

# INTEGRATED REPORT 2020

Year ended March 31, 2020



<https://www.hanwa.co.jp/en/>



Printed on paper made with wood from forest thinning. "Mori no Chonai Kai" (Forest Neighborhood Association)—Supporting sound forest management.





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We explain our strategy for providing value to corporations and society over the medium to long term, together with the messages from the president and executive financial officer.

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# For Users, With Users

## Corporate Philosophy

Coping with changes of the times and the market quickly, we, as a “distribution specialist”, aspire to make a broad contribution to society by satisfying various needs of customers.

Success in today's markets demands speed and the ability to meet a broad range of needs. Great change has come about on an unprecedented scale. Only companies that can adapt quickly will survive.

Hanwa has accumulated experience and accomplishments in the field of “distribution” that spans more than 70 years. We know how to build powerful businesses and move quickly in the pursuit of value creation and customer satisfaction.

Dedicated to corporate citizenship, we want our business operations to help make communities and the world a better place to live. This is why we prioritize compliance and other activities that enable us to fulfill our obligation to society. Through such activities, we keep nurturing a corporate culture that will enhance the value and reliability of our Company. We aim to make greater contributions by fulfilling our social responsibilities.

## Corporate Policy

### Accomplishment of social responsibilities

We contribute to the global society and the community through our business activities with sound management practices that attach importance to compliance.

### Improvement of “Hanwa’s Value”

We raise our corporate value steadily by effective utilization of the management resources offered from various stakeholders.

### Pursuit of trading company distribution with strong presence

Under a customer-oriented policy, we pursue sustainable customer satisfaction by providing value-added distribution and proposal-driven marketing.

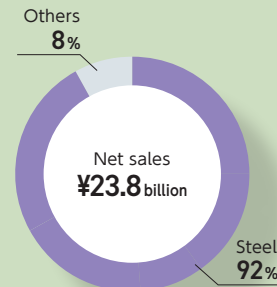


# Progress in Value Creation

Ever since our foundation, Hanwa Co., Ltd. has always anticipated what lies ahead and grown by responding to the diverse needs of the users. With our corporate philosophy to become a "distribution specialist," we will continue to satisfy various needs of our users accurately by leveraging our high level of expertise and extensive network and contribute widely to the society.

## Period of foundation 1946-1961

Hanwa's procurement expertise and reliable business helped postwar recovery. The Company strengthened its business foundation as "Round Bar is about Hanwa."



FY1961

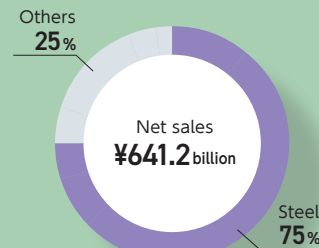
- 1946 ● Hanwa Shokai was founded by three brothers
- 1947 ● Hanwa Co., Ltd. was established (Jiro Kita assumed the post of President)
  - Started supplying materials to the Forestry Agency and Forestry Bureaus
  - Started selling oil press machines for agriculture nationwide
- 1949 ● Joined the Kozai Club (currently The Japan Iron and Steel Federation)
- 1950 ● Supplied materials (lightweight rails, etc.) to Forestry Bureaus throughout Japan and became No. 1 in transaction volume
- 1953 ● Imported steel scrap from India for the first time
  - Imported non-steel scrap (copper wire scrap) for the first time
- 1955 ● Started Japan's first imported ship scrapping business (The BARANOF) after WWII
- 1956 ● Imported re-rolled steel from Belgium for the first time
- 1957 ● Started selling petroleum products to steel plate manufacturers, who are large-lot customers for heavy oil
- 1959 ● Supplied all of steel materials used to construct Togu Go-sho (Crown Prince's Palace)
- 1961 ● Opened Funabashi warehouse, Tokyo Head Office, and obtained approval for bonded factory



Lightweight rails, with which Hanwa became No. 1 in transaction volume by responding to the sharp increase in demand from Forestry Bureaus

## Period of diversification 1962-1981

The Company diversified its operations into petroleum, lumber, non-ferrous metals, and food products and leisure businesses, centering on its steel business, and proceeded the opening of sales offices and steel distribution centers in Japan.



FY1981

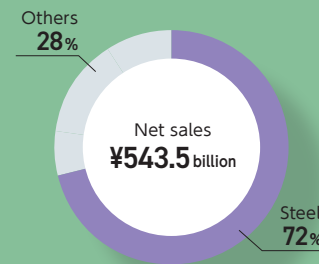
- 1964 ● Joined JETRO
  - Opened Hong Kong Office
- 1967 ● Received an order for deformed steel bars weighing 38,000 tons for long and large tunnel work related to the Sanyo Shinkansen line, etc.
  - Established HANWA AMERICAN CORP.
  - Started full-fledged handling of bunker oil
  - Opened Seattle Office and started importing lumber from the U.S.
  - Opened Singapore Office
- 1971 ● Listed on the first section of the Tokyo Stock Exchange and Osaka Securities Exchange
  - Started importing agricultural and marine products
- 1973 ● Opened Nagoya Steel Distribution Center
- 1975 ● Participated in national projects for a large bridge, etc.
  - Started handling gold and silver bullion
  - Opened Osaka Nanko Steel Distribution Center
- 1976 ● Opened Keiyo Steel Distribution Center
- 1977 ● Won the top market share for shrimp, herring roe, capelin, etc. in Japan
- 1978 ● Started direct trading with China and was designated as a friendly trading company by China
- 1979 ● Forayed into the business of large-scale amusement machines for amusement parks
- 1981 ● Introduced processing facilities at large-scale steel distribution centers



Honshu-Shikoku Bridge Onaruto Bridge (construction started in July 1976; the bridge opened on June 8, 1985)

## Period of business scope expansion 1982-1993

In response to the rapidly increasing demand for construction columns, we enhanced processing functions of our steel distribution centers in Japan. We also made a capital participation in steel distribution centers in the U.S., China and Malaysia and proactively expanded overseas operations.



FY1993

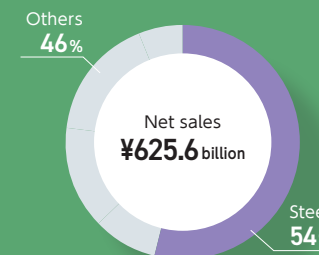
- 1982 ● Transaction volume of capelin rapidly increased
- 1983 ● Shigeru Kita assumed the post of President
  - Set up two Head Offices in Tokyo and Osaka
  - Supplied a roller coaster, river rapids ride, giant Ferris wheel, etc. to a large-scale theme park
  - Promoted sales of heavy oil and diesel oil in Japan by utilizing the five tanks at Funabashi Steel Distribution Center
- 1984 ● Established an aluminum scrap sorting workshop at Nagoya Steel Distribution Center
  - Won the top market share in import transaction of frozen herring roe in the industry
- 1988 ● Introduced primary processing facilities at the steel distribution centers in Tokyo, Nagoya, and Osaka
  - Renovated waste marine containers and entered into the karaoke box business
- 1989 ● Started handling beef, pork, chicken, and imported livestock products
- 1990 ● Started trading of nickel metal
- 1991 ● Installed Japan's first automated column processing facility at Osaka Nanko Steel Distribution Center
- 1992 ● Installed a processing machine at Nagoya Distribution Center
  - Launched aluminum can recycling (Can-to-Can) business
- 1993 ● Started importing wood products and materials from Europe



Handling volume of capelin rapidly increased from around 1982. Fishing in North Europe became restricted and Canadian capelin became popular instead.

## Period of structural reform 1994-2001

The newly appointed president of the Company, Shuji Kita, declared a complete withdrawal from zai-tech (speculative financial management techniques) that resulted in large losses due to the burst of the bubble economy, and instead to focus on our core businesses. We proactively made investments in companies in China and other Asian countries to push ahead with development of the business foundation in Asia.



FY2001

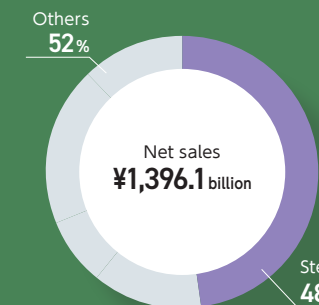
- 1994 ● Shuji Kita assumed the post of President
- 1995 ● Made capital participations in four steel processing centers in China
  - Established HANWA (KOREA) CO., LTD.
  - Made capital investments in DONGGUAN TETSUWA METALS CO., LTD. with processing functions
- 1996 ● Made capital investments in CHANG FU STAINLESS STEEL CENTER (SUZHOU) CO., LTD. as a steel sheet processing center
- 1997 ● Started business of synthetic lubricant ingredient PAO with a major U.S. chemicals company
  - Supplied the entire volume of steel bars weighing 26,000 tons for Osaka Dome
  - Started trading solar battery materials (silicon scrap)
  - Started offering household items and general goods for 100 yen shops in Japan and overseas
  - Started sales and leasing of cutting machines and industrial laser processing machines for automobiles
- 1998 ● Started in-house production of DCC (decoded can chip)
  - Implemented Japan's first project to export a whole park to Asia and Europe
- 1999 ● Trading of laminated lumber from China to Japan increased
- 2000 ● Acquired exclusive sales rights in Japan, Taiwan, South Korea, and China from a major European nickel company
- 2001 ● Established a joint venture, WUHAN FUBOHE AUTO PARTS CO., LTD. (production of fabrics for car seats) in China
  - Developed suppliers for ferroalloy in various countries



Giant Ferris wheel lit up during night time (In SPACE WORLD)

## Period of restored growth 2002-2010

We made a recovery from the loss through the withdrawal from zai-tech in the previous period and adopted an "assertive management" approach. We established more offices in Japan and overseas, including the establishment of Hanwa Steel Service, and promoted a growth strategy by entering the chromium business in South Africa.



FY2010

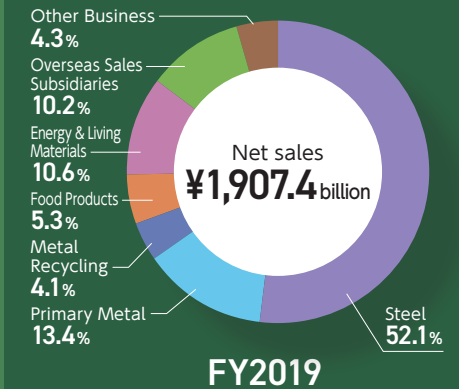
- 2002 ● Established our own coil center Hanwa Steel Service Ltd.
  - Established HANWA STEEL SERVICE (THAILAND) CO., LTD. in Thailand, our own first coil center outside Japan
  - Participated in the chromium business in South Africa
  - Expanded sales of Foam Factory, initially delivered to HUIS TEN BOSCH, throughout Japan
  - Supplied crushing facilities and dust collector and odorizer equipment for garbage transfer stations
  - Started exporting North American logs to China
- 2003 ● Delivered three amusement machines to LaQua at Tokyo Dome City
- 2004 ● Took Japan's first order for detoxifying the contaminated site in a demolition work of a waste incineration plant
  - Captured a large market share among Japanese trading companies in exporting heavy oil to China
  - Sales of bunker fuel oil expanded in Asia
  - Delivered Japan's largest Christmas tree to USJ
- 2005 ● Established our own coil center (HANWA STEEL SERVICE (DONGGUAN) CO., LTD.) in China
  - Acquired exclusive sales rights of ferrochrome for Japan from SAMANCOR CHROME HOLDINGS PROPRIETARY LTD. in South Africa
- 2006 ● Established a shrimp sales company in Seattle, the U.S.
  - Started exporting wood feedstock and cedar products to the U.S., China, and Middle East



Operations in a ferrochrome manufacturing plant

## Period of great strides 2011-

In Japan, through "M&A plus A (alliances)" strategy, we have advanced acquisition of business rights of and made investments in middle-ranking and small- to medium-sized companies with the functions of "SOKOKA" (Just-In-Time delivery, small lot, processing). Overseas, we, under the slogan of "Another Hanwa in Southeast Asia," reinforced the network and made strategic investments in a bid to acquire profits in the future.

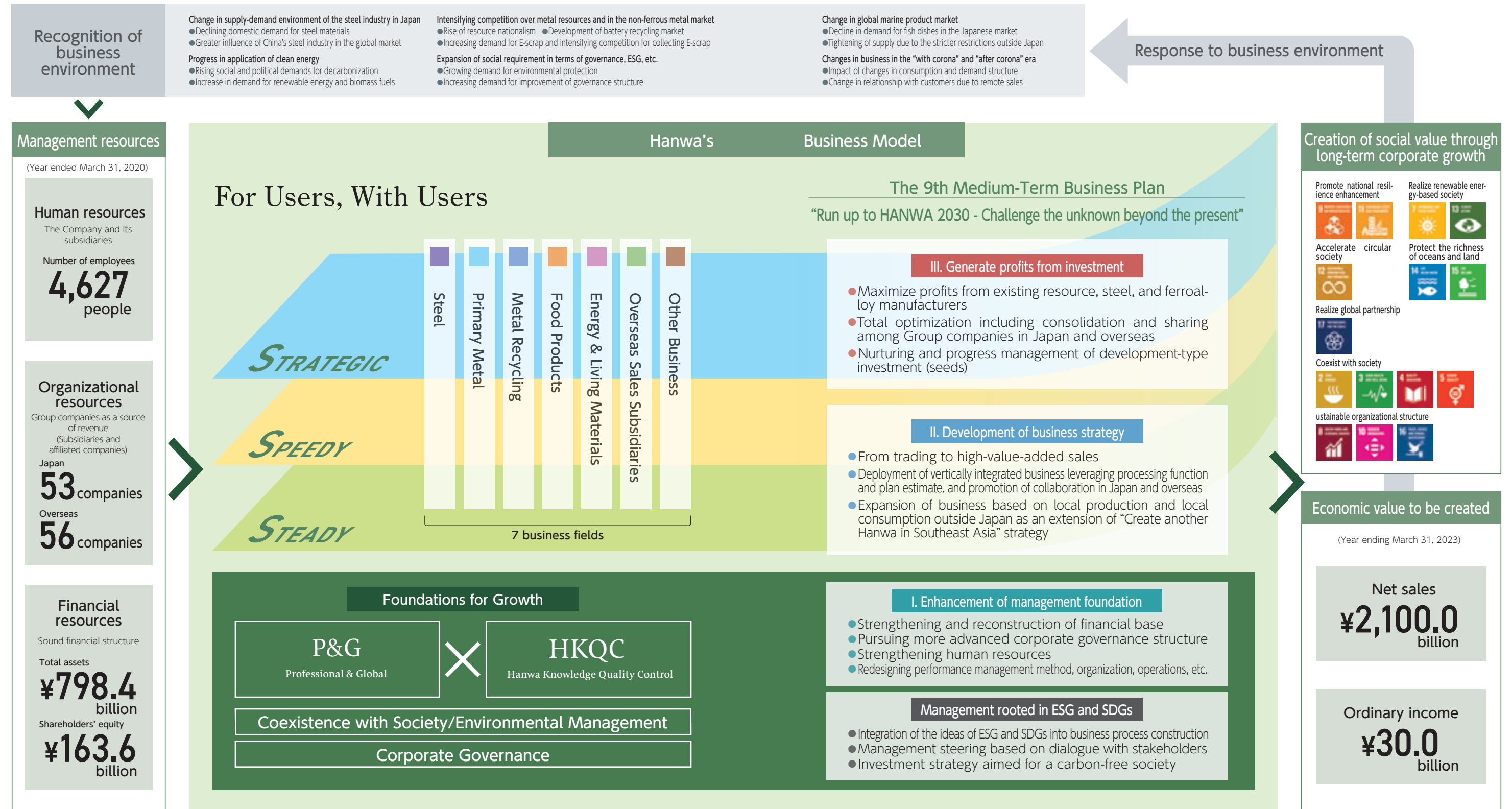


FY2019

- 2011 ● Hironari Furukawa assumed the post of President
  - Established Hanwa Metals Co., Ltd., which collects and sells stainless steel scrap
- 2012 ● Established our own coil center HANWA STEEL SERVICE MEXICANA S.A. DE C.V. in Mexico
  - Established Hanwa Foods Co., Ltd., which manufactures and sells processed marine products
- 2013 ● Made capital investments in PT. HANWA ROYAL METALS, which operates non-ferrous metal recycling business
- 2014 ● 60-story ABENO HARUKAS, for which we delivered steel materials and received an order for steel frame works, opened for business
  - Established a joint venture in Indonesia in response to the country's ban on exports of nickel ore
- 2016 ● Delivered 15 new attractions to Goodjob!! in YOMIURI LAND
  - Designed, produced, and constructed Japan's largest Ferris wheel REDHORSE OSAKA WHEEL at EXPOCITY, Osaka
- 2017 ● Signed a business alliance agreement with SIAM BIOMASS PRODUCT LTD. of Thailand for long-term supply of wood pellet
  - Established a joint venture in Vietnam, and started manufacturing and sales of polyethylene products (plastic bags, etc.)
  - Established Kita-Kanto Steel Center and introduced three-dimensional laser processing equipment (FABRI GEAR)
  - Made capital investments in Bacanora Minerals Ltd., a Canadian company that produces high-purity lithium carbonate in Mexico
  - Made joint capital investments with JOGMEC in Japan South Africa Chrome Company Limited, which has invested in SAMANCOR
- 2018 ● Took over the thermal-insulation construction business from Bridgestone Diversified Products Japan Co., Ltd.
  - Made capital investments in a manufacturer of nickel-cobalt compound for lithium-ion batteries
  - Introduced two new attractions for Tokyo Dome City
  - Delivered Japan's largest hoist-type bridge crane at Rinkai Base
- 2019 ● Acquired a license to process metal scrap materials in Thailand
  - Jointly established a comprehensive steel processing center with Daming International Holdings Co., Ltd. of China
  - MIDORI, a biomass fuel ship, began operations
  - Delivered a new attraction to Fuji-Q Highland

# Value Creation Process

We have been growing with the policy "For Users, With Users" for over 70 years. We continue to improve our corporate value over the medium to long term, aiming for sustainable growth of the Company and society by investing an array of capital, carrying out business activities while using our strengths, and providing the value that we have gained to all of our stakeholders.





# Our Message

We aim to pursue the sustainable development of business and society with new values and global foresight that are indispensable for surviving the time of post-COVID-19.

## Hironari Furukawa

Representative Director and President



### Leading the future society brought forward by COVID-19

Following the Eighth Medium-Term Business Plan (FY2016 to FY2019), the new Ninth Medium-Term Business Plan started in this fiscal year.

Just when we embarked on this new journey, the COVID-19 pandemic had brought a strong impact on the global economy. It stopped the flow of people and goods in Japan and abroad, threw cities in unimaginable lockdown, and caused unprecedented social conditions that would go down in history.

It was definitely a difficult time, but various measures we conducted under the Eighth Medium-Term Business Plan have strongly supported our business. One good example is the solid support provided by our IT division.

IT has been our key investment area over the past three years. We transferred a general manager of a sales department to the Information Systems Department to build an internal system optimized for practical business operation. We had also started promoting work-from-home arrangements for 1,000 employees before the COVID-19 outbreak, so we could swiftly shift to teleworking when the Japanese government issued the declaration of the state of emergency. Recently, I myself attended the Board of Directors meeting from home, and it went smoothly without feeling a sense of discomfort. Staff of our domestic offices used to regularly travel to Tokyo to attend meetings, but now they do not have to do so. We are also comfortably communicating with overseas staff and customers using remote tools.

In addition to work-from-home and staggered working hours arrangements, we have also introduced RPA\*. Initiatives to automate routine tasks have also helped us respond to the rapid changes brought by the COVID-19 pandemic. Based on the recognition that humans cannot escape making mistakes, we have built a system that handles simple tasks on behalf of humans. I believe this enabled us to smoothly shift to teleworking and the continued operation without experiencing troubles.

We never imagined such situation would occur, but it was fortunate that the IT investment in the past contributed to our Business Continuity Plan. While there is no telling how the world of post-COVID-19 would go, it could be said that the crisis has brought us opportunities to prove the effectiveness of our initiatives over the past few years.

Read the trend of the times, swiftly make proactive investments in what we deem important, and take an action. This is the ability we have cultivated over years to survive as an independent trading company, not affiliated with conglomerates or manufacturers.

\* RPA: Robotic Process Automation. RPA is a mechanism that automates and streamlines routine clerical work using software robots. It can digitalize information without human intervention, eliminating human errors in clerical work.

### Abundance brought by the ability to grow laterally

Looking at the drastically changing society due to the influence of COVID-19, I come to realize that we are witnessing Japanese society and economy that we would have seen after five or ten years the outbreak happened. In other words, the virus is showing us our future like a mirror.

Japan has been experiencing a population decline. It's not too much to say that our social system itself is facing serious problems including delay in digitalization. After the bursting of the bubble economy, Japanese society entered a maturity stage. Over the years of continued low-growth, industries in various fields have lost their international competitiveness.

Hanwa has been in the steel business since our foundation in 1946, but as with our peers, we are also facing the challenge of low-growth economy.

Japan's annual crude steel production has been around 100 million tons for these few years, but this year, it is expected to go down to around 80 million tons. The downward trend was seen even before the COVID-19 pandemic and there is no sign of recovery. The annual crude steel production is predicted to fall to around 60 million tons five years later. Due to the declining birthrate and aging population, demand in Japan is weak. As for the export, we are having an uphill battle with competitors in China, the country with a huge domestic market and the government promoting industrial investments. There would be no chance of Japan's annual crude steel production returning to the 100 million tons level again in the future. The question is what kind of Medium-Term Business Plan we are going to prepare under these circumstances. As the entire industry is shrinking, mere forecast for the future will oblige us to make a business plan that assumed a negative growth.

Nevertheless, we have predicted the current situation. Even in such a hard time, we have always aimed for growth and have made a solid preparation by analyzing severe social conditions. That is the Ninth Medium-Term Business Plan starting in 2020.

During the drafting process of the plan, I kept in mind a rather unusual Japanese term, *Mekizu*. *Mekizu* is a treatment that is performed when growing fruits such as grapes.

Trees, once taking root, try to grow upward because of "apical dominance," an inner mechanism that supplies nutrients drawn via roots preferentially to apical buds.

When a tree is young, we should grow it upward and make the trunk thick as the foundation. Once the trunk reaches to a certain size, however, the direction for branches to grow changes. We must grow many branches laterally to cultivate more fruits and increase yields. For this purpose, growers observe their trees' trunks carefully and slightly cut right above where buds are hiding (*Mekizu*). This disrupts apical dominance and new branches start growing laterally.

What I have in mind is to apply this practice to our company. For over 70 years, we have been carefully growing our tradition-



al source of revenue, the steel business. As a user-oriented trading company, we have been working hard for the customer satisfaction. We take pride in our exceptional sales capabilities. So, while our trunk has grown wide and large, the current social environment surrounding us suggests that this is not a time for simple upward growth. We should rather aim for diversification by growing branches and leaves laterally and generate new sources of revenue. Hanwa has just come to the point where Mekizu is required for its future growth.

The Ninth Medium-Term Business Plan proposes the second “SOKOKA” strategy as a way to expand the domestic steel business.

“SOKOKA” is an abbreviation of Japanese words for SOkuno [Just-In-Time delivery], KOguchi [small lot], and KAko [processing]. Under this catchphrase, we have built a system for Just-In-Time delivery, expanded small-lot sales, and thoroughly enhanced high value added processing to meet various needs of customers, as a way to expand our business with middle-ranking and small-to medium-sized companies.

During the process, “M&A plus A (Alliance)” strategy has played an important role. By acquiring middle-ranking and small to medium-sized companies with an edge in steel and metal processing or small-lot logistics (M&A), or partnering with outstanding companies nationwide (plus A) to improve “SOKOKA” functions, we have become able to engage in transactions that used to be difficult for time or cost reasons.

The first “SOKOKA” strategy started in FY2012, and over the four years under the Eighth Medium-Term Business Plan, we acquired 2,700 new users. In the second “SOKOKA” strategy that starts this fiscal year, we plan to expand activities nationwide, not only in west-

ern Japan but also in eastern Japan. We will also continue the effort to consolidate and share the Group companies’ locations and back office functions to improve efficiency.

In Japan, there are many business owners who are deeply concerned about their future due to the effect of the COVID-19 outbreak or sudden changes in the business environment. We want to deepen our M&A plus A (Alliance) to overcome the crisis and move forward with these business owners.

**The road to expanding the “SOKOKA” strategy in Southeast Asia and a bold investment in resources**

The overseas business, another pillar of our business strategy, will increase its presence in coming years.

Under the catchphrase of “Create another Hanwa in Southeast Asia,” we will continue and expand our plan to transplant the “SOKOKA” strategy to other countries including ASEAN nations, taking over the Eighth Medium-Term Business Plan.

In countries where living standards have improved as a result of economic development (e.g., Thailand, Indonesia, Singapore, Vietnam, Malaysia, the Philippines, Myanmar), demand for business based on local production and local consumption with higher quality and greater technical services is growing.

To meet the demand, we are expanding our business through alliances with local companies and joint ventures with global partners including Japanese enterprises. We are committed to developing businesses that can meet the needs of local people and contribute to the development of local economies.

For overseas investment, we have been deepening alliances and horizontal cooperation with Chinese companies that have been accelerating the entrance into the Southeast Asian markets. We have been involved in a nickel pig iron project on the island of Sulawesi, Indonesia, for about six years. This project is led by a Chinese company, Tsingshan Holding Group (Tsingshan), the world’s largest stainless steel producer. Our long-term investment has finally entered a harvesting period, contributing to earnings through transactions of nickel pig iron as well as stainless steel slabs and hot rolled coils. It has started paying dividends as well.

On the island of Sulawesi, we also made investment in PT Dexin Steel Indonesia (Dexin), a steel blast furnace mill. Dexin is building a blast furnace with an annual production capacity of 3.5 million tons. There is a plan to expand the capacity to 6 million tons. Dexin has also signed a letter of intent with the Government of Indonesia to raise the annual capacity to 20 million tons. On the sales front, we plan to meet the demand for substitutes for semi-finished steel now imported to Indonesia. We also aim to export part of the production. In this project, we will handle millions of tons of finished and semi-finished products and supply ferrous raw materials such as ferroalloys.

In October 2020, Japanese Prime Minister Yoshihide Suga pledged to cut greenhouse gas emissions in Japan to net zero by

2050 in his policy speech. The US, EU nations, and China are also aiming for decarbonization. Electric vehicles will no doubt be a main stream in near future. We are certainly living in the period of once-in-a-century revolution.

We have long been focusing on nickel, lithium, cobalt, and manganese, the cathode materials for rechargeable batteries that are critical to electric vehicles. They are important resources that are indispensable for the lives of people in Japan and around the world.

Based on this understanding, we made an investment in Indonesian company QMB NEW ENERGY MATERIALS, a full-scale producer of high purity nickel-cobalt compounds crucial for manufacturing rechargeable batteries. The new mill will start operations in 2022, and produce more than 150,000 tons of nickel sulfate and high purity nickel compounds (equivalent to 50,000 tons of pure nickel) per year. Together with other two partners, Tsingshan and CATL, the world’s largest automotive lithium-ion battery manufacturer, we plan to expand our presence and sales in the rechargeable battery market.

In Mexico, we are investing in BACANORA Lithium’s plant project to produce high-purity lithium carbonate for lithium-ion batteries. As lithium resources are expected to become harder to obtain in the future, an investment in such resources accords with the trend of the times. Once the plant starts operations in 2023, we aim to expand sales in Asia where the largest demand growth is expected, taking advantage of our geographical advantage.

At the same time, demand for renewable energies is also expected to rise to stop global warming. We are the No. 1 importer in Japan of PKS (palm kernel shell), plant-derived biofuels that are environmentally friendly. In the midst of the COVID-19 pandemic, we are increasing the import volume by signing, for example, long-term contracts with domestic biomass power plants.

**Leading a new era with global human resource**

The world is now undergoing massive transformations such as drastic change in environment including global warming and changes in industry structure. What should a president do in such a time of change? In my opinion, the answer is to foresee the trends in future and beyond.

At the big turning point as it is today, we are making decision on investments that require our full capacity to realize. In the worst case, we might experience serious pain, but we must continue investment for growth while avoiding crisis so that it won’t be an impact that cannot be recovered. During the four years under the Eighth Medium-Term Business Plan, we invested a total of ¥76.8 billion in projects including a massive investment in rare resources. While we largely met the sales target, we failed to achieve the ordinary income target due to the recognition of impairment loss concerning chromium producer SAMANCOR (South Africa) and others. But starting from this fiscal year, the initial year of the Ninth Medium-Term Business Plan, we are entering in a harvesting period where we will reap fruits of our past investments. Looking ahead the world



of post-COVID-19, the Ninth Medium-Term Business Plan presents a roadmap of mid- to long-term growth for coming three years and toward 2030 to achieve the ordinary income target of ¥50.0 billion.

To realize the growth, we must invest in human resource development. Under the banner of “Professional & Global,” we have been developing human resources that are fully equipped with specialized knowledge and can play an active role in the global market. When hiring new employees, we focus on whether candidates have some potential edges. Those who are clumsy and underpolished at first are likely to grow to human resources with a distinctive edge even after they become moderated and balanced over time.

Another our attempt to strengthen our human resources is to create a corporate university system. We aim to develop personnel who can inherit our DNA and respond to the change of the times.

As part of our CSR activities, we established the Hanwa Scholarship Foundation in 1957. We have so far supported more than 1,100 students under this program. Considering the disruption brought by the COVID-19 pandemic, we plan to enhance this program further. In 2015, we also established a grant-type scholarship program for students who wish to study abroad.

We are heading for an age where aspirational hard workers will flourish regardless of gender or nationality. With the expansion of business, the number of employees has increased by about 40 percent in the last decade. The percentage of women among career employees has increased as well. We are also constantly hiring several foreign nationals every year.

Viewing FY2020 as the inaugural year for developing people with a global mindset, we plan to promote a program to send high-performers of overseas offices, mainly Chinese employees, to our offices in Southeast Asia. Developing talented human resources with a global mindset regardless of their nationality is crucial to enhance our international competitiveness in the future.

Since the foundation, we have been working hard as a “distribution specialist” and expanding business as a “user-oriented trading company.” Going forward, to survive the globalized and increasingly complicated business environment, we aim to contribute to society by encouraging employees to pursue self-development and solve business challenges of customers as their best business partner.



# Review of the Eighth Medium-Term Business Plan

We formulate a medium-term business plan that shows the medium-term business policies, the point of its achievement, and the strategy and tactics for achieving them. In the Eighth Medium-Term Business Plan (FY2016-FY2019) formulated in 2016, we adopted the “Three S Commitment - STEADY, SPEEDY, STRATEGIC” and engaged in business activities.

## Outline

Theme	“Three S Commitment - STEADY, SPEEDY, STRATEGIC” - Build a medium- to long-term sustainable profit structure and a stronger management foundation -	
Basic policy	Taking over the concepts of the last Medium-Term Business Plan, we aim for sustainable growth based on the ideal state of business envisioned over the next decade. To this end, we aim to achieve STEADY growth from current business areas, realize SPEEDY generation of profits from Group companies and strategic investments, and accumulate earning capacity through the continuation of STRATEGIC investments with an eye toward the future.	
Growth strategy	<ul style="list-style-type: none"><li>● <b>STEADY</b> : Secure and increase earnings from current business areas<ul style="list-style-type: none"><li>● Eliminate the risk of losses in all business processes through HKQC (quality control using the Group's collective knowledge) activities.</li><li>● Increase cash flow generation capability by improving efficiency of purchase, inventory, sales and collection of payments</li></ul></li><li>● <b>SPEEDY</b> : Speed up the realization of benefits from investments in group companies and strategic investments in Japan and overseas<ul style="list-style-type: none"><li>● Enhance earnings power of the Group companies</li><li>● Secure prompt returns from current business investments that are performing well or have excellent prospects</li></ul></li></ul>	<ul style="list-style-type: none"><li>● <b>STRATEGIC</b> : Secure future sources of additional earnings by continuing strategic investments of about ¥50.0 billion over four years<ul style="list-style-type: none"><li>● Form flexible alliances through M&amp;As or strategic investments in small and mid-sized companies.</li><li>● Create opportunities for strategic investments in food products, petroleum and chemicals and lumber business segments.</li><li>● Make strategic investments in natural resources with distinctive characteristics.</li><li>● Make carefully targeted strategic investments in South-east Asia and North America.</li></ul></li></ul>

## Summary

Net sales fell short of the target in the final year of the plan due to a decline in market prices and a decline in demands, but were generally in line with our expectations.

