Hanwa Co., Ltd. and Subsidiaries

Consolidated Financial Statements
For the Years Ended March 31,
2023 and 2022
Together with Independent
Auditors' Report

Consolidated Balance Sheets

As at March 31, 2023 and 2022

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars (Note 1) 2023
Assets			
Current assets:			
Cash and cash equivalents (Notes 3 and 7)	¥ 84,121	¥ 165,083	$ 629,978
Receivables:			
Trade notes, accounts receivable and contract assets (Notes 3 and 19):			
Unconsolidated subsidiaries and affiliates	13,941	14,230	104,403
Other	435,038	528,213	3,257,979
Electronically recorded monetary claims (Note 3):			
Unconsolidated subsidiaries and affiliates	15	25	112
Other	55,554	32,986	416,041
Loans:			
Unconsolidated subsidiaries and affiliates	7,014	7,101	52,527
Other	11,500	10,394	86,122
Allowance for doubtful receivables	(1,295)	(1,580)	(9,698)
Inventories (Note 6)	253,964	243,603	1,901,924
Other current assets	68,885	271,991	515,876
Total current assets	928,741	1,272,049	6,955,298
Investments and noncurrent receivables:			
Investment securities (Notes 3, 4 and 7)	79,964	66,897	598,846
Investments in unconsolidated subsidiaries and affiliates (Note 3)	19,643	14,545	147,105
Long-term loans receivable (Note 3):			
Unconsolidated subsidiaries and affiliates	1,015	572	7,601
Other	12,798	11,864	95,843
Other investments and noncurrent receivables	19,012	261,133	142,379
Allowance for doubtful accounts	(2,613)	(1,403)	(19,568)
Total investments and noncurrent receivables	129,820	353,610	972,215
Property and equipment (Note 7):			
Land (Note 12)	36,786	34,677	275,488
Buildings and structures	57,917	54,519	433,737
Other	58,315	47,875	436,718
Accumulated depreciation	(65,902)	(59,183)	(493,537)
Total property and equipment	87,117	77,889	652,415
Other assets:			
Deferred tax assets (Note 8)	1,261	1,288	9,443
Intangible assets (Note 7)	10,807	10,556	80,933
Total other assets	12,069	11,844	90,384
Total	¥ 1,157,747	¥ 1,715,394	$ 8,670,313

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen 2023	2022	Thousands of U.S. dollars (Note 1) 2023
Liabilities and Net Assets			
Current liabilities:			
Short-term loans payable (Notes 3 and 9)	¥ 61,194	¥ 414,880	$ 458,279
Commercial paper (Notes 3 and 9)	30,000	40,000	224,668
Long-term debt due within one year (Notes 3, 7 and 9)	31,932	54,104	239,137
Trade notes and accounts payable (Note 3):			
Unconsolidated subsidiaries and affiliates	17,988	2,959	134,711
Other	260,834	385,334	1,953,373
Electronically recorded obligations (Note 3):			
Unconsolidated subsidiaries and affiliates	38	108	284
Other	36,662	33,348	274,560
Accrued bonuses to employees	4,355	4,223	32,614
Provision for product warranties	56	66	419
Income taxes payable	14,822	16,098	111,001
Other current liabilities (Note 19)	101,103	287,492	757,155
Total current liabilities	558,990	1,238,615	4,186,250
Noncurrent liabilities:			
Long-term debt due after one year (Notes 3, 7 and 9)	254,843	210,890	1,908,507
Retirement benefit liability (Note 10)	4,285	4,454	32,090
Deferred tax liabilities (Note 8)	10,888	7,241	81,539
Other noncurrent liabilities	19,932	13,693	149,269
Total noncurrent liabilities	289,949	236,280	2,171,414
Contingent liabilities (Note 11)			
Net assets (Note 12)			
Shareholders' equity:			
Common stock:			
Authorized: 114,000,000 shares in 2023 and 114,000,000 shares in 2022			
Issued: 42,332,640 shares in 2023 and 42,332,640 shares in 2022	45,651	45,651	341,878
Capital surplus	26	26	194
Retained earnings	228,920	180,119	1,714,371
Treasury stock, at cost:1,695,653 shares in 2023 and 1,695,350 shares in 2022	(3,730)	(3,729)	(27,933)
Total shareholders' equity	270,866	222,066	2,028,502
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities, net of taxes	23,972	16,725	179,525
Deferred gains or losses on hedges, net of taxes	673	(1,000)	5,040
Land revaluation difference, net of taxes (Note 12)	1,975	3,191	14,790
Foreign currency translation adjustment	8,360	(531)	62,607
Remeasurements of defined benefit plans (Note 10)	(2,720)	(3,334)	(20,369)
Total accumulated other comprehensive income	32,260	15,050	241,593
Non-controlling interests	5,680	3,379	42,537
Total net assets	308,807	240,497	2,312,641
Total	¥ 1,157,747	¥ 1,715,394	$ 8,670,313

Consolidated Statements of Income and Comprehensive Income

For the years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net sales (Note 19)	¥ 2,668,228	¥ 2,164,049	$ 19,982,236
Cost of sales (Note 6)	2,539,686	2,045,040	19,019,591
Gross profit	128,541	119,008	962,637
Selling, general and administrative expenses	64,435	56,641	482,550
Operating income	64,105	62,367	480,079
Other income (expenses):			
Interest and dividend income	11,144	3,294	83,456
Interest expenses	(9,969)	(4,073)	(74,657)
Share of profit of entities accounted for using the equity method	4,194	3,321	31,408
Foreign exchange gain (loss)	(681)	(1,848)	(5,099)
Gain on sales of property and equipment (Note 13)	14,417	—	107,968
Gain on bargain purchase	722	—	5,407
Gain on sales of investment securities	655	1,449	4,905
Arbitration-related income	268	145	2,007
Loss on valuation of investment securities	—	(1,055)	—
Provision of allowance for doubtful accounts for subsidiaries and affiliates (Note 14)	—	(118)	—
Value added taxes for prior periods (Note 15)	(4,375)	—	(32,764)
Other, net	(4,520)	(343)	(33,850)
Income before income taxes	75,961	63,138	568,868
Income taxes (Note 8):			
Current	24,364	20,160	182,460
Deferred	(1,145)	(1,426)	(8,574)
Total income taxes	23,218	18,733	173,878
Net income	¥ 52,742	¥ 44,405	$ 394,982
Net income attributable to:			
Owners of the parent	¥ 51,505	¥ 43,617	$ 385,718
Non-controlling interests	1,237	787	9,263
Other comprehensive income (Note 16):			
Valuation difference on available-for-sale securities, net of taxes	7,246	1,532	54,264
Deferred gains or losses on hedges, net of taxes	1,674	(1,373)	12,536
Foreign currency translation adjustment	8,077	4,109	60,488
Remeasurements of defined benefit plans, net of taxes	625	1,037	4,680
Share of other comprehensive income of entities accounted for using the equity method	970	577	7,264
Total other comprehensive income	18,594	5,883	139,249
Comprehensive income	¥ 71,336	¥ 50,288	$ 534,232
Comprehensive income attributable to:			
Owners of the parent	¥ 69,878	¥ 49,201	$ 523,313
Non-controlling interests	1,457	1,087	10,911

	Yen		U.S. dollars (Note 1)
	2023	2022	2023
Net income per share	¥ 1,267.44	¥ 1,073.34	$ 9.49
Cash dividends per share	130.00	100.00	0.97

