

Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2019 (Fiscal Year 2019) (Nine Months Ended December 31, 2018)

<Under Japanese GAAP>

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 Scheduled date of filing of Quarterly Report (Japanese version only): February 12, 2019
 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, 2018 to December 31, 2018) of Fiscal Year 2019

(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, 2018	176,488	28.0	6,747	126.6	5,906	125.5	4,555	211.1
Nine months ended Dec. 31, 2017	137,838	28.7	2,978	(55.3)	2,619	(60.9)	1,464	(61.8)

Note: Comprehensive income Nine months ended Dec. 31, 2018: 4,008 million yen (up 71.8%)
Nine months ended Dec. 31, 2017: 2,333 million yen (up 4.2%)

	Net income per share	Fully diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2018	104.90	-
Nine months ended Dec. 31, 2017	33.76	-

(2) Consolidated financial position

	Total assets	Net assets	Equity to total assets
	Millions of yen	Millions of yen	%
As of Dec. 31, 2018	263,291	153,290	53.9
As of Mar. 31, 2018	234,220	148,460	59.8

Reference: Shareholders' equity As of Dec. 31, 2018: 141,980 million yen As of Mar. 31, 2018: 140,010 million yen

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal Year 2018	-	10.00	-	30.00	40.00
Fiscal Year 2019	-	10.00	-	-	-
Fiscal Year 2019 (Forecast)	-	-	-	30.00	40.00

Note 1: Breakdown of the year-end dividend for the Fiscal Year 2018: Ordinary dividend of 20.00 yen
 Commemorative dividend of 10.00 yen

Note 2: Revisions to the most recently announced dividend forecast: Yes

3. Forecasts of Consolidated Earnings for Fiscal Year 2019 (from April 1, 2018 to March 31, 2019)

(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	25.5	9,000	111.3	8,500	108.1	6,000	72.2	138.19

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): Yes

Newly added: 1 (Vietnam Italy Steel Joint Stock Company) Excluded: None

Note: Please refer to “2. Quarterly Consolidated Financial Statements and Notes, (3) Notes to Quarterly Consolidated Financial Statements, Changes in Significant Subsidiaries during the Period” on page 8 of the attachments for further information.

(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: None

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, 2018:	44,898,730 shares	As of Mar. 31, 2018:	44,898,730 shares
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2) Number of treasury shares at the end of the period

As of Dec. 31, 2018:	1,464,682 shares	As of Mar. 31, 2018:	1,496,219 shares
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3) Average number of shares outstanding during the period

Nine months ended Dec. 31, 2018:	43,419,702 shares	Nine months ended Dec. 31, 2017:	43,366,270 shares
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* 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. 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 attachments.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheets	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
Quarterly Consolidated Statements of Income for the Nine-month Period	6
Quarterly Consolidated Statements of Comprehensive Income for the Nine-month Period	7
(3) Notes to Quarterly Consolidated Financial Statements	8
Going-concern Assumption	8
Significant Changes in Shareholders' Equity	8
Changes in Significant Subsidiaries during the Period	8
Additional Information	8
Segment and Other Information	8

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, 2019, the Japanese economy recovered slowly as improvements in corporate earnings, jobs and income continued. However, the outlook remained uncertain because of concerns about slowing global economic growth due to the effects of U.S.-China trade friction.

In the market for steel construction materials in Japan, the primary source of demand for the Kyoei Steel Group's products, demand was firm in the building construction and civil engineering markets. The price of steel scrap, the main material for the Kyoei Steel Group's products, was low worldwide in part because of trade friction between the United States and China. As a result, there was an increase in the metal spread (the difference between the prices of steel products and steel scrap), which is a major source of earnings. In the overseas steel business, intense competition made the business climate challenging in Vietnam but this business performed well in the United States as the demand for steel products was strong in an environment of trade protectionism.

Consolidated net sales increased 38,650 million yen (28.0%) to 176,488 million yen. Operating profit increased 3,769 million yen (126.6%) to 6,747 million yen, ordinary profit increased 3,287 million yen (125.5%) to 5,906 million yen, and profit attributable to owners of parent increased 3,091 million yen (211.1%) to 4,555 million yen.

Results by business segment are as follows.

1) Domestic Steel Business

Reflecting the strong demand for steel products, shipments increased 43,000 tons from one year earlier to 1,300,000 tons. The price of steel scrap rose by 5,500 yen (18.2%) per ton but product prices increased by 11,100 yen (19.6%) per ton due to efforts of raising product prices to reflect the higher cost. Therefore, the difference between the prices of steel products and steel scrap, widened by 5,600 yen (21.1%) per ton compared with one year earlier.

Segment sales increased 18,027 million yen (22.9%) to 96,889 million yen and operating profit increased 3,279 million yen (126.3%) to 5,874 million yen.

2) Overseas Steel Business

Kyoei Steel has operations in Vietnam and the United States.

