Summary of Consolidated Financial Statements
for the First Quarter of the Fiscal Year Ending March 2021
[Japanese Standards]

July 31, 2020

Listed Company Name: KROSAKI HARIMA CORPORATION
Listed on the Tokyo Stock Exchange and the Fukuoka Stock Exchange
Securities Code: 5352 URL: http://www.krosaki.co.jp/
Representative: Kazuhiro Egawa, President
Scheduled date of submitting the quarterly financial statements: August 7, 2020
Scheduled date of starting distributing dividends: —
Supplementary documents for this summary of financial statements: None
Explanation meeting for analysts on this summary of financial statements: None

(Figures shown are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 2021 (April 1, 2020, to June 30, 2020)

(1) Consolidated Business Results

(The percentages indicate the rates of increase or decrease compared with the preceding fiscal year.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
1Q FY Ending March 2021	27,524	(22.1)	924	(60.5)	1,323	(43.7)
1Q FY Ending March 2020	35,342	(0.3)	2,342	(20.8)	2,350	(24.0)

	Net income attributable to owners of the parent		Net income per share	Diluted net income per share
	Millions of yen	%	Yen	Yen
1Q FY Ending March 2021	1,051	(29.9)	124.80	—
1Q FY Ending March 2020	1,498	(23.4)	177.92	—

Reference: Comprehensive income was ¥898 million (-8.3%) for the first Q of the FY ending March 2021 and ¥979 million (-23.4%) for the first Q of the FY ending March 2020.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2020	122,802	57,112	44.1
March 31, 2020	126,942	57,233	42.7

Reference: Equity capital was ¥54,155 million as of June 30, 2020, and ¥54,222 million as of March 31, 2020.

2. Dividends

	Dividend per share				
	1Q End	2Q End	3Q End	Year-End	Annual
	Yen	Yen	Yen	Yen	Yen
FY Ending March 2020	—	100.00	—	120.00	220.00
FY Ending March 2021	—				
FY Ending March 2021 (Forecast)		40.00	—	—	—

Note: Revision to the most recent dividend forecasts previously released: Yes

* For details, refer to the Notice Regarding Performance and Dividend Forecasts released today. Because the full-year forecast of net income attributable to owners of the parent remains to be determined, the forecast of year-end dividends for the fiscal year ending March 31, 2021, remains to be determined and will be estimated and disclosed when the business results for the second or third quarter of said fiscal year are disclosed.

3. Forecast of Consolidated Business Results for the Fiscal Year Ending March 2021 (April 1, 2020, to March 31, 2021)

(The percentages indicate the rates of increase or decrease compared with the preceding fiscal year.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Interim	53,000	(25.2)	1,000	(79.5)	1,500	(69.5)
Full Year	110,000	(19.9)	—	—	4,000	(59.0)

	Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Yen
Interim	1,200	(62.1)	142.46
Full Year	—	—	—

Note: Revision to the most recent performance forecasts previously released: Yes

* For details, refer to the Notice Regarding Performance and Dividend Forecasts released today. The full-year forecasts of consolidated operating income and net income attributable to owners of the parent for the fiscal year ending March 31, 2021, remain to be determined. These forecasts will be disclosed as soon as they become available.

Notes:
(1) Changes in important subsidiaries involving a change in the scope of consolidation during the period: None
(2) Adoption of special accounting treatment for preparing the quarterly consolidated financial statements: None
(3) Changes in accounting policies or estimates and retrospective restatements

1. Changes in accounting policies in accordance with revision of accounting standards: None
2. Changes in accounting policies other than above: Yes
3. Changes in accounting estimates: yes
4. Retrospective restatements: None

Note: Beginning with the first quarter of the fiscal year ending March 31, 2021, the Company has changed the method of depreciation, which is a change in accounting policies that is difficult to distinguish from a change in accounting estimates. For details, see “(3) Notes to the Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements and Major Notes” on page 8 of the Attachment.

