



Hanwa CO.,Ltd. and Subsidiaries

Consolidated Financial Statements
For the Years ended March 31,
2021 and 2020
Together with Independent
Auditors' Report

Consolidated Balance Sheets

As at March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Assets			
Current assets:			
Cash and cash equivalents (Notes 3 and 7)	¥ 50,892	¥ 67,243	\$ 459,687
Receivables:			
Trade notes and accounts (Notes 3 and 13):			
Unconsolidated subsidiaries and affiliates	7,036	8,418	63,553
Other	349,023	333,141	3,152,587
Electronically recorded monetary claims (Note 3):			
Unconsolidated subsidiaries and affiliates	—	97	—
Other	27,895	21,184	251,964
Loans:			
Unconsolidated subsidiaries and affiliates	4,068	2,109	36,744
Other	5,584	10,019	50,438
Allowance for doubtful accounts	(1,679)	(1,046)	(15,165)
Securities (Notes 3 and 4)	—	1,167	—
Inventories (Note 6)	127,378	127,460	1,150,555
Other current assets	59,894	57,833	540,999
Total current assets	630,093	627,629	5,691,382
Investments and noncurrent receivables:			
Investment securities (Notes 3, 4 and 7)	58,769	46,314	530,837
Investments in unconsolidated subsidiaries and affiliates (Note 3)	13,702	10,577	123,764
Loans receivable (Note 3):			
Unconsolidated subsidiaries and affiliates	789	1,133	7,126
Other	17,140	18,007	154,818
Other investments and noncurrent receivables	22,044	13,754	199,114
Allowance for doubtful accounts	(454)	(1,070)	(4,100)
Total investments and noncurrent receivables	111,991	88,717	1,011,570
Property and equipment (Note 7):			
Land (Note 12)	34,457	34,165	311,236
Buildings and structures	51,294	51,797	463,318
Machinery, equipment and vehicles	27,956	26,730	252,515
Other	13,345	13,190	120,540
Accumulated depreciation	(53,247)	(50,721)	(480,959)
Total property and equipment	73,806	75,162	666,660
Other assets:			
Deferred tax assets—noncurrent (Note 8)	805	600	7,271
Intangible assets (Note 7)	7,893	6,331	71,294
Total other assets	8,699	6,932	78,574
Total	¥ 824,590	¥ 798,442	\$ 7,448,197

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Liabilities and Net Assets			
Current liabilities:			
Short-term loans payable (Notes 3 and 9)	¥ 35,334	¥ 44,979	\$ 319,158
Long-term debt due within one year (Notes 3, 7 and 9)	40,539	32,218	366,172
Trade notes and accounts payable (Note 3):			
Unconsolidated subsidiaries and affiliates	3,503	1,340	31,641
Other	209,933	201,330	1,896,242
Electronically recorded obligations (Note 3):			
Unconsolidated subsidiaries and affiliates	148	37	1,336
Other	21,624	19,108	195,321
Accrued bonuses to employees	3,281	2,774	29,635
Provision for product warranties	324	481	2,926
Income taxes payable	6,985	2,466	63,092
Other current liabilities	67,549	59,913	610,143
Total current liabilities	389,222	364,653	3,515,689
Noncurrent liabilities:			
Long-term debt due after one year (Notes 3, 7 and 9)	223,999	252,386	2,023,295
Retirement benefit liability (Note 10)	5,326	6,162	48,107
Deferred tax liabilities—noncurrent (Note 8)	7,136	2,871	64,456
Other noncurrent liabilities	7,048	6,271	63,661
Total noncurrent liabilities	243,510	267,691	2,199,530
Contingent liabilities (Note 11)			
Net assets (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized: 114,000,000 shares in 2021 and 114,000,000 shares in 2020			
Issued: 42,332,640 shares in 2021 and 42,332,640 shares in 2020	45,651	45,651	412,347
Retained earnings	137,825	119,475	1,244,919
Treasury stock, at cost: 1,695,152 shares in 2021 and 1,694,788 shares in 2020	(3,729)	(3,728)	(33,682)
Total shareholders' equity	179,747	161,398	1,623,584
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes	15,193	6,042	137,232
Deferred gains or losses on hedges, net of taxes	372	745	3,360
Land revaluation difference, net of taxes	3,191	3,277	28,823
Foreign currency translation adjustment	(4,906)	(2,434)	(44,313)
Remeasurements of defined benefit plans (Note 10)	(4,384)	(5,380)	(39,598)
Total accumulated other comprehensive income	9,467	2,250	85,511
Non-controlling interests	2,642	2,448	23,864
Total net assets	191,857	166,097	1,732,969
Total	¥ 824,590	¥ 798,442	\$ 7,448,197

Consolidated Statements of Operations and Comprehensive Income

For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net sales	¥ 1,745,501	¥ 1,907,493	\$ 15,766,425
Cost of sales	1,665,576	1,827,666	15,044,494
Gross profit	79,925	79,826	721,931
Selling, general and administrative expenses	50,692	52,496	457,880
Operating income	29,232	27,330	264,041
Other income (expenses):			
Interest and dividend income	3,494	4,010	31,559
Interest expenses	(3,764)	(5,494)	(33,998)
Share of profit (loss) of entities accounted for using equity method (Note 14)	858	(35,439)	7,749
Foreign exchange gain (loss)	(1,053)	(2,515)	(9,511)
Gain on sales of property and equipment (Note 15)	584	229	5,275
Gain on sales of investment securities	126	976	1,138
Loss on retirement of property and equipment (Note 16)	(116)	—	(1,047)
Loss on impairment of property and equipment (Note 17)	—	(1,003)	—
Loss on valuation of investment securities	(387)	(6,589)	(3,495)
Provision of allowance for doubtful accounts for subsidiaries and affiliates (Note 18)	(188)	(615)	(1,698)
Provision for product warranties (Note 19)	—	(394)	—
Other, net	52	(488)	469
Income (loss) before income taxes	28,839	(19,995)	260,491
Income taxes (Note 8):			
Current	9,012	5,962	81,401
Deferred	(33)	(406)	(298)
Total income taxes	8,978	5,555	81,094
Net income (loss)	¥ 19,860	¥ (25,550)	\$ 179,387
Net income (loss) attributable to:			
Owners of the parent	¥ 19,617	¥ (13,674)	\$ 177,192
Non-controlling interests	242	(11,876)	2,185
Other comprehensive income (Note 20):			
Valuation difference on available-for-sale securities, net of taxes	9,146	(4,755)	82,612
Deferred gains or losses on hedges, net of taxes	(373)	684	(3,369)
Foreign currency translation adjustment	(2,211)	287	(19,971)
Remeasurements of defined benefit plans, net of taxes	1,011	92	9,131
Share of other comprehensive income of entities accounted for using equity method	(121)	(730)	(1,092)
Total other comprehensive income	7,451	(4,421)	67,301
Comprehensive income	¥ 27,311	¥ (29,972)	\$ 246,689
Comprehensive income attributable to:			
Owners of the parent	¥ 27,188	¥ (17,974)	\$ 245,578
Non-controlling interests	122	(11,997)	1,101
			U.S. dollars (Note 1)
			Yen
	2021	2020	2021
Net income (loss) per share	¥ 482.74	¥ (336.51)	\$ 4.36
Cash dividends per share	60.00	100.00	0.54