In Vietnam, although demand for steel remains firm, performance was negatively affected by difficult market conditions due to increasingly heated competition resulting from the addition of production capacity by other steelmakers. In the United States, the operating environment was favorable as prices of steel products increased. This was mainly the result of strong demand for steel and tight supplies of steel products caused by import tariff hikes due to U.S. trade protectionism.

Segment sales increased 20,180 million yen (37.3%) to 74,327 million yen and operating profit increased 147 million yen (15.6%) to 1,092 million yen.

3) Material Recycling Business

The performance of this business benefited from the receipt of orders with higher unit prices for difficult-to-process waste and from the receipt of one-time orders. Segment sales increased 376 million yen (8.2%) to 4,975 million yen and operating profit increased 255 million yen (45.5%) to 814 million yen.

4) Others

This category includes sales of civil engineering materials, an insurance agent business and other activities by a subsidiary. In addition, earnings of Thi Vai International Port Co., Ltd., a harbor operating company in Vietnam, are included in the consolidated financial statements beginning with the first nine months of the current fiscal year. Sales increased 68 million yen (29.7%) to 298 million yen, but operating profit was down 80 million yen (compared with operating profit of 11 million yen one year earlier) to a loss of 69 million yen.

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

Current assets increased by 23,612 million yen, or 17.1%, from the end of the previous fiscal year to 161,873 million yen. This was attributable mainly to increases of 5,903 million yen in notes and accounts receivable-trade, 3,470 million yen in electronically recorded monetary claims-operating, 6,316 million yen in merchandise and finished goods, 3,941 million yen in raw materials and supplies, and 3,338 million yen in other under current assets.

Non-current assets increased by 5,459 million yen, or 5.7%, from the end of the previous fiscal year to 101,418 million yen. This was mainly attributable to increases of 4,078 million yen in buildings and structures, 3,562 million yen in goodwill, and a decrease of 2,906 million yen in investment securities.

Total assets increased by 29,071 million yen, or 12.4%, from the end of the previous fiscal year to 263,291 million yen.

Liabilities

Current liabilities increased by 24,857 million yen, or 38.1%, from the end of the previous fiscal year to 90,087 million yen. This was attributable mainly to increases of 2,848 million yen in electronically recorded obligations-operating and 20,451 million yen in short-term loans payable.

Non-current liabilities decreased by 616 million yen, or 3.0%, from the end of the previous fiscal year to 19,914 million yen. This was attributable mainly to a decrease of 642 million yen in long-term loans payable.

Total liabilities increased by 24,241 million yen, or 28.3%, from the end of the previous fiscal year to 110,001 million yen.

Net assets

Net assets increased by 4,830 million yen, or 3.3%, from the end of the previous fiscal year to 153,290 million yen. This was attributable mainly to a profit attributable to owners of parent of 4,555 million yen, dividends of surplus of 1,738 million yen, an increase of 2,860 million yen in non-controlling interests, and a decrease of 665 million yen in valuation difference on available-for-sale securities.

As a result, equity to total assets declined from 59.8% to 53.9%.

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

In the fourth quarter, we expect the performance of the domestic steel business to exceed the previous forecast. The main reason is the outlook for the price of steel scrap, the main material for our steel products, to remain lower than expected as the demand for steel products remains high. In the overseas steel business, the business climate in Vietnam is remaining challenging but we expect the strong performance in the United States to continue.

Based on the outlook for sales and earnings to be better than previously expected, we have revised the consolidated forecast for the fiscal year ending on March 31, 2019 that was announced on October 31, 2018 with first half results of operations. In conjunction with this revision, we have also revised the dividend forecast.

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheets**

(Unit: millions of yen)

	FY2018 (as of Mar. 31, 2018)	Third quarter of FY2019 (as of Dec. 31, 2018)
Assets		
Current assets		
Cash and deposits	36,069	38,236
Notes and accounts receivable-trade	43,545	49,448
Electronically recorded monetary claims-operating	11,752	15,221
Securities	5,400	4,400
Merchandise and finished goods	22,457	28,772
Raw materials and supplies	15,263	19,204
Other	3,914	7,252
Allowance for doubtful accounts	(139)	(660)
Total current assets	138,261	161,873
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	17,514	21,592
Machinery, equipment and vehicles, net	34,818	36,218
Land	24,122	24,275
Other, net	974	1,244
Total property, plant and equipment	77,428	83,329
Intangible assets		
Goodwill	550	4,112
Other	1,930	2,618
Total intangible assets	2,480	6,730
Investments and other assets		
Investment securities	11,231	8,325
Other	4,887	3,097
Allowance for doubtful accounts	(66)	(64)
Total investments and other assets	16,051	11,358
Total non-current assets	95,958	101,418
Total assets	234,220	263,291

(Unit: millions of yen)

