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

24-Mar.-16

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and disclaimers appear
at the end of this document.

FISCO Ltd. Analyst
Hiroyuki Asakawa

* Itochu Enex Group adopted IFRS (International Financial Reporting Standards) from FY3/14. In this report, "Profit from operating activities" is described as "Operating profit" and "Net profit attributable to owners of the parent" is described as "Net profit."

Steadily expanding earning capability despite negative impact of low crude oil prices

A member of the ITOCHU Corp. (8001) group, Itochu Enex (8133) is an Energy Trade company that is playing a pivotal role in the energy field. Its wide ranging business scope includes selling petroleum products and liquefied petroleum (LP) gas to users ranging from industries to final consumers.

In Q3 FY3/16 (April-December, 2015) Itochu Enex posted a steady increase in earnings despite a decline in sales. Sales declined because many of the company's products have been impacted by the slump in crude oil prices. However, on the profit front, many products managed to secure a steady profit margin and the amount of profit is affected by trends in sales volume. The company achieved sales volume by expanding its customer base and acquiring new deals, and so forth, thereby achieving profit growth.

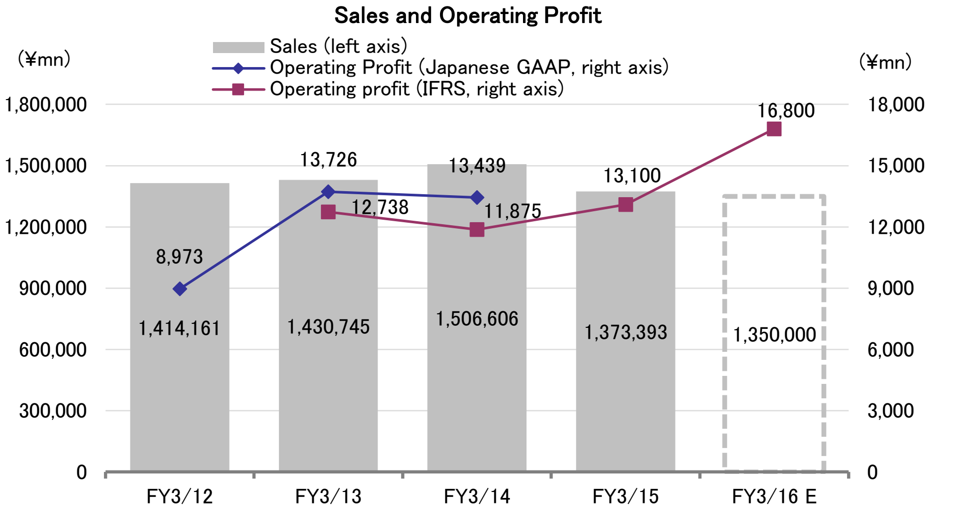
The company is proceeding with preparations for the full-scale liberalization of the retail electricity market from April 2016. The company's policy is to form a balancing group and to act as the leader of the group by governing electricity supply. In addition, the company needs to organize the user new power producer and suppliers (PPSs) that are current members of the balancing group carrying out sales activities. This will have the advantage of enabling the company as the balancing group leader to adjust electricity over-supplies and shortages within the balancing group and allow the member user PPSs (retail businesses) to dedicate their efforts to sales. The company is also making steady progress on business alliances with other companies, both in and outside the ITOCHU Enex group.

The company's growth strategy in the electric power business for the time being is expected to be supplying the same high voltage sector (small- and medium-scale plants, supermarkets, etc.) as it does at present. PPSs are steadily increasing their share of the high voltage sector; however, it is still only at around 10%. Amid the flow towards full-scale liberalization, we believe it is highly likely that the changeover to PPSs in the high voltage sector could accelerate.

The company has been steadily achieving its aim of increasing its "earning capability." However, in FY3/16 results we may also see a negative impact on LP gas inventory due to a fall in contract prices associated with the slum in crude oil prices. As a result, there is little room for optimism as to the company achieving its forecast. The same applies for the FY3/17 operating profit target of ¥20,000mn under the current medium-term business plan.

Check Point

- The Power & Utility Division is set to drive growth with the full-scale liberalization of the retail electricity market
- It is uncertain whether the company will achieve its full-year forecast for FY3/16
- Profits excluding the LP gas inventory impact amount to exceed company forecasts



Detail of Q3 FY3/16 Results

All four divisions have increased profits, and each has improved its earning capability

In Q3 FY3/16, Itochu Enex recorded a significant decline in sales but a double-digit increase in profits, with sales of ¥829,925mn (-22.1% YoY), revenue of ¥555,791mn (-23.4% YoY), profit from operating activities (hereinafter, operating profit) of ¥11,520mn (+19.5% YoY), ordinary profit of ¥10,773mn (+19.5% YoY), and net profit attributable to owners of the parent (hereinafter, net profit) of ¥5,791mn (+24.2% YoY).

The company has not published a Q3 forecast, so we were not able to make a rigorous comparison; however, the recent Q3 financial results included the highest ever profits for a cumulative third quarter, and measured in terms of the progress rate on full-year forecasts, this year's Q3 results appear to be ahead of target.

Overview of Results for Q3 FY3/16

(¥mn)

	FY3/15	FY3/16			
	Q3 (cumulative)	Q3 (cumulative)	YoY	Progress rate	Full year (E)
Sales	1,064,849	829,925	-22.1%	61.5%	1,350,000
Revenue	725,537	555,791	-23.4%	-	-
Gross profit	61,243	65,334	6.7%	-	-
SG&A expenses	51,268	54,063	5.5%	-	-
Operating profit	9,638	11,520	19.5%	68.6%	16,800
Profit before tax	8,795	10,773	22.5%	70.9%	15,200
Net profit	4,664	5,791	24.2%	70.6%	8,200

Source: Compiled by FISCO from earnings reports

The sharp fall in sales reflects a strong impact from the fall in crude oil prices. This is because crude oil prices affect the sales prices of the core products in all of the company's four segments. Another factor weighing on sales was the reduction in inefficient transactions in the Energy Trade Division.

