



Hanwa Co.,Ltd. and Subsidiaries

Consolidated Financial Statements
For the Years Ended March 31,
2022 and 2021
Together with Independent
Auditors' Report

Consolidated Balance Sheets

As of March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Assets			
Current assets:			
Cash and cash equivalents (Notes 3 and 7)	¥ 165,083	¥ 50,892	\$ 1,348,827
Receivables:			
Trade notes and accounts receivable (Notes 3):			
Unconsolidated subsidiaries and affiliates	—	7,036	—
Other	—	349,023	—
Trade notes, accounts receivable and contract assets (Notes 3 and 19):			
Unconsolidated subsidiaries and affiliates	14,230	—	116,267
Other	528,213	—	4,315,818
Electronically recorded monetary claims (Note 3):			
Unconsolidated subsidiaries and affiliates	25	—	204
Other	32,986	27,895	269,515
Loans:			
Unconsolidated subsidiaries and affiliates	7,101	4,068	58,019
Other	10,394	5,584	84,925
Allowance for doubtful receivables	(1,580)	(1,679)	(12,909)
Accounts receivable-other	222,549	6,224	1,818,359
Inventories (Note 6)	243,603	127,378	1,990,383
Other current assets	49,442	53,669	403,970
Total current assets	1,272,049	630,093	10,393,406
Investments and noncurrent receivables:			
Investment securities (Notes 3, 4 and 7)	66,897	58,769	546,588
Investments in unconsolidated subsidiaries and affiliates (Note 3)	14,545	13,702	118,841
Long-term guarantee deposits	248,541	7,997	2,030,729
Long-term loans receivable (Note 3):			
Unconsolidated subsidiaries and affiliates	572	789	4,673
Other	11,864	17,140	96,936
Other investments and noncurrent receivables	12,592	14,046	102,884
Allowance for doubtful accounts	(1,403)	(454)	(11,463)
Total investments and noncurrent receivables	353,610	111,991	2,889,206
Property and equipment (Note 7):			
Land (Note 12)	34,677	34,457	283,331
Buildings and structures	54,519	51,294	445,453
Other	47,875	41,302	391,167
Accumulated depreciation	(59,183)	(53,247)	(483,560)
Total property and equipment	77,889	73,806	636,400
Other assets:			
Deferred tax assets (Note 8)	1,288	805	10,523
Intangibles assets (Note 7)	10,556	7,893	86,248
Total other assets	11,844	8,699	96,772
Total	¥ 1,715,394	¥ 824,590	\$ 14,015,801

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Liabilities and Net Assets			
Current liabilities:			
Short-term loans payable (Notes 3 and 9)	¥ 414,880	¥ 35,334	\$ 3,389,819
Commercial paper (Notes 3 and 9)	40,000	—	326,824
Long-term debt due within one year (Notes 3, 7 and 9)	54,104	40,539	442,062
Trade notes and accounts payable (Note 3):			
Unconsolidated subsidiaries and affiliates	2,959	3,503	24,176
Other	385,334	209,933	3,148,410
Electronically recorded obligations (Note 3):			
Unconsolidated subsidiaries and affiliates	108	148	882
Other	33,348	21,624	272,473
Accrued bonuses to employees	4,223	3,281	34,504
Commodity forward contract liabilities	186,766	5,523	1,525,990
Provision for product warranties	66	324	539
Income taxes payable	16,098	6,985	131,530
Other current liabilities (Note 19)	100,725	62,026	822,983
Total current liabilities	1,238,615	389,222	10,120,230
Noncurrent liabilities:			
Long-term debt due after one year (Notes 3, 7 and 9)	210,890	223,999	1,723,098
Retirement benefit liability (Note 10)	4,454	5,326	36,391
Deferred tax liabilities (Note 8)	7,241	7,136	59,163
Other noncurrent liabilities	13,693	7,048	111,880
Total noncurrent liabilities	236,280	243,510	1,930,549
Contingent liabilities (Note 11)			
Net assets (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized: 114,000,000 shares in 2022 and 114,000,000 shares in 2021			
Issued: 42,332,640 shares in 2022 and 42,332,640 shares in 2021	45,651	45,651	372,996
Capital surplus	26	—	212
Retained earnings	180,119	137,825	1,471,680
Treasury stock, at cost: 1,695,350 shares in 2022 and 1,695,152 shares in 2021	(3,729)	(3,729)	(30,468)
Total shareholders' equity	222,066	179,747	1,814,412
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes	16,725	15,193	136,653
Deferred gains or losses on hedges, net of taxes	(1,000)	372	(8,170)
Land revaluation difference, net of taxes	3,191	3,191	26,072
Foreign currency translation adjustment	(531)	(4,906)	(4,338)
Remeasurements of defined benefit plans (Note 10)	(3,334)	(4,384)	(27,240)
Total accumulated other comprehensive income	15,050	9,467	122,967
Non-controlling interests	3,379	2,642	27,608
Total net assets	240,497	191,857	1,965,005
Total	¥ 1,715,394	¥ 824,590	\$ 14,015,801

Consolidated Statements of Income and Comprehensive Income

For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Net sales (Note 19)	¥ 2,164,049	¥ 1,745,501	\$ 17,681,583
Cost of sales	2,045,040	1,665,576	16,709,208
Gross profit	119,008	79,925	972,367
Selling, general and administrative expenses	56,641	50,692	462,791
Operating income	62,367	29,232	509,575
Other income (expenses):			
Interest and dividend income	3,294	3,494	26,913
Interest expenses	(4,073)	(3,764)	(33,278)
Share of profit of entities accounted for using equity method	3,321	858	27,134
Foreign exchange gain (loss)	(1,848)	(1,053)	(15,099)
Gain on sales of property and equipment (Note 13)	—	584	—
Gain on sales of investment securities	1,449	126	11,839
Arbitration related income	145	—	1,184
Loss on retirement of property and equipment (Note 14)	—	(116)	—
Loss on valuation of investment securities	(1,055)	(387)	(8,619)
Provision of allowance for doubtful accounts for subsidiaries and affiliates (Note 15)	(118)	(188)	(964)
Other, net	(343)	52	(2,802)
Income before income taxes	63,138	28,839	515,875
Income taxes (Note 8):			
Current	20,160	9,012	164,719
Deferred	(1,426)	(33)	(11,651)
Total income taxes	18,733	8,978	153,059
Net income	¥ 44,405	¥ 19,860	\$ 362,815
Net income attributable to:			
Owners of the parent	¥ 43,617	¥ 19,617	\$ 356,377
Non-controlling interests	787	242	6,430
Other comprehensive income (Note 16):			
Valuation difference on available-for-sale securities, net of taxes	1,532	9,146	12,517
Deferred gains or losses on hedges, net of taxes	(1,373)	(373)	(11,218)
Foreign currency translation adjustment	4,109	(2,211)	33,573
Remeasurements of defined benefit plans, net of taxes	1,037	1,011	8,472
Share of other comprehensive income of entities accounted for using equity method	577	(121)	4,714
Total other comprehensive income	5,883	7,451	48,067
Comprehensive income	¥ 50,288	¥ 27,311	\$ 410,883
Comprehensive income attributable to:			
Owners of the parent	¥ 49,201	¥ 27,188	\$ 402,001
Non-controlling interests	1,087	122	8,881
		Yen	U.S. dollars (Note 1)
	2022	2021	2022
Net income per share	¥ 1,703.34	¥ 482.74	\$ 8.77
Cash dividends per share	100.00	60.00	0.82

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2022 and 2021

	Thousands	Millions of yen										
		Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests
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
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Balance at April 1, 2020 after accounting policies changed	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)
Other changes	—	—	—	—	—	—	—	—	—	—	—	—
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
Balance at April 1, 2021	42,332	45,651	—	137,825	(3,729)	15,193	372	3,191	(4,906)	(4,384)	2,642	191,857
Cumulative effects of changes in accounting policies	—	—	—	1,402	—	—	—	—	—	—	—	1,402
Balance at April 1, 2021 after accounting policies changed	42,332	45,651	—	139,228	(3,729)	15,193	372	3,191	(4,906)	(4,384)	2,642	193,259
Cash dividends paid	—	—	—	(3,250)	—	—	—	—	—	—	—	(3,250)
Change in scope of consolidation	—	—	—	223	—	—	—	—	—	—	—	223
Change in scope of equity method	—	—	—	133	—	—	—	—	—	—	—	133
Reversal of revaluation reserve for land	—	—	—	—	—	—	—	—	—	—	—	—
Net income attributable to owners of the parent	—	—	—	43,617	—	—	—	—	—	—	—	43,617
Purchases of treasury stock	—	—	—	—	(0)	—	—	—	—	—	—	(0)
Purchase of shares of consolidated subsidiaries	—	—	26	—	—	—	—	—	—	—	—	26
Other changes	—	—	—	167	—	—	—	—	—	—	—	167
Net changes of items other than shareholders' equity	—	—	—	—	—	1,531	(1,373)	—	4,375	1,049	737	6,321
Balance at March 31, 2022	42,332	¥ 45,651	¥ 26	¥ 180,119	¥ (3,729)	¥ 16,725	¥ (1,000)	¥ 3,191	¥ (531)	¥ (3,334)	¥ 3,379	¥ 240,497

