

STEEL DYNAMICS INC
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the period ended June 30, 2018

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 0-21719

Steel Dynamics, Inc.
(Exact name of registrant as specified in its charter)

Indiana 35-1929476
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

7575 West Jefferson Blvd, Fort Wayne, IN 46804
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (260) 969-3500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company (see definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act).

(Check one): Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
No

As of August 1, 2018, Registrant had 234,785,650 outstanding shares of common stock.

STEEL DYNAMICS, INC.

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STEEL DYNAMICS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

| | June 30, 2018 (unaudited) | December 31, 2017 |
|--------------------------------------|---------------------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and equivalents | \$ 720,445 | \$ 1,028,649 |
| Short term investments | 90,000 | - |
| Accounts receivable, net | 1,175,795 | 846,415 |
| Accounts receivable-related parties | 4,388 | 22,422 |
| Inventories | 1,787,109 | 1,519,347 |
| Other current assets | 39,927 | 91,509 |
| Total current assets | 3,817,664 | 3,508,342 |
| Property, plant and equipment, net | 2,909,033 | 2,675,904 |
| Intangible assets, net | 243,154 | 256,909 |
| Goodwill | 508,275 | 386,893 |
| Other assets | 26,395 | 27,684 |
| Total assets | \$ 7,504,521 | \$ 6,855,732 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 657,496 | \$ 473,765 |
| Accounts payable-related parties | 18,305 | 15,683 |
| Income taxes payable | 38,273 | 3,696 |
| Accrued payroll and benefits | 170,470 | 195,909 |
| Accrued interest | 25,542 | 25,533 |
| Accrued expenses | 130,234 | 125,138 |
| Current maturities of long-term debt | 18,266 | 28,795 |
| Total current liabilities | 1,058,586 | 868,519 |
| Long-term debt | 2,352,127 | 2,353,145 |
| Deferred income taxes | 375,719 | 305,949 |
| Other liabilities | 18,330 | 21,811 |
| Total liabilities | 3,804,762 | 3,549,424 |
| Commitments and contingencies | | |

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| | | |
|---|--------------|--------------|
| Redeemable noncontrolling interests | 111,240 | 111,240 |
| Equity | | |
| Common stock voting, \$.0025 par value; 900,000,000 shares authorized; 265,006,573 and 265,003,133 shares issued; and 235,096,384 and 237,396,839 shares outstanding, as of June 30, 2018 and December 31, 2017, respectively | 644 | 644 |
| Treasury stock, at cost; 29,910,189 and 27,606,294 shares, as of June 30, 2018 and December 31, 2017 respectively | (779,088) | (665,297) |
| Additional paid-in capital | 1,149,367 | 1,141,534 |
| Retained earnings | 3,376,163 | 2,874,693 |
| Accumulated other comprehensive loss | (105) | - |
| Total Steel Dynamics, Inc. equity | 3,746,981 | 3,351,574 |
| Noncontrolling interests | (158,462) | (156,506) |
| Total equity | 3,588,519 | 3,195,068 |
| Total liabilities and equity | \$ 7,504,521 | \$ 6,855,732 |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|--------------|------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | | | | |
| Unrelated parties | \$ 3,083,822 | \$ 2,347,304 | \$ 5,681,134 | \$ 4,666,967 |
| Related parties | 6,703 | 43,416 | 13,266 | 91,969 |
| Total net sales | 3,090,525 | 2,390,720 | 5,694,400 | 4,758,936 |
| Costs of goods sold | 2,438,443 | 1,998,202 | 4,578,902 | 3,894,264 |
| Gross profit | 652,082 | 392,518 | 1,115,498 | 864,672 |
| Selling, general and administrative expenses | 101,031 | 98,433 | 207,462 | 201,366 |
| Profit sharing | 42,335 | 21,308 | 68,997 | 48,539 |
| Amortization of intangible assets | 6,829 | 7,424 | 13,755 | 14,848 |
| Operating income | 501,887 | 265,353 | 825,284 | 599,919 |
| Interest expense, net of capitalized interest | 31,512 | 33,869 | 63,408 | 67,842 |
| Other income, net | (5,035) | (3,835) | (9,498) | (7,494) |
| Income before income taxes | 475,410 | 235,319 | 771,374 | 539,571 |
| Income tax expense | 112,838 | 82,372 | 183,327 | 187,958 |
| Net income | 362,572 | 152,947 | 588,047 | 351,613 |
| Net (income) loss attributable to noncontrolling interests | (123) | 986 | 1,953 | 3,137 |
| Net income attributable to Steel Dynamics, Inc. | \$ 362,449 | \$ 153,933 | \$ 590,000 | \$ 354,750 |
| Basic earnings per share attributable to Steel Dynamics, Inc. stockholders | \$ 1.54 | \$ 0.64 | \$ 2.50 | \$ 1.47 |
| Weighted average common shares outstanding | 235,617 | 241,343 | 236,120 | 242,143 |
| Diluted earnings per share attributable to Steel Dynamics, Inc. stockholders, including the effect of assumed conversions | | | | |

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| | | | | |
|--|-----------|-----------|-----------|-----------|
| when dilutive | \$ 1.53 | \$ 0.63 | \$ 2.49 | \$ 1.46 |
| Weighted average common shares and share equivalents outstanding | 236,945 | 243,021 | 237,334 | 243,784 |
| Dividends declared per share | \$ 0.1875 | \$ 0.1550 | \$ 0.3750 | \$ 0.3100 |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$ 362,572 | \$ 152,947 | \$ 588,047 | \$ 351,613 |
| Other Comprehensive Income (Loss) - net unrealized loss on cash flow | | | | |
| hedging derivatives, net of income taxes of \$33 | (105) | - | (105) | - |
| Comprehensive Income | 362,467 | 152,947 | 587,942 | 351,613 |
| Comprehensive (income) loss attributable to noncontrolling interests | (123) | 986 | 1,953 | 3,137 |
| Comprehensive income attributable to Steel Dynamics, Inc. | \$ 362,344 | \$ 153,933 | \$ 589,895 | \$ 354,750 |

See notes to consolidated financial statements.

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STEEL DYNAMICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Operating activities: | | | | |
| Net income | \$ 362,572 | \$ 152,947 | \$ 588,047 | \$ 351,613 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 79,120 | 73,801 | 155,255 | 148,858 |
| Equity-based compensation | 8,041 | 6,380 | 20,882 | 17,683 |
| Deferred income taxes | 11,993 | 6,849 | 21,538 | 14,565 |
| Other adjustments | (145) | (43) | (115) | (147) |
| Changes in certain assets and liabilities: | | | | |
| Accounts receivable | (163,465) | (3,746) | (282,283) | (157,110) |
| Inventories | (90,312) | (57,622) | (171,023) | (144,441) |
| Other assets | (630) | 5,420 | (735) | 7,514 |
| Accounts payable | 48,919 | (45,445) | 115,251 | 88,364 |
| Income taxes receivable/payable | 22,579 | (77,587) | 86,541 | 18,732 |
| Accrued expenses | 47,361 | 20,056 | (29,390) | (24,191) |
| Net cash provided by operating activities | 326,033 | 81,010 | 503,968 | 321,440 |
| Investing activities: | | | | |
| Purchases of property, plant and equipment | (55,203) | (43,274) | (105,809) | (84,951) |
| Purchases of short term investments | (50,000) | - | (90,000) | - |
| Acquisition of business, net of cash and restricted cash acquired | (396,409) | - | (396,409) | - |
| Other investing activities | 657 | 2,387 | 886 | 29,305 |
| Net cash used in investing activities | (500,955) | (40,887) | (591,332) | (55,646) |
| Financing activities: | | | | |
| Issuance of current and long-term debt | 124,571 | 51,233 | 217,629 | 51,233 |
| Repayment of current and long-term debt | (118,089) | (34,997) | (231,123) | (36,426) |
| Dividends paid | (44,268) | (37,527) | (81,065) | (71,657) |
| Purchases of treasury stock | (49,145) | (76,813) | (118,414) | (138,069) |

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| | | | | |
|--|------------|------------|------------|------------|
| Other financing activities | (3,144) | - | (8,324) | (3,532) |
| Net cash used in financing activities | (90,075) | (98,104) | (221,297) | (198,451) |
| Increase (decrease) in cash, cash equivalents, and restricted cash | (264,997) | (57,981) | (308,661) | 67,343 |
| Cash, cash equivalents, and restricted cash at beginning of period | 991,421 | 973,429 | 1,035,085 | 848,105 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 726,424 | \$ 915,448 | \$ 726,424 | \$ 915,448 |
| Supplemental disclosure information: | | | | |
| Cash paid for interest | \$ 53,226 | \$ 53,976 | \$ 61,855 | \$ 66,625 |
| Cash paid for income taxes, net | \$ 79,995 | \$ 152,116 | \$ 78,950 | \$ 153,670 |

See notes to consolidated financial statements.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business and Significant Accounting Policies

Description of the Business

Steel Dynamics, Inc. (SDI), together with its subsidiaries (the company), is a domestic manufacturer of steel products and metals recycler. The company has three reportable segments: steel operations, metals recycling operations, and steel fabrication operations.

Steel Operations Segment. Steel operations include the company's Butler Flat Roll Division, Columbus Flat Roll Division, The Techs galvanizing lines, Heartland Flat Roll Division (acquired June 29, 2018), Structural and Rail Division, Engineered Bar Products Division, Vulcan Threaded Products, Inc., Roanoke Bar Division, Steel of West Virginia, and Iron Dynamics, a liquid pig iron (scrap substitute) production facility that supplies solely the Butler Flat Roll Division. These operations include electric arc furnace steel mills, producing steel from ferrous scrap and scrap substitutes, utilizing continuous casting, automated rolling mills and numerous downstream processing and coating lines. Steel operations accounted for 75% and 73% of the company's consolidated external net sales during the three months ended June 30, 2018 and 2017, respectively, and 75% and 73% during the six months ended June 30, 2018 and 2017, respectively.

Metals Recycling Operations Segment. Metals recycling operations consists solely of OmniSource Corporation (OmniSource), and includes both ferrous and nonferrous processing, transportation, marketing, brokerage, and scrap management services. Metals recycling operations accounted for 14% of the company's consolidated external net sales during the three months ended June 30, 2018 and 2017, and 14% and 15% during the six months ended June 30, 2018 and 2017, respectively.