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2021 and 2020

	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, 2019	42,332	¥ 45,651	¥ 139,036	¥ (3,737)	¥ 10,800	¥ 61	¥ 3,343	¥ (1,435)	¥ (5,473)	¥ 14,214	¥ 202,459
Cash dividends paid	—	—	(6,095)	—	—	—	—	—	—	—	(6,095)
Change in scope of consolidation	—	—	(906)	—	—	—	—	—	—	—	(906)
Change in scope of equity method	—	—	1,141	—	—	—	—	—	—	—	1,141
Reversal of revaluation reserve for land	—	—	66	—	—	—	—	—	—	—	66
Net loss attributable to owners of the parent	—	—	(13,674)	—	—	—	—	—	—	—	(13,674)
Purchases of treasury stock	—	—	—	(0)	—	—	—	—	—	—	(0)
Disposal of treasury stock	—	—	—	0	—	—	—	—	—	—	0
Purchase of shares of consolidated subsidiaries	—	—	(91)	—	—	—	—	—	—	—	(91)
Other changes	—	—	0	9	—	—	—	—	—	—	9
Net changes of items other than shareholders' equity	—	—	—	—	(4,758)	684	(66)	(998)	93	(11,765)	(16,811)
Balance at March 31, 2020	42,332	45,651	119,475	(3,728)	6,042	745	3,277	(2,434)	(5,380)	2,448	166,097
Balance at April 1, 2020	42,332	45,651	119,475	(3,728)	6,042	745	3,277	(2,434)	(5,380)	2,448	166,097
Cash dividends paid	—	—	(2,235)	—	—	—	—	—	—	—	(2,235)
Change in scope of consolidation	—	—	88	—	—	—	—	—	—	—	88
Change in scope of equity method	—	—	911	—	—	—	—	—	—	—	911
Reversal of revaluation reserve for land	—	—	85	—	—	—	—	—	—	—	85
Net income attributable to owners of the parent	—	—	19,617	—	—	—	—	—	—	—	19,617
Purchases of treasury stock	—	—	—	(0)	—	—	—	—	—	—	(0)
Purchase of shares of consolidated subsidiaries	—	—	(117)	—	—	—	—	—	—	—	(117)
Net changes of items other than shareholders' equity	—	—	—	—	9,151	(373)	(85)	(2,472)	996	193	7,410
Balance at March 31, 2021	42,332	¥ 45,651	¥ 137,825	¥ (3,729)	¥ 15,193	¥ 372	¥ 3,191	¥ (4,906)	¥ (4,384)	¥ 2,642	¥ 191,857

	Thousands	Thousands of U.S. dollars (Note 1)									
	Number of shares of common stock	Common stock	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 2020	42,332	\$ 412,347	\$ 1,079,170	\$ (33,673)	\$ 54,575	\$ 6,729	\$ 29,599	\$ (21,985)	\$ (48,595)	\$ 22,111	\$ 1,500,289
Cash dividends paid	—	—	(20,187)	—	—	—	—	—	—	—	(20,187)
Change in scope of consolidation	—	—	794	—	—	—	—	—	—	—	794
Change in scope of equity method	—	—	8,228	—	—	—	—	—	—	—	8,228
Reversal of revaluation reserve for land	—	—	767	—	—	—	—	—	—	—	767
Net income attributable to owners of the parent	—	—	177,192	—	—	—	—	—	—	—	177,192
Purchases of treasury stock	—	—	—	(0)	—	—	—	—	—	—	(0)
Purchase of shares of consolidated subsidiaries	—	—	(1,056)	—	—	—	—	—	—	—	(1,056)
Net changes of items other than shareholders' equity	—	—	—	—	82,657	(3,369)	(767)	(22,328)	8,996	1,743	66,931
Balance at March 31, 2021	42,332	\$ 412,347	\$ 1,244,919	\$ (33,682)	\$ 137,232	\$ 3,360	\$ 28,823	\$ (44,313)	\$ (39,598)	\$ 23,864	\$ 1,732,969

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 28,839	¥ (19,995)	\$ 260,491
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation	5,479	5,245	49,489
Loss on impairment of property and equipment	—	1,003	—
Amortization of goodwill	468	514	4,227
Increase (decrease) in allowance for doubtful accounts	(167)	(358)	(1,508)
Interest and dividend income	(3,494)	(4,010)	(31,559)
Interest expenses	3,764	5,494	33,998
Share of loss (profit) of entities accounted for using equity method	(858)	35,439	(7,749)
Gain on sales of property and equipment	(584)	(229)	(5,275)
Gain on sales of investment securities	(126)	(976)	(1,138)
Loss on retirement of property and equipment	116	—	1,047
Loss on valuation of investment securities	387	6,589	3,495
Provision of allowance for doubtful accounts for subsidiaries and affiliates	188	615	1,698
Provision for product warranties	—	394	—
Decrease (increase) in trade receivables	(21,603)	95,209	(195,131)
Decrease (increase) in inventories	282	21,897	2,547
Increase (decrease) in trade notes and accounts payable	13,576	(69,814)	122,626
Increase (decrease) in retirement benefit liability	583	321	5,266
Other, net	(2,961)	4,630	(26,745)
Subtotal	23,890	81,969	215,788
Cash flows during the year for:			
Interest and dividends received	3,567	4,931	32,219
Interest paid	(3,797)	(5,594)	(34,296)
Income taxes (paid) refund	(4,656)	(7,044)	(42,055)
Net cash provided by (used in) operating activities	19,004	74,261	171,655
Cash flows from investing activities:			
Payments into time deposits	(14)	(679)	(126)
Proceeds from withdrawal of time deposits	73	1,598	659
Purchase of property and equipment	(6,332)	(7,500)	(57,194)
Proceeds from sales of property and equipment	1,318	575	11,904
Purchase of investment securities	(2,788)	(10,614)	(25,182)
Proceeds from sales and redemption of investment securities	1,228	1,546	11,092
Net decrease (increase) in short-term loans receivable	1,171	(3,516)	10,577
Payments of long-term loans receivable	(4,701)	(7,091)	(42,462)
Collection of long-term loans receivable	7,715	5,188	69,686
Other, net	(1,860)	(3,665)	(16,800)
Net cash provided by (used in) investing activities	(4,190)	(24,159)	(37,846)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(10,497)	(23,470)	(94,815)
Proceeds from long-term debt and issuance of bonds	12,098	30,854	109,276
Repayments of long-term debt and redemption of bonds	(32,823)	(42,979)	(296,477)
Dividends paid	(2,242)	(6,092)	(20,251)
Dividends paid to non-controlling interests	(134)	(143)	(1,210)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(134)	(187)	(1,210)
Other, net	(490)	(295)	(4,425)
Net cash provided by (used in) financing activities	(34,223)	(42,314)	(309,122)
Effect of exchange rate changes on cash and cash equivalents	2,402	(1,389)	21,696
Net increase (decrease) in cash and cash equivalents	(17,006)	6,398	(153,608)
Cash and cash equivalents at beginning of year	67,243	58,384	607,379
Increase in cash and cash equivalents from newly consolidated subsidiaries	632	2,460	5,708
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	22	—	198
Cash and cash equivalents at end of year	¥ 50,892	¥ 67,243	\$ 459,687