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2023 and 2022

	Thousands	Millions of yen										
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 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 the 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
Balance at April 1, 2022	**42,332**	**45,651**	**26**	**180,119**	**(3,729)**	**16,725**	**(1,000)**	**3,191**	**(531)**	**(3,334)**	**3,379**	**240,497**
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Balance at April 1, 2022 after accounting policies changed	**42,332**	**45,651**	**26**	**180,119**	**(3,729)**	**16,725**	**(1,000)**	**3,191**	**(531)**	**(3,334)**	**3,379**	**240,497**
Cash dividends paid	—	—	—	(4,063)	—	—	—	—	—	—	—	(4,063)
Change in scope of consolidation	—	—	—	246	—	—	—	—	—	—	—	246
Change in scope of the equity method	—	—	—	(103)	—	—	—	—	—	—	—	(103)
Reversal of revaluation reserve for land	—	—	—	1,216	—	—	—	—	—	—	—	1,216
Net income attributable to owners of the parent	—	—	—	51,505	—	—	—	—	—	—	—	51,505
Purchases of treasury stock	—	—	—	—	(1)	—	—	—	—	—	—	(1)
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	7,247	1,674	(1,216)	8,891	613	2,300	19,510
Balance at March 31, 2023	**42,332**	**¥ 45,651**	**¥ 26**	**¥ 228,920**	**¥ (3,730)**	**¥ 23,972**	**¥ 673**	**¥ 1,975**	**¥ 8,360**	**¥ (2,720)**	**¥ 5,680**	**¥ 308,807**

	Thousands	Thousands of U.S. dollars (Note 1)										
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities, net of taxes	Deferred gains or losses on hedges, net of taxes	Land revaluation difference, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans, net of taxes	Non-controlling interests	Total
Balance at April 1, 2022	**42,332**	**$ 341,878**	**$ 194**	**$ 1,348,902**	**$ (27,926)**	**$ 125,252**	**$ (7,488)**	**$ 23,897**	**$ (3,976)**	**$ (24,968)**	**$ 25,305**	**$ 1,801,070**
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Balance at April 1, 2022 after accounting policies changed	**42,332**	**341,878**	**194**	**1,348,902**	**(27,926)**	**125,252**	**(7,488)**	**23,897**	**(3,976)**	**(24,968)**	**25,305**	**1,801,070**
Cash dividends paid	—	—	—	(30,427)	—	—	—	—	—	—	—	(30,427)
Change in scope of consolidation	—	—	—	1,842	—	—	—	—	—	—	—	1,842
Change in scope of the equity method	—	—	—	(771)	—	—	—	—	—	—	—	(771)
Reversal of revaluation reserve for land	—	—	—	9,106	—	—	—	—	—	—	—	9,106
Net income attributable to owners of the parent	—	—	—	385,718	—	—	—	—	—	—	—	385,718
Purchases of treasury stock	—	—	—	—	(7)	—	—	—	—	—	—	(7)
Purchase of shares of consolidated subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	54,272	12,536	(9,106)	66,584	4,590	17,224	146,109
Balance at March 31, 2023	**42,332**	**$ 341,878**	**$ 194**	**$ 1,714,371**	**$ (27,933)**	**$ 179,525**	**$ 5,040**	**$ 14,790**	**$ 62,607**	**$ (20,369)**	**$ 42,537**	**$ 2,312,641**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Cash flows from operating activities:			
Income before income taxes	¥ 75,961	¥ 63,138	$ 568,868
Adjustments to reconcile income (loss) before income taxes to net cash provided by (used in) operating activities:			
Depreciation	7,368	6,123	55,178
Amortization of goodwill	193	392	1,445
Increase (decrease) in allowance for doubtful accounts	805	690	6,028
Interest and dividend income	(11,144)	(3,294)	(83,456)
Interest expenses	9,969	4,073	74,657
Share of loss (profit) of entities accounted for using the equity method	(4,194)	(3,321)	(31,408)
Gain on sales of property and equipment	(14,417)	—	(107,968)
Gain on bargain purchase	(722)	—	(5,407)
Gain on sales of investment securities	(655)	(1,449)	(4,905)
Loss on valuation of investment securities	—	1,055	—
Provision of allowance for doubtful accounts for subsidiaries and affiliates	—	118	—
Arbitration-related income	(268)	(145)	(2,007)
Value added taxes for prior periods	4,375	—	32,764
Decrease (increase) in trade receivables and contract assets	88,701	(173,734)	664,277
Decrease (increase) in inventories	6,714	(111,643)	50,280
Decrease (increase) in accounts receivable-other	198,852	(216,220)	1,489,193
Decrease (increase) in advance payments-trade	8,903	(12,261)	66,674
Increase (decrease) in trade notes and accounts payable	(116,530)	175,780	(872,687)
Increase (decrease) in accounts payable-other	33,282	14,566	249,247
Increase (decrease) in deposits received	(22,774)	27,238	(170,553)
Increase (decrease) in forward exchange contracts (debt)	(16,141)	11,989	(120,879)
Increase (decrease) in commodity forward contract liabilities	(185,918)	181,201	(1,392,331)
Decrease (increase) in long-term guarantee deposits	243,464	(240,054)	1,823,290
Increase (decrease) in retirement benefit liability	706	552	5,287
Other, net	2,876	6,620	21,538
Subtotal	309,407	(268,582)	2,317,134
Cash flows during the year for:			
Interest and dividends received	10,773	3,129	80,678
Interest paid	(9,790)	(4,155)	(73,316)
Income taxes (paid) refund	(26,431)	(11,290)	(197,940)
Arbitration-related income	268	145	2,007
Net cash provided by (used in) operating activities	284,226	(280,752)	2,128,555
Cash flows from investing activities:			
Payments into time deposits	(49)	(50)	(366)
Proceeds from withdrawal of time deposits	401	89	3,003
Purchase of property and equipment	(12,858)	(6,287)	(96,292)
Proceeds from sales of property and equipment	17,566	43	131,550
Purchase of investment securities	(3,413)	(6,054)	(25,559)
Proceeds from sales and redemption of investment securities	1,331	2,368	9,967
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 17)	(7,400)	—	(55,418)
Net decrease (increase) in short-term loans receivable	2,318	(11,730)	17,359
Payments of long-term loans receivable	(3,529)	(239)	(26,428)
Collection of long-term loans receivable	125	10,135	936
Other, net	(1,031)	(3,266)	(7,721)
Net cash provided by (used in) investing activities	(6,539)	(14,993)	(48,970)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(357,803)	371,112	(2,679,570)
Net increase (decrease) in commercial paper	(10,000)	40,000	(74,889)
Proceeds from long-term debt and issuance of bonds	70,541	41,005	528,278
Repayments of long-term debt and redemption of bonds	(49,186)	(40,847)	(368,351)
Dividends paid	(4,067)	(3,255)	(30,457)
Dividends paid to non-controlling interests	(309)	(133)	(2,314)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(100)	—
Other, net	(1,010)	(961)	(7,563)
Net cash provided by (used in) financing activities	(351,835)	406,820	(2,634,876)
Effect of exchange rate changes on cash and cash equivalents	(7,279)	1,265	(54,512)
Net increase (decrease) in cash and cash equivalents	(81,427)	112,339	(609,803)
Cash and cash equivalents at the beginning of the year	165,083	50,892	1,236,298
Increase in cash and cash equivalents from newly consolidated subsidiaries	464	1,842	3,474
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	9	—
Cash and cash equivalents at the end of the year	¥ 84,121	¥ 165,083	$ 629,978

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, 2023, which was ¥133.53 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 2022 and 2023. 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 58 (54 in 2022) 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, 2023, the Company had 34 unconsolidated subsidiaries and 33 affiliates. The equity method has been applied to the investments in 15 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 (hereinafter: "trading securities"), (b) debt securities intended to be held to maturity (hereinafter: "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 (hereinafter: "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 expected future tax consequences of the temporary differences.