	FY2018 (as of Mar. 31, 2018)	Third quarter of FY2019 (as of Dec. 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	21,251	21,342
Electronically recorded obligations-operating	432	3,279
Short-term loans payable	29,788	50,238
Current portion of long-term loans payable	2,971	2,982
Income taxes payable	846	1,115
Provision for bonuses	709	769
Provision for directors' bonuses	20	18
Other	9,214	10,343
Total current liabilities	65,229	90,087
Non-current liabilities		
Long-term loans payable	16,820	16,178
Deferred tax liabilities	456	602
Deferred tax liabilities for land revaluation	2,433	2,433
Provision for directors' retirement benefits	11	11
Net defined benefit liability	70	65
Other	741	625
Total non-current liabilities	20,530	19,914
Total liabilities	85,760	110,001
Net assets		
Shareholders' equity		
Capital stock	18,516	18,516
Capital surplus	21,493	21,157
Retained earnings	93,909	96,619
Treasury shares	(1,809)	(1,748)
Total shareholders' equity	132,109	134,544
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,425	760
Deferred gains or losses on hedges	(48)	185
Revaluation reserve for land	4,618	4,618
Foreign currency translation adjustment	1,706	1,668
Remeasurements of defined benefit plans	201	205
Total accumulated other comprehensive income	7,901	7,436
Non-controlling interests	8,450	11,310
Total net assets	148,460	153,290
Total liabilities and net assets	234,220	263,291

(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 FY2018 (from Apr. 1, 2017 to Dec. 31, 2017)	First nine months of FY2019 (from Apr. 1, 2018 to Dec. 31, 2018)
Net sales	137,838	176,488
Cost of sales	125,589	159,207
Gross profit	12,248	17,282
Selling, general and administrative expenses	9,271	10,535
Operating profit	2,978	6,747
Non-operating income		
Interest income	220	437
Dividend income	223	156
Share of profit of entities accounted for using equity method	-	8
Foreign exchange gains	16	-
Other	213	286
Total non-operating income	671	887
Non-operating expenses		
Interest expenses	919	1,135
Share of loss of entities accounted for using equity method	23	-
Foreign exchange losses	-	520
Other	88	74
Total non-operating expenses	1,030	1,728
Ordinary profit	2,619	5,906
Extraordinary income		
Gain on sales and retirement of non-current assets	9	23
Gain on sales of capital of subsidiaries and associates	7	-
Gain on step acquisitions	-	549
Insurance income	-	269
Total extraordinary income	16	842
Extraordinary losses		
Loss on sales and retirement of non-current assets	245	312
Loss on accident	150	-
Loss on disaster	-	178
Other	15	40
Total extraordinary losses	410	529
Profit before income taxes	2,225	6,218
Income taxes	673	1,927
Profit	1,552	4,291
Profit (loss) attributable to non-controlling interests	88	(264)
Profit attributable to owners of parent	1,464	4,555

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

(Unit: millions of yen)

	First nine months of FY2018 (from Apr. 1, 2017 to Dec. 31, 2017)	First nine months of FY2019 (from Apr. 1, 2018 to Dec. 31, 2018)
Profit	1,552	4,291
Other comprehensive income		
Valuation difference on available-for-sale securities	1,271	(665)
Deferred gains or losses on hedges	(43)	295
Foreign currency translation adjustment	(509)	83
Remeasurements of defined benefit plans, net of tax	62	4
Total other comprehensive income	782	(283)
Comprehensive income	2,333	4,008
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	2,512	4,232
Comprehensive income attributable to non-controlling interests	(179)	(224)

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Changes in Significant Subsidiaries during the Period

Vietnam Italy Steel Joint Stock Company, which was an equity-method affiliate in the previous fiscal year, was included in the scope of consolidation in the first quarter of the current fiscal year following the additional investment by Kyoei Steel.

Vietnam Italy Steel Joint Stock Company is considered as a specified subsidiary of Kyoei Steel.

Additional Information

Application of the Partial Amendments to Accounting Standard for Tax Effect Accounting

Kyoei Steel has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets and deferred tax liabilities are reclassified and included in the investments and other assets section and the non-current liabilities section, respectively.

Segment and Other Information

I. First nine months of FY2018 (from Apr. 1, 2017 to Dec. 31, 2017)

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	78,862	54,147	4,599	137,608	230	-	137,838
Inter-segment sales and transfers	100	-	749	849	-	(849)	-
Total	78,962	54,147	5,348	138,457	230	(849)	137,838
Segment profit (loss)	2,595	944	560	4,099	11	(1,133)	2,978

- 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 (1,133) million yen to segment profit (loss) includes 13 million yen in eliminations for inter-segment transactions and (1,146) 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

In the overseas steel business segment, Kyoei Steel used U.S. consolidated subsidiary Kyoei Steel America LLC to purchase all of the equity interests of Vinton Steel LLC and its subsidiary in the previous fiscal year. Provisional goodwill of 375 million yen was recorded following this acquisition. Following completion of the

allocation of the acquisition cost in the first quarter of FY2018, goodwill was subsequently revised to 705 million yen.

Significant gain on bargain purchase

Not applicable.

II. 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. The amount of goodwill is calculated provisionally because the allocation of the acquisition cost is incomplete as of the end of the third quarter of FY2019.

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.