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Itochu Enex Reports Consolidated Earnings for the Nine Months Ended December 31, 2013 (Under Japanese GAAP)

Tokyo, Japan, January 30, 2014 -- Itochu Enex Co., Ltd. (TSE: 8133) announced net sales of 1,088,687 million yen for the nine months ended December 31, 2013, and net income of 4,190 million yen, or 37.09 yen per share, on a consolidated basis.

Results of Operations

In the nine months ended December 31, 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 a drop in demand for heavy oil for power generation and other factors, while gasoline remained at the year-earlier level, and gas oil grew at a pace exceeding the corresponding period a year earlier.

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 nine months ended December 31, 2013, consolidated net sales increased 5.7% year on year to 1,088,687 million yen. Operating income and ordinary income decreased year on year respectively by 3.3% to 8,012 million yen, and 3.6% to 7,899 million yen. Net income rose 19.0% year on year to 4,190 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 792 million yen (down 54.4% year on year) on net sales of 528,221 million yen (up 0.6% year on year) in the nine months ended December 31, 2013.

Despite the growing tendency of global demands for petroleum products, domestic ones have continued to decline. Furthermore, crude oil prices have remained high, and there is a move to reduce production of domestic petroleum products. Consequently, as the domestic petroleum product market has continued sluggish, the business environment remained harsh.

Under such circumstances, though we proactively secured new transactions, responding to domestic and overseas market trends and customer's needs, in an effort to expand sales volume in each product and service, profits decreased from a year earlier with temporarily recognized loss on valuation of futures for hedging spot stocks.

In order to steadily improve and optimize distribution functions as division's priority issue, we have built an asphalt sales network centering on 11 asphalt terminals nationwide, deployed nine dedicated fuel supply ships in Japan in the marine fuel sales business for domestic operation, and enhanced 17 AdBlue supply bases nationwide in response to the increasing popularization of urea SCR vehicles[1]. Like this, we continued to enhance our supply system. The third company-owned vessel to carry asphalt "Angel Blue" is scheduled to be completed within the current fiscal year, following "Great Crane" completed in the current fiscal year. We will continue to steadily improve and optimize distribution functions in main products and services, quickly responding to diversifying needs of clients, and changes in market 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 2,317 million yen (down 7.7% year on year) on net sales of 448,016 million yen (up 8.7% year on year).

Demands for gasoline declined with prices of domestic petroleum products remaining high due to impacts from high crude oil prices and weakening yen, as well as increased popularization of fuel-efficient cars. In addition, demands for kerosene significantly fell as temperature was higher in the beginning of winter. However, sales volume leveled off from a year earlier thanks to promotion of new large-scale affiliates at the end of the previous fiscal year and in the current fiscal year, and proactive sales approaches. 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[2], 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”.

As part of social contribution activities, we have also implemented an activity “the Eco Support Manifesto for Kids” in which we have visited 61 kindergartens and nursery schools across Japan to consider environmental issues together with kids. We intend to continue to pass on the importance of environment to the next generation.

The number of Car-Life Stations of the Group at the end of the nine months was 2,159; a net decrease of 23 stations from the end of the previous fiscal year. During the nine months, we added 60 newly affiliated stations even amid the decrease in the number of domestic gas stations, while losing 83 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 2,188 million yen (up 21.6% year on year) on net sales of 85,176 million yen (up 14.2% year on year).

The number of direct sales for home increased year on year, and sales volume of LP gas almost leveled off from a year earlier, as a result of promoting the area strategy at Group companies, and proactively working on acquisition of retail business rights, etc.

Despite the second highest import price of LP gas in history in December 2013, appropriate profit margin could be ensured with gas rate adjustment system which has been actively introduced for some time.

In the new energy business, we have proactively conducted “activities to propose the best mix of energy” combining a solar power generation system, ENEFARM residential fuel cells, and high-performance and high-efficiency gas equipment, through “Smart Life” campaign which started in June 2013. As a result, sales volumes of new types of energy equipment and high-performance and high-efficiency gas equipment increased by 59% and 34% respectively, year on year. Furthermore, community-based events are held at each “E-koto Shop” operated by the Group in order to perform activities as a community information station.

As part of social contribution activities, we will continue to implement “the Itadakimasu Support Manifesto for Kids” and “the Honoo no Chikara Support Manifesto for Kids” at kindergartens and nursery schools across Japan for the purpose of educating children about “importance of diet” and “importance of fire”.

Power & Utility Division

The Power & Utility Division earned operating income of 2,638 million yen (up 37.3% year on year) on net sales of 26,769 million yen (up 49.3% year on year).

