



## News Release

May 8, 2020

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### **Results for FY2019**

Marubeni-Itochu Steel Inc. (MISI; headquartered in Chuo-ku, Tokyo; Tatsuhiko Toshita, President and CEO) is pleased to announce the following results for FY2019 (April 2019 through March 2020).

#### **Economic Environment**

The global economy during FY2019 saw markets such as the United States and some Southeast Asian nations display generally robust trends. However, strengthened protectionist trade policies in numerous countries, China's sluggish economic growth (linked to trade friction with the U.S.), the slowdown in European economies as the UK's Brexit withdrawal from the European Union approached and other factors contributed to a lackluster performance overall. Toward the end of the fiscal year, the spread of the novel coronavirus, major declines in crude oil prices and other causes for concern grew in scale.

After enjoying relatively stable progress supported by solid personal consumption during the first half of the fiscal year, the Japanese economy suffered from the impact of a series of natural disasters during the summer months, declining capital investment demand as overseas economic conditions stagnated, a transitional period for construction demand and other worrisome developments. This led a more pronounced deceleration during the fiscal year's second half, with the novel coronavirus delivering a truly serious blow to the economy as the fiscal year ended.

Turning to the steel industry, worldwide crude steel production in 2019 (January to December) was tracked at 1.87 billion tons, up 3.4 percent from the previous year based on World Steel Association figures. Among these results, crude steel production in China rose 8.3 percent over the previous year to an all-time high of 996.34 million tons. The heightened sense of global economic uncertainty was a key force in the slump in market conditions for steel products through early autumn, followed by a temporary

market upsurge. A further downward trend ensued, however, under the influence of the novel coronavirus pandemic first reported in China.

In Japan, the steel market faced a slowdown in demand, and export growth suffered as a result of the global supply glut. Reflecting this, output from domestic steel manufacturers fell by 4.8 percent from the previous year to 99.28 million tons according to Japan Iron and Steel Federation figures. This marked the third consecutive year-on-year decline for Japanese steel production.

### **Results of Operations for the Term under Review**

In this harsh environment, MISI experienced decreases in both revenue and earnings compared to the previous fiscal year. While the company's construction material business in the United States performed well during FY2019, negative developments affecting the final results included falling profits linked to issues such as sluggish market conditions in Japan and overseas as well as declining demand. Moves to reorganize or withdraw from unprofitable businesses also had a negative effect.

In summary, the MISI Group's consolidated financial settlement for FY2019 showed a total trading transaction volume of ¥2,408.6 billion, operating income of ¥43.8 billion, and profit attributable to owners of the parent of ¥22.3 billion.

### **Consolidated Statement of Income (Unaudited, IFRS basis)**

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

(Billions of yen)

Category	Results for FY2019	Results for FY2018	Increase/decrease
Total volume of trading transactions	2,408.6	2,437.3	-28.7
Gross profit	135.0	135.9	-0.9
Operating income	43.8	45.3	-1.6
Profit before tax	34.8	37.6	-2.8
Profit attributable to owners of the parent	22.3	24.2	-1.9
Comprehensive income attributable to owners of the parent	6.2	19.3	-13.1

Please direct any inquiries about this news release to the Corporate Communications Team, Marubeni-Itochu Steel Inc. Tel: 03-5204-3342



# **FY2019 Financial Results Report**

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**Marubeni-Itochu Steel Inc.**

May 8, 2020

# FY2019 Financial Results Summary

- Despite a strong performance by our U.S. construction material business, revenues declined due to factors such as sluggish market conditions in both Japan and overseas and an overall decline in demand. Moves to reorganize or withdraw from unprofitable businesses also prompted decreases in both revenue and earnings from the previous fiscal year.

	FY2018	FY2019	Over previous fiscal year	Factors affecting financial results	Impact
<b>Consolidated net income</b>	¥ 24.2 billion	¥ <b>22.3 billion</b>	- ¥1.9 billion	Steel price declines	
<b>Total assets</b>	¥ 1.2 trillion	¥ <b>1.1 trillion</b>	- ¥0.1 trillion	Export transactions increase	
<b>ROA</b>	2.1%	<b>1.9%</b>	-0.2%	Domestic demand declines	
Ratio of shareholders' equity <sup>(*1)</sup>	24.2%	<b>26.0%</b>	+1.8%	Robust construction material business in U.S.	
Net debt equity ratio (DER) <sup>(*2)</sup>	1.46 times	<b>1.38 times</b>	-0.08 times	North American rig count decreases	
				Automobile unit production falls	
				Unprofitable business reorganizations/withdrawals	
PL rate ¥/US\$	110.91	<b>108.74</b>	-2.17		
BS rate ¥/US\$	110.99	<b>108.83</b>	-2.16		

\*1: Ratio of shareholders' equity = equity attributable to owners of the parent/total assets

\*2: Net debt equity ratio (DER) = net interest-bearing liabilities/equity attributable to owners of the parent

# Summary of Group Companies

- The liquidation and asset sales of low-revenue businesses brought a decline in red-ink companies from 20 at the end of FY2018 to 12 during FY2019.
- Considering the impact of the spread of COVID-19, strengthening the management of unprofitable businesses will remain a key theme into FY2020.

