

Business Risks

Principal risks	Description of risks	Response to risks															
<p>Risks due to a pandemic (See page 62.)</p>	<p>Once a highly contagious infectious disease such as COVID-19 starts to spread, there are concerns regarding the potential harm to the health of employees, business partners and other related parties, and its social and economic impacts, and there is a risk that it could disrupt business activities. The possible risks by business are as follows.</p> <table border="1" data-bbox="411 386 1127 853"> <thead> <tr> <th></th> <th>Business</th> <th>Possible risks</th> </tr> </thead> <tbody> <tr> <td rowspan="4">Businesses essential to daily life</td> <td>Petroleum product sales</td> <td> <ul style="list-style-type: none"> Decline in demand Increased temporary closure of sales bases Suspension of ordering and delivery functions </td> </tr> <tr> <td>LP gas sales</td> <td> <ul style="list-style-type: none"> Decline in demand Suspension of manufacturing, distribution and maintenance functions </td> </tr> <tr> <td>Electricity sales</td> <td> <ul style="list-style-type: none"> Decline in demand Suspension of power generation functions </td> </tr> <tr> <td>Heat supply</td> <td> <ul style="list-style-type: none"> Decline in demand Suspension of heat supply functions </td> </tr> <tr> <td>Car sales and related businesses</td> <td colspan="2"> <ul style="list-style-type: none"> Decrease in sales volume due to shortened business hours Suspension of sales and vehicle maintenance functions </td> </tr> </tbody> </table>		Business	Possible risks	Businesses essential to daily life	Petroleum product sales	<ul style="list-style-type: none"> Decline in demand Increased temporary closure of sales bases Suspension of ordering and delivery functions 	LP gas sales	<ul style="list-style-type: none"> Decline in demand Suspension of manufacturing, distribution and maintenance functions 	Electricity sales	<ul style="list-style-type: none"> Decline in demand Suspension of power generation functions 	Heat supply	<ul style="list-style-type: none"> Decline in demand Suspension of heat supply functions 	Car sales and related businesses	<ul style="list-style-type: none"> Decrease in sales volume due to shortened business hours Suspension of sales and vehicle maintenance functions 		<p>As part of being prepared for any infectious disease outbreak that becomes a pandemic, the Company has established the following responses for each stage of the outbreak, from the standpoint of prioritizing the safety of employees and preventing the spread of infection.</p> <p>Stage 1 (Early stage of domestic regional outbreak)</p> <ul style="list-style-type: none"> Voluntarily refrain from non-essential business trips, events and meetings, etc. Prioritize the safety and security of employees and customers, and take measures to prevent infection. <p>Stage 2 (Early stage of regional outbreak)</p> <ul style="list-style-type: none"> Establish an IT environment and disseminate guidelines in preparation for switch to telework. Prepare countermeasures for possible risks while monitoring the situation by business area nationwide. <p>Stage 3 (Regional infection stage)</p> <ul style="list-style-type: none"> Set up response headquarters. Arrange systems to prepare for a state of emergency, switch to telework in regions where the infection is spreading, and take measures to prevent infection of employees. Based on ongoing monitoring of each business, execute pandemic response measures of business continuity planning as necessary, while keeping an eye on impact on businesses, and formulating countermeasures through the response headquarters.
