COMPANY RESEARCH AND ANALYSIS REPORT

Itochu Enex Co., Ltd.

8133

Tokyo Stock Exchange First Section

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Summary

Growth investment for the future and operating results both making steady progress

ITOCHU ENEX CO., LTD. <8133> (hereafter, also "the Company") is an energy trade company that is playing a pivotal role in the energy field for ITOCHU Corp. <8001>. It has a broad business scope, though it mainly sells petroleum products and liquefied petroleum (LP) gas to users ranging from industrial businesses to final consumers. Its presence has also been growing in electricity sales in recent years.

1. 3Q FY3/18 results finished with higher sales and profits. Steady progress confirmed

The Company's 3Q FY3/18 results finished with higher sales and profits at ¥814,044mn in sales (up 11.5% YoY) and ¥14,299mn in profit from operating activities (up 5.0%). An upturn in the external environment (rise in crude oil prices and a calming of excessive competition) and success of the Company's own efforts continued to be factors in 3Q, and the Company achieved record 3Q highs at all profit levels. The results confirmed extremely steady progress with the progress rate on full-year targets approaching 90%.

2. Started reorganization of LP gas business and also announced company reorganization. Focus on new plans for power plant going forward

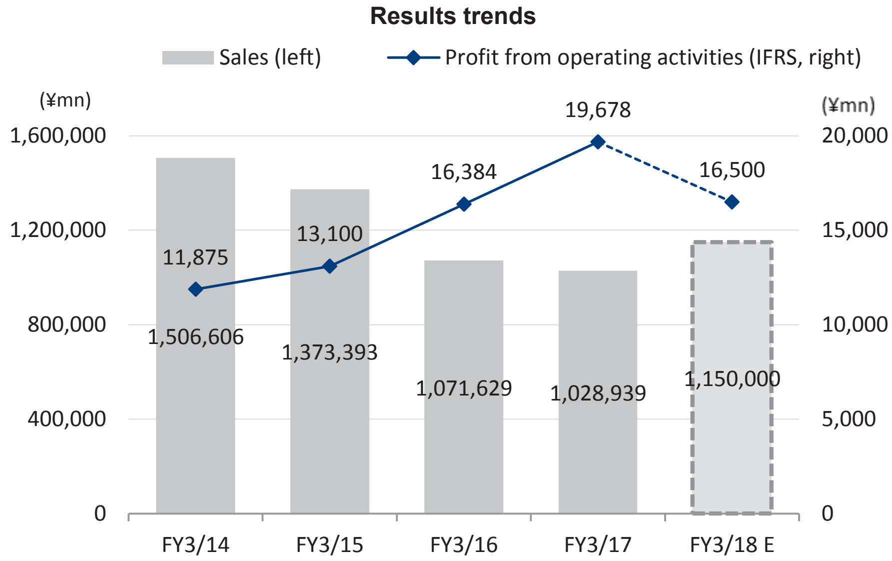
The Company has positioned two years in FY3/18 and FY3/19 as a preparation period for advancing to the next stage and is focusing on formulating and executing growth investments. In 3Q the Company started a reorganization of the LP gas business with Osaka Gas Co., Ltd. <9532>. The Company also started on a company reorganization that it plans to implement from April 1, 2018. The purpose of the reorganization is "business development using the group's own network in each region and speeding up decision-making processes in the power and mobility businesses in response to the shift to electrical energy." The Power & Utility Division, which has become an independent Business Group, is examining the construction of a new power plant and it will be worth watching to see how quickly the project moves from the planning to the execution stage.

3. Possibility of outperforming the FY3/18 forecast. More important focus on quality and quantity of growth investments

Full-year operating results for FY3/18 seem more likely to outperform the Company's forecast considering the high progress rate through to 3Q and the 4Q demand period with demand for heating and so forth. However, the margin is not likely to exceed the 30% threshold for revising operating results. As stated above, FY3/18 and FY3/19 have been positioned as a period for establishing a foundation for future growth. The standard for evaluating the Company should focus more on steady execution of growth investments for the future than immediate operating results.

Key Points

- Start of major reorganization of the LP gas business in the Home-Life Division
- Persistently high coal prices have created a headwind for the power generation field in the electricity business. Declines will be absorbed by electricity sales and other Business Divisions to secure profit growth
- Speed up decision-making through reorganization



Source: Prepared by FISCO from the Company's financial results

Results trends

Results finished with higher sales and profits. A new record high for 3Q profit

The Company reported 3Q FY3/18 results with sales and profit increases at ¥814,044mn in sales (up 11.5% YoY), ¥14,299mn in profit from operating activities (up 5.0%), ¥15,693mn in profit before tax (up 20.1%), and ¥9,278mn in net profit attributable to the Company's shareholders (up 34.2%).

The 3Q progress rates on full-year forecasts were 70.8% for sales and high rates close to 90% for each level of profit from operating profit and below. Furthermore, profit levels from operating profit and below renewed record highs for 3Q results. Considering this situation, the 3Q results this time appear to be extremely strong.

Review of 3Q FY3/18 results

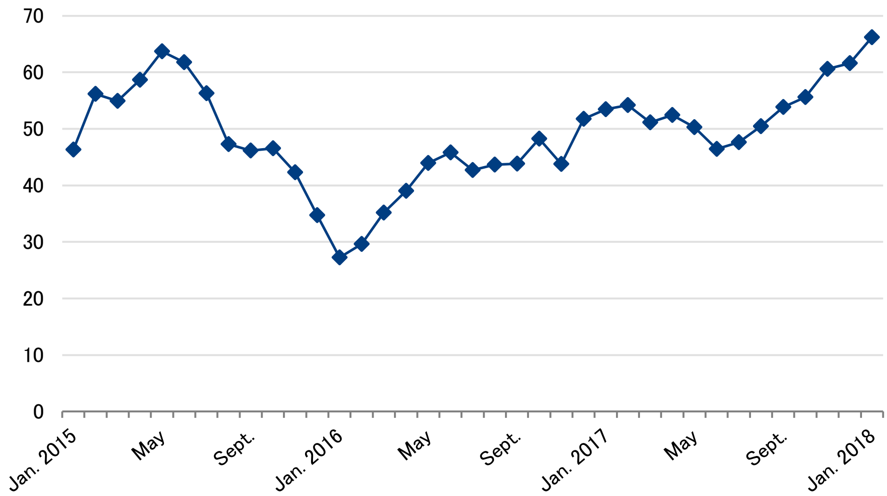
(¥mn)