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, 2021, which was ¥110.71 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 2020 and 2021. 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 49(46 in 2020) 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, 2021, the Company had 39 unconsolidated subsidiaries and 23 affiliates. The equity method has been applied to the investments in 14 of the unconsolidated subsidiaries and 13 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 mainly 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 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 per share of common stock are based on the weighted average number of shares outstanding

during each period. Diluted net income per share is not disclosed because potentially dilutive securities are not issued. Cash dividends per share in the consolidated statements of 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 26, 2021)

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 appli-

cable 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.

3. Financial instruments

At March 31, 2021 and 2020, 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, energy and living materials, lumber to machinery. The Companies also engage in other business activities such as steel material processing, non-ferrous metal processing and amusement park management and operations. While the Companies depend primarily on bank borrowings to procure funds necessary for these operational transactions as well as investing and financing activities, the Companies seek to diversify their financing instruments to ensure stable and flexible liquidity, funding these activities by issuing bonds and commercial paper in the capital markets in some cases. Temporary surplus funds are managed in low-risk financial assets.

It is the Companies’ policy to use derivatives only for the purpose of reducing market risks associated with assets and liabilities.

Components of financial instruments and risks

Trade notes and accounts receivable and electronically recorded monetary claims are exposed to credit risk of customers. Some of them are denominated in foreign currencies and exposed to the foreign exchange rate fluctuation risk as well.

Securities mainly consist of stocks and are exposed to price fluctuation risk. Some of them are denominated in foreign currencies, which accompany foreign exchange rate fluctuation risk.

Long-term loans receivable are mainly for the suppliers of the Companies and are exposed to credit risk. Some of them are denominated in foreign currencies, which accompany foreign exchange rate fluctuation 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. Some of them accompany interest rate risk and foreign exchange rate fluctuation risk.

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, long-term loans 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 reports 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 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, 2021 and 2020 were as follows:

March 31, 2021

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 50,892	¥ 50,892	¥ —	\$ 459,687	\$ 459,687	\$ —
(2) Trade notes and accounts receivable	356,059			3,216,141		
Allowance for doubtful accounts	(331)			(2,989)		
Net	355,727	355,727	—	3,213,142	3,213,142	—
(3) Electronically recorded monetary claims	27,895			251,964		
Allowance for doubtful accounts	(23)			(207)		
Net	27,872	27,872	—	251,756	251,756	—
(4) Securities						
a) Equity securities issued by affiliated companies	3,379	2,332	(1,046)	30,521	21,064	(9,448)
b) Available-for-sale securities	39,474	39,474	—	356,553	356,553	—
(5) Long-term loans receivable	17,929			161,945		
Allowance for doubtful accounts	(7)			(63)		
Net	17,921	17,921	—	161,873	161,873	—
Total assets	¥ 495,267	¥ 494,220	¥ (1,046)	\$ 4,473,552	\$ 4,464,095	\$ (9,448)
(1) Short-term loans payable	¥ 35,334	¥ 35,334	¥ —	\$ 319,158	\$ 319,158	\$ —
(2) Long-term debt due within one year	40,539	40,520	18	366,172	366,001	162
(3) Trade notes and accounts payable	213,436	213,436	—	1,927,883	1,927,883	—
(4) Electronically recorded obligations	21,772	21,772	—	196,657	196,657	—
(5) Long-term debt due after one year	223,999	223,636	362	2,023,295	2,020,016	3,269
Total liabilities	¥ 535,081	¥ 534,700	¥ 380	\$ 4,833,176	\$ 4,829,735	\$ 3,432
Derivatives:						
Hedge accounting not applied	¥ (7,733)	¥ (7,733)	¥ —	\$ (69,849)	\$ (69,849)	\$ —
Hedge accounting applied	(248)	(368)	(119)	(2,240)	(3,323)	(1,074)
Total derivatives	¥ (7,982)	¥ (8,102)	¥ (119)	\$ (72,098)	\$ (73,182)	\$ (1,074)

March 31, 2020

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 67,243	¥ 67,243	¥ —
(2) Trade notes and accounts receivable	341,559		
Allowance for doubtful accounts	(324)		
Net	341,234	341,234	—
(3) Electronically recorded monetary claims	21,281		
Allowance for doubtful accounts	(18)		
Net	21,263	21,263	—
(4) Securities			
a) Equity securities issued by affiliated companies	3,119	954	(2,164)
b) Available-for-sale securities	27,283	27,283	—
(5) Long-term loans receivable	19,141		
Allowance for doubtful accounts	(14)		
Net	19,127	19,127	—
Total assets	¥ 479,271	¥ 477,107	¥ (2,164)
(1) Short-term loans payable	¥ 44,979	¥ 44,979	¥ —
(2) Long-term debt due within one year	32,218	32,228	(10)
(3) Trade notes and accounts payable	202,671	202,671	—
(4) Electronically recorded obligations	19,146	19,146	—
(5) Long-term debt due after one year	252,386	252,119	266
Total liabilities	¥ 551,402	¥ 551,145	¥ 256
Derivatives:			
Hedge accounting not applied	¥ 2,207	¥ 2,207	¥ —
Hedge accounting applied	1,057	934	(123)
Total derivatives	¥ 3,264	¥ 3,141	¥ (123)

