

* NOTE

(1) Changes in the State of Material Subsidiaries during the Period: None

Newly included: – (Name) –

Excluded: – (Name) –

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

Note: For details, please refer to “(3) Notes Regarding Quarterly Consolidated Financial Results (Application of special accounting methods for presenting quarterly consolidated financial statements)” under “2. Quarterly Consolidated Financial Statements and Important Notes” on page 10 of the attached materials.

(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 shares)

Second Quarter of Fiscal 2022	24,077,510 shares	Fiscal 2021	24,077,510 shares
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(b) Number of treasury shares at the end of the period

Second Quarter of Fiscal 2022	1,251,441 shares	Fiscal 2021	1,096,640 shares
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(c) Average number of shares issued during the period

Second Quarter of Fiscal 2022	22,890,820 shares	Second Quarter of Fiscal 2021	23,297,330 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 results may vary from the forecast due to various factors that will arise in the future. 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” on page 5.

(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 8, 2022 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 2022

(1) Explanation Regarding Consolidated Operating Results

During the first half of the fiscal year under review, the global economy was unstable due to heightened geopolitical risks, including the situation in Ukraine, and higher policy interest rates in response to accelerating inflation in the United States and Europe amid the continuing impact of the coronavirus, but overall, there were signs of a gradual recovery. There were signs of a gradual recovery in the Japanese economy as well, with industrial production and capital investment on an increasing trend amid the normalization of economic activities. The business environment surrounding TOPY INDUSTRIES, LIMITED (the "Group"), meanwhile, remained uncertain, as rises in the price of coal, energy, other raw materials, and logistics, etc., continued, in addition to the lockdowns in China and the decrease in auto production due to supply shortages of semiconductors, among other factors.

Under these circumstances, the Group launched its new Medium-term Management Plan, TOPY Active & Challenge 2025, which will cover the period from FY2022 to 2025. We have set the four areas of promote segment management, strengthen overseas profitability, strengthen domestic business base, and contribute to decarbonization as the Group Basic Strategy, and we are steadily implementing measures to strengthen profitability utilizing the business foundation established in the previous Medium-term Management Plan. Moreover, under the new Medium-term Management Plan, we have established measures based on the newly formulated Basic Sustainability Policy, various related policies, and materiality (key issues) to promote sustainability management that leverages our strengths to create new value and solve social issues.

In the first half of the current fiscal year, net sales and profit both recovered significantly year on year due to efforts to optimize sales prices in line with rising costs of raw materials and energy, and to capture winning demand for parts for the undercarriages of construction machinery and ultra-large wheels for mining trucks, as well as cost improvements through structural reforms and other measures and foreign exchange gains resulting from the yen's depreciation. As a result, net sales were ¥156,109 million (up 24.8% year on year), operating profit was ¥1,540 million (compared to an operating loss of ¥1,462 million in the same period of the previous fiscal year), ordinary profit was ¥2,794 million (compared to an ordinary loss of ¥1,588 million in the same period of the previous fiscal year), and profit attributable to owners of parent was ¥2,082 million (compared to a loss attributable to owners of parent of ¥1,472 million in the same period of the previous fiscal year).

Performance by Segment

(Steel Business)

In the steel industry, demand for steel materials for construction and manufacturing remained strong. Prices for steel scrap, the main raw material, remained high despite a temporary downturn, while prices for energy and other raw materials also remained high.

Given these circumstances, the Group worked to optimize steel sales prices in response to the costs of steel scrap, energy, and other raw materials and took orders with an emphasis on profitability. As a result, net sales increased to ¥50,144 million (up 18.4% year on year), and operating profit increased to ¥2,895 million (compared to an operating loss of ¥38 million in the same period of the previous year).

(Automotive & Industrial Machinery Components Business)

In the automotive industry, the recovery of automobile production was delayed due to supply chain disruptions caused by the lockdown in China, in addition to shortages of semiconductors and other components, and domestic production volume was generally flat year on year. Meanwhile, in the construction machinery industry, demand remained strong in the United States and Southeast Asia. Demand for mining machinery remained strong due to rising resource prices.

