

Summary of CFO Explanation from Results Briefing for the Six-Month Period Ended September 30, 2022 (November 2, 2022)

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Performance in the Six-Month Period Ended September 30, 2022

Consolidated Statements of Profit or Loss

Revenue was up ¥91.1 billion YoY, to ¥349.9 billion in the Metals, Mineral Resources & Recycling division due to high coal prices. In the Chemicals division, the mainstay methanol business, as well as plastic resin, rare earth, and C5 (petrochemical) businesses were generally strong, resulting in a revenue increase of ¥62.9 billion to ¥323.5 billion. In addition, due to higher prices for housing materials and plywood, as well as higher prices in the overseas fertilizer business, the Consumer Industry & Agriculture Business division posted a ¥50.7 billion YoY increase in sales to ¥192.6 billion, resulting in an overall increase of ¥272.6 billion YoY to ¥1.2733 trillion.

Gross profit rose ¥64.5 billion YoY, to ¥182.2 billion, due to the Metals, Mineral Resources & Recycling division's contribution to earnings growth was particularly large at ¥39.3 billion that posted higher earnings.

Selling, general and administrative expenses increased by ¥21.8 billion YoY to ¥105.6 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 ¥3.8 billion on a net basis, mainly due to a gain on the sale of a portion of the telecommunications tower operating business in the Philippines and a gain on the revaluation of the remaining portion of the business.

Financial income and costs, interest income and expenses were a net expense of ¥2 billion, while dividend received increased by ¥0.4 billion YoY to ¥2.3 billion. As a result, overall financial income/cost was an income of ¥1.2 billion on net basis, up ¥1.4 billion YoY.

Share of profit of investments accounted for using the equity method increased ¥8 billion YoY to ¥24.9 billion due to higher earnings at a steel trading company, an LNG-related trading subsidiary, and a European wind power business company.

Profit before taxes increased ¥54.0 billion YoY to ¥106.5 billion, and after deducting income tax expenses, profit for the period was ¥81.6 billion. Profit for the period attributable to owners of the Company was doubled YoY to ¥78.9 billion. The percentage achieved the full-year forecast, which is 72% against upwardly the full-year revised forecast of ¥110.0 billion.

Consolidated Statements of Financial Position

Total assets as of the end of September 2022 were ¥2.9334 trillion, an increase of ¥271.7 billion from the end of March 2022. Of this increase of over ¥271.7 billion, there is an increase of approximately ¥150 billion in foreign currency-denominated assets due to the yen depreciation. The net increase of ¥120 billion is due to investments and an increase in operating assets resulting from higher prices for coal, plastic resins, and other products.

Total liabilities increased ¥130.3 billion from the end of March to ¥2.0281 trillion. As in the case of assets, the increase was ¥105.9 billion due to the impact of the yen depreciation. The net increase in gross interest-bearing debt is an increase of ¥40.6 billion, compared to the end of March 2022. This increase was also due to an increase in the yen equivalent amount of foreign currency denominated borrowings resulting from the weaker yen. Interest-bearing debt of foreign currency decreased due to repayment.

Total equity attributable to owners of the Company was ¥862.3 billion, an increase of ¥134.3 billion from the end of March 2022. Retained earnings increased by ¥67.7 billion due to an increase of the profit for the period. And among other components of equity increased by ¥66.6 billion due to foreign currency translation adjustments of foreign operating companies increased largely by ¥60.0 billion due to the yen depreciation, boosting overall increase in consolidated net assets.

Net debt/equity ratio was 0.95 times, down 0.11 point from the end of March 2022.

Consolidated Statements of Cash Flows

Cash flow from operating activities was ¥82.2 billion in excess of collections, due to an increase of the core operating cash flow.

Cash flow from investing activities was a net cash outflow of ¥44.2 billion mainly due to the execution of new investments.

Free cash flow was a cash inflow of ¥38.0 billion.

Performance by Division (Profit for the Period)

Automotive Division posted ¥4.5 billion versus the full-year forecast of ¥6.0 billion, a progress rate of 75%. H1 progress rate was 75%, but for H2, we take into account the decrease in automobile sales due to the impact of interest rate hikes in Europe and the United States, and we have left the full-year forecast unchanged at ¥6.0 billion.

Aerospace & Transportation Project Division's H1 results were solid, with a 44% progress rate toward the initial plan, despite the division's earnings structure, which is usually biased toward H2. For H2, we have revised our forecast upward by ¥0.5 billion from ¥4.5 billion to ¥5 billion, taking into account a recovery in air-traffic demand and other factors.

Infrastructure & Healthcare Division has already reached the full-year forecast in H1 of the fiscal year, and we have revised upward the ¥3 billion portion of the one-time gains and losses recorded in H1 of the fiscal year from ¥9 billion to ¥12 billion for the full-year forecast.

Metals, Mineral resources & Recycling Division has revised its full-year forecast upward by ¥14 billion to ¥65 billion, taking into account the recent rise in coal prices, in addition to the progress made in H1 of the year.

Chemicals Division: Prices of many products and materials handled by this division have been rising and are expected to soften slightly in H2. However, in H1, we have already achieved 90% of the initial plan, so we have revised upward ¥4.5 billion from ¥12.5 billion to ¥17 billion.

Consumer Industry & Agriculture business Division did not initially expect to raise product prices in the overseas fertilizer business, but in fact was able to do so, and has already exceeded its initial plan by 200% in H1 of the fiscal year. In H2, fertilizer will be in low demand, and in the building materials business, prices of materials and plywood have already softened, so we forecast that H2 of the fiscal year will be steady and expect ¥6 billion for the full year.

Retail & Consumer Service Division's H1 results were 28% short of the initial plan of ¥5 billion, but we have revised the forecast upward by ¥2 billion from ¥5 billion to ¥7 billion in anticipation of a one-time gain from the asset replacement planned for H2.