	FY3/17		FY3/18			
	3Q (nine-month period) Results	Full year Results	3Q (nine-month period) Results	YoY	Progress rate vs. forecast	Full-year forecast
Sales	730,108	1,028,939	814,044	11.5%	70.8%	1,150,000
Revenue	491,905	695,060	544,109	10.6%	-	-
Gross profit	67,839	93,604	65,151	-4.0%	-	-
SG&A expenses	54,122	74,697	51,972	-4.0%	-	-
Profit from operating activities	13,621	19,678	14,299	5.0%	86.7%	16,500
Profit before tax	13,062	19,344	15,693	20.1%	88.2%	17,800
Net profit attributable to the Company's shareholders	6,912	10,405	9,278	34.2%	89.2%	10,400

Source: Prepared by FISCO from the Company's financial results

In 2Q FY3/18 (1H), the Company achieved a new half-year record for net profit attributable to the Company's shareholders. This was followed in the 3Q three-month period (October—December) by continued increases in prices for LP gas and gasoline following crude oil. As a result, the Company's earnings continued their strong performance through 1H in 3Q also.

Dubai Crude (monthly average prices USD/barrel)



Source: Prepared by FISCO from Company materials

Sales increased 11.5% YoY, with growth accelerating from an 8.9% YoY increase for 1H FY3/18. In addition to an increase in sales volume, product prices also increased following an increase in crude oil prices.

Gross profit declined 4.0% YoY. This mainly reflected a reorganization of the LP gas business with Osaka Gas in the Home-Life Division, store closures in the Life Energy & Logistics Division. However, on the other hand, SG&A expenses also declined 4.0% as a result of cost reductions, resulting in a 5.0% increase in profit from operating activities.

Profit before tax increased 20.1% YoY, exceeding the growth in profit from operating activities. This reflected gain on business reorganization and others of ¥2,326mn associated with the reorganization of the LP gas business, which pushed up profit before tax.

Turning to individual business segments, revenue increased across all four segments. As mentioned, this mainly reflected an increase in product prices reflecting an increase in crude oil prices. On the other hand, Meanwhile, profit from operating activities declined YoY in the Power & Utility Division and the Industrial Energy & Logistics Division. In the Power & Utility Division, has steadily expanded its earnings up to now, and some may be concerned that it may have hit a turning point. However, we believe the downturn does not reflect structural factors so much as temporary factors such as market conditions (detailed explanation below). At the level of net profit attributable to the Company's shareholders, the growth in the Home-Life Division is notable. This is mainly due to the abovementioned gain on business reorganization and others associated with the reorganization of the LP gas business.

Breakdown of 3Q FY3/18 results by business segment

(¥mn)

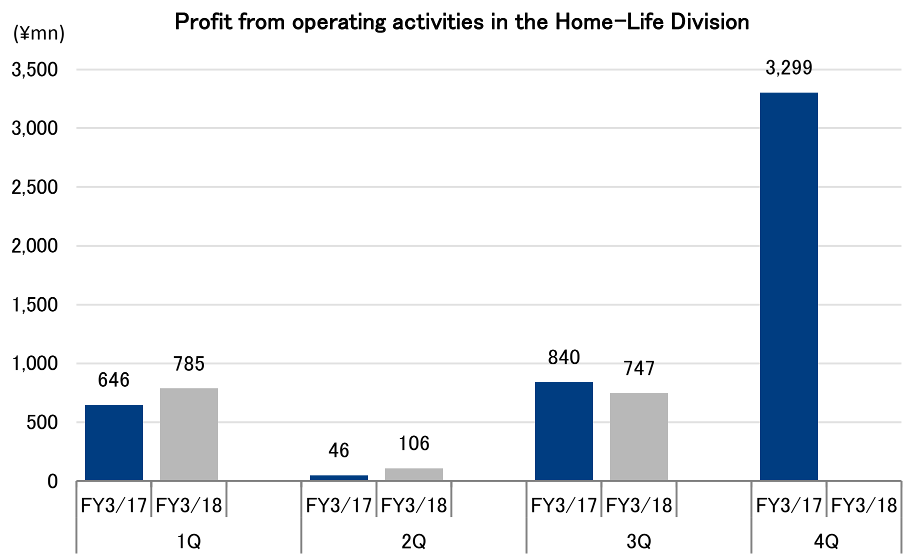
		FY3/17		FY3/18						
		3Q	3Q (cumulative)	1Q	2Q	3Q	YoY change (%)	3Q (cumulative)	YoY change	YoY change (%)
Revenue	Home-Life Division	22,668	57,584	21,704	18,419	28,047	5,379	68,170	18.4%	10,586
	Power & Utility Division	15,360	44,060	15,309	19,929	20,837	5,477	56,075	27.3%	12,015
	Life Energy & Logistics Division	127,531	347,557	119,081	123,176	120,286	-7,245	362,543	4.3%	14,986
	Industrial Energy & Logistics Division	18,564	46,456	18,336	20,650	24,931	6,367	63,917	37.6%	17,461
	Revenue before adjustment	184,123	495,657	174,430	182,174	194,101	9,978	550,705	11.1%	55,048
	Adjustment	-1,734	-3,752	-1,972	-2,237	-2,387	-653	-6,596	-	-2,844
	Revenue	182,389	491,905	172,458	179,937	191,714	9,325	544,109	10.6%	52,204
Profit from operating activities	Home-Life Division	840	1,532	785	106	747	-93	1,638	6.9%	106
	Power & Utility Division	1,636	5,070	1,915	1,961	959	-677	4,835	-4.6%	-235
	Life Energy & Logistics Division	2,676	4,577	1,741	1,978	2,163	-513	5,882	28.5%	1,305
	Industrial Energy & Logistics Division	477	1,608	-56	380	610	133	934	-41.9%	-674
	Profit from operating activities before adjustment	5,629	12,787	4,385	4,425	4,479	-1,150	13,289	3.9%	502
	Adjustment	237	834	279	332	399	162	1,010	21.1%	176
	Profit from operating activities	5,866	13,621	4,664	4,757	4,878	-988	14,299	5.0%	678
Net profit attributable to the Company's shareholders	Home-Life Division	476	418	406	-967	2,836	2,360	2,275	444.3%	1,857
	Power & Utility Division	873	2,566	931	951	613	-260	2,495	-2.8%	-71
	Life Energy & Logistics Division	1,404	2,300	1,013	1,041	1,173	-231	3,227	40.3%	927
	Industrial Energy & Logistics Division	334	1,154	-12	254	417	83	659	-42.9%	-495
	Net profit attributable to the Company's shareholders before adjustment	3,087	6,438	2,338	1,279	5,039	1,952	8,656	34.5%	2,218
	Adjustment	118	474	185	167	270	152	622	31.2%	148
	Net profit attributable to the Company's shareholders	3,205	6,912	2,523	1,446	5,309	2,104	9,278	34.2%	2,366