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, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
	Book value	Book value	Book value
(1) Equity securities issued by unconsolidated subsidiaries and affiliated companies	¥ 10,323	¥ 7,458	\$ 93,243
(2) Held-to-maturity debt securities	¥ 1,871	¥ 1,817	\$ 16,900
(3) Available-for-sale securities:			
Unlisted stocks	¥ 3,764	¥ 3,828	\$ 33,998
Unlisted foreign stocks	12,709	12,479	114,795
Unlisted foreign convertible bonds	—	1,167	—
Unlisted domestic convertible bonds	26	26	234
Investment in limited partnerships	923	878	8,337
Total	¥ 17,423	¥ 18,379	\$ 157,375

The maturities of receivables and securities with maturities outstanding at March 31, 2021 were as follows:

Year ending March 31

	Millions of yen			
	2022	From 2023 to 2026	From 2027 to 2031	Thereafter
Cash and cash equivalents	¥ 50,892	¥ —	¥ —	¥ —
Trade notes and accounts receivable	356,059	—	—	—
Electronically recorded monetary claims	27,895	—	—	—
Held-to-maturity debt securities	—	—	1,871	—
Available-for-sale securities with maturity dates	—	—	26	—
Long-term loans receivable	—	10,308	6,746	43
Total	¥ 434,848	¥ 10,308	¥ 8,644	¥ 43

	Thousands of U.S. dollars			
	2022	From 2023 to 2026	From 2027 to 2031	Thereafter
Cash and cash equivalents	\$ 459,687	\$ —	\$ —	\$ —
Trade notes and accounts receivable	3,216,141	—	—	—
Electronically recorded monetary claims	251,964	—	—	—
Held-to-maturity debt securities	—	—	16,900	—
Available-for-sale securities with maturity dates	—	—	234	—
Long-term loans receivable	—	93,108	60,933	388
Total	\$ 3,927,811	\$ 93,108	\$ 78,077	\$ 388

Long-term loans receivable of ¥830 million (\$7,483 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, 2021 and 2020:

March 31, 2021

	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	¥ 14,665	¥ 37,245	¥ 22,579	\$ 132,463	\$ 336,419	\$ 203,947
Securities with book values not exceeding acquisition costs:						
Equity securities	¥ 2,801	¥ 2,228	¥ (572)	\$ 25,300	\$ 20,124	\$ (5,166)

March 31, 2020

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 7,515	¥ 19,214	¥ 11,699
Securities with book values not exceeding acquisition costs:			
Equity securities	¥ 10,178	¥ 8,069	¥ (2,108)

(B) The following tables summarize sales of available-for-sale securities in the years ended March 31, 2021 and 2020:

March 31, 2021

	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	¥ 330	¥ 126	¥ 14	\$ 2,980	\$ 1,138	\$ 126

March 31, 2020

	Millions of yen		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 1,465	¥ 976	¥ 0
Other	6	—	0

(C) The loss on valuation of investment securities in the years ended March 31, 2021 and 2020 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities in subsidiaries and affiliates	¥ —	¥ 65	\$ —
Other securities	387	6,523	3,495
Total	¥ 387	¥ 6,589	\$ 3,495

5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2021 and 2020 for the derivatives to which hedge accounting has not been applied:

March 31, 2021

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	¥ 96,489	¥ —	¥ (4,444)	¥ (4,444)	\$ 871,547	\$ —	\$ (40,140)	\$ (40,140)
Other currencies	11,801	—	(230)	(230)	106,593	—	(2,077)	(2,077)
Buying:								
U.S. dollars	4,529	—	(49)	(49)	40,908	—	(442)	(442)
Other currencies	1,358	—	15	15	12,266	—	135	135
Cross-currency swap agreements:								
Japanese yen received for U.S. dollars	27,419	12,966	(364)	(364)	247,665	117,116	(3,287)	(3,287)
Total	¥ —	¥ —	¥ —	¥ (5,073)	\$ —	\$ —	\$ —	\$ (45,822)

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	¥ 1,020	¥ —	¥ (108)	¥ (108)	\$ 9,213	\$ —	\$ (975)	\$ (975)
Buying	126	—	18	18	1,138	—	162	162
Non-ferrous metals:								
Selling	24,748	—	(2,834)	(2,834)	223,538	—	(25,598)	(25,598)
Buying	13,636	—	963	963	123,168	—	8,698	8,698
Commodity swap agreements:								
Petroleum:								
Fixed receipt / Fluctuated payment	1,157	—	4	4	10,450	—	36	36
Fluctuated receipt / Fixed payment	2,216	—	(6)	(6)	20,016	—	(54)	(54)
Total	¥ —	¥ —	¥ —	¥ (1,962)	\$ —	\$ —	\$ —	\$ (17,721)

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	¥ 151,883	¥ 15,984	¥ (697)	¥ (697)	\$ 1,371,899	\$ 144,377	\$ (6,295)	\$ (6,295)
Buying	—	—	—	—	—	—	—	—
Total	¥ —	¥ —	¥ —	¥ (697)	\$ —	\$ —	\$ —	\$ (6,295)

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

March 31, 2020

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	¥ 72,312	¥ —	¥ (414)	¥ (414)
Other currencies	5,085	—	515	515
Buying:				
U.S. dollars	7,892	—	(26)	(26)
Other currencies	3,216	—	(26)	(26)
Non-deliverable forward contracts:				
Selling:				
Indonesian rupiah	4,134	—	659	659
Cross-currency swap agreements:				
Japanese yen received for U.S. dollars	27,608	17,811	451	451
Total	¥ —	¥ —	¥ —	¥ 1,158

Commodity related

	Millions of yen			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:				
Petroleum:				
Selling	¥ 1,286	¥ —	¥ 318	¥ 318
Buying	498	—	(92)	(92)
Non-ferrous metals:				
Selling	9,330	—	1,299	1,299
Buying	4,875	—	(397)	(397)
Commodity swap agreements:				
Petroleum:				
Fixed receipt / Fluctuated payment	665	—	214	214
Fluctuated receipt / Fixed payment	1,893	—	(378)	(378)
Total	¥ —	¥ —	¥ —	¥ 963

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	¥ 21,250	¥ —	¥ 4,269	¥ 4,269
Buying	21,644	—	(4,184)	(4,184)
Total	¥ —	¥ —	¥ —	¥ 85

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, 2021 and 2020 for the derivatives to which hedge accounting was applied:

March 31, 2021

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	¥ (160)	\$ 48,785	\$ 48,785	\$ (1,445)

