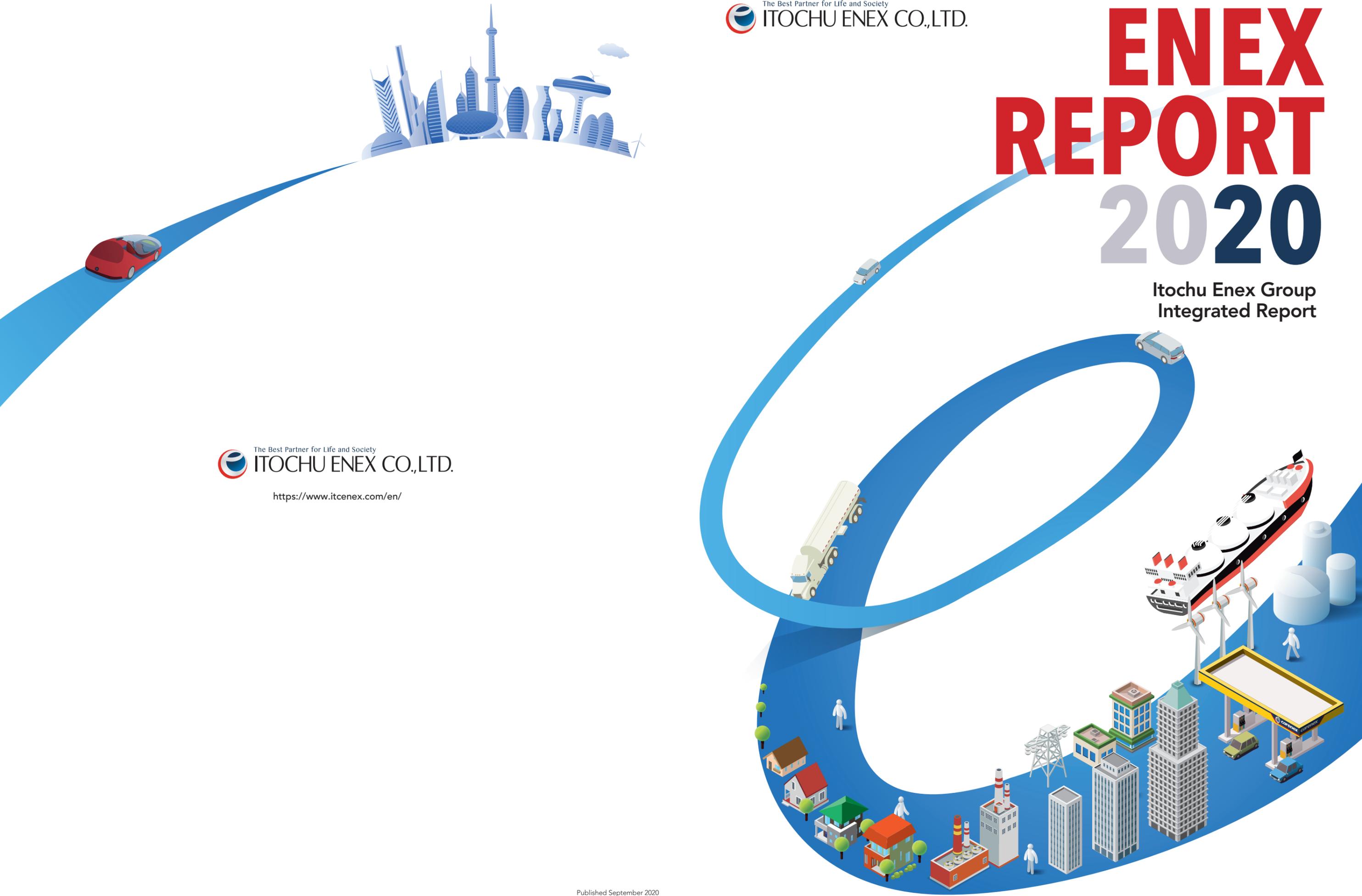


ENEX REPORT 2020

Itochu Enex Group
Integrated Report



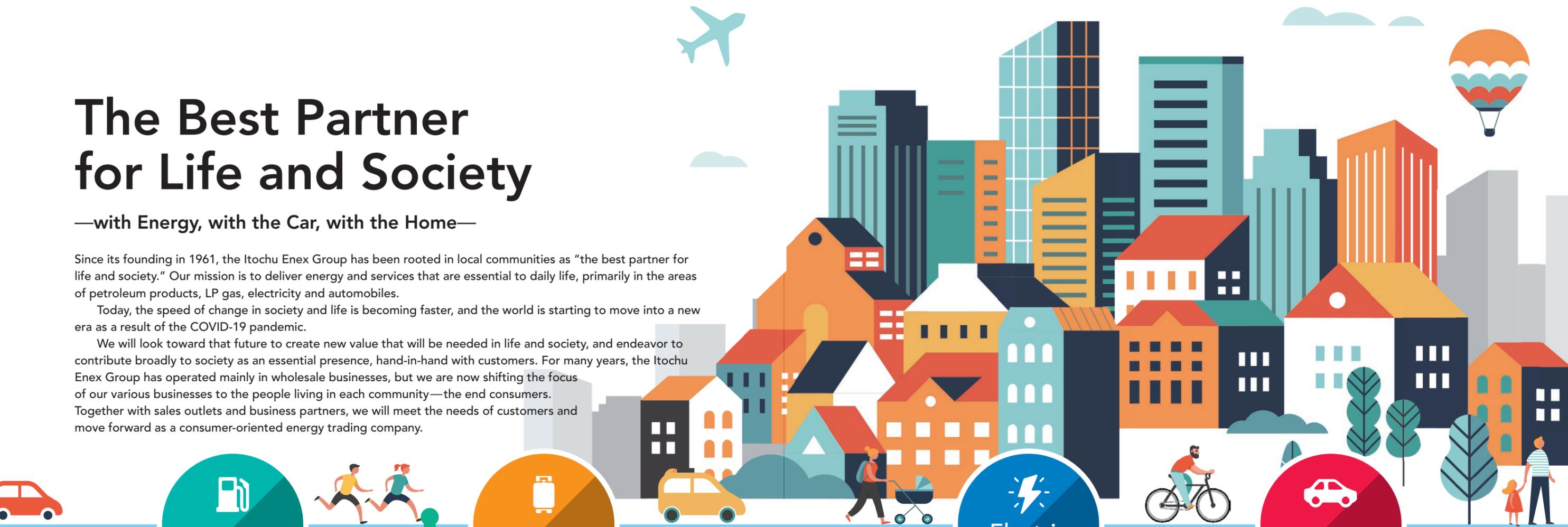
The Best Partner for Life and Society

—with Energy, with the Car, with the Home—

Since its founding in 1961, the Itochu Enex Group has been rooted in local communities as “the best partner for life and society.” Our mission is to deliver energy and services that are essential to daily life, primarily in the areas of petroleum products, LP gas, electricity and automobiles.

Today, the speed of change in society and life is becoming faster, and the world is starting to move into a new era as a result of the COVID-19 pandemic.

We will look toward that future to create new value that will be needed in life and society, and endeavor to contribute broadly to society as an essential presence, hand-in-hand with customers. For many years, the Itochu Enex Group has operated mainly in wholesale businesses, but we are now shifting the focus of our various businesses to the people living in each community—the end consumers. Together with sales outlets and business partners, we will meet the needs of customers and move forward as a consumer-oriented energy trading company.



Petroleum

LP Gas

Electric Power

Mobility

Providing energy that supports communities and industry

Affiliated Car-Life Stations¹

1,700

Domestic market share of AdBlue^{®2} sales

28%

Offering comfortable, abundant and secure lifestyles

LP gas and city gas supply contracts

1.5 million customers

LP gas sales outlets

2,700

Pursuing a balance between energy conservation, comfort and economic efficiency

Electric power supply contracts for households and commercial facilities

162,740

Heat supply districts in Kanto region

19 districts

Building a society where people can live in comfort with cars

Dealership network of Nissan Osaka Sales Co., Ltd.

117 dealerships

Annual new car sales volume

30,000 vehicles

1. Car-Life Stations are service stations that offer multiple services, as proposed by the Itochu Enex Group.
 2. AdBlue[®] is a high-grade urea solution used in selective catalytic reduction systems, which are used for detoxifying nitrogen oxides (NO_x) in diesel vehicle exhaust.
 © Registered trademark of Verband der Automobilindustrie e.V. (VDA)

Corporate Vision

The fundamental stance, morals, and values that the Itochu Enex Group adheres to when carrying out business activities are defined as follows. These concepts form the basis for business-related decision making, and are the basic policies for the execution of the Group's business activities and what direction the Group will move in.



Origin of the Company Name

In July 2001, as it marked its 40th anniversary, Itochu Fuel Corporation changed its name to Itochu Enex Co., Ltd. The first "E" in "ENEX" represents the "E" in "energy," "end-consumers" (customers) and "ecology" (the environment), while "NEX" alludes to "next," symbolizing the next generation and the future.

Meaning of the Enex Mark



The Enex Mark was introduced in October 2005 as the new corporate logo. The red background symbolizes the sun and the blue circle, the Earth. The letter "e" overlaps both to connect them, and it stands for "energy" and "eco," as well as the importance of the "end-consumer." In this way, the logo design expresses people-to-people communication and communication between people and society.

1

Corporate Philosophy

The Best Partner for Life and Society

—with Energy, with the Car, with the Home—

For more than half a century, the Itochu Enex Group has delivered energy to customers across Japan, chiefly in the form of petroleum products and LP gas. Regardless of the changes to life and society, we continue to deliver the value needed by our customers as their stalwart partner. Moreover, we will contribute to the realization of a prosperous society and life, and hope to be a company that regional customers choose. The Group's Corporate Philosophy embodies these ideas.

2

Code of Conduct

Be Ethical

(Reliability and sincerity, creativity and ingenuity, transparency and integrity)

In 1962, soon after its founding, the Company established its Guiding Precepts. The spirit of those precepts is perpetuated in the form of the Group's Code of Conduct, announced in 2001. "Be Ethical" is the corporate ethos that guides the Itochu Enex Group in acting with reliability and sincerity in its dealings with all stakeholders. Furthermore, it calls for all members of the Itochu Enex Group to perform their day-to-day duties conscious of the need to generate new value through the exercise of creativity and ingenuity, and the need to maintain transparency and integrity in businesses and activities while making meaningful contributions to society.

Guiding Precepts (established in 1962)

1. Strive to incorporate the principles of reliability and sincerity in your daily duties.
2. Streamline business through creativity and ingenuity, and always keep moving forward.
3. With transparency and integrity as your creed, be cordial and work to improve the well-being and prosperity of everyone affiliated with the Company.

3

Action Guidelines

Declaration of the Group Code of Conduct

The Company declares that all officers and employees of the Company and its Group companies (including employees on temporary assignments to and from the Company, contract-based employees, temporary staff, and part-time employees) will always be conscious of the Code of Conduct's requirement to "Be Ethical" while engaging in their day-to-day duties as responsible corporate citizens and members of society. Each individual officer and employee signs a "personal declaration" as a promise to stakeholders, comprising their own guidelines for conduct in performing their day-to-day duties.

Commitment to Stakeholders

- (1) Relationship with Customers: 1) Safety: Safe and secure transactions / Quality management of products and merchandise; 2) Sincere response: Improvement of service quality / Management of customer information / Handling of accidents and complaints
- (2) Relationship with Business Partners: Fair transactions / Management of corporate information
- (3) Relationship with Suppliers: Fair purchasing / Compliance with anti-monopoly law / Procurement standards
- (4) Relationship with Employees: Respect for human rights / Respect for health and safety / Comfortable workplace environments / Fair personnel assignments and employment / Appropriate personnel evaluation and treatment / Use of dedicated consulting channels / Prohibition of sexual and power harassment
- (5) Relationship with Corporate Properties: Protection of properties and assets / Appropriate accounting procedures / Management of confidential information
- (6) Relationship with Local Communities: Social contribution activities / Dialogue with citizens / Relationship with national and other public authorities
- (7) Environmental Activities: Ongoing environmental activities / Environmentally conscious business / Environmental management / Green procurement
- (8) Relationship with Shareholders and Investors: Accurate information disclosure / Stable distribution of profits / Active investor relations activities
- (9) Moderation in Corporate Behavior: Compliance / Prohibition of insider trading / Giving and receiving gifts / Compliance with the Political Funds Control Act / Prohibition of relationships with antisocial forces / Health management

4

Fields of Business

Energy for all applications, whether as a key component of social infrastructure or as a means of nurturing people and enriching their lives

To successfully be "the best partner for life and society," as outlined in our Corporate Philosophy, it will be necessary to further spread the prosperity and convenience that energy provides throughout society and people's lives. The Group wants to not only provide energy that is a key component of social infrastructure, but also hopes to be a source of inspiration for our customers. The Group intends to continue providing a variety of products and services that support the affluence, comfort, and convenience that are suitable in this day and age.

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Editorial Policy
 Enex Report 2020 is an integrated report covering financial and non-financial information, including corporate social responsibility (CSR) activities, prepared with reference to various guidelines. Its purpose is to communicate the Itochu Enex Group's business activities and strategies implemented in pursuit of sustained growth.

Period Covered
 April 1, 2019–March 31, 2020
 Note: Includes certain activities that fall outside this period.

Organizations Covered
 Itochu Enex Co., Ltd. and Itochu Enex Group companies

Publication Date
 September 2020

Note on Forward-Looking Statements
 Forward-looking statements in this report, including outlooks for future Group business performance, are based on the information available at the time of publication. Actual results may differ considerably from projections for various reasons, including fluctuating exchange rates, market trends, and economic conditions.

Guidance for Collaborative Value Creation

Our History of Value Creation

Itochu Enex was founded more than half a century ago as Itochu Fuel Corporation. Our nearly 60-year path has never been a smooth one, and our history is replete with difficulties and challenges. At the root of that history is our mission of reliably delivering to customers the energy that is essential to daily life, whatever the times. What did our predecessors have in mind when they founded the Company? What were their ambitions as they overcame numerous difficulties to expand the Company's business? Here, we look back upon the history of the Itochu Enex Group.

1961~

Establishment and Stable Growth Phase

With great determination, Itochu Fuel is launched
—40 years defined by dramatic change

Itochu Fuel Corporation, the forerunner of Itochu Enex, was created in January 1961 as a spin-off of Itochu Sekiyu K.K. At the time, Japan was in a period of rapid post-war economic growth known as the "Iwato Boom." ITOCHU Corporation was seeking to enter the petrochemical sector, which was seen as a promising growth industry. Under a petroleum strategy that marked a clear departure from ITOCHU Corporation's traditional strengths, the original 219 employees of Itochu Fuel worked on developing new sales channels and establishing service stations to sell the petroleum products of the new Mizushima Refinery of Nippon Mining Co., Ltd. (now ENEOS Corporation) across Japan. While this may have been considered audacious at the time, the Company was driven by its passion to "deliver petroleum products directly to the customers who need them" by building independent sales operations not subject to marketing restrictions on primary oil distributors.

The Company had two trends in its favor—the energy shift from coal to oil, and the transition to a motorized society. Sales of petroleum products expanded steadily. In addition to building its service station network, the Company branched out into other business areas, including the LP gas business, which became its second core business, and the autogas business, which was developed in response to the growing use of LP gas vehicles in the taxi industry.



Establishment of Itochu Fuel Corporation

In the 1970s, the business environment changed drastically. Two oil crises sent oil prices soaring, which had an enormous impact on our business, but under the leadership of then-President Hisashi Nakagawa, the Company maintained a commitment to fair and honest transactions, and leveraged its industry-leading supply capacity based on stronger cooperation with ITOCHU Corporation. While gaining the strong trust of customers, we executed a plan to aggressively expand sales, and dramatically increased earnings. Moreover, the adoption of a model whereby each branch managed profitability independently proved successful, as each location acquired the agility to respond quickly to the needs of its customers. As a result, the Company was able to enter the new businesses of asphalt sales and high pressure gas sales. In 1979, the Company's stock was listed on the First Sections of the Tokyo Stock Exchange and Osaka Securities Exchange, which added stability to its management foundation.

Number of Service Stations



Increased by a factor of 24 in one year

Transition Phase

2001~

The Company's 40th anniversary ushers in a business model shift

The Japanese oil industry in 2001 was characterized by moves to boost competitiveness under free competition and a wave of restructuring among oil refiners and primary oil distributors. Another urgent issue was the industry's response to global warming, which was already becoming an issue. In that context, we specified the kind of company we would be

and what activities we would focus on in the future, and announced a new corporate identity and structure. The company name was changed to Itochu Enex Co., Ltd.

Our new Corporate Philosophy incorporated the idea that as long as there are customers, we will seek to realize a prosperous society with energy at the core, even if the primary source of energy shifts away from petroleum products. It thereby laid out the roadmap for our evolution from a fuel trading company into an energy trading company. We also pursued business selection and concentration that aligned with our business areas, and stepped up our initiatives in clean energy, starting with the promotion of LP gas, which is a more environmentally friendly fuel option.



2004~

Transformation Phase

Rebirth as an integrated energy company

During these years, the oil and LP gas industry faced a tough operating environment as energy prices soared and cross-industry competition with the electric power and city gas sectors intensified. To weather that storm and compete successfully, we formulated a medium-term vision, "Creation 2008," in 2004, and positioned it as a rebirth for the Company. Our vision was to evolve into an integrated energy company with the strongest cost-competitiveness and greatest functionality across three focus areas—energy, the car, and the home—and we moved to expand and streamline our operations accordingly. In April 2007, through a merger between subsidiaries of Shin-Idemitsu Co., Ltd. and Itochu Enex, Ecore Co., Ltd. was established as the largest LP gas sales company in the Kyushu region. This also solidified our sales network in Kyushu.

Having completed structural improvements, we were at last ready to proceed to a new stage with our growth strategy. We developed measures to reorganize and strengthen our business operations with a medium-term view, and established the Trading Business Division and the Fuel Cell Solar & Electric Vehicle Business Department. We also made Kohnan Fleet Co., Ltd. (now consolidated subsidiary Enex Fleet Co., Ltd.) a wholly owned subsidiary in order to increase sales of diesel fuel to trucking companies. These moves further strengthened our Group network and expanded our earnings foundation. In addition, to accelerate our transformation we stepped up our efforts in electric power-related

businesses, which included our entry into the electric power retail business in 2010. Then, in May 2012, we brought Tokyo Toshi Service Co., Ltd., the first heat supply facility operator in the electric power industry, into the Itochu Enex Group, and entered the heat supply business as an important new growth driver.



Acquired shares of Tokyo Toshi Service Co., Ltd. and entered the heat supply business

Business Expansion

2014~

Accelerating our transition to the next leap forward,
with the slogan "Moving"

In FY2014, we formulated and have since been implementing the "Moving" series of medium-term business plans, a name that succinctly expresses our guiding principle—we must "move now for the future!" The impetus for these plans was our strong sense of urgency about the

rapid social changes affecting the energy industry, including the declining birthrate, aging population, changes in consumer awareness and the increasing shift toward energy savings and efficiency. In "Moving 2014," we decisively carried out internal reforms, and as part of our business strategy, we entered the car dealership business, a move that drew attention both within and outside the energy industry.

Since then, we have accelerated our transformation and growth to achieve a further leap forward with an unshakeable commitment to the stable supply of energy. In 2016, we broke into the home energy sales business and actively expanded into overseas markets, including the industrial gas sales business in Indonesia and the LP gas business in the Philippines. In February 2019, Enex Infrastructure Investment Corporation was listed on the infrastructure fund market of the Tokyo Stock Exchange. Investment in new fields has become another cornerstone of our growth.



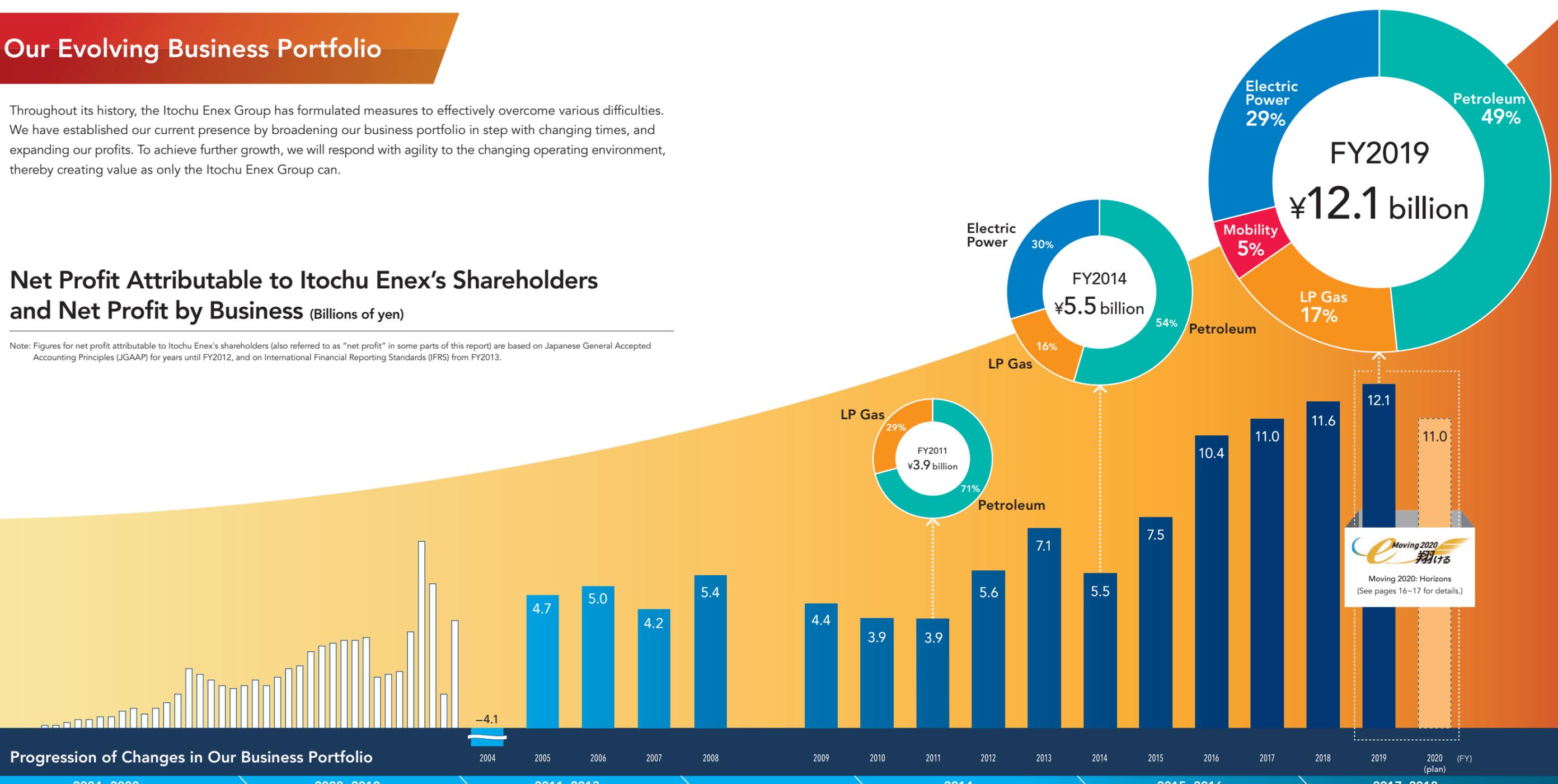
Acquired shares of Osaka Car Life Group Co., Ltd. and entered the car dealership business

Our Evolving Business Portfolio

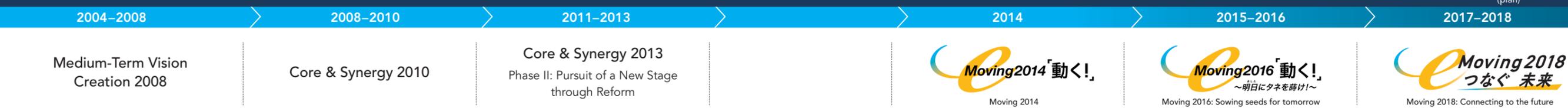
Throughout its history, the Itochu Enex Group has formulated measures to effectively overcome various difficulties. We have established our current presence by broadening our business portfolio in step with changing times, and expanding our profits. To achieve further growth, we will respond with agility to the changing operating environment, thereby creating value as only the Itochu Enex Group can.

Net Profit Attributable to Itochu Enex's Shareholders and Net Profit by Business (Billions of yen)

Note: Figures for net profit attributable to Itochu Enex's shareholders (also referred to as "net profit" in some parts of this report) are based on Japanese General Accepted Accounting Principles (JGAAP) for years until FY2012, and on International Financial Reporting Standards (IFRS) from FY2013.



Progression of Changes in Our Business Portfolio



| Category | 2004-2008 | 2008-2010 | 2011-2013 | 2014 | 2015-2016 | 2017-2018 |
|----------------------|--|--|--|---|--|--|
| Basic Policy | Execute organizational structure reform to become an integrated energy company focused on energy, the car, and the home, to maintain our earning power and growth potential in the dramatically changing business climate of the energy industry. | Foster Group unity to develop global businesses horizontally and vertically, strengthen core businesses and create synergies to double earnings. Ensure continued growth through reform and advance to a new stage. | Increase earnings while strengthening and upgrading our core businesses, developing demand-creating businesses from the consumer's standpoint, and realizing sustained growth in tandem with local communities as a provider of "best mix" energy solutions. | Strive for sustainable growth by transforming our business models for petroleum and gas, creating new businesses, expanding existing businesses, improving the infrastructure of the power and utilities businesses, developing overseas businesses, and promoting evolution of the Enex DNA. | Focus on further establishing our growth strategy while securing earning power and improving our business foundation based on three themes: increasing profitability, sowing the seeds for long-term growth, and strengthening organizational power and key strengths. | Aim to further solidify our business foundation for the next stage under two themes: connecting to future growth by reforming the revenue base, and connecting people and functions of the Group by reforming the organizational base. |
| Priority Initiatives | Promotion of organizational structure reform; introduction of business division system; reduction of the number of Directors and Executive Officers; integration and streamlining of organization; reduction of the number of consolidated companies | Entry into the home energy sales business; establishment of Fuel Cell Solar & Electric Vehicle Business Department; start of HEMS development; initiatives for next-generation Car-Life Stations; initiatives for overseas expansion | Upgrading of petroleum product logistics functions; expansion of power generation facilities (startup of thermal power and megasolar power plants); start of heat supply business; support for disaster recovery | Entry into car dealership business (acquired shares of Osaka Car Life Group Co., Ltd.); strengthening of electricity sales (established electric power sales company with Oji Group) | Entry into home energy sales business; expansion into overseas markets (Indonesia, Philippines); launch of Enex Early Bird working style reforms | Stronger collaboration with partners in other industries; consolidation of Group companies; expansion of environmental businesses; reinforcement of renewable energy business; introduction of new overseas training program |

Message from the President



How well we examine a crisis determines whether opportunities will arise from it. By sharpening our powers of examination, we will advance to the next stage of growth.

Kenji Okada
Representative Director,
President and Chief Executive Officer

First, we would like to extend our deepest sympathies to those who have lost loved ones to COVID-19. We hope for a speedy recovery for everyone affected by the disease, as well as an early end to the pandemic. Furthermore, we want to express our sincere appreciation to the medical facilities and healthcare professionals on the front lines working tirelessly to treat patients.

The global COVID-19 pandemic is changing nearly every aspect of society. For the Itochu Enex Group, which seeks to be a consumer-oriented energy group that responds to the needs of customers as “the best partner for life and society,” this is a time in which the Group’s real value will be tested, and I feel strongly that it is also the time to take the next big step in the Group’s evolution.



Is a crisis an opportunity?

Since its founding in 1961, the Itochu Enex Group has been rooted in local communities as “the best partner for life and society.” Our mission is to deliver energy and services that are essential to daily life, primarily in the areas of petroleum products, LP gas, electricity and automobiles.

Currently, we are implementing the two-year medium-term business plan “Moving 2020: Horizons,” part of the growth strategy we initiated based on the theme of “Moving!” Underpinning the plan is the need to respond flexibly to the major changes that are taking place in the world, rather than resting on past achievements and successes. In FY2019, the first year of the plan, net profit attributable to Itochu Enex’s shareholders reached a record high for the fifth consecutive year, driven by strong profit growth in the Power & Utility Division. However, achieving record profit for five straight years does not mean we can let our guard down in any way. The environment around us has been shifting rapidly, even over just the last few years. In addition to the consolidation of oil companies, the entry of competitors from other industries following the full liberalization of the electricity and gas retail markets, and cross-industry alliances, the pace of change is also accelerating, including the rise in worldwide environmental awareness driven by issues such as climate change. We are now faced with the global COVID-19 pandemic, which is transforming daily life and is leading all of humanity to rethink the way it lives and works. Cities have been locked down overseas and a state of emergency was declared in Japan, with “non-essential” becoming a watchword. Unlike the 2008 financial crisis, which had a major impact, this event is putting unprecedented pressure on all industries simultaneously. Even within the Itochu Enex Group, where we try to stay acutely aware of change, I feel we are facing a crisis.

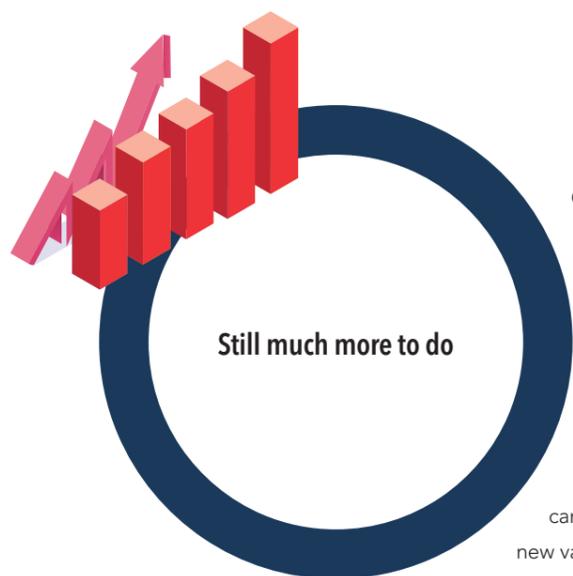
In corporate management, it is common for managers to think along the lines of trying to turn a losing situation into a winning one, i.e. the notion that “in crisis there is opportunity,” but my thinking is different. I believe that in a crisis, how well we examine the details and situation is critical, and determines whether or not the way events next unfold will be an opportunity. The overlap of various unforeseen factors may create a situation

that is seemingly a crisis, but that alone does not necessary lead to a crisis for a given company. It is important for teams and organizations to thoroughly examine and think through the apparent crisis. By doing so, they can discover where opportunities lie, even in the midst of the crisis. Under these circumstances, what comes next should be seen as dependent on everyone working together to come up with options and following through on them.

Since I became president eight years ago, we have faced various changes in the external environment, including the effects of the Great East Japan Earthquake and an unstable global economy. However, whenever we were confronted with difficulties, we found conviction in the idea that “this will be a true test of the Group’s underlying strength.” We view the ongoing global COVID-19 pandemic as an enormous crisis that will bring fundamental changes to society. Nevertheless, worldwide news coverage concerning the pandemic is a chaotic mix of true and false information, including conjecture. In Japan too, there seems to be considerable bias in news reporting. Of course, we in upper management will closely examine this apparent crisis with our own eyes, but I also want division leaders to be conscious of it. I believe our future depends on how well we are able to examine the situations in front of us. I have been telling our employees not to accept all information at face value, including that found on the Internet, but to carry out their day-to-day work with a mindset of experiencing things for themselves, thinking critically and ascertaining the truth. I believe that the Itochu Enex Group has the ability to respond to change by analyzing the substance of a crisis and then seizing the potential opportunities.

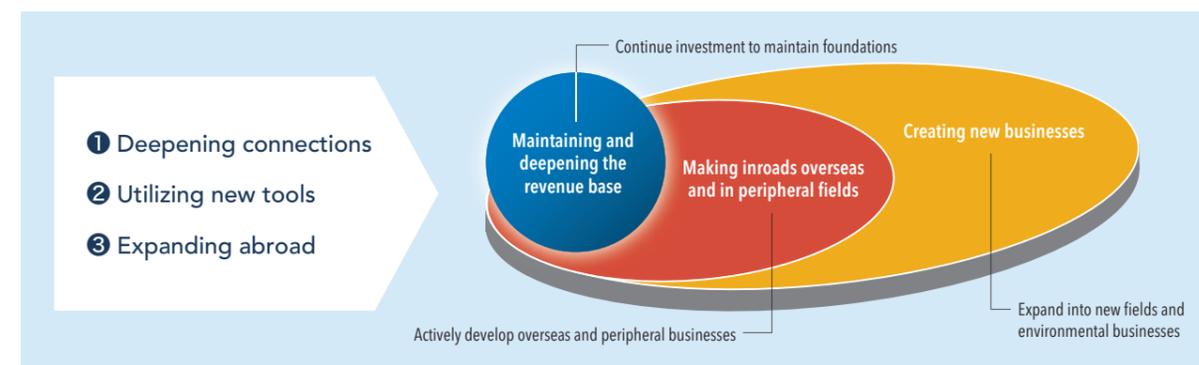
On the other hand, in the Car-Life Division, which provides mobility essential to society and daily life, profit fell because vehicle sales in the car dealership business declined due to the effects of COVID-19, and because of the non-recurrence of one-time revenue recognized in the previous fiscal year. We have been working to develop the car dealership business, which we entered in 2014, as a completely different area from our traditional businesses. However, amid calls to avoid non-essential movement, this business is likely to be affected by the uncertain economic situation for the time being. That said, there is renewed interest in compact cars for private use in commuting and other movement, and sales of small- and mid-size cars are firm. We have a strong customer base in the car dealership business through the network of 117 dealerships owned by Nissan Osaka Sales Co., Ltd. This customer base will serve as the bedrock for capturing new growth. In our efforts to create new businesses, which is one of the growth strategies of “Moving 2020: Horizons,” we are focusing efforts on discovering new areas and new products, and launching new businesses. Our business portfolio will be important—in other words, we need to seek out new opportunities while keeping an eye on whether businesses are based on the same or different bedrock. While maintaining an overall balance between the two, a healthy risk appetite for new endeavors will be key to making the most of our growth potential.

Even things that seem inconvenient can lead to new possibilities if we look at them in a different light. For example, we can talk remotely with new customers, and can utilize the characteristics of remote communication to connect across completely different industries. I hope to apply our inventiveness to devise new approaches across the Itochu Enex Group.



Our core businesses of petroleum products, LP gas, and electricity and other sources of energy are critical infrastructure for society and daily life, and are commodities that will always be needed—in other words, they are essential businesses. As such, at this time we do not think the pandemic will have a major impact on these businesses, nor do we expect that it will significantly alter our business results. A key characteristic of our value creation process is that our core businesses have a strong and stable customer base connected by networks, or “pipes,” as we call them, and that this provides a foundation on which we can launch new businesses, generate synergy in various ways and create new value. Our fifth consecutive year of record net profit attributable to Itochu Enex’s shareholders in FY2019 is an important milestone, but there is still much more for us to do. However, while our business characteristics are those of an essential business that serves as critical infrastructure for society and daily life, the environment around us is changing rapidly. The Itochu Enex Group will continue striving to create new value as “the best partner for life and society.”

Moving 2020: Horizons Growth Vision





Individual strengths and team strengths

In “Moving 2020: Horizons,” we are strengthening Group management, implementing human resource strategies for growth, and promoting innovation to solidify our organizational base. Promotion of diversity is an area where we have made considerable progress in the past year. Our workforce has become more diverse, as illustrated by the success of younger people and female employees, and by the increasing number of employees who are balancing work with childcare and family care. If remote work evolves further, I believe it will bring major changes to working styles, in that employees’ time with their families will increase, and the way they take time off will also change.

When I became president, I told employees, “Just as the depth of color in an oil painting is brought out by repainting layer after layer, I would like you to treasure the DNA that has been passed down to us, and build on it to create your own works.” On the other hand, there are people who think, “I want to paint on the blank canvas beyond the edges of our business.” I myself fall into the latter camp, and indeed it would be boring if everyone faced in the same direction they were told to. So I say, “Come on, all you mavericks!”

I am always telling employees that we will provide an environment for taking on new challenges, so the number of people seeking a blank page to draw on should increase in the future. When that happens, a key issue for the Company will be how to maintain the right balance. Fostering a corporate climate and organization in which a variety of people can fulfill their potential is essential, but in some respects it will test our capacity as managers. How well will we be able to nurture a company of “mavericks,” and will those individuals be able to form a cohesive team to create new value? The answers will determine our growth potential.

Creating networks that organically connect products, ideas and information (long-term vision)

Due to the pandemic that hit almost simultaneously worldwide, the post-COVID-19 world, rather than regressing, is predicted to undergo a major paradigm shift. In that scenario, we will need to use our merchant-like traits to establish networks that find new ways of connecting the three elements of products, ideas and information.

For example, the Enex Meeting is a Japan-wide network through which distributors and other customers share information. I would like to actively explore avenues such as applying information technology to create an organization with an even larger scope. In the last few months, we have been holding remote meetings in succession with a dozen or so key members in each region. Having established an environment where we can use online tools to talk to anyone no matter where they are, it will also be possible to overcome the physical distance with far-away customers, and I have a feeling that we can do some creative work.

In FY2020, our investment programs will inevitably be restrained, but beyond investments aimed at maintaining our foundations, we anticipate various business opportunities.



Building an organization where employees think creatively and are ready for the next challenge

The ability to connect the broad and solid networks of customers that we have cultivated since our establishment will be the driving force of the Itochu Enex Group in the future. This is our greatest intangible asset, and it is important to strongly convey that to employees.

Furthermore, our business activities are currently modeled on the framework of an energy trading company, but by organically forming networks of products, ideas and information, we might be able to evolve into an entirely different category of company. I am optimistic in that respect, because rather than just new ventures, it will lead to more opportunities to exercise our creativity.

What is required of top management when a crisis occurs? I believe it is not simply to formulate specific tactics, but to provide an environment in which Group employees can pool their knowledge and apply their ingenuity to develop innovative ideas and tools. If remote meetings feel dull or impersonal, then it is necessary to devise mechanisms to foster a sense of unity—for example, lunchtime gatherings where everyone eats the same type of meal, or other solutions where participants gain a sense of connection by sharing in the same experience. Convenient tools can have disadvantages, too, so “providing an environment” must cover a wide spectrum, such as anticipating the side-effects of working remotely on mental well-being, which might include social withdrawal.

It is common in Japan for people to shy away from standing out and expressing their distinguishing qualities, so creating opportunities for the free and candid exchange of opinions is vital. Among our domestic workforce, I feel it important that we increase the number of employees who can comfortably and clearly express their own views, especially at critical moments. It takes courage to go against the majority opinion, but I would like more of our employees to show that courage.

The future is uncertain, but I have a feeling it will become something that is completely different in quality to what we are used to. Everyone at the Itochu Enex Group must think creatively and push toward the next stage. The key to that will be to practice the concepts set out in “Moving 2020: Horizons.” We will further enhance our strong points and use every possible means to take advantage of our connected foundation and make the next leap forward in our development.

September 2020

Kenji Okada
Representative Director,
President and Chief Executive Officer

Sustainability Discussion

What does sustainability mean in the Itochu Enex Group? If everyone in the Group takes some time to think about that question, we will be able to develop our own unique approach to sustainability.

Currently, we are in the process of drawing up our long-term vision, and sustainability will be an important element of that vision. So, what does sustainability mean in the Itochu Enex Group? To help answer that question, we invited sustainability expert Kazuo Tase, President and CEO of SDG Partners, Inc., to sit down with Itochu Enex President and Chief Executive Officer Kenji Okada for a conversation about building a sustainable society.

What has human society created? What has it lost?

Okada I have been looking forward to the chance to talk with you. You have much experience working with various companies to improve their sustainability.

The goals of the United Nations Sustainable Development Goals (SDGs) are universal, so it is important to think carefully about their origins and what sustainability means for us as human beings. Thinking that through will help us make sustainability an essential element of every aspect of the Itochu Enex Group's business activities, and accelerate our efforts to contribute to the achievement of the SDGs. And to do that, we need not only appropriate information, whether it be from online, paper and other media sources, but also real-life discussion and dialogue. In the current environment, real face-to-face dialogue has decreased because of the COVID-19 pandemic, but online dialogue that connects people around the world has increased, and that provides a good opportunity to ask what kind of company we, the Itochu Enex Group, should be in the coming era. In this discussion, I would like to identify areas where your way of thinking and mine overlap and where they differ, and tackle the question, "What is sustainability?"

Tase SDG Partners, which was founded in 2017, seeks to bring about a world in which companies create social value in every aspect of their operations. The reason I made "SDG" a part of the company name is because the SDGs are more than just global goals for 2030; they give us an opportunity to ask, "What is happiness?" and "What is well-being?" in our long and ongoing coexistence with the Earth.

Okada When considering the meaning of sustainability, I would question the extent to which science has truly made humans happy. In a little over two centuries, the world's population has increased by 7 billion people, partly because the power of science has led to dramatic improvements in food production. However, if you look past our achievements during that time, what we see is a huge number of people living in poverty worldwide. One reason is that people are not paid remuneration commensurate with their labor. In the absence of a system for equitably sharing the fruits of labor on a global scale, as the population continues to grow, a distorted structure has developed in which the majority of capital is disproportionately held by a very small fraction of people.

Tase That is true. In the case of a product that sells for several hundreds of dollars, our surveys revealed that after



passing through the hands of the factory owner and the company that owns the brand, only a tiny amount reaches the workers who manufactured it. Even after taking brand value into account, the fact is that for many people, the compensation they receive for making a value-creating product is not equivalent to their share of the value created. Various scientists and researchers have attested that we are the most intelligent species that has ever existed on Earth. Nevertheless, we are facing the reality that we, the first such species to emerge, are driving half the other species on the planet toward extinction. We need to have a sense of crisis that our survival and growth over the next hundreds of thousands of years is by no means guaranteed.

What is the essential meaning of the SDGs? Why are we promoting them?

Okada Thinking about the SDGs, if we could come up with indicators to measure economic development and human happiness, and visualize both, the world might be able to reduce disparities by achieving a different equilibrium.

Tase In that sense, the goals of well-being and freedom, which are included among the SDGs, are shared by the international community. In the West, the idea of "well-being" is centered on people's ability to realize their personal ambitions within society. There have been recent changes in Japan in response to that way of thinking, with growing recognition that connections with society are important.

After graduating from the School of Nuclear Engineering, Faculty of Engineering, University of Tokyo, Mr. Tase was a visiting researcher at New York University School of Law. He worked at Japan's Ministry of Foreign Affairs from 1992 to 2005, and at the United Nations from 2005 to 2014. He served as Chief of the UN's Human Security Unit and as an Acting Director of the UN Information Center. In 2014, he became an executive officer at Deloitte Tohmatsu Consulting LLC. He established SDG Partners, Inc. in 2017.

I hope that companies spend more time thinking about and aiming to create happiness and well-being in a way that goes a step beyond the concepts of "safety, security and comfort."

Okada Since you are up on trends in the West, I wanted to ask your opinion about something. It seems to me that Europe is taking the initiative in writing the rules for sustainability, such as the SDGs. My thought is that Japan needs a definitive indicator of its own. Ultimately, I think Japan should do more to blaze its own trail. Amid the deluge of information today, I feel that corporate management is falling into stereotypical patterns that conform to the dictates of global standards, but

as a manager, I believe I should decide the basis of value on my own.

Tase Most important is that any such movement stems from our shared humanity and mission to save those precious to us. I think that appeals to people everywhere. If Japan can become a leader in that area, I think it will win globally as well. You said that you think and decide for yourself, and I feel the same way. One point I have been emphasizing constantly since the pandemic started is that thinking and making decisions for oneself is absolutely crucial.

The ability to see things from multiple angles

Okada Today, we see the importance of diversity being emphasized, but to me, that is nothing out of the ordinary. I always try to take an interest in people who are different from me and who think differently. My discoveries from doing so have shaped the views I now hold.

Tase You seem to have very little bias. As you said, rather than being with the same kind of people all the time, it is perhaps more interesting to associate with a greater variety of people, and to listen to new ideas.

Okada Listening to your ideas, I feel that I should better understand the SDGs as a product of larger historical trends. To date, the basis of the Itochu Enex Group's activities has been the happiness of its employees, business partners and other stakeholders, and being of service, and I am proud that we are a company that has grown by doing that. I see these activities as connected to the SDGs, but just how they tie into sustainability and the SDGs might not be obvious from our current management strategies and vision. In the future, by looking at events from multiple angles, I want to make sustainability integral to every aspect of our business activities, and enhance our activities to make it easier to understand what we do.

Tase Because of the pandemic, we have all had time to stop and think. I believe it is extremely important to reflect on matters and to take action yourself. For the SDGs, ask yourself what you see when looking at them in terms of your own values. Reframing them from that perspective can offer a good starting point.

Okada Indeed, I would like to have a solid discussion about what is important to us. In the end, what comes next for our corporate activities, including crafting the vision, will be determined by how much the Company, an organism that includes all of its employees, is able to take on challenges, acquire new experience and communicate. Thank you for your time.

Guiding Principles to Consider in Formulating a Long-Term Vision

Corporate Philosophy

The Best Partner for Life and Society
—with Energy, with the Car, with the Home—

Code of Conduct

Be Ethical (Reliability and sincerity, creativity and ingenuity, transparency and integrity)

Overview of the Medium-Term Business Plan

CONCEPT



Moving 2020: Horizons

During the period of Moving 2018: Connecting to the future, we established a structure capable of consistently generating net profit of ¥10 billion. In the two years from 2019 through 2020, the foundations we have linked together will be the springboard for a major leap forward.

Basic Policy Deepening Connections, Utilizing New Tools and Expanding Abroad

| Promotion of Growth Strategies | | Evolution of the Organizational Base | |
|--------------------------------|--|--------------------------------------|---|
| 1 | Maintaining and deepening the revenue base <ul style="list-style-type: none"> Deepen relationships with customers and communities Ensure appropriate allocation of people, assets and capital Create Group synergy Make more effective use of customer base | 1 | Strengthening Group management <ul style="list-style-type: none"> Make all connections closer Enhance management of Group companies Bolster the risk management system Execute business strategies based on ESG and SDG perspectives |
| 2 | Making inroads overseas and in peripheral fields <ul style="list-style-type: none"> Enter overseas markets Actively invest in overseas businesses Promote M&A in peripheral businesses Form alliances with partners | 2 | Human resource strategies for growth <ul style="list-style-type: none"> Bring out potential of employees Promote diversity Develop globally competent human resources Further implement Enex Early Bird working style reforms |
| 3 | Creating new businesses <ul style="list-style-type: none"> Widen our fields of business Develop environment-related businesses Make effective use of various management resources | 3 | Promoting innovation <ul style="list-style-type: none"> Digital transformation and open innovation Make IT-based upgrades to business infrastructure Pursue efficiency in existing businesses Promote new businesses that use digital technology |

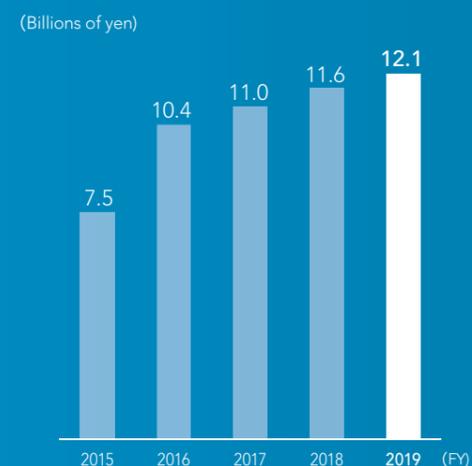
Quantitative Targets

| (Billions of yen) | FY2019 results | FY2020 initial plan | FY2020 revised plan | YoY | Change from initial plan |
|-----------------------------------|----------------|---------------------|---------------------|--------|--------------------------|
| Revenue | 897.4 | — | 710.0 | -187.4 | — |
| Profit from operating activities | 19.3 | — | 16.0 | -3.3 | — |
| Net profit | 12.1 | 12.5 | 11.0 | -1.1 | -1.5 |
| Dividend payout ratio (%) | 41.2% | 40% or higher | 40% or higher | — | Not revised |
| Core operating cash flows | 36.5 | 20 or more | 20 or more | — | Not revised |
| Planned investment (2-year total) | — | 60 | 43 | — | -17 |
| ROE (%) | 9.6% | 9.0% or higher | — | — | — |

By Segment (Profit)

| | FY2019 | FY2020 initial plan | FY2020 revised plan | YoY | Change from initial plan |
|---------------------|--------|---------------------|---------------------|------|--------------------------|
| Home-Life | 2.1 | 3.0 | 2.6 | 0.4 | -0.4 |
| Car-Life | 4.0 | 3.6 | 2.8 | -1.2 | -0.8 |
| Industrial Business | 2.5 | 2.4 | 2.4 | -0.1 | +0.0 |
| Power & Utility | 3.5 | 3.8 | 3.5 | -0.0 | -0.3 |
| Other | -0.2 | -0.3 | -0.3 | -0.2 | -0.1 |

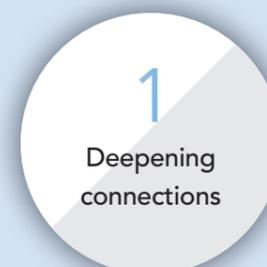
Net Profit Attributable to Itochu Enex's Shareholders



Notes: Quantitative targets were revised due to the effects of the COVID-19 pandemic. By segment figures for FY2019 and the initial FY2020 plan have been updated from previously announced figures to reflect reclassification based on the new organization as of April 1, 2020.