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<p>Risk of shrinkage of business base</p>	<p>The decrease in customers due to the declining population in Japan, increasing energy efficiency, the increase in electric cars, and other trends has effects such as a decline in sales volume of products the Group handles in businesses including petroleum product sales, LP gas and industrial gas sales, electricity sales, heat supply, and car sales. This trend is not expected to abate, and a certain decrease in revenue every year is likely to continue if no countermeasures are taken.</p>	<p>Home-Life Division:</p> <ul style="list-style-type: none"> Maintain and expand the number of customers through domestic and overseas M&A Prevent customer turnover through service benefits for major customers Improve business efficiency and cut costs through IT, such as LPWA <p>Car-Life Division:</p> <ul style="list-style-type: none"> Strengthen cooperation with distributors and bolster the revenue base of affiliated Car-Life Stations by understanding the needs of consumers in each region Generate revenue from entry into the rental car business and car lease business to counteract revenue decline associated with sales volume <p>Power & Utility Division:</p> <ul style="list-style-type: none"> Strengthen sales activities in the electric power retail business by utilizing IT and building new brands Expand sales operations using the distributor network 															
<p>Natural disaster risk</p>	<p>Any large-scale natural disaster (earthquake, typhoon, flooding, etc.) affecting a wide area of Japan could potentially cause damage to the Group's business assets and impact business results. Furthermore, many key functions of the head office and other operating sites are located in the Tokyo metropolitan area, and there is a risk to business continuity should a major natural disaster occur in that area.</p>	<p>Measures against damage to facilities:</p> <p>Assets owned by the Group are dispersed across Japan, so risk of damage is also dispersed. Moreover, facilities owned by the Group are constructed and maintained according to earthquake resistance standards, and no significant damage has occurred in any large-scale disaster to date. Furthermore, the Group has adopted insurance measures, including fire insurance on the majority of its facilities.</p> <p>Business continuity measures:</p> <p>The Company has formulated a BCP and conducts ongoing drills to ensure it is ready to respond to a large-scale disaster in the Tokyo metropolitan area. It is also developing BCPs for each region, encompassing Group companies.</p>															
<p>Risk of commodity price fluctuations</p>	<p>Transactions relating to petroleum products, LP gas and electricity are subject to the risk of commodity price fluctuations, where purchase prices and the valuation of stockpiles may fluctuate due to changes in market conditions, which could have an impact on the Group's profit/loss.</p>	<p>Petroleum products:</p> <p>The Company sets selling prices linked to purchase prices, and in principle, its business model is not subject to the risk of price fluctuations. In addition, to reduce excessive buying or selling positions, commodity futures and forward contracts, etc., the Company has formulated Product Balance Management Regulations, and sets and controls product balance limits and annual loss limits for each department.</p> <p>LP gas:</p> <p>The Company sets a selling price formula linked to contract price, etc., and reduces price fluctuation risk by passing price changes on to customers.</p> <p>Electricity:</p> <p>The Company reduces spot market fluctuation risk with alliances with major electric power companies and the use of derivatives such as electricity futures.</p>															
<p>Fixed asset impairment risk</p>	<p>A decrease in the asset values or profitability of the various sales outlets and equipment owned by the Group would necessitate the recognition of impairment, which could have a significant impact on the Group's business results.</p>	<p>The fixed assets owned by the Group are dispersed among multiple businesses, and across every region of Japan. Therefore, risk is dispersed to a certain extent due to portfolio effects. In addition, the Company has established mechanisms to prevent unprofitable and inefficient fixed assets from accumulating, including strict investment criteria and asset disposal and replacement based on exit rules.</p>															
<p>Risks related to information security and information systems</p>	<p>In the event that larger-than-expected cyberattacks, computer virus infections, unauthorized access, or other factors cause system failures or the loss, leakage or alteration of information in information systems that are central to the Company's business operations, such events could hinder the continuity of the Company's business activities. Furthermore, they could have an adverse impact on the Group's business results due to loss of trust, large compensation claims or other causes.</p>	<p>The CIO and IT Planning Department lead the establishment of appropriate internal control procedures for building and operating information systems, and work to ensure robust security. Furthermore, the Company has set a personal information protection policy for management and handling of confidential information, including customer and personal information, and widely informs stakeholders about its objectives and management methods regarding handling of personal information.</p>															
<p>Risks related to compliance</p>	<p>A broad range of laws and regulations apply to the businesses operated by the Itochu Enex Group. Any legal or regulatory violation could hinder the continuity of the Company's business activities. (Liquefied Petroleum Gas Act, Fire Service Act, Soil Contamination Countermeasures Act, Electricity Business Act, Air Pollution Control Act and other laws)</p>	<p>In order to prevent risks related to compliance from manifesting and deploy effective countermeasures based on the prompt detection of compliance issues, the Itochu Enex Group has established a department for overseeing compliance-related matters, formulated a CSR Compliance Program, and conducts activities that include education and training. (See pages 63-64.)</p>															