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	¥ 10,015	¥ 10,000	¥ (119)	\$ 90,461	\$ 90,326	\$ (1,074)

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	¥ 23,752	¥ 107	¥ 538	\$ 214,542	\$ 966	\$ 4,859
Buying	16,645	—	(626)	150,347	—	(5,654)

March 31, 2020

Currency related

	Millions of yen		
	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)

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	¥ 10,545	¥ 5,045	¥ (123)

Commodity related

	Millions of yen		
	Contract or notional amount	Due after one year	Fair value
Forwards for inventories and commitments:			
Non-ferrous metals			
Selling	¥ 30,852	¥ —	¥ 2,144
Buying	19,329	—	(1,017)

6. Inventories

Inventories at March 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Merchandise and finished products	¥ 113,296	¥ 109,576	\$ 1,023,358
Work-in-process	1,605	1,660	14,497
Raw materials and supplies	12,476	16,223	112,690
Total	¥ 127,378	¥ 127,460	\$ 1,150,555

The provisions made or reversed in the year were determined after considering the realizable value of the inventories due to the decline in profitability. Such provisions recognized in the profit and loss were a net gain of ¥2,339 million (gain of \$21,127 thousand) and a net loss of ¥2,346 million for the years ended March 31, 2021 and 2020, respectively.

7. Pledged assets

At March 31, 2021 and 2020, assets pledged as collateral for loans payable in the amount of ¥54 million (\$487 thousand) and ¥535 million, respectively, for guaranty deposits, and for loans of third parties were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
For loans payable:			
Land	¥ 393	¥ 1,113	\$ 3,549
Buildings and structures, net of accumulated depreciation	775	1,059	7,000
Intangible assets	249	262	2,249
Total	¥ 1,418	¥ 2,435	\$ 12,808
For guaranty deposits:			
Cash and cash equivalents	¥ 13	¥ 13	\$ 117
Investment securities	5,318	3,367	48,035
Total	¥ 5,331	¥ 3,380	\$ 48,152
For loans of third parties:			
Investment securities	¥ 2,215	¥ 2,177	\$ 20,007
Total	¥ 2,215	¥ 2,177	\$ 20,007

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, 2021 and 2020.

An aggregate statutory income tax rate for the year ended March 31, 2021 and 2020 was omitted here be-

cause of the difference between the aggregate statutory income tax rate and the effective tax rate was not more than 5% of the aggregate statutory income tax rate, and because of loss before income taxes, respectively.

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Temporary differences resulting from the merger with consolidated subsidiaries	¥ 2,731	¥ 2,731	\$ 24,668
Tax losses carried forward	2,237	2,069	20,205
Loss on valuation of investment securities, currently not deductible	1,793	1,694	16,195
Retirement benefit liability	1,673	1,859	15,111
Loss on sale-repurchase agreements of land	1,293	1,293	11,679
Loss on impairment of property and equipment	993	1,157	8,969
Accrued bonuses to employees	972	825	8,779
Land revaluation difference, net of taxes unrealized loss	80	80	722
Other	5,233	5,929	47,267
Total deferred tax assets	17,011	17,643	153,653
Valuation allowance	(11,650)	(11,864)	(105,229)
Net deferred tax assets	5,360	5,779	48,414
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	6,636	2,879	59,940
Land revaluation difference, net of taxes unrealized gain	1,524	1,562	13,765
Other	3,530	3,607	31,885
Total deferred tax liabilities	11,692	8,049	105,609
Net deferred tax liabilities	¥ (6,331)	¥ (2,270)	\$ (57,185)

9. Short-term loans payable, commercial paper and long-term debt

The weighted average interest rates applicable to short-term loans outstanding at March 31, 2021 and 2020 were 1.5% and 2.2%, respectively, regardless of borrowing currencies though the range of the interest rates varies by borrowing cur-

rencies. There were an outstanding balance of ¥35,334 million (\$319,158 thousand) and ¥44,979 million at March 31, 2021 and 2020, respectively.

Bonds at March 31, 2021 and 2020, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Issued in 2015, 0.43% unsecured straight bonds, due 2020	¥ —	¥ 10,000	\$ —
Issued in 2016, 0.29% unsecured straight bonds, due 2021	10,000	10,000	90,326
Issued in 2017, 0.27% unsecured straight bonds, due 2022	10,000	10,000	90,326
Issued in 2018, 0.24% unsecured straight bonds, due 2023	10,000	10,000	90,326
Issued in 2018, 0.59% unsecured straight bonds, due 2028	10,000	10,000	90,326
Issued in 2014, unsecured floating rate bonds, due 2021	13	34	117
Total	¥ 40,013	¥ 50,034	\$ 361,421

Long-term loans payable at March 31, 2021 and 2020, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans from banks with weighted average interest rates of 0.8% and 0.8% at March 31, 2021 and 2020, respectively, maturing serially through 2054	¥ 224,524	¥ 234,570	\$ 2,028,037
Less amounts due within one year	(30,525)	(22,197)	(275,720)
Total	¥ 193,999	¥ 212,372	\$ 1,752,316

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

The annual maturities of long-term loans payable outstanding at March 31, 2021 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥ 30,525	\$ 275,720
2023	36,658	331,117
2024	21,712	196,115
2025	20,094	181,501
2026	20,082	181,392
Thereafter	95,451	862,171
Total	¥ 224,524	\$ 2,028,037

10. Employees' severance and retirement benefits

(A) Overview of retirement benefit system adopted

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

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

to market interest rates.

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

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

(B) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at beginning of year	¥ 28,443	¥ 27,583	\$ 256,914
Service cost	1,371	1,312	12,383
Interest cost	111	106	1,002
Actuarial loss (gain)	458	68	4,136
Benefits paid	(813)	(640)	(7,343)
Other	1	11	9
Balance at end of year	¥ 29,572	¥ 28,443	\$ 267,112

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at beginning of year	¥ 23,186	¥ 22,480	\$ 209,430
Expected return on plan assets	582	676	5,256
Actuarial gain (loss)	773	(823)	6,982
Contributions paid by the employer	1,540	1,493	13,910
Benefits paid	(821)	(638)	(7,415)
Other	4	(2)	36
Balance at end of year	¥ 25,265	¥ 23,186	\$ 228,208

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at beginning of year	¥ 905	¥ 847	\$ 8,174
Retirement benefit costs	137	119	1,237
Benefits paid	(34)	(61)	(307)
Contributions paid by the employer	(18)	(11)	(162)
Other	29	12	261
Balance at end of year	¥ 1,019	¥ 905	\$ 9,204

