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

30-Jul.-15

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* Car-Life Station, it refers to gas stations providing multiple services provided by Itochu Enex.

Formulation of Two-year Medium-term Business Plan

A member of the ITOCHU Corp. (8001) group, Itochu Enex (8133) is an energy trading company that is playing a pivotal role in the energy field in the group. Its wide ranging business scope includes selling petroleum products and liquid petroleum (LP) gas to users ranging from industries to final consumers. The company's recent focus has been on expanding the electricity business.

The company has formulated a medium-term business plan called "Moving 2016 —Sowing seeds for tomorrow—" covering the two years from FY3/16 to FY3/17. The company has positioned this period as a time to establish a strategy for further growth while hastening to prepare a platform for full liberalization of the electricity and gas businesses. The medium-term business plan is a specific action plan for achieving this.

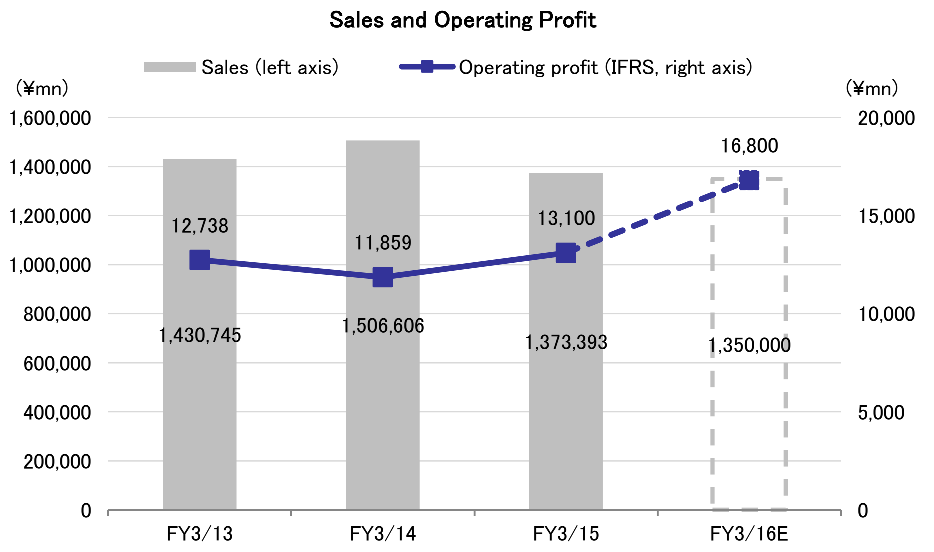
In its vision for the future, the company looks to augment its energy business, centered traditionally on petroleum products and LP gas, with the electricity business, through which it can collaborate and ally with companies in other industries and become an enterprise that pursues complex business and synergistic expansion. It is also cultivating operations in the fast-growing Asian market.

Japan will at last fully liberalize retail sales of electricity (consumer sales of low-voltage power) from April, 2016. Itochu Enex will endeavor to materialize its vision for the future by pushing ahead over the next two years with various preparations for this transformation, completing its foundations for medium- and long-term growth. Efforts will include securing own base load power sources, forming alliances to expand power supplies, establishing a retail electricity sales business model, and building an electricity sales business network.

Itochu Enex is completely devoted to reinforcing its other business units, centered on petroleum products and LP gas. The company aims to increase earnings by reorganizing unprofitable Car-Life Stations* (hereinafter CS) and transactions while bolstering highly profitable businesses and strengthening overseas operations. Management looks for all business divisions to strengthen their foundations while pursuing collaboration in-house and within the group with the electricity business to generate synergies.

Check Point

- For FY3/17, the company targets operating profit of ¥20bn, profit of ¥10bn, and an ROE of 9.0% or above
- Itochu Enex is one of few companies that will benefit from liberalization of retail electricity sales
- The lower impact of inventories is driving earnings higher in FY3/16



Medium-term Business Plan and Growth Scenario

For FY3/17, the company targets operating profit of ¥20bn, profit of ¥10bn, and an ROE of 9.0% or above

(1) Overview of the new medium-term business plan "Moving 2016 —Sowing seeds for tomorrow—"

Itochu Enex recently announced Moving 2016, a two-year business plan through FY3/17. This initiative is a successor to Moving 2014, which was for FY3/15. Moving 2016 is only for two years because there will be full liberalization of the electricity retail market in FY3/17 and full liberalization of the gas retail market in FY3/18, with the energy industry landscape expected to transform from now on. Management likely deemed it more realistic to formulate updated plans from FY3/18.

Under Moving 2016, demand should inevitably decline in the core petroleum products and LP gas businesses, while full liberalization of the electricity and gas businesses should drive a reorganization of the energy industry and intensify cross-sector competition. In light of these factors, the company has positioned the current medium-term business plan as a period for sowing the seeds of its long-term growth strategies, and has set about enhancing its profitability while bolstering its organization and foundations. For FY3/17, the company targets an operating profit of ¥20bn, profit of ¥10bn, and an ROE of 9.0% or above.