In the planned period, we acquired 2,666 companies

as new customers, falling slightly short of the target, but the number of users have been increasing steadily every term, which we believe will contribute to future earnings.

[ Performance ] (Billions of yen)						
	FY2016	FY2017	FY2018	FY2019	Final year target	Achievement rate
Net Sales	1,514.0	1,791.1	2,074.6	1,907.4	2,000.0	95.4%
Ordinary Income	① STEADY	19.1	20.1	18.8	20.0	93.5%
	② SPEEDY	3.1	5.8	4.3	6.0	46.7%
	Subtotal	22.2	26.0	23.2	26.0	83.1%
	③ STRATEGIC	0.7	(0.6)	0.0	(34.6)	—
	Adjustment	0.0	0.0	0.0	0.4	—
Consolidated Ordinary Income	22.9	25.5	23.3	(12.5)	35.0	—
New customers (In total)	697	601	725	643	—	—
Investment Amount (In total)	11.2	29.1	17.0	19.5	—	—
		(40.3)	(57.3)	(76.8)	50.0	153.6%

### [ Review of the growth strategy (the three “S”) ]

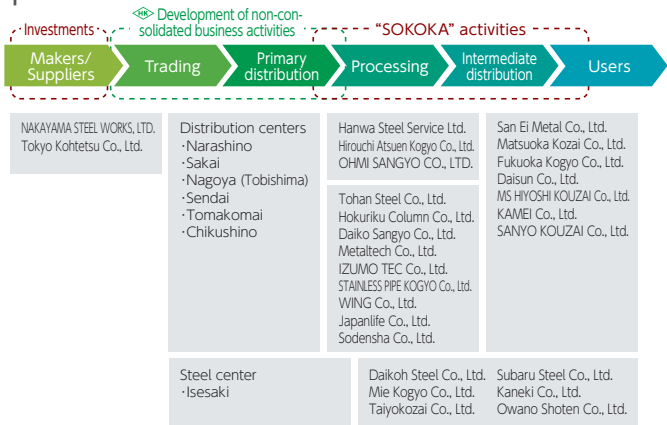
① STEADY	Until FY2017, our business progressed steadily due to an increase in profit margin amid an upward trend in the market in addition to an increase in our transaction volume aided by moderate growth in the domestic and overseas economic conditions. In the second half of the plan period, the steel market peaked out and profit margins shrank as purchase costs rose. Demand declined due to trade frictions between the U.S. and China and the completion of Olympic Games-related construction projects coupled with an increase in foreign currency procurement costs due to an increase in foreign currency-based transactions. Profits were generally in line with our expectations, but fell slightly short of our targets.
② SPEEDY	In the first half of the plan period, our business progressed steadily, mainly at domestic group companies. In the second half, however, earnings were pressed downward in overseas markets by dissipation of profit spreads at coil centers and foreign exchange losses caused by depreciation of local currencies at group companies. Subsequently, our domestic steel sales group companies also suffered a decline in profit due to the economic slow-down. There remained a sense of stagnation due to the effects of a decline in demand caused by the trade frictions between the U.S. and China.
③ STRATEGIC	Tsingshan Holding Group's project in Indonesia achieved results in line with expectations thanks partly to revenue contribution from transactions of products as well as dividend income. Meanwhile, SAMANCOR's earnings worsened due to the stagnation of the chromium market and stainless steel demand in the three years since the application of the equity method in FY2017. As a result, we were forced to write off impairment losses in the final year of the plan (FY2019).

## Priority measures and their results

### Priority measures 1 Strategy for growth of the value chain in Japan

As a domestic business strategy, we are promoting a “SOKOKA (Just-In-Time delivery, small lot sales, processing)” strategy to expand the functions required by the Company as a distribution specialist through the “M&A plus A” (Alliance) strategy. As a part of this, we have made capital participation in and alliances with small and mid-sized companies that have such functions and have been working to create a system that can respond to business areas that, until now, could not be addressed in terms of labor and cost.

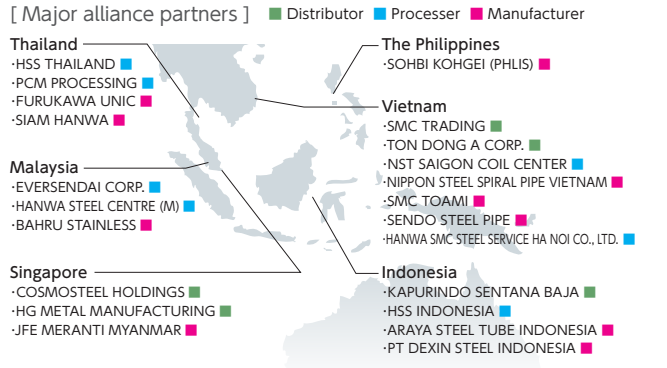
In the Eighth Medium-Term Business Plan, we made nine companies into our subsidiaries. We also established the Kita-Kanto Steel Center in Isesaki City, Gunma Prefecture. The center enhanced its processing functions to meet the processing needs of the surrounding area.



### Priority measures 2 “Create another Hanwa in Southeast Asia” strategy

For our overseas business, we are aiming to expand local transactions by reproducing functions represented by “SOKOKA” in ASEAN. Through alliances with leading local distributors and by promoting the entry into the markets together with other Japanese companies, we are striving to spread our business model in the ASEAN region.

Major alliance partners added during the Eighth Medium-Term Business Plan  
Vietnam: HANWA SMC STEEL SERVICE HA NOI CO., LTD.  
TON DONG A CORP.  
Malaysia: BAHRU STAINLESS  
Indonesia: PT DEXIN STEEL INDONESIA  
Myanmar: JFE MERANTI MYANMAR

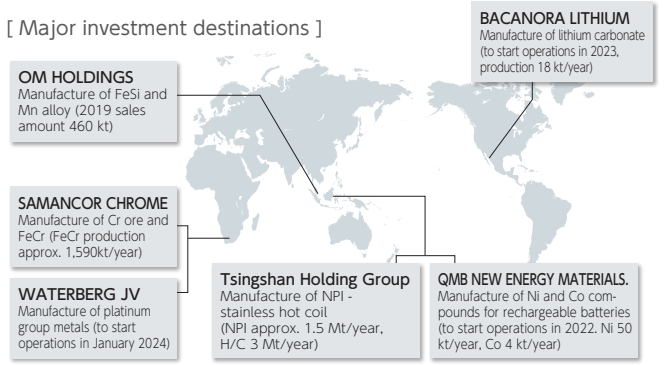


### Priority measures 3 Strategic investments

We are making strategic investments in metal resources such as chromium and nickel-cobalt compounds, which are essential for various industries but have small market sizes and China, the largest demand area, produces a small portion of them. We refer to this strategy as resource investment with distinctive characteristics.

In the Eighth Medium-Term Business Plan, we made investments in the following fields.

South Africa: chromium and platinum group metals (platinum, palladium, etc.)  
Indonesia: nickel, cobalt compounds  
Mexico: Lithium carbonate



### Priority measures 4 Business investments

Concerning investments to expand profits, we developed processing centers in Japan and overseas and actively converted small and mid-sized companies with functions into group companies through the “M&A plus A” strategy or made capital investments in them. Overseas, we positively made upfront investment for growth opportunities such as M&A of local companies and capital participation in them to enhance steel processing functions in the ASEAN region and China.

[ Investment (strategic and business investment) under the Eighth Medium-Term Business Plan ] (Billions of yen)		
Segment	Amount	Major investments
Steel	26.0	·Built and extended Kita-Kanto Steel Center ·Acquired subsidiaries ·Increased capital, etc.
Primary Metal, Metal Recycling	27.0	·Invested in chromium, platinum group metals, lithium carbonate, and manufacture of compounds for rechargeable batteries ·Established subsidiaries overseas, etc.
Food Products	0.7	·Invested in processed marine product processing
Energy & Living Materials (formerly Petroleum and Chemicals)	1.5	·Invested in new energy business fields
Overseas Sales Subsidiaries	20.3	·Increased capital of subsidiaries
Others	1.1	·Invested in the core system, etc.
Total	76.8	



# Overview of the Ninth Medium-Term Business Plan



We aim to strengthen our management foundation to achieve steady growth.

**Yoichi Nakagawa**

Chairperson of the Ninth Medium-Term Business Plan Planning Committee  
Director and Senior Managing Executive Officer

We have formulated the Ninth Medium-Term Business Plan for the period up to FY2022. Founded upon "Management rooted in ESG and SDGs," we aim to achieve the ordinary income target of ¥30.0 billion in FY2022 through three basic measures: "Enhancement of management foundation," "Development of business strategy," and "Generate profits from investment."

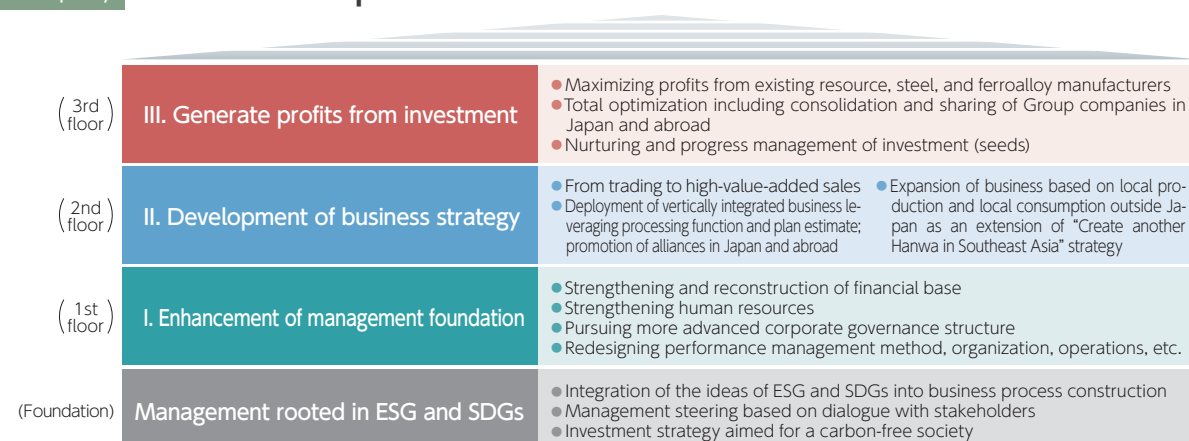
## Enhancement of corporate functions based on lessons from the year ended March 31, 2020

The Eighth Medium-Term Business Plan went smoothly during the first three years of the four-year plan period. However, in FY2019, the final year of the period, we recorded an ordinary loss as a result of impairment losses recognized for investments in SAMANCOR and others due to impacts from continued falls in resource prices driven by the US-China trade dispute and a sharp fall in the stock market caused by risk-off sentiment in the financial market triggered by the COVID-19 pandemic.

We took this as a lesson, and determined to enhance administrative functions that support the Group's future growth, in particular the financial base, for the Ninth Medium-Term Business Plan that covers the three years from FY2020. The new plan aims to achieve a long-term business growth while solving domestic and external issues that have become apparent following the unprecedented crisis of the COVID-19 outbreak.

The theme for the Ninth Medium-Term Business Plan is "Run up to HANWA 2030 - Challenge the unknown beyond the present." We have likened the whole picture to a building: the foundation is "Management rooted in ESG and SDGs," the first floor is "Enhancement of management foundation," the second floor is "Development of business strategy," and the third floor is "Generate profits from investment." We also set the long-term goals for FY2030: achieving an ordinary income of ¥50.0 billion and acquiring an A credit rating. Based on these goals, we envisioned the way the Group should be. While the previous business plans up to the Eighth plan focused on the growth and expansion of our businesses, we will strive for a long-term growth in the Ninth plan by improving both the profitability and financial position, reaffirming the importance of restructuring a solid business foundation.

Basic policy Theme: "Run up to HANWA 2030 - Challenge the unknown beyond the present"



## Enhancement of management foundation that supports medium- to long-term business growth

The first basic measure, "Enhancement of management foundation," consists of four focus items: "Strengthening financial base," "Pursuing more advanced corporate governance structure," "Strengthening human resources," and "Redesigning performance management method, organization, operations, etc."

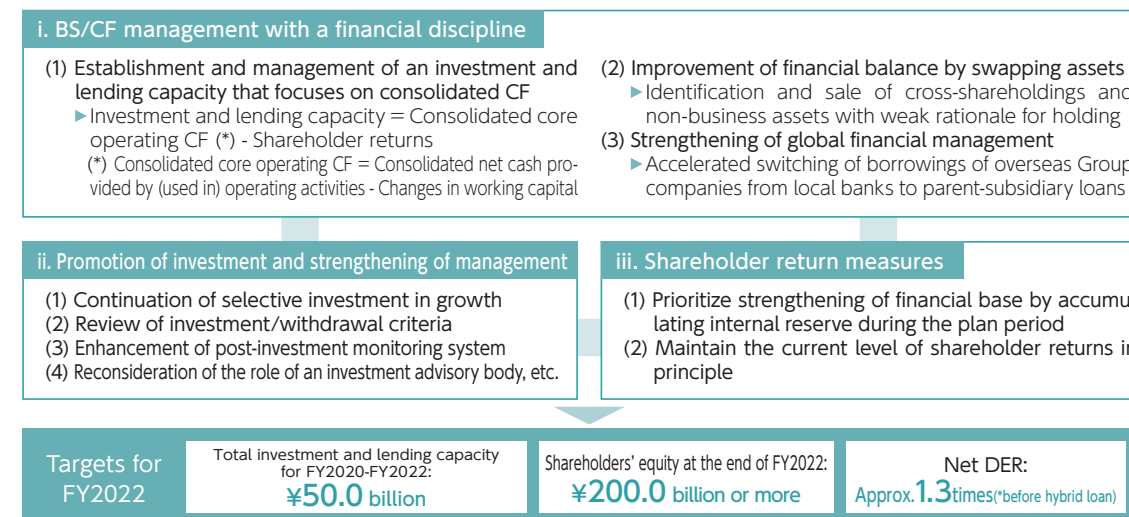
### Strengthening financial base

In the first focus item, "Strengthening financial base," our goal is to operate with a financial discipline that prioritizes cash flows and optimizes our balance sheet and capital structure. With the target of achieving ¥200.0 billion or more of shareholders' equity by the end of FY2022, we will increase capital by accumulating profits to strengthen our financial base. We will continue the assessment of cross-shareholdings and non-business assets based on our own criteria without being affected by trends. We also aim to improve capital efficiency and reduce interest-bearing liabilities by switching borrowings of overseas Group companies from local banks to parent-subsidiary loans from headquarters.

We have set an investment and lending capacity for this plan period at ¥50.0 billion, the same level as the previous period, and we will actively invest in projects that would sow seeds for future growth. At the same time, we will prevent situations that could result in the recognition of impairment losses or other

negative outcomes from occurring by reviewing the composition of the Investment Examination Committee, a gatekeeper of sound investment, to identify and narrow down new projects with high growth potentials and strengthening the post-investment monitoring system to sophisticate our profit management.

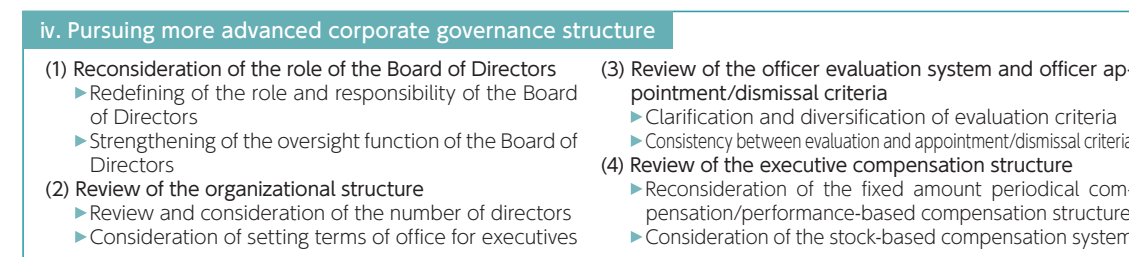
For shareholder returns, we will basically maintain the current level during this plan period in order to prioritize strengthening of financial base and securing of resources for investments that will sow seeds for future growth. Aiming to achieve the ordinary income target of ¥30.0 billion, we will meet the expectations of shareholders while increasing our corporate value and pursuing Hanwa's growth strategy by preferentially pouring profits from operations to establishing a solid financial base and to investments that will sow seeds of growth. We ask our shareholders for their continued understanding and support from a medium- to long-term view on our endeavors.



### Pursuing more advanced corporate governance structure

For the second focus item, "Pursuing more advanced corporate governance structure," the agenda includes the operation of the Board of Directors, executive compensation review, and division of roles between the Board of Directors and the Management Committee. In particular, we will

redefine the roles and responsibilities of the Board of Directors and Management Committee and upgrade the governance structure to utilize opinions and suggestions of Outside Directors, who have been added to the Board, in our management policies and strategies even more actively.





## Overview of the Ninth Medium-Term Business Plan



### Strengthening human resources

As a trading company, our Group's strength lies in the skills and knowledge of each employee. Traditionally, on-the-job training, or OJT, has been our main tool for training employees. In OJT, experienced employees work with new hires to pass on various job skills, know-how, and knowledge. Although this type of OJT is important as a matter of course, now that our Group has grown to become a business group of a certain size, we are facing the need to develop solution sales talents and management talents that have been drawing attention recently.

To meet this need, we plan to increase the budget for systematic human resource training to help employees acquire necessary knowledge and skills, while introducing new training plans for young employees, establishing pro-

grams to diversify the utilization of human resources, and improving the efficiency and sophistication of traditional employee education programs. We will proceed with considering these plans under the concept of "Hanwa Business School." These efforts to strengthen human resources do not bear fruit right away, but are indispensable for the medium- to long-term growth of the Group.

We also started hiring people not only in Japan but also in overseas business operation areas, mainly in China. In Head Offices in Japan, we have already been actively hiring people from other countries including China, and launched efforts to develop and foster these foreign employees by assigning them to our overseas operating bases.

#### v. Strengthening human resources

- (1) Development of solution sales talents and management talents
  - ▶ Systematic training on knowledge and skills necessary for corporate management
  - ▶ Introduction of "Musha Shugyo Plan" for young employees (including temporary transfer to other group companies or business partners); consideration of diversifying the utilization of human resources
- (2) Development of "Professional & Global" talents
  - ▶ Establishment of a corporate university program (Hanwa Business School)
  - ▶ Introduction of a credit system based on job groups and work responsibilities
  - ▶ Significant increase in training budget (Inaugural year for developing global talents; expansion of upskilling training)
- (3) Human resource assessment
  - ▶ Consideration of appropriate personnel assignment based on 360-degree (multiphase) evaluation and objective evaluation utilizing statistical data
  - ▶ Consideration of introducing external qualifications as a requirement for promotion
- (4) Diversification of human resources
  - ▶ Active hiring of foreign nationals in Head Offices; increase in the number of women promoted to managerial positions
  - ▶ Utilization and development of local staff in overseas offices in other locations including Head Offices
  - ▶ Provision of various work opportunities for employees after mandatory retirement age under new personnel system for senior employees

Targets for  
FY2022

Corporate university program  
Establishment of Hanwa Business School

Significant increase in training budget  
3 times compared with prior years

### Redesigning performance management method, organization, and operations

A core system that can timely capture various management indicators is indispensable for managing our business performance. The Group is proceeding with the introduction of a new core system called "System for Hanwa to Innovating Finance & Trading (Shift)," with the goal of launching its operation in FY2022. Using the new core system as a foundation for digital transformation (DX), we will aggressively promote the improvement of our performance management method, upgrade organizations, and standard-

ize and improve the efficiency of our operations.

In addition, while online meeting systems gained attention due to the spread of COVID-19, we had been already introducing the systems as we promoted the diversification of workplaces including the introduction of work-from-home arrangements, even before such systems attracted attention. Owing to such efforts, we could address the impact of the COVID-19 pandemic by just expanding existing initiatives without adding new budget.

#### vi: Redesigning performance management method, organization, and operations

- (1) Upgrade of the performance management method and organization
  - ▶ Review and reform of the management accounting system
  - ▶ Introduction of performance management and evaluation systems that focus on BS/CF as well as PL management
  - ▶ Group-wide profit and loss management
  - ▶ Enhancement of budget management and strategic and efficient organizational transformation based on integration into planning and administrative sections in administrative departments
- (2) Introduction of a new core system (Shift)
  - ▶ Contribution to the redesigning of operations and organization as a foundation for DX
  - ▶ Standardization of operations by shifting from work procedures dependent on individual expertise to unified system flow
- (3) Work style reform
  - ▶ Diversification of work styles and workplaces
  - ▶ Enhancement of IT infrastructure and promotion of projects to reduce paper usage
  - ▶ Productivity improvement through streamlining of business process flows and use of digital tools

Targets for  
FY2022

New management accounting system  
Launch in FY2021

New core system "System for Hanwa to Innovating Finance & Trading"  
Launch in FY2022

## Growth strategies by business segment and generation of profits from investment

### Development of business strategy

In this section, we will explain our growth strategies by business segment, which comprise the second floor of our basic policy.

For the domestic steel business, we will focus on the business style of working hard to earn profit, which is the DNA of Hanwa, as we continue to shift from trading to high value added sales. In particular, we plan to actively expand our vertically-integrated business leveraging processing functions and plan estimate, promote technology investment in machine and equipment, and reform distribution functions. We will also expand the "SOKOKA" strategy that has been previously promoted mainly in western Japan nationwide, promote the sharing of operational bases and back office functions within Group companies, and improve profit margins and capital efficiency. As for the overseas markets, alliances with strategic partners formed over the years up to the Eighth Medium-Term Plan are finally sprouting. We will strengthen alliances with companies such as Tsingshan, Delong Steel, and Daming Group, and expand the business model based on local production and local consumption. We will also work on the review of organizations in the Americas and Europe to promote the global group management and achieve the global steel transaction volume target of 15 million tons (simple sum of consolidated companies).

For the primary metal business, we have established a system to export metals including chromium and manganese to foreign markets including China and Indonesia, the largest demand areas, and entered the phase of generating profits from past investment. We will also focus on battery materials including lithium from BACANORA and nickel and cobalt from QMB. Demand for these metals is expected to grow as the electric vehicle market expands. Looking further, as part of the ESG management, we will also work on the recycling of battery materials for which the demand is expected to surge in the future. Accumulating know-how for collecting scraps to be recycled is one of the key factors to succeed in the recycling business. We will apply the accumulated know-how to battery materials to accelerate our preparation for early commercialization. In the food products business, we will work on the global expansion of our sales network and the enhancement of domestic processing functions, just like the "SOKOKA" strategy for the steel business. In the energy & living materials business, we are purchasing biomass fuels in countries such as Indonesia and shipping them to Japan as a measure to respond to the ongoing energy shift.

Through these initiatives, we aim to acquire 5,000 new users worldwide across all business segments during this plan period.

#### i. Domestic steel business

- (1) From trading to high-value-added sales
  - ▶ Active deployment of vertically integrated business leveraging processing function and plan estimate
  - ▶ Aggressive technology investment in machinery and equipment
  - ▶ Distribution function reform through the reconstruction of core distribution, small-lot logistics, and way-station strategy
- (2) The second "SOKOKA" strategy
  - ▶ Nationwide expansion including eastern Japan (\*four companies since FY2010) of the first "SOKOKA" strategy which was promoted mainly in western Japan (\*23 companies since FY2010)
  - ▶ Sharing of operational bases and back office functions of the "SOKOKA" group companies

Targets for  
FY2022

Promotion of high-value-added sales:  
Use of processing function and plan estimate;  
distribution reform

The second "SOKOKA" strategy:  
Development of the eastern Japan market;  
increase in efficiency of Group companies

#### ii. Overseas steel business

- (1) Expansion of business based on local production and local consumption; strategic export of Japan-made materials
  - ▶ Shift from the business model of exporting general purpose products to the business based on local production and local consumption
  - ▶ Strategic export expansion of high performance, high value added Japan-made materials
  - ▶ Transplantation of successful domestic business models to foreign markets including ASEAN and China
  - ▶ Identification and in-depth analysis of local needs by assigning domestic personnel to overseas offices
- (2) Promotion of alliances with strategic partners and gradual horizontal cooperation
  - ▶ Further strengthening of alliances with companies such as Tsingshan, Delong Steel, and Daming Group
- (3) Promotion of global group management
  - ▶ Management of global steel transaction volume, etc.
  - ▶ Review of organizations in the Americas and Europe, etc.

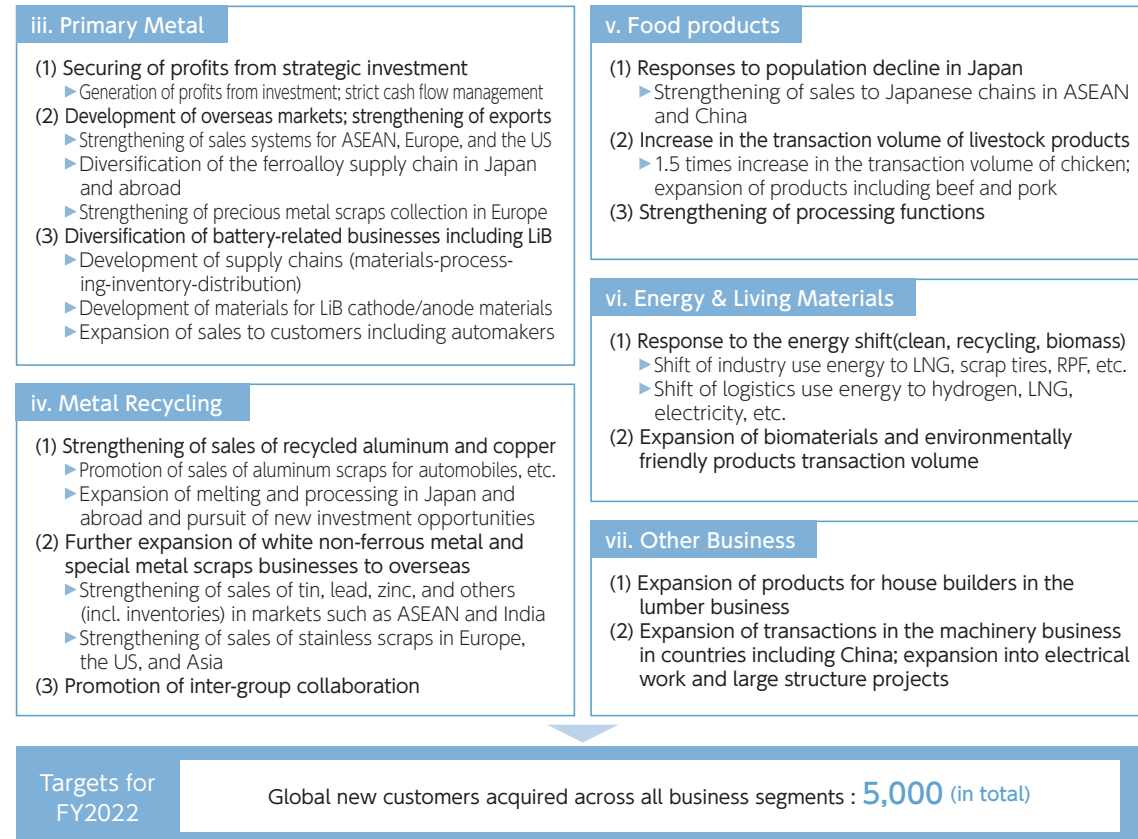
Targets for  
FY2022

Global steel transaction volume:  
15Mt (simple sum)

Global partnership:  
Strengthening and promotion of alliances

## Overview of the Ninth Medium-Term Business Plan

"Run up to HANWA 2030  
- Challenge the unknown beyond the present"

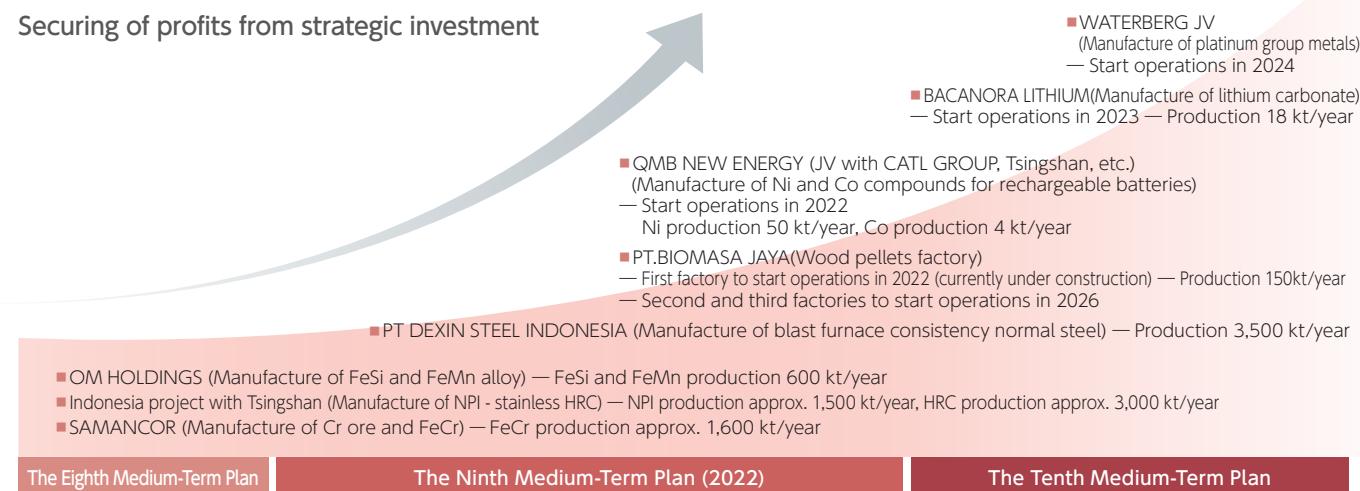


### Generate profits from investment

On the third floor, "Generate profits from investment," we have prepared a time frame in which the seeds sown by investment projects up to the Eighth Medium-Term Plan will sprout, grow, and enter a harvesting period. While some projects have already started and generated profits within the Eighth plan period, there are projects that have not yet generated profits in the Ninth plan period and require long-term efforts.

This time frame, however, is not immune to the spread of COVID-19. In a steel production project in Indonesia with Chinese partners, blast furnace construction work was delayed due to the global mobility restrictions to prevent the spread of infections. These unexpected crises could delay the timing of profit generation, but looking from a long-term perspective up to the Tenth Medium-Term Plan, we believe the delay can be fully recovered.

### Securing of profits from strategic investment



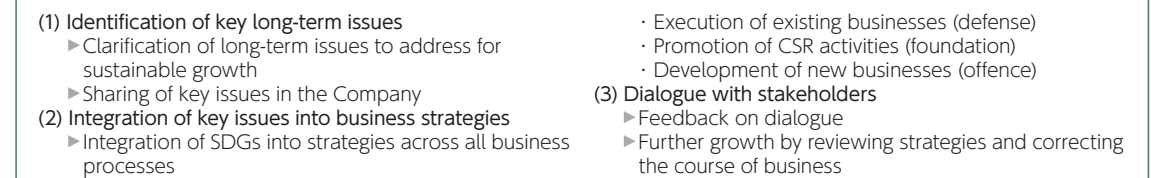
## Sustainable growth and development through "Hanwa circular supply chain management"

"Hanwa circular supply chain management" is a management system that reorganized and reframed our business activities from the perspectives of ESG and SDGs.

