

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2023 (Fiscal Year 2023) (Six Months Ended September 30, 2022) <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, 2022 to September 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	%
Six months ended September 30, 2022	182,838	28.6	6,084	8.7	6,482	(2.4)	4,057	19.7
Six months ended September 30, 2021	142,203	34.5	5,599	(28.6)	6,645	(16.5)	3,388	(41.1)

Note: Comprehensive income Six months ended September 30, 2022: 12,643 million yen [51.5%]

Six months ended September 30, 2021: 8,346 million yen [67.8%]

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2022	93.34		–	
Six months ended September 30, 2021	77.97		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of September 30, 2022	349,670	183,913	49.0
As of March 31, 2022	314,203	175,689	51.9

Reference: Equity As of September 30, 2022: 171,469 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	358,000	22.3	11,300	28.1	11,000	4.3	7,000	10.7	161.07

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, 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 September 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)

Six months ended September 30, 2022	43,458,975 shares
Six months ended September 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 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, 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 Russia's prolonged invasion of Ukraine, continuing high resource prices and inflation, interest rate hikes and dollar appreciation (yen depreciation) in the U.S. and Europe, as well as the economic slowdown in China.

In the domestic market for steel construction materials, the price of steel scrap, a raw material, trended downward from the latter part of April through the middle of August, and demand was weak as customers continued to buy for immediate requirements only due to expectations of further price declines. 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 Vietnamese customers continued to take a wait-and-see attitude because the outlook for product prices is to fall as the raw material market softens, a trend also visible in Japan. On the other hand, in North America, the business environment remained firm for such reasons as progress in implementing infrastructure investment policies and an increase in private sector investment.

As a result, consolidated net sales of the Kyoei Steel Group increased by 40,635 million yen (28.6%) year on year to 182,838 million yen, consolidated operating profit increased by 485 million yen (8.7%) year on year to 6,084 million yen, consolidated ordinary profit decreased by 163 million yen (2.4%) year on year to 6,482 million yen, and profit attributable to owners of parent increased by 668 million yen (19.7%) year on year to 4,057 million yen.

Results by business segment are as follows.

1) Domestic Steel Business

Product shipments decreased by 27,000 tons from the same period of the previous fiscal year to 774,000 tons. Steel scrap prices increased by 7,300 yen (14.8%), but an increase in product prices prevailed in the market and was 22,400 yen (28.9%) higher than the same period of the previous year. Therefore, sales margins widened by 15,200 yen (53.2%).

As a result, segment net sales increased by 13,570 million yen (21.8%) year on year to 75,818 million yen and operating profit increased by 3,605 million yen (258.4%) year on year to 5,000 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 struggled for various reasons, including a decline in shipments and narrowing sales margins as a result of customers postponing purchases since May due to the outlook for product price declines. In North America, however, performance was solid, thanks to sufficient shipping volume and sales margins due to strong demand from construction sector.

As a result, segment net sales increased by 26,086 million yen (34.9%) year on year to 100,832 million yen but operating profit fell by 3,186 million yen (84.2%) year on year to 597 million yen.

3) Material Recycling Business

The number of medical waste treatment projects related to COVID-19 rose because of the 7th wave of infections, but the price of fuel and other items increased, and there was a decline in the number of spot orders, which we charge a high unit price for. Accordingly, segment sales increased by 306 million yen (8.6%) year on year to 3,840 million yen but operating profit decreased by 75 million yen (8.0%) year on year to 865 million yen.

4) Others

This category includes harbor operations in Vietnam and the casting business in Japan and Vietnam. Net sales increased by 674 million yen (40.2%) year on year to 2,349 million yen, but there was an operating loss of 146 million yen (compared with operating profit of 12 million yen in the same period of the previous fiscal year).

