

Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2023 (Fiscal Year 2023) (Nine Months Ended December 31, 2022) <Under Japanese GAAP>

Company name: Kyoei Steel, Ltd. Stock exchange listed: Tokyo
 Stock code: 5440 URL: <https://www.kyoeisteel.co.jp/>
 Representative: Yasuyuki Hiroto, President and Representative Director
 Inquiries: Takaaki Sugiyama, General Manager of Corporate Planning Dept.
 Tel: +81-6-6346-5221 (from overseas)
 Scheduled date of filing of Quarterly Report (Japanese version only): February 10, 2023
 Scheduled date of payment of dividend: –
 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 Third Quarter (from April 1, 2022 to December 31, 2022) of Fiscal Year 2023

(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	%
Nine months ended December 31, 2022	271,332	29.2	9,089	32.8	9,493	14.7	6,195	36.2
Nine months ended December 31, 2021	210,018	28.4	6,846	(39.3)	8,277	(27.8)	4,550	(44.4)

Note: Comprehensive income Nine months ended December 31, 2022: 15,241 million yen [61.9%]

Nine months ended December 31, 2021: 9,414 million yen [25.6%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2022	142.55	–
Nine months ended December 31, 2021	104.69	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of December 31, 2022	354,231	185,925	49.2
As of March 31, 2022	314,203	175,689	51.9

Reference: Equity As of December 31, 2022: 174,300 million yen

As of March 31, 2022: 162,955 million yen

2. Dividends

	Annual dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2022	–	15.00	–	25.00	40.00
Fiscal Year 2023	–	15.00	–		
Fiscal Year 2023 (Forecast)				30.00	45.00

Note: Revisions to the most recently announced dividend forecast: None

The year-end dividend (forecast) for the fiscal year ending 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 2023 (from April 1, 2022 to March 31, 2023)

(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	355,000	21.3	12,800	45.1	12,000	13.8	7,800	23.4	179.48

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 December 31, 2022	44,898,730 shares
As of March 31, 2022	44,898,730 shares

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

As of December 31, 2022	1,439,755 shares
As of March 31, 2022	1,439,755 shares

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

Nine months ended December 31, 2022	43,458,975 shares
Nine months ended December 31, 2021	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.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements	4
2. Quarterly Consolidated Financial Statements and Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
(Quarterly Consolidated Statements of Income)	7
(For the Nine-month Period)	7
(Quarterly Consolidated Statements of Comprehensive Income)	8
(For the Nine-month Period)	8
(3) Notes to Quarterly Consolidated Financial Statements	9
Notes on Going Concern Assumption	9
Notes on Significant Changes in the Amount of Shareholders' Equity	9
Segment and Other Information	9

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the fiscal year ending March 31, 2023, the Japanese economy gradually recovered as the impact of COVID-19 eased and economic and social activities continued to normalize. However, the outlook for the global economy as a whole remains uncertain due to such factors as the prolonged conflict in Ukraine, continuing high resource and energy prices, interest rate hikes and significant dollar appreciation (yen depreciation) in the U.S. and Europe, as well as the economic slowdown in China.

During the third quarter of the fiscal year ending March 31, 2023, in the domestic market for steel construction materials, demand was weak as customers continued to buy for immediate requirements only based on the view that product prices would fall as a result of a softening in the market for steel scrap, a raw material, despite the expectation of seasonal fall demand. Meanwhile, the price of steel scrap was lower than expected, making sales margins (the difference between the sales price of the product and the purchase price of raw materials) widen.

For the overseas steel business, the business environment was harsh as competition intensified in Vietnam, and a combination of factors such as bank lending restrictions during a period of weak demand caused by seasonal factors (rainy season, etc.), resulted in a slowdown in construction demand. On the other hand, for North America, despite the economy trending toward a moderate slowdown as a result of the government's measures to control inflation, the business environment remained firm thanks to strength in infrastructure investment, private sector investment, and personal consumption.

