ITOCHU ENEX CO.,LTD.
8133 Tokyo Stock Exchange
First Section

6-Nov.-14

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and disclaimers appear
at the end of this document.

FISCO Ltd. Analyst
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Developing a wide range of energy businesses

A member of the ITOCHU Corp. (8001) group, Itochu Enex is an oil trading company that is becoming more involved in different energy businesses. Its business scope now extends from selling fuel to industries to selling gasoline, liquid petroleum (LP) gas and energy equipment to final consumers.

From its founding in 1961 through 2009, the company concentrated on oil and gas businesses, but in 2010, it submitted to the Japanese government an application for starting specified-scale electricity business and began retail sales of electricity. In 2011, it purchased JEN Holdings and entered the business of electric power generation. In 2012, it bought a controlling interest in Tokyo Toshi Service Co. from Tokyo Electric Power Co. (9501) and entered the heat supply business. These new businesses are conducted by the company's Power & Utility Division. This division accounts for a small proportion of the company's total sales, but it is growing and it is the most profitable division, contributing 23% of the company's total operating profit in the fiscal year through March 2014, i.e., in FY3/14. It is also increasing its production capacity, and it will probably expand the scope of its business further in FY3/16.

The Car-Life Division has been the company's prime division. In May 2014, it bought the Osaka Car Life Group and made it a consolidated subsidiary. The Osaka Car Life Group generates annual sales of about ¥100bn, and it also owns the only Nissan car dealership in Osaka Prefecture which is one of the biggest car dealer among Nissan group in Japan. By accumulating this large, new car dealership, the division has developed a line of services for every stage of a car use cycle. Also, this contributed the division to have two stable main sources of income: the sale of gasoline and other fuels derived from oil and the automotive businesses.

Itochu Enex has grown through aggressive, recurrent acquisitions, so it could be said that M&A is in its DNA. We will focus on both its regular acquisitions and its maintenance or improvement of asset efficiency. We believe that its asset efficiency is an important factor in enabling its business expansion through acquisitions and its improving ROE. We estimate its FY3/15 ROE at 7.8% and foresee an ROE of more than 8% or even 10% in coming years. This trend should support its share price valuations.

Check Point

- Transforming itself from a fuel trading company into a new type of total energy-related company
- The Power & Utility Division is likely to lead growth in FY3/15-FY3/16
- Dividends per share will probably increase based on earnings growth and the company plan to maintain a dividend payout ratio of 30% or more

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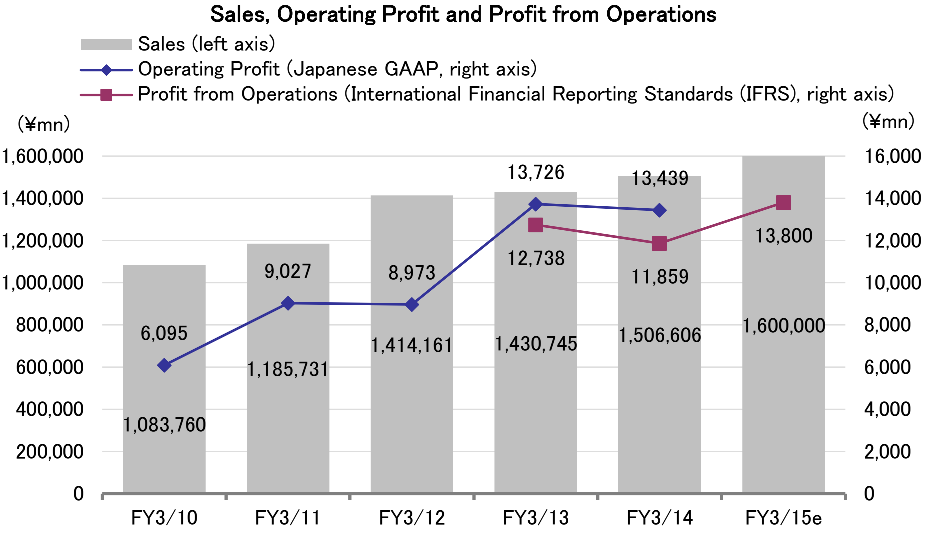

*From FY3/14, the company will adopt International Financial Reporting Standards

Company Outline

Transforming itself from a fuel trading company into a new type of total energy-related company

(1) History

Itochu Enex took its current name in July 2001. Before that, it had been widely known in the oil distribution market and the stock market as Itochu Fuel Corp. It was established in January 1961 as a spin-off from Itochu Sekiyu K.K., a subsidiary of ITOCHU Corp., when ITOCHU Corp.'s longstanding business partner, Nippon Mining Co., Ltd, (now JX Holdings (5020)) constructed the Mizushima Oil Refinery, to sell the products of this refinery.

Initially, Itochu Fuel sold heavy oil products made at the Mizushima Oil Refinery for industrial use. Over the years, it branched into selling gasoline, industrial gases and LP gas.

Until the 1990s, Itochu Fuel Corp. concentrated on oil-related businesses, but it attempted to diversify into other businesses. For example, it started a convenience store chain called CicoMart, and it took an equity stake in Tokai Corp., which was restructuring after bankruptcy.

Since 2000, Itochu Enex has accelerated the pace of its business expansion, entering the businesses of city (piped) gas supply, electric power supply and heat supply, and strengthening its asphalt business. To improve its profitability, it has branched into sales to individual consumers, not just other companies. In these ways, Itochu Enex is attempting to change from a fuel trader to a company providing new forms of energy.

Itochu Enex listed its shares on the Second Sections of the Osaka Securities Exchange and the Tokyo Stock Exchange in February 1978. The following year, its shares were listed on the First Sections on Tokyo Stock Exchanges. Now it is listed on Tokyo Stock Exchanges.

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8133 Tokyo Stock Exchange First Section

6-Nov.-14

History of Itochu Enex

Date	Event	Division
Jan. 1961	Established as a spin-off from Itochu Sekiyu K.K., led by ITOCHU Corporation.	
April 1977	Merged with Itochu Fuel Corp.	
Feb. 1978	Shares listed on the Second Sections of the Osaka Securities Exchange and the Tokyo Stock Exchange	
Sep. 1979	Shares listed on the First Sections of the Osaka Securities Exchange and the Tokyo Stock Exchange	
May 1990	Spun off its high-pressure gas business to form subsidiary Itochu High-Pressure Gas Co.	HL
March 2001	Took over the supply of piped gas to Nakatsu City, Oita Prefecture, with the aim of entering this business on a full scale	HL
July 2001	Changed name from Itochu Fuel Corp. to Itochu Enex Co., Ltd. Also changed the names of subsidiaries.	
May 2005	Started Takigawa Enex business, which is now subsidiary Itochu Enex Home-Life Nishi-Nihon Co., Ltd.	HL
July 2005	Took a majority equity stake in Kokura Enterprise Vehicle Service Co., Ltd., which is now subsidiary Kokura Enterprise Energy Co., Ltd.	ET
Oct. 2005	Kokura Enterprise Energy began operations	ET
April 2007	Wholly owned subsidiary Itochu Enex Home-Life Kyushu merged with Idex Gas K.K. to form subsidiary Ecore Co., Ltd.	HL
Sep. 2008	Acquired Kohnan Corp.'s oil sales business and stock in Kohnan Fleet Co., which is now Enex Fleet Co., Ltd.	CL
Oct. 2008	Acquired the oil products trading business of ITOCHU Corp. and oil products logistics business of Itochu Petroleum Japan Ltd.	ET
July 2010	Submitted to the Japanese government a notification of intent to engage in the Specified-Scale Electricity Utility and began retail sales of electricity.	PU
Feb. 2011	Took an equity stake in IP Power Systems Corp., which provided electric power to condominium buildings. Sold this stake in September 2013.	PU
March 2011	Acquired JEN Holdings Co., Ltd., made it a consolidated subsidiary, and began supplying steam heat and electricity to plants.	PU
April 2011	Absorbed Itochu Petroleum Sales Co., changed the name of Kohnan Fleet Co. to Enex Fleet Co.	CL
May 2012	Acquired a majority equity stake in Tokyo Toshi Service Co., which is now a consolidated subsidiary, to enter the heat supply business.	PU
Oct. 2012	JEN Holdings acquired CEF Konbumori Wind Farm Co., Ltd., expanding its wind power business	PU
April 2013	ing Corporation and Itochu Enex Home-Life Kanto Co., Ltd. established joint venture ing Energy and began joint operations	HL
July 2013	Transferred city (piped) gas and LP gas businesses in Nakatsu City, Oita Prefecture to Ecore Co., Ltd.	HL
Dec. 2013	JEN Holdings acquired Tainai Wind Farm Co.	PU
Jan. 2014	Moved head office to Toranomon, Minato-ku, Tokyo	
May 2014	Took a majority equity stake in Osaka Car Life Group Co., Ltd. and made it a consolidated subsidiary	CL

Note: HL = Home-Life, CL = Car-Life, PU = Power & Utility, ET = Energy Trade
Source: Compiled by Fisco from company materials and company's Japanese financial statements

Four Divisions contribute almost equally to total operating profit

(2) Overview of Businesses

Itochu Enex operates four business units: the Home-Life Division, the Car-Life Division, the Power & Utility Division, and the Energy Trade Division. As described in detail below, these divisions supply about equal amounts of operating profit. The Energy Trade Division accounts for about half the company's total sales, but its total sales include trading oil products domestically and internationally which yields very thin profit margins with the large scale sales amount. In fact, the division's operating profit margin is as thin as 0.4%. The main business of the Car-Life Division is wholesale sales of gasoline, which is also a low-margin business. Consequently, this division's operating profit margin is 0.5%. Compared to these two divisions, the Power & Utility Division generates small sales, but it specializes in profitable businesses, such as the electricity and heat supply business. Therefore, its operating profit margin is 8.4%, the highest of the four divisions.

