

# Outline of Consolidated Results of Operations in First Half of FY2004

09-Nov-04

Marubeni-Itochu Steel Inc.

(billions of yen)

Consolidated Statements of Income	Year-on-Year Comparison			(Reference) Non-consolidated Results	
	Results for the First Half of FY2004	Results	Increase/Decrease	First half year of FY2004	Year-on-year Change
Sales	714.67	608.13	106.54	408.99	35.22
Gross profit	45.47	31.84	13.63	11.91	1.29
(Gross profit ratio)	(6.4%)	(5.2%)	(1.1%)	(2.9%)	(0.1%)
Selling, general and administrative expenses	-25.07	-24.02	-1.05	-8.22	0.11
Provision for doubtful accounts	-1.29	-1.33	0.04	-0.27	0.44
Consolidation Adjustment	-0.04	-0.01	-0.03	0.00	0.00
Operating income	19.08	6.48	12.60	3.42	1.84
Net interest income	-1.51	-1.47	-0.04	-0.20	-0.04
Dividend income	0.46	0.36	0.10	1.11	0.31
Equity in earnings of affiliates	1.49	0.93	0.56	0.00	0.00
Other non-operating income	-1.40	0.23	-1.63	-0.54	0.10
Ordinary income	18.11	6.52	11.59	3.79	2.21
Extraordinary gain/loss	-0.69	-0.24	-0.45	0.11	-0.48
Income before income taxes	17.43	6.29	11.14	3.90	1.73
Income taxes	-6.91	-2.75	-4.15	-1.20	-0.24
Minority interests	-0.39	-0.06	-0.33	0.00	0.00
Net income	10.13	3.47	6.66	2.70	1.49

※ Consolidated Non-consolidated ratio: 3.8

§Ratio		(Reference) Non-consolidated Results			
1. Real income (※1)	¥20.8 billion	¥7.62 billion	¥13.18 billion	¥4.6 billion	¥1.67 billion
2. Shareholders' equity (※2)	14.1%	13.3%	0.8%	24.4%	0.1%
3. Net Debt-equity ratio (DER) (※2)	2.7	2.7	-0.1	1.3	0.0

※1 Real income = operating income (except provision for doubtful accounts) + net interest income + dividend income + equity in earnings of affiliates

※2 Regarding the shareholders' equity and net debt-equity ratio, comparisons with the figures as of the end of the preceding fiscal year are shown.

Consolidated Balance Sheet	Comparison with the End of FY2003			(Reference) Non-consolidated Results	
	Results for the First Half of FY2004	Results (04/03)	Change	First half year of FY2004	Change from the end of FY2003
<b>Current assets</b>	<b>463.30</b>	<b>427.46</b>	<b>35.83</b>	<b>201.01</b>	<b>8.96</b>
Cash and its equivalents	19.72	23.87	-4.16	6.51	0.92
Accounts receivable	330.12	310.64	19.48	165.87	3.12
Inventories	93.88	74.92	18.96	16.86	2.42
Other	19.58	18.03	1.56	11.77	2.51
<b>Fixed assets</b>	<b>119.91</b>	<b>115.00</b>	<b>4.91</b>	<b>85.84</b>	<b>5.65</b>
Tangible assets	47.70	47.34	0.36	0.43	0.12
Intangible assets	3.77	3.49	0.29	1.91	0.10
Investments and other assets	68.44	64.18	4.26	83.50	5.44
<b>Total assets</b>	<b>583.21</b>	<b>542.47</b>	<b>40.74</b>	<b>286.86</b>	<b>14.62</b>
<b>Current liabilities</b>	<b>401.39</b>	<b>378.93</b>	<b>22.45</b>	<b>157.04</b>	<b>6.96</b>
Accounts payable	221.67	212.93	8.74	108.20	4.77
Short-term debts	152.52	142.51	10.00	42.95	2.30
Other	27.20	23.49	3.71	5.90	-0.11
<b>Fixed liabilities</b>	<b>97.87</b>	<b>89.37</b>	<b>8.50</b>	<b>59.68</b>	<b>3.90</b>
Long-term debts	84.99	78.23	6.76	55.17	2.45
Other	12.88	11.13	1.75	4.51	1.44
<b>Total liabilities</b>	<b>499.26</b>	<b>468.30</b>	<b>30.96</b>	<b>216.73</b>	<b>10.86</b>
<b>Minority interests</b>	<b>2.00</b>	<b>2.16</b>	<b>-0.16</b>	<b>0.00</b>	<b>0.00</b>
Common stock/Capital surplus	52.37	52.37	0.00	55.92	0.00
Retained earnings	23.71	15.42	8.29	5.28	1.70
Other	5.87	4.22	1.65	8.93	2.06
<b>Total shareholders' equity</b>	<b>81.95</b>	<b>72.01</b>	<b>9.94</b>	<b>70.13</b>	<b>3.76</b>
<b>Total liabilities, minority interests and shareholders' equity</b>	<b>583.21</b>	<b>542.47</b>	<b>40.74</b>	<b>286.86</b>	<b>14.62</b>

## Outline of consolidated results of operations in first half of FY2004

### <Summary>

Japanese steelmakers worked at full capacity to meet increases in domestic demand as well as demand in China and Southeast Asia. Crude steel output during the first half of fiscal 2004 was 56.36 million tonnes, the fourth largest total in history and the most since 56.6 million tonnes in the first half of fiscal 1980. Iron and steel exports reached a high of 17.38 million tonnes. The price of steel products also rose as a result of an increase in global demand (particularly in China and Southeast Asia), a shortage of supply, and a rise in the costs of energy and the materials needed for iron and steel production. The Company's consolidated net income for the period was ¥10.1 billion, which not only exceeded the half-year target of ¥4.5 billion, but also the full-year target of ¥7.5 billion and the target of ¥10 billion (full-year) projected under the medium-term management program ending in fiscal 2005. This came about partly because the liquidation of inferior assets was almost completed by fiscal 2003 and because of improvements in the business environment as evidenced by, among other factors, the improved steel market.

