

FY2019 Financial Results for First Six Months

Revised, 15th November, 2019



ITOCHU ENEX CO.,LTD.

(TSE first section, 8133)

- I. Overview of Consolidated Financial Results for First Six Months of FY2019**
- II. Segment Information**
- III. Progress of the Medium-Term Business Plan**
- IV. Management Policy for the Second Half (By Segment)**

- Unless otherwise noted, all the numerical values in this material are based on the International Financial Reporting Standards (IFRS).
- In this material, the notation has been replaced as follows.
 - “Profit from operating activities” ⇒ “Operating profit”
 - “Net profit attributable to Itochu Enex’s shareholders” ⇒ “Net profit”

I. Overview of Consolidated Financial Results for First Six Months of FY2019



Summary of Financial Results for the First Six Months of FY2019

Operating profit surpassed previous first half record highs!

(100 million yen)	FY2018/1H Results	FY2019/1H Results	Changes	FY2019 Full-year plan	Achievement rate
Net sales	4,754	4,391	-363	10,000	44%
Gross profit	413	423	+9		
Selling, general and administrative expenses	-325	-330	-5		
Operating profit	89	95	+6	165	58%
Share of profit (loss) of investments accounted for using the equity method	9	7	-2		
Net profit	54	52	-3	118	44%
Dividends (yen/share)	20	21	+1	42	—
ROE (%)	—	—	—	9% or more	—

- ❑ **Operating profit surpassed previous first half record highs.**
- ❑ **All businesses remained firm in general**, although **net profit decreased ¥260 million or 5% year on year**, partly due to the effect of inventories resulting from lower LP gas import prices.
- ❑ **The ratio of SG&A expenses to gross profit was 78.2%**, suggesting that expenses were properly controlled as in the previous year.

Results Highlights

All businesses remained firm in general, despite the effect of inventories resulting from lower LP gas import prices. Our earning capability improved steadily.

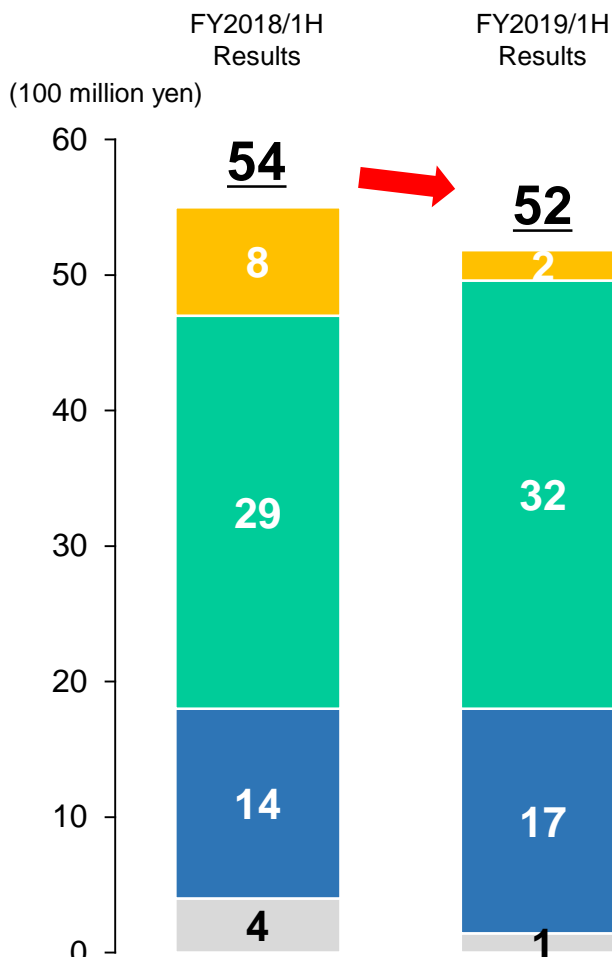


(100 million yen)

	FY2019/1H Results	Changes	Division	Major factors for increase/decrease
Gross profit	423	+9	<ul style="list-style-type: none"> Home-Life Life & Industrial Energy Power & Utility 	<ul style="list-style-type: none"> -5: Effects of inventories due to lower LP gas import prices, etc. +8: Strong CS retail business and new car sales +7: Improvement in the margins of electricity sales
Selling, general and administrative expenses	-330	-5	<ul style="list-style-type: none"> Home-Life Life & Industrial Energy Power & Utility 	<ul style="list-style-type: none"> -3: Increase in expenses due to the establishment of new companies and organizational restructuring. +0: - -1: -
Operating profit	95	+6	<ul style="list-style-type: none"> Home-Life Life & Industrial Energy Power & Utility 	<ul style="list-style-type: none"> -5: Effects of inventories due to lower LP gas import prices, etc. +11: Strong CS retail business and new car sales +3: Improvement in the margins of electricity sales
Share of profit (loss) of investments accounted for using the equity method	7	-2	<ul style="list-style-type: none"> Home-Life Life & Industrial Energy Power & Utility 	<ul style="list-style-type: none"> -4: Decrease in transferred profit due to the effect of inventories +0: - +2: Increase in revenue at the destinations of investments accounted for using the equity method