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
Foreign exchange swap contracts

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.

Accounting standards and guidance not yet applied
- Accounting Standard for Current Income Taxes (ASBJ Statement No.27, October 28, 2022, ASBJ)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No.25, October 28, 2022, ASBJ)
- Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No.28, October 28, 2022, ASBJ)

1. Overview

These accounting standards and implementation guidance prescribe the classifications of income taxes in the case where other comprehensive income is taxed, and the treatment of tax effects related to the sale of shares, etc. of subsidiaries in the case where the group taxation regime is applied.

2. Effective date

The standards and guidance will be effective from the beginning of the fiscal year ending March 31, 2025.

3. Effects of the application of the standards

The effects of the application of Accounting Standard for Current Income Taxes, etc. on the consolidated financial statements are currently under evaluation.

3. Financial instruments

At March 31, 2023 and 2022, 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, they 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.

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 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.

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 and foreign exchange swap contracts are used to hedge foreign exchange rate fluctuation risk associated with foreign subsidiaries' equity.

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

Risk management system for financial instruments

With regard to credit risk to which trade notes, 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.

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

In regard to business investments, in compliance with the "Rules for the Review and Approval of New Businesses, Loans and Investments," the Companies decide whether or not to invest after following the prescribed procedures. The Companies continuously monitor 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

Book values, fair values and differences between carrying amounts and fair value of relevant items as of March 31, 2023 and 2022 are as follows:

"Cash and cash equivalents" , "Trade notes, accounts receivable and contract assets" , "Electronically recorded monetary claims" , "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 below. 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.

March 31, 2023

	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	¥ 2,904	¥ 2,904	¥ —	$ 21,747	$ 21,747	$ —
b) Equity securities issued by affiliated companies	4,516	1,743	(2,773)	33,820	13,053	(20,766)
c) Available-for-sale securities (Equity securities)	53,398	53,398	—	399,895	399,895	—
d) Available-for-sale securities (Corporate bonds)	20	20	—	149	149	—
(2) Long-term loans receivable	13,813			103,444		
Allowance for doubtful accounts	(537)			(4,021)		
Net	13,276	12,764	(511)	99,423	95,589	(3,826)
Total assets	¥ 74,115	¥ 70,830	¥ (3,285)	$ 555,043	$ 530,442	$ (24,601)
Long-term debt due after one year	¥ 254,843	¥ 253,463	¥ 1,379	$ 1,908,507	$ 1,898,172	$ 10,327
Total liabilities	¥ 254,843	¥ 253,463	¥ 1,379	$ 1,908,507	$ 1,898,172	$ 10,327
Derivatives:						
Hedge accounting not applied	¥ (10,350)	¥ (10,350)	¥ —	$ (77,510)	$ (77,510)	$ —
Hedge accounting applied	183	182	(0)	1,370	1,362	(0)
Total derivatives	¥ (10,167)	¥ (10,167)	¥ (0)	$ (76,140)	$ (76,140)	$ (0)

1. Allowance for doubtful accounts recognized in long-term loans receivable was offset.
2. Derivative assets and liabilities were on a net basis.
3. Equity securities without market prices and investment in partnerships are not included in “(1) Securities”.
The book values of those financial instruments as of March 31, 2023 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2023	2023
	Book value	Book value
(1) Unlisted stocks	¥ 37,848	$ 283,441
(2) Investment in limited partnerships	919	6,882
Total	¥ 38,768	$ 290,331

March 31, 2022

	Millions of yen		
	Book value	Fair value	Difference
(1) Securities			
a) Held-to-maturity debt securities	¥ 2,670	¥ 2,670	¥ —
b) Equity securities issued by affiliated companies	4,523	3,816	(707)
c) Available-for-sale securities (Equity securities)	43,008	43,008	—
d) Available-for-sale securities (Corporate bonds)	20	20	—
(2) Long-term loans receivable	12,437		
Allowance for doubtful accounts	(500)		
Net	11,936	11,654	(281)
Total assets	¥ 62,158	¥ 61,170	¥ (988)
Long-term debt due after one year	¥ 210,890	¥ 209,910	¥ 980
Total liabilities	¥ 210,890	¥ 209,910	¥ 980
Derivatives:			
Hedge accounting not applied	¥ (208,502)	¥ (208,502)	¥ —
Hedge accounting applied	(2,401)	(2,444)	(43)
Total derivatives	¥ (210,903)	¥ (210,946)	¥ (43)

1. Allowance for doubtful accounts recognized in long-term loans receivable was offset.
2. Derivative assets and liabilities were on a net basis.
3. Equity securities without market prices and investment in partnerships are not included in “(1) Securities”.
The book values of those financial instruments as of March 31, 2022 were as follows:

	Millions of yen
	2022
	Book value
(1) Unlisted stocks	¥ 29,801
(2) Investment in limited partnerships	1,419
Total	¥ 31,220

The maturities of receivables and securities with maturities outstanding at March 31, 2023 were as follows:

Year ending March 31

Millions of yen

	2024	From 2025 to 2028	From 2029 to 2033	Thereafter
Cash and cash equivalents	¥ 84,121	¥ —	¥ —	¥ —
Trade notes, accounts receivable and contract assets	448,980	—	—	—
Electronically recorded monetary claims	55,570	—	—	—
Held-to-maturity debt securities	—	646	2,257	—
Available-for-sale securities with maturity dates	—	20	—	—
Long-term loans receivable	—	7,446	2,202	46
Total	¥ 588,671	¥ 8,112	¥ 4,460	¥ 46

Thousands of U.S. dollars

	2024	From 2025 to 2028	From 2029 to 2033	Thereafter
Cash and cash equivalents	$ 629,978	$ —	$ —	$ —
Trade notes, accounts receivable and contract assets	3,362,390	—	—	—
Electronically recorded monetary claims	416,161	—	—	—
Held-to-maturity debt securities	—	4,837	16,902	—
Available-for-sale securities with maturity dates	—	149	—	—
Long-term loans receivable	—	55,762	16,490	344
Total	$4,408,529	$ 60,750	$ 33,400	$ 344

Long-term loans receivable of ¥4,118 million ($30,839 thousand) are excluded from the tables above because the redemption schedule has not been determined.

(C) Fair value information of financial instruments by level of inputs

Fair value information of financial instruments by level of inputs as of March 31, 2023 and 2022 was as follows:

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, 2023

	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)	¥ 53,398	¥ —	¥ —	¥ 53,398	$ 399,895	$ —	$ —	$ 399,895
Available-for-sale securities (Corporate bonds)	—	20	—	20	—	149	—	149
Total assets	¥ 53,398	¥ 20	¥ —	¥ 53,418	$ 399,895	$ 149	$ —	$ 400,044
Derivatives:								
Hedge accounting not applied	¥ (115)	¥ (10,235)	¥ —	¥ (10,350)	$ (861)	$ (76,649)	$ —	$ (77,510)
Hedge accounting applied	441	(258)	—	183	3,302	(1,932)	—	1,370
Total derivatives	¥ 326	¥ (10,493)	¥ —	¥ (10,167)	$ 2,441	$ (78,581)	$ —	$ (76,140)

March 31, 2022

	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities				
Available-for-sale securities (Equity securities)	¥ 43,008	¥ —	¥ —	¥ 43,008
Available-for-sale securities (Corporate bonds)	—	20	—	20
Total assets	¥ 43,008	¥ 20	¥ —	¥ 43,028
Derivatives:				
Hedge accounting not applied	¥ (187,431)	¥ (21,071)	¥ —	¥ (208,502)
Hedge accounting applied	(1,676)	(724)	—	(2,401)
Total derivatives	¥ (189,108)	¥ (21,795)	¥ —	¥ (210,903)