As a result, consolidated net sales of the Kyoei Steel Group increased by 61,314 million yen (29.2%) year on year to 271,332 million yen, consolidated operating profit increased by 2,244 million yen (32.8%) year on year to 9,089 million yen, consolidated ordinary profit increased by 1,216 million yen (14.7%) year on year to 9,493 million yen, and profit attributable to owners of parent increased by 1,645 million yen (36.2%) year on year to 6,195 million yen.

Furthermore, the Company recorded extraordinary losses of 232 million yen in expenses arising from restoration processes following a fire that occurred at the Yamaguchi Division on October 11. As the amount of insurance claims that will be received in relation to this damage has not been determined at the time of filing, they have not been recorded for the first nine months of the fiscal year ending March 31, 2023. In addition, partly thanks to support from other sites, etc., in Japan and overseas, this division resumed product shipments the following day, October 12, and resumed operations at the rolling mill on October 13, and the melt shop on November 12.

Results by business segment are as follows.

1) Domestic Steel Business

Product shipments decreased by 63,000 tons from the same period of the previous fiscal year to 1,133,000 tons. Steel scrap prices increased by 3,200 yen (6.2%), but an increase in product prices prevailed in the market and was 20,700 yen (25.8%) higher than the same period of the previous year. Therefore, sales margins widened by 17,600 yen (60.2%).

As a result, segment net sales increased by 16,595 million yen (17.4%) year on year to 111,898 million yen and operating profit increased by 7,357 million yen (335.5%) year on year to 9,550 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, since the second quarter of the fiscal year ending March 31, 2023, the Company has endeavored to ensure thorough production and inventory management in light of weak actual demand and the postponement of purchases by customers in anticipation of product price declines, but the business recorded a loss owing to higher production costs. In North America, however, despite an increase in production costs partly caused by rising electricity costs, the business performed well as increases in product prices resulted in wider sales margins.

As a result, segment net sales increased by 44,015 million yen (41.5%) to 150,189 million yen, but there was an operating loss of 993 million yen (compared with operating profit of 4,123 million yen in the same period of the previous fiscal year).

3) Material Recycling Business

The number of medical waste treatment projects related to COVID-19 continued to rise, but the price of fuel and other items increased. Accordingly, segment sales increased by 495 million yen (9.5%) year on year to 5,686 million yen but operating profit decreased by 39 million yen (3.0%) year on year to 1,266 million yen.

4) Others

This category includes harbor operations in Vietnam and the casting business in Japan and Vietnam. Net sales increased by 209 million yen (6.2%) year on year to 3,559 million yen, but there was an operating loss of 129 million yen (compared with operating profit of 60 million yen in the same period of the previous fiscal year).

(2) Explanation of Financial Position

Assets

Current assets increased by 29,574 million yen, or 15.2%, from the end of the previous fiscal year to 223,594 million yen. This was attributable mainly to increases of 16,217 million yen in accounts receivable - trade, 9,745 million yen in electronically recorded monetary claims - operating, 1,156 million yen in merchandise and finished goods, and 5,290 million yen in raw materials and supplies, and decreases of 1,561 million yen in cash and deposits, 1,000 million yen in securities and 449 million yen in other current assets.

Non-current assets increased by 10,454 million yen, or 8.7%, from the end of the previous fiscal year to 130,637 million yen. This was attributable mainly to increases of 1,443 million yen in buildings and structures, 2,741 million yen in machinery, equipment and vehicles, 999 million yen in land, 2,222 million yen in other, net under property, plant and equipment, 1,518 million yen in investment securities, 648 million yen in retirement benefit asset, and 739 million yen in other under investments and other assets.

As a result, total assets increased by 40,028 million yen, or 12.7%, from the end of the previous fiscal year to 354,231 million yen.

Liabilities

Current liabilities increased by 24,211 million yen, or 26.1%, from the end of the previous fiscal year to 117,005 million yen. This was attributable mainly to increases of 2,084 million yen in notes and accounts payable - trade, 755 million yen in electronically recorded obligations - operating, 14,059 million yen in short-term borrowings, 3,690 million yen in income taxes payable, and 3,821 million yen in other under current liabilities, and a decrease of 660 million yen in current portion of long-term borrowings.