Overview of medium-term business plan covering the two years from FY3/16 to FY3/17

Moving 2016 —Sowing seeds for tomorrow—	
Environmental Factors	1. Decline in domestic demand for petroleum products and LP gas
	2. Full liberalization of the electricity and gas retail market
	3. Reorganization of the domestic energy industry (electricity, gas, oil) and increasing cross-sector competition
	4. Economic growth in emerging countries centered on Asia
Basic policy	Improvement of profitability
	Sowing seeds for long-term growth strategy
	Reinforcement of organizational strength and fundamental strength
Quantitative plan (FY3/17)	Operating profit: ¥20 billion
	Profit: ¥10 billion
	ROE: 9.0% or above

Regarding the petroleum products and LP gas businesses, which are the current core products of the company, Itochu Enex has accepted that demand is declining in these fields, but it is referring to structural problems with the market overall, so this does not mean that the company plans to discard these businesses. In fact, Moving 2016 is about continuing to pursue growth. That said, the company may not be able to withstand declining demand, which stems from structural factors. So, in formulating the current medium-term business plan, the company has probably acknowledged this operating environment in adopting a clear stance that it will not rely solely on sales of petroleum products and LP gas.

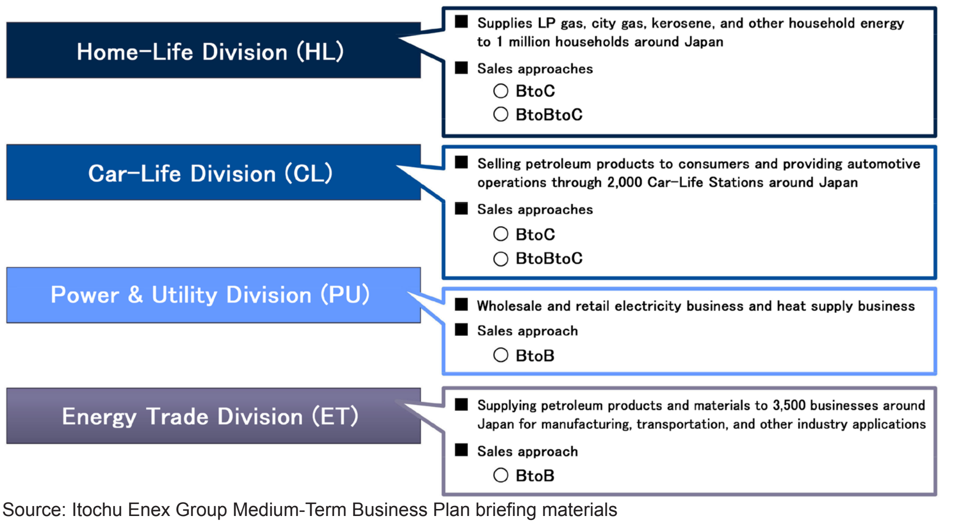
Electricity business central to growth scenario

(2) Growth scenario and vision

It seems evident that the electricity business is pivotal to Itochu Enex's medium-term growth scenario because of the operating environment assumptions described earlier and because of measures that the company has taken in the Power & Utility division since 2010.

The company has four business segments. The Home-Life Division focuses on LP gas, selling city gas and kerosene to households. Sales from the group are both BtoC and BtoBtoC. The Car-Life Division operates around 2,000 CSs around Japan with these operations selling petroleum products mainly gasoline and providing comprehensive automotive services. The Power & Utility Division engages in wholesale through retail electricity sales and supplying heat to office buildings and large development areas. The Energy Trade Division supplies petroleum products and materials to the manufacturing, transportation, and other industries.

Outline of 4 Business Segments



Source: Itochu Enex Group Medium-Term Business Plan briefing materials

Historically, the company has expanded on the strength of its Home-Life, Car-Life, and Energy Trade divisions. Then power liberalization began through independent power producers (IPPs) in 1995, with Itochu Enex launching its electricity retailing business in 2010. It entered the power generation and steam production business in 2011, and made Tokyo Toshi Service Company, which operates heat supply business, a group company in 2012. Itochu Enex established the Power & Utility Division in 2013 as its fourth business segment.

Electricity liberalization (regulatory reforms) and initiatives at Itochu Enex

	Systemic reforms	Initiatives at Itochu Enex
1995	Entry permit system lifted for wholesale power business through IPPs. Became possible for general electric utilities to procure electricity from IPPs through tenders.	
2000	Power producer and supplier (PPS) system established to enable companies other than general electric utilities to retail electricity to power users over 2,000 kW.	
2003	Promoting distributed power: Became possible to supply power users subject to liberalization through own distribution lines.	
	Creation of wholesale power exchange: The government authorized the establishment of a market to trade wholesale power through facilities around Japan.	
	Liberalization scope expanded: The government liberalized electricity retailing for contracts for sales to power users over 500 kW in April 2004 and over 50 kW in April 2005.	
2010		Start retail electricity sales business as a PPS (for contracts with large customers for sales of more than 50 kW)
2011		Made JEN Holdings Co., Ltd., a PPS, a group company
2012		Made Tokyo Toshi Service a group company by acquiring its shares from Tokyo Electricity Company, Incorporated
2013	The Japanese Cabinet decided on the Policy on Electricity System Reform, which led to the policy on full liberalization of the electricity retailing business	Established the Power & Utility Division
2014	The Electricity Business Act was partially amended, leading to the formal decision to fully liberalize power retailing	
2016	Started full liberalization of electricity retailing: To enable even regular households to choose electricity companies and rate menus	With full retail electricity liberalization, retailing slated to start for contracts for sales of less than 50 kW
Around 2018-2020	Legal unbundling of power transmission and distribution sectors and retail fee system to be abolished	

Source: Prepared by FISCO

Since 2010, Itochu Enex has strengthened power generation capacity while retailing electricity for contracts for sales of more than 50 kW to large customers, where liberalization has progressed. With liberalization extending to contracts for sales of less than 50 kW and including electricity sales in the retail area (general households) from April, 2016, the Power & Utility Division should enjoy expanded business opportunities.

