

# Outline of Financial Results in First Half of FY2006

(in billions of yen)

October 26, 2006

Marubeni-Itochu Steel Inc.

Statements of consolidated income	Results for the First Half of FY2006			Year-on-Year Comparison			(Reference) Non-consolidated Results	
	Results	Change (*3)		First half year of FY2006	Year-on-year Change (*3)			
Sales	916.8	837.3	79.6	543.3	39.7			
Gross profits	<b>57.8</b>	<b>53.1</b>	<b>4.7</b>	<b>17.4</b>	<b>1.5</b>			
(Gross profit ratio)	(6.3%)	(6.3%)	(-0.0%)	(3.2%)	(0.0%)			
Selling, general and administrative expenses	-29.8	-27.3	-2.5	-7.7	-0.3			
Provision for doubtful accounts	-0.1	-0.2	0.1	0	0			
Amortization of goodwill	-0	-0	0	-	-			
Operating income	<b>27.8</b>	<b>25.4</b>	<b>2.4</b>	<b>9.7</b>	<b>1.2</b>			
Net interest income	-2.6	-2.2	-0.4	0.2	0.4			
Dividend income	0.7	0.7	-0	1.9	0.5			
Equity in earnings of affiliates	2.0	1.9	0.1	-	-			
Other non-operating income	-0.2	0.8	0.6	-0.5	0.1			
Ordinary income	<b>27.7</b>	<b>25.1</b>	<b>2.6</b>	<b>11.2</b>	<b>2.2</b>			
Extraordinary gain and loss	1.2	5.2	-4.0	-2.0	-5.9			
Income before taxes	<b>28.9</b>	<b>30.2</b>	<b>-1.4</b>	<b>9.2</b>	<b>-3.7</b>			
Income taxes	-10.2	-10.7	0.5	-3.8	0.7			
Minority interests	-0.3	-0.6	0.3	-	-			
Net income	<b>18.4</b>	<b>19.0</b>	<b>-0.6</b>	<b>5.5</b>	<b>-3.0</b>			

## Outline of consolidated financial results in first half of FY2006

### <Summary>

During the first half of the current fiscal year, which marks the first year of the new medium-term management program, the Company recorded solid progress in an environment characterized by favorable supply and demand conditions for steel products. Consolidated sales finished at ¥916.8 billion, an increase of ¥79.6 billion over the first half of the previous fiscal year, while ordinary income rose by ¥2.6 billion to reach ¥27.7 billion. With fewer extraordinary gains listed during the period under review compared to the first half of the previous fiscal year, consolidated net income declined by ¥0.6 billion.

The outlook for the second half is clouded by the strengthened sense of a slowdown in the U.S. economy and other uncertainties. Based on this and other factors, the forecast is that second half consolidated net income will finish below the first half at ¥14.0 billion, while the total will climb to ¥32.4 billion for the full year (exceeding the initial target of ¥22.5 billion).

### <Explanation of consolidated statements>

#### 1. Gross profit

The business environment during the first half of FY2006 was generally favorable and fueled by expansion in demand. The steel market continued to be robust both in Japan and overseas. Against this backdrop, the Company (non-consolidated), as well as domestic and overseas consolidated subsidiaries, continued to turn in favorable results, with group-wide sales rising by ¥79.6 billion over the first half of last year to ¥916.8 billion. The gross profit reflected these sales results, with gains, posted at both the Company (non-consolidated) and its domestic and overseas subsidiaries, lifting aggregate profit by ¥4.7 billion over the first half of the previous fiscal year to ¥57.8 billion.

#### 2. Operating income

Increased personnel expenses at consolidated subsidiaries, rising miscellaneous sales expenses and other factors had an impact on total selling, and administrative and general expenses, during the first half of FY2006, including provisions for doubtful accounts. Costs on an overall consolidated basis increased by ¥2.4 billion over the first half of the previous fiscal year to ¥29.9 billion. As a result, operating income, after subtracting the selling, general and administrative expenses, was ¥27.8 billion, a gain of ¥ 2.4 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, as a result of an increase in equity in earnings of affiliates and a drop in other non-operating expenses, overall non-operating income and expenses rose by ¥0.3 billion compared to the first half of last year. As a result, ordinary income was ¥27.7 billion, a gain of ¥2.6 billion over the first half of FY2005.

#### 4. Net income

Examining extraordinary gains and losses, profits from the sale of fixed assets, reversal of allowance for doubtful accounts and other sources, produced a net profit figure of ¥1.2 billion. Net income for the first half, after subtracting corporate taxes and minority interests, came in at ¥18.4 billion, a decline of ¥0.6 billion from the first half of FY2005.

#### 5. Net assets

While net assets at the end of the first half was supported by the rise in retained earnings, negative factors included a decrease in net unrealized gains on securities (down by ¥4.1 billion compared to the end of the previous fiscal year) prompted by a weakened stock market. The final figure was ¥139.2 billion, an increase of ¥1.0 billion compared to the end of the previous fiscal year. As a result, the consolidated shareholder's equity ratio was 18.3%, which represents a worsening of 1.1 points from the level at the end of the previous fiscal year due to an increase in gross capital.