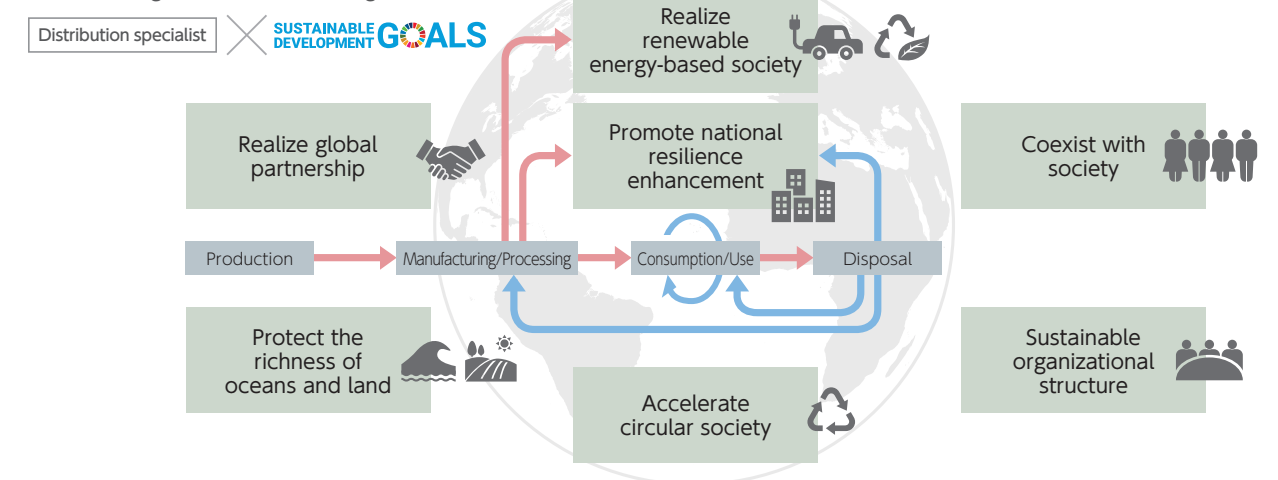
Seen from a broader perspective, we are contributing to the realization of a circular society by engaging in scrap and waste recycling business as a distributor, enhancing national resilience through construction materials, and expanding sales of renewable

energies.

This circular supply chain management system starts from Production to Manufacturing/Processing, to Consumption/Use, and to Disposal, and after recycling, goes back to Manufacturing/Processing. Going forward, we aim to further sophisticate this system to achieve sustainable growth and coexistence with environment and society while engaging in dialogues with stakeholders.



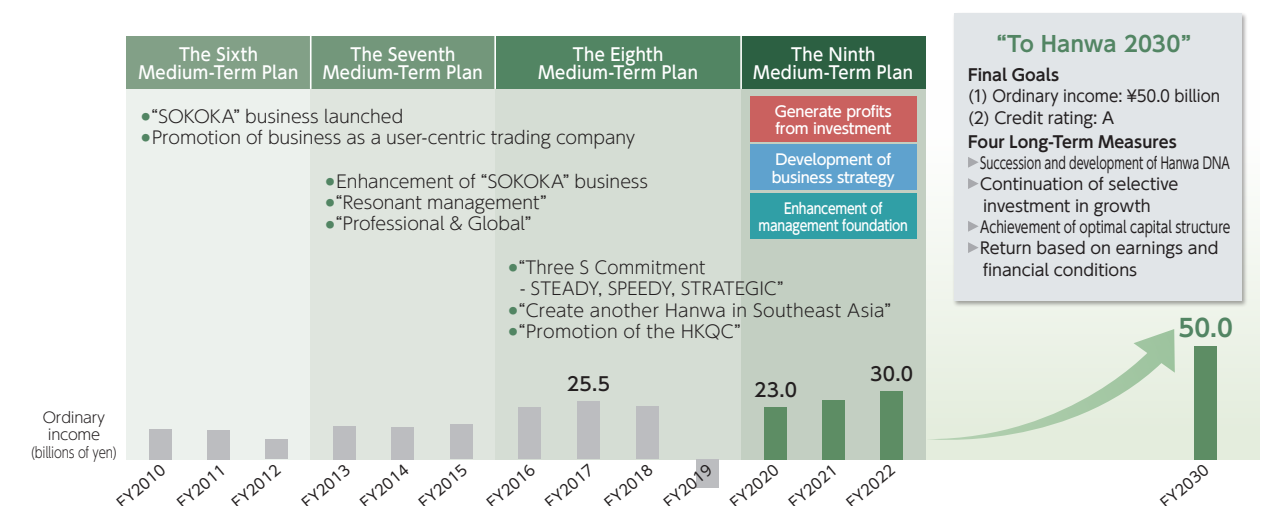
### Our challenge to new SDGs-integrated businesses



### Our vision for 2030

To adapt to the ever-changing international and economic situations, increasingly severe industry environment, and complicated environmental and social issues, and to achieve a further leap forward, we

need to strike a balance between the improvement of profitability and enhancement of corporate capability. We will continue our challenge with a long-term perspective to realize a better future.





# Basic Stance for Sustainability

## Basic Stance for Sustainability

Coping with changes of the times and the market quickly, we, as a “distribution specialist,” aspire to make a broad contribution to society by satisfying various needs of customers. Under this corporate philosophy, our mission is to contribute to sustainable development of international and local societies through our business.

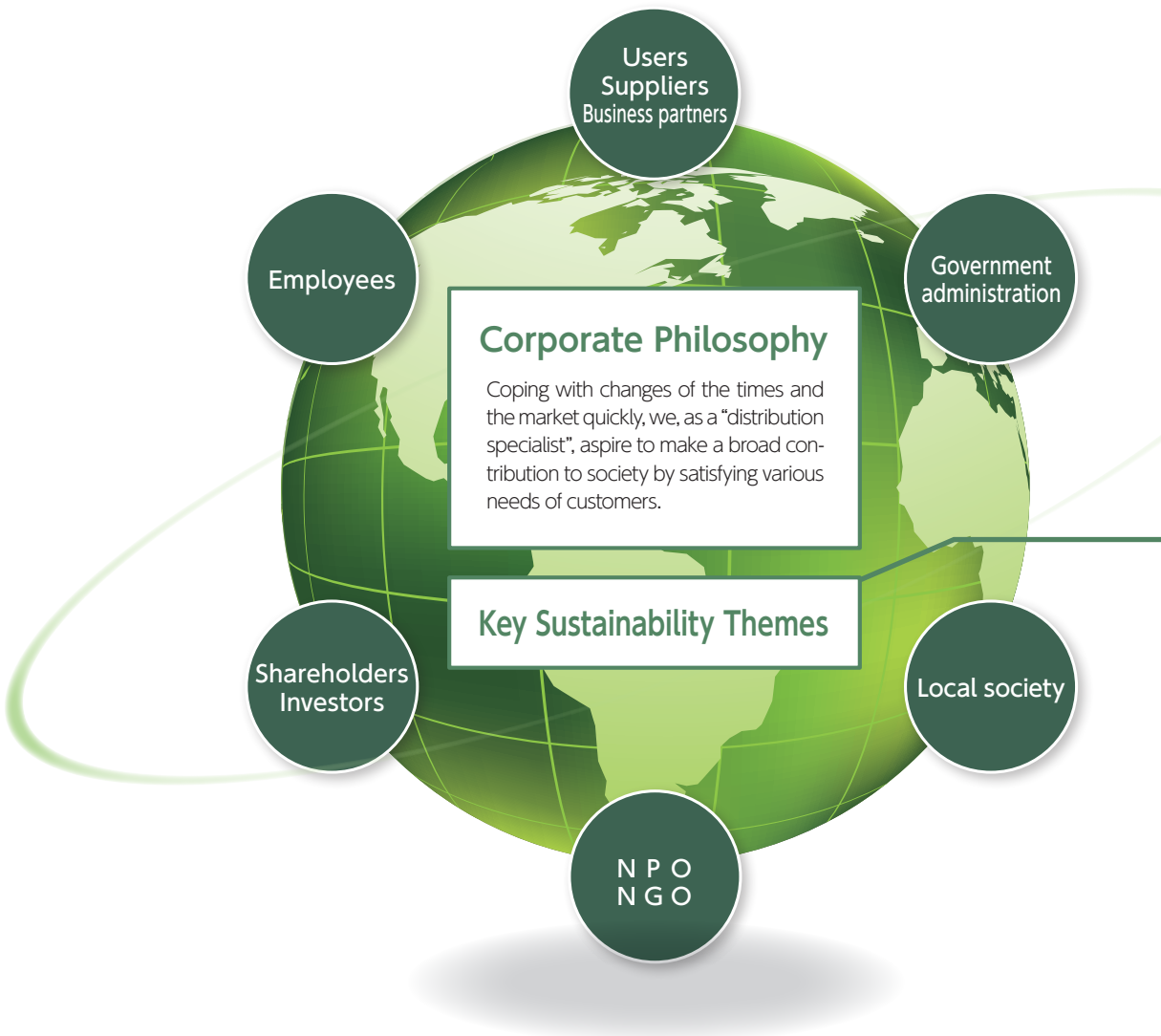
To this end, as the world faces environmental issues such

as global warming and environmental pollution caused by waste as well as social issues including poverty and human rights infringement, we need to respond to the expectations of diverse stakeholders through promotion of various business activities fully conscious of E (environment), S (social), and G (governance), which we believe would improve our corporate value and lead to sustainable growth.

## Key Sustainability Themes

We hold up, as key sustainability themes, six basic ideas including thorough legal compliance, environmental considerations, and good corporate citizenship that share values with the philosophy of the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015.

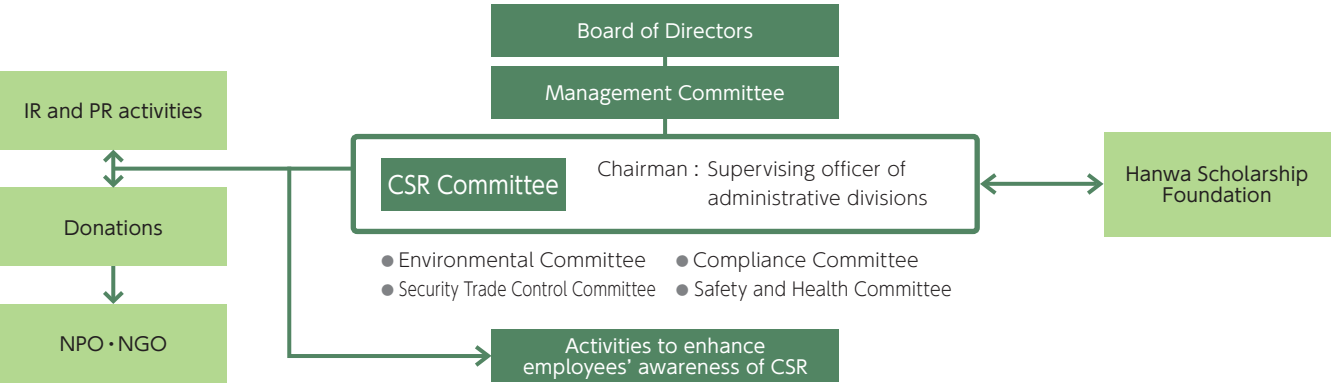
Under these themes, as a globally operating trading company, we will sincerely respond to the issues faced by the world and contribute to the realization of a sustainable society.



## Sustainability Promotion System

We established the CSR Committee and conduct activities to fulfill our corporate social responsibility. We have also formulated “Environmental Policy” and “Guidelines for Environmental Corporate Action,” have acquired ISO 14001 certification, and promote an environ-

mental management program, where internal committee members and outside experts conduct regular reviews. We engage in cross-organizational operations across the Compliance Committee, Environmental Committee, and the Hanwa Scholarship Program.



<b>Key Theme 1</b>	<b>Transparent management, proactive disclosure</b>	We aim to establish a high degree of transparency in management systems through proactive disclosure to fulfill our social responsibilities as a good corporate citizen so that we can gain and retain respect from our stakeholders and be recognized as a valuable enterprise.
	P.29	
<b>Key Theme 2</b>	<b>Thorough legal compliance</b>	We believe it is indispensable for realization of our sustainable growth that each employee acts with high ethical standards and in accordance with social consciousness and social rules. To this end, we are working to ensure compliance in daily business activities of all officers and employees and foster a liberal and open-minded corporate culture with high ethical standards.
	P.36	
<b>Key Theme 3</b>	<b>Workplaces geared to employee self-realization</b>	Based on the beliefs, “trading companies have to cherish its human resource” and “the prosperity of a company and the welfare of employees are inseparable like the two halves of the whole,” we look at employee health management from a business perspective and strive to enhance the health of employees and their family members. We will also promote the development of environment and human resource that would enable all employees to play an active role.
    	P.37	
<b>Key Theme 4</b>	<b>Environmental considerations</b>	The basic policy of the Hanwa Environmental Policy is that the Company strives “to realize sustainable development to pass on a rich global environment to the next generation,” and each and every employee is engaged in their work based on this policy.
    	P.41	
<b>Key Theme 5</b>	<b>Good corporate citizenship</b>	We conduct a variety of activities as “a corporation which responds to the expectations of society” and as good corporate citizens, to contribute broadly to the international community and local community.
  	P.46	
<b>Key Theme 6</b>	<b>Maintaining financial soundness</b>	We believe that it is important to strengthen financial discipline and optimize capital structure alongside making investment necessary to achieve sustainable growth.
		

# Our Management Team

(As of July 1, 2020) \*Number of shares (as of March 31, 2020)

## Directors



### Hironari Furukawa

Representative Director and President  
\*30,725 shares

March 1969 Joined the Company  
April 1996 Executive Vice President of Hanwa Co., (Hong Kong) Ltd. and Vice General Manager of Asian Region (China & Hong Kong)  
June 1997 Appointed Director  
April 2011 Appointed Representative Director and President (current position)



### Yasumichi Kato

Director and Executive Vice President  
\*25,883 shares

April 1978 Joined the Company  
April 2009 Appointed Corporate Officer In charge of Osaka HQ Steel Plates, Structural Steel Sheets and Steel Sheets Sales  
June 2010 Appointed Director  
April 2019 Appointed Director and Executive Vice President (current position)



### Hidemi Nagashima

Director and Senior Managing Executive Officer  
\*11,757 shares

April 1983 Joined the Company  
April 2011 Appointed Corporate Officer In charge of Tokyo HQ Steel Plates, Steel Sheets Sales, Structural Steel Sheets Dept. 1, Structural Steel Sheets Dept. 2, and Hokkaido Branch Office  
June 2015 Appointed Director and Executive Officer  
April 2017 Appointed Director and Senior Managing Executive Officer (current position)



### Yoichi Nakagawa

Director and Senior Managing Executive Officer  
\*5,188 shares

April 1986 Joined the Company  
April 2013 Appointed Corporate Officer In charge of Accounting and Affiliated Enterprises, and General Manager of Accounting Dept. and Affiliated Enterprises Dept.  
June 2015 Appointed Director and Executive Officer  
April 2017 Appointed Director and Senior Managing Executive Officer (current position)



### Yasuharu Kurata

Director and Senior Managing Executive Officer  
\*1,600 shares

April 1982 Joined the Company  
April 2011 Appointed Corporate Officer General Manager of Asian Region (ASEAN, India, Middle East) In charge of Departments excluding Steel and Machinery and Chairman of HANWA SINGAPORE (PRIVATE) LTD.  
June 2016 Appointed Director and Managing Executive Officer  
April 2017 Appointed Director and Senior Managing Executive Officer (current position)



### Yasushi Hatanaka

Director and Senior Managing Executive Officer  
\*5,725 shares

April 1983 Joined the Company  
August 2012 Appointed Corporate Officer In charge of Osaka HQ Steel Sheets Dept. 1, Steel Sheets Dept. 2, Steel Sheets Dept. 3 and Steel Processing Project Promote Team, Assistant to Director in charge of Tokyo HQ Steel Sheet International and General Manager of Osaka HQ Steel Sheets Dept. 3  
June 2014 Appointed Director and Executive Officer  
April 2019 Appointed Director and Senior Managing Executive Officer (current position)



### Yoichi Sasayama

Director and Managing Executive Officer  
\*1,461 shares

April 1984 Joined the Company  
April 2012 Appointed Corporate Officer In charge of Tokyo HQ Steel Sheets, and General Manager of Steel Sheets Dept.  
June 2017 Appointed Director and Managing Executive Officer (current position)



### Takatoshi Kuchiishi

Director and Managing Executive Officer  
\*10,077 shares

April 1981 Joined the Company  
April 2010 Appointed Corporate Officer In charge of Tokyo HQ Steel Bars & Construction Materials Dept.1, Dept.2, Ferrous Raw Materials, Steel Structure Marketing, Distributor Sales, Tohoku Branch Office, Niigata Branch Office, Kitakanto Branch Office, and in charge of Promotion and Coordination for Steel Structure business of all offices  
June 2010 Appointed Director  
June 2014 Appointed Executive Officer  
June 2018 Appointed Director and Managing Executive Officer (current position)



### Keiji Matsubara

Director and Managing Executive Officer  
\*3,628 shares

April 1983 Joined the Company  
April 2014 Appointed Corporate Officer General Representative for East China Region, Chairman and President of HANWA TRADING (SHANGHAI) CO., LTD., and in charge of Wire Products & Special Steel Titanium for Asian Region  
June 2020 Appointed Director and Managing Executive Officer (current position)

## Directors



### Ryuji Hori

Independent Officer  
Outside Director  
\*1,164 shares

April 1966 Joined Iwai Sangyo Company Ltd. (currently Sojitz Corporation)  
June 1996 Appointed Director of Nissho Iwai Corporation (currently Sojitz Corporation)  
June 2000 Appointed Managing Director of Nissho Iwai Corporation  
June 2002 Appointed Senior Managing Executive Officer of Nissho Iwai Corporation (Retired from the position in March 2003)  
April 2003 Professor, School of Law, Waseda University  
April 2004 Professor, Waseda Law School, Waseda University (Retired from the position in March 2014)  
June 2005 Appointed Audit & Supervisory Board Member (External Auditor) of Tokuyama Corporation (Retired from the position in June 2017)  
June 2011 Appointed Outside Director of Riskmonster.com (current position)  
June 2012 Appointed Outside Director of T&D Holdings, Inc. (Retired from the position in June 2018)  
April 2013 Managing Director and Principal of Waseda Osaka Gakuen (Retired from the position in December 2018)  
April 2014 Advisor of TMI Associates (current position)  
Professor Emeritus Waseda University (current position)  
June 2014 Appointed Director of the Company (current position)  
May 2016 Appointed Outside Director of NISHIKI Co., LTD. (Retired from the position in May 2020)  
June 2018 Appointed Outside Corporate Auditor of Lotte Co., Ltd. (current position)  
December 2019 Appointed Representative Director and President of TMI Ventures Co., Ltd. (current position)



### Tatsuya Tejima

Independent Officer  
Outside Director  
\*1,225 shares

April 1969 Joined Toho Zinc Co., Ltd.  
June 1999 Appointed Director of Toho Zinc Co., Ltd.  
June 2000 Appointed Executive Officer of Toho Zinc Co., Ltd.  
January 2002 Appointed Managing Executive Officer of Toho Zinc Co., Ltd.  
June 2002 Appointed Managing Director and Managing Executive Officer of Toho Zinc Co., Ltd.  
June 2003 Appointed Representative Director and Managing Director, and Managing Executive Officer of Toho Zinc Co., Ltd.  
June 2005 Appointed Representative Director and Senior Managing Director, and Senior Managing Executive Officer of Toho Zinc Co., Ltd.  
June 2006 Appointed Representative Director and President, and COO of Toho Zinc Co., Ltd.  
June 2008 Appointed Representative Director and President of Toho Zinc Co., Ltd. (Retired from the position in June 2017)  
June 2017 Appointed Advisor of Toho Zinc Co., Ltd. (current position)  
Appointed Outside Director of Furukawa Co., Ltd. (current position)  
June 2018 Appointed Director of the Company (current position)



### Kamezo Nakai

Independent Officer  
Outside Director  
\*624 shares

April 1974 Joined Nomura Securities Co., Ltd. (currently Nomura Holdings, Inc.)  
June 1995 Appointed Director of Nomura Securities Co., Ltd.  
April 1999 Appointed Managing Director of Nomura Securities Co., Ltd.  
April 2003 Appointed Director and Senior Managing Executive Officer of Nomura Asset Management Co., Ltd.  
June 2003 Appointed Senior Managing Executive Officer of Nomura Asset Management Co., Ltd.  
Executive Managing Director of Nomura Holdings, Inc. (Retired from the position in March 2006)  
April 2008 Appointed Advisor of Nomura Asset Management Co., Ltd. (Retired from the position in March 2009)  
June 2009 Appointed Director and President (Representative Director) of Nomura Land and Building Co., Ltd. (Retired from the position in March 2012)  
June 2011 Appointed Director and President (Representative Director) of Nomura Real Estate Holdings, Inc.  
February 2012 Appointed Director and Executive Officer of Nomura Real Estate Development Co., Ltd.  
April 2012 Appointed Director and President (Representative Director), Chief Executive Officer of Nomura Real Estate Development Co., Ltd.  
May 2012 Appointed Director and President (Representative Director) and Chief Executive Officer of Nomura Real Estate Holdings, Inc.  
April 2015 Appointed Chairman of the Board of Directors (Representative Director) of Nomura Real Estate Development Co., Ltd.  
June 2015 Appointed Chairman of the Board of Directors (Representative Director) of Nomura Real Estate Holdings, Inc. (Retired from the position in June 2017)  
April 2017 Appointed Director of Nomura Real Estate Development Co., Ltd. (Retired from the position in June 2017)  
June 2017 Appointed Senior Advisor of Nomura Real Estate Development Co., Ltd. (current position)  
Appointed Outside Director of DSB Co., Ltd. (current position)  
November 2018 Appointed Outside Director of BIC CAMERA INC. (current position)  
June 2019 Appointed Director of the Company (current position)



### Junko Sasaki

Independent Officer  
Outside Director  
\* — shares

April 1983 Joined IBM Japan Ltd.  
January 2007 Appointed Executive Officer, APAC & Japan Technical Sales Support of IBM Japan Ltd. (Retired from the position in January 2010)  
January 2011 Joined Microsoft Japan Co., Ltd.  
Appointed Executive and General Manager of Customer Service & Support of Microsoft Japan Co., Ltd. (Retired from the position in January 2015)  
February 2015 Joined WEIC Corporation  
April 2015 Appointed Director and General Manager of Sales Division of WEIC Corporation (Retired from the position in July 2015)  
January 2016 Joined FireEye, Inc.  
Appointed Vice President (Retired from the position in September 2016)  
December 2016 Joined Sartorius Japan K.K.  
Appointed President & CEO (Retired from the position in March 2018)  
May 2018 Appointed Outside Director, Member of the Audit and Supervisory Committee of Yasukawa Electric Corporation (current position)  
June 2019 Appointed External Director of Sumitomo Mitsui Trust Bank, Limited (current position)  
June 2020 Appointed Director of the Company (current position)



# Our Management Team

(As of July 1, 2020) \*Number of shares (as of March 31, 2020)

## Corporate Auditors



### Hideo Kawanishi

Corporate Auditor (full-time)  
\*23,260 shares

April 1973 Joined the Company  
April 2005 Appointed Corporate Officer In charge of Osaka HQ Steel Plates, Steel Sheets Sales and Structural Steel Sheets  
June 2005 Appointed Director  
June 2017 Appointed Corporate Auditor (full-time) (current position)



### Akihiko Ogasawara

Corporate Auditor (full-time)  
\*10,122 shares

April 1976 Joined the Company  
April 2006 Appointed Corporate Officer In charge of Non-ferrous Metals, Metals & Alloys and Special Metals & Alloys and General Manager of Metals and Alloys Dept.  
June 2006 Appointed Director  
June 2008 Appointed Corporate Auditor (full-time) (current position)



### Yasuo Naide

Independent Officer

Outside Corporate Auditor  
\*48,200 shares

April 1971 Joined Sumitomo Heavy Industries, Ltd.  
June 2001 Appointed Senior Vice President of Sumitomo Heavy Industries, Ltd.  
June 2003 Appointed Executive Vice President of Sumitomo Heavy Industries, Ltd. (Retired from the position in March 2007)  
December 2006 Appointed Representative Director and President of Sumitomo Heavy Industries Environment Co., Ltd. (Retired from the position in March 2010)  
April 2010 Appointed Representative Director and President of Sumitomo Heavy Industries Business Associates Co., Ltd. (Retired from the position in March 2012)  
June 2012 Appointed Corporate Auditor of the Company (current position)



### Katsunori Okubo

Independent Officer

Outside Corporate Auditor  
\*780 shares

April 1978 Joined Sumitomo Bank (currently Sumitomo Mitsui Banking Corporation(SMBC))  
April 2006 Appointed Executive Officer of SMBC  
April 2010 Appointed Managing Executive Officer of SMBC (Retired from the position in April 2013)  
May 2013 Appointed Advisor of SMBC (Retired from the position in August 2018)  
June 2014 Appointed Corporate Auditor of the Company (current position)



### Hideyuki Takahashi

Independent Officer

Outside Corporate Auditor  
\* — shares

April 1980 Joined the Industrial Bank of Japan, Ltd. (currently Mizuho Bank, Ltd.)  
April 2012 Appointed Managing Executive Officer of Mizuho Financial Group, Inc. Appointed Managing Executive Officer of Mizuho Bank, Ltd. Appointed Managing Executive Officer of Mizuho Corporate Bank, Ltd. Appointed Managing Executive Officer of Mizuho Trust & Banking Co., Ltd. (Retired from the position in April 2014)  
June 2012 Appointed President & CEO of Mizuho Financial Strategy Co., Ltd. (Retired from the position in April 2014)  
April 2013 Appointed Executive Managing Director of Mizuho Financial Group, Inc. Appointed Deputy President of Mizuho Financial Group, Inc. Appointed Deputy President and Executive Officer of Mizuho Bank, Ltd. Appointed Deputy President and Executive Officer of Mizuho Corporate Bank, Ltd. (Retired from the position in July 2013)  
April 2014 Appointed Managing Executive Officer of Mizuho Securities Co., Ltd. (Retired from the position in April 2014)  
June 2014 Appointed Member of the Board of Directors of Mizuho Financial Group, Inc.(non-executive) (Retired from the position in June 2017).  
June 2014 Appointed Member of the Board of Director of Mizuho Bank, Ltd. (non-executive) (Retired from the position in June 2017)  
June 2017 Appointed President and CEO of Mizuho Research Institute Ltd. (Retired from the position in June 2019)  
June 2019 Appointed Chairman of the Kyoritsu Co., Ltd. (current position)  
June 2020 Appointed Outside Director of Sunshine City Corporation (current position)  
June 2020 Appointed Outside Audit & Supervisory Board Member of WOWOW INC. (current position)  
June 2020 Appointed Corporate Auditor of the Company (current position)

## Executive Officers

### President

#### Hironari Furukawa

### Executive Vice President

#### Yasumichi Kato

In charge of overall Steel Division and Lumber & Plywood Division

### Senior Managing Executive Officers

#### Hidemi Nagashima

General Manager of Nagoya Branch Office

#### Yoichi Nakagawa

In charge of Metal Recycling Division and Primary Metal Division and in charge of overall administrations and Machinery Division

#### Yasuharu Kurata

In charge of Energy Division, Food Division and in charge of Hedging Administration Office

#### Yasushi Hatanaka

Senior General Manager of Osaka Head Office  
In charge of Osaka HQ Steel Bars & Construction Materials Division, Osaka HQ Steel Plates & Sheets Division, Steel Processing Project Promote, Kyushu Branch Office, Chugoku Branch Office, Hokuriku Branch Office

#### Hiromasa Yamamoto

General Representative for Asia

### Managing Executive Officers

#### Yoichi Sasayama

In charge of Tokyo HQ Steel Plates & Sheets Division and Niigata Branch Office

#### Chiro Ideriha

General Representative for Americas and President of HANWA AMERICAN CORP. and Representative of Chicago Branch Office

#### Takatoshi Kuchiishi

In charge of Tokyo HQ Steel Bars & Construction Materials Division, Steel Structure Marketing Division of all offices, Ferrous Raw Materials Division of all offices, Tokyo HQ Thermal-insulation Construction Dept., Hokkaido Branch Office, Tohoku Branch Office, Kitakanto Branch Office

#### Keiji Matsubara

In charge of International Trade Dept.1, Dept.2, Trade Administration Dept., Wire Products & Special Steel Division of all offices

#### Ryuichi Takaba

In charge of Metal Recycling Division and Primary Metal Division and in charge of Hedging Administration Office

### Executive Officers

#### Hideo Kobayashi

In charge of Osaka HQ Structural Steel Sheets Dept.1, Dept.2, Steel Sheets Sales Dept., Steel Plates Dept., Stainless Steel & Aluminum Sheet Dept., Western Japan Steel Sheets Division

#### Yoshimasa Ikeda

In charge of Legal & Credit Dept., Information System Dept., Quality, Safety & Environment Control Dept.

#### Yoshifumi Miyano

In charge of Energy Division, Food Division

#### Toshihiro Kawaguchi

In charge of Personnel Dept., General Affairs Dept., Accounting Dept., Finance Dept.

#### Hideki Kataoka

In charge of Lumber & Plywood Division and Machinery Dept.

#### Shoji Shirasawa

In charge of Asia (ASEAN, India, Middle East) except for Steel Division and Machinery Division and Chairman of HANWA SINGAPORE (PRIVATE) LTD.

#### Yukiaki Takada

In charge of Asia (ASEAN, India, Middle East) for Steel Division and Machinery Division and Chairman of PT.HANWA INDONESIA

#### Takeshi Amano

In charge of Metal Recycling Division, Primary Metal Division

#### Shigeto Minamimura

In charge of overall Steel Structure Marketing Division, Tokyo HQ Steel Bars & Construction Materials Dept.2, Thermal-insulation Construction Dept., Niigata Branch Office

#### Masahiko Fujitsuka

General Representative for China, Chairman of HANWA TRADING(SHANGHAI) CO.,LTD., Chairman of HANWA (QINDAO) CO.,LTD., Chairman of HANWA (DALIAN) CO.,LTD., Chairman of RI HONG STAINLESS(SHANGHAI) CO.,LTD., Chairman of CHANG FU STAINLESS STEEL CENTER(SUZHOU) CO.,LTD.

#### Hideaki Takemura

In charge of Osaka HQ Steel Bars & Construction Materials Dept., Western Japan Steel Bars & Construction Materials Division, Osaka HQ Ferrous Raw Materials Division, Hokuriku Branch Office

# Outside Directors Roundtable Discussion



With its distinctive identity as a user-oriented trading company, Hanwa Co., Ltd. brings together a large number of cooperating companies in Japan and is making strategic investments globally over the medium to long term. We held a round-table discussion of the three Outside Directors, who shed light on the ever-advancing company's situation from an outside perspective, overseeing and providing advice.

## Board of Directors Making Dynamic Changes

How did each of you come to assume the current position of Outside Director?

**Hori** I worked for 11 years as a professor at the School of Law of Waseda University and the Waseda Law School, though originally I started my career at a general trading company called Nissho Iwai. I worked there for 37 years, so I am still a trading company person at heart. Hanwa was already famous as a unique trading company even during my days at Nissho Iwai, and I used to closely follow its progress.

Our president, Mr. Furukawa, approached me to become Outside Director and I was appointed in 2014. Like Nissho Iwai, Hanwa is a trading company that has grown by visiting customers frequently and cultivating close relationships with them, and

that is its great charm. I offer advices by leveraging my experience at the trading company.

