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Results for the First Half of FY2020

Marubeni-Itochu Steel Inc. (MISI; headquartered in Chuo-ku, Tokyo; Tatsuhiko Toshita, President and CEO) announces the following results for the first half of FY2020 (April through September 2020).

Economic Environment

The rise of the novel coronavirus (COVID-19) prompted a worldwide economic slowdown during the first half of FY2020. China has largely recovered from the pandemic, while India and North, Central and South America and numerous other nations and regions continue to struggle as a result of the infection's steady spread. Forecasts are that in the current COVID-19 environment, sustained restrictions on economic activity will also characterize the second half of the fiscal year. While manufacturing industry activity, crude oil prices and other key indicators have recovered to stable levels compared to the swift drops charted at one time, they remain below their pre-COVID-19 levels.

The pandemic has also affected the Japanese economy, which in addition to sluggish domestic demand has suffered from a sharp reduction in inbound tourism. A mood of national self-restraint has likewise curbed growth in the sales of consumer goods, with Japan experiencing a full economic downturn.

Turning to the steel industry, global crude steel production for the first half of 2020 (January through June) was tracked at 878.65 million tons—down 5.2 percent from the same period the previous year. China was the only nation where crude steel production rose over the first half of the previous year, by 2.2 percent, buoyed by investment in domestic infrastructure and achieving an all-time record pace of 502.56 million tons.

In Japan, against the backdrop of limited activity in the global manufacturing industry and other contributing factors, policy measures were advanced to reduce steel production. As a result, crude steel output by Japanese steelmakers for the first half of

FY2020 (April through September) fell by 26.8 percent compared to the same period the previous year, finishing at 37.1 million tons.

Results of Operations for the Term under Review

Within this environment, the U.S. construction material business has continued to post solid trends from the previous fiscal year. Despite this, MISI income and profit showed major declines compared to the same period last year, pulled down by the slumping performance of the manufacturing industries in Japan and overseas, the rapid fall in North American steel pipe demand, and other negative developments.

In summary, the MISI Group's consolidated performance for the first half of FY2020 produced a total trading transaction volume of ¥912.1 billion, operating income of ¥13.1 billion, and profit attributable to owners of the parent of ¥6.6 billion.

Consolidated Statement of Income (Unaudited, IFRS basis)

MISI's consolidated statement of income figures for the first half of FY2020 are as follows:

(Billions of yen)

Category	Result for the First Half of FY2020	Result for the First Half of FY2019	Increase/decrease
Total volume of trading transactions	912.1	1,231.8	-319.7
Gross profit	54.4	68.2	-13.8
Operating income	13.1	22.9	-9.8
Profit before tax	11.6	19.3	-7.7
Profit attributable to owners of the parent	6.6	12.1	-5.5
Comprehensive income attributable to owners of the parent	8.1	5.7	+2.4

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FY2020 First Half Financial Results Report

Marubeni-Itochu Steel Inc.

November 4, 2020

FY2020 First Half Financial Results Summary

- Despite a continuing strong performance by our U.S. construction material business, the impact of the decline in domestic and overseas manufacturing industries, the sharp fall in North American steel pipe demand and other negatives linked to the COVID-19 pandemic had an adverse effect on income and profit compared to the end of FY2019.

	End of first half of FY2019	End of first half of FY2020	Over the first half of FY2019	Factors affecting financial results	Impact
Consolidated net income	¥ 12.1 billion	¥ 6.6 billion	– ¥5.5 billion	Slumps in domestic/overseas manufacturing industries	
Total assets	¥ 1.1 trillion	¥ 1.0 trillion	– ¥0.1 trillion	Sharp decline in North American rig count	
Ratio of shareholders' equity (*1)	26.0%	28.4%	+2.3%	Sharp decline in Automobile unit production	
Net debt equity ratio (DER) (*2)	1.38 times	1.22 times	–0.15 times	Robust construction material business in U.S.	
PL rate ¥/US\$	108.63	106.92	–1.71		
BS rate ¥/US\$	108.83	105.80	–3.03		

*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

- Affected by COVID-19, the number of red-ink companies rose to 42 compared to 12 at the end of FY2019.
- With forecasts that time is needed to achieve a full recovery in demand, companies are advancing structural reform as a way to strengthen profitability.