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

March 31, 2023

	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	¥ —	¥ 2,904	¥ —	¥ 2,904	$ —	$ 21,747	$ —	$ 21,747
Equity securities issued by affiliated companies	1,743	—	—	1,743	13,053	—	—	13,053
Long-term loans receivable	—	12,764	—	12,764	—	95,589	—	95,589
Total assets	¥ 1,743	¥ 15,669	¥ —	¥ 17,412	$ 13,053	$ 117,344	$ —	$ 130,397
Long-term debt due after one year	¥ —	¥ 253,463	¥ —	¥ 253,463	$ —	$ 1,898,172	$ —	$ 1,898,172
Total liabilities	¥ —	¥ 253,463	¥ —	¥ 253,463	$ —	$ 1,898,172	$ —	$ 1,898,172
Derivatives:								
Hedge accounting not applied	¥ —	¥ —	¥ —	¥ —	$ —	$ —	$ —	$ —
Hedge accounting applied	—	(0)	—	(0)	—	(0)	—	(0)
Total derivatives	¥ —	¥ (0)	¥ —	¥ (0)	$ —	$ (0)	$ —	$ (0)

March 31, 2022

	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities				
Held-to-maturity debt	¥ —	¥ 2,670	¥ —	¥ 2,670
Equity securities issued by affiliated companies	3,816	—	—	3,816
Long-term loans receivable	—	11,654	—	11,654
Total assets	¥ 3,816	¥ 14,325	¥ —	¥ 18,141
Long-term debt due after one year	¥ —	¥ 209,910	¥ —	¥ 209,910
Total liabilities	¥ —	¥ 209,910	¥ —	¥ 209,910
Derivatives:				
Hedge accounting not applied	¥ —	¥ —	¥ —	¥ —
Hedge accounting applied	—	(43)	—	(43)
Total derivatives	¥ —	¥ (43)	¥ —	¥ (43)

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

Securities

Listed equity securities are measured using quoted prices. Fair values 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 future 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 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, currency swap transactions and foreign exchange 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, whose fair values are classified as Level 1.

4. Securities

(A) The following tables summarize book values and fair values of held-to-maturity debt securities as of March 31, 2023 and 2022:

March 31, 2023

	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	¥ 2,904	¥ 2,904	¥ —	$ 21,747	$ 21,747	$ —

March 31, 2022

	Millions of yen		
	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	¥ —

(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, 2023 and 2022:

March 31, 2023

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥ 14,513	¥ 49,005	¥ 34,492	$ 108,687	$ 366,996	$ 258,308
Bonds	—	—	—	—	—	—
Securities with book values not exceeding acquisition costs:						
Equity securities	¥ 5,952	¥ 4,392	¥ (1,559)	$ 44,574	$ 32,891	$ (11,675)
Bonds	26	20	(6)	194	149	(44)

March 31, 2022

		Millions of yen	
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 12,952	¥ 37,171	¥ 24,218
Bonds	—	—	—
Securities with book values not exceeding acquisition costs:			
Equity securities	¥ 7,013	¥ 5,837	¥ (1,175)
Bonds	26	20	(6)

(C) The following tables summarize sales of available-for-sale securities in the years ended March 31, 2023 and 2022:

March 31, 2023

	Millions of yen			Thousands of U.S. dollars		
	Proceeds from sales	Gains on sales	Losses on sales	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	**¥ 1,331**	**¥ 655**	**¥ 5**	**$ 9,967**	**$ 4,905**	**$ 37**

March 31, 2022

	Millions of yen		
	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 2,080	¥ 1,449	¥ —

(D) The loss on valuation of investment securities in the years ended March 31, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Available-for-sale securities	**¥ 80**	¥ 1,055	**$ 599**
Total	**¥ 80**	¥ 1,055	**$ 599**

5. Derivatives

(A) The following tables summarize fair value information as of March 31, 2023 and 2022 for the derivatives to which hedge accounting has not been applied:

March 31, 2023
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	¥ 31,336	¥ —	¥ (274)	¥ (274)	$ 234,673	$ —	$ (2,051)	$ (2,051)
Other currencies	20,423	—	(196)	(196)	152,946	—	(1,467)	(1,467)
Buying:								
U.S. dollars	7,985	—	(99)	(99)	59,799	—	(741)	(741)
Other currencies	538	—	(5)	(5)	4,029	—	(37)	(37)
Cross-currency swap agreements:								
Japanese yen received for U.S. dollars	64,027	41,469	(9,649)	(9,649)	479,495	310,559	(72,260)	(72,260)
Total	¥ —	¥ —	¥ —	¥ (10,224)	$ —	$ —	$ —	$ (76,567)

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	¥ 3,290	¥ —	¥ 85	¥ 85	$ 24,638	$ —	$ 636	$ 636
Buying	—	—	—	—	—	—	—	—
Non-ferrous metals:								
Selling	32,259	—	338	338	241,586	—	2,531	2,531
Buying	15,667	—	(325)	(325)	117,329	—	(2,433)	(2,433)
Commodity swap agreements:								
Petroleum:								
Fixed receipt / Fluctuated payment	391	—	9	9	2,928	—	67	67
Fluctuated receipt / Fixed payment	973	—	(19)	(19)	7,286	—	(142)	(142)
Total	¥ —	¥ —	¥ —	¥ 88	$ —	$ —	$ —	$ 659

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	¥ 15,699	¥ —	¥ 678	¥ 678	$ 117,569	$ —	$ 5,077	$ 5,077
Buying	15,912	—	(892)	(892)	119,164	—	(6,680)	(6,680)
Total	¥ —	¥ —	¥ —	¥ (213)	$ —	$ —	$ —	$ (1,595)

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

March 31, 2022
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	¥ 267,750	¥ —	¥ (16,208)	¥ (16,208)
Other currencies	14,791	—	(694)	(694)
Buying:				
U.S. dollars	6,318	—	(23)	(23)
Other currencies	4,082	—	162	162
Cross-currency swap agreements:				
Japanese yen received for U.S. dollars	50,543	47,184	(4,325)	(4,325)
Total	¥ —	¥ —	¥ —	¥ (21,088)

Commodity related

	Millions of yen			
	Contract or notional amount	Due after one year	Fair value	Net recognized gain or loss
Forwards:				
Petroleum:				
Selling	¥ 2,347	¥ —	¥ (121)	¥ (121)
Buying	636	—	85	85
Non-ferrous metals:				
Selling	36,690	—	(4,470)	(4,470)
Buying	17,390	—	1,583	1,583
Commodity swap agreements:				
Petroleum:				
Fixed receipt / Fluctuated payment	956	—	(133)	(133)
Fluctuated receipt / Fixed payment	2,624	—	150	150
Total	¥ —	¥ —	¥ —	¥ (2,906)

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	¥ 458,071	¥ 7,839	¥ (183,574)	¥ (183,574)
Buying	83,127	—	(933)	(933)
Total	¥ —	¥ —	¥ —	¥ (184,507)

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, 2023 and 2022 for the derivatives to which hedge accounting was applied:

March 31, 2023
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	¥ 6,487	¥ 6,487	¥ (258)	$ 48,580	$ 48,580	$ (1,932)

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	¥ 5,150	¥ —	¥ (0)	$ 38,568	$ —	$ (0)

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	¥ 19,041	¥ —	¥ 829	$ 142,597	$ —	$ 6,208
Buying	9,482	—	(387)	71,010	—	(2,898)

March 31, 2022

Currency related

	Contract or notional amount	Due after one year	Fair value
			Millions of yen
Cross-currency swap agreement for foreign subsidiaries' equity:			
Japanese yen received for U.S. dollars	¥ 5,401	¥ —	¥ (724)

Interest rate related

	Contract or notional amount	Due after one year	Fair value
			Millions of yen
Interest rate swap for long-term loans:			
Floating rate received for fixed rate	¥ 10,000	¥ 5,000	¥ (43)

Commodity related

	Contract or notional amount	Due after one year	Fair value
			Millions of yen
Forwards for inventories and commitments:			
Non-ferrous metals			
Selling	¥ 27,700	¥ —	¥ (3,196)
Buying	17,895	—	1,520

6. Inventories

Inventories at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Merchandise and finished products	¥ 215,662	¥ 204,064	$1,615,082
Work-in-process	2,612	2,229	19,561
Raw materials and supplies	35,689	37,308	267,273
Total	¥ 253,964	¥ 243,603	$1,901,924

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 ¥2,685 million (loss of $20,107 thousand) and a net loss of ¥588 million for the years ended March 31, 2023 and 2022, respectively.