Source: Prepared by FISCO from the Company's financial results

Results trends by business segment

Conducted major reorganization of the LP gas business. LP gas contract prices increased, amplifying the positive contribution of inventory effects as well

1. Home-Life Division



Source: Prepared by FISCO from the Company's financial results and interviews

In the Home-Life Division, sales and profits both increased. Revenue was ¥68,170mn (+18.4% YoY), while profit from operating activities was ¥1,638mn (+6.9%) in 3Q FY3/18 (nine-month period).

The biggest step forward in the Home-Life Division in 3Q FY3/18 was the reorganization of the LP gas business with Osaka Gas. In the three regions of Kanto, Chubu and Kansai, the two companies set up ENEARC Co., Ltd. as a 50-50 joint venture, and transferred both companies' LP gas sales companies to ENEARC on October 1, 2017. In other regions, ENEARC acquired all of the shares of the Osaka Gas Group's three LP gas sales companies (in Hokkaido and two prefectures in Shikoku), bringing these companies under the umbrella of the ENEARC group.

As a result of this reorganization of business, the revenue and profit of the LP gas business in the three regions of Kanto, Kansai, and Chubu were transferred to ENEARC and incorporated into the equity in gains/losses of affiliates on ENEARC's income statement. Meanwhile, following the conversion of LP gas sales companies in Hokkaido and two prefectures in Shikoku into ENEARC's subsidiaries, ENEARC's number of direct-sales LP gas customer households increased from around 344,000 just before the reorganization (end of September 2017) to around 540,000 at the end of December 2017.

In the course of this business reorganization, one-time losses and gains other than ordinary profit from operating activities were also recorded. Roughly speaking, losses were incurred in advance in 1H FY3/18, appearing in the form of equity in losses of affiliates on ITOCHU ENEX's income statement. Subsequently, gain on business reorganization and others was recorded in 3Q FY3/18. That was the reason for the differences in growth rates in profit from operating activities and profit before tax in earnings between 1H FY3/18 and 3Q FY3/18. Details on the impact of the business reorganization are set forth in the table below. Ultimately, the business reorganization produced a net gain of approximately ¥1.4 billion. It appears that the recording of one-time gains and losses associated with the business reorganization is complete for now.

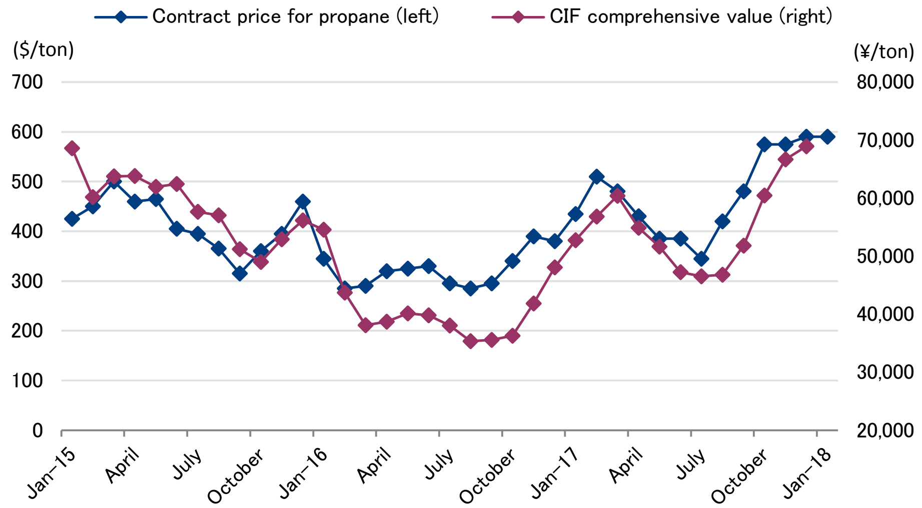
Impact of the reorganization of the LP gas business on profit and loss

Item	Impact	Notes
SG&A expenses (increase)	-94	
Equity in gains (losses) of affiliates	-704	1H FY3/18 earnings
Gain on business reorganization and others	2,326	3Q FY3/18 earnings
Income tax expenses	-106	
Total impact on profit and loss	1,422	

Source: Prepared by FISCO from the Company's financial results

The contract price has a significant bearing on the profitability of the LP gas business. In 3Q FY3/18, the contract price remained on an upward trend, rising from $480 per ton in September 2017 to $590 per ton in December 2017. In the LP gas business, LP gas operators recognize the gas for each customer as their own inventory (value of inventory stored in customers' tanks). ITOCHU ENEX thus carries a large volume of inventories. As a result, the impact value of inventories due to the level of the contract price at the end of the period has an impact on profit and loss. The contract price had increased to $590 per ton at the end of 3Q FY3/18, so we believe that there was a large positive inventory impact amount. Although some earnings were excluded from the level of profit from operating activities in connection with the aforementioned reorganization of the LP gas business, we believe that segment profit in the 3Q FY3/18 three-month period (October-December) was held to a decrease of just under ¥0.1bn because of the effect of the abovementioned inventory impact amount.