Given these conditions, the Group worked to optimize sales prices in response to the rises in the costs of energy and other raw materials, as well as through structural reforms and other measures in addition to steadily winning demand for parts for the undercarriages of construction machinery and ultra-large wheels for mining trucks. As a result, net sales totaled ¥94,653 million (up 24.6% year on year) and operating profit stood at ¥1,733 million (up 18.2% year on year).

(Power Business)

The business environment remained challenging due to continued price hikes in coal, a fuel used for power generation. In this environment, efforts to optimize electricity sales prices failed to keep pace with rising costs, resulting in net sales of ¥8,166 million (up 111.9% year on year) and an operating loss of ¥1,066 million (compared to an operating loss of ¥783 million the same period of the previous year).

(Business Development Business)

This segment is engaged in the manufacture and sale of synthetic mica for use in cosmetics and other products. In the synthetic mica business, the Group steadily captured the recovery in demand for cosmetics in Japan and abroad. Reflecting this situation, net sales rose 22.5% year on year, to ¥522 million with an operating profit amounting to ¥87 million (compared to an operating loss of ¥162 million in the same period of the previous fiscal year).

(Leasing Business)

In the leasing business, operating profit was ¥355 million (up 1.4% year on year).

(Others)

The Group operates a civil engineering and construction business, sports club OSSO, and other businesses. Net sales came to ¥2,623 million (up 5.8% year on year) and operating profit was ¥243 million (up 176.5 year on year).

(2) Explanation Regarding Financial Position

Total assets at the end of the second quarter of the consolidated fiscal year under review stood at ¥293,325 million, an increase of ¥11,129 million from the end of the previous consolidated fiscal year. This was mainly due to increases of ¥4,896 million in notes and accounts receivable trade and contract assets, ¥3,026 million in merchandise and finished goods, and ¥2,086 million in cash and deposits.

Total liabilities were ¥174,454 million, an increase of ¥5,961 million compared with the end of the previous consolidated fiscal year. This was caused mainly by increases of ¥7,084 million in long-term borrowings, but decreases of ¥2,100 million in deferred tax liabilities.

Total net assets came to ¥118,871 million, an increase of ¥5,168 million from the end of the previous consolidated fiscal year. This was caused mainly by increases of ¥5,055 million in foreign currency translation adjustment.

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

While the outlook for the global economy is uncertain, a rise in geopolitical risks, including the prolonged situation in Ukraine, and fluctuations in financial and capital markets amid global monetary tightening among other factors, the moderate recovery in economic activity is expected to continue.

As for the business environment surrounding the Group, there are some concerns about persistently high prices of coal, energy, and other raw materials and the persistence of short supplies of components, including semiconductors. However, the price of steel scrap is continued to be expected to remain lower than initial forecasts, and a gradual recovery in global automobile production is expected. The Group will continue to steadily capture demand and improve costs by optimizing product sales prices and implementing structural reforms.

The consolidated financial forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023) have not been changed from those announced on May 11, 2022. This decision has been made based on information available to the Group as of the date of issuance of this release. The actual results may vary from the forecast due to various factors that will arise in the future.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	21,037	23,123
Notes and accounts receivable - trade, and contract assets	60,545	65,442
Merchandise and finished goods	27,734	30,761
Work in process	6,336	7,539
Raw materials and supplies	21,368	22,978
Other	7,483	6,748
Allowance for doubtful accounts	(86)	(97)
Total current assets	144,420	156,495
Non-current assets		
Property, plant and equipment		
Buildings and structures	95,234	97,341
Accumulated depreciation	(66,774)	(68,865)
Buildings and structures, net	28,460	28,476
Machinery, equipment and vehicles	220,159	226,608
Accumulated depreciation	(174,205)	(179,713)
Machinery, equipment and vehicles, net	45,953	46,894
Land	15,339	15,601
Leased assets	2,175	1,544
Accumulated depreciation	(1,315)	(966)
Leased assets, net	859	578
Construction in progress	2,729	2,863
Other	41,682	42,816
Accumulated depreciation	(39,686)	(40,531)
Other, net	1,995	2,284
Total property, plant and equipment	95,338	96,698
Intangible assets		
Other	3,440	3,427
Total intangible assets	3,440	3,427
Investments and other assets		
Investment securities	27,506	25,483
Long-term loans receivable	204	207
Deferred tax assets	1,834	692
Retirement benefit asset	397	397
Other	9,143	10,004
Allowance for doubtful accounts	(89)	(81)
Total investments and other assets	38,996	36,703
Total non-current assets	137,775	136,829
Total assets	282,195	293,325

