

## Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2016 (Fiscal Year 2016) (Nine Months Ended December 31, 2015)

<Under Japanese GAAP>

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Scheduled date of filing of Quarterly Report: February 9, 2016  
 Scheduled date of payment of dividend: -  
 Preparation of supplementary materials for quarterly financial results: None

*(Millions of yen with fractional amounts rounded off, unless otherwise noted)*

### 1. Consolidated Financial Results for the Third Quarter (from April 1, 2015 to December 31, 2015) of Fiscal Year 2016

(1) Consolidated operating results (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended Dec. 31, 2015	122,275	(9.9)	11,071	33.5	11,381	29.0	6,400	22.0
Nine months ended Dec. 31, 2014	135,785	5.9	8,290	805.8	8,819	678.1	5,245	-

Note: Comprehensive income Nine months ended Dec. 31, 2015: 5,823 million yen (down 9.1%)  
Nine months ended Dec. 31, 2014: 6,407 million yen (up 173.5%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2015	147.27	-
Nine months ended Dec. 31, 2014	120.69	-

### (2) Consolidated financial position

	Total assets	Net assets	Equity to total assets
	Millions of yen	Millions of yen	%
As of Dec. 31, 2015	204,743	142,332	65.5
As of Mar. 31, 2015	201,760	138,052	64.2

Reference: Shareholders' equity As of Dec. 31, 2015: 134,201 million yen As of Mar. 31, 2015: 129,546 million yen

### 2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2015	-	10.00	-	25.00	35.00
Fiscal Year 2016	-	10.00	-	-	-
Fiscal Year 2016 (Forecast)	-	-	-	35.00	45.00

Note: Revisions to the most recently announced dividend forecast: Yes

### 3. Forecasts of Consolidated Earnings for Fiscal Year 2016 (from April 1, 2015 to March 31, 2016)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	163,000	(10.2)	13,800	17.0	14,000	12.1	8,000	15.6	184.08

Note: Revisions to the most recently announced consolidated earnings forecast: Yes

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Newly added: None

Excluded: None

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

Note: Please refer to “2. Matters Related to Summary Information (Notes), (3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements” on page 4 of the attachments for further information.

(4) Number of outstanding shares (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Dec. 31, 2015:	44,898,730 shares	As of Mar. 31, 2015:	44,898,730 shares
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2) Number of treasury shares at the end of the period

As of Dec. 31, 2015:	1,439,455 shares	As of Mar. 31, 2015:	1,439,389 shares
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3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2015:	43,459,314 shares	Nine months ended Dec. 31, 2014:	43,459,374 shares
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\* Information regarding the implementation of quarterly review procedures

At the time when this report was released, the review procedures for the quarterly consolidated financial statements based on the Financial Instruments and Exchange Act have not been completed.

\* Cautionary statement with respect to forward-looking statements and other special items

Forecasts of future performance in this report are based on information available at the date of publication for this document and certain assumptions regarding factors that may influence future results at the date of publication. Actual results may vary significantly from these forecasts due to a wide range of factors. For a discussion of the assumptions for forecasts, precautions concerning usage and other information, please refer to “1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements” on page 3 of the attached documents.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

In the first nine months of the fiscal year ending March 31, 2016, the Japanese overall economy continued to recover slowly despite signs of weakness in some sectors. However, the economic outlook remained unclear because of slowing economic growth in China and other emerging countries and other sources of uncertainty.

In the market for steel construction materials, the primary source of demand for the Kyoei Steel Group's products, price of raw materials, mainly steel scrap, in Japan continued to fall in the third quarter because of the excessive volume of steel exports by China. As a result, demand for steel products was sluggish and prices of these products continued to decline. In this environment, the Kyoei Steel Group continued to cut the cost of manufacturing while keeping production and sales activities in line with demand. The goal was to maintain a suitable metal spread, which is the difference between steel product price and steel scrap price. In Vietnam, production and sales volumes increased even during a period of seasonally weak demand as demand for steel was firm.