7. Pledged assets

At March 31, 2023 and 2022, assets pledged as collateral for loans payable in the amount of ¥262 million ($1,962 thousand) and zero, respectively, for guaranty deposits, and for loans of third parties were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
For loans payable:			
Land	¥ 2,026	¥ —	$ 15,172
Buildings and structures, net of accumulated depreciation	124	576	928
Intangible assets	—	259	—
Total	¥ 2,150	¥ 836	$ 16,101
For guaranty deposits:			
Cash and cash equivalents	¥ 13	¥ 13	$ 97
Investment securities	7,317	5,652	54,796
Total	¥ 7,330	¥ 5,665	$ 54,894
For loans of third parties:			
Investment securities	¥ 10,992	¥ 7,796	$ 82,318
Total	¥ 10,992	¥ 7,796	$ 82,318

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, 2023 and 2022.

An aggregate statutory income tax rate for the year ended March 31, 2023 and 2022 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, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Temporary differences resulting from the merger with consolidated subsidiaries	¥ 2,731	¥ 2,731	$ 20,452
Tax losses carried forward	1,434	1,817	10,739
Retirement benefit liability	1,331	1,362	9,967
Loss on valuation of investment securities, currently not deductible	1,324	1,786	9,915
Accrued bonuses to employees	1,312	1,221	9,825
Loss on sale-repurchase agreements of land	1,293	1,293	9,683
Land revaluation difference, net of taxes unrealized loss	—	80	—
Other	8,112	7,841	60,750
Total deferred tax assets	17,541	18,135	131,363
Valuation allowance	(10,031)	(10,940)	(75,121)
Net deferred tax assets	7,510	7,195	56,242
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	10,503	7,262	78,656
Retained earnings of overseas subsidiaries and affiliates	2,090	1,957	15,651
Land revaluation difference, net of taxes unrealized gain	871	1,524	6,522
Other	3,672	2,403	27,499
Total deferred tax liabilities	17,137	13,148	128,338
Net deferred tax liabilities	¥ (9,626)	¥ (5,953)	$ (72,088)

From the fiscal year ended March 31, 2023, the Company and some of its domestic consolidated subsidiaries have adopted the group tax sharing system. In addition, corporation tax and local corporation tax, as well as their tax effects, are accounted for and disclosed under Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (PITF No.42, August 12, 2021).

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, 2023 and 2022 were 3.2% and 1.0%, respectively, regardless of borrowing currencies though the range of the interest rates varies by borrowing currencies. There were outstanding balances of ¥61,194 million ($458,279 thousand) and ¥414,880 million at March 31, 2023 and 2022, respectively.

The Company has entered into a yen-denominated domestic commercial paper program. There were outstanding balances of ¥30,000 million ($224,668 thousand) and ¥40,000 million at March 31, 2023 and 2022, respectively.

Bonds at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Issued in 2017, 0.27% unsecured straight bonds, due 2022	¥ —	¥ 10,000	$ —
Issued in 2018, 0.24% unsecured straight bonds, due 2023	10,000	10,000	74,889
Issued in 2018, 0.59% unsecured straight bonds, due 2028	10,000	10,000	74,889
Issued in 2022, 0.41% unsecured straight bonds, due 2025	15,000	—	112,334
Issued in 2022, 0.60% unsecured straight bonds, due 2027	5,000	—	37,444
Total	¥ 40,000	¥ 30,000	$ 299,558

Long-term loans payable at March 31, 2023 and 2022, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Loans from banks with weighted average interest rates of 0.8% and 0.8% at March 31, 2023 and 2022, respectively, maturing serially through 2054	¥ 246,776	¥ 234,995	$1,848,094
Less amounts due within one year	(21,932)	(44,104)	(164,247)
Total	¥ 224,843	¥ 190,890	$1,683,838

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, 2023 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2024	¥ 21,932	$ 164,247
2025	26,761	200,411
2026	25,100	187,972
2027	28,096	210,409
2028	34,596	259,087
Thereafter	110,287	825,934
Total	¥ 246,776	$ 1,848,094

10. Employees' severance and retirement benefits

(A) Overview of retirement benefit system adopted

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

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

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

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

(B) Defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at the beginning of the year	¥ 29,978	¥ 29,572	$ 224,503
Service cost	1,397	1,415	10,462
Interest cost	121	117	906
Actuarial loss (gain)	(182)	(52)	(1,362)
Benefits paid	(1,130)	(1,074)	(8,462)
Past service costs	(43)	(6)	(322)
Other	18	6	134
Balance at the end of the year	¥ 30,159	¥ 29,978	$ 225,859

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at the beginning of the year	¥ 26,696	¥ 25,265	$ 199,925
Expected return on plan assets	672	635	5,032
Actuarial gain (loss)	(166)	329	(1,243)
Contributions paid by the employer	1,105	1,531	8,275
Benefits paid	(1,127)	(1,072)	(8,440)
Other	(50)	6	(374)
Balance at the end of the year	¥ 27,130	¥ 26,696	$ 203,175

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at the beginning of the year	¥ 1,172	¥ 1,019	$ 8,777
Retirement benefit costs	210	158	1,572
Benefits paid	(98)	(47)	(733)
Contributions paid by the employer	(40)	(31)	(299)
Other	12	72	89
Balance at the end of the year	¥ 1,255	¥ 1,172	$ 9,398

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

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Funded retirement benefit obligations	¥ 30,823	¥ 30,609	$ 230,832
Plan assets	(27,670)	(27,193)	(207,219)
	3,153	3,415	23,612
Unfunded retirement benefit obligations	1,131	1,038	8,470
Total net liability (asset) for retirement benefits at the end of the year	4,285	4,454	32,090
Retirement benefit liability	4,285	4,454	32,090
Total net liability (asset) for retirement benefits at the end of the year	¥ 4,285	¥ 4,454	$ 32,090

(5) Retirement benefit costs

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Service cost	¥ 1,397	¥ 1,415	$ 10,462
Interest cost	121	117	906
Expected return on plan assets	(672)	(635)	(5,032)
Net actuarial loss amortization	884	1,112	6,620
Past service costs amortization	(43)	(6)	(322)
Retirement benefit costs based on the simplified method	210	158	1,572
Other	(7)	(0)	(52)
Total retirement benefit costs	¥ 1,890	¥ 2,161	$ 14,154

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

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Actuarial gains and losses	¥ 901	¥ 1,494	$ 6,747
Total	¥ 901	¥ 1,494	$ 6,747

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

	Millions of yen 2023	Millions of yen 2022	Thousands of U.S. dollars 2023
Actuarial gains and losses that are yet to be recognized	¥ 3,982	¥ 4,883	$ 29,821
Total balance at the end of the year	¥ 3,982	¥ 4,883	$ 29,821

(8) Breakdown of plan assets

	2023	2022
Bonds (*1)	16.4%	17.1%
Equity securities (*1)	31.0	33.6
Cash and cash equivalents	4.0	1.1
General account assets	19.9	20.1
Other (*2)	28.7	28.1
Total	100.0%	100.0%

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

Long-term expected rate of return

Current and target asset allocations, and 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

	2023	2022
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 ¥368 million ($2,755 thousand) and ¥337 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, 2023 and 2022, respectively.

