HANWA

Hanwa Co.,Ltd. and Subsidiaries

Consolidated Financial Statements For the Years ended March 31, 2020 and 2019 Together with Independent Auditors' Report

HANWA CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

As at March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets			
Current assets:			
Cash and cash equivalents (Notes 3 and 7)	¥ 67,243	¥ 58,384	$ 617,871
Receivables:			
Trade notes and accounts (Notes 3 and 13):			
Unconsolidated subsidiaries and affiliates	8,418	14,302	77,349
Other	333,141	402,092	3,061,113
Electronically recorded monetary claims (Note 3):			
Unconsolidated subsidiaries and affiliates	97	87	891
Other	21,184	36,549	194,652
Loans:			
Unconsolidated subsidiaries and affiliates	2,109	7,638	19,378
Other	10,019	3,996	92,061
Allowance for doubtful accounts	(1,046)	(504)	(9,611)
Securities (Notes 3 and 4)	1,167	1,190	10,723
Inventories (Note 6)	127,460	140,633	1,171,184
Other current assets	57,833	60,616	531,406
Total current assets	627,629	724,987	5,767,058
Investments and noncurrent receivables:			
Investment securities (Notes 3, 4 and 7)	46,314	51,100	425,562
Investments in unconsolidated subsidiaries and affiliates (Note 3)	10,577	50,799	97,188
Loans receivable (Note 3):			
Unconsolidated subsidiaries and affiliates	1,133	1,484	10,410
Other	18,007	19,678	165,459
Other investments and noncurrent receivables	13,754	12,304	126,380
Allowance for doubtful accounts	(1,070)	(1,327)	(9,831)
Total investments and noncurrent receivables	88,717	134,040	815,188
Property and equipment (Note 7):			
Land (Note 12)	34,165	33,864	313,929
Buildings and structures	51,797	45,156	475,944
Machinery, equipment and vehicles	26,730	24,116	245,612
Other	13,190	11,508	121,198
Accumulated depreciation	(50,721)	(45,784)	(466,057)
Total property and equipment	75,162	68,862	690,636
Other assets:			
Deferred tax assets—noncurrent (Note 8)	600	385	5,513
Intangibles and other assets (Note 7)	6,331	5,031	58,173
Total other assets	6,932	5,417	63,695
Total	¥ 798,442	¥ 933,307	$ 7,336,598

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen 2020	2019	Thousands of U.S. dollars (Note 1) 2020
Liabilities and Net Assets			
Current liabilities:			
Short-term loans payable (Notes 3 and 9)	¥ 44,979	¥ 65,398	$ 413,295
Long-term debt due within one year (Notes 3, 7 and 9)	32,218	37,474	296,039
Trade notes and accounts payable (Note 3):			
Unconsolidated subsidiaries and affiliates	1,340	2,634	12,312
Other	201,330	278,224	1,849,949
Electronically recorded obligations (Note 3):			
Unconsolidated subsidiaries and affiliates	37	6	339
Other	19,108	4,957	175,576
Accrued bonuses to employees	2,774	2,647	25,489
Provision for product warranties	481	253	4,419
Income taxes payable	2,466	3,486	22,659
Other current liabilities	59,913	59,833	550,519
Total current liabilities	364,653	454,916	3,350,666
Noncurrent liabilities:			
Long-term debt due after one year (Notes 3, 7 and 9)	252,386	258,970	2,319,084
Retirement benefit liability (Note 10)	6,162	5,950	56,620
Deferred tax liabilities—noncurrent (Note 8)	2,871	4,765	26,380
Other noncurrent liabilities	6,271	6,245	57,621
Total noncurrent liabilities	267,691	275,931	2,459,716
Contingent liabilities (Note 11)			
Net assets (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized: 114,000,000 shares in 2020 and 114,000,000 shares in 2019			
Issued: 42,332,640 shares in 2020 and 42,332,640 shares in 2019	45,651	45,651	419,470
Retained earnings	119,475	139,036	1,097,813
Treasury stock, at cost:1,694,788 shares in 2020 and 1,697,328 shares in 2019	(3,728)	(3,737)	(34,255)
Total shareholders' equity	161,398	180,949	1,483,028
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes	6,042	10,800	55,517
Deferred gains or losses on hedges, net of taxes	745	61	6,845
Land revaluation difference, net of taxes	3,277	3,343	30,111
Foreign currency translation adjustment	(2,434)	(1,435)	(22,365)
Remeasurements of defined benefit plans (Note 10)	(5,380)	(5,473)	(49,434)
Total accumulated other comprehensive income	2,250	7,295	20,674
Non-controlling interests	2,448	14,214	22,493
Total net assets	166,097	202,459	1,526,206
Total	¥ 798,442	¥ 933,307	$ 7,336,598

Consolidated Statements of Operations and Comprehensive Income

For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net sales	¥ 1,907,493	¥ 2,074,600	$ 17,527,271
Cost of sales	1,827,666	1,995,378	16,793,770
Gross profit	79,826	79,222	733,492
Selling, general and administrative expenses	52,496	50,318	482,366
Operating income	27,330	28,904	251,125
Other income (expenses):			
Interest and dividend income	4,010	5,578	36,846
Interest expenses	(5,494)	(5,052)	(50,482)
Share of profit (loss) of entities accounted for using equity method (Note 14)	(35,439)	(75)	(325,636)
Foreign exchange gain (loss)	(2,515)	(3,331)	(23,109)
Gain on sales of property and equipment (Note 15)	229	416	2,104
Gain on sales of investment securities	976	—	8,968
Loss on sales of property and equipment (Note 16)	—	(202)	—
Loss on retirement of property and equipment (Note 17)	—	(236)	—
Loss on impairment of property and equipment (Note 18)	(1,003)	(251)	(9,216)
Loss on disaster (Note 19)	—	(32)	—
Loss on valuation of investment securities	(6,589)	(1,820)	(60,543)
Provision of allowance for doubtful accounts for subsidiaries and affiliates (Note 20)	(615)	(203)	(5,651)
Provision for product warranties (Note 21)	(394)	—	(3,620)
Loss on disposal of property and equipment (Note 22)	—	(109)	—
Other, net	(488)	(2,627)	(4,484)
Income (loss) before income taxes	(19,995)	20,955	(183,726)
Income taxes (Note 8):			
Current	5,962	7,396	54,782
Deferred	(406)	(266)	(3,730)
Total income taxes	5,555	7,130	51,042
Net income (loss)	¥ (25,550)	¥ 13,825	$ (234,769)
Net income (loss) attributable to:			
Owners of the parent	¥ (13,674)	¥ 13,914	$ (125,645)
Non-controlling interests	(11,876)	(88)	(109,124)
Other comprehensive income (Note 23):			
Valuation difference on available-for-sale securities, net of taxes	(4,755)	(3,549)	(43,691)
Deferred gains or losses on hedges, net of taxes	684	230	6,285
Foreign currency translation adjustment	287	(799)	2,637
Remeasurements of defined benefit plans, net of taxes	92	(79)	845
Share of other comprehensive income of entities accounted for using equity method	(730)	(6,183)	(6,707)
Total other comprehensive income	(4,421)	(10,381)	(40,622)
Comprehensive income	¥ (29,972)	¥ 3,444	$ (275,402)
Comprehensive income attributable to:			
Owners of the parent	¥ (17,974)	¥ 5,964	$ (165,156)
Non-controlling interests	(11,997)	(2,520)	(110,236)