**Tejima** Hanwa is a trading company with steel at its core. It has also expanded now into other fields by acquiring manufacturers and has made forays into resource-related businesses in South Africa, Indonesia, and Mexico. It is also very interesting that Hanwa has committed to making investments in resources such as nickel, cobalt, and lithium that will be needed for automobile batteries of the future. My roots are in Toho Zinc, a non-ferrous metal refinement and resource company. I took up this position with the belief that my experience there would prove useful.

**Nakai** I was engaged in the securities business for 30 years and the asset management business for six years. So, I was involved

in the capital market from both the sell-side and the buy-side. During the initial days of my acquaintance with Mr. Furukawa, I once explained my ideas regarding transparency of transactions and the concept of governance. Also, in my days as the president of Nomura Real Estate Holdings, I had aspired to build a management structure with focus on strengthening of governance. Given this background, Mr. Furukawa approached me to become Outside Director of Hanwa.

Hanwa has been making more active moves regarding its corporate governance, for example, by newly establishing the Board of Directors Evaluation Committee.

**Hori** Mr. Furukawa is very demanding in terms of the management framework. My specialty originally is laws and reviews but Mr. Furukawa himself takes the lead in credit control and insurance of business partners. The president points out the problems at the Board of Directors meetings, so we also work with a sense of urgency and rigorously exchange opinions.

**Nakai** That's right. We have many discussions at Board of Directors meetings and we can be very particular about what is important. There are times when we put forward uncompromising opinions. In that sense, I also feel that one can frankly and comfortably express various opinions at Hanwa's Board of Directors meetings.

The Board of Directors Evaluation Committee was launched this year. It carried out a questionnaire survey on effectiveness evaluation, taking note of the views of all directors and auditors. The company's passion to firmly build up governance is taking shape, along with our expectations as Independent Officers. It has been only about a year since my appointment as Outside Director but there has already been major changes in this period.

**Tejima** Hanwa is a company that is making rapid progress, and therefore the agenda of its board meetings includes many important large-scale investment and lending projects, and executive divisions present detailed explanations regarding the situation and background of each project. I feel that it is time to consider how to set aside deliberation time in the future through agenda shaping and other measures.

**Nakai** The need to clearly separate the portions to be discussed by the executive divisions from the matters to be submitted to the Board of Directors meeting had come up in the issues identified in the effectiveness evaluation this time. We believe it will be the theme for the current term. There is a strong trend towards constantly improving the Board of Directors meeting, and Corporate Auditors as well as Outside Directors are working with that in mind.

## Striking balance between offence and defense

Hanwa has been boosting its presence overseas, with the number of projects outside Japan steadily increasing such as its foray into Southeast Asia and resource investments.

**Hori** It is true that the number of global projects is increasing. After starting as a specialized trading company, Hanwa currently handles various metals and resources as well as food, in addition to steel. Moreover, it is engaged not only in businesses where conventionally trading companies act as middleman, but also in businesses where Hanwa itself makes investments. It is in the process of transforming from the initial specialized trading company into a more creative general trading company.

At this stage, the biggest issue faced by management is risk management. As investment in various fields will increase more and more, judging risks is important.

**Nakai** As Mr. Hori said, risk management or building a strong defense is important in corporate governance. At the same time, sustainably growing a business forms the basis of continued existence of a company. Therefore, offence and defense are two gears of critical importance.

In doing so, though management's leadership is crucial, it is necessary to apply check to prevent overrun. Recently, we suffered from a major impairment loss at SAMANCOR, but if we pull back now, we won't be able to seize the next opportunity. To move forward, we will carry out stress check, review financial rules, and build a mechanism to take on the challenge once again. Hanwa is now in the process of forming a management system that can execute them. In particular, we have the leadership of the top management and sales expertise of employees gained over many years, which are second to none. In addition to this, if Hanwa makes progress in capital efficiency-conscious management strategy and a system to push forward mat-





# Outside Directors Roundtable Discussion

ters with KPI in mind, there is still room for growth and also great potential globally.

**Tejima** When I was serving as the president of Toho Zinc, we faced extremely severe social conditions of the collapse of Lehman Brothers, the Great East Japan Earthquake, and the economic crisis in China. Still, we somehow managed to overcome them. However, the current U.S.-China issue and the COVID-19 pandemic are something which went beyond my imagination. I feel remorseful for not having been able to foresee these at all.

Having said so, there always are some signs. There were clear signs of the collapse of Lehman Brothers some three years before it actually happened. So it is important in management practice for all employees including Outside Directors to capture the macro trends in advance. Even if the alterations are small, if you look at them collectively, the right path will become visible. I think it is important to pursue your best efforts at the given moment.

**Hori** Predicting the future is what trading companies are best at in the first place. Unlike manufacturers, trading companies can take on various challenges looking for possibilities, which is also a very interesting aspect. Although the measures against COVID-19 is important at the moment, social situations will keep on changing every year or two. Businesses utilizing digital technology is the trend going forward, so we also have to propel things quickly. In the current fiscal year, Ms. Junko Sasaki, who is well versed in the digital field, was appointed as Outside Director. Hanwa is pursuing a steady personnel selection of Outside Directors reflecting our businesses of different times.



## Nurturing an eye for the future

We are in a time where environmental issues, SDGs, and corporate sustainability are also drawing attention. What are the issues for Hanwa in the future?

**Tejima** We are engaged in a wide range of businesses that guarantee the sustainability of the society, such as acquisition of resources and distribution. We are not only investing in resources required by EVs such as lithium and nickel but also have made a foray into chromium resources from the medium- to long-term perspective. Stainless steel, which doesn't rust easily, is highly rated from an environmental viewpoint, but it cannot be made without chromium. It is a business that can be appreciated taking into consideration future environmental issues and corporate sustainability. Business for today and tomorrow is also important, but Hanwa is also making investments with an eye on the future, while keenly bearing in mind the overall balance.

**Hori** Environment is a pressing issue, so we also consider it as a business opportunity and have started taking various initiatives. In the resource and energy field, the market of PKS (Palm Kernel Shell), which is used in biomass power generation, has been very strong despite the COVID-19 pandemic. It is our strength that we can make decisions to invest in such business.

**Nakai** It is probably the destiny of a trading company to constantly and continuously make upfront investments and strategic moves for the future. The way it is done has moved forward a step from the conventional trading company business model to one similar to an investment company now. Here also I feel the substantial change of the times as well as the evolution of Hanwa.

**Tejima** We offer only products that are required by the society and useful to people in their daily lives, and we hire local people around the world, making their lives better. I am proud that the company's existence contributes to the society. Even if it is difficult to generate profits right away, we take risks and make investments to support the future society. This is something that can be achieved only by a trading company, which can transform itself in various ways corresponding to the times.

**Hori** Hanwa owes its existence to the society. So, what we have to think now is how we should enhance its sustainability. The field requires approaches and ideas of young people, so it is important that they come up with lots of ideas and recommend them to the management. At trading companies, the planning division considers various matters and makes proposals. So, I would like Hanwa to move in a direction where it attaches even more importance to projects and ideas of young employees.

## Nurture human resources, who build the future

What will be the future issues for Hanwa in a society that keeps on transforming significantly?

**Tejima** The population of Japan is said to decline at a high pace and fall below 100 million in about 30 years. It goes without saying that we have to expand globally and make forays into new fields. Unlike manufacturers, for whom it is not easy to move because of the plants and facilities they have, at a trading company people can move around and can create optimum forms in a society. Employees of Hanwa accumulate experience at various sites from early on, and its middle-ranking employees, in particular, are highly capable. Viewing with a long-term perspective of 10 to 20 years becomes even more crucial in order that we can provide them opportunities where they can work to the best of their abilities.

**Nakai** Nurturing of human resources will become especially important in terms of triggering innovation and creating something new. Hanwa is essentially a sales-centric company, so there is a view that it is not desirable for head office divisions to become large, and that the company should focus on sales first of all. However, in order to realize sustainable growth, it is necessary to build a stage to fully consider how to develop a firm governance structure in its Corporate Planning Department and what to do with the corporate strategy in the medium to long term. The major challenge of the future, I think, will be in assigning young human resources to such areas to nurture the next generation that will support the company.

**Hori** Globalization has been advancing greatly even after I became an Outside Director, and the number of subsidiaries and affiliated companies has also increased. Globally, there are English language regions and Chinese language regions, and we have to send more and more young employees for overseas studies and training. We should also hire more and more people in mid-career who can immediately play an active role in a global scale, irrespective of nationality.

Another thing is the management experience. We should send young employees with bright future to subsidiaries and affiliated companies in order for them to learn management. This is a measure that will make Hanwa stronger in the long run.

Today we discussed a wide range of themes. We, Outside Directors, would like to continue to provide advices so as to contribute to the sustainable growth of Hanwa and the development of the society.



Outside Director  
**Junko Sasaki**

## A message from the newly appointed Outside Director

Amid advancing globalization and digitization, a company must strive to realize continuous value improvement. It needs to swiftly and appropriately respond also to extraordinary situations such as the spread of the COVID-19 infection, tense international situations, and environmental preservation measures.

The responsibility of an Outside Director is to strengthen the governance and thereby contribute to improvement in corporate value. Based on my experience of having engaged in management at global IT companies, I would like to have active discussions that contribute to the medium- to long-term growth strategy of Hanwa. At the same time, it is necessary to further promote diversity and inclusion (D&I) with a view to responding to the needs of diversifying markets and customers, boosting employee motivation, and keeping on innovating. I hope to be of help in promoting this by leveraging my experience.

With defensive governance as a base, I intend to work also on active governance.

## Basic Policy of Corporate Governance

## Basic approach to corporate governance

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

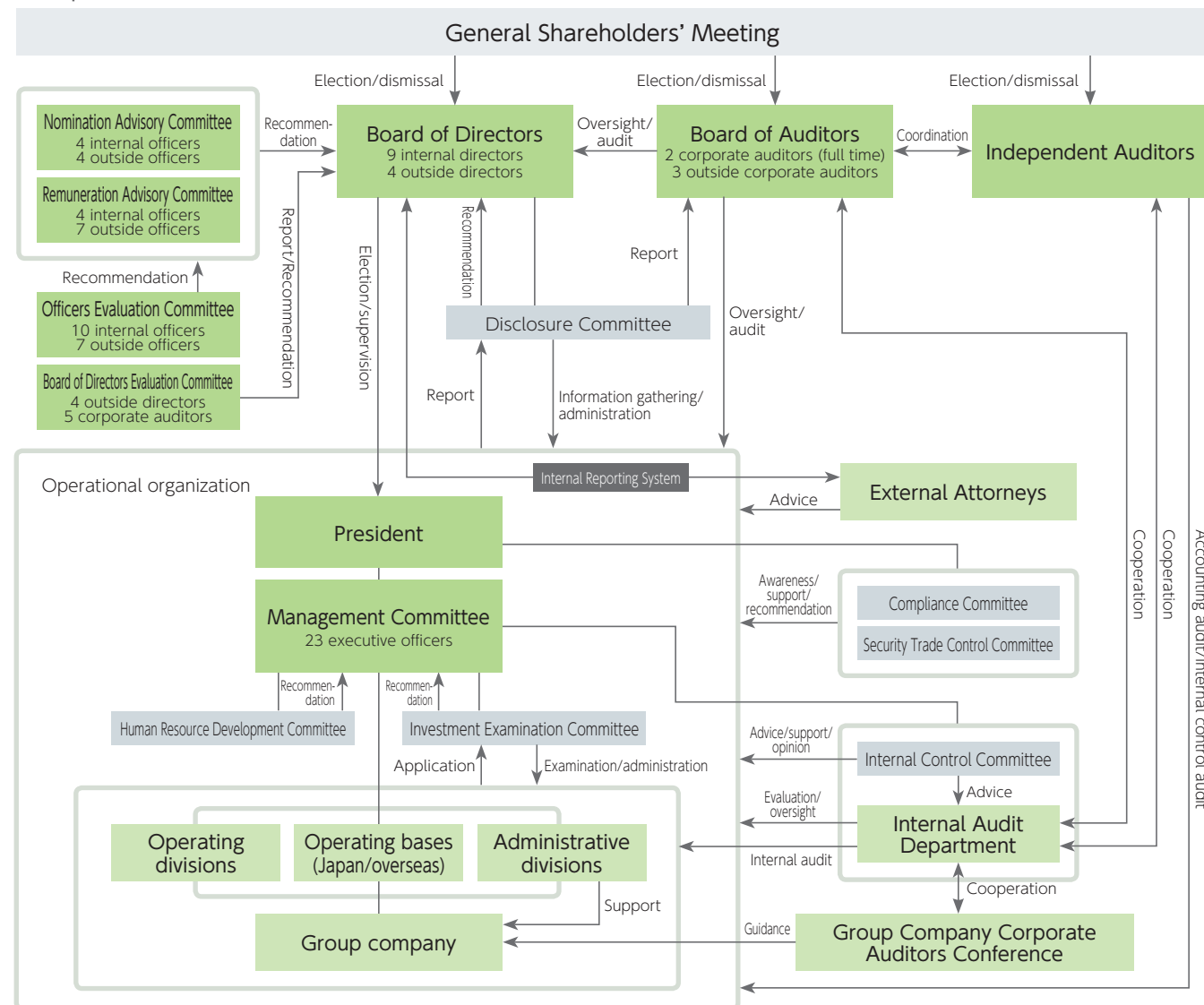
ry compliance and respect for social norms. In addition, to assertively promote corporate social responsibility (CSR) activities and make our corporate brand even more respected, we have established the CSR Committee and promote management initiatives with a focus on CSR.

## Corporate governance structure

We have adopted a corporate auditors' system. We have expanded our business over the years across a wide range of business fields, while making optimal use of the high level of expertise we can offer as a "distribution specialist." Business matters of significance are discussed and decided at the Board of Directors meeting by our internal directors, who understand thoroughly our operations, and outside directors, who have a wide range

of experience and a high degree of insight. We believe that the model we have adopted, in which corporate auditors (including outside corporate auditors) perform an audit and inspection, is the most appropriate for our company. In addition, we introduced an executive officer system to establish a system that enables more detail-oriented business operations and to promote quicker and more efficient decision-making.

## [ Corporate Governance Structure ]



## Directors and the Board of Directors

## Composition of the Board of Directors

The Board of Directors consists of four outside directors and nine internal directors. In addition to the president, we have six directors in charge of the Steel business, one in charge of Primary Metal, Metal Recycling businesses and administrative divisions, and one in charge of the Food

Products, Energy & Living Materials businesses. Based on their wealth of knowledge and experience, they each oversee business administration and business execution. The term of office of each director is one year to respond flexibly to changes in the business environment.

### Role of outside directors

Outside directors are expected to act as representatives for stakeholders, including shareholders. They are expected to evaluate and consider business decisions as well as the appro-

priateness of the execution of business from an objective point of view. Therefore, candidates with competence and experience suitable for this demanding position are selected.

## Functions of the Board of Directors

In principle, the Board of Directors meetings are held once a month, and in addition to the matters stipulated in laws and regulations and the Articles of Incorporation, plan and execute important management operations for the Hanwa

Group. Moreover, the Board of Directors receives reports on business execution from each director and is responsible for overseeing the execution of duties by the directors of the Hanwa Group.

### Reasons for appointment of outside directors and their attendance

Title	Name	Independent officer	Reason for appointment	Attendance in FY2019
Outside Director	Ryuji Hori	○	Mr. Hori has extensive knowledge in legal affairs, cultivated through his many years of experience mainly in risk management at a general trading company, along with his experience as a university professor. The Company believes that he can provide supervision towards the Company's management decisions and business execution from a general and multilateral perspective; therefore he was appointed for the position of outside director.	Board of Directors meetings 16 out of 16 meetings
Outside Director	Tatsuya Tejima	○	Mr. Tejima has extensive knowledge and business experience cultivated through many years of his career as an executive of a non-ferrous metal smelting company. He was appointed for the position of outside director because the Company believes that with his noble character and deep insight, he can provide supervision towards the Company's management decisions and business execution from a practical and objective standpoint.	Board of Directors meetings 16 out of 16 meetings
Outside Director	Kamezo Nakai	○	Mr. Nakai has extensive knowledge and abundant experience cultivated through his many years of corporate management in the securities company and real estate industry. He was appointed for the position of outside director because the Company believes that he can provide supervision towards the Company's management decisions and business execution from a practical and multilateral perspective especially in finance and investment.	Board of Directors meetings 13 out of 13 meetings (Assumed office in June 2019)
Outside Director	Junko Sasaki	○	Ms. Sasaki has extensive knowledge and abundant experience cultivated through her corporate management experience at global IT companies. She was appointed for the position of outside director because the Company believes that she can provide supervision towards the Company's management decisions and business execution from a practical and specialist perspective.	Board of Directors meetings — (Assumed office in June 2020)

## Corporate Auditors and the Board of Auditors

### Composition of the Board of Auditors

The Board of Auditors consists of three outside corporate auditors and two internal corporate auditors. Full-time corporate auditors, who are from within the Company, mainly attend the Management Committee to gather information related to the

business management and explain to outside corporate auditors with their own perspectives to support the understanding of outside corporate auditors. They also hold meetings with management and express their opinions, as necessary.

### Functions of the Board of Auditors

The corporate auditors and the Board of Auditors endeavor to make appropriate assessments from an independent and objective standpoint, and in order to do so, they work to monitor the Company by attending the Management Committee and the Board of Directors, conducting audits of the Group companies, conducting interviews with senior executives and sharing information regularly with the Internal Audit Department and an external

independent auditor. In addition, the Board of Auditors places great importance on preventive audits of misconduct and strives to conduct not only legality audits but also validity audits. We have appointed three outside corporate auditors with a wealth of insights into corporate activities and they conduct appropriate business audits while maintaining their independence from the Board of Directors and express their opinions to the Board of Directors.



Reasons for appointment of outside corporate auditors and their attendance

Title	Name	Independent officer	Reason for appointment	Attendance in FY2019
Outside Corporate Auditor	Yasuo Naide	○	Mr. Naide was appointed as a corporate auditor because he was judged to be able to utilize his extensive practical experience with heavy equipment manufacturers and his broad knowledge and experience gained through corporate management.	Board of Directors meetings 16 out of 16 meetings Board of Auditors meetings 13 out of 14 meetings
Outside Corporate Auditor	Katsunori Okubo	○	Mr. Okubo has expertise and extensive knowledge cultivated through his many years of business experience at a financial institution along with his considerable international experience. He was appointed as a corporate auditor because the Company believes that he can audit the Company's management from a global perspective.	Board of Directors meetings 16 out of 16 meetings Board of Auditors meetings 14 out of 14 meetings
Outside Corporate Auditor	Hideyuki Takahashi	○	Mr. Takahashi has expertise in finance cultivated through his many years of business experience at a financial institution along with his considerable experience in management and audit. He was appointed as a corporate auditor because the Company believes that he can appropriately audit and supervise the Company's Board of Directors by leveraging his knowledge and experience.	— (Assumed office in June 2020)

Independence Standards for Outside Officers

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

- (1) A major shareholder of the Company (meaning a shareholder who holds either directly or indirectly 10% or more of the total voting rights of the Company at the end of the most recent fiscal year), or an executing person thereof.
- (2) A person belonging to or an executing person of a company of which the Company is a major shareholder (holding 10% or more of the total voting rights of the Company at the end of the most recent fiscal year).
- (3) A major business partner of the Company (whose annual transactions with the Company exceed 2% of the consolidated net sales of the Company during the most recent fiscal year), or an executing person thereof.
- (4) A major lender to the Company (whose outstanding loans to the Company at the end of the most recent fiscal year exceeds 2% of the consolidated total net assets of the Company), or an executing person thereof.
- (5) A representative or an employee who belongs to the audit corporation that is the accounting auditor of the Company
- (6) A consultant, legal professional, certified public accountant, tax accountant, or other person providing a specialist service who received ¥10 million or more of monetary consideration nor other properties per year from the Company other than officer remuneration in the most recent

- fiscal year (referring to a person belonging to the organization if the one who received the relevant property is an organization such as a corporation or association.)
- (7) A person who received the annual total of ¥10 million or more of donations or aid funds from the Company in the most recent fiscal year (referring to an executing person who belongs to the organization if the one who received the relevant donations or aid funds is an organization such as a corporation or association.)
- (8) A person who falls under any of (1) to (7) above in the past three years.
- (9) A person whose close relative falls under any of (1) to (8) above.

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

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

Advisory Committees to the Board of Directors

In order to maintain the independence and objectivity of the Board of Directors, the Company has established advisory bodies to the Board of Directors, namely, Officers

Evaluation Committee, Nomination Advisory Committee, and Remuneration Advisory Committee, in which outside directors and outside corporate auditors participate.

Roles of the committees

Officers Evaluation Committee	Nomination Advisory Committee	Remuneration Advisory Committee
The committee compiles evaluation of directors and executive officers which forms the basis of discussion regarding officer appointment and compensation proposals.	Based on the results of officer evaluations and employee performance evaluations, the committee considers the composition of officers for the next fiscal year, prepare a draft, and report it to the Board of Directors.	Based on the results of the comprehensive evaluation of each officer at the Officers Evaluation Committee, the committee compiles a regular fixed salary plan, which is a monthly fixed remuneration, prepares a draft formula for calculating performance-based compensation for officers' bonuses, and reports them to the Board of Directors.

Committee members

Title	Name	Officers Evaluation Committee	Nomination Advisory Committee	Remuneration Advisory Committee
Representative Director and President	Hironari Furukawa	Committee Chairperson	Committee Chairperson	Committee Chairperson
Director and Executive Vice President	Yasumichi Kato	○	○	○
Director and Senior Managing Executive Officer	Hideimi Nagashima	○	—	—
Director and Senior Managing Executive Officer	Yoichi Nakagawa	○	○	○
Director and Senior Managing Executive Officer	Yasuharu Kurata	○	—	—
Director and Senior Managing Executive Officer	Yasushi Hatanaka	○	—	—
Outside Director	Ryuji Hori	○	○	○
Outside Director	Tatsuya Tejima	○	○	○
Outside Director	Kamezo Nakai	○	○	○

Title	Name	Officers Evaluation Committee	Nomination Advisory Committee	Remuneration Advisory Committee
Outside Director	Junko Sasaki	○	—	○
Corporate Auditor (full-time)	Hideo Kawanishi	○	○	○
Corporate Auditor (full-time)	Akihiko Ogasawara	○	—	—
Outside Corporate Auditor	Yasuo Naide	○	○	○
Outside Corporate Auditor	Katsunori Okubo	○	—	○
Outside Corporate Auditor	Hideyuki Takahashi	○	—	○
Senior Managing Executive Officer	Hiomasa Yamamoto	○	—	—
Executive Officer (in charge of Personnel Dept.)	Toshihiro Kawaguchi	○	—	—

Evaluation of the effectiveness of the Board of Directors

Since FY2019, we have been analyzing and evaluating the effectiveness of our Board of Directors to further improve its functions. The summary and results of the effectiveness evaluation of the Board of Directors for fiscal 2019 are as follows.

Taking into consideration the valuation result, we will work toward maintenance and improvement of the effectiveness of the Board of Directors and enhancement of its functions.

Evaluation method	The Board of Directors Evaluation Committee, which is chaired by one of the full-time corporate auditors and consists of all corporate auditors and all outside directors, conducts an anonymous questionnaire survey of all directors and corporate auditors, and based on the results of the survey and analysis, the Board of Directors deliberated on the effectiveness of themselves and made the final decision on the evaluation.	
Questionnaire content	1) Functions and roles of the Board of Directors 2) Materials for the Board of Directors meetings 3) Deliberations at the Board of Directors meetings 4) Composition of the Board of Directors	5) Operation and support system of the Board of Directors meetings 6) Officers Evaluation Committee, Nomination Advisory Committee, Remuneration Advisory Committee
Evaluation result	It was confirmed that the Board of Directors appropriately discusses factors and viewpoints that directors and corporate auditors should emphasize in decision-making and supervision concerning basic management policy, business strategy and important business execution. And the Board of Directors Evaluation Committee evaluated that the effectiveness of the Board of Directors is ensured. In addition, the following matters were confirmed for further improvement of the effectiveness of the Board of Directors. (i) Allow sufficient time to discuss major themes related to company management. (ii) Further enhancement of the deliberation process for investment projects. (iii) Further development and improvement of management personnel.	

Executive Compensation System

Director's compensation is determined within the limits of the remuneration amount approved at the Ordinary General Shareholders Meeting.

With regard to individual compensation of the management members and directors, an Officers Evaluation Committee chaired by the President and composed of members including outside directors and outside corporate auditors as advisors meets at least twice a year to perform a comprehensive evaluation of the directors' performance. This includes an assessment of the level of commitment and a peer review process by all directors and executive officers except the President. The comprehensive evaluation provided by the Officers Evaluation Committee are used by the Remuneration Advisory Committee, which is made

up of a majority of outside directors and outside corporate auditors, to determine each director's compensation. The fixed monthly remuneration is then submitted as a regular fixed remuneration plan to the Board of Directors. In terms of the directors' bonuses, we adopt a performance-based compensation system to clearly reflect each individual management member's and director's achievement level. The Board of Directors approves this performance-based calculation model after the Remuneration Advisory Committee reviews it.

Corporate auditors' remuneration is determined by the Board of Auditors' discussion within the limits of the amount of remuneration approved at the Ordinary General Shareholders Meeting.

Content of compensation

Monthly remuneration (regular fixed remuneration)	Monthly salary (regular fixed salary) is determined by the Board of Directors based on the recommendations of the Remuneration Advisory Committee, which is equivalent to the Compensation Committee established within the Executive Officers Evaluation Committee. Evaluations of executive directors and executive officers shall be determined by peer review among them based on our approach to addressing medium-to long-term issues aimed at sustainable growth and the results of these efforts. Based on these evaluations, the Executive Officers Evaluation Committee makes evaluation of each director and executive officer.
Officers' bonuses (performance-based compensation)	On the other hand, bonuses to officers using the performance-based compensation method are determined based on the amount of consolidated net income in accordance with the payment criteria specified in advance, and the management as a whole is responsible for the results for the performance of a single fiscal year.

## Amount of officer compensation

Officer classification	Total amount of compensation (millions of yen)	Total amount of compensation by type (millions of yen)			Number of eligible officers
		Fixed amount periodical compensation	Performance-based compensation	Retirement benefits	
Directors (excluding outside directors)	383	383	—	—	11
Corporate auditors (excluding outside corporate auditors)	51	51	—	—	2
Outside officers	58	58	—	—	7

## Management Committee

It consists of all executive officers and meets twice a month as a rule. At the Management Committee, important issues related to the management decisions of the Group are submitted to the Board of Directors as agenda

items, and as the highest body for business execution, it executes business in accordance with the management policy determined by the Board of Directors.

## Internal Control

### Internal control system

In order to improve corporate value through the appropriate and efficient implementation of business activities in compliance with laws and regulations and the Articles of Incorporation, the entire Group including its subsidiaries has established a basic policy related to the development and operation of an internal control system. We are working on the steady improvement and enhancement of internal control, after confirming the status of the operation.

### Strengthening of the internal control system

We have established various committees related to internal control, as seen below, to enhance and improve the internal control system of the entire Group.

### Various internal control-related committees

Internal Control Committee	In addition to expressing opinions on "Internal Control Evaluation Report" and "Internal Control Report," which are prepared by the Internal Audit Department, the committee consisting of managerial staff who are general managers or higher in the administrative divisions, reviews various issues in the internal control of the Group and reports the results to the Management Committee.
Compliance Committee	The committee is chaired by a managing executive officer from the administrative divisions and is comprised of managerial staff who are general managers or higher in the administrative divisions. In addition to developing the Company's compliance system and maintaining and improving its effectiveness, the committee also raises awareness of and comprehensively manages issues concerning compliance with laws and regulations across the Group.
Security Trade Control Committee	This committee is chaired by an executive officer from the administrative divisions and is comprised of managerial staff who are section managers or higher in the administrative divisions and sales divisions. In order to appropriately and smoothly implement operations related to security trade control, the committee conducts company-wide management as well as plans and formulates internal education plans.
Investment Examination Committee	The committee is composed of managerial staff in the administrative divisions and is chaired by an executive officer or a corporate officer in the administrative divisions. The committee examines new business projects and investment and lending projects and provides opinions to the Management Committee and the Board of Directors.
CSR Committee	The committee is composed of managerial staff who are general managers or higher and the presidents of the Group companies and is chaired by a managing executive officer from the administrative divisions. The committee raises awareness of and comprehensively manages issues concerning CSR (corporate social responsibility) across the Group.
Disclosure Committee	The committee is composed of managerial staff who are general managers or higher in the administrative divisions and is chaired by the person in charge of information management. By conducting timely and appropriate disclosure of management-related information, the committee aims to promote the understanding of all stakeholders, including shareholders, investors, and local communities.
Environmental Committee	The committee is composed of managerial staff who are general managers or higher and the presidents of the Group companies and is chaired by an executive officer from the administrative divisions. The committee has established a system to manage the environment and operates an environmental management system (EMS).

## Risk Management

### Basic stance

As the Group operates a wide range of businesses around the world, it is exposed to a variety of risks. In order to prevent the occurrence of risks and to reduce the risks that occur, we have chosen departments to respond to each of these risks and developed various regulations and manuals.

### Crisis management measures

The Company has established the Crisis Management Manual to prepare against serious crisis that could cause serious damage to the Company's assets and the implementation of operations, as well as damage to officers and employees of our domestic and overseas companies and the Group companies as well as the safety of their families. In addition, all divisions of the Company have established the Business Continuity Plan (BCP) Manual for Large Scale Disasters and have set up a business continuity plan in the event of a major disaster. In the event of a crisis, we work to minimize the damage, ensure the safety of our officers and employees and their families, and establish a system necessary for the continuation and early resumption of core businesses.

### Personal information protection policy

The Company regards the appropriate management of personal information as part of its corporate social responsibility, and for purpose of preventing the leakage or unauthorized use of personal information, the Company has established the Information Management Regulations and the Personal Information Protection Manual and has thoroughly conducted education to the officers and employees.

### Quality control

In recent years, the social impact of quality defects has been increasing, requiring companies, including trading companies, to pay more attention to quality management. In this context, the Company established the Quality, Safety & Environment Control Department to strengthen the quality control system of the Company and its partner companies. In June 2020, we established the Safety and Health Management Rules (Construction and Manufacturing Businesses) to prevent occupational and public accidents at our construction and manufacturing businesses, ensure compliance, and avoid associated risks.

## Response to the COVID-19 Infection

In response to the COVID-19 Infection, we have established the crisis response headquarters headed by the President based on the Crisis Management Manual and have implemented measures such as temporary layoff and telecommuting as we give top priority

to ensuring health and safety of all of our employees and their families as well as customers.

We plan to implement initiatives reflecting the constantly changing situations in various locations and countries.

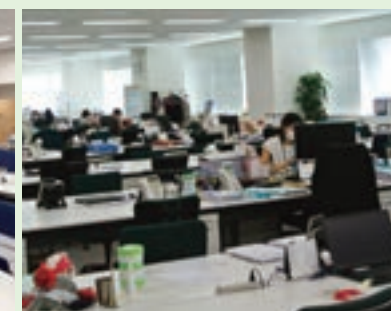
### Our response to the COVID-19 infection

- Implementation of telecommuting and adjustment of ratio of telecommuting depending on the infection status
- Promotion of the use of teleconferencing systems
- Refraining from overseas business trips in principle and refraining from nonessential and nonurgent domestic business trips

- Temporary return of expatriates and their families at company expense
- Implementation of remote training for all new employees
- Recommendation to all employees to install the COVID-19 contact-tracing application



Osaka Head Office during the state of emergency



Quiet Tokyo Head Office as employees work from home as a rule



Ginza Chuo-dori Street deserted after the stay-at-home request





## HKQC Initiatives

### Understanding HKQC

HKQC (Hanwa Knowledge Quality Control) is a program unique to the Hanwa Group. It aims to improve the quality of our operations by using the Group's accumulated collective wisdom for more thorough risk analysis and process control, and to pass the wisdom of the Group down and develop it further.

