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Itochu Enex Reports Consolidated Earnings for the Six Months Ended September 30, 2013 (Under Japanese GAAP)

Tokyo, Japan, October 30, 2013 -- Itochu Enex Co., Ltd. (TSE: 8133) announced net sales of 691,152 million yen for the six months ended September 30, 2013, and net income of 2,929 million yen, or 25.93 yen per share, on a consolidated basis.

Results of Operations

In the six months ended September 30, 2013, the Japanese economy gradually recovered, showing signs of improvements in corporate earnings and personal consumption thanks to effects from the governmental economic and financial administration including the monetary easing policy. However, with a sluggish growth in personal income, adverse effects from the consumption tax hike decided to enforce in April 2014, and other factors, concerns have remained about future personal consumption.

In the petroleum products distribution industry, the procurement cost of crude oil has generally increased due to continuously weakening yen. As for domestic sales volume, fuel oil significantly decreased overall from the corresponding period a year earlier with the bad weather from the end of August 2013 and a continuous fall in demand for heavy oil, while mainly gas oil increased year on year in summer due in part to effects of the extreme heat.

In this operating environment, the Itochu Enex Group is in the final year of a medium-term business plan, Core & Synergy 2013. During the period of the medium-term business plan, we have implemented an extensive growth strategy, centering on the following priority approaches: “Improvement of petroleum product distribution functions”, “Development of demand-generating business from the consumer’s perspective”, “Transformation into a company providing the best mix of energy”, and “Active expansion of overseas business”.

Amid decreasing domestic demands for petroleum products, we have been optimizing logistics and expanding domestic sales networks in the core petroleum product sales business and LP gas sales business. We have also been building a system to fulfill various social needs for energy, for example, by reinforcing our power generation capacity including renewable energy in the new electric power business.

As a result of the above activities, in the six months ended September 30, 2013, consolidated net sales increased 5.5% year on year to 691,152 million yen. Operating income and ordinary income increased year on year respectively by 8.3% to 4,829 million yen, and 11.1% to 5,116 million yen. Net income rose 82.8% year on year to 2,929 million yen with extraordinary gain on sales of investment securities.

Results of Operations by Segment

As business segments have been added and changed, as stated in segment information, year-on-year comparisons are based on the segments after the change.

Energy Trade Division

The Energy Trade Division earned operating income of 520 million yen (down 6.6% year on year) on net sales of 336,147 million yen (down 0.9% year on year) in the six months ended September 30, 2013.

Despite the growth in global demands for petroleum products, domestic ones have continued to decline. Furthermore, crude oil prices are soaring due to the situation in the Middle East. Consequently, as the domestic petroleum product market has continued sluggish, the business environment remained harsh.

Under such circumstances, though we proactively sought new customers, and secured transactions taking into account domestic and overseas market trends and customers' needs in an effort to expand sales volume in each business, profits decreased from a year earlier.

In order to steadily improve and optimize distribution functions in each business as division's priority issue, we have built an asphalt sales network centering on 13 asphalt terminals nationwide, deployed nine dedicated fuel supply ships in Japan in the marine fuel business for domestic operation, and enhanced 17 AdBlue supply bases nationwide in response to the increasing popularization of urea SCR vehicles[1]. Especially in the asphalt business, the second company-owned domestic and ocean-going vessel to carry asphalt was completed in May 2013. We will continue to further reinforce distribution functions in order to respond to diversifying needs of clients, and changes in domestic supply and demand conditions.

Note 1 Urea SCR vehicle: Urea SCR vehicle purifies NOx using urea solution (AdBlue) and Selective Catalytic Reduction to reduce NOx in exhaust gas from diesel engines.

Car-Life Division

The Car-Life Division earned operating income of 872 million yen (down 24.9% year on year) on net sales of 284,930 million yen (up 10.2% year on year).

