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Consolidated Financial Results
for the Six Months Ended September 30, 2022
<under Japanese GAAP>

F-TECH INC.

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1. Qualitative information regarding financial results for the period under review

(1) Information regarding operating results

The global economy in the six months ended September 30, 2022 (from April 1, 2022 to September 30, 2022) is facing concerns about the risk of a recession as its growth is slowing due to high resource prices caused by the situation in Ukraine, China's zero-COVID policy lockdown, monetary tightening aimed at controlling inflation in European and U.S. countries, and the sharp strengthening of the U.S. dollar.

In the automotive industry, the business environment remained challenging due to the tight supply-demand balance of semiconductors, various components and materials, as well as soaring raw material costs and transportation costs.

In this business environment, the Group launched the 14th medium-term plan in April 2020. We have been actively working to provide customers with new value, in line with the basic policies of "Back to Basics" and "Challenge for New," under the global policy of "Let's exceed our limits! We will, without compromise, produce the 'Best One' for all our customers." As a result, we have won new orders in the North American market and have also acquired a new subsidiary in India, a market which abounds with future potential, having been able to lay the groundwork for future growth.

As a result, during the six months ended September 30, 2022, net sales increased by 36.2% year on year to 121,260 million yen, operating loss was 1,085 million yen (an operating loss of 1,424 million yen in the same period of the previous year), ordinary profit was 229 million yen (an ordinary loss of 1,627 million yen in the same period of the previous year), and profit attributable to owners of parent was 661 million yen (loss attributable to owners of parent of 2,340 million yen in the same period of the previous year).

Operating results by segment are as follows.

(Japan)

The production volume of major customers declined on account of semiconductor shortages and other factors, but net sales rose 14.9% year on year to 10,117 million yen due to increased product sales and the full-scale start of mass production at new customers. In terms of profit and loss, operating profit was 182 million yen (an operating loss of 152 million yen in the same period of the previous year) as a result of an increase in product sales and the effect of foreign currency translation due to the yen depreciation, despite the impact of soaring costs of raw materials and other factors.

(North America)

Net sales rose 50.6% year on year to 78,468 million yen due to the start of mass production of newly ordered products and the depreciation of the yen, despite a decline in the production volume of major customers. In terms of profit and loss, operating loss was 2,205 million yen (an operating loss of 2,148 million yen in the same period of the previous year) on account of the absence of coronavirus-related government subsidies and the effect of foreign currency translation due to the yen depreciation.

(Asia)

The production volume of major customers declined on account of the lockdown in Shanghai and a shortage of semiconductors, but net sales rose 16.1% year on year to 32,674 million yen owing to the acquisition of India Steel Summit Private Limited as a subsidiary and the effect of foreign currency translation due to the yen depreciation. In terms of profit and loss, operating profit declined 30.4% year on year to 710 million yen on the impact of a decline in the production volume and rising transportation costs.

(2) Information regarding financial position

As of September 30, 2022, total assets increased by 27,463 million yen compared with the end of the previous fiscal year to 188,395 million yen, reflecting increases in cash and deposits, as well as property, plant and equipment, such as machinery, equipment and vehicles and construction in progress.

Liabilities increased by 20,737 million yen from the end of the previous fiscal year to 121,090 million yen, reflecting increases in long-term loans payable.

Net assets increased by 6,726 million yen to 67,304 million yen, reflecting an increase in foreign currency translation adjustment.

(3) Information regarding consolidated earnings forecasts and other forward-looking statements

For the fiscal year ending March 31, 2023, we have revised the earnings forecasts announced on May 12, 2022, based on currently available information and projections.

For details, please see the Notice Concerning Revision of Earnings Forecasts for the Fiscal Year Ending March 31, 2023, released today.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	1,981	6,537
Notes and accounts receivable - trade	36,327	38,409
Merchandise and finished goods	8,754	8,570
Work in process	7,500	8,882
Raw materials and supplies	11,775	13,850
Other	3,387	4,714
Allowance for doubtful accounts	(2)	(25)
Total current assets	69,723	80,939
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	18,352	20,386
Machinery, equipment and vehicles, net	36,467	44,388
Construction in progress	15,570	18,338
Other, net	10,976	14,173
Total property, plant and equipment	81,366	97,286
Intangible assets	299	308
Investments and other assets		
Investment securities	7,412	6,900
Other	2,130	2,960
Total investments and other assets	9,542	9,860
Total non-current assets	91,208	107,455
Total assets	160,931	188,395

