Summary of Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 2022 [Japanese Standards]

October 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
Date to submit quarterly financial statements: November 11, 2021
Date to start distributing dividends: November 26, 2021
Supplementary documents for this summary of financial statements: Yes
Explanation meeting for institutional investors and analysts on this summary of financial statements: Yes

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

1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2022 (April 1, 2021, to September 30, 2021)

(1) Consolidated Business Results

(Percentages indicate changes from the same period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
First 2Qs, Fiscal Year Ending March 2022	65,112	17.0	4,209	188.4	4,557	104.6
First 2Qs, Fiscal Year Ended March 2021	55,671	(21.4)	1,459	(70.1)	2,227	(54.8)

	Profit attributable to owners of parent		Profit per share	Diluted profit per share
	Millions of yen	%	Yen	Yen
First 2Qs, Fiscal Year Ending March 2022	3,017	78.7	358.28	—
First 2Qs, Fiscal Year Ended March 2021	1,688	(46.7)	200.48	—

Note: Comprehensive income was ¥3,965 million (136.9%) for the first two quarters of the fiscal year ending March 2022 and ¥1,673 million (-26.2%) for the first two quarters of the fiscal year ended March 2021.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
September 30, 2021	132,950	66,078	47.2
March 31, 2021	130,354	63,288	46.1

Reference: Equity capital was ¥62,749 million as of September 30, 2021, and ¥60,087 million as of March 31, 2021.

2. Dividends

	Dividend				
	1Q End	2Q End	3Q End	Year-End	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal Year Ended March 2021	—	40.00	—	110.00	150.00
Fiscal Year Ending March 2022	—	100.00			
Fiscal Year Ending March 2022 (Forecast)			—	—	—

Note: Revision to the most recent dividend forecasts previously released: No
*The forecast of year-end dividends for the fiscal year ending March 2022 has not yet been determined because a decision will be made by closely observing the trends of business results. These dividend forecasts will be disclosed when it becomes possible to do so.

3. Forecast of Consolidated Business Results for the Fiscal Year Ending March 31, 2022 (April 1, 2021 to March 31, 2022)

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

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Full Year	130,000	14.4	8,000	61.6	8,000	25.8

	Profit attributable to owners of parent		Profit per share
	Millions of yen	%	Yen
Full Year	5,500	26.9	653.01

Note: Revision to the most recent dividend forecasts previously released: No

Notes:

(1) Changes in important subsidiaries involving a change in the scope of consolidation during the period: Yes

(Changes in specified subsidiaries involving a change in the scope of consolidation)

Newly added: 0 company   Company name: --

Excluded: 1 company   Company name: KROSAKI HARIMA CERA CORPORATION

Note: KROSAKI HARIMA CERA CORPORATION, which had been a consolidated subsidiary of the Company, was dissolved as of April 1, 2021 as a result of the absorption-type merger in which the Company is the surviving company and therefore has been excluded from the scope of consolidation effective from the first quarter of the fiscal year ending March 31, 2022.

(2) Adoption of accounting methods specific to preparation of quarterly consolidated financial statements: None

Notes on the adoption of accounting methods specific to preparation of quarterly consolidated financial statements

(3) Changes in accounting policies or estimates and retrospective restatements

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

(Note) For details, see “(3) Notes to Quarterly Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements and Principal 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):

2Q, Fiscal Year ending March 2022:	9,114,528	Fiscal Year ended March 2021:	9,114,528

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

2Q, Fiscal Year ending March 2022:	692,378	Fiscal Year ended March 2021:	691,705

3. Average number of shares outstanding:

2Q, Fiscal Year ending March 2022:	8,422,559	2Q, Fiscal Year ended March 2021:	8,423,518

The Summary of Quarterly Consolidated Financial Statements is exempt from the quarterly review by Certified Public Accountants or an 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 forecast of business results, see “(2) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Information” under “1. Qualitative Information on Quarterly Financial Results” on page 3 of the attachment.