As mentioned earlier, Itochu-Enex served consumer markets for more than 50 years after its founding through its Home-Life and Car-Life divisions. Over the years, the Home-Life Division built a direct sales network serving around 330,000 LP gas customers and a total of 1,080,000 customers (including those through 1,900 distributors). The Car-Life Division grew into a network of around 2,000 Car-Life Stations. The Energy Trade division has corporate customers with about 3,500 business sites. The company’s growth vision centers on these three divisions and the Power & Utility Division collaborating to expand electricity retailing.

The company's growth scenario extends beyond electricity sales. It envisages cultivating complex businesses and synergies through collaborations and alliances with companies in other industries. By supplying electricity, which is different from selling petroleum products and LP gas, the company looks to pave the way for collaborating with companies from different industries that had been beyond its reach.

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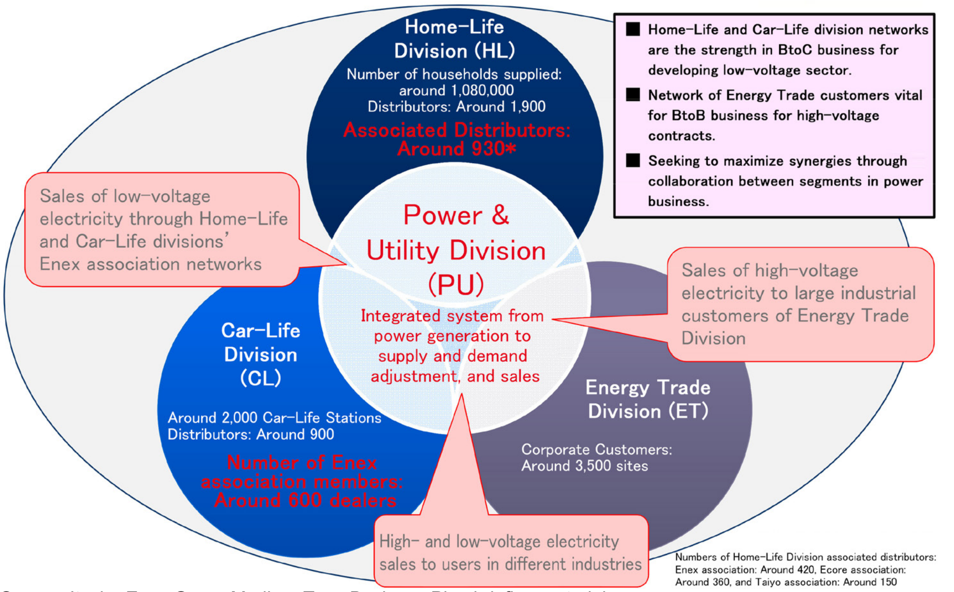
Power business development approach



Source: Itochu Enex Group Medium-Term Business Plan briefing materials

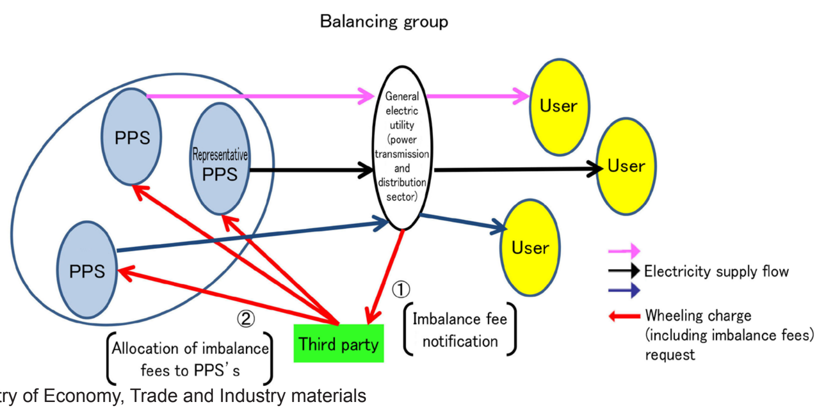
Itochu Enex is one of few companies that will benefit from liberalization of retail electricity sales

(3) Electricity retailing business model

In 2010, Itochu Enex began concluding contracts with large customers for sales of more than 50 kW. The company's basic strategy for after the full liberalization of electricity retailing in 2016 is to reinforce sales to households and other low-voltage users to drive earnings growth.

With the full liberalization of electricity retailing starting from 2016, the company aims to participate in this area by forming its own balancing group. Electricity demand fluctuates according to the seasons and time zones. Maintaining stable supplies of electricity amid such volatility is a key challenge. Balancing groups (a system of representative PPS's) alleviate demand and supply imbalances. Under such a system, PPS's like Itochu Enex would enjoy greater economies of scale by forming groups to supply electricity to general electric utilities (power companies). This system was introduced for the anticipation of suppressing imbalances and contribute to effective response measures. Such PPS groups are called balancing groups. Itochu Enex plans to function as a representative balancing group when electricity retailing is fully liberalized.

