

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2024 (Fiscal Year 2024) (Six Months Ended September 30, 2023) <Under Japanese GAAP>

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 Preparation of supplementary materials for quarterly financial results: None

(Millions of yen with fractional amounts rounded off, unless otherwise noted)

1. Consolidated Financial Results for the Second Quarter (from April 1, 2023 to September 30, 2023) of Fiscal Year 2024

(1) Consolidated operating results (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2023	155,538	(14.9)	9,941	63.4	9,996	54.2	7,861	93.8
Six months ended September 30, 2022	182,838	28.6	6,084	8.7	6,482	(2.4)	4,057	19.7

Note: Comprehensive income Six months ended September 30, 2023: 12,219 million yen [(3.4)%]
Six months ended September 30, 2022: 12,643 million yen [51.5%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2023	180.88	—
Six months ended September 30, 2022	93.34	—

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of September 30, 2023	349,519	199,560	54.3
As of March 31, 2023	337,713	190,174	53.2

Reference: Equity As of September 30, 2023: 189,700 million yen
As of March 31, 2023: 179,687 million yen

2. Dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2023	—	15.00	—	65.00	80.00
Fiscal Year 2024	—	15.00	—	—	—
Fiscal Year 2024 (Forecast)	—	—	—	65.00	80.00

Note: Revisions to the most recently announced dividend forecast: Yes

The year-end dividend for the fiscal year ended March 31, 2023, includes a commemorative dividend of 5 yen per share for the 75th anniversary of the foundation of the Company.

3. Forecasts of Consolidated Earnings for Fiscal Year 2024 (from April 1, 2023 to March 31, 2024)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	324,000	(8.9)	20,000	35.0	19,000	29.5	13,000	(0.8)	299.13

Note: Revisions to the most recently announced consolidated earnings forecast: Yes

* Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Newly added: None

Excluded: None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of issued shares (common shares)

1) Number of issued shares at the end of the period (including treasury shares)

As of September 30, 2023	44,898,730 shares
As of March 31, 2023	44,898,730 shares

2) Number of treasury shares at the end of the period

As of September 30, 2023	1,439,755 shares
As of March 31, 2023	1,439,755 shares

3) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2023	43,458,975 shares
Six months ended September 30, 2022	43,458,975 shares

* The current quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* Cautionary statement with respect to forward-looking statements and other special items

Forecasts of future performance in this report are based on information available at the date of publication for this document and certain assumptions regarding factors that may influence future results at the date of publication. Actual results may vary significantly from these forecasts due to a wide range of factors. For a discussion of the assumptions for forecasts, precautions concerning usage and other information, please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements" on page 4 of the attachments.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the fiscal year ending March 31, 2024, the Japanese economy gradually recovered, with consumer spending and capital investment picking up as economic and social activities normalized. The global economy was also on a recovery track as a whole, despite the uncertain outlook with downside risks from monetary tightening and rising prices. Amid these circumstances, consolidated net sales of the Kyoei Steel Group in the first half of the fiscal year ending March 31, 2024, decreased by 27,300 million yen (14.9%) year on year to 155,538 million yen, consolidated operating profit increased by 3,857 million yen (63.4%) year on year to 9,941 million yen, consolidated ordinary profit increased by 3,514 million yen (54.2%) year on year to 9,996 million yen, and profit attributable to owners of parent increased by 3,804 million yen (93.8%) year on year to 7,861 million yen.

Results by business segment are as follows.

1) Domestic Steel Business

For this business segment, product shipments increased by 15,000 tons from the same period of the previous fiscal year to 789,000 tons amid firm domestic demand for construction. Steel scrap prices have been weak since April, falling 5,200 yen (9.3%) year on year, but product prices rose 6,500 yen (6.5%) year on year due to efforts to raise and maintain them, resulting in the sales margins (the difference between the sales price of the product and the purchase price of raw materials) widened by 11,800 yen (27.0%).

As a result, segment net sales increased by 4,314 million yen (5.7%) year on year to 80,132 million yen and operating profit increased by 7,405 million yen (148.1%) year on year to 12,405 million yen.

