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

January 29, 2021

Listed Company Name: KROSAKI HARIMA CORPORATION
Listed on the Tokyo Stock Exchange and the Fukuoka Stock Exchange
Securities Code: 5352 URL: https://www.krosaki.co.jp/
Representative: Kazuhiro Egawa, President
Scheduled date of submitting the quarterly financial statements: February 10, 2021
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 Third Quarter of the Fiscal Year Ending March 2021 (April 1, 2020, to December 31, 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	%
First 3Qs FY Ending March 2021	83,364	(20.8)	2,965	(57.8)	4,121	(43.5)
First 3Qs FY Ending March 2020	105,195	(3.2)	7,027	(16.8)	7,295	(17.1)

	Net income attributable to owners of the parent		Net income per share	Diluted net income per share
	Millions of yen	%	Yen	Yen
First 3Qs FY Ending March 2021	3,003	(37.0)	356.51	—
First 3Qs FY Ending March 2020	4,767	(19.8)	565.88	—

Reference: Comprehensive income was ¥3,598 million (-4.5%) for the first 3Qs of the FY ending March 2021 and ¥3,769 million (3.6%) for the first 3Qs of the FY ending March 2020.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2020	123,370	59,309	45.7
March 31, 2020	126,942	57,233	42.7

Reference: Equity capital was ¥56,398 million as of December 31, 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	—	40.0	—		
FY Ending March 2021 (Forecast)				90.00	130.00

Note: Revision to the most recent dividend forecasts previously released: Yes
* For details, refer to the Notice of Dividend Forecasts released today.

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	%
Full Year	113,000	(17.8)	4,300	(54.2)	5,500	(43.7)

	Net income attributable to owners of the parent		Net income per share
	Millions of yen	%	Yen
Full Year	3,700	(42.6)	439.25

Note: Revision to the most recent performance forecasts previously released: Yes
* For details, refer to the Notice of Revision to the Performance Forecasts released today.

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):

3Q FY ending March 2021:	9,114,528	FY ending March 2020:	9,114,528

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

3Q FY ending March 2021:	691,372	FY ending March 2020:	690,843

3. Average number of shares outstanding:

3Q FY ending March 2021:	8,423,418	3Q FY ending March 2020:	8,424,627

*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 three quarters 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 20.5% from the same period of the previous fiscal year to 59.08 million tons. The global crude steel output from January to December 2020 also fell 0.9% from a year earlier to 1,829.14 million tons.

The Group's consolidated net sales for the first three quarters of the fiscal year ending March 31, 2021, declined 20.8% from the same period of the previous fiscal year to ¥83,364 million, primarily due to decreasing demand for refractories and maintenance of steel works resulting from a reduction of the domestic crude steel output, as well as reduced order receipts for construction projects in the Furnace business due to the timing between large projects.

Primarily due to the decreased net sales, the Group's consolidated operating income for the first three quarters of the year under review declined 57.8% from a year earlier to ¥2,965 million and ordinary income fell 43.5% to ¥4,121 million. The Group's consolidated net income attributable to owners of the parent decreased 37.0% to ¥3,003 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 three quarters of the fiscal year ending March 31, 2021, decreased 24.2% from a year earlier to ¥66,776 million, mainly due to decreasing demand for refractories resulting from a reduction of the domestic crude steel output.

Primarily due to the net sales decrease, segment profit decreased 72.5% to ¥1,508 million.

[Furnace]

The Furnace segment's net sales for the first three quarters of the fiscal year ending March 31, 2021, decreased 8.1% from a year earlier to ¥10,105 million, mainly reflecting a slowdown in demand for maintenance of steel works and reduced order receipts for construction projects due to the timing between large projects. Primarily due to the net sales decrease, segment profit decreased 10.8% to 470 million.

[Ceramics]

The Ceramics segment's net sales for the first three quarters of the fiscal year ending March 31, 2021, increased 11.8% from a year earlier to ¥5,473 million, primarily owing to expanded sales of insulation materials for fuel cells. Segment profit increased 8.5% to ¥531 million mainly due to the net sales increase.

[Real Estate]

The Real Estate segment’s net sales for the first three quarters of the fiscal year ending March 31, 2021 decreased 0.1% from a year earlier to ¥623 million. Segment profit decreased 5.1% to ¥503 million.

[Others]

The Others segment’s net sales for the first three quarters of the fiscal year ending March 31, 2021 decreased 34.8% from a year earlier to ¥384 million. Regarding profitability, a segment loss of ¥34 million was recorded compared with a segment loss of ¥37 million for the same period of the previous fiscal year.

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

The Company revised today (January 29, 2021) the performance forecasts for the fiscal year ending March 31, 2021 announced on October 30, 2020. For details, refer to the Notice of Revision to the Performance 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 as well as the market trend of refractory materials.

The Company revised today (January 29, 2021) the performance forecasts for the fiscal year ending March 31, 2021 announced on October 30, 2020.

