

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2023 (Fiscal Year 2023) (Three Months Ended June 30, 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): August 10, 2022
 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 First Quarter (from April 1, 2022 to June 30, 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	%
Three months ended June 30, 2022	91,060	40.3	3,029	38.6	3,302	28.2	2,049	56.7
Three months ended June 30, 2021	64,923	30.7	2,185	(47.1)	2,575	(36.2)	1,308	(58.4)

Note: Comprehensive income Three months ended June 30, 2022: 5,945 million yen [19.1%]
Three months ended June 30, 2021: 4,990 million yen [204.9%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2022	47.14	–
Three months ended June 30, 2021	30.09	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of June 30, 2022	334,826	178,306	49.4
As of March 31, 2022	314,203	175,689	51.9

Reference: Equity As of June 30, 2022: 165,373 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	–	–	–	–	–
Fiscal Year 2023 (Forecast)	–	15.00	–	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
First half	182,000	28.0	6,000	7.2	5,700	(14.2)	4,000	18.1	92.04
Full year	384,000	31.2	13,500	53.1	12,500	18.5	8,000	26.5	184.08

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 June 30, 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 June 30, 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)

Three months ended June 30, 2022	43,458,975 shares
Three months ended June 30, 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 3 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	3
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 Three-month Period)	7
(Quarterly Consolidated Statements of Comprehensive Income)	8
(For the Three-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 three months of the fiscal year ending March 31, 2023, the Japanese economy showed signs of recovery as the impact of the COVID-19 eased and economic and social activities began to normalize. However, the outlook for the global economy as a whole remains uncertain due to such factors as Russia's prolonged invasion of Ukraine, soaring resource prices and rising rate of inflation, interest rate hikes and dollar appreciation (yen depreciation) in the U.S. and Europe, as well as economic slowdown in China.

In the domestic steel business, the price of steel scrap, which had been rising steadily since the same period of the previous year, peaked in late April and then began to decline. This prompted customers in the domestic market for steel construction materials to take a wait-and-see attitude, leading to weak demand. Meanwhile, the price of steel scrap was lower than expected, making the sales margins (the difference between the sales price of the product and the purchase price of raw materials) widen.

In the overseas steel business, the business environment was favorable at the Group's companies with the economic recovery from COVID-19 and pent-up demand in Vietnam, and the benefit from promotion of infrastructure investment policies and an increase in private sector investment in North America.

As a result, consolidated net sales of the Kyoei Steel Group increased by 26,137 million yen (40.3%) year on year to 91,060 million yen, consolidated operating profit increased by 844 million yen (38.6%) year on year to 3,029 million yen, consolidated ordinary profit increased by 727 million yen (28.2%) year on year to 3,302 million yen, and profit attributable to owners of parent increased by 741 million yen (56.7%) year on year to 2,049 million yen.

Results by business segment are as follows.

1) Domestic Steel Business

Product shipments increased by 5,000 tons from the same period of the previous fiscal year to 405,000 tons. Steel scrap prices increased by 15,100 yen (31.9%), but an increase in product prices prevailed in the market and was 23,800 yen (32.2%) higher than the same period of the previous year. Therefore, the sales margins widened by 8,800 yen (32.8%).

As a result, segment net sales increased by 8,431 million yen (27.6%) year on year to 38,940 million yen and operating profit increased by 33 million yen (3.6%) year on year to 953 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, the business performance was excellent owing to an increase in shipment volume due to a market sentiment expecting higher product prices resulting from rising steel scrap prices. In North America, performance was also solid, thanks to sufficient shipping volume and sales margins amid strong demand from construction sector.

As a result, segment net sales increased by 17,420 million yen (55.0%) year on year to 49,108 million yen and operating profit increased by 736 million yen (66.0%) year on year to 1,851 million yen.

3) Material Recycling Business

This business segment continued to perform well, mainly due to the continued winning of medical waste treatment projects related to COVID-19. As a result, segment net sales increased by 161 million yen (9.2%) year on year to 1,898 million yen and operating profit increased by 24 million yen (5.3%) year on year to 470 million yen.

4) Others

This category includes harbor operations in Vietnam and the casting business in Japan and Vietnam. Net sales increased by 125 million yen (12.7%) year on year to 1,114 million yen and there was an operating loss of 75 million yen (compared with an operating profit of 1 million yen in the same period of the previous fiscal year).