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Meanwhile, on the profit front, all four segments have increased profits YoY, with a double-digit increase on a whole-company basis. Different factors enabled each segment to achieve profit growth despite an external environment of low crude oil prices and contract prices and a warm winter; however, in a brief the reason is likely to be that each segment increased its earning capability. Details by business segment are described below.

Details of Revenue by Business Segment

(¥mn)

		FY3/15	FY3/16			
		Q3 (cumulative)	Q3 (cumulative)	YoY	Progress rate	Full year (E)
Sales	Home-Life Division	81,355	68,526	-15.8%	63.1%	108,600
	Car-Life Division	489,745	408,605	-16.6%	63.0%	649,000
	Power & Utility Division	28,374	31,181	9.9%	55.7%	56,000
	Energy Trade Division	465,242	321,613	-30.9%	60.0%	535,700
	Other	133	0	-100.0%	0.0%	700
	Total net sales	1,064,849	829,925	-22.1%	61.5%	1,350,000
Operating profit	Home-Life Division	1,166	1,367	17.2%	26.3%	5,200
	Car-Life Division	2,707	2,774	2.5%	56.6%	4,900
	Power & Utility Division	3,117	3,743	20.1%	117.0%	3,200
	Energy Trade Division	1,847	2,853	54.5%	79.3%	3,600
	Other	8	1	-87.5%	-	0
	Operating profit	9,638	11,520	19.5%	68.6%	16,800

Source: Compiled by FISCO from earnings reports

■ Performance Trends by Segment

The Power & Utility Division is set to drive growth with the full-scale liberalization of the retail electricity market

(1) Home-Life Division

The core business of the Home-Life Division is LP gas sales. The company buys LP gas from Japan Gas Energy Co., Ltd. (20% stake held by the Company) and sells it directly to some 350,000 households through its direct sales subsidiaries. In addition, the company wholesales LP gas to approximately 1,600 LP gas dealers throughout Japan. Including the customers of these 1,600 dealers, the company supplies LP gas to approximately 1,080,000 households nationwide.

In Q3 FY3/16, the Home-Life Division recorded lower sales and higher profits YoY, with sales of ¥68,526mn (-15.8% YoY), operating profit of ¥1,367mn (+17.2%), net profit of ¥138mn (+181.6%). Sales declined under the impact of a fall in contract prices, but profits appear to have continued their steady trajectory through to Q2 unchanged in Q3. The industry overall saw LP gas sales volume slide from the previous fiscal year due to a warm winter, but amid this environment the company managed to retain sales volumes more-or-less on par with the previous year due to an increase in direct customers and so forth. In the LP gas business, the company can secure a certain profit margin with its system of adjusting raw materials cost, which means that trends in sales volume have a strong impact on profit fluctuations. Equipment sales also grew steadily helping to lift segment profits overall.

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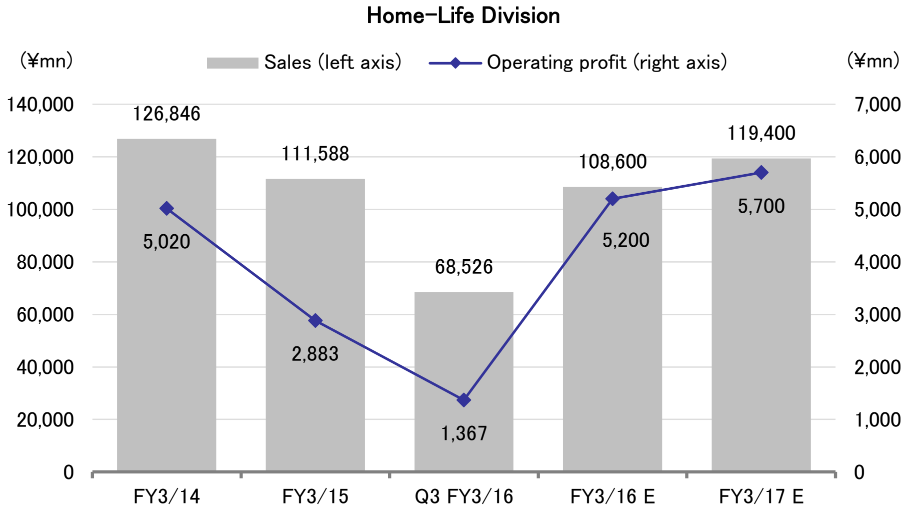


Source: Compiled by FISCO from earnings reports and briefing materials

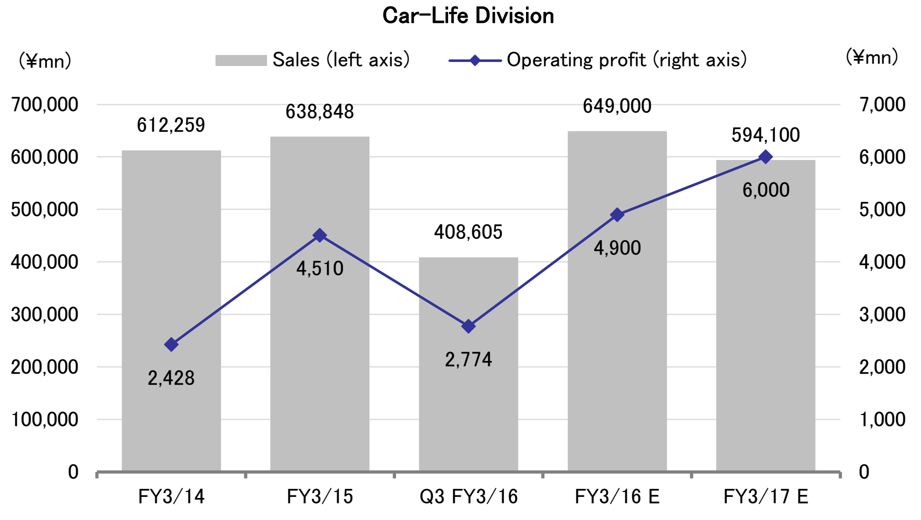
The company's key initiatives ahead of the full-scale liberalization of the retail electricity market are undertaken by the Home-Life Division and appear to be proceeding steadily. Each of the LP gas business sales companies are expected to participate as user PPSs and serve as sales counters when the Power & Utility Division forms the balancing group. Subsidiary Itochu Enex Home-Life Kanto Co., Ltd., which operates its business in the Kanto Area, has already completed registration of registered retail electricity providers and plans to commence the electricity retail business from April 1, 2016.