### <Explanation for consolidated statements>

#### 1. Gross profit

During the term under review, both the company (non-consolidated) and domestic and overseas companies did well, and, as a result of the conversion of a domestic steel pipe company into a consolidated subsidiary, consolidated sales increased by ¥106.5 billion (17.5%) to ¥714.7 billion. Gross profit on sales totaled ¥45.5 billion, a year-on-year increase of ¥13.6 billion or 42.8%. The gross profit ratio improved by 1.1 percentage point year on year (the result of the term under review was 6.4%).

#### 2. Operating income

Selling, general and administrative expenses (SG&A) during the term under review, including the appropriation of funds to the doubtful account reserve, came to ¥26.4 billion. On a non-consolidated basis, SG&A decreased in terms of personnel expenses and the appropriation of funds to the doubtful account reserve, etc., but on a consolidated basis, they increased as a result of the incorporation of expenses due to the conversion of a domestic steel pipe company into a consolidated subsidiary and the incorporation of reserves against doubtful debt and a claim in the rehabilitation of a bankrupt company. Compared with the corresponding period of the preceding year, there was an increase of ¥1.0 billion (4.1%). After subtracting SG&A, operating income amounted to ¥19.1 billion, an increase of ¥12.6 billion (194.4%) over the corresponding period of the preceding year.

#### 3. Ordinary income

In terms of non-operating profit and loss, expenses at overseas companies increased. Gains in investment in affiliates to which the equity method is applied increased by ¥0.6 billion to ¥1.5 billion. This came about in part because affiliates to which the equity method is applied did well, as did consolidated subsidiaries, and due to an increase in dividend income (a rise of ¥0.1 billion over the corresponding period of the preceding year to ¥0.5 billion). As a result, ordinary profits totaled ¥18.1 billion, showing a year-on-year increase of ¥11.6 billion or 177.7%.

#### 4. Net income before income taxes

Regarding extraordinary gains and losses, an extraordinary gain of ¥340 million in the selling of portfolio securities, etc., was registered, and a loss of ¥120 million from the sale of fixed assets was seen in addition to a loss of ¥250 million through asset impairment accounting, which is being applied ahead of schedule. Thus, dispositions were carried out for the improvement of efficiency regarding assets. On a non-consolidated basis, the extra severance benefits for employees who retired before the mandatory retirement age (¥450 million) was registered. Net income for the term under review came to ¥10.1 billion after subtracting income tax, etc. (¥6.9 billion), including the tax effect on non-distributed profits of consolidated subsidiaries (which were starting to be registered during the term under review) and profit in minority interests (¥0.4 billion). Thus, net income for the term greatly exceeded the ¥3.5 billion for the corresponding period of the preceding year.

#### 5. Shareholders' equity

Shareholders' equity at the end of the half-year term under review stood at ¥82.0 billion, an increase of ¥9.9 billion from the end of the preceding fiscal year. The rise was mainly due to an increase in the consolidated surplus brought about by a sharp increase in earnings, as well as a rise in the appraisal value of portfolio securities resulting from the firm condition of the stock market. The consolidated net worth ratio was 14.1%, a rise of 0.8 of a point over the end of the preceding fiscal year.

#### 6. Interest-bearing liabilities

The balance of consolidated interest-bearing liabilities at the end of the half-year term under review was ¥237.5 billion, an increase of ¥16.8 billion over the end of the preceding fiscal year. The increase was due to a growing demand on funds accompanying a sharp rise in trading volume at an American affiliate and the purchase of a light gauge steel framing manufacturer. The balance of non-consolidated interest-bearing liabilities and those at other subsidiaries were generally unchanged from the preceding year's levels.

### <Number of consolidated companies and the ratio of companies in the black>

	Number of companies	Change from previous term			Profitable ratio	
		Change in number	Profitable	Unprofitable		
Subsidiaries	Overseas Corporate subsidiaries	13	0	13	100.0%	
	Domestic companies	28	-1	27	1	96.4%
	Overseas companies	27	0	25	2	92.6%
	<b>Total</b>	<b>68</b>	<b>-1</b>	<b>65</b>	<b>3</b>	<b>95.6%</b>
Affiliates	Domestic companies	20	-2	18	2	90.0%
	Overseas companies	17	-1	17	0	100.0%
	<b>Total</b>	<b>37</b>	<b>-3</b>	<b>35</b>	<b>2</b>	<b>94.6%</b>
<b>Total</b>	<b>105</b>	<b>-4</b>	<b>100</b>	<b>5</b>	<b>95.2%</b>	

### <Details of profit and loss in first half of consolidated subsidiaries/net income>

		Net income
Parent company (adjusted)		0.6 billion
Consolidated subsidiaries		8.84 billion
Overseas subsidiaries		4.13 billion
Other subsidiaries		4.71 billion
Equity method-applied companies		0.70 billion
<b>Total</b>		<b>10.13 billion</b>

### <Prospect for fiscal 2004 on consolidated basis>

		Change from the previous term
Net income	15.00 billion	+8.72 billion