	Thousands	Thousands of U.S. dollars (Note 1)										
		Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests
Balance at April 1, 2021	42,332	\$ 372,996	\$ —	\$ 1,126,113	\$ (30,468)	\$ 124,135	\$ 3,039	\$ 26,072	\$ (40,084)	\$ (35,819)	\$ 21,586	\$ 1,567,587
Cumulative effects of changes in accounting policies	—	—	—	11,455	—	—	—	—	—	—	—	11,455
Balance at April 1, 2021 after accounting policies changed	42,332	372,996	—	1,137,568	(30,468)	124,135	3,039	26,072	(40,084)	(35,819)	21,586	1,579,042
Cash dividends paid	—	—	—	(26,554)	—	—	—	—	—	—	—	(26,554)
Change in scope of consolidation	—	—	—	1,822	—	—	—	—	—	—	—	1,822
Change in scope of equity method	—	—	—	1,086	—	—	—	—	—	—	—	1,086
Reversal of revaluation reserve for land	—	—	—	—	—	—	—	—	—	—	—	—
Net income attributable to owners of the parent	—	—	—	356,377	—	—	—	—	—	—	—	356,377
Purchases of treasury stock	—	—	—	—	(0)	—	—	—	—	—	—	(0)
Purchase of shares of consolidated subsidiaries	—	—	212	—	—	—	—	—	—	—	—	212
Other changes	—	—	—	1,364	0	—	—	—	—	—	—	1,364
Net changes of items other than shareholders' equity	—	—	—	—	—	12,509	(11,218)	—	35,746	8,570	6,021	51,646
Balance at March 31, 2022	42,332	\$ 372,996	\$ 212	\$ 1,471,680	\$ (30,468)	\$ 136,653	\$ (8,170)	\$ 26,072	\$ (4,338)	\$ (27,240)	\$ 27,608	\$ 1,965,005

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Cash flows from operating activities:			
Income before income taxes	¥ 63,138	¥ 28,839	\$ 515,875
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation	6,123	5,479	50,028
Amortization of goodwill	392	468	3,202
Increase (decrease) in allowance for doubtful accounts	690	(167)	5,637
Interest and dividend income	(3,294)	(3,494)	(26,913)
Interest expenses	4,073	3,764	33,278
Share of loss (profit) of entities accounted for using equity method	(3,321)	(858)	(27,134)
Gain on sales of property and equipment	—	(584)	—
Gain on sales of investment securities	(1,449)	(126)	(11,839)
Loss on retirement of property and equipment	—	116	—
Loss on valuation of investment securities	1,055	387	8,619
Provision of allowance for doubtful accounts for subsidiaries and affiliates	118	188	964
Arbitration related income	(145)	—	(1,184)
Decrease (increase) in trade receivables	—	(21,603)	—
Decrease (increase) in trade receivables and contract assets	(173,734)	—	(1,419,511)
Decrease (increase) in inventories	(111,643)	282	(912,190)
Increase (decrease) in trade notes and accounts payable	175,780	13,576	1,436,228
Increase (decrease) in deposits received	27,238	(2,472)	222,550
Decrease (increase) in advance payments-trade	(12,261)	(2,766)	(100,179)
Decrease (increase) in long-term guarantee deposits	(240,054)	(6,385)	(1,961,385)
Increase (decrease) in retirement benefit liability	552	583	4,510
Other, net	(1,842)	8,663	(15,050)
Subtotal	(268,582)	23,890	(2,194,476)
Cash flows during the year for:			
Interest and dividends received	3,129	3,567	25,565
Interest paid	(4,155)	(3,797)	(33,948)
Income taxes (paid) refund	(11,290)	(4,656)	(92,246)
Arbitration related income	145	—	1,184
Net cash provided by (used in) operating activities	(280,752)	19,004	(2,293,912)
Cash flows from investing activities:			
Payments into time deposits	(50)	(14)	(408)
Proceeds from withdrawal of time deposits	89	73	727
Purchase of property and equipment	(6,287)	(6,332)	(51,368)
Proceeds from sales of property and equipment	43	1,318	351
Purchase of investment securities	(6,054)	(2,788)	(49,464)
Proceeds from sales and redemption of investment securities	2,368	1,228	19,347
Net decrease (increase) in short-term loans receivable	(11,730)	1,171	(95,841)
Payments of long-term loans receivable	(239)	(4,701)	(1,952)
Collection of long-term loans receivable	10,135	7,715	82,809
Other, net	(3,266)	(1,860)	(26,685)
Net cash provided by (used in) investing activities	(14,993)	(4,190)	(122,501)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	371,112	(10,497)	3,032,208
Net increase (decrease) in commercial paper	40,000	—	326,824
Proceeds from long-term debt and issuance of bonds	41,005	12,098	335,035
Repayments of long-term debt and redemption of bonds	(40,847)	(32,823)	(333,744)
Dividends paid	(3,255)	(2,242)	(26,595)
Dividends paid to non-controlling interests	(133)	(134)	(1,086)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(100)	(134)	(817)
Other, net	(961)	(490)	(7,851)
Net cash provided by (used in) financing activities	406,820	(34,223)	3,323,964
Effect of exchange rate changes on cash and cash equivalents	1,265	2,402	10,335
Net increase (decrease) in cash and cash equivalents	112,339	(17,006)	917,877
Cash and cash equivalents at beginning of year	50,892	67,243	415,818
Increase in cash and cash equivalents from newly consolidated subsidiaries	1,842	632	15,050
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	9	22	73
Cash and cash equivalents at end of year	¥ 165,083	¥ 50,892	\$ 1,348,827

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, 2022, which was ¥122.39 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 2021 and 2022. 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 54(49 in 2021) 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, 2022, the Company had 34 unconsolidated subsidiaries and 25 affiliates. The equity method has been applied to the investments in 11 of the unconsolidated subsidiaries and 15 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 a 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 "Intangible 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.

The Company and its wholly owned domestic consolidated subsidiaries will transition from the consolidated taxation system to the group tax sharing system from the beginning of the consolidated fiscal year ending March 31, 2023. With 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), however, the Company and its wholly owned domestic consolidated subsidiaries do not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but apply 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. "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (PITF No. 42, August 12, 2021), which sets out accounting and disclosure of corporation and local taxes and tax effect accounting under the group tax sharing system, will be applied from the beginning of the consolidated fiscal year ending March 31, 2023.

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.

Accounting policy for recognition of significant revenues and expenses

The Companies derive revenues from the sale of various commodities such as steel, primary metals, recycled metals, foods, energy and living materials, lumber and machinery. The Companies also earn revenues from the sale of products that have undergone processing services such as steel processing and recycled metal processing.

For such sales, revenue is recognized at the time of delivery to the customer or acceptance upon inspection. However, for such domestic sales where the period between the time of shipment and the time of transfer of control is a normal period, revenue is recognized at the time of shipment.

In addition, certain transactions in the steel business, such as construction work, are accounted for under construction contracts.

For such construction contracts, the Companies determine their obligations as the performance obligations satisfied over time, therefore the Companies recognize revenue based on the degree of completion related to the satisfaction of performance obligations.

The stage of progress is measured by the output method based on the progress confirmation documents exchanged with the customer, or by the input method based on the percentage of the construction cost incurred by the end of the reporting period to the total expected construction cost.

Transaction prices are in accordance with contracts with customers and there are no contracts that include significant variable consideration.

In addition, the promised consideration is paid generally within 6 months from the time the performance obligation is satisfied, and the amount of consideration does not include a significant financial component.

With respect to the identification of performance obligations, in determining whether the Companies are transacting as a party or as an agent, the Companies consider whether it has primary responsibility for providing goods or services to customers, whether it bears inventory risk, and whether it has

discretion in setting sales prices.

When the Companies conduct transactions as an agent, revenues are presented as the net amount by deducting cost of sales from the total amount of consideration received from the customer.

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 forward 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 income and comprehensive income are dividends applicable to the respective years, including dividends to be paid after the end of the consolidated fiscal year.

Changes in accounting policies

(Accounting Standard for Revenue Recognition)

The Companies apply "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) from the beginning of the consolidated fiscal year ended March 31, 2022, and apply accounting policy to recognize revenue with the amounts expected to be received in exchange for the promised goods or services as the controls of such goods or services are transferred to customers.

The main changes are as follows.

(1) Revenue recognition for agent transactions

The Companies previously recognized the gross amount of consideration received from customers as revenue, but have changed to the method for transactions in which the Companies' role in providing goods to customers is that of an agent, the Companies recognize revenue at the net amount of the transaction with the customer, less the amount of the transaction with the supplier of the goods.

(2) Revenue recognition for transactions of supplied goods for consideration

The Companies previously recognized revenue from the transfer of supplied goods at the gross amount of the consideration, but have changed to a method whereby revenue from the transfer of supplied goods is not recognized if the transaction is a paid transaction.

(3) Revenue recognition for construction contracts

The Companies previously applied the completed-contract method for construction contracts in principle, but have changed to the percentage-of-completion method as for transactions which revenue is recognized as performance obligations are fulfilled over a certain period of time. The percentage-of-completion method is used to estimate the percentage of completion in relation to the fulfillment of per-

formance obligations using either the output method or the input method, depending on the nature of the transaction.

(4) Revenue recognition for consideration payable to customers

The Companies previously treated a portion of consideration payable to customers, such as incentive payments as cost of sales, but have changed to recognize as a reduction from the transaction price.

The application of such changes in accounting policies follows the transitional treatment prescribed in the proviso of paragraph 84 of the Accounting Standard for Revenue Recognition, such that the new accounting policy was applied from the beginning balance of retained earnings of the current consolidated fiscal year to add to or deduct from the amount of the beginning balance of retained earnings of the current consolidated fiscal year the cumulative effects of applying retrospectively the new accounting policy from the beginning of the current consolidated fiscal year.

Due to the adoption of the Accounting Standard for Revenue Recognition, "Trade notes and accounts receivable," which was presented in "Current assets" in the consolidated balance sheets in the previous consolidated fiscal year, is included in "Trade notes, accounts receivable and contract assets" from this consolidated fiscal year. In addition, "Decrease (increase) in trade receivables," which was presented in "Cash flows from operating activities" in the consolidated statements of cash flows for the previous fiscal year, is included in "Decrease (increase) in trade receivables and contract assets" from this fiscal year. In accordance with the transitional treatment prescribed in paragraph 89-2 of "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), no reclassification has been made for the previous consolidated fiscal year using the new presentation.

As a result, compared with the amounts before the adoption of the Accounting Standard for Revenue Recognition, Net sales decreased by ¥533,833 million, Cost of sales decreased by ¥533,947 million, and Operating income and Income before income taxes each increased by ¥114 million in the consolidated statement of income for the current consolidated fiscal year.

In the consolidated statement of cash flow for the current consolidated fiscal year, Income before income taxes increased by ¥114 million.