Contents of the Attachment

1. Qualitative Information on Quarterly Financial Results

(1) Explanation of Operating Results

During the first two quarters of the fiscal year ending March 31, 2022, the domestic total crude steel output in the steel industry, the Group’s main customers, increased by 30.6% year on year, to 48.42 million tons. The global crude steel output from January to September 2021 also increased by 7.8% year on year, to approximately 1,461.20 million tons.

The Group’s consolidated net sales for the first two quarters of the fiscal year ending March 31, 2022 increased 17.0% from a year earlier to ¥65,112 million, primarily due to a rise in demand for refractories accompanying the increased crude steel output both domestically and globally, as well as an increase in ceramic materials for semiconductor manufacturing equipment and electronic components.

Primarily due to an increase in net sales, the Group’s consolidated operating profit for the first two quarters of the fiscal year ending March 31, 2022 increased 188.4% from a year earlier to ¥4,209 million, ordinary profit increased 104.6% to ¥4,557 million, and profit attributable to owners of parent increased 78.7% to ¥3,017 million.

Due to the application of accounting standards such as the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) (the “Revenue Recognition Standard”), net sales for the first two quarters of the fiscal year ending March 31, 2022 increased by ¥289 million, and operating profit and ordinary profit each increased by ¥46 million.

Operating results by business segment for the first two quarters of the fiscal year ending March 31, 2022 are as follows:

The net sales of each segment represent sales to external customers and do not include inter-segment sales or transfers. The amounts of segment profit are based on operating profit.

[Refractories]

Net sales in the Refractories segment increased 20.2% from a year earlier to ¥53,664 million, mainly due to the increased demand for refractories resulting from an increase in domestic and global crude steel output. Primarily due to the net sales increase, segment profit increased 461.5% from a year earlier to ¥2,943 million.

Due to the application of the Revenue Recognition Standard and other accounting standards, net sales increased by ¥289 million, and profit increased by ¥46 million.

[Furnace]

Net sales in the Furnace segment decreased 2.1% from a year earlier to ¥6,465 million, mainly reflecting reduced order receipts due to the timing between large-scale construction projects. Primarily due to cost reductions from improved efficiency in furnace construction, segment profit increased 15.2% from a year earlier to ¥254 million.

[Ceramics]

Net sales in the Ceramics segment increased 14.1% from a year earlier to ¥4,253 million (all-time high), primarily owing to expanded sales of ceramic materials for semiconductor manufacturing equipment and electronic components. Primarily due to the increase in net sales, segment profit increased 94.3% from a year earlier to ¥696 million (all-time high).

[Real Estate]

Net sales in the Real Estate segment decreased 11.3% from a year earlier to ¥368 million. Segment profit decreased 13.2% from a year earlier to ¥298 million.

[Others]

Net sales in Others segment increased 27.9% from a year earlier to ¥359 million. Segment profit increased 47.2% from a year earlier to ¥19 million.

(2) Explanation of Consolidated Financial Results Forecasts and Other Forward-looking Information

As of the time this report is prepared, there has been no change to the Group’s consolidated financial results forecasts for the fiscal year ending March 31, 2022, released on May 12, 2021.