	Yen		U.S. dollars (Note 1)
	2020	2019	2020
Net income (loss) per share	¥ (336.51)	¥ 342.41	$ (3.09)
Cash dividends per share	100.00	150.00	0.92

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2020 and 2019

	Thousands	Millions of yen									
	Number of shares of common stock	Common stock	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, 2018	42,332	¥ 45,651	¥ 131,045	¥ (3,726)	¥ 14,342	¥ (169)	¥ 2,963	¥ 3,110	¥ (5,388)	¥ 15,872	¥ 203,700
Cash dividends paid	—	—	(6,095)	—	—	—	—	—	—	—	(6,095)
Change in scope of consolidation	—	—	569	—	—	—	—	—	—	—	569
Change in scope of equity method	—	—	(17)	—	—	—	—	—	—	—	(17)
Reversal of revaluation reserve for land	—	—	(379)	—	—	—	—	—	—	—	(379)
Net income attributable to owners of the parent	—	—	13,914	—	—	—	—	—	—	—	13,914
Purchases of treasury stock	—	—	—	(1)	—	—	—	—	—	—	(1)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	(9)	—	—	—	—	—	—	(9)
Net changes of items other than shareholders' equity	—	—	—	—	(3,542)	230	379	(4,545)	(85)	(1,657)	(9,220)
Balance at March 31, 2019	42,332	45,651	139,036	(3,737)	10,800	61	3,343	(1,435)	(5,473)	14,214	202,459
Balance at April 1, 2019	**42,332**	**45,651**	**139,036**	**(3,737)**	**10,800**	**61**	**3,343**	**(1,435)**	**(5,473)**	**14,214**	**202,459**
Cash dividends paid	—	—	(6,095)	—	—	—	—	—	—	—	(6,095)
Change in scope of consolidation	—	—	(906)	—	—	—	—	—	—	—	(906)
Change in scope of equity method	—	—	1,141	—	—	—	—	—	—	—	1,141
Reversal of revaluation reserve for land	—	—	66	—	—	—	—	—	—	—	66
Net loss attributable to owners of the parent	—	—	(13,674)	—	—	—	—	—	—	—	(13,674)
Purchases of treasury stock	—	—	—	(0)	—	—	—	—	—	—	(0)
Disposal of treasury stock	—	—	—	0	—	—	—	—	—	—	0
Purchase of shares of consolidated subsidiaries	—	—	(91)	—	—	—	—	—	—	—	(91)
Other changes	—	—	0	9	—	—	—	—	—	—	9
Net changes of items other than shareholders' equity	—	—	—	—	(4,758)	684	(66)	(998)	93	(11,765)	(16,811)
Balance at March 31, 2020	**42,332**	**¥ 45,651**	**¥ 119,475**	**¥ (3,728)**	**¥ 6,042**	**¥ 745**	**¥ 3,277**	**¥ (2,434)**	**¥ (5,380)**	**¥ 2,448**	**¥ 166,097**

	Thousands	Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock	Common stock	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, 2019	**42,332**	**$ 419,470**	**$ 1,277,552**	**$ (34,337)**	**$ 99,237**	**$ 560**	**$ 30,717**	**$ (13,185)**	**$ (50,289)**	**$ 130,607**	**$ 1,860,323**
Cash dividends paid	—	—	(56,004)	—	—	—	—	—	—	—	(56,004)
Change in scope of consolidation	—	—	(8,324)	—	—	—	—	—	—	—	(8,324)
Change in scope of equity method	—	—	10,484	—	—	—	—	—	—	—	10,484
Reversal of revaluation reserve for land	—	—	606	—	—	—	—	—	—	—	606
Net loss attributable to owners of the parent	—	—	(125,645)	—	—	—	—	—	—	—	(125,645)
Purchases of treasury stock	—	—	—	(0)	—	—	—	—	—	—	(0)
Disposal of treasury stock	—	—	—	0	—	—	—	—	—	—	0
Purchase of shares of consolidated subsidiaries	—	—	(836)	—	—	—	—	—	—	—	(836)
Other changes	—	—	0	82	—	—	—	—	—	—	82
Net changes of items other than shareholders' equity	—	—	—	—	(43,719)	6,285	(606)	(9,170)	854	(108,104)	(154,470)
Balance at March 31, 2020	**42,332**	**$ 419,470**	**$ 1,097,813**	**$ (34,255)**	**$ 55,517**	**$ 6,845**	**$ 30,111**	**$ (22,365)**	**$ (49,434)**	**$ 22,493**	**$ 1,526,206**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (19,995)	¥ 20,955	$ (183,726)
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation	5,245	4,513	48,194
Loss on impairment of property and equipment	1,003	251	9,216
Amortization of goodwill	514	671	4,722
Increase (decrease) in allowance for doubtful accounts	(358)	422	(3,289)
Interest and dividend income	(4,010)	(5,578)	(36,846)
Interest expenses	5,494	5,052	50,482
Share of loss (profit) of entities accounted for using equity method	35,439	75	325,636
Gain on sales of property and equipment	(229)	(416)	(2,104)
Gain on sales of investment securities	(976)	—	(8,968)
Loss on sales of property and equipment	—	202	—
Loss on retirement of property and equipment	—	236	—
Loss on disaster	—	32	—
Loss on valuation of investment securities	6,589	1,820	60,543
Provision of allowance for doubtful accounts for subsidiaries and affiliates	615	203	5,651
Provision for product warranties	394	—	3,620
Loss on disposal of property and equipment	—	109	—
Decrease (increase) in trade receivables	95,209	(24,019)	874,841
Decrease (increase) in inventories	21,897	(4,357)	201,203
Increase (decrease) in trade notes and accounts payable	(69,814)	17,181	(641,495)
Increase (decrease) in advances received	(10,004)	21,097	(91,923)
Decrease (increase) in advance payments-trade	12,212	(29,789)	112,211
Increase (decrease) in retirement benefit liability	321	1,009	2,949
Other, net	2,421	13,731	22,245
Subtotal	81,969	23,404	753,183
Cash flows during the year for:			
Interest and dividends received	4,931	5,858	45,309
Interest paid	(5,594)	(4,919)	(51,401)
Income taxes (paid) refund	(7,044)	(8,926)	(64,724)
Net cash provided by (used in) operating activities	74,261	15,417	682,357
Cash flows from investing activities:			
Payments into time deposits	(679)	(2,030)	(6,239)
Proceeds from withdrawal of time deposits	1,598	2,446	14,683
Purchase of property and equipment	(7,500)	(7,718)	(68,914)
Proceeds from sales of property and equipment	575	1,261	5,283
Purchase of investment securities	(10,614)	(8,325)	(97,528)
Proceeds from sales and redemption of investment securities	1,546	1,156	14,205
Net decrease (increase) in short-term loans receivable	(3,516)	(4,435)	(32,307)
Payments of long-term loans receivable	(7,091)	(5,049)	(65,156)
Collection of long-term loans receivable	5,188	4,224	47,670
Other, net	(3,665)	(2,153)	(33,676)
Net cash provided by (used in) investing activities	(24,159)	(20,623)	(221,988)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(23,470)	(19,091)	(215,657)
Net increase (decrease) in commercial paper	—	(10,000)	—
Proceeds from long-term debt and issuance of bonds	30,854	111,054	283,506
Repayments of long-term debt and redemption of bonds	(42,979)	(47,393)	(394,918)
Dividends paid	(6,092)	(6,089)	(55,977)
Dividends paid to non-controlling interests	(143)	(48)	(1,313)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(187)	—	(1,718)
Other, net	(295)	(298)	(2,710)
Net cash provided by (used in) financing activities	(42,314)	28,132	(388,808)
Effect of exchange rate changes on cash and cash equivalents	(1,389)	(0)	(12,763)
Net increase (decrease) in cash and cash equivalents	6,398	22,926	58,788
Cash and cash equivalents at beginning of year	58,384	34,855	536,469
Increase in cash and cash equivalents from newly consolidated subsidiaries	2,460	576	22,604
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	25	—
Cash and cash equivalents at end of year	¥ 67,243	¥ 58,384	$ 617,871

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, 2020, which was ¥108.83 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 2019 and 2020. 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 46(41 in 2019) significant subsidiaries (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, 2020, the Company had 43 unconsolidated subsidiaries and 20 affiliates. The equity method has been applied to the investments in 10 of the unconsolidated subsidiaries and 11 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 (loss) 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 accounts

The allowance for doubtful accounts 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 accounts, 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 property and equipment 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, accrued bonuses to employees 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.