(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
	2021	2020	2021
Funded retirement benefit obligations	¥ 30,169	¥ 29,008	\$ 272,504
Plan assets	(25,728)	(23,626)	(232,390)
	4,440	5,381	40,104
Unfunded retirement benefit obligations	885	781	7,993
Total net liability (asset) for retirement benefits at end of year	5,326	6,162	48,107
Retirement benefit liability	5,326	6,162	48,107
Total net liability (asset) for retirement benefits at end of year	¥ 5,326	¥ 6,162	\$ 48,107

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥ 1,371	¥ 1,312	\$ 12,383
Interest cost	111	106	1,002
Expected return on plan assets	(582)	(676)	(5,256)
Net actuarial loss amortization	1,142	1,025	10,315
Retirement benefit costs based on the simplified method	137	119	1,237
Other	(2)	(12)	(18)
Total retirement benefit costs	¥ 2,178	¥ 1,875	\$ 19,673

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gains and losses	¥ 1,458	¥ 132	\$ 13,169
Total	¥ 1,458	¥ 132	\$ 13,169

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gains and losses that are yet to be recognized	¥ 6,378	¥ 7,836	\$ 57,609
Total balance at end of year	¥ 6,378	¥ 7,836	\$ 57,609

(8) Breakdown of plan assets

	2021	2020
Bonds (*1)	27.5%	19.9%
Equity securities (*1)	18.0	20.7
Cash and cash equivalents	1.2	4.8
General account assets	21.0	22.5
Other (*2)	32.3	32.1
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

	2021	2020
Discount rate	0.4%	0.4%
Long-term expected rate of return	2.5	3.0
Expected salary increase rate	3.1	3.1

(C) Defined contribution plans

The Companies were required to contribute ¥325 million (\$2,935 thousand) and ¥312 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, 2021 and 2020, respectively.

11. Contingent liabilities

At March 31, 2021 and 2020, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Export letters of credit and trade notes (including export bills) discounted	¥ 8,735	¥ 19,622	\$ 78,899
Electronically recorded monetary claims discounted	83	103	749
Trade notes endorsed	47	218	424
Guarantees of indebtedness	5,121	3,887	46,255

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 23, 2021, the shareholders approved cash dividends of ¥30.00 per share (\$0.27) amounting to ¥1,219 million (\$11,010 thousand). This appropriation had not been accrued in the consolidated financial statements as of March 31, 2021. 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 revalued 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, 2021, the carrying amount of the land after the above one-time revaluation did not exceed the market value.

13. Arbitration

Years ended March 31, 2021 and 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, 2021

Not applicable.

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 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, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Land	¥ 564	¥ 202	\$ 5,094
Buildings and structures	7	—	63
Machinery, equipment and vehicles	9	27	81
Other	2	0	18
Intangible assets	1	—	9
Total	¥ 584	¥ 229	\$ 5,275

16. Loss on retirement of property and equipment

The following table summarizes loss on retirement of property and equipment in the years ended March 31, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Buildings and structures	¥ 71	¥ —	\$ 641
Machinery, equipment and vehicles	23	—	207
Other	18	—	162
Intangible assets	3	—	27
Total	¥ 116	¥ —	\$ 1,047

17. Loss on impairment of property and equipment

Year ended March 31, 2021

Not applicable.

Year ended March 31, 2020

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.

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

Location	Description	Land	Buildings and structures	Machinery, equipment and vehicles	Other	Total
Mino, Osaka	Company House	¥ 95	¥ 57	¥ —	¥ 1	¥ 153
Nagoya, Aichi	Company House	—	134	—	0	134
Tobishima, Ama-gun, Aichi	Business Assets	—	—	67	—	67
Sapporo, Hokkaido	Business Assets	—	349	181	—	531
Penang, Malaysia	Goodwill	—	—	—	115	115
Total		¥ 95	¥ 540	¥ 249	¥ 117	¥ 1,003

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

Year ended March 31, 2021

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, 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.

19. Provision for product warranties

Year ended March 31, 2021

Not applicable.

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.

20. Other comprehensive income

Years ended March 31, 2021 and 2020

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
	2021	2020	2021
Valuation difference on available-for-sale securities, net of taxes:			
Increase (decrease) during the year	¥ 12,698	¥ (13,708)	\$ 114,696
Reclassification adjustments	223	7,093	2,014
Sub-total, before tax	12,921	(6,615)	116,710
Tax expense (benefit)	3,775	(1,860)	34,098
Sub-total, net of tax	9,146	(4,755)	82,612
Deferred gains or losses on hedges, net of taxes:			
Increase (decrease) during the year	(952)	581	(8,599)
Reclassification adjustments	368	414	3,323
Sub-total, before tax	(583)	995	(5,266)
Tax expense (benefit)	(210)	310	(1,896)
Sub-total, net of tax	(373)	684	(3,369)
Foreign currency translation adjustments:			
Increase (decrease) during the year	(2,211)	287	(19,971)
Reclassification adjustments	—	—	—
Sub-total, before tax	(2,211)	287	(19,971)
Tax expense (benefit)	—	—	—
Sub-total, net of tax	(2,211)	287	(19,971)
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	316	(898)	2,854
Reclassification adjustments	1,141	1,031	10,306
Sub-total, before tax	1,458	132	13,169
Tax expense (benefit)	446	40	4,028
Sub-total, net of tax	1,011	92	9,131
Share of other comprehensive income of entities accounted for using equity method:			
Increase (decrease) during the year	(121)	(730)	(1,092)
Total other comprehensive income	¥ 7,451	¥ (4,421)	\$ 67,301

21. Leases

Operating leases As Lessee

Obligations under non-cancelable operating leases as of March 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Due within one year	¥ 626	¥ 567	\$ 5,654
Due after one year	6,961	6,607	62,875
Total	¥ 7,588	¥ 7,174	\$ 68,539

22. 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, 2021

Millions of yen				Thousands of U.S.dollars			
Book value		Fair value		Book value		Fair 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
¥ 7,678	¥ 584	¥ 7,093	¥ 9,780	\$ 69,352	\$ 5,275	\$ 64,068	\$ 88,338

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 ¥362 million (\$3,269 thousand) and was included in gross profit.

Year ended March 31, 2020

Millions of yen			
Book value		Fair value	
Balance at beginning of year	Net decrease	Balance at end of year	Fair value
¥ 7,701	¥ 23	¥ 7,678	¥ 10,328

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 and was included in gross profit.

