

Our Steel, Your Future



Yamato Kogyo Co.,Ltd.

Semi-Annual Report 2020  
September 30, 2020

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## Group Vision



Yamato Kogyo Group has expanded its business to the US, Thailand, Korea, the Middle East (Bahrain and Saudi Arabia) and Vietnam from our headquarters located in Himeji.

We put our convictions into our mission in an effort to fulfill the infrastructural needs of those countries and regions through locally produced products for local use, and to support the development of each country and region and the current and future lives of the people living there.

Steel has a great advantage over other materials in terms of its processing ease and cost competitiveness. It is a very important material for all kinds of infrastructure such as roads, bridges, buildings, ships and cars. We believe that the importance of steel will remain unchanged throughout the world in developed and developing countries.

In Japan, the markets are already mature for both the steel and railroad industries. Therefore, it is imperative that the Yamato Kogyo Group expands overseas for further development. We will develop our existing overseas businesses even further with our partners. At the same time, we will continue to actively seek opportunities for new overseas business.

Based on the traditions of the Yamato Kogyo Group, which were established by Mr. Inoue, the former President, we will continue supporting your future by developing and expanding our global steel business with our technology hub in Himeji.

## CORPORATE PHILOSOPHY

Yamato Kogyo Group celebrated the 75th anniversary of its founding in November 2019.

To clarify our group's direction and principles, we established new Mission, Vision and Yamato SPIRIT.

### **MISSION**

**Our Steel, Your Future**

- Creating more value for an even richer society -

### **VISION**

**To be a global leading company with cutting-edge technology supporting world's infrastructure.**

### **Yamato SPIRIT** - We are

<b>Pride</b>	committed to be professionals of Steel and Trackwork business.
<b>Manufacturing</b>	committed to deliver world class products with the highest safety standards in mind.
<b>Global</b>	committed to be successful anywhere in the world.
<b>Harmony</b>	committed to be "One Team" beyond nationality, race, age or gender.
<b>Fairness</b>	committed to be honest and maintain the highest level of ethical standards.
<b>Challenge</b>	committed to challenge the future with no fear of failure.



Along with our Mission, Vision and Yamato SPIRIT, we also renewed our company logo.

The design of the "Y" includes an arrow which symbolizes "creation of new quality" and "cutting-edge technology".

The remaining characters jump out from the arrow, representing "progress toward the future".

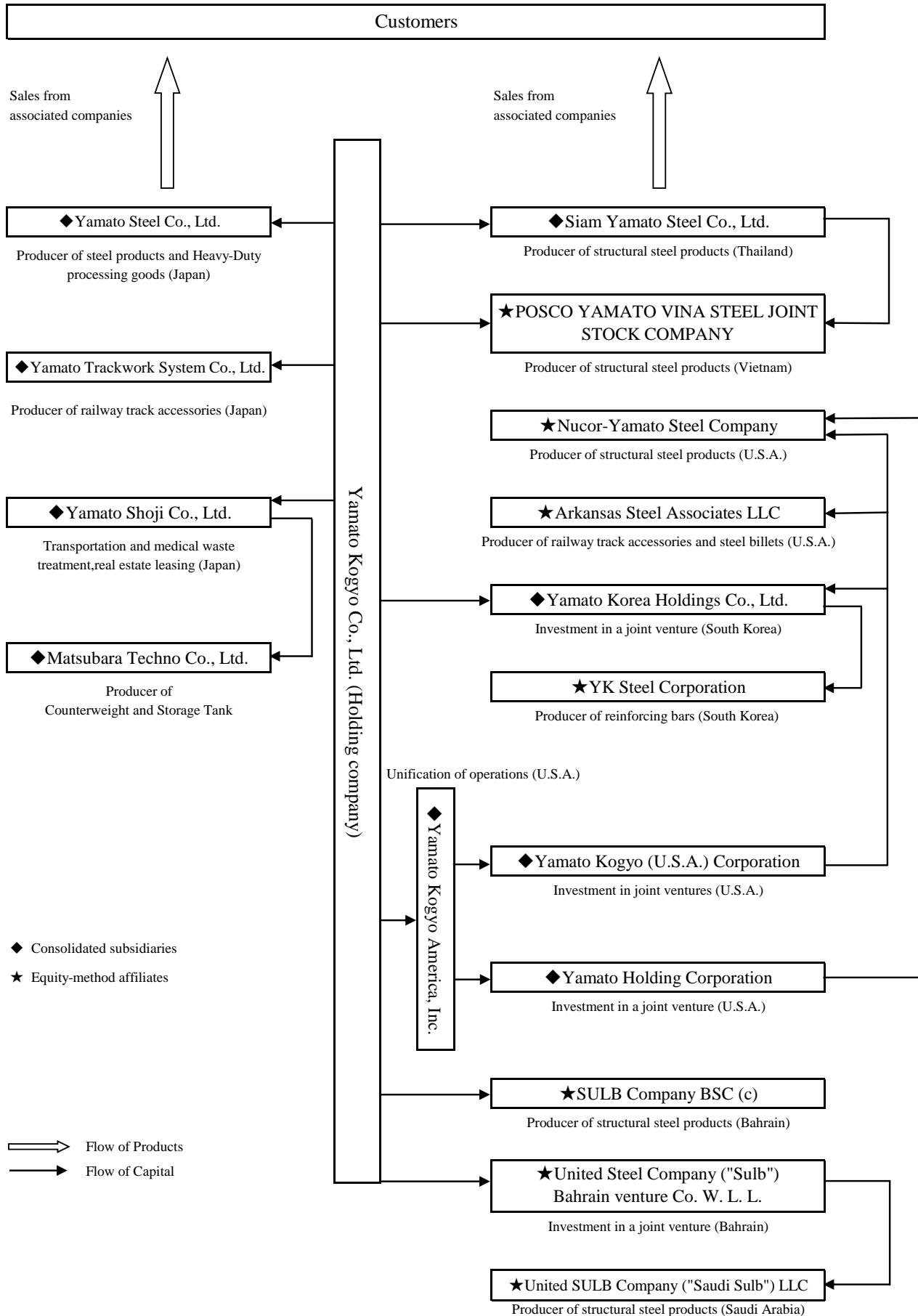
We used lowercase letters and connected them together. This represents our flexible attitude and intra-group relationships.