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 Third Quarter (As of December 31, 2020)	
ASSETS				
Current assets:				
Cash and deposits		3,787		4,671
Notes and accounts receivable—trade		47,539		41,033
Merchandise and finished goods		12,750		10,615
Work in process		3,520		3,167
Raw materials and supplies		9,920		9,691
Other		3,579		6,802
Allowance for doubtful accounts		(310)		(303)
Total current assets		**80,788**		**75,677**
Noncurrent assets:				
Property, plant and equipment:				
Buildings and structures	41,693		42,098	
Accumulated depreciation	(28,956)		(29,324)	
Buildings and structures (net)		12,737		12,774
Machinery, equipment and vehicles	64,208		65,794	
Accumulated depreciation	(54,316)		(54,437)	
Machinery, equipment and vehicles (net)		9,892		11,357
Tools, furniture and fixtures	4,627		4,716	
Accumulated depreciation	(3,754)		(3,808)	
Tools, furniture and fixtures (net)		872		908
Land		6,810		6,720
Construction in progress		2,842		2,762
Total property, plant and equipment		33,155		34,523
Intangible assets:				
Goodwill		4,784		4,350
Other		523		484
Total intangible assets		5,308		4,835
Investments and other assets:				
Investment securities		5,122		5,926
Net defined benefit asset		770		537
Deferred tax assets		437		439
Other		1,531		1,603
Allowance for doubtful accounts		(171)		(170)
Total investments and other assets		7,690		8,334
Total noncurrent assets		**46,154**		**47,693**
Total assets		**126,942**		**123,370**

(Millions of yen)

	FY Ending March 2020 (As of March 31, 2020)	FY Ending March 2021 Third Quarter (As of December 31, 2020)
LIABILITIES		
Current liabilities:		
Notes and accounts payable—trade	13,579	12,507
Electronically recorded payables	6,025	5,381
Short-term loans payable	6,805	4,552
Commercial paper	9,000	6,000
Income taxes payable	504	495
Provision for bonuses	2,752	1,257
Provision for loss on construction contracts	81	82
Provision for environmental measures	68	79
Other current liabilities	7,280	7,494
Total current liabilities	**46,099**	**37,850**
Noncurrent liabilities:		
Long-term loans payable	18,914	20,784
Deferred tax liabilities	56	738
Provision for directors' retirement benefits	560	520
Provision for product warranties	1	0
Net defined benefit liability	589	645
Asset retirement obligations	25	25
Other	3,464	3,495
Total long-term liabilities	**23,610**	**26,210**
Total liabilities	**69,709**	**64,061**
NET ASSETS		
Shareholders' equity:		
Capital stock	5,537	5,537
Capital surplus	2,000	2,000
Retained earnings	50,794	52,449
Treasury stock	(1,641)	(1,643)
Total shareholders' equity	**56,691**	**58,345**
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,041	1,736
Deferred gains or losses on hedges	0	(2)
Foreign currency translation adjustment	(3,052)	(3,273)
Remeasurements of defined benefit plans	(458)	(406)
Total accumulated other comprehensive income	**(2,469)**	**(1,946)**
Non-controlling interests	**3,010**	**2,910**
Total net assets	**57,233**	**59,309**
Total liabilities and net assets	**126,942**	**123,370**

(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 Three Quarters (April 1, 2019, to December 31, 2019)	FY Ending March 2021 First Three Quarters (April 1, 2020, to December 31, 2020)
Net sales	105,195	83,364
Cost of sales	85,250	68,914
Gross profit	**19,944**	**14,449**
Selling, general and administrative expenses	12,917	11,483
Operating income	**7,027**	**2,965**
Non-operating income:		
Interest income	20	21
Dividends income	126	86
Equity in earnings of affiliates	359	349
Foreign exchange gains	154	174
Subsidy income	6	660
Other	228	325
Total non-operating income	**896**	**1,616**
Non-operating expenses:		
Interest expenses	283	181
Expenses for removing noncurrent assets	104	84
Other	239	194
Total non-operating expenses	627	460
Ordinary income	**7,295**	**4,121**
Extraordinary income:		
Gain on sales of noncurrent assets	79	203
Gain on sales of investment securities	44	203
Reversal of foreign currency translation adjustment	69	—
Other	0	—
Total extraordinary income	193	407
Extraordinary loss:		
Loss on sales of noncurrent assets	0	—
Loss on retirement of noncurrent assets	32	67
Loss on sales of shares of subsidiaries & associates	10	—
Environment expenses	299	30
Loss on disaster	—	27
Other	4	3
Total extraordinary loss	347	128
Net income before income taxes	**7,141**	**4,400**
Income taxes—current	1,324	940
Income taxes—deferred	667	330
Total income taxes	1,992	1,270
Net income	**5,149**	**3,129**
Net income attributable to non-controlling interests	**382**	**126**
Net income attributable to owners of the parent	**4,767**	**3,003**

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY Ending March 2020 First Three Quarters (April 1, 2019, to December 31, 2019)	FY Ending March 2021 First Three Quarters (April 1, 2020, to December 31, 2020)
Net income	5,149	3,129
Other comprehensive income		
Valuation difference on available-for-sale securities	230	695
Deferred gains or losses on hedges	12	(2)
Foreign currency translation adjustment	(1,461)	(236)
Remeasurements of defined benefit plans	(64)	52
Share of other comprehensive income of associates accounted for using equity method	(96)	(39)
Total other comprehensive income	(1,379)	468
Comprehensive income	3,769	3,598
(Breakdown)		
Comprehensive income attributable to owners of the parent	3,591	3,525
Comprehensive income attributable to non-controlling interests	178	72

(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 three quarters of the fiscal year ending March 31, 2021, by ¥483 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 three quarters 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		
	1Q (April to June)	2Q (July to Sept.)	3Q (Oct. to Dec.)	4Q (Jan. to March)	1Q (April to June)	2Q (July to Sept.)	3Q (Oct. to Dec.)
Net Sales	35,342	35,497	34,355	32,200	27,524	28,147	27,692
Operating income	2,342	2,547	2,137	2,359	924	535	1,506
Ordinary income	2,350	2,572	2,372	2,468	1,323	904	1,894
Net income attributable to owners of the parent	1,498	1,667	1,600	1,677	1,051	637	1,314