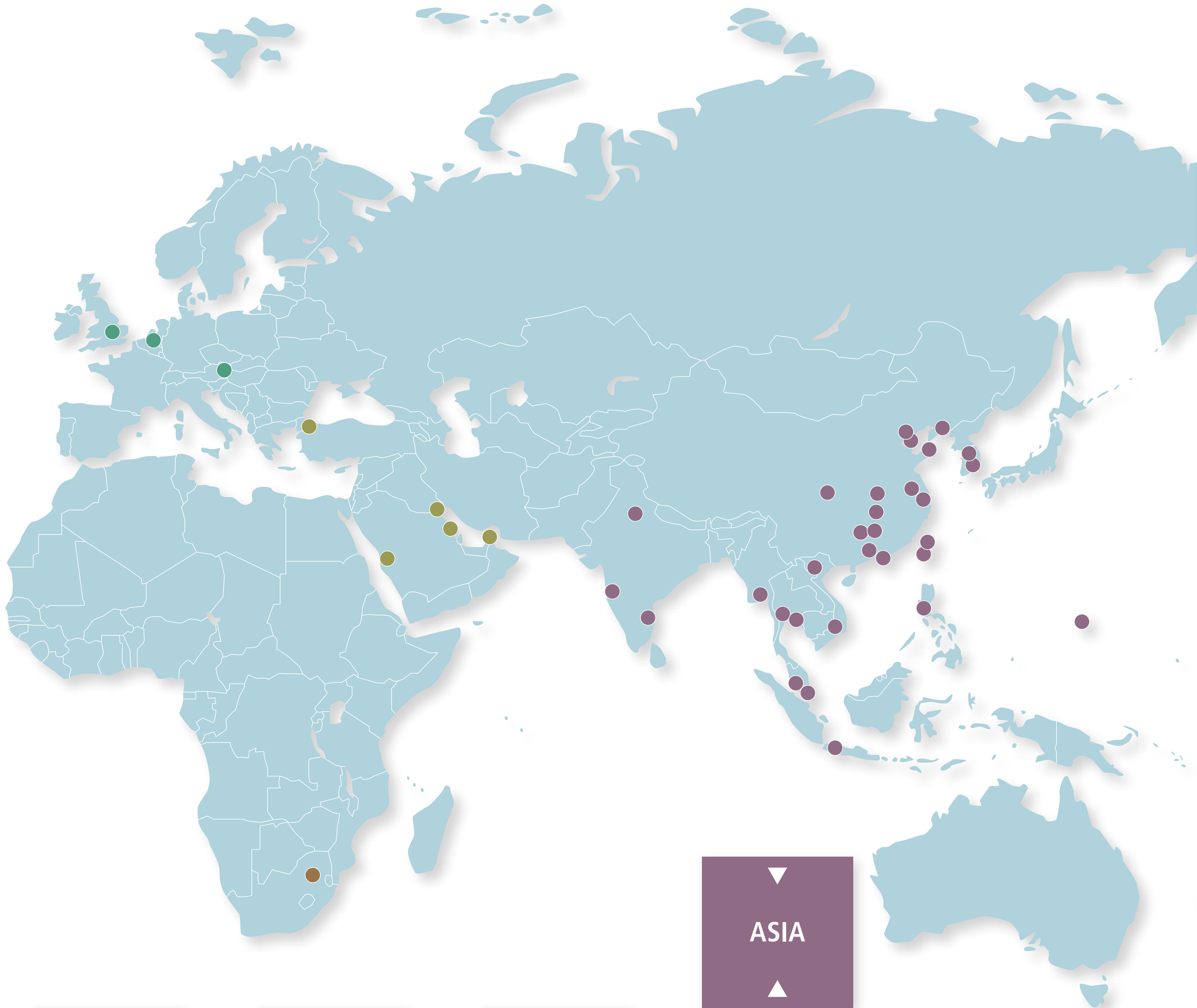
Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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 27, 2018
Osaka, Japan