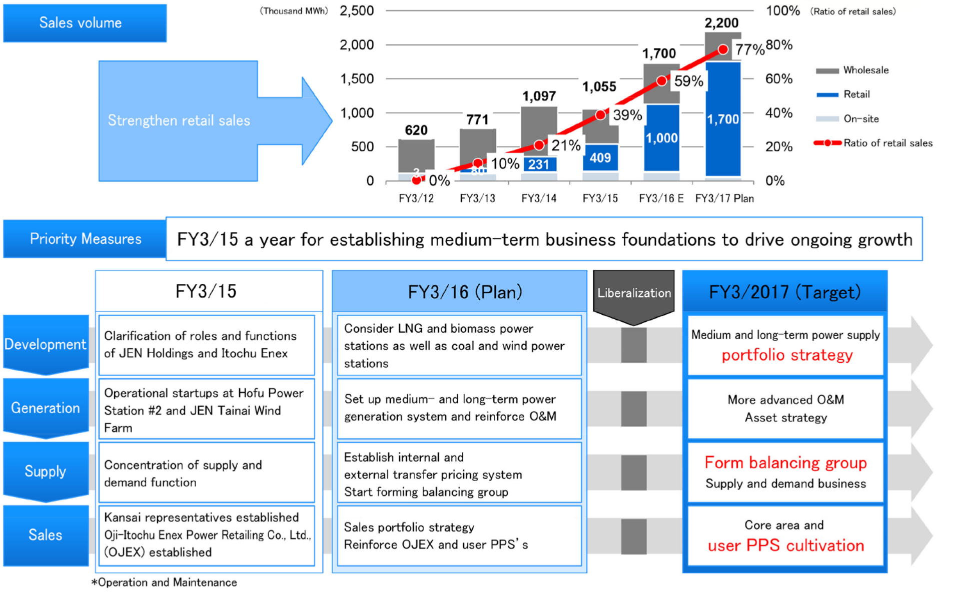
Balancing Group (representative PPS system) Overview



Source: Ministry of Economy, Trade and Industry materials

Companies would secure opportunities in the supply business by forming a balancing group and becoming representatives. Such representatives should hopefully exert a positive influence on cultivating and securing sales network user PPS's. Many aspects are currently unclear, including how many balancing groups are to be formed around Japan. That said, few companies have the capability to form such entities. Itochu Enex has its own base load power sources, making it one of few companies that can meet the requirement for forming balancing groups.

Full Liberalization of the Electricity Market and Business Development of the Power & Utility Division



Source: Itochu Enex Group Medium-Term Business Plan briefing materials

Bolstering business foundation to generate synergies

(4) Business division initiatives

Although collaboration between the company's four business divisions, centered on the electricity business, would be important to enhancing the company's overall earnings of each of those business divisions is an even higher priority. Therefore, each business division has formulated specific measures to bolster its fundamental earning power during the two-year medium-term business plan so that it can create maximum synergy when the time comes.

a) Home-Life Division

Under the current medium-term business plan, the first priority for the Home-Life Division is to reinforce direct sales of LP gas. That is because the company positioned its LP gas buyers as its most important potential customers when electricity retailing is fully liberalized. The company aims to increase the number of households buying its LP gas from 326,000 as of the end of March 2015 to 360,000 by the end of March 2016 in preparation for the full liberalization of the electricity and gas businesses. While expanding the customer base, the company simultaneously aims to put in place the infrastructure for its electricity business. The Home-Life Division would collaborate with the Power & Utility Division to build an electricity sales structure. Although the company has apparently yet to determine specific initiatives and targets, the many necessary tasks would include establishing a sales framework, constructing IT systems, and training staffs.

Electricity operations apart, the company aims to solidify its near-term position by cultivating demand for fuel conversions and expanding sales of air-conditioning and heating equipment. From a medium- and long-term perspective, outside Japan the company looks to develop businesses around Asia. It will start by cultivating the Asian region by drawing on its domestic expertise in LP gas and industrial gas in collaborating with ITOCHU Corporation.

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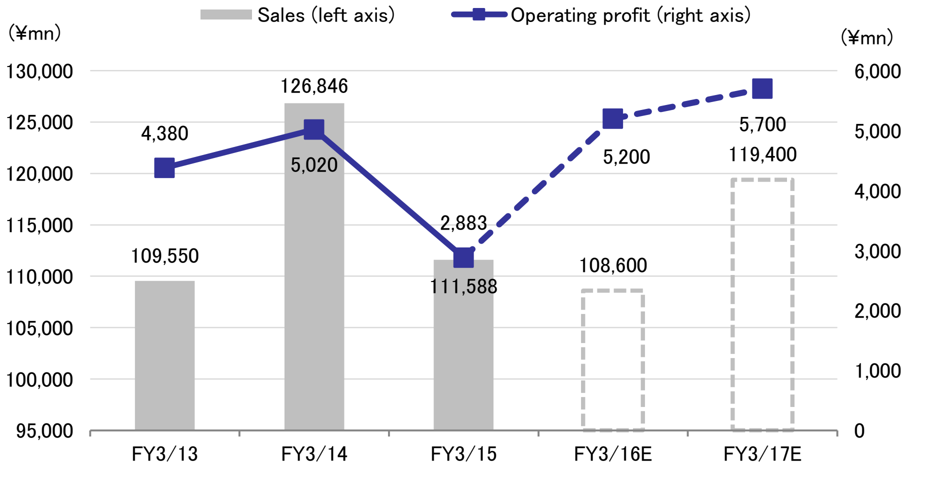
For FY3/16, the Home-Life Division forecasts are for ¥108,600mn in sales and ¥5,200mn in operating profit. The FY3/17 projections are for ¥119,400mn in sales and ¥5,700mn in operating profit. Although the FY3/16 operating profit goal would be ¥2,300mn higher than the result for the previous fiscal year, this is not unrealistic. That is because the company has taken into account the absence of the ¥2,300mn in inventory losses incurred in FY3/15. Although the structural demand downturns that the Home-Life Division faces in its key offerings do not engender optimism, the current performance forecasts seem achievable.