(2) Car-Life Division

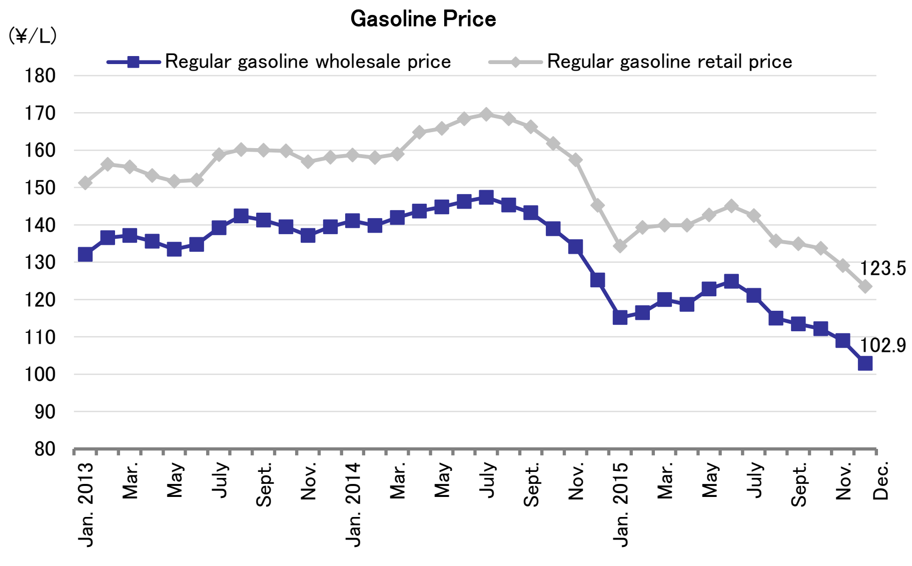
The Car-Life Division has two business pillars: 1) the Car-Life Station (CS) related business, which is a gasoline station business involving operation of CSs by a subsidiary and wholesaling of gasoline to affiliated CSs; and 2) the car dealer business, which involves operating the Osaka Car Life Group Co., Ltd. (OCG).

For Q3 FY3/16, the Car-Life Division reported lower sales and higher income, with sales of ¥408,605mn (-16.6% YoY) and operating profit of ¥2,774mn (+2.5%), net profit of ¥1,360mn (+1.6%). The core gasoline business saw sales decline as a net result of the fall in oil prices as the positive effect of increase sales volume was outweighed by the negative effect of lower prices. Segment sales were also weighed down by a decrease in sales following the closure of unprofitable CSs (net decrease of 32 locations after 55 closures and 23 new acquisitions). Profits improved with the closure of unprofitable stores, but were also affected by the downturn in sales of kerosene due to the warm winter and the deterioration in market conditions. OCG saw an increase in profits, which helped to secure a YoY increase in profit for the segment overall.

■ Performance Trends by Segment



Source: Compiled by FISCO from earnings reports and briefing materials



Source: Compiled by FISCO from statistics of the Agency for Natural Resources and Energy

We believe that the Car-Life Business should address the medium- to long-term challenge of top-line growth, that is, returning net sales to a growth trajectory. There are concerns that overall sales may continue to contract due to the impact of external factors such as gasoline market conditions and the impact of a continued decline in CS numbers. However, the company is to strengthen the earning capability of the business overall by expanding profits on an individual CS basis. The company has been conducting initiatives to strengthen its six car-related businesses (car washes, car rentals, statutory vehicle inspections, panel beating, car sales, and car purchasing) and develop R points and cards. Furthermore, under the maxim that “the basis of CS management starts with the car wash,” the company’s subsidiary ENEXAUTO CO., LTD has served as the secretariat for the Japan Car Wash Federation (JCWF) and is steadily expanding with the number of affiliated stores topping 1,500.

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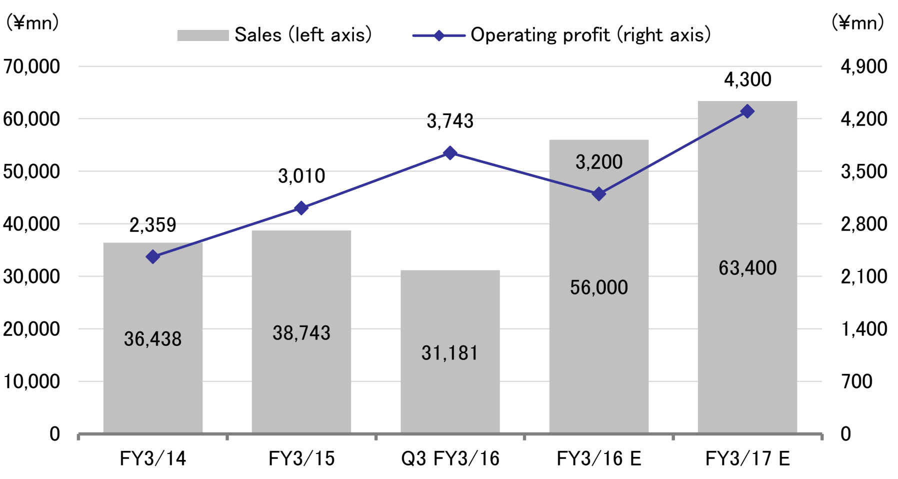
(3) Power & Utility Division

The Power & Utility Division has two business pillars: 1) electric power generation, supply and sale; and 2) the heat supply business serving large office buildings. In the electric power business, the company uses its own diverse power sources including coal-fired thermal power, wind power, and solar power, as well as power sources (biomass, etc.) obtained through an alliance with Oji Holdings Corporation (3861). This business is expected to be a growth driver for the company amid the full-scale liberalization of the retail electricity market.

For Q3 FY3/16, the Power & Utility Division reported higher sales and higher income, with sales of ¥31,181mn (+9.9% YoY), operating profit of ¥3,743mn (+20.1%), and net profit of ¥1,891mn (+18.6%). As of Q3 FY3/16, the company has already surpassed the full-year forecast for operating profit of ¥3,200mn. In the electric power business, electric power sales volume increased dramatically YoY due to the addition of electric power from Oji-Itochu Enex Power Retailing Co., Ltd. Profits were boosted in part by a fall in procurement prices from the electricity wholesale market. In the heat supply business, the fall in crude oil prices contributed a beneficial effect on profits.