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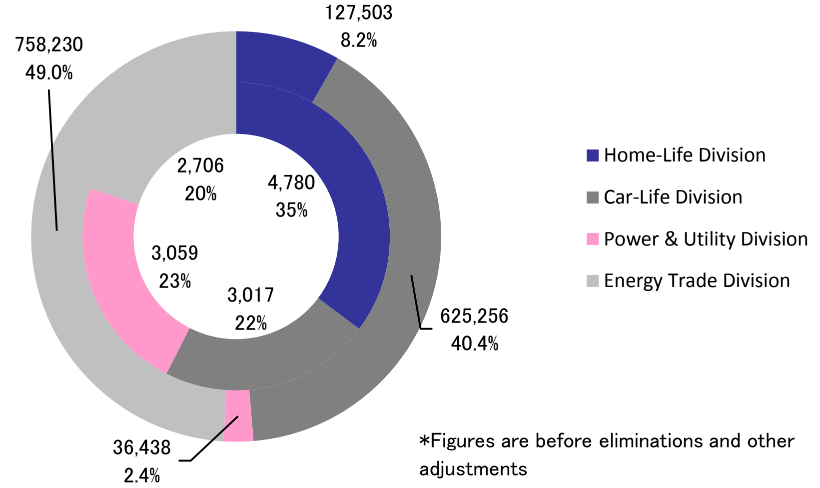
8133 Tokyo Stock Exchange First Section

6-Nov.-14

Breakdown of FY3/14 Consolidated Sales and Operating Profit (¥mn, %) by Divisions



*Figures are before eliminations and other adjustments

Detailed Description of Businesses

LP gas sales are main source of profit

(1) Home-Life Division

The Home-Life Division sells LP gas, city gas, solar power systems, and fuel cells for home use (Enefarm), but LP gas sales are its main source of profit.

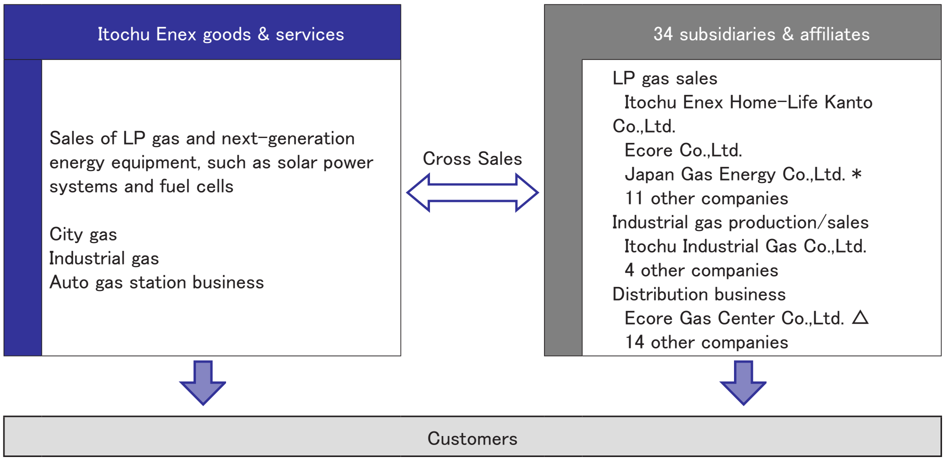
Sales and Profits (¥mn) in the Home-Life Division, FY3/13-FY3/15e

(Unit: ¥mn)

	FY3/13	FY3/14		FY3/15e	
	Amount	Amount	y-o-y	Amount	y-o-y
Sales	109,549	126,846	15.8%	150,700	18.8%
Operating profit	4,031	4,780	18.6%	-	-
Pretax profit	-	-	-	5,500	-

Source: Compiled by Fisco from company materials

Outline of Home-Life Division

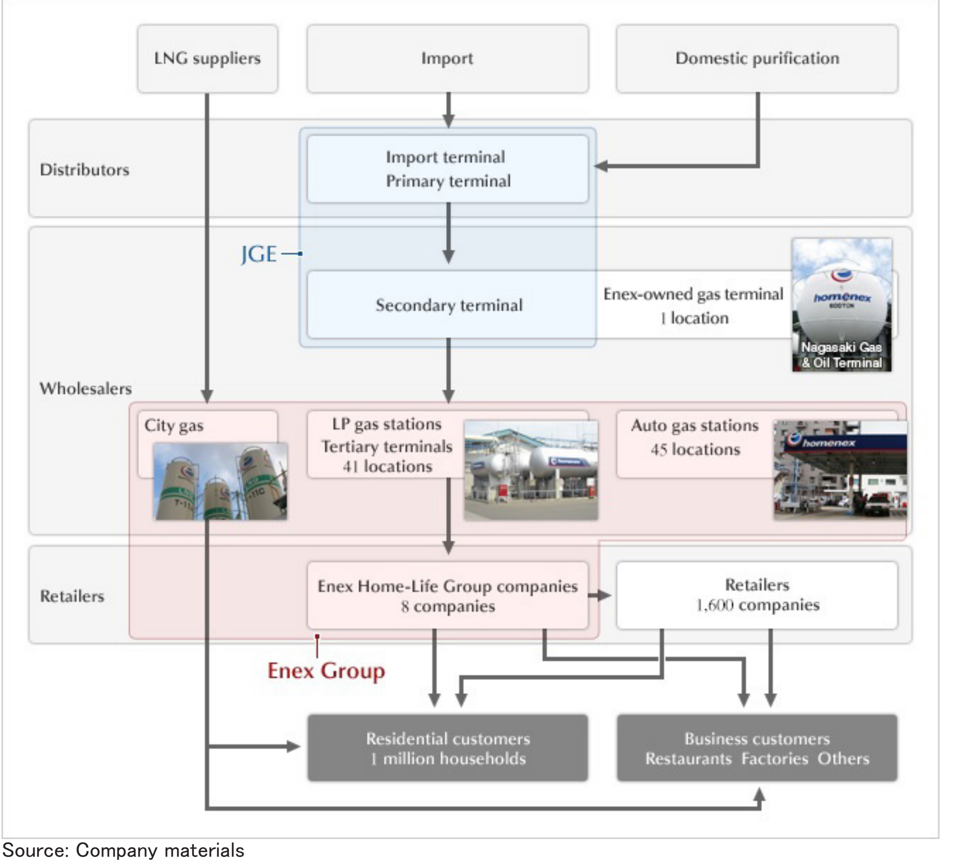


Note: Company marked with a △sign is a non-consolidated subsidiaries; that marked with a * is an affiliate; those with no mark are consolidated subsidiaries
Source: Compiled by Fisco from company materials

LP Gas Business

The LP gas business purchases all of its LP gas from affiliate Japan Gas Energy Corp. (JGE) and sells it through subsidiaries to about 300,000 households. It also sells LP gas wholesale to about 1,600 retailers. Combining direct and indirect sales, it supplies about one million households.

Flow Chart of Itochu Enex's LP Gas and City Gas Businesses



Source: Company materials

The LP gas market appears relatively sluggish, but its business environment is stable. The main substitute for LP gas is city gas, but it is uneconomical to lay pipelines to distribute gas in sparsely populated areas. These areas must rely on LP gas delivered in cylinders. This dichotomy is clear-cut. Households can also rely entirely on electricity for energy, but electricity is more expensive than gas and the supply of electricity is subject to shortages and outages. Therefore, the demand for LP gas is likely to remain stable over the foreseeable future.

Sales of LP gas provide relatively constant profitability to wholesalers and retailers. About 80% of the LP gas consumed in Japan is imported. Original distributors sell the gas to wholesalers, which sell it to retailers, which deliver it to households and other final users. The original distributors offer a sales system that adjusts prices for changes in the cost of LP gas, enabling stable profitability for wholesalers and retailers. Thus, about 20,000 LP gas retailers operate in Japan.

Itochu Enex's strategy for its LP gas business is clear; it aims to increase retail sales of the gas directly as retail sales are more profitable than wholesale sales. The business currently has about 300,000 households as retail customers. By acquiring smaller retailers, it aims to increase the geographical area of its retail sales.

While the LP gas business is the main source of profit for the Home-Life Division, we believe that it could also become a growth driver because it already serves a network of about one million households directly and indirectly. It is not easy to build such a network. Through this network, the company could sell many sorts of products. The company recognizes the value of this network and is now considering ways to tap it for its growth businesses. As explained in the section below on the Power & Utility Division, the company expects this network to contribute to stronger retail sales of electric power.