Steel Fabrication Operations Segment. Steel fabrication operations include the company's New Millennium Building Systems' joist and deck plants located throughout the United States, and in Northern Mexico. Revenues from these plants are generated from the fabrication of trusses, girders, steel joists and steel deck used within the non-residential construction industry. Steel fabrication operations accounted for 7% of the company's consolidated external net sales during the three and six months ended June 30, 2018, and 8% during the three and six months ended June 30, 2017.

Other. Other operations consists of subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our Minnesota ironmaking operations that have been idle since May 2015, and other smaller joint ventures. Also included in "Other" are certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, certain other investments and certain profit sharing expenses.

Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of SDI, together with its wholly and majority-owned or controlled subsidiaries, after elimination of significant intercompany accounts and

transactions. Noncontrolling interests represent the noncontrolling owner's proportionate share in the equity, income, or losses of the company's majority-owned or controlled consolidated subsidiaries.

Use of Estimates. These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, and accordingly, include amounts that require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and in the notes thereto. Significant items subject to such estimates and assumptions include the carrying value of property, plant and equipment, intangible assets, and goodwill; valuation allowances for trade receivables, inventories and deferred income tax assets; unrecognized tax benefits; potential environmental liabilities; and litigation claims and settlements. Actual results may differ from these estimates and assumptions.

In the opinion of management, these financial statements reflect all normal recurring adjustments necessary for a fair presentation of the interim period results. These consolidated financial statements and notes should be read in conjunction with the audited financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2017.

Senior Secured Credit Facility

The company renewed its senior secured credit facility (Facility), which provides a \$1.2 billion Revolver, in June 2018, and extended the maturity to June 2023. Subject to certain conditions, the company has the opportunity to increase the Revolver size by a minimum of \$750.0 million. The Facility is guaranteed by certain of the company's subsidiaries; and is secured by substantially all of the company's and its wholly-owned subsidiaries' receivables and inventories, and by pledges of all shares of the company's wholly-owned subsidiaries' capital stock or other equity interests, and intercompany debt held by the company as collateral. The Revolver is available to fund working capital, capital expenditures, and other general corporate purposes.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of the Business and Significant Accounting Policies (Continued)

Goodwill. The company's goodwill is allocated to the following reporting units at June 30, 2018, and December 31, 2017, (in thousands):

| | June 30, 2018 | December 31, 2017 |
|--------------------------------------|------------------|-------------------------|
| Steel Operations Segment: | | |
| Columbus Flat Roll Division | \$ 19,682 | \$ 19,682 |
| The Techs | 142,783 | 142,783 |
| Heartland Flat Roll Division | 123,077 | - |
| Vulcan Threaded Products | 7,824 | 7,824 |
| Roanoke Bar Division | 29,041 | 29,041 |
| Metals Recycling Operations Segment: | | |
| OmniSource | 88,943 | 90,638 |
| Indiana Steel Mills | 95,000 | 95,000 |
| Steel Fabrication Operations Segment | 1,925 | 1,925 |
| | \$ 508,275 | \$ 386,893 |

Heartland Flat Roll Division (Heartland) was acquired June 29, 2018 (refer to Note 2 Acquisition - Heartland), resulting in a preliminary purchase price allocation in which \$123.1 million of goodwill was recorded. OmniSource goodwill decreased \$1.7 million from December 31, 2017 to June 30, 2018, in recognition of the 2018 tax benefit related to the normal amortization of the component of OmniSource tax-deductible goodwill in excess of book goodwill.

Recently Adopted/Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, which is codified in ASC 606, Revenue Recognition – Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. FASB later issued clarifying guidance in the form of ASU 2016-08, Revenue from Contracts with Customers: Principal versus Agent Consideration (Reporting Revenue Gross versus Net), ASU 2016-10, Revenue from Contract with Customers: Identifying Performance Obligations and Licensing, and ASU 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients, collectively (ASC 606). The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606

also requires additional disclosures to help users of financial statements better understand the nature, amount, timing, and potential uncertainty of revenue that is recognized. The company adopted ASC 606 effective January 1, 2018 using the modified retrospective approach. There was no change in the amount or timing of revenue recognized under ASC 606, or significant changes required to the company's functions, processes or systems. See Note 3 Revenue from Contracts with Customers for disclosure required by ASC 606 and the updated accounting policy for revenue recognition.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230); which requires amounts generally described as restricted cash to be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The company adopted the provisions of ASU 2016-18 as of January 1, 2018, retrospectively changed beginning and ending amounts reflected in the consolidated statements of cash flows for the three and six months ended June 30, 2018 and 2017, to include restricted cash. The balance of cash, cash equivalents and restricted cash in the consolidated statements of cash flows includes restricted cash of \$6.0 million at June 30, 2018, \$5.6 million at March 31, 2018, \$6.4 million at December 31, 2017, and \$6.6 million at June 30 and March 31, 2017, and December 31, 2016, which are recorded in Other Assets (noncurrent) in the company's consolidated balance sheets.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842); which establishes a new lease accounting model that requires lessees to recognize a right of use asset and related lease liability for most leases having lease terms of more than 12 months (ASU 2016-02). This new guidance is effective for annual and interim periods beginning after December 15, 2018, but can be early adopted. The company anticipates adopting ASU 2016-02 on January 1, 2019. The company is working through its adoption plan to evaluate the lease portfolio, systems, processes and policies to determine the impact of the adoption of the provisions of ASU 2016-02 to our financial statements and disclosures. However, the company expects that each of assets and liabilities will increase in the consolidated balance sheet, related to the company's then existing operating leases.

Note 2. Acquisition - Heartland

On June 29, 2018, the company completed its acquisition of 100% of Heartland Steel Processing, LLC (formerly known as Companhia Siderurgica Nacional, LLC) (Heartland), for an initial cash purchase price of \$396.4 million, subject to customary actual working capital transaction purchase price adjustments payable before year-end 2018. Located in Terre Haute, Indiana, Heartland produces various types of higher-margin, flat roll steel by further processing hot roll coils into pickle and oil, cold roll, and galvanized products. The acquisition will expand the company's annual flat roll steel shipping capacity of lighter-gauge and greater width flat roll steel offerings that will broaden and diversify the company's value-added product

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

portfolio, and provide operational and logistics benefits to other nearby operations. Heartland's post-acquisition operating results will be reflected in the company's financial statements in the steel operations reporting segment.

Note 2. Acquisition (Continued)

The aggregate purchase price was preliminarily allocated to the opening balance sheet of Heartland as of the June 29, 2018, acquisition date. The following initial allocation of the purchase price (in thousands) is preliminary based on the information available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed. The accounting for the acquisition has not yet been completed because the company has not finalized the valuations of the acquired assets, assumed liabilities and identifiable intangible assets, if any, including goodwill.

| | |
|--------------------------------------|------------|
| Current assets, net of cash acquired | \$ 127,005 |
| Property, plant & equipment | 266,891 |
| Intangible assets and goodwill | 123,077 |
| Total assets acquired | 516,973 |
| Liabilities assumed | 74,913 |
| Net assets acquired | \$ 442,060 |

Note 3. Revenue from Contracts with Customers

The company adopted ASC 606 effective January 1, 2018, using the modified retrospective approach. We applied the standard to contracts that were not completed as of the adoption date, with no cumulative effect adjustment at date of adoption. Accordingly, amounts and disclosures for reporting periods beginning after January 1, 2018 are presented under ASC 606, while comparative amounts and disclosures for prior periods have not been adjusted and continue to be reported in accordance with historical accounting policies for revenue recognition prior to the adoption of ASC 606. The new revenue standard requires recognition of revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

In the steel and metals recycling operations segments, revenue is recognized at the point in time the performance obligation is satisfied and control of the product is transferred to the customer upon shipment or delivery, at the amount of consideration the company expects to receive, including any variable consideration. The variable consideration included in the company's steel operations segment contracts, which is not constrained, include estimated product returns and customer claims based on historical experience, and may include volume rebates which are

recorded on an expected value basis. Revenue recognized is limited to the amount the company expects to receive. The company does not exercise significant judgements in determining the timing of satisfaction of performance obligations or the transaction price. Shipment of products to customers is considered a fulfillment activity with amounts billed to customers included in sales and costs associated with such included in cost of goods sold.

The company's steel fabrication operations segment recognizes revenue over time at the amount of consideration the company expects to receive. Revenue is measured on an output method representing completed fabricated tons to date as a percentage of total tons required for each contract. Revenue from fabrication of tons remaining on partially fabricated customer contracts as of a reporting date, which are generally expected to be realized within the following fiscal quarter, and revenue from yet to be fabricated customer contracts, has not been disclosed under the practical expedient in paragraph ASC 606-10-50-14 related to customer contracts with expected duration of one year or less. The company does not exercise significant judgements in determining the timing of satisfaction of performance obligations or the transaction price. Shipment of products to customers, which occurs after control over the product has transferred to the customer and revenue is recognized, is considered a fulfillment activity with amounts billed to customers included in sales and costs associated with such included in cost of goods sold.

Payments from customers for all operating segments are generally due within 30 days of invoicing, which generally occurs upon shipment of the products. Shipment for the steel fabrication operations segment generally occurs within 30 days of satisfaction of the performance obligation and revenue recognition. The company does not have financing components. Payments from customers have historically generally been within these terms, however, payments for non-US sales may extend longer. The allowance for doubtful accounts for all operating segments is based on the company's best estimate of probable credit losses, along with historical experience.

Refer to Note 10 Segment Information, for disaggregated revenue by segment to external, external non-United States, and other segment customers.