2) Overseas Steel Business

Kyoei Steel operates steel businesses in Vietnam and North America (the United States and Canada), both of which have a fiscal year-end of December 31.

In Vietnam, competition intensified and the performance was weak despite our effort to expand sales to new customers and reduce costs thoroughly at all bases amid the continued recession in real estate and construction markets from the second half of the previous fiscal year.

In North America, despite strong construction demand, the performance was weak due to increased costs associated with regular maintenance in the first quarter and the impact of aging equipment troubles.

As a result, segment net sales decreased by 31,013 million yen (30.8%) to 69,819 million yen, and there was an operating loss of 2,296 million yen (compared with an operating profit of 597 million yen in the same period of the previous fiscal year).

3) Material Recycling Business

Although demand for waste treatment was firm, shipments were temporarily suspended due to large-scale regular maintenance works at the Yamaguchi Division, the largest processing base of the Kyoei Steel Group, and medical waste treatment projects decreased as COVID-19 infections subsided. Accordingly, segment sales decreased by 666 million yen (17.3%) year on year to 3,174 million yen and operating profit decreased by 490 million yen (56.6%) year on year to 375 million yen.

4) Others

This category includes harbor operations in Vietnam and the casting business in Japan and Vietnam. Segment net sales increased by 64 million yen (2.7%) year on year to 2,413 million yen, and operating profit was 8 million yen (compared with an operating loss of 146 million yen in the same period of the previous fiscal year).

(2) Explanation of Financial Position**Assets**

Current assets increased by 3,159 million yen, or 1.5%, from the end of the previous fiscal year to 213,749 million yen. This was attributable mainly to increases of 6,285 million yen in accounts receivable - trade and 8,287 million yen in electronically recorded monetary claims - operating, and decreases of 8,926 million yen in cash and deposits and 2,382 million yen in raw materials and supplies.

Non-current assets increased by 8,648 million yen, or 6.8%, from the end of the previous fiscal year to 135,770 million yen. This was attributable mainly to increases of 632 million yen in buildings and structures, 929 million yen in machinery, equipment and vehicles, 872 million yen in land, 2,431 million yen in other, net under property, plant and equipment, 2,171 million yen in investment securities, 506 million yen in retirement benefit asset, 602 million yen in deferred tax assets, and 548 million yen in other under investments and other assets.

As a result, total assets increased by 11,806 million yen, or 3.5%, from the end of the previous fiscal year to 349,519 million yen.

Liabilities

Current liabilities increased by 3,199 million yen, or 3.2%, from the end of the previous fiscal year to 102,834 million yen. This was attributable mainly to increases of 4,674 million yen in notes and accounts payable - trade, 810 million yen in electronically recorded obligations - operating, 2,817 million yen in income taxes payable and 696 million yen in provision for bonuses, and decreases of 2,949 million yen in short-term borrowings and 2,869 million yen in other under current liabilities.

Non-current liabilities decreased by 779 million yen, or 1.6%, from the end of the previous fiscal year to 47,125 million yen. This was attributable mainly to increases of 286 million yen in deferred tax liabilities and 376 million yen in retirement benefit liability, and a decrease of 1,482 million yen in long-term borrowings.

As a result, total liabilities increased by 2,420 million yen, or 1.6%, from the end of the previous fiscal year to 149,959 million yen.

Net assets

Net assets increased by 9,386 million yen, or 4.9%, from the end of the previous fiscal year to 199,560 million yen. This was attributable mainly to the recording of profit attributable to owners of parent of 7,861 million yen, increases of 951 million yen in valuation difference on available-for-sale securities, 3,647 million yen in foreign currency translation adjustment, and 296 million yen in remeasurements of defined benefit plans, and decreases of 627 million yen in non-controlling interests and 2,825 million yen due to dividends of retained earnings.

As a result, equity-to-asset ratio increased from 53.2% at the end of the previous fiscal year to 54.3%.

Cash flows

Cash and cash equivalents at the end of the second quarter of the current fiscal year decreased by 10,166 million yen from the end of the previous fiscal year to 22,254 million yen. The cash flow components during the first half of the current fiscal year and the main reasons for changes are as follows.