Contract price and CIF trend for LP gas



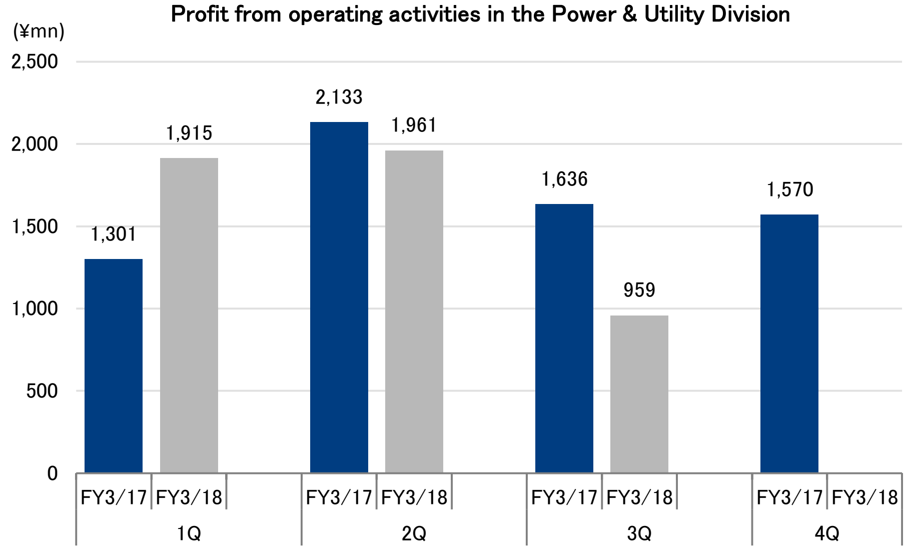
Source: Prepared by FISCO from trade statistics of the Ministry of Finance

As the sales company of the Power & Utility Division, the Home-Life Division is promoting sales of packaged products of LP gas and electricity. The number of customer households increased by around 7,000 in the 3Q three-month period to 49,000 as of the end of December 2017. The division aims to increase the cumulative number of customer households to around 70,000 as of the end of the fiscal year (end of March 2018). Until now, customer acquisition has proceeded at a slower pace than planned. We believe that it will be very difficult for the division to achieve this goal. However, we believe that the electricity sales business has become profitable even at the current number of customer households. In this respect, the division's progress has been greater than anticipated.

Persistently high coal prices have created a headwind for the power generation field. Meanwhile, the electricity sales field continued to grow steadily.

2. Power & Utility Division

Profit from operating activities in the Power & Utility Division



Source: Prepared by FISCO from the Company's financial results and interviews

The Power & Utility Division posted lower profits on higher sales in 3Q FY3/18 (nine-month period). Revenue increased 27.3% to ¥56,075mn, while profit from operating activities decreased 4.6% to ¥4,835mn.

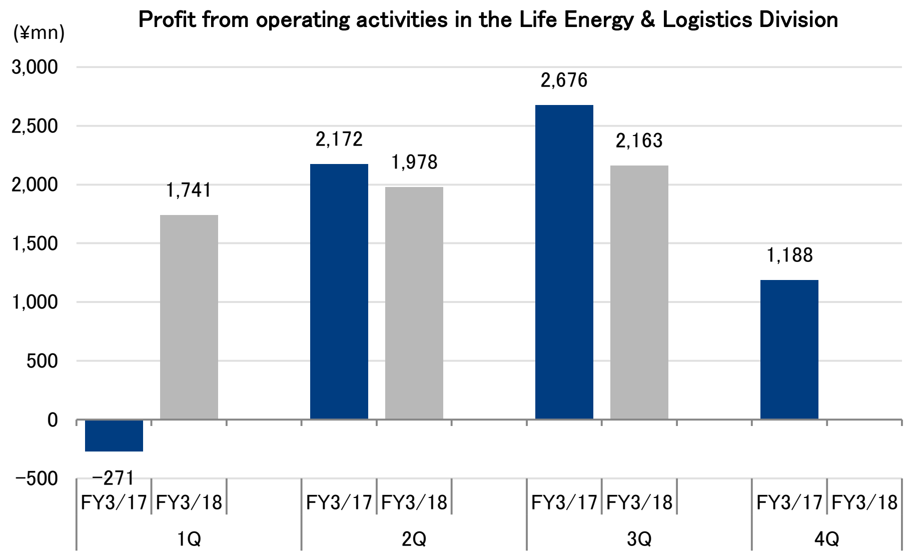
Looking at the quarterly trend in profit from operating activities, it is clear that the decrease in earnings was directly attributable to the 41.4% YoY decline in profit from operating activities to ¥959mn in 3Q FY3/18. Three main factors were responsible. The first factor was persistently high coal prices. The ITOCHU ENEX Group primarily relies on coal-fired thermal power plants, so the high coal prices led to rising power generation costs, and profit margins came under pressure. The second factor was rising wholesale power prices. Wholesale power prices rose mainly due to lower than normal temperatures in western Japan, leading to rising wholesale power prices. This, in turn, narrowed the price difference between retail and wholesale prices, resulting in a contraction in profit margins. The third factor was intensified competition in the retail field. With a succession of new entrants into the power retailing sector, there was stronger downward pressure on retail prices. In the heat supply business, another business of the Power & Utility Division, profit was pressured by an increase in the depreciation burden from ramping up capacity for GINZA SIX and investing in equipment upgrades.

Meanwhile, electricity sales volume seems to be growing steadily. ITOCHU ENEX posted electricity sales volume of 2,043 GWh in 1H FY3/18, up 34% from 1H FY3/17. It appears that electricity sales volume has continued to grow at the same pace even at the end of 3Q FY3/18. Retail electricity sales also seems to be trending steadily, underpinned by growth in the customer base through the aforementioned internal and external members of the balancing group (BG), beginning with the Home-Life Division, and Nissan Osaka Sales Co., Ltd. in the Life Energy & Logistics Division. In addition, in wholesale electricity sales, ITOCHU ENEX appears to have expanded transaction volumes to make up for a decline in profit margins, resulting in growth in wholesale electricity sales volume.

The Power & Utility Division can be divided into three components, specifically, the power generation field and electricity sales field within the electricity business and the heat supply business. Based on the conditions described above, in 3Q FY3/18, the power generation field and heat supply business recorded a YoY decline in earnings, while the electricity sales business maintained earnings growth.