Note 4. Earnings Per Share

Basic earnings per share is based on the weighted average shares of common stock outstanding during the period. Diluted earnings per share assumes the weighted average dilutive effect of common share equivalents outstanding during the period applied to the company's basic earnings per share. Common share equivalents represent potentially dilutive restricted stock units, deferred stock units, restricted stock, and performance awards, and are excluded from the computation in periods in which they have an anti-dilutive effect. There were no anti-dilutive common share equivalents as of or for the three or six months ended June 30, 2018 and 2017.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 4. Earnings Per Share (Continued)

The following tables present a reconciliation of the numerators and the denominators of the company's basic and diluted earnings per share computations for the three and six months ended June 30, 2018 and 2017 (in thousands, except per share data):

| | Three Months Ended June 30, 2018 | | | 2017 | | |
|-----------------------------------|-------------------------------------|-------------------------|------------------------|------------------------------|-------------------------|------------------------|
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 362,449 | 235,617 | \$ 1.54 | \$ 153,933 | 241,343 | \$ 0.64 |
| Dilutive common share equivalents | - | 1,328 | | - | 1,678 | |
| Diluted earnings per share | \$ 362,449 | 236,945 | \$ 1.53 | \$ 153,933 | 243,021 | \$ 0.63 |

| | Six Months Ended June 30, 2018 | | | 2017 | | |
|-----------------------------------|-----------------------------------|-------------------------|------------------------|------------------------------|-------------------------|------------------------|
| | Net Income (Numerator) | Shares (Denominator) | Per Share Amount | Net Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Basic earnings per share | \$ 590,000 | 236,120 | \$ 2.50 | \$ 354,750 | 242,143 | \$ 1.47 |
| Dilutive common share equivalents | - | 1,214 | | - | 1,641 | |
| Diluted earnings per share | \$ 590,000 | 237,334 | \$ 2.49 | \$ 354,750 | 243,784 | \$ 1.46 |

Note 5. Inventories

Inventories are stated at lower of cost or net realizable value. Cost is determined using a weighted average cost method for raw materials and supplies, and on a first-in, first-out basis for other inventory. Inventory consisted of the following (in thousands):

June 30,

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| | 2018 | December 31, 2017 |
|-------------------|--------------|-------------------------|
| Raw materials | \$ 833,430 | \$ 675,715 |
| Supplies | 407,902 | 374,515 |
| Work in progress | 190,722 | 128,565 |
| Finished goods | 355,055 | 340,552 |
| Total inventories | \$ 1,787,109 | \$ 1,519,347 |

Note 6. Changes in Equity

The following table provides a reconciliation of the beginning and ending carrying amounts of total equity, equity attributable to stockholders of Steel Dynamics, Inc., and equity and redeemable amounts attributable to noncontrolling interests (in thousands):

| | Stockholders of Steel Dynamics, Inc. | | | | | Accumulated Other Comprehensive Loss | Noncontrolling Interests | Total Equity | Redeemable Noncontrolling Interests |
|-------------------------------------|--------------------------------------|-------------------|----------------------------------|----------------------|----------|---|-----------------------------|-----------------|---|
| | Common Stock | Treasury Stock | Additional Paid-In Capital | Retained Earnings | | | | | |
| Balances at December 31, 2017 | \$ 644 | \$ (665,297) | \$ 1,141,534 | \$ 2,874,693 | \$ - | \$ (156,506) | \$ 3,195,068 | \$ 111,240 | |
| Dividends declared | - | - | - | (88,349) | - | - | (88,349) | - | |
| Noncontrolling investors, net | - | - | - | - | - | (3) | (3) | - | |
| Share repurchases | - | (118,414) | - | - | - | - | (118,414) | - | |
| Equity-based compensation | - | 4,623 | 7,833 | (181) | - | - | 12,275 | - | |
| Comprehensive income (loss) | - | - | - | 590,000 | (105) | (1,953) | 587,942 | - | |
| Balances at June 30, 2018 | \$ 644 | \$ (779,088) | \$ 1,149,367 | \$ 3,376,163 | \$ (105) | \$ (158,462) | \$ 3,588,519 | \$ 111,240 | |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 7. Derivative Financial Instruments

The company is exposed to certain risks relating to its ongoing business operations. The company utilizes derivative instruments to mitigate commodity margin risk, occasionally to mitigate foreign currency exchange rate risk, and have in the past to mitigate interest rate fluctuation risk. The company routinely enters into forward exchange traded futures and option contracts to manage the price risk associated with nonferrous metals inventory as well as purchases and sales of nonferrous and ferrous metals (primarily aluminum and copper). The company offsets fair value amounts recognized for derivative instruments executed with the same counterparty under master netting agreements.

Commodity Futures Contracts. If the company is “long” on futures contracts, it means the company has more futures contracts purchased than futures contracts sold for the underlying commodity. If the company is “short” on a futures contract, it means the company has more futures contracts sold than futures contracts purchased for the underlying commodity. The following summarizes the company’s futures contract commitments as of June 30, 2018:

| Commodity Futures | Long/Short | Metric Tons |
|-------------------|------------|-------------|
| Aluminum | Long | 2,325 |
| Aluminum | Short | 3,050 |
| Copper | Long | 14,969 |
| Copper | Short | 27,170 |

The following summarizes the location and amounts of the fair values reported on the company’s balance sheets as of June 30, 2018, and December 31, 2017, and gains and losses related to derivatives included in the company’s statement of income for the three and six months ended June 30, 2018 and 2017 (in thousands):

| | Balance sheet location | Asset Derivatives Fair Value | | Liability Derivatives Fair Value | |
|---|------------------------|------------------------------|-------------------|----------------------------------|-------------------|
| | | June 30, 2018 | December 31, 2017 | June 30, 2018 | December 31, 2017 |
| Derivative instruments designated as hedges | | | | | |
| Commodity futures | Other current assets | \$ 6,594 | \$ 1,211 | \$ 829 | \$ 5,364 |
| Derivative instruments not designated as hedges | | | | | |
| Commodity futures | Other current assets | 2,499 | 1,579 | 1,868 | 5,142 |

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Total derivative instruments \$ 9,093 \$ 2,790 \$ 2,697 \$ 10,506

The fair value of the above derivative instruments along with required margin deposit amounts with the same counterparty under master netting arrangements totaled \$4.4 million at June 30, 2018, and \$5.6 million at December 31, 2017, and are reflected in other current assets in the consolidated balance sheets.

| | Location of gain (loss) recognized in income on derivatives | Amount of gain (loss) recognized in income on derivatives for the three months ended | | Hedged items in fair value hedge relationships | Location of gain (loss) recognized in income on related hedged items | Amount of gain (loss) recognized in income on related hedged items for the three months ended | |
|---|--|---|------------------|--|--|--|------------------|
| | | June 30, 2018 | June 30, 2017 | | | June 30, 2018 | June 30, 2017 |
| Derivatives in fair value hedging relationships | | | | | | | |
| Commodity futures | Costs of goods sold | \$ 1,540 | \$ (3,398) | Firm commitments | Costs of goods sold | \$ (2,600) | \$ 2,167 |
| | | | | Inventory | Costs of goods sold | (816) | 1,014 |
| Derivatives not designated as hedging instruments | | | | | | \$ (3,416) | \$ 3,181 |
| Commodity futures | Costs of goods sold | \$ 2,969 | \$ 2,384 | | | | |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 7. Derivative Financial Instruments (Continued)

| | Location of gain (loss) recognized in income on derivatives | Amount of gain (loss) recognized in income on derivatives for the six months ended | | Hedged items in fair value hedge relationships | Location of gain (loss) recognized in income on related hedged items | Amount of gain (loss) recogn in income on related hedged i for the six months ended | |
|---|--|--|------------------|--|--|--|------------------|
| | | June 30, 2018 | June 30, 2017 | | | June 30, 2018 | June 30, 2017 |
| Derivatives in fair value hedging relationships | | | | | | | |
| Commodity futures | Costs of goods sold | \$ 10,056 | \$ (3,551) | Firm commitments | Costs of goods sold | \$ (3,393) | \$ 2,706 |
| | | | | Inventory | Costs of goods sold | (3,412) | 1,509 |
| Derivatives not designated as hedging instruments | | | | | | \$ (6,805) | \$ 4,215 |
| Commodity futures | Costs of goods sold | \$ 5,720 | \$ (1,962) | | | | |

Derivatives accounted for as fair value hedges had ineffectiveness resulting in losses of \$117,000 and gains of \$49,000 during the three-month periods ended June 30, 2018, and 2017, respectively; and losses of \$16,000 and gains of \$97,000 during the six-month periods ended June 30, 2018, and 2017, respectively. Losses excluded from hedge effectiveness testing of \$1.8 million and \$266,000 increased cost of goods sold during the three-month periods ended June 30, 2018, and 2017, respectively. Gains excluded from hedge effectiveness testing of \$3.3 million and \$567,000 decreased cost of goods sold during the six-month periods ended June 30, 2018, and 2017, respectively.

Derivatives accounted for as cash flow hedges resulted in \$138,000 recognized in other comprehensive income for the three and six-month periods ended June 30, 2018. There were no reclassifications of gains or losses from accumulated other comprehensive income into income nor gains or losses recognized into income during the three-month periods ended June 30, 2018, and 2017 and the six-month periods ended June 30, 2018, and 2017. At June 30, 2018, the company expects to reclassify \$138,000 of net losses on derivative instruments from accumulated other comprehensive income to earnings during the next 12 months due to the settlement of futures contracts.

Note 8. Fair Value Measurements

FASB accounting standards provide a comprehensive framework for measuring fair value and sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. Levels within the hierarchy are defined as follows:

- Level 1—Unadjusted quoted prices for identical assets and liabilities in active markets;
- Level 2—Quoted prices for similar assets and liabilities in active markets (other than those included in Level 1) which are observable for the asset or liability, either directly or indirectly; and
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The following table sets forth financial assets and liabilities measured at fair value on a recurring basis in the consolidated balance sheet and the respective levels to which the fair value measurements are classified within the fair value hierarchy as of June 30, 2018, and December 31, 2017 (in thousands):

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|----------|---|---|--|
| June 30, 2018 | | | | |
| Commodity futures – financial assets | \$ 9,093 | \$ - | \$ 9,093 | \$ - |
| Commodity futures – financial liabilities | 2,697 | - | 2,697 | - |
| December 31, 2017 | | | | |
| Commodity futures – financial assets | \$ 2,790 | \$ - | \$ 2,790 | \$ - |
| Commodity futures – financial liabilities | 10,506 | - | 10,506 | - |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 8. Fair Value Measurements (Continued)

The carrying amounts of financial instruments including cash and equivalents, and short term investments in certificates of deposit approximate fair value. The fair values of commodity futures contracts are estimated by the use of quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques based on references available. The fair value of long-term debt, including current maturities, as determined by quoted market prices (Level 2), was approximately \$2.4 billion and \$2.5 billion at June 30, 2018 and December 31, 2017, respectively (with a corresponding carrying amount in the consolidated balance sheet of \$2.4 billion at June 30, 2018 and December 31, 2017).

Note 9. Commitments and Contingencies

The company is involved in various routine litigation matters, including administrative proceedings, regulatory proceedings, governmental investigations, environmental matters, and commercial and construction contract disputes, none of which are expected to have a material impact on our financial condition, results of operations, or liquidity.

Note 10. Segment Information

The company's operations are primarily organized and managed by reportable operating segments, which are steel operations, metals recycling operations, and steel fabrication operations. The segment operations are more fully described in Note 1 to the consolidated financial statements. Operating segment performance and resource allocations are primarily based on operating results before income taxes. The accounting policies of the reportable segments are consistent with those described in Note 1 to the consolidated financial statements. Intra segment sales and any related profits are eliminated in consolidation. Amounts included in the category "Other" are from subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our Minnesota ironmaking operations and several small joint ventures. In addition, "Other" also includes certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, certain other investments and certain profit sharing expenses.