(Millions of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	22,966	24,508
Short-term loans payable	36,540	32,732
Current portion of long-term loans payable	10,244	11,656
Income taxes payable	652	280
Provision for directors' bonuses	44	37
Other	8,371	12,868
Total current liabilities	78,819	82,083
Non-current liabilities		
Long-term loans payable	16,735	33,078
Provision for directors' retirement benefits	51	49
Net defined benefit liability	919	998
Negative goodwill	39	36
Other	3,787	4,844
Total non-current liabilities	21,533	39,007
Total liabilities	100,353	121,090
Net assets		
Shareholders' equity		
Capital stock	6,790	6,790
Capital surplus	6,733	6,733
Retained earnings	26,619	27,102
Treasury shares	(62)	(60)
Total shareholders' equity	40,081	40,565
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	518	421
Deferred gains or losses on hedges	-	286
Foreign currency translation adjustment	4,498	10,480
Remeasurements of defined benefit plans	7	8
Total accumulated other comprehensive income	5,025	11,196
Non-controlling interests	15,472	15,542
Total net assets	60,578	67,304
Total liabilities and net assets	160,931	188,395

(2) Consolidated statements of income and comprehensive income

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	89,049	121,260
Cost of sales	83,491	114,257
Gross profit	5,557	7,002
Selling, general and administrative expenses	6,982	8,088
Operating loss	(1,424)	(1,085)
Non-operating income		
Interest income	37	39
Dividend income	29	31
Share of profit of entities accounted for using equity method	-	16
Foreign exchange gains	90	1,758
Other	89	115
Total non-operating income	247	1,962
Non-operating expenses		
Interest expenses	378	630
Share of loss of entities accounted for using equity method	24	-
Other	47	16
Total non-operating expenses	449	647
Ordinary profit (loss)	(1,627)	229
Extraordinary income		
Gain on sales of non-current assets	4	21
Gain on sales of investment securities	1	-
Gain on negative goodwill	-	765
Total extraordinary income	6	787
Extraordinary losses		
Loss on sales of non-current assets	7	6
Loss on retirement of non-current assets	38	10
Total extraordinary losses	45	17
Profit (loss) before income taxes	(1,666)	998
Income taxes - current	932	951
Income taxes - deferred	(123)	(390)
Total income taxes	808	561
Profit (loss)	(2,474)	437
Profit (loss) attributable to		
Profit (loss) attributable to owners of parent	(2,340)	661
Loss attributable to non-controlling interests	(134)	(224)
Other comprehensive income		
Valuation difference on available-for-sale securities	38	(107)
Deferred gains or losses on hedges	-	294
Foreign currency translation adjustment	1,908	7,140
Remeasurements of defined benefit plans, net of tax	(83)	(0)
Share of other comprehensive income of entities accounted for using equity method	(4)	358
Total other comprehensive income	1,858	7,685
Comprehensive income	(616)	8,123
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(990)	6,834
Comprehensive income attributable to non-controlling interests	374	1,288

(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	(1,666)	998
Depreciation	5,221	5,979
Amortization of goodwill	(2)	(2)
Increase (decrease) in assets and liabilities related to retirement benefits	7	9
Increase (decrease) in provision for directors' retirement benefits	(9)	(1)
Increase (decrease) in provision for directors' bonuses	5	(7)
Interest and dividend income	(66)	(71)
Interest expenses	378	630
Foreign exchange losses (gains)	(265)	(1,182)
Share of loss (profit) of entities accounted for using equity method	24	(16)
Loss (gain) on sales of property, plant and equipment	2	(15)
Loss on retirement of property, plant and equipment	38	10
Decrease (increase) in notes and accounts receivable - trade	12,153	2,599
Decrease (increase) in inventories	(4,164)	1,285
Increase (decrease) in notes and accounts payable - trade	(5,093)	(1,066)
Loss (gain) on sales of investment securities	(1)	-
Gain on negative goodwill	-	(765)
Increase (decrease) in contract liabilities	(205)	1,403
Decrease (increase) in accounts receivable - other	55	(474)
Other, net	(463)	1,014
Subtotal	5,948	10,327
Interest and dividend income received	88	106
Interest expenses paid	(383)	(631)
Income taxes paid	(1,109)	(1,368)
Net cash provided by (used in) operating activities	4,543	8,434
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,026)	(9,476)
Proceeds from sales of property, plant and equipment	104	104
Purchase of intangible assets	(30)	(17)
Purchase of investment securities	(20)	(24)
Proceeds from sales of investment securities	4	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(632)
Other, net	(10)	(13)
Net cash provided by (used in) investing activities	(6,979)	(10,061)