	No. of Companies		Number of Deficit Group Companies		Percentage of Deficit Group Companies	
	End of this term	Change from the end of FY2019	End of this term	Change from the end of FY2019	End of this term	Change from the end of FY2019
Domestic	20	-	6	+6	30.0%	+30.0pt
Overseas	51	-	17	+13	33.3%	+25.5pt
No. of subsidiaries	71	-	23	+19	32.4%	+26.8pt
Domestic	15	+1	6	+5	40.0%	+32.9pt
Overseas	26	-	13	+6	50.0%	+23.1pt
No. of associates and joint ventures	41	+1	19	+11	46.3%	+ 26.3pt
Total	112	+1	42	+30	37.5%	+26.7pt

Profit and Loss Statement

(Unaudited, IFRS basis)

(Unit: Millions of yen)

Operating Result	FY2020 First Half Result	FY2019 First Half Result	Change
Total volume of trading transactions (*1)	912,103	1,231,757	-319,654
Gross profit	54,435	68,227	-13,792
Selling, general and administrative expenses	(41,387)	(45,980)	+4,593
Provision for doubtful accounts	95	690	-595
Operating income (*1)	13,143	22,937	-9,794
Net interest expenses	(2,791)	(4,824)	+2,033
Dividend income	1,477	963	+514
Gain (loss) on investments	(562)	(12)	-550
Gain (loss) on property, plant and equipment	47	(22)	+69
Other non-operating income (loss)	849	850	-1
Share of profits (losses) of associates and joint ventures	(537)	(602)	+65
Profit before tax	11,626	19,290	-7,664
Income taxes	(3,739)	(5,579)	+1,840
Profit	7,887	13,711	-5,824
Profit attributable to owners of the parent	6,582	12,079	-5,497
Profit attributable to non-controlling interests	1,305	1,632	-327

Total volume of trading transactions and gross profit
Income declines due to reduced operations in the automotive and other manufacturing industries, a sharp decline in rig count, etc.

Operating income
Steps to reduce selling, general and administrative expenses failed to compensate for the drop in gross profit, with operating income declining by ¥9.8 billion compared to the first half of FY2019.

Net interest expenses
Improvements resulting from the impact of lower dollar interest rates, etc.

Gain (loss) on investments
Worsened as a result of affiliated company stock losses, etc.

Share of profits (losses) of associates and joint ventures
Despite the poor performance of affiliates adopting the domestic and overseas equity methods, slight improvements were achieved over the first half of FY2019 due to rebounds from withdrawal impairment losses listed in FY2019, etc.

*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 ¥12.1 billion.

Balance Sheet

(Unaudited, IFRS basis)

(Unit: Millions of yen)

Financial Position	FY2020 First Half Result	FY2019 Results	Change
Current assets	793,886	900,755	-106,869
Cash and cash equivalents	39,806	41,837	-2,031
Trade receivables	473,939	560,363	-86,424
Inventories	243,512	263,462	-19,950
Other	36,629	35,093	+1,536
Non-current assets	220,121	215,743	+4,378
Property, plant and equipment	88,665	88,012	+653
Intangible assets	14,728	15,837	-1,109
Investments and other assets	116,728	111,894	+4,834
Total assets	1,014,007	1,116,498	-102,491
Current liabilities	545,386	635,434	-90,048
Trade payables	221,324	275,819	-54,495
Short-term debts	264,673	304,943	-40,270
Other	59,389	54,672	+4,717
Non-current liabilities	157,277	165,226	-7,949
Long-term debts	127,211	137,522	-10,311
Other	30,066	27,704	+2,362
Total liabilities	702,663	800,660	-97,997
Equity attributable to owners of the parent	287,726	290,790	-3,064
Capital/Capital surplus	51,082	51,082	-
Retained earnings	211,191	216,086	-4,895
Accumulated other comprehensive income	25,453	23,622	+1,831
Non-controlling interests	23,618	25,048	-1,430
Total equity	311,344	315,838	-4,494
Total liabilities and equity	1,014,007	1,116,498	-102,491

(Unit: Millions of yen)

Comprehensive Income	FY2020 First Half Result	FY2019 First Half Result	Change
Profit	7,887	13,711	-5,824
Net unrealized gain (loss) on FVTOCI	5,469	(851)	+6,320
Exchange differences on translating foreign operations	(3,247)	(5,154)	+1,907
Other	(534)	(399)	-135
Comprehensive income	9,575	7,307	+2,268
Comprehensive income attributable to owners of the parent	8,096	5,660	+2,436
Comprehensive income attributable to non-controlling interests	1,479	1,647	-168

Total assets

¥1,014 billion (-¥102.5 billion from the end of FY2019)
→ Declines in trade receivables and inventories

Ratio of shareholders' equity

28.4% (+2.3 points from the end of FY2019)
→ Increase primarily due to reductions in current assets

Net DER

→ 1.22 times (compared to -0.15 times from the end of FY2019)