Though crude oil prices are soaring and domestic demands for petroleum products have continued to decrease, sales volume grew from a year earlier, thanks to, for example, new large-scale affiliates and replacement of Car-Life Stations[2] at the end of the previous fiscal year and in the current fiscal year. Meanwhile, profits fell year on year with large impacts of profit margin compressed by the deterioration in retail market conditions, despite efforts to reduce costs at each base, and expand profits from non-fuel oil businesses at Group companies.

In the retail strategy, we have strived to improve profitability of Car-Life Stations of the Group, promoting measures such as the detailed follow-up system with "ENEX ACT Program[3]", which is an interactive seminar with a small number of participants developed for the purpose of strengthening competitiveness of the Stations, as well as support for operation of the Stations through sharing of successful examples.

In the automobile-related business, mainly Enexauto Co., Ltd., a Group company, contributed to an improvement in profitability of Car-Life Stations of the Group, for example, by promoting the car hire business "Itsumo Rent-a-Car", the used vehicle trading business "Itsumo Car Net", and a system to unify management of customers "Car Business Support".

The number of Car-Life Stations of the Group at the end of the six months was 2,181, a net decrease of one station from the end of the previous fiscal year. During the six months, we added 52 newly affiliated stations even amid the decrease in the number of domestic gas stations, while losing 53 stations through disaffiliation of unprofitable and decrepit stations, etc.

Note 2 Car-Life Stations: Car-Life Stations are full-service automobile service stations affiliated with Itochu Enex.

Note 3 ENEX ACT Program: Under this program, we work closely with Car-Life Station operators to raise their competitiveness by analyzing their station operations and competitive climate, conducting group training, and engaging in other activities.

Total Home-Life Division

The Total Home-Life Division earned operating income of 1,299 million yen (up 42.1% year on year) on net sales of 51,763 million yen (up 13.2% year on year).

While sales volume of LP gas almost leveled off from a year earlier, the number of direct sales increased year on year with the area strategy we intensively worked on, for example, establishing ing Energy Corporation to jointly manage LP gas sales business of ing Corporation with Itochu Enex Home-Life Kanto Co., Ltd., a Group company, in the Kanto area.

Profits also grew year on year thanks to the active introduction of gas rate adjustment system and the increased sales of new types of energy equipment.

Under such conditions, in July 2013, we transferred the city gas and LP gas business which had been operated by the Company in Nakatsu City, Oita Prefecture, to Ecore Co., Ltd., a Group company, through company split. Unifying the gas business in the Kyushu area, we will strive to improve the efficiency of business operation, and services to customers further in the area.

In the new energy business, we have continued sales of a double power generation system consisting of a solar power generation system which realizes “Energy Creation” at home, and ENEFARM residential fuel cells. We also conducted “activities to propose the best mix of energy” combining energy-saving and high-performance burning appliances and solar power generation systems through “Smart Life” campaign which started in June 2013. Furthermore, community-based events are held at each “E-koto Shop” operated by the Group in order to proactively perform activities as a community information station.

As part of social contribution activities, we have also implemented a dietary educational activity “Itadakimasu Support Manifesto for Kids” at kindergartens and nursery schools across Japan for the purpose of educating children about “importance of diet”.

Power & Utility Division

The Power & Utility Division earned operating income of 2,117 million yen (up 32.4% year on year) on net sales of 17,908 million yen (up 58.2% year on year).

In the electricity and steam supply business, the amount of electricity sold largely increased from a year earlier, with contributions from the reinforcement of power generation facilities and the acquisition of JEN Konbumori Wind Farm Co., Ltd. in the previous fiscal year. Even with the increased cost of sales, profits also grew year on year thanks to prices remaining high in the wholesale power market and profits from the wind power generation business using the renewable energy feed-in tariff system.

Hofu Energy Service Co., Ltd., a Group company, started construction to enhance the coal thermal power generation facility, which is scheduled to complete at the end of March 2014.