#### 6. Net interest-bearing liabilities

The net interest-bearing liability balance for the first half was ¥252.6 billion, an increase of ¥26.0 billion compared to the end of the previous fiscal year. This is the result of increased demand for funds accompanying growth in transaction volume at the U.S. affiliate and overseas subsidiaries. The net debt equity ratio (DER) was 1.9 times, a 0.2-point worsening from the end of the previous fiscal year due to this increase in net interest-bearing liabilities.

§Ratio	Results for the First Half of FY2006	Comparison with the End of FY2005	(Reference) Non-consolidated Results
1. Real income (*1)	¥28.0 billion	¥26.1 billion	¥1.9 billion
2. Ratio of shareholder's equity (*2)	18.3%	19.4%	-1.1%
3. Net debt equity ratio (DER) (*2)	1.9 times	1.7 times	0.2 times

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

\*2 Regarding the shareholder's equity and net debt-equity ratio, comparisons with the figures as of the end of the preceding fiscal year are shown. (Shareholder's equity = total net assets - minority interests)

\*3 As for Year-on-year Change, the increase/decrease is indicated based on the figures for the previous year, in which there was a reclassification of the items included.

Consolidated Balance Sheet	Results for the First Half of FY2006			Comparison with the End of FY2005			(Reference) Non-consolidated Results	
	Results (06/03)	Change (*1)		First half year of FY2006	Change from the end of FY2005 (*1)			
Current assets	<b>599.8</b>	<b>553.2</b>	<b>46.5</b>	<b>255.6</b>	<b>8.4</b>			
Cash and deposits	25.3	26.2	-0.9	4.7	-0.4			
Accounts receivable	396.1	361.3	34.8	214.7	9.9			
Inventories	148.8	143.5	5.3	20.6	-4.1			
Other	29.6	22.3	7.4	15.6	2.9			
Fixed assets	<b>141.7</b>	<b>143.5</b>	<b>-1.8</b>	<b>93.5</b>	<b>-7.1</b>			
Tangible assets	53.8	52.5	1.3	0.6	0			
Intangible assets	6.7	4.9	1.8	1.8	-0.3			
Investments and other assets	81.2	86.1	-4.8	91.1	-6.8			
Total assets	<b>741.4</b>	<b>696.7</b>	<b>44.7</b>	<b>349.1</b>	<b>1.2</b>			
Current liabilities	<b>484.1</b>	<b>432.5</b>	<b>51.6</b>	<b>196.5</b>	<b>19.3</b>			
Accounts payable	256.9	244.2	12.6	130.4	5.1			
Short-term debts	180.6	149.9	30.7	51.8	11.7			
Other	46.5	38.3	8.3	14.3	2.5			
Fixed liabilities	<b>118.2</b>	<b>126.0</b>	<b>-7.9</b>	<b>68.5</b>	<b>-7.4</b>			
Long-term debts	97.2	102.9	-5.7	58.0	-5.3			
Other	21.0	23.2	-2.2	10.5	-2.0			
Total liabilities	<b>602.2</b>	<b>558.5</b>	<b>43.7</b>	<b>265.0</b>	<b>11.9</b>			
Common stock/Capital surplus	52.4	52.4	0	55.9	0			
Retained earnings	66.5	61.1	5.4	13.1	-7.5			
Minority interests	3.7	3.3	0.4	-	-			
Other	16.6	21.4	-4.8	15.1	-3.1			
Total shareholders' equity	<b>139.2</b>	<b>138.2</b>	<b>1.0</b>	<b>84.1</b>	<b>-10.7</b>			
Total liabilities and total shareholders' equity	<b>741.4</b>	<b>696.7</b>	<b>44.7</b>	<b>349.1</b>	<b>1.2</b>			

\*1 As for Year-on-year Change, the increase/decrease is indicated based on the figures for the previous year, in which there was a reclassification of the items included.

### <Number of consolidated companies>

	No. of companies	No. of companies			Ratio of companies in black
		Change from the previous term	Companies in black	Companies in red	
Consolidated	Overseas corporate subsidiaries	24	3	24	100.0%
	Domestic subsidiaries	30	-2	30	100.0%
	Overseas subsidiaries	19	0	16	84.2%
(No. of consolidated subsidiaries)	73	1	70	95.9%	
Equity	Domestic subsidiaries	18	1	17	94.4%
	Overseas subsidiaries	18	1	16	88.9%
(No. of equity method-applied companies)	36	2	33	91.7%	
(No. of consolidated subsidiaries and affiliates)	109	3	103	94.5%	

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

	Net income	
	Year-on-year change	
Non-consolidated figure adjusted for consolidation	¥5.7 billion	-¥0.3 billion
Consolidated subsidiaries	¥11.5 billion	-¥0.2 billion
Overseas corporate subsidiaries	¥3.8 billion	-¥1.3 billion
Other subsidiaries	¥7.8 billion	¥1.1 billion
Equity method-applied companies	¥1.2 billion	-¥0 billion
Total	¥18.4 billion	-¥0.6 billion

### <Forecast for fiscal 2006 > (on a consolidated basis)

	Forecast for FY2006	
	Change from beginning of FY2006	
Sales	¥1,850 billion	+¥50.0 billion
Net income	¥32.4 billion	+¥9.9 billion