(i) Cash flows from operating activities

Net cash provided by operating activities was 8,879 million yen. Major components included profit before income taxes of 10,016 million yen, depreciation of 4,784 million yen, an increase of 12,180 million yen in trade receivables, a decrease of 5,347 million yen in inventories, an increase of 4,843 million yen in trade payables, a decrease of 968 million yen in accrued consumption taxes, and interest paid of 2,086 million yen.

(ii) Cash flows from investing activities

Net cash used in investing activities was 7,006 million yen. Major components included payments into time deposits and other of 26,753 million yen, proceeds from withdrawal of time deposits and other of 26,318 million yen and purchase of property, plant and equipment of 5,905 million yen.

(iii) Cash flows from financing activities

Net cash used in financing activities was 12,883 million yen. Major components included a net decrease of 7,836 million yen in short-term borrowings, repayments of long-term borrowings of 2,105 million yen, and dividends paid of 2,824 million yen.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

For the domestic steel business in and after the third quarter of the current fiscal year (second half), housing starts in the fiscal year 2024 are expected to decrease slightly from the previous fiscal year due to persistently high construction costs caused mainly by high material prices. Corporate willingness to invest, however, remains firm, and domestic demand for steel products is expected to remain flat. Although manufacturing and logistics costs are expected to rise, the sales margins are expected to be expanded and the performance is expected to exceed the plan as the price of steel scrap is expected to be less than projections.

As for the overseas steel business, weak construction demand and intensified competition in Vietnam are expected to continue in the second half, and the performance in the country is expected to be weak. We will strive to recover profits by reducing manufacturing costs and reviewing sales strategies. In North America, firm construction demand is expected despite concerns about the risk of a recession. The performance in the United States is expected to be lower than planned due to the impact of a fire accident in August, although the performance in Canada is expected to be on a recovery track. The overall performance for the overseas steel business in the second half is expected to be lower than planned.

Vinton Steel LLC in the United States shut down its operations for about a month due to a fire accident that occurred on August 1, local time, and resumed operations at the melt shop on September 9 (September 10, Japan time), and the rolling mill on September 10 (September 11, Japan time). As a result of this accident, we have factored in extraordinary losses of around 1.0 billion yen due mainly to the expected increase in costs associated with restoration.

Based on the observation as stated above, we have revised our forecasts for the full term, which were announced in the “Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2024 (Fiscal Year 2024)” on July 31, 2023. We have also increased the year-end dividend in the dividend forecast.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Assets		
Current assets		
Cash and deposits	57,746	48,820
Notes receivable - trade	725	543
Accounts receivable - trade	60,539	66,825
Electronically recorded monetary claims - operating	20,092	28,379
Merchandise and finished goods	37,040	37,373
Raw materials and supplies	30,476	28,094
Other	4,266	4,045
Allowance for doubtful accounts	(293)	(330)
Total current assets	210,591	213,749
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	24,754	25,387
Machinery, equipment and vehicles, net	41,312	42,241
Land	31,187	32,059
Other, net	4,941	7,372
Total property, plant and equipment	102,194	107,058
Intangible assets		
Goodwill	829	870
Other	3,164	3,100
Total intangible assets	3,993	3,969
Investments and other assets		
Investment securities	14,065	16,237
Long-term loans receivable	243	222
Retirement benefit asset	3,983	4,489
Deferred tax assets	731	1,333
Other	1,949	2,497
Allowance for doubtful accounts	(36)	(36)
Total investments and other assets	20,936	24,742
Total non-current assets	127,123	135,770
Total assets	337,713	349,519

(Millions of yen)