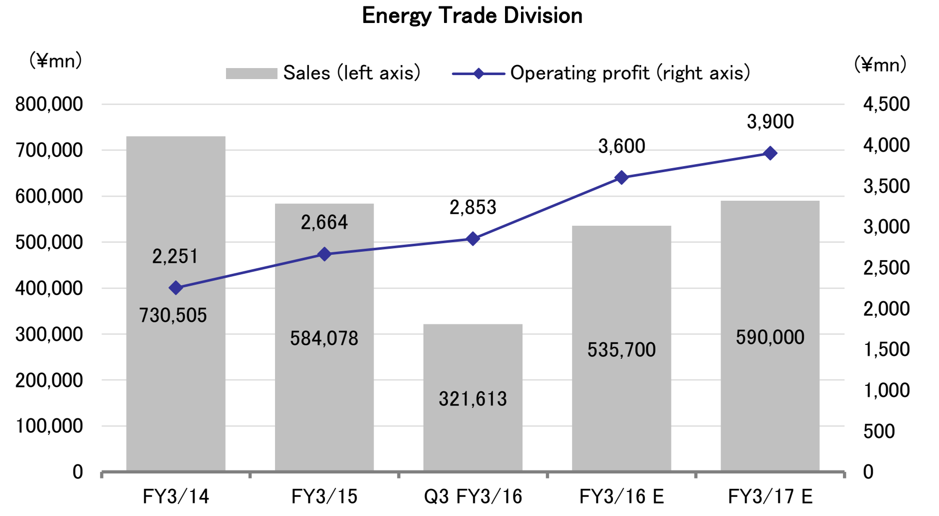
Source: Compiled by FISCO from earnings reports and briefing materials

In the Power & Utility Division, a major theme is responding to the impending full-scale liberalization of the retail electricity market in April 2016. Details of this are in a separate section below.

(4) Energy Trade Division

The Energy Trade Division comprises sales of asphalt, AdBlue (a high-grade urea solution used for detoxifying exhaust gases of diesel vehicles), ship fuel, industrial fuel and so forth. Recently, the division is also involved in new businesses involving fly ash reuse and an oil recycling business.

For Q3 FY3/16, the Energy Trade Division reported a dramatic increase in profits despite a dramatic decrease in sales, with sales of ¥321,613mn (-30.9% YoY), operating profit of ¥2,853mn (+54.5%), and net profit of ¥1,887mn (+63.4%). The dramatic decline in profit was due to the fall in crude oil prices and a decline in demand for asphalt, as well as a reduction of inefficient transactions, among other factors. The review of inefficient transactions has been planned since the start of the period. The dramatic increase in profit resulted from strong performance in businesses other than asphalt and successful efforts to reduce costs.



Source: Compiled by FISCO from earnings reports and briefing materials

The company has declared strengthening its business foundation to be a theme for the Energy Trade Division. Specific measures include maximizing and enhancing the company's distribution functions using assets such as its nationwide network of AdBlue supply bases, asphalt terminals, and various specialist ships and specialist facilities. The performance up to Q3 FY3/16 appears to reflect a certain degree of success in these measures. Another theme is the promotion of new business development, where the company is now expected to commercialize its oil recycling and fly ash reuse businesses at an early stage.

Initiatives for the Full-Scale Liberalization of the Electricity Market and Progress on the Initiatives

In FY3/17, the company plans to have retail sales account for 77% of all electric power sales

(1) Overview of system changes

The electricity retail market will become fully liberalized from April 2016. Electricity sales previously operated under a system where electricity was provided by regional monopolies in the form of general electricity providers (power companies). However, sales have been liberalized in stages since 2000. The liberalization began with the super high voltage sector (supply for large-scale plants and offices, etc.), which was followed by the high voltage sector (small medium-sized plants and supermarkets, etc.). Up until now, the liberalization has targeted electricity for industrial uses, but from April 2016 the low voltage sector will also be liberalized, including supplies for ordinary households and small-scale shops such as convenience stores. This will achieve the full-scale liberalization of the electricity market. The remaining low-voltage sector is considered to constitute 40% of Japan's overall electricity demand, and this entire sector, which will result in a sudden expansion of the liberalized market. Against this backdrop, new power producer and supplier companies, known as PPSs, are scrambling to prepare for the liberalization of the electricity market.

Overview of Electricity Markets by Scale

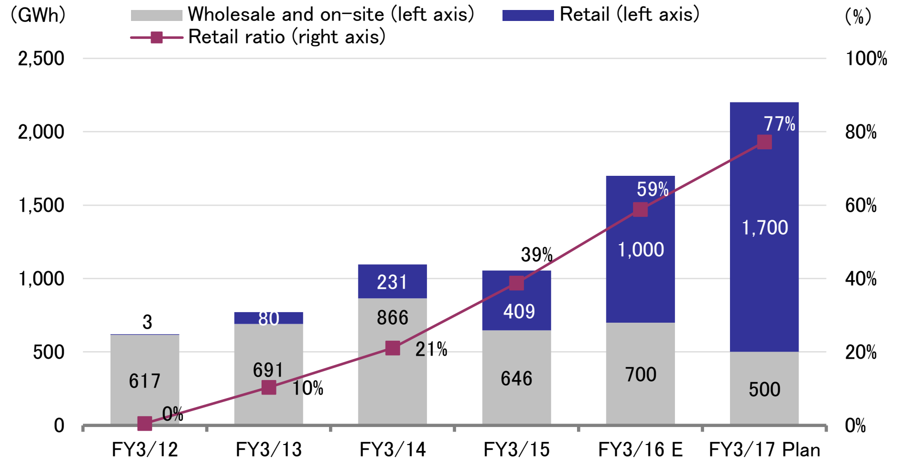
	Super high voltage	High voltage	Low voltage
Share of electric power demand	Approx. 25%	Approx. 35%	Approx. 40%
Electricity sale liberalization date	April 2000	April 2004	April 2016
Main users	Large-scale plants and offices	Small/medium-sized plants and supermarkets	Ordinary households, convenience stores, shops
Incoming voltage	20,000 V or above	6,000 V or above	100-200 V
Demand scale	2,000 kW or more	50 kW to 1,999 kW	Up to 49 kW

