

Consolidated Financial Results
for the Third Quarter of Fiscal Year Ending March 31, 2020 (Fiscal Year 2020)
(Nine Months Ended December 31, 2019)

<Under Japanese GAAP>

Company name: Kyoei Steel, Ltd. Stock exchange listed: Tokyo, 1st Section
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Scheduled date of filing of Quarterly Report (Japanese version only): February 14, 2020

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, 2019 to December 31, 2019)
of Fiscal Year 2020

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

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|---------------------------------|-----------------|------|------------------|-------|-----------------|-------|---|-------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Nine months ended Dec. 31, 2019 | 183,418 | 3.9 | 15,329 | 127.2 | 14,977 | 153.6 | 5,514 | 21.1 |
| Nine months ended Dec. 31, 2018 | 176,488 | 28.0 | 6,747 | 126.6 | 5,906 | 125.5 | 4,555 | 211.1 |

Note: Comprehensive income Nine months ended Dec. 31, 2019: 4,892 million yen (up 22.0%)

Nine months ended Dec. 31, 2018: 4,008 million yen (up 71.8%)

| | Net income per share | Fully diluted net income per share |
|---------------------------------|----------------------|------------------------------------|
| | Yen | Yen |
| Nine months ended Dec. 31, 2019 | 126.87 | - |
| Nine months ended Dec. 31, 2018 | 104.90 | - |

(2) Consolidated financial position

| | Total assets | Net assets | Equity to total assets |
|---------------------|-----------------|-----------------|------------------------|
| | Millions of yen | Millions of yen | % |
| As of Dec. 31, 2019 | 255,781 | 156,886 | 57.4 |
| As of Mar. 31, 2019 | 261,590 | 153,781 | 54.8 |

Reference: Shareholders' equity As of Dec. 31, 2019: 146,702 million yen As of Mar. 31, 2019: 143,407 million yen

2. Dividends

| | Dividends per share | | | | |
|-----------------------------|---------------------|--------|--------|----------|--------|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Annual |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal Year 2019 | - | 10.00 | - | 30.00 | 40.00 |
| Fiscal Year 2020 | - | 10.00 | - | - | - |
| Fiscal Year 2020 (Forecast) | - | - | - | 50.00 | 60.00 |

Note: Revisions to the most recently announced dividend forecast: None

3. Forecasts of Consolidated Earnings for Fiscal Year 2020 (from April 1, 2019 to March 31, 2020)

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

| | Net sales | | Operating profit | | Ordinary profit | | 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 | 240,000 | (0.9) | 18,500 | 101.1 | 18,000 | 108.2 | 8,000 | 23.0 | 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

(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, 2019: | 44,898,730 shares | As of Mar. 31, 2019: | 44,898,730 shares |
|----------------------|-------------------|----------------------|-------------------|

2) Number of treasury shares at the end of the period

| | | | |
|----------------------|------------------|----------------------|------------------|
| As of Dec. 31, 2019: | 1,439,755 shares | As of Mar. 31, 2019: | 1,439,682 shares |
|----------------------|------------------|----------------------|------------------|

3) Average number of shares outstanding during the period

| | | | |
|----------------------------------|-------------------|----------------------------------|-------------------|
| Nine months ended Dec. 31, 2019: | 43,459,004 shares | Nine months ended Dec. 31, 2018: | 43,419,702 shares |
|----------------------------------|-------------------|----------------------------------|-------------------|

* The current quarterly financial report is not subject to quarterly review by certified public accountants or auditing firms.

* 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.

Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Unit: millions of yen)

| | FY2019 (as of Mar. 31, 2019) | Third quarter of FY2020 (as of Dec. 31, 2019) |
|---|---------------------------------|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 42,133 | 49,971 |
| Notes and accounts receivable-trade | 48,845 | 44,129 |
| Electronically recorded monetary claims-operating | 14,854 | 16,826 |
| Securities | 4,400 | 2,800 |
| Merchandise and finished goods | 26,360 | 23,830 |
| Raw materials and supplies | 18,535 | 18,939 |
| Other | 7,289 | 4,475 |
| Allowance for doubtful accounts | (500) | (659) |
| Total current assets | 161,916 | 160,312 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 21,028 | 20,324 |
| Machinery, equipment and vehicles, net | 34,980 | 31,989 |
| Land | 24,249 | 24,319 |
| Other, net | 1,360 | 2,449 |
| Total property, plant and equipment | 81,617 | 79,081 |
| Intangible assets | | |
| Goodwill | 3,944 | 296 |
| Other | 2,565 | 2,293 |
| Total intangible assets | 6,508 | 2,589 |
| Investments and other assets | | |
| Investment securities | 8,120 | 9,069 |
| Other | 3,493 | 4,795 |
| Allowance for doubtful accounts | (64) | (64) |
| Total investments and other assets | 11,549 | 13,800 |
| Total non-current assets | 99,674 | 95,470 |
| Total assets | 261,590 | 255,781 |