Due to the cumulative effects on the beginning balance of net assets of the current consolidated fiscal year, the beginning balance of retained earnings in the consolidated statement of changes in net assets for the current fiscal year increased by ¥1,402 million.

In accordance with the transitional treatment stipulated in Paragraph 89-3 of "Accounting Standard for Revenue Recogni-

tion" (ASBJ Statement No. 29, March 31, 2020), "Revenue recognition" notes for the previous fiscal year are not presented.

Changes in accounting policies

(Accounting Standard for Fair Value Measurement)

The Companies apply "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) from the beginning of the consolidated fiscal year ended March 31, 2022, and apply the new accounting policies prescribed by ASBJ Statement No. 30 in the future, following the transitional treatment in paragraph 19 of ASBJ Statement No. 30 and in

3. Financial instruments

At March 31, 2022 and 2021, 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, recycling 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, with funding of 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, accounts receivable and contract assets, and electronically recorded monetary claims are exposed to credit risk of customers. Some of them are denominated in foreign currencies, which have foreign exchange rate fluctuation risk as well.

Accounts receivable-other are exposed to credit risk of customers and other parties.

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

paragraph 44-2 of "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). The effects on the consolidated financial statements were inconsequential.

In addition, fair value information of financial instruments by level are disclosed in the notes of "Financial Instruments". However, following the transitional treatment in paragraph 7-4 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, July 4, 2019), relevant information for the previous consolidated fiscal year is not provided.

risk.

Long-term loans receivable are mainly for the suppliers of the Companies and are exposed to credit risk. Some of them have interest rate risk and foreign exchange rate fluctuation risk.

Long-term guarantee deposits mainly consist of margin deposits with domestic and foreign brokers and are exposed to credit risk of the brokers.

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 have interest rate risk and foreign exchange rate fluctuation risk.

Foreign exchange forward contracts and currency swap agreements are used to hedge foreign exchange rate fluctuation risk associated with certain assets and liabilities denominated in foreign currencies. Interest rate swap agreements are used 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.

In addition, accounts receivable-other include those from hedging transactions in which valuation gains or losses are attributable to counterparties based on the contract.

Risk management system for financial instruments

With regard to credit risk to which trade notes, accounts receivable and contract assets, 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, accounts receivable and contract assets, long-term loans and trade notes and accounts payable are exposed by means of derivatives trading.

With regard to credit risk to which accounts receivable-other are exposed, the Companies determine the risk on an individual basis and implement necessary measures.

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

In order to reduce credit risk to which long-term guarantee deposits are exposed, the Companies trade only with highly rated brokers.

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 fund 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 the 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.

Furthermore, with regard to the contract balances of derivatives trading related to products, the trading department reports it to the supervising director of each department. The Hedging Administration Office checks the balance confirmations from the contractors and reports them to the supervising director of each department.

Supplementary explanation for items concerning fair values of financial instruments

As variable factors are incorporated into the estimation of the fair value of financial instruments, 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 value information of financial instruments and those by level of inputs

Book values, fair values and differences between carrying amounts and fair value of relevant items as of March 31, 2022 and 2021, and fair value information of financial instruments by level of inputs as of March 31, 2022 are as follows:

March 31, 2022

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Securities						
a) Held-to-maturity debt securities	¥ 2,670	¥ 2,670	¥ —	\$ 21,815	\$ 21,815	\$ —
b) Equity securities issued by affiliated	4,523	3,816	(707)	36,955	31,179	(5,776)
c) Available-for-sale securities(Equity securities)	43,008	43,008	—	351,401	351,401	—
d) Available-for-sale securities(Corporate bonds)	20	20	—	163	163	—
(2) Long-term loans receivable	12,437			101,617		
Allowance for doubtful accounts	(500)			(4,085)		
Net	11,936	11,654	(281)	97,524	95,220	(2,295)
(3) Long-term guarantee deposits	248,541	248,541	—	2,030,729	2,030,729	—
Total assets	¥ 310,700	¥ 309,712	¥ (988)	\$ 2,538,606	\$ 2,530,533	\$ (8,072)
(1) Long-term debt due after one year	¥ 210,890	¥ 209,910	¥ 980	\$ 1,723,098	\$ 1,715,091	\$ 8,007
Total liabilities	¥ 210,890	¥ 209,910	¥ 980	\$ 1,723,098	\$ 1,715,091	\$ 8,007
Derivatives:						
Hedge accounting not applied	¥ (208,502)	¥ (208,502)	¥ —	\$ (1,703,586)	\$ (1,703,586)	\$ —
Hedge accounting applied	(2,401)	(2,444)	(43)	(19,617)	(19,968)	(351)
Total derivatives	¥ (210,903)	¥ (210,946)	¥ (43)	\$ (1,723,204)	\$ (1,723,555)	\$ (351)

1. "Cash and cash equivalents", "Trade notes, accounts receivable and contract assets", "Electronically recorded monetary claims", "Accounts receivable-other", "Short-term loans payable", "Commercial paper", "Long-term debt due within one year", "Trade notes and accounts payable" and "Electronically recorded obligations" are not included in the table above.

This is because their book values are a reasonable approximation of fair value, as items included in the caption are either cash or deposits expected to be settled shortly.

2. Allowance for doubtful accounts recognized in long-term loans receivable was offset.

3. Derivative assets and liabilities were on a net basis.

4. Equity securities without market prices and investment in partnerships are not included in "(1) Securities".

The book value of those financial instruments as of March 31, 2022 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2022	2022
	Book value	Book value
(1) Unlisted stocks	¥ 29,801	\$ 243,492
(2) Investment in limited partnerships	1,419	11,594
Total	¥ 31,220	\$ 255,086

Based on the observability and the significance of the inputs used to determine fair values, fair value information of financial instruments is presented by categorizing measurements into the following three levels:

Level 1 fair value: the fair value measured by quoted prices of identical assets or liabilities in active markets.

Level 2 fair value: the fair value measured using observable inputs other than Level 1.

Level 3 fair value: fair values measured using unobservable inputs.

When multiple inputs of different categories are used in measuring fair value, the Companies classified fair values into a category to which the lowest priority is assigned.

(1) Financial instruments measured at fair values in the consolidated balance sheet

March 31, 2022

	Millions of yen				Thousands of U.S. dollars			
	fair value							
	Level 1	Level 2	Level 3	Total	Level 1	Level2	Level3	Total
Securities								
Available-for-sale securities (Equity securities)	¥ 43,008	¥ —	¥ —	¥ 43,008	\$ 351,401	\$ —	\$ —	\$ 351,401
Available-for-sale securities (Corporate bonds)	—	20	—	20	—	163	—	163
Total assets	¥ 43,008	¥ 20	¥ —	¥ 43,028	\$ 351,401	\$ 163	\$ —	\$ 351,564
Derivatives:								
Hedge accounting not applied	¥ (187,431)	¥ (21,071)	¥ —	¥ (208,502)	\$ (1,531,424)	\$ (172,162)	\$ —	\$ (1,703,586)
Hedge accounting applied	(1,676)	(724)	—	(2,401)	(13,693)	(5,915)	—	(19,617)
Total derivatives	¥ (189,108)	¥ (21,795)	¥ —	¥ (210,903)	\$ (1,545,126)	\$ (178,078)	\$ —	\$ (1,723,204)

(2) Financial instruments other than those measured at fair values in the consolidated balance sheet

March 31, 2022

	Millions of yen				Thousands of U.S. dollars			
	fair value							
	Level 1	Level 2	Level 3	Total	Level 1	Level2	Level3	Total
Securities								
Held-to-maturity debt	¥ —	¥ 2,670	¥ —	¥ 2,670	\$ —	\$ 21,815	\$ —	\$ 21,815
Equity securities issued by affiliated companies	3,816	—	—	3,816	31,179	—	—	31,179
Long-term loans receivable	—	11,654	—	11,654	—	95,220	—	95,220
Long-term loans receivable	—	248,541	—	248,541	—	2,030,729	—	2,030,729
Total assets	¥ 3,816	¥ 262,866	¥ —	¥ 266,683	\$ 31,179	\$ 2,147,773	\$ —	\$ 2,178,960
(1) Long-term debt due after one year	¥ —	¥ 209,910	¥ —	¥ 209,910	\$ —	\$ 1,715,091	\$ —	\$ 1,715,091
Total liabilities ¹	¥ —	¥ 209,910	¥ —	¥ 209,910	\$ —	\$ 1,715,091	\$ —	\$ 1,715,091
Derivatives:								
Hedge accounting not applied	¥ —	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —	\$ —
Hedge accounting applied	—	(43)	—	(43)	—	(351)	—	(351)
Total derivatives	¥ —	¥ (43)	¥ —	¥ (43)	\$ —	\$ (351)	\$ —	\$ (351)

Valuation techniques and inputs used in measuring fair values are as follows:

Securities

Listed equity securities are measured using quoted prices. Fair value of listed equity securities are classified as level 1, because they are exchanged in active markets.

Corporate bonds and other debt securities held by the Companies are classified as level 2, because their fair values are measured by certain periods using the discounted present value method based on the future cash flows and the interest rate that reflects appropriate indicators, such as yields of national bonds, together with credit spread.

Long-term loans receivable

Long-term loans receivable are classified as level 2, because their fair values are measured by certain periods using the discounted present value method based on the fu-

ture cash flows and the interest rate that reflects appropriate indicators, such as yields of national bonds, together with credit spread.

The fair values of claims with a possibility of default are measured using the discounted present value method based on the discounted present value of estimated cash flows by the similar discount rate, or the estimated collection amount by collateral or guarantee. The fair values of claims with a possibility of default are classified as level 3 if the unobservable input to the fair value is significant, otherwise, they are classified as level 2.

Long-term guarantee deposits

Long-term guarantee deposits are classified as level 2, because they are primarily margins to foreign clearing organizations through domestic and foreign trading brokers, and the amount pledged at the end of the period is their fair

value.

Long-term debt due after one year

Bonds payable are classified as level 2, because their fair values are based on the quoted price provided mainly by Japan Securities Dealers Association.

Long-term borrowings are classified as level 2, because their fair values are measured using the discounted present value method based on the interest rates that would be applicable to new similar types of borrowings with similar terms and remaining maturities.