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

Current assets increased by 26,569 million yen, or 13.7%, from the end of the previous fiscal year to 220,589 million yen. This was attributable mainly to increases of 4,055 million yen in cash and deposits, 14,412 million yen in accounts receivable - trade, 3,466 million yen in electronically recorded monetary claims - operating, 1,647 million yen in merchandise and finished goods, and 4,847 million yen in raw materials and supplies, and decreases of 1,000 million yen in securities and 1,021 million in other current assets.

Non-current assets increased by 8,897 million yen, or 7.4%, from the end of the previous fiscal year to 129,081 million yen. This was attributable mainly to increases of 1,395 million yen in buildings and structures, 2,294 million yen in machinery, equipment and vehicles, 961 million yen in land, 1,960 million yen in other, net under property, plant and equipment, 606 million yen in investment securities, and 603 million yen in retirement benefit asset.

As a result, total assets increased by 35,466 million yen, or 11.3%, from the end of the previous fiscal year to 349,670 million yen.

Liabilities

Current liabilities increased by 22,033 million yen, or 23.7%, from the end of the previous fiscal year to 114,827 million yen. This was attributable mainly to increases of 19,275 million yen in short-term borrowings, 2,494 million yen in income taxes payable, and 1,407 million yen in current liabilities and other, and a decrease of 838 million yen in current portion of long-term borrowings.

Non-current liabilities increased by 5,209 million yen, or 11.4%, from the end of the previous fiscal year to 50,930 million yen. This was attributable mainly to increases of 4,034 million yen in long-term borrowings, 327 million yen in deferred tax liabilities, and 795 million yen in retirement benefit liability.

As a result, total liabilities increased by 27,242 million yen, or 19.7%, from the end of the previous fiscal year to 165,757 million yen.

Net assets

Net assets increased by 8,224 million yen, or 4.7%, from the end of the previous fiscal year to 183,913 million yen. This was attributable mainly to the recording of profit attributable to owners of parent of 4,057 million yen, and an increase of 6,445 million yen in foreign currency translation adjustment, and decreases of 1,397 million yen in capital surplus, 290 million yen in non-controlling interests, and 1,086 million yen due to dividends of surplus.

As a result, the equity-to-asset ratio decreased from 51.9% at the end of the previous fiscal year to 49.0%.

Cash flows

Cash and cash equivalents at the end of the second quarter of the current fiscal year increased by 11,816 million yen from the end of the previous fiscal year to 39,026 million yen. The cash flow components during first half of the current fiscal year and the main reasons for changes are as follows.

(i) Cash flows from operating activities

Net cash used in operating activities was 3,438 million yen. Major components included profit before income taxes of 6,370 million yen, depreciation of 4,525 million yen, an increase of 13,294 million yen in trade receivables, a decrease of 346 million yen in inventories, a decrease of 1,907 million yen in trade payables, an increase of 1,205 million yen in accrued consumption taxes, and interest paid of 815 million yen.

(ii) Cash flows from investing activities

Net cash provided by investing activities was 6,543 million yen. Major components included payments into time deposits of 12,731 million yen, proceeds from the withdrawal of time deposits of 23,090 million yen and purchase of property, plant and equipment of 3,667 million yen.

(iii) Cash flows from financing activities

Net cash provided by financing activities was 7,153 million yen. Major components included a net increase of 8,659 million yen in short-term borrowings, proceeds from long-term borrowings of 5,000 million yen, repayments of long-term borrowings of 3,087 million yen, dividends paid of 1,086 million yen, and purchase of shares of subsidiaries not resulting in change in scope of consolidation of 2,208 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), we expect domestic demand for steel products to remain flat with customers maintaining a wait-and-see attitude as a result of the uncertain economic outlook. There are, however, some positive signs, such as an upward trend in the completed floor space of reinforced concrete structures. Because of the impact of the dramatic weakening of the yen and inflation, production costs, such as electricity, are sure to increase, but we 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, starting in the third quarter of the current fiscal year (July – December), the business in Vietnam is expected to see a dramatic deterioration in business performance as production costs remain high at the same time that it becomes difficult to maintain product prices as a result of not only a decline in construction demand due to bank lending restrictions and other developments but also fiercer competition. For North America, despite concerns about continuing high inflation and the risk of a recession due to interest rate hikes and other developments, business performance is expected to remain firm due to strong construction demand. Therefore, overall performance for the overseas steel business in the third quarter of the fiscal year and beyond is expected to fall substantially short of the previous forecast.

