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News Release

May 9, 2019
Marubeni-Itochu Steel Inc.
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Results for FY2018

Marubeni-Itochu Steel Inc. (MISI; headquartered in Chuo-ku, Tokyo; Tomohito Kaneda, President and CEO) is pleased to announce the following results for FY2018 (April 2018 through March 2019).

Economic Environment

Reflecting on the global economy during FY2018, the numerous causes for concern included growing protectionism in many nations, currency anxieties in newly emerging regions, slackened economic growth in China prompted by bilateral trade friction with the United States, fears of economic stagnation in Europe, unstable crude oil price trends and related developments. In spite of that, key nations such as the U.S. sustained firm economic trends, while the newly emerging markets of Southeast Asia and other areas generally grew above their previous fiscal year levels.

Despite a sluggish rate of increase in commodity prices, a series of natural disasters during the summer months and slow growth in personal consumption, the Japanese economy saw capital investment remain steady and construction demand was robust. As a result, the domestic economy was in a general state of expansion during the year under review.

Turning to the steel industry, worldwide crude steel production in 2018 (January to December) was tracked at 1.81 billion tons, up 4.6 percent from the previous year based on figures from the World Steel Association. Contributing factors included strong overall demand in the U.S., China, Southeast Asia and other regions.

In Japan, while demand remained generally strong in major sectors such as construction and automobiles, production at certain steel manufacturers was affected by disasters occurring during the summer. As a result, domestic crude steel output for the period under review (April 2018 through March 2019) fell by 1.9 percent from the previous fiscal year to 102.89 million tons (according to figures from the Japan Iron and

Steel Federation). This was the second consecutive year-on-year decline for Japanese steel production in this category.

Results of Operations for the Term under Review

Under this background, MISI's transactions in Japan and the earnings of its domestic business companies matched the levels of the previous year, while its overseas steel pipe business performed well on the strength of a U.S.–focused recovery in energy-related demand. Likewise fueled by bullish U.S. market conditions, the company's construction material business in that nation showed solid earnings.

The MISI Group's consolidated financial settlement for FY2018 showed a total trading transaction volume of ¥2,439.4 billion, operating income of ¥45.3 billion, and profit attributable to owners of the parent of ¥24.2 billion. All of these figures surpassed the previous fiscal year's levels.

Consolidated Statement of Income (Unaudited, IFRS basis)

MISI's consolidated statement of income figures for the FY2018 are as follows:

(Billions of yen)

Category	Results for FY2018	Results for FY2017	Increase/decrease
Total volume of trading transactions	2,439.4	2,152.4	+287
Gross profits	135.7	118.3	+17.5
Operating income	45.3	32.9	+12.4
Profit before taxes	37.6	31.4	+6.2
Profit attributable to owners of the parent	24.2	18.5	+5.7
Comprehensive income attributable to owners of the parent	19.3	14.9	+4.5

For further information, please contact: https://www.benichu.com/inquiry/index_e.html

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Consolidated Financial Results in FY2018 (April 1, 2018 to March 31, 2019)

(Unaudited, IFRS basis)

(Unit: Millions of yen)

Operating Result	FY2018 Results	FY2017 Results	Change
Total volume of trading transactions (*1)	2,439,444	2,152,397	+287,047
Gross profit	**135,737**	**118,285**	**+17,452**
Selling, general and administrative expenses	(88733)	(85536)	-3,197
Provision for doubtful accounts	(1665)	194	-1,859
Operating income (*1)	**45,339**	**32,943**	**+12,396**
Net interest expense	(8,141)	(5,030)	-3,111
Dividend income	1,442	1,352	+90
Gain (loss) on investments	(742)	(123)	-619
Gain (loss) on property, plant and equipment	(82)	(69)	-13
Other non-operating income (loss)	93	1,370	-1,277
Share of profits of associates and joint ventures	(272)	951	-1,223
Profit before tax	**37637**	**31394**	**+6,243**
Income taxes	(10,889)	(10,501)	-388
Profit	26,748	20,893	+5,855
Profit attributable to owners of the parent	**24,204**	**18,492**	**+5,712**
Profit attributable to non-controlling interests	2,544	2,401	+143
Revenue (*2)	2,072,682	922,784	+1,149,898

*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 ¥38.5 billion.