	As of March 31, 2023	As of September 30, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	16,370	21,044
Electronically recorded obligations - operating	2,623	3,433
Short-term borrowings	58,342	55,393
Current portion of long-term borrowings	4,235	4,255
Income taxes payable	1,604	4,422
Provision for bonuses	966	1,662
Other	15,494	12,625
Total current liabilities	99,635	102,834
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	26,960	25,478
Deferred tax liabilities	3,636	3,923
Deferred tax liabilities for land revaluation	2,394	2,394
Retirement benefit liability	3,344	3,720
Other	1,570	1,611
Total non-current liabilities	47,904	47,125
Total liabilities	147,539	149,959
Net assets		
Shareholders' equity		
Share capital	18,516	18,516
Capital surplus	19,716	19,716
Retained earnings	125,499	130,535
Treasury shares	(1,700)	(1,700)
Total shareholders' equity	162,030	167,066
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,190	3,141
Deferred gains or losses on hedges	109	191
Revaluation reserve for land	4,536	4,536
Foreign currency translation adjustment	7,559	11,206
Remeasurements of defined benefit plans	3,264	3,560
Total accumulated other comprehensive income	17,657	22,634
Non-controlling interests	10,487	9,860
Total net assets	190,174	199,560
Total liabilities and net assets	337,713	349,519

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**(Quarterly Consolidated Statements of Income)****(For the Six-month Period)**

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Net sales	182,838	155,538
Cost of sales	167,323	135,555
Gross profit	15,515	19,983
Selling, general and administrative expenses	9,430	10,042
Operating profit	6,084	9,941
Non-operating income		
Interest income	322	518
Dividend income	169	215
Share of profit of entities accounted for using equity method	574	1,188
Other	350	245
Total non-operating income	1,415	2,166
Non-operating expenses		
Interest expenses	857	1,937
Foreign exchange losses	58	106
Other	103	68
Total non-operating expenses	1,017	2,111
Ordinary profit	6,482	9,996
Extraordinary income		
Gain on sale and retirement of non-current assets	46	18
Insurance claim income	–	122
Total extraordinary income	46	140
Extraordinary losses		
Loss on sale and retirement of non-current assets	157	118
Other	1	2
Total extraordinary losses	158	120
Profit before income taxes	6,370	10,016
Income taxes	2,394	3,545
Profit	3,976	6,471
Loss attributable to non-controlling interests	(81)	(1,390)
Profit attributable to owners of parent	4,057	7,861

(Quarterly Consolidated Statements of Comprehensive Income)
(For the Six-month Period)

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Profit	3,976	6,471
Other comprehensive income		
Valuation difference on available-for-sale securities	10	951
Deferred gains or losses on hedges	223	83
Foreign currency translation adjustment	8,168	4,417
Remeasurements of defined benefit plans, net of tax	267	296
Total other comprehensive income	8,668	5,748
Comprehensive income	12,643	12,219
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,997	12,838
Comprehensive income attributable to non-controlling interests	1,646	(619)

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2022	Six months ended September 30, 2023
Cash flows from operating activities		
Profit before income taxes	6,370	10,016
Depreciation	4,525	4,784
Amortization of goodwill	50	52
Increase (decrease) in provisions	57	712
Increase (decrease) in retirement benefit liability	763	373
Share of loss (profit) of entities accounted for using equity method	(574)	(1,188)
Loss (gain) on sale and retirement of non-current assets	111	100
Insurance claim income	–	(122)
Interest and dividend income	(491)	(733)
Interest expenses	857	1,937
Decrease (increase) in trade receivables	(13,294)	(12,180)
Decrease (increase) in inventories	346	5,347
Increase (decrease) in trade payables	(1,907)	4,843
Increase (decrease) in accrued consumption taxes	1,205	(968)
Decrease (increase) in retirement benefit asset	(636)	(552)
Other, net	(1,042)	(1,028)
Subtotal	(3,659)	11,392
Interest and dividends received	514	842
Interest paid	(815)	(2,086)
Proceeds from insurance income	–	416
Income taxes refund (paid)	523	(1,684)
Net cash provided by (used in) operating activities	(3,438)	8,879
Cash flows from investing activities		
Payments into time deposits and other	(12,731)	(26,753)
Proceeds from withdrawal of time deposits and other	23,090	26,318
Purchase of investment securities	(3)	(3)
Loan advances	(1)	(303)
Proceeds from collection of loans receivable	245	56
Purchase of property, plant and equipment	(3,667)	(5,905)
Proceeds from sale of property, plant and equipment	20	12
Purchase of intangible assets	(369)	(142)
Other, net	(41)	(285)
Net cash provided by (used in) investing activities	6,543	(7,006)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	8,659	(7,836)
Proceeds from long-term borrowings	5,000	–
Repayments of long-term borrowings	(3,087)	(2,105)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(2,208)	–
Dividends paid	(1,086)	(2,824)
Dividends paid to non-controlling interests	(24)	(8)
Other, net	(101)	(110)
Net cash provided by (used in) financing activities	7,153	(12,883)
Effect of exchange rate change on cash and cash equivalents	1,558	843
Net increase (decrease) in cash and cash equivalents	11,816	(10,166)
Cash and cash equivalents at beginning of period	27,210	32,421
Cash and cash equivalents at end of period	39,026	22,254

