

Outline of Consolidated Financial Results in First Half of FY2005

27-Oct-05

Marubeni-Itochu Steel Inc.

(billions of yen)

Statements of Consolidated Income	Results for the First Half of FY2005	Year-on-Year Comparison		(Reference) Non-consolidated Results	
		Results	Change	First half year of FY2005	Year-on-year Change
Sales	837.3	714.7	122.6	503.8	94.8
Gross profit	53.2	45.5	7.7	16.9	5.0
(Gross profit ratio)	(6.4%)	(6.4%)	(0%)	(3.4%)	(0.5%)
Selling, general and administrative expenses	27.5	25.1	2.4	8.2	0
Provision for doubtful accounts	0.2	1.3	1.1	0	0.2
Amortization of goodwill	0	0	0	-	-
Operating income	25.4	19.1	6.4	8.7	5.3
Net interest income	2.2	1.5	0.7	0.2	0
Dividend income	0.7	0.5	0.2	1.4	0.3
Equity in earnings of affiliates	1.9	1.5	0.4	-	-
Other non-operating income	0.8	1.4	0.6	0.8	0.3
Ordinary income	25.1	18.1	7.0	9.1	5.3
Extraordinary gain and loss	5.2	0.7	5.8	3.8	3.7
Income before taxes	30.2	17.4	12.8	12.9	9.0
Income taxes	10.7	6.9	3.8	4.5	3.3
Minority interests	0.6	0.4	0.2	-	-
Net income	19.0	10.1	8.9	8.4	5.7

Outline of consolidated financial results in first half of FY2005

< Summary >

Supported by robust demand for steel, the Company recorded gains in both the income and profit compared to the first half of the previous fiscal year. Consolidated sales finished at ¥837.3 billion, up 17% from the first half of FY2004. Consolidated net income jumped 1.9-fold compared to the first half of last year to ¥19.0 billion, thus bettering during the first half alone the target net income of ¥18.5 billion budgeted for fiscal 2005. On a non-consolidated basis, the Company's sales rose by 23% over the first half of the year before to ¥503.8 billion, while net income expanded 3.1-fold to ¥8.4 billion, showing the strong profit tone of the company (non-consolidated). The performances of consolidated subsidiaries & affiliates were also vigorous, with the ratio of these profitable firms improving to 96.2% from the 94% recorded the previous fiscal year. Although the first half produced these favorable results, the outlook for the second half business environment is uncertain. Considering these factors, the full-year Management Plan for consolidated net income in fiscal 2005 has been adjusted upward to ¥28.0 billion (up from the original ¥18.5 billion announced at the start of the year).

< Explanation for consolidated statements >

1. Gross profit

During the first half under review, while market conditions in the United States experienced a downturn, a positive environment characterized by strong demand continued overall both in Japan and overseas. The company (non-consolidated), as well as domestic and overseas consolidated subsidiaries, turned in favorable results, with group-wide sales rising ¥122.6 billion over the first half last year to reach ¥837.3 billion.

Gross profit mirrored these consolidated sales results, with the profit gains at both the company (non-consolidated) and its consolidated subsidiaries pushing up that profit total by ¥7.7 billion over the first half of FY2004 to reach ¥53.2 billion.

2. Operating income

Total selling, general and administrative expenses during the first half of FY2005, including provisions for doubtful accounts, came to ¥27.7 billion. Though improvements were recorded in provisions for the doubtful account versus the first half of last year, the final figures were impacted by the incorporation of expenses accompanying the addition of new consolidated subsidiaries and an increase in personnel expenses. On an overall consolidated basis, therefore, expenses were up by ¥1.3 billion over the first half of FY2004. As a result, operating income, after subtracting the selling, general and administrative expenses, was ¥25.4 billion, a gain of ¥6.4 billion over the same period last year.

3. Ordinary income

Under non-operating income and expenses, the growth in interest-bearing liabilities accompanying increased business transactions, as well as the rise in U.S.-dollar-based interest rates, produced a worsening in net interest income compared to the first half of the previous year. However, in addition to an increase in dividend income from general investments, affiliates both in Japan and abroad to which the equity method is applied turned in solid performances, along the lines of those charted by consolidated subsidiaries, generating growth in the equity in earnings of affiliates. As result, ordinary income was ¥25.1 billion, a gain of ¥7.0 billion over the first half of FY2004.

4. Net income

Examining extraordinary gains and losses, extraordinary profits of ¥5.6 billion resulted from gains on sales of ¥4.2 billion from investment securities and other sources. However, the extraordinary loss of ¥0.4 billion from loss on disposal of fixed assets reduced the net value of this profit to ¥5.2 billion.