Consequently, consolidated sales decreased by 13,510 million yen (9.9%) to 122,275 million yen. Operating income increased 2,781 million yen (33.5%) to 11,071 million yen and ordinary income increased 2,562 million yen (29.0%) to 11,381 million yen. Although there was an impairment loss on non-current assets at the end of the third quarter at Kyoei Steel Vietnam Company Limited, which is located in northern Vietnam, profit attributable to owners of parent increased 1,155 million yen (22.0%) to 6,400 million yen.

Results by business segment are as follows.

Reportable segments have been revised beginning with the first quarter of the current fiscal year. Comparisons and analysis of segment performance for the first nine months are based on the revised segments. More information is provided in "II, 2. Revisions to reportable segments" in Segment and Other Information on page 10.

#### 1) Domestic Steel Business

Shipments from plants in Japan were down 29,000 tons from one year earlier to 1,229,000 tons because of a decline in demand for steel used for construction. Product prices decreased by 8,700 yen per ton but the price of steel scrap was down by an even larger 10,600 yen per ton. Therefore, the metal spread, which is the source of earnings in this segment, widened by 1,900 yen per ton compared with one year earlier.

Segment sales decreased by 17,158 million yen (17.1%) to 83,297 million yen and operating income was up by 2,202 million yen (29.0%) to 9,791 million yen.

#### 2) Overseas Steel Business

This segment includes the operations of two companies in Vietnam. At Vina Kyoei Steel Ltd., which is located in southern Vietnam, sales volume increased due to higher production capacity resulting from completion of an integrated steelmaking and rolling factory. However, manufacturing costs increased mainly because the start-up of a steel mill that began operations in the summer of 2015 is still under way. At Kyoei Steel Vietnam Company Limited, which is located in northern Vietnam, sales volume increased due to firm steel demand even during a period of seasonally weak demand. This company recorded an operating profit due to the benefits of cost-cutting measures that started at the beginning of the current fiscal year.

Segment sales increased by 3,707 million yen (12.4%) to 33,487 million yen and operating income increased by 633 million yen (291.4%) to 851 million yen.

#### 3) Material Recycling Business

Unit processing fees increased despite intense competition in part because of more activities aimed at receiving orders for materials that are difficult to process. However, processing efficiency decreased in some sectors. Segment

sales increased 4 million yen (0.1%) to 5,259 million yen and operating income was down 107 million yen (9.5%) to 1,023 million yen.

#### **4) Others**

This category includes mainly sales of civil engineering materials by a subsidiary and an insurance agent business. Sales decreased by 63 million yen (21.3%) to 233 million yen and operating income was up 3 million yen (29.7%) to 13 million yen.

### **(2) Explanation of Financial Position**

#### **Assets**

Current assets decreased by 900 million yen, or 0.8%, from the end of the previous fiscal year to 107,766 million yen. This was attributable mainly to increases of 2,207 million yen in notes and accounts receivable-trade and 3,400 million yen in securities, and decreases of 5,732 million yen in cash and deposits and 501 million yen in other under current assets.

Non-current assets increased by 3,883 million yen, or 4.2%, from the end of the previous fiscal year to 96,977 million yen. This was mainly attributable to increases of 1,716 million yen in buildings and structures, 17,761 million yen in machinery, equipment and vehicles and 1,106 million yen in investment and other assets, while there was a decrease of 16,720 million yen in other, net under property, plant and equipment.

Total assets increased by 2,984 million yen, or 1.5%, from the end of the previous fiscal year to 204,743 million yen.

#### **Liabilities**

Current liabilities increased by 1,311 million yen, or 3.3%, from the end of the previous fiscal year to 41,614 million yen. This was attributable mainly to an increase of 1,725 million yen in short-term loans payable.

Non-current liabilities decreased by 2,607 million yen, or 11.1 %, from the end of the previous fiscal year to 20,798 million yen. This was attributable mainly to a decrease of 1,999 million yen in long-term loans payable.

Total liabilities decreased by 1,296 million yen, or 2.0%, from the end of the previous fiscal year to 62,411 million yen.