Derivatives

Currency-related derivatives

The fair values of foreign exchange transactions and currency swap transactions are calculated based on the forward exchange rate as of the closing date.

Interest rate-related derivatives

The fair values of interest-rate swaps are calculated based on the present value of future cash flow discounted at an interest rate that takes into account the period to maturity and credit risk.

Commodity-related derivatives

The fair values of commodity forward transactions and commodity swap transactions are based on the quoted price provided mainly by financial institutions and exchange members calculated using the index prices publicly announced at the fiscal year-end.

The fair values of derivatives are classified as Level 2, except for commodity futures transactions, which fair values are classified as Level 1.

March 31, 2021

	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and cash equivalents	¥ 50,892	¥ 50,892	¥ —
(2) Trade notes and accounts receivable	356,059		
Allowance for doubtful accounts	(331)		
Net	355,727	355,727	—
(3) Electronically recorded monetary claims	27,895		
Allowance for doubtful accounts	(23)		
Net	27,872	27,872	—
(4) Securities			
a) Equity securities issued by affiliated companies	3,379	2,332	(1,046)
b) Available-for-sale securities	39,474	39,474	—
(5) Long-term loans receivable	17,929		
Allowance for doubtful accounts	(7)		
Net	17,921	17,921	—
Total assets	¥ 495,267	¥ 494,220	¥ (1,046)
(1) Short-term loans payable	¥ 35,334	¥ 35,334	¥ —
(2) Long-term debt due within one year	40,539	40,520	18
(3) Trade notes and accounts payable	213,436	213,436	—
(4) Electronically recorded obligations	21,772	21,772	—
(5) Long-term debt due after one year	223,999	223,636	362
Total liabilities	¥ 535,081	¥ 534,700	¥ 380
Derivatives:			
Hedge accounting not applied	¥ (7,733)	¥ (7,733)	¥ —
Hedge accounting applied	(248)	(368)	(119)
Total derivatives	¥ (7,982)	¥ (8,102)	¥ (119)

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

Derivative assets and liabilities were on a 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 the 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:

	Millions of yen	
	2021	
	Book value	
(1) Equity securities issued by unconsolidated subsidiaries and affiliated companies	¥	10,323
(2) Held-to-maturity debt securities	¥	1,871
(3) Available-for-sale securities:		
Unlisted stocks	¥	3,764
Unlisted foreign stocks		12,709
Unlisted domestic convertible bonds		26
Investment in limited partnerships		923
Total	¥	17,423

The maturities of receivables and securities with maturities outstanding at March 31, 2022 were as follows:

Year ending March 31

	Millions of yen				
	2023	from 2024 to 2027	from 2028 to 2032	Thereafter	
Cash and cash equivalents	¥ 165,083	¥ —	¥ —	¥ —	—
Trade notes, accounts receivable and contract assets	542,444	—	—	—	—
Electronically recorded monetary claims	33,012	—	—	—	—
Accounts receivable-other	222,549	—	—	—	—
Held-to-maturity debt securities	—	601	2,069	—	—
Available-for-sale securities with maturity dates	—	—	20	—	—
Long-term loans receivable	—	6,237	5,232	—	49
Total	¥ 963,088	¥ 6,838	¥ 7,321	¥ —	49

Thousands of U.S. dollars

	2023	from 2024 to 2027	from 2028 to 2032	Thereafter
Cash and cash equivalents	\$ 1,348,827	\$ —	\$ —	\$ —
Trade notes, accounts receivable and contract assets	4,432,094	—	—	—
Electronically recorded monetary claims	269,727	—	—	—
Accounts receivable-other	1,818,359	—	—	—
Held-to-maturity debt securities	—	4,910	16,904	—
Available-for-sale securities with maturity dates	—	—	163	—
Long-term loans receivable	—	50,960	42,748	400
Total	\$ 7,869,008	\$ 55,870	\$ 59,816	\$ 400

Long-term loans receivable of ¥917 million (\$7,492 thousand) are excluded from the table above because the redemption schedule has not been determined.

Long-term guarantee deposits are excluded from the table above because they are primarily margins to foreign clearing organizations through domestic and foreign trading brokers, and it is difficult to estimate the maturities.

4. Securities

(A) The following tables summarize book values and fair values of held-to-maturity debt securities as of March 31, 2022 and 2021:

March 31, 2022

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Held-to-maturity debt securities with fair values exceeding book values	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Held-to-maturity debt securities with fair values not exceeding book values	¥ 2,670	¥ 2,670	¥ —	\$ 21,815	\$ 21,815	\$ —

March 31, 2021

Not applicable.

(B) The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available market values as of March 31, 2022 and 2021:

March 31, 2022

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 12,952	¥ 37,171	¥ 24,218	\$ 105,825	\$ 303,709	\$ 197,875
Bonds	—	—	—	—	—	—
Securities with book values not exceeding acquisition costs:						
Equity securities	¥ 7,013	¥ 5,837	¥ (1,175)	\$ 57,300	\$ 47,691	\$ (9,600)
Bonds	26	20	(6)	212	163	(49)

March 31, 2021

	Millions of yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 14,665	¥ 37,245	¥ 22,579
Securities with book values not exceeding acquisition costs:			
Equity securities	¥ 2,801	¥ 2,228	¥ (572)

(C) The following tables summarize sales of available-for-sale securities in the years ended March 31, 2022 and 2021:

March 31, 2022

	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	¥ 2,080	¥ 1,449	¥ —	\$ 16,994	\$ 11,839	\$ —

March 31, 2021

	Millions of yen		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 330	¥ 126	¥ 14

(D) The loss on valuation of investment securities in the years ended March 31, 2022 and 2021 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Available-for-sale securities	¥ 1,055	¥ 387	\$ 8,619
Total	¥ 1,055	¥ 387	\$ 8,619

5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2022 and 2021 for the derivatives to which hedge accounting has not been applied:

March 31, 2022

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	¥ 267,750	¥ —	¥ (16,208)	¥ (16,208)	\$ 2,187,678	\$ —	\$ (132,429)	\$ (132,429)
Other currencies	14,791	—	(694)	(694)	120,851	—	(5,670)	(5,670)
Buying:								
U.S. dollars	6,318	—	(23)	(23)	51,621	—	(187)	(187)
Other currencies	4,082	—	162	162	33,352	—	1,323	1,323
Cross-currency swap agreements:								
Japanese yen received for U.S. dollars	50,543	47,184	(4,325)	(4,325)	412,966	385,521	(35,337)	(35,337)
Total	¥ —	¥ —	¥ —	¥ (21,088)	\$ —	\$ —	\$ —	\$ (172,301)

Commodity related

	Millions of yen				Thousands of U.S. dollars			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:								
Petroleum:								
Selling	¥ 2,347	¥ —	¥ (121)	¥ (121)	\$ 19,176	\$ —	\$ (988)	\$ (988)
Buying	636	—	85	85	5,196	—	694	694
Non-ferrous metals:								
Selling	36,690	—	(4,470)	(4,470)	299,779	—	(36,522)	(36,522)
Buying	17,390	—	1,583	1,583	142,086	—	12,934	12,934
Commodity swap agreements:								
Petroleum:								
Fixed receipt / Fluctuated payment	956	—	(133)	(133)	7,811	—	(1,086)	(1,086)
Fluctuated receipt / Fixed payment	2,624	—	150	150	21,439	—	1,225	1,225
Total	¥ —	¥ —	¥ —	¥ (2,906)	\$ —	\$ —	\$ —	\$ (23,743)

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	¥ 458,071	¥ 7,839	¥ (183,574)	¥ (183,574)	\$ 3,742,716	\$ 64,049	\$ (1,499,910)	\$ (1,499,910)
Buying	83,127	—	(933)	(933)	679,197	—	(7,623)	(7,623)
Total	¥ —	¥ —	¥ —	¥ (184,507)	\$ —	\$ —	\$ —	\$ (1,507,533)

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

March 31, 2021

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	¥ 96,489	¥ —	¥ (4,444)	¥ (4,444)
Other currencies	11,801	—	(230)	(230)
Buying:				
U.S. dollars	4,529	—	(49)	(49)
Other currencies	1,358	—	15	15
Cross-currency swap agreements:				
Japanese yen received for U.S. dollars	27,419	12,966	(364)	(364)
Total	¥ —	¥ —	¥ —	¥ (5,073)

Commodity related

	Millions of yen			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:				
Petroleum:				
Selling	¥ 1,020	¥ —	¥ (108)	¥ (108)
Buying	126	—	18	18
Non-ferrous metals:				
Selling	24,748	—	(2,834)	(2,834)
Buying	13,636	—	963	963
Commodity swap agreements:				
Petroleum:				
Fixed receipt / Fluctuated payment	1,157	—	4	4
Fluctuated receipt / Fixed payment	2,216	—	(6)	(6)
Total	¥ —	¥ —	¥ —	¥ (1,962)

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	¥ 151,883	¥ 15,984	¥ (697)	¥ (697)
Buying	—	—	—	—
Total	¥ —	¥ —	¥ —	¥ (697)

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, 2022 and 2021 for the derivatives to which hedge accounting was applied:

March 31, 2022

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	¥ —	¥ (724)	\$ 44,129	\$ —	\$ (5,915)

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	¥ 10,000	¥ 5,000	¥ (43)	\$ 81,706	\$ 40,853	\$ (351)

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	¥ 27,700	¥ —	¥ (3,196)	\$ 226,325	\$ —	\$ (26,113)
Buying	17,895	—	1,520	146,212	—	12,419

March 31, 2021

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	¥ (160)

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	¥ 10,015	¥ 10,000	¥ (119)

Commodity related

Millions of yen

	Contract or notional amount	Due after one year	Fair value
Forwards for inventories and commitments:			
Non-ferrous metals			
Selling	¥ 23,752	¥ 107	¥ 538
Buying	16,645	—	(626)

6. Inventories

Inventories at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Merchandise and finished products	¥ 204,064	¥ 113,296	\$1,667,325
Work-in-process	2,229	1,605	18,212
Raw materials and supplies	37,308	12,476	304,828
Total	¥ 243,603	¥ 127,378	\$1,990,383

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 profit and loss were a net loss of ¥588 million (loss of \$4,804 thousand) and a net gain of ¥2,339 million for the years ended March 31, 2022 and 2021, respectively.