Global Network



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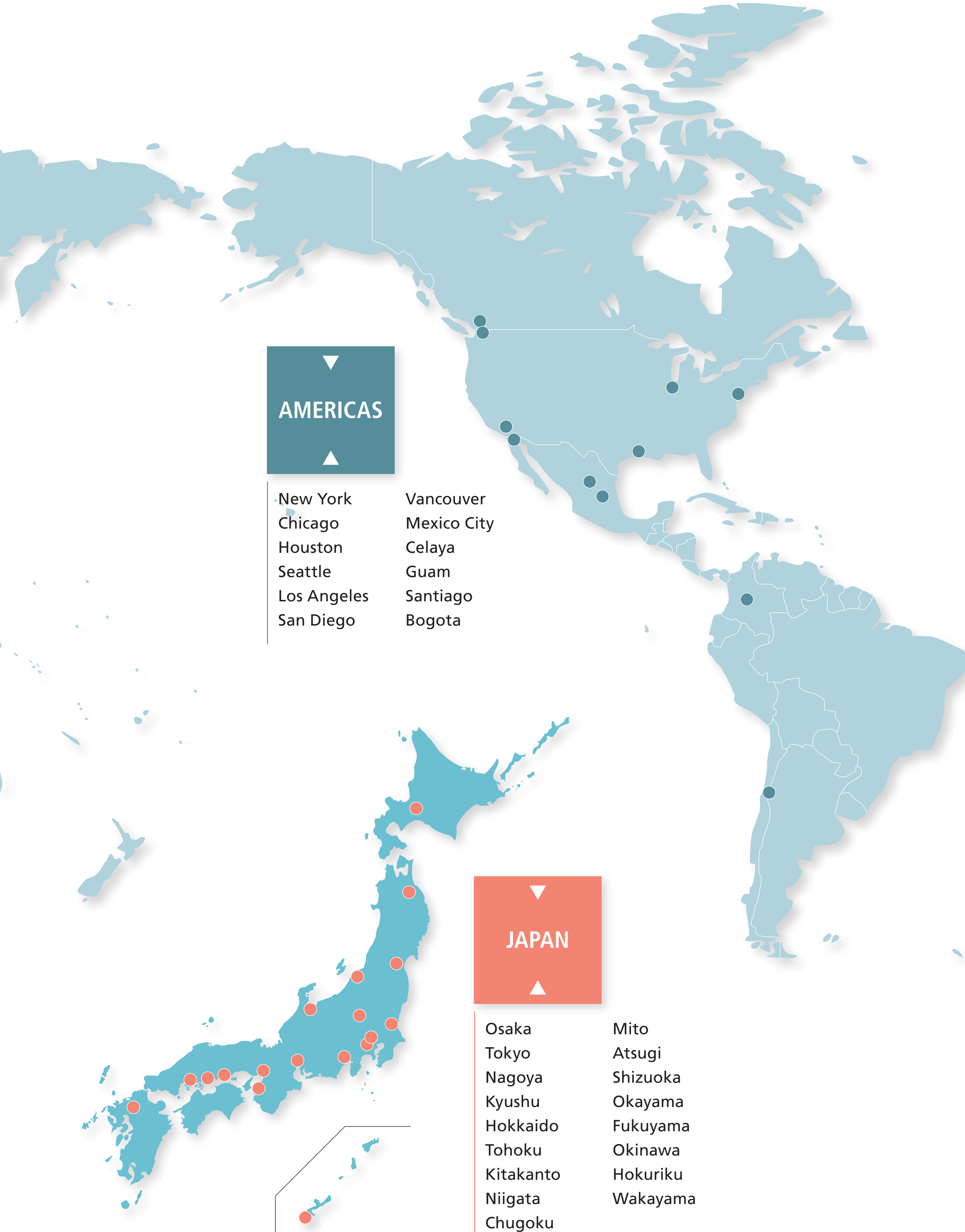

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D Block, Chashan Industrial Park, Chashan Town, Dongguan City, Guangdong 523391, P.R. China
Tel: 86-769-8182-1000 Fax: 86-769-8182-1001

CHANG FU STAINLESS STEEL CENTER (SUZHOU) CO., LTD.
No. 7 Guangzhou East Road, Economic Development Area, Taicang City, Jiangsu 215400, P.R. China
Tel: 86-512-5359-0800 Fax: 86-512-5358-8942

HANWA CO., (HONG KONG) LTD.
Suite 1504, 15/F., Cityplaza Four, 12 Taikoo Wan Road, Taikoo Shing Island East, Hong Kong
Tel: 852-2545-0110 Fax: 852-2542-2544

TAIWAN HANWA KOGYO CO.,LTD.
Room A, 9th Floor, No. 132, Minsheng East Road Sec. 3, Taipei 10596, Taiwan
Tel: 886-2-2545-7151 Fax: 886-2-2545-7112

