Metal One Corporation and Subsidiaries Consolidated Financial Results for FY2014

May 29, 2015
Metal One Corporation

Income Statements

(In ¥100 million)	Performance in FY2014 Consolidated	Performance in FY2014 Non-consolidated	Performance in FY2013 Consolidated	Consolidated Variance	Performance in FY2013 Non-consolidated	Non-consolidated Variance
Sales	**24,216**	11,847	**25,633**	-1,417	12,156	-309
Gross profit	**1,177**	280	**1,284**	-107	303	-23
(Gross profit ratio)	(4.9%)	(2.4%)	(5.0%)		(2.5%)	
Operating expenses	-910	-254	-927	17	-252	-2
Provision for doubtful receivables	-5	-20	-5	0	2	-22
Amortization of goodwill	-1	-	-0	-1	-	-
Operating income	**262**	6	**351**	-89	54	-48
Interest income	7	7	6	1	6	1
Interest expense	-38	-7	-39	1	-7	0
Interest expense–net	-32	-1	-33	1	-1	0
Dividend income	15	155	16	-1	103	52
Other non-operating income and expenses	9	-11	-16	25	-27	16
Equity in earnings of affiliated companies	6	-	19	-13	-	-
Ordinary income	**259**	149	**337**	-78	128	21
Extraordinary gain and loss	84	-19	58	26	51	-70
Income before income taxes	**343**	131	**395**	-52	179	-48
Income taxes	-94	-9	-136	42	-45	36
Minority interests	-22	-	-21	-1	-	-
Net income	**227**	122	**237**	-10	134	-12
Basic earnings capabilities	**255**		**358**	-103		

Basic earnings capabilities = Operating income (less provision for doubtful receivables) + Interest expense–net
+ Dividend income + Equity in earnings of affiliated companies

Consolidated Balance Sheets

(In ¥100 million)	March 31, 2015	Variance from March 31, 2014		March 31, 2015	Variance from March 31, 2014
Current assets	8,166	-449	**Current liabilities**	5,913	-562
Cash and deposits	283	-16	Accounts payable	2,846	-820
Accounts receivable	4,701	-1,181	Short-term debt	2,749	296
Inventories	2,459	327	Other current liabilities	318	-37
Other current assets	723	421	**Non-current liabilities**	1,191	87
			Long-term debt	971	79
			Other	220	8
Non-current assets	2,797	274	**Total liabilities**	7,104	-475
Tangible and intangible non-current assets	1,276	-38	Common stock and additional paid-in capital	1,500	0
Investments and other assets	1,521	312	Retained earnings, etc.	1,602	106
			Assets and liabilities valuation and translation adjustments	321	175
			Total net assets excluding minority interests	3,423	281
			Minority interests	437	19
			Total net assets	3,860	300
Total assets	10,963	-175	**Total liabilities and net assets**	10,963	-175

Number of Group Companies

Subsidiaries	Affiliates	Total (consolidated)
102 (−11)	46 (−2)	148 (−13)

Note: Figures in parentheses ( ) show changes from the previous year.
Excluding the indirectly owned subsidiaries, there are 74 consolidated subsidiaries.

Consolidated Financial Indicators

	March 31, 2015	March 31, 2014
Shareholders' equity ratio	31.2%	28.2%
Net D/E ratio	1.1	1.1

Shareholders' equity ratio =
Total net assets excluding minority interests ÷ Total assets
Net D/E ratio =
(Short-term and long-term debt + Securitized receivables − Cash and deposit) ÷ Total net assets (excluding minority interests)

Outline of Consolidated Results for FY2014

Business environment

Growth in the global economy remained moderate overall this fiscal year amid slower economic development in China, in addition to the geopolitical risks in Ukraine and the Middle East, outbreaks of Ebola hemorrhagic fever, and plunging oil prices.

In Japan, there were concerns about the effect of the consumption tax increase implemented in April 2014. However, the Nikkei stock average rebounded to its highest close in fifteen years, ¥19,206, at the end of March 2015 in connection with the government's economic policies and the yen's ongoing weakness. The Japanese economy continued to be comparatively steady.

