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Results for the First Half of FY2019

Marubeni-Itochu Steel Inc. (MISI; headquartered in Chuo-ku, Tokyo; Tomohito Kaneda, President and CEO) is pleased to announce the following results for the first half of FY2019 (April through September 2019).

Economic Environment

Reflecting on the global economy during the first half of FY2019, the numerous causes for concern included a continuing growth in trade protectionism in many nations, slackened economic growth in China prompted by bilateral trade friction with the United States, fears of economic stagnation in Europe and other factors. Against this backdrop, no recovery emerged to counter the underlying tone of weakness that began in the second half of FY2018.

The global economic decline also affected the Japanese economy, with exports of major industrial products slowing. Greater personal spending in the runup to Japan's consumption tax hike was limited, resulting in a slower growth rate.

Turning to the steel industry, China engineered a recovery in crude steel production as the nation emerged from the Lunar New Year, posting an increase of around 10 percent over the first half of FY2018. As a result, global crude steel production for the first half of 2019 (January to June) was tracked at 925.06 million tons, up 4.9 percent from the same period the previous year based on figures from the World Steel Association. This development further fueled concerns about excessive supply.

In Japan, the previously robust construction sector experienced a lull in momentum, together with lower unit production for automobiles, construction equipment and industrial machinery. Exports of steel products likewise lapsed into negative territory, with Japan's domestic crude steel production output for the first half of FY2019 (April through September) decreasing by 3 percent from the same period the previous year at 50.67 million tons based on figures from the Japan Iron and Steel Federation.

Results of Operations for the Term under Review

Within this environment, solid trends in the U.S. construction material business and a recovery in energy-related demand bolstered MISI's earnings. While total trading transaction volume charted a small advance over the same period last year, higher financial expenses linked to rising interest rates, the impact of transient losses on affiliated companies, and other issues made their presence felt.

In summary, the MISI Group's consolidated performance for the first half of FY2019 produced a total trading transaction volume of ¥1,231.8 billion, operating income of ¥22.9 billion, and profit attributable to owners of the parent of ¥12.1 billion. This reflected a trend of rising income and falling profit compared to the same period the previous year.

Consolidated Statement of Income (Unaudited, IFRS basis)

MISI's consolidated statement of income figures for the first half of FY2019 are as follows:

(Billions of yen)

Category	Result for the First Half of FY2019	Result for the First Half of FY2018	Increase/decrease
Total volume of trading transactions	1,231.8	1,157.8	+74.0
Gross profit	68.2	68.4	-0.2
Operating income	22.9	23.3	-0.4
Profit before tax	19.3	20.4	-1.1
Profit attributable to owners of the parent	12.1	13.3	-1.2
Comprehensive income attributable to owners of the parent	5.7	20.7	-15.0

For further information, please contact: https://www.benichu.com/inquiry/index_e.html

Consolidated Financial Results in First Half of FY2019 (April 1 to September 30)

(Unaudited, IFRS basis)

(Unit: Millions of yen)

Operating Result	FY2019 First Half Results	FY2018 First Half Results	Change
Total volume of trading transactions (*1)	1,231,757	1,157,791	+73,966
Gross profit	68,227	68,388	-161
Selling, general and administrative expenses	(45,980)	(44,241)	-1,739
Provision for doubtful accounts	690	(834)	+1,524
Operating income (*1)	22,937	23,313	-376
Net interest expense	(4,824)	(3,480)	-1,344
Dividend income	963	840	+123
Gain (loss) on investments	(12)	666	-678
Gain (loss) on property, plant and equipment	(22)	(9)	-13
Other non-operating income (loss)	850	(931)	+1,781
Share of profits of associates and joint ventures	(602)	(15)	-587
Profit before tax	19,290	20,384	-1,094
Income taxes	(5,579)	(5,721)	+142
Profit	13,711	14,663	-952
Profit attributable to owners of the parent	12,079	13,308	-1,229
Profit attributable to non-controlling interests	1,632	1,355	+277
Revenue	1,032,344	984,419	+47,925

*1 Total volume of trading transactions includes all transactions involving the Company and its consolidated subsidiaries regardless of transaction type. Total volume of trading transactions and operating income are presented in accordance with Japanese accounting practice for investors' convenience and are not required by IFRS. Ordinary income reflecting the Japanese GAAP basis has been provisionally calculated at ¥19.3 billion.