In the electricity and steam supply business, the amount of electricity sold increased from a year earlier, with contributions from the reinforcement of thermal power generation facilities in the previous fiscal year, the wind power generation business with the acquisition of JEN Konbumori Wind Farm Co., Ltd., solar power generation of JEN Kusu Wind Farm

Co., Ltd. newly established in the current fiscal year, and other factors. Even with the increased cost of sales, profits grew largely year on year thanks to prices remaining high in the wholesale power market and the wind power generation business using the renewable energy feed-in tariff system, etc.

Hofu Energy Service Co., Ltd., a Group company, started construction to enhance the coal thermal power generation facility, which is scheduled to start operation in April 2015.

As for the wind power generation business, in December 2013, we acquired all shares of Tainai Wind Farm Co., Ltd. to be the Group's third wind farm operation. Tainai Wind Farm Co., Ltd. is constructing wind power generation facilities with 20MW in Tainai City, Niigata prefecture, which is scheduled to start operation in September 2014.

In the heat supply business[4], the amount of heat sold leveled off from a year earlier, as heat for air heating declined while heat for air cooling increased year on year due to slightly higher average temperature than usual in the east Japan areas.

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 347,027 million yen at December 31, 2013, an increase of 23,279 million yen from March 31, 2013. This primarily reflected an increase in trade notes and accounts receivable. Liabilities amounted to 236,609 million yen, an increase of 19,393 million yen from March 31, 2013. This primarily reflected an increase in trade notes and accounts payable. Net assets totaled 110,417 million yen, an increase of 3,886 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	December 31, 2013
	Amount	Amount
Assets		
Current assets		
Cash and cash equivalents	17,880	12,593
Trade notes and accounts receivable	139,140	149,628
Merchandise and finished products	17,044	24,459
Deferred tax assets	1,963	1,690
Other	17,267	21,192
Allowance for doubtful accounts	(218)	(323)
Total current assets	193,077	209,240
Fixed assets		
Property, plant and equipment		
Buildings and structures	57,725	57,426
Accumulated depreciation	(33,203)	(32,897)
Buildings and structures, net	24,521	24,528
Machinery, equipment and vehicles	53,022	52,577
Accumulated depreciation	(28,209)	(28,354)
Machinery, equipment and vehicles, net	24,812	24,222
Vessel	488	1,177
Accumulated depreciation	(11)	(86)
Vessel, net	477	1,090
Land	34,753	34,637
Leased assets	5,435	5,794
Accumulated depreciation	(3,026)	(3,677)
Leased assets, net	2,408	2,116
Construction in progress	588	7,628
Other	6,206	6,682
Accumulated depreciation	(4,399)	(4,433)
Other, net	1,806	2,248
Net, property, plant and equipment	89,368	96,472
Intangible assets		
Goodwill	3,209	3,173
Other	8,164	8,322
Total intangible assets	11,373	11,495
Investments and other assets		
Investment securities	15,269	14,952
Long-term loans	964	877
Deferred tax assets	2,816	2,842
Other assets	11,380	11,695
Allowance for doubtful accounts	(503)	(549)
Total investments and other assets	29,926	29,818
Total fixed assets	130,669	137,786
Total assets	323,747	347,027

Millions of yen

	March 31, 2013	December 31, 2013
	Amount	Amount
Liabilities		
Current liabilities		
Trade notes and accounts payable	119,006	139,447
Short-term borrowings	9,594	11,969
Commercial papers	–	3,000
Corporate bonds due within one year	5,000	–
Lease obligations	1,132	965
Income taxes payable	3,932	1,543
Accrued bonuses for employees	3,115	1,548
Accrued bonuses for directors and corporate auditors	404	259
Other current liabilities	20,047	20,867
Total current liabilities	162,233	179,601
Long-term liabilities		
Corporate bonds	20,000	20,000
Long-term debt	6,246	7,098
Lease obligations	2,141	1,917
Deferred tax liabilities	1,809	2,075
Deferred tax liabilities on land revaluation	2,438	2,358
Liabilities for retirement benefits	6,404	6,768
Asset retirement obligations	2,688	2,825
Other long-term liabilities	13,253	13,964
Total long-term liabilities	54,983	57,008
Total liabilities	217,216	236,609
Net assets		
Shareholders' equity		
Common stock	19,877	19,877
Capital surplus	18,736	18,736
Retained earnings	69,106	71,502
Treasury stock	(1,749)	(1,750)
Total shareholders' equity	105,970	108,366
Accumulated other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	(104)	470
Deferred hedge gains (losses)	(5)	(116)
Revaluation reserve for land	(7,778)	(7,792)
Foreign currency translation adjustments	71	140
Total accumulated other comprehensive income (loss)	(7,815)	(7,297)
Minority interests	8,375	9,347
Total net assets	106,530	110,417
Total liabilities and net assets	323,747	347,027