The shape of the letters also implies a group attitude carving out a new future.

The bluish green color stands for our will to co-exist with the world, and the black color stands for our unwavering Yamato SPIRIT.

# Corporate Structure and Affiliates

As of September 30, 2020



# YAMATO KOGYO CO., LTD.

## OPERATING RESULTS FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2020

### 1. Management Policy

#### (1) Basic Business Policy

We have served as a responsible member of the business community and strive to manufacture high quality and high added value products based on customer needs. We utilize scrap steel to make final products in order to respond to global needs to conserve energy and resources, and we are striving on a global scale to meet the challenge of environmental protection, which is the most pressing task of modern society. We make products that enable high-speed and high-volume rail and ocean transportation. With all of its products, the Group contributes to the betterment of society and the economy, through the development of its domestic and global business enterprises.

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Under these new Mission, Vision and Yamato SPIRIT, we reconfirm that the source of our Group's growth lies in our overseas businesses but not in Japan which has already become a mature market and we will continue to stabilize, develop and expand overseas businesses. To achieve this aim, we position Himeji factory in Japan as the group's mother factory, which is the base of technology and management, to support our overseas business and strengthen the foundation of our business. And, we shall make tireless efforts to sharpen cost competitiveness, stabilize and improve the quality, and improve customer service including delivery. We also put greater emphasis on human resource education and training to expand overseas business.

In addition, on the basis of its structure as a holding company, the Group will look at how it can contribute to society from a variety of standpoints. The Group will maximize the unique qualities and functions of each company under its umbrella, and will promote an active and harmonious group business, as it develops its operations to target the global market.

#### (2) Our Target Business Indicator

We have been promoting the decentralization of investments by primarily investing in overseas business, so as to achieve a management environment capable of responding to dramatic changes in the structure of the global economy, and to avoid a unipolar approach to conducting business. We will conduct our business with an emphasis on cash flow, aiming to invest in future growth fields, while maintaining a sound financial standing. The Group's business performance is greatly affected by fluctuations in product sales prices and raw material prices, and each market price is significantly affected by the external environment, including domestic and overseas economic conditions. Therefore, we have not created a medium to long-term profit plan.

### (3) Business and Financial Issues

While stagnant economic activities and a sharp decline in the crude oil prices due to the spread of COVID-19 could impact our overseas businesses, there is only a little decrease in steel production volume in China, and steel products inventory is piling up. For some steel products, there is a move to promote export by raising the VAT refund rate at the time of export. Considering these factors, the tough business environment for the Group is expected to continue for the time being.

Under such circumstances, we anticipate competition with both domestic and foreign manufacturers will continue to intensify in the future in the business areas in which the Group do business. In order to respond to it, we will aim to improve productivity and reduce costs by renewing and improving manufacturing facilities at our operations in Japan and overseas to achieve greater profitability as the group.

Regarding the steel business in Japan, after the full-scale operation of a single stage preheater (SSP) for scraps which was renewed in the melt shop department in 2019, we seek to achieve further energy saving and safe operation through the introduction of sealing equipment and exhaust gas analyzer. In continuous casting process, we work to enhance the quality of semi-finished products through the introduction of some equipment such as an auto powder feeder and mold cooling water automatic controller. In the rolling mill department, the installation of a profile gauge to automatically measure product dimensions on-line is carried forward to achieve better quality and greater productivity.

In the Group, we hold technical conferences among steel product manufacturing companies every year to exchange information and enhance technology. In order to educate engineers and generate more opportunities for technology exchange, we aim to share technology information in the Group and raise the level of engineers to strengthen our competitiveness by further activating the exchange of engineers between overseas affiliate companies and Yamato Steel Co., Ltd. in Himeji.

In the sales department, an EC site for customers was established to streamline administrative work and provide higher quality services. In the administrative department, we consolidate back-office functions such as finance, accounting, human resources, and general affairs in Yamato Steel Co., Ltd. and Yamato Trackwork System Co. Ltd. within Yamato Kogyo Co., Ltd., and seek to develop personnel who can respond from a viewpoint of Yamato Kogyo Group.

Regarding overseas steel business, utilizing the large steel logistics center which started to operate in Siam Yamato Steel Company engaging in steel business (Thailand), we will aim to differentiate our products from imported steel products by leveraging our strength that it can respond to small lots with a short delivery lead time. In addition, by the start of in-house steel fabrication, we will strengthen solution business deployed in Thailand and focus on marketing to local fabricators and general constructors to acquire projects.

Regarding the renewal of the rolling mill at Nucor-Yamato Steel Company in the U.S., the introduction of the same type as that in SULB Company BSC (c) in Bahrain was decided based on the operation results there. We will continue to exchange and elevate technological capabilities among steel product manufacturing companies.

Regarding Posco Yamato Vina Steel Joint Stock Company in Vietnam which became an affiliated company with equity method at the end of this consolidated fiscal year, we will promote quality and production cost improvement and marketing strategies to improve the performance in collaboration with our partner Posco.

(Steel logistic center of Siam Yamato Steel Co., Ltd.)



## **2. Business Risks**

Following is a description of the main items we consider to be possible risk factors involved in developing the Group's business. Items relating to the future reflect our company's judgment based on data as of today.

### **(1) Risk of our Middle East Business**

We are engaged in global business operations targeting the world market. In 2007 we decided to move into the Middle East. In 2009, we jointly established SULB Company BSC (c) (hereinafter referred to as "SULB") in the Kingdom of Bahrain with our venture partner in Middle East business Foulath Holding BSC (c), we built a DRI-based integrated mill for production and sales principally of H-beam. In 2011, we acquired the assets of a Saudi Arabian steelmaker via a special purpose company and established United SULB Company ("Saudi Sulb") LLC (hereinafter referred to as "Saudi Sulb"). Thus, we have pushed ahead with business in the Middle East.