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Segment Information (Continued)

The company's segment results are as follows (in thousands):

| For the three months ended June 30, 2018 | Metals | | Steel | | Other | Eliminations | Consolidated | |
|---|------------------|----------------------|------------------------|--------------|-----------|--------------|--------------|--------------|
| | Steel Operations | Recycling Operations | Fabrication Operations | | | | | |
| Net Sales - disaggregated revenue | | | | | | | | |
| External | \$ 2,127,545 | \$ 347,784 | \$ 217,438 | \$ 122,956 | \$ - | | \$ 2,815,723 | |
| External Non-U.S. | 197,882 | 76,920 | - | - | - | | 274,802 | |
| Other segments | 110,261 | 459,391 | 458 | 124 | (570,234) | | - | |
| | 2,435,688 | 884,095 | 217,896 | 123,080 | (570,234) | | 3,090,525 | |
| Operating income (loss) | 533,494 | 22,638 | 14,144 | (63,618) | (1) | (4,771) | (2) | 501,887 |
| Income (loss) before income taxes | 516,399 | 20,965 | 12,640 | (69,828) | | (4,766) | | 475,410 |
| Depreciation and amortization | 61,769 | 11,553 | 2,946 | 2,852 | | - | | 79,120 |
| Capital expenditures | 42,008 | 8,947 | 2,054 | 2,194 | | - | | 55,203 |
| As of June 30, 2018 | | | | | | | | |
| Assets | \$ 5,124,897 | \$ 1,025,875 | \$ 423,406 | \$ 1,040,893 | (3) | \$ (110,550) | (4) | \$ 7,504,521 |

Footnotes related to the three months ended June 30, 2018, segment results (in millions):

| | | | |
|--|-----------|--|----------|
| (1) Corporate SG&A | \$ (14.5) | Gross profit decrease from intra-company sales | \$ (4.8) |
| Company-wide equity-based compensation | (8.5) | | |
| Profit sharing | (40.6) | | |
| Other, net | - | | |
| | \$ (63.6) | | |

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| | | | |
|------------------------------------|------------|--|------------|
| (3) Cash and equivalents | \$ 710.4 | (4) Elimination of intra-company receivables | \$ (74.8) |
| Short term investments | 75.0 | Elimination of intra-company debt | (18.7) |
| Inventories | 31.6 | Other | (17.1) |
| Property, plant and equipment, net | 161.2 | | \$ (110.6) |
| Intra-company debt | 18.7 | | |
| Other | 44.0 | | |
| | \$ 1,040.9 | | |

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Segment Information (Continued)

| For the three months ended June 30, 2017 | Steel Operations | Metals Recycling Operations | Steel Fabrication Operations | Other | Eliminations | Consolidated |
|---|---------------------|-----------------------------------|------------------------------------|-------------|--------------|--------------|
| Net Sales - disaggregated revenue | | | | | | |
| External | \$ 1,690,973 | \$ 298,457 | \$ 197,834 | \$ 91,083 | \$ - | \$ 2,278,347 |
| External Non-U.S. | 67,269 | 45,072 | 32 | - | - | 112,373 |
| Other segments | 63,710 | 350,487 | 143 | 615 | (414,955) | - |
| | 1,821,952 | 694,016 | 198,009 | 91,698 | (414,955) | 2,390,720 |
| Operating income (loss) | 269,929 | 16,495 | 20,147 | (43,110)(1) | 1,892 (2) | 265,353 |
| Income (loss) before income taxes | 248,562 | 14,582 | 18,633 | (48,350) | 1,892 | 235,319 |
| Depreciation and amortization | 56,150 | 11,993 | 2,906 | 2,752 | - | 73,801 |
| Capital expenditures | 36,707 | 3,174 | 3,073 | 320 | - | 43,274 |

Footnotes related to the three months ended June 30, 2017, segment results (in millions):

| | | | |
|--|-----------|--|--------|
| (1) Corporate SG&A | \$ (13.4) | (2) Gross profit increase from intra-company sales | \$ 1.9 |
| Company-wide equity-based compensation | (7.1) | | |
| Profit sharing | (20.1) | | |
| Other, net | (2.5) | | |
| | \$ (43.1) | | |

| For the six months ended June 30, 2018 | Steel Operations | Metals Recycling Operations | Steel Fabrication Operations | Other | Eliminations | Consolidated |
|---|---------------------|-----------------------------------|------------------------------------|-------|--------------|--------------|
|---|---------------------|-----------------------------------|------------------------------------|-------|--------------|--------------|

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Net Sales - disaggregated
revenue

| | | | | | | | |
|--------------------------------------|--------------|------------|------------|--------------|-----------|-----|--------------|
| External | \$ 3,959,848 | \$ 677,656 | \$ 418,875 | \$ 215,427 | \$ - | | \$ 5,271,806 |
| External Non-U.S. | 287,368 | 135,170 | 56 | - | - | | 422,594 |
| Other segments | 170,246 | 824,035 | 668 | 271 | (995,220) | | - |
| | 4,417,462 | 1,636,861 | 419,599 | 215,698 | (995,220) | | 5,694,400 |
| Operating income (loss) | 868,056 | 47,353 | 33,935 | (119,024)(1) | (5,036) | (2) | 825,284 |
| Income (loss) before income taxes | 832,204 | 43,970 | 31,097 | (130,861) | (5,036) | | 771,374 |
| Depreciation and amortization | 120,910 | 23,111 | 5,844 | 5,390 | - | | 155,255 |
| Capital expenditures | 80,410 | 15,893 | 4,131 | 5,375 | - | | 105,809 |

Footnotes related to the six months ended June 30, 2018, segment results (in millions):

| | | | |
|--|------------|--|----------|
| (1) Corporate SG&A | \$ (30.2) | (2) Gross profit decrease from intra-company sales | \$ (5.0) |
| Company-wide equity-based compensation | (17.0) | | |
| Profit sharing | (66.2) | | |
| Other, net | (5.6) | | |
| | \$ (119.0) | | |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 10. Segment Information (Continued)

| For the six months ended June 30, 2017 | Steel Operations | Metals Recycling Operations | Steel Fabrication Operations | Other | Eliminations | Consolidated |
|---|---------------------|-----------------------------------|------------------------------------|------------|--------------|--------------|
| Net Sales - disaggregated revenue | | | | | | |
| External | \$ 3,324,603 | \$ 609,408 | \$ 391,869 | \$ 180,034 | \$ - | \$ 4,505,914 |
| External Non-U.S. | 154,972 | 97,957 | 93 | - | - | 253,022 |
| Other segments | 118,053 | 706,788 | 155 | 949 | (825,945) | - |
| | 3,597,628 | 1,414,153 | 392,117 | 180,983 | (825,945) | 4,758,936 |
| Operating income (loss) | 618,461 | 34,344 | 43,873 | (97,080) | (1) 321 | (2) 599,919 |
| Income (loss) before income taxes | 575,326 | 30,654 | 40,972 | (107,702) | 321 | 539,571 |
| Depreciation and amortization | 112,481 | 25,028 | 5,877 | 5,472 | - | 148,858 |
| Capital expenditures | 70,285 | 9,950 | 4,224 | 492 | - | 84,951 |

Footnotes related to the six months ended June 30, 2017, segment results (in millions):

| | | | |
|--|-----------|--|--------|
| (1) Corporate SG&A | \$ (25.8) | (2) Gross profit increase from intra-company sales | \$ 0.3 |
| Company-wide equity-based compensation | (16.7) | | |
| Profit sharing | (46.6) | | |
| Other, net | (8.0) | | |
| | \$ (97.1) | | |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information

Certain 100% owned subsidiaries of SDI have fully and unconditionally guaranteed jointly and severally all of the indebtedness relating to the issuance of the company's senior unsecured notes due 2021, 2023, 2024, 2025 and 2026. Following are the company's condensed consolidating financial statements, including the guarantors, which present the financial position, results of operations, and cash flows of (i) SDI (in each case, reflecting investments in its consolidated subsidiaries under the equity method of accounting), (ii) the guarantor subsidiaries of SDI, (iii) the non-guarantor subsidiaries of SDI, and (iv) the eliminations necessary to arrive at the information on a consolidated basis. The following statements should be read in conjunction with the accompanying consolidated financial statements and the company's Annual Report on Form 10-K for the year ended December 31, 2017.

Condensed Consolidating Balance Sheets (in thousands)

| As of June 30, 2018 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents | \$ 708,920 | \$ 5,665 | \$ 5,860 | \$ - | \$ 720,445 |
| Short term investments | 75,000 | 15,000 | - | - | 90,000 |
| Accounts receivable, net | 384,970 | 1,669,178 | 32,324 | (906,289) | 1,180,183 |
| Inventories | 743,750 | 1,012,791 | 41,504 | (10,936) | 1,787,109 |
| Other current assets | 22,296 | 18,951 | 4,046 | (5,366) | 39,927 |
| Total current assets | 1,934,936 | 2,721,585 | 83,734 | (922,591) | 3,817,664 |
| Property, plant and equipment, net | 856,914 | 1,891,001 | 161,118 | - | 2,909,033 |
| Intangible assets, net | - | 243,154 | - | - | 243,154 |
| Goodwill | - | 508,275 | - | - | 508,275 |
| Other assets, including investments in subs | 2,998,695 | 6,442 | 5,479 | (2,984,221) | 26,395 |
| Total assets | \$ 5,790,545 | \$ 5,370,457 | \$ 250,331 | \$ (3,906,812) | \$ 7,504,521 |
| Accounts payable | \$ 241,107 | \$ 420,996 | \$ 89,257 | \$ (75,559) | \$ 675,801 |
| Accrued expenses | 238,141 | 264,267 | 8,222 | (146,111) | 364,519 |
| Current maturities of long-term debt | 761 | 1,320 | 49,879 | (33,694) | 18,266 |
| Total current liabilities | 480,009 | 686,583 | 147,358 | (255,364) | 1,058,586 |
| Long-term debt | 2,325,663 | 964 | 165,230 | (139,730) | 2,352,127 |
| Other liabilities | (762,108) | 764,761 | 33,898 | 357,498 | 394,049 |
| Total liabilities | 2,043,564 | 1,452,308 | 346,486 | (37,596) | 3,804,762 |