Home-Life Division Business Performance and Plan



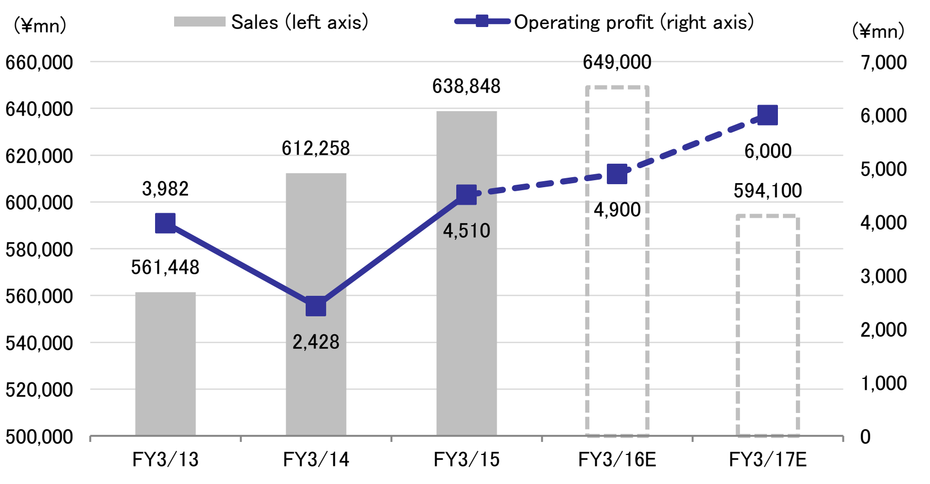
*Using IFRS standard. Sales are reported under Japanese GAAP.

b) Car-Life Division

The goals for the Car-Life Division are to reinforce its marketing strategies and customer relationship management. In other words, the division seeks to build customer loyalty by using its point-of-sale systems to create a customer database, bringing out a point card program, and rolling out a new product and services brand. The division also looks to add value, notably by strengthening consulting for its approximately 2,000 Car-Life Stations and deploying initiatives to boost non-petroleum product earnings.

Car-Life Division forecasts for FY3/16 are for ¥649,000mn in sales and ¥4,900mn in operating profit. The FY3/17 projections are for ¥594,100mn in sales and ¥6,000mn in operating profit. The operating income rise for FY3/16 is expected to stem from a turnaroud as a result of reductions in the number of unprofitable outlets. The assumptions for FY3/17 are that the division will benefit from measures to boost Car-Life Station profitability and from increased earnings stemming from the consolidation of Osaka Car Life Group Co., Ltd.

Car-Life Division Business Performance and Plan



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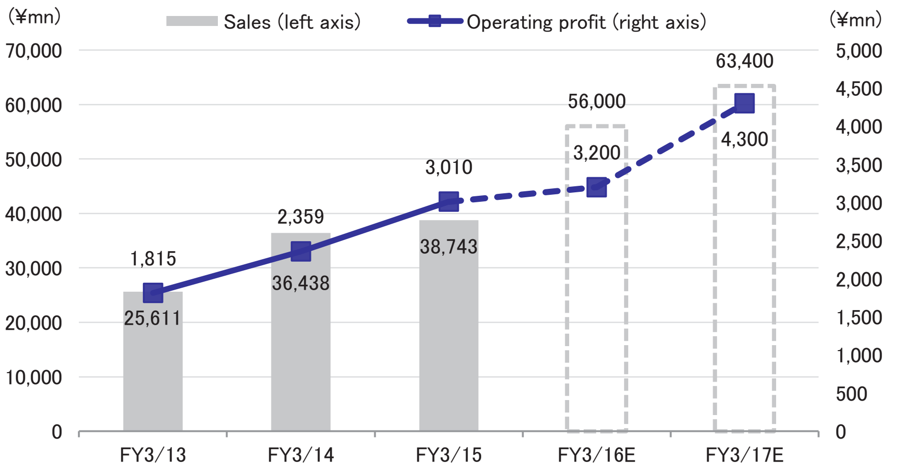
c) Power & Utility Division

The focus for the Power & Utility Division will be to prepare for the full liberalization of retail electricity sales. Specific priorities include forming a power supply and demand balancing group and establishing a supply and demand business model to reinforce and cultivate user PPS sales. We described the balancing group earlier. User PPS's function like mobile phone shops in the mobile phone industry. They don't have their own power sources and collect fees by selling electricity to end-users. In our view, balancing group efforts are a pivotal issue alongside the current medium-term business plan because the nature of the organization that can be achieved, including enterprises within and outside the group, will dictate sales clout.

