

## News Release

November 2, 2017

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### Results for the First Half of FY2017

Marubeni-Itochu Steel Inc. (MISI; Tomohito Kaneda, President and CEO) is pleased to announce the following results for the first half of FY2017 (April through September 2017).

#### **Economic Environment**

In examining the global economy during the first half of FY2017, we observed that the economic climate in Southeast Asia varied by nation, while the U.S. economy continued to perform in robust fashion. European countries and China also charted generally strong results. In Japan, automobile unit sales stayed strong despite somewhat sluggish growth in exports, with personal consumption and capital investment showing signs of a gradual recovery. The value of construction work orders also increased over the previous fiscal year.

Meanwhile, domestic demand for steel is in a recovery phase. However, nationwide crude steel production during the first half of FY2017 (April through September) halted at 52.03 million tons. That is a decline of one percent from the first half of FY2016 (based on figures from the Japan Iron and Steel Federation). This drop occurred partly because steel manufacturers were faced with regular blast furnace repairs, equipment malfunctions and other issues.

#### **Results of Operations for the Term under Review**

Against this backdrop, solid progress in domestic transactions buoyed the MISI Group's consolidated first-half performance, fueled by increased demand and higher unit prices as well as improved earnings at its overseas business companies. Negative factors included a slow recovery in energy-related demand and

a decline in export transactions under tight supply conditions. The MISI Group's total volume of trading transactions for the first half of FY2017 finished at ¥1.0096 trillion, operating income stood at ¥14.7 billion, and profit attributable to owners of the parent was ¥7.9 billion. All of these figures are above the levels for the first half of FY2016.

**Consolidated Statement of Comprehensive Income (Unaudited, IFRS basis)**

MISI's consolidated income figures for the first half of FY2017 are as follows:

(Billions of yen)

Category	Result for the First Half of FY2017	Result for the First Half of FY2016	Increase/decrease
Total volume of trading transactions	1,009.6	830	+179.7
Gross profits	57.2	53.1	+4.1
Operating income	14.7	12.3	+2.4
Profit before taxes	13.5	13.5	+0
Profit attributable to owners of the parent	7.9	7.2	+0.7

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## Consolidated Financial Results in First Half of FY2017 (April 1 to September 30)

(Unaudited, IFRS basis)

(Unit: Millions of yen)

Operating Result	FY2017 First Half Results	FY2016 First Half Results	Change
Total volume of trading transactions (*1)	1,009,638	829,960	+179,678
Gross profits	57,238	53,100	+4,138
Selling, general and administrative expenses	(42,327)	(40,702)	-1,625
Provision for doubtful accounts	(193)	(90)	-103
Operating income (*1)	14,718	12,308	+2,410
Net interest expense	(2,087)	(1,499)	-588
Dividend income	791	671	+120
Gain(loss) on investment securities	1	106	-105
Gain(loss) on property, plant and equipment	10	8	+2
Other non-operating income(loss)	(130)	1,693	-1,823
Share of profits of associates and joint ventures	246	256	-10
Profit before tax	13,549	13,543	+6
Income taxes	(4,607)	(4,523)	-84
Profit	8,942	9,020	-78
Profit attributable to owners of the parent	7,947	7,226	+721
Profit attributable to non-controlling interests	995	1,794	-799

Revenue	454,017	357,166	+96,851
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\*1 Total volume of trading transactions includes all transactions involving the Company and its consolidated subsidiaries regardless of transaction type. Total volume of trading transactions and operating income are presented in accordance with Japanese accounting practice for investors' convenience and are not required by IFRS. Ordinary income reflecting the Japanese GAAP basis has been provisionally calculated at ¥13.7 billion.

Comprehensive Income	FY2017 First Half Results	FY2016 First Half Results	Change
Profit	8,942	9,020	-78
Net unrealized gain(loss) on FVTOCI	5,211	417	+4,794
Exchange differences on translating foreign operations	1,174	(20,896)	+22,070
Other	601	(3,212)	+3,813
Comprehensive income	15,928	(14,671)	+30,599
Comprehensive income attributable to owners of the parent	14,711	(15,942)	+30,653
Comprehensive income attributable to non-controlling interests	1,217	1,271	-54

(Unit: Millions of yen)

Financial Position	FY2017 First Half Results	FY2016 Results	Change
Current assets	840,488	814,210	+26,278
Cash and deposits	37,809	67,160	-29,351
Accounts receivable	523,077	488,491	+34,586
Inventories	239,950	217,875	+22,075
Other	39,652	40,684	-1,032
Non-current assets	237,464	221,899	+15,565
Tangible assets	73,863	73,924	-61
Intangible assets	18,569	18,988	-419
Investments and other assets	145,032	128,987	+16,045
Total assets	1,077,952	1,036,109	+41,843
Current liabilities	592,347	549,511	+42,836
Accounts payable	279,723	257,546	+22,177
Short-term debts	258,383	225,764	+32,619
Other	54,241	66,201	-11,960
Non-current liabilities	174,920	183,457	-8,537
Long-term debts	149,258	161,849	-12,591
Other	25,662	21,608	+4,054
Total liabilities	767,267	732,968	+34,299
Equity attributable to owners of the parent	287,256	280,185	+7,071
Common stock/Capital surplus	51,293	51,375	-82
Retained earnings	181,000	180,632	+368
Accumulated other comprehensive income	54,963	48,178	+6,785
Non-controlling interests	23,429	22,956	+473
Total equity	310,685	303,141	+7,544
Total liabilities and equity	1,077,952	1,036,109	+41,843