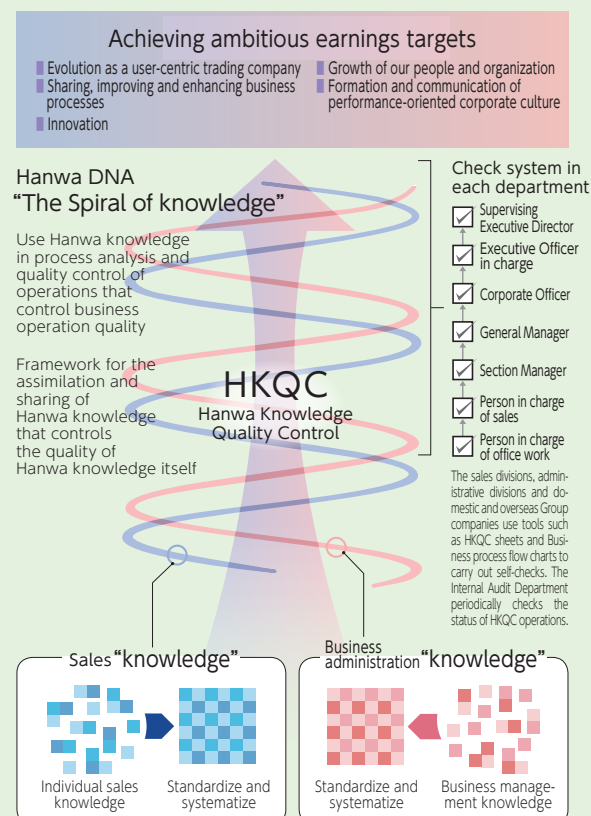
As part of HKQC initiatives, we conducted interviews in each division and prepared the "Integrated HKQC/RCM Version," which combines our business process flow chart with the previously existing Risk Control Matrix (RCM). Losses occur when checks do not function. We are preventing this kind of loss and raising profitability by making business process flows more visible and sharing that information.

Each year since FY2016, the Hanwa Group has held HKQC Events in which all employees, including temporary workers, participate. The purpose of these events is to raise awareness of HKQC and share sales and business administration knowledge. Knowledge of all types is shared at HKQC Events to improve work processes. For example, participants confirm business process flows, and individual divisions share case studies of close calls they have experienced and suggest ways to make business processes more efficient. HKQC Events have become firmly established throughout the Group as an opportunity to form and transmit a results-oriented corporate culture. Individual Group companies, for example, independently hold their own HKQC Events as a way to pass down this Group culture, including the HKQC spirit.

### Initiatives

#### • HKQC Events

In FY2019, we held a total of nine HKQC Events and 1,272 employees participated in them. A theme was set for each event and employees discussed it, share various opinions to identify issues such as risks and inefficient procedures present



	Number of events and companies	Number of participants	Main themes
Hanwa Co., Ltd.	9 times*	1,272	<ul style="list-style-type: none"> <li>Confirmation of improvement in the issues identified by the previous event</li> <li>Risk management method for operations</li> <li>Digitization and improvement in efficiency of operations</li> <li>Standardization of business procedures, etc.</li> </ul>
Group companies	28 companies	—	<ul style="list-style-type: none"> <li>Ensuring process management</li> <li>Maintenance and improvement of safety and health, etc.</li> </ul>

\*Initially, 11 events were planned, but the HKQC Events planned in late February 2020 and after were postponed due to the spread of the COVID-19 infection.

#### • Initiative for performance evaluation system

To instill HKQC as part of daily activities on an individual basis, from FY2020, we will implement a performance

in daily operations, and confirmed basic ideas of initiatives for improvement. Further, Group companies also held HKQC Events and discussed measures for ensuring process control as well as maintenance and improvement of safety and health.

evaluation system that incorporates the results of HKQC activities into individual performance evaluation.

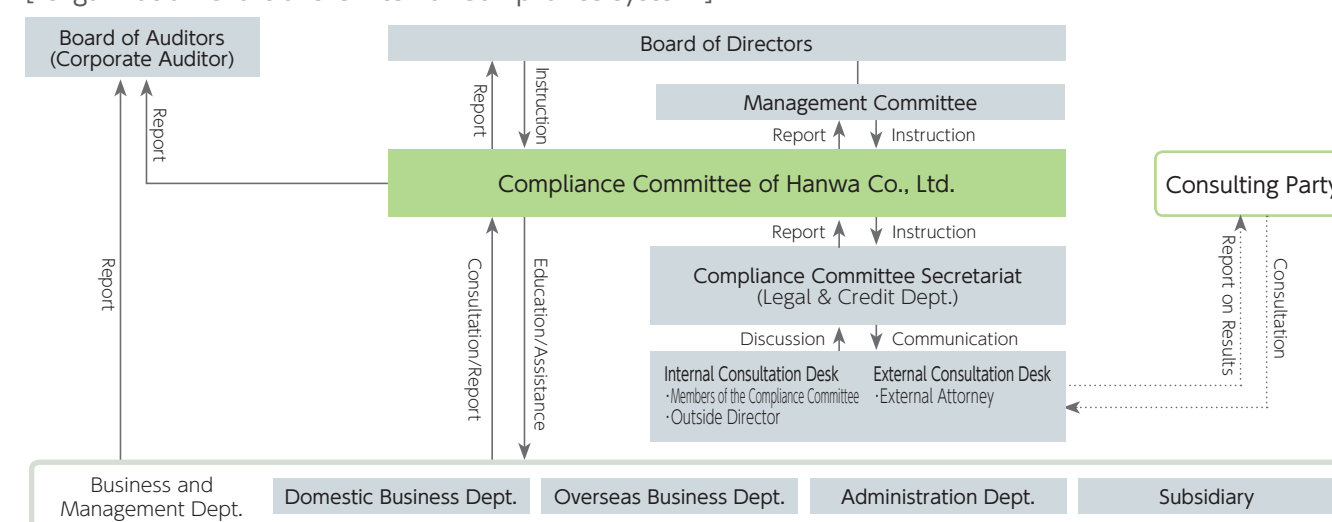
## Compliance

In recent years, society is paying rigorous attention to corporate injustices, and news about corporate scandals have been emerging one after another. The Company is committed to ensuring that all officers and employees thoroughly adhere to compliance in their daily business activities, and to creating a corporate culture that is open to the public and with high ethical standards.

### Basic stance

In order to embody the Corporate Ethics and Corporate Ethics Code of Conduct formulated based on the Company's creed, the Company promotes legitimate and fair corporate activities through various initiatives.

### [ Organization Chart of the Internal Compliance System ]



### Initiatives to ensure compliance

#### (1) Education of officers and employees

Since April 2006, the Company has created a compliance manual as a guideline to be observed by all officers and employees, and it has been prepared in various languages for all officers and employees of the Group around the world. This manual has been revised as necessary in line with changes in the environment and revisions in the law, and the fifth edition was issued on April 1, 2019.

In addition, the Compliance Committee, whose members consist of managerial staff who are general managers or higher in the administrative divisions, is held regularly. The administrative divisions such as the Personnel Department and the Legal & Credit Department work together to improve the compliance awareness of each individual employee by conducting training for new employees and managers.

#### (2) Strengthening of the organization

The Company started its operation of HKQC (Hanwa Knowledge Quality Control) in 2015 and is working to further bolster management of a wide range of risks, including violations of laws and regulations related to Company's business operations.

#### (3) Responding to social change

On April 1, 2018, the Company established the "Hanwa Health and Productivity Management Declaration" and the Representative Director and President himself became the CHO (Chief Health Officer), establishing the

Health and Productivity Management Office within the Personnel Department. This initiative shows the Company's commitment to promoting the health of each and every one of the officers and employees, a basic foundation of a trading company, and its aim to create a worker-friendly environment for all officers and employees. It is also an initiative responding to the enforcement of laws related to work style reform. In this way, if there are any revisions to laws and regulations related to corporate activities, we will promptly respond to such revisions and ensure compliance with them.

#### (4) Consultation Desk

The Company has established multiple internal consultation desks to enable all officers and employees of the Hanwa Group to freely consult and report on compliance issues, as well as an external consultation desk supported by law firms. We have also established dedicated consultation desks for various types of harassment and so forth, which are making headlines in recent times. By establishing a number of consultation desks that are independent from the management, all Group officers and employees can feel free to consult on any matter without having to take it all on themselves.

In addition, information and consultation contact points for external parties, including business partners, are provided on the Company's website. By enhancing these consultation points, we work to identify and resolve problems at an early stage.

## Key Theme 3 Workplaces geared to employee self-realization

Relationship with SDGs



### Basic Ideas on Human Resources

Jiro Kita, the founder of our company, believes that “trading companies have to cherish its human resource” and has developed businesses believing that “the prosperity of a company and the welfare of employees are inseparable like the two halves of the whole.” Seventy years have passed since establishment, but this philosophy still remains as the basis of our Company’s approach to human resources.

Undergoing the changing social environment in the world, arranging personnel systems and welfare systems to create an ideal workplace is crucial to enlarge our business. Our workforce has become more diversified with an increasing

number of mid-career employees, employees of foreign nationality and female career employees. By reflecting the voices of our employees, Hanwa will continually improve working conditions.

With regard to human resources development, we have adopted the keyword “Professional & Global” (= “P&G”). We need people who are eager to enhance their expertise in their respective domains and fully utilize it to play active roles in various fields. In order to cultivate employees who think and act on their own to create business, we have prepared the necessary training and challenging opportunities.

### Creating a Worker-friendly Environment

Building a worker-friendly environment and condition leads to high performance.

Our employees submit a “self-declaration form” once a year for the purpose of learning whether they are satisfied with our personnel system and confirming their career plans. We have also set a “suggestion box” which allows employees to express their requests and opinions to the Personnel Department at any time throughout a year. These initiatives allow us to receive requests and opinions from employees, improve welfare programs, and reform the personnel system to enable flexible work arrangements. Past improvements include the revision of the housing allowance system and the introduction of a system for annual paid holiday on an hourly basis. We will continue efforts to increase productivity of employees, while adopting systems necessary to respond to the change of the times.

As part of the efforts to increase productivity, we are working on a project to reduce paper usage in the Company. Our business has involved many documents such as order sheets and delivery slips, requiring spaces for storing a large volume of paper. This has been an obstacle for promoting work automation and work-from-home arrangements. Going forward, we will minimize paper work and improve our operational efficiency by introducing systems that automatically input data and using AI and RPA effectively.

As to the workplace, we will consider new working arrangements such as working from satellite offices or home to increase productivity, by measures such as the effective use of travel time. We have introduced a work-from-home system as an emergency response to COVID-19. The next step is to consider initiatives to adapt to the new normal.

### Education of Human Resources

The concept underlying our Human Resources Education is the development of “P&G” resources.

“P” is the acronym of Professional and refers to the ability to solve user’s problems with a high level of expertise and management skill. “G” is for Global. This not only refers to human resources who communicate with the understanding of the uniqueness and the diversity of each region of the world, but also includes human resources who have an open-mind.

We consider FY2020 as the inaugural year for developing human resources with a global mindset. In order to develop “P&G” talent who are suitable for the aptitude and job re-

quirements of each level, we will develop human resources with a global mindset through the overseas trainee system and a program for studying a language abroad. In addition, we will continue conducting personnel assignment and OJT and group OFF-JT training effectively. As to the content of training, we will eagerly incorporate various topics, always keeping our eyes on the needs of the field and social trends.

We believe that the continuous self-improvement of employees is an extremely important requirement for “P&G” talent. Employees constantly striving for self-development foster an “organization of continued learning.”



**Toshihiro Kawaguchi**  
Executive Officer  
In charge of the Personnel Dept.,  
General Affairs Dept.,  
Accounting Dept., Finance Dept.

### “A message from the Personnel Executive Officer Development of “Professional & Global” Talent”

message

In an age where the business environment and the social environment are changing day by day, people who can create new value in this age are the ones who can respond and adapt to these changes. The future growth of Hanwa will be supported by employees who can change their own mindset and create new value and business models without being bound by traditional values and nature of work. We aim to raise our profile and appeal as a company, while continuing the recruitment of excellent students and developing them through training and other means. We also plan to focus on mid-career hiring in order to place the right people in the right place.

Over 70 years since our foundation, the consolidated number of employees now exceeds 4,000. New businesses are springing up as more and more employees move across borders. For example, Japanese employees are developing businesses in overseas offices, and national staff members of overseas offices are coming to Japan and actively involved in local projects. We consider FY2020 as the inaugural year for developing human resources with a global mindset. We will further develop talent who can play an active role in Japan and overseas.

We are also promoting initiatives on diversity, reforming the traditional male-centered way of doing business and expanding opportunities for female employees by encouraging their transition from general office workers to career employees and their participation in the company core system update project. As demonstrated in the increase in the number of male employees taking child-care leave, the awareness of employees is also changing.

These initiatives require changes in the way we work. We need to seek the work style or work environment that would give us an edge in the market, while ensuring compliance with laws and regulations concerning overtime hours and paid leave acquisition. We aim to enhance the sense of belonging of employees by establishing flexible work arrangements such as a work-from-home system, enhancing programs to support employees’ physical and mental health to build an environment where they can achieve maximum work performance, and expanding training programs for developing their skills, in consideration of their various requests and wishes as well.

We introduced a new personnel system in April 2020 to create an environment where employees can continue working after they reach the official retirement age of 60. Employees of Hanwa have been playing active roles in various business fields with their respective expertise. Instead of putting an end to their career when they reach the retirement age, we expect them to continue supporting and actively participating in Hanwa and the society, contributing to our growth and the development of next-generation senior executive candidates.

We will work on the sustainable improvement of our corporate value and status, while responding to the domestic trend of a declining birthrate and aging population as well as the global trend of SDGs.



Promotion of Diversity

Promotion of Women's Participation and Career Advancement in the Workplace

We renewed our action plan to promote women's participation and Career Advancement in April 2020. The new three-year plan reflects opinions of female employees based on the questionnaire surveys undertaken in women empowerment programs conducted seven times in

FY2019. We also appointed our first female general manager, along with the first female manager in the overseas offices. We also welcomed a female outside director. We will further promote women's participation and advancement in the Group.

Action plan based on the Act on the Promotion of Female Participation and Career Advancement in the Workplace and the Act on Advancement of Measures to Support Raising Next-Generation Children

Plan period	Three years from April 1, 2020 to March 31, 2023
Our issues	[ Issue 1 ] We have not sufficiently improved the working environment, increased the paid leave acquisition rate, and reduced overtime hours → [ Goal 1, 2, 3 ] [ Issue 2 ] The rate of male employees taking childcare leave is low → [ Goal 4 ] [ Issue 3 ] General office workers and managerial general office workers have few opportunities to be transferred and gain new experience → [ Goal 5 ] [ Issue 4 ] The percentage of women among career employees including managers is low → [ Goal 6 ]
Goals and initiatives	[ Goal 1 ] Improve the working environment to increase productivity -Beyond FY2020 1H : Utilize a new personnel system -FY2020 1H : Introduce systems for annual paid holiday on an hourly basis and telecommuting Create opportunities to inform all employees of the rules on nursing care leave -FY2020 2H : Consider the introduction of flextime -Beyond FY2020 2H : Support employees to return to work from childcare leave and provide training to improve IT literacy Introduce a new core system to achieve the standardization and greater efficiency of operations [ Goal 2 ] Increase the annual paid leave acquisition rate to 65% -Each fiscal year : Set recommended dates for taking paid leave to encourage employees to take paid leave -Each fiscal year : Individually contact employees who have taken few or no days of annual paid leave through the Personnel Department -Each fiscal year : Regularly sum up the annual paid leave acquisition rates of each department and report them to all managers [ Goal 3 ] Reduce the annual total working hours per employee to 1,900 -Each fiscal year : Inform all general managers and above of the maximum overtime hours -Each fiscal year : Prepare monthly reports on overtime hours by department and report them to all general managers and above [ Goal 4 ] Encourage male employees to take childcare leave -Each fiscal year : Create opportunities to inform all employees of the childcare leave system [ Goal 5 ] Promote personnel changes -Each fiscal year : Regularly implement personnel changes to facilitate long-term career goals of employees, taking into account both wills of employees and needs of departments [ Goal 6 ] Increase the percentage of women among career employees and managers -Each fiscal year : Keep the percentage of female career employees among new graduates hired at 20% or more, and achieve 30% or more in the final fiscal year of the plan period -Each fiscal year : Provide opportunities to review career plans by offering women empowerment programs

Employment of People with Disabilities

As of April 2020, we have 35 employees with disabilities, attaining the statutory employment rate of 2.2%.

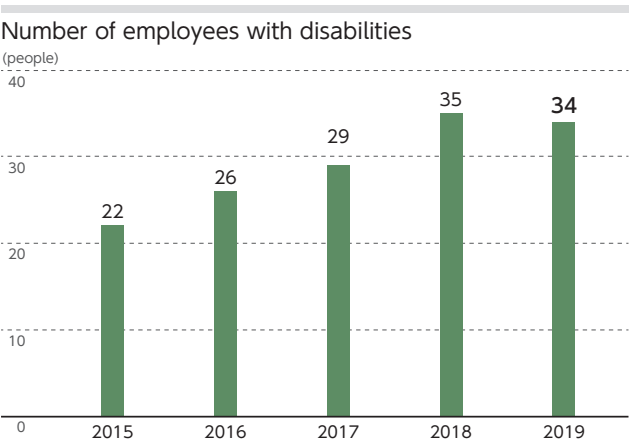
As the statutory employment rate is expected to rise in the next year, we will continue the active recruitment of people with disabilities.

We are conscious of creating a workplace which allows them to work with a peace of mind for a long period. We have a consulting contract with a company specialized in the employ-

ment of people with disabilities and have arranged consulting sessions on a monthly basis with people with disabilities to discuss their various concerns. We are also implementing initiatives to provide a flexible work style that matches personal circumstances. For example, we have recruited three people with disabilities who work from home in Kochi Prefecture since May 2018. Their main job is to input data via PC. Every morning, team members actively communicate, checking in with each other's

health conditions. By encouraging such communication, we are creating a worker-friendly environment where they can learn about each characteristic and work as a team. While they were working shorter hours for a certain period of time after joining the Company, they are now working full-time. This effort also contributes to the job creation in rural areas.

In addition, as part of our social contribution activities, we are encouraging employees with disabilities to communicate their characteristics in online magazines on employment of people with disabilities and seminars on social withdrawal, whereby sharing feelings and possible solutions with those with the same characteristic. We plan to continue these activities as they have been well received by readers and seminar participants.



New challenge in the employment of people with disabilities

We have also embarked on a new challenge in employing people with disabilities. Recently, we have partnered with a start-up shoeshine company where people with disabilities are working as professional shoe shiners. We aim to offer its shoe shining services

not only to our employees but also to our business partners. This activity, in which people with disabilities continuously participate in a sustainable business, is a perfect example of an initiative that contributes to the SDGs.



Health and Productivity Management

Hanwa views employee health management from a managerial perspective, and the company, employees and Hanwa Health Insurance Society work together to promote the health of the employees and their families. On April 1, 2018, the Company established the "Hanwa Health and Productivity Management Declaration," and the Representative Director and President Hironari Furukawa became the CHO (Chief Health Officer) and established the Health and Productivity Management Office within the Personnel Department. We have employed a public health nurse and been working on promoting the health of employees by collaborating with the Health Insurance Society and our occupational physicians.

With the establishment of HANWA HEALTH PLAN 2020, which outlines the goals for health and productivity management, the Company has set numerical targets for health promotion activities, such as disease prevention, severity prevention, and promotion of mental health care. In response to the full enforcement of the Revised Health Promotion Act, we have established a program to sup-

port the cost for smoking cessation outpatient treatment. We are also strictly prohibiting smoking outside the designated smoking areas as a way to eliminate the risk of passive smoking. In addition, we have implemented specific initiatives including health improvement seminars by our public health nurse, tests to analyze employees' stress conditions, and training programs for department managers to feedback on the analysis results. We have also conducted various programs that would help employees manage their health while having fun, such as selling healthy box lunches, bringing in balance balls, and holding yoga events.

In 2020, we were recognized as a 2020 Certified Health & Productivity Management Outstanding Organization (large enterprise category).

Going forward, we will continue to promote measures to promote the creation of an environment where all employees can continue to be healthy, both physically and mentally, and play an active role.

Key Theme 4 Environmental considerations

Relationship with SDGs



The basic policy of the Hanwa Environmental Policy is that the Company strives to realize sustainable development to pass on a rich global environment to the next generation. As the world faces various environmental problems, we contribute to the realization of sustainable society by tackling issues such as the realization of a recycle-oriented society, the effective use of natural resources and energy, pollution prevention, and biodiversity.

The Environmental Policy of Hanwa Co., Ltd.

Basic policy

Living by our motto of “Footwork, Teamwork and Network,” we—in our position as a trading company that makes a difference through all of our business activities—will do our utmost to reduce environmental loads so that future generations will inherit a fertile global environment.

Guidelines for corporate action and major activities

Guidelines for Corporate Action	Goals & Objectives	Major Activities in FY2019
<b>1. Continuous improvement of the environmental management system (EMS).</b> We will implement and review its environmental objectives and goals based on this environmental policy, and operate and continually improve the EMS.	Continuous improvements in the EMS/Use of standards	Implementation of both internal and external audits Briefings on standards for newly appointed environmental managers
<b>2. Compliance with relevant environmental laws and regulations.</b> We will comply with relevant environmental international treaties, laws and regulations of Japan and related countries, and other agreements and requirements, etc. of the trade industry which we agree to obey.	Compliance with relevant environmental international treaties, laws and regulations of Japan and countries concerned Strict observance of industry agreements and guidelines	Compliance with the Basel Convention (and its Domestic Laws) Compliance with Act on the Rational Use of Energy Compliance with Waste Management and Public Cleansing Law Participation in the Keidanren, Japan Foreign Trade Council, Inc.'s Voluntary Action Plan on the Environment
<b>3. Contribution to a sustainable recycling system for an economic society.</b> By actively engaging in the recycling business etc., we will contribute to the realization of a sustainable recycling system for an economic society.	Promotion of recycling business	Promotion of steel scrap recycling/ Sales of used steel/Promotion of the recycling of non-ferrous metal materials/ Promotion of the recycling of used paper/ Drafting of proposals for and sales of steel slag
<b>4. The effective use of natural resources and energy.</b> We will give careful consideration to the preservation of the global environment and make use of resources and energy effectively.	Involvement in activities related to renewable energy	Promotion of the development of biomass fuels Supply of parts and materials for solar power generation and wind power generation
<b>5. Consideration of the natural environment.</b> Through our business activities and products, we will always consider the reduction of adverse environment impacts and make every effort to prevent pollution.	Reductions in CO2 emissions produced by domestic plant and office locations	Measures to conserve energy
	Maritime pollution prevention measures	Maritime pollution prevention at the oil tank facility in Funabashi
	Promotion of sales of anti-pollutant products	Sales expansion of high-corrosion-resistant coated steel sheets/Sales expansion of steel pallets
<b>6. Promotion of environmental awareness.</b> We will inform all employees of this policy and actively encourage them to recognize the importance of environmental preservation. This environmental policy will also be made available to the public.	Careful consideration toward biodiversity	Acquired SGEC-CoC certification, expanded handling of related products
	Promotion of environmental awareness activities for employees	Environmental education for newly appointed section managers and environmental managers

Environmental Management System (EMS)

We put an Environmental Committee in place, along with an environmental management program chaired by our executive officer of the administrative divisions. Accordingly, we run our Environmental Management System (EMS) under this framework. An environmental management officer is appointed by the Environmental Committee and bears the responsibility for the maintenance and control of the internal EMS. The CSR & Environment Section is established to provide organizational support for the Environmental Committee's Secretariat and the environmental management officer. Internal environment auditors are selected from among persons who have completed the internal auditor training course conducted by the inspection and registration companies and carry out audits twice a year. Each department, branch and business location appoints environmental managers who promote EMS-related practical work and internal education.

[ Environmental Management System (EMS) ]



Continuous Improvement of EMS

Internal Environment Audit

An internal environmental audit was conducted for 25 departments during June 13-19, 2019 and for 27 departments during November 20-29, 2019. The audit focused on reviewing whether measures to fulfill goals and objectives were clearly defined, whether appropriate reviews were being conducted, whether procedures and evaluations of risks including related legislation were appropriate, and whether measures were taken to improve on the recommendations made by the previous internal and external audits.

External Audit

LRQA (Lloyd's Register Quality Assurance Limited) conducted an external audit of 12 departments during July 16-18 2019. In addition, it was conducted from January 23-24, 2020 on 10 departments. The audits focused on whether the EMS was effectively implemented at the respective sections.

[ The number of organizations that have acquired ISO 14001 certification ]

Domestic offices .....	19	*An Environmental Management System (EMS) is developed in each overseas office or Group company and the necessary certifications are acquired.
Domestic Group companies .....	3	
Overseas Group companies .....	17	

Promotion of Environmental Awareness

Upon implementing the EMS, we conduct environmental education seminars every year for newly appointed section managers and environmental managers. In 2019, the sessions were conducted on March 20 for new section managers, and for new environmental managers on May 16 and 21. At each session, an outline of the ISO 14001 standard was given, and the environmental management manual was explained with a focus on legal compliance, crisis management, effective use of resources, and business improvement.

Management Review

A management review on activities in FY2018 was conducted during the Environmental Committee meeting on June 25, 2019.



## Initiatives for creating a recycle-oriented society

### Renewable Energy Related Business

#### Providing a stable supply of woody biomass fuels to support output electric power supply with biomass energy

We are engaged in the business of biomass fuels that are expected to serve as a renewable energy. Our main products include PKS (Palm Kernel Shell) and wood-based biomass fuels such as wood pellets. For PKS, we are the largest importer in Japan in terms of handling volume.

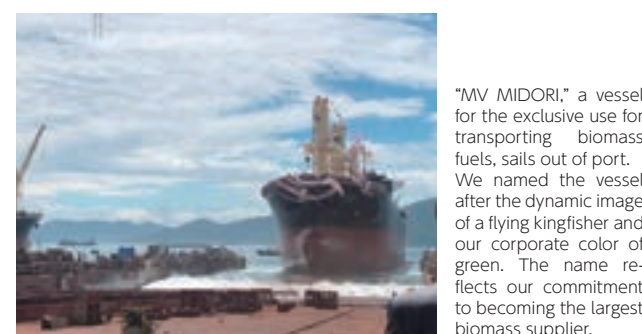
Palm kernel shells are the shells that cover the kernels of oil palm fruit seeds, and a by-product of palm oil production from oil palms. They have been discarded as waste, but recently drawn attention as a biomass fuel because of their rich oil content and high calorific value. Palm kernel shells are produced mainly in the Southeast Asian countries such as Indonesia and Malaysia. We have been importing PKS since 2013 and supplying them to power generating businesses in Japan and South Korea. In 2019, we chartered a vessel for

the exclusive use for the transportation of biomass fuels as part of our efforts to ensure a sustainable and stable supply of biomass fuels.



#### Recycled fuel RPF

We are also focusing on RPF (Refuse Paper & Plastic Fuel) that has become popular as an alternative for fossil fuel for industrial production. RPF is made mainly from industrial waste such as waste paper and waste plastic. It has many advantages such as less CO2 emissions (approximately two-thirds of coal) and lower prices. We began handling RPF in 2003 and currently handle more than 100,000 tons annually. In addition to our nationwide network, we welcomed an RPF producer, Seibu Service Group (consisting of Seibu Service Co., Ltd. and Alpha Forme Co., Ltd.), in our Group in 2015 to achieve a more stable supply system.



#### Recycling of other materials

- Used paper  
We have been selling a wide range of recyclable used paper ranging from old newspapers, cardboard, and other standard paper types to more specialized, high-quality types such as milk cartons to domestic paper mills for thirty years. In recent years, we have also been engaged in the handling of used office supply paper (such as shredded documents) and the export of used paper to Southeast Asian countries that have been seeing explosive growth. We have also begun working with environmentally friendly, recyclable packing materials made from recycled milk cartons.
- Reclaimed oil  
We sell reclaimed oil that is reprocessed using used automotive engine oil and industrial lubricants to users who can make use of it. Most of our customers use it as a replacement for Class A or Class C fuel oil at factories involved with aluminum melting and steel processing.



### Recycling Business of Mineral Resources

Japan is a country lacking in mineral resources and is dependent on imports for almost all of its mineral needs. In that light, initiatives to recycle useful metals such as steel and non-ferrous metals have an important role when it comes to making effective use of available resources. We are proactively engaged in the business of recycling

#### Recycling of steel materials

Our steel business follows two different types of flow cycles, a primary cycle in which we are engaged in the sale of steel materials to users in a wide variety of fields, including construction, engineering, automotive, machinery, home appliances, and others, and a secondary cycle in which we are involved with the reuse of steel scrap and used steel.

To ensure that both flow cycles run smoothly, we work to respond to customers quickly and improve our abilities to produce the best arrangements that fit the needs of steel mills in our steel scrap business activities. We take used steel scrap materials and work in conjunction with affiliate scrap suppliers to transform the scrap into high-value-added scrap material for delivery to steel mills who can then use the scrap.

#### Establishing reuse system of steel resources

Hanwa Eco Steel Corporation, a Hanwa Group company, reuses used steel such as H-beams and steel sheet piles under the motto, "Give steel another chance to be of use!" The number of users requesting the use of used steel due to its cost effectiveness is increasing. Hanwa Eco Steel Corporation contributes to the effective use of limited resources by responding to user demands through the Just-in-Time strategy.

With the smooth development of a reuse system for steel, we continue to make contributions to the effective use of steel resources.

Steel plates from Hanwa Eco Steel Corporation are being used in a variety of sites, including rentals for use as scaffolding in road repair in disaster areas.



#### Recycling of non-ferrous materials

One of our Group companies, Showa Metal Co., Ltd., is engaged in a complete recycling process of titanium and nickel scrap starting from the collection and quality control of the scrap to the sorting, shipping, and delivery to stainless steel and special metal manufacturers. Working together with Showa Metal, we are engaged in expanding a rare metal scrap processing business that caters to the specific needs of customers as a "global metal recycler."

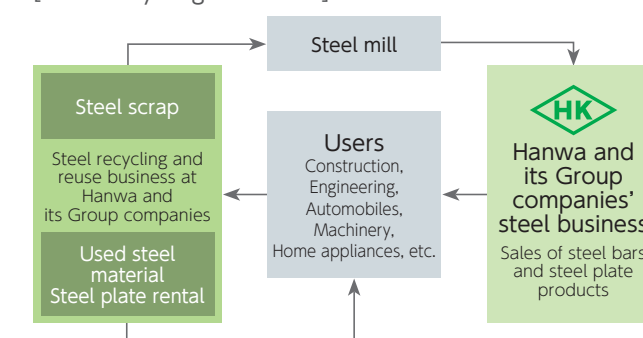
A cleaning machine for degreasing, washing, and drying of finely broken titanium scrap (Naoetsu Plant, Showa Metal Co., Ltd.).



steel and non-ferrous metals. We boast a rich track record in Japan and abroad for making the most of so-called "urban mining," and through this we are contributing toward the creation of a recycle-oriented society.



#### [ Steel recycling at Hanwa ]



#### Recycling of aluminum

In August 2012, we acquired shares of SEIKI Co., Ltd., a company engaged in the production of aluminum deoxidizer for steel and aluminum can recycling. This has enabled us to establish a deoxidization material business through which we supply aluminum to blast-furnace steel mills for use in the deoxidization and decarburization processes in converter furnaces.