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

Current assets increased by 18,228 million yen, or 9.4%, from the end of the previous fiscal year to 212,248 million yen. This was attributable mainly to increases of 1,940 million yen in cash and deposits, 9,730 million yen in accounts receivable - trade, 3,132 million yen in electronically recorded monetary claims - operating, 2,043 million yen in merchandise and finished goods, 2,657 million yen in raw materials and supplies, and a decrease of 1,000 million yen in securities.

Non-current assets increased by 2,395 million yen, or 2.0%, from the end of the previous fiscal year to 122,579 million yen. This was attributable mainly to increases of 596 million yen in buildings and structures, 649 million yen in machinery, equipment and vehicles, 459 million yen in land, 302 million yen in other, net under property, plant and equipment, and 293 million yen in retirement benefit asset.

As a result, total assets increased by 20,623 million yen, or 6.6%, from the end of the previous fiscal year to 334,826 million yen.

Liabilities

Current liabilities increased by 12,271 million yen, or 13.2%, from the end of the previous fiscal year to 105,064 million yen. This was attributable mainly to increases of 2,504 million yen in notes and accounts payable - trade, and 10,111 million yen in short-term borrowings, and 442 million yen in income taxes payable, and a decrease of 428 million yen in current portion of long-term borrowings.

Non-current liabilities increased by 5,734 million yen, or 12.5%, from the end of the previous fiscal year to 51,456 million yen. This was attributable mainly to increases of 5,203 million yen in long-term borrowings, 131 million yen in deferred tax liabilities, and 396 million yen in retirement benefit liability.

As a result, total liabilities increased by 18,005 million yen, or 13.0%, from the end of the previous fiscal year to 156,520 million yen.

Net assets

Net assets increased by 2,618 million yen, or 1.5%, from the end of the previous fiscal year to 178,306 million yen. This was attributable mainly to the recording of profit attributable to owners of parent of 2,049 million yen, increases of 2,725 million yen in foreign currency translation adjustment and 199 million yen in non-controlling interests, and decreases of 1,403 million yen in capital surplus and 1,086 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 49.4%.

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

For the domestic steel business in the second quarter of the fiscal year ending March 31, 2023, we expect the demand for steel construction materials to remain flat following the first quarter, with customers still taking a wait-and-see attitude. However, the business performance of this sector for the first six months of the fiscal year ending March 31, 2023 (the first half) is expected to be significantly higher than our previous forecast, as the price of steel scrap is expected to remain below initial expectations for the time being, while selling price of finished goods is expected to reflect the increase in contract prices that have been made to date.

As for the overseas steel business from the second quarter of the fiscal year and beyond, strong construction demand is expected to continue in North America and our business performance will remain solid, although there are concerns for the region's economy about the impact of such factors as interest rate hikes to combat inflation. On the other hand, the performance of the Vietnam business is expected to deteriorate significantly due to the impact of the raw material costs remaining high, including those of imported scrap procured ahead of time, while product prices are rapidly falling due to the global decline in the steel scrap market and seasonal factors. Therefore, the overall performance for the overseas steel business for the second quarter of the fiscal year and beyond is expected to be lower than the previous forecast.

Based on the observation as stated above, we have revised our forecasts for the first six months and the full term of the fiscal year ending March 31, 2023, which was announced in the “Consolidated Financial Results for the Fiscal Year Ended March 31, 2022 (Fiscal Year 2022)” on April 28, 2022.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	51,338	53,278
Notes receivable - trade	669	644
Accounts receivable - trade	51,680	61,409
Electronically recorded monetary claims - operating	15,399	18,531
Securities	1,000	–
Merchandise and finished goods	40,390	42,433
Raw materials and supplies	27,989	30,645
Other	6,111	5,587
Allowance for doubtful accounts	(555)	(281)
Total current assets	194,020	212,248
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	24,190	24,787
Machinery, equipment and vehicles, net	41,062	41,711
Land	30,674	31,134
Other, net	3,274	3,576
Total property, plant and equipment	99,201	101,207
Intangible assets		
Goodwill	856	906
Other	3,311	3,469
Total intangible assets	4,167	4,375
Investments and other assets		
Investment securities	11,155	11,104
Long-term loans receivable	392	368
Retirement benefit asset	3,546	3,839
Deferred tax assets	356	329
Other	1,418	1,405
Allowance for doubtful accounts	(50)	(49)
Total investments and other assets	16,816	16,996
Total non-current assets	120,183	122,579
Total assets	314,203	334,826