	No. of Companies		Number of Deficit Group Companies		Percentage of Deficit Group Companies	
	End of FY2019	Change from the End of FY2018	End of FY2019	Change from the End of FY2018	End of FY2019	Change from the End of FY2018
Domestic	20	-	0	-	0.0%	-
Overseas	51	-1	4	-2	7.8%	-3.7%
No. of subsidiaries	71	-1	4	-2	5.6%	-2.7%
Domestic	14	-	1	+1	7.1%	+7.1%
Overseas	26	-2	7	-7	26.9%	-23.1%
No. of associates and joint ventures	40	-2	8	-6	20.0%	-15.7%
<b>Total</b>	<b>111</b>	<b>-3</b>	<b>12</b>	<b>-8</b>	<b>10.8%</b>	<b>-6.7%</b>

# Profit and Loss Statement

(Unaudited, IFRS basis)

(Unit: Millions of yen)

Operating Result	FY2019 Results	FY2018 Results	Change
Total volume of trading transactions (*1)	2,408,621	2,437,345	-28,724
<b>Gross profit</b>	<b>134,951</b>	<b>135,862</b>	<b>-911</b>
Selling, general and administrative expenses	(90,239)	(88,858)	-1,381
Provision for doubtful accounts	(956)	(1,665)	+709
<b>Operating income (*1)</b>	<b>43,756</b>	<b>45,339</b>	<b>-1,583</b>
Net interest expenses	(8,809)	(8,141)	-668
Dividend income	1,532	1,442	+90
Gain (loss) on investments	(153)	(742)	+589
Gain (loss) on property, plant and equipment	(162)	(82)	-80
Other non-operating income (loss)	717	93	+624
Share of profits (losses) of associates and joint ventures	(2,040)	(272)	-1,768
<b>Profit before tax</b>	<b>34,841</b>	<b>37,637</b>	<b>-2,796</b>
Income taxes	(9,218)	(10,889)	+1,671
Profit	25,623	26,748	-1,125
Profit attributable to owners of the parent	<b>22,320</b>	<b>24,204</b>	<b>-1,884</b>
Profit attributable to non-controlling interests	3,303	2,544	+759

## Trading transaction volume

Despite the steel price decline, shrinking domestic demand, decreased North American rig count, falling automobile unit production and other negatives, the robust U.S. construction material business and increased export transactions helped limit the loss in this category from the previous fiscal year to ¥28.7 billion.

## Net interest expenses

Impact included rising interest rates

## Gain (loss) on investments

Affected by a reaction to previous fiscal year's impairment loss of equity investment in affiliates, etc.

## Other non-operating income (loss)

Impact of foreign exchange gains/losses, etc.

## Share of profits (losses) of associates and joint ventures

Impact included lower performance of affiliates that adopted the overseas equity method

\*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 ¥35.4 billion.

# Balance Sheet

(Unaudited, IFRS basis)

(Unit: Millions of yen)

Financial Position	FY2019 Results	FY2018 Results	Change
Current assets	<b>900,755</b>	<b>1,013,184</b>	<b>-112,429</b>
Cash and cash equivalents	41,837	46,395	-4,558
Trade receivables	560,363	637,729	-77,366
Inventories	263,462	289,805	-26,343
Other	35,093	39,255	-4,162
Non-current assets	<b>215,743</b>	<b>214,889</b>	<b>+854</b>
Property, plant and equipment	88,012	74,419	+13,593
Intangible assets	15,837	18,031	-2,194
Investments and other assets	111,894	122,439	-10,545
<b>Total assets</b>	<b>1,116,498</b>	<b>1,228,073</b>	<b>-111,575</b>
Current liabilities	<b>635,434</b>	<b>725,868</b>	<b>-90,434</b>
Trade payables	275,819	346,225	-70,406
Short-term debts	304,943	318,254	-13,311
Other	54,672	61,389	-6,717
Non-current liabilities	<b>165,226</b>	<b>180,657</b>	<b>-15,431</b>
Long-term debts	137,522	160,983	-23,461
Other	27,704	19,674	+8,030
<b>Total liabilities</b>	<b>800,660</b>	<b>906,525</b>	<b>-105,865</b>
Equity attributable to owners of the parent	<b>290,790</b>	<b>297,300</b>	<b>-6,510</b>
Capital/Capital surplus	51,082	51,102	-20
Retained earnings	216,086	206,607	+9,479
Accumulated other comprehensive income	23,622	39,591	-15,969
Non-controlling interests	25,048	24,248	+800
<b>Total equity</b>	<b>315,838</b>	<b>321,548</b>	<b>-5,710</b>
<b>Total liabilities and equity</b>	<b>1,116,498</b>	<b>1,228,073</b>	<b>-111,575</b>

(Unit: Millions of yen)

Comprehensive Income	FY2019 Results	FY2018 Results	Change
Profit	25,623	26,748	-1,125
Net unrealized gain (loss) on FVTOCI	(9,851)	(7,398)	-2,453
Exchange differences on translating foreign operations	(5,649)	3,559	-9,208
Other	(777)	(1,418)	+641
Comprehensive income	9,346	21,491	-12,145
<b>Comprehensive income attributable to owners of the parent</b>	<b>6,230</b>	<b>19,337</b>	<b>-13,107</b>
Comprehensive income attributable to non-controlling interests	3,116	2,154	+962

## Total assets

**¥1,116.5 billion (down ¥111.6 billion from the end of previous fiscal year)**

→ A contraction in trade receivables due to a decline in unit prices and decreased demand, efforts to reduce inventories

## Ratio of shareholders' equity

**26.0% (plus 1.8 percent from the end of previous fiscal year)**

→ Contribution by total asset downscaling

## Net DER

**1.38 times (down 0.08 from the end of previous fiscal year)**

→ Improvements through reductions in net interest-bearing liabilities accompanying downscaled working capital