23. 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," "energy and living materials 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

Energy and living materials:

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 of March 31, 2021, the Companies have changed the name of the reportable segments from "petroleum and chemical business" to "energy and

living materials business” in order to express the nature of business more appropriately. The change only involves a change in name and has no other impact on segment information.

Segment information of the year ended March 31, 2020 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, assets and others by reportable segment for the year ended March 31, 2021 were as follows:

Year ended March 31, 2021

Millions of yen

	Reportable segment										Consolidated
	Steel	Primary metal	Metal recycling	Foods	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	
Net sales	¥ 901,199	¥ 230,880	¥ 77,699	¥ 99,697	¥ 176,043	¥ 175,160	¥ 1,660,680	¥ 84,821	¥ 1,745,501	¥ —	¥ 1,745,501
Intersegment	11,990	2,898	1,874	748	7,002	29,682	54,196	3,038	57,234	(57,234)	—
Total	¥ 913,189	¥ 233,778	¥ 79,573	¥ 100,445	¥ 183,045	¥ 204,843	¥ 1,714,876	¥ 87,860	¥ 1,802,736	¥ (57,234)	¥ 1,745,501
Segment income	¥ 18,911	¥ 3,804	¥ 766	¥ 2,141	¥ 5,548	¥ 1,715	¥ 32,887	¥ 1,455	¥ 34,343	¥ (5,522)	¥ 28,821
Assets	¥ 400,623	¥ 148,276	¥ 28,464	¥ 41,584	¥ 43,034	¥ 90,584	¥ 752,568	¥ 33,187	¥ 785,756	¥ 38,834	¥ 824,590
Depreciation	4,126	15	347	88	205	217	5,001	379	5,380	98	5,479
Amortization of goodwill	390	—	22	—	54	—	468	—	468	—	468
Interest income	268	1,001	0	1	24	497	1,795	3	1,798	51	1,850
Interest expenses	2,543	1,607	272	417	195	388	5,424	169	5,593	(1,829)	3,764
Share of profit (loss) of entities accounted for using equity method	547	(32)	25	—	44	63	648	209	858	—	858
Investment for entities accounted for equity method	5,834	—	211	—	585	1,864	8,496	1,505	10,002	—	10,002
Increase in property and equipment	6,022	85	249	133	293	167	6,952	638	7,590	192	7,782

Year ended March 31, 2021

Thousands of U.S. dollars

	Reportable segment										Consolidated
	Steel	Primary metal	Metal recycling	Foods	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	
Net sales	\$ 8,140,177	\$ 2,085,448	\$ 701,824	\$ 900,523	\$ 1,590,127	\$ 1,582,151	\$ 15,000,270	\$ 766,154	\$ 15,766,425	\$ —	\$ 15,766,425
Intersegment	108,300	26,176	16,927	6,756	63,246	268,105	489,531	27,441	516,972	(516,972)	—
Total	\$ 8,248,478	\$ 2,111,624	\$ 718,751	\$ 907,280	\$ 1,653,373	\$ 1,850,266	\$ 15,489,802	\$ 793,604	\$ 16,283,407	\$ (516,972)	\$ 15,766,425
Segment income	\$ 170,815	\$ 34,360	\$ 6,918	\$ 19,338	\$ 50,112	\$ 15,490	\$ 297,055	\$ 13,142	\$ 310,206	\$ (49,878)	\$ 260,328
Assets	\$ 3,618,670	\$ 1,339,318	\$ 257,104	\$ 375,611	\$ 388,709	\$ 818,209	\$ 6,797,651	\$ 299,765	\$ 7,097,425	\$ 350,772	\$ 7,448,197
Depreciation	37,268	135	3,134	794	1,851	1,960	45,172	3,423	48,595	885	49,489
Amortization of goodwill	3,522	—	198	—	487	—	4,227	—	4,227	—	4,227
Interest income	2,420	9,041	0	9	216	4,489	16,213	27	16,240	460	16,710
Interest expenses	22,969	14,515	2,456	3,766	1,761	3,504	48,992	1,526	50,519	(16,520)	33,998
Share of profit (loss) of entities accounted for using equity method	4,940	(289)	225	—	397	569	5,853	1,887	7,749	—	7,749
Investment for entities accounted for equity method	52,696	—	1,905	—	5,284	16,836	76,741	13,594	90,344	—	90,344
Increase in property and equipment	54,394	767	2,249	1,201	2,646	1,508	62,794	5,762	68,557	1,734	70,291

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 ¥5,522 million (\$49,878 thousand) for segment income include intersegment elimination and Group costs that were not allocated to reportable segments. These Group costs consist mainly of expenses of administrative departments.
 - (2) Adjustments for segment assets amounting to ¥38,834 million (\$350,772 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 ¥98 million (\$885 thousand) include mainly depreciation and amortization expenses of Group assets.
- (4) Adjustments for interest income and interest expenses amounting to ¥51 million (\$460 thousand) and negative ¥1,829 million (\$16,520 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 ¥192 million (\$1,734 thousand) are increases in Group assets.

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

Year ended March 31, 2020

Millions of yen

	Reportable segment							Total	Other business	Total	Adjustment	Consolidated
	Steel	Primary metal	Metal recycling	Foods	Energy and living materials	Overseas sales subsidiaries	Total					
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	¥ 1,005,404	¥ 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	

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 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 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 include mainly depreciation and amortization expenses of Group assets.
- (4) Adjustments for interest income and interest expenses amounting to ¥12 million and negative ¥4,609 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 ¥432 million are increases in Group assets.

(B) Related information**Product information**

Net sales information by products for the years ended March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021

Millions of yen

	Steel	Metals and alloys	Non-ferrous metals	Foods	Energy and living materials	Other	Total
Net sales to external customers	¥ 995,305	¥ 201,813	¥ 145,827	¥ 101,870	¥ 193,631	¥ 107,054	¥ 1,745,501

Year ended March 31, 2021

Thousands of U.S. dollars

	Steel	Metals and alloys	Non-ferrous metals	Foods	Energy and living materials	Other	Total
Net sales to external customers	\$ 8,990,199	\$ 1,822,897	\$ 1,317,198	\$ 920,151	\$ 1,748,992	\$ 966,976	\$ 15,766,425

Year ended March 31, 2020

Millions of yen

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

Geographic information

(1) Net sales in different countries for the years ended March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021

Millions of yen

	Japan	Asia	Other	Total
Net sales to external customers	¥ 1,129,536	¥ 531,694	¥ 84,270	¥ 1,745,501

Year ended March 31, 2021

Thousands of U.S. dollars

	Japan	Asia	Other	Total
Net sales to external customers	\$ 10,202,655	\$ 4,802,583	\$ 761,177	\$ 15,766,425

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

(2) Property and equipment in different countries for the years ended March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021

Millions of yen

	Japan	Asia	Other	Total
Property and equipment	¥ 63,752	¥ 7,562	¥ 2,491	¥ 73,806

Year ended March 31, 2021

Thousands of U.S. dollars

	Japan	Asia	Other	Total
Property and equipment	\$ 575,846	\$ 68,304	\$ 22,500	\$ 666,660

Year ended March 31, 2020

Millions of yen

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

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, 2021 and 2020 were as follows:

Year ended March 31, 2021

Not applicable.

