

* NOTE

(1) Changes in the State of Material Subsidiaries during the Period: No

Newly included: - (Name) -

Excluded: - (Name) -

(2) Adoption of Special Accounting Methods for the Preparation of Quarterly Consolidated Financial Statements: Yes

Note: For details, please refer to "Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements."

(3) Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements

(a) Changes in accounting principles accompanying the amendment of accounting standards: None

(b) Changes other than those in (a) above: None

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

(4) Number of Shares Issued (Common shares)

(a) Number of shares issued at the end of the period (including treasury stock)

Second Quarter of Fiscal 2020	24,077,510 shares	Fiscal 2019	24,077,510 shares
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(b) Number of treasury stock at the end of the period

Second Quarter of Fiscal 2020	579,674 shares	Fiscal 2019	583,315 shares
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(c) Average number of shares issued during the period

Second Quarter of Fiscal 2020	23,495,147 shares	Second Quarter of Fiscal 2019	23,495,180 shares
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* These consolidated financial results are not included in the scope of quarterly audits by certified public accountants or audit corporations.

* Explanation of the Appropriate Use of Performance Forecasts and Other Related Items

(Caution concerning future descriptions etc.)

The above estimate has been compiled based on information available at the time this disclosure was made. The actual earnings are subject to change from the estimated values due to various factors. For assumed conditions underlying the earnings forecast and cautionary statements in using the earnings forecast, please refer to "Explanation Regarding Future Estimate Information Such as Consolidated Financial Performance Estimates."

(Method for acquiring supplementary briefing material on quarterly financial results)

The Company plans to hold a briefing session for institutional investors and securities analysts. A video of this briefing session and briefing material will be posted on the Company's website promptly after the briefing session.

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Note: This document has been translated from the original Japanese version for reference purposes only. In the event of any discrepancy between this translated document and the original Japanese version, the original shall prevail.
The original disclosure in Japanese was released on November 5, 2020 at 13:30 (GMT+9).
The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

1. Qualitative Information Regarding Results of the Second Quarter for Fiscal 2020

(1) Explanation Regarding Consolidated Operating Results

During the first half of the consolidated fiscal year under review, the global economy suffered a severe downturn caused by restrictions on economic activity imposed in countries around the world in response to the COVID-19 pandemic at the beginning of the fiscal year. Although some economic activities are now restarting, the economy faced extremely difficult conditions due to the prolonged impact of COVID-19. The Japanese economy likewise declined sharply due in part to a slowdown in consumer spending and exports and a significant fall in industrial production.

Under these circumstances, the Group has focused on continuous production and stable supply to customers while ensuring that COVID-19 preventive measures are taken. The Group has established a company-wide management reform committee and has been taking steps to modify its production systems to promptly respond to a sharp decrease in demand and reduce all expenses as part of its emergency measures to raise its earning power. In addition, the Group has worked to optimize its production system in the Automotive & Industrial Machinery Components Business and implemented the development, sale, etc. of its original products in the Steel Business according to the medium-term business plan, Growth & Change 2021.

The financial results for the first half of the fiscal year under review include consolidated net sales of ¥97,419 million (down 29.0% year on year), largely due to a substantial decline in demand in the Automotive & Industrial Machinery Components Business, which faced a severe business environment. The Group regrettably posted an operating loss of ¥4,231 million (compared to operating profit of ¥2,325 million in the same period of the previous year), and an ordinary loss of ¥3,927 million (compared to ordinary profit of ¥1,552 million in the same period of the previous year). The loss attributable to owners of parent was ¥4,226 million (compared to profit attributable to owners of parent of ¥858 million in the same period of the previous year).

Performance by Segment

(Steel Business)

Demand for steel materials of manufacturing companies in the steel industry fell substantially and the production of crude steel fell sharply from the volume in the same period of the previous year. In the electric furnace industry, the price of steel scrap, a key raw material, began to rise and aggravated the situation.

Given these circumstances, the Group implemented cost reductions through emergency measures to raise earnings. It also focused on efforts such as export and sale of steel materials to construction companies to maintain an adequate sales volume amid the declining supply to the Automotive & Industrial Machinery Components. Selling prices remained low amid the upward trend in steel scrap prices, however, and net sales declined to ¥32,825 million (down 11.2% year on year) while operating profit fell to ¥671 million (down 68.6% year on year).