SULB entered into commercial production at the end of July 2013, and is now ready for production at full capacity. However, SULB faces quite a tough business environment because of sluggish public investment in the Middle East, inflows of low-priced steel products from other countries, increased production costs due to hikes in power, gas and water bills caused by government subsidy cuts in the Gulf countries, and unstable procurement of pellets as raw materials of direct reduced iron, among others. All these factors had not been considered in our initially designed project. Saudi Sulb also faces quite a tough business environment.

We have a large amount of capital invested in joint ventures operating in the Middle East (including loans and credit guarantees). If it should be required to book massive investment losses in addition to losses derived from business operations in the Middle East, our group may have its earnings and financial condition substantially affected.

### **(2) Risk related to COVID-19 and future pandemic**

In response to the spread of COVID-19, the Group refrains from nonessential and nonurgent outings, business trips, and meetings. In addition, we practice working from home and shift work, and avoid the use of public transportation at the time of staggered work shift and commuting. We will continue to strive to prevent infection and spread of infection and work to continue our business at full power by prioritizing the safety of our employees and related people.

At present, there is a decline in operating rate of construction sites and fabricators that process steel products and stagnation of transportation. Depending on how the situation changes in the future, steel demand could decrease by postponement or cancellation of construction/civil engineering projects. We expect that the recovery of the steel demand to the level of the fiscal year ended March 2020 will be difficult within the fiscal year ending March 2021. If a pandemic with an unknown virus occurs in the future and causes restrictions in the political and economic environment, the Group's business performance may be significantly impacted by stagnant economic activities.

### **(3) Latent Risks in Doing Business Overseas**

The Group's manufacturing and sales activities are not only in Japan, but also in the U.S, Thailand, South Korea, Kingdom of Bahrain, Kingdom of Saudi Arabia, Vietnam, as we are developing a global business targeting the world market. When entering overseas markets, there is a possibility that terrorism, war, and other factors could arise in various countries, causing social unrest, and having a huge impact on a company's results and financial standing. Moreover, problems in conducting business could also arise such as unpredictable changes in the political or legal environment, or changes in the economic environment in various countries.

### **(4) Fluctuations in Sales Prices and Scrap Prices**

The performance of the Group's vital steel business is greatly affected by fluctuations in sales prices of products and the scrap prices, the primary raw material. Also, SLUB is the only company using iron ore pellets as the primary raw material in our group. These market prices can be greatly affected by the external environment, and first and foremost, the domestic and foreign economic situation.



## **(5) Exchange Rate Fluctuations**

The Group is developing global operations which target world markets, thus the performance of subsidiaries greatly affects consolidated business performance. Since figures in the consolidated financial statements are converted to yen from the local currencies, the financial standing can be affected by the exchange rate. Also, foreign currency holdings make up a high percentage of the Group's cash and savings. Generally, appreciation of the yen will have a negative influence on our company, and on the contrary, depreciation of yen will have a positive influence.

Our group's comprehensive income and net assets are substantially affected by a decrease or increase in our foreign currency translation adjustment account resulting from changes in foreign exchange rates. It should be noted, however, that the account is kept for the sole purpose of reporting consolidated financial statements including our overseas subsidiaries and affiliates. It does not affect our business performance itself in any manner.

As we intend to continue business activities in overseas markets in future years, it is our policy that we do not have the foreign exchange translation account hedged against fluctuations in foreign exchange rates.

## **(6) Electrical Power Risks**

Since our Company's Group is an electric furnace maker which operates on a global scale and utilizes large amounts of electrical power, the Company's performance could be negatively impacted if there are steep unit price increases in electrical power and if restrictions are imposed on electrical power consumption.

# **3. Business Performance and Financial Status**

## **(1) Business Performance**

### **① Status During the Current Fiscal Year**

In the current mid-term consolidated accounting period, after hitting bottom in the April-June quarter, the business environment surrounding Yamato Kogyo Group has shown a moderate recovery thanks to the gradual relaxation of the economic activities in each country. However, the recovery momentum has remained sluggish due to the concerns about the relapse of the spread of COVID-19 and uncertainty about the economic outlook.

Demand for steel products varies for each country/region in which the group is conducting business; however, on the whole, there are signs that it bottomed out in the April-June quarter and has stopped declining.

As for raw materials, scrap prices have been volatile since the beginning of 2020; however, they have remained in a high level of price due to increased steel production in China, where the economic recovery is progressing. On the other hand, iron ore prices have been in an upward trend since the beginning of the year. The circumstances surrounding raw materials have been significant factors that affect the business performance of our Group companies.

In Japan, as economic activities have gradually resumed, the decline in demand for steel products bottomed out and then showed a recovery trend, nevertheless the momentum has been lost. While the future outlook is uncertain due to the COVID-19 crisis, our manufacturing division and sales division have been working together to enhance our ability to respond to short delivery requests by seizing orders for short delivery from customers and strive for the raised scrap prices to be reflected in the sales prices. As a result, we have secured a certain level of profit, even as both of the sales volume and prices have become lower than in the same period last year. As for stern frames and other products for shipbuilders, both the sales and product prices are still in a challenging situation due to the prolonged stagnation in the shipbuilding industry. However, our manufacturing division and sales division have been working together to meet the stricter exhaust gas regulations and the ecological needs of ships. Besides, Yamato Steel Co., Ltd., which plays a central role in the Group's steel business, recently obtained two types of certifications for environmental declaration for six products including H-beam, namely "EcoLeaf Environmental Label" and "Carbon Footprint" from the Sustainable Management Promotion Organization (SuMPO). Yamato Steel is the first company to obtain these two types of certification in the Japanese steel industry.

In South Korea and Thailand, where we have consolidated subsidiaries, and in the United States, the Kingdom of Bahrain and the Kingdom of Saudi Arabia, where we have affiliated companies with equity method applied, the business performance between January and June of 2020 was reflected in the current mid-term accounting period.