(Millions of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,187	(8,613)
Proceeds from long-term loans payable	7,703	20,734
Repayments of long-term loans payable	(5,550)	(5,711)
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(162)	(186)
Dividends paid to non-controlling interests	(958)	(665)
Repayments of lease obligations	(262)	(505)
Proceeds from sales of treasury shares	1	1
Other, net	229	430
Net cash provided by (used in) financing activities	4,188	5,485
Effect of exchange rate change on cash and cash equivalents	350	697
Net increase (decrease) in cash and cash equivalents	2,102	4,556
Cash and cash equivalents at beginning of period	3,708	1,981
Cash and cash equivalents at end of period	5,811	6,537

(4) Notes to quarterly consolidated financial statements

Uncertainties of entity's ability to continue as going concern

Not applicable.

Substantial changes in the amount of shareholders' equity

Not applicable.

Changes in accounting policies

(Application of Accounting Standards Codification (ASC) Topic 842, "Leases")

The Company's consolidated subsidiaries that adopt US GAAP have adopted ASC Topic 842, *Leases* from the first quarter ended June 30, 2022. As a result, lessee's lease transactions are, in principle, all recorded as assets and liabilities on the balance sheet.

In accordance with the transitional measures provided in this accounting standard, the cumulative effect of adopting this accounting standard is recognized at the beginning of the first quarter ended June 30, 2022, which is the date of initial application of this accounting standard.

As a result, "Other" presented under property, plant and equipment, "Other" presented under current liabilities, and "Other" presented under non-current liabilities each increased by 1,247 million yen, 259 million yen, and 988 million yen, respectively, as of September 30, 2022, compared with the amounts that would have been recorded under the previous accounting standard. The effect on the beginning balance of retained earnings and profit and loss for the six months ended September 30, 2022 is immaterial.

Application of special accounting for preparing quarterly consolidated financial statements

(Calculation of tax expenses)

Tax expenses in the quarterly consolidated financial statements for a portion of consolidated subsidiaries are calculated first by reasonably estimating the effective tax rate after applying tax effect accounting against profit before income taxes for the fiscal year including the second quarter ended September 30, 2022, and next by multiplying the quarterly profit (loss) before income taxes by such estimated effective tax rate.

Additional information

There are no material changes to the assumptions of accounting estimates regarding the impact from the novel coronavirus infection stated in the securities report for the previous consolidated fiscal year (Additional information).

Segment information, etc.

Segment information

I. Six months ended September 30, 2021

1. Disclosure of net sales and profit (loss) for each reportable segment

(Millions of yen)

	Reportable segments			Total
	Japan	North America	Asia	
Net sales				
Net sales to external customers	8,806	52,107	28,134	89,049
Intersegment sales and transfers	6,824	663	1,270	8,758
Total	15,631	52,771	29,405	97,808
Segment profit (loss)	(152)	(2,148)	1,020	(1,280)

2. Differences between total amounts of profit (loss) for reportable segments and amounts in the consolidated statements of income and comprehensive income and main details of these differences (matters relating to difference adjustments)

(Millions of yen)

Profit	Amount
Reportable segments total	(1,280)
Elimination of intersegment transactions	(143)
Operating loss in the consolidated statements of income and comprehensive income	(1,424)

3. Disclosure of impairment loss on non-current assets and goodwill, etc. for each reportable segment
Not applicable.

II. Six months ended September 30, 2022

1. Disclosure of net sales and profit (loss) for each reportable segment

(Millions of yen)

	Reportable segments			Total
	Japan	North America	Asia	
Net sales				
Net sales to external customers	10,117	78,468	32,674	121,260
Intersegment sales and transfers	7,678	595	890	9,164
Total	17,795	79,064	33,564	130,424
Segment profit (loss)	182	(2,205)	710	(1,313)

2. Differences between total amounts of profit (loss) for reportable segments and amounts in the consolidated statements of income and comprehensive income and main details of these differences (matters relating to difference adjustments)

(Millions of yen)

Profit	Amount
Reportable segments total	(1,313)
Elimination of intersegment transactions	227
Operating loss in the consolidated statements of income and comprehensive income	(1,085)

3. Disclosure of impairment loss on non-current assets and goodwill, etc. for each reportable segment (Significant gain on negative goodwill)

A gain on negative goodwill of 765 million yen was recorded in the first quarter ended June 30, 2022 as a result of acquiring shares in India Steel Summit Private Limited to make it a consolidated subsidiary. The amount of gain on negative goodwill is tentatively calculated since the allocation of acquisition costs has not been completed as of September 30, 2022. The amount is not allocated to reportable segments as it is recorded in extraordinary income.

Significant events after reporting period

Not applicable.