7. Pledged assets

At March 31, 2022 and 2021, assets pledged as collateral for loans payable in the amount of zero and ¥54 million, respectively, for guaranty deposits, and for loans of third parties were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
For loans payable:			
Land	¥ —	¥ 393	\$ —
Buildings and structures, net of accumulated depreciation	576	775	4,706
Intangible assets	259	249	2,116
Total	¥ 836	¥ 1,418	\$ 6,830
For guaranty deposits:			
Cash and cash equivalents	¥ 13	¥ 13	\$ 106
Investment securities	5,652	5,318	46,180
Total	¥ 5,665	¥ 5,331	\$ 46,286
For loans of third parties:			
Investment securities	¥ 7,796	¥ 2,215	\$ 63,698
Total	¥ 7,796	¥ 2,215	\$ 63,698

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, 2022 and 2021.

An aggregate statutory income tax rate for the year

ended March 31, 2022 and 2021 was omitted here because 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.

The significant components of the Companies' deferred tax assets and liabilities as of March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Temporary differences resulting from the merger with consolidated subsidiaries	¥ 2,731	¥ 2,731	\$ 22,313
Tax losses carried forward	1,817	2,237	14,845
Loss on valuation of investment securities, currently not deductible	1,786	1,793	14,592
Retirement benefit liability	1,362	1,673	11,128
Loss on sale-repurchase agreements of land	1,293	1,293	10,564
Accrued bonuses to employees	1,221	972	9,976
Land revaluation difference, net of taxes unrealized loss	80	80	653
Other	7,841	6,227	64,065
Total deferred tax assets	18,135	17,011	148,173
Valuation allowance	(10,940)	(11,650)	(89,386)
Net deferred tax assets	7,195	5,360	58,787
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	7,262	6,636	59,334
Retained earnings of overseas subsidiaries and affiliates	1,957	1,069	15,989
Land revaluation difference, net of taxes unrealized gain	1,524	1,524	12,451
Other	2,403	2,460	19,633
Total deferred tax liabilities	13,148	11,692	107,427
Net deferred tax liabilities	¥ (5,953)	¥ (6,331)	\$ (48,639)

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, 2022 and 2021 were 1.0% and 1.5%, respectively, regardless of borrowing currencies though the range of the interest rates varies by borrowing currencies. There were outstanding balances of ¥414,880 million (\$3,389,819 thousand) and ¥35,334 million at March 31, 2022

and 2021, respectively.

The Company has entered into a yen denominated domestic commercial paper program. There was an outstanding balance of ¥40,000 million (\$326,824 thousand) and zero at March 31, 2022 and 2021, respectively.

Bonds at March 31, 2022 and 2021, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Issued in 2016, 0.29% unsecured straight bonds, due 2021	¥ —	¥ 10,000	\$ —
Issued in 2017, 0.27% unsecured straight bonds, due 2022	10,000	10,000	81,706
Issued in 2018, 0.24% unsecured straight bonds, due 2023	10,000	10,000	81,706
Issued in 2018, 0.59% unsecured straight bonds, due 2028	10,000	10,000	81,706
Issued in 2014, unsecured floating rate bonds, due 2021	—	13	—
Total	¥ 30,000	¥ 40,013	\$ 245,118

Long-term loans payable at March 31, 2022 and 2021, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Loans from banks with weighted average interest rates of 0.8% and 0.8% at March 31, 2022 and 2021, respectively, maturing serially through 2054	¥ 234,995	¥ 224,524	\$ 1,920,050
Less amounts due within one year	(44,104)	(30,525)	(360,356)
Total	¥ 190,890	¥ 193,999	\$ 1,559,686

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, 2022 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2023	¥ 44,104	\$ 360,356
2024	21,707	177,359
2025	26,694	218,106
2026	20,082	164,082
2027	23,078	188,561
Thereafter	99,328	811,569
Total	¥ 234,995	\$ 1,920,050

10. Employees' severance and retirement benefits

(A) Overview of retirement benefit system adopted

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

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

ket interest rates.

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

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

(B) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Balance at beginning of year	¥ 29,572	¥ 28,443	\$ 241,621
Service cost	1,415	1,371	11,561
Interest cost	117	111	955
Actuarial loss (gain)	(52)	458	(424)
Benefits paid	(1,074)	(813)	(8,775)
Past service costs	(6)	—	(49)
Other	6	1	49
Balance at end of year	¥ 29,978	¥ 29,572	\$ 244,938

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Balance at beginning of year	¥ 25,265	¥ 23,186	\$ 206,430
Expected return on plan assets	635	582	5,188
Actuarial gain (loss)	329	773	2,688
Contributions paid by the employer	1,531	1,540	12,509
Benefits paid	(1,072)	(821)	(8,758)
Other	6	4	49
Balance at end of year	¥ 26,696	¥ 25,265	\$ 218,122

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Balance at beginning of year	¥ 1,019	¥ 905	\$ 8,325
Retirement benefit costs	158	137	1,290
Benefits paid	(47)	(34)	(384)
Contributions paid by the employer	(31)	(18)	(253)
Other	72	29	588
Balance at end of year	¥ 1,172	¥ 1,019	\$ 9,575

(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
	2022	2021	2022
Funded retirement benefit obligations	¥ 30,609	¥ 30,169	\$ 250,093
Plan assets	(27,193)	(25,728)	(222,183)
	3,415	4,440	27,902
Unfunded retirement benefit obligations	1,038	885	8,481
Total net liability (asset) for retirement benefits at end of year	4,454	5,326	36,391
Retirement benefit liability	4,454	5,326	36,391
Total net liability (asset) for retirement benefits at end of year	¥ 4,454	¥ 5,326	\$ 36,391

(5) Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Service cost	¥ 1,415	¥ 1,371	\$ 11,561
Interest cost	117	111	955
Expected return on plan assets	(635)	(582)	(5,188)
Net actuarial loss amortization	1,112	1,142	9,085
Past service costs amortization	(6)	—	(49)
Retirement benefit costs based on the simplified method	158	137	1,290
Other	(0)	(2)	(0)
Total retirement benefit costs	¥ 2,161	¥ 2,178	\$ 17,656

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Actuarial gains and losses	¥ 1,494	¥ 1,458	\$ 12,206
Total	¥ 1,494	¥ 1,458	\$ 12,206

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

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Actuarial gains and losses that are yet to be recognized	¥ 4,883	¥ 6,378	\$ 39,897
Total balance at end of year	¥ 4,883	¥ 6,378	\$ 39,897

(8) Breakdown of plan assets

	2022	2021
Bonds (*1)	17.1%	27.5%
Equity securities (*1)	33.6	18.0
Cash and cash equivalents	1.1	1.2
General account assets	20.1	21.0
Other (*2)	28.1	32.3
Total	100.0%	100.0%

*1. These consist of investment products that use mainly traditional assets and derivatives for hedging purposes.

2. "Other" consists of investments in investment products mainly targeting asset classes other than traditional assets, and various futures and derivatives.

Long-term expected rate of return

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

(9) Principal actuarial assumptions

	2022	2021
Discount rate	0.4%	0.4%
Long-term expected rate of return	2.5	2.5
Expected salary increase rate	3.1	3.1

(C) Defined contribution plans

The Companies were required to contribute ¥337 million (\$2,753 thousand) and ¥325 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, 2022 and 2021, respectively.

11. Contingent liabilities

At March 31, 2022 and 2021, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Export letters of credit and trade notes (including export bills) discounted	¥ 47,059	¥ 8,735	\$ 384,500
Electronically recorded monetary claims discounted	135	83	1,103
Trade notes endorsed	215	47	1,756
Guarantees of indebtedness	4,743	5,121	38,753

12. Net assets

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

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

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

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

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

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

At the annual shareholders' meeting held on June 24, 2022, the shareholders approved cash dividends of ¥50.00 per share (\$0.40) amounting to ¥2,031 million (\$16,594 thousand). This appropriation had not been accrued in the consolidated financial statements as of March 31, 2022. Such appropriations are recognized in the period in which they are approved by the shareholders.

Land revaluation difference

Pursuant to the Law Concerning Land Revaluation, the Companies revaluated land used for business activities at March 31, 2002.

Unrealized gain (loss) on land revaluation is recorded as a 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, 2022, the carrying amount of the land after the above one-time revaluation did not exceed the market value.

13. Gain on sales of property and equipment

The following table summarizes gain on sales of property and equipment in the years ended March 31, 2022 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Land	¥ —	¥ 564	\$ —
Buildings and structures	—	7	—
Machinery, equipment and vehicles	—	9	—
Other	—	2	—
Intangible assets	—	1	—
Total	¥ —	¥ 584	\$ —

14. Loss on retirement of property and equipment

The following table summarizes loss on retirement of property and equipment in the years ended March 31, 2022 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Buildings and structures	¥ —	¥ 71	\$ —
Machinery, equipment and vehicles	—	23	—
Other	—	18	—
Intangible assets	—	3	—
Total	¥ —	¥ 116	\$ —

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

Year ended March 31, 2022

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, 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.

