

# Outline of Consolidated Financial Results in FY2005

(in billions of yen)

April 25, 2006

Marubeni-Itochu Steel Inc.

Statements of consolidated income	FY2005 Results	Comparison with FY2004		(Reference) Non-consolidated results	
		Results	Change	FY2005 Results	Change
Sales	1,697.5	1,526.1	171.4	1,010.5	125.7
Gross profits	104.1	93.4	10.7	31.7	5.5
(Gross profit ratio)	(6.1%)	(6.1%)	(0.0%)	(3.1%)	(0.2%)
Selling, general and administrative expenses	-55.8	-51.7	-4.1	-14.7	1.5
Provision for doubtful accounts	-1.1	-1.6	0.6	-0.1	0.6
Amortization of goodwill	-0.1	-0.1	0	-	-
Operating income	47.1	40.0	7.1	16.9	7.6
Net interest income	-4.8	-3.5	-1.3	-0.4	-0.1
Dividend income	1.0	0.9	0.1	5.3	2.0
Equity in earnings of affiliates	3.9	2.8	1.1	-	-
Other non-operating income	-1.3	-0.7	-0.6	-2.1	-1.3
Ordinary income	46.0	39.5	6.4	19.7	8.2
Extraordinary gain and loss	5.4	-4.1	9.6	5.6	5.9
Income before taxes	51.4	35.4	16.0	25.3	14.1
Income taxes	-18.8	-15.0	-3.8	-8.9	-4.1
Minority interests	-0.7	-0.9	0.2	-	-
Net income	31.9	19.5	12.4	16.3	10.0

## Outline of consolidated financial results in FY2005

### < Summary >

Under the medium-term management program launched in 2003, the Company has made steady progress in disposing of doubtful assets, strengthening risk management and otherwise establishing a solid financial foundation through strategically mobilization in core fields. During FY2005, the final year of this plan, the effects of these measures overlapped with the rise in the steel products market, accompanied by growth in the global economy and recovery in the Japanese domestic economy. As a result, the Company's earnings far exceeded the original target. Non-consolidated sales increased by ¥125.7 billion over the previous fiscal year, rising above ¥1 trillion (¥1.0105 trillion) for the first time since the Company's inception. The performances of companies included in the consolidated settlement were also strong, with consolidated sales gaining ¥171.4 billion over FY2004 to reach ¥1,697.5 billion. As a result, consolidated gross profits climbed by ¥10.7 billion over the previous year to surpass the ¥100 billion line (¥104.1 billion). Selling, general and administrative expenses, as well as net interest income, increased over the year before, with ordinary income rising by ¥6.4 billion. Extraordinary gains and losses also increased, further helping to push consolidated net income for the year up by ¥7.1 billion over the previous year to ¥31.9 billion. These factors combined to raise shareholder's equity over ¥100 billion for the first time (¥134.9 billion). This contributed to ongoing improvements in key business benchmarks, with the return on assets (ROA) rising 1.5 points to 4.7%, the ratio of shareholders' equity by 5.0 points to 19.4% and the net debt equity ratio (DER) by 0.6 points to 1.7 times. The bottom line was a further boost for the Company's earnings structure and financial foundation.

### < Explanation of consolidated statements >

#### 1. Sales and gross profit

During FY2005, although declines were recorded in the United States and certain other markets, a positive overall environment continued to be supported by solid demand both in Japan and overseas. Under this market environment, both the non-consolidated base and its consolidated subsidiaries again posted strong results, with consolidated sales rising by ¥171.4 billion over the previous year to ¥1,697.5 billion. Gross profits also advanced over FY2004, gaining ¥10.7 billion to reach ¥104.1 billion, supported by the strength of growth in non-consolidated earnings, expanded earnings by overseas steel pipe subsidiaries and other progress.

#### 2. Operating income

For the year in review, selling, general and administrative expenses, including provisions for doubtful accounts, amounted to ¥57.0 billion. While improvements were made in provisions for doubtful accounts compared to the previous year, the final figures were impacted by an increase in personnel expenses at consolidated subsidiaries and the incorporation of expenses accompanying the addition of new consolidated subsidiaries. As a result, aggregate costs rose by ¥3.6 billion. Operating income, after subtracting these selling, general and administrative expenses, finished at ¥47.1 billion, an increase of ¥7.1 billion over the previous year.

#### 3. Ordinary income

Under non-operating income and expenses, net interest income worsened by ¥1.3 billion from the previous year, stemming from an increase in interest-bearing debt accompanying expanded business transactions, and the rise in U.S. dollar interest rates. However, strong results were posted by both domestic and overseas affiliates for which the equity method is applied, as well as for the non-consolidated base and its consolidated subsidiaries, with equity in earnings of affiliates increasing. In summary, ordinary income for the year totaled ¥46.0 billion, up ¥6.4 billion from the year before.

#### 4. Net income

Under extraordinary gains and losses, while the Company listed extraordinary gains due to profits from sales of investment securities (¥5.0 billion), reversals of provisions for doubtful accounts and other sources, it also listed extraordinary losses from the disposal of fixed assets (¥0.3 billion) and re-structured asset efficiency. In the end, ¥5.4 billion in gains were recorded. Net income for the year, after subtracting corporate taxes, but including the tax effects on undistributed earnings of consolidated subsidiaries and affiliates (¥18.8 billion) and minority shareholder interests (¥0.7 billion), was ¥31.9 billion, a slight decline from the high income level recorded during the first half. For the full year, however, net income posted a solid gain of ¥12.4 billion over FY2004.