We also recover used aluminum cans, remove the impurities and other materials from the cans, and melt them down into recycled aluminum ingots that are analyzed for content and processed before being supplied to manufacturers. Our combined operations of Hanwa Logistics Nagoya Co., Ltd. and SEIKI further enable us to pursue business involving raw material sourcing, processing, and sales of aluminum products.

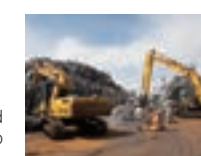
Can-to-Can aluminum recycling products. "Regenerated aluminum ingots"



#### Recycling of stainless steel materials

Our Group leverages toward stable supply of scrap metal mainly through our Group company, Hanwa Metals Co., Ltd., by collecting stainless steel scrap. Stainless steel that has reached the end of its useful life as part of a regular product is collected by Hanwa Metals as scrap metal and checked thoroughly for problems and supplied to steel mills as scrap metal.

Stainless steel scrap is collected at and delivered from the scrap yard at Hanwa Metals Co., Ltd.



## Non-ferrous metal scrap business overseas

We engage in the non-ferrous scrap metal business outside Japan mainly at five overseas locations: HANWA THAILAND CO., LTD., HANWA SINGAPORE (PRIVATE) LTD., PT. HANWA INDONESIA, the LONDON BRANCH OF HANWA CO., LTD., and HANWA AMERICAN CORP. We operate in compliance with the Basel Convention in handling transactions involving import, export and offshore trade, provide users in Japan and elsewhere with consistent supplies of recycled materials and take steps to reduce environmental loads. In 2016, Hanwa established a joint venture with Mitsubishi Materials in the Netherlands that began its operation in 2018. This has further strengthened our business handling precious

metal scrap contained especially in circuit board scrap.

We send our highly-skilled employees to other locations with the mission of expanding our network of suppliers so that we can better ensure quality and consistent supplies of non-ferrous scrap metal. In 2018, we began trade with Russia, the three Baltic nations, and several African nations including Nigeria, Botswana, and Morocco. In recent years, we have been further enhancing our ability to provide Just-In-Time deliveries to factories by successively setting up factories in the ASEAN member countries, as Japanese firms increasingly expand operations overseas.

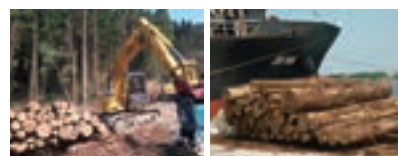
## Careful Consideration Toward Biodiversity

We also exercise care toward the natural environment by recognizing the importance of the conservation of biodiversity and sustainable use of the environment.

### Initiatives for exporting timber from forest thinning

We began exporting timber from forest thinning in 2006 and presently exports about 150,000 m<sup>3</sup> annually to China, Taiwan, and other markets. Timber export helps to lift timber prices by bringing in a more diverse range of buyers and help to maintain employment, thereby stimulating local economies. In addition, exports protect the land by promoting forest maintenance, which also helps the forest to absorb more carbon dioxide. We will continue to use

our trading company function to develop markets in Japan and abroad and use timber exports to promote local revitalization and forest maintenance.



### Obtaining forest certifications for forestry preservation and product use

We hold CoC certifications from the Forest Stewardship Council® (FSC®), Programme for the Endorsement of Forest Certification Schemes (PEFC) and Sustainable Green Ecosystem Council (SGEC) forest certification systems (FSC®C018719). SGEC is Japan's own forest certification system and promotes forest conservation and sustainable forest management with the aim of revitalizing forests and forestry. Timber with the CoC certification is guaranteed to

be managed such that it is kept segregated from non-certified material during processing and distribution. With these certifications, we pledge our corporate commitment to further promoting eco-friendly timber production and thereby encouraging sustainable forest management.



SGEC-CoC certification

### Obtaining MSC-CoC and ASC-CoC certifications for preservation of marine resources

We contribute to initiatives to support sustainable marine products obtaining MSC-CoC and ASC-CoC certifications to make sure the distributed fisheries are MSC- and ASC-certified. Also known as the eco label of ocean, MSC certificate is the proof of marine products fished with consideration for marine resources and eco system. It is given only to natural marine products harvested in methods that meet strict environmental standards.

ASC certificate is the proof of sustainable marine products that were produced at farms that give consideration to environment and society.



MSC certification

\*CoC (Chain of Custody) certification proves that the product has been properly managed throughout the manufacturing, processing and distribution processes, that uncertified products are not mixed, and that the labeling is true.

## Key Theme 5 Good corporate citizenship

Relationship with SDGs



## Hanwa Scholarship Foundation

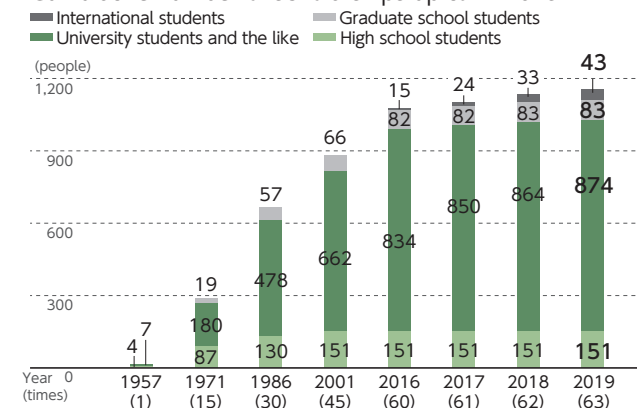
Hanwa Scholarship Foundation was established in April 1957 to commemorate the 10th anniversary of the foundation of Hanwa Co., Ltd. Jiro Kita, the company's founder and the first director of the foundation, recalling his own tough experience of learning, wished to develop talented human resources for Japanese society by offering scholarships. He established the foundation by investing 10 million yen, when the company's capital was only 0.1 billion yen. Having celebrated its 60th anniversary in April 2017, the foundation has provided support to more than 1,100 scholarship students to date.

In addition to the regular loan-type scholarship for students in Japan, the foundation started a grant-type scholarship of 1 million yen per person for studying overseas in fiscal year 2015. This is out of our passion in view of the greater pace of globalization to support as many students, with desire and ability, as possible to widen their views through overseas studies, pursue knowledge, and become human resources who can compete with outstanding young people in countries around the world.

Although Japan has become a financially affluent society, there has been heated discussions about education reform on matters

such as the population decline due to low birthrate, increasing economic disparities, deterioration of social morality, and declining education levels. Hanwa Scholarship Foundation continues to develop its business by utilizing its unique characteristics as a private-sector scholarship foundation, so that young people who will lead the next generation can play a more active role in society.

### Cumulative number of scholarships up to FY2019



### More than 60 years of experience and an expanding network

The Hanwa Scholarship Foundation's net assets in FY2019 totaled 602.45 million yen, and the number of recipients totaled 1,151. Of those recipients, 83 were graduate students, 874 were university students and the like, 151 were high

school students, and 43 were students from overseas. Many past scholarship recipients remain active in a wide range of fields, including not only the industrial world but also academia, government service, and the legal profession.

## Support for the arts, sports, education, and cultural activities

Japan Symphony Foundation	Sports Promotion Fund	Japan Public-Private Partnership Student Study Abroad Program
New Japan Philharmonic	Kizuna Koshien Baseball Tournament	Japanese Foundation For Cancer Research Project (upgrading cancer treatment facilities and improving cancer diagnostic services)
Japan Philharmonic Orchestra	All Japan Judo Federation	Tokugawa Reimeikai Foundation
Nagoya Philharmonic Orchestra	OSAKA 2020 Dream Program	Restoration work of world heritage site Kumano Kodo pilgrimage trails

## Consideration for the natural environment - reduction of CO2 emission at domestic business sites

### Endeavors as consignor

As a company involved in the distribution of goods, we have been working to reduce the energy volume of transportation since FY2006. Through the cooperation of our Group companies, Hanwa Logistics Tokyo Co., Ltd., Hanwa Logistics Osaka Co., Ltd., and Hanwa Logistics Nagoya Co., Ltd., we work to streamline shipping operations and seek the cooperation of partner forwarding companies.

### Endeavors in the office

We have conducted environmental promotion activities and attempts to reduce energy spending and CO2 emission throughout the month.

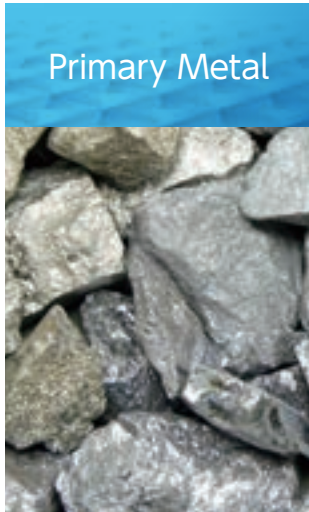
- Initiatives taken at the office
  - Wearing "cool-biz" attire (May through September)
  - Promoting installation of sensor lights, high efficiency lights and LED lights
  - Centralization of OA equipment by using card authentication type multifunction devices
  - Promoting "paperless" office systems
  - Reducing the number of business trips through the use of teleconferencing systems
  - Promoting the use of hybrid cars for sales personnel
  - Enrolling in the "Morino Chonai-Kai," and using paper created from thinned wood for internal publications, etc.



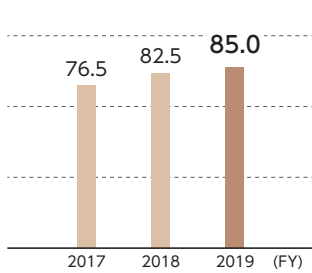
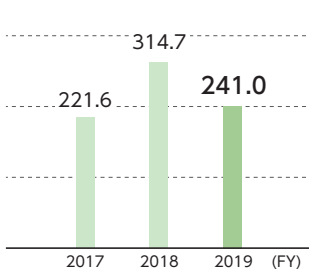
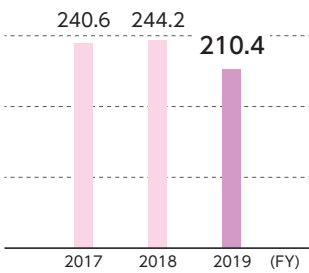
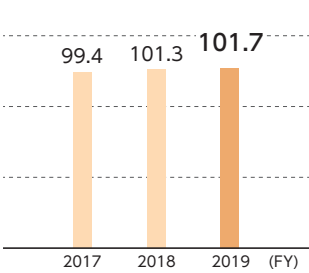
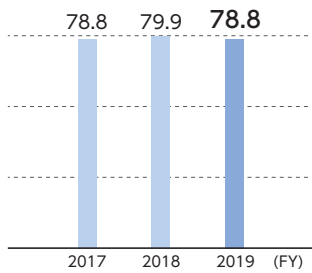
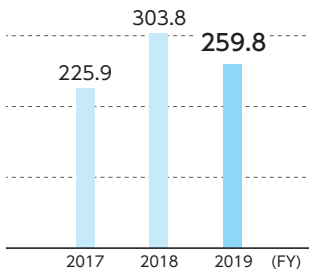
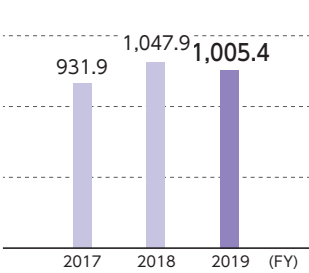
# Expanding and deepening market positions in many sectors

We have established a firm position in the industry as a trading company dealing with a wide range of products, including steel, primary metal, metal recycling, food products, energy & living materials, lumber, and machinery.

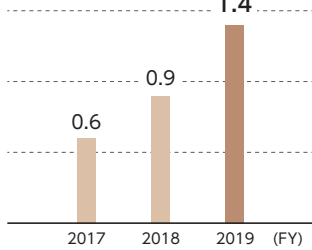
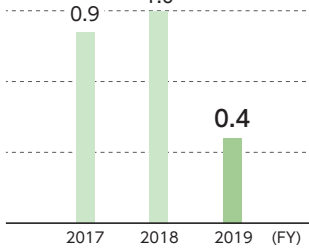
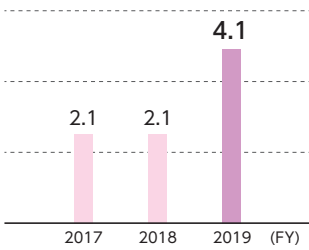
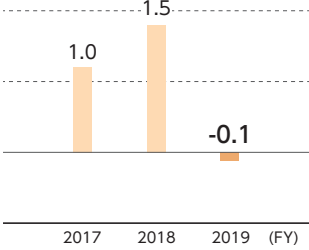
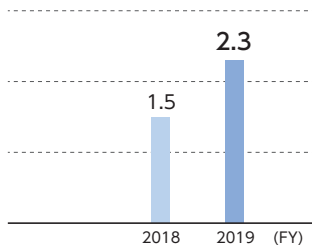
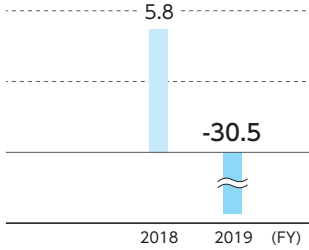
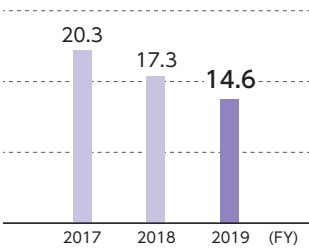
As a trading company that makes a difference, we are expanding our business fields in response to changes in the times and society to meet the business needs of our customers.



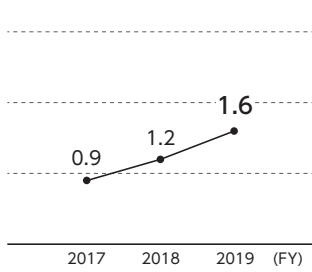
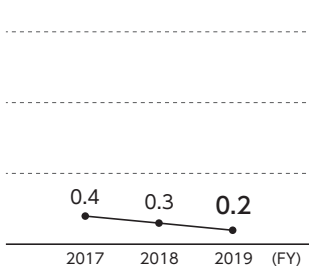
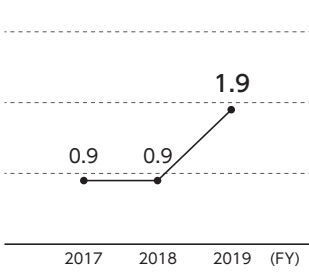
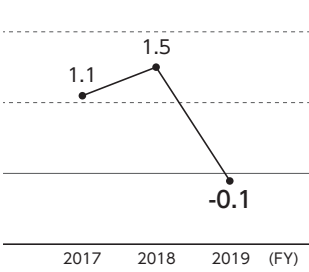
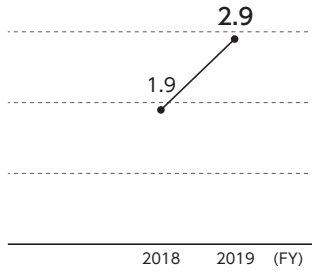
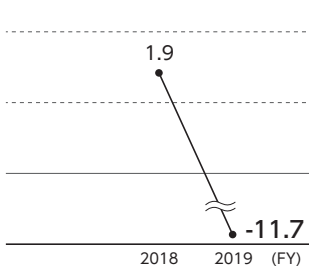
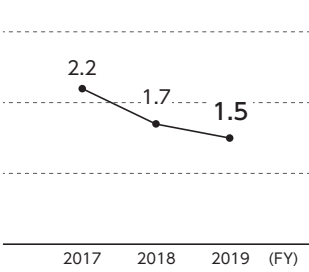
Gross sales trends  
(Billions of yen)



Segment income or loss trends  
(Billions of yen)



Segment income ratio trends  
(%)



Business composition ratio (FY2019)

Net sales



\*The business composition ratio is based on sales to external customers.

# Steel



## Business summary

Steel is our major product, accounting for 50% or more of total sales. We sell steel bars, building materials, steel sheets, steel pipes, wire rods and special steel and many other steel products. With this broad lineup, we can meet the requirements of various customers. In addition, we have one of the largest distribution centers in Japan and offer services that take advantage of our inventory and processing capabilities.

## Main products or services

Main products are steel bars, steel sheets, special steel, wire rods, steel pipes and steel scrap. We also undertake construction work as well as steel processing and storage.

## SDGs-related initiatives

The steel business leverages its sophisticated processing techniques, optimum distribution network, and partnerships around the world, whereby contributing to the establishment of resilient infrastructure in Japan and abroad as well as sustainable development of all industries including electronics, automobile, and shipbuilding. It also contributes to building of a sustainable recycling community through promotion of the steel reusing and recycling business.

## Strengths and Characteristics

In the steel business, we are able to deal with a broad range of domestic and overseas steel mills by taking advantage of our characteristics of an independent trading company not affiliated with any steel mills, and also have the advantage of being able to conduct procurement with no constraints of having to procure from a particular group of steel mills. In addition to utilizing one of Japan's leading large-scale distribution centers located in various regions, we are promoting the "SOKOKA" (Just-In-Time delivery, small lot, processing) strategy to cover the entire value chain from upstream to

downstream. We thoroughly adhere to the hands-on approach under user-first principle, accurately grasp user needs, and provide high value-added solutions such as information functions, inventory functions, and processing functions, in addition to steel distribution functions. In addition, under the banner of "Create another Hanwa in Southeast Asia," we are aiming to expand businesses with overseas users through the utilization of the network of Group companies, alliances with leading local distributors, and joint ventures with Japanese companies.

## Environment and Challenges Surrounding the Business

While domestic demand remains strong, mainly in the construction industry, there is a high probability that there will be customers who will have difficulty in securing human resources in the medium to long-term, and this will lead to a progression of outsourcing of functions such as processing. As for other companies in the same industry, reorganization is taking place among a group of affiliated companies in response to the restructuring of domestic steel mills. In addition, there is a strong demand for higher functionality yet at lower prices for customers' steel materials, and in the medium to long-term, we believe that it is possible customers switch to other materials depending on the balance between functionality and price. Especially in construction-related products, there is no denying the possibility of shifting to products related to construction methods

that can cope with the shortage of labor.

In such a business environment, in order to respond to the ever diversifying and sophisticated customer needs of the steel business, we believe that there is a need to work to further secure processing manufacturers with functions, diversify our products and services, and develop our business globally by taking advantage of the network of the Hanwa Group to seek overseas customers and broaden our relationships with overseas steel mills. At the same time, we believe it is necessary to develop human resources that are fully equipped with specialized knowledge and can play an active role in the global market, while at the same time foster efficient and labor-saving operations using AI and robots.

## Medium to Long-Term Business Policy

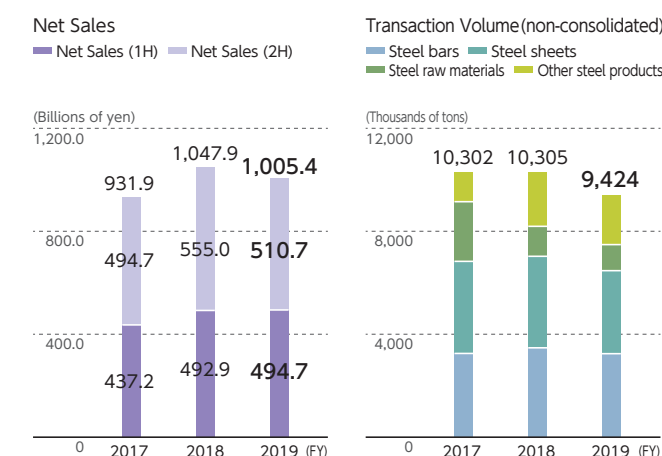
In order for our steel business to continue to grow over the medium to long-term, we believe it is necessary to provide high added value in response to customer needs in all business areas from up to down the supply chain. We intend to accurately respond to the diversifying customer needs by promoting the "SOKOKA" (Just-In-Time delivery, small lot sales, processing) strategy and acquiring more functions

through M&A. Also, the Company's policy is to deepen business relationships with overseas steel mills and processing manufacturers, in addition to domestic steel mills as well as to develop markets in regions around the world, focusing on the Asian region, in order to provide functions to distribute a wide variety of products globally.

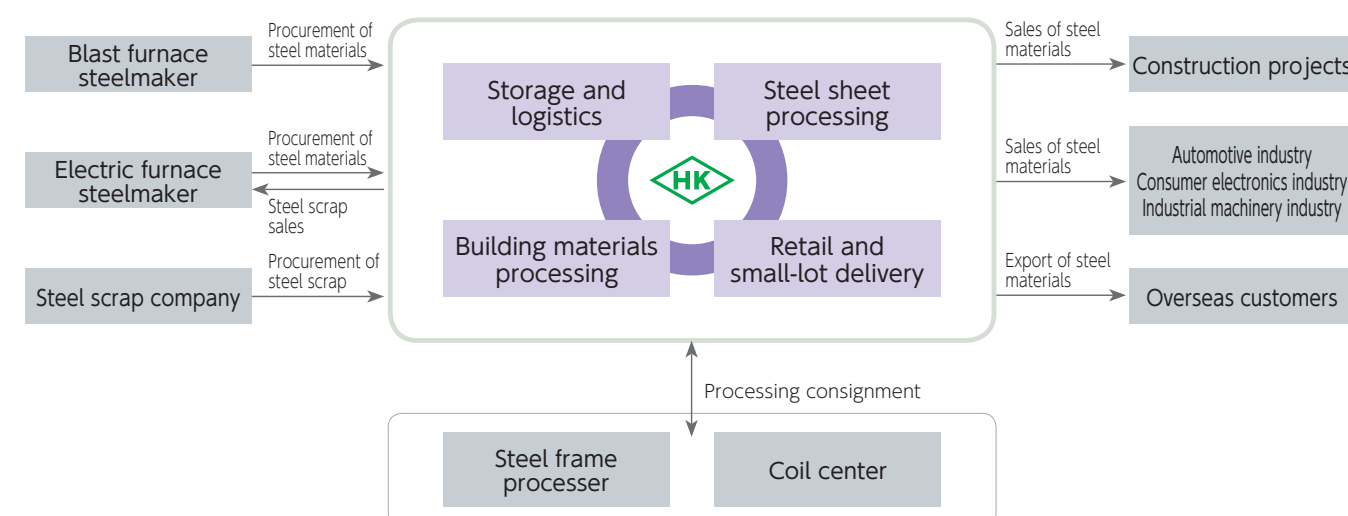
## FY2019 Results

Net sales **¥1,005.4 billion** Segment income / loss **¥14.6 billion** Segment employees **3,022 people**

In the steel business, our transaction volume for both manufacturers as well as construction and civil engineering declined given the impact of the U.S.-China trade frictions, consumption tax hike, and declining trend for steel demand due to the completion of construction works related to Olympic Games. In addition, it was difficult primarily for subsidiaries to secure profit margin due to the gradual decline in the steel price reflecting falling demand, despite the price being at a higher level compared with a year ago. As a result, sales in the business segment declined by 4.1% year-on-year, to ¥1,005.4 billion, and segment income decreased by 15.9% year-on-year, to ¥14.6 billion.



## Value Chain





# Primary Metal



## Business summary

In the primary metal business, we are trading such items as nickel, chromium, silicon, and manganese ferroalloys directly with resource countries such as Russia, South Africa, Kazakhstan, India, Brazil, Malaysia and Indonesia, as well as with producers in China which has an overwhelming supply capacity as well as demand.

## Main products or services

Main items are nickel, chromium, silicon, manganese as well as ferroalloys, stainless steel materials, and scrap metals.

## SDGs-related initiatives

The primary metal business contributes to building of industrial base through stable supply of metal resources to customers around the world. Moreover, it contributes to addressing the reduction of CO<sub>2</sub> emissions and global warming issues by being deeply engaged in distribution of the cathode materials for rechargeable batteries, which are indispensable to expand production of electric vehicles expected to become more popular in the future.

## Strengths and Characteristics

In the primary metal business, in terms of trade, we boast the largest transaction volume of ferroalloy products, such as ferrochrome and silicon-manganese, among Japanese distributors and we are responsible for the stable supply of raw materials all over the world by taking advantage of our hedging and the inventory functions. With regard to investments, we have invested in SAMANCOR, a leading company in the chromium business in South Africa and has acquired exclusive sales rights of ferrochrome for Japan, and has also invested in OM HOLDINGS, supplying ferrosilicon and manganese ferroalloys produced in Sarawak, Malaysia, to customers in

and outside Japan.

Regarding nickel, we supply nickel metal, ferronickel, and stainless steel scrap to the stainless steel and special steel industries. In addition, we supply a wide range of products to customers around the world, such as nickel and cobalt chemical raw materials for the automobile rechargeable battery industry. In addition, since 2014 we have been participating in the Indonesia nickel pig iron project hosted by the Tsingshan Holding Group of China, which boasts the largest production of stainless steel in the world, in order to expand our supply system for stainless steel materials.

## Environment and Challenges Surrounding the Business

About 70% of the world's reserves of chromium, which is one of the materials our primary metal business is focusing on, is unevenly distributed in South Africa, and of that, about 70% of its ore is owned by SAMANCOR, a company we have invested in. The oligopoly of chromium resources in the world is believed to lead to great benefits for suppliers in the stainless steel and special steel industries which require chromium resources over the medium to long-term, and these customers have high expectations for the Company. Also, the manganese business in the Sarawak state of Malaysia conducted by OM Holdings, in which the Company has invested, is regarded important production base outside the China continent by Japanese blast furnace steel manufacturers, electric furnace steel manufacturers and other companies which manufacture steel product in ASEAN region since it is free from export tariff and politically neutral.

Since materials handled by the primary metal business are the main and auxiliary raw materials that are essential for steel production and stainless steel/special steel production, we believe that ongoing demand will remain in the medium to long-term. In addition, we recognize that this business, which is based on trading and is characterized by distinctive resource investment, has a unique position in the industry and will continue to have a presence in the industry. Since major trading companies have already withdrawn from ferroalloy trading, there are many products in which the Company is the largest domestic handler. The challenge therefore is to strengthen our profitability in parallel with the increase in the handling volume, while taking advantage of our financial ability not to be struck by price competition with other ferroalloy resource companies and specialized ferroalloy wholesalers.

## Medium to Long-Term Business Policy

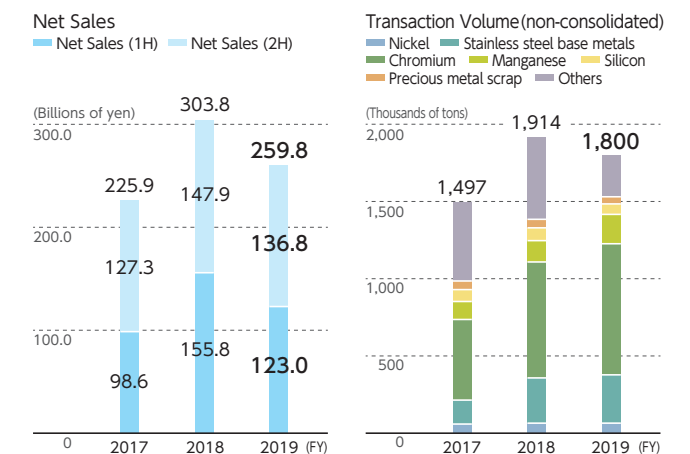
Based on our trading ability cultivated through long years of business experience, we provide a stable supply of useful metal resources for each customer such as steel, special steel, and non-ferrous metal smelting companies. At the same time, we will expand our business into the field of ferroalloy producers through characteristic resource investments and differentiate ourselves from our competitors. In addition, it is our policy to focus on business based in re-

gions including South Africa, Indonesia, Malaysia, Australia and Kazakhstan, which we have already invested in, and to expand business into China and India by paying attention to political and economic trends and environmental issues. In this way, we aim to build a global value chain from upstream to downstream and to become a leading company with a medium to long-term presence in each product.

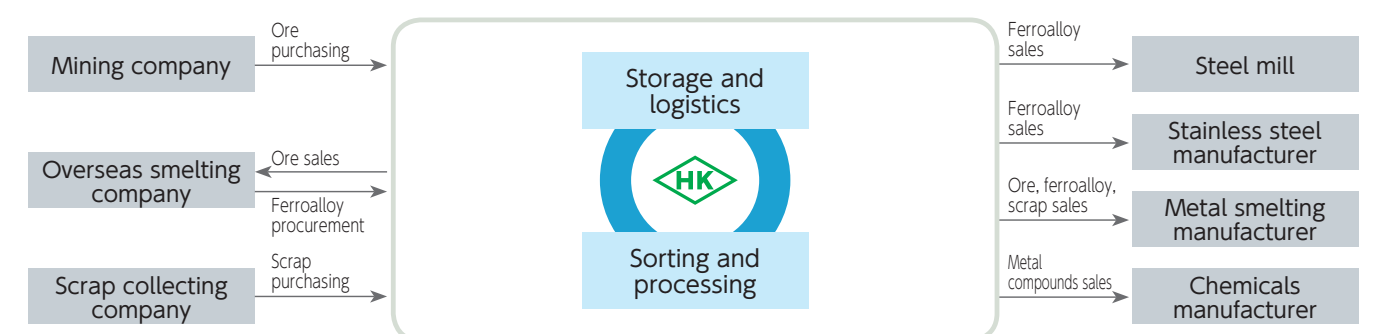
## FY2019 Results

Net sales **¥259.8 billion** Segment income / loss **-¥30.5 billion** Segment employees **56 people**

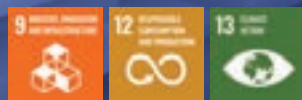
In the primary metal business, earnings were pushed down by the general weakness in the prices of chromium and manganese ferroalloys as well as stainless steel, in addition to by a decline in the handling volume of silicon ferroalloys. In non-operating income and expenses, we judged that it was difficult to collect the entire amount of our investment in SAMANCOR given the prolonged deterioration of its business environment such as the stagnation of the ferrochrome market. We recognized impairment loss of the entire book value related to mining rights, etc. of ¥27.3 billion at the end of period, which was included in the company's stock, resulting in ¥34.9 billion in equity in losses of affiliates. As a result, sales in this business segment declined by 14.5% to ¥259.8 billion, while the segment had a loss of ¥30.5 billion (¥5.8 billion in segment income in the previous fiscal year).



## Value Chain



# Metal Recycling



## Business summary

In the metal recycling business, we are one of the first companies in Japan to establish a recycling business for aluminum, copper, zinc, lead, stainless steel, special metals, and titanium. We have established solid positions in these market sectors, backed by expertise in organizing business activities on a global scale, an advantage that only a trading company can offer. We have processing facilities for the entire Group for aluminum cans, aluminum sash, special metals, and titanium to respond appropriately to users' needs.

## Main products or services

We are engaged in the recycling business for aluminum, copper, zinc, lead, nickel-based special metals, stainless steel, and titanium.

## SDGs-related initiatives

Taking advantage of the metal recycling (collecting, separating, and processing) knowhow we have accumulated over many years and the large networks of both collection and sales in Japan and overseas, we are contributing to formation of recycling-oriented economy, while working to address climate change by introducing separation facilities that emit less CO<sub>2</sub> in the aluminum product recycling business.

## Strengths and Characteristics

In the metal recycling business, we have facilities and functions for processing, separating, and inspecting scrap within the group, which allow us to respond to needs of aluminum rolling/extrusion companies and steel mills for deoxidizer application. In the special metal recycling business, we offer recycled materials to stainless steel and special steel manufacturers and rare metal smelting companies and we also proactively recycle by-products from the smelting process of lead, zinc, and tin.

We operate in compliance with the Basel Convention in handling transactions involving import, export and off-shore trade, and provide users in Japan and overseas with a stable supply of recycled materials.

As for human resources development, we carry out business rotation to overseas offices from a young age in order to develop human resources who are familiar with trade practices, competitive globally, and understanding of front-line operations and a global perspective.

## Environment and Challenges Surrounding the Business

China, which had been restricting import of metal scrap, is set to remove all restrictions and liberalize the import on November 1, 2020. The country will, however, tighten quality standards substantially, treating recycled materials as products, which will require us to offer high-quality metal scrap or raise grade of low and middle grade scrap for China.

