Summary of CFO Explanation from Results Briefing for the Year Ended March 31, 2021 (April 30, 2021)

Performance in the Year Ended March 31, 2021

Consolidated Statements of Profit or Loss

Revenue was down ¥152.3 billion year on year, to ¥1,602.5 billion. Factors behind this decrease included reduced revenue in the Automotive Division, a result of declines in automobile sales seen around the world due to lockdowns instituted in response to the global COVID-19 pandemic, and in the Chemicals Division, a result of the lingering impacts the market deterioration experienced in the mainstay methanol business during the first half of the fiscal year, which detracted from performance despite the relatively swift recovery of the Chinese economy, as well as the impacts of halted operations stemming from the plant equipment failures that occurred in the second half of the fiscal year.

Gross profit decreased ¥32.4 billion year on year, to ¥188.1 billion, representing progress of 94% toward the full-year forecast. This outcome can be attributed to lower revenue in the Automotive Division and the Chemicals Division and deteriorating coal market conditions and reduced transaction volumes in the Metals & Mineral Resources Division. Other factors included the absence of extraordinary gains recorded in the previous fiscal year. Specifically, profit dropped in the Metals & Mineral Resources Division due to the absence of previously recorded gains on sales of thermal coal interests while the Energy & Social Infrastructure Division saw profit decline from the previous fiscal year, when gains on partial sales of domestic solar power generation businesses were recorded.

Selling, general and administrative expenses were down ¥12.1 billion year on year, to ¥161.1 billion, as full-year cost reductions greatly exceeded the initial forecast of ¥8.0 billion.

Net other expenses of ¥1.1 billion were recorded. Other expenses, such as impairment losses associated with ahead-of-schedule closures of thermal coal mines, losses on transferences of industrial machinery businesses, and other structural reform expenses, exceeded other income from gains on sales of assets held by affiliate companies and on partial transferences of overseas gas-fired thermal power and renewable energy generation businesses.

Net financial costs were down ¥0.9 billion year on year, to ¥3.3 billion. Net interest expenses showed a large reduction of ¥1.9 billion following a significant decline in U.S. dollar-denominated interest expenses while dividends received decreased.

Share of profit of investments accounted for using the equity method was down ¥10.1 billion year on year, to ¥14.8 billion, due to a significant drop in earnings from steel business companies.

Profit before tax decreased ¥38.1 billion year on year, to ¥37.4 billion, and profit for the year amounted to ¥29.4 billion after taking into account income tax expenses.

Profit for the year attributable to owners of the Company decreased ¥33.8 billion year on year, to ¥27.0 billion. This figured represented progress of 90% toward the full-year forecast of ¥30.0 billion.

Consolidated Statements of Financial Position

Total assets on March 31, 2021, stood at ¥2,300.1 billion, up ¥69.8 billion from March 31, 2020. Major factors behind this increase included rises in property, plant and equipment; investments accounted for using the equity method; and other investment-related non-current assets.

Total liabilities at March 31, 2021, amounted to ¥1,645.6 billion, up ¥37.2 billion from March 31, 2020.

Total equity attributable to owners of the Company was ¥619.0 billion on March 31, 2021, up ¥39.9 billion from March 31, 2020. Factors behind this rise included increases of ¥16.9 billion in retained earnings, arrived at by deducting dividend payments and other outlays from profit for the year, and ¥28.0 billion in other components of equity, a result of positive foreign currency translations in overseas operations and valuation gains on marketable securities attributable to stock price increases. These increases counteracted a ¥5.0 billion decrease in treasury stock.

The net debt equity ratio was 0.99 time on March 31, 2021, down 0.07 time from the previous fiscal year-end, following a rise in consolidated total equity.

Consolidated Statements of Cash Flows

Net cash provided by operating activities was ¥85.0 billion due to an increase in core operating cash flow.

Net cash used in investing activities was ¥35.7 billion as a total of ¥95.0 billion worth of new investments and loans was conducted.

Free cash flow was a positive ¥49.3 billion.

Core cash flow was a negative ¥8.0 billion, but a large positive aggregate core cash flow of ¥56.4 billion was recorded over the three-year period of Medium-Term Management Plan 2020.

Year-End Dividend Payments

The Board of Directors has resolved to propose a year-end dividend of ¥5 per share, which will make for an annual dividend of ¥10 per share when combined with the interim dividend of ¥5 per share, for approval at the 18th Ordinary General Shareholders' Meeting, which is scheduled to be held in June 2021.