City Gas Business

Itochu Enex currently supplies city gas to Nakatsu City in Oita Prefecture. In March 2001, the company bought the plant and equipment for this business and the right to operate them from the city and began operations. This business is profitable, supported by the depreciation of the plant and equipment. In 2013, the business was transferred to subsidiary Ecore Co. When the company entered the business, it had planned to gain know-how in it, then to expand it. However, many conditions are attached to contracts to supply city gas, and the business resembles a public business in many respects. Thus, many suppliers of city gas have not been able to profit quickly from the business, and the company has decided to restrict its involvement in it.

Considering that some suppliers of city gas to cities with a population of one million people remain unprofitable, we believe that the company was wise to restrict its involvement in the business. In the future, after it has gained more know-how in the business, it may be able to expand it by concluding concession contracts, i.e., contracts to operate gas plant and equipment without owning them. For the time being, the company apparently does not plan to expand the business.

Sales of Smart Energy Equipment

In addition to selling LP gas and city gas, the Home-Life Division sells solar power systems, the Enefarm brand of fuel cells for the home, and combinations of this equipment called double power systems. It calls all of this equipment smart energy equipment. It started selling the Enefarm brand of fuel cells in 2009 and solar power systems in 2011, so both products probably make limited contributions to division profit. However, the company has positioned these products as growth drivers of the division over the medium-to-long term. One goal of the company's management plan for FY3/15 is to become a company that offers the best mix of energy. The achievement of this goal should include increasing sales of smart energy equipment.

A strategy of presenting the best mix of energy and thereby increasing sales of smart energy equipment is reasonable, we believe. However, it is also important to establish a realistic route for the sale of this equipment. The most effective way to establish such a route would be to conclude business agreements with leading housing companies, but this would be difficult because most leading housing companies have already concluded ties with equipment providers. A more realistic approach might be to establish business ties with smaller housing companies for which it is already supplying energy and energy equipment.

Unit Sales of Smart Energy Equipment During the Smart Life Campaign from June through December, FY3/13-FY3/15e

機器	Unit	FY3/13	FY3/14				FY3/15e	
			plan	actual	vs. plan	y-o-y	plan	y-o-y
Solar power systems	set	1,153	1,850	1,778	96.1%	54.2%	2,000	12.5%
Ecological fuel cells	unit	49	400	142	35.5%	189.8%	300	111.3%
Glass-top gas ranges	unit	13,081	15,700	16,627	105.9%	27.1%	18,000	8.3%
Ecological water heaters	unit	7,964	9,600	11,580	120.6%	45.4%	12,000	3.6%
Gas heaters	unit	5,800	7,000	6,846	97.8%	18.0%	7,000	2.2%

Planning profit growth from automobile businesses

(2) Car-Life Division

The Car-Life Division sells gasoline wholesale to gasoline stands or service stations in the Itochu Enex group, offers automobile inspections and maintenance service, mainly at service stations operated by subsidiaries, sells new and used automobiles, rents automobiles, and offers credit card services.

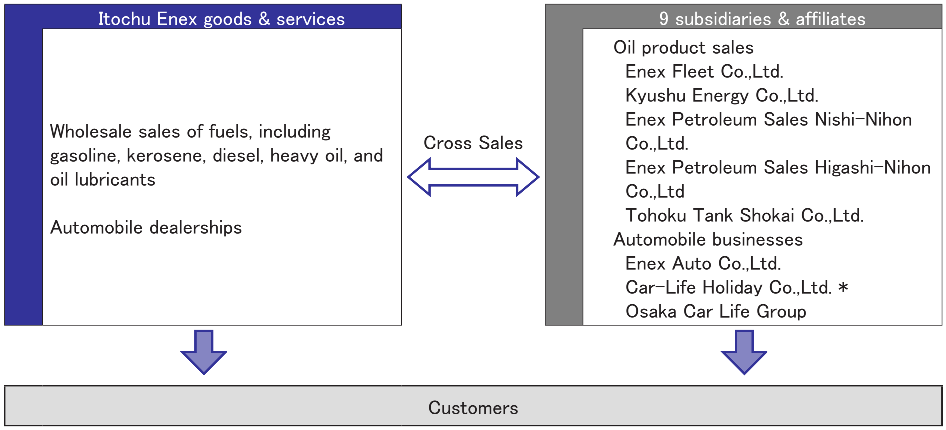
Sales and Profits (¥mn) in the Car-Life Division, FY3/13-FY3/15e

(Unit: ¥mn)

	FY3/13	FY3/14		FY3/15e	
	Amount	Amount	y-o-y	Amount	y-o-y
Sales	561,448	612,258	9.0%	671,800	9.7%
Operating profit	3,491	3,017	-13.6%	-	-
Pretax profit	-	-	-	3,200	-

Source: Compiled by Fisco from company materials

Outline of Car-Life Division



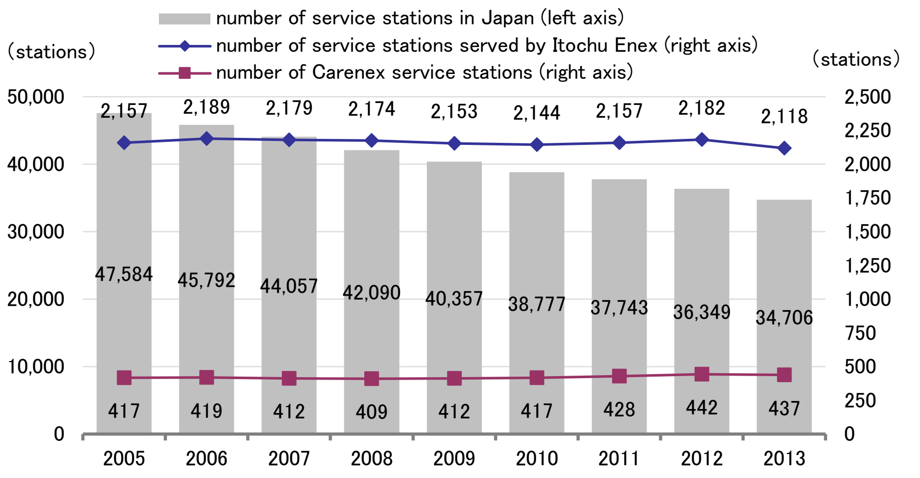
Note: Company marked with a * is an affiliates; those with no mark are consolidated subsidiaries
Source: Compiled by Fisco from company materials

Car-Life Support Business

The car-life support business engages in many automobile businesses, mainly the operation and supply of service stations. At the end of June 2014, its subsidiaries, such as Enex Fleet and Kyushu Energy, directly operated about 300 service stations nationwide and it had concluded contracts with about 1,800 service stations operated by companies in groups other than the Itochu Enex group to supply them with gasoline and other products. Thus, it conducted business with 2,101 service stations.

The number of service stations in Japan has been steadily decreasing, reflecting macroeconomic factors, such as the decline in Japan's population, and microeconomic factors, such as a peaking out of the number of automobiles owned in Japan, a lack of successors to manage service stations, and the aging of service station facilities. As mentioned above, most of the 2,100 service stations served by Itochu Enex are operated by companies in groups other than the Itochu Enex group. Almost all service stations in Japan, even directly operated stations, conduct business with original distributors of all brands of oil products. The ENEOS brand of service station operated by JX Holdings (5020) is the most common in Japan. The next most common brand is Shell, operated by Showa Shell Sekiyu K.K. (5002), and the third most common is the Cosmo brand operated by Cosmo Oil Co.,Ltd. (5007). Itochu Enex develops the Carenex brand of service station. There are about 430 Carenex service stations in Japan.

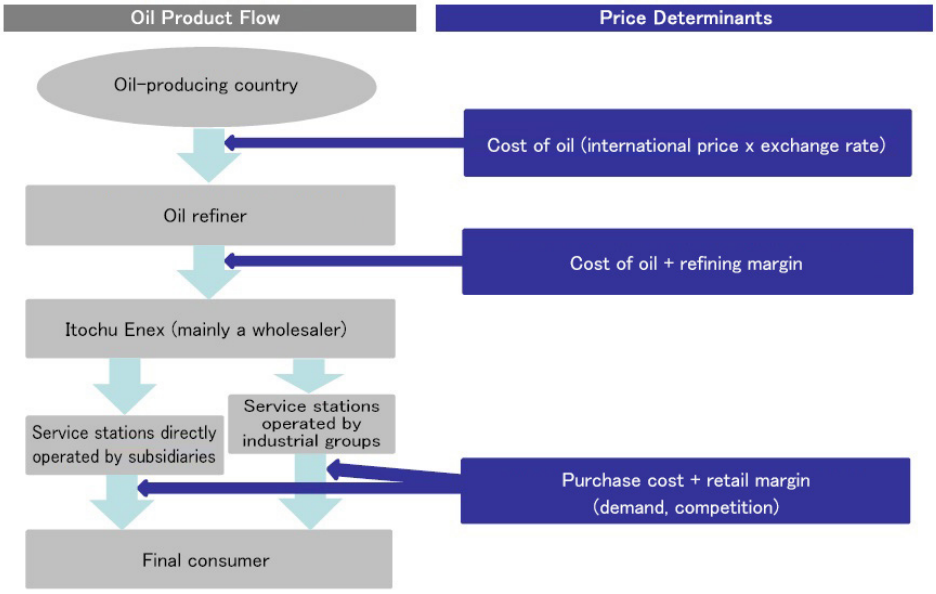
Number of Service Stations in Japan, Number of Service Stations Served by Itochu Enex, and Number of Carenex Service Stations