Meanwhile, demand for metal scrap in Japan is expected to decline in the medium to long term, and we need to expand our business to overseas markets and ensure a wide range of profit opportunities.

What we must do to cope with these challenges is to increase our transaction volume of copper scrap conform-

ing with China's new rules, to improve our ability to separate and process low and middle grade scrap, and to enhance our capabilities to leverage machinery and equipment to separate, collect, and sort various aluminum scrap including automobile panels, which are expected to grow also in Japan.

As the ratio of recycled materials used in products increases at an accelerating pace around the world to ensure sustainability of materials and reduction of carbon emissions, it is necessary to improve our technology to separate and process metal scrap and ability to assure quality in every direction.

## Medium to Long-Term Business Policy

For metal scrap, we will enhance domestic subsidiaries' sorting and processing functions and form an alliance with business partners that have technical strength. In anticipation of the plateauing of domestic demand, we plan to expand our business with overseas customers in such areas as the United States, Europe, China, Southeast Asia and India as well as to promote partnerships with companies with excellent sorting and processing capabilities. At

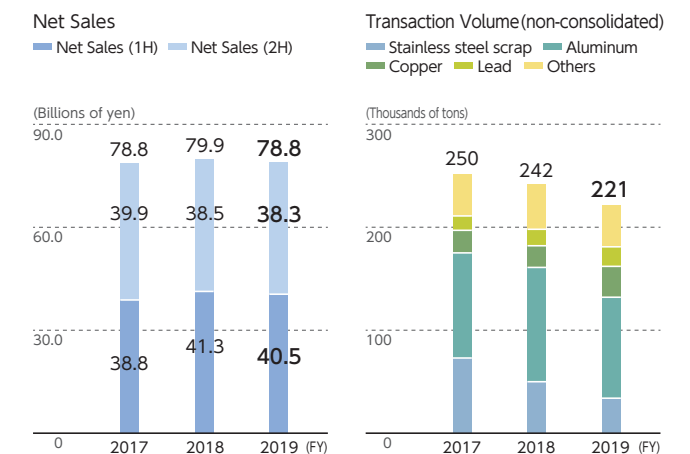
processing centers, we will promote high-level standardization in their common areas of production, strengthen their functions, and build a system that enables us to respond quickly to requests of customers.

For non-ferrous products, we will seek to deal with non-ferrous semi-finished products and internationally competitive niche products, which we have not dealt with before.

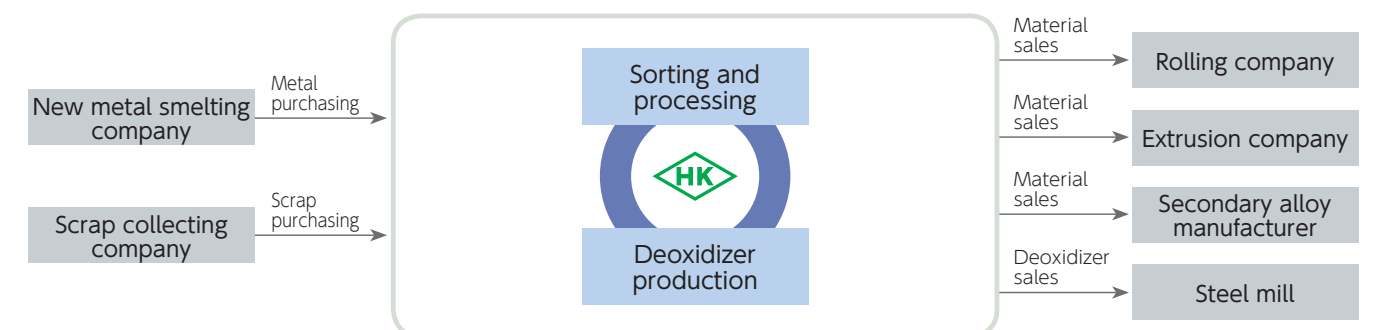
## FY2019 Results

Net sales **¥78.8 billion** Segment income / loss **¥2.3 billion** Segment employees **197 people**

In the metal recycling business, sales declined due to the weakness in the international price of base metals compared with the previous fiscal year reflecting concerns over the U.S.-China trade frictions and deteriorating economy in various countries as well as a decline in handling volume of stainless steel and aluminum scrap. Meanwhile, profits improved thanks to improvement in profitability from procurement of copper scrap when the copper scrap price declined and addition of profit from PT. HANWA ROYAL METALS, which was newly included in the scope of consolidation. As a result, sales in the business segment declined by 1.4% year-on-year, to ¥78.8 billion, and segment income increased by 51.4% year-on-year, to ¥2.3 billion.



## Value Chain





# Food Products



## Business summary

In the food products business, we mainly handle marine products and maintain a top-level import share in many items. In recent years, in order to further develop the market, we have been actively working on establishing purchasing bases in Europe and South America and sales companies in the United States and Japan. In addition, the products we process at our overseas partner factories have strengthened traceability and we have a thorough quality control system.

## Main products or services

The main products handled are marine products such as salmon, shrimp and crab, and livestock products such as chicken.

## SDGs-related initiatives

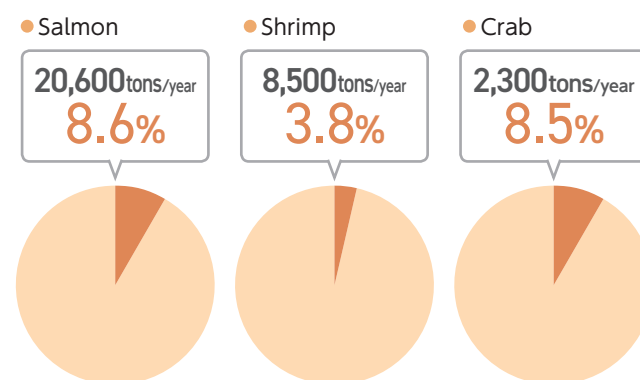
We fulfill the responsibilities that are required upon handling foodstuff including marine products and contribute to sustainable marine resource circulation. At the same time, we engage in all levels from the upstream (material procurement) to downstream (final product) sectors of the value chains in Japan and overseas to contribute to the economic development of the regions where we are involved in the food industry (production and processing of ingredients) as well as safe and secure food distribution around the world.

## Strengths and Characteristics

In the food products business, we have established sales subsidiaries for the development of domestic end-user markets and are actively promoting the sale of products processed in such places as China, Thailand, and Vietnam, by leveraging our long-cultivated seafood raw material procurement capabilities and overseas processing experience. In addition, while the proportion of farmed products in the world's seafood resources is increasing, we have newly established our subsidiary in the Republic of Chile to strengthen procurement of farmed salmon, and at the same time, we are aiming to develop markets throughout South America.

Our employees with advanced product knowledge and good agility in business are personally involved in the procurement of raw materials, local processing, and final product sales, and supply safe, secure and high-quality food products through thorough production guidance and quality control.

Our share in the marine products market in Japan (2019)



## Environment and Challenges Surrounding the Business

Against the backdrop of the strong growth in overseas demand, Japanese companies now have less say over suppliers. Going forward, if a company does not have a global sales network or the ability to respond to overseas demand, it is expected that procurement will become tougher. In addition, at present, vendors who can approach the end-users still have purchasing power, but in the medium to long-term, it is expected that the entire supply chain will be clustered and systemized by taking advantage of the functions of each company. At other trading companies in the same industry, the internal processing and other operations of each process is progressing within the group, and in the medium to long-term, it is expected that large companies that

can expand globally and secure a large handling volume and have high information collection capacity will become strong. Overseas demand is pushing up purchase prices while domestic demand is continuing to depress selling prices, and in the medium to long-term it is possible that the business may shrink if we only focus on the Japanese market.

In this business environment, the food products business must shift to a global business model so that it can expand sales volume even in markets with soaring demand by strengthening its overseas network and also shift to a business model based on vertical integration from the upper and lower reaches of the company to increase the earning power of the entire Group.

## Medium to Long-Term Business Policy

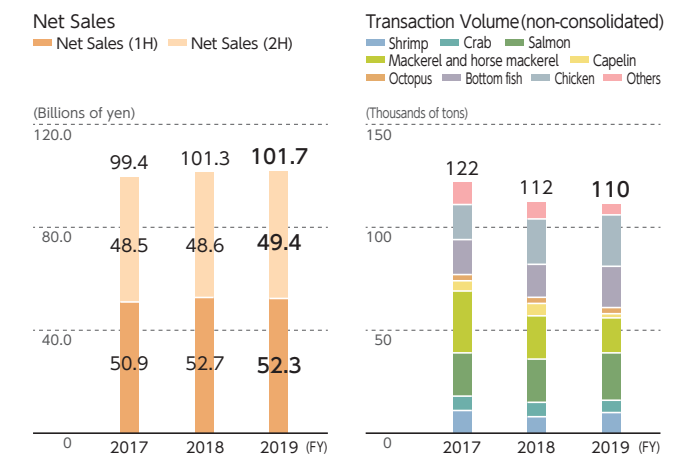
Through capital tie-ups and alliances, we will strengthen our relationships with overseas marine product processors and aquaculture operators, and as a downstream business, we will aim to expand sales channels for end users of our group companies. In

addition, we will expand our business into other food products including livestock products, rather than limiting ourselves to marine products, and expand into the markets of North America, South America, China, and Southeast Asia.

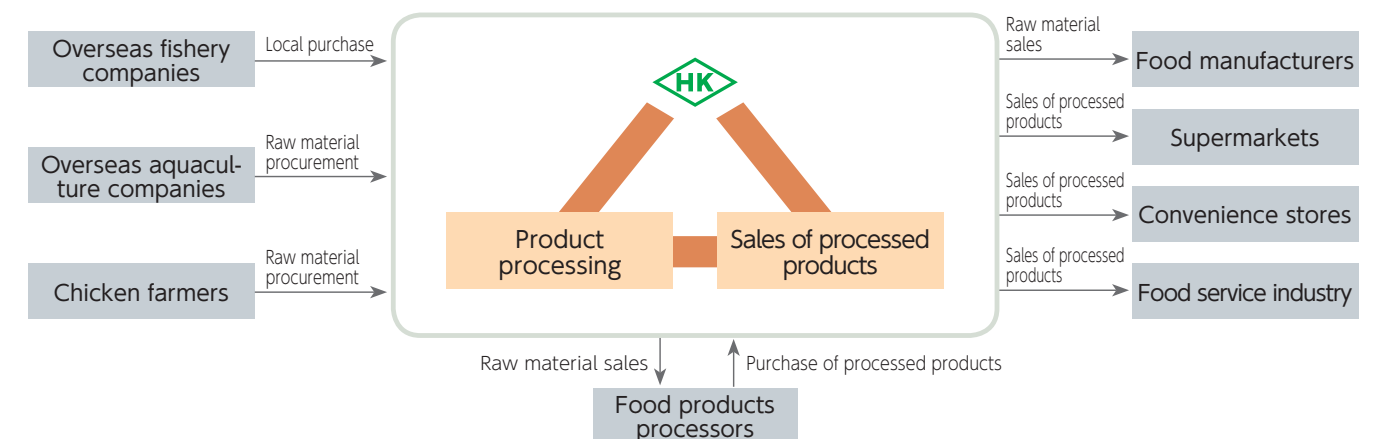
## FY2019 Results

Net sales **¥101.7 billion** Segment income / loss **¥-0.1 billion** Segment employees **137 people**

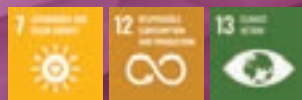
In the food products business, excessive supply of mainstay items such as salmon continued and demand in major consumer countries declined due to the COVID-19 pandemic. The commodity markets fell towards the end of the fiscal year partly due to restaurants in Japan and elsewhere voluntarily refraining from operations. At the same time, a U.S. subsidiary increased the number of items it offers and the number of consolidated subsidiaries increased in Japan, resulting in a slight increase in sales. In terms of profit, a sudden decline in salmon price resulting in loss on valuation of inventories and lower foreign exchange gains put a downward pressure on the business's profit. As a result, sales in this business segment increased by 0.4% to ¥101.7 billion, and the segment had a loss of ¥0.1 billion (¥1.5 billion in segment income in the previous fiscal year).



## Value Chain



# Energy & Living Materials



## Business summary

In the energy & living materials business, we supply heavy oil and diesel oil to a wide range of industries such as steel, chemical, and pulp and paper in Japan. In overseas transactions, in addition to the sale of marine fuel, we are also focusing on the import and export of petroleum products. We sell living materials mainly to foreign countries and handle such products as synthetic resin raw materials and plastic products such as polyethylene plastic bags and garbage bags. As for paper stock, we are promoting industrial paper sales and the waste paper recycling business.

## Main products or services

The main products are petroleum products, industrial chemicals, chemicals and recycled fuel.

## SDGs-related initiatives

In the energy field, we are working on supply of environmentally friendly energy sources including biomass fuel while striving to achieve harmonious coexistence with the community, whereby contributing to solution of energy and environmental issues around the world, development of local societies, and realization of sustainable society. In the living material field, we contribute to formation of recycling-oriented economy through the expanding of bio-based plastic products and biodegradable resin products and the recycling business of waste paper and plastics.

## Strengths and Characteristics

In the energy business, we have a wide variety of procurement sources and have been able to supply low-priced, high-quality fuel in a timely manner by fully leveraging our trading functions such as futures trading, import/export trading, and inventory management. We have about 300 customers and have several products which boast top market share in the industry such as C heavy oil for the domestic industry. We are also making efforts to build a system for supplying plant-derived biomass fuels (such as wood pellets and palm kernel shells (PKS)), which are environmentally friendly energy sources. In addition, we handle a wide variety of lubricant raw materials, additives, and chemicals based on the needs of our users.

In the living materials business, we handle a wide range of products from raw materials (resins) to products (plastic bags and garbage bags) and provide customers with a full range of services from product development to package design, manufacturing, sales and delivery. In addition, we have a department dedicated to quality control and provide safe and secure products to our customers.

In the paper business, waste paper and scrap paper generated in Japan, which have a price advantage, are exported to ASEAN countries and elsewhere where paper usage is increasing due to economic growth. We are also expanding our environmental business, including the recycled fuel business (such as RPF).

## Environment and Challenges Surrounding the Business

In the energy business, with the market oligopoly of domestic major oil companies continuing, sector peers with less advantageous functions become less profitable, thus forced to withdraw from the market, while there is an increased demand from customers for the stable supply of commercial materials including delivery capability.

Currently, demand of biomass fuel, which we maintain a high market share, is expected to increase as a renewable energy source.

In the living materials business, we purchase mainly from overseas manufacturers such as those in Vietnam and the Philippines, and sell mainly to major retailers in Japan, and distributors are required to have a high level of procurement and quality control capabilities, and inventory distribution functions.

In recent years, with the growing trend of plastic-free particularly in developed countries, there is a growing requirement for companies to carry out environmentally-conscious initiatives.

In the paper business, the overall amount of waste paper being generated has decreased due to the trend of paperless production worldwide, but the oversupply of used paper continues in Japan, and quality requirements are becoming stricter. Also, demand for developing export destinations other than China is increasing. With regard to RPF, we believe that demand will remain firm in the medium to long-term due to the global trend of decarbonization.

## Medium to Long-Term Business Policy

In the energy business, we continue to maintain business transactions with major oil companies in Japan and supply marine fuel and fuel oil C to shipping companies and various other manufacturers. On the other hand, in line with the growing interest in global environmental issues, we plan to expand the handling of wood pellets and PKS for the biomass power generation business.

In the living materials business, we will position major business partners in Japan as our main customers in the medium to long-term and aim to strengthen sales by offering product proposal and inventory distribution functions. With regard to the main products, we will shift our focus from the supplies

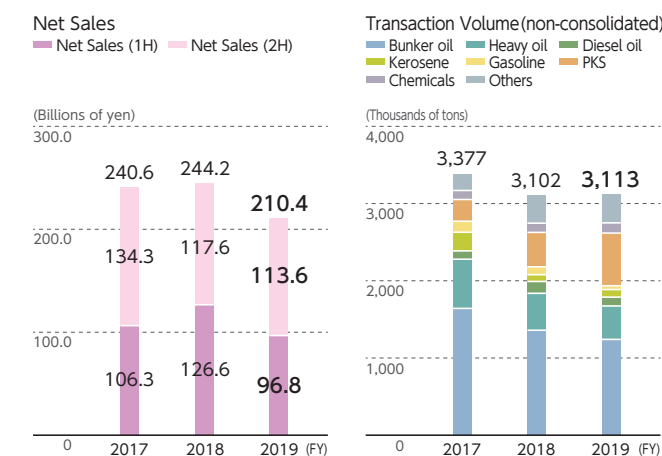
used by consumers, such as plastic bags and garbage bags, to the products that our customers sell, such as stationery and daily necessities. As for our suppliers, Vietnam will be the country with focus for the time being, but we will also plan to restructure procurement from China.

In the paper business, with regard to used paper, the Company plans to expand its exports mainly to the ASEAN region. As for RPF, which is an alternative for fossil fuel, we aim to increase its domestic market share as a supplier and also expand our business in the ASEAN region to build a recycling business.

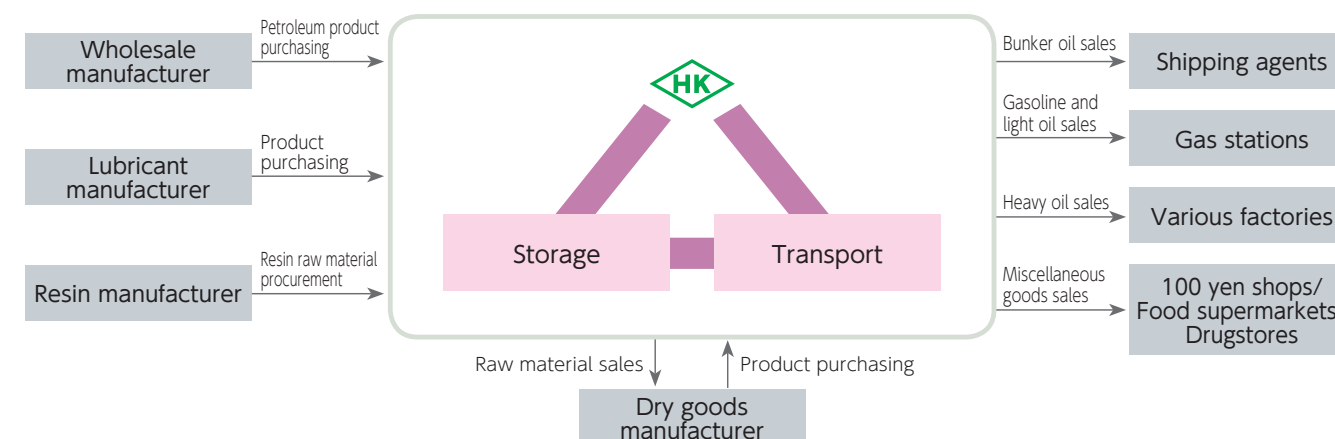
## FY2019 Results

Net sales **¥210.4 billion** Segment income / loss **¥4.1 billion** Segment employees **216 people**

In the energy & living materials business, though the prices of crude oil and petroleum products remained lower compared with the previous fiscal year, they fell sharply toward the end of the fiscal year reflecting the breakdown of the agreement for coordinated production reductions by oil producing countries and the expectation that the demand would deteriorate due to the COVID-19 infections. Our handling volume of petroleum products also decreased due to the shrinking market for spot trading due to the restructuring of the wholesale industry. Meanwhile, steady revenue growth of biomass fuels including PKS (Palm Kernel Shell) and expansion of our profit margin by capturing the fluctuation in supply and demand in anticipation of restrictions on SOx (sulfur oxide) content in ship fuels contributed to an increase in profit. As a result, sales in this business segment declined by 13.8% year-on-year to ¥210.4 billion, and segment income increased by 92.9% year-on-year to ¥4.1 billion.



## Value Chain





## Other Business

### [ Lumber ] [ Machinery ]

#### Lumber



#### Machinery



#### [ Lumber ]

##### Business summary

In the lumber business, we import fine lumber from around the world and sell them to our customers such as housing companies, building material trading companies, building material manufacturers, lumber processors, and sales agents. We sell the products not only in Japan but are also focusing on offshore trading for construction and building materials in Asia and the Middle East. We are also enhancing our function as a general sales agent of housing components centered on processed lumber products for housing companies.

##### Main products or services

The main products are imported and Japanese lumber products and building materials for houses in general.

##### SDGs-related initiatives

We are responding to lumber demand worldwide by taking advantage of our economy of scale and network in Japan and abroad. We are also emphasizing on export of domestic lumber and aim to contribute to sustainable development of the Japanese forestry and preservation of the abundant forests.

#### [ Machinery ]

##### Business summary

The machinery business has two components: the leisure facilities business, which sells amusement machines and performance directions to theme parks; and industrial machinery business, which sells mainly various types of steel processing machines and various conveyance machines.

##### Main products or services

The main products are amusement machines and industrial machinery. We also manage and operate amusement facilities.

##### SDGs-related initiatives

We contribute to the development of cities where people can continue living by responding to the demands for replacement of deteriorated facilities or upgrading of machinery for energy saving. We are also engaged in introduction of facilities related to renewable energy and recycling, whereby contributing to the realization of a sustainable global environment.

## Strengths and Characteristics

#### [ Lumber ]

We import and sell competitive lumber by taking advantage of our economy of scale as a top-class lumber importer. In particular, we boast top shares in European lumber and Russian lumber, which we import through the Vienna Office. We are also expanding trading of Japanese lumber and have high share not only in domestic consumption but also in exports to Southeast and other parts of Asia.

The housing materials business has expanded its business scope downstream. The business of processing imported lumber and selling it to housing companies is cost competitive, and we have grown to become a major player among trading companies involved in the business.

Moreover, we sell building materials and steel components together with lumber, and our ability to propose the shortest commercial distribution route from upstream to downstream represents our great strength, which has been highly rated by customers.

#### [ Machinery ]

Since the leisure facilities business has in-house engineers and supervisors, as well as strong networks with external experts and examination organizations, we provide users with a full range of services from the design of amusement machines to the procurement of materials and construction. In addition, we have established a strong relationship of trust with European and American manufacturers, which are the leading countries of the amusement machinery industry, and we have signed sole agent contracts with them to introduce the latest industry trends to the Japanese market.

In the industrial machinery business, we provide valuable solutions for users' capital investment plans by using our rich information network and engineering functions created by close cooperation with various leading industrial machinery manufacturers. In addition, a VE proposal system has been established to make suggestions on the capital investment plans of customers of other divisions of the Company, mainly in the steel sector, so that they can invest in efficient equipment.

## Environment and Challenges Surrounding the Business

#### [ Lumber ]

As the housing industry, which is the business's main market, is gradually shrinking due to declining birthrate, the competition between housing companies is intensifying. Users are taking an increasingly stringent look at the functions and costs, as a result of which the industry is tending towards eliminating intermediate distribution with fewer functions.

While we already have considerable competitiveness in terms of wood feedstock and processed products, we need to enhance the ability to propose appropriate combination of materials amid fluctuating markets.

At the same time, it is becoming more important to offer products by adding values corresponding to customer needs such as delivery function and construction rather than merely selling products, and we need to further expand the functions we offer.

#### [ Machinery ]

In the leisure facilities business, there are few competitors in the large-scale amusement park ride field, and due to our track record, we have seen an increase in the number of transaction requests from overseas manufacturers. We have a good relationship with major customers and expect to maintain a continuous business relationship with them in the future. Going forward, we will focus on the development of new customers.

In the industrial machinery business, transactions of general-purpose machinery such as simple cranes have remained difficult to expand. However, we have been designated as a prime contractor in a number of complicated projects, such as those of production line equipment, that require the consolidation of multiple vendors and ideas.

Going forward, we believe that it is necessary to develop a purchasing source that can deal with simple and small-scale facilities, build a sufficient organizational structure that can cope with prime contract work, and develop human resources who are familiar with English and trade practices.

## Medium to Long-Term Business Policy

#### [ Lumber ]

We aim to become a trading firm that is selected by housing companies, the main users, through the provision of comprehensive services that respond to their needs.

We do not limit our products to lumber but also offer steel components and overall building materials and will develop a sales framework to offer everything users need from the viewpoint of business partners.

Further, in terms of functions, we will enhance collaboration with vendors and our other divisions to build a company network capable of coordinating the entire process from raw materials to delivery to the work site, whereby upgrading and expanding the functions.

#### [ Machinery ]

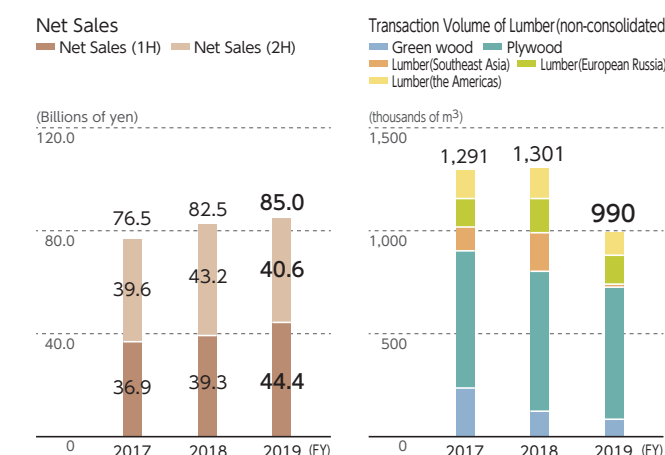
In the leisure facilities business, we continue to expand our business throughout Japan based on our advantage of being able to provide all services from design to material procurement and construction, and with strong, trusting relationships with European and American manufacturers. In addition, we expand and improve the maintenance business associated with the facilities.

In the industrial machinery business, we focus on areas where high added value is expected and where demand is expected to grow over the medium to long-term, such as by proposing measures to save labor in manufacturing equipment lines and providing proposals for automation. In addition, we will expand our business into the Hokkaido, Shikoku, and Kyushu regions, which has been slow to develop.

## FY2019 Results

Net sales **¥85.0 billion** Segment income / loss **¥1.4 billion** Segment employees **214 people**

In the other business, the lumber business expanded the number of items it offers including non-lumber products such as steel substrate for ceiling targeting house builders. The lumber business also benefited from the lowered tariff on lumber manufactured in Europe following the effectuation of the economic partnership agreement (EPA) with EU. These factors boosted profits. In the machinery business, the industrial machinery field and revenue from construction in the leisure facility field contributed to profits. As a result, sales in this business segment increased by 3.0% to ¥85.0 billion, and segment income increased by 44.9% to ¥1.4 billion.



## Overseas Sales Subsidiaries



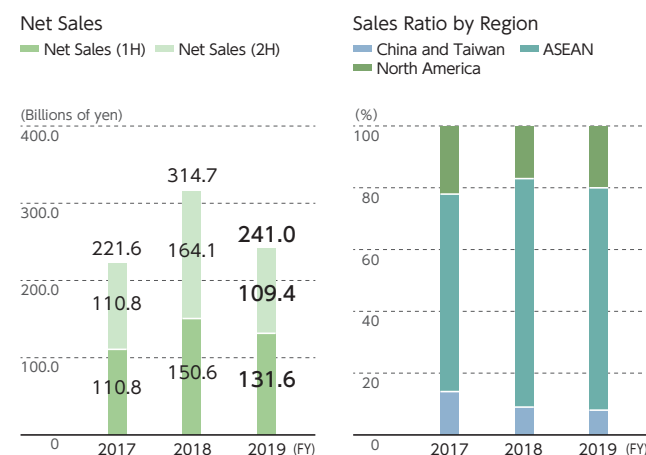
### Main products or services

We sell a wide variety of products, as in Japan, at major overseas bases.

## FY2019 Results

Net sales **¥241.0** billion Segment income / loss **¥0.4** billion Segment employees **438** people

With respect to sales subsidiaries overseas, the volume of petroleum products handled in Singapore declined, the demand for non-ferrous metals in Thailand and Taiwan fell, and the volume of metals we handle in the U.S. shrank as the economy of each country is in the downward trend. In addition, the sluggish steel sales in Indonesia, coupled with the burden of procurement cost for funds in local currency reflecting an increase in the ratio of local transactions, also acted to push down profits. As a result, sales in this business segment declined by 23.4% to ¥241.0 billion, and segment income fell by 54.5% to ¥0.4 billion.



### Net Sales and Property and Equipment by Region

#### (1) Net sales

Japan (millions of yen)	Asia (millions of yen)	Other areas (millions of yen)	Total (millions of yen)
1,342,564	481,678	83,250	1,907,493

\*Net sales are based on the location of the customer and are grouped into countries or regions.