Performance by Division

Explanations are only provided for those divisions for which performance fell significantly below the forecasts for full-year performance announced together with financial results for the nine-month period ended December 31, 2020.

In the Aerospace & Transportation Project Division, profit for the year attributable to owners of the Company was ¥1.8 billion, ¥3.2 billion lower than the revised forecast of ¥5.0 billion. This outcome was largely due to the lack of large-scale projects that has been explained at past financial results briefings.

Profit for the year attributable to owners of the Company was between ¥1.0 billion and ¥3.0 billion lower than forecast in the Machinery & Medical Infrastructure Division, the Energy & Social Infrastructure Division, and the Metals & Mineral Resources Division.

This outcome was a result of expenses associated with the institution of structural reforms, previously implemented in other segments, targeting assets in the aforementioned three segments and therefore does not represent a decline in profitability.

These structural reform expenses were associated with industrial machinery businesses in the Machinery & Medical Infrastructure Division, oil interests in the Energy & Social Infrastructure Division, and the ahead-of-schedule closure of Australian thermal coal mines in the Metals & Mineral Resources Division.

Forecast for the Year Ending March 31, 2022
Financial Results
Revenue is projected to amount to ¥220.0 billion, a year-on-year increase of ¥31.9 billion.

Selling, general and administrative expenses are forecast to total ¥178.0 billion, a year-on-year increase of ¥16.9 billion.

Share of profit of investments accounted for using the equity method is expected to come to ¥26.0 billion, a year-on-year increase of ¥11.2 billion, due to improved performance at steel business companies and the rebound from impairment losses recorded in oil-related businesses in the year ended March 31, 2020.

Profit before tax is forecast to come to ¥70.0 billion, a year-on-year increase of ¥32.6 billion.

Profit for the year attributable to owners of the Company is projected to amount to ¥53.0 billion, roughly double the figure of ¥27.0 billion posted in the year ended March 31, 2021.

Performance by Division
Explanations are only provided for those divisions projected to experience significant year-on-year increases in earnings.

The Automotive Division and Chemicals Division are forecast to achieve substantial earnings growth as significant recovery has been seen in the performance of these divisions since the third quarter of the year ended March 31, 2021, and because the impacts of the COVID-19 pandemic on major markets for these divisions are expected to be alleviated by trends such as widespread vaccination.

In the Metals, Mineral Resources & Recycling Division, earnings are projected to be significantly higher than in the previous fiscal year. Steel business companies are expected to see improved performance, and coal production and sales trends are currently favorable, despite being dependent on the degree of market recovery. Another factor behind the higher earnings will be the absence of the losses recorded in the year ended March 31, 2021, as a result of ahead-of-schedule mine closures.

The Aerospace & Transportation Project Division is projected to post profit for the year attributable to owners of the Company of ¥4.5 billion, despite the lack of large-scale projects continuing from the year ended March 31, 2021. Factors behind this outlook include already-concluded contracts to sell Boeing aircraft to overseas airlines, which are expected to produce earnings during the year ending March 31, 2022, as well as the profit buoying benefits of a North American freight car leasing subsidiary consolidated in the year ended March 31, 2021.

Cash Flows

The forecast for core cash flow is presented as a range as opposed to a figure, and this item is expected to drop significantly into the negative.
However, there will be no change to the Company's previously explained policy of maintaining positive core cash flow and free cash flow over a defined period.

Investments and loans in the final year of Medium-Term Management Plan 2020 fell significantly below the plan's target as a result of the COVID-19 pandemic. Accordingly, the Company will target a positive aggregate core cash flow over the period encompassing both Medium-Term Management Plan 2020 and Medium-Term Management Plan 2023 for the purpose of reclaiming the growth opportunities lost under Medium-Term Management Plan 2020.

Financial Position

Total assets are projected to amount to ¥2,450.0 billion on March 31, 2022, ¥150.0 billion higher than on March 31, 2021.

Net interest-bearing debt is forecast to total ¥780.0 billion on March 31, 2022, an increase of nearly ¥170.0 billion from March 31, 2021.

The net debt equity ratio is expected to climb to 1.2 times on March 31, 2022, as a result of the aggressive investments to take place in the year ending March 31, 2022, as well as the effects of acquisitions of shares of the Company's stock.