Net Profit by Segment

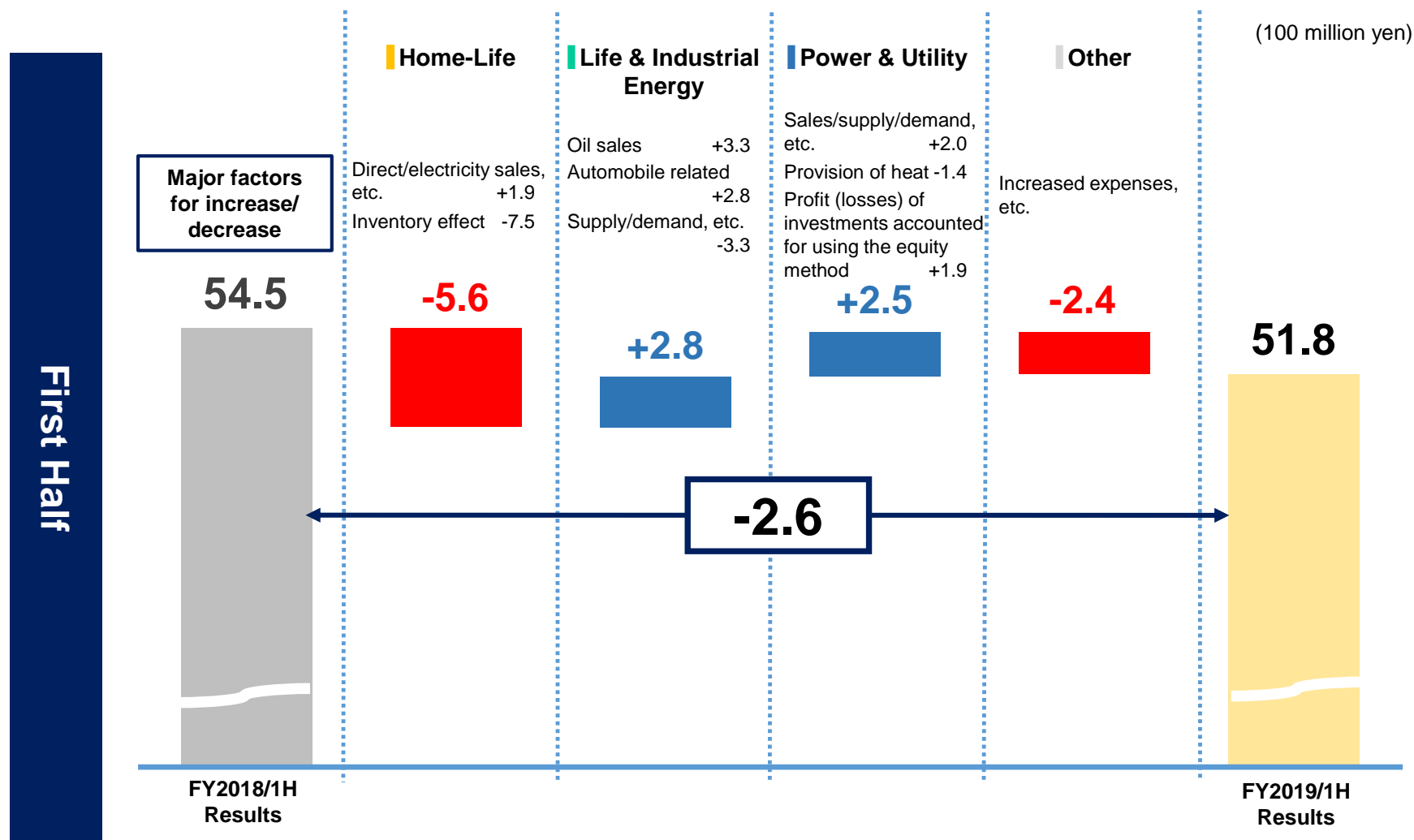
Profit increased, driven by the Life & Industrial Energy and Power & Utility segments.



Major factors for increase/decrease

- Home-Life (YoY: -600 million, Achievement rate of the plan: 8%)**
 The number of customers under direct contracts was 551,000, almost unchanged from the end of the previous year. Profit decreased, mainly due to the effect of inventories resulting from lower LP gas import prices.
- Life & Industrial Energy (YoY: +300 million, Achievement rate of the plan: 55%)**
 Profit margins were secured due to solid retail markets, although the sales volume of oil products decreased year on year. In addition, profit increased thanks to strong sales of new cars such as New Dayz, Note and Serena.
- Power & Utility (YoY: +200 million, Achievement rate of the plan: 51%)**
 Profit margins were secured mainly due to the stable condition of the electricity wholesale market, despite a year-on-year decline in electricity retail sales. In addition, profit increased due to a rise in profit transferred from companies accounted for using the equity method.
- Other (YoY: -200 million, Achievement rate of the plan: -%)**

Analysis of Net Profit by Segment

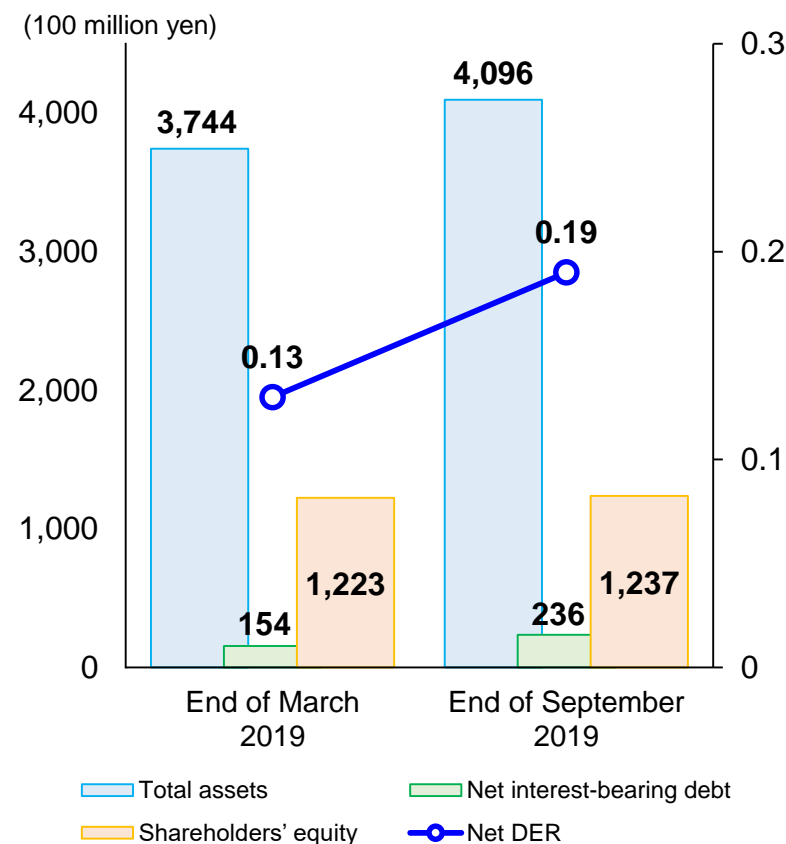


Financial Position

Lease assets increased due to changes in accounting standards.