11. Contingent liabilities

At March 31, 2023 and 2022, the Companies were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Export letters of credit and trade notes (including export bills) discounted	¥ **15,724**	¥ 47,059	$ **117,756**
Electronically recorded monetary claims discounted	**169**	135	**1,265**
Trade notes endorsed	**114**	215	**853**
Guarantees of indebtedness	**2,550**	4,743	**19,096**

12. Net assets

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

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

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

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

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

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

At the annual shareholders' meeting held on June 23, 2023, the shareholders approved cash dividends of ¥80.00 per share ($0.59) amounting to ¥3,250 million ($24,339 thousand). This appropriation had not been accrued in the consolidated financial statements as of March 31, 2023. Such appropriations are recognized in the period in which they are approved by the shareholders.

Land revaluation difference

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

Unrealized gain (loss) on land revaluation is recorded as land revaluation difference in a separate component of accumulated other comprehensive income in the consolidated balance sheets until realized. The amounts are shown net of applicable income tax.

The revaluation of land was determined based on a declared land value with certain necessary adjustments in accordance with Article 2, Paragraph 1 of the Enforcement Ordinance Concerning Land Revaluation.

As of March 31, 2023, 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, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Land	¥ 14,277	¥ —	$ 106,919
Buildings and structures	123	—	921
Other	16	—	119
Total	¥ 14,417	¥ —	$ 107,968

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

Year ended March 31, 2023
Not applicable.

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.

15. Value added taxes for prior periods

Year ended March 31, 2023
HANWA THAILAND CO., LTD. ("HKT") a consolidated subsidiary located in the Kingdom of Thailand, was audited by Thai Revenue Department ("TRD") with respect to value added tax for the tax year ended December 31, 2017 through December 31, 2020.

As a result, HKT received tax assessment letters issued by TRD dated March 9, 2022 for 2 million baht (¥11 million/$82 thousand), May 11, 2022 for 0 million baht (¥2 million/$14 thousand), May 23, 2022 for 12 million baht (¥45 million/$337 thousand), September 27, 2022 for 83 million baht (¥314 million/$2,351 thousand), February 3, 2023 for 802 million baht (¥3,008 million/$22,526 thousand) and March 20, 2023 for 264 million baht (¥992 million/$7,429 thousand), totaling 1,166 million baht (¥4,375 million/$32,764 thousand), and recognized the same amount as expenses.

HKT regards all these corrective actions as unjust and unacceptable, and therefore filed an appeal with the Complaints Court of the Department of Revenue of Thailand by April 18, 2023. If the Thai authorities do not respond favorably to HKT's declarations, HKT intends to continue to assert the correctness of HKT's opinion in the Central Tax Court.

Payment of the tax amounts in each of the above cases has been substituted for the payment of provisional payments by the submission of payment guarantees from the banks with which HKT does business.

*The yen amounts are converted at the rate of ￥3.75=THB1.00, which is the average exchange rate during FY2022.

Year ended March 31, 2022
Not applicable.

16. Other comprehensive income

Years ended March 31, 2023 and 2022

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
	2023	2022	2023
Valuation difference on available-for-sale securities, net of taxes:			
Increase (decrease) during the year	¥ 10,517	¥ 2,501	$ 78,761
Reclassification adjustments	(28)	(378)	(209)
Sub-total, before tax	10,488	2,122	78,544
Tax expense (benefit)	3,241	590	24,271
Sub-total, net of tax	7,246	1,532	54,264
Deferred gains or losses on hedges, net of taxes:			
Increase (decrease) during the year	943	(4,210)	7,062
Reclassification adjustments	1,478	2,218	11,068
Sub-total, before tax	2,422	(1,991)	18,138
Tax expense (benefit)	747	(618)	5,594
Sub-total, net of tax	1,674	(1,373)	12,536
Foreign currency translation adjustments:			
Increase (decrease) during the year	8,100	4,109	60,660
Reclassification adjustments	—	—	—
Sub-total, before tax	8,100	4,109	60,660
Tax expense (benefit)	23	—	172
Sub-total, net of tax	8,077	4,109	60,488
Remeasurements of defined benefit plans, net of taxes:			
Increase (decrease) during the year	(38)	391	(284)
Reclassification adjustments	939	1,103	7,032
Sub-total, before tax	901	1,494	6,747
Tax expense (benefit)	275	457	2,059
Sub-total, net of tax	625	1,037	4,680
Share of other comprehensive income of entities accounted for using the equity method:			
Increase (decrease) during the year	1,022	614	7,653
Reclassification adjustments	(52)	(37)	(389)
Sub-total	970	577	7,264
Total other comprehensive income	¥ 18,594	¥ 5,883	$ 139,249

17. Cash flow information

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

Year ended March 31, 2023

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

	Millions of yen	Thousands of U.S. dollars
	2023	2023
Current assets	¥ 11,689	$ 87,538
Noncurrent assets	3,079	23,058
Current liabilities	(2,239)	(16,767)
Noncurrent liabilities	(723)	(5,414)
Non-controlling interests	(1,152)	(8,627)
Gain on bargain purchase	(722)	(5,407)
Acquisition cost of shares	¥ 9,931	$ 74,372
Cash and cash equivalents of acquired companies	(2,230)	(16,700)
Long-term accounts payable-other	(300)	(2,246)
Net cash payments for acquisition of shares of a subsidiary	¥ 7,400	$ 55,418

Year ended March 31, 2022

Not applicable.

18. Leases

Operating leases
As Lessee

Obligations under non-cancelable operating leases as of March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Due within one year	¥ 508	¥ 568	$ 3,804
Due after one year	7,819	6,480	58,556
Total	¥ 8,328	¥ 7,049	$ 62,368

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 years ended March 31, 2023 and 2022. The table also includes a reconciliation of the disaggregated revenue with the Companies' reportable segments (see Note 20).

Year ended March 31, 2023

Millions of yen

	Reportable segment								
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total
Japan	¥ 960,394	¥ 172,494	¥ 111,785	¥ 94,025	¥ 263,528	¥ 2,060	¥ 1,604,288	¥ 139,639	¥ 1,743,928
Asia	157,259	77,640	30,588	8,033	77,036	348,224	698,783	1,724	700,507
Other	115,031	17,254	2,032	25,334	8,651	54,692	222,995	796	223,792
Total	¥ 1,232,686	¥ 267,389	¥ 144,406	¥ 127,392	¥ 349,216	¥ 404,976	¥ 2,526,068	¥ 142,160	¥ 2,668,228

Thousands of U.S. dollars

	Reportable segment								
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total
Japan	$ 7,192,346	$ 1,291,799	$ 837,152	$ 704,148	$ 1,973,549	$ 15,427	$ 12,014,438	$ 1,045,750	$ 13,060,196
Asia	1,177,705	581,442	229,072	60,158	576,919	2,607,833	5,233,153	12,910	5,246,064
Other	861,461	129,214	15,217	189,725	64,786	409,585	1,669,999	5,961	1,675,967
Total	$ 9,231,528	$ 2,002,463	$ 1,081,449	$ 954,032	$ 2,615,262	$ 3,032,846	$ 18,917,606	$ 1,064,629	$ 19,982,236

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.

