# Summary of Management's Discussion and Analysis of Financial Condition and Results of Operations

## 1. Economic Environment

During the period under review (fiscal 2014, i.e., April 1, 2014, through March 31, 2015), on the global economic front, although the United States maintained its strong performance, recovery from the downturn was delayed in Europe and the economies of emerging countries generally slowed down, resulting in only moderate growth overall. Geopolitical risks in Ukraine, the Middle East, and North Africa also came to the surface, increasing uncertainties about the outlook for the global economy. International commodity markets faced increased downward pressure due to mounting doubts over future demand and concerns about oversupply. In the Japanese economy, although there was weakness in personal spending and housing investment after the consumption tax rate was raised in April 2014, the employment and income environment and corporate performance continued to improve, resulting in a gradual recovery trend in the second half.

## 2. Overall Business Performance and Financial Condition

### (1) Business Performance

Consolidated net income (loss) for fiscal 2014 amounted to a loss of ¥73.2 billion, a decrease of ¥296.2 billion from the previous fiscal year. Basic profit of our non-mineral resources businesses, such as the tubular products business, leasing business, overseas power infrastructure business, and media-related business, continued in an upward trend, driven by the earnings pillars which showed robust performance, but also driven by profit contributions from investments made in recent years. However, in addition to the sluggish performance in our mineral resources businesses due to a drop in commodity prices, we posted impairment losses of ¥310.3 billion in total in the several projects, such as Tight oil development project in the U.S. and Iron ore mining project in Brazil; as a result we reported a net loss.

• ***Gross Profit.*** Gross profit totaled ¥952.9 billion, up by ¥58.5 billion, from ¥894.4 billion in the previous year. This was due to factors such as a robust performance by tubular products business in North America and the new consolidation of Edgen Group.

• ***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses totaled ¥755.2 billion, an increase of ¥48.8 billion, from ¥706.4 billion in the previous year. This was owing mainly to the yen's depreciation, and to the new consolidation of Edgen Group.

• ***Impairment losses on long-lived assets.*** Impairment losses on long-lived assets totaled ¥278.6 billion, up by ¥247.2 billion, from ¥31.4 billion in the previous year. This was owing mainly to impairment losses on Tight oil development project in the U.S., Shale gas project in the U.S., Coal-mining projects in Australia, Tire business in the U.S., and Oil field interests in the North Sea.

• ***Share of profit of investments accounted for using the equity method.*** Share of profit of investments accounted for using the equity method totaled ¥49.1 billion, a decrease of ¥77.1 billion, from ¥126.2 billion in the previous year. This was owing mainly to impairment losses on Iron ore mining project in Brazil.

### (2) Financial Condition

1) Assets, Liabilities, and Equity

As of March 31, 2015, Total assets stood at ¥9,021.4 billion, representing an increase of ¥352.6 billion from the previous fiscal year-end due to new investments and the yen's depreciation despite a decrease caused by impairment losses in the several projects including Tight oil development project in the U.S. and Iron ore mining project in Brazil. As of March 31, 2015, Equity attributable to owners of the parent totaled to ¥2,481.4 billion, an increase of ¥76.8 billion from the previous fiscal year-end, due primarily to an increase in Exchange differences on translating foreign operations caused by the yen's depreciation despite a decrease in Retained earnings by incurring Loss for the year attributable to owners of the parent. The ratio of Equity attributable to owners of the parent to Total assets was 27.5%. Meanwhile, Interest-bearing liabilities (net) rose by ¥394.1 billion from the previous fiscal year-end, to ¥3,517.5 billion. Consequently, the net debt-equity ratio (Interest-bearing liabilities (net) / Equity attributable to owners of the parent) was 1.4.

2) Cash Flows

Net cash provided by operating activities totaled ¥243.7 billion, as our core businesses performed well in generating cash. Net cash used in investing activities was ¥399.6 billion due mainly to new investments of approx. ¥450.0 billion. As a result, Free cash flow, calculated as Net cash provided by operating activities plus Net cash used in investing activities, totaled ¥155.9 billion outflow. Net cash used in financing activities was ¥74.8 billion. As a result, Cash and cash equivalents as of March 31, 2015 decreased by ¥215.3 billion from March 31, 2014 to ¥895.9 billion.