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	33,731	32,942
Electronically recorded obligations - operating	15,552	17,554
Short-term borrowings	22,807	22,687
Lease liabilities	158	122
Income taxes payable	891	771
Other	14,055	14,307
Total current liabilities	87,196	88,385
Non-current liabilities		
Bonds payable	37,000	37,000
Long-term borrowings	26,228	33,312
Lease liabilities	235	191
Deferred tax liabilities	6,190	4,090
Provision for corporate officers' retirement benefits	163	147
Provision for share awards for directors (and other officers)	23	11
Provision for retirement benefits for directors (and other officers)	25	8
Reserve for repairs	324	392
Retirement benefit liability	9,155	9,164
Asset retirement obligations	346	266
Other	1,603	1,483
Total non-current liabilities	81,296	86,069
Total liabilities	168,492	174,454
Net assets		
Shareholders' equity		
Share capital	20,983	20,983
Capital surplus	18,606	18,606
Retained earnings	62,114	63,737
Treasury shares	(2,287)	(2,502)
Total shareholders' equity	99,417	100,824
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,990	8,530
Deferred gains or losses on hedges	19	24
Foreign currency translation adjustment	1,692	6,748
Remeasurements of defined benefit plans	1,537	1,543
Total accumulated other comprehensive income	13,240	16,847
Non-controlling interests	1,045	1,199
Total net assets	113,703	118,871
Total liabilities and net assets	282,195	293,325

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
(For the Six-month Period)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	125,059	156,109
Cost of sales	111,164	135,494
Gross profit	13,895	20,615
Selling, general and administrative expenses	15,357	19,074
Operating profit (loss)	(1,462)	1,540
Non-operating income		
Interest income	63	58
Dividend income	359	368
Foreign exchange gains	220	926
Share of profit of entities accounted for using equity method	—	64
Other	204	362
Total non-operating income	847	1,780
Non-operating expenses		
Interest expenses	237	339
Share of loss of entities accounted for using equity method	439	—
Other	296	186
Total non-operating expenses	972	525
Ordinary profit (loss)	(1,588)	2,794
Extraordinary income		
Gain on sale of non-current assets	36	10
Gain on sale of investment securities	0	55
Gain on reversal of provision incurred from business combination	791	—
Total extraordinary income	828	65
Extraordinary losses		
Loss on sale of non-current assets	2	3
Loss on retirement of non-current assets	104	179
Business structural reform expenses	—	76
Total extraordinary losses	107	258
Profit (loss) before income taxes	(866)	2,601
Income taxes	568	465
Profit (loss)	(1,434)	2,136
Profit attributable to non-controlling interests	37	53
Profit (loss) attributable to owners of parent	(1,472)	2,082

Quarterly Consolidated Statements of Comprehensive Income
(For the Six-month Period)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit (loss)	(1,434)	2,136
Other comprehensive income		
Valuation difference on available-for-sale securities	1,697	(1,477)
Deferred gains or losses on hedges	(2)	5
Foreign currency translation adjustment	1,309	4,355
Remeasurements of defined benefit plans, net of tax	19	5
Share of other comprehensive income of entities accounted for using equity method	536	855
Total other comprehensive income	3,560	3,744
Comprehensive income	2,125	5,881
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,045	5,690
Comprehensive income attributable to non-controlling interests	80	191

(3) Notes Regarding Quarterly Consolidated Financial Results

(Note related to going-concern assumption)

Not applicable.

(Note on significant changes in the amount of shareholders' equity)

Not applicable.

(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