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| | | | | | |
|--------------------------------------|--------------|--------------|------------|----------------|--------------|
| Redeemable noncontrolling interests | - | - | 111,240 | - | 111,240 |
| Common stock | 644 | 1,727,859 | 15,016 | (1,742,875) | 644 |
| Treasury stock | (779,088) | - | - | - | (779,088) |
| Additional paid-in-capital | 1,149,367 | 690,735 | 689,502 | (1,380,237) | 1,149,367 |
| Retained earnings (deficit) | 3,376,163 | 1,499,555 | (753,451) | (746,104) | 3,376,163 |
| Accumulated other comprehensive loss | (105) | - | - | - | (105) |
| Total Steel Dynamics, Inc. equity | 3,746,981 | 3,918,149 | (48,933) | (3,869,216) | 3,746,981 |
| Noncontrolling interests | - | - | (158,462) | - | (158,462) |
| Total equity | 3,746,981 | 3,918,149 | (207,395) | (3,869,216) | 3,588,519 |
| Total liabilities and equity | \$ 5,790,545 | \$ 5,370,457 | \$ 250,331 | \$ (3,906,812) | \$ 7,504,521 |

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information (Continued)

| As of December 31, 2017 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Cash and equivalents | \$ 1,001,405 | \$ 20,441 | \$ 6,803 | \$ - | \$ 1,028,649 |
| Accounts receivable, net | 274,968 | 1,426,036 | 37,387 | (869,554) | 868,837 |
| Inventories | 685,103 | 752,151 | 91,890 | (9,797) | 1,519,347 |
| Other current assets | 73,748 | 16,005 | 5,962 | (4,206) | 91,509 |
| Total current assets | 2,035,224 | 2,214,633 | 142,042 | (883,557) | 3,508,342 |
| Property, plant and equipment, net | 859,419 | 1,618,438 | 198,047 | - | 2,675,904 |
| Intangible assets, net | - | 225,503 | 31,406 | - | 256,909 |
| Goodwill | - | 379,069 | 7,824 | - | 386,893 |
| Other assets, including investments in subs | 2,512,594 | 6,622 | 5,505 | (2,497,037) | 27,684 |
| Total assets | \$ 5,407,237 | \$ 4,444,265 | \$ 384,824 | \$ (3,380,594) | \$ 6,855,732 |
| Accounts payable | \$ 168,282 | \$ 316,676 | \$ 101,948 | \$ (97,458) | \$ 489,448 |
| Accrued expenses | 222,023 | 254,196 | 10,243 | (136,186) | 350,276 |
| Current maturities of long-term debt | 731 | - | 56,454 | (28,390) | 28,795 |
| Total current liabilities | 391,036 | 570,872 | 168,645 | (262,034) | 868,519 |
| Long-term debt | 2,326,466 | - | 169,799 | (143,120) | 2,353,145 |
| Other liabilities | (661,839) | 869,196 | 24,868 | 95,535 | 327,760 |
| Total liabilities | 2,055,663 | 1,440,068 | 363,312 | (309,619) | 3,549,424 |
| Redeemable noncontrolling interests | - | - | 111,240 | - | 111,240 |
| Common stock | 644 | 1,727,859 | 14,908 | (1,742,767) | 644 |
| Treasury stock | (665,297) | - | - | - | (665,297) |
| Additional paid-in-capital | 1,141,534 | 128,076 | 797,196 | (925,272) | 1,141,534 |
| Retained earnings (deficit) | 2,874,693 | 1,148,262 | (745,326) | (402,936) | 2,874,693 |
| Total Steel Dynamics, Inc. equity | 3,351,574 | 3,004,197 | 66,778 | (3,070,975) | 3,351,574 |
| Noncontrolling interests | - | - | (156,506) | - | (156,506) |
| Total equity | 3,351,574 | 3,004,197 | (89,728) | (3,070,975) | 3,195,068 |
| Total liabilities and equity | \$ 5,407,237 | \$ 4,444,265 | \$ 384,824 | \$ (3,380,594) | \$ 6,855,732 |

STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information (Continued)

Condensed Consolidating Statements of Operations
(in thousands)

| For the three months ended, June 30, 2018 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 1,294,096 | \$ 3,405,216 | \$ 156,308 | \$ (1,765,095) | \$ 3,090,525 |
| Costs of goods sold | 970,636 | 3,038,284 | 153,104 | (1,723,581) | 2,438,443 |
| Gross profit | 323,460 | 366,932 | 3,204 | (41,514) | 652,082 |
| Selling, general and administrative | 77,088 | 75,923 | 2,400 | (5,216) | 150,195 |
| Operating income | 246,372 | 291,009 | 804 | (36,298) | 501,887 |
| Interest expense, net of capitalized interest | 19,386 | 11,593 | 3,089 | (2,556) | 31,512 |
| Other income, net | (5,975) | (1,595) | (13) | 2,548 | (5,035) |
| Income (loss) before income taxes and equity in net income of subsidiaries | 232,961 | 281,011 | (2,272) | (36,290) | 475,410 |
| Income taxes (benefit) | 51,738 | 69,910 | (101) | (8,709) | 112,838 |
| | 181,223 | 211,101 | (2,171) | (27,581) | 362,572 |
| Equity in net income of subsidiaries | 181,226 | - | - | (181,226) | - |
| Net income attributable to noncontrolling interests | - | - | (123) | - | (123) |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 362,449 | \$ 211,101 | \$ (2,294) | \$ (208,807) | \$ 362,449 |

| For the three months ended, June 30, 2017 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 926,855 | \$ 2,614,676 | \$ 144,938 | \$ (1,295,749) | \$ 2,390,720 |
| Costs of goods sold | 767,047 | 2,362,604 | 137,052 | (1,268,501) | 1,998,202 |
| Gross profit | 159,808 | 252,072 | 7,886 | (27,248) | 392,518 |
| Selling, general and administrative | 50,942 | 75,720 | 5,304 | (4,801) | 127,165 |
| Operating income | 108,866 | 176,352 | 2,582 | (22,447) | 265,353 |
| Interest expense, net of capitalized interest | 18,441 | 14,641 | 3,047 | (2,260) | 33,869 |

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| | | | | | |
|--|------------|------------|------------|--------------|------------|
| Other income, net | (3,869) | (2,146) | (79) | 2,259 | (3,835) |
| Income (loss) before income taxes and equity in net income of subsidiaries | 94,294 | 163,857 | (386) | (22,446) | 235,319 |
| Income taxes | 29,142 | 59,397 | 1,692 | (7,859) | 82,372 |
| | 65,152 | 104,460 | (2,078) | (14,587) | 152,947 |
| Equity in net income of subsidiaries | 88,781 | - | - | (88,781) | - |
| Net loss attributable to noncontrolling interests | - | - | 986 | - | 986 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 153,933 | \$ 104,460 | \$ (1,092) | \$ (103,368) | \$ 153,933 |

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information (Continued)

| For the six months ended, June 30, 2018 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 2,330,770 | \$ 6,263,935 | \$ 273,305 | \$ (3,173,610) | \$ 5,694,400 |
| Costs of goods sold | 1,789,781 | 5,620,035 | 271,602 | (3,102,516) | 4,578,902 |
| Gross profit | 540,989 | 643,900 | 1,703 | (71,094) | 1,115,498 |
| Selling, general and administrative | 140,015 | 155,295 | 5,576 | (10,672) | 290,214 |
| Operating income (loss) | 400,974 | 488,605 | (3,873) | (60,422) | 825,284 |
| Interest expense, net of capitalized interest | 38,009 | 24,304 | 6,355 | (5,260) | 63,408 |
| Other income, net | (11,178) | (3,320) | (259) | 5,259 | (9,498) |
| Income (loss) before income taxes and equity in net income of subsidiaries | 374,143 | 467,621 | (9,969) | (60,421) | 771,374 |
| Income taxes | 81,484 | 116,328 | 110 | (14,595) | 183,327 |
| | 292,659 | 351,293 | (10,079) | (45,826) | 588,047 |
| Equity in net income of subsidiaries | 297,341 | - | - | (297,341) | - |
| Net loss attributable to noncontrolling interests | - | - | 1,953 | - | 1,953 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 590,000 | \$ 351,293 | \$ (8,126) | \$ (343,167) | \$ 590,000 |

| For the six months ended, June 30, 2017 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|--------------|--------------|----------------------------|------------------------------|-----------------------|
| Net sales | \$ 1,851,421 | \$ 5,186,914 | \$ 288,346 | \$ (2,567,745) | \$ 4,758,936 |
| Costs of goods sold | 1,478,626 | 4,652,268 | 275,093 | (2,511,723) | 3,894,264 |
| Gross profit | 372,795 | 534,646 | 13,253 | (56,022) | 864,672 |
| Selling, general and administrative | 112,597 | 152,002 | 10,357 | (10,203) | 264,753 |
| Operating income | 260,198 | 382,644 | 2,896 | (45,819) | 599,919 |
| Interest expense, net of capitalized interest | 36,522 | 29,764 | 6,313 | (4,757) | 67,842 |
| Other income, net | (7,123) | (4,813) | (315) | 4,757 | (7,494) |
| Income (loss) before income taxes and equity in net income of subsidiaries | 230,799 | 357,693 | (3,102) | (45,819) | 539,571 |
| Income taxes | 70,727 | 129,708 | 3,482 | (15,959) | 187,958 |
| | 160,072 | 227,985 | (6,584) | (29,860) | 351,613 |

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| | | | | | |
|--|------------|------------|------------|--------------|------------|
| Equity in net income of subsidiaries | 194,678 | - | - | (194,678) | - |
| Net loss attributable to noncontrolling interests | | | 3,137 | | 3,137 |
| Net income (loss) attributable to Steel Dynamics, Inc. | \$ 354,750 | \$ 227,985 | \$ (3,447) | \$ (224,538) | \$ 354,750 |

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STEEL DYNAMICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 11. Condensed Consolidating Information (Continued)