*Numbers are as of the end of each fiscal year, i.e., at the end of March each year.
Source: Prepared by Fisco from materials from the National Petroleum Dealers Association and from Itochu Enex

The gross profit of a service station is the spread between its cost of goods sold, such as gasoline, and the selling price of the goods. This cost and price vary depending on different factors. Japan imports almost all of the crude oil it consumes. Oil refiners in Japan set their product prices to reflect their costs plus a refining margin. Their costs are the international (US dollar) price of crude oil converted into yen at the prevailing exchange rate plus the cost of refining. As explained earlier, Itochu Enex sells gasoline on a retail basis through service stations operated by subsidiaries and on a wholesale basis to service stations operated by industrial groups. Its retail price for gasoline is set as its cost of providing it plus a retail margin, but the retail margin often shrinks in response to such factors as a weakening of demand, relative to supply, and competition from nearby service stations. Oil refiners are reducing their refining capacity, so they command greater power to set prices than wholesalers and retailers of oil products.

Flow of Oil Product Delivery in Japan and Overview of Price Determinants



Source: Fisco

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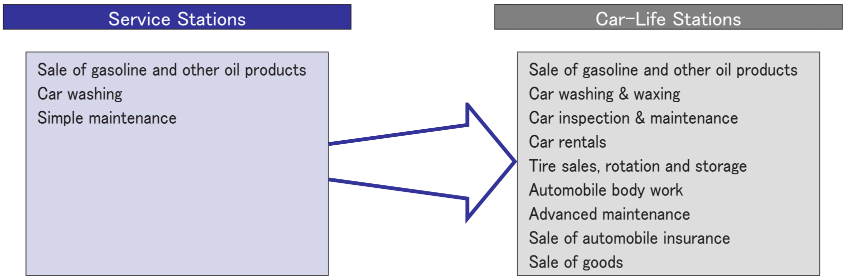
8133 Tokyo Stock Exchange First Section

6-Nov.-14

Given this operating environment for service stations, the strategy of Itochu Enex is clear. The most important goal of this strategy is to increase the areas served by its service stations, that is, to increase the number of service stations. The company is now trying to keep the number of its directly operated service stations. For service stations operated by other industrial groups, the company is concentrating on issues of quality while waiting for opportunities to increase the number of such service stations. Factors reflecting the quality of a service station include its location, the age of its equipment, and its sales volume. One sales volume target is the industry average of 120 kl of gasoline per month. It is important to increase the number of service stations, and the company's plan for expansion is flexible, which is wise because service stations of questionable quality may become liabilities.

Even more than increasing the number of its service stations, the company is stressing a strategy of increasing the number and extent of goods and services provided. For example, it is strengthening its sales of automobile inspections, maintenance services, and lubricant. It is also selling automobiles and renting them through its Itsumo Rent-a-Car Service, thereby attracting customers who do not own an automobile. The company now calls its service stations car-life stations, which are intended to satisfy the general automotive needs of the public. Car-life stations are also the company's concept and slogan. All of the company's service stations are now converting themselves into car-life stations.

Products Offered by Service Stations versus Those Offered by Car-Life Stations



Source: Fisco

New Car Dealership

In May 2014, Itochu Enex bought a 51.95% stake in the Osaka Car Life Group, making it a consolidated subsidiary. The Osaka Car Life Group is a holding company. One of its operational companies is Nissan Osaka Sales Co., the only Nissan Motor Co. (7201) dealership in Osaka Prefecture and the dealership that provides the most profit nationwide. In FY3/13, the Osaka Car Life Group reported consolidated sales of ¥105,920mn, consolidated operating profit of ¥2,792mn, and consolidated net profit of ¥2,522mn.

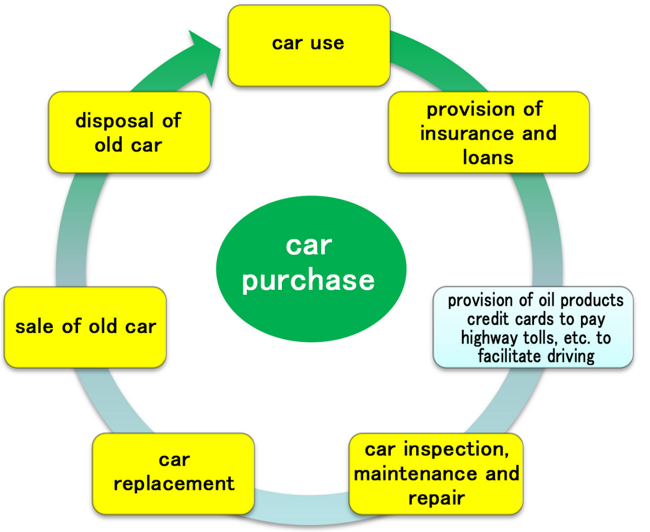
Itochu Enex explained that it purchased the Osaka Car Life Group to enable its Car-Life Division to offer a comprehensive line of automotive products, not just its two main services in the past, selling fuel and operating service stations. In other words, the company aimed to strengthen its car-life value chain and anticipates increased added value from this value chain.

The company's concept of car-life value chain may be easily understood by referring to the car use cycle. By making the Osaka Car Life Group a consolidated subsidiary, Itochu Enex provided its ability to offer all the goods and services in the car use cycle, including the sale of new cars. It also improved its opportunity to earn profits.

ITOCHU ENEX CO.,LTD.
8133 Tokyo Stock Exchange First Section

6-Nov.-14

Car Use Cycle and Divisions Conducted by the Car-Life Division

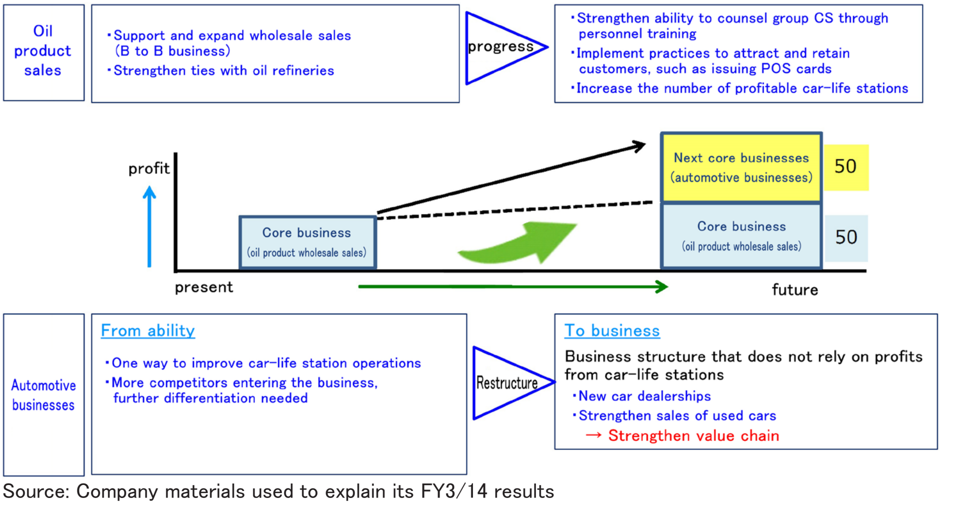


Note: Business highlighted in yellow are conducted by the Osaka Car Life Group; business highlighted in light blue (and some of those highlighted in yellow) are conducted by Itochu Enex or its subsidiaries other than the Osaka Car Life Group
Source: Company materials used to explain its FY3/14 results

We believe that this purchase should benefit Itochu Enex, given the size of the profit earned by the Osaka Car Life Group and its strong business foundation. Itochu Enex paid ¥6.1bn for the purchase: ¥6bn for the equity stake and an advisory fee of ¥100mn. This cost is equivalent to a PER of about 5 times, considering the share of the Osaka Car Life Group's net profit accruing to Itochu Enex based on its ownership ratio. The Osaka Car Life Group's ownership of the only Nissan dealership in Osaka Prefecture is a major competitive advantage.

As explained above, the Car-Life Division continues to support its business of selling gasoline and other oil products, which has been its main source of profit, while developing the business of supplying automotive products, such as car inspections, car rentals, and sales of goods, with the goal of eventually deriving equal amounts of profit from both businesses. Itochu Enex does not divulge plans to acquire more companies to strengthen its automotive products business. However, given its history of making acquisitions and the long-term trend of decline in the number of service stations in Japan, we believe that the company is likely to acquire more companies. If such acquisitions are made as wisely as the purchase of the Osaka Car Life Group, the company should benefit from them.