In the heat supply business[4], profits steadily grew, as a result of higher demand for heat for air conditioning due to slightly higher average temperature than usual in the east Japan areas even with the increased cost of sales due to soaring material costs.

In the LNG sales business, sales volume increased year on year with the increased number of new clients, as well as a gradual recovery of operating rate of manufacturing plants.

Note 4 Heat supply business: Heat supply business supplies cold and hot water for air conditioning to office buildings and other multiple buildings from a heat source plant using pipes.

Financial Condition

Total assets amounted to 305,280 million yen at September 30, 2013, a decrease of 18,466 million yen from March 31, 2013. This primarily reflected a decrease in trade notes and accounts receivable. Liabilities amounted to 195,762 million yen, a decrease of 21,454 million yen from March 31, 2013. This primarily reflected a decrease in trade notes and accounts payable and redemption of bonds. Net assets totaled 109,518 million yen, an increase of 2,987 million yen, due to factors including increases in retained earnings and minority interests.

Consolidated Earnings Forecasts

Although operating performance could be affected by various factors, including crude oil prices, market conditions, changes in the weather, and the Japanese government’s energy policy, we have not revised our full-year consolidated earnings forecasts announced on May 2, 2013.

Financial Statements—Consolidated

(1) Consolidated Balance Sheets

Millions of yen

	March 31, 2013	September 30, 2013
	Amount	Amount
Assets		
Current assets		
Cash and cash equivalents	17,880	16,687
Trade notes and accounts receivable	139,140	115,674
Merchandise and finished products	17,044	20,877
Deferred tax assets	1,963	2,016
Other	17,267	17,108
Allowance for doubtful accounts	(218)	(295)
Total current assets	193,077	172,068
Fixed assets		
Property, plant and equipment		
Buildings and structures	57,725	57,881
Accumulated depreciation	(33,203)	(33,297)
Buildings and structures, net	24,521	24,583
Machinery, equipment and vehicles	53,022	52,063
Accumulated depreciation	(28,209)	(28,367)
Machinery, equipment and vehicles, net	24,812	23,696
Vessel	488	1,177
Accumulated depreciation	(11)	(59)
Vessel, net	477	1,117
Land	34,753	34,839
Leased assets	5,435	5,874
Accumulated depreciation	(3,026)	(3,538)
Leased assets, net	2,408	2,335
Construction in progress	588	3,604
Other	6,206	6,489
Accumulated depreciation	(4,399)	(4,485)
Other, net	1,806	2,004
Net, property, plant and equipment	89,368	92,181
Intangible assets		
Goodwill	3,209	3,118
Other	8,164	8,524
Total intangible assets	11,373	11,642
Investments and other assets		
Investment securities	15,269	14,364
Long-term loans	964	923
Deferred tax assets	2,816	3,154
Other assets	11,380	11,540
Allowance for doubtful accounts	(503)	(594)
Total investments and other assets	29,926	29,387
Total fixed assets	130,669	133,211
Total assets	323,747	305,280

Millions of yen

	March 31, 2013	September 30, 2013
	Amount	Amount
Liabilities		
Current liabilities		
Trade notes and accounts payable	119,006	105,310
Short-term borrowings	9,594	9,726
Corporate bonds due within one year	5,000	–
Lease obligations	1,132	1,034
Income taxes payable	3,932	2,784
Accrued bonuses for employees	3,115	2,767
Accrued bonuses for directors and corporate auditors	404	192
Other current liabilities	20,047	16,759
Total current liabilities	162,233	138,576
Long-term liabilities		
Corporate bonds	20,000	20,000
Long-term debt	6,246	7,114
Lease obligations	2,141	2,086
Deferred tax liabilities	1,809	2,091
Deferred tax liabilities on land revaluation	2,438	2,386
Liabilities for retirement benefits	6,404	6,688
Asset retirement obligations	2,688	2,809
Other long-term liabilities	13,253	14,010
Total long-term liabilities	54,983	57,185
Total liabilities	217,216	195,762
Net assets		
Shareholders’ equity		
Common stock	19,877	19,877
Capital surplus	18,736	18,736
Retained earnings	69,106	71,096
Treasury stock	(1,749)	(1,749)
Total shareholders’ equity	105,970	107,960
Accumulated other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	(104)	130
Deferred hedge gains (losses)	(5)	(117)
Revaluation reserve for land	(7,778)	(7,742)
Foreign currency translation adjustments	71	83
Total accumulated other comprehensive income (loss)	(7,815)	(7,646)
Minority interests	8,375	9,204
Total net assets	106,530	109,518
Total liabilities and net assets	323,747	305,280