In South Korea, as we disclosed on September 8, 2020, YK Steel Corporation (currently YAMATO KOREA HOLDINGS CO., LTD.; hereinafter, “YK Holdings”) split and transitioned its rebar business into a new company (currently YK Steel Corporation; hereinafter, “YK Steel”), and has transferred 51.00% of YK Steel’s shares to Daehan Steel Co., Ltd. (hereinafter, “Daehan Steel”). Consequently, YK Holdings’ 2020 January-August results are reflected in this mid-term consolidated accounting period. Besides, the results of YK Steel from the third quarter onward will be reflected in the consolidated results as equity-method earnings. In addition, the results of POSCO YAMATO VINA STEEL JOINT STOCK COMPANY in Vietnam (hereinafter, “PV VINA”; the company’s accounting period is from January to December), which became an equity-method affiliate at the end of March 2020, has started to be reflected on the consolidated results from this April-June period.

Concerning YK Holdings in South Korea, new apartment building had turned downward because South Korea government kept some regulations and restrictions on real estate transactions, as well as the delay in construction work due to the bad weather in summer. Thus, YK Holdings’ sales have decreased compared to that in the previous January-August period. Under such circumstances, the company strived to balance the supply and demand to expand the steel margin. YK Holdings’ operating profit has improved compared to that of the previous January-August period.

Siam Yamato Steel Co., Ltd. (hereinafter, “SYS”) in Thailand, while construction demand in the private sector lacked strength, continues to be supported by pump-priming public investment; however, it has been affected by the economic stagnation due to the lockdown implemented as a countermeasure against the spread of COVID-19. Also, since the inflow of imported products from China and Malaysia into the domestic market has been continued, the market environment has become more difficult. Thus, the sales of SYS have decreased compared to the same period of the previous year. To compete with imported products, SYS has been striving to enhance customer services and has received high praise from customers. For example, taking advantage of the steel logistic center’s indoor storage capacity, which started operations in November 2019, SYS secures the storage of products in some sizes. Its prompt product delivery service is now available for eight product sizes. In the Southeast Asian market, which is our company’s major export destination, a fiercely competitive environment with overseas manufacturers, including South Korea, continues due to the sluggish demand and the influence of the strong baht. In addition, some countries have introduced import restrictions to control COVID-19, and our sales have decreased significantly. Net sales declined on a year-on-year basis due to the decrease in sales volume; however, we recorded profits on par with the same period of the last year thanks to expanding steel margins and other factors.

As for the equity-method affiliates in the United States, although there were concerns about the temporary suspension of construction work due to the spread of COVID-19, the influence was limited. With a steady non-residential construction demand as a backdrop, sales volume during this mid-term consolidated accounting period have increased year-on-year, and profits have also increased.

In the Kingdom of Bahrain, where our equity-method affiliate SULB Company BSC(c) (hereinafter, “SULB”) operates, because of the concerns about the worsening of the global economy due to the spread of COVID-19, oil prices, which are an economic indicator of GCC countries, have significantly dropped. Also, government expenditures have been shrinking, and construction work and transportation are stagnant. Consequently, the demand for structural steel is sluggish. Furthermore, since iron ore prices are still in a high level of price, SULB, which uses iron ore pellets as its primary raw material, faces a difficult situation in terms of cost. Sales volume for products and intermediate material, such as DRI and semi-finished products, have also decreased.

In Vietnam, where our equity-method affiliate PY VINA operates, economic activities are stagnant due to concerns about the spread of COVID-19, and the demand for steel products is sluggish. Although there is competition with imported products from South Korea and Malaysia, we strive to improve business performance by addressing quality improvement and cost reduction thorough strengthening the cooperation with PY VINA such as web meetings since acquiring the shares and dispatched engineers to the company in September.

As a result of the above, sales for the current mid-term consolidated accounting period were 84,236 million yen (a decrease of 14,366 million yen in comparison with the same period in the previous year), operating income was 6,832 million yen (a decrease of 134 million yen in comparison with the same period in the previous year), ordinary income was 12,961 million yen (a decrease of 1,868 million yen in comparison with the same period in the previous year), and profit attributable to owners of parent was 1,940 million yen due to an extraordinary loss of 7,427 million yen resulting from the transfer of YK Steel's shares to Daehan Steel (a decrease of 8,156 million yen in comparison with the same period in the previous year).

Please note that the exchange rates, used to convert profits and losses in financial statements of overseas subsidiaries and affiliates, are as follows:

108.25 yen/U.S. dollar, 3.41 yen/baht, and 11.12 won/yen

(PY VINA: 107.38 yen/U.S. dollar)

The average exchange rates for same period in the previous year are as follows:

109.98 yen/U.S. dollar, 3.49 yen/baht, and 10.42 won/yen

We report the business results of the segment as follows:

#### ● **Steel (Japan)**

In Japan, as economic activities have gradually resumed, the decline in demand for steel products bottomed out and then showed a recovery trend, nevertheless the momentum has been lost. While the future outlook is uncertain due to the COVID-19 crisis, our manufacturing division and sales division have been working together to enhance our ability to respond to short delivery requests by seizing orders for short delivery from customers and strive for the raised scrap prices to be reflected in the steel prices. As a result, we have secured a certain level of profit, even as both of the sales volume and prices have become lower than in the same period last year. As for stern frames and other products for shipbuilders, both the sales and product prices are still in a challenging situation due to the prolonged financial difficulty in the shipbuilding industry. However, our manufacturing division and sales division have been working together to meet the stricter exhaust gas regulations and the ecological needs of ships. Besides, Yamato Steel Co., Ltd., which plays a central role in our Group's steel business, recently obtained two types of certifications for environmental declaration for six products including H-beam, namely "EcoLeaf environmental label" and "Carbon Footprint," from the Sustainable Management Promotion Organization (SuMPO). Yamato Steel is the first company to obtain these two types of certification in the Japanese steel industry. As a result, sales were 19,486 million yen (a decrease of 5,865 million yen in comparison with the same period in the previous year), the operating income was 1,978 million yen (a decrease of 1,101 million yen in comparison with the same period in the previous year).