Business performance

In the business environment that our group confronted, although continuing firm steel demand exceeded the previous year, particularly in the U.S., expanded production continued to outpace demand in China, leading to even more of a shift to exports. As a result, the worldwide steel oversupply has come into particularly sharp focus, especially in Asia. Furthermore, there was a striking second-half slump in demand in the energy sector caused by falling oil and gas prices.

In the domestic market, although home construction and automotive sector demand lagged the year before due to the impact of the consumption tax rise, public works demand surged. Additionally, some domestic firms were taking steps to revert to domestic manufacturing in the shipbuilding and electric machinery sectors, and steel demand remained firm.

In this business environment, the Metal One Group—as FY2014 was the final year of its fourth Mid-term Consolidated Management Plan—grappled with five key challenges: re-establishing a solid revenue base, fully utilizing human resources and assets, strengthening group management, enhancing human resource and development, and prioritizing group-wide compliance and safety.

Meeting these challenges is necessary to build business foundations with an eye to the next mid-term management plan. As a result, the Metal One Group's consolidated performance for the fiscal year fell below the previous year's results, with ¥2.4216 trillion in sales (down 5.5 percent compared to the fiscal year before), ordinary income of ¥25.9 billion (down 23.1 percent), and ¥22.7 billion in consolidated net income (down 4.2 percent).

Situation with main items

1. Sales and gross profit

Domestic structural steel and metal scrap operations were merged into Metal One Mitsui Bussan Resources & Structural Steel Corporation on November 1, 2014 (hereafter "the merger"), which resulted in applying the equity method. This was the primary factor in the overall ¥141.7 billion decline to ¥2.4216 trillion in sales.

2. Operating expenses

Our operating expenses dropped by ¥1.7 billion to ¥91 billion in response to the preceding merger.

3. Extraordinary gain and loss

The company's extraordinary gains exceeded extraordinary losses by ¥8.4 billion due to profits from the sales of securities and fixed assets.

4. Business results by transaction type

Viewed by type of transaction, sales in Japan's domestic market accounted for ¥1.4355 trillion (59 percent) of the whole, overseas ventures for ¥569.1 billion (24 percent), and exports for ¥411.2 billion (17 percent).

5. Total assets and shareholders' equity

Accounts receivable and accounts payable declined due to the impact of the merger, while other current assets (loans) and investments and other assets increased, with total assets amounting to ¥1.0963 trillion.

Furthermore, net assets excluding minority interests rose ¥28.1 billion to ¥342.3 billion, thanks to an increase in valuation and translation adjustments arising from rising stock prices and the weak yen.

This meant our shareholders' equity ratio rose three percent to 31.2 percent, strengthening the company's solid financial condition.

6. Interest-bearing debt

A decline in demand for funds in relation to China's decelerating economy, the promotion of efficient funding through the expansion of domestic group financing, and a withdrawal from unprofitable operations were factors in a declining debt balance. Because the steel business remained solid in the U.S., the net D/E ratio remained flat, as the consolidated debt balance rose ¥37.5 billion to ¥372 billion.

Status of affiliates

Overseas, Metal One acquired Cantak Corporation of western Canada, turning the company into a consolidated subsidiary. Since its founding in 1953, Cantak has been a steel pipe wholesaler, selling oil well pipes and line pipe imported from around the world. Increases in demand for steel pipe products used in energy production are anticipated for western Canada as well in connection with higher global energy demand. This acquisition was part of efforts to offer stable supplies of high-quality energy sector tubular goods while at the same time contributing to Canada's energy industry.

In Japan, amid forecasts that competition will become even more intense as the operating environment changes rapidly in the structural steel and scrap metal markets, Metal One Mitsui Bussan Resources & Structural Steel Corporation was established through the merger of all operations of the wholly owned Metal One subsidiary Metal One Structural Steel & Resource Corporation with Mitsui & Co. Steel Ltd.'s domestic structural steel business and metal scrap operations (other than nonferrous scrap).

The merger was intended to concentrate the corporate resources we had developed and to ensure stable supplies of the construction materials required for key policies among the nation's strategies to strengthen national resilience, including stepping up reconstruction in the aftermath of the March 2011 Great East Japan Earthquake and putting in place resilient social infrastructure in preparation for major disasters. Furthermore, the company will contribute to society in terms of both products and raw materials together with scrap metal businesses and end users nationwide, and strive to demonstrate the capabilities needed to meet the requirements of market participants.