

This document is an English translation of quarterly financial results report released on October 31, 2019 and written initially in Japanese.
The Japanese original should be considered as the primary version.



October 31, 2019

Consolidated Financial Results for the First Six Months of the Fiscal Year Ending March 31, 2020 <under IFRSs>

Company name: **Itochu Enex Co., Ltd.**
 Listing: Tokyo Stock Exchange, 1st Section
 Stock code: 8133
 URL: <https://www.itcenex.com/english/>
 Representative: Kenji Okada, Representative Director, President and CEO
 Contact: Keisuke Hioki, General Manager, Finance & General Accounting Department
 Tel: +81-3-4233-8008

Scheduled date to file quarterly securities report: November 11, 2019

Scheduled date to commence dividend payments: December 4, 2019

Preparation of supplementary results briefing material on quarterly financial results: Yes

Holding of quarterly financial results presentation meeting: Yes (for institutional investors and analysts)

(Millions of yen with fractional amounts rounded, unless otherwise noted)

1. Consolidated financial results for the first six months of the fiscal year ending March 31, 2020 (from April 1, 2019 to September 30, 2019)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

| | Revenue | | Profit from operating activities | | Profit before tax | | Net profit | | Net profit attributable to Itochu Enex's shareholders | | Comprehensive income | |
|--------------------|-----------------|-------|----------------------------------|-------|-------------------|------|-----------------|-------|---|-------|----------------------|--------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Six months ended | | | | | | | | | | | | |
| September 30, 2019 | 439,099 | (7.6) | 9,527 | 7.2 | 9,681 | 3.1 | 6,468 | (1.4) | 5,184 | (4.8) | 6,292 | (11.1) |
| September 30, 2018 | 475,378 | 34.9 | 8,884 | (5.7) | 9,392 | 13.4 | 6,562 | 26.7 | 5,447 | 37.2 | 7,080 | 28.8 |

| | Basic earnings per share attributable to Itochu Enex's shareholders | Diluted earnings per share attributable to Itochu Enex's shareholders |
|--------------------|---|---|
| Six months ended | Yen | Yen |
| September 30, 2019 | 45.93 | — |
| September 30, 2018 | 48.25 | — |

Reference: Total trading transactions

For the six months ended September 30, 2019: 548,143 million yen

For the six months ended September 30, 2018: 606,834 million yen

Note: "Total trading transactions" are presented in accordance with the Japanese accounting practices.

(2) Consolidated financial position

| | Total assets | Total equity | Total shareholders' equity | Ratio of shareholders' equity to total assets |
|--------------------|-----------------|-----------------|----------------------------|---|
| As of | Millions of yen | Millions of yen | Millions of yen | % |
| September 30, 2019 | 409,579 | 146,388 | 123,666 | 30.2 |
| March 31, 2019 | 374,373 | 144,566 | 122,290 | 32.7 |

2. Cash dividends

| | Annual cash dividends per share | | | | |
|------------------------------|---------------------------------|--------------------|-------------------|-----------------|-------|
| | First quarter-end | Second quarter-end | Third quarter-end | Fiscal year-end | Total |
| Fiscal year ended | Yen | Yen | Yen | Yen | Yen |
| March 31, 2019 | – | 20.00 | – | 22.00 | 42.00 |
| Fiscal year ending | – | 21.00 | | | |
| March 31, 2020 | | | | | |
| Fiscal year ending | | | – | 21.00 | 42.00 |
| March 31, 2020 (Forecast) | | | | | |

Note: Revisions to the forecasts of cash dividends most recently announced: None

**3. Consolidated earnings forecasts for the fiscal year ending March 31, 2020
(from April 1, 2019 to March 31, 2020)**

(Percentages indicate year-on-year changes.)

| | Revenue | | Profit from operating activities | | Profit before tax | | Net profit attributable to Itochu Enex's shareholders | | Basic earnings per share attributable to Itochu Enex's shareholders |
|--------------------|-----------------|-------|----------------------------------|-------|-------------------|-------|---|-----|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Fiscal year ending | 1,000,000 | (0.7) | 16,500 | (7.6) | 19,200 | (1.1) | 11,800 | 2.1 | 104.54 |
| March 31, 2020 | | | | | | | | | |

Note: Revisions to the consolidated earnings forecasts most recently announced: None

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

- a. Changes in accounting policies required by IFRSs: Yes
- b. Changes in accounting policies other than the above: None
- c. Changes in accounting estimates: None

(Note) For details, please refer to “2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto, (6) Changes in Accounting Policies” on page 13 of the attached materials.