*2 Includes an increase of approximately ¥1,000 billion in earnings resulting from the adoption of the new accounting standard Revenue from Contracts with Customers – International Financial Reporting Standards (IFRS) No. 15.

Comprehensive Income	FY2018 Results	FY2017 Results	Change
Profit	26,748	20,893	+5,855
Net unrealized gain(loss) on FVTOCI	(7,398)	1,804	-9,202
Exchange differences on translating foreign operations	3,559	(6,738)	+10,297
Other	(1,418)	1,358	-2,776
Comprehensive income	21,491	17,317	+4,174
Comprehensive income attributable to owners of the parent	**19,337**	**14,855**	**+4,482**
Comprehensive income attributable to non-controlling interests	2,154	2,462	-308

(Unit: Millions of yen)

Financial Position	FY2019 Results	FY2018 esults	Change
Current assets	**1,013,462**	**880,514**	**+132,948**
Cash and cash equivalents	46,836	41,930	+4,906
Trade receivables	637,061	574,875	+62,186
Inventories	289,990	226,578	+63,412
Other	39,575	37,131	+2,444
Non-current assets	**214,979**	**226,842**	**-11,863**
Property, plant and equipment	74,419	71,238	+3,181
Intangible assets	18,031	16,923	+1,108
Investments and other assets	122,529	138,681	-16,152
Total assets	**1,228,441**	**1,107,356**	**+121,085**
Current liabilities	**745,873**	**633,924**	**+111,949**
Trade payables	357,297	300,552	+56,745
Short-term debts	327,510	283,915	+43,595
Other	61,066	49,457	+11,609
Non-current liabilities	**161,020**	**162,929**	**-1,909**
Long-term debts	141,346	139,805	+1,541
Other	19,674	23,124	-3,450
Total liabilities	**906,893**	**796,853**	**+110,040**
Equity attributable to owners of the parent	**297,300**	**287,194**	**+10,106**
Capital/Capital surplus	51,102	51,087	+15
Retained earnings	206,607	191,633	+14,974
Accumulated other comprehensive income	39,591	44,474	-4,883
Non-controlling interests	24,248	23,309	+939
Total equity	**321,548**	**310,503**	**+11,045**
Total liabilities and equity	**1,228,441**	**1,107,356**	**+121,085**

§Management indexes pertaining to assets, liabilities and capital

Ratio of shareholders' equity (*3)	24.2%	25.9%	- 1.7%
Net debt equity ratio (DER) (*4)	1.4 times	1.3 times	+0.1 times

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

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

§Exchange rate information (¥/US$)	FY2018	FY2017
Average rate during period (PL rate)	110.91	110.85
	End March 2019	End March 2018
End of period rate (BS rate)	110.99	106.24

Outline of consolidated financial results in FY2018

Reflecting on the global economy during FY2018, the numerous causes for concern included growing protectionism in many nations, currency anxieties in newly emerging regions, slackened economic growth in China prompted by bilateral trade friction with the United States, fears of economic stagnation in Europe, unstable crude oil price trends and related developments. In spite of that, key nations such as the U.S. sustained firm economic trends, while the newly emerging markets of Southeast Asia and other areas generally grew above their previous fiscal year levels.
Despite a sluggish rate of increase in commodity prices, a series of natural disasters during the summer months and slow growth in personal consumption, the Japanese economy saw capital investment remain steady and construction demand was robust. As a result, the domestic economy was in a general state of expansion during the year under review.
Turning to the steel industry, worldwide crude steel production in 2018 (January to December) was tracked at 1.81 billion tons, up 4.6 percent from the previous year based on figures from the World Steel Association. Contributing factors included strong overall demand in the U.S., China, Southeast Asia and other regions. In Japan, while demand remained generally strong in major sectors such as construction and automobiles, production at certain steel manufacturers was affected by disasters occurring during the summer. As a result, domestic crude steel output for the period under review (April 2018 through March 2019) fell by 1.9 percent from the previous fiscal year to 102.89 million tons (according to figures from the Japan Iron and Steel Federation). This was the second consecutive year-on-year decline for Japanese steel production in this category.
Under this circumstances, MISI's transactions in Japan and the earnings of its domestic business companies matched the levels of the previous year, while its overseas steel pipe business performed well on the strength of a U.S.–focused recovery in energy-related demand. Likewise fueled by bullish U.S. market conditions, the company's construction material business in that nation showed solid earnings.
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Explanation of consolidated statements