### ● **Steel (South Korea)**

Concerning YK Steel Corporation in South Korea, new apartment building had turned downward because South Korea government kept some regulations and restrictions on real estate transactions, as well as the delay in construction work due to the bad weather in summer. Thus, YK Holdings' sales volume have decreased compared to that in the previous January-August quarter. Under such circumstances, the company strived to balance the supply and demand to expand the steel margin. YK Holdings' operating profit has improved compared to that of the previous January-August quarter.

Besides, the previous mid-term consolidated accounting period reflects the January-June results; however, this mid-term consolidated accounting period reflects the 2020 January-August results because of the transfer of the shares of YK Steel as mentioned before. Consequently, both sales and operating income have increased compared to the previous year.

As a result, sales were 33,755 million yen (an increase of 1,380 million yen in comparison with the same period in the previous year), the operating income was 2,525 million yen (an increase of 833 million yen in comparison with the same period in the previous year).

### ● **Steel (Thailand)**

Siam Yamato Steel Co., Ltd. in Thailand, while construction demand in the private sector lacked strength, continues to be supported by pump-priming public investment; however, it has been affected by the economic stagnation due to the lockdown implemented as a countermeasure against the spread of COVID-19. Also, since the inflow of imported materials from China and Malaysia into the domestic market has been continued, the market environment has become more difficult. Thus, the sales volume of Siam Yamato Steel Co., Ltd. (hereinafter, "SYS") have decreased compared to the same period of the previous year. To compete with imported products, SYS has been striving to enhance customer services and has received high praise from customers. For example, taking advantage of the steel logistic center's indoor storage capacity, which started operations in November 2019, SYS secures the storage of products in some sizes. Its prompt product delivery service is now available for eight product sizes. In the Southeast Asian market, which is our company's major export destination, a fiercely competitive environment with overseas manufacturers, including South Korea, continues due to the sluggish demand and the influence of the strong baht. In addition, some countries have introduced import restrictions to control COVID-19, and our sales volume have decreased significantly. Net sales declined on a year-on-year basis due to the decrease in sales volume; however, we recorded profits on par with the same period of the last year thanks to expanding steel margins and other factors.

As a result, sales were 26,114 million yen (a decrease of 10,872 million yen in comparison with the same period in the previous year), the operating income was 3,022 million yen (an increase of 52 million yen in comparison with the same period in the previous year).

### ● **Railway Track Accessories**

Sales were 3,979 million yen (an increase of 243 million yen in comparison with the same period in the previous year), and the operating income was 420 million yen (an increase of 134 million yen in comparison with the same period in the previous year).

### ● **Other Business Sectors**

Other sales were 889 million yen, (an increase of 746 million yen in comparison with the same period in the previous year) and the operating loss was 4 million yen (operating income was 6 million yen in the same period in the previous year).

## ② Future Outlook

As for COVID-19, there are signs that the number of newly infected populations will increase. It remains uncertain whether the spread of COVID-19 will be settled or not. Thus, the Group companies will continue to strive to prevent the outbreak and expansion of COVID-19 and address safety of our employees and relevant parties as a top priority.

Regarding the future outlook, the movement of maintaining both economic activities and control of COVID-19 has started to spread to each country and region, and the world economy has entered the initial recovery phase from the worst. However, the recovery speed is very slow, and the future outlook is extremely uncertain. Against such a background, there is no change in the outlook that it will be difficult for the steel demand to recover to the previous year's level during the fiscal year ending March 2021.

On the other hand, in some countries/regions, the downturn in steel market conditions is expected to be smaller than the previous forecast.

With respect to consolidated earnings forecast for the full fiscal year ending March 2021, we revised our previously announced forecast numbers to 132,000 million yen of sales (up by 7,000 million yen from the previous projection), to 9,000 million yen of operating income (up by 1,000 million yen from the previous projection), to 20,500 million yen of ordinary income (up by 3,500 million yen from the previous projection), and to 7,000 million yen of profit attributable to owners of parent (up by 3,000 million yen from the previous projection).

Please note that for the January-December 2020 period we applied the exchange rates for translating into Japanese yen revenues generated and costs incurred by our overseas subsidiaries and affiliates on the basis of the following:

(Average rates for the period)

106.69 yen/U.S. dollar, 3.38 yen/baht, and 11.17 won/yen.

We applied the following exchange rates for translating the year-end (meaning the end of December 2020 for overseas subsidiaries and affiliates and the end of March 2021 for domestic subsidiaries and affiliates) assets and liabilities of each subsidiary and affiliate:

(End of period rates)

105.00 yen/U.S. dollar, 3.33 yen/baht, and 11.07 won/yen.

## **(2) Analysis of Financial Status**

Total assets at the end of the current mid-term consolidated accounting period were 362,149 million yen, a decrease of 20,876 million yen in comparison with the end of the previous consolidated fiscal year.

Liabilities were 29,560 million yen, a decrease of 10,858 million yen in comparison with the end of the previous consolidated fiscal year.

Both the decrease in total assets and the decrease in the liabilities were mainly due to the transfer of YK Steel's shares to Daehan Steel, which made YK Steel an equity-method affiliate.

Also, net assets were 332,589 million yen, a decrease of 10,017 million yen in comparison with the end of the previous consolidated fiscal year. This was due to factors such as increase in profit attributable to owners of parent, decrease by the payment of dividends and purchase of treasury shares, and a decrease of 6,086 million yen in foreign currency translation adjustment.

Please note that the following exchange rates are used in preparation of financial statements for overseas subsidiaries and affiliates at the end of the current consolidated accounting period.

(The end of first fiscal half for each overseas company is end of June 2020)

107.74 yen/U.S. dollar, 3.49 yen/baht, and 10.98 won/yen

Also, exchange rates for the end of previous consolidated fiscal year are as follows:

(The end of fiscal year for each overseas company is end of December 2019)

109.55 yen/U.S. dollar, 3.63 yen/baht, and 10.57 won/yen

### **(Cash Flows from Operating Activities)**

The increase in funds from operating activities was 18,889 million yen, primarily due to factors such as the income before income tax, and cash dividend from affiliated companies in U.S. with equity method applied.