Condensed Consolidating Statements of Cash Flows (in thousands)

| For the six months ended, June 30, 2018 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|--|------------|------------|----------------------------|------------------------------|-----------------------|
| Net cash provided by operating activities | \$ 190,271 | \$ 300,720 | \$ 190 | \$ 12,787 | \$ 503,968 |
| Net cash used in investing activities | (528,618) | (59,728) | (4,901) | 1,915 | (591,332) |
| Net cash provided by (used in) financing activities | 45,037 | (255,401) | 3,769 | (14,702) | (221,297) |
| Decrease in cash, cash equivalents and restricted cash | (293,310) | (14,409) | (942) | - | (308,661) |
| Cash, cash equivalents, and restricted cash at beginning of period | 1,002,230 | 20,748 | 12,107 | - | 1,035,085 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 708,920 | \$ 6,339 | \$ 11,165 | \$ - | \$ 726,424 |

| For the six months ended, June 30, 2017 | Parent | Guarantors | Combined Non-Guarantors | Consolidating Adjustments | Total Consolidated |
|---|-----------|------------|----------------------------|------------------------------|-----------------------|
| Net cash provided by (used in) operating activities | \$ 60,900 | \$ 279,513 | \$ (20,088) | \$ 1,115 | \$ 321,440 |
| Net cash used in investing activities | (33,305) | (22,599) | (503) | 761 | (55,646) |
| Net cash provided by (used in) financing activities | 64,017 | (268,175) | 7,583 | (1,876) | (198,451) |
| Increase (decrease) in cash, cash equivalents and restricted cash | 91,612 | (11,261) | (13,008) | - | 67,343 |

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| | | | | | |
|--|------------|-----------|-----------|------|------------|
| Cash, cash equivalents, and restricted cash at beginning of period | 767,594 | 54,859 | 25,652 | - | 848,105 |
| Cash, cash equivalents, and restricted cash at end of period | \$ 859,206 | \$ 43,598 | \$ 12,644 | \$ - | \$ 915,448 |

ITEM 2.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains some predictive statements about future events, including statements related to conditions in the steel and metallic scrap markets, Steel Dynamics’ revenues, costs of purchased materials, future profitability and earnings, and the operation of new or existing facilities. These statements, which we generally precede or accompany by such typical conditional words as "anticipate," "intend," "believe," "estimate," "plan," "seek," "project" or "expect," or by the words "may," "will," or "should," are intended to be made as “forward-looking,” subject to many risks and uncertainties, within the safe harbor protections of the Private Securities Litigation Reform Act of 1995. These statements speak only as of this date and are based upon information and assumptions, which we consider reasonable as of this date, concerning our businesses and the environments in which they operate. Such predictive statements are not guarantees of future performance, and we undertake no duty to update or revise any such statements. Some factors that could cause such forward-looking statements to turn out differently than anticipated include: (1) the effects of uncertain economic conditions; (2) cyclical and changing industrial demand; (3) changes in conditions in any of the steel or scrap-consuming sectors of the economy which affect demand for our products, including the strength of the non-residential and residential construction, automotive, manufacturing, appliance, pipe and tube, and other steel-consuming industries; (4) fluctuations in the cost of key raw materials and supplies (including steel scrap, iron units, and energy costs) and our ability to pass on any cost increases; (5) the impact of domestic and foreign import price competition; (6) unanticipated difficulties in integrating or starting up new or acquired businesses; (7) risks and uncertainties involving product and/or technology development; and (8) occurrences of unexpected plant outages or equipment failures.

More specifically, we refer you to our more detailed explanation of these and other factors and risks that may cause such predictive statements to turn out differently, as set forth in our most recent Annual Report on Form 10-K under the headings Special Note Regarding Forward-Looking Statements and Risk Factors for the year ended December 31, 2017, in our quarterly reports on Form 10-Q, or in other reports which we from time to time file with the Securities and Exchange Commission. These reports are available publicly on the Securities and Exchange Commission website, www.sec.gov, and on our website, www.steeldynamics.com under “Investors – SEC Filings.”

Description of the Business

We are one of the largest domestic steel producers and metal recyclers in the United States based on estimated annual steelmaking and metals recycling capability, with facilities located throughout the United States, and in Mexico. We produce steel products, including hot roll, cold roll and coated sheet steel, structural steel beams and shapes, rail, engineered special-bar-quality steel, cold finished steel, merchant bar products, specialty steel sections and joist and deck. In addition, we produce liquid pig iron and process and sell ferrous and nonferrous scrap. We have three reportable segments: steel operations, metals recycling operations, and steel fabrication operations.

Operating Statement Classifications

Net Sales. Net sales from our operations are a factor of volumes shipped, product mix and related pricing. We charge premium prices for certain grades of steel, product dimensions, certain smaller volumes, and for value-added processing or coating of our steel products. Except for the steel fabrication operations, we recognize revenues from sales and the allowance for estimated returns and claims from these sales at the point in time control of the product transfers to the customer, upon shipment or delivery. Our steel fabrication operations recognizes revenues over time based on completed fabricated tons to date as a percentage of total tons required for each contract.

Costs of Goods Sold. Our costs of goods sold represent all direct and indirect costs associated with the manufacture of our products. The principal elements of these costs are scrap and scrap substitutes (which represent the most significant single component of our consolidated costs of goods sold), steel, direct and indirect labor and related benefits, alloys, zinc, transportation and freight, repairs and maintenance, utilities such as electricity and natural gas, and depreciation.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist of all costs associated with our sales, finance and accounting, and administrative departments. These costs include, among other items, labor and related benefits, professional services, insurance premiums, and property taxes. Company-wide profit sharing and amortization of intangible assets are each separately presented in the statement of operations.

Interest Expense, net of Capitalized Interest. Interest expense consists of interest associated with our senior credit facilities and other debt net of interest costs that are required to be capitalized during the construction period of certain capital investment projects.

Other Expense (Income), net. Other income consists of interest income earned on our temporary cash deposits and short term investments; any other non-operating income activity, including income from non-consolidated investments accounted for under the equity method. Other expense consists of any non-operating costs, such as certain acquisition and financing expenses.

Acquisition of Heartland Flat Roll Division (Heartland)

On June 29, 2018, we completed our acquisition of 100% of Heartland Steel Processing, LLC (formerly known as Companhia Siderurgica Nacional, LLC) (Heartland), for an initial cash purchase price of \$396.4 million, subject to customary actual working capital transaction purchase price adjustments payable before year-end 2018. Located in Terre Haute, Indiana, Heartland produces various types of higher-margin, flat roll steel by further processing hot roll coils into pickle and oil, cold roll, and galvanized products. The acquisition will expand our annual flat roll steel shipping capacity of lighter-gauge and greater width flat roll steel offerings that will broaden and diversify our value-added product portfolio, and provide operational and logistics benefits to other nearby operations.

Results Overview

Our consolidated results for the second quarter and first half of 2018 benefited from continued strong demand in each of our three operating segments. Steel operations achieved record shipments and increased average selling prices in second quarter 2018 compared to the same quarter in 2017, while our metals recycling operations benefited from increased average selling prices and shipments due to strong domestic scrap demand. The non-residential construction market remained strong, resulting in improved year over year shipments for our steel fabrication operations, with average selling prices continuing to rise. While our steel and metals recycling operations were able to achieve substantial growth in operating income, steel fabrication operations reported a decrease in operating income due to increases in steel input costs which outpaced higher average selling prices.

Consolidated operating income increased \$236.5 million, or 89%, to \$501.9 million for the second quarter 2018, compared to the second quarter 2017. Second quarter 2018 net income attributable to Steel Dynamics, Inc. increased \$208.5 million, or 135%, to \$362.4 million, compared to the second quarter 2017, due to increased operating income along with the reduction in the effective income tax rate post tax reform to 23.7% in the second quarter 2018 from 35.0% in the second quarter 2017.

Consolidated operating income increased \$225.4 million, or 38%, to \$825.3 million for the first half 2018, compared to the first half 2017. First half 2018 net income attributable to Steel Dynamics, Inc. increased \$235.2 million, or 66%, to \$590.0 million, compared to the first half 2017, due to increased operating income along with the reduction in the effective income tax rate post tax reform to 23.8% in the first half 2018 from 34.8% in the first half 2017.

Segment Operating Results 2018 vs. 2017 (dollars in thousands)

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| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--------------------------------------|-----------------------------|----------|--------------|---------------------------|----------|--------------|
| | 2018 | % Change | 2017 | 2018 | % Change | 2017 |
| Net sales: | | | | | | |
| Steel Operations Segment | \$ 2,435,688 | 34% | \$ 1,821,952 | \$ 4,417,462 | 23% | \$ 3,597,628 |
| Metals Recycling Operations Segment | 884,095 | 27% | 694,016 | 1,636,861 | 16% | 1,414,153 |
| Steel Fabrication Operations Segment | 217,896 | 10% | 198,009 | 419,599 | 7% | 392,117 |
| Other | 123,080 | 34% | 91,698 | 215,698 | 19% | 180,983 |
| | 3,660,759 | | 2,805,675 | 6,689,620 | | 5,584,881 |
| Intra-company | (570,234) | | (414,955) | (995,220) | | (825,945) |
| | \$ 3,090,525 | 29% | \$ 2,390,720 | \$ 5,694,400 | 20% | \$ 4,758,936 |
| Operating income (loss): | | | | | | |
| Steel Operations Segment | \$ 533,494 | 98% | \$ 269,929 | \$ 868,056 | 40% | \$ 618,461 |
| Metals Recycling Operations Segment | 22,638 | 37% | 16,495 | 47,353 | 38% | 34,344 |
| Steel Fabrication Operations Segment | 14,144 | (30)% | 20,147 | 33,935 | (23)% | 43,873 |
| Other | (63,618) | (48)% | (43,110) | (119,024) | (23)% | (97,080) |
| | 506,658 | | 263,461 | 830,320 | | 599,598 |
| Intra-company | (4,771) | | 1,892 | (5,036) | | 321 |
| | \$ 501,887 | 89% | \$ 265,353 | \$ 825,284 | 38% | \$ 599,919 |

Steel Operations Segment

Steel operations consist of our electric arc furnace steel mills, producing sheet and long products steel from ferrous scrap and scrap substitutes, utilizing continuous casting and automated rolling mills, with numerous downstream processing and coating lines, as well as IDI, our liquid pig iron production facility that supplies solely the Butler Flat Roll Division. Our steel operations sell a diverse portfolio of sheet and long products directly to end-users, steel fabricators, and service centers. These products are used in a wide variety of industry sectors, including the construction, automotive, manufacturing, transportation, heavy equipment and agriculture, and pipe and tube (including OCTG) markets. Steel operations accounted for 75% and 73% of our consolidated external net sales during the second quarter of 2018 and 2017, respectively, and 75% and 73% during the first half of 2018 and 2017, respectively.