(Automotive & Industrial Machinery Components Business)

In the automotive industry, domestic production decreased significantly primarily due to a decline in consumer confidence, lower domestic sales of new cars caused in part by voluntary restraint of sales activities, and suspension of factory operation. While signs of recovery appeared in China, production severely declined in the US and other countries owing largely to the suspension of factory operations and reduced consumption. In the construction machinery industry also, production in the US, Southeast Asia, and other regions remained low. Global production of mining machinery also decreased substantially.

Given these challenging conditions, the sales volume dropped significantly despite proceeding with consideration for structural reforms of the Group's businesses and cost cutting through emergency measures. As a result, net sales totaled ¥57,996 million (down 37.1% year on year) and the operating loss stood at ¥3,176 million (compared to operating profit of ¥1,993 million in the same period of the previous year).

(Power Business)

A challenging business environment continued in the power business due to suppression of coal fueled power generation backed by global warming issues and intensifying price competition. Given these circumstances, the Group worked on the stable supply of electricity in line with its business plan. As a consequence, net sales came to ¥3,647 million (down 20.9% year on year) and operating profit increased to ¥146 million (up 13.2% year on year) thanks to efforts such as controlling of repair expenses.

(Others)

The Group operated civil engineering and construction business, real estate leasing including Topy-rec Plaza (Minami-suna, Koto-ku, Tokyo) and a sports club, OSSO, and manufactured and sold synthetic mica and crawler robots. Net sales came to ¥2,950 million (down 11.8% year on year) and operating profit was ¥273 million (down 54.7% year on year) due to a fall in sales from sports club operation and other businesses, which was caused by COVID-19.

(2) Explanation Regarding Financial Status

Total assets at the end of the second quarter of the consolidated fiscal year under review stood at ¥248,720 million, a decrease of ¥5,938 million from the end of the previous consolidated fiscal year. This was mainly due to decreases of ¥5,271 million in notes and accounts receivables.

Total liabilities were ¥148,829 million, or a decrease of ¥2,029 million compared with the end of the previous consolidated fiscal year, primarily reflecting a decrease in notes and accounts payable of ¥2,998 million.

Total net assets came to ¥99,891 million, or a decrease of ¥3,909 million from the end of the previous consolidated fiscal year, primarily reflecting a decrease in retained earnings of ¥4,226 million.

(3) Explanation Regarding Future Estimate Information Such as Consolidated Financial Performance Estimates

While the global economy is expected to begin recovering through the resumption of economic activities, a full recovery from the severe impact of COVID-19 is like to take considerable time. Under these conditions, it is difficult to predict the future due to uncertainties such as when COVID-19 will be under control course of the US-China conflict. The Group's operating environment, therefore, is like to remain highly uncertain.

As for the consolidated financial results for the fiscal year ending March 31, 2021 (April 1, 2020, through March 31, 2021), the Group expects that net sales will be ¥217,000 million, operating loss will be ¥2,500 million, ordinary loss will be ¥1,500 million, and loss attributable to the owners of parent will be ¥2,500 million, partially due to cost cuts, which is expected to show some effect, while sales volumes of automobile wheels, parts for the undercarriages of construction machinery, and steel materials remain at expected levels. For details, please refer to "Announcement Regarding the Adjustment of the Consolidated Financial Forecast and Dividends Forecasts for Fiscal 2020" released today.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	23,811	23,174
Notes and accounts receivable - trade	44,764	39,493
Merchandise and finished goods	20,708	17,805
Work in process	5,529	5,818
Raw materials and supplies	14,018	14,335
Other	6,271	7,121
Allowance for doubtful accounts	△28	△54
Total current assets	115,074	107,693
Non-current assets		
Property, plant and equipment		
Buildings and structures	92,392	92,580
Accumulated depreciation	△62,551	△63,343
Buildings and structures, net	29,841	29,236
Machinery, equipment and vehicles	209,235	211,259
Accumulated depreciation	△162,259	△164,672
Machinery, equipment and vehicles, net	46,976	46,586
Land	15,256	15,188
Leased assets	5,141	2,557
Accumulated depreciation	△3,625	△1,327
Leased assets, net	1,515	1,230
Construction in progress	4,778	6,043
Other	43,460	43,636
Accumulated depreciation	△41,383	△41,623
Other, net	2,076	2,013
Total property, plant and equipment	100,445	100,298
Intangible assets		
Other	4,637	4,278
Total intangible assets	4,637	4,278
Investments and other assets		
Investment securities	24,774	26,849
Long-term loans receivable	479	481
Deferred tax assets	1,360	1,355
Retirement benefit asset	295	295
Other	7,642	7,523
Allowance for doubtful accounts	△50	△54
Total investments and other assets	34,500	36,450
Total non-current assets	139,584	141,027
Total assets	254,659	248,720