Source: Prepared by FISCO

(2) Enex's response to liberalization so far

The company launched electric power sales in 2010. PPSs companies, including the company, have either conducted wholesale sales to the Japan Electric Power Exchange (JEPX) or retail sales to users in the super high voltage and high voltage sectors. The company had a high ratio of wholesale sales immediately after entering the market, but has gradually been increasing the ratio of retail sales. In FY3/16 the company plans to achieve retail sales of 1,000 GWh, equivalent to 59% of its total 1,700 GWh electricity sales volume. By Q2 FY3/16 retail sales had reached 338 GWh, and the target for the whole year appears to be within reach. For FY3/17, the company is planning to achieve retail sales of 1,700 GWh, equivalent to 77% of its total 2,200 GWh electricity sales volume. The company is strengthening retail sales because they have greater prices stability and higher profitability than wholesale sales.

Breakdown of Electricity Sales Volume



Source: Compiled by FISCO from medium-term business plan materials

(3) Enex's response and progress on full-scale liberalization

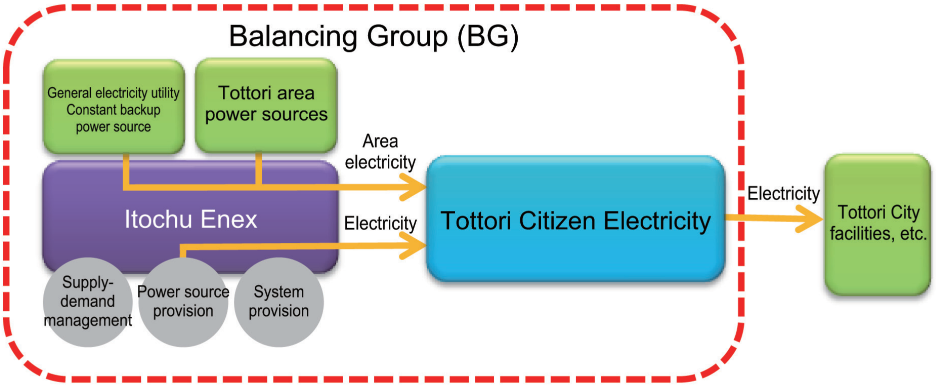
The low-voltage sector, which is to be liberalized from April 2016 is a sizable market accounting for around 40% of electricity demand. Since this sector targets some 56 million households, small and medium-sized stores, and others throughout Japan, the number of customer greatly exceeds that of the super high voltage and high voltage sectors. Full-scale liberalization could also be described as serving this vast number of small-scale stores and individual customers. Specifically, the question is what kind of sales structure needs to be constructed.

On this point, the company's strategy is to build a sales network by forming a balancing group. Here, the company will use its own power sources and supply and demand balancing expertise to act as the balancing group leader and group together user PPSs that have customers and sales capabilities and sell electricity to ordinary consumers through these user PPSs. User PPSs will not only include its LP gas sales subsidiaries and group companies related to the oil business, but could also include members from outside the company, such as energy-related companies, companies from other industries, local government organizations, and so forth.

The company appears to be proceeding on forming a balancing group starting from involving user PPSs from among group companies. Alliances outside of the group so far include the announcement of a business alliance with the Tottori Citizen Electricity Co., Ltd. and some reports of an alliance with Co-op Sapporo affiliate Todock Electricity Co., Ltd. The company's policy is to pursue the formation of a wide-ranging balancing group including other industries such as communications and distribution.

■ Initiatives for the Full-Scale Liberalization of the Electricity Market and Progress on the Initiatives

Balancing group business scheme (case of Tottori Citizen Electricity Co., Ltd.)



Source: Company news release materials

This balancing group strategy is characterized by the user PPSs being the counterparties in the contracts with the ordinary consumers, rather than the company. The company conducts wholesale sales of electricity to the user PPSs, and the respective user PPSs decide the retail prices for the purchased power in accordance with their respective situations. This enables them to set up pricing for electricity bundled with their own other services. The high level of freedom for user PPSs to create a pricing menu and promote sales is a feature of this strategy. As noted above, the company acts as the balancing group leader by adjusting for electricity surpluses and shortfalls within the group, which has the advantage of allowing the balancing group members, who are user PPSs (electricity retailers), to focus exclusively on sales. On the other hand, the company itself is not a party in the contracts, and therefore its name does not appear on electricity price comparison websites and so forth.

Example of promotional materials for acquiring user PPSs

Source: Excerpt from Itochu Enex Group explanation materials for user PPSs.

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Expectations for high voltage sector to contribute to earnings

(4) The company's approach to the electric power business

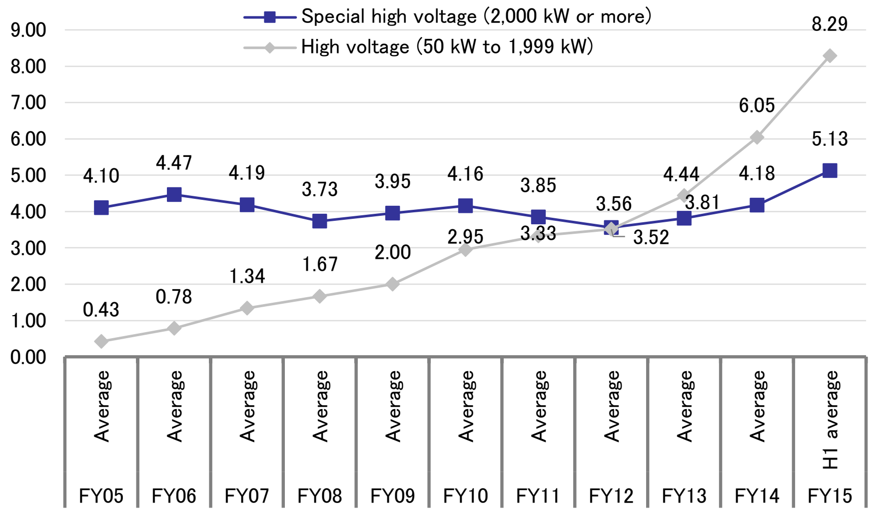
Ahead of the full-scale liberalization of the retail electricity market, competitor companies are stepping up their advertising campaigns. The company's progress may seem a little slow by comparison, however we believe such concerns are absolutely unnecessary.