Steel Operations Segment Shipments (tons):

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|------------------------------------|-----------------------------|----------|-----------|---------------------------|----------|-----------|
| | 2018 | % Change | 2017 | 2018 | % Change | 2017 |
| Total shipments | 2,733,936 | 13% | 2,421,897 | 5,268,580 | 7% | 4,903,644 |
| Intra-segment shipments | (145,998) | | (88,571) | (267,651) | | (191,356) |
| Steel Operations Segment Shipments | 2,587,938 | 11% | 2,333,326 | 5,000,929 | 6% | 4,712,288 |
| External shipments | 2,480,223 | 10% | 2,246,569 | 4,807,738 | 6% | 4,551,649 |

Segment Results 2018 vs. 2017

Overall domestic steel demand improved during the second quarter of 2018, with the automotive, construction and energy sectors remaining strong, while general industrial demand continued to grow. Improved steel demand and product pricing resulted in record quarterly steel shipments and earnings from expanded margins. Steel operations segment shipments increased 11% in the second quarter 2018, as compared to the same period in 2017, with long

products in particular reporting strong gains over the prior year. Net sales for the steel operations increased 34% in the second quarter 2018 when compared to the same period in 2017, due primarily to an increase of \$159 per ton, or 20%, in average selling prices consistent with increased steel market pricing. Our steel mill utilization rate averaged 99% for the second quarter 2018, as compared to 91% in the second quarter 2017. Net sales for the steel operations increased 23% in the first half of 2018 when compared to the same period in 2017, due primarily to an increase of \$119 per ton, or 16%, in average selling prices, consistent with increased steel market demand and product pricing.

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Metallic raw materials used in our electric arc furnaces represent our single most significant steel manufacturing cost, generally comprising approximately 60% of our steel operations' manufacturing costs, excluding the operations of The Techs and Vulcan, which purchase, rather than produce, the steel they further process. Our metallic raw material cost per net ton consumed in our steel operations increased \$45, or 15%, in the second quarter 2018, compared to the same period in 2017, consistent with overall increased domestic scrap pricing. In the first half of 2018, our metallic raw material cost per ton increased \$51, or 18% compared to the same period in 2017.

As a result of selling prices increasing more than scrap costs, metal spread (which we define as the difference between average selling prices and the cost of ferrous scrap consumed) increased 24% in the second quarter 2018 compared to the second quarter 2017. Operating income for the steel operations increased 98%, to \$533.5 million, in the second quarter 2018, compared to the same period in 2017, due to metal spread expansion and increased shipments. First half 2018 operating income increased 40%, to \$868.1 million, compared to the first half of 2017, again due to improved metal spreads and shipping volumes.

Metals Recycling Operations Segment

Metals recycling operations consists solely of OmniSource and includes both ferrous and nonferrous scrap metal processing, transportation, marketing, and brokerage services, strategically located primarily in close proximity to our steel mills and other end-user scrap consumers throughout the eastern half of the United States. In addition, OmniSource designs, installs, and manages customized scrap management programs for industrial manufacturing companies at hundreds of locations throughout North America. Our steel mills utilize a large portion (ranging from 62% to 65% for the periods presented) of the ferrous scrap sold by OmniSource as raw material in our steelmaking operations, and the remainder is sold to other consumers, such as other steel manufacturers and foundries. Our metals recycling operations accounted for 14% of our consolidated external net sales during the second quarters of 2018 and 2017, and 14% and 15% during the first half of 2018 and 2017, respectively.

Metals Recycling Operations Shipments:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|-----------------------------|---------------|---------------------------|---------------|
| | 2018 | % Change 2017 | 2018 | % Change 2017 |
| Ferrous metal (gross tons) | | | | |

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| | | | | | | |
|---|-----------|-----|-----------|-------------|------|-------------|
| Total | 1,347,016 | 10% | 1,222,777 | 2,603,915 | 2% | 2,561,376 |
| Inter-company | (880,891) | | (756,271) | (1,700,800) | | (1,609,456) |
| External shipments | 466,125 | - | 466,506 | 903,115 | (5)% | 951,920 |
| Nonferrous metals (thousands of pounds) | | | | | | |
| Total | 304,034 | 12% | 270,444 | 575,662 | 4% | 554,047 |
| Inter-company | (40,306) | | (39,880) | (61,161) | | (70,547) |
| External shipments | 263,728 | 14% | 230,564 | 514,501 | 6% | 483,500 |

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Segment Results 2018 vs. 2017

Our metals recycling operations benefited from stronger domestic steel mill demand during the second quarter 2018, as overall domestic steel mill utilization was approximately 76% in the second quarter of 2018, compared to 74% in the same 2017 period. Net sales increased 27% in the second quarter 2018 as compared to the same period in 2017, driven by increased pricing and shipments for both ferrous and nonferrous metals. Ferrous scrap average selling prices increased 15% during the second quarter 2018 compared to the same period in 2017, while nonferrous average selling prices increased 12%. Nonferrous metal spread (which we define as the difference between average selling prices and the cost of purchased scrap) increased 12% on increased selling prices, while ferrous metal spread contracted 5%, as higher unprocessed scrap procurement costs more than offset higher selling prices. Ferrous shipments to our own steel mills increased by 16% in the second quarter 2018, compared to the same period in 2017. Metals recycling operations operating income in the second quarter 2018 of \$22.6 million increased 37% from the second quarter 2017 operating income of \$16.5 million, due to increased ferrous and nonferrous shipments, coupled with improved nonferrous metal spread.

Net sales for our metals recycling operations increased 16% in the first half of 2018 as compared to the same period in 2017, driven by increased pricing and shipments on continued strong domestic steel scrap demand. Ferrous scrap average selling prices increased 14% during the first half of 2018 compared to the same period in 2017, while nonferrous average selling prices increased 10%. Nonferrous metal spread increased 17% on increased selling prices, while ferrous metal spread was flat in the first half of 2018 compared to the first half of 2017. Metals recycling operations operating income in the first half of 2018 of \$47.4 million increased 38% from the first half of 2017 operating income of \$34.3 million, due to increased ferrous and nonferrous shipments, coupled with improved nonferrous metal spread.

Steel fabrication operations include our New Millennium Building Systems joist and deck plants located throughout the United States and in Northern Mexico. Revenues from these plants are generated from the fabrication of steel joists, trusses, girders and steel deck used within the non-residential construction industry. Steel fabrication operations accounted for 7% of our consolidated external net sales during the second quarter and first half of 2018, and 8% during the same periods in 2017.

Segment Results 2018 vs. 2017

Net sales for the steel fabrication operations increased \$19.9 million, or 10%, during the second quarter 2018, compared to the same period in 2017, as shipments increased 5%, and average selling prices increased \$69 per ton, or 5%. Net sales for the segment increased \$27.5 million, or 7%, during the first half of 2018, compared to the same period in 2017, as shipments increased 2%, and average selling prices increased \$62 per ton, or 5%. Our steel fabrication operations continue to leverage our national operating footprint to sustain and improve market share. Market demand and order backlogs continue to be strong as our customer base remains optimistic about non-residential construction project development.

The purchase of various steel products is the largest single cost of production for our steel fabrication operations, generally representing approximately two-thirds of the total cost of manufacturing. The average cost of steel consumed increased by 17% in the second quarter 2018, as compared to the same period in 2017 consistent with increased selling prices discussed in the steel operations results, while average selling prices increased only 5%, with resulting metal spread (which we define as the difference between average selling prices and the cost of purchased steel) decreasing 9% on a per ton basis. Operating income decreased \$6.0 million, or 30%, to \$14.1 million in the second quarter 2018 compared to the same period in 2017, due to increased steel input costs outpacing price and volume increases. For the first half of 2018, operating income decreased \$9.9 million, or 23%, compared to the first half of 2017, again due to increased steel input costs outpacing price and volume increases, as metal spreads decreased 4% period over period.

Other Operations

Other operations consists of subsidiary operations that are below the quantitative thresholds required for reportable segments and primarily consist of our Minnesota ironmaking operations that have been idle since May 2015, and smaller joint ventures. Also included in "Other" are certain unallocated corporate accounts, such as the company's senior secured credit facility, senior notes, certain other investments and certain profit sharing expenses.

Second Quarter Consolidated Results 2018 vs. 2017

Selling, General and Administrative Expenses. Selling, general and administrative expenses of \$101.0 million during the second quarter 2018 increased 3% from \$98.4 million during the second quarter 2017, representing 3.3% and 4.1% of net sales, respectively. Profit sharing expense during the second quarter of 2018 of \$42.3 million was nearly double the \$21.3 million during the same period in 2017, consistent with increases in income before income taxes.

Interest Expense, net of Capitalized Interest. During the second quarter 2018, interest expense decreased 7% to \$31.5 million from \$33.9 million during the same period in 2017, due primarily to the call and repayment of our \$350.0 million 6.375% senior notes due 2022, with 4.125% senior notes due 2025 in the latter half of 2017.

Income Tax Expense. During the second quarter 2018, our income tax expense was \$112.8 million at an effective income tax rate of 23.7%, as compared to \$82.4 million at an effective income tax rate of 35.0%, during the second quarter 2017. The lower effective tax rate in 2018 is due primarily to the enacted Tax Cuts and Jobs Act of 2017, signed into law in December 2017, which lowered the federal income tax rate from 35% to 21% in 2018.

First Six Months Consolidated Results 2018 vs. 2017

Selling, General and Administrative Expenses. Selling, general and administrative expenses of \$207.5 million during the first half of 2018 increased 3% from \$201.4 million during the first half of 2017, representing 3.6% and 4.2% of net sales, respectively. Profit sharing expense during the first half of 2018 of \$69.0 million increased 42% from the \$48.5 million during the same period in 2017, consistent with increases in income before income taxes.

Interest Expense, net of Capitalized Interest. During the first half of 2018, interest expense decreased 6% to \$63.4 million from \$67.8 million during the same period in 2017, due primarily to the call and repayment of our \$350.0 million 6.375% senior notes due 2022, with 4.125% senior notes due 2025 in the latter half of 2017.

Income Tax Expense. During the first half of 2018, our income tax expense was \$183.3 million at an effective income tax rate of 23.8%, as compared to \$188.0 million at an effective income tax rate of 34.8%, during the first half of 2017. The lower effective tax rate in 2018 is due primarily to the enacted Tax Cuts and Jobs Act of 2017, signed into law in December 2017, which lowered the federal income tax rate from 35% to 21% in 2018.

Liquidity and Capital Resources

Heartland Acquisition. In June 2018, we used \$396.4 million of available cash to acquire 100% of Heartland.