(4) Number of shares issued and outstanding (common stock)

1. Number of shares issued and outstanding as of the period-end (including treasury shares):

1Q FY ending March 2021:	9,114,528	FY ending March 2020:	9,114,528

2. Number of treasury shares as of the period-end:

1Q FY ending March 2021:	690,891	FY ending March 2020:	690,843

3. Average number of shares outstanding:

1Q FY ending March 2021:	8,423,663	1Q FY ending March 2020:	8,424,914

*The Summary of Quarterly Consolidated Financial Statements is exempt from a quarterly review by the audit corporation.

*Statement regarding the proper use of financial forecasts and other special remarks:
Forward-looking statements, including the forecast of business results, in this Summary are based on information that has been obtained by the Company to date and certain assumptions that are deemed as reasonable, and the Company does not guarantee the realization of these statements. Please understand that actual results may differ significantly from those statements due to various factors. For details of the forecasts of business results, see “(2) Description of Future Prospects, Including the Forecast of Consolidated Business Results” under “1. Qualitative Information on the Settlement of Accounts for the Period under Review” on page 3 of the Attachment.

Contents of the Attachment

1. Qualitative Information on the Settlement of Accounts for the Period under Review

(1) Description of Business Results

During the first quarter of the fiscal year ending March 31, 2021, the domestic crude steel output of Japan's steel industry, a major customer of the Krosaki Harima Group, decreased 30.7% from the same period of the previous fiscal year to 18.10 million tons. The global crude steel output from January to June 2020 fell 6.0% from a year earlier to 873.13 million tons.

The Group's consolidated net sales for the first quarter of the fiscal year ending March 31, 2021, declined 22.1% to ¥27,524 million, mainly due to decreasing demand for refractories resulting from continued reduction of crude steel output of steel industries in Japan and overseas, as well as decreased order receipts for construction and maintenance projects due to customers' suspension of operations or reduced production.

Primarily due to the decreased net sales, the Group's consolidated operating income for the first quarter of the year under review declined 60.5% from a year earlier to ¥924 million and ordinary income fell 43.7% to ¥1,323 million. The Group's consolidated net income attributable to owners of the parent decreased 29.9% to ¥1,051 million.

Consolidated business performance by industry segment was as follows.

The net sales of each segment represent sales to external customers and do not include intersegment sales or transfers. Segment profit is reconciled with operating income in the consolidated statement of income.

[Refractories]

The Refractories segment's net sales for the first quarter of the fiscal year ending March 31, 2021, decreased 24.6% from the same period of the previous fiscal year to ¥22,106 million, mainly due to decreasing demand for refractories resulting from continued reduction of crude steel output of steel industries in Japan and overseas. Primarily due to the net sales decrease, segment profit decreased 71.9% to ¥484 million.

[Furnace]

The Furnace segment's net sales for the first quarter of the fiscal year ending March 31, 2021, decreased 20.4% from a year earlier to ¥3,164 million, mainly due to decreased order receipts for construction and maintenance projects resulting from customers' suspension of operations or reduced production. Primarily due to the net sales decrease, segment profit decreased 43.2% to 109 million.

[Ceramics]

The Ceramics segment's net sales for the first quarter of the fiscal year ending March 31, 2021, increased 11.8% from a year earlier to ¥1,856 million, primarily owing to expanded sales of insulation materials for fuel cells. Segment profit decreased 11.8% to ¥176 million, mainly reflecting capital investments to reinforce production capacity.

[Real Estate]

The Real Estate segment’s net sales for the first quarter of the fiscal year ending March 31, 2021 increased slightly from a year earlier to ¥207 million. Segment profit decreased 3.7% to ¥172 million.

[Others]

The Others segment’s net sales for the first quarter of the fiscal year ending March 31, 2021 decreased 4.4% from a year earlier to ¥189 million. Regarding profitability, a segment loss of ¥17 million was recorded compared with a segment loss of ¥6 million for the same period of the previous fiscal year.

(2) Description of Future Prospects, Including the Forecast of Consolidated Business Results

The Company announced today (July 31, 2020) the interim and full-year forecasts of consolidated business results for the fiscal year ending March 2021, which weren’t yet determined when the Summary of Consolidated Financial Statements for the Fiscal Year Ending March 2020 [Japanese Standards] was released on May 11, 2020. For details, refer to the Notice Regarding Performance and Dividend Forecasts released today.