1. Total volume of trading transactions and gross profits

The effects of the market's recovery and the rise in steel product prices merged with other factors to push total FY2018 trading transactions up by ¥287 billion over the previous year to ¥2,439.4 billion. Gross profits recorded an ¥17.5 billion year-on-year gain to ¥135.7 billion.

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

Selling, general and administrative expenses during FY2018 grew by ¥3.2 billion from the previous year as a result of factors such as higher personnel expenses. Provisions for doubtful accounts increased by ¥1.9 billion year-on-year. Operating income for the year expanded by ¥12.4 billion over FY2017 to ¥45.3 billion.

3. Profit attributable to owners of the parent

Net interest expenses worsened by ¥3.1 billion compared to FY2017, linked to factors such as the impact of higher U.S. dollar interest rates. Despite favorable developments such as profits accompanying changes in the consolidation method of domestic subsidiaries, the gain/loss figures for investment securities fell by ¥ 0.6 billion under the impact from a lower share of profits from associates and joint ventures. Gain/loss results for other categories were down by ¥1.3 billion from FY2017 under the impact of factors such as deterioration of foreign exchange gains and losses. The share of profits from associates and joint ventures declined by ¥1.2 billion from the previous year, reflecting the impact of performance downturns at overseas affiliates. As a collective result, profit before tax grew by ¥6.2 billion over the previous year, while profit attributable to owners of the parent rose by ¥5.7 billion year-on-year to ¥24.2 billion (after subtracting income taxes and profit attributable to noncontrolling interests).

4. Comprehensive income attributable to owners of the parent

Comprehensive income attributable to owners of the parent during FY2018 improved by ¥4.5 billion over the previous fiscal year, finishing the period at ¥19.3 billion. Factors behind this gain included improved profit attributable to owners of the parent and an increase in the exchange differences at foreign operations under the impact of the yen's depreciation. This gain came despite the decline in net unrealized gains from securities revaluations.

5. Equity attributable to owners of the parent

Equity attributable to owners of the parent at the end of FY2018 was tracked at ¥297.3 billion, up ¥10.1 billion from the previous fiscal year's close. This was the result of an increase in other accumulated comprehensive income affected by the yen's depreciation, accumulated current profits attributable to owners of the parent, and other contributing factors. The ratio of shareholder's equity worsened by 1.7 percent to 24.2 percent, reflecting a total asset increase of ¥121.1 billion to ¥1,228.4 billion linked to increased asset inventory, expanded trade receivables and other dynamics.

6. Interest-bearing liabilities

Gross interest-bearing liabilities at the end of FY2018 totaled ¥468.9 billion, an increase of ¥45.1 billion from the previous fiscal year. Net interest-bearing liabilities rose by ¥40.2 billion compared to the end of FY2017, closing out the fiscal year at ¥422.0 billion. This contributed to a net debt equity ratio of 1.4.

Number of Group companies reporting a profit/loss

		No. of Companies		Profitable and unprofitable companies: a breakdown by numbers		
		End of FY2018	Change from the Previous Term	Profit	Loss	Ratio of Companies Making a Profit
	Domestic	20	-1	20	0	100.0%
	Overseas	52	+1	46	6	88.5%
No. of subsidiaries		72	-	66	6	91.7%
	Domestic	14	+2	14	0	100.0%
	Overseas	28	-	14	14	50.0%
No. of associates and joint ventures		42	+2	28	14	66.7%
Total		114	+2	94	20	82.5%