Power & Utility Division forecasts for FY3/16 are for ¥56,000mn in sales and ¥3,200mn in operating profit. The FY3/17 projections are for ¥63,400mn in sales and ¥4,300mn in operating profit. We assume that the main driver in the earnings gain for FY3/17 would be that the division would benefit from electricity retailing to large customers accumulated in FY3/16, including through Oji-Itochu Enex Power Retailing.

Power & Utility Division Business Performance and Plan



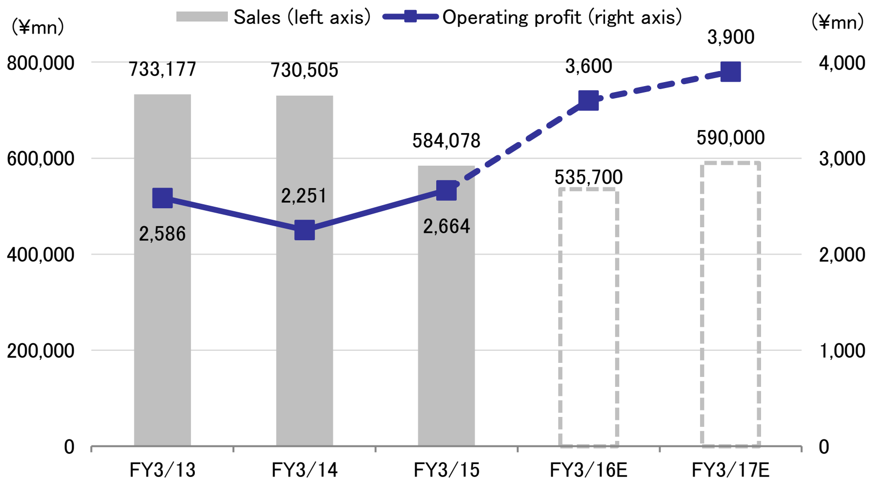
*Using IFRS standard. Sales are reported under Japanese GAAP.

d) Energy Trade Division

The Energy Trade Division essentially focuses on industrial customers, so collaboration with the Power & Utility Division will not be a contributory factor for the upcoming household-oriented liberalization of electricity retailing, since the users will mainly be small users such as households. Under the current medium-term business plan, the division will leverage its functions to expand existing operations while undertaking initiatives to reinforce new businesses. Key efforts will include strengthening the risk management structure, and bolstering distribution and optimizing assets. New business efforts will include launching slop and reused oil and fly ash operations, developing overseas operations, namely in Palau and the U.S., and cultivating the LNG business in Japan.

Energy Trade Division forecasts for FY3/16 are for ¥537,700mn in sales and ¥3,600mn in operating profit. The FY3/17 projections are for ¥590,000mn in sales and ¥39mn in operating profit. The FY3/16 earnings growth projection seems significantly greater but is conservative because it would represent a rebound after inventory-based losses from the asphalt business in FY3/15.

Energy Trade Division Business Performance and Plan



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■ Performance Trends

Acquisition of Osaka Car Life Group contributed to performance in previous fiscal year

(1) Results for FY3/2015

For FY3/15 (April 2014 to March 2015), Itochu Enex posted sales of ¥1,373,393mn (-8.8% YoY), operating profit of ¥13,100mn (+10.3% YoY), profit before tax of ¥12,155mn (-12.2% YoY) and profit of ¥5,503mn (-22.7% YoY).

Sales were down ¥133,200mn from a year earlier. Although the acquisition and consolidation of Osaka Car Life Group contributed around ¥82,600mn to sales, offsetting this was a reduction of about ¥215,800mn from a decline in sales volumes of petroleum products and from a fall in sales prices stemming in line with plunging crude oil prices. Sales were around ¥226,600mn lower than management's forecast, reflecting the revenue impacts of lower volumes and prices.

Operating profit was about ¥1,200mn higher than a year earlier. While the value of LP gas inventories cut about ¥2,300mn from earnings, the new consolidation of Osaka Car Life Group added about ¥1,400mn to earnings, and another ¥1,700mn and about ¥400mn came from extraordinary earnings. The company recorded higher operating profit despite lower sales because the lower sales were mostly in the Energy Trade business, which had a minor effect on profits. On the other hand, sales rose in electricity and other divisions that have a considerable earnings impact, adding about ¥1,700mn to profits. Earnings were around ¥700mn less than forecast because of the effect of inventory of LP gas.

Profit decreased about ¥1,600mn from a year earlier as a result of several factors. One was an approximately ¥900mn reversal of deferred tax assets due to the corporate tax cuts. Another was absence of ¥900mn in special gains from the previous fiscal year. There was also about ¥200mn less in divisional earnings (including after an LP gas inventory valuation impact of ¥2,300mn). However, these negative factors were partially offset by the contribution of about ¥400mn through the consolidation of Osaka Car Life Group. While profit was around ¥2,100mn below management's forecast, the principal factor was the LP gas inventory valuation impact of ¥2,300mn.