Earnings growth trend continues due to a confluence of factors including an improving business environment and the Company's own efforts to close CSs

3. Life Energy & Logistics Division



Source: Prepared by FISCO from the Company's financial results and interviews

The Life Energy & Logistics Division finished 3Q FY3/18 (nine-month period) with higher sales and significant growth in profits. Revenue rose 4.3% YoY to ¥362,543mn and profit from operating activities surged 28.5% to ¥5,882mn.

Looking at the quarterly trend in profit from operating activities, the graph shows that the large improvement in 1Q FY3/18 was the main reason for the YoY earnings growth in the 3Q FY3/18 nine-month period. However, earnings have remained stable while continuing to increase over the preceding quarters in both 2Q FY3/18 and 3Q FY3/18.

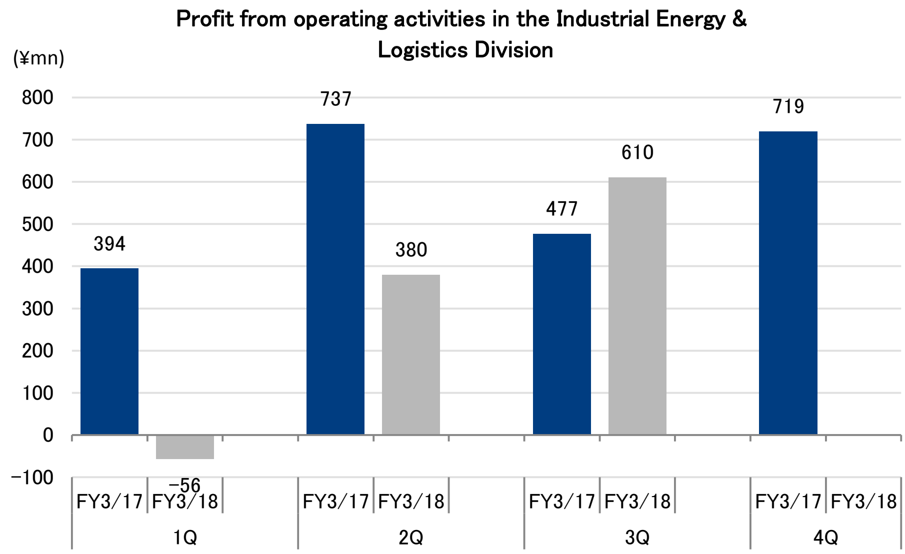
Among the businesses of the Life Energy & Logistics Division, the Car-Life Station ("CS", ITOCHU ENEX's in-house term for gas stations) business posted both higher sales volume and profits YoY amid a business environment characterized by a continuing decline in domestic fuel oil demand. The increase in sales volume seems to have been driven primarily by sales of diesel truck fuel, supported by the economic recovery. The higher profits were the result of externalities, specifically the calming of excessive industry-wide competition through the reorganization of major oil suppliers, and the Company's own efforts, such as the closure of unprofitable CSs.

ITOCHU ENEX had 1,845 CS sites in December 2017, a net decrease of 43 sites compared with the previous fiscal year-end (end of March 2017). In the CS business, the Company has been working to promote mutual customer referrals among CSs through the use of a shared point system. To this end, the Company has been accelerating the deployment of new POS terminals at affiliated CSs for some time. In addition, as an automobile-related business, ITOCHU ENEX commenced a car rental business in earnest under the Itsumo Car Rental brand in April 2017.

Nissan Osaka Sales, which carries out the car dealer business, continued to post steady growth in sales volume in 3Q FY3/18. However, profit margins per vehicle seem to have contracted YoY due to a diminished boost from new car sales (the effect of model changes) compared with the same period last year. We believe that the 19.2% YoY decrease in profit from operating activities in the Life Energy & Logistics Division in the 3Q FY3/18 three-month period was largely attributable to the drop in earnings in the car dealer business, which reflected a downturn from the boost from new car sales in 3Q FY3/17.

Steady progress on initiatives, such as expanding transactions using the group's own network, despite a decrease in profit in line with a decline in petroleum product trading

4. Industrial Energy & Logistics Division



Source: Prepared by FISCO from the Company's financial results and interviews

The Industrial Energy & Logistics Division posted a large decrease in profits despite an increase in revenue. Revenue rose 37.6% YoY to ¥63,917mn, while profit from operating activities decreased 41.9% to ¥934mn.

The main reasons for the large decrease in profits were unchanged from what was noted in the previous report that was issued shortly after the 1H FY3/18 earnings announcement. In other words, as a result of the aforementioned removal of the supply-demand gap due to the reorganization of oil suppliers and the stabilization of prices, there was a sharp decrease in trading opportunities in the petroleum product trading business. The petroleum product trading business handles surplus contracts that occur due to the supply-demand gap. Its trading activities help to facilitate supply-demand adjustment and removal of any price gap. This serves to expand income at ITOCHU ENEX and also meet the societal need for adjusting the supply-demand balance of oil products across the industry as a whole. However, the stabilization of the market has made it difficult for price gaps to arise.

Meanwhile, profit from operating activities rose 27.9% YoY (¥133mn) in the 3Q FY3/18 three-month period. Rather than being attributable to any one factor, we believe that this profit growth was driven by the gradual successes delivered by initiatives undertaken from the start of FY3/18. These initiatives include refining and optimizing the value chain of each business in the division and expanding transactions by using the group's network.

Overview of the medium-term business plan and its progress

Capital investment and business performance are both progressing steadily under the two-year medium-term business plan "Moving 2018"

1. Overview of the medium-term business plan and its progress

The Company is implementing its two-year medium-term business plan, "Moving 2018" covering FY3/18 and FY3/19. The concept behind the new plan is defined as "two years to lay the management foundations for the next stage of the Company's development."

The quantitative targets of the plan also reflect the concept of the current medium-term business plan. In terms of business performance, ITOCHU ENEX has put the main focus of the plan on maintaining net profit attributable to the Company's shareholders at the ¥10.0 billion level, rather than pursuing high growth. Meanwhile, capital investment has been increased significantly to prepare for the next stage of the Company's development.