Progress of Medium-Term Business Plan "Moving 2020: Horizons"

Promotion of Growth Strategies



We are focusing on maintaining and deepening our revenue base. While working to create Group synergies, we are further leveraging our customer base across the Group. In FY2019, Group company Tokyo Toshi Service Co., Ltd. began heat supply to New Yokohama City Hall. In addition, Itochu Enex and Enex Life Service Co., Ltd. began collaboration with Nissan Motor Co. in electricity sales, an example of new initiatives to deepen our revenue base.



Using all of our resources, we are working to create new businesses, including development of environment-related businesses. In FY2019, we focused on expanding sales of GTL fuel (a cleaner alternative diesel fuel derived from natural gas), and use of this fuel has begun at New Yokohama City Hall and a major construction company. We have launched Itochu Enex Accelerator 2019 in conjunction with Creww Inc., a startup community operator, and are beginning field tests with a view to creating new businesses that leverage strengths from our existing businesses.



We are making inroads overseas and in peripheral fields by actively investing in overseas businesses and through M&A of peripheral businesses. In FY2019, we established ITC Enex Southeast Asia Co., Ltd. in Bangkok, Thailand to develop the photovoltaic power generation business and business related to energy conservation with the aim of expanding business in the growing markets of Southeast Asia. Additionally, we decided to enter the Car-Life business (automotive after-sales service, including car washing, coating and light maintenance) in Vietnam, and established EnexFleet Vietnam Co., Ltd. there in April 2020.

Evolution of the Organizational Base

We will promote the evolution of our organizational base by: 1) Strengthening Group management by advancing consolidated management and establishing a more effective governance system, 2) Implementing human resource strategies for growth by promoting diversity and cultivating globally competent human resources, and 3) Promoting innovation by pursuing efficiency in existing businesses and utilizing digital technology.

In FY2019, we established the Diversity Promotion Office for the purpose of promoting diversity in the Group. The office collects information from employees throughout Japan about current problems and listens to the opinions of frontline personnel, and then uses that information as the basis for system reforms and improvement of workplace.

Value Creation Process

The Itochu Enex Group conducts its business activities with the goal of being "the best partner for life and society" by offering diverse energy products to a wide range of customers as a one-stop provider.

What are pipes?

By connecting pipes we strengthen our businesses and expand our customer base

The networks the Itochu Enex Group has built with customers since its founding are our greatest asset. To clearly indicate the importance, significance and functionality of these networks, we refer to them internally as "pipes." Our business model is based on achieving a chain-like expansion of our customer base by using electricity to connect us to customers beyond the fringes of our infrastructure network, and by connecting the customers of our electricity-related partners in other industries to our core businesses.

Changes in the External Environment Facing the Itochu Enex Group



| Inputs | |
|--|--|
| Human capital | <ul style="list-style-type: none"> Employees (consolidated): 5,583 Enex Early Bird working style reforms Flexible and agile organization |
| Financial capital | <ul style="list-style-type: none"> Stable financial foundation High profit growth |
| Social and relationship capital | <ul style="list-style-type: none"> Network of sales outlets Platform of customer trust rooted in the community Sustainable business model The ITOCHU brand |
| Intellectual capital | <ul style="list-style-type: none"> Sales and marketing capabilities Cooperation with other industries Localized response capabilities suited to regional needs |
| Manufacturing capital | <ul style="list-style-type: none"> Power generation facilities, heat supply facilities Infrastructure fund Industrial gas production facilities Tank terminals |
| Natural capital | <ul style="list-style-type: none"> Wind, hydro, solar and biological power sources |



| Outputs/Outcomes | |
|---|--|
| Ability to expand networks | <ul style="list-style-type: none"> Customer base Businesses with a large market share <ul style="list-style-type: none"> Car-Life Station network Electric power retail sales AdBlue® sales Domestic sales of Nissan cars (Nissan Osaka Sales Co., Ltd.) LP gas sales Asphalt sales Marine fuel sales Energy generation <ul style="list-style-type: none"> Capacity of the Group's power generation facilities: 215 MW Capital efficiency <ul style="list-style-type: none"> ROE: 9.6% |
| Ability to think independently and respond to customer needs | <ul style="list-style-type: none"> Business creation <ul style="list-style-type: none"> Renewable energy business Environmental recycling business District heating services business Car dealership business Other businesses Reduction of environmental impact <ul style="list-style-type: none"> Renewable energy power generation capacity: 49 MW Rich creativity to build mechanisms |
| Mechanisms | <ul style="list-style-type: none"> Logistics functions End-to-end electric power business Overseas businesses Other mechanisms |
| Open innovation | <ul style="list-style-type: none"> Field trials: 5* |

* Launched Itochu Enex Accelerator 2019 in August 2019 to create new businesses in conjunction with startup companies, and implemented five field trials



Executing the "Moving" series of medium-term business plans

Implementing ESG initiatives to further enhance our core competencies

A Business Model That Makes Use of "Pipes"



By Connecting Pipes We Strengthen Our Businesses and Expand Our Customer Base

"Pipes" is a term we use to refer to the networks with customers the Itochu Enex Group has built since its founding, and they are our greatest asset. The term "pipes" is used throughout the Group to clearly identify the importance, significance and functionality of these networks. A pipe essentially connects two or more independent objects, enabling flows and creating relationships between them. We view our networks not just in the physical sense as conduits for supplying products, but also as a means for connecting things. In the context of our businesses, our "pipes" are the channels and routes through which we deliver refined petroleum products in the petroleum and LP gas businesses to end users, either through sales outlets or directly from the Company.

With our entry into the electric power and mobility businesses, we are now using our connected networks to sell electricity to customers who use our petroleum and LP gas, and provide various services in cooperation with partners that have strong customer bases in specific

regions. In this way, our business model is a mechanism unique to the Itochu Enex Group that achieves a chain-like expansion of our customer base by enhancing the connecting function of our networks through two business structures—our core petroleum and LP gas businesses and new businesses such as electric power and mobility. Moreover, because our revenue structure is based on expanding stock-type businesses, which are core businesses that provide essential services, and overlapping flow-type businesses, which are new businesses built on that foundation, we have the advantage of being able to grow on two levels.

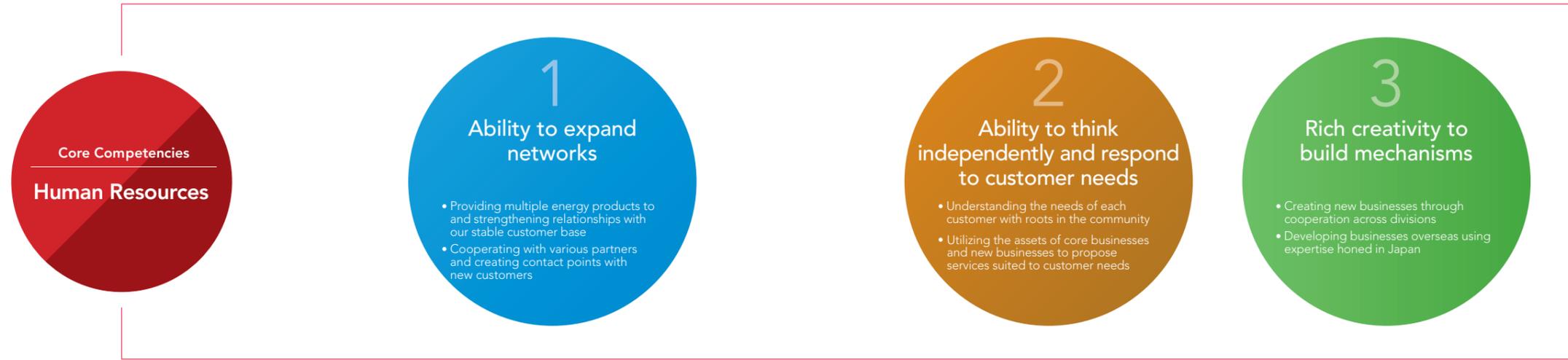
Essentially, functions serving to connect our networks are the core competencies of our human resources: the ability to expand networks, the ability to think independently and respond to customer needs, and rich creativity to build mechanisms. On the next two pages, the core competencies of the Itochu Enex Group are explained through value creation case studies.

Value Creation Case Studies

Value Created by Leveraging Core Competencies

We connect networks and achieve chain-like value creation by leveraging the core competencies of the Itochu Enex Group's human resources: the ability to expand networks, the ability to think independently and respond to customer needs, and rich creativity to build mechanisms.

Below, we present examples in which we provide value to various customers by leveraging these three core competencies: 1. Ability to expand networks, 2. Ability to think independently and respond to customer needs, and 3. Rich creativity to build mechanisms



Expanding into Southeast Asia as "The Best Partner for Life and Society"

—Bringing expertise and strengths honed in Japan to overseas markets—

Chie Miyajima
 Managing Director
 Power & Utility Division
 Regional Headquarters
 (Bangkok Representative Office)
 ITC Enex Southeast Asia Co., Ltd.
 ITC Enex (Thailand) Co., Ltd.



In April 2020, we established two new subsidiaries in Bangkok, Thailand: ITC Enex Southeast Asia Co., Ltd., a regional headquarters, and ITC Enex (Thailand) Co., Ltd., an operating company. Our goal is to bring the expertise and strengths the Itochu Enex Group has honed in Japan to overseas markets, and be the best partner for life and society in Southeast Asia as well. The two local subsidiaries will work to create value that only the Itochu Enex Group can deliver by providing solar power generation and other renewable energy solutions to address customers' energy issues, including the need for lower costs and environmental adaptation.

The subsidiaries were successfully established, but our relief was short-lived as the COVID-19 pandemic had a major impact. The situation has become extremely frustrating because we have been unable to carry out business activities as planned. However, we are not letting this time go to waste. In addition to focusing on the tasks in front of us and preparing for activities in Thailand, we moved up the start of studies on the systems and regulations of other countries in Southeast Asia that we plan to expand into next, and worked on understanding the needs of customers in those countries.

Thailand is politically, economically and culturally an ideal market because we can make the most of the expertise the Power & Utility Division has cultivated in Japan. First, we will further develop our business model of creating our characteristic "pipes" by applying this model to the connections and network we have established in Thailand, and then expanding into other countries in Southeast Asia where rapid growth is expected. In doing so, we will contribute to people's lives as "the best partner for life and society" not only in Japan, but throughout Southeast Asia.



Environmentally Friendly GTL Fuel Helps Improve Stable Supply and Economic Efficiency

—Harnessing the Itochu Enex Group's assets to propose services tailored to industry and customer needs—

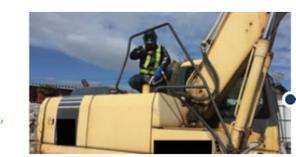
Wataru Yamada
 GTL Office
 Environmental Business Department
 Industrial Business Division



Today, natural disasters attributable to climate change, such as torrential rains and forest fires, are happening with increased frequency, and various measures are being implemented globally to mitigate environmental impact. One example is the shift to cleaner alternative fuels for diesel engines used in construction machinery, power generators and forklifts. However, some biodiesel and other alternative fuels can have inconsistent quality, which can lead to problems such as clogging of fuel injection equipment, poor startability in cold temperatures, and issues relating to fuel degradation. For those reasons, GTL fuels¹ are attracting interest as an alternative diesel fuel with a reduced impact on the environment.

The Itochu Enex Group has been selling, promoting and raising awareness of GTL fuel for the last three years, and in FY2019 sold 4,682 kL, mainly in the Chubu and Kansai regions of Japan. For FY2020, our target is to sell more than 20,000 kL in the Chubu, Kansai and Kanto regions. In October 2019, our GTL fuel was the first fuel registered on the New Technology Information System (NETIS) maintained by the Ministry of Land, Infrastructure and Transport,² and, in February 2020, it was officially adopted as the emergency power generator fuel for the new Yokohama City Hall building. Furthermore, in March it was officially adopted as the fuel for the construction machinery (eight machines in total) used in the demolition of the head office building of a major construction company in Tokyo. In these and other cases, GTL fuel has been recognized for its advantages in terms of environmental suitability, and inquiries have been increasing.

GTL fuel can contribute to solving environmental issues using existing infrastructure with no added cost. To further expand its use we will leverage the Itochu Enex Group's networks and connections to gradually expand the supply area beyond the Chubu, Kansai and Kanto regions to the rest of Japan.



1. Gas-to-liquid (GTL) technologies convert natural gas to gasoline, kerosene, diesel and other fuels; resultant fuels are more environmentally friendly and contain almost no sulfur or metals, etc.
 2. Entities adopting GTL as fuel in construction under the jurisdiction of the Ministry of Land, Infrastructure and Transport are eligible for additional points at the time of bidding and in the construction performance evaluation. (NETIS registration number: KT-190065-A)
 3. The eight characteristics of GTL fuel: (1) 8.5% lower CO₂ emissions than diesel when combusted, (2) Drop-in fuel, (3) Flash point 70°C or higher, (4) High cetane number, (5) Pour point -21°C or higher, (6) Stability in long-term storage, (7) No soot emissions, and (8) Biodegradability

Message from the CFO

We will achieve new growth by leveraging the Itochu Enex Group's essential businesses and solid customer base.



Atsushi Katsu
Director and Managing Officer

The Strengths of Essential Businesses Have Been Reassessed Given the Risk Situation

The Itochu Enex Group achieved record net profit attributable to Itochu Enex's shareholders for the fifth consecutive fiscal year in FY2019, the first year of the medium-term business plan "Moving 2020: Horizons." Driven by significant profit growth in the Power & Utility Division, net profit was ¥12.1 billion, above our original target. While the COVID-19 pandemic had a major impact on the global economy, we view the profit increase as an indicator of the strengths of the Itochu Enex Group, which is engaged in the essential businesses of providing petroleum products, LP gas, electricity, and other energy resources that are critical to society and daily life.

Our revenue structure is underpinned by a solid customer base in the energy sales business. Stable revenue from our core petroleum product and gas businesses is one of our strengths, but it will be difficult to stem the drop in demand resulting from Japan's declining birthrate and aging population, changes in the business landscape and other factors. Keenly aware that maintaining the status quo is no longer viable, we have been implementing the "Moving" series of plans since FY2014. By investing aggressively in new businesses using the cash flow generated from our core businesses, we have been transitioning from a fuel trading company that handles petroleum products and gas to a company with integrated capabilities across a broad range of energy products and services, including electricity and automobiles. We will further evolve our Group management, develop a balanced asset portfolio, and build a structure for generating synergy between our businesses.

Progress and Revision of Medium-Term Business Plan "Moving 2020: Horizons"

In medium-term business plan "Moving 2020: Horizons," we aim to use the Group's essential businesses and solid customer base as a springboard for further growth. Due to the pandemic, however, there is no escaping the fact that the

business landscape has changed dramatically since we drew up the plan, and the outlook has become more uncertain.

Under these circumstances, the basic policy of "Moving 2020: Horizons" has not changed significantly, but for new investments in "utilizing new tools (creating new businesses)"—one of the core measures of the plan—we are keeping a close watch on the balance between offensive and defensive strategies, and have modified our investment plans. Specifically, we have scaled back our total planned investment over two years to ¥43 billion from ¥60 billion. In FY2020, we have shifted to a defensive stance of keeping investments within core operating cash flows (excluding the effect of lease accounting), and plan to invest approximately ¥20 billion. More than half of that will be invested in renewable energy and other projects that are under way in the Power & Utility Division, with the remainder allocated to the Car-Life Division and elsewhere. Beyond the total provisions of this two-year period, our medium-to-long-term investment policy will be to decisively make investments with the aim of creating new core businesses and actively exploring investments in new fields, while maintaining financial discipline.

In considering these investments, we will determine the cost of capital based on the characteristics of each business area, and make sure that we invest only in projects that we believe will generate returns greater than the cost of capital. We will also continue to pursue operating efficiency as a means to ensure sustainable growth. As a key indicator, we will focus on ROE and continuously review our portfolio from the perspective of capital efficiency. In addition, we will work to improve ROA to increase asset efficiency.

As for quantitative targets, we revised our net profit target for FY2021 to ¥11 billion, down from ¥12.5 billion. In revising the target, we carefully considered a scenario that was neither too pessimistic nor too optimistic in light of the information available when the revision was announced. Based on this scenario, we repositioned the target by adjusting planned figures set for each division at the beginning of the fiscal year, mainly to reflect the negative impact of the COVID-19 pandemic. Our dividend policy is unchanged, and we plan to continue providing stable

shareholder returns with a consolidated dividend payout ratio of 40% or higher.

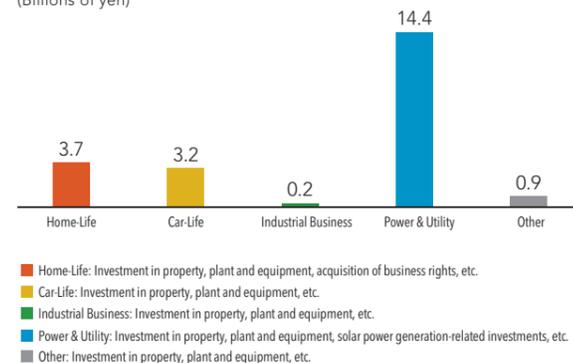
The economic outlook is extremely uncertain due to the COVID-19 pandemic. Nevertheless, our financial base remains sound as we are virtually debt-free, with a net debt-equity ratio of 0.05 times. In terms of credit evaluations by external agencies, we have a long-term issuer rating of A+ from Japan Credit Rating Agency, Ltd. In addition, a short-term rating of J-1 (as of June 2020) has enabled us to establish overdraft and bond (commercial paper) issuance facilities with financial institutions. As a result, we have ample liquidity on hand and ready access to funding should it be required.

Toward a New Itochu Enex Group

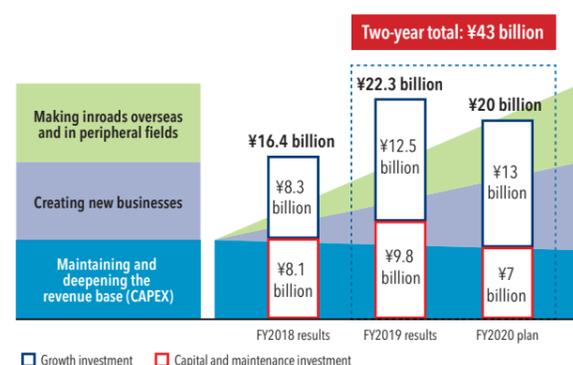
The global COVID-19 pandemic has turned the way people live and do business upside down, yet our commitment to truly being "the best partner for life and society" remains unchanged. While the full extent of the impact of the pandemic on the Itochu Enex Group has yet to be determined, it has given us the impetus to begin various initiatives. We began teleworking even before the Japanese government's state of emergency declaration. Because all Group companies shifted to the same conditions, we made progress in establishing an environment adapted to the "new normal" while reevaluating what approaches to working styles distinguish the Itochu Enex Group. At the same time, we are accelerating steps toward digital transformation in business activities where face-to-face interaction with customers has historically been the norm, and have begun to look at shifting to online and digital approaches from various perspectives. Furthermore, we are transitioning to online communications with stakeholders in response to the pandemic. In addition to investor relations activities for analysts and individual investors, we will create opportunities for dialogue with a greater number of stakeholders to learn more about their views and expectations, and to provide them with a deeper understanding of the Itochu Enex Group. We look forward to your continued support as we tackle new challenges.

FY2019 Investment Amount (by Segment)

(Billions of yen)



FY2020 Investment Policy

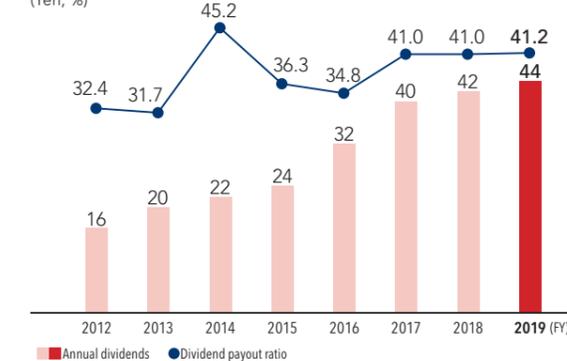


Revisions to Quantitative Targets of "Moving 2020: Horizons"

| | Initial plan | Revised plan | Revision amount |
|------------------------------------|---------------------|---------------------|-----------------|
| Net profit | ¥12.5 billion | ¥11 billion | −¥1.5 billion |
| ROE | 9.0% or higher | — | — |
| Consolidated dividend payout ratio | 40% or higher | 40% or higher | No revision |
| Core operating cash flows | ¥20 billion or more | ¥20 billion or more | No revision |
| Planned investment (2-year total) | ¥60 billion | ¥43 billion | −¥17 billion |

Annual Dividends

(Yen, %)



Financial and Non-Financial Highlights

Financial Highlights

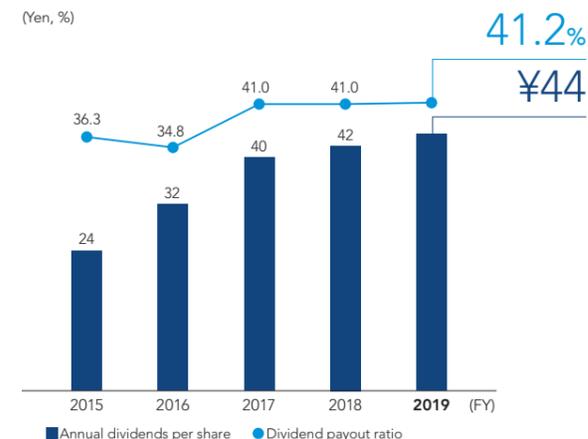
Profit from Operating Activities, Net Profit Attributable to Itochu Enex's Shareholders



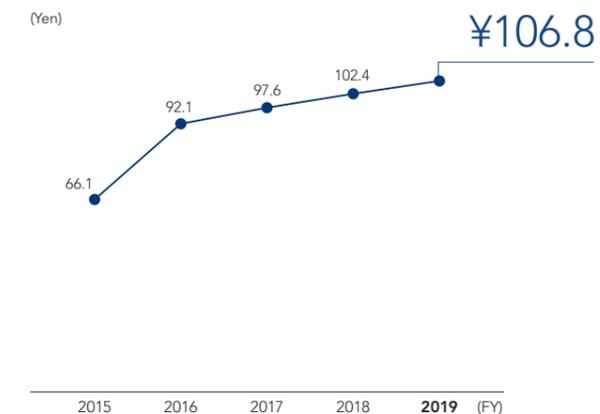
ROE, ROA



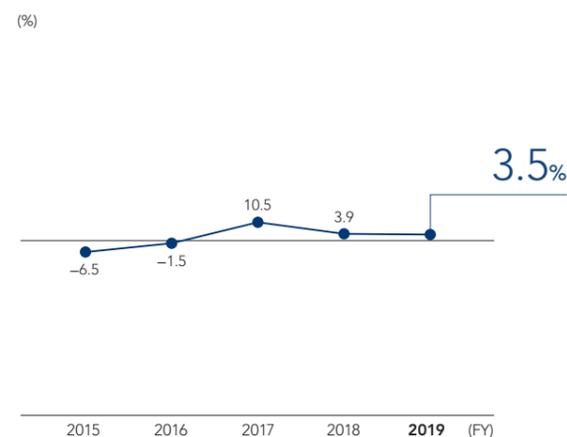
Annual Dividends per Share, Dividend Payout Ratio



Basic Earnings per Share Attributable to Itochu Enex's Shareholders



Total Shareholder Return

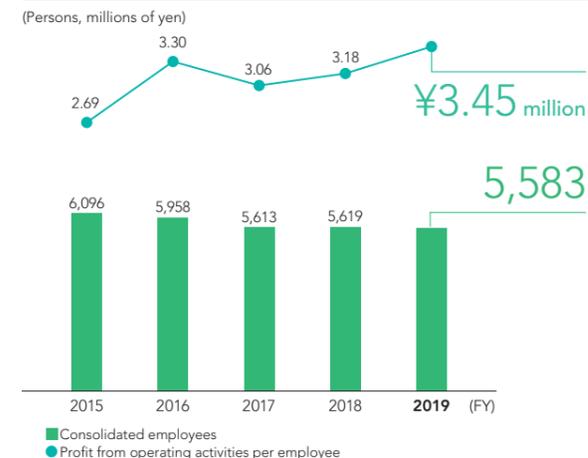


Cash Flows from Operating Activities, Cash Flows from Investing Activities

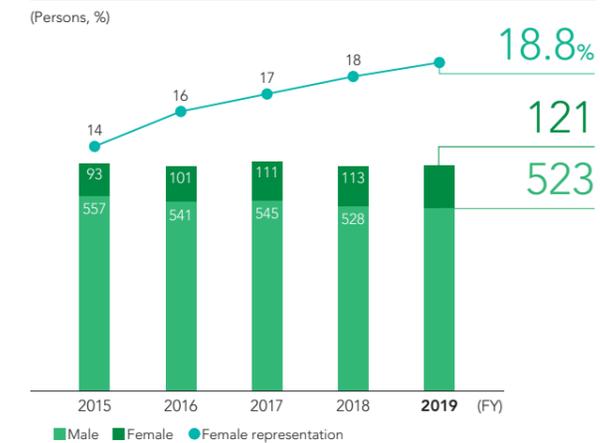


Non-Financial Highlights

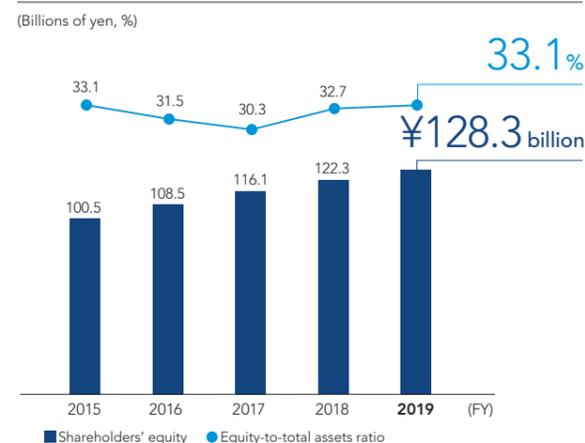
Consolidated Employees, Profit from Operating Activities per Employee



Employees by Gender (Non-Consolidated), Female Representation



Shareholders' Equity, Equity-to-Total Assets Ratio



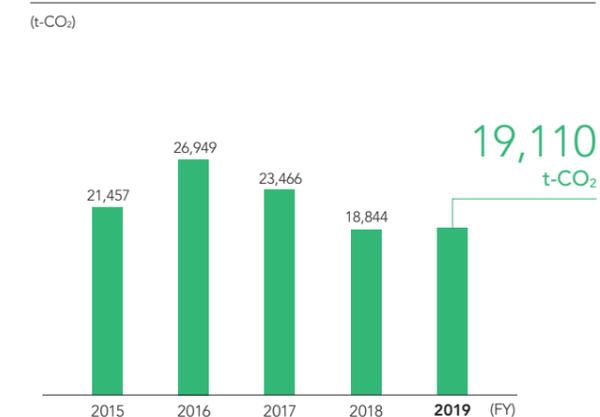
Net Interest-Bearing Debt, Net DER



Percentage of Paid Vacation Days Taken



CO₂ Emissions



Overview of Businesses

Net Profit by Segment

Home-Life Division



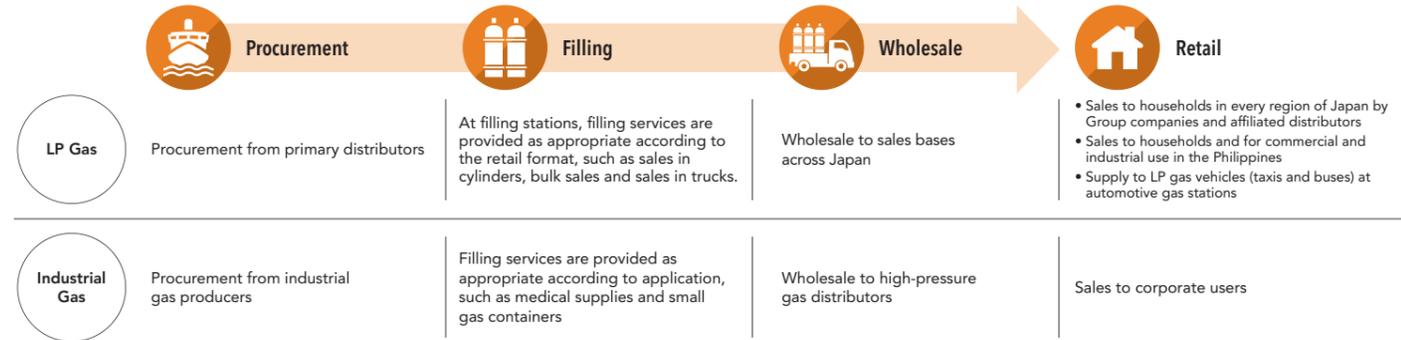
Overview

We support comfortable, affluent, and secure lifestyles by delivering LP gas, electric power, and a variety of smart energies.

| | |
|-----------------------------------|---|
| Main Products and Services | LP gas, home smart energy devices, city gas, electric power, industrial gas, solutions for comfortable living |
| Main Customers | 1.5 million customers throughout Japan, corporate users and 2,700 distributors |
| Business Form | Retail and wholesale |



Business Flow



Car-Life Division



We cater to various needs related to "car life," aiming to build a society where people can live in comfort with cars.

| | |
|-----------------------------------|--|
| Main Products and Services | Gasoline, kerosene, diesel oil, electricity, vehicles, car rental, living and automotive products and services |
| Main Customers | Approximately 1,700 affiliated Car-Life Stations |
| Business Form | Retail and wholesale |

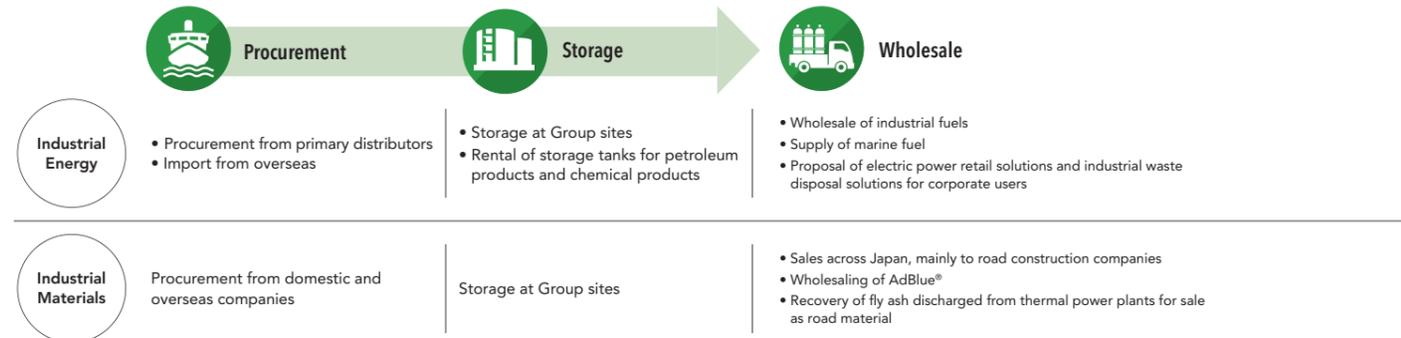


Industrial Business Division



We deliver various forms of energy that support industry and logistics, as well as asphalt, marine fuel, and eco-friendly products.

| | |
|-----------------------------------|--|
| Main Products and Services | Gasoline, kerosene, diesel oil, fuel oil, LP gas, AdBlue®, asphalt, marine fuel, import/export of petroleum products, terminal tank rental, recycling of fly ash, recovery and recycling of slop |
| Main Customers | 3,500 corporate users, domestic road construction companies, sea shippers and public agencies |
| Business Form | Retail and wholesale |

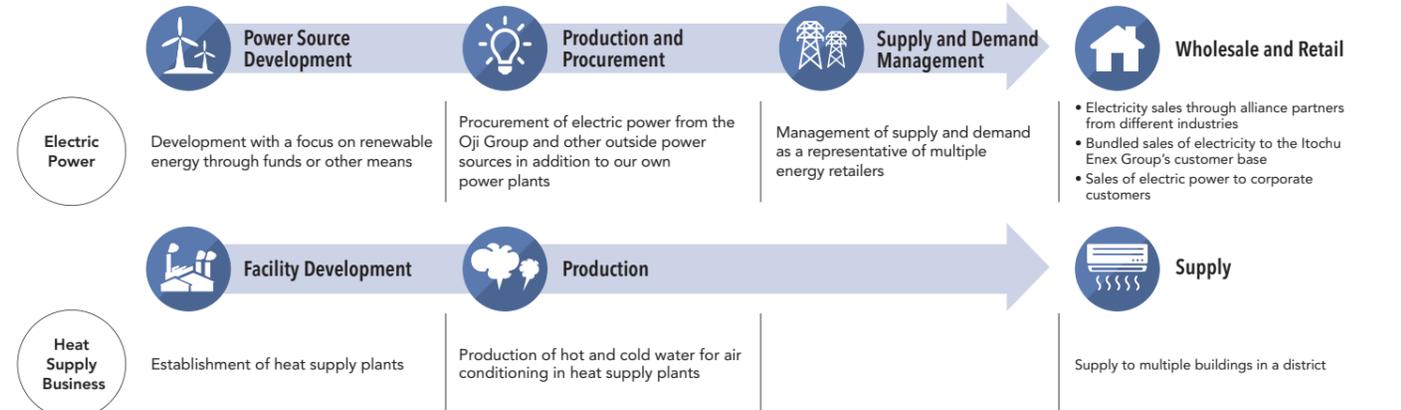


Power & Utility Division



We operate electric power-related and heat supply businesses in pursuit of energy conservation, comfort and economic efficiency.

| | |
|-----------------------------------|--|
| Main Products and Services | Electricity, steam, heat supply, comprehensive energy services |
| Main Customers | Corporations, individuals, electricity retailers, office buildings and commercial facilities |
| Business Form | Vertically integrated model of power generation, supply and sale |



Note: Net profit by segment figures have been updated from previously announced figures to reflect reclassification based on the new organization as of April 1, 2020.

Strategy by Business Home-Life Division

Services



We are promoting a new age of business development. Our aim is to expand our businesses by viewing services through the eyes of customers and “mastering the first mile.”



Tsukasa Nakamura
Managing Officer
Chief Operating Officer,
Home-Life Division



Review of the Fiscal Year Ended March 31, 2020

In the LP gas market in Japan, household LP gas consumption is gradually declining, due in part to the growing use of high-efficiency appliances, as well as the social issues of a declining population, falling birthrate and demographic aging. In FY2019, we continued to identify the characteristics of customers and focused on providing greater benefits to them through products and services that match their individual needs. As a result, the number of customers under direct LP gas supply contracts remained steady from the previous fiscal year at 550,000, while the number of customers under electricity supply contracts increased to 98,000 (up 17,000) as the customer base expanded, mainly among existing LP gas customers. We also reorganized Group companies in the industrial gas sales business and enhanced systems to enable them to effectively utilize management resources. In addition, as part of the low-power, wide-area (LPWA) network for which we began trials in FY2019, we installed approximately 60,000 devices nationwide by the end of March 2019, and expect to install an additional 77,000 during FY2020. This will help us to streamline LP gas delivery and establish a strategic rate structure.

The COVID-19 pandemic has underscored the fact that one of the strong points of the Home-Life Division is that it delivers energy essential to daily life—in other words, it is an essential business. We believe we need to further highlight to customers the benefits of our locally based business activities as a provider of “safe and secure living environments.”

Future Strategy and Long-Term Outlook

Focal Points in FY2020

Under “Moving 2020: Horizons,” we are pursuing a new age of business development that goes beyond existing frameworks. We are continuing this policy in FY2020, and have added a new catchphrase: “Mastering the first mile.” In common parlance, the term “the last mile” is often used, but that way of thinking is centered on the party supplying the service. From the standpoint of the customer, “the last mile” is in fact “the first mile.” Our new catchphrase shows our commitment to focusing on what comes “first” rather than leaving it to “last.” By providing high-value-added services and products from the customer’s viewpoint and enhancing convenience through bundled sales, we will build deeper and stronger relationships with customers.

One effect that the COVID-19 pandemic has had on our sales operations is the shift from in-person sales to non-face-to-face sales. Itochu Enex as a whole has been discussing how to proceed with digital transformation. Notwithstanding the results of those discussions, we believe the pandemic will expedite our adoption of digital technology. In that sense, we have arrived at a turning point in which our sales model that has lasted 50 years will change significantly, from a conventional order-taking sales approach to a consultation-based one, with an emphasis on efficiency.

Meanwhile, in the industrial gas business, where sales and production functions have been separated, we will deploy the Group’s collective resources to deepen our business areas and enhance logistics functions. In overseas business, we have begun market research to expand operations in Southeast Asia beyond the Philippines, primarily in Indonesia and Thailand. In new businesses, we have begun or are considering

entry into peripheral sectors such as agriculture and self-service laundries. In the same way that our operations supplying carbon dioxide gas led us to consider entering the agricultural sector, we plan to leverage our existing resources in order to broaden the potential of various new businesses and expand our revenue base, thereby achieving growth for the division.

Our Vision for the Future

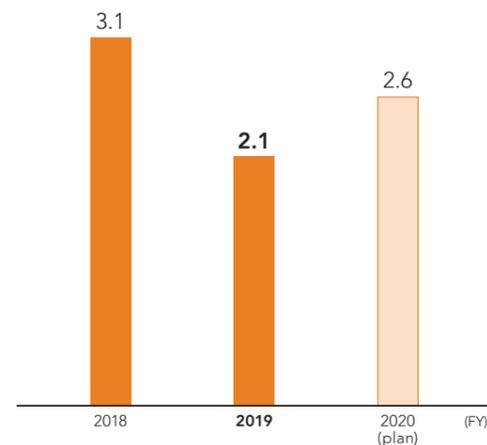
The Home-Life Division provides value to customers through 213 locations across Japan. The division’s mission is to use this network to create new value that only the Itochu Enex Group can offer. In LP gas, in addition to this network, the division has built a robust safety and security system based on its integrated structure that extends from upstream (procurement) to downstream (sales to households throughout Japan). By developing services that take advantage of that strength through both traditional and digital approaches, we endeavor to always deliver value as an essential partner in customers’ lives. We are also working to make sure that locations in our network can serve as community disaster-preparedness hubs. In 2019, Group company Itochu Enex Home-Life Nishi-Nihon Co., Ltd. signed a disaster cooperation agreement with Ube City, Yamaguchi Prefecture.

Additionally, we are working to create new environmental value by taking advantage of the properties of gas, an energy source with a relatively low environmental impact. We will further pursue the possibilities of gas as a form of energy, including our current efforts to reduce exhaust gas emissions through the use of LPWA technology to streamline delivery.

SWOT Analysis

| | |
|---------------------------|---|
| S Strengths | <ul style="list-style-type: none"> Customer base and sales locations throughout Japan Integrated structure from upstream (procurement) to downstream (sales to households throughout Japan) |
| W Weaknesses | <ul style="list-style-type: none"> Need to strengthen collaboration with other divisions and other industries Need to respond to rapid digital transformation |
| O Opportunities | <ul style="list-style-type: none"> Expanding LP gas demand in Asia Increasing awareness of the need for disaster preparedness |
| T Threats | <ul style="list-style-type: none"> Shrinking market for LP gas in Japan Competition for customers following the full liberalization of the domestic electricity and city gas retail markets Reorganization of domestic oil companies |

Net Profit
(Billions of yen)



HIGHLIGHT Launch of “hitotema” Website and “Route x Food” YouTube Channel

As new initiatives, we established “hitotema,” a blog-format website, and a YouTube channel called “Route x Food.” The Home-Life Division delivers LP gas to customers every day, so the theme of “food” was a natural choice when considering what kind of social media presence to build.

On “hitotema,” visitors can access new food-related content daily, with a focus on the space between “luxury and refinement” and “time-saving and economy.” The site provides delightful tips that will spice up everyday life. “Route x Food” is a video channel with the mission of guiding people all around the world to delicious eating and drinking establishments throughout Japan. We will continue to propose ideas for richer, more vibrant lifestyles as “the best partner for life and society.”



Strategy by Business Car-Life Division

Services



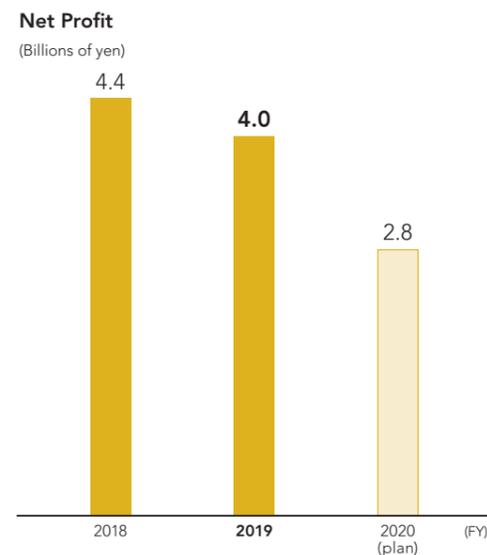
We will reposition Car-Life Stations as “community stations” and work to expand sales of our automotive business.



Fumio Shimizu
Director and Managing Officer
Chief Operating Officer,
Car-Life Division

SWOT Analysis

| | |
|---------------------------|--|
| S Strengths | <ul style="list-style-type: none"> Stable customer base centered on Car-Life Stations Partnership with Nissan Osaka Sales Co., Ltd. |
| W Weaknesses | <ul style="list-style-type: none"> Business development in new fields and new areas Human resource diversity |
| O Opportunities | <ul style="list-style-type: none"> Popularization of electric and hybrid vehicles Creation of new oil- and automotive-related businesses |
| T Threats | <ul style="list-style-type: none"> Declining demand for gasoline Reorganization of domestic oil companies |



Review of the Fiscal Year Ended March 31, 2020

In sales volume of petroleum products, domestic demand was already on a downward trend, and with the impact of stay-at-home requests due to the COVID-19 pandemic, we experienced a decrease in demand at a level that was not expected for another 10 years. Nevertheless, we were able to secure a profit, thanks in large part to solid retail sales at Car-Life Stations.* In the car dealership business, however, the fallout from the COVID-19 pandemic was significant, and we will have to factor in its effect on new car sales volume for the foreseeable future. At the end of March 2020, the Itochu Enex Group had 1,704 Car-Life Stations, a net decrease of 62 from a year earlier. Considering that in the domestic industry as a whole, about half of all service stations have closed in the last 20 years, the operations of our Car-Life Stations are relatively stable, a reflection of the results of the ACT Program (a sales outlet management improvement program) implemented since 2009. In addition, the restructuring of Group subsidiaries carried out over three years was successful, thereby laying the foundation for a strong business structure.

Under “Moving 2020: Horizons,” we will focus on building a new Car-Life Station model that goes beyond the current form in order to maintain and solidify our customer base. This will include offering new products and services to achieve differentiation from competitors.

In the future, we plan to transform Car-Life Stations into “community stations” that serve as a base for daily life. Possibilities may include developing models of cross-industry facilities for Car-Life Stations and offering vehicle leasing to individuals.

* Car-Life Stations are service stations that offer multiple services, as proposed by the Itochu Enex Group

Future Strategy and Long-Term Outlook

Focal Points in FY2020

The Car-Life business has two main pillars: petroleum products and automotive-related peripheral businesses. The key will be to identify and expand opportunities based on these business areas. We will work with sales outlets as business partners and build stronger relationships with them. One of our strengths is the solid customer base we have established through sales outlets, wholesalers, Car-Life Stations and dealerships, including the 117-strong dealership network owned by Nissan Osaka Sales Co., Ltd. The sales mindset of Nissan Osaka Sales stands firm even under the adverse conditions caused by the COVID-19 pandemic, and it remains a number-one car dealership in Japan. Moreover, one hallmark of Itochu Enex since its founding has been its strength in regions outside major metropolitan areas. Since customer needs vary by region, it will be essential to carry out sales promotions in close consultation with Car-Life Station sales staff while maintaining relationships of trust with primary oil distributors.

On the other hand, environmentally friendly electric vehicles are poised to become the mainstream in the new future of mobility. Nissan Motor Co., our partner, is at the global forefront of the shift to electric vehicles, and we have confidence in the sustainability of this business. People with an interest in electric vehicles also tend to be very discerning when choosing a power producer and supplier, and to have a strong interest in renewable energy, so we will make strategic use of our resources in ways such as offering ENE-POWABO L, a residential-use lithium-ion power storage system handled

by the Home-Life Division. We are continuing to adopt digital technology, which includes approaches such as web conferencing with sales outlets to efficiently devise sales strategies, and we have begun building a platform for shared access to customers of companies throughout the Itochu Enex Group.

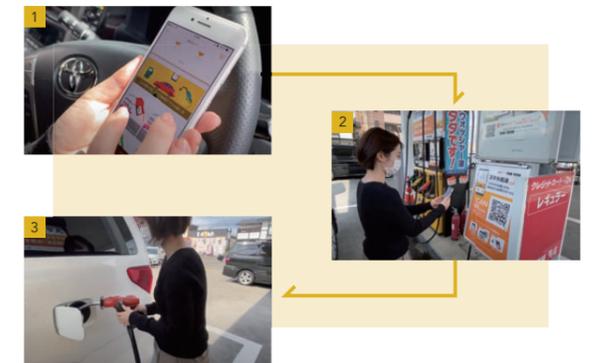
Our Vision for the Future

We have been given an unexpected glimpse of how the oil industry may be 10 years from now. This is a time for us to gain insight from the current situation and ponder our next moves. To prepare for the future, investments including those in the adoption of digital technology will be important, but it is also important that we support the growth strategies of sales outlets. If we can build our own platform, we will be able to continuously provide new value and services. Furthermore, with community stations as a platform, we expect to make progress in sharing access to customers by connecting other divisions with Car-Life Stations. We are looking toward the future together with our business partners, and are committed to evolving as a group that contributes to local customers.

HIGHLIGHT Proof-of-Concept for Smartphone-Based Refueling App

At the end of March 2020, we began a proof-of-concept test for *Sumaho Kyuyu*, the first app of its kind in Japan.* The test is being conducted under the name *Sumaho Kyuyu* (“smartphone refueling”) at Car-Life Stations in Kanagawa Prefecture, using a system developed by NEC Platforms, Ltd. Through this service, customers place an advance order using a dedicated smartphone app. At the Car-Life Station, they simply scan a QR code on the fuel pump to refuel their vehicle.

The service eliminates the need to operate the pump interface at Car-Life Stations and enables quick payment. Furthermore, being contactless will remain an attractive benefit during and after the COVID-19 pandemic. The test will enable us to further develop and promote the use of *Sumaho Kyuyu* so that we can respond to the diversifying needs of customers.



* First in Japan: The first system in the Japanese service station industry that enables refueling orders and payment via smartphone app without using the pump interface (according to research by Itochu Enex).

Strategy by Business Industrial Business Division

Services



By anticipating a changing world and designing environmental businesses, we will pave the way for growth.



Toshihisa Fuse
Managing Officer
Chief Operating Officer,
Industrial Business Division

SWOT Analysis

| | |
|---------------------------|---|
| Strengths S | <ul style="list-style-type: none"> Comprehensive proposals of diverse products Expertise in environment-related businesses |
| Weaknesses W | <ul style="list-style-type: none"> Need to develop knowledge, expertise and functions in new technologies Need to collaborate with other companies |
| Opportunities O | <ul style="list-style-type: none"> Increasing awareness of environmental issues and a contactless, decentralized society Strengthening of environmental regulations by the IMO* |
| Threats T | <ul style="list-style-type: none"> Falling demand for petroleum products due to population decline |

* The International Maritime Organization (IMO) has issued new decarbonization regulations for marine fuels (lowering the maximum sulfur content from 3.5% to 0.5%), effective from 2020

Review of the Fiscal Year Ended March 31, 2020

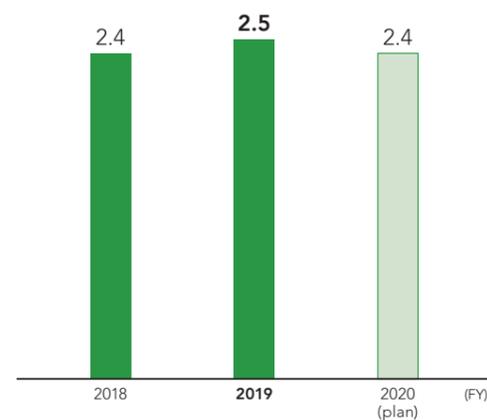
This division was formerly called the Industrial Material Division, and many people thought that its main function was to handle petroleum products. Its name was later changed to reflect the fact that it would handle industry-related businesses in general, including not only oil but also environmental businesses.