- **Total assets:** Exceeded **¥400.0 billion**, reflecting an increase in lease assets mainly due to the adoption of IFRS 16
- **Shareholders' equity:** Increased ¥1.4 billion from the end of the previous year to **¥123.7 billion**, mainly reflecting a rise in net profit
- **Net DER:** Effect of an increase in short-term borrowings attributable to seasonal factors

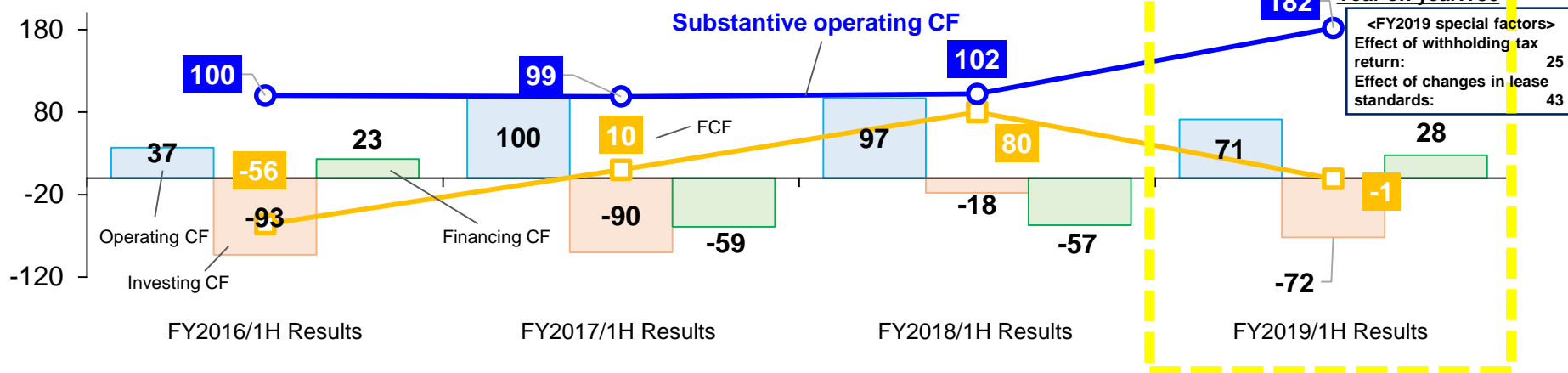
	End of March 2019 Results	End of September 2019 Results	Changes
	(100 million yen)		
Total assets	3,744	4,096	+352
Net interest-bearing debt	154	236	+82
Shareholders' equity	1,223	1,237	+14
Ratio of shareholders' equity to net assets	32.7%	30.2%	-2.5pt
Net DER	0.13	0.19	+0.06



Cash Flows

Substantive CF increased year on year, although operating CF declined from the year-ago level.

(100 million yen)



Cash Flows	FY2016/1H Results	FY2017/1H Results	FY2018/1H Results	FY2019/1H Results
Cash flows from operating activities	37	100	97	71
Cash flows from investing activities	-93	-90	-18	-72
(Free cash flows)	-56	10	80	-1
Cash flows from financing activities	23	-59	-57	28

Substantive cash flows

Substantive operating cash flows (*)	100	99	102	182
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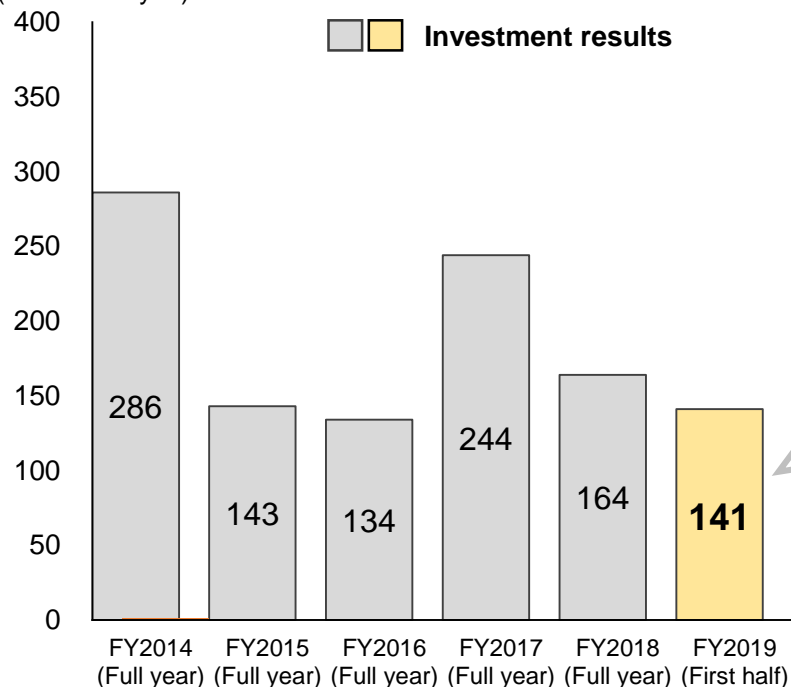
(*) Operating CF – Increase/decrease in working capital

Investment Trends

Made investments with a focus on renewable energy-related businesses in the Power & Utility business.

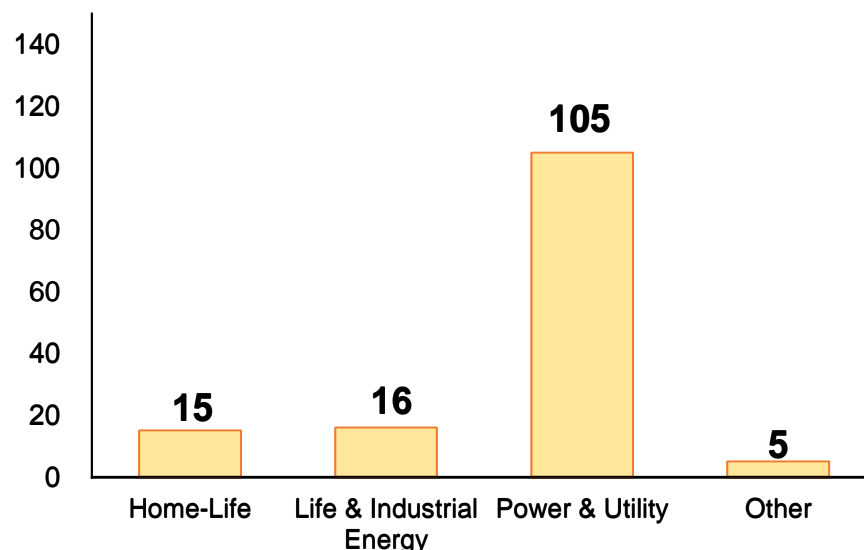
Company-wide

(100 million yen)



Investments totaling ¥60 billion are expected to be made for two years (FY2019 to FY2020), and steady investments were carried out in the first half.