(2) Consolidated Statements of Income

Millions of yen

	Nine months ended December 31, 2012	Nine months ended December 31, 2013
	Amount	Amount
Net sales	1,029,796	1,088,687
Cost of sales	979,721	1,037,693
Gross profit	50,075	50,993
Selling, general and administrative expenses	41,793	42,981
Operating income	8,281	8,012
Other income		
Interest income	55	14
Dividend income	250	240
Purchase discounts	198	214
Equity in income of unconsolidated subsidiaries and associates	8	117
Other	616	582
Total other income	1,130	1,168
Other expense		
Interest expense	403	384
Sales discounts	166	191
Bond issuance cost	84	–
Loss on foreign currency translation	407	422
Other	156	283
Total other expense	1,219	1,281
Ordinary income	8,192	7,899
Extraordinary gains		
Gain on sales of fixed assets	97	514
Gain on sales of investment securities	12	2,082
Compensation income for expropriation	150	–
Other	–	2
Total extraordinary gains	260	2,598
Extraordinary losses		
Loss on sales and disposal of fixed assets	648	526
Loss on sales of investment securities	2	–
Loss on devaluation of investment securities	2	1
Loss on devaluation of golf club membership	6	0
Loss on impairment of long-lived assets	250	899
Head office relocation expense	–	303
Voluntary product recall related expense	–	232
Total extraordinary losses	910	1,963
Income before income taxes and minority interests	7,543	8,534
Income taxes		
Current	2,999	3,474
Deferred	334	200
Total income taxes	3,334	3,674
Income before minority interests	4,208	4,860
Minority interests	686	669
Net income	3,522	4,190

Consolidated Statements of Comprehensive Income

Millions of yen

	Nine months ended December 31, 2012	Nine months ended December 31, 2013
	Amount	Amount
Income before minority interests	4,208	4,860
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	260	574
Deferred hedge gains (losses)	–	(94)
Foreign currency translation adjustments	–	21
Share of other comprehensive income (loss) of associates accounted for using equity method	(64)	31
Total other comprehensive income (loss)	196	532
Comprehensive income	4,404	5,392
Components:		
Comprehensive income attributable to owners of the parent	3,718	4,722
Comprehensive income attributable to minority interests	686	669

(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

Nine months ended December 31, 2012 (April 1, 2012 to December 31, 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	524,833	412,078	74,562	17,928	1,029,403	393	1,029,796	–	1,029,796
Intersegment sales or transfers	19,248	7,030	3,397	–	29,676	1,803	31,479	(31,479)	–
Total	544,081	419,108	77,959	17,928	1,059,079	2,197	1,061,276	(31,479)	1,029,796
Segment income	1,737	2,509	1,800	1,920	7,968	33	8,002	279	8,281

Notes:
1. "Other" comprises businesses, such as investment business and back-office outsourcing services that are not included in reportable segments.
2. The 279 million yen adjustment for segment income is 279 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 nine months ended December 31, 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 71 million yen was consequently booked for the nine months ended December 31, 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 33 million yen was consequently booked for the nine months ended December 31, 2012.

Nine months ended December 31, 2013 (April 1, 2013 to December 31, 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	528,221	448,016	85,176	26,769	1,088,183	503	1,088,687	–	1,088,687
Intersegment sales or transfers	20,744	8,601	499	–	29,845	1,197	31,042	(31,042)	–
Total	548,965	456,617	85,675	26,769	1,118,029	1,700	1,119,729	(31,042)	1,088,687
Segment income	792	2,317	2,188	2,638	7,936	18	7,954	57	8,012

Notes:
1. "Other" comprises businesses, such as investment business and back-office outsourcing services that are not included in reportable segments.
2. The 57 million yen adjustment for segment income is 57 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 202 million yen was consequently booked for the nine months ended December 31, 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 397 million yen was consequently booked for the nine months ended December 31, 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 nine months ended December 31, 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 nine months ended December 31, 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 154 million yen was consequently booked for the nine months ended December 31, 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 nine months ended December 31, 2012 was stated, classified into the segments used in the nine months ended December 31, 2013.