Net income for the first half, after subtracting ¥10.7 billion in corporate taxes and ¥0.6 billion in minority interests, came in at ¥19.0 billion, an advance of ¥8.9 billion over the first half of FY2004.

5. Shareholders' equity

Shareholder's equity at the end of the first half was ¥112.7 billion, up ¥19.0 billion compared to the end of the previous fiscal year. In addition to the rise in retained earnings, factors contributing to this outcome included a gain in the net unrealized gains on securities buoyed by solid conditions in the stock market (up ¥2.0 billion from the end of FY2004), as well as a rise in the foreign currency translation adjustment value linked to the weak-yen/strong-dollar tone (up ¥1.9 billion from the end of FY2004).

As a result, the consolidated shareholder's equity ratio was 16.9%, an improvement of 2.5 points compared to the level at the end of the previous fiscal year.

6. Net interest bearing liabilities

Net interest-bearing liabilities for the half-year under review were ¥238.1 billion, an increase of ¥20.3 billion compared to the end of FY2004. In spite of the dissipation of the trend for rising demand for funds from a U.S. Corporate Subsidiary during the previous fiscal year, there was a higher fund demand accompanying increased transaction volume at the Company (non-consolidated), overseas steel pipe subsidiaries and other subsidiaries. While net interest-bearing liabilities grew, the net debt equity ratio (DER) was 2.1 times, a 0.2-point improvement from the end of the previous fiscal year.

< Number of consolidated companies >

	Number of companies	Change from the previous term	Profitable	Unprofitable	Profitable ratio
Subsidiaries	Overseas Corporate subsidiaries	21	0	21	100.0%
	Domestic companies	30	1	29	96.7%
	Overseas companies	19	1	17	89.5%
	Total	70	2	67	95.7%
Affiliates	Domestic companies	18	1	17	94.4%
	Overseas companies	18	1	18	100.0%
	Total	36	0	35	97.2%
Total	106	2	102	4	96.2%

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

	Net income
Non-consolidated figure adjusted for consolidation	¥6.0 billion
Consolidated subsidiaries	¥11.8 billion
Overseas Corporate Subsidiaries	¥5.1 billion
Other subsidiaries	¥6.7 billion
Equity method-applied companies	¥1.3 billion
Total	¥19.0 billion

< Forecast for Fiscal Year 2005 (adjusted) > (on a consolidated basis)

		Change from the previous term
Sales	¥1,600 billion	+¥73.9 billion
Net income	¥28.0 billion	+¥8.5 billion

§Ratio

	1. Real income (1)	2. Ratio of Shareholders' equity (2)	3. Net Debt-equity ratio (DER) (2)
Results for the First Half of FY2005	¥26.1 billion	16.9%	2.1 times
Comparison with the End of FY2004 Results (05/03)	¥20.8 billion	14.4%	2.3 times
Change	¥5.3 billion	2.5%	0.2 times
(Reference) Non-consolidated Results	¥9.9 billion	24.3%	1.3 times
Change from the end of FY2004	¥5.3 billion	0.4%	0.1 times

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

	Results for the First Half of FY2005	Comparison with the End of FY2004		(Reference) Non-consolidated Results	
		Results (05/03)	Change	First half year of FY2005	Change from the end of FY2004
Current assets	537.4	528.5	8.9	247.2	18.2
Cash and deposits	21.2	27.4	6.2	3.8	6.8
Accounts receivable	344.4	348.2	3.8	198.9	9.7
Inventories	138.7	126.5	12.2	28.2	9.5
Other	33.1	26.3	6.8	16.4	5.8
Fixed assets	130.3	123.1	7.2	93.3	4.0
Tangible assets	50.6	48.3	2.3	0.4	0
Intangible assets	4.5	3.9	0.6	2.3	0.2
Investments and other assets	75.3	71.0	4.3	90.6	3.8
Total assets	667.8	651.7	16.1	340.5	22.2
Current liabilities	463.2	467.2	4.0	218.4	15.9
Accounts payable	236.8	258.3	21.5	130.2	3.1
Short-term debts	189.3	173.1	16.2	77.2	11.6
Other	37.1	35.8	1.3	11.0	1.3
Fixed liabilities	88.6	88.0	0.5	39.2	0.4
Long-term debts	70.0	72.1	2.1	30.2	2.1
Other	18.6	15.9	2.7	9.1	1.7
Total liabilities	551.8	555.2	3.5	257.6	15.5
Minority interests	3.4	2.8	0.6	-	-
Common stock/Capital surplus	52.4	52.4	0	55.9	0
Retained earnings	47.4	32.2	15.1	12.8	4.6
Other	12.9	9.0	3.9	14.2	2.0
Total shareholders' equity	112.7	93.7	19.0	82.8	6.6
Total liabilities, minority interests and shareholders' equity	667.8	651.7	16.1	340.5	22.2