Financial results for the first half of FY2019 by segment



Major investment results

Home-Life	Investment in plant and equipment, acquisition of business rights, etc.
Life & Industrial Energy	Investment in plant and equipment, etc.
Power & Utility	Investment in plant and equipment, solar power generation-related investments, etc.
Other	Investment in plant and equipment, etc.

Shareholder Returns

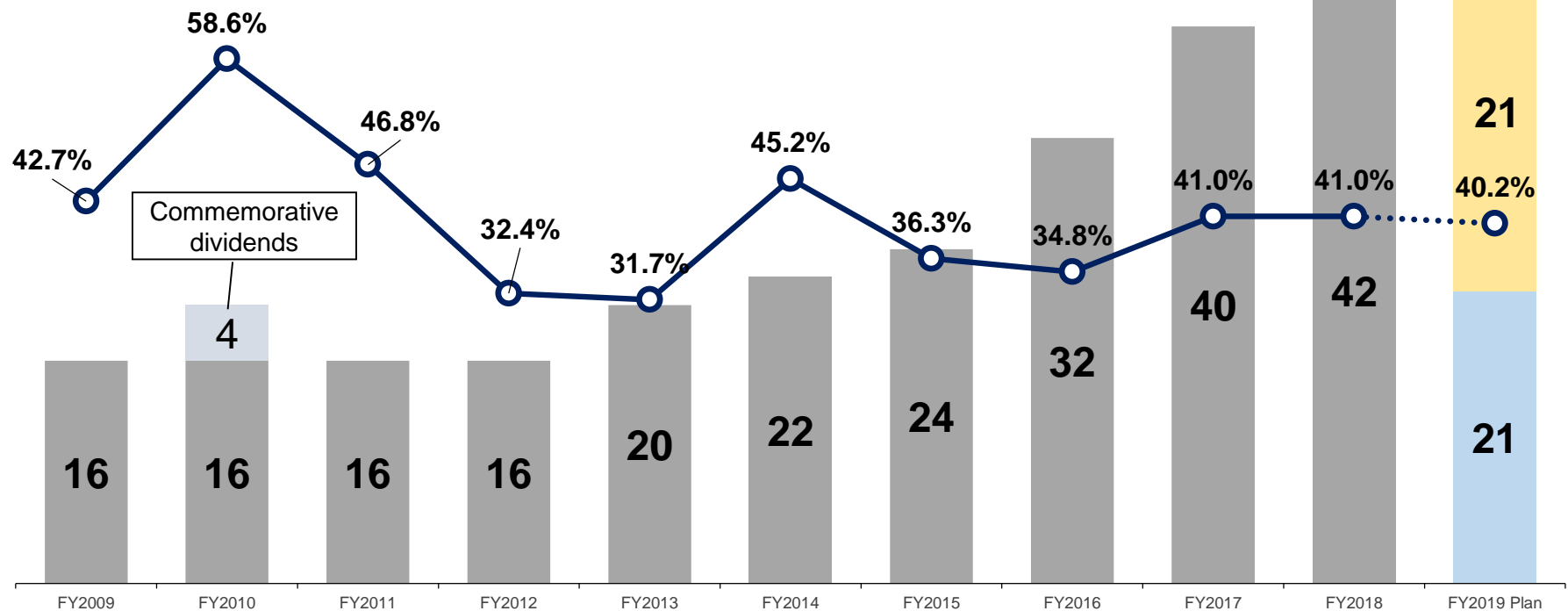
The mid-term dividend and annual dividend are expected to be ¥21 and ¥42, respectively.

Annual dividend trends

Consolidated payout ratio

Starting from FY2018

30% or more → **40% or more**

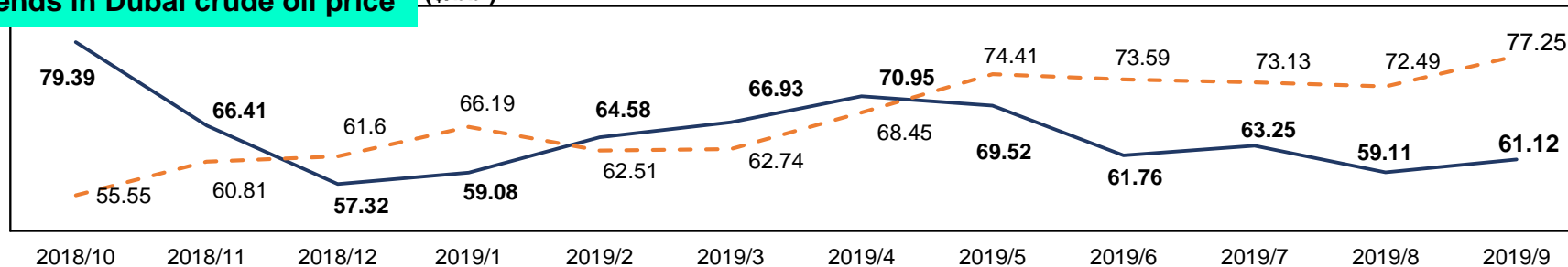


(Reference) Market Trends

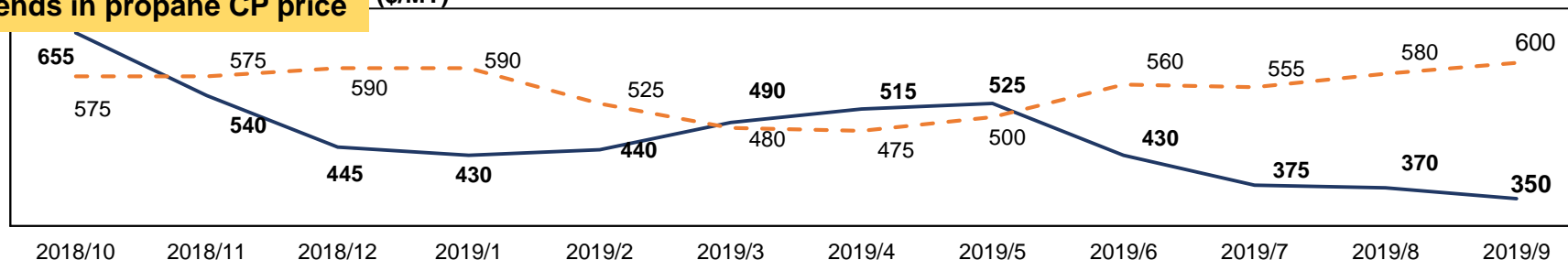
Crude oil price trends are uncertain due to the situation in the Middle East and the US-China trade issue.