16. Other comprehensive income

Years ended March 31, 2022 and 2021

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
	2022	2021	2022
Valuation difference on available-for-sale securities, net of taxes:			
Increase (decrease) during the year	¥ 2,501	¥ 12,698	\$ 20,434
Reclassification adjustments	(378)	223	(3,088)
Sub-total, before tax	2,122	12,921	17,338
Tax expense (benefit)	590	3,775	4,820
Sub-total, net of tax	1,532	9,146	12,517
Deferred gains or losses on hedges, net of taxes:			
Increase (decrease) during the year	(4,210)	(952)	(34,398)
Reclassification adjustments	2,218	368	18,122
Sub-total, before tax	(1,991)	(583)	(16,267)
Tax expense (benefit)	(618)	(210)	(5,049)
Sub-total, net of tax	(1,373)	(373)	(11,218)
Foreign currency translation adjustments:			
Increase (decrease) during the year	4,109	(2,211)	33,573
Reclassification adjustments	—	—	—
Sub-total, before tax	4,109	(2,211)	33,573
Tax expense (benefit)	—	—	—
Sub-total, net of tax	4,109	(2,211)	33,573
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	391	316	3,194
Reclassification adjustments	1,103	1,141	9,012
Sub-total, before tax	1,494	1,458	12,206
Tax expense (benefit)	457	446	3,733
Sub-total, net of tax	1,037	1,011	8,472
Share of other comprehensive income of entities accounted for using equity method:			
Increase (decrease) during the year	614	(121)	5,016
Reclassification adjustments	(37)	—	(302)
Sub-total	577	(121)	4,714
Total other comprehensive income	¥ 5,883	¥ 7,451	\$ 48,067

17. Leases

Operating leases As Lessee

Obligations under non-cancelable operating leases as of March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Due within one year	¥ 568	¥ 626	\$ 4,640
Due after one year	6,480	6,961	52,945
Total	¥ 7,049	¥ 7,588	\$ 57,594

18. 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, 2022

Not applicable.

Year ended March 31, 2021

Book value				Millions of yen	
Balance at beginning of year	Net decrease	Balance at end of year	Fair value		
¥ 7,678	¥ 584	¥ 7,093	¥ 9,780		

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 and was included in gross profit.

19. Revenue recognition

(A) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market in the year ended March 31, 2022.

The table also includes a reconciliation of the disaggregated revenue with the Companies' reportable segments (see Note 20).

Year ended March 31, 2022

	Reportable segment									Millions of yen
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	
	Japan	¥ 818,731	¥ 135,920	¥ 101,465	¥ 85,331	¥ 219,283	¥ 634	¥ 1,361,367	¥ 123,399	¥ 1,484,766
Asia	107,572	37,698	25,396	8,449	54,701	298,323	532,140	3,130	535,271	
Other	57,347	21,979	711	22,385	6,413	34,601	143,438	573	144,011	
Total	¥ 983,651	¥ 195,597	¥ 127,573	¥ 116,167	¥ 280,397	¥ 333,558	¥ 2,036,946	¥ 127,103	¥ 2,164,049	

	Reportable segment									Thousands of U.S. dollars
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	
	Japan	\$ 6,689,525	\$ 1,110,548	\$ 829,030	\$ 697,205	\$ 1,791,674	\$ 5,180	\$ 11,123,188	\$ 1,008,244	\$ 12,131,432
Asia	878,928	308,015	207,500	69,033	446,940	2,437,478	4,347,904	25,573	4,373,486	
Other	468,559	179,581	5,809	182,898	52,398	282,711	1,171,974	4,681	1,176,656	
Total	\$ 8,037,020	\$ 1,598,145	\$ 1,042,348	\$ 949,154	\$ 2,291,012	\$ 2,725,369	\$ 16,643,075	\$ 1,038,508	\$ 17,681,583	

1. "Other business" represents businesses such as lumber section and machinery section which are not included in the above reportable segments.
2. Amounts are shown as net sales from external customers.
3. Revenue recognized from other sources is included, as net sales is mostly recognized from contract with customers.

(B) Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers as of March 31, 2022 and April 1, 2021:

Year ended March 31, 2022

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2022	April 1, 2021	March 31, 2022	April 1, 2021
Receivables arising from contracts with customers	¥ 575,445	¥ 391,664	\$ 4,701,732	\$ 3,200,130
Trade notes	20,148	19,612	164,621	160,241
Electronically recorded monetary claims	33,012	27,895	269,727	227,918
Accounts receivable	522,284	344,156	4,267,374	2,811,961
Contract assets	¥ 10	¥ 175	\$ 81	\$ 1,429
Contract liabilities	¥ 15,009	¥ 10,022	\$ 122,632	\$ 81,885

The contract assets primarily relate to Companies' rights to consideration for work completed but not billed at the reporting date for the contract with performance obligations satisfied over time.

The contract liabilities primarily relate to the advance consideration received from customers for the contract with performance obligations satisfied at the point of services trans-

ferred.

The amount of ¥8,129 million (\$66,419 thousand) included in contract liabilities at 31 March 2021 has been recognized as revenue for the years ended March 31, 2022.

The amount of revenue recognized for the years ended March 31, 2022 from performance obligations satisfied (or partially satisfied) in previous periods is not material.

(C) Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2022 is as follows:

March 31, 2022	Millions of yen		Thousands of U.S. dollars	
		March 31, 2022		March 31, 2022
Within one year	¥	27,366	\$	223,596
Over one year, within three years		69,517		567,995
Over three years, within five years		36,339		296,911
Over five years, within ten years		70,548		576,419
Over ten years		69,090		564,506
Total	¥	272,862	\$	2,229,446

The amounts mainly relate to commodity sales contracts in the steel business and energy and living materials business and construction contracts in steel business.

Revenue from performance obligations that are satisfied at a point in time is mainly expected to be recognized based on shipment, arrival and inspection. Revenue from performance obligations that are satisfied over time is expected to be recognized based on the progress of performance obligations.

In addition, the remaining performance obligations with an initial expected term of one year or less, unsatisfied at the end

of the reporting period are not included in the table above, applying the practical expedient method. The above aggregate transaction price does not include any significant estimated amounts of variable consideration.

Other than the above contracts, in the primary metal business and metal recycling business, there are long-term sales contracts with the transaction price based on market price at the time of sale. However, due to the possibility of significant reversals being conducted in the future on amounts estimated as of March 31, 2022, these are not presented.

20. 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 departments, which are divided according to products handled or service contents, mainly carry out business activities. For this reason, the Companies consist of business segments with the business departments 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, precious metals, stainless steel sheets, high-performance metal material

Metal recycling:

Recycling business of aluminum, copper, zinc, titanium nickel and others

Food:

Seafood and meat products

Energy and Living Materials:

Petroleum products, industrial chemicals, chemicals, biomass and recycling fuel

Overseas sales subsidiaries:

(Trading of various goods and related business activities)

From the beginning of the fiscal year ending March 31, 2022, the Companies have changed their method of classification of business segments, integrating a part of the steel business into the primary metal business. And since January 2022,

the Companies have changed their method of classification of business segments, integrating a part of the overseas sales subsidiaries business into the food business.

Segment information of the year ended March 31, 2021 has been recomposed by the new classification method.

The reportable segment income 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.

From the beginning of the fiscal year ending March 31, 2022, the Company applies the Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 31, 2020).

For this reason, the Company changes the method of cal-

culating revenue for business segments as well.

As a result of this change, compared to the previous method, net sales for this fiscal year decreased by ¥237,244 million (\$1,938,426 thousand) in the steel business, ¥276,974 million (\$2,263,044 thousand) in the primary metal business, ¥853 million (\$6,969 thousand) in the metal recycling business, ¥1,522 million (\$12,435 thousand) in the food business, ¥554 million (\$4,526 thousand) in the energy & living materials business, ¥60,041 million (\$490,571 thousand) in overseas sales subsidiaries and ¥1,959 million (\$16,006 thousand) in the other business. In addition, segment income in the steel business increased by ¥114 million (\$931 thousand), and segment assets in the steel business decreased ¥22,565 million (\$184,369 thousand).

Net sales, profit, assets and others by reportable segment for the year ended March 31, 2022 were as follows:

Year ended March 31, 2022

Millions of yen

	Reportable segment										Consolidated
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	
Net sales	¥ 983,651	¥ 195,597	¥ 127,573	¥ 116,167	¥ 280,397	¥ 333,558	¥ 2,036,946	¥ 127,103	¥ 2,164,049	¥ —	¥ 2,164,049
Intersegment	24,512	6,373	4,015	531	10,371	339	46,144	3,186	49,330	(49,330)	—
Total	¥ 1,008,164	¥ 201,970	¥ 131,588	¥ 116,699	¥ 290,769	¥ 333,898	¥ 2,083,090	¥ 130,289	¥ 2,213,379	¥ (49,330)	¥ 2,164,049
Segment income	¥ 35,958	¥ 7,247	¥ 2,883	¥ 3,024	¥ 6,784	¥ 6,722	¥ 62,620	¥ 3,726	¥ 66,346	¥ (3,628)	¥ 62,718
Assets	¥ 563,951	¥ 701,699	¥ 41,650	¥ 52,480	¥ 55,050	¥ 140,510	¥ 1,555,341	¥ 51,476	¥ 1,606,818	¥ 108,575	¥ 1,715,394
Depreciation	4,676	21	361	74	213	286	5,633	381	6,014	108	6,123
Amortization of goodwill	392	—	—	—	—	—	392	—	392	—	392
Interest income	345	549	0	2	30	774	1,702	0	1,703	28	1,731
Interest expenses	3,343	2,509	364	424	259	575	7,476	258	7,735	(3,661)	4,073
Share of profit of entities accounted for using equity method	1,737	1,070	60	—	88	364	3,321	—	3,321	—	3,321
Investment for entities accounted for equity method	8,029	1,019	263	—	674	1,980	11,967	—	11,967	—	11,967
Increase in property and equipment	9,512	107	288	181	298	150	10,540	857	11,397	163	11,561