Income taxes

Income taxes comprise corporate tax, prefectural and municipal inhabitant 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.

Having regard to paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), the Company and its wholly owned domestic subsidiaries did not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

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 Companies state derivative financial instruments at fair value and recognize 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 Companies defer 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 Companies and items hedged:

Hedging instruments:

- Interest rate swap agreements
- Commodity forwards contracts
- Cross-currency swap agreements

Hedged items:

- Interest expenses on borrowings
- Inventories and commitments
- Foreign subsidiaries' equity

The Companies evaluate 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 (loss) per share of common stock are based on the weighted average number of shares outstanding during each period. Diluted net income (loss) per share is not disclosed because potentially dilutive securities are not issued. Cash dividends per share in the consolidated statements of operations 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

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

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.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

1. Overview

   In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, hereinafter referred to as "Fair Value Accounting Standards") were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in “Accounting Standard for Financial Instruments” ; and
- Inventories held for trading purposes in “Accounting Standard for Measurement of Inventories.”

  In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” was revised and the guidance for Notes for the fair value information of financial instruments by level was issued.

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.

- “Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, March 31, 2020)

1. Overview

   This accounting standard intends to provide an overview of the principles and procedures adopted accounting when the relevant accounting standards are not clear.
2. Effective date

   Effective from the end of the fiscal year ending March 31, 2021

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

1. Overview

   This accounting standard intends to disclose information that contributes to users’ understanding about the nature of accounting estimates, which are recognized in the consolidated financial statements for the current fiscal year and impact on the consolidated financial statements for the next fiscal year significantly.
2. Effective date

   Effective from the end of the fiscal year ending March 31, 2021

3. Financial instruments

At March 31, 2020 and 2019, information on financial instruments was as follows.

(A) Qualitative information on financial instruments

Policy for financial instruments

The Companies’ main business is the sales of various products ranging from mainly steel, primary metal, metal recycling, food, petroleum and chemicals, lumber to machinery. The Companies also engage in other business activities such as steel material processing, non-ferrous metal processing and amusement park management and operations. While the Companies depend primarily on bank borrowings to procure funds necessary for these operational transactions as well as investing and financing activities, the Companies seek to diversify their 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 Companies 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, currency swap agreements and non-deliverable forward contracts 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. Cross-currency swap agreements are used to hedge foreign exchange rate fluctuation risk associated with foreign subsidiaries’ equity.

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 Companies set a credit limit amount for each business partner and manage the outstanding balance in accordance with the "Credit administrative provisions" while monitoring the credit status on a regular basis. Furthermore, the Companies are 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 Companies' business partners, the Companies report the regularly assessed market values and their financial status to the Board of Directors. In regard to foreign exchange rate fluctuation risk, the Companies are 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 Companies decide whether or not to invest after following the prescribed procedures. The Companies continuously monitor review the financial status and trading conditions of the issuing company and review 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 Companies create a fund procurement plan based on the outlook of the Companies' financial requirements. Taking financial market trends into consideration as well, the Companies work to diversify the funds procurement to ensure liquidity. In addition, with regard to interest rate risk and foreign exchange rate fluctuation risk, the Companies seek to reduce such risks through derivatives trading and other means.

The Companies practice and manage 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 Companies receive 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 Companies trade 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, 2020 and 2019 were as follows:

March 31, 2020

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 67,243	¥ 67,243	¥ —	$ 617,871	$ 617,871	$ —
(2) Trade notes and accounts receivable	341,559			3,138,463		
Allowance for doubtful accounts	(324)			(2,977)		
Net	341,234	341,234	—	3,135,477	3,135,477	—
(3) Electronically recorded monetary claims	21,281			195,543		
Allowance for doubtful accounts	(18)			(165)		
Net	21,263	21,263	—	195,378	195,378	—
(4) Securities						
a) Equity securities issued by affiliated companies	3,119	954	(2,164)	28,659	8,765	(19,884)
b) Available-for-sale securities	27,283	27,283	—	250,693	250,693	—
(5) Long-term loans receivable	19,141			175,879		
Allowance for doubtful accounts	(14)			(128)		
Net	19,127	19,127	—	175,751	175,751	—
Total assets	¥ 479,271	¥ 477,107	¥ (2,164)	$4,403,850	$4,383,965	$ (19,884)
(1) Short-term loans payable	¥ 44,979	¥ 44,979	¥ —	$ 413,295	$ 413,295	$ —
(2) Long-term debt due within one year	32,218	32,228	(10)	296,039	296,131	(91)
(3) Trade notes and accounts payable	202,671	202,671	—	1,862,271	1,862,271	—
(4) Electronically recorded obligations	19,146	19,146	—	175,925	175,925	—
(5) Long-term debt due after one year	252,386	252,119	266	2,319,084	2,316,631	2,444
Total liabilities	¥ 551,402	¥ 551,145	¥ 256	$5,066,636	$5,064,274	$ 2,352
Derivatives:						
Hedge accounting not applied	¥ 2,207	¥ 2,207	¥ —	$ 20,279	$ 20,279	$ —
Hedge accounting applied	1,057	934	(123)	9,712	8,582	(1,130)
Total derivatives	¥ 3,264	¥ 3,141	¥ (123)	$ 29,991	$ 28,861	$ (1,130)

March 31, 2019

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 58,384	¥ 58,384	¥ —
(2) Trade notes and accounts receivable	416,394		
Allowance for doubtful accounts	(377)		
Net	416,017	416,017	—
(3) Electronically recorded monetary claims	36,637		
Allowance for doubtful accounts	(34)		
Net	36,602	36,602	—
(4) Securities			
a) Equity securities issued by affiliated companies	3,019	1,296	(1,723)
b) Available-for-sale securities	38,630	38,630	—
(5) Long-term loans receivable	21,162		
Allowance for doubtful accounts	(21)		
Net	21,141	21,141	—
Total assets	¥ 573,795	¥ 572,072	¥ (1,723)
(1) Short-term loans payable	¥ 65,398	¥ 65,398	¥ —
(2) Long-term debt due within one year	37,474	37,474	—
(3) Trade notes and accounts payable	280,858	280,858	—
(4) Electronically recorded obligations	4,964	4,964	—
(5) Long-term debt due after one year	258,970	259,247	(277)
Total liabilities	¥ 647,666	¥ 647,943	¥ (277)
Derivatives:			
Hedge accounting not applied	¥ 761	¥ 761	¥ —
Hedge accounting applied	(645)	(931)	(285)
Total derivatives	¥ 116	¥ (169)	¥ (285)