Comprehensive Income	FY2019 First Half Results	FY2018 First Half Results	Change
Profit	13,711	14,663	-952
Net unrealized gain (loss) on FVTOCI	(851)	(369)	-482
Exchange differences on translating foreign operations	(5,154)	8,695	-13,849
Other	(399)	(965)	+566
Comprehensive income	7,307	22,024	-14,717
Comprehensive income attributable to owners of the parent	5,660	20,741	-15,081
Comprehensive income attributable to non-controlling interests	1,647	1,283	+364

(Unit: Millions of yen)

Financial Position	FY2019 First Half Results	FY2018 Results	Change
Current assets	887,396	1,013,462	-126,066
Cash and cash equivalents	32,080	46,836	-14,756
Trade receivables	557,460	637,061	-79,601
Inventories	263,574	289,990	-26,416
Other	34,282	39,575	-5,293
Non-current assets	226,282	214,979	+11,303
Property, plant and equipment	85,824	74,419	+11,405
Intangible assets	16,474	18,031	-1,557
Investments and other assets	123,984	122,529	+1,455
Total assets	1,113,678	1,228,441	-114,763
Current liabilities	624,660	745,873	-121,213
Trade payables	273,872	357,297	-83,425
Short-term debts	293,142	327,510	-34,368
Other	57,646	61,066	-3,420
Non-current liabilities	174,970	161,020	+13,950
Long-term debts	146,674	141,346	+5,328
Other	28,296	19,674	+8,622
Total liabilities	799,630	906,893	-107,263
Equity attributable to owners of the parent	290,226	297,300	-7,074
Capital/Capital surplus	51,088	51,102	-14
Retained earnings	205,914	206,607	-693
Accumulated other comprehensive income	33,224	39,591	-6,367
Non-controlling interests	23,822	24,248	-426
Total equity	314,048	321,548	-7,500
Total liabilities and equity	1,113,678	1,228,441	-114,763

§ Management indexes pertaining to assets, liabilities and capital

Ratio of shareholders' equity (*2)	26.1%	24.2%	+1.9%
Net debt equity ratio (DER) (*3)	1.4 times	1.4 times	- 0.0 times

*2: Ratio of shareholders' equity = equity attributable to owners of the parent/total assets

*3: Net debt equity ratio (DER) = net interest-bearing liabilities/equity attributable to owners of the parent

§ Exchange rate information (¥/US\$)	FY2019 First Half	FY2018 First Half
	End September 2019	End March 2019
Average rate during period (PL rate)	108.63	110.26
End of period rate (BS rate)	107.92	110.99

Outline of consolidated financial results

Reflecting on the global economy during the first half of FY2019, the numerous causes for concern included a continuing growth in trade protectionism in many nations, slackened economic growth in China prompted by bilateral trade friction with the United States, fears of economic stagnation in Europe and other factors. Against this backdrop, no recovery emerged to counter the underlying tone of weakness that began in the second half of FY2018. The global economic decline also affected the Japanese economy, with exports of major industrial products slowing. Greater personal spending in the runup to Japan's consumption tax hike was limited, resulting in a slower growth rate.

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Within this environment, solid trends in the U.S. construction material business and a recovery in energy-related demand bolstered MISI's earnings. While total trading transaction volume charted a small advance over the same period last year, higher financial expenses linked to rising interest rates, the impact of transient losses on affiliated companies, and other issues made their presence felt. In summary, the MISI Group's consolidated performance for the first half of FY2019 produced a total trading transaction volume of ¥1,231.8 billion, operating income of ¥22.9 billion, and profit attributable to owners of the parent of ¥12.1 billion. This reflected a trend of rising income and falling profit compared to the same period the previous year.