Planned Transformation of the Profit Structure of the Car-Life Division



Source: Company materials used to explain its FY3/14 results

Has led growth since entering the electric power retailing business in 2010

(3) Power & Utility Division

The Power & Utility Division is relatively new, having begun in 2010, when the company submitted a declaration of intent to engage in Specified-Scale Electricity Utility to the Ministry of Economy, Trade and Industry and started selling electricity on a retail basis. In 2011, Itochu Enex bought JEN Holdings, which supplies electricity to plants, and in 2012, it bought Tokyo Toshi Service, which supplies heat to industrial and commercial facilities. Both acquisitions became consolidated subsidiaries and contributed substantially to the structure of the power and utility business. In April 2013, this business was made a division, complementing the other three divisions in name and substance.

Sales and Profits (¥mn) in the Power & Utility Division, FY3/13-FY3/15e

(Unit: ¥mn)

	FY3/13	FY3/14		FY3/15e	
	Amount	Amount	y-o-y	Amount	y-o-y
Sales	25,610	36,438	42.3%	41,900	15.0%
Operating profit	2,254	3,059	35.7%	-	-
Pretax profit	-	-	-	2,100	-

Source: Compiled by Fisco from company materials

Outline of Power & Utility Division

Itochu Enex goods & services

Electric power sales

Heat sales

LNG sales

Cross Sales

15 subsidiaries & affiliates

Production/sale of electric power & steam (10 companies)
- JEN Holdings Co.,Ltd.
- JEN Konbumori Wind Farm Co.,Ltd.
- Joetsu Energy Service Co.,Ltd.
- Amagasaki Energy Service Co.,Ltd.
- Hofu Energy Service Co.,Ltd.
- Hofu Power Station #2 Co.,Ltd.
- JEN Kusu Wind Farm Co.,Ltd.
- JEN Engineering & Service Co.,Ltd.
- JEN Tainai Wind Farm Co.,Ltd.
- Sendai Power Station Co.,Ltd. (established Sept. 11, 2014)
- Japan Energy Network Co.,Ltd.* (stock retired in Sept. 2013)

Heat supply (3 companies)
- Tokyo Toshi Service Co.,Ltd.
- Tokyo Heat Energy Co.,Ltd.
- Aoyama Energy Service Co.,Ltd.
- * Affiliate Fuchu Heat Supply Co.,Ltd. merged with Tokyo Toshi Service Co.,Ltd. in April 2014

LNG Sales (2 companies)
- Enex LNG Sales Co.,Ltd.
- Shikoku Gas Enex Co.,Ltd.

Customers

Note: Company marked with a * was an affiliate as of September 22, 2014
Source: Compiled by Fisco from company materials

Electric Power Division

Most of the Electric Power Division is conducted by JEN Holdings, which Itochu Enex made a wholly-owned subsidiary in 2011. JEN Holdings buys the electric power generation facilities owned by large private companies and uses these facilities to supply electric power to the plants of the companies that sold them. It also sells electric power through Itochu Enex to public facilities and private-sector companies and sells any excess power to electric power companies. Its electric power generation facilities are fueled by many sources of energy, including coal, natural gas, wind, water, and solar, but in recent years, it has been buying and improving wind farms.

At the end of August 2014, five affiliates of JEN Holdings were generating electric power (see table below), and all five were profitable. In October, JEN Tainai Wind Farm began operations, and in March 2015, Hofu Power Station #2 is scheduled to be completed a coal powered plant. The capacity expansion afforded by these two new plants will prepare JEN Holdings to compete effectively in Japan's electric power retail market after it is liberalized in 2016.

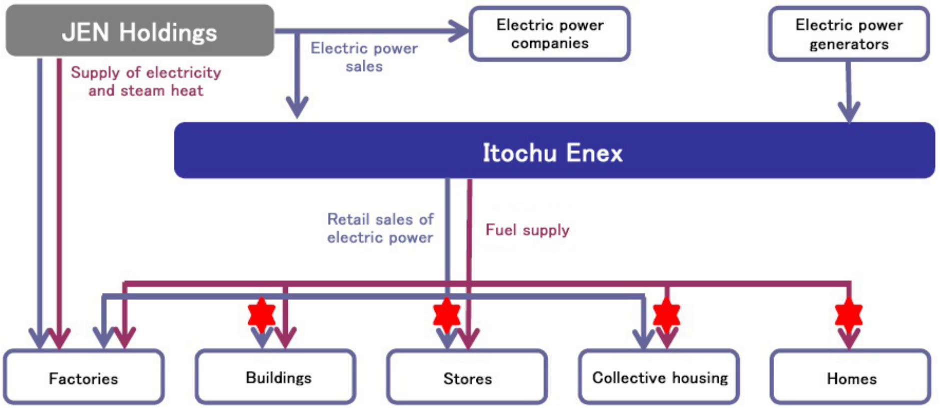
JEN Holdings' Electric Power Generation Subsidiaries and Their Capacities (kW) by Energy Source

Subsidiary	Coal	Natural gas + Heavy oil C	Natural gas	Water	Wind	Solar	Total	Note
Hofu Energy Service	43,550						43,550	
Jouetsu Energy Service		31,000	15,600	8,490			55,090	
Amagasaki Energy Service			4,000				4,000	
JEN Kusu Wind Farm					11,000	1,000	12,000	
JEN Konbumori Wind Farm					10,000		10,000	
Capacity at end-Aug. 2014	43,550	31,000	19,600	8,490	21,000	1,000	124,640	
JEN Tainai Wind Farm					20,000		20,000	Scheduled for completion in Sept. 2014
Hofu Power Station #2	36,000						36,000	Scheduled for completion in March 2015
Capacity planned for end of FY3/15	79,550	31,000	19,600	8,490	41,000	1,000	180,640	

Source: Company materials

Product flow in the electric power business is summarized in the diagram below. JEN Holdings sells the electricity generated by its subsidiaries by three routes: 1) directly to plants, 2) directly to electric power companies and the Japan Electric Power Exchange, and 3) through Itochu Enex electricity is sold on a retail basis to public facilities and private-sector companies based on contracts for sales of 50kW or more. Currently, JEN Holdings sells more electricity on a wholesale basis than it does on a retail basis and more on a retail basis than it does to plants. However, it is preparing to greatly increase the volume of electricity sold on a retail basis from 2016. By gaining more know-how in the electricity retail business and improving its ability to match supply and demand, the company aims to reap larger profits.

Outline of Electric Power Flow



Note: Facilities tagged with red stars are targeted for sales expansion
Source: Compiled by Fisco from company materials

With a view towards expanding retail sales of electricity, on September 26, 2014, Itochu Enex announced plans to establish a joint venture with paper manufacturer Oji Holdings Corp. (3861). This new company will sell surplus electricity generated by the power plants owned by Oji Holdings and the electricity generated by a new plant to be constructed to commercial facilities. The joint venture, to be established in January 2015, will be owned 60% by Itochu Enex and 40% by Oji Green Resources Co., Ltd., a subsidiary of Oji Holdings. This joint venture is scheduled to start retail sales of electricity in April 2015. The founding partners project annual sales of 3bn kWh, or about ¥50bn, for the joint venture in its fifth year of operations, and they foresee sizable profits from these sales.

We believe that Itochu Enex's electric power business is highly competitive and possesses substantial growth potential for two reasons. First, as a new provider of electricity, the company holds base load power plants that allow it to supply electricity on a constant basis in response to demand. Natural sources of energy, such as solar and wind power, are not reliable sources for the constant generation of electricity. The company's power plants are fueled by diverse sources of energy, including its cost competitive coal-fired power plants. This is likely to give it an edge over competitors in the liberalized market for electricity retail sales.

Second, the electric power business should be able to sell to the approximately one million households to which the Home-Life Division sells LP gas directly or indirectly. Many products could be sold through this route, but one of the most promising would be a combination of electricity and LP gas. The company has not yet clarified what products it might sell to these households, but if the electric power business succeeded in marketing to them, its growth potential over the medium-to-long term would be substantial.

Steam Heat Supply Business

Itochu Enex entered the business of supplying steam heat in 2012, when it purchased a 66.6% stake in Tokyo Toshi Service Co. from Tokyo Electric Power Co., which retained a 33.4% stake. Tokyo Toshi Service operates 18 heat supply centers in Greater Tokyo. These centers house electrical heat-generating machinery that combines the company's energy efficient heat pumps and heat storage tanks. The oldest heat supply center started operations in 1984, but most of the centers began operations around 1990. Some of these centers are renewed when the buildings housing them are renovated, and all the centers require periodic maintenance and overhaul. Equipment installed 30 years ago is not used in its original condition. Some of the centers are inefficient, but most are among the most efficient heat supply centers in Japan, and the heat supply business is profitable.

Heat Supply Centers Operated by Tokyo Toshi Service Co.