The decline in demand for petroleum products in Japan shows no signs of slowing, and globally there is a clear shift to more environmentally friendly alternative sources of energy. To stay ahead of such market changes, we have launched new services such as the LNG heat supply business. On a different front, the market for environment-related products remains brisk, and sales of AdBlue[®],¹ which cleans diesel exhaust, and GTL² fuels processed from natural gas grew. Another highlight was our launch of fuel products conforming to the new regulatory limits on the sulfur content of marine fuels (SO_x regulations) that took effect in 2020, and promoted their adoption in Japan.

A prolonged COVID-19 pandemic will require us to play new roles as “the best partner for life and society.” In addition to having to deal with global warming-related natural disasters, which occur seemingly every year, we will be forced to address changes in society and lifestyles caused by COVID-19. “Contactless” and “decentralized” are keywords, and the development of environmental energy supply services suited to the new, environment-conscious social structure will be important.

- AdBlue[®] is a high-grade urea solution used in selective catalytic reduction systems, which are used for detoxifying nitrogen oxides (NO_x) in diesel vehicle exhaust.
- Gas-to-liquid (GTL) technologies convert natural gas to gasoline, kerosene, diesel and other fuels; resultant fuels are more environmentally friendly and contain almost no sulfur or metals, etc.

Net Profit
(Billions of yen)



Future Strategy and Long-Term Outlook

Focal Points in FY2020

In FY2020 and beyond, we will focus mainly on measures to reduce greenhouse gas (GHG) emissions, as well as SO_x, NO_x and particulate matter (PM) emissions. Among greenhouse gas reduction measures, we began co-development of an ammonia-powered ship that emits zero greenhouse gases. This project is being led by MAN Energy Solutions GmbH along with Itochu Enex, ITOCHU Corporation, Imabari Shipbuilding Co., Ltd. and two other companies. In addition, a major construction company has adopted our GTL fuel for use in heavy machinery at building demolition sites—a further example of this division's increasing presence. We will also continue working to expand AdBlue[®]'s leading market share, and are now preparing a contactless, automated distribution program (smart distribution network) that will apply digital transformation to connect the 20 AdBlue[®] Centers across Japan.

In the past, trading companies have typically traded single items, but going forward, it will be essential to develop schemes in which we arrange and provide combinations of products and services through our networks. For example, in a decentralized economy, a factory may be built in an outlying region, and a new town created around it. We envision developing environmental energy businesses that

leverage our portfolio of products and services, such as asphalt and heat supply, in the development of such communities. To do that, training capable human resources is an urgent task. We need to dramatically change the mindset and awareness of employees through measures such as active personnel exchanges, seconding employees to other Group companies, and providing overseas training.

Our Vision for the Future

When it comes to environmental awareness, Japan lags behind many other countries. The Industrial Business Division, which is deeply involved in environmental business, is charged with developing new businesses that anticipate a changing world. By taking advantage of the ITOCHU Group's network and connecting it to global networks, we will develop environmental businesses originating from Japan overseas. We will then apply what we learn to further develop these businesses in Japan. In doing so, we will champion the environmental energy business as a bridge between the Japanese and overseas markets.

After securing a stronger footing for our current businesses, our next step will be to nurture environment-related products such as AdBlue[®] and GTL fuels into core products. In the medium term, we will work to actualize our concept of designing environmental businesses through the advancement of businesses such as LNG vessels and methane-based renewable energy supply, including through investment.

HIGHLIGHT Joint Research to Develop a Fuel Supply Chain for a Zero-Emission Ammonia-Powered Ship

Itochu Enex has agreed to team up with ITOCHU Corporation, Imabari Shipbuilding Co., Ltd., Mitsui E&S Machinery Co., Ltd., and Nippon Kaiji Kyokai (ClassNK) for the co-development of a vessel that uses ammonia as the main fuel, building on ongoing development by MAN Energy Solutions GmbH.

To carry out this project, we are also partnering with ITOCHU Corporation and Vopak Terminals Singapore Pte. Ltd. to study the establishment of a supply chain for ammonia marine fuel in Singapore.

In the shipping industry, the International Maritime Organization (IMO) adopted a GHG reduction strategy in 2018. The strategy calls for reducing CO₂ emissions per transport work, as an average across international shipping, by at least 40% by 2030 (compared with 2008), and total annual GHG emissions by at least 50% by 2050 (compared with 2008), and seeks to phase them out entirely (i.e. achieve zero emissions) as soon as possible in this century. With the trend toward decarbonization gaining momentum, ammonia is attracting interest from many quarters as a potential alternative fuel.

Under this joint development project, a fundamental objective of which is to reduce GHG emissions, project partners are aiming to create an integrated system that goes

beyond the establishment of an ammonia fuel supply chain in Singapore, to also include joint development of ammonia-powered ships, ship ownership and operation, adoption of ammonia fuel, and fuel supply facilities.

In addition to the supply of fuel to ammonia-powered vessels, we will draw on our expertise in operating fuel supply ships to help expand the use of ammonia fuel for ships.

Role of Each Company in the Joint Agreement

| | |
|---|---|
| Imabari Shipbuilding Co., Ltd. | Development of ammonia-powered ship |
| MAN Energy Solutions GmbH | Development of ammonia-fueled engine |
| Mitsui E&S Machinery Co., Ltd. | Development and supply of ammonia-fueled engine |
| Nippon Kaiji Kyokai (ClassNK) | Safety evaluation of ammonia-powered ship |
| Itochu Enex Co., Ltd. | Fuel supply for ammonia-powered ship |
| ITOCHU Corporation | Actualization of integrated project |

Strategy by Business Power & Utility Division

Services



We will enhance business value to be a partner in key infrastructure based on the needs of communities.



Hirofumi Chimura
Executive Officer
Chief Operating Officer,
Power & Utility Division



Review of the Fiscal Year Ended March 31, 2020

We are now in the fifth year since the electricity retail market was fully liberalized, and the competitive landscape is becoming increasingly challenging with the entry of new players from different industries and ongoing changes to electric power business regulations. Amid the shakeout of power producers and suppliers, the Power & Utility Division has increased its low-voltage power sales to households by about 40 percent through cooperation with our network of regional operators, who possess established customer bases, as well as with other divisions. In addition, we made progress in collaboration with other industries. We began sales of the Frontale Denki¹ electricity supply service for households, which is co-branded with the Kawasaki Frontale professional football team, and announced the installation of a non-utility power generation facility at a factory in collaboration with an affiliate of Coop Sapporo. We plan to provide power generation services that contribute to customers' energy efficiency and business continuity planning.

Among the benefits of our integrated system from power generation to sale is stable electricity procurement, which allows us to lower procurement costs. By substantially improving profit margins in the electric power business, we achieved record profit. In the heat supply business, Tokyo Toshi Service Co., Ltd. began supplying hot and cold water and electricity for the new Yokohama City Hall building. This is the nineteenth location to which we provide heat supply in Japan, and heat supply is growing into a business that generates a steady stream of revenue. In addition,

we focused on expanding our renewable energy business, centered on solar power, which performed well during the past fiscal year.

1. Frontale Denki is an electricity service that supports athletic development by donating 1% of the customer's electricity bill to the Kawasaki Frontale Academy, which trains young football players.

Future Strategy and Long-Term Outlook

Focal Points in FY2020

In maintaining and deepening the revenue base, we will identify customer needs across divisions to increase opportunities for making proposals to customers. We attach great importance to our networks, because they allow us to collect information through a variety of channels. Our Group-wide networks run through Japan like capillaries, at the end of which are customers with whom we can connect through electricity. This customer base has the ability to expand in different directions, and to form a chain. In overseas business, we plan to expand into Southeast Asia from our base in Thailand, as well as to deepen cooperation with Itochu Enex's other businesses, including the LP gas business of the Home-Life Division.

With ESG investment and environmental issues taking on greater importance, increasing the share of renewable energy and improving its profitability is another aspect of the Power & Utility Division's mission. We will promote the adoption and expansion of renewable energy by providing Enex Infrastructure Investment Corporation² with stable supplies of the renewable energy power generation equipment that we have invested in developing, with a focus on solar power generation

equipment. In investment projects, we plan to select projects that we develop from scratch, despite their higher level of difficulty, in order to increase our competitive advantage.

We are also expediting customer acquisition through digital marketing approaches. In addition to adopting digital technologies for centralized management of our current customer base, we are planning aggressive measures led by the Marketing Section. On the other hand, our strength lies in making human connections, and rather than an exclusively digital approach, we will conduct sales activities that balance face-to-face and digital interactions.

2. Listed on the infrastructure fund market of the Tokyo Stock Exchange in February 2019. The asset management company is Enex Asset Management Co., Ltd., which is 50.1% owned by Itochu Enex.

Our Vision for the Future

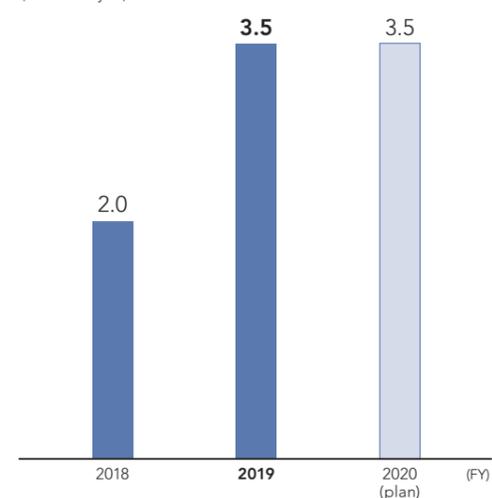
For FY2020, the division's management policy is "Play a broad role. Be of service." We will endeavor to grow and develop so that we are able to shoulder broad responsibility for public works-scale infrastructure, and basic infrastructure for daily life. Electricity supports daily life and must be supplied as an uninterrupted service, even in circumstances such as the current pandemic. Based on this recognition, we will expand into various fields through our electric power business in each region.

Moreover, the role we play in contributing to local communities is significant. In our domestic operations, reflecting the central promise of the SDGs, "Leaving no one behind," it will be essential to utilize our networks to expand businesses and gain a clear grasp of regional conditions, rather than overemphasizing the Tokyo area. We also aim to evolve our businesses, and contribute through our core businesses.

SWOT Analysis

| | |
|---------------------------|--|
| S Strengths | <ul style="list-style-type: none"> Integrated system from power generation to sale Network of regional operators with established customer bases |
| W Weaknesses | <ul style="list-style-type: none"> Need to provide high-value-added services using digital technology Need to recruit employees with high-level expertise |
| O Opportunities | <ul style="list-style-type: none"> Emphasis on energy efficiency Spread of renewable energy |
| T Threats | <ul style="list-style-type: none"> Rising environmental costs (CO₂) Intensifying market competition due to ongoing regulatory changes Entry of new players from different industries |

Net Profit
(Billions of yen)



HIGHLIGHT Commencement of Heat Supply to the New Yokohama City Hall

In February 2020, the new Yokohama City Hall building (32 floors above ground, 2 floors below ground) was completed, and Group company Tokyo Toshi Service Co., Ltd. (TTS) began supplying hot and cold water, as well as electric power, as the heat supplier for the building. The plant installed in the new building utilizes a high-capacity thermal storage tank, a cogeneration system* and other equipment in conjunction with high-efficiency heat pumps to respond flexibly and efficiently to changes in energy use, thereby saving energy and reducing the environmental burden. In addition, the plant is capable of peak power reduction and demand response. For TTS, whose heat supply business had previously been mainly centered on the Tokyo metropolitan area, Yokohama's Kitanaka-dori South District, which includes Yokohama City Hall, is its nineteenth supply area. This will also be its first plant to supply both electricity and heat for heating and cooling.

* An energy supply system that can increase overall energy efficiency by generating electricity and heat simultaneously



The new Yokohama City Hall features a city council wing designed to resemble a ship, befitting Yokohama as a port city. With its adoption of cogeneration and effective use of underutilized energy, it has garnered attention as an environmentally friendly, low-carbon building.

The Itochu Enex Group's Approach to ESG Issues



The primary mission of the Itochu Enex Group is to quickly and conscientiously deliver various services and forms of value that customers require, based on the Corporate Philosophy, "The best partner for life and society—with Energy, with the Car, with the Home." An essential part of that mission is the stable supply of energy. In its business activities, the Group considers the issues that society needs to address, selects key items to prioritize, and then develops and cultivates related initiatives, thereby contributing to the development of a truly sustainable society.



ESG Statement

Under the Corporate Philosophy, "The best partner for life and society—with Energy, with the Car, with the Home," the Itochu Enex Group has a mission to deliver a stable supply of energy to the benefit of all people, and seeks to always offer the value and services that customers truly want.

The Group will continue contributing to better lifestyles and a sustainable society through businesses aligned to the new age, solutions to social issues and the fulfillment of its corporate social responsibility.

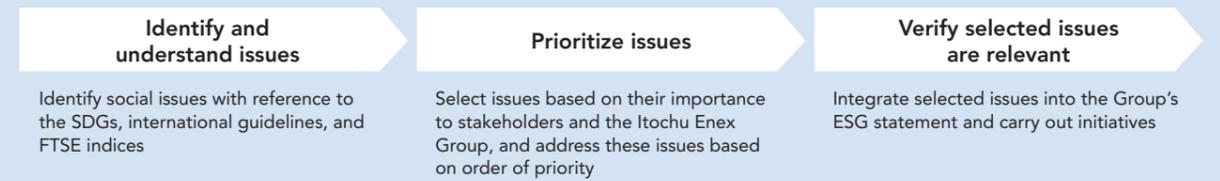
The Group is currently focused on three areas: "reducing environmental impact," "creating diverse value" and "sound business activities." All employees and management will take ownership and act to secure a future for Itochu Enex as an energy company that achieves sustainable growth while generating value.

Itochu Enex Group's Envisioned Future

With the stable supply of energy as the core, the Itochu Enex Group will meet needs for decarbonization, economic efficiency and added value, while contributing to a sustainable, smart-energy society.

| Opportunities | Risks |
|--|--|
| <ul style="list-style-type: none"> • Need for a stable supply of energy • Expansion of renewable energy supply capacity • Procurement and supply of clean energy • Infrastructure for electric vehicles • Commercial use of bio jet fuels in 2020 • Future retail offering greater day-to-day convenience and satisfaction • Services for aging demographics • Creation of working environments in which people can take pride | <ul style="list-style-type: none"> • Need for climate change countermeasures • Move toward decarbonization and a low-carbon society • Energy shift to electricity (accelerated adoption of electric vehicles, decrease in demand for gasoline) • Adoption of next-generation energy • Coexistence of renewable energy and fossil fuels • Advancement of aging population and declining birthrate • Widening disparity between income strata, generations, and regions • Rapid adoption of digital technologies as a result of advancements in IT • Working style reforms and workforce mobility |

Process for Materiality Assessment and Promotion of Initiatives



Materiality Criteria

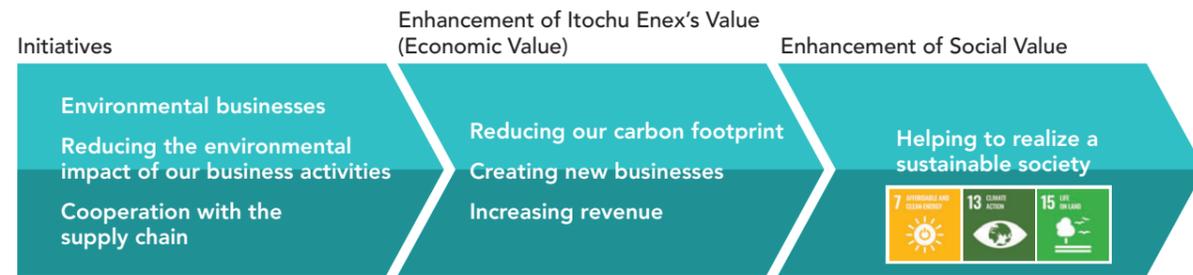
| | | |
|--|--|---|
| Standpoint of the Itochu Enex Group | <ul style="list-style-type: none"> • The Itochu Enex Group's Corporate Philosophy • Code of Conduct: Be Ethical | <ul style="list-style-type: none"> • Declaration of the Group Code of Conduct • Medium-term business plan "Moving 2020: Horizons" |
| Standpoint of stakeholders | <ul style="list-style-type: none"> • United Nations Sustainable Development Goals • Requirements in international guidelines | <ul style="list-style-type: none"> • Objective evaluation by a third-party organization, FTSE |

Focus ESG Issues for the Itochu Enex Group

| | Area | Initiatives | Relevant Pages |
|----------|--|--|---|
| E | Reducing environmental impact (with the environment) Under the Environmental Policy, the Itochu Enex Group will continue with activities to preserve and improve the environment and contribute to a sustainable society with the aim of achieving harmonious coexistence with the global environment and society. | <ul style="list-style-type: none"> • Realizing a low-carbon society • Reducing the environmental impact of our business activities • Pursuing energy efficiency • Contributing to resource conservation and a recycling-based society • Preserving local environments | Pages 40–42 For more details, see: https://www.itcenex.com/en/csr/activities/ |
| S | Creating diverse value (with society) The Itochu Enex Group will contribute to the development of local communities through the stable supply of energy and create diverse value that meets various social and lifestyle needs. | <ul style="list-style-type: none"> • Providing a stable supply of energy • Promoting lifestyle sustainability in local communities (responding to aging population) • Advancing value-added services • Implementing working style reforms and utilizing diverse human resources • Making a social contribution to local communities | Pages 43–49 For more details, see: https://www.itcenex.com/en/csr/social/ |
| G | Sound business activities (governance) In accordance with the Code of Conduct and the Declaration of the Group Code of Conduct, the Itochu Enex Group will proactively disclose information while emphasizing strict compliance, shareholder returns and management transparency. | <ul style="list-style-type: none"> • Enhancing corporate governance • Fulfilling corporate social responsibilities and ensuring compliance • Conducting fair and proactive information disclosure • Engaging in responsible procurement and supply • Upholding industrial safety and health standards | Pages 50–64 For more details, see: https://www.itcenex.com/en/corporate/governance/ |

E: Reducing Environmental Impact (with the Environment)

Environmental Businesses and Environmental Management



Environmental Policy

Under the Corporate Philosophy, "The best partner for life and society," the Itochu Enex Group will provide "energy for all applications, whether as a key component of social infrastructure or as a means of enriching people's lives," and will continue with the following activities toward the goal of preserving and improving the environment and achieving harmonious coexistence with the global environment and society.

Kenji Okada Representative Director

- 1. Helping to Realize a Low-Carbon Society**
 - (1) Promoting the advanced use of fossil fuels
 - (2) Expanding the energy solutions business
 - (3) Implementing environmental and social contribution activities
- 2. Reducing the Environmental Impact of Our Business Activities**
 - (1) Routine energy and resource conservation in office work
 - (2) Energy efficiency in facilities use
 - (3) CO₂ reductions at the transportation stage
- 3. Preserving Local Environments**
 - (1) Compliance with laws and regulations, environmental protocols, and independent standards
 - (2) Safety enhancements and upgrades

Environmental Policy Based on the Determination of the CEO

The Environmental Policy was formulated by top management and consists of the eight themes grouped under the three focal areas described above. The policy guides Group activities that contribute to the environment and society. Accordingly, in the quest to be an energy company that achieves sustainable growth in harmony with the global environment, Itochu Enex will facilitate proper Group-wide understanding and implementation of the policy.

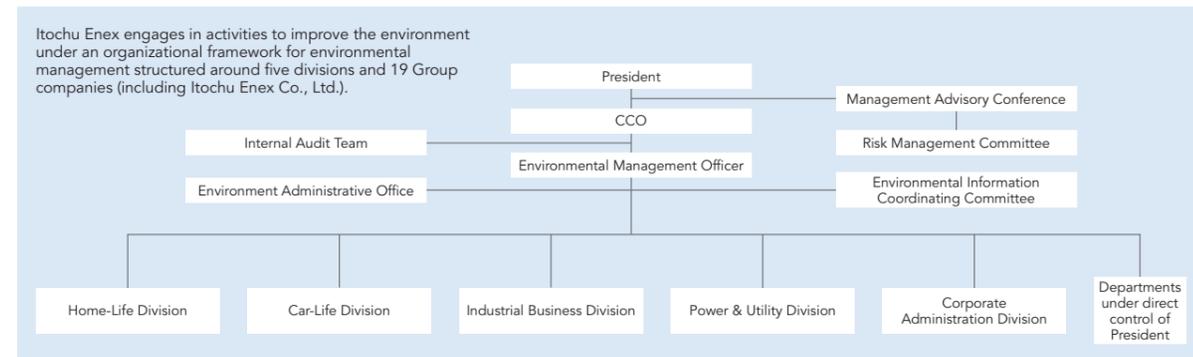
Promoting Effective Environmental Management under ISO 14001

Under its CSR and compliance framework, Itochu Enex has built and developed a functional environmental

management system based on the ISO 14001 international standard for environmental management. Through the Group-wide implementation of the plan-do-check-act (PDCA) cycle, Itochu Enex strives for business activities that are highly effective in reducing environmental impact. The internal audits required for maintaining ISO certification are performed by employees that meet the requirements of Group environmental management regulations. Furthermore, to maintain a high standard of internal auditing, Itochu Enex is improving the knowledge and skills of the people in charge of audits and conducting ongoing training of Internal Environmental Auditors. During FY2019, 30 Internal Environmental Auditors for environmental ISO certification were trained within the Group.

(See pages 68–69 for environmental targets and achievements.)

Organizational Framework for Environmental Management



▶ Helping to Realize a Low-Carbon Society

Renewable Energy Business

The Itochu Enex Group is currently focusing on expanding power generation facilities that utilize renewable energy sources.

Our total renewable energy generation capacity is 49,220 kW, and we own power generation facilities centered on wind, hydro and solar power. In cooperation with Enex Infrastructure Investment Corporation, we are harnessing financial channels to make investments in renewable energy power generation facilities and other projects, with a primary focus on solar power generation. Our aim is to contribute to the global environment and help to bring about a sustainable society through promotion and expansion of renewable energy.



Advanced Use of Fossil Fuels

Fly Ash Recycling Business

We operate a fly ash recycling business that collects fly ash from spent coal and biomass fuels at thermal power plants and processes it for reuse as a roadbed material in asphalt roads, forest roads and other applications.

Slop and Sludge Collection and Sale Business

We collect slop (wastewater after washing marine fuel tanks) and sludge (unburnt marine fuel) that have been disposed of as industrial waste, and extract and reuse useful oil resources from them.

Smart Energy Equipment

Double Power Generation System

This is a system that intelligently combines solar power generation and ENE-FARM, a home fuel cell system. It primarily uses power generated by ENE-FARM, supplemented with solar power. The surplus solar power can be sold, enabling a more budget-friendly and environmentally friendly lifestyle.

ENE-POWABO L Residential Lithium-Ion Power Storage System

This system has a large rated capacity of 9.8 kWh. This storage capacity enables continued use of household appliances even during a disaster-related power outage. Furthermore, storing electricity during the night when tariffs are low and using it during the day can reduce utility expenses.



Sale of High-Grade Urea Solution AdBlue®

As part of our efforts to address environmental issues, we sell AdBlue®, which breaks down and detoxifies diesel vehicle exhaust, to customers throughout Japan.

AdBlue®

AdBlue® is a global standard high-grade urea solution used in selective catalytic reaction (SCR) systems. AdBlue®, which uses the reducing properties of ammonia, is sprayed into the exhaust stream of diesel vehicles and breaks down NO_x into harmless nitrogen and water.



Sale of GTL Fuel

GTL fuel is a diesel replacement fuel. Being derived from natural gas, it is a cleaner fuel alternative with reduced environmental impact. With properties equivalent to oil-derived products, it emits approximately 8.5% less CO₂ than diesel fuel. In addition, it is colorless, odorless, non-toxic, remains serviceable in temperatures as low as -30°C, and has superior long-term storage stability compared with diesel fuel. Based on these advantages, demand is expected to increase. Itochu Enex began selling GTL fuel in the Chubu and Kansai regions of Japan in 2017, and expanded sales to the Kanto region in 2019.

▶ Reducing the Environmental Impact of Our Business Activities

Thermal Power Plants with Reduced Environmental Impact

State-of-the-art environmentally conscious exhaust gas processing facilities have been installed at Sendai Power Station Co., Ltd., and efforts to reduce environmental impact are ongoing. Exhaust levels are managed within target limits

stricter than those mandated under the Air Pollution Control Act. Moreover, environmental impact is reduced through appropriate wastewater treatment, countermeasures against noise pollution and vibrations, and indoor storage of coal with direct vent systems to minimize the spread of particulate matter. Measurement of environmental impact is

conducted monthly with the results posted on the website of Sendai Power Station.



Thermal power plant, Sendai Power Station Co., Ltd.

Group-Wide Eco-Office Activities

The Act on the Rational Use of Energy stipulates a voluntary 1% year-on-year target for reduction in energy intensity, and the Itochu Enex Group continues to apply this target for its eco-office activities in FY2020. An environmental data collection system is used to objectively monitor the status of initiatives at each business location at all times, and quarterly progress inspections support goal achievement.

Participation in the Ministry of the Environment's "Cool Choice" Campaign

The Itochu Enex Group supports "Cool Choice," a climate change campaign aiming for a low-carbon society. The campaign is led by Japan's Ministry of the Environment. The Group promotes energy conservation activities including wearing light clothing in summer, heavy clothing in winter,

eco-driving, green purchasing, turning off lighting when facilities are not in use, and raising awareness about food loss. At Itochu Enex, to reduce plastic waste, we have switched to label-free plastic bottles for tea offered to visiting customers, and have discontinued use of plastic stirrers and single-serve coffee creamers.



Progress of Eco-Office Activities (Shared across Group Companies)

| | FY2019 results (vs. FY2018 results) | FY2020 targets | |
|---------------|-------------------------------------|------------------------|--------|
| General power | +13.0% | -1% vs. FY2019 results | |
| Site fuel | LP gas | | +20.4% |
| | Kerosene | | +9.0% |
| | Total | | +19.3% |
| Vehicle fuel | Gasoline | | -7.8% |
| | Diesel | | +19.9% |
| | Autogas | | -29.7% |
| | Total | | -7.1% |
| Copier paper | -10.9% | | |

Note: General power and site fuel increased compared with the previous year because the number of business sites increased by 19 in FY2019. For existing business sites general power was -1% and site fuel was -4%.

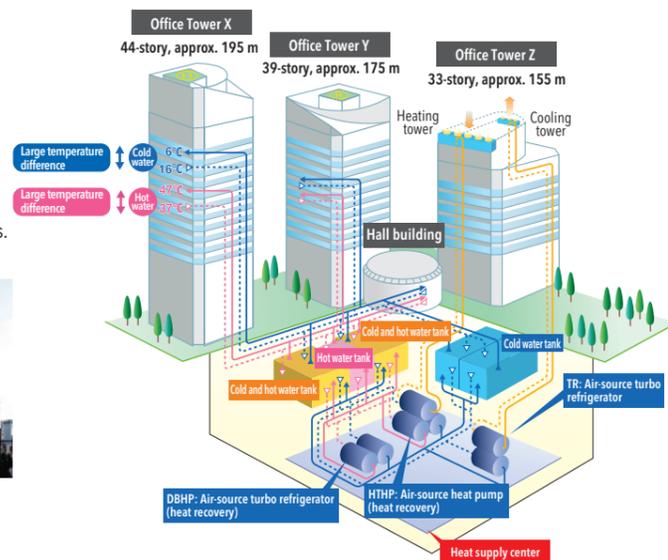
Pursuit of Energy Efficiency

Heat Supply Business

The heat supply business of Group company Tokyo Toshi Service Company (TTS) provides hot and cold water for heating and air conditioning to multiple buildings within a district and proposes solutions for efficient energy use in conjunction with community development. TTS also provides low-CO₂, energy-saving thermal storage contract-based services at a low setup cost when installing or replacing building air conditioning or hot water supply systems.

Supplying Heat to GINZA SIX

Thermal energy for air conditioning from a plant of TTS contributes to comfortable spaces in GINZA SIX (gross floor area: 147,900 m²), a large, mixed-use complex in the heart of Tokyo's Ginza district.



Contributing to Resource Conservation and a Recycling-Based Society

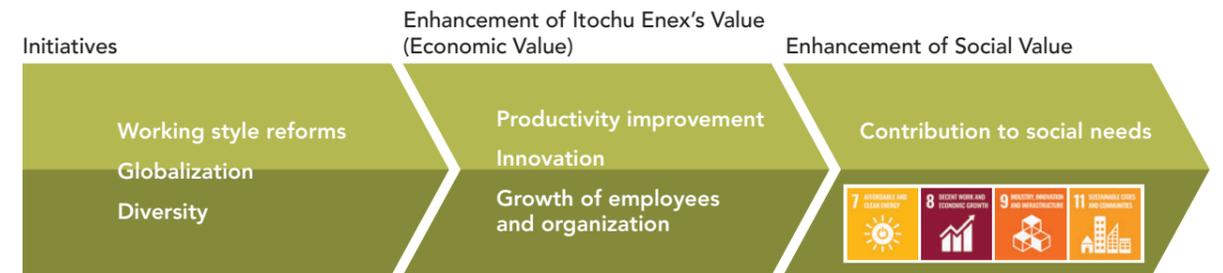
Safety Management of Industrial Waste and Preventive Measures against Soil Contamination

Itochu Enex has defined Group waste management standards and Group waste management procedures, and ensures thorough compliance with laws and regulations concerning waste. Measures to assure compliance include audits by respective departments within each division, external ISO audits, and Group internal ISO audits, which

confirm required documentation and storage locations. By identifying causes and implementing countermeasures, the Group is able to make improvements that prevent industrial waste accidents. Furthermore, the Group has established soil contamination prevention regulations to prevent contamination, etc., as defined by the Soil Contamination Countermeasures Act and Water Pollution Prevention Act.

S: Creating Diverse Value

Human Resources



Since its founding in 1961, the Itochu Enex Group has always considered its people to be its greatest asset. Human resources are at the center of the Group's value creation, and are the driving force of sustainable growth and medium- to long-term enhancement of corporate value. Therefore, the Group believes it is essential to provide a fair, inclusive and rewarding place to work, where every employee can feel strong and close ties. In the medium-term business plan "Moving 2020: Horizons," the Group's human resource strategies for supporting growth are to embrace diversity, develop globally competent human resources and promote Enex Early Bird. The objective is to achieve sustained growth and further enhancement of corporate value.

Implementing Working Style Reforms and Utilizing Diverse Human Resources

Enex Early Bird

In November 2016, the Itochu Enex Group launched Enex Early Bird, a set of working style reforms that aim to make the Company a better company, a rewarding place to work, and a company to be proud of in front of families and society—for every employee.

These far-reaching reforms are being implemented with the full commitment of the President, based on a three-pronged strategy of eliminating excessive working hours, promoting employee health and improving productivity. The goal is to enable employees to do their jobs in less time. Itochu Enex has introduced Workplace

Reform, Casual Day, and a year-round "no tie required" dress code, with the aim of fostering a workplace culture that encourages flexible thinking and communication. In addition, Itochu Enex is strategically improving productivity and strengthening its human resources by assisting employees in balancing work and childcare and enhancing its benefits programs. While implementing the medium-term business plan, the Itochu Enex Group will accelerate the development of innovative human resources and organizational growth. Enex Early Bird has been taking root in the Group, and we are now considering measures to further develop it and achieve even more diverse working styles.



Measures and Targets Implemented

1. Encouraged a shift from late-night to morning-based work
2. Meals, etc. with customers or colleagues to end by 10:00 p.m.
3. At least 80% of paid vacation days taken
4. At least 80% of employees with a BMI of less than 25
5. At least 80% of employees being nonsmokers
6. Improve quality of communication by two rankings
7. Improve quality of meetings by two rankings
8. Improve quality of documents and materials by two rankings

Progress of Working Style Reforms in FY2019 (vs. FY2018)



Health and Productivity Management

The Itochu Enex Group is creating working environments in which employees can maintain and improve their health and work with peace of mind, and is promoting health management so that every employee can work with enthusiasm, motivation and a sense of fulfillment. Employees are the linchpin of the Company's growth. We aim to maximize our performance by increasing employee motivation and productivity and by vitalizing the organization.



Commitment by the President to Workplace Health Management
 In keeping with its Corporate Philosophy, "The best partner for life and society—with Energy, with the Car, with the Home," the Itochu Enex Group has been working in pursuit of the services and businesses that customers need, and the sustainable development of society.
 We will work in close partnership with customers to create value, just as we have always done. The driving force behind that is the sound physical and mental health of our employees.
 In order to enable all employees to make the most effective use of their abilities and individuality, and to continue contributing as a "best partner for life and society," we will strive to maintain and improve the health of our employees and their families, and to be a company where employees can work with vitality and peace of mind.

For further details on health management, please visit the Itochu Enex website: <https://www.itcenex.com/en/csr/health-management/>

HIGHLIGHT > Support for Prevention of Cancer and Illness, and Balancing Work with Treatment

We have stressed the importance of health as a priority item in the working style reforms we initiated in FY2016. To implement more effective working style reforms and increase productivity, we felt it was necessary to further strengthen our human resources by emphasizing health. Up to now, we have gone beyond legal requirements in providing employees with cancer screenings and subsidies for secondary examinations. From FY2020 we are going further—we have expanded support measures for preventing cancer and illness, and for helping employees balance work with treatment, and expanded workplace health management measures, including provisions for emergencies. These measures help to create a workplace environment where employees can work with enthusiasm, peace of mind, motivation and a sense of fulfillment.

Main Measures Expanded in FY2020

- Establishment of a health management promotion system and PDCA cycle
- Expansion of age-based cancer screenings
- Establishment of subsidies for health checkups of spouses
- Efforts to promote awareness of support systems for balancing treatment and work (Issue of health management handbook)
- Financial assistance for advanced cancer treatment and cancer income protection
- Children's scholarship program

Work-Life Balance and Support for Family

The Company has enhanced programs for accommodating changes in employees' lives such as childbirth, childcare, and family care obligations. It has issued a handbook to promote understanding and awareness of support systems, and promotes use of those systems.

Leave and Support Programs for Pregnancy, Childbirth, and Childcare above and beyond Legal Requirements

| | |
|---------------------------|--|
| Special pregnancy leave | 10 days |
| Childbirth lump-sum grant | ¥300,000 for first child, ¥500,000 for each subsequent child |
| Reduced working hours | Until a child reaches fifth grade of elementary school |
| Staggered working hours | Rules on Childcare Leave clearly stipulate that parents may work staggered hours when caring for young children. |
| Support for childcare | Made available the Enex Nursery corporate daycare facility and issued subsidy vouchers for babysitting services |

Supporting the Success of Women in the Workplace and Compliance with Japan's Act on Advancement of Measures to Support Raising Next-Generation Children

Itochu Enex has formulated an action plan for supporting the success of women in the workplace. By building and maintaining an inclusive working environment that supports women, the Company aims to ensure that all employees can make the most of their abilities. An action plan as a general business operator pursuant to the Act on Advancement of Measures to Support Raising Next-Generation Children has also been formulated, and Itochu Enex has received certification as a Kurumin company that helps employees balance their professional and personal lives.



Employee Engagement Survey

With the objective of implementing improvements and reforms by ascertaining issues at the company or organizational level, Itochu Enex conducts an employee engagement survey once every two to three years to gauge attitude and satisfaction and collect feedback on Company measures and programs. The survey results are incorporated in personnel system improvements, Enex Early Bird working style reforms, and measures to prevent employee turnover, ultimately leading to improvements in employee motivation and productivity.

Reemployment Programs in Response to Employees' Motivation

Itochu Enex operates reemployment programs that enable people with work experience at the Company to continue to leverage their strengths.

| | |
|--------------------------------------|---|
| Program for returning to work | For selected employees who had to leave the Company to accompany a family member on a job transfer, this program provides reemployment opportunities that tap into the knowledge and experience gathered during their earlier employment. |
| Senior employment | Pursuant to the revised Act on Stabilization of Employment of Elderly Persons, this program offers opportunities for Group employees reaching the mandatory retirement age of 60 to continue working until 65. |

Embracing Diversity

A key element in driving innovation is a workforce with a rich diversity of viewpoints, sensitivities, intellects, career histories, values and capabilities. To develop, maintain and further grow this diversity, Itochu Enex is strengthening diversity initiatives, which will also help create a more robust and sustainable organization and corporate culture. FY2019 marked the establishment of the Diversity Promotion Office and the appointment of the Company's first female Outside Director, which are steps toward incorporating more diverse views from inside and outside the Company. In addition, the Company is expanding employment opportunities for people with disabilities, and conducted diversity training for managers in FY2019.

For further details, please visit the Itochu Enex website: <https://www.itcenex.com/en/diversity/>



Human Resource Data¹

| | |
|---|-------------------------------------|
| Male representation ² | 81.2% (82.3%) |
| Female representation ² | 18.8% (17.6%) |
| Number of new university graduates hired ³ | 19 men; 11 women (15 men; 10 women) |
| Percentage of female managers ⁴ | 1.53% (1.1%) |
| Percentage of employees with disabilities ⁴ | 2.54% (2.73%) |
| Number of employees who took childcare leave ⁵ | 4 men; 6 women (1 man; 1 woman) |
| Number of employees who took family care leave ⁵ | 2 (2) |

1. Numbers in parentheses are for the previous fiscal year.
2. As of March 31, 2020
3. As of April 2020
4. As of June 1, 2020
5. For FY2019

Developing Globally Competent Human Resources

The Group is expanding its business overseas, with Asia as the primary market. Starting from April 2018, a system was introduced whereby employees, mainly younger employees, irrespective of their current business area, are posted outside Japan at ITOCHU Corporation group companies or Itochu Enex Group companies for hands-on experience. As well as acquiring skills in English and other languages, trainees seek to understand local business customs and cultures, and to accumulate business operation know-how. The Company is



thereby nurturing personnel capable of responding quickly and flexibly to future developments in business overseas.

In addition, a new system supports employees' English acquisition by subsidizing learning expenses. The Company believes that developing globally competent human resources is a key factor in achieving growth potential.

Cultivating the Next Generation of Leaders

Management training is important in cultivating the knowledge and skills needed for a new generation of leaders. Through this training, leaders acquire the management skills necessary to support greater diversity, a spirit that embraces challenge, and sensitivity to risk, as well as the overall ability to put these qualities to good use.

Educational Training

Rank-based educational training is provided annually to support career development. In addition, Itochu Enex subsidizes the cost of foreign-language learning and distance education to upgrade skills, and a graduate school admission program for working professionals is also available. With these programs, Itochu Enex strategically manages human resource development through a multi-angled approach.

In-House Awards Program

Each year at Itochu Enex, the President recognizes employees and departments that make outstanding contributions to the enhancement of the Group's corporate value, innovation, and improvement of business operations. This helps to increase awareness and motivation throughout the organization. Evaluations are fair and impartial, while the accomplishments of award recipients and the processes behind them are shared Group-wide. This process links directly to the vitalization of the organization as a whole.

Furthermore, a continuous service award is presented to employees after 15 and 25 years of service. As part of a well-balanced approach to human resource management, refreshment leave and travel vouchers are also given to promote productivity improvement.

Promoting the Hiring of Different Nationalities

The Itochu Enex Group is actively promoting the hiring of employees of different nationalities. Enex Fleet Co., Ltd. has hired six employees of Philippine nationality to work in vehicle inspection and maintenance operations in the Car-Life Station business, following the Technical Intern Training Program supported by the Japan International Training Cooperation Organization (JITCO) as permitted by the Cabinet Office since 2018. Itochu Industrial Gas Co., Ltd. has hired three employees of Indonesian nationality as technical interns, to work in coating operations in the container pressure inspection process at one of the company's factories. Itochu Enex Home-Life Nishi-Nihon Co., Ltd. has received overseas trainees from a Group subsidiary in the Philippines. When hiring employees of foreign nationality, detailed support is provided in the form of Japanese language education and a comprehensive training program.

In addition, four employees of foreign nationality work at Itochu Enex, and are active in various divisions.



► Labor Practices

Since its founding in 1961, the Itochu Enex Group has always considered its people to be its greatest asset. Accordingly, the Group sees securing safety in operations, daily health maintenance, an inclusive workplace, and the creation of a company that values employee input as management priorities.

Information, training and awareness activities for health management are provided mainly by the Health Committee and the Human Resources & General Affairs Department.

Securing Labor Safety

In accordance with a basic policy that states “We cannot conduct business without safety—safety takes precedence over all business conduct,” the Group goes beyond its legal and regulatory compliance obligations in observing its own work standards, including the establishment of safety manuals and guidelines, and is actively improving systems for ensuring safety and minimizing risk. Itochu Enex is also working to improve workplaces and work environments in each office, and recorded no occupational accidents in FY2019.

Taking Care of Employees in the Event of a Disaster

The Itochu Enex Group has established and maintains systems for disaster preparedness that ensure the safety of employees. These systems include autonomous frameworks for disaster readiness at respective business offices, evacuation drills, emergency food and supplies stockpiling, personal emergency supply kits for all employees, rescue supplies, and the Itochu Enex Group Emergency Contact Network for confirmation of employee safety. Standard first-aid training is conducted in-house on a regular basis, and more than 300 employees are qualified as disaster prevention specialists.

Health Support Office

The Health Support Office promotes employee health management. Two public health nurses (one of whom is an industrial counselor) support health management through checkups and aftercare, advice on physical and mental health, and promotion and education on health issues. All employees undergo stress checks that include advice regarding mental health and measures to reduce their risk of lifestyle-related diseases and metabolic syndrome.

• **Subsidy Program for Thorough Physical Checkup**

In addition to conducting periodic health checkups in accordance with the Industrial Safety and Health Act, the Company mandates that employees aged 40 and above undergo a thorough physical checkup, with the full cost borne by the Company. The Company also subsidizes the cost of health checkups for employee spouses aged 40 and above.

• **Women’s Health Issues**

Training on women’s health issues is provided for management-level employees.

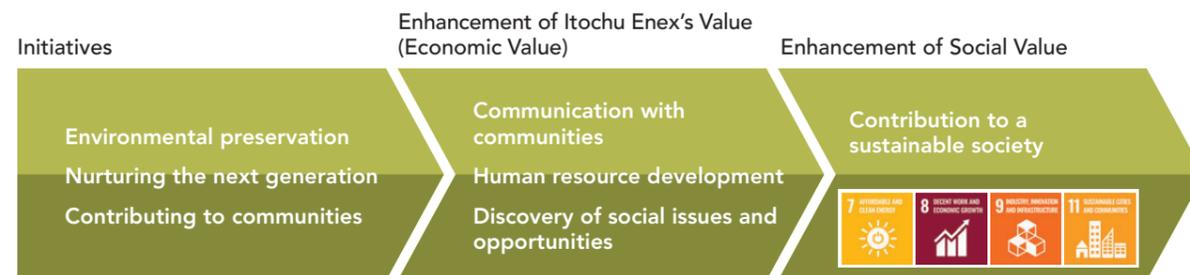
Interaction with Employees: Sound Labor-Management Relations

To ensure that each employee can work with motivation, improve performance, and achieve personal objectives, a labor union* and labor-management council hold meetings on a regular basis at which employees express their candid opinions and raise issues. These are then reflected in the management of the Company.

Labor union members also participate in Health Committee meetings held monthly to deliberate on labor safety and sanitation improvements, prevention of health issues, and general promotion of health. Through such measures, Itochu Enex is working to create a workplace environment where diverse human resources can leverage their respective strengths.

* The Company’s labor union operates under a union shop system.

Social Contribution Activities



Basic Policies for the Itochu Enex Group’s Social Contribution Activities
As “The best partner for life and society,” develop an environment, develop human resources and develop communities to be passed on to the future

- Based on the Corporate Philosophy, “The best partner for life and society,” we contribute to society in business activities and as a good corporate citizen.
- Under the theme of developing an environment, developing human resources and developing communities to foster the next generation, we carry out activities to pass down a sustainable society to the future.
- We support social contribution activities conducted by employees as citizens.
- We proactively disclose details and results of our social contribution activities and share them with society.

Three Themes: Environmental Preservation, Nurturing the Next Generation, Contributing to Communities

► Environmental Preservation

Protecting Biodiversity

In response to calls from the Tokyo Development Foundation for Agriculture, Forestry and Fisheries, Itochu Enex has participated in a forest improvement project in Ome, in the west of Tokyo Prefecture, since 2010. This project involves planting cedar, Japanese cypress and other broad leaf trees and is aimed at promoting forest maintenance and protection of biodiversity. Through fixed-point observation and inspection of the forest, Itochu Enex conveys the importance of biodiversity inside and outside the Company.

In FY2019, employees and their family members voluntarily participated in pruning activities. They were able to gain a better understanding of the significance and importance of forest maintenance, coexistence between people and forests, and biodiversity.

Employees also participated in a project to protect the Japanese squirrel, the population of which is on the decline due to changes in its habitat.



Forest maintenance project to promote coexistence and cooperation

► Nurturing the Next Generation

Enjoy the Power of Words

“Enjoy the Power of Words” is a free charity event that has been held throughout Japan since 2013 in support of people affected by the 2011 Great East Japan Earthquake. Fostering human connections, the event regularly features recitals by former television announcers Motoyo Yamane and Masako Shindo, as well as a cast of invited guests presenting a variety of musical and expressive works. Itochu Enex plans to continue holding this event in remembrance of the disaster and as a way of nurturing an appreciation for words across generations. Donations are collected at the event for Higashi Nihon Daishinsai Fukushima Kodomo Kifukin, a fund to aid children affected by the earthquake.

Out of consideration for the safety of attendees given the COVID-19 pandemic, the decision was made to cancel the event for FY2020. Instead, recordings of recitals from past years have been posted on the Company’s website.



Enjoy the Power of Words

Nurturing Children through Sports

Group company Enex Life Service Co., Ltd., in collaboration with the Kawasaki Frontale professional football team, has begun sales of the Frontale Denki service (an electricity supply service for households), targeting supporters of the J.League team. With this service, 1% of the customer’s electricity bill is donated to the Kawasaki Frontale Academy to develop young athletes.

Since FY2017, Itochu Enex has supported Ultimate Frisbee, a relatively new sport, by cosponsoring Japan Ultimate. The Company invited members of the Japanese national team to teach Ultimate Frisbee at elementary schools around the country. The students enjoyed learning about not only rules and techniques, but also sportsmanship and the importance of exercise, as well as the Olympic and Paralympic Games. The Ultimate Frisbee classes have been suspended in FY2020 due to the COVID-19 pandemic, but the Company plans to resume them after the pandemic ends.



Kawasaki Frontale Academy

Ultimate Frisbee class

► Disaster Recovery

To support recovery from the 2011 Great East Japan Earthquake in the medium-to-long term, Itochu Enex solicits donations from employees every month, and sends them to local governments in Tohoku, the affected region. Itochu Enex also

donates funds for recovery efforts to assist regions struck by repeated natural disasters. The whole Company is contributing to these regions, with employees using the volunteer activity support program to volunteer for recovery support.

| | | | | |
|---|-------------|--|--|---|
| Total employee donations for medium-to-long-term recovery support following the Great East Japan Earthquake | FY2011-2019 | 2018 Japan Floods Donations to the affected regions (including from Group companies) | 2019 Typhoon Hagibis Donations to the affected regions | 2020 Japan Floods Donations to the affected regions |
| | ¥30,141,100 | Employee donations ¥5,030,000; ¥687,000 | ¥5,000,000 | ¥5,000,000 |

Beneficiaries: Iwate no Manabi Kibo Kikin, Higashi Nihon Daishinsai Miyagi Kodomo Ikuei Kikin, Higashi Nihon Daishinsai Fukushima Kodomo Kifukin

Beneficiaries: NPO Japan Platform, Japan Red Cross Society

► Results of Social Contribution Activities and Connection to the SDGs

Under the Corporate Philosophy, “The best partner for life and society—with Energy, with the Car, with the Home,” the Itochu Enex Group works toward the realization of more affluent lifestyles for all and the sustainable development of society, through business activities that create various kinds of value and activities that contribute to society. In addition, the Group strives to contribute to the achievement of the SDGs.



