Summary of CFO Explanation from Results Briefing for the Year Ended March 31, 2020 (May 1, 2020)

Consolidated Statements of Profit or Loss

Revenue was down ¥101.4 billion year on year, to ¥1,754.8 billion. Factors behind this decline included a decrease of ¥58.7 billion in revenue in the Chemicals Division, a result of lower plastic resin transaction volumes in Asia and the falling price of methanol, as well as a decrease of ¥32.7 billion in revenue in the Metals & Mineral Resources Division, a result of declines in the price coal and in transactions volumes.

Gross profit decreased ¥20.5 billion year on year, to ¥220.5 billion, primarily as a result of the drops in profit in the Chemicals Division and the Metals & Mineral Resources Division.

Selling, general and administrative (SG&A) expenses were relatively unchanged year on year, at ¥173.2 billion. Despite a rise in SG&A expenses of ¥2.6 billion associated with newly consolidated subsidiaries, overall expenses were in line with the previous fiscal year following an extensive review of costs.

Net other income of ¥7.5 billon was recorded as the gains on sales of Australian thermal coal assets and office buildings helped absorb the impacts of impairment losses stemming from falling oil and gas prices as well as impairment losses on ships resulted from declines in charter fees.

Net financial costs were up ¥1.3 billion year on year, to ¥4.2 billion. Although net interest expenses were in line with the previous fiscal year at ¥8.3 billion, net financial costs were up following a decrease in dividends received of nearly ¥1.0 billion attributable to lower dividends from overseas investments.

Share of profit of investments accounted for using the equity method decreased ¥2.9 billion year on year, to ¥24.9 billion, as a result of lower earnings from steel-related companies and oil and gas-related companies.

Profit before tax was down ¥19.4 billion year on year, to ¥75.5 billion.

Profit attributable to owners of the Company decreased ¥9.6 billion year on year, to ¥60.8 billion. This figured represented progress of 92% toward the revised full-year forecast of ¥66.0 billion announced together with financial results for the nine-month period ended December 31, 2019.

Consolidated Statements of Financial Position

Total assets on March 31, 2020, stood at ¥2,230.3 billion, down ¥66.8 billion from March 31, 2019. This decline was primarily a result of a ¥52.6 billion decrease in trade and other receivables following lower tobacco and chemical product transactions as well as a combined ¥42.6 billion decrease in investments accounted for using the equity method and other investments that was a result of revaluations stemming from sales gains and stock price and foreign exchange rate movements.

Total liabilities on March 31, 2020, amounted to ¥1,608.4 billion, down ¥27.2 billion from March 31, 2019.

Total equity attributable to owners of the Company was ¥579.1 billion on March 31, 2020, down ¥39.1 billion from March 31, 2019. Although retained earnings were up ¥28.5 billion, other components of equity were down ¥57.8 billion, largely due to stock price declines and negative foreign currency translations reflecting the falling values of the currencies of resource-producing and emerging countries. In addition, treasury stock acquisitions decreased equity by ¥10.0 billion.

The net debt equity ratio was 1.06 times on March 31, 2020, down 0.1 time from the previous fiscal year-end.

Consolidated Statements of Cash Flows

Net cash provided by operating activities was ¥40.5 billion as a result of the consistent accumulation of core operating cash flow. Net cash used in investing activities was ¥35.7 billion following asset replacements and the effects of the approximately ¥80.0 billion in investments and loans conducted in the previous fiscal year. Free cash flow was a positive ¥4.8 billion and core cash flow was a positive ¥1.3 billion.

Performance by Division

Explanations are only provided for those divisions in which significant year-on-year changes in performance were seen in the year ended March 31, 2020.

In the Automotive Division, profit attributable to owners of the Company decreased ¥4.0 billion year on year, to ¥2.4 billion. Factors behind this decline include the sluggish overall demand in Thailand due to the recession in this country, the rebound in performance seen after the dissipation of reconstruction demand in Puerto Rico, and the absence of the gain on transference of automobile assembly operations in the Philippines that took place during the previous fiscal year. Another factor was the store closures seen in March 2020 as a result of the COVID-19 pandemic.