The performance forecasts may vary significantly due to such reasons as fluctuations in demand for refractories caused by changes in crude steel output.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY Ending March 2020 (As of March 31, 2020)		FY Ending March 2021 First Quarter (As of June 30, 2020)	
ASSETS				
Current assets:				
Cash and deposits		3,787		4,214
Notes and accounts receivable—trade		47,539		42,839
Merchandise and finished goods		12,750		12,095
Work in process		3,520		3,145
Raw materials and supplies		9,920		10,393
Other		3,579		3,958
Allowance for doubtful accounts		(310)		(306)
Total current assets		**80,788**		**76,341**
Noncurrent assets:				
Property, plant and equipment:				
Buildings and structures	41,693		41,613	
Accumulated depreciation	(28,956)		(29,066)	
Buildings and structures (net)		12,737		12,546
Machinery, equipment and vehicles	64,208		64,316	
Accumulated depreciation	(54,316)		(54,182)	
Machinery, equipment and vehicles (net)		9,892		10,133
Tools, furniture and fixtures	4,627		4,658	
Accumulated depreciation	(3,754)		(3,788)	
Tools, furniture and fixtures (net)		872		870
Land		6,810		6,782
Construction in progress		2,842		3,062
Total property, plant and equipment		33,155		33,394
Intangible assets:				
Goodwill		4,784		4,595
Other		523		511
Total intangible assets		5,308		5,106
Investments and other assets:				
Investment securities		5,122		5,622
Net defined benefit asset		770		653
Deferred tax assets		437		449
Other		1,531		1,402
Allowance for doubtful accounts		(171)		(168)
Total investments and other assets		7,690		7,959
Total noncurrent assets		**46,154**		**46,461**
Total assets		**126,942**		**122,802**

(Millions of yen)

	FY Ending March 2020 (As of March 31, 2020)	FY Ending March 2021 First Quarter (As of June 30, 2020)
LIABILITIES		
Current liabilities:		
Notes and accounts payable—trade	13,579	11,227
Electronically recorded payables	6,025	5,734
Short-term loans payable	6,805	7,829
Commercial paper	9,000	8,000
Income taxes payable	504	574
Provision for bonuses	2,752	1,484
Provision for loss on construction contracts	81	81
Provision for environmental measures	68	49
Other current liabilities	7,280	6,767
Total current liabilities	**46,099**	**41,749**
Noncurrent liabilities:		
Long-term loans payable	18,914	18,941
Deferred tax liabilities	56	428
Provision for directors' retirement benefits	560	469
Provision for product warranties	1	1
Net defined benefit liability	589	580
Asset retirement obligations	25	25
Other	3,464	3,493
Total long-term liabilities	**23,610**	**23,940**
Total liabilities	**69,709**	**65,690**
NET ASSETS		
Shareholders' equity:		
Capital stock	5,537	5,537
Capital surplus	2,000	2,000
Retained earnings	50,794	50,834
Treasury stock	(1,641)	(1,641)
Total shareholders' equity	**56,691**	**56,732**
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,041	1,361
Deferred gains or losses on hedges	0	(0)
Foreign currency translation adjustment	(3,052)	(3,495)
Remeasurements of defined benefit plans	(458)	(441)
Total accumulated other comprehensive income	**(2,469)**	**(2,576)**
Non-controlling interests	**3,010**	**2,956**
Total net assets	**57,233**	**57,112**
Total liabilities and net assets	**126,942**	**122,802**

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statement of Income

(Millions of yen)