Social Contribution Activities

| Theme | Action | Details |
|-------------------------------|---|---|
| Environmental Preservation | Promoting healthy forests | Participation in a volunteer forest improvement project in the west of Tokyo Prefecture (1 time/year) |
| | Eco de Iko (“Let’s Go Eco”) Project | Group company Nissan Osaka Sales Co., Ltd. promotes the collection of plastic bottle caps at its dealerships to customers that are servicing or purchasing a vehicle. This reduces CO ₂ emissions and proceeds from the sale of bottle caps to recyclers fund vaccination programs. |
| | Cleanup activities | Group companies cooperate in local cleanup activities (Hokkaido, Osaka, etc.; year-round) |
| Nurturing the Next Generation | Ultimate Frisbee classes | Held an Ultimate Frisbee course led by members of the Japanese national team at elementary schools across Japan (3 times/year) |
| | Dietary and fire safety education activities | Education activities on food and fire safety at kindergartens and preschools across Japan (17 times/year) |
| | Word and voice programs | • “Enjoy the Power of Words” (2 times/year) |
| | Social education activities | • Enex Family Day, a parent-child event held in summer (1 time/year) • Mini Sapporo work experience event (3 days/year) (Itochu Enex Home-Life Hokkaido Co., Ltd.) • Retail work experience event as a gas company at Kids Job Challenge 2019 in Hirado: Out of KidZania (Ecore Co., Ltd.; 3 days/year) |
| | Wind power generation school visits and facility tours | Visited schools and gave tours of facilities to teach children about wind power and the role it plays (several times/year; Enex Electric Power Group) |
| Contributing to Communities | Comprehensive agreements (community development) | Group company Nissan Osaka Sales Co., Ltd. entered into a comprehensive agreement with Osaka Prefecture, and also donated electric cars to the prefecture. |
| | Recovery support | • Donations for medium-to-long-term recovery support following the Great East Japan Earthquake • Donations for recovery from 2019 Typhoon Hagibis and 2020 Japan Floods |
| | Support for people with disabilities | • Use of art by people with disabilities for calendars and gift-wrapping paper • Support for Hokkaido Guide Dog Association (Itochu Enex Home-Life Hokkaido Co., Ltd.) • Cosponsorship of swimming competition for people with disabilities, and support for activities by employees • Contribution to independence and social participation of people with disabilities via Swan Bakery • Co-sponsorship of Kitakyushu Champions Cup International Wheelchair Basketball Tournament (Kokura Enterprise Energy Co., Ltd.) |
| | Promoting social welfare | Enex Fleet Co., Ltd. invites elementary school children (including children from special needs schools) to games of the professional basketball team it sponsors |
| | Employee volunteer activities | Established a program to subsidize the cost of participation in volunteer activities by employees and their family members in order to develop human resources who are trusted by society |
| | Cosponsorship of regional festivals and sporting events | We have deep ties with local communities, and cosponsor and participate in various local events. |
| | Charity activities | • Support and participation in UN World Food Programme’s “End Hunger: Walk the World” event • Cooperation in charity walk to reduce world hunger |
| Social Contribution | Blood donation program | Twice a year at our head office, we cooperate in a blood drive (conducted during working hours). |

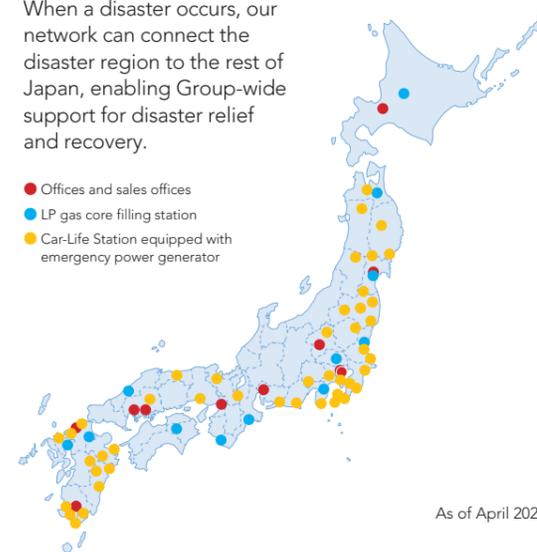
For further details on social contribution activities, please visit the Itochu Enex website: <https://www.itcenex.com/en/csr/social/>

FOCUS > Response to Natural Disasters and Disaster Prevention

The foremost mission of the Itochu Enex Group is to provide a stable supply of energy based on its Corporate Philosophy, “The best partner for life and society—with Energy, with the Car, with the Home.” The Group’s infrastructure incorporates maintenance functions throughout Japan that enable it to safely and reliably deliver the energy customers need, under any circumstances. In addition, the Group is promoting establishment of bases that can assist local governments and communities in strengthening regional disaster prevention efforts.

Offices and sales offices | 10 sites

When a disaster occurs, our network can connect the disaster region to the rest of Japan, enabling Group-wide support for disaster relief and recovery.



As of April 2020

Kizuna Net Center | 1 site

The Kizuna Net Center (operated by Enex Fleet Co., Ltd.) began operating in 2012 as part of reconstruction support following the Great East Japan Earthquake, and contributes to safe, secure community life. As an energy supply base during times of disaster, it offers a priority supply to evacuation centers and hospitals, and is capable of maintaining stable supplies even during a power outage with its fully self-sufficient energy supply equipment. It also issues guidance for the restoration operations of emergency restoration stations.



Emergency water for firefighting and domestic water | 5 areas

Of the district heat supply plants operated by Group company Tokyo Toshi Service Co., Ltd., the heat storage tanks in five areas can be used as local community tanks and supply water for firefighting and domestic water (water for miscellaneous use other than drinking water) in emergencies. The heat storage tanks in the five areas have a total capacity of 43,960 m³, enough to supply domestic water to about 145,000 people for ten days.

Disaster prevention agreements | With 7 local governments

We have entered into agreements for community planning for disaster prevention, and for prioritizing supply to evacuation centers, hospitals and emergency vehicles.

24-hour response to emergency dispatch requests in times of disaster

Group company Kokura Logistics Service, Inc. has small-lot delivery functions that enable it to supply fuel 24 hours a day in the event of an accident or disaster.



Disaster drills

The Itochu Enex Group conducts disaster drills in cooperation with local communities and the Japan LP Gas Association, and regularly carries out facility maintenance.



LP gas core filling stations | 12 nationwide

The Itochu Enex Group operates core filling stations capable of maintaining stable supplies of LP gas even in times of disaster. This emergency infrastructure incorporates maintenance functions with the ability to network with local governments and other authorities, thereby helping to protect the region’s safety and security.



Car-Life Stations equipped with emergency power generators | 64 nationwide

These stations are equipped with emergency generators to maintain refueling functions, and can quickly supply electricity to maintain refueling functions even in a power outage caused by a disaster.



G: Sound Business Activities

Management Team (As of September 1, 2020)

Directors



Kenji Okada
Representative Director,
President and
Chief Executive Officer

1974 Joined ITOCHU Corporation
2005 Executive Officer, ITOCHU Corporation
2007 Executive Vice President, Finance, Realty, Insurance & Logistics Services Company, Chief Operating Officer, Construction & Realty Division, ITOCHU Corporation
2008 Managing Executive Officer, President, Finance, Realty, Insurance & Logistics Services Company, ITOCHU Corporation
2010 Member of the Board, Managing Director, ITOCHU Corporation
2012 Corporate Adviser, Itochu Enex Co., Ltd. Representative Director, President and Chief Executive Officer, Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: 119,000
Board of Directors meeting attendance: 13/13
Significant concurrent positions outside the Company:
Outside Director, Cosmos Initia Co., Ltd.



Kyosuke Wakamatsu
Director and Senior
Managing Officer
Chief Compliance Officer
and Assistant to Chief
Executive Officer

1985 Joined Itochu Enex Co., Ltd.
2013 Executive Officer and General Manager, Corporate & Planning Department, Itochu Enex Co., Ltd.
2016 Representative Director, President and Chief Executive Officer, Itochu Enex Home-Life Tohoku Co., Ltd.
2017 Executive Officer, Deputy Chief Operating Officer, Home-Life Division, and General Manager, Planning & Administration Department, Itochu Enex Co., Ltd.
2018 Executive Officer, Chief Operating Officer, Home-Life Division, and General Manager, Planning & Administration Department, Itochu Enex Co., Ltd.
2019 Director, Managing Officer, Chief Operating Officer, Home-Life Division, and Chief Operating Officer, Power & Utility Division, Itochu Enex Co., Ltd.
2020 Director, Senior Managing Officer, Chief Compliance Officer, and Assistant to Chief Executive Officer, Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: 16,900
Board of Directors meeting attendance: 13/13
Significant concurrent positions outside the Company: None



Motoyo Yamane
Director (Outside, Independent)

1971 Joined Japan Broadcasting Corporation
1998 Member of Management Council, Institute for the Culture of Travel (to date)
2005 Head of Announcers Bureau, Japan Broadcasting Corporation
2007 Resigned from Japan Broadcasting Corporation
Established "kotobano-mori" (Limited Liability Business Partnership) (dissolved in March 2014)
2010 Visiting Professor, Graduate School of Humanities and Sociology and Faculty of Letters, The University of Tokyo
2011 Part-time Lecturer, Joshibi University of Art and Design
Board Member, Characters Culture Promotion Organization (Public Interest Incorporated Foundation) (to date)
2014 Director, Kuwasawa Gakuen Educational Foundation
2015 Guest Professor, Joshibi University of Art and Design
2017 Director, Junshin Hiroo Gakuen (to date)
2019 Outside Director, Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: 3,000
Board of Directors meeting attendance: 10/10
Significant concurrent positions outside the Company:
Member of Management Council, Institute for the Culture of Travel
Board Member, Characters Culture Promotion Organization (Public Interest Incorporated Foundation)
Director, Junshin Hiroo Gakuen
Director, Picture Book Culture Promotion Association (Incorporated Nonprofit Organization)



Hiroshi Endo
Director (Outside, Independent)

1975 Joined Tokio Marine & Fire Insurance Co., Ltd. (currently, Tokio Marine & Nichido Fire Insurance Co., Ltd.)
2005 Executive Officer, General Manager, Corporate Accounting Dept., Tokio Marine & Fire Insurance Co., Ltd.
2006 Chief Executive Officer, Tokio Marine Asia Pte. Ltd. (stationed in Singapore)
2008 Managing Director, Tokio Marine Holdings, Inc.
2011 Senior Managing Executive Officer, Tokio Marine Holdings, Inc.
2012 Retired from Senior Managing Executive Officer, Tokio Marine Holdings, Inc.
2016 Retired from President, The General Insurance Institute of Japan Council, Public Interest Incorporated Foundation Japan Police Support Association (to date)
2017 Counsel, Kamimura Ohira & Mizuno (to date)
2020 Outside Director, Generation Pass Co., Ltd. (to date)
Outside Director, Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: None
Board of Directors meeting attendance: -
Significant concurrent positions outside the Company:
Council, Public Interest Incorporated Foundation Japan Police Support Association
Counsel, Kamimura Ohira & Mizuno Outside
Director, Generation Pass Co., Ltd.



Atsushi Katsu
Director and Managing Officer
Chief Financial Officer, Chief
Information Officer, and Chief
Operating Officer, Corporate
Administration Division

1983 Joined ITOCHU Corporation
2011 Chief Administration Control Officer for ASEAN & South West Asia Bloc, ITOCHU Corporation; Executive Vice President, ITOCHU Singapore Pte. Ltd.
2013 Director, Dole International Holdings, Inc.
2014 Executive Officer, ITOCHU Corporation
2015 Executive Officer, ITOCHU Corporation; Director, Executive Vice President, Dole Asia Holdings Pte. Ltd.
2016 Director, Executive Vice President, Dole Asia Holdings Pte. Ltd.
2018 Corporate Adviser, Itochu Enex Co., Ltd.
2019 Director, Executive Officer, Chief Financial Officer, Chief Information Officer, and Chief Operating Officer, Corporate Administration Division, Itochu Enex Co., Ltd.
2020 Director, Managing Officer, Chief Financial Officer, Chief Information Officer, and Chief Operating Officer, Corporate Administration Division, Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: 12,600
Board of Directors meeting attendance: 13/13
Significant concurrent positions outside the Company: None



Fumio Shimizu
Director and Managing Officer
Chief Operating Officer,
Car-Life Division

1981 Joined Itochu Enex Co., Ltd.
2008 Executive Officer and Head of Branch, Kyushu Branch, Itochu Enex Co., Ltd.
2011 Executive Officer, Deputy Chief Operating Officer, Car-Life Division, and General Manager, Supply Administration Department, Itochu Enex Co., Ltd.
2012 Managing Officer and Assistant General Manager, Car-Life Division, Itochu Enex Co., Ltd.
2013 Managing Officer and Deputy Chief Operating Officer, Energy Trade Division, Itochu Enex Co., Ltd.
2014 Managing Officer, Head of Branch, Hokkaido Branch, Itochu Enex Co., Ltd., and Representative Director, President and Chief Executive Officer, Itochu Enex Home-Life Hokkaido Co., Ltd.
2015 Retired from Managing Officer, Itochu Enex Co., Ltd.
Representative Director, President and Chief Executive Officer, Itochu Enex Home-Life Hokkaido Co., Ltd.
2018 Retired from Representative Director, President and Chief Executive Officer, Itochu Enex Home-Life Hokkaido Co., Ltd.
Joined Itochu Enex Co., Ltd.
Executive Officer and Chief Operating Officer, Power & Utility Division, Itochu Enex Co., Ltd.
2019 Director, Managing Officer and Chief Operating Officer, Power & Utility Division, Itochu Enex Co., Ltd.
Director, Managing Officer, and Chief Operating Officer, Car-Life Division, Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: 7,900
Board of Directors meeting attendance: 10/10
Significant concurrent positions outside the Company:
Director, Enex Fleet Co., Ltd.
Director, Osaka Car Life Group Co., Ltd.
Director, Nissan Osaka Sales Co., Ltd.



Ichiro Saeki
Director (Outside, Independent)

1975 Joined The Nippon Fudosan Bank, Ltd. (currently, Aozora Bank, Ltd.)
1991 Resigned from The Nippon Fudosan Bank, Ltd.
The Supreme Court Legal Apprentice
1993 Completed Legal Apprentice, reinstated to The Nippon Credit Bank Ltd. (currently, Aozora Bank, Ltd.)
1995 Registered with the Daini Tokyo Bar Association as an attorney-at-law
1999 Resigned from The Nippon Credit Bank, Ltd.
Established Saeki Law Office
2002 Visiting Professor, Faculty of Law, Teikyo University
2004 Established Shi-Go-Roku Law Office as Representative Attorney (to date)
Professor, Omiya Law School
2007 Professor, Law School, Aoyama Gakuin University (to date)
2016 Outside Director, Itochu Enex Co., Ltd. (to date)
2020 Emeritus Professor, Aoyama Gakuin University (to date)

Shares of the Company owned: 11,000
Board of Directors meeting attendance: 13/13
Significant concurrent positions outside the Company:
Representative Attorney, Shi-Go-Roku Law Office
Auditor, The Shinkumi Federation Bank
Emeritus Professor, Aoyama Gakuin University



Hisato Okubo
Director

1986 Joined ITOCHU Corporation
2009 General Manager for Natural Gas Business Department, ITOCHU Corporation
2012 General Manager for Energy & Chemicals Planning and Administration Department and Compliance Officer for Energy & Chemicals Company, ITOCHU Corporation
2013 Deputy Chief Operating Officer, Energy Division No. 2 and General Manager for E&P Project Coordinating Department, ITOCHU Corporation
2014 Chief Operating Officer, Energy Division No. 2, ITOCHU Corporation
2016 General Manager for Energy & Chemicals Planning and Administration Department and CP & CIIIC Business Development Department, and Compliance Officer for Energy & Chemicals Company, ITOCHU Corporation
2017 Executive Officer, Chief Operating Officer for Energy Division, ITOCHU Corporation
2019 Executive Officer, Executive Vice President for Energy & Chemicals Company and Chief Operating Officer for Energy Division, ITOCHU Corporation (to date)

Shares of the Company owned: None
Board of Directors meeting attendance: 13/13
Significant concurrent positions outside the Company:
Executive Officer, Executive Vice President for Energy & Chemicals Company and Chief Operating Officer for Energy Division, ITOCHU Corporation
Director, Sakhalin Oil and Gas Development Co., Ltd.

Notes: Shares of the Company owned as of March 31, 2020.

"Independent" indicates a Director or Audit & Supervisory Board Member registered with the Tokyo Stock Exchange as an independent officer. Executive Officers are not members of the Board of Directors or Audit & Supervisory Board. Board of Directors meeting attendance for FY2019. (Out of 10 times for Mr. Shimizu and Ms. Yamane, who were appointed at the general meeting of shareholders held in June 2019)

Audit & Supervisory Board Members



Yuji Moritsuka
Full-Time Audit & Supervisory
Board Member (Outside,
Independent)

1974 Joined The Nippon Fudosan Bank, Ltd. (currently, Aozora Bank, Ltd.)
1998 General Manager for Sendai Branch, The Nippon Credit Bank, Ltd. (currently, Aozora Bank, Ltd.)
2000 Chief Credit Analysis Officer for Credit Analysis Division, The Nippon Credit Bank, Ltd.
2001 Representative Director, Senior Managing Director, Aozora Information Systems, Ltd.
2003 Representative Director and President, Aozora Information Systems, Ltd.
2005 Senior Managing Director, Densan, Inc.
2008 Corporate Auditor, Japan Energy Network Co., Ltd. (currently, Enex Electric Power Co., Ltd.)
2012 Corporate Auditor, Tokyo Toshi Service Co., Ltd.
2015 Standing Audit & Supervisory Board Member (outside), Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: 14,200
Board of Directors meeting attendance: 13/13
Significant concurrent positions outside the Company:
Audit & Supervisory Board Member of Ecore Co., Ltd.



Toyohiro Sunayama
Full-Time Audit & Supervisory
Board Member (Outside)

1983 Joined ITOCHU Corporation
2010 Chief Corporate Planning Officer & Chief Compliance Officer for Asia Bloc, ITOCHU Corporation; Executive Vice President, ITOCHU Singapore Pte. Ltd.
2011 Chief Administration Control Officer & Chief Compliance Officer for ASEAN & South West Asia Bloc, ITOCHU Corporation; Executive Vice President, ITOCHU Singapore Pte. Ltd.
2012 Director for East Asia Bloc, ITOCHU Corporation; Managing Director, ITOCHU Hong Kong Ltd.
2015 Executive Officer, Leilian Co., Ltd.
2016 Director, Chief Administration Officer, Leilian Co., Ltd.
2017 Executive Director, Chief Administrative Officer, Leilian Co., Ltd.
2018 Standing Audit & Supervisory Board Member (outside), Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: None
Board of Directors meeting attendance: 13/13
Significant concurrent positions outside the Company:
Audit & Supervisory Board Member of Tokyo Toshi Service Co., Ltd. and Enearc Co., Ltd.



Shozo Tokuda
Audit & Supervisory Board
Member (Outside, Independent)

1981 Joined Asahi & Co. (currently, KPMG AZSA LLC)
1985 Registered as Certified Public Accountant
2002 Partner, Asahi & Co.
2004 Head of Intellectual Property Management, KPMG AZSA & Co.
2006 Head of Division 3, Tokyo Office, KPMG AZSA & Co.
Board Member, KPMG AZSA & Co.
2010 Executive Board Member, KPMG AZSA & Co.
2015 Senior Partner, KPMG AZSA LLC
2017 Audit & Supervisory Board Member, Itochu Enex Co., Ltd. (to date)
Outside Corporate Auditor, Mitsui Chemicals, Inc. (to date)

Shares of the Company owned: None
Board of Directors meeting attendance: 13/13
Significant concurrent positions outside the Company:
Outside Corporate Auditor, Mitsui Chemicals, Inc.



Kenji Takai
Audit & Supervisory Board
Member

1990 Joined ITOCHU Corporation
2009 Deputy Director, China Corporate Administration Division, ITOCHU Corporation, and ITOCHU Shanghai Ltd.
2010 Deputy Director, China Corporate Administration Division, ITOCHU Corporation, and ITOCHU (China) Holding Co., Ltd.
2014 Deputy CFO, Machinery Company; General Manager, Business Accounting and Control Section, ITOCHU Corporation
2017 General Manager, Tax Planning & Control Department, ITOCHU Corporation
2018 Deputy General Manager, General Accounting Control Division and General Manager, Tax Planning & Control Department, ITOCHU Corporation
2019 CFO, Energy & Chemicals Company, ITOCHU Corporation (to date)
Audit & Supervisory Board Member, Itochu Enex Co., Ltd. (to date)

Shares of the Company owned: None
Board of Directors meeting attendance: 10/10
Significant concurrent positions outside the Company:
CFO, Energy & Chemicals Company, ITOCHU Corporation
Audit & Supervisory Board Member, C.I. TAKIRON Corporation

Executive Officers (excluding Directors serving concurrently as Executive Officers)

Toshihisa Fuse
Managing Officer
Chief Operating Officer,
Industrial Business Division

Tsukasa Nakamura
Managing Officer
Chief Operating Officer,
Home-Life Division

Tatsuro Utsumi
Executive Officer
President, and Chief Executive Officer,
Itochu Enex Home-Life Tohoku Co., Ltd.

Takeo Fukushima
Executive Officer
President, and Chief Executive Officer,
Tokyo Toshi Service Co., Ltd.

Shigeru Kondo
Executive Officer
Deputy President and Chief Executive Officer,
Enearc Co., Ltd.

Tsukasa Motegi
Executive Officer
President, and Chief Executive Officer,
Enex Fleet Co., Ltd.

Hirofumi Chimura
Executive Officer
Chief Operating Officer,
Power & Utility Division

Minoru Kubota
Executive Officer
Deputy Chief Operating Officer,
Corporate Administration Division and
General Manager, Legal & Credit
Control Department

Kimiaki Yonezawa
Executive Officer
General Manager, Corporate Planning
Department

Fumiya Tanaka
Executive Officer
Deputy Chief Operating Officer, Power & Utility
Division, General Manager, Planning &
Administration Department, and President and Chief
Executive Officer, Enex Life Service Co., Ltd.

Building a Transparent and Effective Governance System

Itochu Enex takes various approaches to stimulate discussion at Board of Directors meetings and further raise the effectiveness of the Board's oversight function. Since FY2017, we have organized visits to worksites by Outside Directors. These visits are an important opportunity for Outside Directors to deepen their understanding of the Itochu Enex Group's wide range of businesses through dialogue with frontline employees.



► Gaining Knowledge of Worksite Conditions from Interaction with Employees

Outside Directors made worksite visits in the Hokkaido region in June 2019 and the Kansai region in November 2019.

In the Hokkaido region, they visited the Sapporo Higashi Fuel Center of Itochu Enex Home-Life Hokkaido Co., Ltd. and other sites. They learned about the Group's various efforts to provide top-quality service in this large region.

In the Kansai region, at the Sakai Branch of Nissan Osaka Sales Co., Ltd., Outside Directors witnessed various customer-oriented initiatives, such as booths for new car handover ceremonies and customer identification by license plate scanning.

The occasion was also an opportunity for Outside Directors to learn about best practices that could serve as references when

developing future management strategies, such as the use of Nissan Leaf electric cars as sources of emergency power in a disaster-stricken area.

The visit to each region culminated in a meeting in which Outside Directors could engage in deeper dialogue with employees of Group companies and branches, and discuss future issues and other topics. We will focus on worksite visits as an important governance activity that enables Outside Directors, who typically have little opportunity to interact with frontline employees or see them at work, to hear opinions directly and reflect information from the frontlines in discussions at Board meetings and elsewhere.



Sapporo Higashi Fuel Center, Sapporo Higashi Sales Office



Dialogue meeting

► Key Initiatives to Stimulate Discussion at Board of Directors Meetings (FY2019)

| | |
|---|---|
| Worksite Visits | Conducted twice in FY2019 to enable Outside Directors to observe worksites in Japan, gain a better understanding of the Group's businesses, and interact with frontline employees |
| Advance Briefings for Outside Officers | Briefings on agenda items for Board of Directors meetings are conducted for outside officers in advance, thereby facilitating discussions based on deep understanding of the items at hand. |
| Independent Officers Council | Comprising independent officers, the Council meets regularly to discuss independent views. |
| Participation in Group Company Presidents Meeting | The presidents of major Group companies gather to share initiatives at their companies. Outside officers also make presentations about issues that concern the Group. |
| Attendance at Briefings on Financial Results | Outside officers attend briefings in order to observe communication between the Company and investors. |



Worksite visit (Kansai region)



Presentation by an outside officer at the Group Company Presidents Meeting

Transformation of Business Structure and Governance

The reduction of carbon emissions is a global environmental issue upon which all companies are now required to act. Itochu Enex, which operates in the energy business, is managed with a keen awareness of that fact. In addition to a focus on renewable energy businesses such as solar, wind and hydro power generation, the Company is involved in other businesses aimed at reducing impact on the environment, including GTL fuel, which is made from natural gas through a process that removes sulfur and trace metals, and recycling of fly ash. With its investment in renewable energy and development of new businesses, Itochu Enex is shifting its operations away from petroleum.

Major business changes come with a certain amount of risk, and bold management decisions involving risk require rationality and objectivity. A governance system that supports those qualities is therefore essential. Making objective judgments can prove difficult for Executive Directors, which is why Japan's Corporate Governance Code calls for the engagement of Outside Directors to oversee management from an independent standpoint.

As Outside Directors, we objectively judge the

rationality of Directors' management decisions, and check their social validity. Since the Company has a parent company, ITOCHU Corporation, we also discuss the kinds of management strategies the Company should implement to make sure the interests of minority shareholders are protected. With our involvement at Board meetings, we hope to support the Company's sustainable growth and enhancement of its corporate value.



Ichiro Saeki
Outside Director

Aiming to Further Invigorate a Fair and Open Corporate Climate

I wish people could take a peek into a Board of Directors meeting at Itochu Enex. I think they would be surprised at the positive and free exchange of ideas. I myself am struck by the contrast to the stuffy meetings I have experienced at other organizations, such as Japan Broadcasting Corporation (NHK) and universities. Here, we are provided with ample documents and explanations beforehand, and because information is shared, it is easy for us to voice opinions and questions with confidence that they will be responded to sincerely, which helps make the meetings more dynamic. This fair and open corporate climate is an important foundation that brings vitality to employees and fosters creative thinking.

I am still active as a journalist, and serve on the selection committees for the Waseda Journalism Award and the Hosono Bunka Foundation Prize. Japan's energy problem and the future of Japanese companies are now at a significant turning point. Leveraging a journalistic viewpoint, I intend to encourage broad discussion of such topics as global trends and changes in public awareness, and thereby support the Company's lasting growth.

I am also aware of my ongoing role as the Company's first female Outside Director. The Company is fortunate in having an outstanding Diversity Promotion Office head. I would like to work closely with her to create a supportive workplace environment for women and increase the motivation of female employees. To do that, raising the awareness of male employees in areas such as understanding of diversity and fair personnel evaluations will also be important. By drawing on my experience as the former head of NHK's Announcers Bureau, I hope to support the development of the Company's human resources.



Motoyo Yamane
Outside Director

Corporate Governance

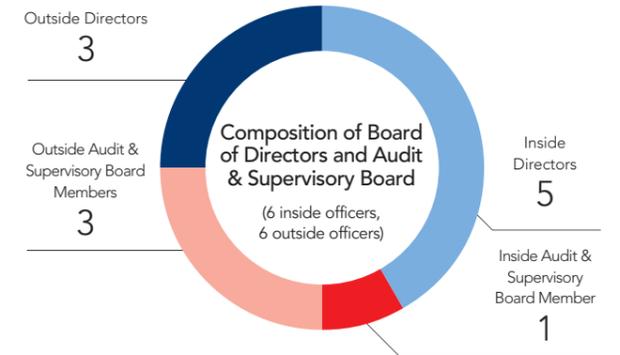


Based on the Code of Conduct, “Be Ethical (Reliability and sincerity, creativity and ingenuity, transparency and integrity),” and the Declaration of the Group Code of Conduct, Itochu Enex remains committed to thorough compliance as a corporate citizen, focusing on shareholder interests and ensuring management transparency in business management. To that end, it is continually strengthening corporate governance to respond to the changing business environment.

(For information on corporate governance policies, please see the Corporate Governance Report, available at <https://www.itcenex.com/en/ir/policy/governance/>)

► Corporate Governance System

The Company has a Board of Directors and Audit & Supervisory Board Members (Audit & Supervisory Board). In accordance with laws and regulations, the Company’s Articles of Incorporation, rules of the Board of Directors and other internal rules, the Board of Directors makes decisions on material matters and oversees the Directors’ performance of their duties. Each Director executes his or her duties based on the roles defined by the Board of Directors, and in accordance with laws and regulations, the Articles of Incorporation and internal rules. To strengthen the Board of Directors’ decision-making and oversight functions and increase the efficiency of business execution, the Company has adopted an executive officer system. As delegated by the Board of Directors and Representative Directors, Executive Officers execute the duties assigned to them based on decisions made by the Board of Directors.



① Board of Directors Meetings in FY2019: 13

The Board of Directors, consisting of eight Directors in total—five Inside Directors and three Outside Directors—determines the fundamental management policies of the Company and is responsible for management oversight. In addition to the exclusive rights defined in laws and regulations, the Board makes decisions on business execution matters that are of high quantitative or qualitative significance. However, given the importance of prompt decision-making, the Board delegates decision-making on ordinary business execution to the Directors and Executive Officers wherever possible and oversees the status of that execution. The Directors, as trustees appointed by shareholders to manage the Company, have the obligation to exercise due care and loyal fulfillment of their duties and to contribute to the sustained growth of the Company, as well as medium-to-long-term improvement in corporate value.

② Audit & Supervisory Board Meetings in FY2019: 11

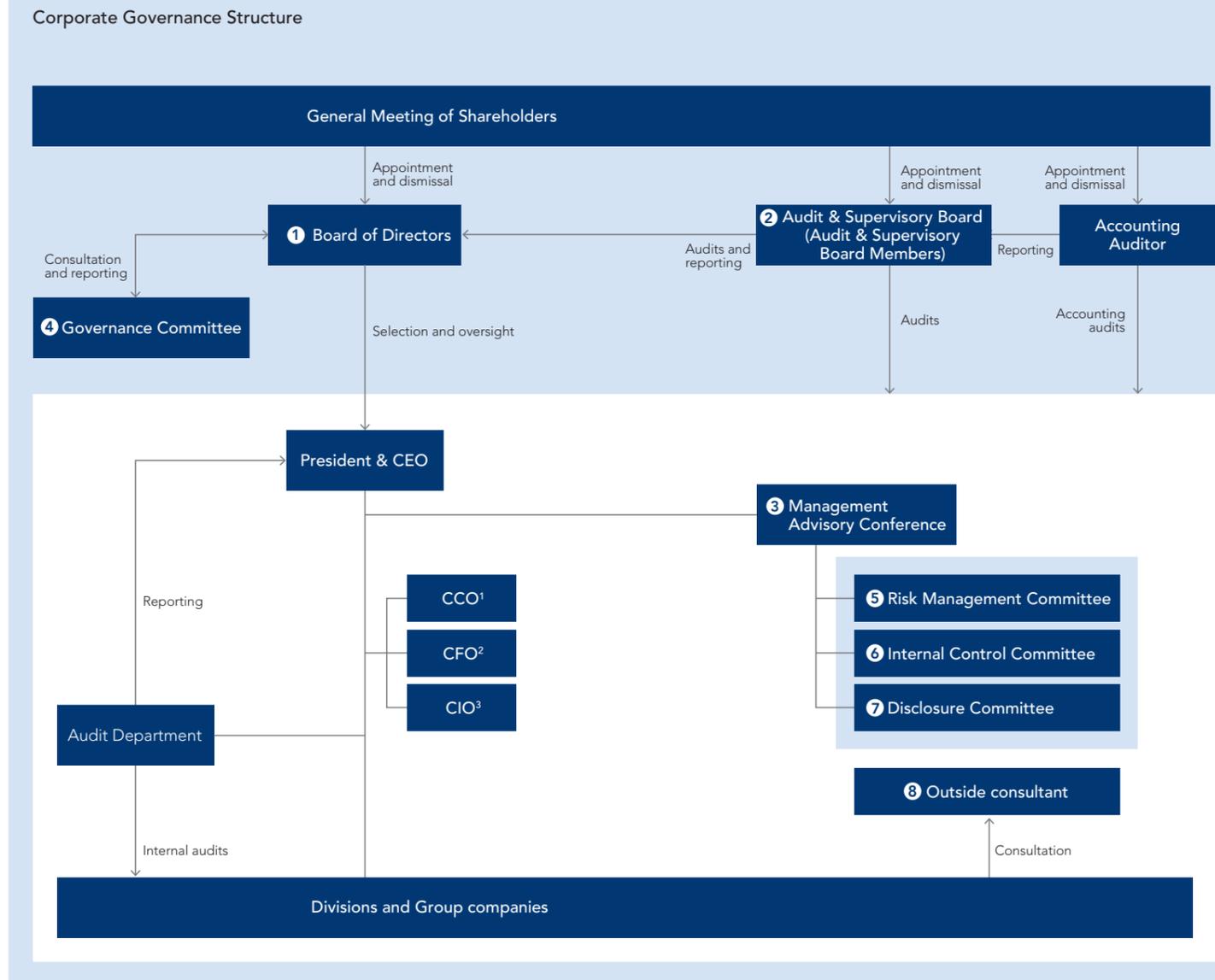
The Audit & Supervisory Board consists of four members in total (including three outside members), of whom two are full-time and two are part-time members. In accordance with the regulations of the Audit & Supervisory Board, the standards for audits by Audit & Supervisory Board Members, the audit policy established by the Audit & Supervisory Board, and the allocation of duties, Audit & Supervisory Board Members attend meetings of the Board of Directors and other important meetings, receive updates on the status of execution of duties from Directors and others, review key documents that support decision-making, examine the business and assets of the head office and major business sites, request sales reports from subsidiaries when necessary, and strictly audit the execution of duties of Directors and Executive Officers. In addition, the Audit & Supervisory Board conducts activities focused on cooperation with corporate auditors of consolidated Group companies, including establishing and holding meetings of the Group Corporate Auditors Conference, which consists of audit and supervisory board members of major Group companies.

③ Management Advisory Conference Meetings in FY2019: 17

For proper and agile decision-making on execution of duties, the Management Advisory Conference has been set up as an advisory body to the CEO. At meetings of the Management Advisory Conference, deliberations are held on the Group’s overall management policies, business plans and other important matters concerning execution of duties, and consolidated management indicators and management plans are formulated.

④ Governance Committee Meetings in FY2019: 12

The Governance Committee consists of six members, of whom five are independent officers (three Outside Directors and two Outside Audit & Supervisory Board Members) and one is an Inside Director. As a voluntary advisory committee to the Board of Directors, the Governance Committee was set up to strengthen and enhance the effectiveness of management oversight



1. Chief Compliance Officer
2. Chief Financial Officer
3. Chief Information Officer

and the transparency of decision-making by the Board of Directors. It examines the methods of selecting Directors and Audit & Supervisory Board Members and individual appointment and dismissal proposals, analyzes and evaluates the most appropriate form for the Director remuneration system (the appropriateness of compensation-setting policies and level of compensation) and the effectiveness of the Board of Directors as a whole, and discusses governance-related proposals.

⑤ Risk Management Committee Meetings in FY2019: 6

The Risk Management Committee leads ongoing management enhancement and risk mitigation by identifying and analyzing risks that could have a material impact on management, implementing countermeasures, preventing the occurrence and materialization of risks and promoting risk awareness (including investment reviews for cross-shareholdings and verification of the necessity of holding such shares, etc.).

⑥ Internal Control Committee Meetings in FY2019: 6

To ensure that the internal control system is operating appropriately, the Company reviews the development and implementation status of the internal control system at the Internal Control Committee meeting every six months for each item in the Basic Policy. The results of discussions in the Internal Control Committee are reported to the Board of Directors, and a final assessment is made on the development and implementation status of the internal control system at a Board of Directors meeting. At the meeting held on April 30, 2020, the Board of Directors evaluated the development and implementation status of each item enumerated in the Basic Policy for FY2019, and confirmed that there were no significant deficiencies or flaws.

⑦ Disclosure Committee Meetings in FY2019: 4

The Disclosure Committee consists of persons in charge of departments, and was established for the purpose of raising the accuracy of decision-making on disclosure. The Disclosure Committee deliberates matters concerning the development and implementation of internal controls over disclosure of corporate information and financial reporting.

⑧ Outside Consultant

The Group has established inside and outside whistleblowing contact points. These contact points offer a prompt response to employees with concerns that they may have violated or be about to violate the Declaration of the Group Code of Conduct or laws, or when they know of a violation committed by an officer or another employee and cannot point out the violation to that person, or when they have determined that a violation is likely to occur.

► **Response to Japan's Corporate Governance Code**

The Company endorses the goal of "growth-oriented governance" called for in Japan's Corporate Governance Code, issued by Tokyo Stock Exchange, Inc. (TSE). The Company is taking measures aimed at ensuring sound leadership by senior managers and transparent and fair decision-making, and is addressing all items in the Corporate Governance Code.

► **Evaluation of the Effectiveness of the Board of Directors**

The Company requested all Directors and Audit & Supervisory Board Members to submit opinions about the effectiveness of the Board of Directors for FY2019, based on each Director's self-evaluation. After deliberations by the Governance Committee, referring to these opinions and assessment by an independent evaluation organization, the Board of Directors met to analyze the results.

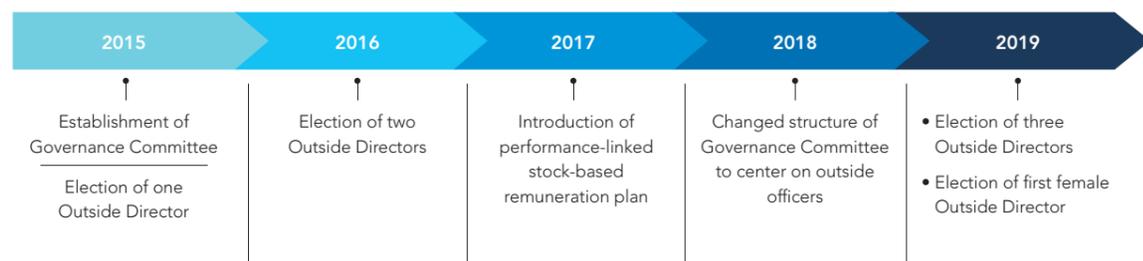
| | |
|--|---|
| <p>Evaluation Method Evaluation via questionnaire and individual hearings</p> <p>Subject of Evaluation Meetings of the Board of Directors held between April 2019 and March 2020 (a total of 13 meetings)</p> <p>Evaluators All members of the Board of Directors and Audit & Supervisory Board as of April 2020</p> <p>Outline of Implementation A questionnaire was conducted regarding the composition of the Board of Directors (5 items), the operation of the Board of Directors (12 items), systems supporting the Board of Directors and dialogue with shareholders (7 items), and systems for fulfilling roles and duties (1 item). Free comments were allowed and transparency was</p> | <p>ensured by requiring the respondents to indicate their names. Based on the aggregate results of the questionnaire, individual interviews with all evaluators were held.</p> <p>Evaluation Results Evaluation of the effectiveness of the Board of Directors is generally positive. The evaluation indicated that operation in FY2019 was generally appropriate overall and that the Board of Directors as a whole was functioning effectively. Regarding operation, while presentations showed improvement over the previous year, there were some indications that deliberations on broad direction, such as medium-to-long-term corporate strategy, etc., were areas that required improvement. The Company will draw on these results to further improve the oversight and decision-making functions of the Board of Directors.</p> |
|--|---|

► **Outside Officers**

In selecting outside officer candidates, the Company seeks to enhance its corporate value by selecting individuals who have knowledge in specialized fields such as management, law, accounting and energy, and who can be expected to contribute to oversight of the Company's management and business execution from various perspectives. The Company

sets its own criteria for determining the independence of outside officers, in addition to the requirements for independent officers set forth by the TSE and other securities exchanges in Japan. Please see the Company's Corporate Governance Report for details.

► **Corporate Governance Enhancement Measures**



Reasons for Appointment of Outside Officers

| Category | Name | Meeting Attendance | | Reasons for Appointment | |
|---|-------------------|-----------------------------|------------------------------------|--|--|
| | | Board of Directors Meetings | Audit & Supervisory Board Meetings | | |
| Outside Directors | Ichiro Saeki | 13 of 13 | | Ichiro Saeki has specialized knowledge in his capacity as an attorney and university professor with extensive experience with corporate legal affairs. He also acquired broad knowledge of banking and finance during his tenure at the Nippon Fudosan Bank, Ltd. (currently, Aozora Bank, Ltd.). He has been appointed to another term as Outside Director because the Company believes that his deep knowledge of banking and finance will enable him to contribute to the proper oversight of the execution of the Company's business and offer advice from an objective and expert point of view. The Company has determined that Ichiro Saeki meets the criteria for independence defined by financial exchanges and by the Company. | |
| | Motoyo Yamane | 10 of 10* | | Motoyo Yamane worked in the broadcasting industry for many years, where she was involved in the operation of organizations and the development of human resources. She also has sat on various expert committees related to social contribution and cultural activities. She has been appointed to another term as Outside Director because the Company believes that, based on her knowledge and various perspectives gained through her career, she will suitably provide advice to the Company's management and contribute to the proper oversight of the execution of the Company's business. The Company has determined that Motoyo Yamane meets the criteria for independence defined by financial exchanges and by the Company. | |
| | Hiroshi Endo | Appointed June 17, 2020 | | Hiroshi Endo has been involved in the insurance industry for many years in wide-ranging roles such as accounting, automobile insurance planning, corporate management, and overseas business. He also has extensive insight into corporate management, having served as Managing Director at Tokio Marine Holdings, Inc., and President of the General Insurance Institute of Japan. He has been newly appointed as an Outside Director because the Company believes that he will provide suitable advice to the Company's management and contribute to the proper oversight of the execution of the Company's business. The Company has determined that Hiroshi Endo meets the criteria for independence defined by financial exchanges and by the Company. | |
| Outside Audit & Supervisory Board Members | | Meeting Attendance | | Reasons for Appointment | |
| | | Board of Directors Meetings | Audit & Supervisory Board Meetings | | |
| | Yuji Moritsuka | 13 of 13 | 11 of 11 | | Yuji Moritsuka acquired broad knowledge of banking and finance during his tenure at the Nippon Fudosan Bank, Ltd. (currently, Aozora Bank, Ltd.). He also has abundant experience as a corporate auditor/audit and supervisory board member at other companies. He has been appointed to another term as Outside Audit & Supervisory Board Member because the Company believes that his deep knowledge of banking and finance will enable him to offer advice and contribute to the proper oversight of the execution of the Company's business. The Company has determined that Yuji Moritsuka meets the criteria for independence defined by financial exchanges and by the Company. |
| | Toyohiro Sunayama | 13 of 13 | 11 of 11 | | Toyohiro Sunayama has many years of experience at ITOCHU Corporation, primarily in textile-related business, and corporate planning operations overseas, etc. He has been appointed to another term as Audit & Supervisory Board Member because the Company deemed that he can provide management advice and appropriate supervision of the execution of operations based on his broad knowledge regarding global business management and administrative business gained through abundant experience. Toyohiro Sunayama is not designated as an independent officer because he does not meet criteria for independence defined by financial exchanges and by the Company. |
| | Shozo Tokuda | 13 of 13 | 11 of 11 | Shozo Tokuda has specialized knowledge in his capacity as a certified public accountant. He has also acquired broad knowledge of corporate accounting. He has been appointed to another term as Outside Audit & Supervisory Board Member because the Company believes that his deep knowledge of corporate accounting will enable him to contribute to the proper oversight of the execution of the Company's business and offer advice from an objective and expert point of view. The Company has determined that Shozo Tokuda meets the criteria for independence defined by financial exchanges and by the Company. | |

* Outside Director Motoyo Yamane was appointed at the 59th ordinary general meeting of shareholders held on June 19, 2019, and was therefore eligible to attend fewer Board of Directors meetings than other Directors.

Outside Officer Skills Matrix

| | Name | Business management | Finance and accounting | Legal, governance and compliance | Human resources, labor and diversity | International mindset | Knowledge of other industries |
|---|-------------------|---------------------|------------------------|----------------------------------|--------------------------------------|-----------------------|-------------------------------|
| Outside Directors | Ichiro Saeki | ○ | | ○ | | | ○ |
| | Motoyo Yamane | ○ | | | ○ | ○ | ○ |
| | Hiroshi Endo | ○ | ○ | | | ○ | ○ |
| Outside Audit & Supervisory Board Members | Yuji Moritsuka | ○ | ○ | ○ | | | ○ |
| | Toyohiro Sunayama | ○ | ○ | | ○ | ○ | ○ |
| | Shozo Tokuda | ○ | ○ | ○ | | | ○ |

► **Policies and Procedures on Determination of Remuneration for Directors**

Remuneration for Directors excluding Outside Directors and Non-executive Directors is composed of monthly remuneration, bonuses, and performance-linked stock-based remuneration. Monthly remuneration and bonuses are appropriately determined based on predetermined payment standards in consideration of factors such as short-term business performance and contributions to the Company, and standardized amounts are set for each position. Amounts of stock-based remuneration are determined

based on consolidated net profit attributable to Itochu Enex's shareholders for a specific performance evaluation period. Outside Directors and Non-executive Directors only receive monthly remuneration, and do not receive bonuses or stock-based remuneration. Additionally, remuneration for Audit & Supervisory Board Members is determined through deliberation of the Audit & Supervisory Board (Members), and includes no bonuses or stock-based remuneration. Officer remuneration for FY2019 was as follows.

| | Total remuneration, etc. | Total remuneration, etc., by type | | | Number of applicable officers |
|---|--------------------------|-----------------------------------|-------|--------------------------|-------------------------------|
| | | Total monthly remuneration | Bonus | Stock-based remuneration | |
| Directors (excluding Outside Directors) | 264 | 153 | 96 | 15 | 7 |
| Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) | 4 | 4 | — | — | 2 |
| Outside officers | 89 | 89 | — | — | 6 |

(Millions of yen)

► **Performance-Linked Stock-Based Remuneration Plan**

The Company provides performance-linked stock-based remuneration to Executive Directors for the purpose of increasing Directors' incentive to enhance the Company's medium- and long-term corporate value by sharing the profit and risk from stock price changes with shareholders. In paying stock-based remuneration, the Company has set up a trust (trust period: two years) through which it provides a number of shares to each Director corresponding to the number of points calculated objectively and allotted according to the role of the Director and the level of attainment of performance targets in the performance evaluation period.

In determining the remuneration mentioned above, consolidated net profit attributable to Itochu Enex's shareholders is used as the evaluation indicator linked to Company-wide performance in bonuses, which are performance-linked, and in performance-linked stock-based remuneration. Its use as an indicator is based on its simplicity, consistency with numerical indicators in the Company's management (or in the case of stock-based remuneration, with quantitative targets set in the medium-term business plan), trends at other companies, and other factors.

► **Parent Company**

As the parent company, ITOCHU Corporation owns 53.97% of the voting rights of the Company, making it a consolidated subsidiary of ITOCHU Corporation.

Within the Itochu Group, the Company is positioned as a core company with respect to domestic sales and the import/export of petroleum products in which Japan is the business base. As an important business partner, the Company engages in the trade of petroleum products and facilitates the exchange of information concerning conditions in domestic and international markets for crude oil and petroleum products, conducts personnel exchanges and carries out other business initiatives relating to electrical power, environmental businesses, and overseas projects, etc. The proportion of the Company's business transactions that are dependent on the parent company is low, and most of

the Company's business consists of transactions with unaffiliated companies and general consumers.

The Company recognizes no business constraints by the parent company and believes that it is able to make its own management decisions while maintaining independence and autonomy. In addition, Directors may hold positions concurrently and employees may be loaned among the Company, ITOCHU Corporation and their group companies. However, this does not prevent the Company from making independent managerial decisions, and the independence of the Company has been ensured through the appointment of three Outside Directors that are designated as independent officers, which enables a greater diversity of opinions to be reflected in discussions at Board of Directors meetings.

► **Internal Control**

To comply with laws and regulations and the Articles of Incorporation, and to execute business appropriately, the Company operates an internal control system that it works to continuously strengthen and improve. On February 21, 2019, it revised the Basic Policy regarding the Internal Control

System, seeking to strengthen and improve its internal systems for ensuring the appropriateness, etc. of corporate governance, compliance and financial reporting.