Steel product production and shipment volumes and industrial waste disposal volume are expected to decline because of a fire that occurred at the Yamaguchi Division on October 11, but the impact has been factored into consolidated forecasts. The impact of valuation losses on foreign-currency denominated loans related to overseas business due to changes in exchange rates and interest rate hikes have also been factored in.

Based on the observations as stated above, we have revised our forecast for the fiscal year ending March 31, 2023, which was announced in the “Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2023” on July 29, 2022.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	51,338	55,393
Notes receivable - trade	669	580
Accounts receivable - trade	51,680	66,092
Electronically recorded monetary claims - operating	15,399	18,865
Securities	1,000	–
Merchandise and finished goods	40,390	42,037
Raw materials and supplies	27,989	32,836
Other	6,111	5,090
Allowance for doubtful accounts	(555)	(303)
Total current assets	194,020	220,589
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	24,190	25,585
Machinery, equipment and vehicles, net	41,062	43,357
Land	30,674	31,635
Other, net	3,274	5,234
Total property, plant and equipment	99,201	105,811
Intangible assets		
Goodwill	856	953
Other	3,311	3,579
Total intangible assets	4,167	4,531
Investments and other assets		
Investment securities	11,155	11,761
Long-term loans receivable	392	368
Retirement benefit asset	3,546	4,149
Deferred tax assets	356	619
Other	1,418	1,877
Allowance for doubtful accounts	(50)	(36)
Total investments and other assets	16,816	18,738
Total non-current assets	120,183	129,081
Total assets	314,203	349,670

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,692	17,778
Electronically recorded obligations - operating	2,343	2,575
Short-term borrowings	54,393	73,668
Current portion of long-term borrowings	4,822	3,984
Income taxes payable	270	2,763
Provision for bonuses	969	1,346
Other	11,305	12,712
Total current liabilities	92,793	114,827
Non-current liabilities		
Bonds payable	10,000	10,000
Long-term borrowings	25,277	29,312
Deferred tax liabilities	2,153	2,479
Deferred tax liabilities for land revaluation	2,394	2,394
Retirement benefit liability	4,317	5,111
Other	1,581	1,634
Total non-current liabilities	45,721	50,930
Total liabilities	138,515	165,757
Net assets		
Shareholders' equity		
Share capital	18,516	18,516
Capital surplus	21,114	19,717
Retained earnings	114,130	117,100
Treasury shares	(1,700)	(1,700)
Total shareholders' equity	152,059	153,632
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	843	853
Deferred gains or losses on hedges	(186)	34
Revaluation reserve for land	4,536	4,536
Foreign currency translation adjustment	3,541	9,986
Remeasurements of defined benefit plans	2,162	2,429
Total accumulated other comprehensive income	10,896	17,837
Non-controlling interests	12,734	12,444
Total net assets	175,689	183,913
Total liabilities and net assets	314,203	349,670

(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, 2021	Six months ended September 30, 2022
Net sales	142,203	182,838
Cost of sales	128,329	167,323
Gross profit	13,874	15,515
Selling, general and administrative expenses	8,275	9,430
Operating profit	5,599	6,084
Non-operating income		
Interest income	402	322
Dividend income	103	169
Share of profit of entities accounted for using equity method	827	574
Foreign exchange gains	150	–
Other	229	350
Total non-operating income	1,709	1,415
Non-operating expenses		
Interest expenses	572	857
Foreign exchange losses	–	58
Other	91	103
Total non-operating expenses	664	1,017
Ordinary profit	6,645	6,482
Extraordinary income		
Gain on sale and retirement of non-current assets	15	46
Subsidy income	9	–
Total extraordinary income	24	46
Extraordinary losses		
Loss on sale and retirement of non-current assets	284	157
Other	2	1
Total extraordinary losses	287	158
Profit before income taxes	6,381	6,370
Income taxes	1,306	2,394
Profit	5,076	3,976
Profit (loss) attributable to non-controlling interests	1,687	(81)
Profit attributable to owners of parent	3,388	4,057