Service area	Date operations started	Floor area (sq. m) supplied	Representative building
Harumi Island	April 2001	463,000	Harumi Island Triton Square
Honkomagome 2-chome	March 1998	185,000	Bunkyo Green Court
Osaki 1-chome	Jan. 1999	318,000	Gate City Osaki
Nishi Shinjuku 6-chome	Nov. 1994	64,000	Shinjuku Square Towe
Hachioji Asahicho	Aug. 1994	72,000	Hachioji Square Building
Kyobashi 1 & 2-chome	March 1994	100,000	Shimizu Construction Main Office
Fuchu Nikkocho	April 1992	287,585	
Hakozaki	April 1989	284,000	Mitsui Warehouse Hakozaki Building
Kanda Surugadai	April 1988	219,000	Mitsui Sumitomo Insurance Co. Suruga New Building
Shinkawa	April 1988	195,000	Tokyo Sumitomo Twin Building
Ginza 5 & 6-chome	Aug. 1987	73,000	Ginza Station, Tokyo Subway
Shibaura 4-chome	June 1987	263,000	Shibaura Square Bldg.
Ginza 2 & 3-chome	April 1984	72,000	Printemps Ginza Main Building & Annex
Atsugi Telecom Town	July 1995	97,000	Atsugi Telecom Town
Yokosuka Shioiri Station	Nov. 1993	59,000	Yokosuka Art Theater
Makuhari New City High-tech Business Area	April 1990	947,000	Makuhari Techno Garden
Takasaki City, Chuo & Joshi Wards	Dec. 1993	100,000	Takasaki City Office
Utsunomiya City, Chuo Ward	Feb. 1991	141,000	Tochigi Prefecture Government Buildings

Source: compiled by Fisco from company materials

The main competitor for the heat supply business is companies that supply heat using gas as a source of energy. Heat supply companies affiliated with leading real estate companies are also competitors, as the real estate companies are involved in large, urban development projects. However, as a joint venture between a unit of Itochu Enex and Tokyo Electric Power Co., Tokyo Toshi Service should be quite competitive. Over the next few years, many urban development projects will be undertaken in Tokyo in preparation for Tokyo Olympics in 2020. Itochu Enex and Tokyo Toshi Service will probably bid for participation in these projects with the aim of increasing the number of their heat supply centers.

We believe that Tokyo Toshi Service's ability to win orders improved when it became a subsidiary of Itochu Enex because it gained the freedom to select the most economical and reliable source of energy for its heat centers. As a subsidiary of Tokyo Electric Power, it essentially had to rely on electricity as an energy source.

Asphalt business contributes profit to the Energy Trade Division

(4) Energy Trade Division

The Energy Trade Division is a collection of businesses serving industry. Its main products for new and old leading companies are heavy oil and asphalt, but the division also sells fuel oil for ships, trades petroleum products, operates and charters tankers, leases oil tanks. The division also sells AdBlue urea solutions that are used to reduce the emissions of nitrous oxides. Many products handled by the Energy Trade Division are marginally profitable because of macroeconomic trends, such as a decline in Japanese demand changes in distribution. However, sales of asphalt appear to have significant growth potential.

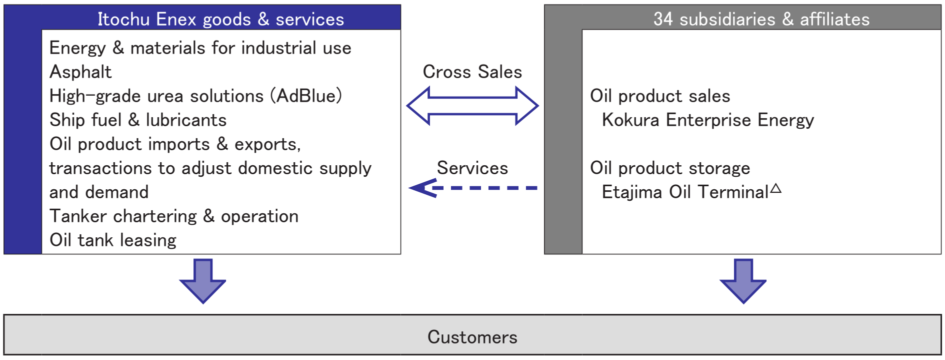
Sales and Profits (¥mn) in the Energy Trade Division, FY3/13-FY3/15e

(Unit: ¥mn)

	FY3/13	FY3/14		FY3/15e	
	Amount	Amount	y-o-y	Amount	y-o-y
Sales	733,176	730,504	-0.4%	743,800	1.8%
Operating profit	3,787	2,706	-28.6%	-	-
Pretax profit	-	-	-	3,100	-

Source: Compiled by Fisco from company materials

Outline of Energy Trade Division

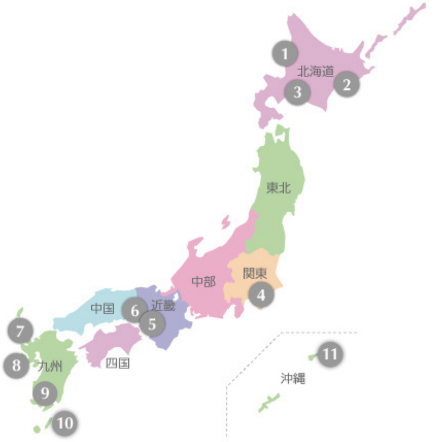


Note: Company marked with a △sign is a non-consolidated subsidiary; company with no mark is a consolidated subsidiary
Source: Compiled by Fisco from company materials

Asphalt Business

Asphalt is the heaviest product resulting from oil refining and is used to pave roads, airport runways, and other areas requiring a hard surface. Japan has completed the construction of most of the main highways planned, so the demand for asphalt now is mainly for the maintenance of highways. The overall demand for asphalt and the number of asphalt suppliers are declining. However, Itochu Enex has increased the number of its asphalt supply terminals to 11 nationwide and now commands an approximately 20% share of the Japanese market in terms of sales volume.

Asphalt Supply Terminals

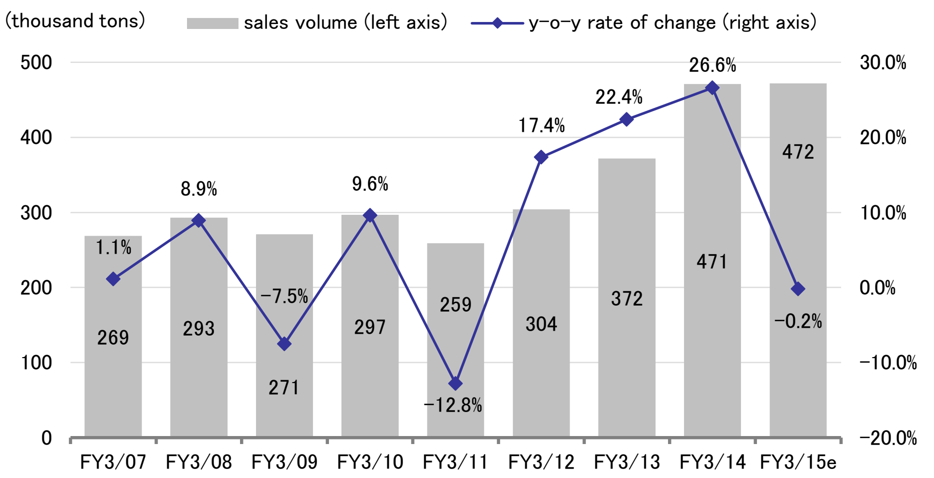


Area number	Terminal name	Storage capacity (tons)
1	Rumoi Asphalt Terminal	3,500
2	Kushiro Asphalt Terminal	2,700
3	Tomakomai Asphalt Terminal	3,800
4	Sodegaura Asphalt Terminal	10,000
5	Osaka Asphalt Terminal	5,000
6	Himeji Asphalt Terminal	3,400
7	Fukuoka Asphalt Terminal	3,600
8	Sasebo Asphalt Terminal	3,000
9	Kajiki Asphalt Terminal	2,600
10	Tanegashima Asphalt Terminal	600
11	Amami-Oshima Asphalt Terminal	600

Source: Prepared by Fisco from company materials

With a high market share and nationwide coverage, the asphalt business has been increasing its profit, and we estimate that provides the most profit of all the businesses in the Energy Trade Division. In FY3/07, the business sold 269,000 tons of asphalt. In subsequent years, sales volume varied, but the general trend of sales volume was upward. Thus, in FY3/14, the business sold 471,000 tons for an average annual growth rate of 9.2% since FY3/07. Considering that the overall market for asphalt declined over these years, this growth is commendable. We expect this business to continue to thrive in a shrinking market and to remain a primary source of profit for the Energy Trade Division.