Capital Resources and Long term Debt. Our business is capital intensive and requires substantial expenditures for, among other things, the purchase and maintenance of equipment used in our steel, metals recycling, and steel fabrication operations, and to remain in compliance with environmental laws. Our short-term and long-term liquidity needs arise primarily from working capital requirements, capital expenditures, principal and interest payments related to our outstanding indebtedness, dividends to our shareholders, and acquisitions. We have met these liquidity requirements primarily with cash provided by operations and long-term borrowings, and we also have availability under our Revolver. Our liquidity at June 30, 2018, is as follows (in thousands):

| | |
|------------------------|--------------|
| Cash and equivalents | \$ 720,445 |
| Short term investments | 90,000 |
| Revolver availability | 1,188,139 |
| Total liquidity | \$ 1,998,584 |

Our total outstanding debt decreased \$11.5 million during the first half of 2018 due to decreased revolving credit facility borrowings at one of our controlled subsidiaries. Our total long-term debt to capitalization ratio (representing our long-term debt, including current maturities, divided by the sum of our long-term debt, redeemable noncontrolling interests, and our total stockholders' equity) decreased to 39.0% at June 30, 2018, compared to 41.9% at December 31, 2017.

Our senior secured credit facility (Facility), which provides a \$1.2 billion Revolver, was renewed and extended in June 2018 to extend maturity to June 2023. Subject to certain conditions, we have the opportunity to increase the Revolver size by at least \$750.0 million. The Facility is guaranteed by certain of our subsidiaries; and is secured by substantially all of our and our wholly-owned subsidiaries' receivables and inventories, and by pledges of all shares of our wholly-owned subsidiaries' capital stock or other equity interests, and intercompany debt held by us as collateral. The Revolver is available to fund working capital, capital expenditures, and other general corporate purposes. The Facility contains financial covenants and other covenants pertaining to our ability (which may under certain circumstances be limited) to make capital expenditures; incur indebtedness; permit liens on property; enter into transactions with affiliates; make restricted payments or investments; enter into mergers, acquisitions or consolidations; conduct asset sales; pay dividends or distributions, or enter into other specified transactions and activities. Our ability to borrow funds within the terms of the Revolver is dependent upon our continued compliance with the financial and other covenants. At June 30, 2018, we had \$1.2 billion of availability on the Revolver, \$11.9 million of outstanding letters of credit and other obligations which reduce availability, and there were no borrowings outstanding.

The financial covenants under our Facility state that we must maintain an interest coverage ratio of not less than 2.50:1.00. Our interest coverage ratio is calculated by dividing our last-twelve-months (LTM) consolidated adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and certain other non-cash transactions as allowed in the Facility) by our LTM gross interest expense, less amortization of financing fees. In addition, a net debt (as defined in the Facility) to consolidated LTM adjusted EBITDA (net debt leverage ratio) of not more than 5.00:1.00 must be maintained. If the net debt leverage ratio exceeds 3.50:1.00 at any time, our ability to make certain payments as defined in the Facility (which includes cash dividends to stockholders and share purchases, among other things), is limited. At June 30, 2018, our interest coverage ratio and net debt leverage ratio were 13.14:1.00 and 1.07:1.00, respectively. We were, therefore, in compliance with these covenants at June 30, 2018, and we anticipate we will continue to be in compliance during the next twelve months.

Working Capital. We generated cash flow from operations of \$504.0 million in the first half of 2018. Operational working capital (representing amounts invested in trade receivables and inventories, less current liabilities other than income taxes payable and debt) increased \$354.0 million, excluding acquired Heartland working capital, to \$2.0 billion at June 30, 2018, consistent with increases in volumes, pricing and profitability during the first half of 2018.

Capital Investments. During the first half of 2018, we invested \$105.8 million in property, plant and equipment, primarily within our steel operations segment, compared with \$85.0 million invested during the same period in 2017.

Cash Dividends. As a reflection of continued confidence in our current and future cash flow generation ability and financial position, we increased our quarterly cash dividend by 21% to \$0.1875 per share in the first quarter 2018 (from \$0.155 per share in 2017), resulting in declared cash dividends of \$88.3 million during the first half of 2018, compared to \$74.7 million during the same period in 2017. We paid cash dividends of \$81.1 million and \$71.7 million during the first half of 2018 and 2017, respectively. Our board of directors, along with executive management, approves the payment of dividends on a quarterly basis. The determination to pay cash dividends in the future is at the discretion of our board of directors, after taking into account various factors, including our financial condition, results of operations, outstanding indebtedness, current and anticipated cash needs and growth plans. In addition, the terms of our Facility and the indentures relating to our senior notes may restrict the amount of cash dividends we can pay.

Other. In 2016, the board of directors authorized a share repurchase program of up to \$450 million of our common stock. Under the share repurchase program, purchases will take place, as and when, we determine in open market or private transactions made based upon the market price of our common stock, the nature of other investment opportunities or growth projects, our cash flows from operations, and general economic conditions. The share repurchase program does not require us to acquire any specific number of shares, and may be modified, suspended, extended or terminated by us at any time. We acquired 2.6 million shares of our common stock for \$118.4 million in the first half of 2018 pursuant to this program. See Part II Other Information, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds for additional information.

Our ability to meet our debt service obligations and reduce our total debt will depend upon our future performance which, in turn, will depend upon general economic, financial and business conditions, along with competition, legislation and regulatory factors that are largely beyond our control. In addition, we cannot assure that our operating results, cash flows, access to credit markets and capital resources will be sufficient for repayment of our indebtedness in the future. We believe that based upon current levels of operations and anticipated growth, cash flows from operations, together with other available sources of funds, including if necessary borrowings under our Revolver through its term, will be adequate for the next twelve months for making required payments of principal and interest on our indebtedness, funding working capital requirements, and anticipated capital expenditures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Risk

In the normal course of business, we are exposed to the market risk and price fluctuations related to the sale of our products and to the purchase of raw materials used in our operations, such as metallic raw materials, electricity, natural gas and its transportation services, fuel, air products, zinc, and electrodes. Our risk strategy associated with product sales has generally been to obtain competitive prices for our products and to allow operating results to reflect market price movements dictated by supply and demand.

Our risk strategy associated with the purchase of raw materials utilized within our operations has generally been to make some commitments with suppliers relating to future expected requirements for some commodities such as electricity, natural gas and its transportation services, fuel, air products, zinc, and electrodes. Certain of these commitments contain provisions which require us to “take or pay” for specified quantities without regard to actual usage for periods of up to 5 years for physical commodity requirements and commodity transportation requirements, and for up to 11 years for air products. We utilized such “take or pay” requirements during the past three years under these contracts, except for certain air products at our Minnesota ironmaking operations which have been idle since May 2015. We believe that production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process, other than certain air products related to our Minnesota ironmaking operations during the idle period. We also purchase electricity consumed at our Butler Flat Roll Division pursuant to a contract which extends through December 2018, which establishes an agreed fixed-rate

energy charge per Mill/kWh consumed for each year through the expiration of the agreement.

In our metals recycling operations, we have certain fixed price contracts with various customers and suppliers for future delivery of nonferrous metals. Our risk strategy has been to enter into base metal financial contracts with the goal to protect the profit margin, within certain parameters, that was contemplated when we entered into the transaction with the customer or vendor. At June 30, 2018, we had a cumulative unrealized gain associated with these financial contracts of \$6.4 million, substantially all of which have a settlement date within the next twelve months. We believe the customer contracts associated with the financial contracts will be fully consummated.

ITEM 4.CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As required, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2018, the end of the period covered by this quarterly report, our disclosure controls and procedures were designed to provide and were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our principal executive and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

We are involved in various routine litigation matters, including administrative proceedings, regulatory proceedings, governmental investigations, environmental matters, and commercial and construction contract disputes, none of which are expected to have a material impact on our financial condition, results of operations, or liquidity.

We may also be involved from time to time in various governmental investigations, regulatory proceedings or judicial actions seeking penalties, injunctive relief, and/or remediation under federal, state and local environmental laws and regulations. The United States EPA has conducted such investigations and proceedings involving us, in some instances along with state environmental regulators, under various environmental laws, including RCRA, CERCLA, the Clean Water Act and the Clean Air Act. Some of these matters have resulted in fines or penalties, for which a total of \$436,000 is recorded in our financial statements as of June 30, 2018.

ITEM 1A.RISK FACTORS

No material changes have occurred to the indicated risk factors as disclosed in our Annual Report on Form 10-K for the year ended

December 31, 2017.

ITEM 2.UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) Issuer Purchases of Equity Securities

We purchased the following equity securities registered by us pursuant to Section 12 of the Exchange Act during the three months ended

June 30, 2018.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program (1) | Maximum Dollar Value of Shares That May Yet be Purchased Under the Program (in thousands) |
|-----------------------------|----------------------------------|------------------------------|--|---|
| Quarter ended June 30, 2018 | | | | |
| April 1 - 30 | 177,222 | \$ 44.72 | 177,222 | \$ 95,530 |
| May 1 - 31 | 426,527 | 46.90 | 426,527 | 75,528 |
| June 1 - 30 | 456,295 | 46.50 | 456,295 | 54,310 |
| | 1,060,044 | | 1,060,044 | |

(1) On October 18, 2016, we announced that our board of directors had authorized a share repurchase program of up to \$450.0 million of our common stock. Our board of directors cancelled the previously authorized program with respect to which no shares had been repurchased for a number of years.

ITEM 3.DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4.MINE SAFETY DISCLOSURES

Information required to be furnished pursuant to Item 4 concerning mine safety disclosure matters, if applicable, by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K (17 CFR 229.104), is included in Exhibit 95 to this quarterly report. There are no mine safety disclosures to report for the three months ended June 30, 2018, therefore, no Exhibit 95 is required.

ITEM 5.OTHER INFORMATION

None.

ITEM 6.EXHIBITS

Reference is made to the Exhibit Index preceding the signature page hereto, which Exhibit Index is hereby incorporated into this item.

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EXHIBIT INDEX

Articles of Incorporation

- 3.1e* Amended and Restated Articles of Incorporation of Steel Dynamics, Inc., reflecting amended and replaced Article VII, made as of May 17, 2018.

Executive Officer Certifications

- 31.1* Certification of Chief Executive Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

- 31.2* Certification of Chief Financial Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of the Sarbanes Oxley Act of 2002.

- 32.1* Certification of Chief Executive Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

- 32.2* Certification of Chief Financial Officer Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

Other

- 95** Mine Safety Disclosures.

XBRL Documents

- 101.INS* XBRL Instance Document
101.SCH* XBRL Taxonomy Extension Schema Document
101.CAL* XBRL Taxonomy Extension Calculation Document
101.DEF* XBRL Taxonomy Definition Document
101.LAB* XBRL Taxonomy Extension Label Document
101.PRE* XBRL Taxonomy Presentation Document

*Filed concurrently herewith

**Inapplicable for purposes of this report

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 9, 2018

STEEL DYNAMICS, INC.

By: /s/ Theresa E. Wagler
Theresa E. Wagler
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)