Year ended March 31, 2022

Millions of yen

	Reportable segment								
	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

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 for the years ended March 31, 2023 and 2022:

Year ended March 31, 2023

	Millions of yen		Thousands of U.S. dollars	
	March 31, 2023	April 1, 2022	March 31, 2023	April 1, 2022
Receivables arising from contracts with customers	¥ 501,863	¥ 575,445	$ 3,758,428	$ 4,309,481
Trade notes	14,510	20,148	108,664	150,887
Electronically recorded monetary claims	55,570	33,012	416,161	247,225
Accounts receivable	431,783	522,284	3,233,602	3,911,360
Contract assets	¥ 2,687	¥ 10	$ 20,122	$ 74
Contract liabilities	¥ 16,702	¥ 15,009	$ 125,080	$ 112,401

Year ended March 31, 2022

	Millions of yen	
	March 31, 2022	April 1, 2021
Receivables arising from contracts with customers	¥ 575,445	¥ 391,664
Trade notes	20,148	19,612
Electronically recorded monetary claims	33,012	27,895
Accounts receivable	522,284	344,156
Contract assets	¥ 10	¥ 175
Contract liabilities	¥ 15,009	¥ 10,022

The contract assets primarily relate to the 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 transferred.

The amount of ¥12,530 million ($93,837 thousand) included in contract liabilities at 31 March 2022, and the amount of ¥8,129 million included in contract liabilities at 31 March 2021 have been recognized as revenue for the years ended March 31, 2023 and 2022, respectively.

The amounts of revenue recognized for the years ended March 31, 2023 and 2022 from performance obligations satisfied (or partially satisfied) in previous periods are 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, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2023	March 31, 2022	March 31, 2023
Within one year	¥ 40,313	¥ 27,366	$ 301,902
Over one year, within three years	43,833	69,517	328,263
Over three years, within five years	32,964	36,339	246,865
Over five years, within ten years	70,251	70,548	526,106
Over ten years	63,720	69,090	477,196
Total	¥ 251,082	¥ 272,862	$ 1,880,341

The amounts mainly relate to commodity sales contracts in the steel business and the energy and living materials business and construction contracts in the 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 the 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, 2023 and 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)

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 the equity method. Intersegment transactions are presented based on the current market prices at the time of this report.

Net sales, profit, assets and others by reportable segment for the year ended March 31, 2023 were as follows:

Year ended March 31, 2023

Millions of yen

	Reportable segment										
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	¥ 1,232,686	¥ 267,389	¥ 144,406	¥ 127,392	¥ 349,216	¥ 404,976	¥ 2,526,068	¥ 142,160	¥ 2,668,228	¥ —	¥ 2,668,228
Intersegment	29,444	6,647	2,784	1,186	11,759	44,233	96,056	3,880	99,937	(99,937)	—
Total	¥ 1,262,130	¥ 274,037	¥ 147,191	¥ 128,578	¥ 360,976	¥ 449,210	¥ 2,622,125	¥ 146,040	¥ 2,768,165	¥ (99,937)	¥ 2,668,228
Segment income (loss)	¥ 28,477	¥ 13,934	¥ 6,135	¥ (960)	¥ 11,574	¥ 7,278	¥ 66,439	¥ 3,083	¥ 69,522	¥ (5,249)	¥ 64,272
Assets	¥ 589,143	¥ 156,421	¥ 45,586	¥ 66,113	¥ 57,355	¥ 87,403	¥ 1,002,025	¥ 43,615	¥ 1,045,640	¥ 112,107	¥ 1,157,747
Depreciation	5,523	25	285	108	234	577	6,754	499	7,253	114	7,368
Amortization of goodwill	193	—	—	—	—	—	193	—	193	—	193
Interest income	914	1,448	0	3	43	1,389	3,798	0	3,799	(122)	3,676
Interest expenses	5,711	10,052	831	699	547	1,351	19,193	317	19,510	(9,540)	9,969
Share of profit(loss) of entities accounted for using the equity method	(419)	3,246	96	—	128	1,142	4,194	—	4,194	—	4,194
Investment for entities accounted for equity method	8,007	4,229	484	—	942	3,514	17,177	—	17,177	—	17,177
Increase in property and equipment	15,327	233	476	401	363	809	17,612	4,136	21,748	430	22,179

Year ended March 31, 2023

Thousands of U.S. dollars

	Reportable segment										
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
Net sales	$ 9,231,528	$ 2,002,463	$ 1,081,449	$ 954,032	$ 2,615,262	$ 3,032,846	$ 18,917,606	$ 1,064,629	$ 19,982,236	$ —	$ 19,982,236
Intersegment	220,504	49,779	20,849	8,881	88,062	331,258	719,358	29,057	748,423	(748,423)	—
Total	$ 9,452,033	$ 2,052,250	$ 1,102,306	$ 962,914	$ 2,703,332	$ 3,364,112	$ 19,636,972	$ 1,093,686	$ 20,730,659	$ (748,423)	$ 19,982,236
Segment income(loss)	$ 213,262	$ 104,351	$ 45,944	$ (7,189)	$ 86,677	$ 54,504	$ 497,558	$ 23,088	$ 520,647	$ (39,309)	$ 481,330
Assets	$ 4,412,064	$ 1,171,429	$ 341,391	$ 495,117	$ 429,528	$ 654,557	$ 7,504,118	$ 326,630	$ 7,830,749	$ 839,564	$ 8,670,313
Depreciation	41,361	187	2,134	808	1,752	4,321	50,580	3,736	54,317	853	55,178
Amortization of goodwill	1,445	—	—	—	—	—	1,445	—	1,445	—	1,445
Interest income	6,844	10,844	0	22	322	10,402	28,443	0	28,450	(913)	27,529
Interest expenses	42,769	75,278	6,223	5,234	4,096	10,117	143,735	2,373	146,109	(71,444)	74,657
Share of profit(loss) of entities accounted for using the equity method	(3,137)	24,309	718	—	958	8,552	31,408	—	31,408	—	31,408
Investment for entities accounted for equity method	59,964	31,670	3,624	—	7,054	26,316	128,637	—	128,637	—	128,637
Increase in property and equipment	114,783	1,744	3,564	3,003	2,718	6,058	131,895	30,974	162,869	3,220	166,097

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 ¥5,249 million ($39,309 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 ¥112,107 million ($839,564 thousand) include Group assets that were not allocated to reportable segments. These Group assets consist mainly of cash and cash equivalents, investment securities and assets of administrative departments.
   (3) Adjustments for depreciation and amortization amounting to ¥114 million ($853 thousand) include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expenses amounting to negative ¥122 million ($913 thousand) and negative ¥9,540 million ($71,444 thousand) respectively, 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 ¥430 million ($3,220 thousand) are increases in Group assets.

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										
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Total	Adjustment	Consolidated
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 the 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

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 ¥3,628 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 ¥108,575 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 ¥108 million include mainly depreciation and amortization expenses of Group assets.
   (4) Adjustments for interest income and interest expenses amounting to ¥28 million and negative ¥3,661 million respectively, 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 are increases in Group assets.