Quantitative targets in the medium-term business plan "Moving 2018"

		FY3/17	Moving 2018 FY3/18	Moving 2018 FY3/19
Profit from operating activities		¥19.7bn	¥16.5bn	¥18.5bn
Net profit note		¥10.4bn	¥10.4bn	¥10.8bn
ROE		10.0%	9.3%	9.1%
Dividend payout ratio		Over 30%	Over 30%	Over 30%
Cash flows from operating activities		¥17.8bn	¥22.0bn	¥24.0bn
Investment plan		¥13.4bn	¥45.0bn (over 2 years)	
Average rate	Crude oil price		$50/bbl	
	CP price		$400/MT	
	Forex rate		¥108.4/$	

Note: "Net profit" refers to net profit attributable to the Company's shareholders.
Source: Prepared by FISCO from Company materials

ITOCHU ENEX has been making extremely solid progress in terms of business performance. As noted earlier, profits in 3Q FY3/18 have reached nearly 90% of the Company's profit targets for the current fiscal year. In addition to the Company's own measures to improve profitability, crude oil prices and the contract price for LP gas have surpassed the assumed rates in the medium-term business plan. These factors have contributed positively to profits overall.

As of 3Q FY3/18, ITOCHU ENEX had not disclosed any details on how capital investments are progressing. However, the Company has announced that capital investments of ¥14.1bn were made through the end of 1H FY3/18. This amount exceeds one-quarter of the total amount of planned capital investments (¥45bn over two years). In this sense, it could be said that the Company is making steady progress. Among the main capital investments were the large-scale reorganization of the LP gas business, and capacity increases and equipment upgrades in the heat supply business.

Boldly implement reorganization to accelerate progress on the medium-term business plan

2. New reorganization measures

When announcing 3Q FY3/18, ITOCHU ENEX also announced that it will carry out a reorganization on April 1, 2018. According to the Company, the reorganization will be undertaken for the purpose of "business development using the group's own network in each region and speeding up decision-making processes in the power and mobility businesses in response to the shift to electrical energy."

The three main reorganization measures are as follows: 1) The Life Energy & Logistics Division and the Industrial Energy & Logistics Division, two of the Company's current four divisions, will be integrated to form the Life & Industrial Energy Division; and 2) The Company will adopt an organization based on two business groups, namely the Energy & Logistics Group and the Power & Utility Group, with the Home-Life Division and Life & Industrial Energy Division placed under the Energy & Logistics Group; and 3) The Automobile Business Office will be upgraded to and renamed as the Mobility Life Department, and the business of Nissan Osaka Sales in the Life Energy & Logistics Division will be transferred to the Mobility Life Department.

Comparison of Previous and New Organizational Framework

Business group	Segment
Power & Gas Business Group	Home-Life Division
	Power & Utility Division
Energy & Logistics Group	Life Energy & Logistics Division
	Industrial Energy & Logistics Division

Business group	Segment
Energy & L ogistics Group	Home-Life Division
	Life & Industrial Energy Division
Power & Utility Group	Power & Utility Division
(Directly managed)	Mobility Life Department

Source: Prepared by FISCO from Company materials

This reorganization will be undertaken as part of the Company's efforts "to lay the groundwork for the next generation." As such, we believe that it is only natural for ITOCHU ENEX to align its organizational framework with the business environment it foresees and the Company's vision for itself in the future. The transformation of the Power & Utility Division into a standalone business group and business division will fuel heightened expectations for the Company to speed up decision-making going forward. The key question is: where will the Company demonstrate this faster decision-making? First, we have high hopes that the Company will demonstrate faster decision-making in the area of new power source development, which has long been a key priority. It is hoped that faster decision-making will be brought to bear specifically with regard to construction plans for a new power plant.

The Company's aims in transferring Nissan Osaka Sales to the Mobility Life Department are also understandable. We suspect that the Company would like to focus on selling EVs and energy-efficient vehicles to the fullest extent possible without having to take note of trends in gasoline sales. Meanwhile, as far as "responding to the shift to electrical energy" is concerned, as stated in the purpose of the reorganization, we believe that the Company should also accelerate this priority in the CS business, without restricting itself to the power business and mobility life business. In a well-timed development, actions are now being taken to advance deregulation in such areas as supplying EVs with power at gasoline stations and establishing convenience stores on gasoline station sites. Going forward, we would like to closely monitor the Company's activities from these sorts of perspectives as well.

Another aim of the reorganization is to pursue business development using the group's own network in each region. Here, our understanding is that ITOCHU ENEX intends to maximize the use of its nationwide business infrastructure, comprising approximately 540,000 direct-sales LP gas customer households, more than 1,800 CSs, 20 AdBlue supply facility sites, 12 asphalt terminal sites and a domestic marine fuel supply network of 8 sites (8 ships). In the Industrial Energy & Logistics Division, the Company has so far carried out measures to expand sales using the group's network, and has achieved a certain degree of success with those measures. It is hoped that the creation of the Life & Industrial Energy Division through the reorganization will extend that success to consumer fields.

Business outlook

The Company is expected to finish the year with results surpassing forecasts, based on low temperatures and snow accumulations in western Japan in 4Q FY3/18

The Company forecasts sales rising, but profit declining with ¥1,150,000mn in sales (up 11.8% YoY), ¥16,500mn in profit from operating activities (down 16.2%), ¥17,800mn in profit before tax (down 8.0%), and ¥10,400mn in net profit attributable to the Company's shareholders (down ¥5mn) in FY3/18. The Company's forecasts remain unchanged from its initial forecasts.

Overview of the forecast for FY3/18

(¥mn)

	FY3/17		FY3/18				
	4Q Results	Full year Results	3Q (cumulative) Results	4Q Forecast	YoY	Full year Forecast	YoY
Sales	298,831	1,028,939	814,044	335,956	12.4%	1,150,000	11.8%
Revenue	203,155	695,060	544,109	-	-	-	-
Gross profit	25,765	93,604	65,151	-	-	-	-
SG&A expenses	20,575	74,697	51,972	-	-	-	-
Profit from operating activities	6,057	19,678	14,299	2,201	-63.7%	16,500	-16.2%
Profit before tax	6,282	19,344	15,693	2,107	-66.5%	17,800	-8.0%
Net profit attributable to the Company's shareholders	3,493	10,405	9,278	1,122	-67.9%	10,400	-0.0%

Source: Prepared by FISCO from the Company's financial results

Although we have been aware of the possibility that full-year business performance could surpass the Company's initial forecasts, we have decided to closely monitor trends in 3Q and 4Q FY3/18, which is a phase of strong demand for the Company. In light of weather conditions in 4Q FY3/18, we believe that the Company is now even more likely to finish the year with results surpassing its initial forecasts.

