May 27, 2016
Metal One Corporation

# Metal One Corporation and Subsidiaries Consolidated Financial Results for FY2015

## Income Statements

(In ¥100 million)

| | Performance in FY2015 | Performance in FY2014 | Variance | Percentage of variance |
|---|---|---|---|---|
| **Sales** | **19,740** | **24,216** | -4,476 | (-18.5%) |
| Gross profit | **1,045** | **1,177** | -132 | |
| (Gross profit ratio) | (5.3%) | (4.9%) | (0.4%) | |
| Operating expenses | -848 | -910 | 62 | |
| Provision for doubtful receivables | -2 | -5 | 3 | |
| Amortization of goodwill | -2 | -1 | -1 | |
| **Operating income** | **192** | **262** | -70 | (-26.4%) |
| Interest income | 6 | 7 | -1 | |
| Interest expense | -33 | -38 | 5 | |
| Interest expense–net | -27 | -32 | 5 | |
| Dividend income | 17 | 15 | 2 | |
| Non-operating income and expenses | 1 | 9 | -8 | |
| Equity in earnings of affiliated companies | 19 | 6 | 13 | |
| **Ordinary income** | **203** | **259** | -56 | (-21.5%) |
| Extraordinary gain and loss | 85 | 84 | 1 | |
| **Income before income taxes** | **288** | **343** | -55 | (-16.1%) |
| Income taxes | -110 | -94 | -16 | |
| Noncontrolling interests | -11 | -22 | 11 | |
| **Net income** | **167** | **227** | -60 | (-26.3%) |

| | | | | |
|---|---|---|---|---|
| **Basic earnings capabilities** | **205** | **255** | **-50** | (-19.7%) |

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

## Consolidated Balance Sheet

(In ¥100 million)

| | March 31, 2016 | Variance from March 31, 2015 | | March 31, 2016 | Variance from March 31, 2015 |
|---|---|---|---|---|---|
| **Current assets** | **6,739** | **-1,427** | **Current liabilities** | **4,662** | **-1,251** |
| Cash and deposits | 214 | -70 | Accounts payable | 2,413 | -433 |
| Accounts receivable | 4,147 | -554 | Short-term debt | 1,934 | -815 |
| Inventories | 1,964 | -495 | Other current liabilities | 315 | -3 |
| Other current assets | 414 | -308 | **Non-current liabilities** | **928** | **-262** |
| | | | Long-term debt | 757 | -213 |
| | | | Other | 171 | -49 |
| **Non-current assets** | **2,441** | **-356** | **Total liabilities** | **5,590** | **-1,513** |
| Tangible and intangible non-current assets | 1,129 | -147 | Common stock and additional paid-in capital | 1,507 | 7 |
| Investments and other assets | 1,312 | -209 | Retained earnings, etc. | 1,647 | 45 |
| | | | Assets and liabilities valuation and translation adjustments | 120 | -201 |
| | | | **Total net assets excluding noncontrolling interests** | **3,274** | **-149** |
| | | | Noncontrolling interests | 316 | -121 |
| | | | **Total net assets** | **3,590** | **-270** |
| **Total assets** | **9,180** | **-1,783** | **Total liabilities and net assets** | **9,180** | **-1,783** |

## Outline of Consolidated Results for FY2015

### Business environment

In the global economy the U.S. remained bullish, underpinned by firm consumer spending, and Europe made continuing moves toward an economic rally. On the other hand, there was uncertainty about the prospects of China and some emerging economies due to their economic slowdown, the slump in crude oil prices and turmoil in the international financial markets. Growth in the global economy therefore remained moderate overall this fiscal year. In the Japanese economy, growth remained sluggish, partly due to slump in consumer spending against the backdrop of lower real income in conjunction with the consumption tax hike.

### Business performance

Regarding the business environment confronting our group, the gap between supply and demand continued overseas due to slack steel consumption as a result of the Chinese economy's slowdown and excess production. Steel prices continued to decline worldwide.

In the domestic market, the consumption tax increase has had a lingering impact, and there was no an uptick in capital expenditures. Increased taxes on compact cars delayed the rebound of domestic car sales. Those factors left domestic consumption stagnant overall.

In terms of external demand, the environment also remains tough. Supply continued to outpace demand globally as China exported at a high pace, generating trade problems all over.

In the midst of these business conditions, the Metal One Group divided the six-year period from FY2015 to 2020 into three stages as part of efforts to achieve our vision, mission and goals for 2020 outlined in its Mid-term Consolidated Management Plan—New Management Plan 2016. In the plan, the 2015–16 period was designated as "years of change," 2017–18 as "years of ascension" and 2019–20 as "years of success." During FY2015, the initial years of change, the group prioritized efforts on five core concepts in New Management Plan 2016: reconstruction of our earnings base through a revival of trading operations, a thorough reshuffling of the portfolio and effective utilization of HR and assets, reform of the business model, strengthening of the workforce, and upgrading the consolidated management platform.

Despite these efforts, and responding to a business environment that deteriorated even more than anticipated, the Metal One Group's consolidated performance for the fiscal year fell below the previous year's results, with ¥1.974 trillion in sales (down 18.5 percent), ordinary income of ¥20.3 billion (down 21.5 percent), and ¥16.7 billion in net income (down 26.3 percent).

**Situation with main items**

**1. Sales and gross profit**

We merged our domestic structural steel and metal scrap operations during the previous fiscal year to create MM&KENZAI Corporation (as of November 1, 2014). This required applying the equity method, and negatively affected the Group's performance. In addition, the business environment had worsened as mentioned before. These are the primary factors in the ¥447.6 billion decline to ¥1.974 trillion in sales and the ¥13.2 billion decline to ¥104.5 billion in gross profit.

**2. Operating expenses**

The MM&KENZAI Corporation merger and other factors caused our operating expenses to drop by ¥6.2 billion, to ¥84.8 billion.

**3. Extraordinary gain and loss**

The company's extraordinary gains exceeded extraordinary losses by ¥8.5 billion, mainly 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 ¥1.0939 trillion (55 percent of the whole; down ¥341.6 billion compared to the fiscal year before), and overseas ventures for ¥880.1 billion (45 percent; down ¥106 billion).

**5. Total assets and shareholders' equity**

Declines in accounts receivable and inventories were the main factors causing total assets to fall by ¥178.3 billion, to ¥918 billion.
Furthermore, net assets excluding noncontrolling interests fell ¥14.9 billion to ¥327.4 billion, the outcome of a decrease in valuation and translation adjustments arising from falling stock prices and the strong yen. This meant our shareholders' equity ratio rose 4.5 percent to 35.7 percent, strengthening the company's solid financial condition.

**6. Interest-bearing debt**

Pushed by a worldwide drop in steel prices, China's economic slowdown and accompanying slack exports from Japan, a decline in energy-related transactions in North America, sell-offs of listed shares in Japan and the yen's strength, the net D/E ratio fell by 0.3 to 0.8 as the consolidated debt balance declined by ¥102.9 billion, to ¥269.1 billion.

### Status of affiliates

There were no items meriting special mention this fiscal year.

## Number of Group Companies

| Subsidiaries | Affiliates | Total (consolidated) |
|---|---|---|
| 101(-1) | 43(-3) | 144(-4) |

Note: Figures in parentheses ( ) show changes from the previous year.

## Consolidated Financial Indicators

| | March 31, 2016 | March 31, 2015 |
|---|---|---|
| Shareholders' equity ratio | 35.7% | 31.2% |
| Net D/E ratio | 0.8 | 1.1 |

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