(B) Related information

Product information

Net sales information by products for the years ended March 31, 2023 and 2022 were as follows:

Year ended March 31, 2023

Millions of yen

	Steel	Metals and alloys	Non-ferrous metals	Food	Petroleum and chemicals	Other	Total
Net sales to external customers	¥ 1,503,671	¥ 277,833	¥ 241,610	¥ 129,493	¥ 364,252	¥ 151,366	¥ 2,668,228

Year ended March 31, 2023

Thousands of U.S. dollars

	Steel	Metals and alloys	Non-ferrous metals	Food	Petroleum and chemicals	Other	Total
Net sales to external customers	$ 11,260,922	$ 2,080,678	$ 1,809,406	$ 969,767	$ 2,727,866	$ 1,133,572	$ 19,982,236

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

Geographic information

(1) Net sales in different countries for the years ended March 31, 2023 and 2022 were as follows:

Year ended March 31, 2023

Millions of yen

	Japan	Asia	Other	Total
Net sales to external customers	¥ 1,743,928	¥ 700,507	¥ 223,792	¥ 2,668,228

Year ended March 31, 2023

Thousands of U.S. dollars

	Japan	Asia	Other	Total
Net sales to external customers	$ 13,060,196	$ 5,246,064	$ 1,675,967	$ 19,982,236

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

(2) Property and equipment in different countries for the years ended March 31, 2023 and 2022 were as follows:

Year ended March 31, 2023

Millions of yen

	Japan	Asia	Other	Total
Property and equipment	¥ 73,137	¥ 11,206	¥ 2,773	¥ 87,117

Year ended March 31, 2023

Thousands of U.S. dollars

	Japan	Asia	Other	Total
Property and equipment	$ 547,719	$ 83,921	$ 20,766	$ 652,415

Year ended March 31, 2022

Millions of yen

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

Loss on impairment of property and equipment in reportable segment

Loss on impairment of property and equipment in reportable segment for the years ended March 31, 2023 and 2022 was as follows:

Year ended March 31, 2023

Not applicable.

Year ended March 31, 2022

Not applicable.

Outstanding balance of goodwill and amortization of goodwill in reportable segment

Outstanding balance of goodwill for the years ended March 31, 2023 and 2022 was as follows:

Year ended March 31, 2023

Millions of yen

	Reportable segment									
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at the end of the year	¥ 111	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 111	¥ —	¥ —	¥ 111

Year ended March 31, 2023

Thousands of U.S.dollars

	Reportable segment									
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Balance at the end of the year	$ 831	$ —	$ —	$ —	$ —	$ —	$ 831	$ —	$ —	$ 831

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

Year ended March 31, 2022

Millions of yen

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

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

Gain on negative goodwill in reportable segment

Gain on negative goodwill in reportable segment for the years ended March 31, 2023 and 2022 was as follows:

Year ended March 31, 2023

Millions of yen

	Reportable segment									
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Gain on negative goodwill	¥ 722	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 722	¥ —	¥ —	¥ 722

Year ended March 31, 2023

Thousands of U.S.dollars

	Reportable segment									
	Steel	Primary metal	Metal recycling	Food	Energy and living materials	Overseas sales subsidiaries	Total	Other business	Adjustment	Total
Gain on negative goodwill	$ 5,407	$ —	$ —	$ —	$ —	$ —	$ 5,407	$ —	$ —	$ 5,407

Year ended March 31, 2022

Not applicable.

21. Related party information

(A) Related party transactions

Year ended March 31, 2023

Not applicable.

Year ended March 31, 2022

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, 2023 and 2022, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total current assets	¥ 97,074	¥ 80,739	$ 726,982
Total noncurrent assets	81,598	74,703	611,083
Total current liabilities	79,736	71,398	597,139
Total noncurrent liabilities	45,888	44,065	343,653
Total net assets	53,047	39,979	397,266
Net sales	288,272	242,464	2,158,855
Income before income taxes	15,053	23,853	112,731
Net income	10,380	16,197	77,735

22. Significant events after the reporting period

Introduction of Restricted Stock Remuneration Plan

At a meeting of the Board of Directors held on May 12, 2023, the Company reviewed the remuneration plan for directors and determined to submit the following proposal regarding the introduction of a restricted stock remuneration plan (hereinafter: the “Plan”) to the 76th Ordinary General Shareholders Meeting to be held on June 23, 2023 (hereinafter: the “General Shareholders Meeting”), and was approved and passed by the General Shareholders Meeting.

1. Purpose and requirements for the introduction of the Plan
   (1) Purpose of the Plan
   The Plan is intended to provide the Executive Directors of the Company, including future appointed directors (hereinafter: the “Eligible Directors”), with incentives to sustainably increase the Company's corporate value as well as to further promote shared interests with its shareholders.
   (2) Requirements for the introduction of the Plan
   As the Plan consists of monetary remuneration claims for granting restricted stock to the Eligible Directors as remuneration, its introduction should be subject to the approval of shareholders at the General Shareholders Meeting for the provision of such remuneration, and was approved.
   It was resolved at the 59th Ordinary General Shareholders Meeting held on June 29, 2006 that the aggregate remuneration payable to Directors shall be no more than 860 million yen per year.
   At the General Shareholders Meeting, shareholders approved a remuneration limitation for Eligible Directors under the Plan that is outside the scope of the aforementioned Directors’ monetary remuneration limitation.
2. Overview of the Plan
   Under the Plan, Eligible Directors will pay in as property contributed in kind all of the monetary remuneration claims provided by the Company and will receive the issuance or disposal of common stock of the Company.
   Total remuneration payable to Eligible Directors shall be no more than 150 million yen per year beyond the scope of the current monetary remuneration limitation. Total number of shares of common stock of the Company to be issued or disposed of under the Plan shall not exceed 50,000 shares per year (for clarification, in the event the number of shares must be adjusted for unavoidable reasons such as a stock split or reverse stock split of the Company's common stock, the total number of shares to be issued or disposed of may be adjusted within a reasonable range).
   In order to promote shared interests with shareholders over the medium to long-term, which is one of the purposes of the introduction of the Plan, the transfer restriction period shall consist of the time from the date when restricted stock is granted to the date when the Eligible Director retires or resigns as the Company’s Director and from all other post(s) specified by the Board of Directors. The details of grant timing and allocations to each Eligible Director shall be decided by the Board of Directors following deliberation by the Executive Remuneration Committee, the majority of which is composed of independent outside directors and outside auditors.
   The amount paid per one share of the Company to be issued or disposed of under the Plan will be decided by the Board of Directors based on the closing price of the Company’s common stock on the Tokyo Stock Exchange on the business day preceding the date of the resolution of the Board of Directors (if there is no transaction concluded on the said date, the closing price of the most recent trading day preceding the said date) to the extent that it will not be excessively advantageous for the Eligible Directors.
   When the Company issues or disposes of common stock under the Plan, the Company and Eligible Directors shall conclude a restricted share allocation agreement (hereinafter: the “Allocation Agreement”) which shall include the following terms:
   (i) An Eligible Director shall not transfer, create a security interest on, or otherwise dispose of the Company’s common stock allocated under the Allocation Agreement for the period prescribed in advance; and
   (ii) If certain specified events occur, the Company shall acquire the allocated shares without consideration.
3. Adoption of the Plan for the Executive Officer
   Since the agenda concerning the Plan was approved at the General Shareholders Meeting, the Company plans to introduce a restricted stock plan for Executive Officers similar to that of the Plan.

Independent Auditor's Report

Hanwa Co.,Ltd. and Subsidiaries

For the Years Ended March 31,
2023 and 2022

KPMG AZSA LLC
August 2023

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, 2023 and 2022, 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, 2023 and 2022, 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.

<table>
<tr><th colspan="2">Appropriateness of an accounting period in which net sales were recognized from direct shipping transactions in the steel business of Hanwa Co., Ltd.</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>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.

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.

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:

● 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.

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 the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</td><td>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:

(1) Internal control testing

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.

(2) Assessment of whether sales were recognized in the appropriate accounting period

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:

agreed the dates indicated on the evidence showing the shipment from the supplier with the dates of sales recognition.</td></tr>
</table>

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon. We did not perform any work on the other information as we concluded such information does not exist.

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, 2023 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.

Narumoto Koji
Designated Engagement Partner
Certified Public Accountant

Takeshita Shimpei
Designated Engagement Partner
Certified Public Accountant

Tatsuta Yoshinori
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
August 1, 2023