Allowance for doubtful accounts 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, Trade notes and accounts payable and Electronically recorded obligations

The book values of short-term loans payable 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, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	Book value	Book value	Book value
(1) Equity securities issued by unconsolidated subsidiaries and affiliated companies	¥ 7,458	¥ 47,780	$ 68,528
(2) Held-to-maturity debt securities	¥ 1,817	¥ —	$ 16,695
(3) Available-for-sale securities:			
Unlisted stocks	¥ 3,828	¥ 3,849	$ 35,174
Unlisted foreign stocks	12,479	8,210	114,665
Unlisted foreign convertible bonds	1,167	1,190	10,723
Unlisted domestic convertible bonds	26	26	238
Investment in limited partnerships	878	384	8,067
Total	¥ 18,379	¥ 13,660	$ 168,878

The maturities of receivables and securities with maturities outstanding at March 31, 2020 were as follows:

Year ending March 31

Millions of yen

	2021	From 2022 to 2025	From 2026 to 2030	Thereafter
Cash and cash equivalents	¥ 67,243	¥ —	¥ —	¥ —
Trade notes and accounts receivable	341,559	—	—	—
Electronically recorded monetary claims	21,281	—	—	—
Held-to-maturity debt securities	—	—	1,817	—
Available-for-sale securities with maturity dates	1,167	—	26	—
Long-term loans receivable	—	14,636	3,666	21
Total	¥ 431,252	¥ 14,636	¥ 5,510	¥ 21

Thousands of U.S. dollars

	2021	From 2022 to 2025	From 2026 to 2030	Thereafter
Cash and cash equivalents	$ 617,871	$ —	$ —	$ —
Trade notes and accounts receivable	3,138,463	—	—	—
Electronically recorded monetary claims	195,543	—	—	—
Held-to-maturity debt securities	—	—	16,695	—
Available-for-sale securities with maturity dates	10,723	—	238	—
Long-term loans receivable	—	134,484	33,685	192
Total	$3,962,620	$ 134,484	$ 50,629	$ 192

Long-term loans receivable of ¥816 million ($7,497 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, 2020 and 2019:

March 31, 2020

	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	¥ 7,515	¥ 19,214	¥ 11,699	$ 69,052	$ 176,550	$ 107,497
Securities with book values not exceeding acquisition costs:						
Equity securities	¥ 10,178	¥ 8,069	¥ (2,108)	$ 93,522	$ 74,143	$ (19,369)

March 31, 2019

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 10,635	¥ 29,825	¥ 19,190
Bonds	—	—	—
Securities with book values not exceeding acquisition costs:			
Equity securities	¥ 12,270	¥ 8,798	¥ (3,471)
Bonds	10	6	(3)

(B) The following tables summarize sales of available-for-sale securities in the years ended March 31, 2020 and 2019:

March 31, 2020

	Millions of yen			Thousands of U.S. dollars		
	Proceeds from sales	Gains on sales	Losses on sales	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 1,465	¥ 976	¥ 0	$ 13,461	$ 8,968	$ 0
Other	6	—	0	55	—	0

March 31, 2019

	Millions of yen		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 308	¥ 5	¥ 0
Other	8	—	4

(C) The loss on valuation of investment securities in the years ended March 31, 2020 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities in subsidiaries and affiliates	¥ 65	¥ 331	$ 597
Other securities	6,523	1,489	59,937
Total	¥ 6,589	¥ 1,820	$ 60,543

5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2020 and 2019 for the derivatives to which hedge accounting has not been applied:

March 31, 2020
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	¥ 72,312	¥ —	¥ (414)	¥ (414)	$ 664,449	$ —	$ (3,804)	$ (3,804)
Other currencies	5,085	—	515	515	46,724	—	4,732	4,732
Buying:								
U.S. dollars	7,892	—	(26)	(26)	72,516	—	(238)	(238)
Other currencies	3,216	—	(26)	(26)	29,550	—	(238)	(238)
Non-deliverable forward contracts:								
Selling:								
Indonesian rupiah	4,134	—	659	659	37,985	—	6,055	6,055
Cross-currency swap agreements:								
Japanese yen received for U.S. dollars	27,608	17,811	451	451	253,680	163,658	4,144	4,144
Total	¥ —	¥ —	¥ —	¥ 1,158	$ —	$ —	$ —	$ 10,640

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	¥ 1,286	¥ —	¥ 318	¥ 318	$ 11,816	$ —	$ 2,921	$ 2,921
Buying	498	—	(92)	(92)	4,575	—	(845)	(845)
Non-ferrous metals:								
Selling	9,330	—	1,299	1,299	85,730	—	11,936	11,936
Buying	4,875	—	(397)	(397)	44,794	—	(3,647)	(3,647)
Commodity swap agreements:								
Petroleum:								
Fixed receipt / Fluctuated payment	665	—	214	214	6,110	—	1,966	1,966
Fluctuated receipt / Fixed payment	1,893	—	(378)	(378)	17,394	—	(3,473)	(3,473)
Total	¥ —	¥ —	¥ —	¥ 963	$ —	$ —	$ —	$ 8,848

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	¥ 21,250	¥ —	¥ 4,269	¥ 4,269	$ 195,258	$ —	$ 39,226	$ 39,226
Buying	21,644	—	(4,184)	(4,184)	198,878	—	(38,445)	(38,445)
Total	¥ —	¥ —	¥ —	¥ 85	$ —	$ —	$ —	$ 781

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

March 31, 2019
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	¥ 100,486	¥ —	¥ (811)	¥ (811)
Other currencies	1,455	—	12	12
Buying:				
U.S. dollars	12,926	—	55	55
Other currencies	2,262	57	(45)	(45)
Cross-currency swap agreements:				
Japanese yen received for U.S. dollars	12,194	—	(284)	(284)
Total	¥ —	¥ —	¥ —	¥ (1,073)

Commodity related

Millions of yen

	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:				
Petroleum:				
Selling	¥ 1,089	¥ —	¥ (50)	¥ (50)
Buying	483	—	14	14
Non-ferrous metals:				
Selling	11,118	—	(162)	(162)
Buying	5,243	—	(87)	(87)
Commodity swap agreements:				
Petroleum:				
Fixed receipt / Fluctuated payment	—	—	—	—
Fluctuated receipt / Fixed payment	920	—	44	44
Total	¥ —	¥ —	¥ —	¥ (241)

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	¥ 79,667	¥ —	¥ 2,191	¥ 2,191
Buying	13,019	—	(114)	(114)
Total	¥ —	¥ —	¥ —	¥ 2,077

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, 2020 and 2019 for the derivatives to which hedge accounting was applied:

March 31, 2020
Currency 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
Cross-currency swap agreement for foreign subsidiaries' equity:						
Japanese yen received for U.S. dollars	**¥ 5,401**	**¥ 5,401**	**¥ (69)**	**$ 49,627**	**$ 49,627**	**$ (634)**

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	¥ 10,545	¥ 5,045	¥ (123)	$ 96,894	$ 46,356	$ (1,130)

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	¥ 30,852	¥ —	¥ 2,144	$ 283,488	$ —	$ 19,700
Buying	19,329	—	(1,017)	177,607	—	(9,344)

March 31, 2019

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	¥ 35,121	¥ 16,195	¥ (285)

Commodity related

	Millions of yen		
	Contract or notional amount	Due after one year	Fair value
Forwards for inventories and commitments:			
Non-ferrous metals			
Selling	¥ 29,258	¥ —	¥ (873)
Buying	16,167	51	227