(3) Number of issued shares (common stock)

a. Total number of issued shares at end of period (including treasury stock)

| | |
|--------------------------|--------------------|
| As of September 30, 2019 | 116,881,106 shares |
| As of March 31, 2019 | 116,881,106 shares |

b. Number of treasury stock at end of period

| | |
|--------------------------|------------------|
| As of September 30, 2019 | 3,999,980 shares |
| As of March 31, 2019 | 4,002,462 shares |

c. Average number of outstanding shares during period (cumulative from the beginning of the fiscal year)

| | |
|---|--------------------|
| For the six months ended September 30, 2019 | 112,879,351 shares |
| For the six months ended September 30, 2018 | 112,878,931 shares |

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special notes

(Caution regarding forward-looking statements and others)

The forecasts and other forward-looking statements in this report are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. Actual business and other results may significantly differ from these forecasts due to various factors.

Please refer to “1. Qualitative Information Regarding Results for the First Six Months, (3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements” on page 5 of the attached materials for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

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1. Qualitative Information Regarding Results for the First Six Months

(1) Explanation of Operating Results

The Group has adopted IFRS 16 “Leases” (issued in January 2016; hereinafter, “IFRS 16”) from the first quarter ended June 30, 2019. For the details of the impact of the adoption of IFRS 16, please refer to “2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto, (6) Changes in Accounting Policies.”

1) Results of operations

During the six months ended September 30, 2019, the tone of the Japanese economy was one of moderate recovery. However, the outlook for the economy remained uncertain due to risks of a slowdown in the global economy, stemming from such issues as the impact on the global economy of the United States-China trade issue trend and uncertainties in overseas economies.

In addition, Japan’s energy industry has been encountering drastically changing circumstances, particularly with respect to consolidation of major oil companies, market entry by companies from other industries as a result of Japan having fully liberalized retail power and city gas sales, alliances forged across industry lines, and mounting worldwide awareness of climate change.

In this environment, the Itochu Enex Group announced its two-year medium-term business plan “Moving 2020 Horizons” in April 2019, and has been advancing its business based on the following basic policies:

Overview of medium-term business plan

1. Name of the plan: Moving 2020 Horizons



2. Period: Two years (FY2019 to FY2020)

3. Basic policy: *Promotion of Growth Strategies*

- (1) Maintaining and deepening the revenue base: Pursue Group synergy and further cultivate customer base.
- (2) Making inroads overseas and in peripheral fields: Proactively invest in overseas businesses and promote M&A of peripheral businesses.
- (3) Creating new businesses: Promote environmental businesses and so on.

Evolution of the Organizational Base

- (1) Strengthening Group management: Advance consolidated management and construct effective governance management structures.
- (2) Human resource strategies for growth: Promote diversity and nurture global human resources.
- (3) Promoting innovation: Pursue more efficient operations in existing business and promote digital solutions.

4. Quantitative plan (FY2020):

- (1) Net profit attributable to Itochu Enex’s shareholders: ¥12.5 billion
- (2) ROE: 9.0% or above
- (3) Dividend payout ratio: 40% or above
- (4) Planned investment (2-year total): ¥60.0 billion

The operating results for the six months ended September 30, 2019 are as follows.

Revenue was ¥439,099 million (down 7.6% year on year), due mainly to the impact resulting from the decrease in sales volumes and declining sales prices of domestic petroleum products in the Life & Industrial Energy Division.

Profit from operating activities was ¥9,527 million (up 7.2% year on year), a record-high profit, due mainly to the Life & Industrial Energy Division having secured profit margins as a result of robust sales in the retail market for petroleum products, and the increased profit in the sale of new cars in the car dealer business and increased profit margins in the electric power business of the Power & Utility Division.

Net profit attributable to Itochu Enex's shareholders was ¥5,184 million (down 4.8% year on year), due mainly to a decrease in earnings of associates accounted for by the equity method as a result of the impact of inventories, etc. in the Home-Life Division in relation to a fall in the LP gas import price.

2) Results of operations by segment

Results of operations by segment are as follows. Following the reorganization of the Group carried out on April 1, 2019, the reportable segments have changed. As part of the reorganization, the Mobility Life Department was included in the Life & Industrial Energy Division.