#### (2) Property and equipment

Japan (millions of yen)	Asia (millions of yen)	Other areas (millions of yen)	Total (millions of yen)
64,328	7,841	2,993	75,162

### Major Affiliated Companies

● : Steel ● : Primary Metal ● : Metal Recycling ● : Food Products ● : Energy & living materials ● : Other Business ● : Overseas Sales Subsidiaries

Name	Address	Capital or capital investments	Name	Address	Capital or capital investments
(Consolidated subsidiaries) ● S.K. Engineering Co., Ltd.	Chuo-ku, Tokyo	¥222 million	● Hanwa Foods Co., Ltd.	Chuo-ku, Tokyo	¥200 million
● Daisun Co., Ltd.	Nishi-ku, Osaka	¥200 million	● Maruhon Honma Suisan Co., Ltd.	Nishi-ku, Sapporo	¥20 million
● Hanwa Logistics Tokyo Co., Ltd.	Narashino, Chiba	¥100 million	SEATTLE SHRIMP & SEAFOOD COMPANY, INC.	Washington, U.S.A.	US\$ 300 thousand
● Hanwa Logistics Osaka Co., Ltd.	Sakai-ku, Sakai	¥100 million	● Toyo Energy Co., Ltd.	Chuo-ku, Osaka	¥120 million
● Hanwa Logistics Nagoya Co., Ltd.	Tobishima-mura, Ama-gun, Aichi	¥100 million	● Seibu Service Co., Ltd.	Yodogawa-ku, Osaka	¥20 million
● Hanwa Steel Service Ltd.	Koka, Shiga	¥100 million	● Alpha Forme Co., Ltd.	Yodogawa-ku, Osaka	¥3 million
● Hanwa Eco Steel Corporation	Kamagaya, Chiba	¥100 million	● HANWA SINGAPORE (PRIVATE) LTD.	Singapore	US\$ 129,527 thousand
● San Ei Metal Co., Ltd.	Chuo-ku, Osaka	¥100 million	● HANWA AMERICAN CORP.	New Jersey, U.S.A.	US\$ 40,000 thousand
● Tohan Steel Co., Ltd.	Funabashi, Chiba	¥64 million	● HANWA THAILAND CO.,LTD.	Bangkok, Thailand	THB 612,200 thousand
● Daikoh Steel Co., Ltd.	Suminoe-ku, Osaka	¥50 million	● HANWA CO., (HONG KONG) LTD.	Hong Kong, China	HK\$ 70,000 thousand
● KAMEI Co., Ltd.	Matsuyama, Ehime	¥50 million	● HANWA TRADING (SHANGHAI) CO., LTD.	Shanghai, China	US\$ 2,500 thousand
● Daiko Sangyo Co., Ltd.	Chuo-ku, Osaka	¥35 million	● TAIWAN HANWA KOGYO CO., LTD.	Taipei, Taiwan	NT\$ 15,000 thousand
● Taiyokozai Co., Ltd.	Chuo-ku, Osaka	¥10 million	● HANWA CANADA CORP.	Vancouver, Canada	CAN\$ 2,300 thousand
● Matsuoka Kozai Co., Ltd.	Koka, Shiga	¥10 million	● PT.HANWA INDONESIA	Jakarta, Indonesia	US\$ 32,100 thousand
● Kaneki Co., Ltd.	Kumiyama-cho, Kuse-gun, Kyoto	¥20 million	● *HALOS Corporation	Chuo-ku, Tokyo	¥100 million
● Subaru Steel Co., Ltd.	Taisho-ku, Osaka	¥57 million	(Equity-method affiliates) ● OHMI SANGYO CO., LTD.	Taisho-ku, Osaka	¥100 million
● Japanlife Co., Ltd.	Katsushika-ku, Tokyo	¥60 million	● STAINLESS PIPE KOGYO Co., Ltd.	Mihara-ku, Sakai	¥100 million
● Hirouchi Atsuen Kogyo Co., Ltd.	Jyoto-ku, Osaka	¥100 million	● Metaltech Co., Ltd.	Sumida-ku, Tokyo	¥50 million
● SANYO KOUZAI Co., Ltd.	Naka-ku, Hiroshima	¥20 million	● COSMOSTEEL HOLDINGS LTD.	Singapore	S\$ 56,324 thousand
● HANWA STEEL SERVICE MEXICANA S.A. DE C.V.	Guanajuato, Mexico	MXN 870,547 thousand	● SOHBI KOHGEI (PHILS.), INC.	Batangas, Philippines	US\$ 7,772 thousand
● HANWA STEEL SERVICE (THAILAND) CO., LTD.	Chonburi, Thailand	THB 576,000 thousand	● SMC TOAMI LLC.	Ba Ria Vung Tau, Vietnam	VND 65,217 million
● PT. HANWA STEEL SERVICE INDONESIA	Jawa Barat, Indonesia	US\$ 18,000 thousand	● SENDO STEEL PIPE JOINT VENTURE CO., LTD.	Ba Ria Vung Tau, Vietnam	VND 176,201 million
● HANWA STEEL SERVICE (DONGGUAN) CO., LTD.	Dongguan, China	US\$ 15,000 thousand	● NIPPON EGALV STEEL SDN. BHD.	Penang, Malaysia	MYR 64,850 thousand
● CHANG FU STAINLESS STEEL CENTER (SUZHOU) CO., LTD.	Taicang, China	US\$ 18,000 thousand	● NST SAIGON COIL CENTER CO., LTD.	Binh Duong, Vietnam	VND 54,100 million
● HANWA STEEL CENTRE (M) SDN. BHD.	Penang, Malaysia	MYR 40,000 thousand	● SMC TRADING INVESTMENT JSC.	Ho Chi Minh, Vietnam	VND 609,946 million
● RI HONG STAINLESS (SHANGHAI) CO., LTD.	Shanghai, China	RMB 95,000 thousand	● SAMANCOR CHROME HOLDINGS PROPRIETARY LTD.	Johannesburg, South Africa	ZAR 2,555 million
● Japan South Africa Chrome Company Limited	Chuo-ku, Tokyo	¥13,608 million			
● Showa Metal Co., Ltd.	Kawasaki-ku, Kawasaki	¥20 million			
● Nikko Kinzoku Co., Ltd.	Moji-ku, Kitakyusyu	¥20 million			
● SEIKI Co., Ltd.	Taketoyo-cho, Chita-gun, Aichi	¥20 million			
● PT. HANWA ROYAL METALS	Jawa Timur, Indonesia	US\$ 3,800 thousand			

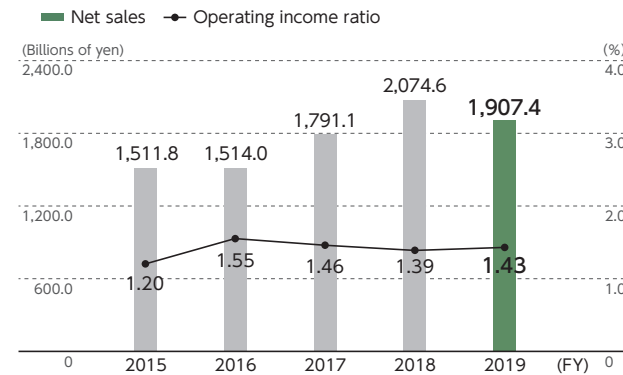
\*Management and operation of amusement facilities



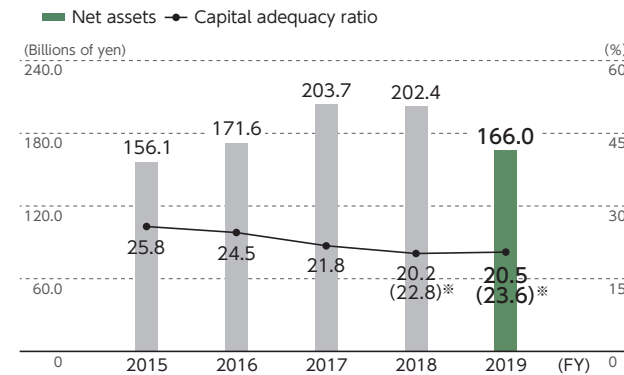
# Financial and Non-financial Highlights

## Financial indicators

### Net sales/Operating income ratio

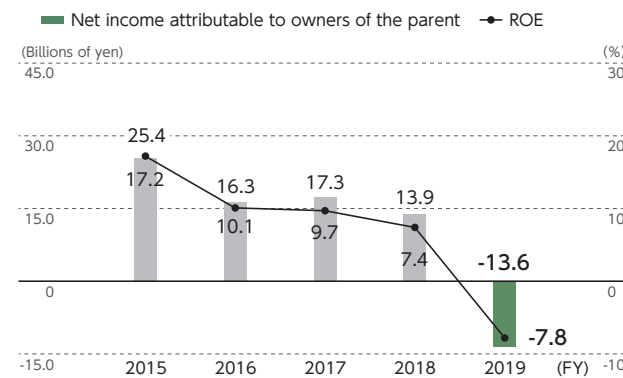


### Net assets/Capital adequacy ratio

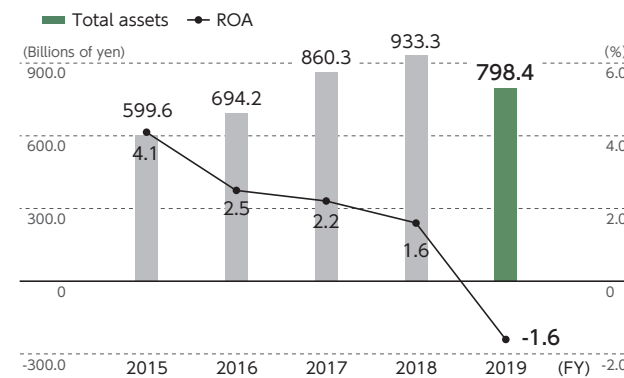


Note: Calculated by taking into account the equity credit attributes evaluated by ratings institutions (50%) of the ¥50.0 billion subordinated loan (hybrid loan) implemented in March 2019.

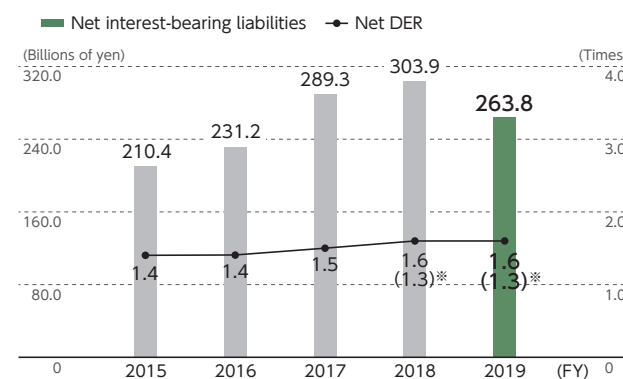
### Net income attributable to owners of the parent/ROE



### Total assets/ROA

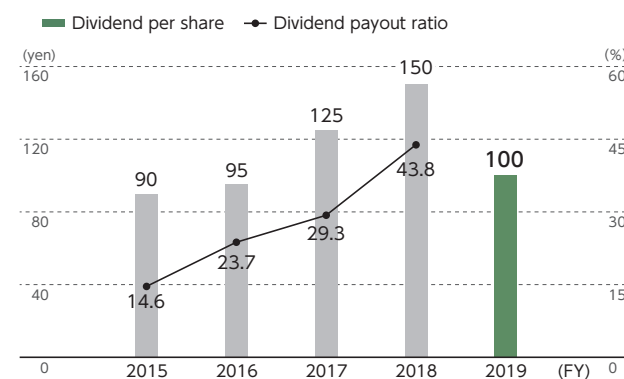


### Net interest-bearing liabilities/Net DER



Note: Calculated by taking into account the equity credit attributes evaluated by ratings institutions (50%) of the ¥50.0 billion subordinated loan (hybrid loan) implemented in March 2019.

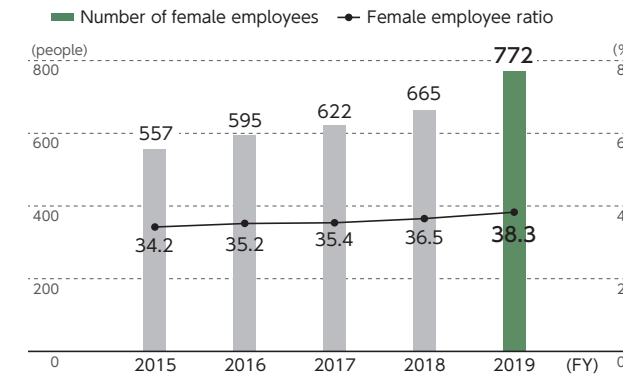
### Dividend per share/Dividend payout ratio



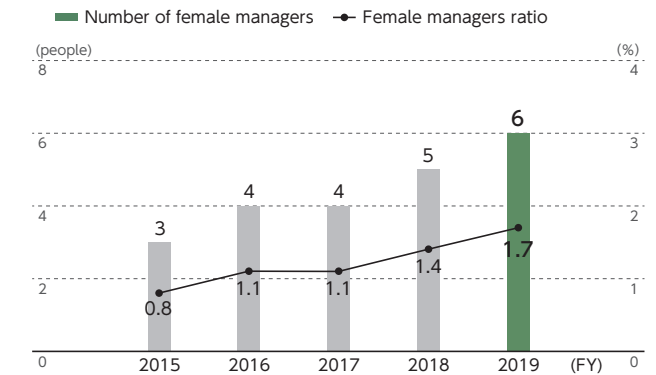
Note: The Company consolidated its shares at a ratio of 5 shares to 1 share on October 1, 2017. Dividend per share is the amount taking into account the consolidation of shares.

## Non-financial indicators

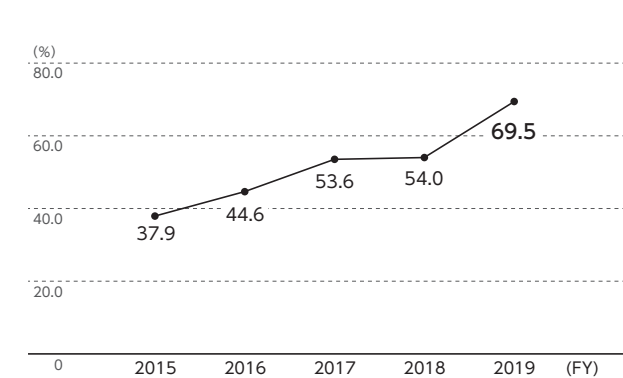
### Number of female employees/Female employee ratio (as of April 30, 2020)



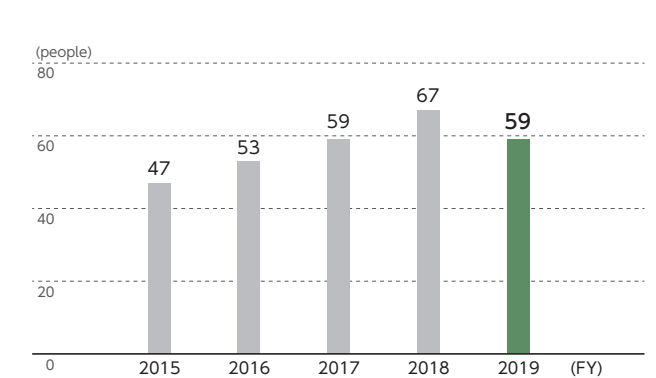
### Number of female managers/Female managers ratio (as of April 30, 2020)



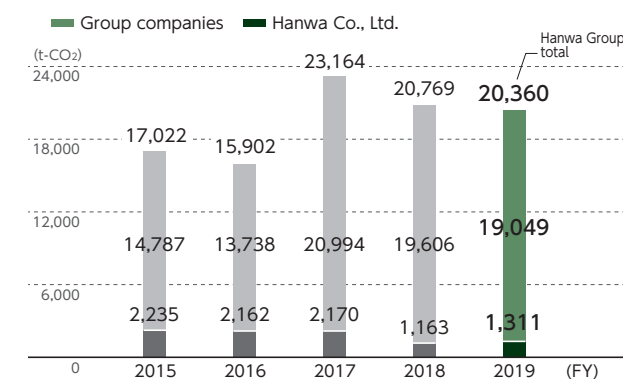
### Paid leave acquisition rate



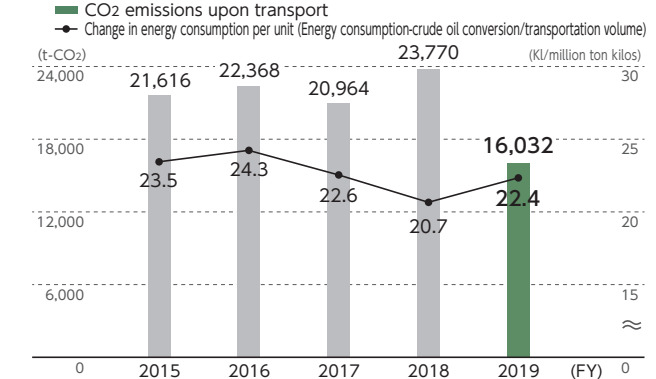
### Number of persons taking childcare leave (as of April 1)



### CO2 emission at domestic offices



### Change in CO2 emission upon transport and energy consumption per unit of GDP (gross domestic product)



Scope: Domestic shipping where Hanwa is the consignee

# 11-year Financial Summary

For the years ended March 31

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Millions of yen 2020	Thousands of U.S. dollars (*1) 2020
<b>Results of Operations:</b>												
Net sales	¥ 1,116,628	¥ 1,396,103	¥ 1,564,250	¥ 1,511,324	¥ 1,682,503	¥ 1,737,397	¥ 1,511,800	¥ 1,514,037	¥ 1,791,118	¥ 2,074,600	¥ 1,907,493	\$ 17,527,271
Gross profit	40,589	43,744	46,346	44,762	51,365	55,729	56,559	64,514	72,195	79,222	79,826	733,492
Operating income	11,420	13,853	14,976	12,491	16,252	19,107	18,178	23,426	26,217	28,904	27,330	251,125
Ordinary profit (loss)	9,412	13,490	13,116	8,871	14,698	14,264	15,424	22,907	25,502	23,395	(12,598)	(115,758)
Net income (loss) attributable to owners of the parent	11,579	5,793	4,632	4,720	7,896	9,086	25,469	16,363	17,354	13,914	(13,674)	(125,645)
<b>Cash Flows:</b>												
Net cash provided by (used in) operating activities	46,250	(46,948)	11,970	19,380	343	1,790	53,098	3,959	(19,755)	15,417	74,261	682,357
Net cash provided by (used in) investing activities	(12,991)	(7,610)	(12,009)	(5,106)	(5,244)	(13,692)	(10,446)	(18,427)	(39,971)	(20,623)	(24,159)	(221,988)
Net cash provided by (used in) financing activities	(43,669)	51,271	1,596	(16,363)	(4,927)	19,339	(41,751)	15,447	66,435	28,132	(42,314)	(388,808)
Free cash flows (*3)	33,258	(54,559)	(39)	14,273	(4,901)	(11,902)	42,652	(14,468)	(59,727)	(5,205)	50,102	460,369
<b>Financial Position at Year-End:</b>												
Total assets	443,444	532,797	582,404	552,908	593,351	651,456	599,694	694,232	860,344	933,307	798,442	7,336,598
Total net assets	106,855	110,458	115,956	120,674	125,361	142,749	156,139	171,637	203,700	202,459	166,097	1,526,206
Gross interest-bearing liabilities (*4)	175,578	235,204	243,142	236,169	245,906	272,575	237,552	259,670	325,562	363,257	331,107	3,042,423
Net interest-bearing liabilities (*5)	150,909	214,497	219,594	212,883	229,899	248,032	210,437	231,205	289,346	303,949	263,850	2,424,423
<b>Per share data: (*2)</b>												
											Yen	U.S. dollars (*1)
Net income (loss) attributable to owners of the parent	55.46	27.95	22.35	22.78	38.11	43.85	122.92	80.18	427.04	342.41	(336.51)	(3.092)
Net assets attributable to owners of the parent	512.16	529.65	548.22	570.50	591.68	682.46	747.40	838.70	4,621.96	4,632.55	4,027.01	37.002
Cash dividends	12.00	12.00	12.00	12.00	12.00	15.00	18.00	19.00	85.00 (*9)	150.00	100.00	0.918
<b>Key financial ratios:</b>												
											%	
Return on assets (ROA) (*6)	2.5	1.2	0.8	0.8	1.4	1.5	4.1	2.5	2.2	1.6	(1.6)	
Return on equity (ROE) (*7)	11.6	5.4	4.1	4.1	6.6	6.9	17.2	10.1	9.7	7.4	(7.8)	
Capital adequacy ratio	24.0	20.6	19.5	21.4	20.6	21.7	25.8	24.5	21.8	20.2(22.8)(*10)	20.5(23.6)(*10)	
Net DER (times) (*8)	1.4	2.0	1.9	1.8	1.9	1.8	1.4	1.4	1.5	1.6(1.3)(*10)	1.6(1.3)(*10)	
Payout ratio	21.6	42.9	53.7	52.7	31.5	34.2	14.6	23.7	29.3	43.8	— (*11)	

\* 1. The U.S. dollar amounts represent translations, for convenience only, of yen amounts at the rate of ¥108.83=\$1.00.  
 2. The company consolidated its common shares at a ratio of 5 shares to 1 share on October 1, 2017. Accordingly, per share data (except for cash dividends) are calculated on the assumption that the consolidation of shares was conducted at the beginning of fiscal year 2018.  
 3. Free cash flow is defined as net cash provided by (used in) operating activities and net cash provided by (used in) investing activities.  
 4. Gross interest-bearing liabilities are defined as short-term loans payable, commercial paper, long-term debt, bonds and lease debt.  
 5. Net interest-bearing liabilities are defined as gross interest-bearing liabilities minus cash and cash equivalents and time deposits.  
 6. ROA is calculated by dividing net income (loss) attributable to owners of the parent by the average of total assets at the beginning and end of the fiscal year.

7. ROE is calculated by dividing net income (loss) attributable to owners of the parent by the average of equity attributable to owners of the parent at the beginning and end of the fiscal year.  
 8. Net DER is calculated by dividing net interest-bearing liabilities by equity attributable to owners of the parent at the end of the fiscal year.  
 9. Dividends per share of ¥85.00 for the year ended March 31, 2018 consisted of interim dividends of ¥10.00 per share before the consolidation of shares and year-end dividends of ¥75.00 per share after the consolidation.  
 10. The values in parentheses of the capital adequacy ratio and the net debt/equity ratio (DER) are calculated by taking into account the equity credit attributes evaluated by ratings institutions (50%) of the ¥50.0 billion subordinated loan (hybrid loan) implemented in March 2019.  
 11. Payout ratio have not been presented for those fiscal years in which the Company incurred a net loss attributable to owners of the parent.



# Consolidated Balance Sheets

As at March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Assets</b>			
<b>Current assets:</b>			
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
<b>Investments and noncurrent receivables:</b>			
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
<b>Property and equipment</b> (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
<b>Other assets:</b>			
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
<b>Total</b>	¥ 798,442	¥ 933,307	\$ 7,336,598

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
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
<b>Noncurrent liabilities:</b>			
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
<b>Contingent liabilities</b> (Note 11)			
<b>Net assets</b> (Note 12)			
<b>Shareholders' equity:</b>			
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
<b>Accumulated other comprehensive income:</b>			
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
<b>Non-controlling interests</b>	2,448	14,214	22,493
Total net assets	166,097	202,459	1,526,206
<b>Total</b>	¥ 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
<b>Net sales</b>	<b>¥ 1,907,493</b>	<b>¥ 2,074,600</b>	<b>\$ 17,527,271</b>
<b>Cost of sales</b>	<b>1,827,666</b>	<b>1,995,378</b>	<b>16,793,770</b>
Gross profit	79,826	79,222	733,492
<b>Selling, general and administrative expenses</b>	<b>52,496</b>	<b>50,318</b>	<b>482,366</b>
Operating income	27,330	28,904	251,125
<b>Other income (expenses):</b>			
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)
<b>Income (loss) before income taxes</b>	<b>(19,995)</b>	<b>20,955</b>	<b>(183,726)</b>
<b>Income taxes</b> (Note 8):			
Current	5,962	7,396	54,782
Deferred	(406)	(266)	(3,730)
Total income taxes	5,555	7,130	51,042
<b>Net income (loss)</b>	<b>¥ (25,550)</b>	<b>¥ 13,825</b>	<b>\$ (234,769)</b>
<b>Net income (loss) attributable to:</b>			
<b>Owners of the parent</b>	<b>¥ (13,674)</b>	<b>¥ 13,914</b>	<b>\$ (125,645)</b>
<b>Non-controlling interests</b>	<b>(11,876)</b>	<b>(88)</b>	<b>(109,124)</b>
<b>Other comprehensive income</b> (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)
<b>Comprehensive income</b>	<b>¥ (29,972)</b>	<b>¥ 3,444</b>	<b>\$ (275,402)</b>
<b>Comprehensive income attributable to:</b>			
<b>Owners of the parent</b>	<b>¥ (17,974)</b>	<b>¥ 5,964</b>	<b>\$ (165,156)</b>
<b>Non-controlling interests</b>	<b>(11,997)</b>	<b>(2,520)</b>	<b>(110,236)</b>
	Yen		U.S. dollars (Note 1)
	2020	2019	2020
<b>Net income (loss) per share</b>	<b>¥ (336.51)</b>	<b>¥ 342.41</b>	<b>\$ (3.09)</b>
<b>Cash dividends per share</b>	<b>100.00</b>	<b>150.00</b>	<b>0.92</b>

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
<b>Balance at April 1, 2019</b>	<b>42,332</b>	<b>45,651</b>	<b>139,036</b>	<b>(3,737)</b>	<b>10,800</b>	<b>61</b>	<b>3,343</b>	<b>(1,435)</b>	<b>(5,473)</b>	<b>14,214</b>	<b>202,459</b>
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)
<b>Balance at March 31, 2020</b>	<b>42,332</b>	<b>¥ 45,651</b>	<b>¥ 119,475</b>	<b>¥ (3,728)</b>	<b>¥ 6,042</b>	<b>¥ 745</b>	<b>¥ 3,277</b>	<b>¥ (2,434)</b>	<b>¥ (5,380)</b>	<b>¥ 2,448</b>	<b>¥ 166,097</b>
	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
<b>Balance at April 1, 2019</b>	<b>42,332</b>	<b>\$ 419,470</b>	<b>\$ 1,277,552</b>	<b>\$ (34,337)</b>	<b>\$ 99,237</b>	<b>\$ 560</b>	<b>\$ 30,717</b>	<b>\$ (13,185)</b>	<b>\$ (50,289)</b>	<b>\$ 130,607</b>	<b>\$ 1,860,323</b>
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)
<b>Balance at March 31, 2020</b>	<b>42,332</b>	<b>\$ 419,470</b>	<b>\$ 1,097,813</b>	<b>\$ (34,255)</b>	<b>\$ 55,517</b>	<b>\$ 6,845</b>	<b>\$ 30,111</b>	<b>\$ (22,365)</b>	<b>\$ (49,434)</b>	<b>\$ 22,493</b>	<b>\$ 1,526,206</b>

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
<b>Cash flows from operating activities:</b>			
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
<b>Cash flows from investing activities:</b>			
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)
<b>Cash flows from financing activities:</b>			
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)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,389)</b>	<b>(0)</b>	<b>(12,763)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>6,398</b>	<b>22,926</b>	<b>58,788</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>58,384</b>	<b>34,855</b>	<b>536,469</b>
<b>Increase in cash and cash equivalents from newly consolidated subsidiaries</b>	<b>2,460</b>	<b>576</b>	<b>22,604</b>
<b>Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries</b>	<b>—</b>	<b>25</b>	<b>—</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 67,243</b>	<b>¥ 58,384</b>	<b>\$ 617,871</b>

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 ex-

pected 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

### 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 ex-

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

posed 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 mar-

ket 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

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

	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

Year ended March 31, 2015

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	Total
Loss on impairment	¥ 115	¥ —	¥ 67	¥ 531	¥ —	¥ —	¥ 714	¥ —	¥ 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	Total
Loss on impairment	\$ 1,056	\$ —	\$ 615	\$ 4,879	\$ —	\$ —	\$ 6,560	\$ —	\$ 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	Total
Loss on impairment	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 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	Total
Balance at end of year	¥ 777	¥ —	¥ 22	¥ —	¥ 54	¥ —	¥ 855	¥ —	¥ 855

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	Reportable segment										Total
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries			Other business	Adjustment	
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

	Reportable segment										Total
	Steel	Primary metal	Metal recycling	Foods	Petroleum and chemicals	Overseas sales subsidiaries			Other business	Adjustment	
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	Naka jo 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

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.

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.

Motohiro Tanaka  
Designated Engagement Partner  
Certified Public Accountant

Koji Narumoto  
Designated Engagement Partner  
Certified Public Accountant

Shimpei Takeshita  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Osaka Office, Japan  
August 3, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.



Global Network



# Corporate Data and Stock Information

(As of March 31, 2020)

## Corporate Data

Company Name	Hanwa Co., Ltd.
Established	April 1, 1947
Capital	¥45,651 million
Fiscal Year	April 1 to March 31 of the following year
Number of Employees	1,459 (Consolidated: 4,627)
Tokyo Head Office	Ginza Shochiku Square Bldg., 1-13-1, Tsukiji, Chuo-ku, Tokyo 104-8429, Japan
Osaka Head Office	HK Yodoyabashi Garden Avenue Bldg., 4-3-9, Fushimi-machi, Chuo-ku, Osaka 541-8585, Japan

## Stock Information

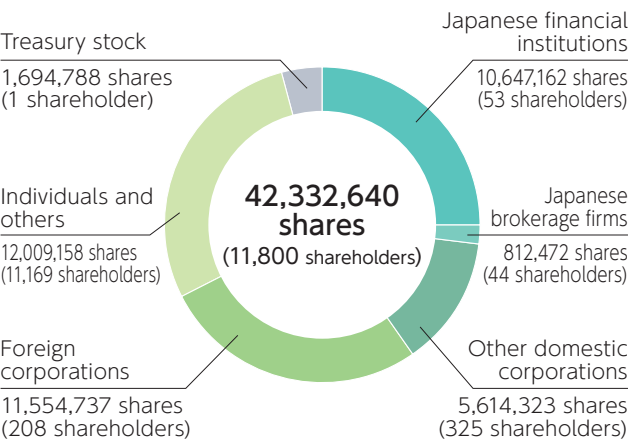
Annual Meeting of Shareholders	June every year
Administrator of Shareholder Registry and Account Management Institution for Special Accounts	1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Mailing Address	2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan Securities Agency Department, Sumitomo Mitsui Trust Bank, Limited
Telephone Number	0120-782-031 (Toll-free)
Unit Share	100 shares
Number of Shareholders	11,800
Authorized Shares	114,000,000 shares
Issued and Outstanding Shares	42,332,640 shares
Domestic Stock Exchange Listings	The First Section of the Tokyo Stock Exchange
Securities Code	8078

## Principal Shareholders

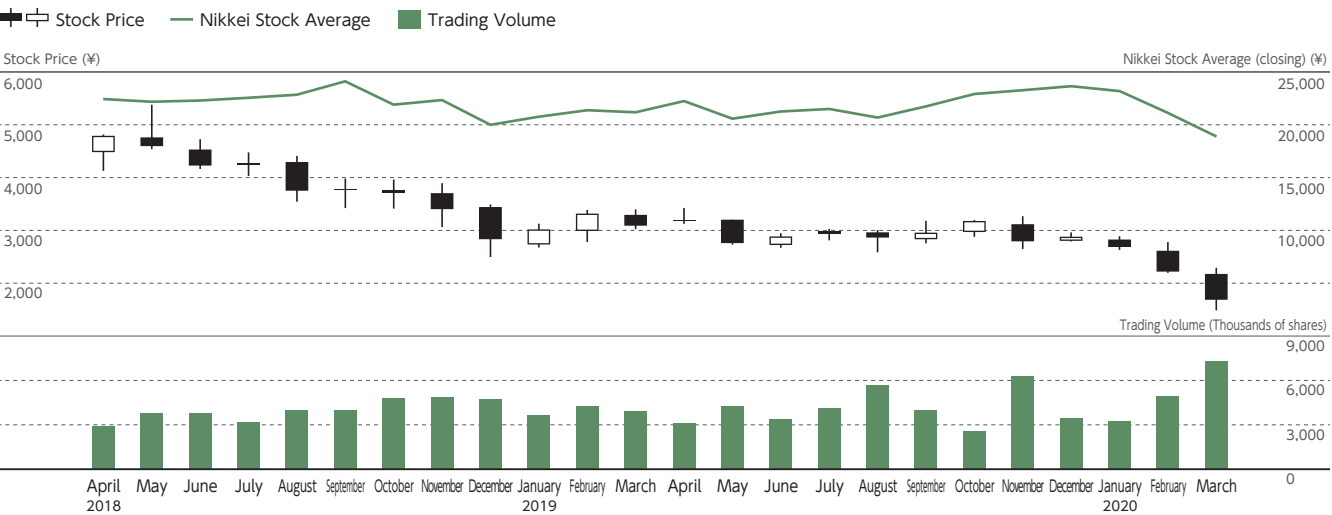
Name of Shareholders	Number of Shares (thousands)	Percentage of Total Issued Shares (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,223	5.47
Hanwa Clients' Stock Investment Association	1,831	4.51
Japan Trustee Services Bank, Ltd. (Trust Account)	1,770	4.36
JP MORGAN CHASE BANK 385632	1,727	4.25
Sumitomo Mitsui Banking Corporation	1,526	3.76
GOVERNMENT OF NORWAY	972	2.39
Hanwa Employees' Stock Investment Association	913	2.25
SSBTC CLIENT OMNIBUS ACCOUNT	835	2.06
Japan Trustee Services Bank, Ltd. (Trust Account 5)	748	1.84
JP MORGAN CHASE BANK 385151	704	1.73

Note: The Company holds 1,694,788 shares of treasury stock, which is excluded from the principal shareholders listed above.

## Breakdown by Type of Shareholder



## Stock Price Range and Trading Volume (Common Stock) (April 2018 to March 2020)



## Editorial Policy

### Editorial Policy

The Company has decided to publish an integrated report from this fiscal year so that our stakeholders can deepen their understanding of our medium-to long-term value creation. Through this report, we aim to further enhance our corporate value by deepening dialogue with our stakeholders.

### Scope of Report

The Company and its subsidiaries

### Period Covered

Fiscal 2019 (April 1, 2019 to March 31, 2020)

Some of the activities, prior to or after the period covered, are also included.

### Cautionary statement regarding forward-looking Information

This report contains forward-looking information including future results of the Company. Such information reflects the Company's analysis based on information currently available to the Company and actual results may differ from these forecasts due to various factors, including economic trends and the surrounding business environment.

### Reference Guidelines

"International Integrated Reporting Framework" published by International Integrated Reporting Council (IIRC)

"Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation" published by Ministry of Economy, Trade and Industry

### Contact

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Tel: +81-3-3544-2000 Fax: +81-3-3544-2435  
URL: <https://www.hanwa.co.jp/en/contact/>