Trends in Dubai crude oil price (\$/bbl)

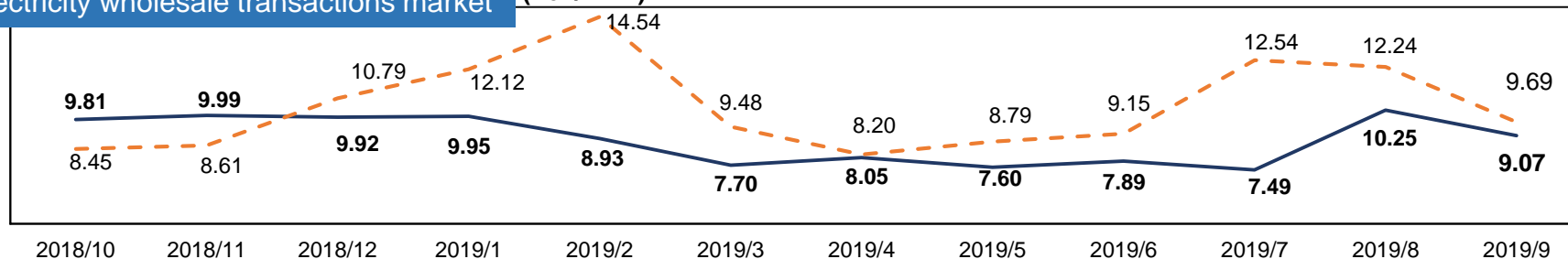
Solid line: Recent value Dotted line: Year-ago value



Trends in propane CP price (\$/MT)



Electricity wholesale transactions market (Yen/KWh)



II. Segment Information



Results by Segment

(100 million yen)

		FY2018/1H Results	FY2019/1H Results	Changes	Rate of change %	FY2019 Plan	Achievement rate
Company-wide	Net sales	4,754	4,391	-363	-7.6	10,000	44%
	Operating profit	89	95	+6	+7.2	165	58%
	Net profit	54	52	-3	-4.8	118	44%
Home-Life	Net sales	402	366	-36	-9.0	—	—
	Operating profit	12	6	-5	-46.3	—	—
	Net profit	8	2	-6	-71.2	30	8%
Life & Industrial Energy	Net sales	3,887	3,510	-377	-9.7	—	—
	Operating profit	46	57	+11	+23.7	—	—
	Net profit	29	32	+3	+9.8	57	55%
Power & Utility	Net sales	464	515	+50	+10.8	—	—
	Operating profit	26	29	+3	+11.4	—	—
	Net profit	14	17	+2	+17.6	33	51%

Home-Life Division

Profits decreased due to the effect of inventories resulting from lower LP gas import prices.

(100 million yen)

	FY2018/1H Results	FY2019/1H Results	Changes	Major factors for increase/decrease (Net profit)	FY2019 Full-year plan	Achievement rate
Gross profit	104	99	-5	<p>The number of customers under direct contracts was 551,000, almost unchanged from the end of the previous year.</p> <p>Profit decreased, mainly due to the effect of inventories resulting from lower LP gas import prices.</p>	30	8%
Selling, general and administrative expenses	-92	-95	-3			
Operating profit	12	6	-5			
Share of profit (loss) of investments accounted for using the equity method	5	1	-4			
Net profit	8	2	-6			

<u>Profit (loss) of major affiliates</u>	FY2018/1H Results	FY2019/1H Results	Changes
ITOCHU ENEX HOME-LIFE NISHI-NIHON	3	3	-0
ECORE (The Company's equity 51%)	3	3	-0
ENEARC (The Company's equity 50%)	3	3	+0

<u>Number of customers (1,000)</u>	End of March 2019	End of September 2019	Changes
Number of customers under direct LP gas supply contracts	551	551	+1
Number of customers for electricity retail	81	91	+9

<u>Sales volumes</u>	FY2018/1H Results	FY2019/1H Results	Changes
LP gas (thousand tons)	246	228	-7%
Industrial gas (million m ³ & thousand tons)	42	38	-9%
Number of gas containers that processed pressure resistance (thousand containers)	146	149	+2%

Life & Industrial Energy Division

Profit margins were secured because retail markets remained firm.

Profit increased thanks to strong sales of new cars.

(100 million yen)

	FY2018/1H Results	FY2019/1H Results	Changes	Major factors for increase/decrease (Net profit)	FY2019 Full-year plan	Achievement rate
Gross profit	261	269	+8	Profit margins were secured due to solid retail markets, although the sales volume of oil products decreased year on year. In addition, profit increased thanks to strong sales of new cars such as New Dayz, Note and Serena.	57	55%
Selling, general and administrative expenses	-216	-215	+0			
Operating profit	46	57	+11			
Share of profit (loss) of investments accounted for using the equity method	0	1	+0			
Net profit	29	32	+3			

Profit (loss) of major affiliates	FY2018/1H Results	FY2019/1H Results	Changes
ENEX FLEET	5	8	+3
Osaka Car Life Group (The Company's equity 51.95%)	2	5	+3

Sales volumes	FY2018/1H Results	FY2019/1H Results	Changes
Gasoline (thousand KL)	1,706	1,459	-14%
Breakdown: For CS	1,036	1,006	-3%
Other	670	453	-32%
Kerosene (thousand KL)	265	329	+24%
Diesel oil (thousand KL)	1,793	1,591	-11%
Heavy fuel oil (thousand KL)	1,081	1,032	-5%
Asphalt (thousand tons)	154	164	+6%

Sales volumes	FY2018/1H Results	FY2019/1H Results	Changes
New cars (thousand units)	14	14	+2%
Used cars (thousand units)	12	13	+3%

Power & Utility Division

Profit increased due to an improvement in profit margins and a rise in transferred profit.