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

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit	5,076	3,976
Other comprehensive income		
Valuation difference on available-for-sale securities	(178)	10
Deferred gains or losses on hedges	92	223
Foreign currency translation adjustment	3,313	8,168
Remeasurements of defined benefit plans, net of tax	43	267
Total other comprehensive income	3,271	8,668
Comprehensive income	8,346	12,643
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,938	10,997
Comprehensive income attributable to non-controlling interests	2,408	1,646

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	6,381	6,370
Depreciation	4,296	4,525
Amortization of goodwill	110	50
Increase (decrease) in provisions	183	57
Increase (decrease) in retirement benefit liability	465	763
Share of loss (profit) of entities accounted for using equity method	(827)	(574)
Loss (gain) on sale and retirement of non-current assets	270	111
Subsidy income	(9)	–
Interest and dividend income	(504)	(491)
Interest expenses	572	857
Decrease (increase) in trade receivables	(6,677)	(13,294)
Decrease (increase) in inventories	(9,568)	346
Increase (decrease) in trade payables	1,737	(1,907)
Increase (decrease) in accrued consumption taxes	(121)	1,205
Decrease (increase) in retirement benefit asset	(286)	(636)
Other, net	(1,562)	(1,042)
Subtotal	(5,540)	(3,659)
Interest and dividends received	650	514
Subsidies received	9	–
Interest paid	(566)	(815)
Income taxes refund (paid)	(1,647)	523
Net cash provided by (used in) operating activities	(7,093)	(3,438)
Cash flows from investing activities		
Payments into time deposits and other	(31,804)	(12,731)
Proceeds from withdrawal of time deposits and other	30,941	23,090
Purchase of securities	(1,000)	–
Proceeds from sale of securities	1,000	–
Purchase of investment securities	(62)	(3)
Loan advances	(2)	(1)
Proceeds from collection of loans receivable	142	245
Purchase of property, plant and equipment	(5,945)	(3,667)
Proceeds from sale of property, plant and equipment	6	20
Purchase of intangible assets	(343)	(369)
Other, net	(184)	(41)
Net cash provided by (used in) investing activities	(7,251)	6,543
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	3,514	8,659
Proceeds from long-term borrowings	1,139	5,000
Repayments of long-term borrowings	(2,966)	(3,087)
Proceeds from issuance of bonds	9,947	–
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	–	(2,208)
Dividends paid	(1,955)	(1,086)
Dividends paid to non-controlling interests	(14)	(24)
Other, net	16	(101)
Net cash provided by (used in) financing activities	9,680	7,153
Effect of exchange rate change on cash and cash equivalents	717	1,558
Net increase (decrease) in cash and cash equivalents	(3,947)	11,816
Cash and cash equivalents at beginning of period	25,351	27,210
Cash and cash equivalents at end of period	21,404	39,026

(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, 2022 (from April 1, 2021 to September 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	62,248	74,746	3,534	140,528	1,675	–	142,203
Sales to external customers	62,248	74,746	3,534	140,528	1,675	–	142,203
Inter-segment sales and transfers	–	–	174	174	497	(671)	–
Total	62,248	74,746	3,708	140,702	2,172	(671)	142,203
Segment profit	1,395	3,783	940	6,119	12	(532)	5,599

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 (532) million yen to "segment profit" includes 8 million yen in eliminations for inter-segment transactions and (540) 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 six months of the fiscal year ending 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.

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.