Quantity of Asphalt Sold by Itochu Enex



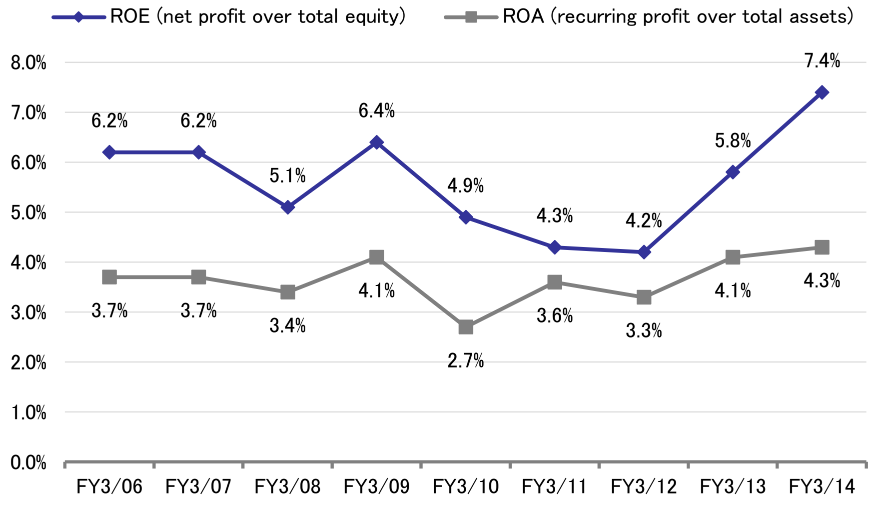
Financial Analysis and Business Prospects

ROE has improved notably over past two years

(1) Financial Analysis

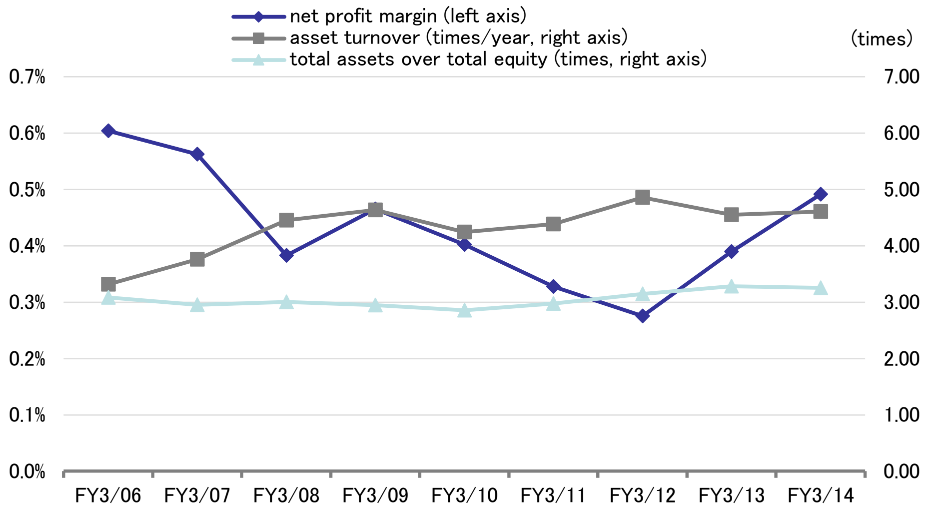
In the four fiscal years through FY3/09, Itochu Enex's ROE usually remained above 6.0%. During the global economic downturn attributable to the financial crisis after the bankruptcy of Lehman Brothers, its ROE fell to 4.2%, but in FY3/13-FY3/14, it recovered sharply to a 10-year high of 7.4% in FY3/14 (the company suffered a net loss in FY3/05). The company's ROA (recurring profit over total assets) is smaller than its ROE and fluctuates less, but it follows the trend of growth of ROE, and in FY3/14, it also reached a 10-year high.

Itochu Enex's ROE and ROA (by Japanese standards)



ROE can be broken down into three components: the net profit margin, sales over total assets (the asset turnover ratio), and total assets over total equity (a measure of financial leverage). These components have fluctuated as shown in the graph below. The asset turnover ratio and financial leverage have changed little. Thus, changes in ROE are due mainly to changes in the net profit margin.

Components of ROE



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6-Nov.-14

Itochu Enex's asset turnover ratio has risen slowly but steadily over the past eight fiscal years. One reason the company has been able to grow through recurrent acquisitions is that it manages its finances astutely. Trading companies tend to have low profitability, but with effort, they can control their balance sheets to some extent, thereby improving their measures of financial strength. Itochu Enex has managed its balance sheet successfully in the past, and it will probably continue to make efforts to do so. Therefore, we anticipate a continued rise in its ROE.

For FY3/14, Itochu Enex converted its financial statements based on Japanese accounting standards into statements based on International Financial Reporting Standards (IFRS). Based on the company's IFRS forecasts for FY3/15, we estimate that its ROE for this fiscal year will rise to 7.8% from 7.7% in FY3/14, as detailed in the table below. Our calculation is also based on the assumptions that the company's asset turnover ratio for FY3/15 remains 4.73 times, unchanged from the rate in FY3/14, and that the only drain on its equity will be the payment of a dividend of ¥22 per share. Given the company's policies toward containing its assets and expanding its financial leverage, we foresee further improvement of its ROE in the future.

Important Financial Data (IFRS)

		FY3/13	FY3/14	FY3/15e	Note
Important Financial Data					
Sales	(¥mn)	1,430,745	1,506,606	1,600,000	Co. forecast
Revenues	(¥mn)	864,589	966,044	–	No co. forecast
SG&A expense	(¥mn)	55,668	57,878	61,466	Assumes ratio to sales in FY3/15 is the same as in FY3/14
Profit from operations	(¥mn)	12,738	11,859	13,800	Co. forecast
Pretax profit	(¥mn)	12,234	13,828	13,800	Co. forecast
Profit attributable to owners of the parent company	(¥mn)	6,470	7,119	7,600	Co. forecast
Total assets	(¥mn)	315,893	320,724	355,809	Assumes asset turnover in FY3/15 is the same as in FY3/14, 4.73(times/year)
Equity attributable to owners of the parent company	(¥mn)	89,424	94,651	99,765	Equity (prior fiscal year end) + Net profit + Dividend distribution
Profitability & efficiency measures					
Profit attributable to owners of the parent company over equity attributable to owners of the parent company (ROE)	(%)	7.5%	7.7%	7.8%	
Pretax profit over total assets	(%)	4.0%	4.3%	4.1%	
Asset turnover	(times/year)	–	4.73	4.73	
Pretax profit margin	(%)	0.9%	0.9%	0.9%	
Gross profit margin	(%)	4.9%	4.8%	–	
SG&A expenses over sales	(%)	3.9%	3.8%	3.8%	
Profit from operations margin	(%)	0.9%	0.8%	0.9%	

Power & Utility Division likely to lead growth this fiscal year and next

(2) Company Forecasts for FY3/15

For FY3/15, Itochu Enex projects sales of ¥1,600bn, profit from operations of ¥13.8bn, pretax profit of ¥13.8bn, and profit attributable to the owners of the parent company of ¥7.6bn. As noted above, the company's financial statements are now based on IFRS. Sales is the only line item that is identical to past figures reported according to Japanese standards. Recurring profit reported in the past will be replaced by pretax profit in IFRS, profit from operations in IFRS differs from operating profit reported in the past, and profit attributable to the owners of the parent company in IFRS differs from net profit reported in the past.

In the Home-Life Division, the company expects sales growth to be led by an increase in the quantity of LP gas sold accompanying an increase the number of customers. Thus, the company will probably continue to aggressively conclude equity and business agreements with other leading regional suppliers of LP gas, similar to its establishment of ing Energy in 2013. The company also foresees a rise in the amount of solar power cells, Enefarm household fuel cells and other smart energy equipment sold.

In the Car-Life Division, the company plans to increase the amount of gasoline sold, and it foresees larger revenue from car rental, sales of goods, and automobile sales. The company's forecasts do not make allowance for the contribution to sales and profit of the Osaka Car Life Group, which it purchased in May 2014. As pointed out earlier, the Osaka Car Life Group generates annual sales of about ¥100bn and operating profit of about ¥3bn. This group should contribute 10 months worth of sales and profit to Itochu Enex's consolidated results in FY3/15. Most likely, the company is now closely checking the sales and profit plan for the Osaka Car Life Group and the impact of reporting according to IFRS. As the Osaka Car Life Group is profitable, it should contribute to Itochu Enex's profits, enabling Itochu Enex to surpass its current profit forecasts, assuming that Itochu Enex does not offset the profit contribution from the Osaka Car Life Group by amortizing a large amount of goodwill acquired with the group.

Itochu Enex expects its Power & Utility Division to lead its sales and profit growth in FY3/15 and FY3/16. The Tainai Wind Farm started operations in October 2014 with a capacity of 20,000 kW, and in March 2015, Hofu Power Station #2 is scheduled to be completed a coal-powered power plant with a capacity of 36,000 kW. Of course, the company will bear some costs for starting up these operations, and its depreciation cost is likely to increase. Therefore, these operations will probably contribute less to profit in FY3/15 than they do to sales. However, Hofu Power Station #2 is likely to be the company's most efficient power plant, and the full operation of both new plants should support strong profit growth in FY3/16.

For the Energy Trade Division, Itochu Enex projects overall sales and profits to be unchanged y-o-y in FY3/15. Revenue from trading petroleum products can easily rise or shrink, reflecting such factors as changes in product prices and adjustments of supply and demand. These changes in trading revenue could greatly affect the division's overall sales. However, most of the division's profits stem from the sale of asphalt and fuel oil to industry, and the company projects fairly stable sales of these products. Since the amount of asphalt sold in FY3/14 grew 26% y-o-y, the company projects no growth in sales volume for FY3/15. The amount fuel oil sold has been declining gradually in recent years, and the company foresees a continuation of this trend in FY3/15, projecting a 4% y-o-y drop.