6. Inventories

Inventories at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Merchandise and finished products	¥ 109,576	¥ 127,196	$1,006,854
Work-in-process	1,660	2,307	15,253
Raw materials and supplies	16,223	11,129	149,067
Total	¥ 127,460	¥ 140,633	$1,171,184

7. Pledged assets

At March 31, 2020 and 2019, assets pledged as collateral for loans payable in the amount of ¥535 million ($4,915 thousand) and ¥136 million, respectively, for guaranty deposits, and for loans of third parties were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
For loans payable:			
Land	¥ 1,113	¥ 1,798	$ 10,226
Buildings and structures, net of accumulated depreciation	1,059	239	9,730
Intangibles and other assets	262	—	2,407
Total	¥ 2,435	¥ 2,038	$ 22,374
For guaranty deposits:			
Cash and cash equivalents	¥ 13	¥ 23	$ 119
Investment securities	3,367	5,534	30,938
Total	¥ 3,380	¥ 5,557	$ 31,057
For loans of third parties:			
Investment securities	¥ 2,177	¥ 1,665	$ 20,003
Total	¥ 2,177	¥ 1,665	$ 20,003

8. 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 30.6% for the year ended March 31, 2020 and 2019.

The following table summarizes the significant differences between the aggregate statutory income tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2020 and 2019.

An aggregate statutory income tax rate for the year ended March 31, 2020 is omitted here because of loss before income taxes.

	2020	2019
Statutory tax rate:	— %	30.6 %
Tax effect of permanent differences	—	0.9
Valuation allowance recognized for deferred tax assets	—	1.0
Consolidation adjustment for equity method	—	1.2
Difference in tax rates for consolidated subsidiaries	—	0.2
Other	—	0.1
Effective tax rate	— %	34.0 %

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Temporary differences resulting from the merger with consolidated subsidiaries	¥ 2,731	¥ 2,731	$ 25,094
Tax losses carried forward	2,069	1,452	19,011
Retirement benefit liability	1,859	1,798	17,081
Loss on valuation of investment securities, currently not deductible	1,694	1,561	15,565
Loss on sale-repurchase agreements of land	1,293	1,293	11,880
Loss on impairment of property and equipment	1,157	1,066	10,631
Accrued bonuses to employees	825	815	7,580
Land revaluation difference, net of taxes unrealized loss	80	80	735
Other	5,929	5,328	54,479
Total deferred tax assets	17,643	16,129	162,115
Valuation allowance	(11,864)	(10,306)	(109,014)
Net deferred tax assets	5,779	5,823	53,101
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	2,879	4,757	26,454
Land revaluation difference, net of taxes unrealized gain	1,562	1,591	14,352
Other	3,607	3,853	33,143
Total deferred tax liabilities	8,049	10,203	73,959
Net deferred tax liabilities	¥ (2,270)	¥ (4,379)	$ (20,858)

9. Short-term loans payable and long-term debt

The weighted average interest rate applicable to short-term loans outstanding at March 31, 2020 and 2019 was 2.2% and 3.4%, respectively, regardless of borrowing currencies though the range of the interest rates varies by borrowing currencies.

There was an outstanding balance of ¥44,979 million ($413,295 thousand) and ¥65,398 million at March 31, 2020 and 2019, respectively.

Bonds at March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Issued in 2014, 0.44% unsecured straight bonds, due 2019	¥ —	¥ 10,000	$ —
Issued in 2015, 0.43% unsecured straight bonds, due 2020	10,000	10,000	91,886
Issued in 2016, 0.29% unsecured straight bonds, due 2021	10,000	10,000	91,886
Issued in 2017, 0.27% unsecured straight bonds, due 2022	10,000	10,000	91,886
Issued in 2018, 0.24% unsecured straight bonds, due 2023	10,000	10,000	91,886
Issued in 2018, 0.59% unsecured straight bonds, due 2028	10,000	10,000	91,886
Issued in 2014, unsecured floating rate bonds, due 2021	34	55	312
Total	¥ 50,034	¥ 60,055	$ 459,744

Long-term loans payable at March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans from banks with weighted average interest rates of 0.8% and 0.8% at March 31, 2020 and 2019, respectively, maturing serially through 2054	¥ 234,570	¥ 236,389	$2,155,379
Less amounts due within one year	(22,197)	(27,453)	(203,960)
Total	¥ 212,372	¥ 208,936	$1,951,410

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, 2020 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥ 22,197	$ 203,960
2022	30,508	280,327
2023	36,572	336,047
2024	14,697	135,045
2025	20,088	184,581
Thereafter	110,505	1,015,390
Total	¥ 234,570	$ 2,155,379

10. 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, retirement benefit liability and retirement benefit costs are calculated mainly based on the simplified method.

Certain subsidiaries participate in corporate pension plans, which are classified as multi-employer plans. In regard 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
	2020	2019	2020
Balance at beginning of year	¥ 27,583	¥ 26,786	$ 253,450
Service cost	1,312	1,244	12,055
Interest cost	106	100	973
Actuarial loss (gain)	68	279	624
Benefits paid	(640)	(818)	(5,880)
Other	11	(8)	101
Balance at end of year	¥ 28,443	¥ 27,583	$ 261,352

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year	¥ 22,480	¥ 22,700	$ 206,560
Expected return on plan assets	676	680	6,211
Actuarial gain (loss)	(823)	(876)	(7,562)
Contributions paid by the employer	1,493	794	13,718
Benefits paid	(638)	(818)	(5,862)
Other	(2)	(0)	(18)
Balance at end of year	¥ 23,186	¥ 22,480	$ 213,047

(3) Movements in retirement benefit liability for plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year	¥ 847	¥ 857	$ 7,782
Retirement benefit costs	119	227	1,093
Benefits paid	(61)	(65)	(560)
Contributions paid by the employer	(11)	(47)	(101)
Other	12	(124)	110
Balance at end of year	¥ 905	¥ 847	$ 8,315

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligations	¥ 29,008	¥ 28,155	$ 266,544
Plan assets	(23,626)	(22,915)	(217,090)
	5,381	5,239	49,444
Unfunded retirement benefit obligations	781	710	7,176
Total net liability (asset) for retirement benefits at end of year	6,162	5,950	56,620
Retirement benefit liability	6,162	5,950	56,620
Total net liability (asset) for retirement benefits at end of year	¥ 6,162	¥ 5,950	$ 56,620

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 1,312	¥ 1,244	$ 12,055
Interest cost	106	100	973
Expected return on plan assets	(676)	(680)	(6,211)
Net actuarial loss amortization	1,025	975	9,418
Past service costs amortization	—	65	—
Retirement benefit costs based on the simplified method	119	227	1,093
Other	(12)	(16)	(110)
Total retirement benefit costs	¥ 1,875	¥ 1,916	$ 17,228

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Past service costs	¥ —	¥ 65	$ —
Actuarial gains and losses	132	(179)	1,212
Total	¥ 132	¥ (114)	$ 1,212

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gains and losses that are yet to be recognized	¥ 7,836	¥ 7,969	$ 72,002
Total balance at end of year	¥ 7,836	¥ 7,969	$ 72,002

(8) Breakdown of plan assets

	2020	2019
Bonds (*1)	19.9%	17.6%
Equity securities (*1)	20.7	22.2
Cash and cash equivalents	4.8	20.4
General account assets	22.5	14.2
Other (*2)	32.1	25.6
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

	2020	2019
Discount rate	0.4%	0.4%
Long-term expected rate of return	3.0	3.0
Expected salary increase rate	3.1	3.1

(C) Defined contribution plans

The Companies were required to contribute ¥312 million ($2,866 thousand) and ¥318 million to the defined contribution plans (including corporate pension fund plans under the multi-employer pension system accounted for in the same way as defined contribution plans) for the years ended March 31, 2020 and 2019, respectively.