(Unit: millions of yen)

| | FY2019 (as of Mar. 31, 2019) | Third quarter of FY2020 (as of Dec. 31, 2019) |
|--|---------------------------------|--|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 17,816 | 13,516 |
| Electronically recorded obligations-operating | 4,673 | 4,179 |
| Short-term borrowings | 40,857 | 36,625 |
| Current portion of long-term borrowings | 3,861 | 3,802 |
| Income taxes payable | 2,053 | 3,064 |
| Provision for bonuses | 718 | 1,384 |
| Provision for bonuses for directors (and other officers) | 2 | 2 |
| Other | 9,920 | 11,203 |
| Total current liabilities | 79,900 | 73,774 |
| Non-current liabilities | | |
| Long-term borrowings | 24,069 | 21,044 |
| Deferred tax liabilities | 730 | 508 |
| Deferred tax liabilities for land revaluation | 2,433 | 2,433 |
| Provision for retirement benefits for directors (and other officers) | 12 | - |
| Retirement benefit liability | 74 | 72 |
| Other | 591 | 1,065 |
| Total non-current liabilities | 27,909 | 25,121 |
| Total liabilities | 107,809 | 98,896 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 18,516 | 18,516 |
| Capital surplus | 21,141 | 21,141 |
| Retained earnings | 98,550 | 102,360 |
| Treasury shares | (1,700) | (1,700) |
| Total shareholders' equity | 136,507 | 140,316 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 785 | 1,156 |
| Deferred gains or losses on hedges | 32 | (194) |
| Revaluation reserve for land | 4,625 | 4,625 |
| Foreign currency translation adjustment | 1,251 | 718 |
| Remeasurements of defined benefit plans | 206 | 81 |
| Total accumulated other comprehensive income | 6,900 | 6,387 |
| Non-controlling interests | 10,374 | 10,183 |
| Total net assets | 153,781 | 156,886 |
| Total liabilities and net assets | 261,590 | 255,781 |

(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 FY2019 (from Apr. 1, 2018 to Dec. 31, 2018) | First nine months of FY2020 (from Apr. 1, 2019 to Dec. 31, 2019) |
|---|---|---|
| Net sales | 176,488 | 183,418 |
| Cost of sales | 159,207 | 157,141 |
| Gross profit | 17,282 | 26,278 |
| Selling, general and administrative expenses | 10,535 | 10,949 |
| Operating profit | 6,747 | 15,329 |
| Non-operating income | | |
| Interest income | 437 | 518 |
| Dividend income | 156 | 141 |
| Share of profit of entities accounted for using equity method | 8 | 536 |
| Other | 286 | 256 |
| Total non-operating income | 887 | 1,451 |
| Non-operating expenses | | |
| Interest expenses | 1,135 | 1,488 |
| Foreign exchange losses | 520 | 256 |
| Other | 74 | 60 |
| Total non-operating expenses | 1,728 | 1,803 |
| Ordinary profit | 5,906 | 14,977 |
| Extraordinary income | | |
| Gain on sales and retirement of non-current assets | 23 | 16 |
| Gain on step acquisitions | 549 | - |
| Insurance claim income | 269 | 36 |
| Other | - | 9 |
| Total extraordinary income | 842 | 61 |
| Extraordinary losses | | |
| Loss on sales and retirement of non-current assets | 312 | 489 |
| Impairment loss | - | 4,481 |
| Loss on disaster | 178 | 21 |
| Provision for disposal costs of PCBs | - | 46 |
| Other | 40 | 66 |
| Total extraordinary losses | 529 | 5,104 |
| Profit before income taxes | 6,218 | 9,934 |
| Income taxes | 1,927 | 4,233 |
| Profit | 4,291 | 5,701 |
| Profit (loss) attributable to non-controlling interests | (264) | 187 |
| Profit attributable to owners of parent | 4,555 | 5,514 |