(100 million yen)

	FY2018/1H Results	FY2019/1H Results	Changes	Major factors for increase/decrease (Net profit)	FY2019 Full-year plan	Achievement rate
Gross profit	49	55	+7	Profit margins were secured, mainly due to the stable condition of the electricity wholesale market, despite a year-on-year decline in electricity retail sales. In addition, profit increased due to a rise in profit transferred from companies accounted for using the equity method.	33	51%
Selling, general and administrative expenses	-23	-23	-1			
Operating profit	26	29	+3			
Share of profit (loss) of investments accounted for using the equity method	3	5	+2			
Net profit	14	17	+2			

<u>Profit (loss) of major affiliates</u>	FY2018/1H Results	FY2019/1H Results	Changes
ENEX Electric Power Group	3	1	-2
ENEX LIFE SERVICE	0	1	+1
Tokyo Toshi Service Company (The Company's equity 66.6%)	9	7	-1
Oji-Itochu Enex power retailing Co., Ltd. (The Company's equity 60.0%)	1	3	+2

<u>Sales volumes</u>	FY2018/1H Results	FY2019/1H Results	Changes
Electricity Retail (GWh)*	1,358	1,247	-8%
Breakdown: Sales of high voltages*	1,230	1,055	-14%
Sales of low voltages*	128	192	+50%
Steam (thousand tons)	311	296	-5%
Heat quantity (TJ)	828	770	-7%

(* Calculated based on preliminary values)

III. Progress of the Medium-Term Business Plan



Basic Policy of “Moving 2020 Horizon” Medium Term Business Plan



Quantitative Plan

Net profit	<u>¥12.5 billion</u>
ROE	<u>9.0% or more</u>
Consolidated dividend payout ratio	<u>40% or more</u>
Planned investment (2-year total)	<u>¥60.0 billion</u>

Basic Policy

Promotion of Growth Strategies

1	Maintaining and deepening the revenue base	Seeking to create group synergies and further leverage the customer base
2	Making inroads overseas and in peripheral fields	Investing proactively in overseas businesses and promoting M&A of peripheral businesses
3	Creating new businesses	Promoting environmental businesses

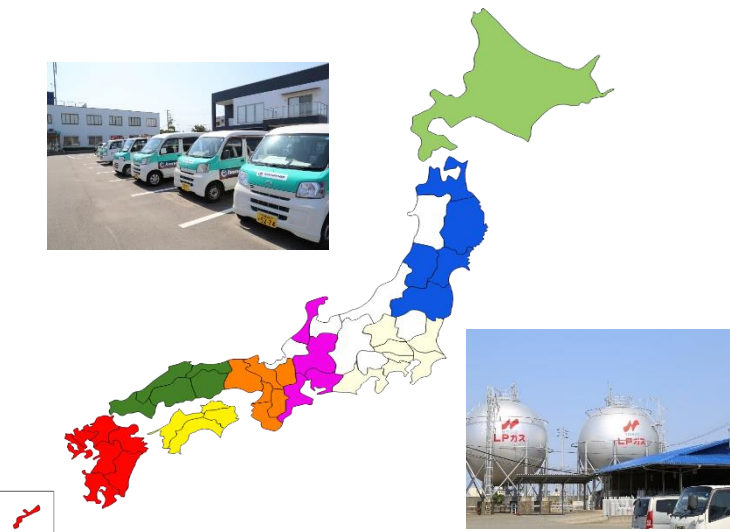
Evolution of the Organizational Base

1	Strengthening Group management	Enhancing consolidated business management and establishing effective governance systems
2	Human resource strategies for growth	Promoting diversity and cultivating global human resources
3	Promoting innovation	Seeking to improve the efficiency of existing businesses and utilizing digital technologies

Progress of Medium-Term Business Plan

Maintaining and deepening the revenue base (establishing closer connections)

Establishment of Itochu Enex Home-Life Shikoku Co., Ltd.



We established Itochu Enex Home-Life Shikoku Co., Ltd. through the management integration of the Shikoku branch of Itochu Enex Home-Life Nishi-Nihon Co., Ltd., Ehime Nissho Propane Co., Ltd. and Kochi Nissho Propane Co., Ltd. Through the integration, we have been taking steps to combine customer bases, improve operational efficiency and strengthen cost competitiveness. In addition, by establishing a new company in the Shikoku area, we will stay closer to customers than we have been so far and will facilitate the development of community-based businesses.

Collaboration with Nissan Motor in sales of electricity



Starting from late 2019, the Company and Enex Life Service Co., Ltd., its subsidiary, will collaborate with Nissan Motor Corporation and commence electricity sales by utilizing Nissan's sales network. Nissan Osaka Hanbai Co., Ltd. a subsidiary of the Company, has been accumulating experience steadily since it commenced electricity sales in 2017. The initiative aims to expand businesses through the utilization of expertise nurtured by the company.

Progress of Medium-Term Business Plan

Creating new businesses (by leveraging new tools)

GTL fuel has been registered in the NETIS of the Ministry of Land, Infrastructure, Transport and Tourism



GTL fuel



Used for off-load vehicles



Organized presentations

We carry out sales of GTL fuel, offering it as an alternative fuel to diesel so that it is used by heavy and construction machines for off-load operations. The fuel has been registered in NETIS, a system operated by the Ministry of Land, Infrastructure, Transport and Tourism to provide information on new technologies.

GTL fuel is a fuel originating from clean natural gases that have little environmental loads and are eco-friendly products. Taking advantage of the registration, we will expand sales in the Kanto, Chubu and Kansai area, which will be followed by efforts to expand sales in other areas.

Promoting the installation of LPWA



We are conducting a demonstration experiment of LPWA to establish a scheme of managing inventories for customers who purchase LP gas directly. LPWA is a communication method that achieves long-distance communication with low power consumption. The number of installations has reached 10,000 to date. We will promote the use of data while at the same time working to streamline deliveries.