TAIWAN HANWA KOGYO CO., LTD. KAOHSIUNG OFFICE
Room B, 17th Floor, No.7 Su-Wei 4th Road, Kaohsiung, Taiwan
Tel: 886-7-338-5508 Fax: 886-7-338-5433

HANWA THAILAND CO., LTD.
24th Floor, Unit 2401-2402, Q.House Lumpini Bldg., 1 South Sathorn Road, Tungmahamek, Sathorn, Bangkok 10120, Thailand
Tel: 66-2-343-8877 Fax: 66-2-343-8878

HANWA STEEL SERVICE (THAILAND) CO.,LTD.
700/625 Moo 4, 700/630 Moo 5, Tambol Baankao, Amphur Panthong, Chonburi 20160, Thailand
Tel: 66-38-21-0200 Fax: 66-38-21-0085

HANWA CO., LTD., MYANMAR REPRESENTATIVE OFFICE
Unit 7&9, 11th Floor, HAGL Myanmar Centre Tower 1, 192, Kaba Aye Pagoda Road, Bahan Towenship, Yangon, Myanmar
Tel: 95-1-9345-379 Fax: 95-1-9345-379

HANWA (MALAYSIA) SDN. BHD.
Lot 19-5, Level 19, Menara Hap Seng 2, No.1, Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia
Tel: 60-3-2022-2308 Fax: 60-3-2022-2164

HANWA SINGAPORE (PRIVATE) LTD.
8 Shenton Way, #29-01 AXA Tower, Singapore 068811
Tel: 65-6536-7822 Fax: 65-6536-7855

HANWA VIETNAM CO., LTD. HO CHI MINH HEAD OFFICE
Unit 4-1, 19th Floor, A&B Tower, 76 Le Lai Street, Ben Thanh Ward, District 1, Ho Chi Minh City, S.R. Vietnam
Tel: 84-28-3822-5715 Fax: 84-28-3822-5725

HANWA VIETNAM CO., LTD. HA NOI BRANCH OFFICE
Unit 1, 24th Floor, TNR Tower, 54A Nguyen Chi Thanh Street, Dong Da District, Ha Noi, Vietnam
Tel: 84-24-7300-9155 Fax: 84-24-7300-9159

PT. HANWA INDONESIA
Midplaza 1 Building, 9th Floor, Jl. Jend. Sudirman Kav, 10-11 Jakarta 10220, Indonesia
Tel: 62-(0)21-5785-3033 Fax: 62-(0)21-5785-3045

PT. HANWA STEEL SERVICE INDONESIA
MM2100 Industrial Town, Block QQ-5, West Cikarang, Bekasi 17520, Indonesia
Tel: 62-21-8998-1791 Fax: 62-21-8998-1794

HANWA CO., LTD. MANILA REPRESENTATIVE OFFICE
14th Floor, 6788 Ayala Avenue, Oledan Square, 1226, Makati City, Metro Manila, Philippines
Tel: 63-2-817-5624 Fax: 63-2-817-5956

HANWA INDIA PRIVATE LTD. MUMBAI HEAD OFFICE
Unit No.208, 2nd Floor, B-Wing, Dynasty Business Park, 58, Andheri Kurla Road, Andheri (E), Mumbai 400 059, India
Tel: 91-22-2826-0884 Fax: 91-22-2826-1097

HANWA INDIA PRIVATE LTD. NEW DELHI BRANCH OFFICE
203, Bestech Chambers, B Block, Sushant Lok 1, Gurgaon, Haryana 122002, India
Tel: 91-124-456-6100 Fax: 91-124-456-6111

HANWA INDIA PRIVATE LTD. CHENNAI BRANCH OFFICE
5H-1/5K/5K-1, 5th Floor, Century Plaza, 560-562, Anna Salai, Teynampet, Chennai 600 018, India
Tel: 91-44-3353-9100 Fax: 91-44-3353-9104

EUROPE

HANWA CO.,LTD. LONDON BRANCH
7th Floor, 55 Strand, London, WC2N 5LS, U.K.
Tel: 44-20-7839-4448 Fax: 44-20-7839-3994

HANWA EUROPE B.V. HEAD OFFICE
WTC Tower B-6F, Strawinskylaan 625, 1077XX, Amsterdam, The Netherlands
Tel: 31-20-575-2460 Fax: 31-20-575-2461