§Management indexes pertaining to assets, liabilities and capital

Ratio of shareholders' equity (*2)	26.6%	27.0%	- 0.4%
Net debt equity ratio (DER) (*3)	1.3 times	1.1 times	+0.1 times

\*2: Ratio of shareholders' equity = equity attributable to owners of the parent/total assets

\*3: Net debt equity ratio (DER) = net interest-bearing liabilities/equity attributable to owners of the parent

### Outline of FY2017 consolidated financial results

In examining the global economy during the first half of FY2017, we observed that the economic climate in Southeast Asia varied by nation, while the U.S. economy continued to perform in robust fashion. European countries and China also charted generally strong results. In Japan, automobile unit sales stayed strong despite somewhat sluggish growth in exports, with personal consumption and capital investment showing signs of a gradual recovery. The value of construction work orders also increased over the previous fiscal year.

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Against this backdrop, solid progress in domestic transactions buoyed the MISI Group's consolidated first-half performance, fueled by increased demand and higher unit prices as well as improved earnings at its overseas business companies. Negative factors included a slow recovery in energy-related demand and a decline in export transactions under tight supply conditions. The MISI Group's total volume of trading transactions for the first half of FY2017 finished at ¥1.0096 trillion, operating income stood at ¥14.7 billion, and profit attributable to owners of the parent was ¥7.9 billion. All of these figures are above the levels for the first half of FY2016.

### Explanation of consolidated statements

#### 1. Total volume of trading transactions and gross profits

The total volume of trading transactions for the period under review increased by ¥179.7 billion over the first half of FY2016 to ¥1.0096 trillion, thanks to such factors as a recovery in market condition and higher steel prices. Gross profits were lifted by higher revenue performance, rising by ¥4.1 billion year-on-year to ¥57.2 billion.

#### 2. Selling, general and administrative expenses and provision for doubtful accounts

Total selling, general and administrative expenses during the first half of FY2017 rose by ¥1.6 billion compared to the same six-month period last year. Factors included higher selling, general and administrative expenses for overseas subsidiaries under the impact of the weaker yen. Provisions for doubtful accounts increased by ¥0.1 billion year-on-year. As a result, first-half operating income in 2017 was up by ¥2.4 billion, versus the first half of 2016 at ¥14.7 billion.

#### 3. Profit attributable to owners of the parent

Net interest expenses went up by ¥0.6 billion compared to the first half of 2016, linked to higher U.S. dollar interest rates. Dividend income increased by ¥0.1 billion; the gain/loss figures for investment securities fell by ¥0.1 billion; and the figures for property, plants and equipment finished roughly on a par with the same period last year. Gain/loss results for other categories worsened by ¥1.8 billion versus the first half of FY2016 under the impact of worsened exchange gain/loss figures and other factors.

Share of profits of associates and joint ventures finished at the general level recorded during the same six months last year. As a collective result, profit before tax was also tracked at roughly the previous year's level, while profit attributable to owners of the parent rose by ¥0.7 billion year-on-year to ¥7.9 billion after subtracting income taxes and profit attributable to non-controlling interests.

#### 4. Comprehensive income attributable to owners of the parent

Comprehensive income attributable to owners of the parent for the first half of FY2017 improved by ¥30.7 billion over the first half of the previous year, finishing at ¥14.7 billion. Contributing factors included improved profit attributable to owners of the parent, higher net unrealized gain on FVTOCI supported by rising stock prices, and the rebound from the decline witnessed in the exchange differences on translating foreign operations under the impact of the yen's appreciation last year.

#### 5. Equity attributable to owners of the parent

Equity attributable to owners of the parent at the end of the first half of FY2017 was tracked at ¥287.3 billion, up ¥7.1 billion from the close of the previous fiscal year. This was the consequence of an increase in accumulated other comprehensive income under the influence of higher stock prices and other factors. The ratio of shareholders' equity worsened by 0.4 percent to 26.6 percent, reflecting a total asset increase of ¥41.8 billion to ¥1.078 trillion.

#### 6. Interest-bearing liabilities

Gross interest-bearing liabilities at the end of the first half of FY2017 totaled ¥407.6 billion, up by ¥20 billion from the level posted at the end of FY2016. Factors behind this development included higher demand for operating capital due to increases in accounts receivable and inventory assets and other factors. Net interest-bearing liabilities rose by ¥49.4 billion compared to the end of FY2016, closing out the first half at ¥369.8 billion. This contributed to a net debt equity ratio (DER) of 1.3.

### Number of Group companies reporting a profit/loss

	No. of Companies	Change from the Previous Term	Profit/Loss		Ratio of Companies Making a Profit
			Profit	Loss	
Domestic	22	0	22	0	100.0%
	Overseas	53	0	37	16
No. of subsidiaries	75	0	59	16	78.7%
Domestic	12	-1	12	0	100.0%
	Overseas	28	1	13	15
No. of associates and joint ventures	40	0	25	15	62.5%
Total	115	0	84	31	73.0%