Summary of Results Briefing for the Three-Month Period Ended June 30, 2018 (August 1, 2018)

Operating Environment

In the three-month period ended June 30, 2018, part of the first year of Medium-Term Management Plan 2020—Commitment to Growth, the economy got off to a good start with ongoing economic growth in developed countries stimulated by high consumer spending, strong economic conditions in emerging countries, and consistently high prices for coal and other resources.

Consolidated Statements of Profit or Loss

Up until the year ended March 31, 2018, the Company had used net sales as calculated under JGAAP as a reference figure for top-line of this statement. However, the Company will use revenue, the item corresponding to net sales in International Financial Reporting Standards (IFRS), from the year ending March 31, 2019.

Revenue was up ¥35.5 billion year on year, to ¥467.9 billion.

Gross profit increased ¥8.3 billion year on year, to ¥59.9 billion.

A major contributor to the growth in revenue and gross profit was the Metals & Mineral Resources Division, which posted increases of ¥29.4 billion in revenue and ¥4.3 billion in gross profit largely as a result of consistently high prices of coal and metal resources. In addition, the Automotive Division saw revenue rise by ¥18.0 billion while gross profit was up ¥3.1 billion due to contributions from the U.S. automotive parts quality inspection business acquired in the year ended March 31, 2018, as well as from new domestic automotive dealership businesses.

Selling, general and administrative (SG&A) expenses increased ¥4.2 billion year on year, to ¥42.7 billion.
Personnel expenses and non-personnel expenses rose by a combined total of ¥3.6 billion, which was primarily a result of higher expenses in the Automotive Division associated with the acquisition of new consolidated subsidiaries.

Net other income rose ¥3.9 billion year on year, to ¥4.9 billion. Factors behind this outcome included gains from the reorganization of affiliates, with notable gains being recorded on the sales of an automobile assembly and sales company in the Philippines and of a renewable energy company operating in the solar power field in Europe.

Net financial costs decreased ¥0.5 billion year on year, to ¥0.4 billion.

Share of profit of investments accounted for using the equity method decreased ¥0.3 billion year on year, to ¥5.6 billion. Although performance of steel product operations was strong in the Metals & Mineral Resources Division, the exclusion of an automobile assembly and sales business in the Philippines from the scope of consolidation resulted in the overall decline.

Profit before tax was up ¥8.2 billion year on year, at ¥27.3 billion.

Profit for the period (attributable to owners of the Company) increased ¥5.2 billion, or 35%, year on year, to ¥19.8 billion. This figured represented progress of 31% toward the full-year forecast of ¥63.0 billion.

Consolidated Statements of Financial Position
Total assets on June 30, 2018, stood at ¥2,366.8 billion, up ¥16.4 billion from March 31, 2018. The Company changed items resulted from the application of a new IFRS standard. Under this new standard, inventories associated with agent transactions in which the Company is not exposed to risks, which were previously recognized as inventories, are now treated as advances paid under trade and other receivables. The amount transferred from inventories to trade and other receivables as a result of this change on June 30, 2018, was ¥234.0 billion.

Total liabilities at June 30, 2018, amounted to ¥1,736.9 billion, up ¥11.6 billion from March 31, 2018. Although trade and other payables decreased ¥85.5 billion, overall liabilities increased due to the concentration of payments related to the procurement of tobacco in response to the tobacco tax hike scheduled to take place in Japan on October 1, 2018. The Company is procuring funds through bonds and borrowings to compensate for the decline in payables.

Total equity attributable to owners of the Company was ¥589.6 billion on June 30, 2018, up ¥3.2 billion from March 31, 2018. After deducting dividend payments from profit for the period (attributable to owners of the Company), retained earnings were up ¥11.6 billion year on year, which was a cause behind this increase. In addition, other components of equity were down ¥8.4 billion following negative foreign currency translation differences for foreign operations resulted from depreciation in the value of the Brazilian real and the Australian dollar.

The net debt equity ratio was 1.24 times on June 30, 2018, an increase of 0.21 times from the previous fiscal year-end primarily attributable to a rise in borrowings.

Consolidated Statements of Cash Flows
In addition to conventional cash flows, the Company will also disclose figures for core operating cash flow and core cash flow from the three-months ended June 30, 2018.
Net cash used in operating activities amounted to ¥98.3 billion primarily due to an increase in working capital associated with tobacco transactions.
Net cash used in investing activities totaled ¥8.4 billion as a result of the ¥25.0 billion worth of investments and loans conducted during the three-months ended June 30, 2018.
As a result, free cash flow was a negative ¥106.7 billion.
Core operating cash flow excluding changes in working capital was a positive ¥20.8 billion. Core cash flow, which represents core operating cash flow adjusted to reflect post-adjustment net cash used in investing activities and dividends paid, was a positive ¥5.5 billion.

Forecasts for the Year Ending March 31, 2019
There have been no changes to the initial forecasts for the year ending March 31, 2019.

Performance by Divisions
Explanations are only provided for those divisions that have deviated substantially from the standard rate of progress toward the full-year forecast for profit for the period (attributable to owners of the Company) of 25% or that experienced significant year-on-year changes in performance.

In the Automotive Division, profit for the period (attributable to owners of the Company) increased ¥0.3 billion year on year, to ¥3.1 billion, representing progress of 56% toward the full-year forecast of ¥5.5 billion. This outcome was largely a result of a gain on the sale of equity in an automobile assembly and sales business in the Philippines during the three-month period ended June 30, 2018. This factor was incorporated into initial forecasts, and progress was thus in line with forecasts.

In the Energy & Social Infrastructure Division, profit for the period (attributable to owners of the Company) was relatively unchanged year on year at ¥0.2 billion, representing slow progress of 4% in comparison to the full-year forecast. The Company anticipates earnings contributions from domestic and overseas power generation businesses and from energy-related affiliates during the second half of the fiscal year, and there is thus no concern for downturns in performance in this business.

In the Metals & Mineral Resources Division, profit for the period (attributable to owners of the Company) rose ¥4.0 billion year on year, to ¥8.2 billion, making for strong progress of 40% toward the full-year forecast of ¥20.5 billion. This result was largely a product of a rise in the price of thermal coal and higher transaction volumes.

In the Foods & Agriculture Business Division, profit for the period (attributable to owners of the Company) of ¥1.2 billion was recorded, which indicated progress of 27% toward the full-year forecast of ¥4.5 billion. However, this figure was ¥0.9 billion lower than in the three-month period ended June 30, 2017. The rise in material costs that occurred in prior to the three-month ended period June 30, 2018, and that persisted through the period under review was the primary reason behind this year-on-year decrease. This outcome was accounted for in initial forecasts.

Forecasts for the Consolidated Statements of Financial Position
There has been no change to initial full-year forecasts. On June 30, 2018, net interest-bearing debt totaled ¥728.3 billion and the net debt equity ratio was 1.24 times, diverging from the full-year forecasts. This deviation was a result of borrowings conducted to compensate for a temporary rise in working capital associated with tobacco transactions. Debt amounts are expected to return to the forecast level on March 31, 2019.