Year ended March 31, 2022

Thousands of U.S. dollars

	Reportable segment										Consolidated
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	
Net sales	\$ 8,037,020	\$ 1,598,145	\$ 1,042,348	\$ 949,154	\$ 2,291,012	\$ 2,725,369	\$ 16,643,075	\$ 1,038,508	\$ 17,681,583	\$ —	\$ 17,681,583
Intersegment	200,277	52,071	32,804	4,338	84,737	2,769	377,024	26,031	403,055	(403,055)	—
Total	\$ 8,237,306	\$ 1,650,216	\$ 1,075,153	\$ 953,501	\$ 2,375,757	\$ 2,728,147	\$ 17,020,099	\$ 1,064,539	\$ 18,084,639	\$ (403,055)	\$ 17,681,583
Segment income	\$ 293,798	\$ 59,212	\$ 23,555	\$ 24,707	\$ 55,429	\$ 54,922	\$ 511,643	\$ 30,443	\$ 542,086	\$ (29,642)	\$ 512,443
Assets	\$ 4,607,819	\$ 5,733,303	\$ 340,305	\$ 428,793	\$ 449,791	\$ 1,148,051	\$ 12,708,072	\$ 420,589	\$ 13,128,670	\$ 887,123	\$ 14,015,801
Depreciation	38,205	171	2,949	604	1,740	2,336	46,025	3,112	49,138	882	50,028
Amortization of goodwill	3,202	—	—	—	—	—	3,202	—	3,202	—	3,202
Interest income	2,818	4,485	0	16	245	6,324	13,906	0	13,914	228	14,143
Interest expenses	27,314	20,500	2,974	3,464	2,116	4,698	61,083	2,108	63,199	(29,912)	33,278
Share of profit of entities accounted for using equity method	14,192	8,742	490	—	719	2,974	27,134	—	27,134	—	27,134
Investment for entities accounted for equity method	65,601	8,325	2,148	—	5,506	16,177	97,777	—	97,777	—	97,777
Increase in property and equipment	77,718	874	2,353	1,478	2,434	1,225	86,118	7,002	93,120	1,331	94,460

1. "Other business" represents businesses such as the lumber section and machinery section which are not included in the above reportable segments.
2. Adjustments are as follows:
 - (1) Adjustments of negative ¥3,628 million (\$29,642 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 ¥108,575 million (\$887,123 thousand) include Group assets that were not allocated to reportable segments. These Group assets consist mainly of cash and cash equivalents, invest-

- ment securities and assets of administrative departments.
- (3) Adjustments for depreciation and amortization amounting to ¥108 million (\$882 thousand) include mainly depreciation and amortization expenses of Group assets.
- (4) Adjustments for interest income and interest expenses amounting to ¥28 million (\$228 thousand) and negative ¥3,661 million (\$29,912 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 ¥163 million (\$1,331 thousand) are increases in Group assets.

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							Total	Other business	Total	Adjustment	Consolidated
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total					
Net sales	¥ 896,732	¥ 235,347	¥ 77,699	¥ 100,507	¥ 176,043	¥ 174,350	¥ 1,660,680	¥ 84,821	¥ 1,745,501	¥ —	¥ 1,745,501	
Intersegment	12,002	3,210	1,874	330	7,002	7,064	31,485	3,038	34,523	(34,523)	—	
Total	¥ 908,734	¥ 238,558	¥ 79,573	¥ 100,837	¥ 183,045	¥ 181,414	¥ 1,692,165	¥ 87,860	¥ 1,780,025	¥ (34,523)	¥ 1,745,501	
Segment income	¥ 19,239	¥ 3,837	¥ 766	¥ 2,116	¥ 5,548	¥ 1,739	¥ 33,248	¥ 1,455	¥ 34,704	¥ (5,883)	¥ 28,821	
Assets	¥ 398,212	¥ 150,656	¥ 28,464	¥ 41,667	¥ 43,034	¥ 90,501	¥ 752,536	¥ 33,187	¥ 785,724	¥ 38,866	¥ 824,590	
Depreciation	4,119	16	347	89	205	216	4,995	379	5,374	104	5,479	
Amortization of goodwill	390	—	22	—	54	—	468	—	468	—	468	
Interest income	268	1,001	0	2	24	496	1,795	3	1,798	51	1,850	
Interest expenses	2,512	1,639	272	417	195	387	5,425	169	5,594	(1,830)	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	6,012	89	249	142	293	158	6,945	638	7,583	199	7,782	

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 ¥5,883 million for segment income include intersegment elimination and Group costs that were not allocated to reportable segments. These Group costs consist mainly of expenses of administrative departments.
 - (2) Adjustments for segment assets amounting to ¥38,866 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 ¥104 million include mainly depreciation and amortization expenses of Group assets.
- (4) Adjustments for interest income and interest expenses amounting to ¥51 million and negative ¥1,830 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 ¥199 million are increases in Group assets.

(B) Related information**Product information**

Net sales information by products for the years ended March 31, 2022 and 2021 were as follows:

Year ended March 31, 2022

Millions of yen

	Steel	Metals and alloys	Non-ferrous metals	Food	Petroleum and chemicals	Other	Total
Net sales to external customers	¥ 1,173,190	¥ 180,573	¥ 242,540	¥ 118,795	¥ 294,647	¥ 154,300	¥ 2,164,049

Year ended March 31, 2022

Thousands of U.S. dollars

	Steel	Metals and alloys	Non-ferrous metals	Food	Petroleum and chemicals	Other	Total
Net sales to external customers	\$ 9,585,668	\$ 1,475,390	\$ 1,981,697	\$ 970,626	\$ 2,407,443	\$ 1,260,723	\$ 17,681,583

Year ended March 31, 2021

Millions of yen

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

Geographic information

(1) Net sales in different countries for the years ended March 31, 2022 and 2021 were as follows:

Year ended March 31, 2022

Millions of yen

	Japan	Asia	Other	Total
Net sales to external customers	¥ 1,484,766	¥ 535,271	¥ 144,011	¥ 2,164,049

Year ended March 31, 2022

Thousands of U.S. dollars

	Japan	Asia	Other	Total
Net sales to external customers	\$ 12,131,432	\$ 4,373,486	\$ 1,176,656	\$ 17,681,583

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

(2) Property and equipment in different countries for the years ended March 31, 2022 and 2021 were as follows:

Year ended March 31, 2022

Millions of yen

	Japan	Asia	Other	Total
Property and equipment	¥ 66,126	¥ 9,300	¥ 2,462	¥ 77,889

Year ended March 31, 2022

Thousands of U.S. dollars

	Japan	Asia	Other	Total
Property and equipment	\$ 540,289	\$ 75,986	\$ 20,116	\$ 636,400

Year ended March 31, 2021

Millions of yen

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

Loss on impairment of property and equipment in reportable segment

Loss on impairment of property and equipment in a reportable segment for the years ended March 31, 2022 and 2021 was as follows:

Year ended March 31, 2022

Not applicable.

Year ended March 31, 2021

Not applicable.

Outstanding balance of goodwill and amortization of goodwill in reportable segment

Outstanding balance of goodwill for the years ended March 31, 2022 and 2021 was as follows:

Year ended March 31, 2022

Millions of yen

	Reportable segment							Total	Other business	Adjustment	Total
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries					
Balance at end of year	¥ 283	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 283	¥ —	¥ —	¥ 283	

Year ended March 31, 2022

Thousands of U.S.dollars

	Reportable segment							Total	Other business	Adjustment	Total
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries					
Balance at end of year	\$ 2,312	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,312	\$ —	\$ —	\$ 2,312	

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

Year ended March 31, 2021

Millions of yen

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

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

21. Related party information

(A) Related party transactions

Year ended March 31, 2022

Not applicable.

Year ended March 31, 2021

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, 2022 and 2021, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Total current assets	¥ 80,739	¥ 51,124	\$ 659,686
Total noncurrent assets	74,703	73,727	610,368
Total current liabilities	71,398	60,918	583,364
Total noncurrent liabilities	44,065	40,047	360,037
Total net assets	39,979	23,885	326,652
Net sales	242,464	140,256	1,981,076
Income (loss) before income taxes	23,853	(8,935)	194,893
Net income (loss)	16,197	(5,369)	132,339

22. Significant subsequent events

Establishment of a Subsidiary and Company Split with Wholly-Owned Subsidiary

At a meeting of the Board of Directors held May 13, 2022, the Company passed a resolution to establish a new subsidiary company to strengthen the "SOKOKA" (quick delivery, small lots, processing) business in eastern Japan, based on the basic policy of the Medium-Term Business Plan, and this new compa-

ny was established on June 1, 2022.

A resolution was also passed for a company split (hereinafter: the company split), with this new company serving as the successor and the Company and its wholly-owned subsidiary Daisun Co., Ltd. (hereinafter: Daisun) as the splitting companies.

1. Purpose of this restructuring

The Company is establishing Hanwa Daisun Co., Ltd. (hereinafter: Hanwa Daisun) in order to strengthen the "SOKOKA" (quick delivery, small lots, processing) business in eastern Japan, based on the basic policy of the Medium-Term Business Plan.

Hanwa Daisun is established as a merger of the Company's expertise in fields such as steel frame engineering, project operation, and multi-perspective wide-ranging business expansion with the adaptability of Daisun in handling business aspects such as warehousing and small lot sales, and Hanwa Daisun will inherit a portion of the bar steel department at the Company's Tokyo Head Office and the entirety of its North Kanto Branch, as well as Daisun's Tokyo Branch and North Kanto Sales Office.

2. Establishment of a subsidiary

(1) New company overview

Trade name	Hanwa Daisun Co., Ltd.
Representative	Daigo Matsumoto, Representative Director, President
Business content	Sales and manufacturing of general steel materials and construction products
Capital	¥30 million (\$239 thousand)
Date of establishment	June 1, 2022
Major shareholders and holdings ratio	Hanwa Co., Ltd.: 100%
Accounting period	March 31

3. Company split

(1) Company split schedule

Resolution by the Company's Board of Directors	May 13, 2022
Resolution by Daisun's Board of Directors	July 31, 2022
Company split contract signing date	August 1, 2022
Company split effective date	October 1, 2022 (planned)

(Note) The company split will be carried out without the approval of a resolution by a general meeting of stockholders because it is a simple absorption split as defined in Article 784-2 of the Companies Act.

(2) Company split method

The method is an absorption split with the Company and Daisun as split company and Hanwa Daisun as the successor company.

(3) Allocation for the company split

Although the company split is being carried out between the parent company and the wholly-owned subsidiary, no split compensation will be provided to the Company, while 520,000 shares of Hanwa Daisun will be provided to Daisun as absorption split compensation. The planned allocation will be adjusted to a 66:34 ratio between the Company and Daisun.