11. Contingent liabilities

At March 31, 2020 and 2019, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Export letters of credit and trade notes (including export bills) discounted	¥ 19,622	¥ 7,856	$ 180,299
Electronically recorded monetary claims discounted	103	104	946
Trade notes endorsed	218	176	2,003
Guarantees of indebtedness	3,887	5,341	35,716

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 24, 2020, the shareholders approved cash dividends of ¥25.00 per share ($0.22) amounting to ¥1,015 million ($9,326 thousand). This appropriation had not been accrued in the consolidated financial statements as of March 31, 2020. 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 Companies 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, 2020, the carrying amount of the land after the above one-time revaluation did not exceed the market value.

13. Arbitration

Year ended March 31, 2020

On July 2019, HANWA SINGAPORE (PRIVATE) LTD. ("HANWA SINGAPORE"), a consolidated subsidiary of the Company, filed an arbitration request with the Singapore International Arbitration Centre against a petroleum product distributor based in the United Kingdom for the delayed payment of approximately $20,000 thousand of account receivable that has not been received by due date. HANWA SINGAPORE will continue to claim its legitimacy by explaining the facts and legal grounds through the arbitration proceedings.

14. Share of profit (loss) of entities accounted for using equity method

Year ended March 31, 2020

The share of loss of entities accounted for using equity method includes the impairment loss for the carrying amount of ¥27,346 million ($251,272 thousand) of mining rights and other assets recognized by allocating the acquisition cost of shares of SAMANCOR CHROME HOLDINGS PROPRIETARY LTD., an affiliate of the Company, to its identifiable assets.

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, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings and structures	¥ —	¥ 402	$ —
Machinery, equipment and vehicles	27	11	248
Land	202	—	1,856
Other	0	2	0
Total	¥ 229	¥ 416	$ 2,104

16. Loss on sales of property and equipment

The following table summarizes loss on sales of property and equipment in the years ended March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings and structures	¥ —	¥ 8	$ —
Machinery, equipment and vehicles	—	12	—
Land	—	179	—
Other	—	0	—
Total	¥ —	¥ 202	$ —

17. Loss on retirement of property and equipment

The following table summarizes loss on retirement of property and equipment in the years ended March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings and structures	¥ —	¥ 157	$ —
Machinery, equipment and vehicles	—	8	—
Other	—	58	—
Intangibles and other assets	—	10	—
Total	¥ —	¥ 236	$ —

18. Loss on impairment of property and equipment

The Companies mainly use each business unit as a grouping unit and the grouping for assets to be disposed of was made for individual assets.
Details of the loss on impairment of property and equipment for the years ended March 31, 2020 and 2019 were as follows:

Year ended March 31, 2020

Regarding the assets in Osaka and Aichi, because they became assets to be disposed of complying with the decision to abandon or sell in the current consolidated fiscal year, the book values were reduced to the recoverable values, and the amounts of reduction were recorded as impairment loss - ¥356 million ($3,271 thousand) under other expenses.

The recoverable values were measured by the net sales value calculated on the basis of the memorandum value for the assets to be abandoned and the expected disposal amount for the assets to be sold.

Regarding the assets in Hokkaido, certain domestic subsidiaries reduced the book values to the recoverable values and recorded the amounts of reduction as impairment loss - ¥531 million ($4,879 thousand) under other expenses because it became impossible to recover the investment amount due to the decreased profitability.

The recoverable value for this asset group was measured by the value in use, which was calculated by discounting future cash flow by 3.1%.

Regarding the goodwill, certain foreign subsidiaries reduced the entire amount of the account as impairment loss - ¥115 million ($1,056 thousand) under other expenses, due to the impossibility of earning originally planned revenue.

		Millions of yen					Thousands of U.S. dollars
Location	Description	Land	Buildings and structures	Machinery, equipment and vehicles	Other	Total	Total
Minoo, Osaka	Company House	¥ 95	¥ 57	¥ —	¥ 1	¥ 153	$ 1,405
Nagoya, Aichi	Company House	—	134	—	0	134	1,231
Tobishima, Ama-gun, Aichi	Business Assets	—	—	67	—	67	615
Sapporo, Hokkaido	Business Assets	—	349	181	—	531	4,879
Penang, Malaysia	Goodwill	—	—	—	115	115	1,056
Total		¥ 95	¥ 540	¥ 249	¥ 117	¥ 1,003	$ 9,216

Year ended March 31, 2019

Because the assets below became assets to be disposed of complying with the decision to sell welfare facilities in the current consolidated fiscal year, the book value was reduced to the recoverable value, and the amount of reduction was recorded as impairment loss - ¥251 million under other expenses.

The recoverable value is measured by the net sales value calculated on the basis of the expected disposal amount.

		Millions of yen				
Location	Description	Land	Buildings and structures	Machinery, equipment and vehicles	Other	Total
Minamiuonuma, Niigata	Sanatorium	¥ 0	¥ 9	¥ —	¥ —	¥ 9
Hirakata, Osaka	Company House	136	1	—	—	137
Kishiwada, Osaka	Company House	63	40	—	0	104
Total		¥ 200	¥ 50	¥ —	¥ 0	¥ 251

19. Loss on disaster

Year ended March 31, 2020

Not applicable.

Year ended March 31, 2019

The loss on disaster contains the disposed of inventories due to the typhoon damage.

20. Provision of allowance for doubtful accounts for subsidiaries and affiliates

Year ended March 31, 2020

The provision of allowance for doubtful accounts for subsidiaries and affiliates is calculated by allowance for doubtful accounts on loans to subsidiaries and affiliated companies.

Year ended March 31, 2019

The provision of allowance for doubtful accounts for subsidiaries and affiliates is calculated by allowance for doubtful accounts on loans to subsidiaries and affiliated companies.

21. Provision for product warranties

Year ended March 31, 2020

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

Year ended March 31, 2019
Not applicable.

22. Loss on disposal of property and equipment

Year ended March 31, 2020

Not applicable.

Year ended March 31, 2019
Loss on disposal of property and equipment is the expense calculated for the work related to the demolition of dormitories.

23. Other comprehensive income

Years ended March 31, 2020 and 2019

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
	2020	2019	2020
Valuation difference on available-for-sale securities, net of taxes:			
Increase (decrease) during the year	¥ (13,708)	¥ (6,616)	$ (125,957)
Reclassification adjustments	7,093	1,488	65,175
Sub-total, before tax	(6,615)	(5,128)	(60,782)
Tax expense (benefit)	(1,860)	(1,579)	(17,090)
Sub-total, net of tax	(4,755)	(3,549)	(43,691)
Deferred gains or losses on hedges, net of taxes:			
Increase (decrease) during the year	581	505	5,338
Reclassification adjustments	414	(181)	3,804
Sub-total, before tax	995	323	9,142
Tax expense (benefit)	310	93	2,848
Sub-total, net of tax	684	230	6,285
Foreign currency translation adjustments:			
Increase (decrease) during the year	287	(799)	2,637
Reclassification adjustments	—	—	—
Sub-total, before tax	287	(799)	2,637
Tax expense (benefit)	—	—	—
Sub-total, net of tax	287	(799)	2,637
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	(898)	(1,154)	(8,251)
Reclassification adjustments	1,031	1,039	9,473
Sub-total, before tax	132	(114)	1,212
Tax expense (benefit)	40	(35)	367
Sub-total, net of tax	92	(79)	845
Share of other comprehensive income of entities accounted for using equity method:			
Increase (decrease) during the year	(730)	(6,183)	(6,707)
Total other comprehensive income	¥ (4,421)	¥ (10,381)	$ (40,622)

24. Leases

Operating leases
As Lessee

Obligations under non-cancelable operating leases as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Due within one year	¥ 567	¥ 576	$ 5,209
Due after one year	6,607	7,035	60,709
Total	¥ 7,174	¥ 7,612	$ 65,919

25. Investment and rental properties

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

The Company and certain subsidiaries own office buildings, logistics centers and other properties for rent in Tokyo, Osaka and other cities.