(2) Consolidated Statements of Income

Millions of yen

	Six months ended September 30, 2012	Six months ended September 30, 2013
	Amount	Amount
Net sales	655,043	691,152
Cost of sales	623,057	657,922
Gross profit	31,985	33,230
Selling, general and administrative expenses	27,526	28,401
Operating income	4,459	4,829
Other income		
Interest income	15	3
Dividend income	217	218
Purchase discounts	149	144
Gain on foreign currency translation	50	–
Equity in income of unconsolidated subsidiaries and associates	–	70
Other	430	434
Total other income	863	870
Other expense		
Interest expense	275	264
Sales discounts	109	126
Loss on foreign currency translation	–	47
Bond issuance cost	84	–
Equity in loss of unconsolidated subsidiaries and associates	127	–
Other	119	145
Total other expense	716	583
Ordinary income	4,605	5,116
Extraordinary gains		
Gain on sales of fixed assets	26	114
Gain on sales of investment securities	–	2,081
Other	–	2
Total extraordinary gains	26	2,198
Extraordinary losses		
Loss on sales and disposal of fixed assets	437	250
Loss on devaluation of investment securities	2	1
Loss on impairment of long-lived assets	191	841
Head office relocation expense	–	234
Other	–	0
Total extraordinary losses	631	1,328
Income before income taxes and minority interests	4,000	5,985
Income taxes		
Current	2,066	2,680
Deferred	(148)	(150)
Total income taxes	1,918	2,529
Income before minority interests	2,081	3,455
Minority interests	479	526
Net income	1,602	2,929

Consolidated Statements of Comprehensive Income

Millions of yen

	Six months ended September 30, 2012	Six months ended September 30, 2013
	Amount	Amount
Income before minority interests	2,081	3,455
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	(247)	234
Deferred hedge gains (losses)	–	(110)
Foreign currency translation adjustments	–	(5)
Share of other comprehensive income (loss) of associates accounted for using equity method	(153)	15
Total other comprehensive income (loss)	(400)	133
Comprehensive income	1,681	3,589
Components:		
Comprehensive income attributable to owners of the parent	1,202	3,063
Comprehensive income attributable to minority interests	479	526

(3) Notes to Consolidated Financial Statements

Notes on the Going-Concern Assumption

Not applicable

Notes on Significant Changes in Shareholders' Equity

Not applicable

Segment Information

Six months ended September 30, 2012 (April 1, 2012 to September 30, 2012)

1. Net sales, income/loss by reportable segment

Millions of yen

	Reportable segment					Other *1	Total	Adjustments *2	Amounts on the consolidated statements of income *3
	Energy Trade	Car-Life	Total Home-Life	Power & Utility	Total				
Sales									
Sales to customers	339,094	258,590	45,737	11,320	654,742	300	655,043	–	655,043
Intersegment sales or transfers	12,506	2,735	45	–	15,286	1,210	16,497	(16,497)	–
Total	351,600	261,325	45,782	11,320	670,029	1,511	671,541	(16,497)	655,043
Segment income	557	1,162	914	1,598	4,232	23	4,255	203	4,459

Notes:
1. "Other" comprises businesses, such as investment business and back-office outsourcing services that are not included in reportable segments.
2. The 203 million yen adjustment for segment income is 203 million yen of unallocated corporate income. The main component of the unallocated corporate income is income and loss that are not attributable to reportable segments.
3. Segment income adjustments are based on operating income reported on the quarterly consolidated statements of income for the corresponding period.