(4) Notes to Quarterly Consolidated Financial Statements**Notes on Going Concern Assumption**

Not applicable.

Notes on Significant Changes in the Amount of Shareholders' Equity

Not applicable.

Segment and Other Information

I. First six months of the fiscal year ended March 31, 2023 (from April 1, 2022 to September 30, 2022)

1. Information related to net sales and profit/loss for each reportable segment and information on disaggregation of revenue

(Millions of yen)

	Reportable segments				Others (Note 1)	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net sales							
Revenue from contracts with customers	75,818	100,832	3,840	180,489	2,349	–	182,838
Sales to external customers	75,818	100,832	3,840	180,489	2,349	–	182,838
Inter-segment sales and transfers	4	–	191	195	500	(694)	–
Total	75,822	100,832	4,031	180,684	2,848	(694)	182,838
Segment profit (loss)	5,000	597	865	6,463	(146)	(232)	6,084

- Notes:
1. "Others" represent the businesses which are not included in any of the reportable segments and mainly consist of harbor operation, castings, civil engineering materials sales and insurance agent businesses.
 2. The adjustment of (232) million yen to "segment profit (loss)" includes 32 million yen in eliminations for inter-segment transactions and (264) million yen in corporate costs that are not allocated to reportable segments. Corporate costs mainly include general and administration expenses of the Company's head office that cannot be attributed to reportable segments.
 3. "Segment profit (loss)" is adjusted to be consistent with operating profit shown on the quarterly consolidated statement of income.

2. Information related to impairment losses of non-current assets, goodwill, etc. for each reportable segment

Significant impairment losses related to non-current assets

Not applicable.

Significant change in the amount of goodwill

Not applicable.

Significant gain on bargain purchase

Not applicable.

II. First six months of the fiscal year ending March 31, 2024 (from April 1, 2023 to September 30, 2023)

1. Information related to net sales and profit/loss for each reportable segment and information on disaggregation of revenue

(Millions of yen)

	Reportable segments				Others (Note 1)	Adjustment (Note 2)	Amounts shown on quarterly consolidated statement of income (Note 3)
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net sales							
Revenue from contracts with customers	80,132	69,819	3,174	153,126	2,413	–	155,538
Sales to external customers	80,132	69,819	3,174	153,126	2,413	–	155,538
Inter-segment sales and transfers	1	–	234	235	388	(624)	–
Total	80,134	69,819	3,408	153,361	2,801	(624)	155,538
Segment profit (loss)	12,405	(2,296)	375	10,484	8	(552)	9,941

- Notes:
1. “Others” represent the businesses which are not included in any of the reportable segments and mainly consist of harbor operation, castings, civil engineering materials sales and insurance agent businesses.
 2. The adjustment of (552) million yen to “segment profit (loss)” includes 3 million yen in eliminations for inter-segment transactions and (555) million yen in corporate costs that are not allocated to reportable segments. Corporate costs mainly include general and administration expenses of the Company’s head office that cannot be attributed to reportable segments.
 3. “Segment profit (loss)” is adjusted to be consistent with operating profit shown on the quarterly consolidated statement of income.

2. Information related to impairment losses of non-current assets, goodwill, etc. for each reportable segment

Significant impairment losses related to non-current assets

Not applicable.

Significant change in the amount of goodwill

Not applicable.

Significant gain on bargain purchase

Not applicable.

This summary report is solely a translation of “Kessan Tanshin” (in Japanese, including the attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.