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

Year ended March 31, 2020

Millions of yen				Thousands of U.S.dollars			
Book value				Book value			
Balance at beginning of year	Net decrease	Balance at end of year	Fair value	Balance at beginning of year	Net decrease	Balance at end of year	Fair value
¥ 7,701	¥ 23	¥ 7,678	¥ 10,328	$ 70,761	$ 211	$ 70,550	$ 94,900

Book value is net of accumulated depreciation and impairment loss.
Fair values of these properties are measured mainly by the Company, based on "Standard for real-estate appraisal."
Rental profit from these properties was ¥374 million ($3,436 thousand) and was included in gross profit.

Year ended March 31, 2019
Not applicable.

26. Segment information

(A) Overview of the reportable segments

The Companies’ 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 Companies’ 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 Companies consist of business segments with the business department as the basis. The 6 reportable segments are “steel business,” “primary metal business,” “metal recycling 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 and (steel processing and storage)

Primary metal:

Nickel, chromium, silicon, manganese, steel alloys

Metal recycling:

Aluminum, copper, zinc and (recycling business)

Foods:

Seafood and 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)

Since the first quarter of the year ended March 31, 2020, following the organizational change on April 1, 2019, the Companies have reviewed the classification method for business segments and changed the reportable segments from “metals and alloy business” and “non-ferrous metal business” to “primary metal business” and “metal recycling business” .

Segment information of the year ended March 31, 2019 has been recomposed by the new classification method.

The reportable segment income (loss) figures are based on operating income coupled with interest and dividend income, interest expenses, foreign currency translation adjustment and share of profit (loss) of entities accounted for using equity method. Intersegment transactions are presented based on the current market prices at the time of this report.

Net sales, profit (loss), assets and others by reportable segment for the year ended March 31, 2020 were as follows:

Year ended March 31, 2020

Millions of yen

	Reportable segment										
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 994,269	¥ 255,660	¥ 77,609	¥ 100,615	¥ 201,763	¥ 195,325	¥ 1,825,244	¥ 82,248	¥ 1,907,493	¥ —	¥ 1,907,493
Intersegment	11,134	4,195	1,209	1,139	8,693	45,686	72,057	2,755	74,812	(74,812)	—
Total	¥ 1,005,403	¥ 259,855	¥ 78,818	¥ 101,754	¥ 210,457	¥ 241,011	¥ 1,897,301	¥ 85,004	¥ 1,982,305	¥ (74,812)	¥ 1,907,493
Segment income (loss)	¥ 14,628	¥ (30,506)	¥ 2,302	¥ (144)	¥ 4,177	¥ 466	¥ (9,076)	¥ 1,400	¥ (7,676)	¥ (4,921)	¥ (12,598)
Assets	¥ 410,634	¥ 171,092	¥ 22,312	¥ 44,840	¥ 40,338	¥ 62,163	¥ 751,381	¥ 30,254	¥ 781,635	¥ 16,807	¥ 798,442
Depreciation	4,074	16	330	111	168	103	4,804	353	5,157	87	5,245
Amortization of goodwill	363	—	68	—	82	—	514	—	514	—	514
Interest income	226	1,584	3	27	27	246	2,116	13	2,129	12	2,142
Interest expenses	2,996	4,231	368	618	257	1,451	9,922	181	10,104	(4,609)	5,494
Share of profit (loss) of entities accounted for using equity method	(731)	(34,913)	31	—	26	(53)	(35,640)	200	(35,439)	—	(35,439)
Investment for entities accounted for equity method	5,086	—	157	—	541	1,534	7,320	1,295	8,616	—	8,616
Increase in property and equipment	9,037	80	591	137	318	105	10,270	893	11,164	432	11,597

Year ended March 31, 2020

Thousands of U.S. dollars

	Reportable segment										
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	$ 9,135,982	$ 2,349,168	$ 713,121	$ 924,515	$ 1,853,928	$ 1,794,771	$ 16,771,515	$ 755,747	$ 17,527,271	$ —	$ 17,527,271
Intersegment	102,306	38,546	11,109	10,465	79,876	419,792	662,106	25,314	687,420	(687,420)	—
Total	$ 9,238,289	$ 2,387,714	$ 724,230	$ 934,981	$ 1,933,814	$ 2,214,563	$ 17,433,621	$ 781,071	$ 18,214,692	$ (687,420)	$ 17,527,271
Segment income (loss)	$ 134,411	$ (280,308)	$ 21,152	$ (1,323)	$ 38,380	$ 4,281	$ (83,396)	$ 12,864	$ (70,532)	$ (45,217)	$ (115,758)
Assets	$ 3,773,169	$ 1,572,103	$ 205,016	$ 412,018	$ 370,651	$ 571,193	$ 6,904,171	$ 277,993	$ 7,182,164	$ 154,433	$ 7,336,598
Depreciation	37,434	147	3,032	1,019	1,543	946	44,142	3,243	47,385	799	48,194
Amortization of goodwill	3,335	—	624	—	753	—	4,722	—	4,722	—	4,722
Interest income	2,076	14,554	27	248	248	2,260	19,443	119	19,562	110	19,682
Interest expenses	27,529	38,877	3,381	5,678	2,361	13,332	91,169	1,663	92,842	(42,350)	50,482
Share of profit (loss) of entities accounted for using equity method	(6,716)	(320,803)	284	—	238	(486)	(327,483)	1,837	(325,636)	—	(325,636)
Investment for entities accounted for equity method	46,733	—	1,442	—	4,971	14,095	67,260	11,899	79,169	—	79,169
Increase in property and equipment	83,037	735	5,430	1,258	2,921	964	94,367	8,205	102,582	3,969	106,560

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 ¥4,921 million ($45,217 thousand) for segment income(loss) 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 ¥16,807 million ($154,433 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 ¥87 million ($799 thousand) include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expenses amounting to ¥12 million ($110 thousand) and negative ¥4,609 million ($42,350 thousand) include intersegment elimination, revenue and expenses that were not allocated to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥432 million ($3,969 thousand) are increases in Group assets.