In line with this, the classification of reportable segments has been changed from the previous Home-Life Division, Life & Industrial Energy Division, Power & Utility Division and Mobility Life Department to the Home-Life Division, Life & Industrial Energy Division and Power & Utility Division from the first quarter ended June 30, 2019.

For that reason, the year-on-year comparisons have been recalculated based on the reportable segments as they exist after the reorganization.

As announced in the news release "Changes in Officers and Reorganization" on September 18, 2019, the Life & Industrial Energy Division was reorganized into two divisions: the Car-Life Division and Industrial Business Division as of October 1, 2019.

Home-Life Division

In the Home-Life Division during the six months ended September 30, 2019, the number of customers under direct LP gas supply contracts was approximately 551,000, roughly the same level as at the end of the previous fiscal year. The volume of LP gas direct sales was similar to that of the previous year, but decreases in wholesale and auto gas volumes resulted in year-on-year declines overall. Although sales were robust, profits declined due to the impact of inventories in relation to a fall in the LP gas import price.

Regarding sales of electricity for households, the division promoted the expansion of the customer base by focusing mainly on sales of combined LP gas and electricity supply packages. As a result, the number of supply contracts increased by around 9,000 for a total of approximately 91,000. Profits rose year on year, reflecting the increase of customers.

In the industrial gas sales business and container inspection business, both sales volumes and profits posted year-on-year declines due partly to the disappearance of special factors related to nitrogen sales that buoyed results in the same period of the previous year, and partly to lower sales of carbonic acid gas caused by market conditions.

As a result of these activities, the operating results for the six months ended September 30, 2019 are as follows.

Revenue was ¥36,616 million (down 9.0% year on year), due mainly to the declining sales price caused by a fall in the import price and the decrease in the sales volume of LP gas.

Profit from operating activities was ¥618 million (down 46.3% year on year), due mainly to the impact of inventories in relation to a fall in the import price of LP gas.

Net profit attributable to Itochu Enex's shareholders was ¥224 million (down 71.2% year on year), due mainly to a decrease in earnings of associates accounted for by the equity method as a result of the impact of inventories, etc. in relation to a fall in the LP gas import price.

Life & Industrial Energy Division

Looking at the Life & Industrial Energy Division during the six months ended September 30, 2019, in the Car-Life Stations (CS)^{*1} business, the number of the CS was 1,742, a decrease of 24 from the end of the previous fiscal period. Sales volumes of gasoline and diesel oil recorded year-on-year declines, but that of kerosene exceeded previous-year levels due to the temperature at the beginning of the period being lower than that of the same period in the previous fiscal year. Due to a robust retail market for petroleum products, we were able to secure improved margins and profits increased year on year.

In the automotive business, our car dealer business subsidiary OSAKA CAR LIFE GROUP CO., LTD. drove strong results amid robust sales not only of new cars, such as a new DAYZ model that was launched at the end of March 2019, but also of the Note, Serena and other popular car models, leading to year-on-year growth in both sales volume and profit.

As a result of these activities, the operating results for the six months ended September 30, 2019 are as follows.

Revenue was ¥351,016 million (down 9.7% year on year), due mainly to a decrease in sales volume and declining sales prices of domestic petroleum products.

Profit from operating activities was ¥5,685 million (up 23.7% year on year), due mainly to the secured margins as a result of robust sales in the retail market for petroleum products, and the increased profit in the sale of new cars in the car dealer business.

Net profit attributable to Itochu Enex's shareholders was ¥3,160 million (up 9.8% year on year), due mainly to the same reasons as the impacts on profit from operating activities described above.

*1 Car-Life Stations: Car-Life Stations are service stations offering multiple services provided by the Company.

Power & Utility Division

Looking at the Power & Utility Division during the six months ended September 30, 2019, in the electric power business, retail electricity sales volumes decreased year on year due to a downturn in large, high-voltage power contracts for business users, and despite an increase in volume of low-voltage power sales to households. Profit increased in comparison to the same period of the previous fiscal year as a result of improvements in margins.

In the heat supply business^{*2}, lower temperatures than in the same period of the previous fiscal year led to year-on-year decreases in both demand for heat and profit.

As a result of these activities, the operating results for the six months ended September 30, 2019 are as follows.

Revenue was ¥51,467 million (up 10.8% year on year), due mainly to an increase in electricity sales volume for the wholesale electricity market in the electric power business.

Profit from operating activities was ¥2,913 million (up 11.4% year on year), due mainly to the increased profit margins in the electric power business.