#### **Net assets**

Net assets increased by 4,280 million yen, or 3.1%, from the end of the previous fiscal year to 142,332 million yen. This was attributable mainly to a profit attributable to owners of parent of 6,400 million yen and dividends of surplus of 1,521 million yen.

As a result, equity to total assets rose from 64.2% to 65.5%.

### **(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements**

Prospects for a recovery in demand for steel products is still uncertain in the fourth quarter of the fiscal year. The environment for selling these products is expected to remain challenging as a result. The price of steel scrap, which is used to make steel, is expected to stay low. Furthermore, the cost of electricity and other energy sources will probably decrease because of the lower price of crude oil. For these reasons, the performance of the domestic steel business is expected to be higher than in the previous forecast. In the overseas steel business, performance is likely to fall short of the previous forecast due to lower steel product prices caused by the growth in output capacity in southern Vietnam and inflows of steel from China.

We are revising the fiscal year forecasts that were announced on October 30, 2015 with results of operations for the first half of fiscal year ending March 31, 2016, as we expect overall group earnings to be higher than these forecasts.

## **2. Matters Related to Summary Information (Notes)**

### **(1) Changes in Significant Subsidiaries during the Period**

Not applicable.

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

Not applicable.

### **(3) Changes in Accounting Policies and Accounting-based Estimates, and Restatements**

Changes in Accounting Policies

Application of the Accounting Standards for Business Combinations

Effective from the first quarter of the current fiscal year, the Company has adopted the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013), “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) and other standards. Accordingly, difference arising from changes in the Company’s ownership interests in subsidiaries in cases where control is retained is recognized in capital surplus, and the acquisition costs in connection with business combinations are recognized as expenses in the fiscal year in which they arise. Regarding business combinations that take place on or after the beginning of the first quarter of the current fiscal year, the Company has revised the method to reflect reviewed allocation of the acquisition costs arising from determination of the provisional accounting treatment on the quarterly consolidated financial statements to which the date of the business combination belongs. In addition, the presentation of net income and other items has been revised, and the minority interests item has been renamed non-controlling interests. For consistency with these changes, the consolidated financial statements for the first nine months of the previous fiscal year and the previous fiscal year have been revised.

The Company has adopted these accounting standards, etc. from the beginning of the first quarter of the current fiscal year, in accordance with the transitional accounting treatments set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures.

The application of these standards does not have a material effect on earnings.

**3. Quarterly Consolidated Financial Statements****(1) Quarterly Consolidated Balance Sheets**

	(Unit: millions of yen)	
	FY2015 (as of Mar. 31, 2015)	Third quarter of FY2016 (as of Dec. 31, 2015)
<b>Assets</b>		
Current assets		
Cash and deposits	21,179	15,447
Notes and accounts receivable-trade	37,848	40,056
Securities	19,600	23,000
Merchandise and finished goods	18,088	17,771
Raw materials and supplies	8,620	8,713
Other	3,475	2,974
Allowance for doubtful accounts	(144)	(193)
Total current assets	108,666	107,766
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	13,516	15,232
Machinery, equipment and vehicles, net	19,960	37,721
Land	25,186	25,115
Other, net	17,971	1,252
Total property, plant and equipment	76,633	79,319
Intangible assets	1,153	1,224
Investments and other assets		
Investment securities	11,693	11,707
Other	3,685	4,791
Allowance for doubtful accounts	(71)	(64)
Total investments and other assets	15,307	16,433
Total non-current assets	93,094	96,977
<b>Total assets</b>	<b>201,760</b>	<b>204,743</b>

(Unit: millions of yen)