Looking at the sales and profits that will be needed for the Company to achieve its current full-year forecasts, the Company will need sales of ¥335,956mn (an increase of 12.4% YoY) and profit from operating activities of ¥2,201mn (a decrease of 63.7% YoY). When the western Japan region, which normally experiences warm and mild weather, sees low temperatures, sales volume for the Company's fuel products tends to increase in line with heating demand. Western Japan experienced a harsh winter this year, with the recording of unprecedented snow accumulations due to a major cold snap that affected the region. As a result, we believe that those weather conditions will provide a tailwind for the Company's business performance. Therefore, we believe that it is highly unlikely that the Company will post a decline in earnings of more than 60% YoY in 4Q FY3/18.

That said, we don't believe that the Company will outperform its forecasts to such an extent that it will approach the disclosure threshold of "a change in profit of 30% or more" as stipulated by disclosure standards. We believe that investors should remain cautious about the prospects for a so-called "upward revision" to earnings. Caution is warranted based on several factors. First, rising crude oil prices could have both positive and negative impacts on profits depending on the business division. In addition, the electricity business is being impacted by persistently high coal prices and growth in sales volume in the Industrial Energy & Logistics Division is slowing down.

The main points of the outlook for each business segment are described below.

(1) Home-Life Division

In the Home-Life Division, we are closely watching growth in the sales volume of LP gas due to the impact of the harsh winter, and the inventory impact value due to the contract price level at the fiscal year-end. As noted earlier, the LP gas business serving Japan's three major metropolitan areas has been transferred to ENEARC, but all other regions still remain within the ITOCHU ENEX group. The fluctuations in demand in western Japan, where temperatures were lower than normal, will be directly reflected in the Company's business results.

The contract price had continued to increase through the end of 3Q FY3/18, reaching an average of $590 per ton in December. Thereafter, however, the contract price declined to $525 per ton in February 2018. Considering that the contract price was $480 per ton at the previous fiscal year-end, we believe that there is only a small risk of the inventory impact value having a large negative impact on profits and acting as a drag on business performance.

(2) Power & Utility Division

In the Power & Utility Division, particularly the electricity sales field, we believe that electricity sales will trend firmly in line with growth in the number of electricity retail contracts. In the power generation field, we believe that the impact of persistently high coal prices will continue, as it did through 3Q FY3/18. However, judging from movements in crude oil prices and other factors, we believe that profit margins are unlikely to be reduced further. In the heat supply business, earnings are expected to improve on the preceding quarter as heating demand usually increases in 4Q FY3/18 compared with the 3Q FY3/18 three-month period.

(3) Life Energy & Logistics Division

In the Life Energy & Logistics Division, sales volume of fuel oil (gasoline, kerosene) could have possibly decreased YoY and compared with the preceding quarter, mainly due to the impact of weather conditions. Meanwhile, we believe that there will be no drastic declines in earnings based on the fact that profit margins on fuel oil are secured. In automobile sales by Nissan Osaka Sales, we anticipate that sales volume will grow as the company enters a phase of strong demand in 4Q FY3/18, ahead of the fiscal year-end. On the other hand, profit margins per vehicle appear to have contracted YoY. We would like to closely watch the extent to which Nissan Osaka Sales will be able to cover the smaller margins with growth in sales volume.

(4) Industrial Energy & Logistics Division

The business environment of the Industrial Energy & Logistics Division is expected to remain unchanged from conditions seen through 3Q FY3/18. Therefore, the Division's efforts to expand earnings will also be centered on steadfastly implementing measures such as refining and optimizing value chains, and expanding transactions using the group's own network, as before. In this environment, growth in asphalt sales volume driven by seasonal factors at the fiscal year-end will be watched carefully by investors.

Income statements

(¥mn)

	FY3/15	FY3/16	FY3/17	FY3/18	
				3Q (cumulative)	Full-year forecast
Sales	1,373,393	1,071,629	1,028,939	814,044	1,150,000
YoY	-8.8%	-22.0%	-4.0%	11.5%	11.8%
Revenue	936,841	723,645	695,060	544,109	-
YoY	-3.0%	-22.8%	-4.0%	10.6%	-
Gross profit	85,720	89,562	93,604	65,151	-
YoY	19.7%	4.5%	4.5%	-4.0%	-
% of sales	6.2%	8.4%	9.1%	8.0%	-
SG&A expenses	71,184	73,226	74,697	51,972	-
YoY	23.0%	2.9%	2.0%	-4.0%	-
% of sales	5.2%	6.8%	7.3%	6.4%	-
Loss from tangible assets, intangible assets and goodwill	-1,825	-593	-982	-20	-
Other – net	389	641	1,753	1,140	-
Total other expenses	-72,620	-73,178	-73,926	-50,852	-
Profit from operating activities	13,100	16,384	19,678	14,299	16,500
YoY	10.3%	25.1%	20.1%	5.0%	-16.2%
Profit before tax	12,155	15,004	19,344	15,693	17,800
YoY	-12.2%	23.4%	28.9%	20.1%	-8.0%
Net profit attributable to the Company's shareholders	5,503	7,469	10,405	9,278	10,400
YoY	-22.7%	35.7%	39.3%	34.2%	-0.0%
EPS (¥)	48.71	66.10	92.09	82.15	92.05
Dividend (¥)	22	24	32	-	32
Book-value per share (¥)	862.3	889.7	960.37	-	-

Source: Prepared by FISCO from the Company's financial results

Balance sheets

(¥mn)