### **(Cash Flows from Investing Activities)**

The decrease in funds from investing activities was 13,502 million yen, primarily due to factors such as payments into time deposits.

### **(Cash Flows from Financing Activities)**

The decrease in funds from financing activities was 5,527 million yen, primarily due to payment of dividend.

With the addition of -879 million yen, in effect of exchange rate changes on cash and cash equivalents, the balance of cash and cash equivalents at the current mid-term consolidated accounting period was 26,137 million yen, which is a decrease of 350 million yen in comparison with the end of the previous year.

### **(3) Basic Policy Regarding Profit Allocation and Dividends for the Current and Next Fiscal Year**

As announced in August 2019, we believe that investment for growth, contribution to stakeholders, and return to shareholders are important management issues, and we aim to achieve sustainable growth and increase corporate value in medium to long term.

Regarding dividends, our basic policy is to distribute profit according to the performance and the dividend for each fiscal year will be determined considering a benchmark of consolidated payout ratio of 30%. In addition, we will endeavor to maintain a continuous and stable dividend, and we set the minimum dividend per share at 50 yen per year.

Regarding dividend for this fiscal year, tough business environment is expected due to the spread of COVID-19. However, in order to respond to the constant support from our shareholders, we will maintain ordinary dividends excluding commemorative dividends, without sticking to the above dividend policy; we expect to pay an interim and year-end dividend of 40 yen per share respectively. (80 yen per share as the annual dividends).

**YAMATO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**September 30, 2020 and March 31, 2020**

In Japanese Yen

(In millions of Japanese Yen)

	Mar-20	Sep-20		Mar-20	Sep-20
<b>Assets</b>			<b>Liabilities</b>		
Current assets			Current liabilities		
Cash and deposits	¥99,994	¥100,794	Notes and accounts payable-trade	¥10,932	¥6,480
Notes and accounts receivable-trade	25,428	18,527	Accounts payable-other	6,136	1,978
Short-term investment securities	189	5,000	Accrued expenses	3,084	3,342
Merchandise and finished goods	12,263	8,649	Income taxes payable	535	863
Work in process	435	429	Provision for bonuses	591	797
Raw materials and supplies	21,585	16,798	Other	1,732	735
Other	2,946	2,311	Total current liabilities	23,012	14,197
Allowance for doubtful accounts	(15)	(15)			
Total current assets	162,829	152,495	Noncurrent liabilities		
Noncurrent assets			Deferred tax liabilities	11,844	10,920
Property, plant and equipment			Provision for directors' retirement benefits	22	-
Buildings and structures, net	15,696	11,674	Net defined benefit liability	2,756	1,985
Machinery, equipment and vehicles, net	34,855	29,378	Other	2,782	2,456
Land	17,423	17,245	Total noncurrent liabilities	17,406	15,363
Construction in progress	3,273	2,309	Total liabilities	40,418	29,560
Other, net	958	828			
Total property, plant and equipment	72,206	61,437	Net assets		
Intangible assets			Shareholders' equity		
Goodwill	-	963	Capital stock	7,996	7,996
Other	606	571	Retained earnings	297,075	295,740
Total intangible assets	606	1,535	Treasury stocks	(309)	(1,876)
Investments and other assets			Total shareholders' equity	304,762	301,860
Investments securities	47,370	45,716	Accumulated other comprehensive income		
Investments in capital	56,582	56,142	Valuation difference on available-for-sale securities	2,547	2,311
Long-term loans receivable from subsidiaries and associates	17,334	19,192	Foreign currency translation adjustment	10,667	4,581
Long-term time deposits	22,398	22,093	Remeasurements of defined benefit plans	(199)	(183)
Net defined benefit asset	821	820	Total accumulated other comprehensive income	13,015	6,708
Other	3,146	2,986	Non-controlling interests		
Allowance for doubtful accounts	(271)	(271)		24,828	24,020
Total investments and other assets	147,383	146,680			
Total noncurrent assets	220,196	209,653	Total net assets	342,606	332,589
Total assets	¥383,025	¥362,149	Total liabilities and net assets	¥383,025	¥362,149

In U.S. Dollars for Convenience Purposes (Note 1)

(In thousands of U.S. Dollars)

	Mar-20	Sep-20		Mar-20	Sep-20
<b>Assets</b>			<b>Liabilities</b>		
Current assets			Current liabilities		
Cash and deposits	\$945,042	\$952,599	Notes and accounts payable-trade	\$103,318	\$61,245
Notes and accounts receivable-trade	240,326	175,103	Accounts payable-other	57,991	18,696
Short-term investment securities	1,791	47,254	Accrued expenses	29,153	31,590
Merchandise and finished goods	115,900	81,745	Income taxes payable	5,063	8,158
Work in process	4,118	4,058	Provision for bonuses	5,588	7,533
Raw materials and supplies	204,007	158,761	Other	16,369	6,951
Other	27,844	21,848	Total current liabilities	217,486	134,175
Allowance for doubtful accounts	(145)	(148)	Noncurrent liabilities		
Total current assets	1,538,886	1,441,222	Deferred tax liabilities	111,945	103,206
Noncurrent assets			Provision for directors' retirement benefits	212	-
Property, plant and equipment			Net defined benefit liability	26,052	18,769
Buildings and structures, net	148,342	110,338	Other	26,296	23,220
Machinery, equipment and vehicles, net	329,412	277,656	Total noncurrent liabilities	164,506	145,196
Land	164,665	162,989	Total liabilities	381,993	279,371
Construction in progress	30,934	21,825	Net assets		
Other, net	9,062	7,834	Shareholders' equity		
Total property, plant and equipment	682,418	580,643	Capital stock	75,575	75,575
Intangible assets			Retained earnings	2,807,635	2,795,014
Goodwill	-	9,106	Treasury stocks	(2,926)	(17,739)
Other	5,728	5,405	Total shareholders' equity	2,880,284	2,852,851
Total intangible assets	5,728	14,512	Accumulated other comprehensive income		
Investments and other assets			Valuation difference on available-for-sale securities	24,074	21,841
Investments securities	447,695	432,060	Foreign currency translation adjustment	100,818	43,297
Investments in capital	534,756	530,593	Remeasurements of defined benefit plans	(1,884)	(1,736)
Long-term loans receivable from subsidiaries and associates	163,824	181,387	Total accumulated other comprehensive income	123,009	63,403
Long-term time deposits	211,686	208,802	Non-controlling interests		
Net defined benefit asset	7,767	7,753		234,650	227,012
Other	29,738	28,229			
Allowance for doubtful accounts	(2,564)	(2,564)	Total net assets	3,237,944	3,143,267
Total investments and other assets	1,392,904	1,386,261	Total liabilities and net assets	\$3,619,937	\$3,422,639
Total noncurrent assets	2,081,051	1,981,417			
Total assets	\$3,619,937	\$3,422,639			