Net sales, profit, assets and others by reportable segment for the year ended March 31, 2019 were as follows:

Year ended March 31, 2019

Millions of yen

	Reportable segment										
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 1,037,297	¥ 296,437	¥ 73,847	¥ 100,093	¥ 233,664	¥ 253,495	¥ 1,994,837	¥ 79,763	¥ 2,074,600	¥ —	¥ 2,074,600
Intersegment	10,676	7,421	6,056	1,296	10,585	61,259	97,295	2,751	100,046	(100,046)	—
Total	¥ 1,047,974	¥ 303,858	¥ 79,903	¥ 101,389	¥ 244,250	¥ 314,755	¥ 2,092,132	¥ 82,514	¥ 2,174,647	¥ (100,046)	¥ 2,074,600
Segment income	¥ 17,393	¥ 5,817	¥ 1,520	¥ 1,543	¥ 2,165	¥ 1,024	¥ 29,464	¥ 966	¥ 30,431	¥ (7,036)	¥ 23,395
Assets	¥ 494,499	¥ 194,717	¥ 24,797	¥ 45,120	¥ 40,319	¥ 57,045	¥ 856,500	¥ 31,445	¥ 887,945	¥ 45,362	¥ 933,307
Depreciation	3,499	12	308	30	183	58	4,093	328	4,421	91	4,513
Amortization of goodwill	465	—	123	—	82	—	671	—	671	—	671
Interest income	241	3,526	1	21	36	200	4,028	11	4,040	154	4,195
Interest expenses	2,961	5,439	362	557	282	1,779	11,381	204	11,586	(6,533)	5,052
Share of profit (loss) of entities accounted for using equity method	(290)	74	—	—	—	(51)	(267)	192	(75)	—	(75)
Investment for entities accounted for equity method	3,670	35,493	—	—	—	246	39,410	1,095	40,505	—	40,505
Increase in property and equipment	8,034	52	338	60	144	41	8,671	458	9,130	76	9,207

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 ¥7,036 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 ¥45,362 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 ¥91 million include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expenses amounting to ¥154 million and negative ¥6,533 million include intersegment elimination, revenue and expenses that were not allocated to reportable segments.
   (5) Adjustments for increases in tangible fixed assets and intangible fixed assets amounting to ¥76 million are increases in Group assets.

(B) Related information

Product information

Net sales information by products for the years ended March 31, 2020 and 2019 were as follows:

Year ended March 31, 2020

Millions of yen

	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	**¥ 1,104,606**	**¥ 195,340**	**¥ 154,852**	**¥ 103,839**	**¥ 250,001**	**¥ 98,852**	**¥ 1,907,493**

Year ended March 31, 2020

Thousands of U.S. dollars

	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	**$ 10,149,830**	**$ 1,794,909**	**$ 1,422,879**	**$ 954,139**	**$ 2,297,169**	**$ 908,315**	**$ 17,527,271**

Year ended March 31, 2019

Millions of yen

	Steel	Metals and alloys	Non-ferrous metals	Foods	Petroleum and chemicals	Other	Total
Net sales to external customers	¥ 1,162,650	¥ 218,883	¥ 168,766	¥ 102,543	¥ 324,171	¥ 97,584	¥ 2,074,600

Geographic information

(1) Net sales in different countries for the years ended March 31, 2020 and 2019 were as follows:

Year ended March 31, 2020

Millions of yen

	Japan	Asia	Other	Total
Net sales to external customers	**¥ 1,342,564**	**¥ 481,678**	**¥ 83,250**	**¥ 1,907,493**

Year ended March 31, 2020

Thousands of U.S. dollars

	Japan	Asia	Other	Total
Net sales to external customers	**$ 12,336,341**	**$ 4,425,967**	**$ 764,954**	**$ 17,527,271**

Year ended March 31, 2019

Millions of yen

	Japan	Asia	Other	Total
Net sales to external customers	¥ 1,346,927	¥ 616,752	¥ 110,921	¥ 2,074,600

(2) Property and equipment in different countries for the years ended March 31, 2020 and 2019 were as follows:

Year ended March 31, 2020

Millions of yen

	Japan	Asia	Other	Total
Property and equipment	¥ 64,328	¥ 7,841	¥ 2,993	¥ 75,162

Year ended March 31, 2020

Thousands of U.S. dollars

	Japan	Asia	Other	Total
Property and equipment	$ 591,087	$ 72,048	$ 27,501	$ 690,636

Year ended March 31, 2019

Millions of yen

	Japan	Asia	Other	Total
Property and equipment	¥ 61,629	¥ 7,168	¥ 64	¥ 68,862

Loss on impairment of property and equipment in reportable segment

Loss on impairment of property and equipment in reportable segment for the years ended March 31, 2020 and 2019 were as follows:

Year ended March 31, 2020

Millions of yen

	Reportable segment									
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Loss on impairment	¥ 115	¥ —	¥ 67	¥ 531	¥ —	¥ —	¥ 714	¥ —	¥ 288	¥ 1,003

Year ended March 31, 2020

Thousands of U.S.dollars

	Reportable segment									
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Loss on impairment	$ 1,056	$ —	$ 615	$ 4,879	$ —	$ —	$ 6,560	$ —	$ 2,646	$ 9,216

Adjustments include loss on impairment of Group assets for land ¥95 million ($872 thousand), buildings and structures ¥191 million ($1,755 thousand) and other ¥1 million ($9 thousand).

Year ended March 31, 2019

Millions of yen

	Reportable segment									
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Loss on impairment	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 251	¥ 251

Adjustments include loss on impairment of Group assets for land ¥200 million, buildings and structures ¥50 million and other ¥0 million.

Outstanding balance of goodwill and amortization of goodwill in reportable segment

Outstanding balance of goodwill for the years ended March 31, 2020 and 2019 were as follows:

Year ended March 31, 2020

Millions of yen

	Reportable segment									
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at end of year	¥ 777	¥ —	¥ 22	¥ —	¥ 54	¥ —	¥ 855	¥ —	¥ —	¥ 855

Year ended March 31, 2020

Thousands of U.S.dollars

	Reportable segment									
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at end of year	**$ 7,139**	**$ —**	**$ 202**	**$ —**	**$ 496**	**$ —**	**$ 7,856**	**$ —**	**$ —**	**$ 7,856**

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, 2019

Millions of yen

	Reportable segment									
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at end of year	¥ 1,107	¥ —	¥ 90	¥ —	¥ 136	¥ —	¥ 1,335	¥ —	¥ —	¥ 1,335

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

27. Related party information

(A) Related party transactions

Year ended March 31, 2020

Not applicable.

Year ended March 31, 2019

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, 2019
Company with a majority of the voting rights held by executive or close relative	Nakajo Co., Ltd. (*1)	Sanjo-shi Niigata Prefecture	¥30 million	Processing and sales of steel products	—	Business transactions	Purchase of steel products (*2)	¥13 million (*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.

(B) Notes on significant affiliates

A summary of the financial statements of SAMANCOR CHROME HOLDINGS PROPRIETARY LTD., which is defined as a significant affiliate for the year ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	**2020**
Total current assets	**¥ 51,881**	¥ 56,461	**$ 476,715**
Total noncurrent assets	**79,635**	65,932	**731,737**
Total current liabilities	**50,512**	34,311	**464,136**
Total noncurrent liabilities	**47,884**	42,699	**439,988**
Total net assets	**33,120**	45,384	**304,327**
Net sales	**148,269**	169,870	**1,362,390**
Income (loss) before income taxes	**(18,544)**	4,513	**(170,394)**
Net income (loss)	**(12,001)**	3,388	**(110,272)**

Independent Auditor's Report

KPMG

Independent auditor's report

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

Opinion

We have audited the accompanying consolidated financial statements of Hanwa Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of operations and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

田中基博

Tanaka Motohiro

Designated Engagement Partner

Certified Public Accountant

成本弘治

Narumoto Koji

Designated Engagement Partner

Certified Public Accountant

竹下晋平

Takeshita Shimpei

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

August 3, 2020