Summary of CFO Explanation from Results Briefing for the Three-Month Period Ended June 30, 2022 (August 2, 2022)

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Performance in the Three-Month Period Ended June 30, 2022

Consolidated Statements of Profit or Loss

Revenue was up ¥42.8 billion YoY, to ¥166.9 billion in the Metals, Mineral Resources & Recycling division due to high coal prices, and up ¥26.3 billion YoY, to ¥96.7 billion, in the Consumer Industry & Agriculture Business division due to soaring construction material (including lamber/housing material) prices. In the chemicals segment, despite the impact of the lockdown in Shanghai that resulted in lower sales of plastic resin-related transactions in the China region, the segment's mainstay methanol business remained robust, and higher sales from the C5 (petrochemical) business in North America also helped the segment as a whole post a ¥22.9 billion YoY increase in sales to ¥156.6 billion. Overall, revenue increased by ¥125.7 billion YoY to ¥618.5 billion.

Gross profit rose ¥40.5 billion YoY, to ¥96.9 billion, due to the Metals, Mineral Resources & Recycling division's contribution to earnings growth was particularly large at ¥28.6 billion in the three divisions that posted higher earnings.

Selling, general and administrative expenses increased by ¥9.7 billion YoY to ¥51.5 billion due to an increase in transaction volume, an increase in SG&A expenses at newly consolidated companies, an increase in bonuses in line with improved business performance, an increase in yen equivalent amount of expenses at overseas subsidiaries and affiliates due to the weaker yen, and an increase in costs due to inflation.

Other income/expenses were income of ¥3.3 billion on a net basis, mainly due to a gain on transfer and revaluation gain from the partial sale of the telecommunication tower operating company in Philippine.

Financial income and costs, interest income and expenses were a net expense of ¥1.0 billion, while dividend income increased by ¥0.4 billion YoY to ¥1.6 billion. As a result, overall financial income and costs were an income of ¥1.2 billion on net basis, up ¥1.2 billion YoY.

Share of profit of investments accounted for using the equity method increased ¥3.1 billion YoY to ¥10.6 billion due to higher earnings at a steel operating company, LNG business-related company, and a European wind power business company.

Profit before taxes increased ¥37.3 billion YoY to ¥60.5 billion, and after deducting income tax expenses, profit for the period was ¥46.0 billion. Profit attributable to owners of the Company was ¥45.2 billion, an increase of ¥28.3 billion YoY. The percentage achieved the full-year forecast, which is 53% against the full-year forecast of ¥85.0 billion, a high rate of progress.

Consolidated Statements of Financial Position

Total assets as of the end of June 2022 were ¥2.8419 trillion, an increase of ¥180.2 billion from the end of March 2022. There are three main reasons for the increase in total assets. The first is an increase in the yen equivalent value of assets denominated in foreign currencies due to the depreciation of the yen; the second is due to higher prices for coal, chemicals, plastic resins, or fertilizer; and the third is due to new investments.

Total liabilities increased ¥103.1 billion from the end of March to ¥2.0009 trillion.

Total equity attributable to owners of the Company was ¥801.4 billion, an increase of ¥73.4 billion from the end of March 2022. Retained earnings increased by ¥31.4 billion due to the increase in net income/loss as explained earlier, and among other components of equity foreign currency translation adjustments of foreign operating activities increased largely by ¥41.9 billion due to the yen's depreciation, boosting overall increase in consolidated net assets.

Net debt/equity ratio was 1.00 times, down 0.06 point from the end of March 2022.

Consolidated Statements of Cash Flows

Cash flow from operating activities was ¥38.1 billion in excess of collections, due to the fact that the core operating cash flow shown below that was ¥61.0 billion, a significant excess of collections.

Cash flow from investing activities was a net cash outflow of ¥21.4 billion due to the investment of ¥22.0 billion in Q1, including non-financial investments.

Free cash flow was a cash inflow of ¥16.7 billion.

Core cash flow was a cash inflow of ¥29.7 billion in Q1.

Performance by Division (Profit for the Period)

The following is an explanation of the divisions' status, focusing on the areas of each net profit that are significantly higher or lower than the standard progress rate of 25%.

Infrastructure & Healthcare Division, 69% or ¥6.2 billion of the full-year forecast of ¥9.0 billion. In addition to the consolidation effect of new investments in the US, this high rate of progress was due to the profit increase from the conclusion of a maintenance contract at an information business-related company, as well as the gain on transfer and revaluation gain from the partial sale of the telecommunication tower operating company in Philippine.

Metals, Mineral resources & Recycling Division progress rate against the full-year forecast of ¥51.0 billion was 48% or ¥24.7 billion. Market prices for both coking coal and thermal coal increased more than 200% over the previous year's Q1, the Australian dollar strengthened against the Japanese yen, and the performance in the North and Central American business in the steel products business was robust. From these factors, profit for the period increased significantly by ¥24.7 billion, almost four times that of the same period last year.

Chemicals Division posted a progress rate of 45% or ¥5.6 billion of the full-year forecast of ¥12.5 billion. Despite the decreasing impact of the Shanghai lockdown on the profit of plastic resin transactions, higher market prices and transaction volumes in the methanol and petrochemical businesses, as well as in the rare earths and other chemicals in general, resulted in a significant increase in profits compared to the same period last year.

Consumer Industry & Agriculture business Division posted ¥3.2 billion, already exceeding the full-year forecast of ¥3.0 billion. This high progress rate is due to the continued increase in housing material prices and transaction volume from the previous year, as well as the progress in transferring increases in raw material prices to selling prices in the overseas fertilizer business.

Retail & Consumer Service Division posted a progress rate of only 10% or ¥0.5 billion of the full-year forecast of ¥5.0 billion. Despite an increase in gross profit due to the consolidation of newly acquired Marine Foods Corporation (aquaculture food product manufacturing and processing company), this segment remained almost flat YoY, with low progress rate toward full-year plan due to merger-related expenses and other factors.