HANWA EUROPE B.V. VIENNA BRANCH
Wipplingerstrasse 34 Top 174, 1010 Wien, Austria
Tel: 43-1-532-01-65 Fax: 43-1-532-01-65-20

MIDDLE EAST

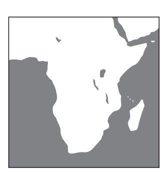
HANWA MIDDLE EAST FZE
Dubai Airport Free Zone, East Wing, Building, No.6E, No.549, P.O. BOX 293873, Dubai, U.A.E.
Tel: 971-4-701-7565 Fax: 971-4-701-7560

HANWA MIDDLE EAST FZE KUWAIT OFFICE
15th Floor, Al Nema Tower, Jaber Al Mubarak St., Block No.4 Plot No.2, Sharq, Kuwait
Tel: 965-2-243-7259 Fax: 965-2-243-7263

HANWA MIDDLE EAST FZE JEDDAH SATELLITE OFFICE
Tel: 966-55-118-4708

HANWA MIDDLE EAST FZE DAMMAM OFFICE
Office No.1, 1st Floor, Al-Hammam Center for Trading King Fahad Bin Abdul Aziz Road, Dammam, Saudi Arabia
Tel: 966-3842-0845 Fax: 966-3842-0847

HANWA MIDDLE EAST FZE ISTANBUL LIAISON OFFICE
Levent Loft Residence, Buyukdere CD, No. 201 A Blok K.4, D.76 34394 Sisli, Istanbul, Turkey
Tel: 90-212-325-0046 Fax: 90-212-325-0051



AFRICA

HANWA CO., LTD., JOHANNESBURG BRANCH
2nd Floor, West Tower, Nelson Mandela Square, Maude Street, Sandton, Johannesburg 2196, South Africa
Tel: 27-11-881-5966 Fax: 27-11-881-5611

Corporate Information (As of March 31, 2018)

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: 3,576 Non-consolidated: 1,306
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
Kyushu Branch Office	Taihaku Center Bldg. 2-19-24, Hakata-ekimae, Hakata-ku, Fukuoka 812-0011, Japan TEL: +81-092-471-7121 FAX: +81-092-471-7060

Board of Directors, Corporate Auditors and Executive Officers (As of June 29, 2018)

BOARD OF DIRECTORS

President*	Hironari Furukawa	古川　弘成
Director,* Executive Vice President and Executive Officer	Hiroshi Serizawa	芹澤　浩
Directors, Senior Managing Executive Officers	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
	Tatsuya Tejima	手島　達也
Directors, Managing Executive Officers	Hiromasa Yamamoto	山本　浩雅
	Yasushi Hatanaka	畠中　康司
	Yoichi Sasayama	篠山　陽一
	Chiro Ideriha	出利葉知郎
	Takatoshi Kuchiishi	口石　隆敏

CORPORATE AUDITORS

Corporate Auditors (Full-time)	Hideo Kawanishi	川西　英夫
	Akihiko Ogasawara	小笠原朗彦
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	Keiji Matsubara	松原　圭司
Executive Officers	Isao Kimizu	木水　勲
	Hideo Kobayashi	小林　秀雄
	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
	Shoji Shirasawa	白澤　省二
	Yukiaki Takada	高田　幸明
	Takeshi Amano	天野　毅

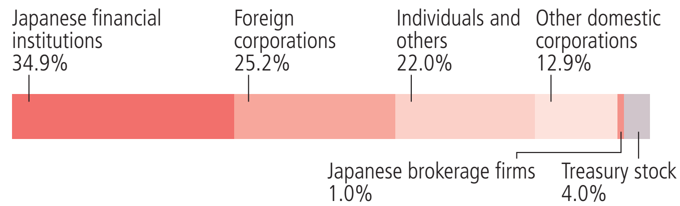
*Representative Director

Stock Information

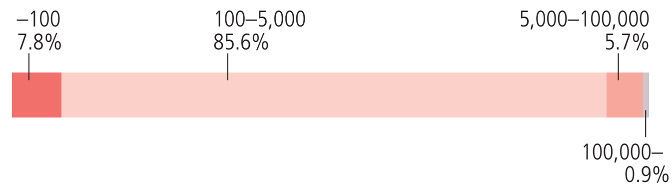
Fiscal Year-End	March 31
Annual Meeting of Shareholders	June
Independent Auditors	KPMG AZSA LLC
Domestic Stock Exchange Listings	The First Section of the Tokyo Stock Exchange
Date of Record for Dividend Payout	Interim dividend: September 30 Year-end dividend: March 31
Authorized Shares	114,000,000 shares
Issued and Outstanding Shares	42,332,640 shares
Number of Shareholders	7,586

Note: The Company consolidated its common shares at a ratio of five-to-one on October 1, 2017. Accordingly, the total number of authorized shares is 114,000,000, and the total number of issued and outstanding shares is 42,332,640.