Non-current liabilities increased by 5,580 million yen, or 12.2%, from the end of the previous fiscal year to 51,302 million yen. This was attributable mainly to increases of 4,130 million yen in long-term borrowings, 496 million yen in deferred tax liabilities, and 808 million yen in retirement benefit liability.

As a result, total liabilities increased by 29,792 million yen, or 21.5%, from the end of the previous fiscal year to 168,306 million yen.

Net assets

Net assets increased by 10,236 million yen, or 5.8%, from the end of the previous fiscal year to 185,925 million yen. This was attributable mainly to the recording of profit attributable to owners of parent of 6,195 million yen, and an increase of 7,388 million yen in foreign currency translation adjustment, and decreases of 1,398 million yen in capital surplus, 1,109 million yen in non-controlling interests, and 1,738 million yen due to dividends of surplus.

As a result, equity-to-asset ratio decreased from 51.9% at the end of the previous fiscal year to 49.2%.

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

For the domestic steel business, despite variations in demand for steel construction materials between regions, there are signs of a recovery centered on large buildings, and we thus expect the Kyoei Steel Group's product shipments to be on par with the previous year. While the Company will endeavor to increase product prices based on expectations of further increases in electricity costs and other production costs, we also expect the price of steel scrap to be less than initial projections, and sales margins to widen, resulting in business performance better than the previous forecast.

As for the overseas steel business from the fourth quarter of the fiscal year ending March 31, 2023 and beyond (October to December, 2022), although there are concerns related to the worsening of economic sentiment in North America as a result of interest rate hikes and other measures to combat inflation, we expect our business in this region to perform well as construction demand remains firm. In Vietnam, however, conditions in the real estate market are worsening and there are notable delays to project construction as a result of the government imposing stronger restrictions on lending to the real estate industry following cases of misconduct at major real estate developers. Additionally, rapid interest rate hikes have also resulted in weak housing demand, and it will require some time for construction demand to recover. Accordingly, we expect business performance will remain difficult for our business in Vietnam. Therefore, the overall performance for the overseas steel business is expected to be lower than the previous forecast.

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 Second Quarter of the Fiscal Year Ending March 31, 2023 (Fiscal Year 2023)" on October 31, 2022. The dividend forecast remains unchanged.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	51,338	49,777
Notes receivable - trade	669	609
Accounts receivable - trade	51,680	67,897
Electronically recorded monetary claims - operating	15,399	25,144
Securities	1,000	–
Merchandise and finished goods	40,390	41,546
Raw materials and supplies	27,989	33,279
Other	6,111	5,662
Allowance for doubtful accounts	(555)	(319)
Total current assets	194,020	223,594
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	24,190	25,634
Machinery, equipment and vehicles, net	41,062	43,803
Land	30,674	31,673
Other, net	3,274	5,495
Total property, plant and equipment	99,201	106,605
Intangible assets		
Goodwill	856	924
Other	3,311	3,459
Total intangible assets	4,167	4,383
Investments and other assets		
Investment securities	11,155	12,673
Long-term loans receivable	392	280
Retirement benefit asset	3,546	4,194
Deferred tax assets	356	380
Other	1,418	2,157
Allowance for doubtful accounts	(50)	(36)
Total investments and other assets	16,816	19,648
Total non-current assets	120,183	130,637
Total assets	314,203	354,231