Income Statements

(¥mn)

Japanese accounting standards	FY3/12	FY3/13	FY3/14
Sales	1,414,161	1,430,745	1,506,606
y-o-y	19.3%	1.2%	5.3%
Gross profit	64,604	70,054	71,454
GP margin	4.6%	4.9%	4.7%
SG&A expenses	55,631	56,328	58,015
SG&A expenses /sales	3.9%	3.9%	3.9%
Operating profit	8,973	13,726	13,439
OP margin	0.6%	1.0%	0.9%
y-o-y	-0.6%	53.0%	-2.1%
Recurring profit	9,470	12,963	13,940
y-o-y	-1.6%	36.9%	7.5%
Net profit	3,893	5,576	7,402
y-o-y	0.2%	43.2%	32.7%
EPS (¥)	34.22	49.36	65.52
DPS (¥)	16.0	16.0	20.0
BPS (¥)	826.68	868.69	911.61
Shares outstanding at year-end (thousands)	116,881.1	116,881.1	116,881.1
Treasury stock at year-end	3,888.4	3,888.6	3,890.0
Equity ratio (%)	30.6	30.3	31.2
Capital expenditure	5,938	9,183	15,104
Depreciation cost	6,613	6,773	8,537
Cost of acquiring subsidiaries	457	9,088	1,476
Goodwill amortization cost	1,728	1,717	947

(¥mn)

IFRS	FY3/13	FY3/14	FY3/15e
Sales	1,430,746	1,506,606	1,600,000
y-o-y	-	5.3%	6.2%
Gross profit	69,666	71,599	-
GP margin	4.9%	4.8%	-
SG&A expenses	55,668	57,878	-
SG&A expenses /sales	3.9%	3.8%	-
Gain/loss on fixed assets	-914	-1,460	-
Other gains/losses	-346	-402	-
Total other expenses and losses	-56,928	-59,740	-
Profit from operations	12,738	11,859	13,800
OP margin	0.9%	0.8%	0.9%
y-o-y	-	-6.9%	16.4%
Pretax profit	12,234	13,828	13,800
y-o-y	-	13.0%	-0.2%
Profit	7,393	8,040	-
Profit attributable to owners of the parent company	6,470	7,119	7,600
y-o-y	-	10.0%	6.8%
Profit attributable to non-controlling interests	923	921	-
EPS (¥)	57.26	63.00	67.26
DPS (¥)	16.0	20.0	22.0
BPS attributable to the owners of the parent company (¥)	791.42	837.69	-
Shares outstanding at year-end (thousands)	116,881.1	116,881.1	-
Treasury stock at year-end	3,888.6	3,890.0	-
Ratio of equity attributable to the owners of the parent company to total assets (%)	28.3	29.5	-
Capital expenditure	9,184	15,105	-
Depreciation and amortization cost	9,226	10,226	-
Cost of acquiring subsidiaries	8,971	1,426	-
Goodwill amortization cost	-	-	-

Source: Compiled by Fisco based on company materials

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8133 Tokyo Stock Exchange First Section

6-Nov.-14

Balance Sheets

(¥mn)

Japanese accounting standards	FY3/12	FY3/13	FY3/14
Current assets	197,877	193,077	193,257
Cash & deposits	15,312	17,880	14,089
Sales receivables	150,895	139,140	144,688
Inventories	14,898	17,044	17,551
Other current assets	16,772	19,013	16,929
Fixed assets	107,175	130,669	137,034
Tangible fixed assets	73,634	89,368	96,553
Intangible fixed assets	6,842	11,373	11,437
Investments, other	26,698	29,926	29,043
Total assets	305,053	323,747	330,291
Current liabilities	173,145	162,233	159,301
Accounts payable	129,225	119,006	123,784
Short-term borrowings, etc.	20,349	14,594	11,340
Other current liabilities	23,571	28,633	24,177
Fixed liabilities	35,817	54,983	58,308
Long-term borrowings	10,333	26,246	27,173
Other fixed liabilities	25,484	28,737	31,135
Shareholders’ equity	102,050	105,970	111,518
Capital stock	19,877	19,877	19,877
Additional paid-in capital	18,736	18,736	18,736
Retained earnings	65,186	69,106	74,654
Treasury stock	-1,749	-1,749	-1,750
Other comprehensive income	-8,641	-7,815	-8,514
Minority interests	2,681	8,375	9,677
Total equity	96,090	106,530	112,681
Total liabilities and equity	305,053	323,747	330,291

(¥mn)

IFRS	FY3/13	FY3/14
Current assets	189,196	188,193
Cash & cash equivalents	18,062	14,251
Operating receivables	136,578	140,289
Inventories	18,134	18,655
Other current assets	16,422	14,998
Non-current assets	126,697	132,531
Equity method investments	6,032	5,927
Other investments	8,925	7,349
Tangible fixed assets	57,655	66,988
Intangible fixed assets	10,999	10,280
Other non-current assets	43,086	41,987
Total assets	315,893	320,724
Current liabilities	161,738	158,336
Current bonds & borrowings	14,745	11,499
Operating payables	124,046	125,655
Other current liabilities	22,947	21,182
Non-current liabilities	56,500	58,268
Non-current bonds & borrowings	26,158	27,099
Other non-current liabilities	30,342	31,169
Equity attributable to the owners of the parent company	89,424	94,651
Share capital	19,878	19,878
Share premium	18,737	18,737
Retained earnings	54,086	59,884
Other equity	-1,527	-2,098
Treasury stock	-1,750	-1,750
Equity attributable to non-controlling interests	8,231	9,469
Total equity	97,655	104,120
Total liabilities and equity	315,893	320,724

Source: Compiled by Fisco based on company materials

Cash Flow Statements

(¥mn)

Japanese accounting standards	FY3/12	FY3/13	FY3/14
Cash flow from operations	-271	21,606	16,050
Cash flow from investing	-6,904	-25,047	-12,606
Cash flow from financing	-1,392	5,964	-7,308
Translation gains on cash & deposits	144	43	73
Change in balance of cash & deposits	-8,423	2,567	-3,790
Balance of cash & deposits at year-start	23,735	15,312	17,880
Balance of cash & deposits at year-end	15,312	17,880	14,089

(¥mn)

IFRS	FY3/13	FY3/14
Cash flow from operations	22,754	17,530
Cash flow from investing	-24,930	-12,556
Cash flow from financing	4,759	-8,859
Change in balance of cash & deposits	2,583	-3,885
Balance of cash & deposits at year-start	15,436	18,062
Effect of exchange rate fluctuation on cash & deposits	43	74
Balance of cash & deposits at year-end	18,062	14,251

Source: Compiled by Fisco based on company materials

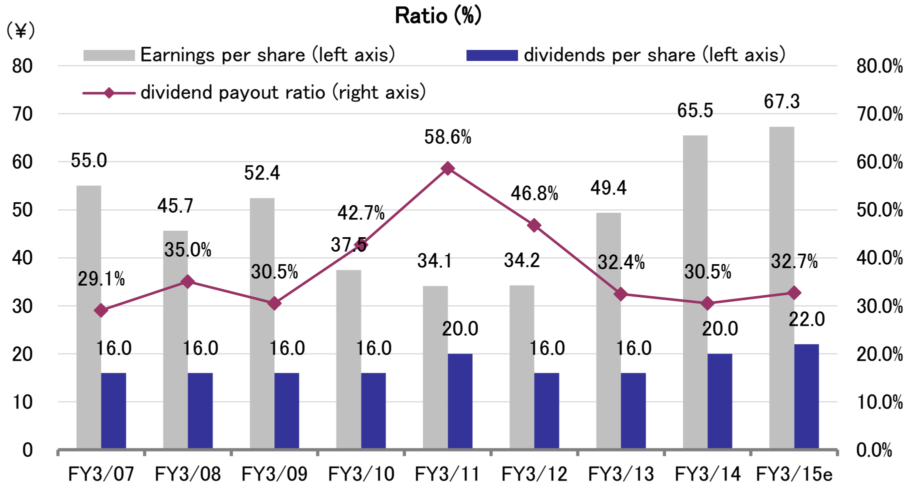
■ Shareholder Returns

Dividends per share will probably increase based on earnings growth and the company plan to maintain a dividend payout ratio of 30% or more

As the Itochu Enex's policy toward shareholder returns, the company is targeting to pay a steady dividend. Its basic policy is to optimize the balance between retaining enough profit to invest in business growth and paying a steady dividend. It aims to maintain a consolidated dividend payout ratio of 30% or more as a basic policy of dividend payment.

In most past years, the company has paid an annual dividend of ¥16. This dividend yielded a dividend payout ratio of 30% or more because the company's earnings per share were small. Since its earnings per share have been increasing, its basic policy of dividend to maintain 30% of a dividend payout ratio becomes more crucial. It plans to pay a dividend of ¥22 per share for FY3/15. As its profits increase over the medium-to-long term, it is likely to raise its dividend further.

Earnings Per Share (¥), Dividends Per Share (¥), and Dividend Payout Ratio (%)



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