For details on the internal control system, please visit: <https://www.itcenex.com/en/corporate/governance/control/>

► **Policy on Cross-Shareholding**

The Company's policy is to limit cross-shareholdings to those that have a high likelihood of providing investment returns and that contribute to enhancement of the Company's corporate value, on the condition that the purpose of holding such shares is recognized, such as that it is likely to have future strategic commercial value. Regarding existing cross-shareholdings, each year at a Board of Directors'

meeting the Company verifies the rationale of holding individual stocks, and judges the appropriateness of continuing to hold or cease such cross-shareholdings from the standpoints of the likelihood of realizing the intended investment objective, and whether holding the shares is generating economic value that will lead to enhancement of the Company's corporate value.

► **Elimination of Anti-Social Forces**

The Company is committed to the Group-wide preclusion of any and all relationships with anti-social forces. This policy is explicitly set out in the Declaration of the Group Code of Conduct, and the Company has established a system for rapid response to unforeseen events through the ongoing

maintenance of close collaborative relationships with outside specialized agencies, etc. and the inclusion of clauses relating to the elimination of organized crime groups in contracts, etc.

For further details on governance please visit:

Corporate Governance Report
<https://www.itcenex.com/en/ir/policy/governance/>

Fair and Proactive Disclosure



Based on the Corporate Philosophy, the Code of Conduct and the Declaration of the Group Code of Conduct as well as the objectives of the Corporate Governance Code issued by the TSE, the Company has established its Basic Policy for IR with the aim of establishing fair and excellent relationships with all stakeholders, ensuring a fair market evaluation and achieving sustainable enhancement of corporate value, while engaging in proactive investor and public relations based on the principles of "timeliness," "fairness," "accuracy," "clarity" and "continuity."

Information Disclosure Covered by This Policy

This policy covers information disclosure and dialogue to be conducted by the following means:

| | |
|--|---|
| Disclosure in accordance with the Financial Instruments and Exchange Act | Securities reports, quarterly reports, internal control reports, extraordinary reports, etc. |
| Disclosure in accordance with the Companies Act | Business reports, consolidated and non-consolidated financial statements, etc. |
| Disclosure required by the TSE | Timely disclosure information Decisions, events and other information required by the TSE to be disclosed in a timely manner Corporate governance reports, etc. |

Other Information Disclosure

The Company takes care to ensure that information not covered by the Timely Disclosure Rules of the TSE is made available in an appropriate manner to all stakeholders, including general investors.

| | |
|---------------------------------|--|
| IR-related disclosure materials | Materials for financial results briefings, fact books, etc. |
| IR-related publications | Shareholder newsletters, integrated reports, annual reports in English, etc. |

Method of Information Disclosure

The Company discloses information covered by the Timely Disclosure Rules, using the Timely Disclosure Network (TDnet) in accordance with the rules, as well as on the Company's website. The Company also ensures that information not covered by the rules is made available to general investors and shareholders in an appropriate manner based on the objectives of the rules.

Disclosure Committee

The Company has established the Disclosure Committee for the purpose of contributing to appropriate and flexible decision-making by the Board of Directors and Management Advisory Conference, exhaustively and swiftly collecting important company information in the Group, discussing whether to disclose relevant information and the accuracy, clarity, sufficiency, fairness and constructiveness of the content of the information and publishing information subject to disclosure.

Dialogue with Shareholders and Investors

When disclosing information to and engaging in dialogue with shareholders, investors and others, the Company complies with relevant laws, regulations and rules and emphasizes two-way communication, while striving to explain its business status, management policy and other information in a timely, fair, accurate and clear manner and on an ongoing basis. Feedback from stakeholders, including requests and opinions, is provided to management.

| | FY2019 |
|---|--|
| General meeting of shareholders (held on June 17, 2020) | Held in June (23 attendees; 252 attendees in FY2018) |
| Meetings with investors | 60 meetings |

Note: The presentation for individual investors that was planned for March 2020 was cancelled due to the COVID-19 pandemic.

Handling of Insider Information

The Company adheres to the fundamental principle of not disclosing information to any third party until disclosure is made to the public, and takes all reasonable care in handling information, for instance when more than one person engages in dialogue at meetings with investors, etc.

Quiet Period

For the purpose of preventing the leakage of information concerning financial results and ensuring fairness in information provision, the Company observes a quiet period of two weeks preceding quarterly and full-year earnings announcements and provides no comment or explanation regarding financial results or earnings estimates during the quiet period.

Understanding Shareholder Structure

The Company obtains information on the shareholder register from the administrator of the register and information concerning beneficial shareholders, etc. from a research company to understand and analyze the Company's shareholder structure. It uses the data for investor and shareholder relations activities.

Business Execution and Internal Control

► Protection of Human Rights

The meaning behind the Code of Conduct, "Be Ethical," and the Declaration of the Group Code of Conduct includes respect for human rights. The Company is thorough in ensuring reliability and sincerity in its approach to protecting human rights.

Toward Zero Harassment

In order to achieve zero harassment, harassment as defined under the following categories is explicitly prohibited in the Company's work regulations. The Company raises awareness among employees by highlighting risks and measures relating to human rights in the Group in-house newsletter. Past topics include discrimination and prejudice toward people with disabilities, foreign nationals and LGBT people, modern slavery, negative impacts on regions, infringement of privacy, duty of care for employees' health, and online defamation.

- (1) Sexual harassment**
Having a detrimental influence on other employees, etc., or damaging the working environment through sexual speech and/or conduct.
- (2) Power harassment**
Utilizing power such as authority to continuously infringe on a person's personality and respect in excess of standard operating procedures, worsening the employee's working environment or causing the person to become anxious about employment security.
- (3) Maternity harassment and paternity harassment**
Having a detrimental influence on other employees, etc., or damaging the working environment through undue speech and/or conduct regarding matters such as pregnancy, childbirth, or childcare leave.
- (4) Care harassment**
Having a detrimental influence on other employees, etc., or damaging the working environment through undue speech and/or conduct regarding matters such as family care leave.

► Risk Management

Risk Management Committee

The Risk Management Committee aims to create the best possible systems to achieve business continuity by promptly and correctly dealing with all events and risks that may impede the operation of the Company, so as not to damage public confidence in, or the corporate value of, the Company. Amid an increase in various risks and their potential seriousness, the Risk Management Committee leads ongoing management enhancement and risk mitigation by identifying and analyzing risks that could have a material impact on management, implementing countermeasures, preventing the materialization of risks and promoting risk awareness.

Systems for Handling Emergencies

The Company has developed an emergency contact network that allows the Company, when an accident occurs or a risk arises in the Group, to quickly obtain accurate information and respond appropriately and, when an earthquake, typhoon, heavy rain or other natural disaster occurs, to quickly grasp the level of damage to the Group's facilities and distributors, and secure lifelines. As an integrated contact system that connects Group companies, business divisions and the President, routes for reporting "large-scale earthquakes and natural disasters" and "incidents other than disaster" have been developed and are in operation around the clock, 365 days a year.

BCP and Disaster Response Headquarters

The Company has formulated a business continuity plan (BCP), primarily in preparation for major natural disasters. The BCP and Disaster Response Headquarters play a central role in the plan. Headed by the President and with the Chief Compliance Officer (CCO) serving as Deputy Head, the headquarters comprises the Chief Operating Officers of the Corporate Administration Division. In the event of a major disaster, the members gather at a designated location and lead Company-wide activities to respond to the situation by unifying the chain of command, and enabling systematic

cooperation. In addition, the Company has established a backup system for transferring headquarters' functions to the Kyushu Branch (in Fukuoka) and Chushikoku Branch (in Hiroshima).

Strengthening IT Security

The Company sees management of information security as an important business issue.

- Basic Policy for Information Management of the Group**
Itochu Enex Co., Ltd. and its group companies (hereinafter collectively the "Group") recognize appropriate management of information as an important business issue, and while protecting information assets from various threats surrounding the Group, maintains and improves Group information management systems via appropriate handling of information assets.
- 1. Compliance**
Officers and employees of the Group comply with laws, regulations, and other guidelines, etc., regarding information management.
 - 2. Management systems**
To realize appropriate management of information required for business activities, the Group defines rules concerning information management, establishes appropriate information management systems under the Chief Information Officer, and maintains systems to swiftly ascertain information management conditions and implement information security measures.
 - 3. Awareness and education**
The Group ensures that all officers and employees are aware of the importance of information security and implements ongoing education and training to ensure thorough and appropriate management of information assets.
 - 4. Response to accidents**
Should an accident occur regarding information management, the discoverer swiftly reports the fact based on predefined rules, and as required, the Group minimizes damage through enactment of appropriate mitigation measures. Furthermore, through analysis of the reasons that the accident occurred, the Group establishes appropriate management measures and measures to prevent recurrence.

For details on the Group's personal information protection policy, please visit: <https://www.itcenex.com/en/privacy/>
Revised on January 1, 2016

Business Risks

| Principal risks | Description of risks | Response to risks | | | | | | | | | | | | | | | |
|---|--|--|----------|----------------|------------------------------------|-------------------------|--|--------------|--|-------------------|---|-------------|--|----------------------------------|---|--|---|
| Risks due to a pandemic (See page 62.) | <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"> <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> <ul style="list-style-type: none"> • Decrease in sales volume due to shortened business hours • Suspension of sales and vehicle maintenance functions </td> <td></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. |
| | 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 | | | | | | | | | | | | | | | | |
| Risk of shrinkage of business base | 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>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 | | | | | | | | | | | | | | | |
| Natural disaster risk | 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>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> | | | | | | | | | | | | | | | |
| Risk of commodity price fluctuations | 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>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> | | | | | | | | | | | | | | | |
| Fixed asset impairment risk | 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. | 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. | | | | | | | | | | | | | | | |
| Risks related to information security and information systems | 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. | 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. | | | | | | | | | | | | | | | |
| Risks related to compliance | 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) | 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.) | | | | | | | | | | | | | | | |

FOCUS > **Response to COVID-19**

An emergency headquarters headed by the President was established to decide and execute Company-wide policies and necessary measures to respond to the COVID-19 pandemic, and to conduct appropriate Company-wide management by continuously collecting information and sharing it internally and publicly. These responses to the pandemic are also directly connected to protecting the safety of customers, and will lead to fulfilling our mission to be "the best partner for life and society," as stated in our Corporate Philosophy.

Response to Employees

Placing top priority on the safety of employees and preventing the spread of infections, we utilized telework and staggered working hours to reduce the risk of infection, and made improvements to the network environment necessary for conducting business operations. For employees performing duties that require them to come to the office, we continue to make efforts to ensure a workplace environment that gives proper consideration to health management and safety.

We will continue this response to create an environment in which employees can work with peace of mind.

Online Discussion Meetings with Nationwide Bases

To maintain communication with employees throughout Japan amid the pandemic, we conduct online discussions that connect the President and division COOs with employees nationwide. As part of that, information is exchanged on new sales approaches as well as measures to prevent infections in the workplace. Scenes from these meetings are also posted on the Company intranet, and by raising the profile of each initiative we aim to enhance information sharing.

(Messages from the President are also sent out regularly on the intranet.)



An online meeting using Zoom

Response to Customers

In response to requests from the Ministry of Economy, Trade and Industry, we have implemented special measures by which customers who are temporarily having difficulty paying their bills can apply to have payment due dates extended for electric, gas or other bills. Eligible customers are those receiving special loans of the Emergency Small Amount Fund or Comprehensive Support Fund from prefectural Social Welfare Councils due to work furlough, job loss or other cause attributable to the COVID-19 pandemic.

Response to Shareholders and Investors

The Company's dividend policy is to maintain stable dividends and a dividend payout ratio of 40% or higher. While the COVID-19 pandemic has had some effect on our business results, we plan to maintain the annual dividend for FY2020 at the same level as that for FY2019, in accordance with our policy of stable dividends. If a revision to the plan becomes necessary due to the COVID-19 pandemic or other reasons, we will promptly announce it.

Response to Society

As a gesture of respect for the medical institutions and medical professionals throughout Japan who are devoting themselves to treating patients on the medical front lines, we have provided donations and accommodations to medical workers, and donated masks to healthcare facilities and preschools in the Hokkaido, Tohoku, Chugoku and Shikoku regions. Group company Nissan Osaka Sales Co., Ltd. donated electric cars to Osaka Prefecture. "Enjoy the Power of Words" is a recital event sponsored by Itochu Enex as a social contribution activity. We made videos featuring audio recordings from past events set to illustrations publicly available for the benefit of parents and children during the period of the stay-at-home request.

Voluntary Donations to Medical Workers by Executives and Employees

Donations to support medical workers were collected in the Company from April through June 2020, and given to the following organizations.



Free Accommodations Provided to Medical Workers

Together with Cosmos Initia Co., Ltd., we began rolling out support activities for medical workers on May 1, 2020. Rooms at Mimiru Tokyo Akasaka, an apartment-style hotel managed by Cosmos Initia, were provided free of charge. Rooms are approximately 40 square meters and equipped with a kitchen, with access to on-site self-service laundry facilities. (<https://mimiruhotels.com/en/akasaka/>)

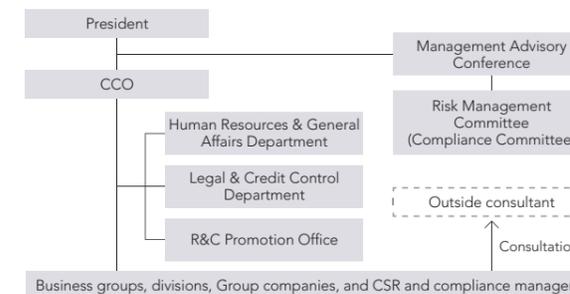
► **Compliance**



While meeting its corporate social responsibilities, the Company is engaged in various business activities, mainly in the energy distribution field. Meeting the expectations of all its stakeholders, which include customers/consumers, business partners, suppliers, communities, shareholders, investors, employees and the environment, is an important management task. To this end, under the Corporate Philosophy, "The best partner for life and society," the Company is striving to raise awareness of and promote social responsibility Group-wide by ensuring that all managers and employees correctly understand and thoroughly comply with the Code of Conduct and the Declaration of the Group Code of Conduct, which have been refined over many years.

Compliance Structure

The Company has taken steps to improve its compliance system. Those steps include appointing a CCO, establishing a department that oversees matters concerning compliance, developing a corporate social responsibility (CSR) and compliance program, appointing a CSR and compliance manager¹ and personnel² in each department, providing compliance education and training, compiling a legal and regulatory compliance manual, clarifying responses to compliance incidents and establishing a whistleblowing system. In addition, each Director, Executive Officer and employee is required to submit a written statement of intention to comply with the Code of Conduct.



- 1. CSR and compliance manager:**
CSR and compliance managers of Itochu Enex are appointed by the CCO. One person from each division is appointed. Additionally, at Group companies for which Itochu Enex has over 50% ownership, in principle the president of the Group company serves as CSR and compliance manager, also supervising subsidiaries for which that Group company has over 50% ownership.
- 2. CSR and compliance personnel:**
CSR and compliance personnel are appointed by CSR and compliance managers, promoting awareness regarding CSR and compliance, serving as the point of contact in the event of trouble, accidents, misconduct or complaints, and ensuring environmental preservation and soil contamination prevention.

Education and Training in CSR and Compliance

With the objective of maintaining and ensuring the universal recognition of CSR and compliance systems, the Company holds education and training in CSR and compliance for Group officers and employees on an annual basis. In particular, compliance training is held across Japan twice a year, once each fiscal half.



Compliance training

Promoting Awareness of Compliance

To promote awareness of compliance, the Company periodically prepares documents to be distributed within the Group and shared on the intranet.

| | |
|--------------------------------|--|
| Compliance Handbooks | Guided by the Corporate Philosophy, the Company provides commentary and works to ensure thorough recognition and awareness of the Code of Conduct, basic policies on compliance, the Declaration of the Group Code of Conduct, internal rules, and laws and regulations. When Group employees are faced with difficult decisions, they can refer to this handbook, question themselves and their situation, think carefully on compliance, reach an understanding, and reflect the results in their actions. |
| Compliance Program | This easy-to-understand program covers CSR and compliance promotion activities, including objectives, systems, incident and accident response, and whistleblowing and consulting contact points. |
| Compliance Case Studies | These case studies provide easy-to-understand examples and response approaches for various major and minor compliance violations, including misconduct, harassment, labor issues, complaints, legal and regulatory violations, and information leakage. |

Group Awareness Survey

In the present day, incidents relating to accounting misconduct, embezzlement, harassment, and labor issues at various companies, organizations, and bodies are on the rise. The Group conducts a compliance awareness survey for officers and employees at Group companies to ascertain the state of compliance awareness and help prevent misconduct. The results are drawn on to create new initiatives and improve compliance training, and are also used as a measure of engagement with the Corporate Philosophy.

Whistleblowing and Consulting Contact Points

The Group has established inside and outside whistleblowing contact points. These contact points offer a prompt response to employees with concerns that they may have violated or be about to violate the Declaration of the Group Code of Conduct or laws, or when they know of a violation committed by an officer or another employee and cannot point out the violation to that person, or when they have determined that a violation is likely to occur. Through regular CSR and compliance training, the Group ensures that all employees are aware of whistleblowing contact points and the protection given to whistleblowers, and a system is in place for responding appropriately to whistleblowing while maintaining transparency.

Additionally, the Group has made available an outside consulting contact point for any employee or family member associated with the Group. This consulting contact point can also respond to issues concerning harassment, mental health, physical health and living circumstances. A system for providing care for mental health and consultation on other issues is maintained through responses provided by specialists such as clinical psychologists, health nurses and consumer affairs advisors.

The Group ensures the effectiveness of the whistleblowing system through regulations that clearly define the responsibilities of the various parties that handle reports. These regulations prohibit unfavorable treatment, including termination of employment, as a consequence of whistleblowing, and mandate confidentiality.

► Fair Business Practices



The Group assures customers and suppliers of its commitment to fair business practices by engaging in commercial activities on the basis of fair and free competition, performing fair purchasing activities, adhering to rules for commercial transactions and eschewing any involvement in bid-rigging, cartels or other unfair practices. Furthermore, the Group seeks to develop together with customers and suppliers by maintaining and strengthening mutual trust.

Tax Policy

The Itochu Enex Group is committed to a good faith approach in managing its business operations in full compliance with all applicable tax rules and to not engaging in transactions that are intended to evade or avoid taxes.

For further details on the Group's tax policy, please visit: <https://www.itcenex.com/en/corporate/governance/taxpolicy/>

Group Policy on Procurement and Purchasing

Pursuant to the Declaration of the Group Code of Conduct, the Group evaluates and selects suppliers while establishing ongoing business partnerships in order to achieve mutual benefit through transactions. Additionally, based on the Group's Environmental Policy, the Group is promoting procurement activities that show consideration for environmental preservation via initiatives such as the procurement of materials with a low environmental burden. At its offices, the Group promotes the use of products that take the environment into account under Japan's Act on Promoting Green Purchasing.

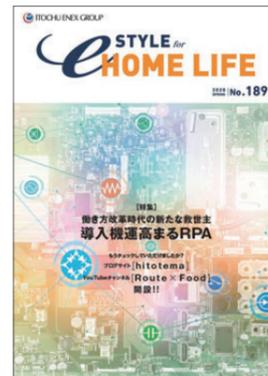
Compliance with the Antimonopoly Act, Subcontract Act, and Related Laws and Regulations

To realize fair transactions, the Group has formulated its own Antimonopoly Act Manual to ensure awareness and compliance with Japan's Antimonopoly Act, Subcontract Act, and related laws and regulations. This manual describes the objectives of laws such as the Antimonopoly Act and Subcontract Act, consequences for violations, and specific types of actions that are unacceptable. Details are also provided on specific actions that are unacceptable and require particular care as part of the Group's corporate activities.

Communication with Business Partners

To generate better results from business partnerships, the Group engages in close communication with business partners on a periodic and ongoing basis through channels such as the Enex Meeting, established jointly with partners, and informal gatherings held in various locations. Additionally, the Group issues information magazines for partners that transact with the Home-Life Division and Car-Life Station-related businesses to promote understanding and sharing of information pertaining to the Group's business activities. Amid significant changes to the business environment,

dialogue with business partners is increasingly important for the co-creation of various businesses, and the Group will further invigorate relationships by listening to the opinions and wishes of its partners.



e-STYLE for HOME LIFE information magazine for LP gas sales outlets



e-STYLE for LIFE ENERGY information magazine for stores of Car-Life Station-related businesses

Responsible Advertising Activities

In all corporate communications, the Group practices responsible advertising activities in accordance with the Corporate Philosophy, Code of Conduct, and the Declaration of the Group Code of Conduct. In particular, the Group is fully committed to ensuring reliability and sincerity, creativity and ingenuity, transparency and integrity as stated in the Code of Conduct, "Be Ethical," and endeavors to improve understanding and acceptance of corporate activities through frank and clear dialogue, thereby enhancing corporate value.

Financial and Environmental Data

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- 70 Consolidated Financial Statements



11-Year Summary of Key Financial Data

Itochu Enex Co., Ltd. and its consolidated subsidiaries. Fiscal years ended March 31.

| | Japanese GAAP | Japanese GAAP | Japanese GAAP | Japanese GAAP | IFRS |
|---|---------------|---------------|---------------|---------------|-----------|-----------|-----------|-----------|-----------|-----------|------------------|
| | 2010/3 | 2011/3 | 2012/3 | 2013/3 | 2014/3 | 2015/3 | 2016/3 | 2017/3 | 2018/3 | 2019/3 | 2020/3 |
| (Millions of yen) | | | | | | | | | | | |
| Total trading transactions | 1,083,760 | 1,185,731 | 1,414,161 | 1,430,745 | 1,506,606 | 1,373,393 | 1,071,629 | 1,028,939 | 1,156,344 | 1,244,260 | 1,104,548 |
| Revenue | | | | | 966,044 | 936,841 | 723,645 | 695,060 | 744,767 | 1,007,086 | 897,427 |
| Gross profit | 64,557 | 64,900 | 64,604 | 70,054 | 71,599 | 85,720 | 89,562 | 93,604 | 88,822 | 84,210 | 86,418 |
| Selling, general and administrative expenses | 58,461 | 55,873 | 55,631 | 56,328 | 57,862 | 71,184 | 73,226 | 74,697 | 70,931 | 67,318 | 68,858 |
| Profit from operating activities | 6,095 | 9,027 | 8,973 | 13,726 | 11,875 | 13,100 | 16,384 | 19,678 | 17,153 | 17,851 | 19,257 |
| Net profit attributable to Itochu Enex's shareholders | 4,360 | 3,883 | 3,893 | 5,576 | 7,124 | 5,503 | 7,469 | 10,405 | 11,025 | 11,559 | 12,056 |
| Total assets | | | | | | | | | | | |
| Total assets | 263,096 | 277,585 | 305,053 | 323,747 | 321,032 | 329,059 | 304,053 | 344,603 | 382,621 | 374,373 | 387,657 |
| Shareholders' equity | | | | | | | | | | | |
| Shareholders' equity | 99,011 | 101,088 | 102,050 | 105,970 | 94,144 | 97,432 | 100,526 | 108,511 | 116,104 | 122,290 | 128,333 |
| Per share data (Yen) | | | | | | | | | | | |
| Net profit attributable to Itochu Enex's shareholders | 37.46 | 34.12 | 34.22 | 49.36 | 63.05 | 48.71 | 66.10 | 92.09 | 97.63 | 102.40 | 106.81 |
| Shareholders' equity | 791.24 | 805.95 | 826.68 | 868.69 | 833.20 | 862.30 | 889.70 | 960.37 | 1,028.57 | 1,083.37 | 1,136.89 |
| Annual dividends | 16 | 20 | 16 | 16 | 20 | 22 | 24 | 32 | 40 | 42 | 44 |
| Major financial indicators (%) | | | | | | | | | | | |
| ROE | 4.9 | 4.3 | 4.2 | 5.8 | 7.8 | 5.7 | 7.5 | 10.0 | 9.8 | 9.7 | 9.6 |
| ROA | 1.7 | 1.4 | 1.3 | 1.8 | 2.2 | 1.7 | 2.4 | 3.2 | 3.0 | 3.1 | 3.2 |
| Dividend payout ratio | 42.7 | 58.6 | 46.8 | 32.4 | 31.7 | 45.2 | 36.3 | 34.8 | 41.0 | 41.0 | 41.2 |

1. The figures of revenue are without consumption taxes.

2. The figures on this page are based on IFRS (International Financial Reporting Standards) from the fiscal year ended March 2014.

3. In accordance with the application of IFRIC 21 from the fiscal year ended March 2015, we have retroactively revised figures for the fiscal year ended March 2014.

4. The figures on this page are rounded to the nearest ¥1 million.

Ratings

Rating agency: Japan Credit Rating Agency, Ltd. (JCR) (As of August 27, 2020)

| Object | Rating | Outlook |
|-------------------------|--------|---------|
| Long-term issuer rating | A+ | Stable |

| Object | Maximum amount | Rating |
|------------------|----------------|--------|
| Commercial paper | ¥30 billion | J-1 |

| Object | Issue price | Issue date | Maturity date | Interest rate | Rating |
|---|-------------|--------------|---------------|---------------|--------|
| Series 14 unsecured bonds (with inter-bond pari passu clause) | ¥10 billion | May 22, 2012 | May 20, 2022 | 1.202% | A+ |

Annual Sales Volume of Major Products

| | FY2016 | FY2017 | FY2018 | FY2019 |
|--------------------------------------|--------|--------|--------|--------|
| Gasoline (Thousands of kiloliters) | 3,587 | 3,328 | 3,201 | 2,767 |
| Kerosene (Thousands of kiloliters) | 1,448 | 1,590 | 1,565 | 1,229 |
| Diesel oil (Thousands of kiloliters) | 3,271 | 3,401 | 3,499 | 3,288 |
| LP gas (Thousands of tons) | 597 | 618 | 573 | 543 |
| Electricity (GWh) | 3,190 | 4,674 | 4,781 | 4,351 |

Environmental Data

FY2019 Environmental Improvement Plan Performance and Assessment

PU: Power & Utility Division HL: Home-Life Division
 IB: Industrial Business Division CL: Car-Life Division

| Area | Division | Environmental target | FY targets | Period performance | Rate of progress | Status of progress | | |
|--|---|---|---|--------------------|------------------------------|--------------------|--|--|
| Helping to Realize a Low-Carbon Society | PU | Promoting development of renewable energy | <ul style="list-style-type: none"> Construction of a biomass power plant has begun and its progress is being monitored. Construction process improvements are being made at a large project now under way. | | | | | |
| | PU | Promoting generation of renewable energy | 67,380 | MWh | 66,571 | 99% | <ul style="list-style-type: none"> Net increase in number of power plants as more photovoltaic plants are in operation (Minamiawaji; Kitakyushu G.K.). Capacity decreased from the previous year because the hydroelectric power plant in Joetsu City is being overhauled. | |
| | IB | Promoting the advanced use of fossil fuels (AdBlue®) | 66,622 | kL | 71,048 | 107% | <ul style="list-style-type: none"> Achieved this year's target as a result of increased demand for selective catalytic reduction (SCR) in construction machinery and agricultural machinery and adoption of SCR in 2.4-t vehicles | |
| | IB | Promoting the advanced use of fossil fuels (fly ash) | 17,009 | m ³ | 10,904 | 64% | <ul style="list-style-type: none"> Downturn in sales to road construction companies. Sales to forest cooperatives and local roadbed companies increased, but did not fully offset decline in other results. | |
| | IB | Promoting the advanced use of fossil fuels (slop) | 2,000 | kL | 2,194 | 110% | <ul style="list-style-type: none"> Achieved this year's target. Large increase over the previous year. | |
| | HL | Sales of residential power storage systems | 800 | Units | 1,022 | 128% | <ul style="list-style-type: none"> Achieved this year's target as market growth, subsidized demand and other factors drove sales expansion. | |
| | PU | Regional development businesses | <ul style="list-style-type: none"> Tokyo Toshi Service Co., Ltd. cooperated with the Tokyo Metropolitan Government's Carbon Offset Program for the Tokyo 2020 Games, and contributed credits equivalent to 18,250 tons for excess reduction of CO₂ emissions. Tokyo Toshi Service Co., Ltd. received the Agency for Natural Resources and Energy Commissioner's Award in the 2019 Energy Conservation Grand Prize. Held partner events and exhibition match with J.League team | | | | | |
| | HL | Conducting dietary and fire safety education at kindergartens, preschools and other educational institutions throughout Japan, in accordance with the Declaration of the Group Code of Conduct | <ul style="list-style-type: none"> Conducted dietary and fire safety education social contribution activities at 17 kindergartens and preschools throughout Japan, with a total of 713 children participating. (Total of 17 [HL Hokkaido: 14, HL Nishi-Nihon: 1, HL Tohoku: 1, Enearc Chubu: 1]) | | | | | |
| Administration (General Affairs) | Planning and implementation of social contribution activities | <ul style="list-style-type: none"> "Enjoy the Power of Words" events (Hiroshima and Tokyo) Participated in WFP Walk the World Donated to Tokyo Colony Social Welfare Corp Volunteered in the Yumeken Cup (swimming event for people with disabilities) Held Family Day at workplaces Held Ultimate Frisbee classes Participated in forest planting event in Tokyo Prefecture Donations to support Great East Japan Earthquake recovery: ¥1,345,200 (annual total) Donations to areas affected by Typhoon Hagibis: ¥5,000,000 | | | | | | |
| Reducing the Environmental Impact of Our Business Activities | Administration (General Affairs) | Eco-office activities | Reductions in general power use | 2,320 | Thousand kWh | 2,623 | 113% | 13% over target, 12% higher than FY2018. (Main factor was an increase in covered sites*; 1% lower than target for previously covered sites only) |
| | | | Reductions in site fuel use | 119 | Thousand m ³ , kL | 142 | 119% | 19% over target, 18% higher than FY2018. (Main factor was an increase in covered sites*; 4% lower than target for previously covered sites only) |
| | | | Reductions in vehicle fuel use | 2,890 | kL | 2,685 | 93% | 7% lower than target, 8% improvement over FY2018. |
| | | | Reductions in copier paper use | 19,370 | Thousand sheets | 17,278 | 89% | 11% lower than target, 12% improvement over FY2018. |
| Administration (Planning & Administration) | Improving energy conservation awareness through eco-driving training for subcontractor trucking companies and Group companies | <ul style="list-style-type: none"> This year, the class was held in a conference room of the Kitakyushu Branch, with 24 people from 13 transport companies participating. Planning for training in FY2020. Considering training content to achieve goals for CO₂ reduction and zero accidents. | | | | | | |
| Preserving Local Environments | HL | Automated meter reading using LPWA | <ul style="list-style-type: none"> Bussan Sekiyu Home-Life Iwate Co., Ltd. installed 4,419 units and began automated meter reading. Units installed: HL Tohoku: 1,679, HL Hokkaido: 6,002, HL Nishi-Nihon: 17,606, HL Shikoku: 2,224, EAG: 28,348 | | | | | |
| | CL, IB | <ul style="list-style-type: none"> Reevaluation of safety systems Revision of manuals | <ul style="list-style-type: none"> Car-Life Station operating guides were nearly completed, with distribution planned in late April. [5-part series consisting of: 1) Operating risk management guide, 2) Environmental law and regulation compliance guide, 3) Car-Life Station safety inspection guide, 4) Disaster response guide, and 5) Truck unloading guide.] Carried out selection of transport companies for high-tech devices and began preparations. Asphalt Department revised and prepared internal safety rules Conducted third-party facility inspections of all asphalt bases (in preparation for update of maintenance procedures and standards) Passed German Association of the Automotive Industry (VDA) renewal audit of AdBlue® Fukuoka, Okinawa and Himeji bases. | | | | | |
| | HL | Preventing accidents through a consistent and advanced security management system based on internal safety standards | <ul style="list-style-type: none"> In FY2019, we completed Enex audits for all 21 businesses subject to the audits. Increased frequency of training for HL Group safety department staff, and launched two working groups. In FY2020, we will upgrade safety procedures to a consistent level throughout the HL Group. | | | | | |
| | HL | Shifting to paperless safety inspection list using iPads | <ul style="list-style-type: none"> In FY2019, we completed introduction at HL Nishi-Nihon and HL Shikoku. In FY2020 we plan introduction to further advance the shift to paperless inspection with introductions at HL Hokkaido and HL Tohoku. | | | | | |

* Number of covered sites increased by 19.

FY2019 ISO 14001 Activities

Covered sites

| Unit | FY | General power | Motive power | Power total | City gas | LP gas | Auto gas | Gas total | Kerosene | Heavy oil | Fuels total | Gasoline | Diesel | Vehicle fuels total | CO ₂ total | | | Copier paper | Water | Industrial wastes | Specially managed industrial wastes | Wastes total | PRTR |
|-------------------------|------|---------------|--------------|-------------|----------|--------|----------|-----------|----------|-----------|-------------|----------|--------|---------------------|-----------------------|-----------|--------|--------------|-------|-------------------|-------------------------------------|--------------|------|
| | | | | | | | | | | | | | | | (Scope 1) | (Scope 2) | Total | | | | | | |
| Number of sites covered | 2019 | 123 | 72 | - | 2 | 96 | 65 | - | 11 | 7 | - | 144 | 62 | - | - | - | - | 133 | 100 | 117 | - | 15 | |
| | 2018 | 120 | 75 | - | 3 | 96 | 68 | - | 12 | 7 | - | 136 | 61 | - | - | - | - | 137 | 102 | 106 | - | 38 | |
| | 2017 | 101 | 65 | - | 1 | 83 | 63 | - | 7 | 8 | - | 121 | 48 | - | - | - | - | 116 | 85 | 89 | - | 43 | |
| | 2016 | 104 | 67 | - | 1 | 85 | 69 | - | 8 | 8 | - | 124 | 48 | - | - | - | - | 124 | 88 | 93 | - | 39 | |
| Performance | 2019 | 2,623 | 5,035 | 7,658 | 1 | 127 | 598 | 726 | 15 | 1,396 | 1,410 | 1,288 | 799 | 2,087 | 10,463 | 3,841 | 14,304 | 17,278 | 34 | 42,817 | 30 | 42,847 | 7 |
| | 2018 | 2,344 | 5,219 | 7,563 | 1 | 105 | 851 | 956 | 15 | 1,465 | 1,480 | 1,393 | 676 | 2,069 | 10,759 | 4,011 | 14,770 | 19,566 | 31 | 51,497 | 9 | 51,506 | 9 |
| | 2017 | 2,175 | 5,313 | 7,488 | 0 | 86 | 1,211 | 1,297 | 9 | 1,392 | 1,402 | 1,229 | 553 | 1,781 | 10,279 | 4,021 | 14,300 | 20,374 | 29 | 48,828 | 11 | 48,839 | 9 |
| | 2016 | 2,143 | 7,169 | 9,312 | 0 | 89 | 1,077 | 1,166 | 8 | 1,461 | 1,469 | 1,305 | 516 | 1,822 | 11,427 | 4,100 | 15,527 | 20,455 | 41 | 43,846 | 10 | 43,857 | 9 |

Reference: All sites

| Unit | FY | General power | Motive power | Power total | City gas | LP gas | Auto gas | Gas total | Kerosene | Heavy oil | Fuels total | Gasoline | Diesel | Vehicle fuels total | CO ₂ total | | | Copier paper | Water | Industrial wastes | Specially managed industrial wastes | Wastes total | PRTR |
|-------------|------|---------------|--------------|-------------|----------|--------|----------|-----------|----------|-----------|-------------|----------|--------|---------------------|-----------------------|-----------|---------|--------------|-------|-------------------|-------------------------------------|--------------|------|
| | | | | | | | | | | | | | | | (Scope 1) | (Scope 2) | Total | | | | | | |
| Performance | 2019 | - | - | 150,807 | 7,578 | 219 | 598 | 8,395 | 265 | 1,825 | 2,090 | 1,372 | 826 | 2,198 | 745,202 | 75,230 | 820,432 | 17,464 | 404 | 44,671 | 30 | 44,701 | 36 |
| | 2018 | - | - | 155,683 | 8,852 | 160 | 887 | 9,899 | 195 | 2,046 | 2,241 | 1,460 | 840 | 2,300 | 818,896 | 78,975 | 897,871 | 19,924 | 427 | 52,920 | 9 | 52,929 | 44 |
| | 2017 | - | - | 244,144 | 18,342 | 208 | 1,218 | 19,769 | 353 | 1,721 | 2,074 | 2,306 | 753 | 3,058 | 646,855 | 63,970 | 710,825 | 25,661 | 389 | 50,795 | 11 | 50,806 | 44 |
| | 2016 | - | - | 365,722 | 18,418 | 221 | 1,085 | 19,724 | 279 | 1,993 | 2,272 | 2,365 | 709 | 3,074 | - | - | 956,000 | 26,922 | 108 | 49,334 | 21 | 49,355 | 56 |

Notes: Conversion values (emissions coefficients for individual power companies in the case of power) for each fiscal year based on the Act on the Rational Use of Energy are used as CO₂ conversion factors.
 Total figures for business sites that collect environmental data, including Group members companies, are presented for reference above.
 CO₂ Scope 1: Direct emissions from fuels consumed by the Company.
 CO₂ Scope 2: Indirect emissions from the use of energy generated by other companies (primarily electric power).

Reports on compliance with the Act on the Rational Use of Energy (CO₂ emissions reductions)

Known Shipper

| FY | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|---------|---------|---------|---------|---------|
| Shipments in ton-kilometers (thousand t-km) | 415,717 | 542,801 | 436,155 | 343,311 | 342,606 |
| CO ₂ emissions (t-CO ₂) | 21,457 | 26,949 | 23,466 | 18,844 | 19,110 |
| Intensity (vs. shipment volume) | 0.0191 | 0.0184 | 0.0200 | 0.0204 | 0.0207 |

Specified Business Operator

Known Shipper

| FY | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-------|-------|-------|-------|-------|
| Energy use (kL) | 2,704 | 2,536 | 2,415 | 2,523 | 2,481 |
| CO ₂ emissions (t-CO ₂) | 6,658 | 6,051 | 5,802 | 6,143 | 6,321 |

Tokyo Toshi Service's heat supply business sites were evaluated highly for their contributions to global warming countermeasures

- ◎ Certified as a Near-Top-Level Facility under the Tokyo Metropolitan Government's Cap-and-Trade Program¹
 FY2015: Kanda-Surugadai District Heat Supply Center, Hakozaki District Heat Supply Center, Harumi Island District Heat Supply Center
 FY2017: Fuchu Nikkocho District Heat Supply Center
- ◎ Certified as low-carbon² district heat supply business under the Tokyo Metropolitan Government's Cap-and-Trade Program
 Of 42 districts within Tokyo that received certification during FY2019, 11 districts were operated by the Company
 Ginza 2-chome/3-chome, Shinkawa, Kanda-Surugadai, Shibaura 4-chome, Ginza 5-chome/6-chome, Hakozaki, Fuchu Nikkocho, Kyobashi 2-chome, Hachioji Asahicho, Osaki 1-chome, Harumi 1-chome
- ◎ Registered as a business making the CO₂CO₂ (kotsukotsu) smart declaration (premium course)³ in Chiba Prefecture
 2018: Makuhari New City High-Tech Business District Heat Supply Center
- ◎ Certified as 3-star Tochigi Prefecture Eco-Keeper Operator⁴
 2017: Use of underutilized energy from substation waste heat at Utsunomiya City Chuo District Heat Supply Center was rated highly
- ◎ Certified as a Gunma Prefecture GS (Gunma Standard) business⁵
 FY2019: Use of underutilized energy from groundwater at Takasaki City Center and Castle Site District Heat Supply Center was rated highly
- ◎ Received Energy Conservation Grand Prize
 FY2016: Minister of Economy, Trade and Industry Award (Business Operations) – Hakozaki District Heat Supply Center; Energy Conservation Center, Japan (ECCJ) Chairman's Award – Kyobashi 1-chome/2-chome District Heat Supply Center
 FY2019: Agency for Natural Resources and Energy Commissioner's Award (Energy Conservation) – Tokyo Toshi Service
- ◎ Received Kanto Bureau of Economy, Trade and Industry Director-General's Award for Excellence in Energy Management in Factories etc.⁶
 FY2014: Utsunomiya Central District Heat Supply Center
 FY2016: Hakozaki District Heat Supply Center
 FY2017: Shinkawa District Heat Supply Center
 FY2018: Shibaura 4-chome District Heat Supply Center

- To promote countermeasures against global warming, the Tokyo Metropolitan Government has implemented a Cap-and-Trade Program for large-scale business offices. It calls for a reduction in total greenhouse gas emissions and a transaction program for emissions quota trading.
- Low-carbon heat certified under this system is for districts with a COC exhaust coefficient (COV exhaust volume per unit of electric power or heat provision) of 0.058 t-CO₂/GJ or less, and if customers procure heat in these districts, this is deemed as equivalent to a reduction in CO₂.
- As a global warming countermeasure, Chiba Prefecture registers business offices actively engaged in global warming countermeasures including energy conservation and introduction of renewable energy as "CO₂CO₂ smart declaration business offices" and widely promotes these initiatives.
- To promote autonomous global warming countermeasures by business offices, Tochigi Prefecture certifies business offices that implement superior measures regarding global warming measures during the course of business activities as "Eco-Keeper Operators."
- Gunma Prefecture has established a framework (environmental management system) for business operators to plan, implement, inspect and revise initiatives in order to achieve ongoing reductions in greenhouse gas emissions. The prefectural government supports business operators that systematically implement this system, certifying and publicly recognizing their initiatives.
- To further promote energy conservation, the Kanto Bureau of Economy, Trade and Industry recognizes distinguished persons, excellent companies and other organizations that have made outstanding contributions to energy conservation.

Consolidated Financial Statements

1. Consolidated Statement of Financial Position

(Millions of yen)

| | Notes | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------|-------------------------|-------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 18,725 | 19,243 |
| Trade receivables | 9, 28, 41 | 106,165 | 86,911 |
| Other current financial assets | 10 | 36,034 | 28,095 |
| Inventories | 11 | 33,053 | 24,263 |
| Income taxes receivable | | 2,533 | 98 |
| Trade advances paid | | 111 | 128 |
| Other current assets | | 3,154 | 2,502 |
| Total current assets | | 199,775 | 161,240 |
| Non-current assets | | | |
| Investments accounted for by the equity method | 12, 41 | 29,441 | 31,583 |
| Other investments | 10, 41 | 4,186 | 3,860 |
| Non-current financial assets other than investments | 10, 41 | 11,292 | 11,942 |
| Property, plant and equipment | 13, 16, 39, 41 | 87,599 | 132,870 |
| Investment property | 14 | 9,819 | 13,147 |
| Goodwill | 15 | 521 | 521 |
| Intangible assets | 15, 16 | 20,091 | 20,005 |
| Deferred tax assets | 17 | 9,913 | 10,374 |
| Other non-current assets | | 1,736 | 2,115 |
| Total non-current assets | | 174,598 | 226,417 |
| Total assets | 5 | 374,373 | 387,657 |

(Millions of yen)

| | Notes | As of March 31, 2019 | As of March 31, 2020 |
|---|--------|-------------------------|-------------------------|
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Short-term bonds and borrowings | 18, 41 | 11,217 | 7,024 |
| Trade payables | 19, 41 | 121,677 | 83,936 |
| Lease liabilities | 16 | – | 9,591 |
| Other current financial liabilities | 20 | 7,905 | 6,216 |
| Income taxes payable | | 3,193 | 4,172 |
| Advances from customers | 28 | 9,651 | 9,437 |
| Other current liabilities | 21, 22 | 11,820 | 12,848 |
| Total current liabilities | | 165,463 | 133,224 |
| Non-current liabilities | | | |
| Non-current bonds and borrowings | 18, 41 | 22,893 | 18,156 |
| Lease liabilities | 16, 41 | – | 52,713 |
| Other non-current financial liabilities | 20 | 23,531 | 14,225 |
| Non-current liabilities for employee benefits | 23 | 9,936 | 10,335 |
| Deferred tax liabilities | 17 | 2,287 | 1,721 |
| Provisions | 22 | 5,462 | 5,255 |
| Other non-current liabilities | | 235 | 144 |
| Total non-current liabilities | | 64,344 | 102,549 |
| Total liabilities | | 229,807 | 235,773 |
| Equity | | | |
| Common stock | 24 | 19,878 | 19,878 |
| Capital surplus | 24 | 18,922 | 18,934 |
| Retained earnings | 24 | 86,769 | 92,761 |
| Other components of equity | 25 | (1,406) | (1,370) |
| Treasury stock | 24 | (1,873) | (1,870) |
| Total shareholders' equity | | 122,290 | 128,333 |
| Non-controlling interests | 38 | 22,276 | 23,551 |
| Total equity | | 144,566 | 151,884 |
| Total liabilities and equity | | 374,373 | 387,657 |

* See accompanying notes to consolidated financial statements.

2. Consolidated Statement of Comprehensive Income

(Millions of yen)

| | Notes | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|--------|-------------------------------------|-------------------------------------|
| Revenue | 28 | 1,007,086 | 897,427 |
| Cost of sales | | (922,876) | (811,009) |
| Gross profit | | 84,210 | 86,418 |
| Other income and expense | | | |
| Selling, general and administrative expenses | 29 | (67,318) | (68,858) |
| Loss from tangible assets, intangible assets and goodwill | 30, 31 | (241) | (428) |
| Other – net | 32 | 1,200 | 2,125 |
| Total other income and expense | | (66,359) | (67,161) |
| Profit from operating activities | | 17,851 | 19,257 |
| Financial income and costs | 33 | | |
| Interest income | | 83 | 58 |
| Dividends received | | 66 | 103 |
| Interest expense | | (906) | (1,126) |
| Other financial income and costs – net | | 755 | (82) |
| Total financial income and costs | | (2) | (1,047) |
| Share of profit of investments accounted for by the equity method | 12 | 1,565 | 1,768 |
| Profit before tax | | 19,414 | 19,978 |
| Income tax expense | 17 | (5,749) | (5,793) |
| Net profit | | 13,665 | 14,185 |
| Net profit attributable to: | | | |
| Net profit attributable to Itochu Enex's shareholders | | 11,559 | 12,056 |
| Net profit attributable to non-controlling interests | | 2,106 | 2,129 |
| Total | | 13,665 | 14,185 |

(Millions of yen)

| | Notes | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|-------|-------------------------------------|-------------------------------------|
| Other comprehensive income, net of tax effect | | | |
| Items that will not be reclassified to profit or loss | | | |
| FVTOCI financial assets | | (108) | (215) |
| Remeasurement of net defined benefit liability | | (175) | (90) |
| Other comprehensive income of investments accounted for by the equity method | 12 | (54) | (41) |
| Items that may be reclassified to profit or loss | | | |
| Exchange differences on translating foreign operations | | (10) | (7) |
| Cash flow hedges | | 25 | 82 |
| Other comprehensive income of investments accounted for by the equity method | 12 | (193) | 182 |
| Total other comprehensive income, net of tax effect | 25 | (515) | (89) |
| Comprehensive income | | 13,150 | 14,096 |
| Comprehensive income attributable to: | | | |
| Comprehensive income attributable to Itochu Enex's shareholders | | 11,127 | 12,033 |
| Comprehensive income attributable to non-controlling interests | | 2,023 | 2,063 |
| Total | | 13,150 | 14,096 |

(Yen)

| Earnings per share attributable to Itochu Enex's shareholders | | | |
|---|----|--------|--------|
| Basic | 34 | 102.40 | 106.81 |
| Diluted | 34 | – | – |

(Millions of yen)

| Total trading transactions | | 1,244,260 | 1,104,548 |
|----------------------------|--|-----------|-----------|

(Note) Total trading transactions are presented in accordance with Japanese accounting practices. This item is not audited and voluntarily disclosed by Itochu Enex Co., Ltd. for investors' convenience, and is not required to be disclosed under International Financial Reporting Standards ("IFRSs").

* See accompanying notes to consolidated financial statements.