Net profit attributable to Itochu Enex's shareholders was ¥1,659 million (up 17.6% year on year), due mainly to the same reasons as the impacts on profit from operating activities described above.

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

(2) Explanation of Financial Position

Assets, liabilities and equity

Total assets amounted to ¥409,579 million as of September 30, 2019, an increase of ¥35,206 million from March 31, 2019. This increase mainly reflected an increase in property, plant and equipment of ¥54,826 million with the application of IFRS 16. Total liabilities amounted to ¥263,191 million, an increase of ¥33,384 million from March 31, 2019, mainly due to an increase in lease liabilities of ¥54,877 million with the application of IFRS 16. Total equity totaled ¥146,388 million, an increase of ¥1,822 million from March 31, 2019, due to factors including an increase of ¥5,184 million from net profit attributable to Itochu Enex's shareholders, a decrease of ¥2,905 million by payment of cash dividends and a decrease of ¥1,535 million with the application of IFRS 16.

Cash flows

Cash and cash equivalents (net cash) totaled ¥21,385 million as of September 30, 2019, up ¥2,660 million from March 31, 2019.

Cash flows from operating activities

Operating activities provided net cash of ¥7,138 million. Major items included profit before tax of ¥9,681 million, depreciation and amortization of ¥9,630 million, and an increase in funds required for trading of ¥6,854 million. Net cash provided decreased ¥2,607 million year on year.

Cash flows from investing activities

Investing activities used net cash of ¥7,240 million. Major items included purchase of investments accounted for by the equity method of ¥2,750 million, mainly in the Power & Utility Division, and acquisition of subsidiaries of ¥5,566 million. Net cash used increased ¥5,482 million year on year.

Cash flows from financing activities

Financing activities provided net cash of ¥2,765 million. Major items included net increase in short-term borrowings of ¥17,071 million, repayments of bonds and borrowings of ¥6,133 million and repayments of lease liabilities of ¥5,238 million. Net cash provided increased ¥8,501 million year on year.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements

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 April 26, 2019.

2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereo

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Millions of yen)

| | As of March 31, 2019 | As of September 30, 2019 |
|---|-------------------------|-----------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 18,725 | 21,385 |
| Trade receivables | 106,165 | 88,488 |
| Other current financial assets | 36,034 | 33,869 |
| Inventories | 33,053 | 28,387 |
| Income taxes receivable | 2,533 | – |
| Trade advances paid | 111 | 158 |
| Other current assets | 3,154 | 2,246 |
| Total current assets | 199,775 | 174,533 |
| Non-current assets | | |
| Investments accounted for by the equity method | 29,441 | 31,832 |
| Other investments | 4,186 | 4,197 |
| Non-current financial assets other than investments | 11,292 | 11,482 |
| Property, plant and equipment | 87,599 | 142,425 |
| Investment property | 9,819 | 12,962 |
| Goodwill | 521 | 521 |
| Intangible assets | 20,091 | 19,992 |
| Deferred tax assets | 9,913 | 9,777 |
| Other non-current assets | 1,736 | 1,858 |
| Total non-current assets | 174,598 | 235,046 |
| Total assets | 374,373 | 409,579 |

(Millions of yen)

| | As of March 31, 2019 | As of September 30, 2019 |
|---|-------------------------|-----------------------------|
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Short-term bonds and borrowings | 11,217 | 26,023 |
| Trade payables | 121,677 | 92,377 |
| Lease liabilities | – | 9,571 |
| Other current financial liabilities | 7,905 | 6,049 |
| Income taxes payable | 3,193 | 2,896 |
| Advances from customers | 9,651 | 9,542 |
| Other current liabilities | 11,820 | 10,155 |
| Total current liabilities | 165,463 | 156,613 |
| Non-current liabilities | | |
| Non-current bonds and borrowings | 22,893 | 18,997 |
| Lease liabilities | – | 56,447 |
| Other non-current financial liabilities | 23,531 | 13,872 |
| Non-current liabilities for employee benefits | 9,936 | 10,021 |
| Deferred tax liabilities | 2,287 | 1,732 |
| Provisions | 5,462 | 5,292 |
| Other non-current liabilities | 235 | 217 |
| Total non-current liabilities | 64,344 | 106,578 |
| Total liabilities | 229,807 | 263,191 |
| Equity | | |
| Common stock | 19,878 | 19,878 |
| Capital surplus | 18,922 | 18,919 |
| Retained earnings | 86,769 | 88,321 |
| Other components of equity | (1,406) | (1,582) |
| Treasury stock | (1,873) | (1,870) |
| Total shareholders' equity | 122,290 | 123,666 |
| Non-controlling interests | 22,276 | 22,722 |
| Total equity | 144,566 | 146,388 |
| Total liabilities and equity | 374,373 | 409,579 |