2. Impairment loss on fixed assets or goodwill by reportable segment

Material impairment loss on fixed assets

In response to a decline in market prices, the Company reduced the book value of idle assets in its Energy Trade segment to their net realizable value. An impairment loss of 145 million yen was consequently booked for the six months ended September 30, 2012.

In response to a decline in market prices, the Company reduced the book value of idle assets in its Car-Life segment to their net realizable value. An impairment loss of 14 million yen was consequently booked for the six months ended September 30, 2012.

In response to a decline in market prices, the Company reduced the book value of idle assets in its Total Home-Life segment to their net realizable value. An impairment loss of 31 million yen was consequently booked for the six months ended September 30, 2012.

Six months ended September 30, 2013 (April 1, 2013 to September 30, 2013)

1. Net sales, income/loss by reportable segment

Millions of yen

	Reportable segment					Other *1	Total	Adjustments *2	Amounts on the consolidated statements of income *3
	Energy Trade	Car-Life	Total Home-Life	Power & Utility	Total				
Sales									
Sales to customers	336,147	284,930	51,763	17,908	690,750	402	691,152	–	691,152
Intersegment sales or transfers	13,482	4,664	334	–	18,481	833	19,315	(19,315)	–
Total	349,629	289,595	52,098	17,908	709,231	1,236	710,467	(19,315)	691,152
Segment income	520	872	1,299	2,117	4,809	26	4,835	(5)	4,829

Notes: 1. “Other” comprises businesses, such as investment business and back-office outsourcing services that are not included in reportable segments.
2. The negative 5 million yen adjustment for segment income is 5 million yen of unallocated corporate expenses. The main component of the unallocated corporate expenses is income and loss that are not attributable to reportable segments.
3. Segment income adjustments are based on operating income reported on the quarterly consolidated statements of income for the corresponding period.

2. Impairment loss on fixed assets or goodwill by reportable segment

Material impairment loss on fixed assets

In response to a decline in market prices, the Company reduced the book value of idle assets in its Energy Trade segment to their net realizable value. An impairment loss of 202 million yen was consequently booked for the six months ended September 30, 2013.

In response to a decline in market prices and other factors, the Company reduced the book value of idle assets in its Car-Life segment to their net realizable value. An impairment loss of 392 million yen was consequently booked for the six months ended September 30, 2013.

In response to a decline in market prices, the Company reduced the book value of idle assets in its Total Home-Life segment to their net realizable value. An impairment loss of 19 million yen was consequently booked for the six months ended September 30, 2013.

The Company reduced the book value of assets with no possibility of future use in its Power & Utility segment to their net realizable value. An impairment loss of 124 million yen was consequently booked for the six months ended September 30, 2013.

With the decision of head office relocation, the Company reduced the book value of certain corporate assets that are not attributable to reportable segments to their net realizable value. An impairment loss of 102 million yen was consequently booked for the six months ended September 30, 2013.

3. Changes in reportable segments and related information

As the Company is organized into business divisions, our reportable segments correspond to the business divisions.

In the first quarter ended June 30, 2013, positioning the power and utility business and the overseas business as priority fields while expanding and enhancing the existing core petroleum and gas-related business, we implemented the Company-wide organizational reform, in order to improve speed, flexibility, and governance in each field.

According to the reform, we integrated the Industrial Material Division and the Global Trade Division into the Energy Trade Division, as well as the Home-Life Division and the Total-Life Division into the Total Home-Life Division. We also established the new Power & Utility Division. Businesses including the electricity and steam supply business and the heat supply business which had been previously conducted by the Industrial Material Division were incorporated into this segment.

The segment information for the six months ended September 30, 2012 was stated, classified into the segments used in the six months ended September 30, 2013.