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,692	21,195
Electronically recorded obligations - operating	2,343	2,671
Short-term borrowings	54,393	64,504
Current portion of long-term borrowings	4,822	4,393
Income taxes payable	270	711
Provision for bonuses	969	687
Other	11,305	10,902
Total current liabilities	92,793	105,064
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	25,277	30,481
Deferred tax liabilities	2,153	2,284
Deferred tax liabilities for land revaluation	2,394	2,394
Retirement benefit liability	4,317	4,712
Other	1,581	1,585
Total non-current liabilities	45,721	51,456
Total liabilities	138,515	156,520
Net assets		
Shareholders' equity		
Share capital	18,516	18,516
Capital surplus	21,114	19,710
Retained earnings	114,130	115,092
Treasury shares	(1,700)	(1,700)
Total shareholders' equity	152,059	151,618
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	843	679
Deferred gains or losses on hedges	(186)	(20)
Revaluation reserve for land	4,536	4,536
Foreign currency translation adjustment	3,541	6,266
Remeasurements of defined benefit plans	2,162	2,294
Total accumulated other comprehensive income	10,896	13,755
Non-controlling interests	12,734	12,933
Total net assets	175,689	178,306
Total liabilities and net assets	314,203	334,826

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

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Net sales	64,923	91,060
Cost of sales	58,542	83,444
Gross profit	6,381	7,617
Selling, general and administrative expenses	4,196	4,587
Operating profit	2,185	3,029
Non-operating income		
Interest income	202	145
Dividend income	94	168
Share of profit of entities accounted for using equity method	214	190
Foreign exchange gains	135	16
Other	94	149
Total non-operating income	738	668
Non-operating expenses		
Interest expenses	274	364
Other	75	31
Total non-operating expenses	349	395
Ordinary profit	2,575	3,302
Extraordinary income		
Gain on sale and retirement of non-current assets	5	20
Subsidy income	9	-
Total extraordinary income	13	20
Extraordinary losses		
Loss on sale and retirement of non-current assets	49	80
Other	1	1
Total extraordinary losses	49	81
Profit before income taxes	2,538	3,240
Income taxes	562	914
Profit	1,976	2,326
Profit attributable to non-controlling interests	669	278
Profit attributable to owners of parent	1,308	2,049

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

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Profit	1,976	2,326
Other comprehensive income		
Valuation difference on available-for-sale securities	(181)	(164)
Deferred gains or losses on hedges	66	171
Foreign currency translation adjustment	3,084	3,478
Remeasurements of defined benefit plans, net of tax	44	133
Total other comprehensive income	3,013	3,618
Comprehensive income	4,990	5,945
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,652	4,908
Comprehensive income attributable to non-controlling interests	1,338	1,037

(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 three months of the fiscal year ended March 31, 2022 (from April 1, 2021 to June 30, 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	30,509	31,688	1,738	63,934	989	–	64,923
Sales to external customers	30,509	31,688	1,738	63,934	989	–	64,923
Inter-segment sales and transfers	–	–	72	72	207	(279)	–
Total	30,509	31,688	1,810	64,007	1,196	(279)	64,923
Segment profit	919	1,115	447	2,481	1	(296)	2,185

- 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 (296) million yen to "segment profit" includes 13 million yen in eliminations for inter-segment transactions and (310) 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

Not applicable.

Significant change in the amount of goodwill

Not applicable.

Significant gain on bargain purchase

Not applicable.

II. First three months of the fiscal year ending March 31, 2023 (from April 1, 2022 to June 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	38,940	49,108	1,898	89,946	1,114	–	91,060
Sales to external customers	38,940	49,108	1,898	89,946	1,114	–	91,060
Inter-segment sales and transfers	1	–	117	118	250	(368)	–
Total	38,941	49,108	2,015	90,064	1,364	(368)	91,060
Segment profit (loss)	953	1,851	470	3,274	(75)	(169)	3,029

- 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 (169) million yen to “segment profit (loss)” includes 16 million yen in eliminations for inter-segment transactions and (185) 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.