(2) Condensed Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

| | Six months ended September 30, 2018 | Six months ended September 30, 2019 |
|--|--|--|
| Revenue | 475,378 | 439,099 |
| Cost of sales | (434,045) | (396,818) |
| Gross profit | 41,333 | 42,281 |
| Other income and expense | | |
| Selling, general and administrative expenses | (32,524) | (33,044) |
| Profit (loss) from tangible assets, intangible assets and goodwill | (186) | 69 |
| Other – net | 261 | 221 |
| Total other income and expense | (32,449) | (32,754) |
| Profit from operating activities | 8,884 | 9,527 |
| Financial income and costs | | |
| Interest income | 42 | 28 |
| Dividends received | 53 | 64 |
| Interest expense | (438) | (574) |
| Other financial income and costs – net | (5) | (27) |
| Total financial income and costs | (348) | (509) |
| Share of profit of investments accounted for by the equity method | 856 | 663 |
| Profit before tax | 9,392 | 9,681 |
| Income tax expense | (2,830) | (3,213) |
| Net profit | 6,562 | 6,468 |
| Net profit attributable to: | | |
| Net profit attributable to Itochu Enex’s shareholders | 5,447 | 5,184 |
| Net profit attributable to non-controlling interests | 1,115 | 1,284 |
| Total | 6,562 | 6,468 |

(Millions of yen)

| | Six months ended September 30, 2018 | Six months ended September 30, 2019 |
|--|--|--|
| Other comprehensive income, net of tax effect | | |
| Items that will not be reclassified to profit or loss | | |
| FVTOCI financial assets | 244 | 54 |
| Other comprehensive income of investments accounted for by the equity method | (1) | 23 |
| Items that may be reclassified to profit or loss | | |
| Exchange differences on translating foreign operations | (11) | (2) |
| Cash flow hedges | 64 | 15 |
| Other comprehensive income of investments accounted for by the equity method | 222 | (266) |
| Total other comprehensive income, net of tax effect | 518 | (176) |
| Comprehensive income | 7,080 | 6,292 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to Itochu Enex's shareholders | 5,965 | 5,008 |
| Comprehensive income attributable to non-controlling interests | 1,115 | 1,284 |
| Total | 7,080 | 6,292 |

(Yen)

| | | |
|---|-------|-------|
| Earnings per share attributable to Itochu Enex's shareholders | | |
| Basic | 48.25 | 45.93 |
| Diluted | – | – |

(Millions of yen)

| | | |
|----------------------------|---------|---------|
| Total trading transactions | 606,834 | 548,143 |
|----------------------------|---------|---------|

(Note) Total trading transactions are presented in accordance with the Japanese accounting practices. This item is voluntarily disclosed by the Company for investors' convenience and is not required to be disclosed under International Financial Reporting Standards ("IFRSs").

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

Six months ended September 30, 2018

(Millions of yen)

| | Shareholders' equity | | | | | | Non-controlling interests | Total equity |
|---|----------------------|-----------------|-------------------|----------------------------|----------------|----------------------------|---------------------------|--------------|
| | Common stock | Capital surplus | Retained earnings | Other components of equity | Treasury stock | Total shareholders' equity | | |
| Balance at April 1, 2018 | 19,878 | 18,892 | 80,352 | (1,145) | (1,873) | 116,104 | 20,962 | 137,066 |
| Net profit | | | 5,447 | | | 5,447 | 1,115 | 6,562 |
| Other comprehensive income | | | | 518 | | 518 | 0 | 518 |
| Comprehensive income | | | 5,447 | 518 | | 5,965 | 1,115 | 7,080 |
| Transactions with owners | | | | | | | | |
| Cash dividends | | | (2,712) | | | (2,712) | (459) | (3,171) |
| Changes due to additional acquisitions and sales of interests in subsidiaries | | | | | | - | (0) | (0) |
| Transfer from other components of equity to retained earnings | | | (1) | 1 | | - | | - |
| Purchase and disposal of treasury stock | | | | | (0) | (0) | | (0) |
| Share-based payments | | 3 | | | | 3 | | 3 |
| Balance at September 30, 2018 | 19,878 | 18,895 | 83,086 | (626) | (1,873) | 119,360 | 21,618 | 140,978 |