Progress of Medium-Term Business Plan

Making inroads overseas and in peripheral fields (expanding globally)

Opening a representative office in Bangkok



Participating in the car life business in Vietnam



We will establish a representative office in Bangkok, Thailand in January 2020 (plan) for information gathering and market research with respect to photovoltaic power generation and LP gas businesses in Thailand and neighboring countries. We will promote overseas operations with a view to establishing overseas Group companies like Isla Petroleum & Gas Corporation, an LP gas business in the Philippines, and PT. ITC ENEX INDONESIA, an industrial gas business in Indonesia.

The Company and Enex Fleet Co., Ltd. its subsidiary, will establish ENEXFLEET VIETNAM COMPANY LIMITED (tentative name) jointly in April 2020, and participate in the Car-Life business in Vietnam. The company that will be established plans to operate car washing facilities in large commercial complexes initially, taking advantage of Enex Fleet's car washing expertise. Subsequently, it will consider taking further steps such as forming alliances with other companies to expand operations.

Organizational Changes

Organizational changes effective from October 1, 2019

Previous organizational structure
(effective until September 2019)

Home-Life Division

Life & Industrial Energy
Division

Power & Utility Division

New organizational structure
(effective from October 2019)

Home-Life Division

Car-Life Division

Industrial Business
Division

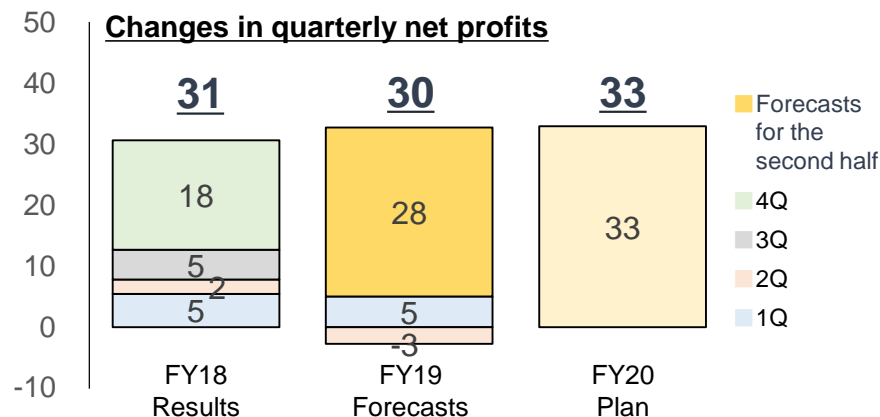
Power & Utility Division

- ❑ We made changes to further strengthen the community network base and establish new businesses as soon as possible.
- ❑ We will strive to make decisions quickly and implement reforms smoothly to respond to rapid changes in external environments.

IV. Management Policy for the Second Half (By Segment)



Home-Life Division Business Development in a New Era - Earning Style Reforms -



Main initiatives for the first half

- Maintaining and deepening the revenue base
 - ◇ The number of electricity customers exceeded 90,000 (up 9,000 from the beginning of the period), driven by the bundled sale of LP gas and electricity.
 - ◇ Continued to promote LPWA by installing approximately 10,000 IoT devices in total.
- Industrial gas area
 - ◇ Transferred the sales business from Itochu Industrial Gas Co., Ltd. to an unconsolidated unit, and facilitated collaboration with other departments or the LPG business.
- Established the new overseas business section and started working to build new business bases subsequent to those established in the Philippines and Indonesia.
- Established the new business development section and started to pursue and examine new projects to make inroads into peripheral business areas.

Management policy for the second half

From the preparatory stage of earning style reforms to implementation

■ Core businesses

- ◇ Provide benefits through customer segmentation.
- ◇ Make further efforts to promote LPWA (aiming to install approximately 24,000 units in the second half).
- ◇ Implement initiatives continuously to enhance security and provide audit and guidance services.
- ◇ Take new approaches by using the internet and digital content.

■ Peripheral businesses

- ◇ Study businesses that can be expanded from the sale of industrial gas.
- ◇ Expand and enhance the area of pressure resistance testing.

■ Overseas businesses

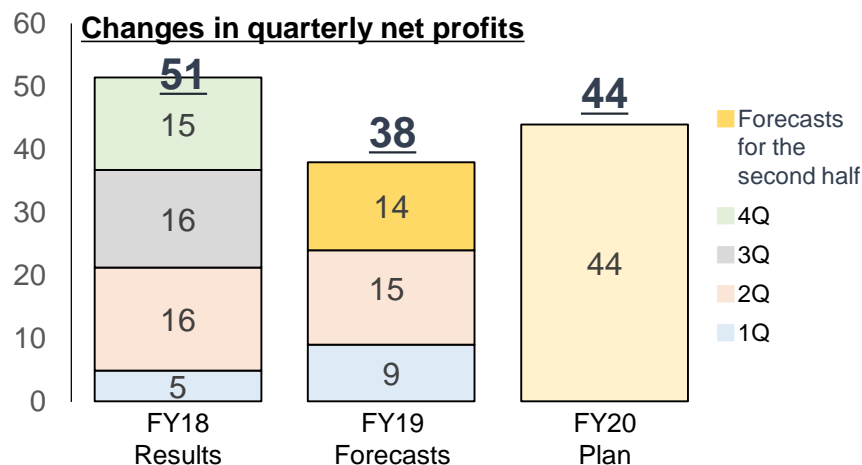
- ◇ Consider the launch of the LPG business with strategic partners.

■ New business development

- ◇ Consider the launch of concrete businesses selected from business projects that were examined in the first half.

Car-Life Division

Facilitate the Expansion of Customer Bases in Collaboration with Sales Shops



Main initiatives for the first half

Expansion of the customer base

- ◇ Included four new CS in the affiliated network.
Number of CS in the affiliated network: 1,742
- ◇ Promoted the ACT program (management improvement program for sales shops).
Entries: 118 CS
- ◇ Member shops of Carlife Stadium Rent-a-car 413 shops (up 13 from the end of the previous period)
- ◇ Held a ceremony to recognize companies that had undertaken continuous transactions for 50 years: 37 companies

Expansion of new businesses

- ◇ The number of nursery facilities operated by Enex Fleet increased by one, to four facilities in total.
- ◇ Commenced a demonstration experiment of the Carlife Stadium car-lease service.