Notes:

1. U.S. Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of ¥105.81 = \$1 as of September 30, 2020.
2. All figures are prepared under accounting principles generally accepted in Japan.
3. All figures are rounded down to the nearest millions of Japanese Yen or thousands of U.S. Dollars.



**YAMATO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the six-Month Period Ended September 30, 2020 and 2019**

**In Japanese Yen**

(In millions of Japanese Yen)

	Sep-19	Sep-20
Net sales	¥98,602	¥84,236
Cost of sales	84,023	70,308
Selling, general and administrative expenses	7,612	7,095
Operating income	6,967	6,832
Non-operating income	8,411	6,529
Non-operating expenses	548	400
Ordinary income	14,830	12,961
Extraordinary income	3	2
Extraordinary loss	33	7,579
Income before income taxes	14,800	5,384
Income taxes		
Income taxes-current	3,379	3,357
Income taxes-deferred	356	(730)
Total income taxes	3,736	2,626
Profit	11,063	2,757
Profit attributable to non-controlling interests	967	817
Profit attributable to owners of parent	¥10,096	¥1,940

**In U.S. Dollars for Convenience Purposes (Note 1)**

(In thousands of U.S. Dollars)

	Sep-19	Sep-20
Net sales	\$931,886	\$796,109
Cost of sales	794,093	664,477
Selling, general and administrative expenses	71,944	67,057
Operating income	65,848	64,573
Non-operating income	79,494	61,713
Non-operating expenses	5,185	3,787
Ordinary income	140,157	122,499
Extraordinary income	34	19
Extraordinary loss	317	71,633
Income before income taxes	139,874	50,884
Income taxes		
Income taxes-current	31,941	31,727
Income taxes-deferred	3,372	(6,903)
Total income taxes	35,314	24,823
Profit	104,560	26,061
Profit attributable to non-controlling interests	9,142	7,726
Profit attributable to owners of parent	\$95,418	\$18,334

Notes:

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2. All figures are prepared under accounting principles generally accepted in Japan.
3. All figures are rounded down to the nearest millions of Japanese Yen or thousands of U.S. Dollars.

**YAMATO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the Six-Month Period Ended September 30, 2020 and 2019**

**In Japanese Yen**

	(In millions of Japanese Yen)	
	Sep-19	Sep-20
Profit	¥11,063	¥2,757
Other comprehensive income		
Valuation difference on available-for-sale securities	39	(235)
Foreign currency translation adjustment	(2,574)	(5,667)
Remeasurements of defined benefit plans	24	15
Share of other comprehensive income of entities accounted for using equity method	(2,375)	(1,473)
Total other comprehensive income	(4,886)	(7,360)
Comprehensive income	¥6,177	(¥4,603)
(Breakdown)		
Comprehensive income attributable to owners of the parent	4,542	(4,366)
Comprehensive income attributable to non-controlling interests	1,634	(236)

**In U.S. Dollars for Convenience Purposes (Note 1)**

	(In thousands of U.S. Dollars)	
	Sep-19	Sep-20
Profit	\$104,560	\$26,061
Other comprehensive income		
Valuation difference on available-for-sale securities	369	(2,223)
Foreign currency translation adjustment	(24,327)	(53,564)
Remeasurements of defined benefit plans	234	150
Share of other comprehensive income of entities accounted for using equity method	(22,454)	(13,927)
Total other comprehensive income	(46,177)	(69,565)
Comprehensive income	\$58,382	(\$43,503)
(Breakdown)		
Comprehensive income attributable to owners of the parent	42,932	(41,271)
Comprehensive income attributable to non-controlling interests	15,449	(2,232)

Notes:

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**YAMATO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**For the Six-Month Period Ended September 30, 2020**

**In Japanese Yen**

As of September 30, 2020

(In millions of Japanese Yen)

	Shareholders' equity			
	Capital stock	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2020	¥7,996	¥297,075	(¥309)	¥304,762
Changes of items during the period				
Dividends from surplus		(3,323)		(3,323)
Profit attributable to owners of parent		1,940		1,940
Purchase of treasury stock		-	(1,567)	(1,567)
Change of scope of consolidation		47		47
Net changes of items other than shareholders' equity				
Total changes of items during the period	-	(1,335)	(1,567)	(2,902)
Balance at September 30, 2020	¥7,996	¥295,740	(¥1,876)	¥301,860

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2020	¥2,547	¥10,667	(¥199)	¥13,015	¥24,828	¥342,606
Changes of items during the period						
Dividends from surplus						(3,323)
Profit attributable to owners of parent						1,940
Purchase of treasury stock						(1,567)
Change of scope of consolidation - surplus						47
Net changes of items other than shareholders' equity	(236)	(6,086)	15	(6,306)	(808)	(7,115)
Total changes of items during the period	(236)	(6,086)	15	(6,306)	(808)	(10,017)
Balance at September 30, 2020	¥2,311	¥4,581	(¥183)	¥6,708	¥24,020	¥332,589