The company has positioned the electricity business as a growth driver. The company has repeatedly stated its expectation that electricity will become a key part of its product lineup in its vision of becoming a comprehensive energy service company. However, with regard to the low voltage sector market, the company's expectations are focused on the medium-term after organizing the balancing group. The company's current medium-term management plan (finishing in FY3/17) does not factor in a contribution from the low-voltage sector.

For now, the company continues as before to look to the high voltage sector in terms of contribution to earnings. Although the share of PPSs in this high voltage sector is growing steadily, it is still only at around the 10% level.

With the full-scale liberalization of the market, various companies have started advertising to consumers. This is expected to have two effects. One will be wider recognition of the ability to choose between power companies and electricity fees. The other is that the existence of PPSs will become widely known in society and their credibility is expected to improve. The ripple effects of the full-scale liberalization of the retail electricity market should see even stronger motivation among high voltage users to change over to a new PPS, and an acceleration in such changeovers. We see this in itself as the greatest factor promoting growth of the company's electric power business for the time being.

Compositional Ratio of PPSs by Demand Sector



Source: Compiled by FISCO from statistics of the electric power survey conducted by the Agency for Natural Resources and Energy

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■ Performance Outlook

It is uncertain whether the company will achieve its full-year forecast for FY3/16

(1) Full-year forecast for FY3/16

For FY3/16, Itochu Enex is forecasting sales of ¥1,350,000mn (-1.7% YoY), operating profit of ¥16,800mn (+28.2%), profit before tax of ¥15,200mn (+25.1%), and net profit of ¥8,200mn (+49.0%). Itochu Enex has not revised its initial forecasts.

Overview of Forecast for FY3/16

(¥mn)

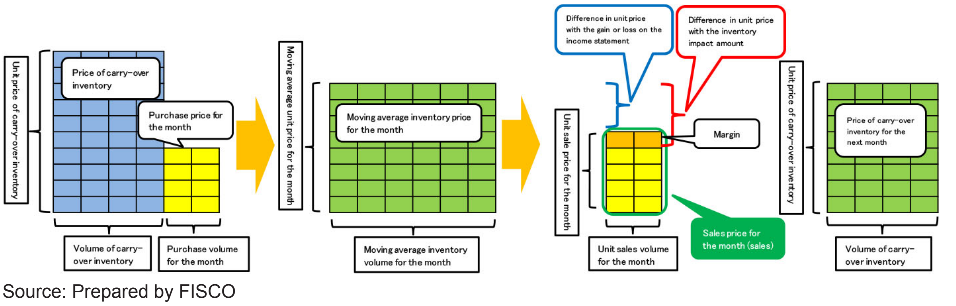
	FY3/15		FY3/16				
	Q4 (3-month)	Full year	Q3 (cumulative)	Q4 (3-month) (E)	YoY	Full year (E)	YoY
Sales	308,544	1,373,393	829,925	520,075	68.6%	1,350,000	-1.7%
Revenue	211,304	936,841	555,791	-	-	-	-
Gross profit	24,477	85,720	65,334	-	-	-	-
SG&A expenses	19,916	71,184	54,063	-	-	-	-
Operating profit	3,462	13,100	11,520	5,280	52.5%	16,800	28.2%
Profit before tax	3,360	12,155	10,773	4,427	31.8%	15,200	25.1%
Net profit	839	5,503	5,791	2,409	187.1%	8,200	49.0%

Source: Compiled by FISCO from earnings reports

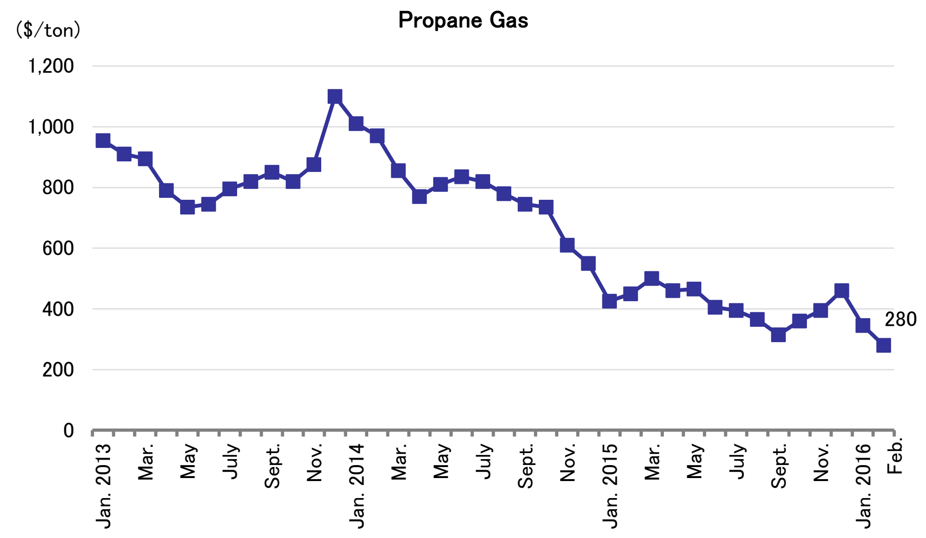
Looking at the full-year forecast, profits have been extremely brisk through to Q3 as described above, and the full-year forecast should be achievable under ordinary conditions. This is because the company's main products include many with mechanisms that ensure a certain profit margin so that the amount of profit is determined by trends in sales volume. However, for FY3/16, our view is that it is impossible to be certain that the company will achieve the full-year forecast.