Six months ended September 30, 2019

(Millions of yen)

| | Shareholders' equity | | | | | | Non-controlling interests | Total equity |
|---|----------------------|-----------------|-------------------|----------------------------|----------------|----------------------------|---------------------------|--------------|
| | Common stock | Capital surplus | Retained earnings | Other components of equity | Treasury stock | Total shareholders' equity | | |
| Balance at April 1, 2019 | 19,878 | 18,922 | 86,769 | (1,406) | (1,873) | 122,290 | 22,276 | 144,566 |
| Cumulative effect of accounting change | | | (1,146) | | | (1,146) | (389) | (1,535) |
| Restated balance | 19,878 | 18,922 | 85,623 | (1,406) | (1,873) | 121,144 | 21,887 | 143,031 |
| Net profit | | | 5,184 | | | 5,184 | 1,284 | 6,468 |
| Other comprehensive income | | | | (176) | | (176) | (0) | (176) |
| Comprehensive income | | | 5,184 | (176) | | 5,008 | 1,284 | 6,292 |
| Transactions with owners | | | | | | | | |
| Cash dividends | | | (2,486) | | | (2,486) | (419) | (2,905) |
| Changes due to additional acquisitions and sales of interests in subsidiaries | | | | | | - | (30) | (30) |
| Transfer from other components of equity to retained earnings | | | | | | - | | - |
| Purchase and disposal of treasury stock | | | | | (0) | (0) | | (0) |
| Share-based payments | | (3) | | | 3 | - | | - |
| Balance at September 30, 2019 | 19,878 | 18,919 | 88,321 | (1,582) | (1,870) | 123,666 | 22,722 | 146,388 |

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

| | Six months ended September 30, 2018 | Six months ended September 30, 2019 |
|--|--|--|
| Cash flows from operating activities | | |
| Profit before tax | 9,392 | 9,681 |
| Depreciation and amortization | 5,018 | 9,630 |
| Loss (profit) from tangible assets, intangible assets and goodwill | 186 | (69) |
| Financial income and costs | 348 | 509 |
| Share of profit of investments accounted for by the equity method | (856) | (663) |
| Decrease in trade receivables | 5,306 | 17,779 |
| Decrease (increase) in inventories | (2,002) | 4,666 |
| Decrease in trade payables | (194) | (29,299) |
| Other – net | (3,539) | (4,214) |
| Dividends received | 268 | 634 |
| Interest received | 28 | 17 |
| Interest expense | (413) | (572) |
| Income taxes paid | (3,797) | (3,494) |
| Income taxes refund | – | 2,533 |
| Net cash flows provided by operating activities | 9,745 | 7,138 |
| Cash flows from investing activities | | |
| Purchase of investments accounted for by the equity method | (1,486) | (2,750) |
| Proceeds from sales of investments accounted for by the equity method | – | 4 |
| Purchase of investments | (51) | (65) |
| Proceeds from sales of investments | 35 | 60 |
| Acquisition of subsidiaries, net of cash acquired | – | (5,566) |
| Payment for loans receivable | (447) | (359) |
| Collection of loans receivable | 311 | 515 |
| Payments for purchase of property, plant and equipment and investment property | (5,381) | (5,082) |
| Proceeds from sales of property, plant and equipment and investment property | 654 | 536 |
| Purchase of intangible assets | (448) | (633) |
| Proceeds from sales of intangible assets | 32 | 5 |
| Decrease in deposits paid – net | 4,999 | 5,500 |
| Other – net | 24 | 595 |
| Net cash flows used in investing activities | (1,758) | (7,240) |

(Millions of yen)

| | Six months ended September 30, 2018 | Six months ended September 30, 2019 |
|---|--|--|
| Cash flows from financing activities | | |
| Repayments of bonds and borrowings | (1,858) | (6,133) |
| Repayments of lease liabilities | – | (5,238) |
| Net increase (decrease) in short-term borrowings | (706) | 17,071 |
| Payments for additional acquisitions of interests in subsidiaries from non-controlling interests | – | (30) |
| Cash dividends paid to Itochu Enex's shareholders | (2,712) | (2,486) |
| Cash dividends paid to non-controlling interests | (459) | (419) |
| Purchase of treasury stock | (0) | (0) |
| Other | (1) | – |
| Net cash flows provided by (used in) financing activities | (5,736) | 2,765 |
| Net increase in cash and cash equivalents | 2,251 | 2,663 |
| Cash and cash equivalents at the beginning of the period | 22,573 | 18,725 |
| Effect of exchange rate changes on cash and cash equivalents | 26 | (3) |
| Cash and cash equivalents at the end of the period | 24,850 | 21,385 |

(5) Notes on Uncertainties of Entity’s Ability to Continue as Going Concern

No items to report.