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Results by Business Segment

(¥mn)

IFRS		FY3/13	FY3/14		FY3/15	
		Actual	Full year	YoY	Full year	YoY
Home-Life Division	Sales	109,550	126,846	15.8%	111,588	-12.0%
	Operating profit	4,380	5,020	14.6%	2,883	-42.6%
Car-Life Division	Sales	561,448	612,259	9.0%	638,848	4.3%
	Operating profit	3,982	2,428	-39.0%	4,510	85.7%
Power & Utility Division	Sales	25,611	36,438	42.3%	38,743	6.3%
	Operating profit	1,815	2,359	30.0%	3,010	27.6%
Energy Trade Division	Sales	733,177	730,505	-0.4%	584,078	-20.0%
	Operating profit	2,586	2,251	-13.0%	2,664	18.3%

*Using IFRS standard. Sales are reported under Japanese GAAP.

The lower impact of inventories is driving earnings higher in FY3/16

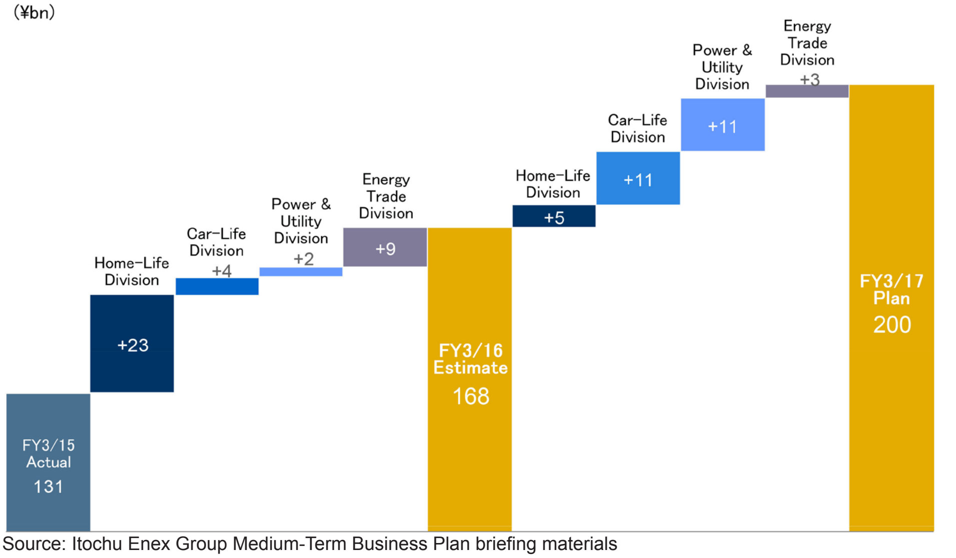
(2) Performance Outlook for FY3/16 and FY3/17

For FY3/16, Itochu Enex is forecasting sales of ¥1,350,000mn (-1.7% YoY), operating profit of ¥16,800mn (+28.2% YoY), profit before tax of ¥15,200mn (+25.1% YoY), and profit of ¥8,200mn (+49.0% YoY). Under the current medium-term business plan, for FY3/17 the company forecasts sales of ¥1,370,000mn (+1.5%), operating profit of ¥20,000mn (+19.0%), and profit of ¥10,000mn (+22.0%).

The segment earnings forecasts are as described earlier. On a companywide basis, management projects significant operating profit increases for the Home-Life and Energy Trade divisions, as inventory valuations reduced their earnings in the previous period, and this will no longer be a factor in FY3/16. The forecast of an approximately ¥400mn rise in Car-Life Division operating profit largely factors in a turnaround accompanying the closures of unprofitable outlets. With operating conditions adverse in the petroleum products and LP gas sectors, these forecasts are conservative. While there is probably not much upside scope, we think that the current forecasts are amply achievable.

For FY3/17, the increase in earnings for the Home-Life and Power & Utilities divisions should be about ¥500mn and ¥1,100mn, respectively. The increase of about ¥1,100mn for the Car-Life business would derive mainly from a turnaround accompanying the closure of unprofitable outlets, as well as from the expansion of Osaka Car Life Group earnings and expected increase in profits from automotive businesses. Much of the projected earnings growth for the Osaka Car Life Group would come from Nissan Motor's model change cycle. The forecast for the Energy Trade Division apparently reflects an earning boost that would come from demand recoveries (including in the asphalt and AdBlue businesses).

Analysis of Operating Profit (Chart from briefing materials)



Source: Itochu Enex Group Medium-Term Business Plan briefing materials

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Forecast Results by Business Segment

(¥mn)

	FY3/14		FY3/15		FY3/16		FY3/17	
	Full year	YoY	Full year	YoY	Forecast	YoY	Forecast	YoY
Home-Life Division								
Sales	126,846	15.8%	111,588	-12.0%	108,600	-2.7%	119,400	9.9%
Operating profit	5,020	14.6%	2,883	-42.6%	5,200	80.4%	5,700	9.6%
Car-Life Division								
Sales	612,258	9.0%	638,848	4.3%	649,000	1.6%	594,100	-8.5%
Operating profit	2,428	-39.0%	4,510	85.7%	4,900	8.6%	6,000	22.4%
Power & Utility Division								
Sales	36,438	42.3%	38,743	6.3%	56,000	44.5%	63,400	13.2%
Operating profit	2,359	30.0%	3,010	27.6%	3,200	6.3%	4,300	34.4%
Energy Trade Division								
Sales	730,505	-0.4%	584,078	-20.0%	535,700	-8.3%	590,000	10.1%
Operating profit	2,251	-13.0%	2,664	18.3%	3,600	35.1%	3,900	8.3%

*Using IFRS standard. Sales are reported under Japanese GAAP.