The cause for this uncertainty is the impact on LP gas inventories from the fall in contract prices following the drop in crude oil prices. As noted above, the inventory impact amount up until Q3 FY3/16 ended up by declining (improving) slightly YoY. However, crude oil prices declined even further going into 2016, and in response the contract price on propane gas, a typical form of LP gas, plummeted to US$280/ton in February. As of the writing of this report, the March contract price is not yet clear; however, depending on the March contract price the inventory impact amount could balloon more than expected, putting profits under pressure. The mechanism for recording the inventory impact amount is shown in the following diagram.

LP Gas Inventory Impact Mechanism (On Downward Market Price Trend)



Source: Prepared by FISCO



Source: Compiled by FISCO from trade statistics of the Ministry of Finance

Except for the LP Gas inventory, we do not see any major negative factors in the business environment for Q4. However, the company's business does include a significant element that is affected by seasonal factors, and we therefore refrain from optimism. Our view of Q4 by business segment is as follows.

Results by Business Segment

(¥mn)

		FY3/15		FY3/16				
		Q4 (3-month)	Full year	Q3 (cumulative)	Q4 (3-month) (E)	YoY	FY3/16 (E)	YoY
Sales	Home-Life Division	30,233	111,588	68,526	40,074	32.6%	108,600	-2.7%
	Car-Life Division	149,103	638,848	408,605	240,395	61.2%	649,000	1.6%
	Power & Utility Division	10,369	38,743	31,181	24,819	139.4%	56,000	44.5%
	Energy Trade Division	118,836	584,078	321,613	214,087	80.2%	535,700	-8.3%
	Other	3	136	0	-	-	-	-
	Total net sales	308,544	1,373,393	829,925	520,075	68.6%	1,350,000	-1.7%
Operating profit	Home-Life Division	1,717	2,883	1,367	3,833	123.2%	5,200	80.4%
	Car-Life Division	1,803	4,510	2,774	2,126	17.9%	4,900	8.6%
	Power & Utility Division	-107	3,010	3,743	-543	-	3,200	6.3%
	Energy Trade Division	817	2,664	2,853	747	-8.6%	3,600	35.1%
	Other	24	32	1	-1	-	0	-
	Operating profit	3,462	13,100	11,520	5,280	52.5%	16,800	28.2%

Source: Compiled by FISCO from earnings reports and briefing materials

The Home-Life Division can be expected to benefit from a lift to sales volumes from demand for heating, excluding the aforementioned LP gas inventory factor. This winter started off warm in the first half of the season, but since entering Q4 it has become as cold as usual, which is a positive factor. The expansion in volume will hopefully relieve the inventory impact; however, we cannot be optimistic since much depends on the weather.

In the Car-Life Business, the sales trend for kerosene appears to be a key factor for Q4. With the return of the cold weather, sales volumes should rebound, however, the situation is unpredictable at this point, partly due to its dependence on the weather. The Osaka Car Life Group's car dealer business is expected to see an increase in earnings ahead of the period of heavy demand at the end of the fiscal year.

The Power & Utility Division is expected to continue performing strongly in Q4. In the electric power business, there is no periodic maintenance scheduled for Q4, and the division is expected to generate power steadily. In terms of sales, the division will strengthen its shift towards retail, aiming to achieve a retail power sales target of 1,000 GWh. As talk about the liberalization of the electricity market becomes more animated, the company's target high voltage users may increasingly move towards changing over to new providers. The heat supply business is also expected to continue steady operations, assisted by the beneficial effect of cheap crude oil.

A key point to watch for the Energy Trade Division is whether or not asphalt demand will recover on the increase in public works activity at the end of the fiscal year. Businesses such as AdBlue, ship fuel, and industrial fuel seem likely to remain steady, continuing along the same trajectory they followed up until Q3.

Profits excluding the LP gas inventory impact amount to exceed company forecasts

(2) Approach to FY3/17 results

FY3/17 earnings forecasts will not be announced until the announcement of the financial results announcement for FY3/16. We believe that one guideline would be the trajectory of the earnings plan for FY3/17 given in the company's current medium-term business plan "Moving 2016 -Sowing for tomorrow-."

Sales are highly likely to finish lower than plan for FY3/16, as noted above; and, for the same reasons, sales forecasts for FY3/17 are may be revised downward from the ¥1,370,000mn given in the medium-term plan. The company's businesses involve many products for which the amount of profit fluctuates with sales volume rather than sales price, since the unit profit margins are kept constant. Therefore, we believe there is no need to respond excessively to a decline in sales. Compared with FY3/16, we believe sales for FY3/17 are likely to increase as the effort to revise inefficient transactions in the Energy Trade Division will probably draw to a close and the amount of fall in crude oil prices will probably lessen.

Turning to profits, we believe the company will maintain its medium-term plan forecasts for operating profit of ¥20,000mn and net profit of ¥10,000mn. In FY3/16, the company has demonstrated that it has developed the "earning capability" to achieve profit in excess of company forecasts, excluding the LP gas inventory amount impact. With its inherent "earning capability," the company seems perfectly capable of achieving operating profit of ¥20,000mn. Any negative impact arising from the inventory impact amount is highly likely to be smaller than the previous year because the scope for further falls in the price of crude oil is growing less. Conversely, we also consider it possible that a rebound in the price of crude oil could work as a factor for lifting profits.

FISCO

ITOCHU ENEX CO.,LTD.