#### 5. Shareholders' equity

The Company's shareholder equity for FY2005 was ¥134.9 billion, an increase of ¥41.3 billion over the previous year. The main factors behind this gain included the increase in retained earnings, as well as the rise in net evaluations of investment securities and improvement in the foreign currency translation adjustment linked to the weak-yen/strong-dollar tone. As a result, the Company's consolidated ratio of shareholders' equity at the end of FY2004 also improved to 19.4%, up 5.0 points from the end of the previous year.

#### 6. Net interest-bearing liabilities

Net interest-bearing liabilities for FY2005 totaled ¥226.6 billion, an increase of ¥8.9 billion over the end of the previous year. While the trend of increased capital demand at the U.S. corporate subsidiary recorded in the previous year dissipated, the growth in capital demand accompanying the increased transaction value of the non-consolidated base and its overseas steel pipe subsidiaries led to the rise in liabilities. Although net interest-bearing liabilities increased as mentioned, the net debt equity ratio (DER) improved by 0.6 points over the year before, falling to 1.7-fold.

§Ratio		FY2005 Results		Comparison with FY2004		(Reference) Non-consolidated results	
		Results	Change	FY2005 Results	Change	FY2005 Results	Change
1. Real income (* 1)		48.3	41.9	6.5		21.8	8.9
2. Return on assets (ROA)		4.7%	3.3%	1.5%		4.9%	2.8%
3. Ratio of shareholders' equity		19.4%	14.4%	5.0%		27.3%	3.3%
4. Net debt equity ratio (DER)		1.7 times	2.3 times	-0.6 times		1.0 times	-0.1 times

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

Consolidated Balance Sheet	FY2005 Results	Comparison with FY2004		(Reference) Non-consolidated results	
		Results (05/03)	Change	FY2005 Results	Change
Current assets	553.3	528.5	24.7	247.3	18.3
Cash and deposits	26.2	27.4	-1.2	5.1	-5.5
Accounts receivable	361.3	348.2	13.0	204.8	15.7
Inventories	143.5	126.5	17.0	24.7	6.0
Other	22.3	26.3	-4.0	12.7	2.1
Fixed assets	143.5	123.1	20.3	100.6	11.3
Tangible assets	52.5	48.3	4.2	0.6	0.2
Intangible assets	4.9	3.9	1.0	2.1	0.1
Investments and other assets	86.1	71.0	15.1	97.9	11.1
Total assets	696.7	651.7	45.1	347.9	29.6
Current liabilities	433.5	467.2	-33.7	178.2	-24.2
Accounts payable	244.2	258.3	-14.0	125.3	-1.8
Short-term debts	150.9	173.1	-22.1	41.1	-24.5
Other	38.3	35.8	2.4	11.8	2.0
Fixed liabilities	125.0	88.0	37.0	74.8	35.2
Long-term debts	101.9	72.1	29.8	62.3	30.1
Other	23.2	15.9	7.2	12.5	5.1
Total liabilities	558.5	555.2	3.3	253.1	11.0
Minority interests	3.3	2.8	0.5	-	-
Common stock/Capital surplus	52.4	52.4	0	55.9	0
Retained earnings	61.1	32.2	28.9	20.7	12.5
Other	21.5	9.0	12.4	18.3	6.1
Total shareholders' equity	134.9	93.7	41.3	94.9	18.6
Total liabilities, minority interests and shareholders' equity	696.7	651.7	45.1	347.9	29.6

### < Number of consolidated companies >

	No. of companies	% change from previous year-end	Companies in black	Companies in red	Ratio of companies in black
Consolidated					
Overseas corporate subsidiaries	21	0	21	0	100.0%
Domestic subsidiaries	32	3	31	1	96.9%
Overseas subsidiaries	19	1	16	3	84.2%
(No. of consolidated subsidiaries)	72	4	68	4	94.4%
Equity					
Domestic companies	17	-2	16	1	94.1%
Overseas companies	17	0	17	0	100.0%
(No. of equity method-applied companies)	34	-2	33	1	97.1%
(No. of consolidated subsidiaries and affiliates)	106	2	101	5	95.3%

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

	FY2005 Net income	
		Change from previous year
Non-consolidated figure adjusted for consolidation	¥9.2 billion	¥7.7 billion
Consolidated subsidiaries	¥20.5 billion	¥3.9 billion
Overseas corporate subsidiaries	¥8.0 billion	¥0.3 billion
Other subsidiaries	¥12.5 billion	¥3.6 billion
Equity method-applied companies	¥2.2 billion	¥0.8 billion
Total	¥31.9 billion	¥12.4 billion

### < Management plan for FY2006 >

(on a consolidated basis)

	FY2006 Plan	
		Change from FY2005
Sales	¥1,800 billion	¥102.5 billion
Gross profits	¥101.4 billion	-¥2.7 billion
Ordinary income	¥37.7 billion	-¥8.3 billion
Net income	¥22.5 billion	-¥9.4 billion