(6) Changes in Accounting Policies

From the first quarter ended June 30, 2019, the following standard has been applied.

| Standard | Title | Description of new/amended standards or interpretations |
|----------|--------|---|
| IFRS 16 | Leases | Amendments to accounting for lease contracts |

Following the application of IFRS 16, for leases as lessee in cases where the contract is a lease or contains a lease, right-of-use assets and lease liabilities are recorded in the condensed quarterly consolidated statement of financial position on the commencement date of the lease.

Lease liabilities are measured using the present value of unpaid lease payments. Lease payments are allocated to financial costs and repayments of lease liabilities based on the effective interest method with financial costs recognized in the condensed quarterly consolidated statement of comprehensive income.

Right-of-use assets are measured at cost, with the acquisition cost on the commencement date of the lease being determined, and the asset being depreciated thereafter using the straight-line method over the period from the commencement date to the end of the asset’s useful life or of the lease term, whichever is the shorter.

Furthermore, the Group has not recognized right-of-use assets and lease liabilities for leases of intangible assets, short-term leases with a lease term of less than 12 months, and leases for low-value assets. Lease payments related to the above are recognized as expense on either a straight-line basis or some other systematic basis to the total lease payments over the lease term.

In accordance with the transition under IFRS 16 upon its application, the Group has recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings for the first quarter ended June 30, 2019. The weighted average of the lessee’s incremental borrowing rate applied to lease liabilities recognized in the condensed quarterly consolidated statement of financial position as of the date of initial application of the standard is 0.5%.

A schedule reconciling the operating lease contracts disclosed as of the end of the previous fiscal year under IAS 17 “Leases” (hereinafter, “IAS 17”) and the lease liabilities recognized in the condensed quarterly consolidated statement of financial position as of the date of initial application of the standard is provided below.

| | |
|--|-------------------|
| | <u>Amount</u> |
| | (Millions of yen) |
| Noncancelable operating lease contracts disclosed (March 31, 2019) | 6,168 |
| Operating leases discounted using the incremental borrowing rate (April 1, 2019) | 6,096 |
| Finance lease obligations disclosed (March 31, 2019) | 11,141 |
| Cancelable operating lease contracts, etc. | <u>48,132</u> |
| Lease liabilities as of April 1, 2019 | <u>65,369</u> |

In applying IFRS 16, the Group has elected to apply the practical expedient provided in paragraph C3 of IFRS 16 to grandfather the assessment of whether a contract contains a lease under IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease.”

With regard to leases previously classified as operating leases under IAS 17, these were recognized as right-of-use assets and lease liabilities on the date of initial application of IFRS 16, with lease liabilities

measured using the present value of unpaid lease payments at commencement, discounted by the lessee's incremental borrowing rate as of the initial application of the standard. In addition, with regard to leases that were previously classified as finance leases under IAS 17, the book values of right-of-use assets and lease liabilities at the date of initial application of the standard are measured at the book value of lease assets and lease obligations respectively on the day directly before the date of initial application, based on IAS 17.

As a result, total assets increased by ¥52,692 million, lease liabilities increased by ¥54,228 million, while retained earnings decreased by ¥1,146 million as of the beginning of the first quarter ended June 30, 2019.

In relation to the application of IFRS 16, the Group has elected to use the following practical expedients.

- Initial direct costs are excluded from the measurement of right-of-use assets performed at the date of the initial application of the standard.
- When computing the lease term in cases where the contract contains an option to extend or cancel the lease, etc., a post-facto decision shall be taken.

