

Consolidated Financial Results for the 1st Half of FY2011 (April 1 to September 30)

October 28, 2011

Marubeni-Itochu Steel Inc.

(Unaudited)

(Unit: Millions of Yen)

Statements of Consolidated Income	FY2011 1H Results	FY2010 1H Results	Change	(Reference) Non-consolidated Results		
				FY2011 1H Results	FY2010 1H Results	Change
Sales	840,782	774,056	66,727	553,949	517,423	36,527
Gross profits	46,121	41,026	5,095	14,819	14,388	431
Gross profit ratio	5.5%	5.3%	0.2%	2.7%	2.8%	-0.1%
Selling, general and administrative expenses	(28,642)	(27,667)	-975	(8,728)	(8,282)	-446
Provision for doubtful accounts	(66)	(343)	277	-	(158)	158
Amortization of goodwill	(6)	(63)	57	-	-	-
Operating income	17,407	12,954	4,453	6,091	5,948	143
Net interest expenses	(1,330)	(1,221)	-109	(249)	(197)	-52
Dividend income	599	577	22	3,930	3,804	126
Equity in earnings of affiliates	640	964	-324	-	-	-
Other non-operating income and loss	708	558	150	22	16	5
Ordinary income	18,024	13,832	4,192	9,794	9,572	223
Extraordinary gain and loss	(156)	(3,168)	3,012	226	(2,983)	3,209
Income before taxes	17,868	10,664	7,204	10,020	6,588	3,431
Income taxes	(4,105)	(3,949)	-156	(1,132)	(2,656)	1,524
Net income before minority interests	13,763	6,715	7,048	8,888	3,932	4,956
Minority interests	(731)	(299)	-432	-	-	-
Net income	13,033	6,417	6,616	8,888	3,932	4,956

Consolidated Comprehensive Income Statement	FY2011 1H Results	FY2010 1H Results	Change
Net income before minority interests	13,763	6,715	7,048
Net unrealized gains on securities	(2,879)	(1,507)	-1,371
Foreign currency translation adjustments	465	(3,647)	4,112
Other	85	(205)	290
Comprehensive income	11,435	1,356	10,079
Comprehensive income attributable to owners of the parent company	10,506	1,185	9,321
Comprehensive income attributable to minority interests	929	171	758

§Ratio

1. Real income (*1)	17,389	13,680	3,709	9,772	9,713	59
2. Ratio of shareholder's equity (*2)	21.9%	22.3%	-0.4%	22.1%	23.1%	-1.0%
3. Net debt equity ratio (DER) (*2)	1.7 times	1.6 times	0.1 times	1.9 times	1.7 times	0.3 times

*1 Real income = operating income (except provision for doubtful accounts and amortization of goodwill) + 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)

Consolidated Balance Sheet	FY2011 1H Results	FY2010 Results	Change	(Reference) Non-consolidated Results		
				FY2011 1H Results	FY2010 Results	Change
Current assets	604,226	570,921	33,305	305,015	283,431	21,584
Cash and deposits	31,968	24,892	7,076	9,389	11,105	-1,716
Accounts receivable	382,321	373,376	8,945	225,477	217,087	8,391
Inventories	152,940	140,688	12,252	29,683	27,540	2,143
Other	36,998	31,966	5,032	40,465	27,699	12,766
Fixed assets	132,756	134,898	-2,142	102,412	107,847	-5,435
Tangible assets	52,148	52,499	-351	354	387	-33
Intangible assets	6,415	7,247	-832	3,887	4,550	-664
Investments and other assets	74,193	75,152	-959	98,172	102,909	-4,737
Total assets	736,982	705,819	31,163	407,427	391,278	16,150
Current liabilities	457,155	437,437	19,718	218,899	209,881	9,018
Accounts payable	231,306	226,045	5,260	126,080	124,524	1,556
Short-term debts	201,601	183,440	18,161	87,858	76,356	11,502
Other	24,248	27,951	-3,703	4,961	9,001	-4,040
Fixed liabilities	107,524	100,703	6,820	98,617	91,020	7,597
Long-term debts	98,798	90,490	8,308	95,416	86,602	8,814
Other	8,725	10,213	-1,488	3,201	4,418	-1,217
Total liabilities	564,679	538,140	26,538	317,515	300,901	16,615
Common stock/Capital surplus	50,537	50,537	-	55,920	55,920	-
Retained earnings	126,110	119,562	6,549	29,842	27,705	2,137
Accumulated other comprehensive income	(15,056)	(12,529)	-2,527	4,150	6,751	-2,602
Minority interests	10,713	10,110	602	-	-	-
Total net assets	172,303	167,679	4,624	89,912	90,377	-465
Total liabilities and total net assets	736,982	705,819	31,163	407,427	391,278	16,150

Outline of consolidated financial results

During the first half of FY2011, the world economy witnessed the slowed pace of business recovery in the United States, while in Europe concerns escalated about the fiscal and monetary state of the eurozone members. By contrast, in Asia, China, India, and other nations characterized by significant domestic demand continued to post robust economic growth, and other Asian economies generally moved into recovery modes, although there was a sense that the speed of these comebacks slowed to some degree. In Japan, although the economic conditions during the first half remained in severe straits following the Great East Japan Earthquake, steady signs of recovery emerged accompanying the restoration of the supply chain. Nevertheless, the aggravated economic slowdowns in the United States and Europe, the advance of the strong yen, and other developments prompted the risk of economic downturn in Japan as well, slowing the speed of business recovery there. Steel prices appeared to be on the road to recovery from the earthquake; however, uncertainty over future demand trends resulted in those prices falling back into a decline tone.