3. Consolidated Statement of Changes in Equity

(Millions of yen)

| | Notes | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------|-------------------------------------|-------------------------------------|
| Equity | | | |
| Common stock | 24 | | |
| Balance at the beginning of the year | | 19,878 | 19,878 |
| Cumulative effect of accounting change | | – | – |
| Restated balance | | 19,878 | 19,878 |
| Balance at the end of the year | | 19,878 | 19,878 |
| Capital surplus | 24 | | |
| Balance at the beginning of the year | | 18,892 | 18,922 |
| Cumulative effect of accounting change | | – | – |
| Restated balance | | 18,892 | 18,922 |
| Acquisition of subsidiary shares from non-controlling interests and others | | 23 | – |
| Share-based payments | | 7 | 12 |
| Balance at the end of the year | | 18,922 | 18,934 |
| Retained earnings | 24 | | |
| Balance at the beginning of the year | | 80,352 | 86,769 |
| Cumulative effect of accounting change | | – | (1,146) |
| Restated balance | | 80,352 | 85,623 |
| Net profit attributable to Itochu Enex's shareholders | | 11,559 | 12,056 |
| Transfer from other components of equity | | (171) | (59) |
| Cash dividends paid to Itochu Enex's shareholders | 26 | (4,971) | (4,859) |
| Balance at the end of the year | | 86,769 | 92,761 |
| Other components of equity | 25 | | |
| Balance at the beginning of the year | | (1,145) | (1,406) |
| Cumulative effect of accounting change | | – | – |
| Restated balance | | (1,145) | (1,406) |
| Other comprehensive income attributable to Itochu Enex's shareholders | | (432) | (23) |
| Transfer to retained earnings | | 171 | 59 |
| Balance at the end of the year | | (1,406) | (1,370) |
| Treasury stock | 24 | | |
| Balance at the beginning of the year | | (1,873) | (1,873) |
| Cumulative effect of accounting change | | – | – |
| Restated balance | | (1,873) | (1,873) |
| Purchase and disposal of treasury stock | | (0) | (0) |
| Share-based payments | | – | 3 |
| Balance at the end of the year | | (1,873) | (1,870) |
| Total shareholders' equity | | 122,290 | 128,333 |
| Non-controlling interests | 38 | | |
| Balance at the beginning of the year | | 20,962 | 22,276 |
| Cumulative effect of accounting change | | – | (389) |
| Restated balance | | 20,962 | 21,887 |
| Net profit attributable to non-controlling interests | | 2,106 | 2,129 |
| Other comprehensive income attributable to non-controlling interests | | (83) | (66) |
| Cash dividends paid to non-controlling interests | | (459) | (419) |
| Changes due to additional acquisitions and sales of interests in subsidiaries | | (250) | 20 |
| Balance at the end of the year | | 22,276 | 23,551 |
| Total equity | | 144,566 | 151,884 |

* See accompanying notes to consolidated financial statements.

4. Consolidated Statement of Cash Flows

(Millions of yen)

| | Notes | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|-------|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 19,414 | 19,978 |
| Depreciation and amortization | | 10,086 | 19,580 |
| Loss from tangible assets, intangible assets and goodwill | | 241 | 428 |
| Financial income and costs | | 2 | 1,047 |
| Share of profit of investments accounted for by the equity method | | (1,565) | (1,768) |
| Decrease in trade receivables | | 13,602 | 19,388 |
| Decrease (increase) in inventories | | (4,667) | 8,814 |
| Decrease in trade payables | | (5,788) | (37,741) |
| Other – net | | 2,935 | 1,140 |
| Dividends received | | 406 | 1,613 |
| Interest received | | 85 | 56 |
| Interest expense | | (838) | (1,126) |
| Income taxes paid | | (8,510) | (5,836) |
| Income taxes refund | | – | 2,533 |
| Net cash flows provided by operating activities | | 25,403 | 28,106 |
| Cash flows from investing activities | | | |
| Purchase of investments (including investments accounted for by the equity method) | | (2,663) | (2,825) |
| Proceeds from sales and redemption of investments (including investments accounted for by the equity method) | | 103 | 5,201 |
| Acquisition of subsidiaries, net of cash acquired | 35 | – | (5,566) |
| Proceeds from acquisition of subsidiaries | 35 | 22 | 680 |
| Proceeds from sales of subsidiaries, net of cash held by subsidiaries | 35 | – | 2,905 |
| Payment for loans receivable | | (907) | (1,017) |
| Collection of loans receivable | | 752 | 1,316 |
| Payments for purchase of property, plant and equipment and investment property | | (12,883) | (11,941) |
| Proceeds from sales of property, plant and equipment and investment property | | 1,978 | 2,616 |
| Purchase of intangible assets | | (832) | (1,980) |
| Proceeds from sales of intangible assets | | 193 | 22 |
| Decrease in deposits paid – net | | – | 8,979 |
| Other – net | | 827 | 199 |
| Net cash flows used in investing activities | | (13,410) | (1,411) |
| Cash flows from financing activities | | | |
| Repayments of bonds and borrowings | | (3,963) | (8,381) |
| Repayments of lease liabilities | | – | (10,804) |
| Net decrease in short-term borrowings | | (6,311) | (1,753) |
| Payments for acquisition of interests in subsidiaries from non-controlling interests | | (228) | (30) |
| Cash dividends paid to Itochu Enex's shareholders | 26 | (4,971) | (4,859) |
| Proceeds from share issuance from non-controlling interests | | 75 | 50 |
| Cash dividends paid to non-controlling interests | 38 | (459) | (419) |
| Purchase of treasury stock | | (0) | (0) |
| Net cash flows used in financing activities | | (15,857) | (26,196) |
| Net decrease in cash and cash equivalents | | (3,864) | 499 |
| Cash and cash equivalents at the beginning of the year | 8 | 22,573 | 18,725 |
| Effect of exchange rate changes on cash and cash equivalents | | 16 | 19 |
| Cash and cash equivalents at the end of the year | 8 | 18,725 | 19,243 |

* See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Reporting Entity

Itochu Enex Co., Ltd. (the "Company") is an entity located in Japan. The addresses of the Company's registered head office and principal offices are available on its website (URL: <https://www.itcenex.com/english/>). The Company's consolidated financial statements, the closing date of which is March 31, 2020, comprise the accounts of the Company and its subsidiaries (the "Group") and the Group's equity interests in associates and joint ventures. The Group's principal activities are sales of petroleum products and liquefied petroleum gas ("LPG") and the provision of related services in Japan and overseas as well as supply of electricity and heat in Japan.

2. Basis of Consolidated Financial Statements

(1) Compliance with International Financial Reporting Standards ("IFRSs")

The Group's consolidated financial statements are prepared in accordance with IFRSs.

These consolidated financial statements were approved at the Board of Directors' meeting of the Company held on June 17, 2020.

(2) Basis of Measurement

Except for the cases (e.g., financial instruments) stated in Note 3, "Significant Accounting Policies," the Company's consolidated financial statements are prepared on a historical cost basis.

(3) Functional Currency and Presentation Currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the Group's functional currency. All financial information presented in millions of yen has been rounded to the nearest million yen.

(4) Changes in Accounting Policies

From the fiscal year ended March 31, 2020, the following standards have been applied.

| Standard | Title | Summary of new or revised standards |
|----------|--------|---|
| IFRS 16 | Leases | Amendments to accounting standard for lease contracts |

Following the application of IFRS 16, for leases as lessee in cases where the contract is a lease or contains a lease, right-of-use assets and lease liabilities are recorded in the consolidated statement of financial position on the commencement date of the lease.

Lease liabilities are measured using the present value of unpaid lease payments. Lease payments are allocated to financial costs and repayments of lease liabilities based on the effective interest method, and financial costs are recognized in the consolidated statement of comprehensive income.

Right-of-use assets are measured at cost on the commencement date of the lease using a cost model, with cost being determined, and the asset being depreciated thereafter using the straight-line method over the period from the commencement date to the end of the asset's useful life or the end of the lease term, whichever is the shorter.

Furthermore, the Group has not recognized right-of-use assets and lease liabilities for leases of intangible assets, short-term leases with a lease term of 12 months or less, and leases of low-value assets. For lease payments related to the above, total lease payments are recognized as expense on either a straight-line basis over the lease term, or another systematic basis.

In accordance with the transition under IFRS 16 upon its application, the Group has recognized the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings for the fiscal year ended March 31,

2020. The weighted average of the lessee's incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position as of the date of initial application of the standard is 0.5%.

A schedule reconciling the operating lease contracts disclosed as of the end of the previous fiscal year under IAS 17 "Leases" (hereinafter, "IAS 17") and the lease liabilities recognized in the consolidated statement of financial position as of the date of initial application of the standard is provided below.

| | (Millions of yen) |
|--|-------------------|
| | Amount |
| Noncancelable operating lease contracts disclosed (March 31, 2019) | 6,168 |
| Operating leases discounted using the incremental borrowing rate (April 1, 2019) | 6,096 |
| Finance lease obligations disclosed (March 31, 2019) | 11,141 |
| Cancelable operating lease contracts, etc. | 48,835 |
| Lease liabilities as of April 1, 2019 | 66,072 |

In applying IFRS 16, the Group has elected to apply the practical expedient provided in paragraph C3 of IFRS 16 to grandfather the assessment of whether a contract contains a lease under IAS 17 and IFRIC 4 "Determining whether an Arrangement contains a Lease."

With regard to leases as lessee that were previously classified as operating leases under IAS 17, these were recognized as right-of-use assets and lease liabilities on the date of initial application of IFRS 16, with lease liabilities measured using the present value of unpaid lease payments at commencement, discounted by the lessee's incremental borrowing rate as of the initial application of the standard. In addition, with regard to leases as lessee that were previously classified as finance leases under IAS 17, the book values of right-of-use assets and lease liabilities at the date of initial application of the standard are measured at the book value of lease assets and lease obligations, respectively, on the day immediately before that date measured applying IAS 17.

As a result, total assets increased by ¥53,395 million, lease liabilities increased by ¥54,931 million, and retained earnings decreased by ¥1,146 million as of the beginning of the fiscal year ended March 31, 2020.

In relation to the application of IFRS 16, the Group has elected to use the following practical expedients.

- Initial direct costs are excluded from the measurement of right-of-use assets performed at the date of the initial application of the standard.
- Hindsight is used to determine the lease term if the contract contains options to extend or terminate the lease.

(5) Changes in Presentation of Financial Statements

"Purchase of investments" in "Cash flows from investing activities," which was previously presented as a separate line item, is combined with "Purchase of investments accounted for by the equity method" and presented collectively as "Purchase of investments (including investments accounted for by the equity method)," as its quantitative materiality has decreased.

As a result of this change, "Purchase of investments" of ¥284 million and "Purchase of investments accounted for by the equity method" of ¥2,379 million reported in "Cash flows from investing activities" in the consolidated statement of cash flows for the year ended March 31, 2019, have been reclassified as "Purchase of investments (including investments accounted for by the equity method)."

Similarly, "Proceeds from sales of investments" in "Cash flows from investing activities," which was previously presented as a separate line item, is presented collectively as "Proceeds from sales and redemption of investments (including investments accounted for by the equity method)," as its quantitative materiality has decreased.

As a result of this change, "Proceeds from sales of investments" of ¥103 million reported in "Cash flows from investing activities" in the consolidated statement of cash flows for the year ended March 31, 2019, has been reclassified as "Proceeds from sales and redemption of investments (including investments accounted for by the equity method)."

(6) IFRSs or Interpretations Issued, But Not Yet Adopted

None of the new or amended IFRSs and interpretations that were issued but not yet adopted by the date of approval of the consolidated financial statements have a significant effect.

3. Significant Accounting Policies

Accounting policies described below are applied to all of the periods presented in the consolidated financial statements, unless otherwise specified.

(1) Basis of Consolidation

The consolidated financial statements include financial statements of the Group companies and equity interests in associates and joint ventures.

A. Subsidiaries

A subsidiary is an entity that is controlled by the Group. The Group controls an investee if the Group has power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the Group's return. The acquisition date of a subsidiary is the date on which the Group obtained control of the subsidiary, and the subsidiary is included in the consolidation from the date of acquisition until the date on which the Group loses control.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary. Comprehensive income for subsidiaries is attributed to owners of the parent and non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in an equity interest in a subsidiary due to acquisition, sale, etc., of interests that do not result in loss of control of the subsidiary by the Group are accounted for as equity transactions.

If the Group loses control of a subsidiary, the Group derecognizes assets and liabilities of the former subsidiary and non-controlling interests in the subsidiary, and remeasures the residual interest retained in the former subsidiary at its fair value as of the date of the loss of control and recognizes any resulting gain or loss in profit or loss.

B. Associates and Joint Ventures

An associate is an entity of which the Group has significant influence over the financial and operating policy. In determining whether the Group has significant influence, various factors, such as holding of voting rights (the Group is presumed to have significant influence over an investee if the Group owns 20% or more, but 50% or less of the voting rights of the investee directly or indirectly) and existence of currently exercisable voting rights, and proportion of employees seconded from the Group to all the directors of the investee are taken into account comprehensively.

A joint venture is a contractual arrangement whereby two or more parties including the Group have joint control which requires unanimous consent of the parties in making important decisions on business activities. The business of a joint venture is undertaken by an entity independent of its investors and each investor has rights only to the net assets of the arrangement.

Investments in associates and joint ventures are initially recognized at cost and adjusted thereafter for the amount equivalent to the Group's share of net assets of the investees. Profit or loss and other comprehensive income recorded by the investees after the acquisition are included in the Group's profit or loss and other comprehensive income using the equity method and they are reflected in the investment value. For goodwill recognized in the acquisition of associates and joint ventures, the balance is included in the carrying amount of the investment. Dividends received from associates and joint ventures are deducted from the investment value.

In cases where the accounting policies of associates and joint ventures are different from the accounting policies adopted by the Group, adjustments are made to the financial statements of associates and joint ventures, if necessary, to ensure use of the Group's policies.

If the Group loses significant influence over an associate or joint control of a joint venture and ceases to apply the equity method, the Group recognizes a gain or loss from the sale of the equity interest in profit or loss, and remeasures the residual interest at fair value and recognizes the resulting valuation difference in profit or loss for the fiscal year in which the significant influence or the joint control is lost.

C. Transactions Eliminated in Consolidation

Inter-group company balances of receivables and payables and transactions, and any unrealized gains and losses arising from inter-group company transactions are eliminated in the preparation of the consolidated financial statements.

For unrealized gains and losses arising from transactions between the Group and associates accounted for by the equity method, the amount equivalent to the Group's equity interest in such gains and losses is eliminated.

(2) Business Combinations

Business combinations are accounted for by the acquisition method. Identifiable assets acquired, liabilities assumed, and any non-controlling interest in the acquiree are measured at fair value (except for assets and liabilities that are required to be measured on a basis other than fair value, which are measured at the value specified in IFRS 3, "Business Combinations") at the time of acquisition. Goodwill is recognized and measured as the excess of the aggregate of the consideration transferred, the acquisition-date fair value of the acquirer's previously held equity interest, and the amount of any non-controlling interest over the net of the acquisition amounts of the identifiable assets acquired and liabilities assumed. However, if the aggregate of fair values of identifiable assets and liabilities assumed exceeds the sum of acquisition value, the value of pre-existing equity interest after the remeasurement, and the fair value of non-controlling interest in the acquiree, such an excess is immediately recognized in profit as the bargain purchase gain.

If the initial accounting treatment for a business combination has not been completed by the last day of the period in which the business combination occurred, the business combination is accounted for using provisional amounts. Retrospective adjustments to provisional amounts are made during the measurement period, which is within one year from the acquisition date. Acquisition-related costs incurred by the acquirer to achieve the business combination are recognized as expenses.

For a business combination where all parties to the business combination are under control of the Group before and after the business combination (business combination under common control), carrying amounts of assets and liabilities of the acquiree are taken over by the acquirer.

(3) Foreign Currency Translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate at the date of transaction or its approximate rate. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange prevailing at the fiscal year end. Differences arising from the translation and settlement are recognized in profit or loss. However, exchange differences arising from the translation of financial assets measured at fair value through other comprehensive income ("FVTOCI") and cash flow hedges are recognized in other comprehensive income.

The assets and liabilities of foreign operations are translated into Japanese yen at the rates of exchange at the fiscal year end, while income and expenses of foreign operations are translated into Japanese yen at the exchange rate at the date of transaction or its approximate rate. The resulting exchange differences on translating foreign operations are recognized in other comprehensive income. In cases where foreign operations are disposed of, the cumulative amount of translation adjustments related to foreign operations is recognized in profit or loss in the period of disposition.

(4) Financial Instruments

A. Financial Assets Other Than Derivatives

(i) Initial Recognition and Measurement

For financial assets other than derivatives, trade receivables and other receivables are initially recognized on the day on which they arise. All other financial assets are initially recognized on the transaction date on which the Group becomes a party to the contract of the financial instrument.

Financial assets other than derivatives are classified into financial assets measured at amortized cost or financial assets measured at fair value. They are classified into financial assets measured at amortized cost if both of the following conditions are met; otherwise, they are classified into financial assets measured at fair value:

- The purpose of holding these assets is to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For financial assets measured at fair value, investments in equity instruments, such as ordinary shares in other entities, except for equity instruments held for the purpose of obtaining gains from short-term sales, are classified as FVTOCI financial assets in principle. Other financial assets measured at fair value are classified as financial assets measured at fair value through profit or loss ("FVTPL financial assets"), of which the change in fair value after acquisition is recognized in profit or loss, in principle.

Such classifications are made upon initial recognition of each asset and applied consistently without any change.

Financial assets measured at amortized cost and FVTOCI financial assets are initially recognized at fair value (including transaction costs that are directly attributable to the acquisition of financial assets). FVTPL financial assets are initially recognized at fair value and transaction costs are recognized in profit or loss when they are incurred.

(ii) Subsequent Measurement

After initial recognition, financial assets are measured based on the classification as follows:

(a) Financial Assets Measured at Amortized Cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Other Financial Assets

Financial assets other than those measured at amortized cost are measured at fair value. Changes in the fair value of financial assets measured at fair value are recognized in profit or loss. However, changes in the fair value of FVTOCI financial assets are recognized in other comprehensive income. Dividends received on the financial assets are recognized in profit or loss for the year.

(iii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire, or when the contractual right to receive cash flows from financial assets are transferred in transactions in which substantially all the risks and rewards incidental to ownership of the asset are transferred to another entity. When an FVTOCI financial asset is sold, the difference between the latest carrying amount and the consideration received is recognized in other comprehensive income, and the balance of accumulated other comprehensive income that has been recognized due to sales of the financial asset is transferred to retained earnings.

B. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits, and short-term investments that are readily convertible into cash and that are exposed to insignificant risk of change in value and due within three months from the date of acquisition.

C. Impairment of Financial Assets

The Group recognizes a loss allowance for expected credit losses related to financial assets measured at amortized cost, lease receivables, financial guarantee contracts, and other financial assets.

The Group uses a simplified approach of IFRS 9, as the Group recognizes a loss allowance based on the lifetime expected credit losses for trade receivables that result from transactions within the scope of IFRS 15 and lease receivables.

For all other financial instruments, if payment is more than 30 days past due at the end of the period or if an event that causes credit concerns has occurred, unless there is reasonable proof to the contrary, the instrument is judged to have a significant increase in credit risk since initial recognition, and the lifetime expected credit losses is recognized. On the other hand, if the credit risk of the financial instrument has not significantly increased since initial recognition, a loss allowance for the financial instrument is measured in the amount of the 12-month expected credit losses.

For expected credit losses, the Group aggregates receivables into groups based on credit risk characteristics, and then calculates the expected credit losses based on the coverage ratio, which is determined by reflecting current conditions and projections of future economic conditions in the historical rate of credit losses calculated for each group of receivables. If any of the following events occurs, the receivable is deemed to be in default, and the expected credit losses are measured for individual receivables as credit-impaired financial assets. If it is reasonably determined that all or part of a financial asset cannot be recovered, the carrying amount of the asset is directly written off.

- If payment on the receivable is more than 90 days past due
- If payment stops for reasons such as the counterparty's bills or checks being dishonored

- If the counterparty has filed for commencement of bankruptcy proceedings, civil rehabilitation proceedings, corporate reorganization proceedings, special liquidation proceedings, or other such proceedings

D. Financial Liabilities Other Than Derivatives

(i) Initial Recognition and Measurement

The Group initially recognizes debt securities issued by the Group on the date of issuance. All other financial liabilities are recognized on the transaction date on which the Group becomes a party to the contract of the financial instrument.

Financial liabilities other than derivatives are classified as financial liabilities measured at amortized cost. Financial liabilities measured at amortized cost are initially measured at fair value with the transaction costs that are directly attributable to the issue of the financial liabilities deducted from the acquisition value.

(ii) Subsequent Measurement

After initial recognition, financial liabilities other than derivatives are measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains or losses on derecognition are recognized in profit or loss.

(iii) Derecognition

Financial liabilities are derecognized when the financial liability is extinguished, i.e. when the obligation that was specified in the contract is discharged due to performance of the obligation through repayment or is canceled or lapsed.

E. Presentation of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are presented on a net basis in the consolidated statement of financial position when both of the following conditions are met; otherwise, financial assets and financial liabilities are presented on a gross basis:

- The Group has an unconditional and legally enforceable right to set off the recognized amounts.
- The Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

F. Derivatives and Hedge Activities

Derivatives, including forward foreign exchange contracts, commodity futures, and interest rate swaps, are utilized to hedge currency risk, commodity price risk, and interest rate risk. These derivatives are recognized as assets or liabilities at fair value on the contract date on which the Group becomes a party to the contractual provisions, and also remeasured at the fair value subsequently. Changes in the fair value of derivatives are accounted for as follows depending on the intended use of the derivatives and resulting hedge effectiveness:

- Derivatives that are hedging instruments to changes in fair value of recognized assets or liabilities, or of an unrecognized firm commitment, and are deemed highly effective as a hedge, and for which, at the inception of the hedge, written designation of the hedge relationship and the risk management objective and strategy for undertaking the hedge are established are designated as fair value hedges. Changes in fair value of such derivatives are recognized in profit or loss, together with changes in the fair value of hedged items.
- Derivatives that are hedging instruments to changes in future cash flows generated in association with the forecasted transactions or recognized assets or liabilities and are deemed highly effective as a hedge and for which, at the inception of the hedge, written designation of the hedge relationship and the risk management objective and strategy for undertaking the hedge are established are designated as cash flow hedges. Changes in fair value of such derivatives are recognized in other comprehensive income. This accounting treatment is continued until changes in future cash flows generated in association with the unrecognized forecasted transactions or already recognized assets or liabilities that are designated as hedged items are realized. The ineffective portion of the hedge is recognized in profit or loss.
- Changes in fair value of derivatives other than the above are recognized in profit or loss.

In applying the above fair value hedges and cash flow hedges, the Group assesses whether the hedge is expected to be effective at the inception of the hedge and after the application of the hedge.

Hedge accounting is ceased when the hedge is no longer effective, in which case changes in fair value of the derivative are recognized in profit or loss.

(5) Inventories

Inventories held for purposes other than trading are measured at the lower of cost or net realizable value, and the costs are determined mainly using the specific identification method or the monthly moving-average method. For inventories with sales contracts, net realizable value is the sale value under the sales contract, less the estimated costs necessary to make the sale. For inventories without sales contracts, net realizable value is the estimated selling price, less the estimated costs necessary to make the sale.

Inventories held for trading purposes are measured at fair value, less costs to sell, with changes in the fair value recognized in profit or loss for the period in which the change occurred.

(6) Property, Plant and Equipment

Property, plant and equipment are measured using the cost model and are stated at cost, less accumulated depreciation and accumulated impairment losses. The costs of an item of property, plant and equipment comprise the following amounts, and depreciation begins when the asset is available for use.

- Purchase price
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating
- Estimated costs of dismantling and removing the item and restoring the site on which it is located
- Interest expense required up to the operation on borrowings for acquisition, construction, and manufacturing of property, plant and equipment that meet the criteria for capitalization

If different material components are identifiable in an item of property, plant and equipment, each component is accounted for as a separate item of property, plant and equipment.

Assets are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of major assets are as follows:

- Buildings and structures: 2 to 50 years
- Machinery and vehicles: 2 to 22 years
- Vessels: 5 to 14 years

The estimated useful lives and depreciation method are reviewed at each fiscal year end, and if there are any changes made to the estimated useful lives and depreciation method, such changes are applied prospectively as changes in accounting estimates.

(7) Goodwill and Intangible Assets

A. Goodwill

Goodwill arising from the acquisition of subsidiaries is recognized in assets at the amount of the "aggregate of fair values of consideration transferred, non-controlling interests, and shareholders' interests previously held by the acquirer in the acquiree" exceeding the "net amount of identifiable acquired assets and assumed liabilities" on the acquisition date. Goodwill is not amortized, but initially recognized at cost in assets, and is tested for impairment each fiscal year. Goodwill is carried at cost, less any accumulated impairment losses in the consolidated statement of financial position.

Goodwill is allocated to cash-generating units (minimum units or groups of units) that are expected to contribute to obtaining cash flows considering the synergies of the business combination. Cash-generating units to which goodwill was allocated are tested for impairment at the end of each fiscal year, or at any time when there is any indication of impairment.

When a subsidiary is disposed of, the amount of related goodwill is included in profit or loss for the disposal.

B. Intangible Assets

Intangible assets are measured using the cost model and are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets acquired separately are measured at cost at the initial recognition, and the costs of intangible assets acquired through business combinations are recognized at fair value at the date of acquisition. All expenditures on internally generated intangible assets are recognized as an expense in the fiscal year in which they are incurred, except for development expenses that satisfy the capitalization criteria.

The period in which intangible assets, directly or indirectly, contribute to their estimated future cash flows is considered as the useful life. If the useful life of an intangible asset is reasonably projected, the intangible asset is amortized using the straight-line method over the estimated useful life. Intangible assets are tested for impairment whenever there is any indication of impairment. The estimated useful lives and amortization method of intangible assets are reviewed at each fiscal year end, and if there are any changes made to the estimated useful lives and amortization method, such changes are applied prospectively as changes in accounting estimates.

The estimated useful lives of major intangible assets are as follows:

- Relationships with customers: 5 to 42 years
- Brand and relationships with suppliers: 40 years
- Software: 5 years

Intangible assets with indefinite useful lives and intangible assets that are not yet ready to use are not amortized, but they are tested for impairment individually or by cash-generating unit annually or whenever there is any indication of impairment.

(8) Leases

In accordance with IFRS 16, the Group determines whether a contract is, or contains, a lease based on examination of the economic nature of the transaction, regardless of whether the legal form of the contract is that of a lease contract, and accounts for them as follows:

A. Leases as Lessee

If a contract is, or contains, a lease, right-of-use assets and lease liabilities are recognized at the commencement date of the lease.

Lease liabilities are measured at the present value of unpaid lease payments at the commencement date of the lease, discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate.

Lease payments are allocated to finance costs and repayments of lease liabilities based on the effective interest method, with finance costs presented in "Interest expense" in the consolidated statement of comprehensive income.

The cost model is applied to measure right-of-use assets, and the value, measured at cost less accumulated depreciation and accumulated impairment losses, is presented in the consolidated statement of financial position by including it under "Property, plant and equipment" and "Investment property." Cost is measured at the acquisition cost adjusted for the initial direct costs incurred by the lessee, including lease payments made before the commencement date of the lease and the cost of restoration obligation and other obligations required in the lease contract, in addition to the amount initially measured for the lease liability.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease to the end of the asset's useful life or the end of the lease term, whichever is earlier.

For short-term leases with a lease term of 12 months or less and leases of low-value assets, lease payments are recognized in net profit on either a straight-line basis over the lease term or another systematic basis, and right-of-use assets and lease liabilities are not recognized.

B. Leases as Lessor

Leases that transfer substantially all the risks and rewards incidental to ownership of the underlying asset are classified as finance leases, and any leases other than finance leases are classified as operating leases.

For finance leases, net investments in the leases are recognized as lease receivables, total lease payments are classified into amounts equivalent to the principal and interest portions of lease receivables, and the amount allocated to the interest portion of lease payments receivable is calculated using the effective interest method. The interest portion of lease payments is presented in either "Revenue" or "Interest income" in the consolidated statement of comprehensive income, depending on the primary purpose of the finance lease.

Under operating leases, lease payments income is recognized in net profit on a straight-line basis over the lease term.

(9) Investment Property

Investment property is land and/or buildings, among others, held to earn rentals or for capital appreciation due to an increase in real estate prices or both.

Investment property is measured using the cost model, in the same manner as property, plant and equipment, and is stated at cost, less accumulated depreciation and accumulated impairment losses.

Except for assets that are not subject to depreciation, such as land, investment property is depreciated using the straight-line method over its estimated useful life, which is between 2 and 50 years. The estimated useful lives and depreciation method are reviewed at each fiscal year end, and if there are any changes made to the estimated useful lives and depreciation method, among others, such changes are applied prospectively as changes in accounting estimates.

(10) Impairment of Non-Financial Assets

Each fiscal year, the Group assesses whether there is any indication that a non-financial asset has been impaired. If there is any indication that an asset has been impaired, the asset is tested for impairment. Goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually, at the same time each year, regardless of whether there is any indication of impairment. When a cash-generating unit, including goodwill, is tested for impairment, an impairment test is performed first for assets other than goodwill, and then for goodwill after necessary impairment losses are recognized for the assets other than goodwill.

An impairment test is performed by cash-generating unit. If cash flows from an asset are identifiable independently of other assets, the asset is considered its own cash-generating unit. If an asset from which cash flows are not identifiable independently of other assets, a cash-generating unit is the smallest identifiable group of assets that independently generates cash flows.

Goodwill is allocated to cash-generating units (minimum units or groups of units) that are expected to contribute to obtaining cash flows considering the synergies of the business combination.

An impairment test is performed by estimating the recoverable amount of the asset by cash-generating unit and comparing the estimated recoverable amount with the carrying amount of the cash-generating unit. The recoverable amount is calculated at the higher of the fair value of the cash-generating unit, less costs to sell, or the value in use. If the carrying amount of the cash-generating unit exceeds the recoverable amount, an impairment loss is recognized for the asset and the carrying amount is written down to the recoverable amount. In the assessment of value in use, estimated future cash flows are discounted to the present value using a pre-tax discount rate reflecting the current market valuation on the time value of money, risks inherent in the asset, and other factors. To determine the fair value, less costs to sell, the Group uses an appropriate valuation model supported by available indicators of fair value.

Recognized impairment losses are allocated so that the carrying amount of each asset in the cash-generating unit is reduced proportionally. Goodwill is first allocated so that the carrying amount of goodwill allocated to the cash-generating unit is reduced and then the carrying amount of each asset other than goodwill in the cash-generating unit is reduced proportionally.

Whether there is any indication that an impairment loss recognized in prior years may have decreased or may no longer exist is assessed. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, an impairment loss is reversed up to the lower of the calculated recoverable amount or the carrying amount that would have been determined (net of depreciation) if no impairment loss had been recognized for the asset in prior years. However, an impairment loss recognized for goodwill is not reversed.

Goodwill on the acquisition of investments accounted for by the equity method is included in the part of the carrying amount of the investments with other components, and investments in the companies accounted for by the equity method may be impaired as a single asset.

(11) Non-Current Assets Held for Sale

When the carrying amount of a non-current asset (or disposal group) is expected to be recovered principally through a sale transaction rather than through continuing use, the asset (or disposal group) is classified as an asset held for sale. The criteria to be classified as an asset held for sale are only met if the sale of the asset is highly probable and the asset is available for immediate sale in its present condition. Because the sale of the asset will be completed within one year from the day of classification, the asset is presented in current assets.

Assets held for sale are measured at the lower of carrying amount or fair value, less costs to sell. Property, plant and equipment and intangible assets classified as assets held for sale are not depreciated or amortized.

(12) Employee Benefits

A. Defined Benefit Retirement Plans

For defined benefit retirement plans, the net amount of the present value of defined benefit obligations and the fair value of plan assets is recognized as liabilities or assets. The present value of defined benefit obligations and related service costs are calculated using the projected unit credit method, in principle. The discount rate used to calculate the present value of defined benefit obligations is determined by reference to market yield at the end of the fiscal year on high-rating corporate bonds that are consistent with the estimated periods of the retirement benefit obligations, in principle.

Changes in the present value of defined benefit obligations for employees' service in prior periods arising due to an amendment to the plan are recognized in profit or loss in the period in which the amendment was made.

The Group recognizes all actuarial gains and losses arising from the Group's defined benefit retirement plans in other comprehensive income ("defined benefit remeasurement") and immediately reclassifies these gains and losses to retained earnings.

B. Defined Contribution Retirement Plans

Contributions to be made for employees' service corresponding to each fiscal period are recognized as expenses for the fiscal year.

C. Multi-Employer Plans

Some subsidiaries have participated in multi-employer plans. Multi-employer plans are classified into defined benefit retirement plans and defined contribution retirement plans in accordance with terms of each plan and the accounting treatment for each plan type is applied. However, for multi-employer plans classified as defined benefit retirement plans, when information sufficient to account for the plans as defined benefit retirement plans is not available, the accounting treatment for defined contribution retirement plans is applied to them.

D. Short-Term Employee Benefits

The undiscounted amount of short-term employee benefits expected to be paid in exchange for the service rendered by employees during the fiscal period is recognized in profit or loss. For bonuses, the estimated amount of payments is recognized as a liability when the Group has legal or constructive obligations to make such payments and reliable estimates of the obligations can be made.

(13) Provisions

A provision is recognized when there is a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will result from the settlement of the obligation, and when a reliable estimate of the obligation can be made. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation (future cash flows), taking into account risks and uncertainty related to the obligation at the end of the fiscal year. When the time value of money for the provisions is material, the amount of the provisions is measured at the present value calculated by discounting estimated future cash flows at a pre-tax discount rate, reflecting risks inherent in the liabilities. Unwinding of the discount reflecting the passage of time is recognized as a financial cost.

Major provisions are provisions for asset retirement obligations, which are recognized and measured by estimating asset retirement obligations individually and specifically taking into account the status of each property based on expected usable years, etc., determined in light of past records of restoration and useful lives of inside fixtures in offices and other places, in preparation for obligations for restoration of rental offices, buildings and stores and removal of harmful materials related to non-current assets. An outflow of economic benefits in the future is expected to be principally in a period after one year from the end of each fiscal year.

(14) Equity

A. Common Stock and Capital Surplus

Equity instruments issued by the Company are recorded in equity and capital surplus. Transaction costs directly attributable to the issuance are deducted from capital surplus.

B. Treasury Stock

When treasury stock is acquired, the treasury stock is recognized at cost and presented separately as an item in equity. Transaction costs directly attributable to the acquisition are deducted from equity.

When treasury stock is sold, consideration received is recognized as an increase in equity.

(15) Revenue

The Group has recognized revenue based on the following five-step approach.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group is engaged in the sale of LPG, gasoline, kerosene, diesel oil, fuel oil, asphalt, electricity, automobiles, and other goods. For the sale of these products, the Group considers that a performance obligation is satisfied when the customer is deemed to obtain control of the product in light of contractual terms and conditions. Specifically, the Group recognizes revenue on the date when the goods are shipped or delivered to the customer or when the customer performs an inspection of the delivered goods. In addition, revenue is recognized at the amount of consideration promised in the contract with the customer less discounts, rebates, returned goods, etc. As the amount of consideration for performance obligations is mainly received within one year of satisfaction of performance obligations, it is not adjusted for the effects of significant financing components.

When identifying the performance obligations, and determining whether the Group is involved in transactions as a party to the transaction, or whether the Group is involved as an agent, the Group considers factors such as whether or not the Group has the primary responsibility for providing the product or service to the customer, whether or not the Group bears the inventory risk, and whether or not the Group has discretion in establishing selling price. For a transaction in which the Group is involved as a party to the transaction, the Group presents revenue at the gross amount of consideration received from the customer. For a transaction in which the Group is involved as an agent, the Group presents revenue at a net amount calculated by deducting the cost of sales from the gross amount of consideration received from the customer.

(16) Government Grants

Proceeds from government grants are recognized at fair value when there is reasonable assurance that the conditions attached to them will be complied with, and that the grant will be received. Grants for expenses incurred are recorded as revenue in the fiscal year in which the expenses are incurred. For grants for acquisition of assets, the amount is deducted from the cost of the assets.

(17) Financial Income and Costs

Financial income consists of interest income, dividends received, gains on changes in fair value and sale of FVTPL financial assets, and gains on changes in fair value of derivatives. Interest income is recognized using the effective interest method when it arises. Dividends received are recognized when the Group's right to receive the payment is established.

Financial costs consist of interest expense, losses on changes in fair value and sale of FVTPL financial assets, impairment losses of financial assets measured at cost other than trade receivables, and losses on changes in fair value of derivatives. Interest expense is recognized using the effective interest method when incurred.

(18) Income Taxes

Income taxes, which comprise current taxes and deferred taxes, are recognized in profit or loss, except for taxes arising from items that are recorded directly in equity or accumulated other comprehensive income and taxes arising from the initial recognition of business combinations.

Current taxes are measured at the amount that is expected to be paid to, or refunded from, the taxation authorities. In calculating the amount of taxes, the Group applies tax rates and tax laws that have been enacted or substantively enacted by the end of the fiscal year in countries where the Group operates business activities and has taxable profit or tax loss.

Deferred taxes are calculated based on the temporary differences between the tax basis of an asset or liability and its carrying amount at the fiscal year end. Deferred tax assets are recognized for deductible temporary differences, carryforward of unused tax credits, and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are, in principle, recognized for taxable temporary differences.

The deferred tax assets or liabilities are not recognized for the following temporary differences:

- Temporary differences from the initial recognition of goodwill
- Temporary differences from the initial recognition of assets and liabilities arising from transactions (excluding business combination transactions) that affect neither accounting profit nor taxable profit

Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures are not recognized if the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets for deductible temporary differences arising from investments in subsidiaries and associates are recognized only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be used.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period in which the asset is realized or the liability is settled, based on a tax rate (and tax laws) that has been enacted or substantively enacted by the end of the fiscal year.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the taxes are levied by the same taxation authority on the same taxable entity.

(19) Earnings per Share

Basic earnings per share are calculated by dividing profit or loss attributable to Itochu Enex's shareholders by the weighted-average number of ordinary shares outstanding during the period.

4. Use of Estimates and Judgments

In the preparation of the consolidated financial statements, management uses estimates and judgments. Estimates and judgments made by the management have an impact on the amounts of assets and liabilities as of the reporting date and disclosure of contingent liabilities, and the amounts reported as revenue and expenses.

Major items in which the carrying amounts of assets, liabilities, revenue, and expenses are affected by judgments made in application of the accounting policies are as follows.

- Indication of impairment for property, plant and equipment, goodwill, intangible assets, etc. (refer to Note 3, "Significant Accounting Policies (10) Impairment of Non-Financial Assets")
- Recognition and presentation of revenue (refer to Note 3, "Significant Accounting Policies (15) Revenue")

Assumptions used in accounting estimates may differ from actual figures because these assumptions are set based on past experience and appropriately collected, available information. Estimates and assumptions are reviewed by management on an ongoing basis. Effects of these reviews of estimates and assumptions are recognized in the period in which the estimates and assumptions are reviewed and subsequent periods.

Information on uncertainty of assumptions and estimates that have a risk of resulting in significant adjustments in the next fiscal year is as follows:

- Impairment of Non-Financial Assets

Impairment tests of non-financial assets are performed based on many assumptions and estimates, such as assumptions for measurement of fair value, less costs to sell, in the calculation of the recoverable amount or estimated future cash flows of cash-generating units as bases for calculation of value in use and discount rate. There is a risk that changes in uncertain future economic conditions may result in significant adjustments to the amount of impairment losses.

The content and amount related to impairment of non-financial assets are discussed in Note 31, "Impairment Loss."

Due to the effects of the COVID-19 pandemic, revenue is expected to decline due to reduced demand for industrial fuels reflecting the slowdown in economic activity, as well as decreases in gasoline demand and automobile sales resulting from stay-at-home requests and other factors. The Company is testing non-financial assets for impairment when reflecting these factors in estimated future cash flows mainly for the period from April to June 2020.

- Estimates of Income Taxes

In calculation of income taxes, estimates and judgments are required for various factors, including interpretation of tax regulations and history of past tax examinations. Therefore, the carrying amount of income taxes may differ from the actual amount of tax payment.

Deferred tax assets are recognized to the extent it is probable that taxable profit will be available against which deductible temporary differences can be used. As the timing when taxable profit is earned and the amount thereof may be affected by changes in uncertain future economic conditions, there is a risk that the amount recognized in subsequent fiscal years may change significantly if the actual timing and amounts differ from the estimates.

The content and amount related to income taxes are discussed in Note 17, "Deferred Taxes and Income Taxes."

Due to the effects of the COVID-19 pandemic, revenue is expected to decline due to reduced demand for industrial fuels reflecting the slowdown in economic activity, as well as decreases in gasoline demand and automobile sales resulting from stay-at-home requests and other factors. Therefore, the Company estimated the amount of taxable income and recognized deferred tax assets based on the assumption that these factors will affect revenue mainly from April to June 2020.

- Measurement of Defined Benefit Obligations in Defined Benefit Retirement Plans

Defined benefit obligations are computed based on actuarial calculations, and assumptions used in those actuarial calculations include estimates of discount rates, employee turnover, mortality rates, salary increase rates, etc. These assumptions are determined with all available information, such as market trends of interest rate fluctuations judged comprehensively. These assumptions may be affected by economic conditions and revisions of laws and regulations, and there is a risk that such effects may cause significant changes in the measurement of defined benefit obligations in subsequent fiscal years.

Details on measurement of defined benefit obligations in defined benefit retirement plans and the amounts are discussed in Note 23, "Employee Benefits."

- Measurement of Provisions

The Group records asset retirement obligations as a provision in the consolidated statement of financial position. The amount recorded is the present value calculated by discounting the best estimate of expenditures required to settle the obligations, which takes into account risks and uncertainty as of the end of the fiscal year, at a pre-tax discount rate, reflecting risks inherent in the liabilities.

Although the amount of expenditures required to settle the obligations is calculated comprehensively taking into account future possible outcomes, this amount may be affected by unpredictable events or changes in situation. If the actual amount of payment differs from the estimate, or if there is any significant change in the discount rate for discounting the estimated expenditure due to changes in economic conditions and other factors, the amount recognized in subsequent fiscal years may be affected significantly.

The amount of recognized asset retirement obligations is discussed in Note 22, "Provisions."

5. Segment Information

(1) Outline of Reportable Segments

The reportable segments of the Group are components of the Group for which separate financial information is available. These segments are periodically evaluated by the Board of Directors in deciding how to allocate management resources and in assessing performance.

The Group is organized into business divisions, consolidating related businesses. Each business division plans strategies for each category of target customers and markets and develops business activities. The Group has four reportable segments that correspond to the business divisions, namely the "Home-Life Division," "Car-Life Division," "Industrial Business Division," and "Power & Utility Division."

The Home-Life Division is engaged in sales and services involving LP gas, kerosene, town gas (Nakatsu City, Oita Prefecture and Kanto region), industrial gas, electricity, household equipment, smart energy equipment, remodeling, residential lithium-ion electricity storage systems, pressure resistance inspection for gas containers and welding materials.

The Car-Life Division is engaged in sales and services involving gasoline, kerosene, diesel oil, electricity, automobiles, car rental, and lifestyle and automotive products, as well as in import/export of petroleum products and terminal tank rental.

The Industrial Business Division is engaged in sales and services involving gasoline, kerosene, diesel oil, fuel oil, LP gas, high-grade urea solution "AdBlue," GTL fuel, corporate fleet refueling cards, asphalt, and marine fuel, as well as in the fly ash recycling business and slop recovery and recycling business.

The Power & Utility Division is engaged in the sale of electricity (coal-fired, natural gas-fired, wind, hydro, and photovoltaic power) and steam, as well as in providing district heating services, comprehensive energy services, electricity/heat supply services, electric power supply/demand management services, and asset management business.

In the fiscal year ended March 31, 2020, the now former Mobility Life Department was included in the Life & Industrial Energy Division, and the Life & Industrial Energy Division was reorganized into two divisions: the Car-Life Division and the Industrial Business Division.

In line with this, the classification of reportable segments has been changed from the Home-Life Division, Life & Industrial Energy Division and Power & Utility Division to the Home-Life Division, Car-Life Division, Industrial Business Division and Power & Utility Division from the fiscal year ended March 31, 2020.

Due to the change in segments, segment information for the fiscal year ended March 31, 2019 has been adjusted based on the classification of reportable segments after the change.

(2) Information on Reportable Segments

The accounting method for the reportable segments is generally the same as the method described in Note 3, "Significant Accounting Policies."

For the fiscal year ended March 31, 2019

(Millions of yen)

| | Reportable segments | | | | | Adjustment | Consolidated |
|---|---------------------|----------|---------------------|-----------------|-----------|------------|--------------|
| | Home-Life | Car-Life | Industrial Business | Power & Utility | Total | | |
| Revenue | | | | | | | |
| Revenue from external customers | 94,350 | 624,329 | 194,948 | 93,459 | 1,007,086 | — | 1,007,086 |
| Intersegment revenue | 365 | 9,187 | 7,778 | 5,969 | 23,299 | (23,299) | — |
| Total revenue | 94,715 | 633,516 | 202,726 | 99,428 | 1,030,385 | (23,299) | 1,007,086 |
| Gross profit | 22,397 | 49,452 | 5,227 | 7,134 | 84,210 | — | 84,210 |
| Selling, general and administrative expenses | (18,927) | (41,070) | (2,722) | (4,662) | (67,381) | 63 | (67,318) |
| Loss from tangible assets, intangible assets and goodwill | (172) | (192) | (19) | 324 | (59) | (182) | (241) |
| Other profit (loss) | 257 | 1,039 | (37) | (67) | 1,192 | 8 | 1,200 |
| Profit from operating activities | 3,555 | 9,230 | 2,449 | 2,728 | 17,962 | (111) | 17,851 |
| Financial income and costs | (24) | (258) | (27) | 516 | 207 | (209) | (2) |
| Share of profit of investments accounted for by the equity method | 1,251 | 100 | 39 | 175 | 1,565 | — | 1,565 |
| Profit before tax | 4,782 | 9,072 | 2,461 | 3,419 | 19,734 | (320) | 19,414 |
| Net profit attributable to Itochu Enex's shareholders | 3,068 | 5,150 | 1,705 | 1,970 | 11,893 | (334) | 11,559 |
| Other items | | | | | | | |
| Depreciation and amortization | (2,698) | (2,919) | (448) | (3,494) | (9,559) | (527) | (10,086) |
| Impairment loss | (251) | (216) | — | — | (467) | (171) | (638) |
| Total assets | 65,584 | 153,117 | 36,217 | 82,439 | 337,357 | 37,016 | 374,373 |
| Investments accounted for by the equity method | 18,774 | 534 | 21 | 10,112 | 29,441 | — | 29,441 |
| Capital expenditures | 3,259 | 1,818 | 683 | 6,660 | 12,420 | 1,295 | 13,715 |
| Total trading transactions | 105,112 | 813,267 | 228,946 | 96,935 | 1,244,260 | — | 1,244,260 |

(Note) Intersegment transactions have been decided by reference to the market price.

The adjustment of negative ¥334 million to net profit attributable to Itochu Enex's shareholders represents corporate profit not allocated to reportable segments.

The adjustment of ¥37,016 million to total assets represents corporate assets not allocated to reportable segments.

Total trading transactions are unaudited items voluntarily disclosed by the Company and represent the amount of sales in accordance with Japanese accounting practices.

For the fiscal year ended March 31, 2020

(Millions of yen)

| | Reportable segments | | | | | Adjustment | Consolidated |
|---|---------------------|----------|---------------------|-----------------|-----------|------------|--------------|
| | Home-Life | Car-Life | Industrial Business | Power & Utility | Total | | |
| Revenue | | | | | | | |
| Revenue from external customers | 89,084 | 542,697 | 175,154 | 90,492 | 897,427 | — | 897,427 |
| Intersegment revenue | 81 | 14,174 | 9,188 | 3,615 | 27,058 | (27,058) | — |
| Total revenue | 89,165 | 556,871 | 184,342 | 94,107 | 924,485 | (27,058) | 897,427 |
| Gross profit | 21,958 | 49,221 | 5,624 | 9,615 | 86,418 | — | 86,418 |
| Selling, general and administrative expenses | (19,449) | (41,280) | (2,926) | (4,762) | (68,417) | (441) | (68,858) |
| Loss from tangible assets, intangible assets and goodwill | 172 | (256) | (19) | (321) | (424) | (4) | (428) |
| Other profit | 118 | 554 | 131 | 1,293 | 2,096 | 29 | 2,125 |
| Profit from operating activities | 2,799 | 8,239 | 2,810 | 5,825 | 19,673 | (416) | 19,257 |
| Financial income and costs | (23) | (532) | 23 | (415) | (947) | (100) | (1,047) |
| Share of profit of investments accounted for by the equity method | 825 | 126 | 30 | 787 | 1,768 | — | 1,768 |
| Profit before tax | 3,601 | 7,833 | 2,863 | 6,197 | 20,494 | (516) | 19,978 |
| Net profit attributable to Itochu Enex's shareholders | 2,113 | 4,584 | 1,977 | 3,537 | 12,211 | (155) | 12,056 |
| Other items | | | | | | | |
| Depreciation and amortization | (3,759) | (8,364) | (1,380) | (4,735) | (18,238) | (1,342) | (19,580) |
| Impairment loss | (145) | (204) | — | (144) | (493) | — | (493) |
| Total assets | 67,240 | 164,239 | 33,291 | 91,921 | 356,691 | 30,966 | 387,657 |
| Investments accounted for by the equity method | 19,049 | 511 | 90 | 11,933 | 31,583 | — | 31,583 |
| Capital expenditures | 3,688 | 3,220 | 150 | 5,992 | 13,050 | 871 | 13,921 |
| Increase in right-of-use assets | 918 | 3,872 | 1,111 | 4,264 | 10,165 | 65 | 10,230 |
| Total trading transactions | 98,328 | 706,719 | 206,332 | 93,169 | 1,104,548 | — | 1,104,548 |

(Note) Intersegment transactions have been decided by reference to the market price.