8133 Tokyo Stock Exchange First Section

24-Mar.-16

Consolidated Income Statement

(¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16		
	Full year	Full year	Full year	Q3 (cumulative)	Q4 (E)	Full year (E)
Sales	1,430,745	1,506,606	1,373,393	829,925	520,075	1,350,000
YoY	1.2%	5.3%	-8.8%	-22.1%	68.6%	-1.7%
Revenue	864,589	966,044	936,841	555,791	-	-
YoY	-	11.7%	-3.0%	-23.4%	-	-
Gross profit	69,666	71,599	85,720	65,334	-	-
YoY	7.8%	2.8%	19.7%	6.7%	-	-
Ratio to revenue	4.9%	4.8%	6.2%	7.9%	-	-
SG&A expenses	55,668	57,862	71,184	54,063	-	-
YoY	0.1%	3.9%	23.0%	5.5%	-	-
Ratio to revenue	3.9%	3.8%	5.2%	6.5%	-	-
Profit (loss) from tangible assets, intangible assets and goodwill	-914	-1,460	-1,825	-184	-	-
Other - net	-346	-402	389	433	-	-
Total other expense	-56,928	-59,724	-72,620	-53,814	-	-
Operating profit	12,738	11,875	13,100	11,520	5,280	16,800
YoY	42.0%	-6.8%	10.3%	19.5%	52.5%	28.2%
Profit before tax	12,234	13,844	12,155	10,773	4,427	15,200
YoY	-	13.2%	-12.2%	22.5%	31.8%	25.1%
Net profit	7,393	8,050	6,529	6,726	-	-
YoY	-	8.9%	-18.9%	25.9%	-	-
Net profit attributable to Itochu Enex's shareholders	6,470	7,124	5,503	5,791	2,409	8,200
YoY	-	10.1%	-22.7%	24.2%	187.1%	49.0%
EPS (¥)	57.26	63.05	48.71	51.26	21.31	72.57
Dividend (¥)	16.00	20.00	22.00	-	-	24.00
Basic earnings per share attributable to Itochu Enex's shareholders (BPS, ¥)	791.42	833.20	862.30	-	-	-

Consolidated Balance Sheet

(¥mn)

IFRS	FY3/13	FY3/14	FY3/15	Q3 FY3/16
Current assets	189,196	188,193	157,708	155,979
Cash and cash equivalents	18,062	14,251	16,184	19,039
Trade receivables	136,578	140,289	98,449	91,372
Inventories	18,134	18,655	27,794	22,322
Other current assets	16,422	14,998	15,281	23,246
Non-current assets	126,697	132,531	171,351	169,258
Investments accounted for by the equity method	6,032	5,927	10,551	9,647
Other investments	8,925	7,349	8,924	9,119
Property, plant and equipment	57,655	66,988	88,836	88,444
Intangible assets	10,999	10,280	23,474	24,450
Other non-current assets	43,086	41,987	39,566	37,598
Total assets	315,893	320,724	329,059	325,237
Current liabilities	161,738	158,336	149,443	133,993
Bonds and borrowings	14,745	11,499	14,208	12,354
Trade payables	124,046	125,655	104,564	96,699
Other current liabilities	22,947	21,182	30,671	24,940
Non-current liabilities	56,500	58,268	66,669	74,511
Bonds and borrowings	26,158	27,099	26,746	32,791
Other non-current liabilities	30,342	31,169	39,923	41,720
Total equity attributable to Itochu Enex's shareholders	89,424	94,651	97,432	100,393
Common stock	19,878	19,878	19,878	19,878
Capital surplus	18,737	18,737	18,743	18,740
Retained earnings	54,086	59,884	62,223	65,324
Other components of equity	-1,527	-2,098	-1,661	-1,797
Treasury stock	-1,750	-1,750	-1,751	-1,752
Non-controlling interests	8,231	9,469	15,515	16,340
Total equity	97,655	104,120	112,947	116,733
Total liabilities and equity	315,893	320,724	329,059	325,237

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ITOCHU ENEX CO.,LTD.
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First Section

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Consolidated Statement of Cash Flows

(¥mn)

IFRS	FY3/13 end	FY3/14 end	FY3/15 end	Q3 FY3/16 end
Cash flows from operating activities	22,754	17,530	34,336	18,398
Cash flows from investing activities	-24,930	-12,556	-20,410	-14,713
Cash flows from financing activities	4,759	-8,859	-12,115	-912
Net increase (decrease) in cash and cash equivalents	2,583	-3,885	1,811	2,773
Cash and cash equivalents at the beginning the period	15,436	18,062	14,251	16,184
Effect of exchange rate changes on cash and cash equivalents	43	74	122	82
Cash and cash equivalents at the end of the period	18,062	14,251	16,184	19,039

Shareholder Returns

We believe the real profit growth trend remains firm

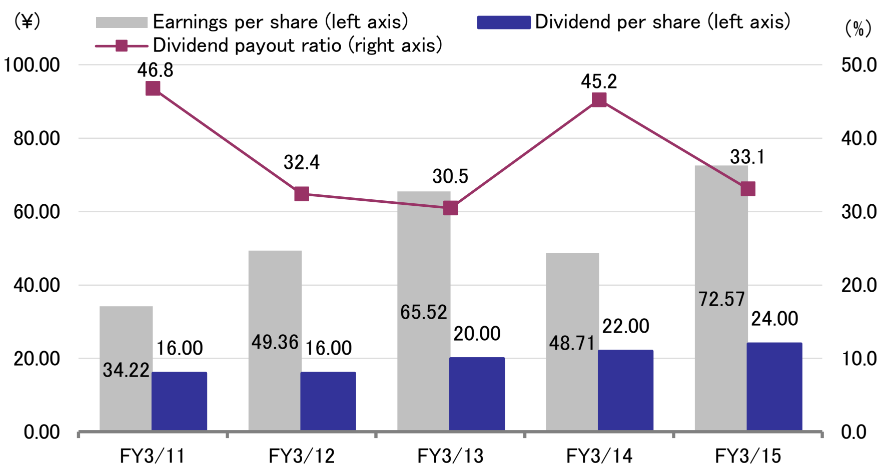
The basic policy on shareholder returns is to maintain a dividend payout ratio exceeding 30% or more. In FY3/15, despite a lower YoY net profit the company increased the annual dividend by ¥2 per share, to ¥22; presumably because of management's stance on emphasizing shareholders and its confidence that the company could return to an earnings growth path from FY3/16.

For FY3/16, the company is forecasting a dividend of ¥24 (interim dividend: ¥12, year-end dividend 12), for an increase of \2 YoY, reflecting a projected 49.0% YoY increase in profit to ¥8,200mn. The dividend forecast was maintained at the time of announcing the Q3 financial results. This represents a dividend payout ratio of 33.1% based on projected earnings per share.

As explained above, it is impossible to predict whether or not the company will achieve its full-year profit forecast for FY3/16. We believe that even if the company does not achieve the forecast, provided the difference is not extremely great, the company is likely to pay the dividend as forecast. This is because the real profit growth trend remains firm.

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 believe that shareholders to expect shareholder returns to expand in line with profit growth.

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



Source: Compiled by FISCO from earnings reports

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