Breakdown by Type of Shareholder



Breakdown by Size of Holding

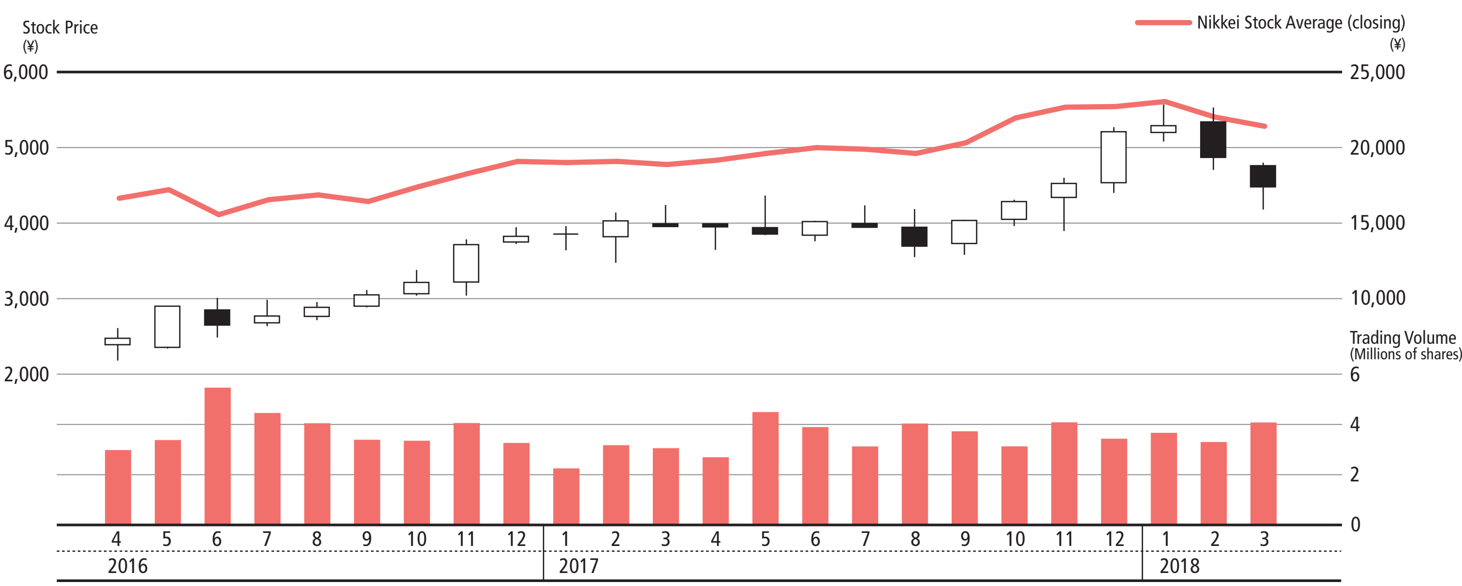


Principal Shareholders

Name of Shareholder	Number of Shares (thousands)	Percentage of Total Issued Share (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	3,673	9.04
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,565	6.31
Hanwa Clients' Stock Investment Association	1,613	3.97
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,560	3.84
Sumitomo Mitsui Banking Corporation	1,526	3.76
JP MORGAN CHASE BANK 385632	979	2.41
Hanwa Employees' Stock Investment Association	820	2.02
GOVERNMENT OF NORWAY	785	1.93
Japan Trustee Service Bank, Ltd. (Trust Account 5)	703	1.73
Nippon Steel & Sumitomo Metal Corporation	600	1.48

Note: The Company holds 1,694,375 shares of treasury stock, which is excluded from the principal shareholders listed above.

Stock Price Range and Trading Volume (Common Stock)



Note: Retrospectively adjusted to reflect the five-to-one share consolidation on October 1, 2017.

HANWA CO., LTD.

http://www.hanwa.co.jp

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