Income Statement

(¥mn)

	IFRS				
	FY3/13	FY3/14	FY3/15	FY3/16E	FY3/17E
Sales (Japanese GAAP)	1,430,746	1,506,606	1,373,393	1,350,000	1,370,000
YoY	-	5.3%	-8.8%	-1.7%	1.5%
Gross profit	69,666	71,599	85,720	-	-
Gross profit margin	4.9%	4.8%	6.2%	-	-
SG&A expense	55,668	57,878	71,184	-	-
SG&A expense/sales	3.9%	3.8%	5.2%	-	-
Profit (loss) from tangible assets, intangible assets and goodwill	-914	-1,460	-1,825	-	-
Other – net	-346	-402	389	-	-
Total other expense	-56,928	-59,740	-72,620	-	-
Operating profit	12,738	11,859	13,100	16,800	20,000
YOY	-	-6.9%	10.3%	28.2%	19.0%
Operating profit margin	0.9%	0.8%	1.0%	1.2%	1.5%
Profit before tax	12,234	13,828	12,155	15,200	-
YOY	-	13.0%	-12.2%	25.1%	-
Profit	7,393	8,050	6,529	-	-
Profit attributable to owners of the parent	6,470	7,119	5,503	8,200	10,000
YOY	-	10.0%	-22.7%	49.0%	22.0%
Profit attributable to non-controlling interests	923	921	1,026	-	-
EPS (¥)	57.26	63.00	48.71	72.57	-
Dividend (¥)	16.0	20.0	22.0	24.0	-
Equity attributable to owners of the parent per share	791.42	837.69	862.30	-	-
Number of shares issued at FYE (thousands)	116,881.1	116,881.1	116,881.1	-	-
Treasury stock at FYE	3,890.0	3,888.6	3,891.14	-	-

Shareholder Returns

Payout ratio target of 30% or more, dividends to increase with profit growth

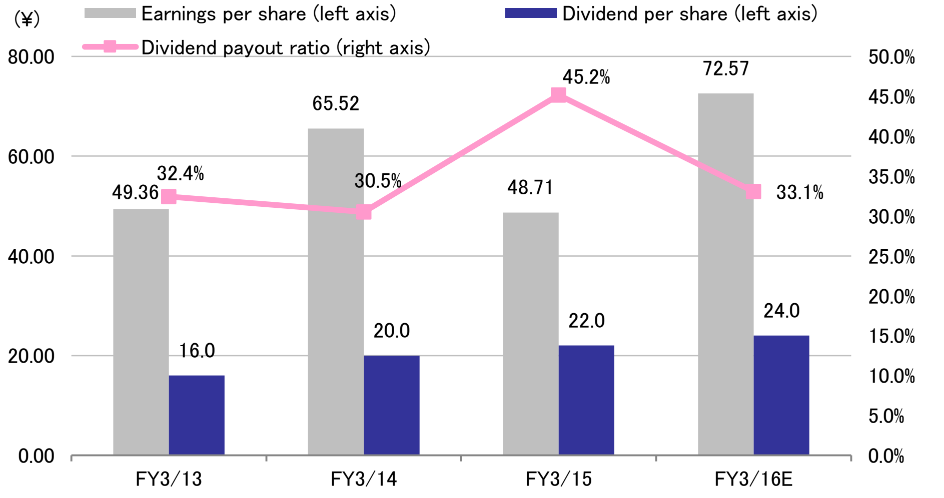
Itochu Enex has positioned dividends as the fundamental means of returning profits to shareholders. The company has adopted a basic policy of balancing internal reserves for growth investments with the payout of consistent, steady dividends to shareholders. At the same time, the company is targeting a consolidated dividend payout ratio of 30% or more.

For FY3/15, the company paid an annual dividend of ¥22, an increase of ¥2 YoY, comprising an interim dividend of ¥11 and a year-end dividend of ¥11. The dividend payout ratio exceeded the target of 30% at 45.2%. The ¥22 dividend was originally determined in line with a forecast for profit growth and to maintain a dividend payout ratio of 30%; however, in the end result profit declined YoY. We believe reasons why the company nevertheless paid the forecast ¥22 dividend were 1) because of its stance on emphasizing shareholders, namely by meeting their expectations, and 2) because it is confident of a return to profit growth going forward.

■ Shareholder Returns

For FY3/16, the company is forecasting a dividend of ¥24 (interim dividend: ¥12, year-end dividend: ¥12), reflecting a projected 48.0% Y-o-Y increase in profit to ¥8,200mn. This represents a dividend payout ratio of 33.1% based on projected earnings per share. The company has not announced a dividend forecast for FY3/17, however it has clearly indicated a policy of maintaining the payout ratio of 30% or more. We therefore consider it perfectly rational for shareholders to expect shareholder returns to expand in line with profit growth.

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



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