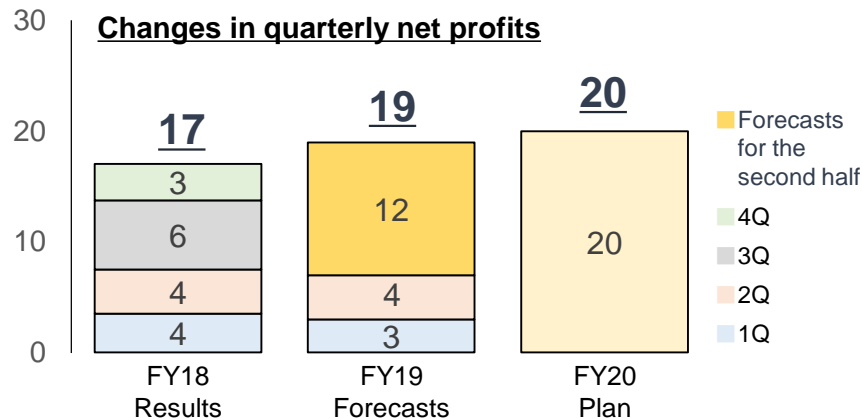
Management policy for the second half

Expansion of the customer base

- **Wholesale business**
Deepen collaboration with sales shops that are business partners and identify the demand of community inhabitants.
- **Retail business**
Create model shops with an eye on the next-generation CS.
- **New businesses**
Launch a car lease service for individuals.
- **Automobile-related businesses**
Facilitate the establishment of platforms in the automobile-related business, mainly associated with Nissan Osaka.
- **Overseas businesses**
Consider expansion into growth markets, namely overseas markets. In particular, aim to develop the car life business in the Southeast Asia region.

Industrial Business Division

Promote Businesses Under the Themes of Environment, Disaster Prevention and Overseas



Main initiatives for the first half

Improvement of logistics functions

- ◇ Improved services with respect to the provision of marine fuel and dedicated distribution ships for customers.

Inroads into overseas

- ◇ Concluded an agreement with a Japanese truck manufacturer with respect to the sale of AdBlue in the Philippines.
- ◇ Commenced a survey on automobile-related businesses in the Philippines.

Promotion of environmental products

- ◇ Build alliances with cities and towns in the Kanto area in conjunction with the sale of GTL.
- ◇ Expanded the slop recycling business*1.

*1: A business of recycling water expelled from ships after fuel tanks are washed, extracting useful oil resources and refining such resources.

Management policy for the second half

Promote businesses under the themes of environment, disaster prevention and overseas

Environmental businesses

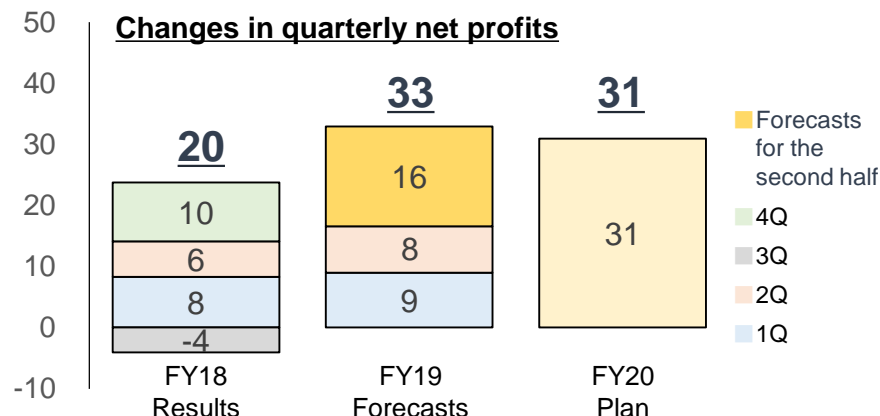
- ◇ GTL: Obtain approval as a new technology product of the Ministry of Land, Infrastructure, Transport and Tourism (NETIS registration: October) (Effect of CO2 reductions ⇒ First in the fuel oil category)
- ◇ AdBlue: Japan: Maintain the top position in terms of market share and aim for further expansion
Overseas: Conclude an agreement with PETRONAS with respect to the formation of a strategic partnership domestically and abroad
- ◇ Marine fuel: Establish the logistics system (add two distribution ships)
- ◇ Coal ash/Recycling business of biomass ashes
 - (i) Thinning in collaboration with forestry cooperatives using recycled beads (RB)*2 → Power generation → Ash → RB → Flood control → Improvement of operation efficiency
*2: Construction materials processed from incinerated ashes (Itochu Enex product)
 - (ii) Commence a joint study for new applications with Tokyo University of Agriculture and Technology and other overseas universities (fertilizers, feed, etc.)

Disaster prevention-related business

- ◇ Conclude agreements with governmental authorities with respect to measures to be taken in the event of disasters. Commence the validation of GTL as an emergency power generating fuel with government-designated cities (from January onwards).
- ◇ Promote sales of products bundled with GTL through tie-ups with emergency power generating equipment manufacturers.

Power & Utility Division

Strengthen the Affiliated Network and Expand the Customer Base



Main initiatives for the first half

- Announced the commencement of collaboration with Nissan Motor Corporation with respect to the sale of electricity. Efforts will be made to sell low voltages to individuals mainly through Enex Life Service Co., Ltd. and at Nissan dealers nationwide.
- Enex Life Service Co., Ltd. began selling the Frontale Denki (electricity supply service for households) service in collaboration with the Kawasaki Frontale professional soccer team.
- Tokyo Toshi Service announced the installation of a non-utility power generation facility at its factory in collaboration with Todock Electricity Co., Ltd. (a Coop Sapporo affiliate). It will provide power generation services that are also useful from the perspective of energy saving and BCP measures.

Management policy for the second half

Strengthen the affiliated network and expand the customer base

- Sales strategy**
Develop the toC business by establishing group bases and promoting digitalization.
- Procurement strategy**
Aim for stable provision through alliances with large utility companies.
- Financing strategy**
Facilitate the development and purchase of renewable energy electric power sources.
- Overseas strategy**
Promote the photovoltaic power generation business in Thailand and its neighboring countries.

■ Note

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Contact

Corporate Communications Office

Staff : Kunisada、Imaizumi、Wada

[E-MAIL]enex_irpr@itcenex.com

[TEL]+81-3-4233-8003 [FAX]+ 81-3-4533-0102