Year ended March 31, 2020

	Reportable segment										Millions of yen
	Steel	Primary metal	Metal recycling	Foods	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Adjustment	Total	
Loss on impairment	¥ 115	¥ —	¥ 67	¥ 531	¥ —	¥ —	¥ 714	¥ —	¥ 288	¥ 1,003	

Adjustments include loss on impairment of Group assets for land ¥95 million, buildings and structures ¥191 million and other ¥1 million.

Outstanding balance of goodwill and amortization of goodwill in reportable segment

Outstanding balance of goodwill for the years ended March 31, 2021 and 2020 were as follows:

Year ended March 31, 2021

	Reportable segment										Millions of yen
	Steel	Primary metal	Metal recycling	Foods	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Adjustment	Total	
Balance at end of year	¥ 656	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 656	¥ —	¥ —	¥ 656	

Year ended March 31, 2021

	Reportable segment										Thousands of U.S.dollars
	Steel	Primary metal	Metal recycling	Foods	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Adjustment	Total	
Balance at end of year	\$ 5,925	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,925	\$ —	\$ —	\$ 5,925	

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, 2020

	Reportable segment										Millions of yen
	Steel	Primary metal	Metal recycling	Foods	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Adjustment	Total	
Balance at end of year	¥ 777	¥ —	¥ 22	¥ —	¥ 54	¥ —	¥ 855	¥ —	¥ —	¥ 855	

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

24. Related party information

(A) Related party transactions

Year ended March 31, 2021

Not applicable.

Year ended March 31, 2020

Not applicable.

(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 years ended March 31, 2021 and 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total current assets	¥ 51,124	¥ 51,881	\$ 461,783
Total noncurrent assets	73,727	79,635	665,947
Total current liabilities	60,918	50,512	550,248
Total noncurrent liabilities	40,047	47,884	361,728
Total net assets	23,885	33,120	215,743
Net sales	140,256	148,269	1,266,877
Loss before income taxes	(8,935)	(18,544)	(80,706)
Net loss	(5,369)	(12,001)	(48,496)

Independent Auditor's Report



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, 2021 and 2020, the consolidated statements of operation and comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and 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, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the valuation of past due receivables of HANWA SINGAPORE (PRIVATE) LTD.

The key audit matter	How the matter was addressed in our audit
As described in Note 13 "Arbitration" a consolidated subsidiary in Singapore of Hanwa Co., Ltd. (hereinafter, the "Company"), HANWA SINGAPORE (PRIVATE) LTD. (hereinafter, "HANWA SINGAPORE"), filed an arbitration request with the Singapore International	The primary procedures we performed to assess the reasonableness of the Company's valuation of the past due receivables of HANWA SINGAPORE included the following: (1) Internal control testing

<p>Arbitration Centre against a petroleum product distributor based in the United Kingdom for the delayed payment of approximately USD 20 million (¥2.2 billion) in account receivables that had not been received by the due date.</p> <p>Although HANWA SINGAPORE will continue to claim its legitimacy by explaining the facts and legal grounds through the arbitration proceedings, the valuation of those receivables during the arbitration involves estimation uncertainty.</p> <p>We, therefore, determined that our assessment of the reasonableness of the valuation of the past due receivables of HANWA SINGAPORE was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the valuation of the past due receivables of HANWA SINGAPORE.</p> <p>(2) Assessment of the reasonableness of the valuation of the past due receivables of HANWA SINGAPORE</p> <p>In order to assess whether key assumptions used in estimating the valuation of the past due receivables of HANWA SINGAPORE were reasonable, we:</p> <ul style="list-style-type: none"> understood the progress of the arbitration proceedings by inquiring of the personnel responsible for the legal division at the Company and inspecting the documents relevant to the arbitration; inquired of attorneys, in writing, about the progress of the arbitration proceedings and their perspective; and identified the financial position of the petroleum product distributor by obtaining its most recent available financial statements through the Company.
--	--

Appropriateness of the accounting period in which revenue was recognized from direct shipping transactions in the steel business of Hanwa Co., Ltd.

The key audit matter	How the matter was addressed in our audit
<p>The steel business is the core businesses of Hanwa Co., Ltd. (hereinafter, the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"). Revenue from direct shipping transactions in the steel business of the Company, which mainly engages in the steel business, accounts for approximately one third of net sales.</p> <p>In accordance with the realization principle, revenue from a sale of products is recognized at the time when the delivery of goods is completed and the related consideration is considered to be earned. For the direct shipping transactions in the steel business, the Group recognizes revenue on the date of shipment from suppliers to customers.</p> <p>In applying the realization principle, there is a potential risk that revenue from direct shipping</p>	<p>The primary procedures we performed to assess the appropriateness of the accounting period in which revenue from direct shipping transactions in the steel business of the Company was recognized included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of recognizing revenue related to direct shipping transactions. In this assessment, we focused our testing on controls designed to confirm the fact that products were shipped.</p> <p>(2) Assessment of whether revenue was recognized in the appropriate accounting period</p>

transactions is recognized prematurely for the following reasons:

- As revenue is recognized based on the communication from the product suppliers, the product shipping date cannot be tracked in a timely manner and the revenue recognition may be delayed.
- As the Group only instructs the product suppliers to make shipment and does not directly perform shipping operations, revenue may be recognized without actual shipment.

We, therefore, determined that our assessment of the appropriateness of management's determination of the accounting period in which revenue from direct shipping transactions in the steel business of the Company was recognized was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

In order to assess whether revenue was recognized in the appropriate accounting period, for selected transactions that might cover multiple fiscal years or had a higher risk of exception considering the level of profit margin and the status of receivable collection, we agreed the dates indicated on the evidence showing the shipment from the supplier with the dates of revenue recognition.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.


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

田中基博 

Tanaka Motohiro

Designated Engagement Partner


Certified Public Accountant

成村弘治 

Narumoto Koji

Designated Engagement Partner

Certified Public Accountant

竹下晋平 

Takeshita Shimpei

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

August 2, 2021