**In U.S. Dollars for Convenience Purposes (Note 1)**

As of September 30, 2020

(In thousands of U.S. Dollars)

	Shareholders' equity			
	Capital stock	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2020	\$75,575	\$2,807,635	(\$2,926)	\$2,880,284
Changes of items during the period				
Dividends from surplus		(31,407)		(31,407)
Profit attributable to owners of parent		18,334		18,334
Purchase of treasury stock		-	(14,812)	(14,812)
Change of scope of consolidation - surplus		452		452
Net changes of items other than shareholders' equity				
Total changes of items during the period	-	(12,620)	(14,812)	(27,432)
Balance at September 30, 2020	\$75,575	\$2,795,014	(\$17,739)	\$2,852,851

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2020	\$24,074	\$100,818	(\$1,884)	\$123,009	\$234,650	\$3,237,944
Changes of items during the period						
Dividends from surplus						(31,407)
Profit attributable to owners of parent						18,334
Purchase of treasury stock						(14,812)
Change of scope of consolidation - surplus						452
Net changes of items other than shareholders' equity	(2,233)	(57,520)	148	(59,606)	(7,638)	(67,244)
Total changes of items during the period	(2,233)	(57,520)	148	(59,606)	(7,638)	(94,676)
Balance at September 30, 2020	\$21,841	\$43,297	(\$1,736)	\$63,403	\$227,012	\$3,143,267

Notes:

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**YAMATO KOGYO CO., LTD.**  
**AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Six-Month Period Ended September 30, 2020**

In millions of Japanese Yen    In thousands of U.S. Dollars

<b>I . Cash flows from operating activities</b>		
Income before income taxes	¥5,384	\$50,884
Depreciation and amortization	3,645	34,454
Interest and dividends income	(1,171)	(11,071)
Interest expenses	5	52
Equity in (earnings) losses of affiliates	(4,953)	(46,812)
Decrease (increase) in notes and accounts receivable-trade	1,513	14,308
Decrease (increase) in inventories	2,597	24,551
Increase (decrease) in notes and accounts payable-trade	565	5,347
Loss on sales of shares of subsidiaries and associates	7,427	70,193
Other, net	(1,136)	(10,740)
<b>Subtotal</b>	<b>13,879</b>	<b>131,169</b>
Interest and dividends income received	8,292	78,367
Interest expenses paid	(5)	(52)
Income taxes paid	(3,276)	(30,964)
<b>Net cash provided by (used in ) operating activities</b>	<b>18,889</b>	<b>178,520</b>
<b>II . Cash flows from investment activities</b>		
Payments into time deposits	(8,497)	(80,305)
Proceeds from withdrawal of time deposits	997	9,425
Purchase of property, plant and equipment	(3,638)	(34,386)
Purchase of stocks of subsidiaries and affiliates	(15)	(144)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(47)	(450)
Payments of loans receivable from subsidiaries and associates	(2,347)	(22,184)
Other, net	46	436
<b>Net cash provided by (used in ) investment activities</b>	<b>(13,502)</b>	<b>(127,609)</b>
<b>III . Cash flows from financing activities</b>		
Purchase of treasury stock	(1,567)	(14,812)
Cash dividends paid	(3,320)	(31,385)
Dividends paid to non-controlling shareholders	(597)	(5,649)
Other, net	(41)	(393)
<b>Net cash provided by (used in ) financing activities</b>	<b>(5,527)</b>	<b>(52,241)</b>
<b>IV . Effect of exchange rate change on cash and cash equivalents</b>	<b>(879)</b>	<b>(8,316)</b>
<b>V . Net Increase(decrease) in cash and cash equivalents</b>	<b>(1,020)</b>	<b>(9,647)</b>
<b>VI . Cash and cash equivalents at beginning of year</b>	<b>26,487</b>	<b>250,330</b>
<b>VII . Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation</b>	<b>¥670</b>	<b>\$6,336</b>
<b>VIII . Cash and cash equivalents at end of year</b>	<b>¥26,137</b>	<b>\$247,020</b>

Notes:

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## Situation of Issue Shares

The situation of shares in this fiscal year is as outlined below.  
(As of September 30, 2020)

(1) Total number of shares authorized to be issued .....	171,257,770
Number of shares outstanding .....	67,670,000
Total number of shareholders .....	3,654

### (2) Distribution of shares (by holder)

	Kind of holder	Number of shareholders	Number of shares held (unit)	Ratio of shares held (%)
Share (Number of one unit of shares :100)	Financial institutions	34	239,071	35.34
	Financial instrument dealers	26	3,662	0.54
	Other corporations	53	172,808	25.55
	Foreign corporations, etc. (Individuals)	259 (5)	120,607 (28)	17.83 (0.00)
	Japanese individuals and other	3,282	140,286	20.74
	<b>Total</b>	<b>3,654</b>	<b>676,434</b>	<b>100.00</b>
Shares less than one unit		—	266	—

### (2) Dividends

The following table shows the dividends per share paid by Company.

2020	2020	2019	2019	2018	
Sep.	Mar.	Sep.	Mar.	Sep.	
40	50	50	40	25	(Unit : Japanese Yen)
0.38	0.47	0.47	0.38	0.24	(Unit : U.S. Dollar)

Note: U.S. Dollar amounts are translated from Japanese Yen, for convenience only, at the rate of  
¥105.81 = \$1 as of September 30, 2020.

## Board of Directors

(As of September 30, 2020)

Chairman	President	Vice President	Managing Directors	Directors	Auditors
Hiroyuki Inoue	Mikio Kobayashi	Katsumasa Kohata	Kazuhiro Tsukamoto	Motoyoshi Maruyama	Kengo Nakaya
				Yasuhiko Yamauchi	
				Damri Tunshevavong	Shigeaki Katayama
			Kazumi Yonezawa	Takenosuke Yasufuku	Mikio Nakajo
				Kiyoshige Akamatsu	
				Kunitoshi Takeda	

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