The adjustment of negative ¥155 million to net profit attributable to Itochu Enex's shareholders represents corporate profit not allocated to reportable segments.

The adjustment of ¥30,966 million to total assets represents corporate assets not allocated to reportable segments.

Total trading transactions are unaudited items voluntarily disclosed by the Company and represent the amount of sales in accordance with Japanese accounting practices.

(3) Products and Services Information

This information is omitted because the classification of products and services is the same as the classification of reportable segments.

(4) Geographic Information

This information is omitted because revenue from external customers in Japan accounts for a large percentage of the revenue recorded in the consolidated statement of comprehensive income for the fiscal years ended March 31, 2019 and 2020.

(5) Major Customers Information

This information is omitted because there is no major external customer from which revenue accounts for 10% or more of the revenue recorded in the consolidated statement of comprehensive income for the fiscal years ended March 31, 2019 and 2020.

6. Business Combinations

For the fiscal year ended March 31, 2019

There were no significant business combinations during the fiscal year ended March 31, 2019.

For the fiscal year ended March 31, 2020

There were no significant business combinations during the fiscal year ended March 31, 2020.

7. Loss of Control of Subsidiaries

For the fiscal year ended March 31, 2019

There was no significant loss of control during the fiscal year ended March 31, 2019.

For the fiscal year ended March 31, 2020

There was no significant loss of control during the fiscal year ended March 31, 2020.

8. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2019 and 2020 were composed of cash and deposits.

9. Trade Receivables

The components of trade receivables are shown below:

| | (Millions of yen) | |
|------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Trade receivables | | |
| Trade receivables | 100,489 | 81,376 |
| Trade notes receivable | 6,001 | 5,729 |
| Loss allowance | (325) | (194) |
| Total | 106,165 | 86,911 |

10. Securities and Other Financial Assets

The components of other current financial assets are shown below:

| | (Millions of yen) | |
|--------------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Other current financial assets | | |
| Short-term loans receivable | 427 | 370 |
| Other accounts receivable | 13,760 | 13,873 |
| Derivative assets | 224 | 69 |
| Deposits paid | 20,000 | 11,021 |
| Other | 1,623 | 2,762 |
| Total | 36,034 | 28,095 |

The components of other investments are shown below:

| | (Millions of yen) | |
|-------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Other investments | | |
| FVTPL financial assets | 1,044 | 1,119 |
| FVTOCI financial assets | 3,142 | 2,741 |
| Total | 4,186 | 3,860 |

The components of non-current financial assets other than investments are shown below:

| | (Millions of yen) | |
|---|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Non-current financial assets other than investments | | |
| Non-current loans receivable | 998 | 756 |
| Non-current lease receivables | 2,500 | 3,485 |
| Guarantee deposits | 6,248 | 6,053 |
| Other | 2,203 | 2,091 |
| Loss allowance | (657) | (443) |
| Total | 11,292 | 11,942 |

11. Inventories

The components of inventories are shown below:

| | (Millions of yen) | |
|--------------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Merchandise and finished goods | 32,988 | 24,196 |
| Raw materials | 65 | 67 |
| Total | 33,053 | 24,263 |

For the fiscal year ended March 31, 2020, the amount of inventories expensed as cost of sales was ¥793,112 million, compared with ¥905,017 million for the fiscal year ended March 31, 2019.

For the fiscal year ended March 31, 2020, the amount of inventories written down to net realizable value was ¥24 million, compared with ¥3 million for the fiscal year ended March 31, 2019. These amounts written down are included in cost of sales in the consolidated statement of comprehensive income.

The carrying amount of inventories recorded at fair value, less cost to sell, on a recurring basis as of March 31, 2019 and 2020 was ¥7,984 million and ¥1,169 million, respectively. The fair value is measured based on the amount obtained from a pricing service agency that was principally evaluated by the market approach and classified as Level 2.

12. Investments Accounted for by the Equity Method

In the Group, all investments in associates and joint ventures are accounted for by the equity method. There is no investment in associates and joint ventures for which stock quotations have been published.

(1) Investments in Associates and Joint Ventures

Total carrying amounts of investments in associates and joint ventures in the consolidated statement of financial position as of March 31, 2019 and 2020 are shown below:

| | (Millions of yen) | |
|----------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Associates | 8,457 | 8,183 |
| Joint ventures | 20,984 | 23,400 |
| Total | 29,441 | 31,583 |

(2) Breakdown of Comprehensive Income from Associates and Joint Ventures

For investments in associates and joint ventures, the amounts of corresponding share of comprehensive income recorded in the fiscal years ended March 31, 2019 and 2020 are shown below:

A. Profit or Loss

| | (Millions of yen) | |
|----------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Associates | 597 | 72 |
| Joint ventures | 968 | 1,696 |
| Total | 1,565 | 1,768 |

B. Other Comprehensive Income

| | (Millions of yen) | |
|----------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Associates | 106 | (48) |
| Joint ventures | (353) | 189 |
| Total | (247) | 141 |

C. Total Comprehensive Income

| | (Millions of yen) | |
|----------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Associates | 703 | 24 |
| Joint ventures | 615 | 1,885 |
| Total | 1,318 | 1,909 |

(3) Major Associates and Joint Ventures

Details of major associates and joint ventures are as follows:

As of March 31, 2019

| | Name | Major business | Location | Percentage of equity held (%) |
|---------------|------------------|----------------------|-------------------|-------------------------------------|
| Joint venture | ENEARC Co., Ltd. | Sale of LPG products | Chiyoda-ku, Tokyo | 50.0 |

As of March 31, 2020

| | Name | Major business | Location | Percentage of equity held (%) |
|---------------|------------------|----------------------|-------------------|-------------------------------------|
| Joint venture | ENEARC Co., Ltd. | Sale of LPG products | Chiyoda-ku, Tokyo | 50.0 |

(4) Summarized Financial Information of Major Associates and Joint Ventures

Summarized financial information of major associates and joint ventures accounted for by the equity method is shown below:

ENEARC Co., Ltd.

| | (Millions of yen) | |
|-------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Current assets | 13,009 | 12,521 |
| Non-current assets | 25,951 | 25,086 |
| Current liabilities | 14,628 | 13,290 |
| Non-current liabilities | 5,866 | 5,048 |
| Equity | 18,466 | 19,269 |

Cash and cash equivalents included in the current assets above as of March 31, 2019 and 2020 are ¥2,183 million and ¥1,974 million, respectively. Financial liabilities (excluding trade and other payables, and provisions) included in current liabilities as of March 31, 2019 and 2020 are ¥7,129 million and ¥5,985 million, respectively, and financial liabilities (excluding trade and other payables, and provisions) included in non-current liabilities as of March 31, 2019 and 2020 are ¥3,712 million and ¥2,721 million, respectively.

| | (Millions of yen) | |
|---------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Revenue | 56,519 | 53,286 |
| Depreciation and amortization | (2,464) | (2,564) |
| Financial income | 19 | 20 |
| Financial costs | (27) | (23) |
| Income tax expense | 668 | 869 |
| Net profit | 1,488 | 1,675 |
| Other comprehensive loss | (104) | (92) |
| Comprehensive income | 1,384 | 1,582 |
| Dividends received by the Group | - | (390) |

(5) Reconciliation Between Carrying Amounts and Summarized Financial Information of Major Associates and Joint Ventures

ENEARC Co., Ltd.

| | (Millions of yen) | |
|---|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Net assets | 18,466 | 19,269 |
| The Group's share of net assets | 9,233 | 9,635 |
| Goodwill and consolidation adjustments | 2,220 | 2,220 |
| Carrying amounts of the Group's equity interest in ENEARC Co., Ltd. | 11,453 | 11,855 |

13. Property, Plant and Equipment

Changes in acquisition cost, accumulated depreciation, and accumulated impairment loss of property, plant and equipment are shown below:

[Acquisition Cost]

(Millions of yen)

| | Land | Buildings and structures | Machinery, equipment and vehicles | Vessels | Other | Construction in progress | Total |
|---|---------|--------------------------|-----------------------------------|---------|---------|--------------------------|----------|
| As of April 1, 2018 | 16,078 | 40,291 | 62,584 | 1,893 | 11,416 | 4,290 | 136,552 |
| Acquisition | 84 | 934 | 1,534 | - | 1,046 | 9,157 | 12,755 |
| Reclassification | 25 | 1,188 | 3,944 | - | 656 | (8,341) | (2,528) |
| Acquisition through business combinations | 39 | 132 | 89 | - | 14 | - | 274 |
| Decrease due to disposal and change in the scope of consolidation | (290) | (791) | (3,825) | - | (1,043) | - | (5,949) |
| Other | 85 | 965 | 837 | - | (48) | (713) | 1,126 |
| As of March 31, 2019 | 16,021 | 42,719 | 65,163 | 1,893 | 12,041 | 4,393 | 142,230 |
| Effect of change in accounting policy | 27,102 | 18,153 | 845 | 804 | 443 | - | 47,347 |
| Restated balance | 43,123 | 60,872 | 66,008 | 2,697 | 12,484 | 4,393 | 189,577 |
| Acquisition | 4,915 | 2,138 | 2,569 | - | 1,625 | 8,425 | 19,672 |
| Reclassification | 20 | 1,143 | 5,028 | - | 947 | (7,138) | - |
| Acquisition through business combinations | - | - | 863 | - | 1 | 5,465 | 6,329 |
| Decrease due to disposal and change in the scope of consolidation | (3,426) | (1,299) | (3,424) | - | (770) | (7,881) | (16,800) |
| Other | (607) | 2,474 | (177) | 586 | (557) | (1,265) | 454 |
| As of March 31, 2020 | 44,025 | 65,328 | 70,867 | 3,283 | 13,730 | 1,999 | 199,232 |

[Accumulated Depreciation and Accumulated Impairment Loss]

(Millions of yen)

| | Land | Buildings and structures | Machinery, equipment and vehicles | Vessels | Other | Construction in progress | Total |
|---|---------|--------------------------|-----------------------------------|---------|---------|--------------------------|----------|
| As of April 1, 2018 | (139) | (15,085) | (28,092) | (650) | (7,260) | - | (51,226) |
| Depreciation | - | (1,601) | (4,945) | (164) | (1,334) | - | (8,044) |
| Impairment loss | (83) | (133) | (67) | - | (43) | - | (326) |
| Reclassification | - | 158 | 673 | - | - | - | 831 |
| Decrease due to disposal and change in the scope of consolidation | - | 583 | 2,921 | - | 955 | - | 4,459 |
| Other | (20) | (280) | (47) | - | 22 | - | (325) |
| As of March 31, 2019 | (242) | (16,358) | (29,557) | (814) | (7,660) | - | (54,631) |
| Depreciation | (2,713) | (6,137) | (5,504) | (1,057) | (1,445) | - | (16,856) |
| Impairment loss | (20) | (197) | (173) | - | (38) | - | (428) |
| Reclassification | - | - | - | - | - | - | - |
| Decrease due to disposal and change in the scope of consolidation | 5 | 881 | 2,654 | - | 698 | - | 4,238 |
| Other | 127 | 287 | 428 | 8 | 465 | - | 1,315 |
| As of March 31, 2020 | (2,843) | (21,524) | (32,152) | (1,863) | (7,980) | - | (66,362) |

[Carrying Amount]

(Millions of yen)

| | Land | Buildings and structures | Machinery, equipment and vehicles | Vessels | Other | Construction in progress | Total |
|----------------------|--------|--------------------------|-----------------------------------|---------|-------|--------------------------|---------|
| As of March 31, 2019 | 15,779 | 26,361 | 35,606 | 1,079 | 4,381 | 4,393 | 87,599 |
| As of March 31, 2020 | 41,182 | 43,804 | 38,715 | 1,420 | 5,750 | 1,999 | 132,870 |

Carrying amounts of finance lease assets defined in the former IAS 17 (net of accumulated depreciation and accumulated impairment loss) included in property, plant and equipment are shown below:

(Millions of yen)

| | Buildings and structures | Machinery, equipment and vehicles | Vessels | Other | Total |
|----------------------|--------------------------|-----------------------------------|---------|-------|--------|
| As of March 31, 2019 | 6,792 | 2,295 | 72 | 999 | 10,158 |

The depreciation expense of property, plant and equipment is included in cost of sales and selling, general and administrative expenses in the consolidated statement of comprehensive income.

Expenditures related to property, plant and equipment under construction are presented as construction in progress in the above table.

The balance of property, plant and equipment includes property, plant and equipment of which disposal through transfer, sale, etc. is restricted in association with bank loans of ¥11,547 million and ¥10,676 million as of March 31, 2019 and 2020, respectively.

There were no borrowing costs capitalized in the fiscal years ended March 31, 2019 and 2020.

For the commitments for acquisition of property, plant and equipment, please refer to Note 39, "Commitments."

14. Investment Property

Changes in acquisition cost, accumulated depreciation, and accumulated impairment loss of investment property are shown below:

[Acquisition Cost]

| | (Millions of yen) | |
|---------------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Balance at the beginning of the year | 22,006 | 20,815 |
| Effect of change in accounting policy | - | 3,625 |
| Restated balance | 22,006 | 24,440 |
| Acquisition | - | 15 |
| Expenditure after acquisition | 370 | 470 |
| Reclassification | 165 | 214 |
| Disposal | (1,965) | (1,013) |
| Other | 239 | 345 |
| Balance at the end of the year | 20,815 | 24,471 |

[Accumulated Depreciation and Accumulated Impairment Loss]

| | (Millions of yen) | |
|--------------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Balance at the beginning of the year | (11,840) | (10,995) |
| Depreciation | (242) | (768) |
| Impairment loss | (134) | (60) |
| Reclassification | (158) | 29 |
| Disposal | 1,480 | 656 |
| Other | (101) | (186) |
| Balance at the end of the year | (10,995) | (11,324) |

The rental income from investment property for the fiscal years ended March 31, 2019 and 2020 was ¥2,836 million and ¥2,100 million, respectively, which was included in revenue in the consolidated statement of comprehensive income. The direct operating expenses incurred incidental to rental income were ¥1,278 million and ¥1,331 million, respectively, which were included in cost of sales in the consolidated statement of comprehensive income.

[Carrying Amount and Fair Value]

| | (Millions of yen) | |
|----------------------|-------------------|------------|
| | Carrying amount | Fair value |
| As of March 31, 2019 | 9,819 | 9,941 |
| As of March 31, 2020 | 13,147 | 13,413 |

The Group has rental facilities for selling petroleum products, such as gas stations, and rental storage facilities for petroleum products throughout Japan.

Fair value of the above investment property is classified into Level 3. The fair value is calculated based on the amount measured using the sales comparison method and the discounted cash flow method, taking into account the market conditions adjustment, area-specific value, and other factors computed by the Group.

15. Goodwill and Intangible Assets

Changes in acquisition cost, accumulated amortization, and accumulated impairment loss of goodwill and intangible assets are shown below:

[Acquisition Cost]

| | (Millions of yen) | | | | |
|---|-------------------|---------------------------------|--|-------|--------|
| | Goodwill | Relationships with customers | Brand and relationships with suppliers | Other | Total |
| As of April 1, 2018 | 692 | 10,677 | 11,069 | 4,038 | 26,476 |
| Acquisition | - | 230 | - | 721 | 951 |
| Acquisition through business combinations | - | - | - | 1 | 1 |
| Decrease due to disposal and change in the scope of consolidation | - | (457) | - | (487) | (944) |
| Other | - | 98 | - | 148 | 246 |
| As of March 31, 2019 | 692 | 10,548 | 11,069 | 4,421 | 26,730 |
| Acquisition | - | 948 | - | 1,005 | 1,953 |
| Acquisition through business combinations | - | - | - | - | - |
| Decrease due to disposal and change in the scope of consolidation | - | (155) | - | (304) | (459) |
| Other | - | 11 | - | 93 | 104 |
| As of March 31, 2020 | 692 | 11,352 | 11,069 | 5,215 | 28,328 |

[Accumulated Amortization and Accumulated Impairment Loss]

| | (Millions of yen) | | | | |
|---|-------------------|---------------------------------|--|---------|---------|
| | Goodwill | Relationships with customers | Brand and relationships with suppliers | Other | Total |
| As of April 1, 2018 | - | (2,576) | (1,061) | (1,349) | (4,986) |
| Amortization | - | (826) | (277) | (697) | (1,800) |
| Impairment loss | (171) | - | - | - | (171) |
| Decrease due to disposal and change in the scope of consolidation | - | 405 | - | 349 | 754 |
| Other | - | 70 | - | 15 | 85 |
| As of March 31, 2019 | (171) | (2,927) | (1,338) | (1,682) | (6,118) |
| Amortization | - | (886) | (276) | (793) | (1,955) |
| Impairment loss | - | - | - | (4) | (4) |
| Decrease due to disposal and change in the scope of consolidation | - | 39 | - | 286 | 325 |
| Other | - | (35) | - | (14) | (49) |
| As of March 31, 2020 | (171) | (3,809) | (1,614) | (2,207) | (7,801) |

[Carrying Amount]

| | (Millions of yen) | | | | |
|----------------------|-------------------|---------------------------------|--|-------|--------|
| | Goodwill | Relationships with customers | Brand and relationships with suppliers | Other | Total |
| As of March 31, 2019 | 521 | 7,621 | 9,731 | 2,739 | 20,612 |
| As of March 31, 2020 | 521 | 7,542 | 9,455 | 3,008 | 20,526 |

The amortization expense of intangible assets is included in cost of sales and selling, general and administrative expenses in the consolidated statement of comprehensive income.

Of the above intangible assets, significant assets are relationships with customers recognized in the business combination with TOKYO TOSHI SERVICE COMPANY (as of March 31, 2019: ¥3,100 million, and March 31, 2020: ¥2,978 million) and brand and relationships with suppliers recognized in the business combination with Osaka Car Life Group Co., Ltd. (as of March 31, 2019: ¥9,731 million, and March 31, 2020: ¥9,455 million). The remaining amortization periods of these intangible assets as of March 31, 2019 and 2020, are 20 to 35 years and 19 to 34 years, respectively, for relationships with customers, and 35 years and 34 years, respectively, for brand and relationships with suppliers.

There were no intangible assets pledged as collateral as of March 31, 2019 and 2020.

Impairment Test for Goodwill

In performing an impairment test for goodwill, the Group allocates goodwill to the LPG sales business and others and calculates the recoverable amount of the LPG sales business, which is a cash-generating unit, based on value in use.

The Group calculates value in use by discounting estimated future cash flows based on the latest business plan approved by the Board of Directors to the present value.

The Group uses a pre-tax discount rate reflecting the current market valuation of the time value of money, risks inherent in the asset, and other factors as the discount rate (as of March 31, 2019: 4.4%, and March 31, 2020: 5.3%).

The Group considers that significant impairment is unlikely to arise in the cash-generating unit even if the discount rate used in the above impairment test changes within a reasonably predictable range.

16. Leases

For the fiscal year ended March 31, 2019

(1) Lessee

A. Finance Leases

The total future minimum lease payments under finance leases and the present value thereof as of March 31, 2019 are shown below:

| | (Millions of yen) | |
|---|-------------------------------------|--|
| | Total future minimum lease payments | Present value of total future minimum lease payments |
| | As of March 31, 2019 | As of March 31, 2019 |
| Not later than 1 year | 2,085 | 1,869 |
| Later than 1 year and not later than 5 years | 5,749 | 5,049 |
| Later than 5 years | 4,613 | 4,223 |
| Total | 12,447 | 11,141 |
| Less: Accrued financial costs | (1,306) | |
| Present value of total future minimum lease payments | 11,141 | |

The total of future minimum sublease payments expected to be received under noncancelable subleases as of March 31, 2019 was ¥1,030 million.

Lease agreements do not have any contingent rent payable, renewal or purchase options, escalation clauses, and restrictions imposed by the lease agreements (such as those concerning dividends, additional debt, and further leasing).

B. Operating Leases

The total future minimum lease payments under noncancelable operating leases as of March 31, 2019 are shown below:

| | (Millions of yen) |
|--|----------------------|
| | As of March 31, 2019 |
| Not later than 1 year | 948 |
| Later than 1 year and not later than 5 years | 4,130 |
| Later than 5 years | 1,090 |
| Total | 6,168 |

As of March 31, 2019, lease payments recognized as expenses under cancelable or noncancelable operating leases was ¥11,982 million.

Lease agreements do not have any contingent rent payable, renewal or purchase options, escalation clauses, and restrictions imposed by the lease agreements (such as those concerning dividends, additional debt, and further leasing).

(2) Lessor

Finance Leases

The total future minimum lease payments receivable under finance leases and the present value thereof as of March 31, 2019 are shown below:

| | (Millions of yen) | |
|--|-------------------------------------|--|
| | Total future minimum lease payments | Present value of total future minimum lease payments |
| | As of March 31, 2019 | As of March 31, 2019 |
| Not later than 1 year | 587 | 571 |
| Later than 1 year and not later than 5 years | 1,627 | 1,587 |
| Later than 5 years | 913 | 913 |
| Total | 3,126 | 3,071 |
| Less: Unearned financial income | (55) | |
| Present value of total future minimum lease payments receivable | 3,071 | |

For the fiscal year ended March 31, 2020

(1) Lessee

The Group uses leases to rent real estate, primarily the headquarters office, Car-Life Stations (service stations), oil, gas and asphalt storage bases, gas and heat supply facilities, power generation facilities, and automobile sales outlets.

Gains and losses related to right-of-use assets (excluding investment property) in the fiscal year ended March 31, 2020 are shown below.

Information about investment property is presented in Note 14, "Investment Property."

(Millions of yen)

| | Fiscal year ended March 31, 2020 |
|--|-------------------------------------|
| Depreciation of right-of-use assets | |
| With land as the underlying asset | 2,713 |
| With buildings and structures as the underlying assets | 4,574 |
| With machinery, equipment and vehicles as the underlying assets | 1,029 |
| With vessels as the underlying asset | 908 |
| With other property, plant and equipment as the underlying asset | 387 |
| Total depreciation | 9,611 |
| Interest expense on lease liabilities | 337 |
| Expense relating to short-term leases | 273 |
| Expense relating to leases of low-value assets | 595 |

The breakdown of carrying amounts of right-of use assets (excluding investment property) as of March 31, 2020 is shown below:

(Millions of yen)

| | Land | Buildings and structures | Machinery, equipment and vehicles | Vessels | Other | Total |
|----------------------|--------|-----------------------------|---|---------|-------|--------|
| As of March 31, 2020 | 25,694 | 23,945 | 3,029 | 562 | 1,199 | 54,429 |

The increase in right-of-use assets (excluding investment property) in the fiscal year ended March 31, 2020 was ¥9,870 million. Total cash outflow for leases in the fiscal year ended March 31, 2020 was ¥11,141 million.

The breakdown by payment year of future lease payments based on lease contracts with the Group as of March 31, 2020 is shown below:

(Millions of yen)

| | As of March 31, 2020 |
|--|----------------------|
| Not later than 1 year | 10,490 |
| Later than 1 year and not later than 5 years | 26,442 |
| Later than 5 years | 28,519 |
| Total | 65,451 |

In the Group, lease terms are negotiated individually, and contractual terms vary widely. Extension options and termination options in the Group are included mainly in real estate leases, and the Group uses these options as necessary in utilizing lease contracts in its business operations.

(2) Lessor

The Group uses finance leases primarily for subleasing real estate and other properties.

Gross investment in finance leases and net investment in leases, and their adjusted amounts, as of March 31, 2020 are shown below:

(Millions of yen)

| | As of March 31, 2020 |
|---|----------------------|
| Gross investment in leases | |
| Not later than 1 year | 1,272 |
| Later than 1 year and not later than 2 years | 868 |
| Later than 2 years and not later than 3 years | 720 |
| Later than 3 years and not later than 4 years | 522 |
| Later than 4 years and not later than 5 years | 345 |
| Later than 5 years | 1,262 |
| Total | 4,988 |
| Unearned finance income | 639 |
| Unguaranteed residual value | — |
| Net investment in leases | 4,349 |

Finance income on net investment in finance leases in the fiscal year ended March 31, 2020 is shown below:

(Millions of yen)

| | As of March 31, 2020 |
|--|----------------------|
| Finance income on net investment in finance leases | 110 |

The Group uses operating leases primarily for rental of real estate and other properties.

The breakdown of future lease payments on operating leases by year as of March 31, 2020 is shown below:

(Millions of yen)

| | As of March 31, 2020 |
|---|----------------------|
| Not later than 1 year | 1,265 |
| Later than 1 year and not later than 2 years | 612 |
| Later than 2 years and not later than 3 years | 514 |
| Later than 3 years and not later than 4 years | 462 |
| Later than 4 years and not later than 5 years | 349 |
| Later than 5 years | 1,238 |
| Total | 4,441 |

Operating lease income in the fiscal year ended March 31, 2020 is shown below:

(Millions of yen)

| | As of March 31, 2020 |
|------------------------|----------------------|
| Operating lease income | 2,100 |

The Group receives security deposits to reduce risks related to the rights held by lenders on the underlying assets.

17. Deferred Taxes and Income Taxes

(1) Deferred Taxes

The details of changes in deferred tax assets and liabilities are shown below:

| | As of April 1, 2018 | Amount recognized in profit or loss | Amount recognized in other comprehensive income | Other (Note) | As of March 31, 2019 |
|--------------------------------|---------------------|-------------------------------------|---|--------------|----------------------|
| Deferred tax assets: | | | | | |
| Non-current assets | 8,081 | (786) | - | - | 7,295 |
| Securities | 40 | (86) | 46 | - | 0 |
| Post-employment benefits | 3,031 | (258) | 94 | - | 2,867 |
| Tax loss carryforwards | 279 | (11) | - | - | 268 |
| Other | 4,696 | 79 | (10) | 155 | 4,920 |
| Total deferred tax assets | 16,127 | (1,062) | 130 | 155 | 15,350 |
| Deferred tax liabilities: | | | | | |
| Non-current assets | (7,059) | 1,176 | - | - | (5,883) |
| Other | (751) | (1,037) | - | (53) | (1,841) |
| Total deferred tax liabilities | (7,810) | 139 | - | (53) | (7,724) |

(Note) The "Other" column represents the amount of deferred tax assets and deferred tax liabilities recognized due to acquisition of subsidiaries through business combinations and other amounts.

| | As of March 31, 2019 | Amount recognized in profit or loss | Amount recognized in other comprehensive income | Other (Note) | As of March 31, 2020 |
|--------------------------------|----------------------|-------------------------------------|---|--------------|----------------------|
| Deferred tax assets: | | | | | |
| Non-current assets | 7,295 | (872) | - | - | 6,423 |
| Securities | 0 | - | - | - | 0 |
| Post-employment benefits | 2,867 | 157 | 51 | - | 3,075 |
| Tax loss carryforwards | 268 | (38) | - | - | 230 |
| Other | 4,920 | 968 | 28 | 685 | 6,601 |
| Total deferred tax assets | 15,350 | 215 | 79 | 685 | 16,329 |
| Deferred tax liabilities: | | | | | |
| Non-current assets | (5,883) | (92) | - | - | (5,975) |
| Other | (1,841) | 140 | - | - | (1,701) |
| Total deferred tax liabilities | (7,724) | 48 | - | - | (7,676) |

(Note) The "Other" column represents the amount of deferred tax assets at the beginning of the period recognized due to the adoption of IFRS 16 and other amounts.

Deferred tax assets and liabilities in the consolidated statement of financial position are shown below:

| | As of March 31, 2019 | As of March 31, 2020 |
|--------------------------|----------------------|----------------------|
| Deferred tax assets | 9,913 | 10,374 |
| Deferred tax liabilities | 2,287 | 1,721 |

In recognizing deferred tax assets, the Group assesses recoverability, taking into account expected future taxable profits and tax planning. As a result of the assessment of recoverability, deferred tax assets have not been recognized for some deductible temporary differences and unused tax loss carryforwards.

Deductible temporary differences for which no deferred tax asset is recognized and unused tax loss carryforwards are shown below:

| | As of March 31, 2019 | As of March 31, 2020 |
|----------------------------------|----------------------|----------------------|
| Deductible temporary differences | 2,299 | 2,986 |
| Unused tax loss carryforwards | 1,955 | 1,850 |
| Total | 4,254 | 4,836 |

The amounts of unused tax loss carryforwards for which deferred tax assets are not recognized by expiration are shown below:

| | As of March 31, 2019 | As of March 31, 2020 |
|---------------------|----------------------|----------------------|
| First year | - | - |
| Second year | - | - |
| Third year | - | - |
| Fourth year | - | 79 |
| Fifth year or later | 1,955 | 1,771 |
| Total | 1,955 | 1,850 |

(2) Income Tax Expense

Current tax expense and the components of deferred tax expense are shown below:

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|----------------------------------|----------------------------------|
| Current tax expense | (4,826) | (6,056) |
| Deferred tax expense | | |
| Recognition and reversal of temporary differences | (923) | 263 |
| Total deferred tax expense | (923) | 263 |
| Income tax expense | (5,749) | (5,793) |

The Company is subject principally to corporate income taxes, inhabitant taxes, and business taxes. The effective statutory tax rates based on these taxes were 30.6% for the fiscal year ended March 31, 2019, and 30.6% for the fiscal year ended March 31, 2020. However, foreign subsidiaries are subject to income taxes and other taxes in their respective locations.

The reconciliation between the effective statutory tax rate and the effective tax rate for income tax expenses recognized in the consolidated statement of comprehensive income is shown below:

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|----------------------------------|----------------------------------|
| Effective statutory tax rate | 30.6% | 30.6% |
| Effect of expenses not deductible permanently | 1.4 | 1.5 |
| Other | (2.4) | (3.1) |
| Effective income tax rate after application of tax-effect accounting | 29.6 | 29.0 |

18. Bonds, Borrowings and Other Financial Liabilities

The components of bonds, borrowings and other financial liabilities are shown below:

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 | Average interest rate (%) (Note 1) | Repayment date |
|---|-------------------------|-------------------------|---|-----------------------------|
| Short-term borrowings | 4,022 | 2,269 | 0.616 | – |
| Current portion of non-current borrowings | 2,195 | 4,755 | 0.644 | – |
| Current portion of bonds payable (Note 2) | 5,000 | – | (Note 2) | – |
| Lease liabilities (current) | – | 9,591 | 0.564 | – |
| Non-current borrowings (excluding current portion) | 12,912 | 8,169 | 2.241 | April 2021– January 2032 |
| Bonds payable (excluding current portion) (Note 2) | 9,981 | 9,987 | (Note 2) | (Note 2) |
| Lease liabilities (non-current) | – | 52,713 | 0.564 | April 2021– June 2054 |
| Total | 34,110 | 87,484 | – | – |
| Current liabilities | 11,217 | 16,615 | | |
| Non-current liabilities | 22,893 | 70,869 | | |
| Total | 34,110 | 87,484 | | |

(Notes) 1. The average interest rate is based on each agreed-upon interest rate or weighted-average interest rate for the closing balance.
2. Summary of issuing conditions of bonds is shown below:

(Millions of yen)

| Entity | Bond | Date of issue | As of March 31, 2019 | As of March 31, 2020 | Interest rate (%) | Collateral | Maturity date |
|--------------------------|------------------------------|---------------|----------------------------|----------------------------|----------------------|------------|---------------|
| ITOCHU Enex Co., Ltd. | Series 13 Unsecured Bonds | May 22, 2012 | 5,000 | – | 0.736 | Unsecured | May 22, 2019 |
| ITOCHU Enex Co., Ltd. | Series 14 Unsecured Bonds | May 22, 2012 | 9,981 | 9,987 | 1.202 | Unsecured | May 20, 2022 |
| Total | – | – | 14,981 | 9,987 | – | – | – |

19. Trade Payables

The components of trade payables are shown below:

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|----------------|----------------------|----------------------|
| Trade payables | 115,009 | 78,050 |
| Notes payable | 34 | – |
| Other payables | 6,634 | 5,886 |
| Total | 121,677 | 83,936 |

20. Other Financial Liabilities

The components of other current financial liabilities are shown below:

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|--------------------------------|----------------------|----------------------|
| Lease obligations | 1,869 | – |
| Other payables (Non-operating) | 2,596 | 3,122 |
| Deposits received | 3,064 | 2,969 |
| Derivative liabilities | 303 | 125 |
| Other | 73 | – |
| Total | 7,905 | 6,216 |

The components of other non-current financial liabilities are shown below:

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|-----------------------------|----------------------|----------------------|
| Long-term lease obligations | 9,273 | – |
| Guarantee deposits received | 13,622 | 13,692 |
| Derivative liabilities | 636 | 533 |
| Total | 23,531 | 14,225 |

21. Other Current Liabilities

The components of other current liabilities are shown below:

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------------|----------------------|
| Short-term obligations on employee benefits | 7,471 | 8,323 |
| Current provisions (Note) | 9 | 71 |
| Accrued expenses | 2,800 | 2,116 |
| Other | 1,540 | 2,338 |
| Total | 11,820 | 12,848 |

(Note) For details of current provisions, please refer to Note 22, "Provisions."

22. Provisions

The components of changes in provisions are shown below:

(Millions of yen)

| | Provision for asset retirement obligations | Other | Total |
|---|---|-------|-------|
| As of April 1, 2018 | 4,755 | 44 | 4,799 |
| Increase during the year | 493 | – | 493 |
| Amount used during the year (utilization) | (208) | (2) | (210) |
| Increase due to passage of time | 56 | – | 56 |
| Other | 340 | (7) | 333 |
| As of March 31, 2019 | 5,436 | 35 | 5,471 |
| Increase during the year | 73 | 14 | 87 |
| Amount used during the year (utilization) | (96) | – | (96) |
| Increase due to passage of time | 45 | – | 45 |
| Other | (161) | (20) | (181) |
| As of March 31, 2020 | 5,297 | 29 | 5,326 |

The components of provisions by current and non-current classification are shown below:

| | (Millions of yen) | |
|----------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Current liabilities (Note) | 9 | 71 |
| Non-current liabilities | 5,462 | 5,255 |
| Total | 5,471 | 5,326 |

(Note) Provisions classified into current liabilities are included in other current liabilities.

Provision for asset retirement obligations mostly relates to restoration obligations for rental offices, buildings, and stores and removal of harmful materials related to non-current assets. An outflow of economic benefits in the future is expected principally in a period after one year from the end of each fiscal year, but the timing may be affected by a future business plan and other factors.

23. Employee Benefits

(1) Post-Employment Benefits

A. Outline of Post-Employment Benefit Plans Adopted

The Company and some subsidiaries have defined benefit retirement plans, lump-sum retirement benefits, and defined contribution retirement pension plans, which cover almost all of their employees. The amount of pension benefits provided under defined benefit retirement plans is set based on service years of eligible employees. Extra retirement payments may be made upon an employee's normal retirement or termination before the prescribed retirement date.

Under defined contribution retirement plans, the responsibility of the Company and some subsidiaries is limited to making contributions at the amount specified in the rules on retirement allowance that has been established for each company.

Nissan Osaka Sales Co., Ltd., a subsidiary, has participated in "Zenoku Nissan Jidosha Hambai Kigyo Pension Fund", which is a multi-employer plan. This plan differs from a single employer plan in the following respects:

- Assets contributed by the employer to the multi-employer plan may be used for benefits to employees of the other member employers. The amount of contributions is calculated by multiplying standard pay of plan members by a fixed rate.

- If some employers suspend contributions, other member employers may be required to make additional contributions for unfunded liabilities.

- If the multi-employer plan is wound up or a member employer withdraws from the multi-employer plan, the member employer may be required to make contributions for unfunded liabilities as special contributions in winding up or withdrawal contributions.

B. Defined Benefit Retirement Plans

Changes in present value of defined benefit obligations are shown below:

| | (Millions of yen) | |
|---|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Balance at the beginning of the year | 17,716 | 17,483 |
| Service cost | 647 | 675 |
| Interest expense | 83 | 66 |
| Remeasurement | | |
| Changes in demographic assumptions | 104 | 345 |
| Changes in financial assumptions | 169 | (147) |
| Other | - | 296 |
| Benefits paid | (1,236) | (926) |
| Effect of business combinations and disposals | - | - |
| Balance at the end of the year | 17,483 | 17,792 |

(Note) Service cost is recognized in profit or loss (cost of sales or selling, general and administrative expenses). Interests on net amount of present value of defined benefit obligations and fair value of plan assets are recognized in profit or loss (interest income or interest expense).

Changes in fair value of plan assets are shown below:

| | (Millions of yen) | |
|--------------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Balance at the beginning of the year | 8,909 | 7,950 |
| Interest income | 47 | 34 |
| Remeasurement | | |
| Return on plan assets | (491) | 1,323 |
| Contributions by the employer | 205 | 184 |
| Benefits paid | (720) | (387) |
| Balance at the end of the year | 7,950 | 9,104 |

A certain subsidiary plans to make contributions of ¥184 million in the fiscal year ending March 31, 2021.

The effect of change in the asset ceiling is shown below:

| | (Millions of yen) | |
|---|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Balance at the beginning of the year | (493) | - |
| Change in the effect of limiting a net defined benefit asset to the asset ceiling | 493 | (969) |
| Balance at the end of the year | - | (969) |

The composition of the Group's plan assets by asset category as of March 31, 2019 and 2020 is shown below:

(Millions of yen)

| | As of March 31, 2019 | | |
|---------------------------|----------------------------|-------------------------------|-------|
| | Level 1 (Active market) | Level 2 (No active market) | Total |
| Cash and cash equivalents | 10 | – | 10 |
| Stock trusts | – | 2,747 | 2,747 |
| Bond trusts | – | 3,966 | 3,966 |
| General accounts | – | 1 | 1 |
| Other | – | 1,226 | 1,226 |
| Total | 10 | 7,940 | 7,950 |

(Millions of yen)

| | As of March 31, 2020 | | |
|---------------------------|----------------------------|-------------------------------|-------|
| | Level 1 (Active market) | Level 2 (No active market) | Total |
| Cash and cash equivalents | 3 | – | 3 |
| Stock trusts | – | 2,690 | 2,690 |
| Bond trusts | – | 5,003 | 5,003 |
| General accounts | – | – | – |
| Other | – | 1,408 | 1,408 |
| Total | 3 | 9,101 | 9,104 |

In managing plan assets, the Group aims to secure return on assets necessary to ensure payment of future pension benefits in the long term only with acceptable risks. To this end, the Group formulates the optimal portfolio in consideration of past performance in addition to projection of return on assets subject to investment, and manages investment performance based on this portfolio.

For assets classified into Level 1 (there is an active market), fair value is estimated based on quoted prices in active markets. For assets classified into Level 2 (there is no active market), which mainly consist of investment trusts in domestic and foreign stocks and bonds, fair value is estimated using valuations provided by the plan trustee. Additionally, as part of plan assets, there are general accounts that are composed of stocks and bonds with quoted market prices in active markets. Other includes funds of hedge funds and real estate investment trusts.

Information on maturity analysis of defined benefit obligations is as follows:

Defined benefit obligations are calculated by discounting the amount of benefits that are deemed to have been incurred to date, over the remaining service period up to the time of payment. Because the timing of payment affects the amounts of defined benefit obligations and service cost, International Accounting Standard 19, "Employee Benefits" requires an entity to disclose information on the timing of incurrence of benefits. The Group believes that disclosure of weighted duration of defined benefit obligations that represents the average period taking into account benefit amount, timing, and discount is useful information to meet this requirement. The Company's weighted duration of defined benefit obligations was 13 years in the fiscal year ended March 31, 2019, and 13 years in the fiscal year ended March 31, 2020.

The assumption of defined benefit obligations is shown below:

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---------------|-------------------------------------|-------------------------------------|
| Discount rate | 0.4 – 0.5% | 0.5 – 0.6% |

In the assumption of actuarial calculation described above, the calculation for defined benefit retirement plans is susceptible to the effects of the assumption of discount rate. If the discount rate had changed by 0.25% as of

March 31, 2020, the effect on defined benefit obligations would be ¥396 million, which was calculated supposing that only the discount rate changes without any change in actuarial assumptions other than the discount rate.

Since this calculation is an estimation based on the assumptions, the actual calculation may be affected by changes in other variables.

C. Defined Contribution Plans

Expenses related to contributions required for defined contribution pension plans were ¥663 million and ¥726 million for the fiscal years ended March 31, 2019 and 2020, respectively.

D. Extra Retirement Payments

The Company made extra retirement payments of ¥79 million and ¥40 million for the fiscal years ended March 31, 2019 and 2020, respectively.

(2) Employee Benefits Expense

Total employee benefits expense included in cost of sales and selling, general and administrative expenses in the consolidated statement of comprehensive income for the fiscal years ended March 31, 2019 and 2020 was ¥43,442 million and ¥44,821 million, respectively.

24. Common Stock, Capital Surplus, and Retained Earnings

(1) Common Stock

The number of shares authorized, the number of shares issued, and the number of shares of treasury stock of the Company are as follows.

All the shares issued by the Company are non-par value ordinary shares. All shares issued are fully paid.

(Shares)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--------------------------------------|-------------------------------------|-------------------------------------|
| Number of shares authorized | 387,250,000 | 387,250,000 |
| Number of shares issued | | |
| Balance at the beginning of the year | 116,881,106 | 116,881,106 |
| Increase (decrease) during the year | – | – |
| Balance at the end of the year | 116,881,106 | 116,881,106 |
| Number of shares of treasury stock | | |
| Balance at the beginning of the year | 4,002,135 | 4,002,462 |
| Increase (decrease) during the year | 327 | (1,878) |
| Balance at the end of the year | 4,002,462 | 4,000,584 |

(Note) The balance of the number of shares of treasury stock at the end of the fiscal years ended March 31, 2019 and 2020 includes 109,300 shares and 106,804 shares, respectively, of the Company owned by the stock distribution trust for directors.

(2) Capital Surplus and Retained Earnings

The Companies Act of Japan provides that upon payment of dividends of surplus, an amount equal to 10% of the reserves, which decrease due to the dividends paid, must be appropriated as capital reserve (in case of dividends of capital surplus) or as retained earnings reserve (in case of dividends of retained earnings) until the total aggregate amount of capital reserve and retained earnings reserve equals 25% of the common stock.

The Companies Act imposes a certain restriction on the amount available for distribution in association with dividends of surplus or acquisition of treasury stock. The amount available for distribution is determined based on retained earnings, among others, in the Company's separate financial statements calculated in accordance with

Japanese Generally Accepted Accounting Principles. The Company's amount available for distribution was ¥67,585 million as of March 31, 2020 (however, this amount available for distribution may change due to subsequent acquisition of treasury stock and other factors).

Under the Companies Act, in addition to year-end dividends, dividends of surplus can be paid at any time during the fiscal year by resolution of the General Meeting of Shareholders. The Companies Act provides that companies meeting certain requirements (setup of Audit & Supervisory Board of corporate auditors and appointment of an accounting auditor in addition to the board of directors, and the term of office for directors limited to one year) may determine dividends of surplus (excluding dividends in kind) by resolution of the board of directors if the articles of incorporation specify so. The Companies Act also provides that companies with a board of directors may pay dividends of surplus (only cash dividends) by resolution of the board of directors only once during a business year, if the articles of incorporation specify so.

Moreover, companies are allowed to dispose of treasury stock by resolution of the board of directors, or acquire treasury stock if the articles of incorporation specify so. However, acquisition of treasury stock is limited to the extent the above amount is available for distribution.

25. Other Components of Equity and Other Comprehensive Income

(1) Other Components of Equity

Changes in each item of other components of equity are shown below:

(Millions of yen)

| Classification | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| FVTOCI financial assets | | |
| Balance at the beginning of the year | 506 | 423 |
| Decrease during the year | (160) | (252) |
| Reclassification to retained earnings | 77 | 31 |
| Balance at the end of the year | 423 | 202 |
| Remeasurement of net defined benefit liability | | |
| Balance at the beginning of the year | - | - |
| Decrease during the year | (94) | (28) |
| Reclassification to retained earnings | 94 | 28 |
| Balance at the end of the year | - | - |
| Exchange differences on translating foreign operations | | |
| Balance at the beginning of the year | 31 | 51 |
| Increase (decrease) during the year | 20 | (5) |
| Balance at the end of the year | 51 | 46 |
| Cash flow hedges | | |
| Balance at the beginning of the year | (1,682) | (1,880) |
| (Decrease) increase during the year | (198) | 262 |
| Balance at the end of the year | (1,880) | (1,618) |
| Other components of equity | | |
| Balance at the beginning of the year | (1,145) | (1,406) |
| Decrease during the year | (432) | (23) |
| Reclassification to retained earnings | 171 | 59 |
| Balance at the end of the year | (1,406) | (1,370) |

(2) Other Comprehensive Income

The details of each item of other comprehensive income and their related tax effects (including non-controlling interests) are shown below:

(Millions of yen)

| Classification | Fiscal year ended March 31, 2019 | | | Fiscal year ended March 31, 2020 | | |
|---|-------------------------------------|-------------|-----------------------|-------------------------------------|-------------|-----------------------|
| | Before tax effects | Tax effects | Net of tax effects | Before tax effects | Tax effects | Net of tax effects |
| FVTOCI financial assets | | | | | | |
| Amount arising during the year | (154) | 46 | (108) | (302) | 87 | (215) |
| Increase (decrease) during the year | (154) | 46 | (108) | (302) | 87 | (215) |
| Remeasurement of net defined benefit liability | | | | | | |
| Amount arising during the year | (269) | 94 | (175) | (141) | 51 | (90) |
| Increase (decrease) during the year | (269) | 94 | (175) | (141) | 51 | (90) |
| Exchange differences on translating foreign operations | | | | | | |
| Amount arising during the year | (10) | - | (10) | (7) | - | (7) |
| Decrease during the year | (10) | - | (10) | (7) | - | (7) |
| Cash flow hedges | | | | | | |
| Amount arising during the year | (89) | 25 | (64) | (11) | 11 | (0) |
| Reclassification adjustments to profit | 124 | (35) | 89 | 114 | (32) | 82 |
| Decrease during the year | 35 | (10) | 25 | 103 | (21) | 82 |
| Other comprehensive income of investments accounted for by the equity method | | | | | | |
| Amount arising during the year | (377) | - | (377) | (348) | 92 | (256) |
| Reclassification adjustments to profit | 130 | - | 130 | 527 | (130) | 397 |
| Decrease during the year | (247) | - | (247) | 179 | (38) | 141 |
| Total other comprehensive income | (645) | 130 | (515) | (168) | 79 | (89) |

26. Dividends

The Company pays an interim dividend and year-end dividend annually, with the former determined by the Board of Directors and the latter by the General Meeting of Shareholders.

Dividends paid for the fiscal years ended March 31, 2019 and 2020 are shown below:

For the fiscal year ended March 31, 2019

(1) Dividends Paid

| Resolution | Class of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|--|-----------------|--------------------------------------|------------------------------|--------------------|------------------|
| Ordinary General Meeting of Shareholders held on June 20, 2018 | Ordinary shares | 2,712 | 24 | March 31, 2018 | June 21, 2018 |
| Board of Directors' meeting held on October 31, 2018 | Ordinary shares | 2,260 | 20 | September 30, 2018 | December 4, 2018 |

(2) Dividends Whose Record Date Is in the Current Fiscal Year, but Whose Effective Date Falls in the Next Fiscal Year

| Resolution | Class of shares | Total dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|--|-----------------|-----------------------------------|---------------------|---------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders held on June 19, 2019 | Ordinary shares | 2,486 | Retained earnings | 22 | March 31, 2019 | June 20, 2019 |

For the fiscal year ended March 31, 2020

(1) Dividends Paid

| Resolution | Class of shares | Total dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|--|-----------------|-----------------------------------|---------------------------|--------------------|------------------|
| Ordinary General Meeting of Shareholders held on June 19, 2019 | Ordinary shares | 2,486 | 22 | March 31, 2019 | June 20, 2019 |
| Board of Directors' meeting held on October 31, 2019 | Ordinary shares | 2,373 | 21 | September 30, 2019 | December 4, 2019 |

(2) Dividends Whose Record Date Is in the Current Fiscal Year, but Whose Effective Date Falls in the Next Fiscal Year

| Resolution | Class of shares | Total dividends (Millions of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|--|-----------------|-----------------------------------|---------------------|---------------------------|----------------|----------------|
| Ordinary General Meeting of Shareholders held on June 17, 2020 | Ordinary shares | 2,599 | Retained earnings | 23 | March 31, 2020 | June 18, 2020 |

27. Financial Instruments

(1) Capital Management

The Group conducts capital management to continue sustainable growth and maximize corporate value.