	FY2015 (as of Mar. 31, 2015)	Third quarter of FY2016 (as of Dec. 31, 2015)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	12,388	12,704
Short-term loans payable	11,439	13,164
Current portion of long-term loans payable	2,071	2,575
Income taxes payable	4,051	1,187
Provision for bonuses	698	910
Provision for directors' bonuses	139	116
Provision for loss on business liquidation	-	298
Other	9,519	10,659
<b>Total current liabilities</b>	<b>40,303</b>	<b>41,614</b>
Non-current liabilities		
Long-term loans payable	19,296	17,297
Deferred tax liabilities	689	406
Deferred tax liabilities for land revaluation	2,731	2,730
Provision for directors' retirement benefits	21	8
Provision for loss on business liquidation	298	-
Net defined benefit liability	57	64
Other	312	293
<b>Total non-current liabilities</b>	<b>23,404</b>	<b>20,798</b>
<b>Total liabilities</b>	<b>63,708</b>	<b>62,411</b>
Net assets		
Shareholders' equity		
Capital stock	18,516	18,516
Capital surplus	21,493	21,493
Retained earnings	81,600	86,479
Treasury shares	(1,699)	(1,699)
<b>Total shareholders' equity</b>	<b>119,909</b>	<b>124,788</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,259	2,087
Revaluation reserve for land	4,835	4,837
Foreign currency translation adjustment	2,160	2,113
Remeasurements of defined benefit plans	382	376
<b>Total accumulated other comprehensive income</b>	<b>9,637</b>	<b>9,413</b>
<b>Non-controlling interests</b>	<b>8,507</b>	<b>8,131</b>
<b>Total net assets</b>	<b>138,052</b>	<b>142,332</b>
<b>Total liabilities and net assets</b>	<b>201,760</b>	<b>204,743</b>

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

(Unit: millions of yen)

	First nine months of FY2015 (from Apr. 1, 2014 to Dec. 31, 2014)	First nine months of FY2016 (from Apr. 1, 2015 to Dec. 31, 2015)
Net sales	135,785	122,275
Cost of sales	119,957	103,661
Gross profit	15,828	18,614
Selling, general and administrative expenses	7,538	7,543
Operating income	8,290	11,071
Non-operating income		
Interest income	508	221
Dividend income	175	221
Share of profit of entities accounted for using equity method	284	362
Other	142	172
Total non-operating income	1,109	976
Non-operating expenses		
Interest expenses	334	436
Sales discounts	40	30
Foreign exchange losses	171	161
Other	36	40
Total non-operating expenses	580	667
Ordinary income	8,819	11,381
Extraordinary income		
Gain on sales and retirement of non-current assets	29	17
Other	1	-
Total extraordinary income	30	17
Extraordinary losses		
Loss on sales and retirement of non-current assets	464	363
Impairment loss	-	1,399
Other	85	77
Total extraordinary losses	549	1,838
Income before income taxes and non-controlling interests	8,300	9,560
Income taxes	2,949	3,465
Profit	5,351	6,095
Profit (loss) attributable to non-controlling interests	106	(305)
Profit attributable to owners of parent	5,245	6,400

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

(Unit: millions of yen)

	First nine months of FY2015 (from Apr. 1, 2014 to Dec. 31, 2014)	First nine months of FY2016 (from Apr. 1, 2015 to Dec. 31, 2015)
Profit	5,351	6,095
Other comprehensive income		
Valuation difference on available-for-sale securities	544	(172)
Revaluation reserve for land	-	1
Foreign currency translation adjustment	487	(96)
Remeasurements of defined benefit plans, net of tax	25	(6)
Total other comprehensive income	1,056	(272)
Comprehensive income	6,407	5,823
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	6,043	6,176
Comprehensive income attributable to non-controlling interests	364	(353)

**(3) Notes to Quarterly Consolidated Financial Statements****Going-concern Assumption**

Not applicable.

**Significant Changes in Shareholders' Equity**

Not applicable.