	FY Ending March 2020 First Quarter (April 1, 2019 to June 30, 2019)	FY Ending March 2021 First Quarter (April 1, 2020 to June 30, 2020)
Net sales	35,342	27,524
Cost of sales	28,655	22,627
Gross profit	**6,686**	**4,896**
Selling, general and administrative expenses	4,344	3,972
Operating income	**2,342**	**924**
Non-operating income:		
Interest income	5	6
Dividends income	72	53
Equity in earnings of affiliates	88	83
Foreign exchange gains	19	103
Subsidy income	—	224
Other	73	93
Total non-operating income	**260**	**564**
Non-operating expenses:		
Interest expenses	111	74
Other	141	91
Total non-operating expenses	252	165
Ordinary income	**2,350**	**1,323**
Extraordinary income:		
Gain on sales of noncurrent assets	1	83
Reversal of foreign currency translation adjustment	69	—
Other	0	—
Total extraordinary income	70	83
Extraordinary loss:		
Loss on sales of noncurrent assets	0	—
Loss on retirement of noncurrent assets	5	0
Loss on sales of shares of subsidiaries & associates	10	—
Total extraordinary loss	16	0
Net income before income taxes	**2,404**	**1,405**
Income taxes—current	373	141
Income taxes—deferred	443	207
Total income taxes	816	349
Net income	**1,587**	**1,056**
Net income attributable to non-controlling interests	**89**	**4**
Net income attributable to owners of the parent	**1,498**	**1,051**

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY Ending March 2020 First Quarter (April 1, 2019 to June 30, 2019)	FY Ending March 2021 First Quarter (April 1, 2020 to June 30, 2020)
Net income	1,587	1,056
Other comprehensive income		
Valuation difference on available-for-sale securities	(14)	320
Deferred gains or losses on hedges	(71)	(1)
Foreign currency translation adjustment	(474)	(460)
Remeasurements of defined benefit plans	(21)	17
Share of other comprehensive income of associates accounted for using equity method	(25)	(34)
Total other comprehensive income	(608)	(157)
Comprehensive income	979	898
(Breakdown)		
Comprehensive income attributable to owners of the parent	971	943
Comprehensive income attributable to non-controlling interests	8	(45)

(3) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

None

(Notes on a Significant Change in Shareholders’ Equity)

None

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

Conventionally, the Company and its domestic consolidated subsidiaries primarily applied the declining-balance method for depreciation of property, plant and equipment except buildings and structures. Beginning with the first quarter of the fiscal year ending March 31, 2021, however, the straight-line method has been applied.

The Company has focused on reinforcement of its managerial foundations to achieve further growth as “the world’s first-class comprehensive manufacturer of refractories for steel” that consistently offers refractory production and construction technologies. Considering the growing ratio of overseas production as its businesses go increasingly global, and to seek consistency with the accounting policies of NIPPON STEEL CORPORATION, the parent company, the Company has concluded that allocating costs by applying the straight-line depreciation over the asset’s useful life could reflect the actual status of business management more reasonably and appropriately because the property, plant and equipment held by the Company and domestic consolidated subsidiaries can maintain relatively stable production operations for an extended period of time and the risk of technological obsolescence has been minimal in recent years.

This change increased the Group’s consolidated operating income, ordinary income and net income before income taxes for the first quarter of the fiscal year ending March 31, 2021, by ¥130 million each, compared with those if the conventional method had been applied.

(Changes in accounting estimates)

Conventionally, the Company estimated the useful life of tunnel kilns as six years. Beginning with the first quarter of the fiscal year ending March 31, 2021, however, such useful life has been changed to nine years.

In line with the change in method of depreciation, the Company reviewed the useful life of tunnel kilns and concluded that nine years could reflect the status of their utilization more accurately.

Effects of this change on consolidated operating income, ordinary income and net income before taxes for the first quarter of the fiscal year ending March 31, 2021, were minimal.

3. Others

Trend of Quarterly Business Results

(Millions of yen)

	Previous Fiscal Year				Fiscal Year Under Review
	First Quarter (April to June)	Second Quarter (July to Sept.)	Third Quarter (Oct. to Dec.)	Fourth Quarter (Jan. to March)	First Quarter (April to June)
Net Sales	35,342	35,497	34,355	32,200	27,524
Operating income	2,342	2,547	2,137	2,359	924
Ordinary income	2,350	2,572	2,372	2,468	1,323
Net income attributable to owners of the parent	1,498	1,667	1,600	1,677	1,051