Explanation of consolidated statements

1. Total volume of trading transactions and gross profits

Solid progress in the U.S. construction materials business, a recovery in energy-related demand and other factors combined to boost trading transactions in the first half of FY2019 by ¥74 billion over the same period last year to ¥1,231.8 billion. Although benefiting from the increase in total trading transactions, gross profits declined by ¥0.2 billion year-on-year to finish the period at ¥68.2 billion, due largely to the impact of the stronger yen.

2. Selling, general and administrative expenses and provision for doubtful accounts

Although ¥0.7 billion was listed for the first half under review as a reversal of the provision for doubtful accounts, higher personnel expenses and other contributing factors drove selling, general and administrative expenses up by ¥1.7 billion year-on-year. Reflecting these movements, FY2019 first-half operating income fell by ¥0.4 billion from the first half of FY2018 to ¥22.9 billion.

3. Profit attributable to owners of the parent

Net interest expenses worsened by ¥1.3 billion compared to the first half of FY2018, linked to factors such as the increase in U.S. dollar interest rates. Gain/loss on investments decreased by ¥0.7 billion year-on-year, linked to rebounding profits accompanying changes in the consolidation method of domestic subsidiaries. Gain/loss results for other categories improved by ¥1.8 billion versus the first half of FY2018 under the impact of foreign exchange gains and losses and other factors. The share of profits from associates and joint ventures finished ¥0.6 billion below the first half of FY2018, reflecting the impact of transient losses at overseas associates and other factors. As a collective result, profit before tax worsened by ¥1.1 billion versus the first half of FY2018, while profit attributable to owners of the parent declined by ¥1.2 billion year-on-year to ¥12.1 billion (after subtracting income taxes and profit attributable to non-controlling interests).

4. Comprehensive income attributable to owners of the parent

Comprehensive income attributable to owners of the parent for the first half of FY2019 stood at ¥15.1 billion below the first half of FY2018, finishing the period at ¥5.7 billion. Factors behind this decline included a decrease in the foreign exchange adjustment account under the impact of the strong yen, decreased profit attributable to the parent and a fall in unrealized gains from securities evaluations.

5. Equity attributable to owners of the parent

Equity attributable to owners of the parent at the end of the first half of FY2019 was ¥290.2 billion, down ¥7.1 billion from the previous fiscal year's close. Factors contributing to this outcome—despite an increase in accumulated current profits attributable to owners of the parent—included dividend payments to shareholders, the drop in the foreign exchange adjustment account under the impact of the strong yen, and other events. The shareholder equity ratio improved by 1.9 percent to 26.1 percent. That reflected a decline in total assets of ¥114.8 billion from the end of FY2018 to ¥1,113.7 billion, linked to decreased trade receivables and asset inventory and other dynamics.

6. Interest-bearing liabilities

Gross interest-bearing liabilities at the end of the first half of FY2019 totaled ¥439.8 billion, down ¥29 billion from the level posted at the end of FY2018. The key factor behind this result was lower demand for operating capital because of a decrease in trade receivables and asset inventory. Net interest-bearing liabilities fell by ¥14.3 billion compared to the end of FY2018, closing out the half year at ¥407.7 billion. This contributed to a net debt equity ratio (DER) of 1.4.

Number of Group companies reporting a profit/loss

	No. of Companies		Profitable and unprofitable companies: a breakdown by numbers		
	End of this term	Change from the Previous Term	Profit	Loss	Ratio of Companies Making a Profit
Domestic	20	-	20	0	100.0%
Overseas	52	-	42	10	80.8%
No. of subsidiaries	72	-	62	10	86.1%
Domestic	14	-	13	1	92.9%
Overseas	28	-	14	14	50.0%
No. of associates and joint ventures	42	-	27	15	64.3%
Total	114	-	89	25	78.1%