(7) Segment Information

For the six months ended September 30, 2018

(Millions of yen)

| | Reportable segment | | | Total | Adjustment | Consolidated |
|---|--------------------|-----------------------------------|--------------------------|---------|------------|--------------|
| | Home-Life Division | Life & Industrial Energy Division | Power & Utility Division | | | |
| Revenue | | | | | | |
| Revenue from external customers | 40,248 | 388,693 | 46,437 | 475,378 | – | 475,378 |
| Intersegment revenue | 46 | 1,385 | 3,165 | 4,596 | (4,596) | – |
| Total revenue | 40,294 | 390,078 | 49,602 | 479,974 | (4,596) | 475,378 |
| Gross profit | 10,374 | 26,102 | 4,857 | 41,333 | – | 41,333 |
| Profit from operating activities | 1,151 | 4,595 | 2,614 | 8,360 | 524 | 8,884 |
| Profit before tax | 1,611 | 4,534 | 2,778 | 8,923 | 469 | 9,392 |
| Net profit attributable to Itochu Enex's shareholders | 779 | 2,877 | 1,411 | 5,067 | 380 | 5,447 |
| Other items | | | | | | |
| Total assets | 60,968 | 200,391 | 85,813 | 347,172 | 30,436 | 377,608 |
| Total trading transactions | 44,959 | 513,613 | 48,262 | 606,834 | – | 606,834 |

(Note) Intersegment transactions have been decided by reference to the market price.

The adjustment of ¥380 million to net profit attributable to Itochu Enex's shareholders represents corporate profit (loss) not allocated to reportable segments.

The adjustment of ¥30,436 million to total assets represents corporate assets not allocated to reportable segments.

Total trading transactions are unaudited items voluntarily disclosed by the Company and represent the amount of sales in accordance with Japanese accounting practices.

For the six months ended September 30, 2019

(Millions of yen)

| | Reportable segment | | | Total | Adjustment | Consolidated |
|---|--------------------|-----------------------------------|--------------------------|---------|------------|--------------|
| | Home-Life Division | Life & Industrial Energy Division | Power & Utility Division | | | |
| Revenue | | | | | | |
| Revenue from external customers | 36,616 | 351,016 | 51,467 | 439,099 | – | 439,099 |
| Intersegment revenue | 74 | 3,387 | 1,526 | 4,987 | (4,987) | – |
| Total revenue | 36,690 | 354,403 | 52,993 | 444,086 | (4,987) | 439,099 |
| Gross profit | 9,864 | 26,901 | 5,516 | 42,281 | – | 42,281 |
| Profit from operating activities | 618 | 5,685 | 2,913 | 9,216 | 311 | 9,527 |
| Profit before tax | 695 | 5,499 | 3,254 | 9,448 | 233 | 9,681 |
| Net profit attributable to Itochu Enex's shareholders | 224 | 3,160 | 1,659 | 5,043 | 141 | 5,184 |
| Other items | | | | | | |
| Total assets | 61,965 | 207,046 | 107,979 | 376,990 | 32,589 | 409,579 |
| Total trading transactions | 40,344 | 454,856 | 52,943 | 548,143 | – | 548,143 |

(Note) Intersegment transactions have been decided by reference to the market price.

The adjustment of ¥141 million to net profit attributable to Itochu Enex's shareholders represents corporate profit (loss) not allocated to reportable segments.

The adjustment of ¥32,589 million to total assets represents corporate assets not allocated to reportable segments.

Total trading transactions are unaudited items voluntarily disclosed by the Company and represent the amount of sales in accordance with Japanese accounting practices.

As of March 31, 2019

(Millions of yen)

| | Reportable segment | | | Total | Adjustment | Consolidated |
|--------------|--------------------|-----------------------------------|--------------------------|---------|------------|--------------|
| | Home-Life Division | Life & Industrial Energy Division | Power & Utility Division | | | |
| Total assets | 65,584 | 189,333 | 82,439 | 337,356 | 37,017 | 374,373 |

(Note) The adjustment of ¥37,017 million to total assets represents corporate assets not allocated to reportable segments.

Change in reportable segments

In the first quarter ended June 30, 2019, the now former Mobility Life Department was included in the Life & Industrial Energy Division.

In line with this, the classification of reportable segments has been changed from the previous Home-Life Division, Life & Industrial Energy Division, Power & Utility Division and Mobility Life Department to the Home-Life Division, Life & Industrial Energy Division and Power & Utility Division from the first quarter ended June 30, 2019.

Due to the change in segments, segment information for the first six months of the previous fiscal year and as of the end of the previous fiscal year (March 31, 2019) has been adjusted based on the classification of reportable segments after the change.