Financial results forecasts may vary significantly due to factors such as fluctuations in demand for refractories associated with changes in crude steel output as well as market trends for refractory materials.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Fiscal Year Ended March 31, 2021 (As of March 31, 2021)	2Q, Fiscal Year Ending March 31, 2022 (As of September 30, 2021)
Assets		
Current assets		
Cash and deposits	5,301	5,725
Notes and accounts receivable - trade	43,293	–
Notes and accounts receivable - trade, and contract assets	–	42,851
Merchandise and finished goods	11,490	12,719
Work in process	3,197	3,371
Raw materials and supplies	9,868	10,528
Other	6,634	7,484
Allowance for doubtful accounts	(291)	(294)
Total current assets	79,496	82,385
Non-current assets		
Property, plant and equipment		
Buildings and structures	42,499	42,849
Accumulated depreciation	(29,564)	(30,128)
Buildings and structures, net	12,935	12,721
Machinery, equipment and vehicles	67,338	69,089
Accumulated depreciation	(55,122)	(56,299)
Machinery, equipment and vehicles, net	12,215	12,790
Tools, furniture and fixtures	4,944	5,118
Accumulated depreciation	(3,881)	(4,026)
Tools, furniture and fixtures, net	1,063	1,092
Land	6,732	6,735
Construction in progress	2,422	2,135
Total property, plant and equipment	35,369	35,475
Intangible assets		
Goodwill	4,493	4,305
Other	485	503
Total intangible assets	4,978	4,808
Investments and other assets		
Investment securities	6,563	6,449
Retirement benefit asset	2,071	2,076
Deferred tax assets	473	241
Other	1,586	1,709
Allowance for doubtful accounts	(184)	(195)
Total investments and other assets	10,510	10,281
Total non-current assets	50,858	50,565
Total assets	130,354	132,950

(Millions of yen)

	Fiscal Year Ended March 31, 2021 (As of March 31, 2021)	2Q, Fiscal Year Ending March 31, 2022 (As of September 30, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	13,394	13,221
Electronically recorded obligations - operating	5,240	5,430
Short-term borrowings	9,685	13,399
Commercial papers	7,000	5,000
Income taxes payable	1,214	1,258
Provision for bonuses	2,167	2,434
Provision for loss on construction contracts	82	111
Provision for environmental measures	58	–
Asset retirement obligations	160	160
Other	6,168	5,024
Total current liabilities	45,172	46,040
Non-current liabilities		
Long-term borrowings	16,098	14,887
Deferred tax liabilities	1,122	1,034
Provision for retirement benefits for directors (and other officers)	488	462
Retirement benefit liability	697	677
Asset retirement obligations	25	25
Other	3,460	3,744
Total non-current liabilities	21,893	20,831
Total liabilities	67,065	66,872
Net assets		
Shareholders' equity		
Share capital	5,537	5,537
Capital surplus	2,000	2,000
Retained earnings	53,781	55,788
Treasury shares	(1,644)	(1,648)
Total shareholders' equity	59,675	61,679
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,052	1,997
Deferred gains or losses on hedges	4	25
Foreign currency translation adjustment	(2,313)	(1,580)
Remeasurements of defined benefit plans	668	626
Total accumulated other comprehensive income	412	1,069
Non-controlling interests	3,201	3,329
Total net assets	63,288	66,078
Total liabilities and net assets	130,354	132,950

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

Quarterly Consolidated Statements of Income

(Millions of yen)

	First 2Qs, Fiscal Year Ended March 31, 2021 (April 1, 2020 to September 30, 2020)	First 2Qs, Fiscal Year Ending March 31, 2022 (April 1, 2021 to September 30, 2021)
Net sales	55,671	65,112
Cost of sales	46,532	52,548
Gross profit	9,138	12,563
Selling, general and administrative expenses	7,678	8,354
Operating profit	1,459	4,209
Non-operating income		
Interest income	15	13
Dividend income	54	47
Share of profit of entities accounted for using equity method	206	146
Foreign exchange gains	138	197
Subsidy income	468	6
Other	216	176
Total non-operating income	1,098	587
Non-operating expenses		
Interest expenses	130	142
Loss on removal of non-current assets	71	19
Other	129	77
Total non-operating expenses	330	239
Ordinary profit	2,227	4,557
Extraordinary income		
Gain on sale of non-current assets	88	41
Gain on sale of investment securities	194	23
Total extraordinary income	282	64
Extraordinary losses		
Loss on retirement of non-current assets	39	25
Environmental expenses	30	–
Other	0	–
Total extraordinary losses	69	25
Profit before income taxes	2,440	4,596
Income taxes - current	807	1,190
Income taxes - deferred	(86)	193
Total income taxes	721	1,384
Profit	1,719	3,211
Profit attributable to non-controlling interests	30	194
Profit attributable to owners of parent	1,688	3,017