4. Overview of companies involved in the company split (as of the end of March 2022)

	Split company	Split company	Successor company
(1) Name	Hanwa Co., Ltd.	Daisun Co., Ltd.	Hanwa Daisun Co., Ltd.
(2) Address	4-3-9 Fushimi-machi, Chuo-ku, Osaka-shi, Osaka	4-5-7 Itachibori, Nishi-ku, Osaka-shi, Osaka	1-13-1 Tsukiji, Chuo-ku, Tokyo
(3) Representative's title and name	Hironari Furukawa, Representative Director, President	Masaki Konishi, Representative Director, President	Daigo Matsumoto, Representative Director, President
(4) Business content	Sales of various types of products such as iron and steel, metal raw materials, nonferrous metals, foodstuffs, oil and chemical products, lumber, and machinery; steel and nonferrous metal manufacturing; amusement facility management and operations, etc.	Sales and standard warehousing of general steel materials and iron and steel construction products	Sales and manufacturing of general steel materials and construction products
(5) Capital	¥45,651 million (\$372,996 thousand)	¥200 million (\$1,634 thousand)	¥30 million (\$245 thousand)
(6) Date of establishment	April 1, 1947	August 4, 1948	June 1, 2022
(7) Number of issued shares	42,332,640 shares	2,000,000 shares	1,000,000 shares
(8) Accounting period	March 31	March 31	March 31
(9) Major shareholders and holdings ratio	The Master Trust Bank of Japan, Ltd. (Trust) 13.78% Hanwa Clients' Stock Investment Association 5.02% Custody Bank of Japan, Ltd. (Trust) 4.93% JP MORGAN CHASE BANK 385632 4.47% Sumitomo Mitsui Banking Corporation 3.76%	Hanwa Co., Ltd. 100%	Hanwa Co., Ltd. 100%

(10) Financial status and business performance in the preceding fiscal year (ending March 2022)

	Hanwa Co., Ltd. (Consolidated)	Daisun Co., Ltd. (Unconsolidated)	Hanwa Daisun Co., Ltd. (Unconsolidated)
Net assets	¥240,497 million (\$1,965,005 thousand)	¥2,687 million (\$21,954 thousand)	¥30 million (\$245 thousand)
Total assets	¥1,715,394 million (\$14,015,801 thousand)	¥9,295 million (\$75,945 thousand)	¥30 million (\$245 thousand)
Net assets per share	¥5,834.98 (\$47.68)	¥1,343.62 (\$10.98)	¥30 (\$0.25)
Net sales	¥2,164,049 million (\$17,681,583 thousand)	¥18,265 million (\$149,236 thousand)	—
Operating income	¥62,367 million (\$509,575 thousand)	¥1,051 million (\$8,587 thousand)	—
Net income for the year	¥43,617 million (\$356,377 thousand)	¥736 million (\$6,013 thousand)	—
Net income for the year per share	¥1,073.34 (\$8.77)	¥368.40 (\$3.01)	—

(Note) Hanwa Daisun was established on June 1, 2022, and there is no previous business year. Therefore, in point 10, Financial position and business results for the previous financial year (ending March 2022), the net assets, total assets and net assets per share only refer to figures at the date of its establishment.

5. Overview of split business departments

(1) Content of split business departments

A portion of the bar steel department at the Company's Tokyo Head Office and the entirety of its North Kanto Branch, as well as Daisun's Tokyo Branch and North Kanto Sales Office.

(2) Performance of split business departments (fiscal year ended March 2022)

Net sales	¥12,925 million (\$105,605 thousand)
-----------	---

(3) Inherited asset and liability items and amounts (as of March 31, 2022)

Assets		Liabilities	
Item	Book value	Item	Book value
Current assets	—	Current debts	—
Fixed assets	¥3,614 million (\$29,528 thousand)	Fixed liabilities	¥435million (\$3,554 thousand)
Total assets	¥3,614 million (\$29,528 thousand)	Total liabilities	¥435 million (\$3,554 thousand)

(Note) The amount is an estimated amount based on the current position as of the end of March 2022, and the actual amount of assets and liabilities to be split may change from the above.

6. Summary of accounting treatment

The Company will treat it as a transaction under common control on the basis of "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019)

Prepayment of loans

On June 27, 2022, the Company decided on prepayment of loans and prepaid them on June 30, 2022.

In response to a rise in futures prices on the LME caused by the Russian military invasion of Ukraine, the Company had

borrowed ¥120,000 million (\$980,472 thousand). However, due to the recent decline in futures prices and the decrease in the long-term guarantee deposit, the Company prepaid the above loan of ¥120,000 million (\$980,472 thousand) in full.

Details of prepayment loans

Lenders	Sumitomo Mitsui Banking Corporation, Mizuho Bank, MUFG Bank, and Sumitomo Mitsui Trust Bank
Total loan amount	¥120,000 million (\$980,472 thousand)
Loan interest rate	Standard interest rate + spread
Resolution date	March 8, 2022
Loan dates	March 8 -11, 2022
Loan period	6 months from the loan date
Prepayment date	June 30,2022

Decrease in consolidated total assets

The Company is carrying out hedge transactions involving commodities, a portion of which involve valuation gains or losses attributable to counter parties. The fair value of the balance of these valuation gains or losses is calculated at the end of each fiscal quarter, using the prices stated by exchange members in the quarterly accounts. The amounts of these valuation gains or losses are appropriated as assets and liabilities.

Due to the recent decline in commodity futures prices, both assets and liabilities at the end of the first quarter of the year ended March 31, 2023 (June 30, 2022) were approximately ¥70,900 million (\$579,295 thousand) and consolidated total assets decreased by approximately ¥112,700 million (\$920,826 thousand) compared to the end of the year ended March 31, 2022.

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, 2022 and 2021, the consolidated statements of income 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, 2022 and 2021, 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.

Appropriateness of accounting treatment, presentation, and disclosure of revenue recognition for agent transactions in the application of the accounting standard for revenue recognition

The key audit matter	How the matter was addressed in our audit
As described in Note 2, "Significant accounting policies, Changes in accounting policies," to the consolidated financial statements, the Group applied "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan Statement No. 29), etc. (hereinafter	The primary procedures we performed to assess the appropriateness of accounting treatment, presentation, and disclosure of revenue recognition for agent transactions in the application of the Revenue Recognition Standard included the following:

<p>collectively referred to as the “Revenue Recognition Standard”) from the beginning of the current fiscal year. The Group recognizes revenues with the amount expected to receive in exchange for goods or services at the time when its control has been transferred to customers. As a result, net sales and cost of sales decreased by ¥533,833 million and ¥533,947 million, respectively, and operating income, ordinary income and income before income taxes each increased by ¥114 million for the current fiscal year. The balance of retained earnings at the beginning of the current period increased by ¥1,402 million.</p> <p>Under the Revenue Recognition Standard, the classification between principals and agents, revenue recognition for the buy-sell transactions and construction contracts and the accounting treatment for the considerations paid to customers were changed, which had a broad impact on the consolidated financial statements. In particular, the Group previously recognized the total amount of considerations received from customers as revenues for agency transactions. However, for transactions for which the Group is determined to act as agents as a result of considering whether the Group has primary responsibility for providing goods or services to customers, inventory risk and discretion in setting the price for goods or services, the Group has changed the method of recognizing revenues for which the revenues are recognized with net of the amount of transactions with suppliers for goods or services and the amount of transactions with customers. The effect of the change is approximately 20% of the net sales on a consolidated basis, which is material on a monetary basis.</p> <p>We, therefore, determined that our assessment of the appropriateness of accounting treatment, presentation, and disclosure of revenue recognition for agent transactions in the application of the Revenue Recognition Standard was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</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 appropriateness of accounting treatment, presentation, and disclosure of revenue recognition for agency transactions in the application of the Revenue Recognition Standard. In this assessment, we focused our testing on the following:</p> <ul style="list-style-type: none"> ● controls to ensure that the Group accounting policies and procedures have been properly prepared in compliance with the Revenue Recognition Standard; and ● controls to ensure that the Group appropriately identify whether there is primary responsibility for providing goods or services to customers, inventory risk and discretion in setting the price for goods or services. <p>(2) Assessment of the appropriateness of accounting treatment, presentation, and disclosure</p> <p>In order to assess the appropriateness of accounting treatment, presentation and disclosure of revenue recognition for agency transactions, we:</p> <ul style="list-style-type: none"> ● selected some of sales transactions and inspected their supporting documents to analyze whether the transactions were appropriately accounted for in accordance with the accounting policies applied by the Group .
---	---

Appropriateness of an accounting period in which net sales were 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 the Group. Net sales 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>As described in Note 2, “Significant accounting policies, Accounting policy for recognition of significant revenues and expenses” to the consolidated financial statements, sales from the sale of products are recognized at the time when the delivery or inspection of goods is completed. For the direct shipping transactions in the steel business, the Group recognizes sales on the date of shipment from suppliers to customers.</p> <p>In applying the accounting standard for revenue recognition, there is a potential risk that sales from direct shipping transactions are not recognized in the appropriate accounting period for the following reasons:</p> <ul style="list-style-type: none"> ● As sales are recognized based on the communication from the product suppliers, the product shipping date cannot be tracked in a timely manner and the sales recognition may be delayed. ● As the Group only makes shipment instructions to the product suppliers and does not directly conduct shipping operations, sales may be recognized without any fact of shipment. <p>We, therefore, determined that our assessment of the appropriateness of an accounting period in which net sales were recognized from the direct shipping transactions in the steel business of the Company 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>The primary procedures we performed to assess the appropriateness of an accounting period in which net sales were recognized from the direct shipping transactions in the steel business of the Company 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 net sales related to the direct shipping transactions of the Company. In this assessment, we focused our testing on controls designed to confirm the fact that products were shipped.</p> <p>(2) Assessment of whether sales were recognized in the appropriate accounting period</p> <p>In order to assess whether net sales were 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, among others, we:</p> <p>agreed the dates indicated on the evidence showing the shipment from the supplier with the dates of sales recognition.</p>

Other Information

The other information comprises the information included in the Integrated Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. 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 reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

Tanaka Motohiro

Designated Engagement Partner

Certified Public Accountant

Narumoto Koji

Designated Engagement Partner

Certified Public Accountant

Takeshita Shimpei

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

August 5, 2022

Notes to the Reader of Independent Auditor's Report:

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