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,562	21,563
Electronically recorded obligations - operating	12,687	11,406
Short-term borrowings	15,495	22,649
Current portion of bonds payable	5,500	5,500
Lease obligations	433	266
Income taxes payable	502	570
Other	14,872	14,841
Total current liabilities	74,053	76,797
Non-current liabilities		
Bonds payable	27,300	22,300
Long-term borrowings	28,486	28,541
Lease obligations	572	451
Deferred tax liabilities	4,649	5,168
Provision for corporate officers' retirement benefits	175	212
Provision for share-based remuneration for directors (and other officers)	39	36
Provision for retirement benefits for directors (and other officers)	46	27
Reserve for repairs	290	364
Retirement benefit liability	12,285	12,152
Asset retirement obligations	355	356
Other	2,602	2,419
Total non-current liabilities	76,805	72,032
Total liabilities	150,858	148,829
Net assets		
Shareholders' equity		
Share capital	20,983	20,983
Capital surplus	18,606	18,606
Retained earnings	61,444	57,218
Treasury shares	△1,711	△1,703
Total shareholders' equity	99,323	95,104
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,440	6,852
Deferred gains or losses on hedges	△5	△7
Foreign currency translation adjustment	△1,401	△2,432
Remeasurements of defined benefit plans	△625	△603
Total accumulated other comprehensive income	3,409	3,808
Non-controlling interests	1,068	978
Total net assets	103,800	99,891
Total liabilities and net assets	254,659	248,720

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(Second Quarter Consolidated Cumulative Accounting Term)

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net sales	137,196	97,419
Cost of sales	117,927	87,374
Gross profit	19,268	10,044
Selling, general and administrative expenses	16,943	14,276
Operating profit (loss)	2,325	△4,231
Non-operating income		
Interest income	39	47
Dividend income	385	352
Share of profit of entities accounted for using equity method	270	200
Subsidies for employment adjustment	—	444
Other	210	189
Total non-operating income	905	1,234
Non-operating expenses		
Interest expenses	313	259
Foreign exchange losses	490	416
Other	875	254
Total non-operating expenses	1,678	930
Ordinary profit (loss)	1,552	△3,927
Extraordinary income		
Gain on sales of non-current assets	15	14
Gain on sales of investment securities	—	17
Total extraordinary income	15	32
Extraordinary losses		
Loss on sales of non-current assets	0	1
Loss on retirement of non-current assets	108	87
Other	1	—
Total extraordinary losses	109	88
Profit (loss) before income taxes	1,457	△3,983
Income taxes	578	250
Profit (loss)	879	△4,234
Profit (loss) attributable to non-controlling interests	21	△7
Profit (loss) attributable to owners of parent	858	△4,226

(Quarterly Consolidated Statements of Comprehensive Income)
(Second Quarter Consolidated Cumulative Accounting Term)

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Profit (loss)	879	△4,234
Other comprehensive income		
Valuation difference on available-for-sale securities	647	1,412
Deferred gains or losses on hedges	1	△2
Foreign currency translation adjustment	△345	△933
Remeasurements of defined benefit plans, net of tax	△43	21
Share of other comprehensive income of entities accounted for using equity method	△140	△148
Total other comprehensive income	119	349
Comprehensive income	999	△3,884
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	979	△3,827
Comprehensive income attributable to non- controlling interests	19	△57

(3) Notes Regarding Quarterly Consolidated Financial Results

(Note Related to Going-Concern Assumption)

None

(Note on Significant Changes in the Amount of Shareholders' Equity)

None

(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)

Tax expenses were calculated by multiplying the rationally estimated effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, which includes the current second quarter under review, by profit before income taxes for the second quarter.