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	First 2Qs, Fiscal Year Ended March 31, 2021 (April 1, 2020 to September 30, 2020)	First 2Qs, Fiscal Year Ending March 31, 2022 (April 1, 2021 to September 30, 2021)
Profit	1,719	3,211
Other comprehensive income		
Valuation difference on available-for-sale securities	273	(54)
Deferred gains or losses on hedges	0	20
Foreign currency translation adjustment	(326)	765
Remeasurements of defined benefit plans, net of tax	34	(41)
Share of other comprehensive income of entities accounted for using equity method	(28)	63
Total other comprehensive income	(45)	753
Comprehensive income	1,673	3,965
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,689	3,675
Comprehensive income attributable to non-controlling interests	(15)	290

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes on significant changes in shareholders' equity)

Not applicable.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29; March 31, 2020) (the "Revenue Recognition Standard") and other accounting standards from the beginning of the first quarter of the fiscal year ending March 31, 2022. Revenue is recognized as the amount expected to be received in exchange for promised goods or services when control of said goods or services is transferred to the customer.

Previously, refractories revenue was recognized at the time of shipment, but due to the application of this Revenue Recognition Standard, revenue is now recognized when the customer completes inspection and acceptance or when the refractories are delivered to the customer. However, for transactions in which control of refractories is transferred to the customer when said refractories are delivered, revenue continues to be posted in practice at the time of shipment in accordance with Paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30; March 26, 2021).

With respect to construction contracts, in the past, the percentage-of-completion method had been applied to works for which outcomes were deemed certain in so far as the completed portions of the work were concerned, while the completed-contract method had been applied to other works. Since the beginning of the first quarter of the fiscal year ending March 31, 2022, revenue from the contracts for which performance obligations are satisfied over a certain period of time is recognized over time based on the estimated extent of progress toward satisfaction of performance obligations, with the exception of very short-term contracts involving small amounts; meanwhile, revenue from the contracts for which performance obligations are satisfied at one point in time is recognized when the customer completes inspection and acceptance. As for the method to estimate the extent of progress toward satisfaction of performance obligations, the ratio of the cost incurred to the estimated total cost (input method) is being used.

With regard to the application of the Revenue Recognition Standard, etc., in accordance with the transitional treatment stipulated in the proviso to Paragraph 84 of the Revenue Recognition Standard, the cumulative effect of retroactively applying the new accounting policy prior to the beginning of the first quarter of the fiscal year under review has been added to or subtracted from retained earnings at the beginning of the first quarter of the fiscal year under review, and the new accounting policy has been applied from the beginning balance of said period.

As a result, for the six months ended September 30, 2021, net sales increased by ¥289 million, cost of sales increased by ¥242 million, and operating profit, ordinary profit, and profit before income taxes each increased by ¥46 million. Retained earnings at the beginning of the period under review decreased by ¥83 million.

Due to the application of the Revenue Recognition Standard, etc., "Notes and accounts receivable - trade," which was included in "Current assets" in the consolidated balance sheets for the previous fiscal year, are included in

"Notes and accounts receivable - trade, and contract assets" from the first quarter of the fiscal year under review. In accordance with the transitional treatment stipulated in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous fiscal year have not been reclassified in accordance with the new approach to presentation.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30; July 4, 2019) (the "Fair Value Standard") and other accounting standards from the beginning of the first quarter of the fiscal year ending March 31, 2022. New accounting policies based on the Fair Value Standard, etc. have been applied prospectively in accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10; July 4, 2019). There is no impact on the quarterly consolidated financial statements.

3. Others

Trend of Quarterly Operating 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.)
Net sales	27,524	28,147	27,692	30,297	31,721	33,391
Operating profit	924	535	1,506	1,983	2,274	1,934
Ordinary profit	1,323	904	1,894	2,239	2,344	2,213
Profit attributable to owners of parent	1,051	637	1,314	1,331	1,517	1,500