To achieve sustainable growth, the Group recognizes that it is essential to secure sufficient financing capacity to make agile investment in businesses when an opportunity for such investments for business growth (such as acquisition of external resources) arises in the future. Therefore, the Group aims to ensure financial health and flexibility for future investment in businesses and maintain the capital structure with balanced return and investment.

There is no significant capital restriction that applies to the Company (excluding general provisions of the Companies Act and other laws and regulations).

(2) Financial Risk Management Policy

In the course of management activities, the Group is exposed to financial risks (such as credit risks, liquidity risks, currency risks, interest rate risks, and market price risks) and performs risk management in accordance with certain policies to avoid or reduce these risks.

In accordance with the Group's policy, its fund management is limited to short-term deposits, etc., and the Group depends on bank loans, among others, for raising funds. The Group utilizes derivatives for the purpose of hedging risks of changes in market conditions, and interest rate and exchange fluctuations, but does not enter into such transactions for speculative purposes.

(3) Credit Risk Management

The Group grants credit to many customers in various trading transactions and bears credit risks.

In line with the rules on credit management, the Group manages due dates and balances of trade receivables and loans by business partner, and pursues early identification or reduction of uncollectible receivables due to deteriorated financial conditions. The Group is not overly exposed to credit risks by concentration on a specific counterparty.

In utilizing derivatives, since the Group has transactions only with exchange members or banks with good credit standing, the Group believes there to be few credit risks.

When collateral held and other credit enhancements are not taken into account, the Group's maximum exposure to credit risks is the carrying amount after impairment of financial assets presented in the consolidated financial statements.

Collateral held as security is mainly real estate and business security deposits.

The carrying amounts of financial assets for which loss allowances are recognized are as follows.

| | Measured at an amount equivalent to the 12-month expected credit losses | Measured at an amount equivalent to the lifetime expected credit losses | | | Total |
|----------------------|---|---|----------------------------------|---|---------|
| | | Financial assets that are not credit-impaired | Credit-impaired financial assets | Trade receivables, etc. (excluding credit-impaired receivables) | |
| As of March 31, 2019 | 57,799 | 289 | 1,267 | 94,921 | 154,275 |
| As of March 31, 2020 | 48,017 | 247 | 848 | 81,318 | 130,430 |

The Group recognizes loss allowances after considering the recoverability of financial assets based on the counterparty's credit standing. Changes in loss allowances during the fiscal year ended March 31, 2019 and 2020 are as follows:

| | Measured at an amount equivalent to the 12-month expected credit losses | Measured at an amount equivalent to the lifetime expected credit losses | | | Total |
|--|---|---|----------------------------------|---|-------|
| | | Financial assets that are not credit-impaired | Credit-impaired financial assets | Trade receivables, etc. (excluding credit-impaired receivables) | |
| As of March 31, 2018 | 24 | 228 | 750 | 67 | 1,069 |
| Increase during the year | 22 | 1 | 62 | 57 | 142 |
| Decrease during the year (Utilization) | (2) | – | (15) | (7) | (24) |
| Decrease during the year (Reversal) | (18) | (38) | (104) | (52) | (212) |
| Other increase | – | – | 7 | – | 7 |
| As of March 31, 2019 | 26 | 191 | 700 | 65 | 982 |
| Increase during the year | 1 | 3 | 44 | 2 | 50 |
| Decrease during the year (Utilization) | (1) | – | (128) | (4) | (133) |
| Decrease during the year (Reversal) | (11) | (41) | (164) | (24) | (240) |
| Other increase | (10) | – | – | (11) | (21) |
| As of March 31, 2020 | 5 | 153 | 452 | 28 | 638 |

In the fiscal year ended March 31, 2020, there were no significant changes in the carrying amounts of financial assets that would have a material impact on loss allowances.

(4) Liquidity Risk Management

The Group manages liquidity risks by formulating a funding plan based on the annual business plan, and by conducting periodic assessment and collection of information on situations of liquidity in hand and interest-bearing debts and timely monitoring of cash flows. Through these means, the Group strives to ensure agility in financing to respond to changes in the financial situation and reduce funding costs while diversifying funding sources and financing methods.

A. Non-Derivative Financial Liabilities

Carrying amounts of non-derivative financial liabilities by maturity are shown below:

As of March 31, 2019

(Millions of yen)

| | Carrying amount | Contractual cash flows | Not later than 1 year | Later than 1 year and not later than 5 years | Later than 5 years |
|---|-----------------|------------------------|-----------------------|--|--------------------|
| Trade payables | 121,677 | 121,677 | 121,677 | - | - |
| Short-term bonds and borrowings | | | | | |
| Short-term borrowings | 4,022 | 4,022 | 4,022 | - | - |
| Current portion of bonds payable | 5,000 | 5,000 | 5,000 | - | - |
| Current portion of non-current borrowings | 2,195 | 2,195 | 2,195 | - | - |
| Non-current bonds and borrowings | | | | | |
| Non-current borrowings | 12,912 | 13,031 | - | 8,143 | 4,888 |
| Bonds payable | 9,981 | 10,000 | - | 10,000 | - |
| Total | 155,787 | 155,925 | 132,894 | 18,143 | 4,888 |

As of March 31, 2020

(Millions of yen)

| | Carrying amount | Contractual cash flows | Not later than 1 year | Later than 1 year and not later than 5 years | Later than 5 years |
|---|-----------------|------------------------|-----------------------|--|--------------------|
| Trade payables | 83,936 | 83,936 | 83,936 | - | - |
| Short-term bonds and borrowings | | | | | |
| Short-term borrowings | 2,269 | 2,269 | 2,269 | - | - |
| Current portion of bonds payable | - | - | - | - | - |
| Current portion of non-current borrowings | 4,755 | 4,755 | 4,755 | - | - |
| Non-current bonds and borrowings | | | | | |
| Non-current borrowings | 8,169 | 8,276 | - | 4,253 | 4,023 |
| Bonds payable | 9,987 | 10,000 | - | 10,000 | - |
| Total | 109,116 | 109,236 | 90,960 | 14,253 | 4,023 |

B. Derivative Financial Liabilities

The results of liquidity analysis of derivatives are shown below:

(Millions of yen)

| | Not later than 1 year | Later than 1 year and not later than 5 years | Later than 5 years | Total |
|---------------------------|-----------------------|--|--------------------|-------|
| As of March 31, 2019 | | | | |
| Interest rate derivatives | - | - | 636 | 636 |
| Currency derivatives | 17 | - | - | 17 |
| Commodity derivatives | 286 | - | - | 286 |
| Total | 303 | - | 636 | 939 |
| As of March 31, 2020 | | | | |
| Interest rate derivatives | - | - | 533 | 533 |
| Currency derivatives | 16 | - | - | 16 |
| Commodity derivatives | 109 | - | - | 109 |
| Total | 125 | - | 533 | 658 |

(5) Market Risk Management

The Group is exposed to market risks arising from fluctuations in foreign exchange rates, interest rates, commodity markets, and equity prices. As per its policy, the Group minimizes risks arising from fluctuations in foreign exchange rates, interest rates, and other factors by building a management structure through establishment of balance limits, using various derivatives and others.

For execution and management of derivative transactions, in accordance with the internal rules that provide transaction authority, limit amounts, etc., departments engaged in such transactions rigorously manage and report on the transactions conducted according to their authority. In addition, a system of effective internal checking has been developed by setting up a transaction control department.

Market risks that the Group assumes are shown below:

- Currency risks
- Interest rate risks
- Commodity price risks
- Price risks of equity instruments

A. Currency Risk Management

Because the Group is engaged in import and export transactions, which are exposed to exchange fluctuation risks for transactions denominated in foreign currencies, the Group strives to reduce such exchange fluctuation risks through hedging transactions utilizing derivatives, including forward foreign exchange contracts.

The Group's exposure to currency risks (net amount) as of March 31, 2019 and 2020 is shown below:

| | | As of March 31, 2019 | As of March 31, 2020 |
|-------------------------------------|--|----------------------|----------------------|
| Short-term foreign exchange balance | (Millions of yen) [Thousands of U.S. dollars] | (118) [(1,059)] | 169 [1,551] |
| Long-term foreign exchange balance | (Millions of yen) [Thousands of U.S. dollars] | - [-] | - [-] |

(Notes) 1. The foreign exchange balance is the amount in foreign currencies for which exchange fluctuation risks are not hedged with forward foreign exchange contracts, etc., in terms of receivables and payables in foreign currencies in import and export transactions and firm commitments in foreign currencies. The foreign exchange balance that is due for settlement within one year is classified as short-term foreign exchange balance, while the foreign exchange balance that is due for settlement due after one year is classified as long-term foreign exchange balance, if any.

2. Positive figures represent a receivable position, while negative figures (figures in parentheses), if any, represent a payable position.

Foreign Currency Sensitivity Analysis

Foreign currency sensitivity analysis shows the effect on profit before tax in the Group's consolidated statement of comprehensive income of 1% appreciation of the Japanese yen to the Company's short-term and long-term foreign exchange balances as of the end of each fiscal year. However, this analysis assumes that other variable factors (such as balances and interest rates) remain constant.

| | (Millions of yen) | |
|----------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Profit before tax U.S. dollar | 1 | (2) |

B. Interest Rate Risk Management

The Group is exposed to interest rate fluctuation risks in raising and managing funds accompanying investment activities and operating transactions. In addition, fixed-rate debt obligations are exposed to risks of fluctuations in fair value due to fluctuations in interest rates. The Group works to quantify interest rate risks to appropriately control volatility in profit or loss due to interest rate fluctuations. Specifically, the Group strives to reduce interest rate risks by conducting hedging transactions through interest rate swaps.

Interest Rate Sensitivity Analysis

The table below shows the effect on the Group's profit before tax of gains or losses arising from instruments affected by interest rate fluctuations, if the interest rate increases 1% in the fiscal years ended March 31, 2019 and 2020. This analysis is calculated by multiplying the net balance of floating-rate financial instruments held by the Group as of March 31, 2019 and 2020, by 1% with no future changes in the balances, effects of foreign exchange fluctuations, effect of diversified timing of rollover, and repricing of variable-rate borrowings taken into account. The analysis assumes that all other variables remain constant.

In calculation of sensitivity, interest-bearing debts with a variable interest condition, interest-bearing debts that have a fixed interest condition but actually have a variable interest condition through interest rate swaps, and cash and cash equivalents are deemed as instruments affected by interest rate fluctuations.

| | (Millions of yen) | |
|-------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Profit before tax | (17) | (12) |

C. Commodity Price Risk Management

The Group principally deals with petroleum products and is exposed to commodity price risks arising from fluctuations in crude oil prices, quoted prices of petroleum products, and other prices. The Group strives to reduce commodity price risks using derivatives (such as commodity futures contracts and commodity swaps) as hedging instruments to commodity price risks caused by price fluctuation.

Commodity Price Sensitivity Analysis

The table below shows the Group's sensitivity analysis to fluctuations of quoted prices of crude oil and petroleum products.

The sensitivity analysis presents the effects on profit before tax in the consolidated statement of comprehensive income of a 1% increase in crude oil prices. This analysis assumes that other variable factors remain constant.

| | (Millions of yen) | |
|-------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Profit before tax | 126 | 60 |

D. Management of Price Risks of Equity Instruments

The Group holds shares of third parties with which the Group has business relationships for the purpose of smoothly implementing its business strategy, and is exposed to risks of fluctuations in prices of equity instruments. The Group periodically assesses current market prices and financial conditions of issuers and continuously reviews its holding.

The Group has no equity instruments held for short-term trading purposes and does not actively trade these investments.

Sensitivity Analysis of Equity Instruments to Price Risks

The Group's sensitivity analysis of risks of fluctuations in prices of equity instruments is as follows. This sensitivity shows the effects on other comprehensive income (before tax effects) of a 10% decrease in prices of listed stocks as of the end of each fiscal year. The sensitivity assumes that other variable factors remain constant.

| | (Millions of yen) | |
|----------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Other comprehensive income | (255) | (222) |

(6) Fair Value of Financial Instruments

A. Method of Fair Value Measurement

Fair values of major financial assets and financial liabilities are determined as follows. In measurement of fair value of financial instruments, market prices are used when available. For financial instruments of which market prices are unavailable, the fair value is measured by discounting future cash flows or by other appropriate valuation methods.

Cash and cash equivalents

The fair value approximates the carrying amount because the remaining period to maturity is short.

Trade receivables, trade payables, and other current financial assets (other receivables and deposits paid)

The fair value approximates the carrying amount because it is settled in a short time.

Other current financial assets (securities) and other investments

The fair value of marketable securities is based on quoted prices on the stock exchange. The fair value of non-marketable securities is principally measured by the net asset approach, whereby the fair value is calculated by referring to the fair values of assets and liabilities held by the investee company.

Non-current financial assets other than investments (non-current loans receivable) and other current financial assets (current portion of non-current loans receivable)

The fair value of non-current loans receivable is measured by discounting future cash flows using interest rates offered for loans or credit with the same remaining maturities and the same terms to borrowers or customers with similar credit ratings.

Other current financial assets (derivatives), other current financial liabilities (derivatives), and other non-current financial liabilities (derivatives)

Level 1 and Level 2 derivatives are measured based on quoted market prices and on the prices provided by financial institutions with which the Group has business relationships. Level 3 derivatives are measured using the income approach and other approaches with unobservable inputs such as the estimated discount rate.

Bonds and borrowings

Except for cases where the carrying amount is virtually equal to the fair value, fair values of bonds and borrowings are measured by discounting future cash flows using interest rates offered for borrowings with the same remaining maturities and terms.

B. Financial Instruments Measured at Amortized Cost

Fair values of financial instruments measured at amortized cost are shown below:

(Millions of yen)

| | As of March 31, 2019 | | As of March 31, 2020 | |
|---|----------------------|------------|----------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets measured at amortized cost: | | | | |
| Non-current financial assets other than investments (non-current loans receivable) and other current financial assets (current portion of non-current loans receivable) | 1,232 | 1,233 | 989 | 992 |
| Financial liabilities measured at amortized cost: | | | | |
| Bonds and borrowings | 34,110 | 35,142 | 25,180 | 25,740 |

C. Hierarchy of Fair Value Measurement Recognized in the Consolidated Statement of Financial Position

IFRS 7, "Financial Instruments: Disclosure," requires an entity to classify fair value measurements using the fair value hierarchy reflecting significance of inputs used for measurement of fair value.

The following shows levels in the fair value hierarchy:

- Level 1— Quoted prices in active markets for identical assets or liabilities
- Level 2— Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly
- Level 3— Unobservable inputs for the asset or liability

The level in the fair value hierarchy used for fair value measurement is determined based on the lowest level input that is significant to the fair value measurement.

Transfers between levels in the fair value hierarchy are recognized on the date on which an event or change in the situation resulting in the transfers arises.

Financial assets and financial liabilities recognized at fair value in the consolidated statement of financial position that are classified into levels in the fair value hierarchy are shown below:

(Millions of yen)

| | As of March 31, 2019 | | | |
|---|----------------------|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Other current financial assets (securities) | | | | |
| FVTPL financial assets | - | - | - | - |
| Other investments | | | | |
| FVTPL financial assets | - | - | 1,044 | 1,044 |
| FVTOCI financial assets | 2,551 | - | 591 | 3,142 |
| Other current financial assets (derivatives) | | | | |
| Derivatives not designated as hedges | 10 | 214 | - | 224 |
| Total | 2,561 | 214 | 1,635 | 4,410 |
| Liabilities: | | | | |
| Other current financial liabilities (derivatives) | | | | |
| Derivatives not designated as hedges | 25 | 278 | - | 303 |
| Other non-current financial liabilities (derivatives) | | | | |
| Derivatives designated as hedges | - | 636 | - | 636 |
| Total | 25 | 914 | - | 939 |

(Millions of yen)

| | As of March 31, 2020 | | | |
|---|----------------------|---------|---------|-------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Other current financial assets (securities) | | | | |
| FVTPL financial assets | - | - | - | - |
| Other investments | | | | |
| FVTPL financial assets | - | - | 1,119 | 1,119 |
| FVTOCI financial assets | 2,217 | - | 524 | 2,741 |
| Other current financial assets (derivatives) | | | | |
| Derivatives not designated as hedges | - | 69 | - | 69 |
| Total | 2,217 | 69 | 1,643 | 3,929 |
| Liabilities: | | | | |
| Other current financial liabilities (derivatives) | | | | |
| Derivatives not designated as hedges | 7 | 118 | - | 125 |
| Other non-current financial liabilities (derivatives) | | | | |
| Derivatives designated as hedges | - | 533 | - | 533 |
| Total | 7 | 651 | - | 658 |

There were no transfers between Level 1, Level 2, and Level 3 in the fiscal years ended March 31, 2019 and 2020.

The components of changes in financial instruments classified into Level 3 of fair value hierarchy are shown below:

(Millions of yen)

| | Fiscal year ended March 31, 2019 | | Fiscal year ended March 31, 2020 | |
|---|-------------------------------------|--------|-------------------------------------|--------|
| | FVTPL | FVTOCI | FVTPL | FVTOCI |
| Balance at the beginning of the year | 289 | 563 | 1,044 | 591 |
| Total gains or losses (realized/unrealized) | | | | |
| Other comprehensive income | - | 10 | - | (18) |
| Purchase | - | 49 | - | 11 |
| Sale | - | (1) | - | (6) |
| Redemption/other | 755 | (30) | 75 | (54) |
| Balance at the end of the year | 1,044 | 591 | 1,119 | 524 |

Gains or losses recognized in other comprehensive income in the consolidated statement of comprehensive income are presented as "FVTOCI financial assets." There were no gains or losses recognized in profit.

For financial instruments classified into Level 3, no significant increase or decrease in the fair value is expected if one or more of the unobservable inputs are changed to reasonably possible alternative assumptions.

(7) FVTOCI Financial Assets

The Group classifies all equity instruments other than those accounted for by the equity method as FVTOCI financial instruments. These equity instruments are held for the purpose of maintaining and strengthening business relationships with investees.

A. Fair Value of FVTOCI Financial Instruments

The fair values of major FVTOCI financial instruments are shown below:

As of March 31, 2019

(Millions of yen)

| Stock | Amount |
|--|--------|
| MAEDA ROAD CONSTRUCTION Co., Ltd. | 1,285 |
| JXTG Holdings, Inc. | 395 |
| KOHNAN SHOJI CO., LTD. | 223 |
| Enex Infrastructure Investment Corporation | 201 |
| Tonami Holdings Co., Ltd. | 156 |

As of March 31, 2020

(Millions of yen)

| Stock | Amount |
|--|--------|
| MAEDA ROAD CONSTRUCTION Co., Ltd. | 1,209 |
| JXTG Holdings, Inc. | 290 |
| KOHNAN SHOJI CO., LTD. | 178 |
| Enex Infrastructure Investment Corporation | 203 |
| Tonami Holdings Co., Ltd. | 120 |

B. Derecognition of FVTOCI Financial Assets

Some FVTOCI financial assets were sold or disposed of due to review of business relationships with investees, etc. FVTOCI financial assets derecognized due to sale or disposal during the fiscal years ended March 31, 2019 and 2020 are shown below:

(Millions of yen)

| Fiscal year ended March 31, 2019 | | Fiscal year ended March 31, 2020 | |
|----------------------------------|----------------------------|----------------------------------|----------------------------|
| Fair value at date of sale | Accumulated gains (losses) | Fair value at date of sale | Accumulated gains (losses) |
| 64 | (68) | 99 | (25) |

Accumulated gains or losses (net of taxes) in other comprehensive income that were transferred to retained earnings as a result of the above are negative ¥77 million and negative ¥31 million for the fiscal years ended March 31, 2019 and 2020, respectively.

C. Dividends Received

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|-------------------------------------|-------------------------------------|
| Investments derecognized during the year | 2 | 1 |
| Investments held at the end of the year | 64 | 102 |
| Total | 66 | 103 |

(8) Derivatives and Hedges

Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in future cash flows arising in association with the forecasted transactions or already recognized assets or liabilities. Changes in fair value of derivatives designated as a cash flow hedge are recognized in other comprehensive income. This accounting treatment continues until changes in future cash flows arising in association with the unrecognized forecasted transactions or already recognized assets or liabilities that are designated as a hedged item are recognized in gains or losses. The ineffective portion of the hedge is recognized in profit or loss.

In accordance with its policy, the Group has a floating rate position for long-term funds raised to satisfy fund management. These floating rate positions are hedged as the Group enters into interest rate swaps to hedge the risks of fluctuations in cash flows arising from future changes in interest rates. The interest rate swaps are designated as cash flow hedges.

In applying hedge accounting, as a general rule, the Group tries to match notional amounts, periods (maturities) and fundamental figures of interest rates of hedging instruments and hedged items to maintain the effectiveness of hedging relationships over the hedge period. Hedge effectiveness also continues to be assessed after the application of hedge accounting. If an ineffective portion arises, the Group analyzes the cause for the ineffective portion. In the fiscal years ended March 31, 2019 and 2020, the amounts included in profit or loss in association with the ineffective portion of hedging and the portion excluded from the assessment of hedge effectiveness were not significant.

As of March 31, 2020, the notional amount balance for interest rate swaps as hedging instruments was ¥8,005 million, and the period when the cash flows are expected to occur and when they are expected to affect profit or loss is 12 years. The average of interest rates hedged with the interest rate swaps is 1.9%.

As of March 31, 2019 and 2020, effects of hedging instruments designated as hedges on the Group's consolidated statement of financial position are as follows:

(Millions of yen)

| | As of March 31, 2019 | | | | |
|---------------------|----------------------|-------------------|------------------------|---|---|
| | Notional amount | Carrying amount | | Line item in the consolidated statement of financial position | Change in fair value used as the basis for recognition of the ineffective portion |
| | | Derivative assets | Derivative liabilities | | |
| Cash flow hedges | | | | | |
| Interest rate risks | | | | | |
| Interest rate swaps | 8,870 | - | 636 | Other non-current financial liabilities | - |

| | As of March 31, 2020 | | | | |
|---------------------|----------------------|-------------------|------------------------|---|---|
| | Notional amount | Carrying amount | | Line item in the consolidated statement of financial position | Change in fair value used as the basis for recognition of the ineffective portion |
| | | Derivative assets | Derivative liabilities | | |
| Cash flow hedges | | | | | |
| Interest rate risks | | | | | |
| Interest rate swaps | 8,005 | - | 533 | Other non-current financial liabilities | - |

As of March 31, 2019 and 2020, effects of hedged items designated as hedges on the Group's consolidated statement of financial position are as follows:

(Millions of yen)

| | As of March 31, 2019 | |
|------------------------------|---|--|
| | Change in fair value used as the basis for recognition of the ineffective portion | Balance recorded as other components of equity |
| Cash flow hedges | | |
| Interest rate risks | | |
| Borrowing at a floating rate | - | (458) |

(Millions of yen)

| | As of March 31, 2020 | |
|------------------------------|---|--|
| | Change in fair value used as the basis for recognition of the ineffective portion | Balance recorded as other components of equity |
| Cash flow hedges | | |
| Interest rate risks | | |
| Borrowing at a floating rate | - | (376) |

(9) Offsetting of Financial Assets and Financial Liabilities

Some financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position since the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

For financial assets and financial liabilities recognized for the same counterparties, the components of amounts offset and not offset in the consolidated statement of financial position by type of financial instruments as of March 31, 2019 and 2020 are shown below:

As of March 31, 2019

(Millions of yen)

| | Total amount of financial assets | Total amount of financial liabilities offset | Net amount of financial assets presented in the consolidated statement of financial position | Amount of financial assets that do not meet requirements for offsetting | Amount of collateral received | Net amount |
|-------------------|----------------------------------|--|--|---|-------------------------------|------------|
| Financial assets: | | | | | | |
| Trade receivables | 3,648 | 621 | 3,027 | 2,915 | - | 112 |
| Total | 3,648 | 621 | 3,027 | 2,915 | - | 112 |

(Millions of yen)

| | Total amount of financial liabilities | Total amount of financial assets offset | Net amount of financial liabilities presented in the consolidated statement of financial position | Amount of financial liabilities that do not meet requirements for offsetting | Amount of collateral provided | Net amount |
|------------------------|---------------------------------------|---|---|--|-------------------------------|------------|
| Financial liabilities: | | | | | | |
| Trade payables | 4,401 | 621 | 3,780 | 2,915 | - | 865 |
| Total | 4,401 | 621 | 3,780 | 2,915 | - | 865 |

As of March 31, 2020

(Millions of yen)

| | Total amount of financial assets | Total amount of financial liabilities offset | Net amount of financial assets presented in the consolidated statement of financial position | Amount of financial assets that do not meet requirements for offsetting | Amount of collateral received | Net amount |
|--------------------------------|----------------------------------|--|--|---|-------------------------------|------------|
| Financial assets: | | | | | | |
| Trade receivables | 2,072 | 1,286 | 786 | 786 | - | - |
| Other current financial assets | 1,080 | 438 | 642 | - | - | 642 |
| Total | 3,152 | 1,724 | 1,428 | 786 | - | 642 |

(Millions of yen)

| | Total amount of financial liabilities | Total amount of financial assets offset | Net amount of financial liabilities presented in the consolidated statement of financial position | Amount of financial liabilities that do not meet requirements for offsetting | Amount of collateral provided | Net amount |
|-------------------------------------|---------------------------------------|---|---|--|-------------------------------|------------|
| Financial liabilities: | | | | | | |
| Trade payables | 2,336 | 1,286 | 1,050 | 786 | - | 264 |
| Other current financial liabilities | 1,305 | 438 | 868 | - | - | 868 |
| Total | 3,641 | 1,724 | 1,918 | 786 | - | 1,132 |

28. Revenue

(1) Disaggregation of Revenue

The disaggregation of revenue recognized from contracts with external customers is as follows:

Fiscal year ended March 31, 2019

(Millions of yen)

| | Reportable segments | | | | Total |
|--|---------------------|----------------|---------------------|-----------------|------------------|
| | Home-Life | Car-Life | Industrial Business | Power & Utility | |
| Revenue from sales of merchandise | 92,542 | 591,616 | 194,848 | 93,354 | 972,360 |
| Other | 1,466 | 30,667 | — | 105 | 32,238 |
| Revenue recognized from contracts with customers | 94,008 | 622,283 | 194,848 | 93,459 | 1,004,598 |
| Revenue recognized from other sources | 342 | 2,046 | 100 | 0 | 2,488 |
| Total | 94,350 | 624,329 | 194,948 | 93,459 | 1,007,086 |

(Note) Revenue recognized from other sources includes lease income based on IAS 17 and profit and loss on derivative transactions based on IFRS 9.

Fiscal year ended March 31, 2020

(Millions of yen)

| | Reportable segments | | | | Total |
|--|---------------------|----------------|---------------------|-----------------|----------------|
| | Home-Life | Car-Life | Industrial Business | Power & Utility | |
| Revenue from sales of merchandise | 87,264 | 509,697 | 175,055 | 90,426 | 862,442 |
| Other | 1,497 | 30,716 | — | 66 | 32,279 |
| Revenue recognized from contracts with customers | 88,761 | 540,413 | 175,055 | 90,492 | 894,721 |
| Revenue recognized from other sources | 323 | 2,284 | 99 | — | 2,706 |
| Total | 89,084 | 542,697 | 175,154 | 90,492 | 897,427 |

(Note) Revenue recognized from other sources includes lease income based on IFRS 16 and profit and loss on derivative transactions based on IFRS 9.

(2) Contract Balances

The balances of receivables from contracts with customers, contract assets, and contract liabilities at the beginning and end of the period are as follows:

(Millions of yen)

| | Fiscal year ended March 31, 2018 | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|----------------------------------|----------------------------------|----------------------------------|
| Receivables from contracts with customers | 107,043 | 92,317 | 77,325 |
| Contract assets | — | — | — |
| Contract liabilities | 10,587 | 9,659 | 9,437 |

Contract liabilities are mainly related to advances received from customers. The amount of revenues recognized in the fiscal year ended March 31, 2019 that was included in the balance of contract liabilities at the beginning of the fiscal year is ¥10,587 million. The amount of revenues recognized in the fiscal year ended March 31, 2020 that was included in the balance of contract liabilities at the beginning of the fiscal year is ¥9,659 million. The decrease in the balance of contract liabilities in the fiscal years ended March 31, 2019 and March 31, 2020 was mainly due to satisfaction of performance obligations. The amount of revenue recognized in the fiscal years ended March 31, 2019 and March 31, 2020 from performance obligations satisfied (or partially satisfied) in past fiscal years was not significant.

(3) Transaction Price Allocated to Remaining Performance Obligations

The Group has no individual transactions with contract terms in excess of one year. Therefore, the Group applies a practical expedient that provides an exemption from disclosure of information regarding remaining performance obligations. The Group's contracts with customers have no significant consideration that is not included in the transaction price.

(4) Assets Recognized from the Costs to Obtain or Fulfill Contracts with Customers

The Group has no assets recognized from the costs to obtain or fulfill contracts with customers. The Group applies a practical expedient that permits the incremental costs of obtaining a contract to be expensed as incurred if the amortization period of the asset would be one year or less.

29. Selling, General and Administrative Expenses

The components of selling, general and administrative expenses are shown below:

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|-------------------------------|----------------------------------|----------------------------------|
| Personnel expense | (34,558) | (35,777) |
| Rent expense | (9,035) | (2,852) |
| Depreciation and amortization | (4,865) | (11,656) |
| Commission fee | (6,798) | (6,794) |
| Traveling expense | (1,582) | (1,433) |
| Taxes and dues | (1,577) | (1,619) |
| Other | (8,903) | (8,727) |
| Total | (67,318) | (68,858) |

30. Profit or Loss from Tangible Assets, Intangible Assets, and Goodwill

The components of profit or loss from tangible assets, intangible assets, and goodwill are shown below:

| | (Millions of yen) | |
|------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Gain on sales | 976 | 626 |
| Loss on sales | (113) | (166) |
| Loss on disposal | (458) | (342) |
| Impairment loss | (638) | (493) |
| Other | (8) | (53) |
| Total | (241) | (428) |

(Note) For impairment loss of non-current assets, please refer to Note 31, "Impairment Loss."

31. Impairment Loss

The components of impairment loss are as follows.

Impairment loss was recognized in loss from tangible assets, intangible assets, and goodwill in the consolidated statement of comprehensive income.

| | (Millions of yen) | |
|-----------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Property, plant and equipment | | |
| Buildings and structures | (133) | (197) |
| Machinery, equipment and vehicles | (67) | (173) |
| Land | (83) | (20) |
| Other | (43) | (38) |
| Intangible assets | | |
| Goodwill | (171) | – |
| Other | – | (4) |
| Investment property | (134) | (60) |
| Other | (7) | (1) |
| Total | (638) | (493) |

Items of the Group's property, plant and equipment are grouped in the smallest unit for which independent cash flows can be identified.

In the fiscal years ended March 31, 2019 and 2020, there was no individually significant impairment loss.

Major impairment losses in the fiscal years ended March 31, 2019 and 2020 are on property, plant and equipment belonging to the Car-Life Division. These impairment losses were incurred due to reduction of the carrying amount of the assets to the recoverable amount, as a result of decreased profitability caused by changes in the business environment and other factors.

The recoverable amount of these assets was measured based on fair value less costs of disposal.

32. Other Profit or Loss

The components of other – net of other income and expenses are shown below:

| | (Millions of yen) | |
|----------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Insurance claim income | 1,147 | 592 |
| Commission fee | 130 | 149 |
| Compensation income received | 45 | 71 |
| Foreign exchange gain (Note 1) | 194 | 266 |
| Other (Note 2) | 817 | 1,727 |
| Total income | 2,333 | 2,805 |
| Loss on disaster | (531) | (26) |
| Foreign exchange losses (Note 1) | (1) | – |
| Other | (601) | (654) |
| Total expenses | (1,133) | (680) |
| Total | 1,200 | 2,125 |

(Notes) 1. Gain or loss on valuation of foreign currency derivatives is included in foreign exchange gain or loss. In addition to the above, in the fiscal years ended March 31, 2019 and 2020, net gain or loss on valuation of commodity-related derivatives was recognized at negative ¥332 million and 23 million, respectively, in revenue and cost of sales.

2. Other income in the fiscal year ended March 31, 2020 includes a gain of ¥987 million on loss of control of subsidiaries (of this amount, the gain from fair value remeasurement of the Company's residual equity as of the date of the loss of control was ¥494 million).

33. Financial Income and Costs

The components of financial income and financial costs are shown below:

| | (Millions of yen) | |
|--|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Interest income | | |
| Financial assets measured at amortized cost | 71 | 52 |
| Other | 12 | 6 |
| Subtotal | 83 | 58 |
| Dividends received | | |
| FVTOCI financial assets | 66 | 103 |
| Subtotal | 66 | 103 |
| Interest expense | | |
| Financial liabilities measured at amortized cost | (838) | (779) |
| Other | (68) | (347) |
| Subtotal | (906) | (1,126) |
| Other financial income (costs) | | |
| FVTPL financial assets | 755 | (82) |
| Subtotal | 755 | (82) |
| Total | (2) | (1,047) |

34. Earnings per Share

Basic earnings per share for the fiscal years ended March 31, 2019 and 2020 were calculated as follows:

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| Net profit attributable to Itochu Enex's shareholders (Millions of yen) | 11,559 | 12,056 |
| Weighted-average number of ordinary shares outstanding (Thousands of shares) | 112,879 | 112,880 |
| Basic earnings per share attributable to Itochu Enex's shareholders (Yen) | 102.40 | 106.81 |

(Note) Diluted earnings per share attributable to Itochu Enex's shareholders are not presented because there were no potentially dilutive shares.

35. Cash Flow Information

Supplementary information about cash flows is shown below.

(1) Changes in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are shown below:

As of March 31, 2019

| | Short-term borrowings | Non-current borrowings (Note) | Bonds payable (Note) | Lease obligations (Note) | Liabilities held to hedge non- current borrowings |
|---|--------------------------|-------------------------------------|-------------------------|--------------------------------|--|
| Balance as of April 1, 2018 | 10,317 | 17,417 | 14,971 | 10,565 | 671 |
| Cash flows from financing activities | (6,311) | (2,321) | - | (1,642) | - |
| Change occurring due to acquisition of control of subsidiaries | 26 | - | - | - | - |
| Foreign exchange translation differences | (10) | - | - | - | - |
| Change in fair value | - | - | - | - | (34) |
| Interest expense | - | 11 | 10 | - | - |
| Increase in new contracts | - | - | - | 2,218 | - |
| Balance as of March 31, 2019 | 4,022 | 15,107 | 14,981 | 11,141 | 637 |

(Note) The amounts include current portion of non-current borrowings, current portion of bonds payable, and current portion of lease liabilities.

As of March 31, 2020

| | Short-term borrowings | Non-current borrowings (Note) | Bonds payable (Note) | Lease liabilities (Note) | Liabilities held to hedge non- current borrowings |
|---|--------------------------|-------------------------------------|-------------------------|-----------------------------|--|
| Balance as of April 1, 2019 | 4,022 | 15,107 | 14,981 | - | 637 |
| Effect of adoption of new accounting standard | - | - | - | 66,072 | - |
| Cash flows from financing activities | (1,753) | (3,381) | (5,000) | (10,804) | - |
| Change occurring due to acquisition of control of subsidiaries | - | 1,185 | - | 31 | - |
| Change occurring due to loss of control of subsidiaries | - | - | - | (3,185) | - |
| Foreign exchange translation differences | - | - | - | - | - |
| Change in fair value | - | - | - | - | (104) |
| Interest expense | - | 13 | 6 | - | - |
| Increase in new contracts | - | - | - | 7,750 | - |
| Other | - | - | - | 2,439 | - |
| Balance as of March 31, 2020 | 2,269 | 12,924 | 9,987 | 62,303 | 533 |

(Note) The amounts include current portion of non-current borrowings, current portion of bonds payable, and current portion of lease liabilities.

(2) Acquisition of Subsidiaries

The major components of assets and liabilities related to companies that newly became subsidiaries at the time of acquisition of control and reconciliation between consideration paid and net payment from the acquisition are shown below:

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| Components of assets at time of acquisition of control | | |
| Current assets | 58 | 1,087 |
| Non-current assets | 267 | 6,353 |
| Components of liabilities at time of acquisition of control | | |
| Current liabilities | 273 | 913 |
| Non-current liabilities | 33 | 918 |

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|-------------------------------------|-------------------------------------|
| Consideration paid | (6) | (5,609) |
| Cash and cash equivalents included in assets at time of acquisition of control | 28 | 723 |
| Net proceeds (payment) from acquisition of subsidiaries | 22 | (4,886) |

(3) Loss of Control of Subsidiaries

The main components of assets and liabilities at the time of loss of control of companies that ceased to be subsidiaries due to divestment, and the relationship between consideration received and revenue and expenditure due to divestment of subsidiaries are shown below:

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|-------------------------------------|-------------------------------------|
| Components of assets at time of loss of control | | |
| Current assets | - | 984 |
| Non-current assets | - | 10,335 |
| Components of liabilities at time of loss of control | | |
| Current liabilities | - | 627 |
| Non-current liabilities | - | 3,185 |

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| Consideration received | - | 3,802 |
| Cash and cash equivalents included in assets at time of loss of control | - | (897) |
| Proceeds from sales of subsidiaries, net of cash held by subsidiaries | - | 2,905 |

36. Non-Cash Transactions

Significant Non-Cash Transactions

The amount of assets acquired under leases is ¥2,386 million and ¥10,230 million for the fiscal years ended March 31, 2019 and 2020, respectively.

37. Related Parties

(1) Compensation for Key Management Personnel

Compensation for key management personnel of the Group is shown below:

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|-------------------------|-------------------------------------|-------------------------------------|
| Short-term compensation | 335 | 342 |
| Share-based payment | 3 | 15 |
| Total | 338 | 357 |

(2) Transactions with the Parent, Associates, and Other Companies Owned by the Parent

Transactions with the parent, associates, and other companies owned by the parent and the balance of receivables from and payables to them are shown below:

For the fiscal year ended March 31, 2019

(Millions of yen)

| Category | Name | Relationship with related party | Transaction amount | Unsettled balance |
|----------------------|--|--|--------------------|-------------------|
| Associate | N-REIF1 Investment Limited Partnership | Investments in investment limited partnerships | 2,308 | - |
| Subsidiary of parent | ITOCHU Treasury Corporation | Cash transactions | - | 20,000 |

For the fiscal year ended March 31, 2020

(Millions of yen)

| Category | Name | Relationship with related party | Transaction amount | Unsettled balance |
|----------------------|--|---|--------------------|-------------------|
| Associate | N-REIF1 Investment Limited Partnership | Reimbursement of investments in investment limited partnerships | 3,900 | - |
| Subsidiary of parent | ITOCHU Treasury Corporation | Cash transactions | 8,979 | 11,021 |

There is no balance of collateral, and no loss allowance was recognized for the receivables from associates and other companies owned by the parent.

38. Parent, Subsidiaries, and Associates

The Company's parent is ITOCHU Corporation, which is located in Japan.

The status of major subsidiaries as of March 31, 2020 is shown below:

In the fiscal year ended March 31, 2020, there were no individual subsidiaries with material non-controlling interests.

| Company name | Location | Percentage of voting rights owned (%) |
|---|---|---------------------------------------|
| Home-Life Division | | |
| ITOCHU ENEX HOME-LIFE HOKKAIDO CO., LTD. | Chuo-ku, Sapporo City, Hokkaido | 100.0 |
| ITOCHU ENEX HOME-LIFE TOHOKU CO., LTD. | Miyagino-ku, Sendai City, Miyagi | 100.0 |
| ITOCHU ENEX HOME-LIFE NISHI-NIHON CO., LTD. | Naka-ku, Hiroshima City, Hiroshima | 100.0 |
| ECORE CO., LTD. | Hakata-ku, Fukuoka City, Fukuoka | 51.0 |
| Itochu Industrial Gas Co., Ltd. | Chiyoda-ku, Tokyo | 100.0 |
| Car-Life Division | | |
| ENEX FLEET CO., LTD. | Yodogawa-ku, Osaka City, Osaka | 100.0 |
| KOKURA ENTERPRISE ENERGY CO., LTD. | Kokurakita-ku, Kitakyushu City, Fukuoka | 100.0 |
| Osaka Car Life Group Co., Ltd. | Nishi-ku, Osaka City, Osaka | 52.0 |
| KYUSHU ENERGY CO., LTD. | Oita City, Oita | 75.0 |
| Power & Utility Division | | |
| Oji-Itochu Enex power retailing Co., Ltd. | Chiyoda-ku, Tokyo | 60.0 |
| Enex Electric Power Co., Ltd. | Chiyoda-ku, Tokyo | 100.0 |
| TOKYO TOSHI SERVICE COMPANY | Chuo-ku, Tokyo | 66.6 |
| ENEX LIFE SERVICE CO., LTD. | Chiyoda-ku, Tokyo | 100.0 |
| 32 other companies | | |

39. Commitments

Contractual commitments for expenditures after the balance sheet date are shown below:

| | (Millions of yen) | |
|--|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Acquisition of property, plant and equipment | 9,755 | 4,548 |
| Acquisition of intangible assets | — | 495 |
| Total | 9,755 | 5,043 |

40. Contingent Liabilities

The Group provides various forms of guarantees for general business partners. When a guaranteed entity defaults, payment obligations are assumed by the Group. The Group's total amount and actual amount of guarantees provided for general business partners as of March 31, 2019 and 2020 are as follows:

The total amount of guarantees is the total amount of maximum payment limits under guarantee contracts with guaranteed entities and the maximum amount at which payment obligations may arise to the Group. The actual amount of guarantees is based on the total amount of debts recognized by guaranteed entities within the maximum payment limits, and is the amount that is deemed as the amount of actual risks taken after deduction of re-guarantees given by a third party to the Group, etc.

| | (Millions of yen) | |
|--|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Financial guarantees | | |
| Total amount of guarantees | 5,395 | 5,395 |
| Actual amount of guarantees | 26 | 2,842 |
| Guarantees for other transactions (Note) | | |
| Total amount of guarantees | 110 | 107 |
| Actual amount of guarantees | 96 | 93 |
| Total | | |
| Total amount of guarantees | 5,505 | 5,502 |
| Actual amount of guarantees | 122 | 2,935 |

(Note) Financial guarantees include guarantees on loan receivables to associates. Guarantees for other transactions include guarantees on operating transactions and guarantees on the balance of leasing agreements.

For guarantees provided by the Group for general business partners, those with the longest guarantee period will expire on March 31, 2039.

Currently there is no litigation, arbitration, or other legal proceedings that may have a significant impact on the Group's financial position or operating results. However, the Group gives no guarantee that there is no possibility that such significant lawsuits or other legal proceedings may be filed with regard to the Group's operating activities in Japan and overseas in the future that may have a negative impact on the Group's financial position and operating results.

41. Collateral

The components of assets pledged as collateral and their corresponding debts are shown below:

| | (Millions of yen) | |
|---|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Assets pledged as collateral | | |
| Trade receivables | 115 | 89 |
| Investments accounted for by the equity method | 2,326 | 5,208 |
| Other investments | 17 | 16 |
| Non-current financial assets other than investments | 1,307 | 6,819 |
| Property, plant and equipment | 11,547 | 10,676 |
| Total | 15,312 | 22,809 |
| Corresponding debts | | |
| Short-term bonds and borrowings | 904 | 885 |
| Trade payables | 331 | 16 |
| Non-current bonds and borrowings | 7,773 | 6,920 |
| Non-current lease liabilities | — | 5,453 |
| Total | 9,008 | 13,274 |

In addition to the above, other investments pledged as substitute for brokerage margin payments for commodity futures transactions as of March 31, 2019 were ¥1,668 million.

42. Events after the Reporting Period

No items to report.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ITOCHU ENEX CO., LTD.:

Opinion

We have audited the consolidated financial statements of ITOCHU ENEX CO., LTD. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2020, and the consolidated statements of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRSs and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Company Information (As of March 31, 2020)

Stock Information

Shares and Shareholders

| | |
|-------------------------------|------------------|
| Authorized shares | 387,250 thousand |
| Shares issued and outstanding | 116,881 thousand |
| Shareholders | 12,224 |
| Shares per trading unit | 100 |

General Meeting of Shareholders

Ordinary general meeting of shareholders Annually in June

Principal Shareholders

| Name | Shares (thousand) | Stake (%) |
|--|-------------------|-----------|
| ITOCHU Corporation | 60,978 | 53.97 |
| Japan Trustee Services Bank, Ltd. (trust account) | 5,473 | 4.84 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 4,447 | 3.94 |
| Enex Fund | 3,216 | 2.85 |
| JXTG Holdings, Inc. | 2,010 | 1.78 |
| Nippon Life Insurance Company | 1,542 | 1.37 |
| GOVERNMENT OF NORWAY | 1,447 | 1.28 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 1,381 | 1.22 |
| Itochu Enex Employee Shareholding Association | 1,195 | 1.06 |
| MAEDA ROAD CONSTRUCTION Co., Ltd. | 957 | 0.85 |

Notes: The above figures exclude treasury stock (3,894 thousand shares)
 Japan Trustee Services Bank, Ltd. merged with JTC Holdings, Ltd. and Trust & Custody Services Bank, Ltd. on July 27, 2020. The name of the merged bank is Custody Bank of Japan, Ltd.
 JXTG Holdings, Inc. changed its trade name to ENEOS Holdings, Inc. on June 25, 2020.

Share Price (Selected as a constituent of the FY2019 JPX-Nikkei Mid and Small Cap Index.)



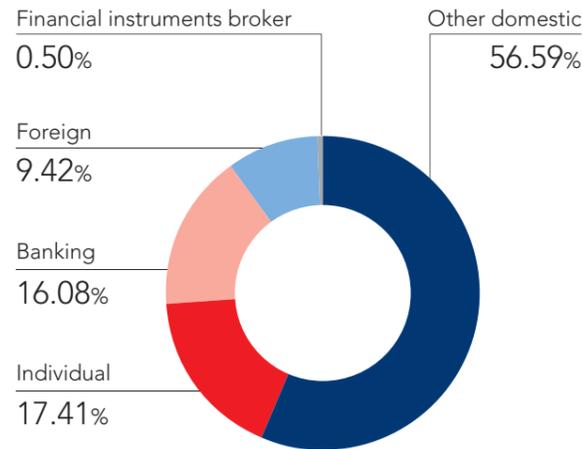
Basis dates

For ordinary general meeting of shareholders: March 31 of each year
 For year-end dividends: March 31 of each year
 For interim dividends: September 30 of each year

Shareholder registry administrator

Stock Transfer Agency Business Planning Dept., Sumitomo Mitsui Trust Bank, Ltd.

Shareholding Ratio by Owner



Corporate Overview (As of March 31, 2020)

| | |
|------------------------------------|--|
| Company name | Itochu Enex Co., Ltd. |
| Head office address | 3-2-5, Kasumigaseki, Chiyoda-ku, Tokyo 100-6028, Japan |
| Established | January 28, 1961 |
| Paid-in capital | ¥19,877.67 million |
| Main sites | Hokkaido, Tohoku, East Japan, Chubu, Kansai, Chugoku & Shikoku, Kyushu (Other sales sites are located across Japan.) |
| Subsidiaries | 45 |
| Affiliates (equity method applied) | 22 |
| Number of employees | 644 (non-consolidated basis, including 170 seconded to subsidiaries) 5,583 (consolidated basis) |
| Stock exchange listing | Tokyo (first section; stock name: ENEX) |
| Securities code | 8133 |
| Main financial institutions | Sumitomo Mitsui Trust Bank, Ltd.; Sumitomo Mitsui Banking Corp.; Resona Bank, Ltd.; Mizuho Bank, Ltd.; MUFG Bank, Ltd. |

More detailed company information is available via our website.

<https://www.itcenex.com/en/>



Visit our website to view TV commercials. (Japanese only)

<https://www.itcenex.com/corporate/commercial/>



Official Twitter Account (@ITC_ENEX)



External Recognition



AAA Website, All Japanese Listed Companies' Website Ranking, Nikko Investor Relations Co., Ltd.

Sports Promotion Company, Tokyo Metropolitan Government

Organization Chart (As of April 1, 2020)