IFRS standard					
	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18 3Q
Current assets	188,193	157,708	137,865	178,127	210,800
Cash and cash deposits	14,251	16,184	20,824	22,727	25,425
Trade receivables	140,289	98,449	71,968	94,759	117,660
Inventories	18,655	27,794	25,160	27,155	24,888
Other	14,998	15,281	19,913	33,486	42,827
Non-current assets	132,531	171,351	166,188	166,476	164,731
Investments accounted for by the equity method	5,927	10,551	8,786	11,749	21,537
Other investments	7,349	8,924	8,029	7,461	3,671
Property, plant and equipment	66,988	88,836	88,311	87,588	85,631
Intangible assets	10,280	23,474	24,329	23,638	20,747
Other	41,987	39,566	36,733	36,040	33,145
Total assets	320,724	329,059	304,053	344,603	375,531
Current liabilities	158,336	149,443	111,997	143,751	169,396
Short-term bonds and borrowings	11,499	14,208	5,299	9,318	10,484
Trade payables	125,655	104,564	80,745	101,902	133,662
Other	21,182	30,671	25,953	32,531	25,250
Non-current liabilities	58,268	66,669	74,894	73,375	71,148
Non-current bonds and borrowings	27,099	26,746	32,366	31,702	30,890
Other	31,169	39,923	42,528	41,673	40,258
Equity	94,651	97,432	100,526	108,511	114,800
Common stock	19,878	19,878	19,878	19,878	19,878
Capital surplus	18,737	18,743	18,740	18,740	18,930
Retained earnings	59,884	62,223	66,024	73,300	78,569
Other components of equity	-2,098	-1,661	-2,364	-1,655	-704
Treasury stock	-1,750	-1,751	-1,752	-1,752	-1,873
Non-controlling interests	9,469	15,515	16,636	18,966	20,187
Total equity	104,120	112,947	117,162	127,477	134,987
Total liabilities and equity	320,724	329,059	304,053	344,603	375,531

Source: Prepared by FISCO from the Company's financial results

Cash flow statements

(¥mn)

IFRS standard					
	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18 3Q
Cash flows from operating activities	17,530	34,336	30,322	17,831	19,176
Cash flows from investing activities	-12,556	-20,410	-16,673	-14,712	-9,506
Cash flows from financing activities	-8,859	-12,115	-9,059	-1,195	-6,967
Net increase/decrease in cash and cash equivalents	-3,885	1,811	4,590	1,924	2,703
Cash and cash equivalents at the beginning of the period	18,062	14,251	16,184	20,824	22,727
Effect of exchange rate changes on cash and cash equivalents	74	122	-27	-21	-5
Cash and cash equivalents at the end of the period	14,251	16,184	20,824	22,727	25,425

Source: Prepared by FISCO from the Company's financial results

Shareholder returns

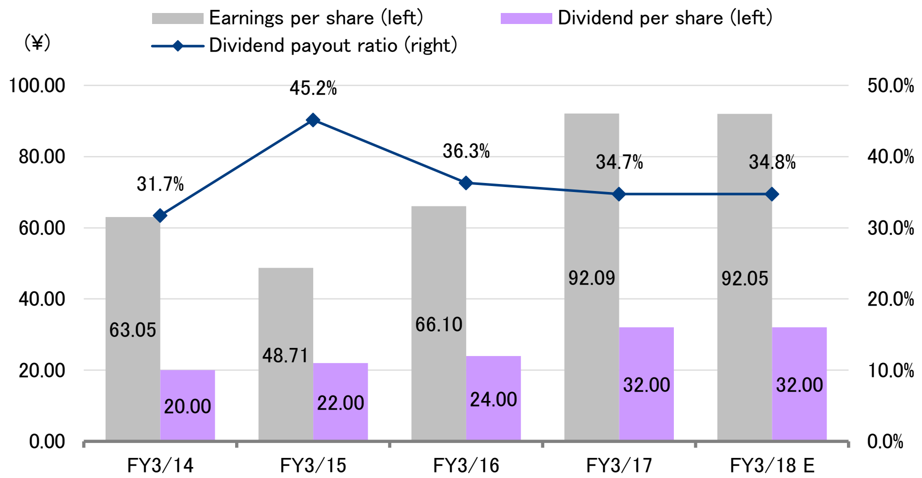
Projecting an annual dividend of ¥32 per share for FY3/18. There is a higher likelihood of outperforming earnings forecasts, but the Company also has many growth investments in the pipeline.

The Company utilizes dividends to compensate shareholders and has a basic policy on shareholder returns of maintaining a dividend payout ratio of 30% or more.

For FY3/18, the Company has announced an annual dividend forecast of ¥32 per share (¥16 for the interim dividend and ¥16 for the period-end dividend), which is unchanged from the previous fiscal year. As noted earlier, earnings for 3Q FY3/18 were strong. However, there have so far been no changes to the Company's initial full-year earnings forecasts, nor have there been any changes to the initial dividend forecast.

Following the strong earnings performance in 3Q FY3/18, we believe the Company is even more likely than before to outperform its full-year earnings targets. However, we don't believe that the Company will outperform its forecasts to the extent that it will reach the threshold stipulated by disclosure standards for upwardly revising forecasts (a change of 30% or more in the case of profits). On the other hand, the Company has significantly increased its capital investment plan in anticipation of its next stage of development. Based on these conditions, we believe that the annual dividend for FY3/18 will be largely in line with the Company's current forecast.

Earnings and dividend per share and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

Information security

Acquired certification based on international standards for information security, in addition to setting strict in-house rules

ITOCHU ENEX has defined its own personal information protection policy for protecting the personal information of customers. The Company has been working to put an organizational framework in place, implement and maintain information security measures and pursue continuous improvements. The Company also fosters awareness among directors, employees, and other relevant personnel, along with actively promoting personal information protection.

In the electricity business, the electricity supply-demand group handles personal information as part of electricity sales. This group obtained ISO/IEC27001/JIS Q 27001 (known as ISMS*) approval, the international standard for information security management systems, in October 2016, thereby ensuring secure information handling.

* ISMS (Information Security Management System) is a comprehensive information security management system that protects information assets from various threats and mitigates risks. It has international and domestic standards (ISO/IEC27001/JIS Q 27001). Satisfying these criteria and acquiring certification is usually referred to as having "acquired ISMS."

FISCO

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