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

(Unit: millions of yen)

| | First nine months of FY2019 (from Apr. 1, 2018 to Dec. 31, 2018) | First nine months of FY2020 (from Apr. 1, 2019 to Dec. 31, 2019) |
|--|---|---|
| Profit | 4,291 | 5,701 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (665) | 371 |
| Deferred gains or losses on hedges | 295 | (261) |
| Foreign currency translation adjustment | 83 | (794) |
| Remeasurements of defined benefit plans, net of tax | 4 | (125) |
| Total other comprehensive income | (283) | (809) |
| Comprehensive income | 4,008 | 4,892 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to owners of parent | 4,232 | 5,000 |
| Comprehensive income attributable to non-controlling interests | (224) | (108) |

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Accounting Policies

Application of IFRS 16 “Leases”

Some foreign subsidiaries have started to apply IFRS 16 “Leases” in the first quarter of the current fiscal year. Accordingly, as a lessee, in principle, Kyoei Steel booked all leased assets and liabilities as assets and liabilities in the quarterly balance sheets.

To begin applying this standard, Kyoei Steel is using the approved transitional treatment of recognizing the cumulative effect of applying this standard on the first day that this standard was applied.

The effect of this change on profit or loss in the first nine months of the current fiscal year is insignificant.

Segment and Other Information

I. First nine months of FY2019 (from Apr. 1, 2018 to Dec. 31, 2018)

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

(Unit: millions of yen)

| | Reportable segments | | | | 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 | 96,889 | 74,327 | 4,975 | 176,190 | 298 | - | 176,488 |
| Inter-segment sales and transfers | 25 | - | 820 | 846 | 216 | (1,061) | - |
| Total | 96,914 | 74,327 | 5,795 | 177,036 | 514 | (1,061) | 176,488 |
| Segment profit (loss) | 5,874 | 1,092 | 814 | 7,780 | (69) | (965) | 6,747 |

- Notes:
- Others represent the businesses which are not included in any of the reportable segments and mainly consist of harbor operation, civil engineering materials sales and insurance agent businesses.
 - The adjustment of (965) million yen to segment profit (loss) includes 14 million yen in eliminations for inter-segment transactions and (978) 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 profit (loss) is adjusted to be consistent with operating profit 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

On May 14, 2018, Vietnam Italy Steel Joint Stock Company was made a consolidated subsidiary following the additional investment by Kyoei Steel. As a result, goodwill in the Overseas Steel Business segment increased by 3,663 million yen in the first nine months of FY2019.

Significant gain on bargain purchase

Not applicable.

II. First nine months of FY2020 (from Apr. 1, 2019 to Dec. 31, 2019)

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

| | Reportable segments | | | | 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 | 94,646 | 83,597 | 4,814 | 183,057 | 361 | - | 183,418 |
| Inter-segment sales and transfers | 63 | - | 730 | 793 | 362 | (1,155) | - |
| Total | 94,709 | 83,597 | 5,545 | 183,850 | 723 | (1,155) | 183,418 |
| Segment profit | 13,484 | 2,091 | 693 | 16,268 | 80 | (1,019) | 15,329 |

- Notes:
- Others represent the businesses which are not included in any of the reportable segments and mainly consist of harbor operation, civil engineering materials sales and insurance agent businesses.
 - The adjustment of (1,019) million yen to segment profit includes (2) million yen in eliminations for inter-segment transactions and (1,017) 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 profit is adjusted to be consistent with operating profit 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

In the Overseas Steel Business segment, there was an impairment loss for non-current assets including goodwill at Vietnam Italy Steel Joint Stock Company, due to a decline in profitability. The amount of this loss in the first nine months of FY2020 was 4,481 million yen.

Significant change in goodwill

In the Overseas Steel Business segment, Vietnam Italy Steel Joint Stock Company was made a consolidated subsidiary following the additional investment by Kyoei Steel in FY2019. The provisional accounting treatment related to the additional investment was finalized at the end of FY2019.

In line with the finalization of this provisional accounting treatment, the significant change in goodwill in the first nine months of FY2019 has been revised to reflect this revision.

In the Overseas Steel Business segment, goodwill decreased by 3,263 million yen as an impairment loss was recorded.

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.