

Summary of CFO Explanation from Results Briefing for the Year Ended March 31, 2022 (May 2, 2022)

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Performance in the Year Ended March 31, 2022

Consolidated Statements of Profit or Loss

Revenue increased by ¥498.3 billion YoY to ¥2.1008 trillion. In the Metals, Mineral Resources & Recycling Division, revenue increased due to higher prices of coal and other resources. In the Chemicals Division, sales increased due to an increase in the volume of plastic resin transactions in Asia and higher prices and transaction volume in the division's mainstay methanol business. The Automotive Division also posted an increase as a reactionary increase from the impact of the lockdown of the overseas automotive business in the first half of the previous fiscal year offset the impact of the semiconductor shortage and the significant decline in sales due to the Russian invasion of Ukraine in the fourth quarter.

Gross profit rose by ¥83.2 billion YoY, to ¥271.3 billion overall, thanks to increased profits in the 3 business divisions that saw increased revenues.

Regarding selling, general and administrative expenses, the depreciation of the yen has led to an increase in the yen-converted amount of SG&A expenses of overseas operating companies, and an increase in bonuses. In addition, personnel costs increased associated with higher transaction volume. And due to the increase in SG&A expenses of newly consolidated companies, expenses increased by ¥19.2 billion from the previous year, amounting to ¥180.3 billion.

In other income and expenses, including non-recurring gains and losses, we recorded gains from the sale of an overseas industrial machinery-related subsidiary and resource interests, as well as from the sale of real estate held by an overseas group company. We also recorded impairment losses on resource interests to preemptively address potential future stranded asset risks in order to ensure the implementation of our decarbonization policy. In addition, non-recurring losses, such as provisions for Myanmar and Ukraine related businesses, resulted in a net expense of ¥13.8 billion in total other income and expenses.

The interest income/expense improved by ¥2.6 billion YoY due to improved conditions at the time of refinancing of long-term loans, resulting in a net expense of ¥3.8 billion. Dividend received increased by ¥2.1 billion YoY to ¥5.1 billion, mainly due to increased dividends from general investees, and overall financial income and costs increased by ¥5.4 billion YoY to a net income of ¥2.1 billion.

Share of profit/loss of investments accounted for using the equity method increased by ¥23.2 billion YoY to ¥38.0 billion, mainly due to a significant increase in earnings at steel products operating companies.

Profit before taxes increased by ¥79.9 billion YoY to ¥117.3 billion. Net income after deducting income tax expenses was ¥85.5 billion.

Profit attributable to owners of the Company was ¥82.3 billion, an increase of ¥55.3 billion YoY. The achievement rate against the full-year forecast of ¥80.0 billion, which was revised upward at the time of the announcement of the results for the third quarter, was 103%.

Consolidated Statements of Financial Position

Total assets as of March 31, 2022 were ¥2.6617 trillion, an increase of ¥361.6 billion from March 31, 2021. The main factors of increase included increase in operating assets due to new investments, higher prices of commodities such as coal, and increased revenues from chemicals, general commodities, and plastic resin. The depreciation of the yen has led to an increase in the yen equivalent of foreign currency-denominated assets, which is also the main reason for the increase in total assets.

Total liabilities increased by ¥252.2 billion from March 31, 2021 to ¥1.8978 trillion, including the increase in assets.

Total equity attributable to owners of the Company was ¥728.0 billion, an increase of ¥109.0 billion compared to March 31, 2021. From the business results for the fiscal year ended March 31, 2022, ¥64.9 billion, which is obtained by deducting dividend payments, increased as retained earnings. The other components of shareholders' equity, also increased by ¥59.0 billion in total, due to an increase in unrealized gains on marketable securities resulting from higher stock prices and an increase in foreign currency translation adjustments resulting from the yen's depreciation.

The net debt/equity ratio increased 0.07 points from March 31, 2021 to 1.06 times but is still within the range of 1.0 times which is the KPI target of Medium-Term Management Plan 2023.

Consolidated Statements of Cash Flows

Regarding cash flow from operating activities, there was an increase in operating assets, but operating cash flow was ¥128.7 billion, a large excess of cash collected, so the overall cash flow from operating activities was inflows of ¥65.1 billion.

Cash flows from investing activities was the outflows of ¥138.8 billion, mainly due to the execution of new investments.

Free cash flow was outflows of ¥73.7 billion.

Core cash flow was positive ¥10.5 billion.

Performance by Division

The Infrastructure & Healthcare Division, which was the only division to record a YoY impairment loss on its investment in Myanmar, a country with political instability, saw a ¥1.6 billion YoY decline in profit.

Except for the Retail & Consumer Service Division, where earnings were flat YoY due to the absence of gains on the sale of shopping mall recorded in the previous fiscal year, all of the other five divisions posted significant YoY increases, exceeding the upwardly revised forecasts made at the time of the announcement of the financial results for the third quarter ended December 31, 2021.

ROA was 3.3% and ROE was 12.2%. Regarding ROE, the results exceeded the target of 10% or above on average over the three-year period of the plan. ROA has cleared the final year targets of 3% in the Medium-Term Management Plan 2023. We intend to further improve them.

Forecast for the Year Ending March 31, 2022

Financial Results

Gross profit is expected to increase by ¥28.7 billion from the previous year to ¥300.0 billion.

SG&A expenses totaled ¥210.0 billion, due to an increase in SG&A expenses for selling expenses resulting from businesses acquired in the previous period.

Other income and expenses improved by ¥13.8 billion because the structural reform expenses recorded in the previous fiscal year were not factored in this fiscal year.

Financial income and costs are expected to deteriorate by ¥7.1 billion YoY to negative ¥5.0 billion, taking into account the rise in US dollar interest rates and other factors.

As a result of the above, we plan to increase profit attributable to owners of the Company for the year by ¥2.7 billion YoY to ¥85.0 billion for the current fiscal year. The key points of the plan for FY2022 include the increase in costs and interest rates due to inflation caused by the invasion of Ukraine by Russia, and the resulting rise in energy and grain prices. By fully incorporating these factors into the plan and recovering from them by making new investments profitable and recovering from the one-time losses in FY2021, we plan to achieve the highest profit level.

Regarding the commodity market conditions and exchange rates, the assumption for coking coal is US\$280.0 per ton on average annually and thermal coal is US\$160.0 per ton on average annually.