(Millions of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,692	20,776
Electronically recorded obligations - operating	2,343	3,098
Short-term borrowings	54,393	68,452
Current portion of long-term borrowings	4,822	4,162
Income taxes payable	270	3,960
Provision for bonuses	969	1,430
Other	11,305	15,126
Total current liabilities	92,793	117,005
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	25,277	29,407
Deferred tax liabilities	2,153	2,649
Deferred tax liabilities for land revaluation	2,394	2,394
Retirement benefit liability	4,317	5,125
Other	1,581	1,727
Total non-current liabilities	45,721	51,302
Total liabilities	138,515	168,306
Net assets		
Shareholders' equity		
Share capital	18,516	18,516
Capital surplus	21,114	19,716
Retained earnings	114,130	118,586
Treasury shares	(1,700)	(1,700)
Total shareholders' equity	152,059	155,118
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	843	1,297
Deferred gains or losses on hedges	(186)	17
Revaluation reserve for land	4,536	4,536
Foreign currency translation adjustment	3,541	10,929
Remeasurements of defined benefit plans	2,162	2,404
Total accumulated other comprehensive income	10,896	19,182
Non-controlling interests	12,734	11,625
Total net assets	175,689	185,925
Total liabilities and net assets	314,203	354,231

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

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	210,018	271,332
Cost of sales	190,694	247,710
Gross profit	19,324	23,622
Selling, general and administrative expenses	12,478	14,532
Operating profit	6,846	9,089
Non-operating income		
Interest income	561	519
Dividend income	170	272
Share of profit of entities accounted for using equity method	1,158	975
Foreign exchange gains	220	-
Other	329	486
Total non-operating income	2,438	2,252
Non-operating expenses		
Interest expenses	899	1,582
Foreign exchange losses	-	144
Other	108	122
Total non-operating expenses	1,007	1,848
Ordinary profit	8,277	9,493
Extraordinary income		
Gain on sale and retirement of non-current assets	18	62
Subsidy income	12	-
Other	-	6
Total extraordinary income	30	68
Extraordinary losses		
Loss on sale and retirement of non-current assets	309	218
Loss on accident	-	232
Impairment losses	154	-
Other	9	3
Total extraordinary losses	472	453
Profit before income taxes	7,834	9,108
Income taxes	1,935	4,075
Profit	5,899	5,034
Profit (loss) attributable to non-controlling interests	1,350	(1,161)
Profit attributable to owners of parent	4,550	6,195

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

(Millions of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	5,899	5,034
Other comprehensive income		
Valuation difference on available-for-sale securities	(293)	454
Deferred gains or losses on hedges	119	199
Foreign currency translation adjustment	3,666	9,313
Remeasurements of defined benefit plans, net of tax	23	242
Total other comprehensive income	3,515	10,207
Comprehensive income	9,414	15,241
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,091	14,481
Comprehensive income attributable to non-controlling interests	2,323	760

(3) 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 nine months of the fiscal year ended March 31, 2022 (from April 1, 2021 to December 31, 2021)

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	95,303	106,174	5,191	206,668	3,350	–	210,018
Sales to external customers	95,303	106,174	5,191	206,668	3,350	–	210,018
Inter-segment sales and transfers	1	–	267	268	656	(925)	–
Total	95,304	106,174	5,458	206,936	4,006	(925)	210,018
Segment profit	2,193	4,123	1,305	7,621	60	(835)	6,846

- 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 (835) million yen to "segment profit" includes 2 million yen in eliminations for inter-segment transactions and (837) 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" 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

In the third quarter of the fiscal year ended March 31, 2022, the Company recorded impairment losses on non-current assets in the Domestic Steel Business and the Material Recycling Business due to the decision to sell some of its company housing. The impairment losses amounted to 150 million yen in the Domestic Steel Business and 4 million yen in the Material Recycling Business.

Significant change in the amount of goodwill

Not applicable.

Significant gain on bargain purchase

Not applicable.

II. First nine months of the fiscal year ending March 31, 2023 (from April 1, 2022 to December 31, 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	111,898	150,189	5,686	267,773	3,559	–	271,332
Sales to external customers	111,898	150,189	5,686	267,773	3,559	–	271,332
Inter-segment sales and transfers	4	–	281	285	792	(1,077)	–
Total	111,902	150,189	5,967	268,058	4,350	(1,077)	271,332
Segment profit (loss)	9,550	(993)	1,266	9,823	(129)	(604)	9,089

- 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 (604) million yen to “segment profit (loss)” includes 20 million yen in eliminations for intersegment transactions and (625) 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.