**Segment and Other Information****Segment information**

I. First nine months of FY2015 (from Apr. 1, 2014 to Dec. 31, 2014)

1. Information related to net sales, profit/loss for each reportable segment (Unit: millions of yen)

	Reportable segment				Others (Note 1)	Adjustment (Note 2)	Amounts shown on quarterly consolidated statements of income (Note 3)
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net sales							
External sales	100,455	29,780	5,254	135,489	296	-	135,785
Inter-segment sales and transfers	1,849	-	1,626	3,475	-	(3,475)	-
Total	102,304	29,780	6,880	138,964	296	(3,475)	135,785
Segment income	7,589	217	1,130	8,937	10	(657)	8,290

- Notes:
- Others represent the businesses which are not included in any of the reportable segments and mainly consist of civil engineering materials sales and insurance agent businesses.
  - The adjustment of (657) million yen to segment income includes 29 million yen in eliminations for inter-segment transactions and (686) million yen in corporate costs that are not allocated to reportable segments. Corporate costs mainly include general and administration expenses of the Company's head office that cannot be attributed to reportable segments.
  - Segment income are adjusted to be consistent with operating income shown on the quarterly consolidated statements of income.

2. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

Impairment losses related to non-current assets

Not applicable.

Significant change in goodwill

Not applicable.

Significant gain on bargain purchase

Not applicable.

## II. First nine months of FY2016 (from Apr. 1, 2015 to Dec. 31, 2015)

## 1. Information related to net sales, profit/loss for each reportable segment

(Unit: millions of yen)

	Reportable segment				Others (Note 1)	Adjustment (Note 2)	Amounts shown on quarterly consolidated statements of income (Note 3)
	Domestic Steel Business	Overseas Steel Business	Material Recycling Business	Total			
Net sales							
External sales	83,297	33,487	5,259	122,043	233	-	122,275
Inter-segment sales and transfers	1,985	-	1,360	3,345	-	(3,345)	-
Total	85,282	33,487	6,619	125,388	233	(3,345)	122,275
Segment income	9,791	851	1,023	11,664	13	(606)	11,071

- Notes:
1. Others represent the businesses which are not included in any of the reportable segments and mainly consist of civil engineering materials sales and insurance agent businesses.
  2. The adjustment of (606) million yen to segment income includes 162 million yen in eliminations for inter-segment transactions and (769) million yen in corporate costs that are not allocated to reportable segments. Corporate costs mainly include general and administration expenses of the Company's head office that cannot be attributed to reportable segments.
  3. Segment income are adjusted to be consistent with operating income shown on the quarterly consolidated statements of income.

## 2. Revisions to reportable segments

Reportable segments have been revised beginning with the first three months of FY2016.

In prior fiscal years, the Kyoei Steel Group had three reportable segments: Steel, Material Recycling and Others. Beginning with the current fiscal year, the Steel segment is divided into Domestic Steel and Overseas Steel segments because of the outlook for growth in the scale of operations in Vietnam following the planned completion in this fiscal year of the second steelmaking and rolling line at Vina Kyoei Steel. Also, in prior fiscal years, the Steel segment included recycling operations that involved sorting and other processing of waste materials that include materials with value, such as steel scrap used to make steel products and non-ferrous scrap containing copper and other materials that are used by companies outside the Kyoei Steel Group. Due to the similarity of these recycling operations and the operations included in the Material Recycling segment, the recycling operations previously in the Steel segment have been moved to the Material Recycling segment.

In addition, "Others" is no longer a reportable segment because its sales and earnings are not significant. This former segment is still called "Others" but is not a reportable segment.

Segment information for the first nine months of FY2015 was prepared using the revised reportable segments.

## 3. Information related to impairment of non-current assets, goodwill, etc. for each reportable segment

Impairment losses related to non-current assets

In the Overseas Steel segment, Kyoei Steel Vietnam has temporarily suspended its plan to construct an integrated steelmaking and rolling factory. Initially, operations were to begin at this new factory early in 2016. Although this company is still considering the construction of this factory, the current uncertainty of the business environment makes it difficult to reach a decision to start construction. Consequently, Kyoei Steel Vietnam recorded an impairment loss resulting from the write-down to the amount that can be recovered of non-current assets associated with the plan for this new factory. An impairment loss of 1,390 million yen was recorded in the first nine months of FY2016.

Significant change in goodwill

Not applicable.

Significant gain on bargain purchase

Not applicable.

*This summary report is solely a translation of "Kessan Tanshin" (in Japanese, including the attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*