In the Aerospace & Transportation Project Division, profit attributable to owners of the Company decreased ¥2.2 billion year on year, to ¥1.8 billion. This outcome can be attributed to impairment losses recorded on ships as the use value of Company-owned ships decreased in conjunction with the large drop in charter fees. In addition, profit was impacted by the rebound from the gains on sales of aircraft recorded in the previous fiscal year.

In the Energy & Social Infrastructure Division, profit attributable to owners of the Company increased ¥3.8 billion year on year, to ¥9.6 billion, as the gain on the transfer of equity in domestic solar power generation operations outweighed the impairment losses and share of loss of investments accounted for using the equity method recorded in relation to upstream oil and gas interests following the deterioration of conditions in the energy market.

In the Metals & Mineral Resources Division, profit attributable to owners of the Company decreased ¥10.4 billion, to ¥20.1 billion. Gains on the transfer of thermal coal interests were recorded, but these gains could not compensate for the impacts of the deterioration of conditions in the coal and aluminum markets, sales volume reductions, and decreases in share of profit of investments accounted for using the equity method from Metal One Corporation and Nickel production company.

Full-Year Forecasts for the Year Ending March 31, 2021

Explanations are only provided for those divisions in which significant year-on-year changes in performance were seen in the year ended March 31, 2020.

In the Automotive Division, profit attributable to owners of the Company in the year ending March 31, 2021, is projected to decrease ¥1.0 billion year on year, to ¥1.4 billion. The impacts of the COVID-19 pandemic are expected to spread to all areas of this division's business and linger on through the second quarter of the fiscal year. A full-fledged recovery will not be seen until the third quarter or later.

In the Aerospace & Transportation Project Division, profit attributable to owners of the Company in the year ending March 31, 2021, is forecast to increase ¥4.2 billion year on year, to ¥6.0 billion. This division is facing a difficult operating environment as traveler numbers decline. Nevertheless, we expect to be able to achieve the forecast figure thanks to the benefits of cost reductions, aircraft deliveries scheduled for the previous fiscal year that were delayed until the year ending March 31, 2021, and the absence of the impairment losses on ships recorded in the previous fiscal year.

In the Energy & Social Infrastructure Division, profit attributable to owners of the Company of ¥3.5 billion is projected in the year ending March 31, 2021, a decrease of ¥6.1 billion year on year. This decrease will be a result of the absence of gains on asset replacement and the COVID-19 tax relief system implemented in the United States in the previous fiscal year.

In the Metals & Mineral Resources Division, profit attributable to owners of the Company of ¥13.0 billion, a year-on-year decrease in ¥7.1 billion, in projected in the year ending March 31, 2021. This decrease will be a result of the impacts of the rebound from previously recorded gains on sale of thermal coal interests and drops in coal and other resource prices. These impacts will outweigh the benefits of recovery stemming from higher coking coal sales prices and lower production costs attributable to the depreciation of the Australian dollar.

In the Chemical Division, the Company projects a year-on-year decrease of ¥4.3 billion in profit attributable to owners of the Company, to ¥5.0 billion, to result from falling methanol prices and the impacts of halts in operations at automobile and consumer electronics factories.

In other segments, profit attributable to owners of the Company is forecast to decline to ¥1.0 billion, to ¥5.1 billion, in the year ending March 31, 2021. Expenses for structural reforms will be accounted for under corporate expenses.

Positive figures of around ¥60.0 billion have been sustained for both core cash flow and free cash flow over the past two years based on Sojitz’s policy of maintaining positive cash flows over the three-year period of Medium-Term Management Plan 2020. In the year ending March 31, 2021, cash flows are expected to fall into the negative on a single-year basis, due in part to the funding needs of projects in which investment has been decided, but three-year aggregate amounts will remain in the positive. From the perspective of liquidity, the Company has secured a total of around ¥250.0 billion in commitment facilities when combining both yen-denominated and foreign currency-denominated provisions. In addition, procedures are underway to convert short-term overdraft limits into long-term borrowings. On March 31, 2020, consolidated cash and cash equivalents stood at ¥280.0 billion, an amount that guarantees the necessary levels of liquidity.