Against this backdrop, although the performance for MISI Group saw home electronics transactions fall into sluggish territory, automobile-related sales got back on track with the recovery in production levels. Steel pipe transactions were another bright spot, backed by the solid performance of the Group's overseas subsidiaries. In summary, consolidated sales of the MISI Group for the first half under review finished at ¥840.8 billion, a gain of ¥66.7 billion compared to the first half of FY2010. For gross profits, transactions expanding along with the restructuring of the construction steel business in the United States, steady progress made by overseas subsidiaries, and other positive factors helped push the figure up by ¥5.1 billion to ¥46.1 billion. Selling, general and administrative expenses increased by ¥600 million to ¥28.7 billion due largely to increased labor costs, with operating income tracked at ¥17.4 billion (up ¥4.5 billion). The Company's equity in earnings of affiliates worsened by ¥300 million to finish in the black by ¥600 million. These and other factors combined to boost ordinary income by ¥4.2 billion to ¥18 billion. Under extraordinary gain and loss, the listing of securities investment evaluation losses the previous year led to an improvement of ¥3 billion, with a final loss of ¥200 million recorded.

Based on this performance, net income for the first half of fiscal 2011 improved by ¥6.6 billion over the same six months in FY2010, ending at ¥13 billion.

Explanation of consolidated statements

1. Sales and gross profits

Examining sales for the first half under review, although home electronics-use steel transactions were sluggish, the recovery in automobile-use steel transactions from the impact of the massive earthquake in March advanced. There was also an increase in export transactions, while steel pipe transactions were buoyed by solid performance figures by overseas subsidiaries. As a result, sales rose by ¥66.7 billion over the first half of fiscal 2010 to reach ¥840.8 billion.

Under gross profit, in addition to profit growth on the strength of the aforementioned increase in revenue, steel pipe transactions benefited from rising prices, while construction steel subsidiaries operating under the MISA Group also turned in positive performance figures. Based on this, gross profit gained ¥5.1 billion over the same period last year to reach ¥46.1 billion.

2. Operating income

Total selling, general and administrative expenses during the first half under review, including provision for doubtful accounts, were ¥28.7 billion. This represented a worsening of ¥600 million versus the first half of FY2010, linked to increased labor costs and other contributing factors. In summary, operating income—after subtracting selling, general and administrative expenses—came to ¥17.4 billion, with an increase of ¥4.5 billion over the first half of the previous fiscal year.

3. Ordinary income

For non-operating income and loss, interest income declined under the impact of lower usance interest on export transactions, worsening the Company's interest account balance by ¥100 million from the first half of FY2010 to ¥1.3 billion. In addition, the worsened market conditions in Japan, along with declining demand accompanying reduced automaker production in the wake of the earthquake, produced a decrease in the equity in earnings of affiliates of ¥300 million to a final total of ¥600 million. As a result, the overall non-operating income and loss account fell by ¥300 million from the first half of FY2010 to finish at ¥600 million. In summary, ordinary income during the first half rose by ¥4.2 billion over the first half of last year to ¥18 billion.

4. Net income

Under extraordinary gain and loss, as a reaction to the listing of securities investment evaluation losses over the first half of the previous year, first half results improved by ¥3 billion from the same six months of FY2010 to ¥200 million in extraordinary losses. Net income for the first half under review—after listing income taxes and minority interests—came in at ¥13 billion, a gain of ¥6.6 billion over the first half of FY2010.

5. Comprehensive income

Net income before minority interests for the first half under review produced a gain. Moreover, despite a worsening in net unrealized gains on securities due to the fall in the stock market, the foreign currency translation adjustments account achieved major improvements. As a result, comprehensive income attributable to owners of the parent company rose by ¥9.3 billion over the first half of FY2010 to ¥10.5 billion.

6. Net assets

For net assets at the close of the first half of FY2011, although accumulated other comprehensive income worsened under the sluggish state of the stock market, growth in retained earnings helped net assets post a gain of ¥4.6 billion over the level at the end of the previous fiscal year, climbing to ¥172.3 billion. Total assets rose by ¥31.2 billion compared to that at the end of FY2010, reflecting increases in accounts receivable and inventories due to the rise in steel product prices and increased transactions. As a result, the Company's consolidated ratio of shareholder's equity was tracked at 21.9%, a worsening of 0.4 points from the figure recorded at the end of the previous fiscal year.

7. Net interest-bearing liabilities

Gross interest-bearing liabilities totaled ¥300.4 billion, up ¥26.5 billion from the total at the end of FY2010, due to increases in accounts receivable and inventories. Net interest bearing liabilities gained year-on-year as well, rising ¥19.4 billion versus that at the end of FY2010 to reach ¥268.4 billion. This produced a net debt equity ratio (DER) of 1.7 times, up 0.1 point from where it stood at the end of FY2010.

Number of Group Companies Reporting a Profit/Loss

	No. of Companies				Ratio of Companies Making a Profit
	Domestic	Overseas	Profit	Loss	
No. of subsidiaries	69	2	59	10	85.5%
Domestic	15	1	8	7	53.3%
Overseas	19	1	15	4	78.9%
No. of associated companies	34	2	23	11	67.6%
Total	103	4	82	21	79.6%

Details of profit and loss of consolidated subsidiaries/net income

	Net Income	
	Year-on-Year Change	Ratio of Companies Making a Profit
MISI	5.2	4.8
Subsidiaries	7.5	2.2
Associated companies	0.3	-0.4
Total	13.0	6.6

(Unit: Billions of Yen)