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Itochu Enex Reports Earnings for the Six Months Ended September 30, 2008

Tokyo, Japan, October 31, 2008—Itochu Enex Co., Ltd. (TSE: 8133) announced net sales of 601,759 million yen for the first six months (April 1 – September 30, 2008) of the fiscal year ending March 31, 2009, and net income of 2,581 million yen, or 28.15 yen per share.

Results of Operations

During the six months ended September 30, 2008, conditions remained tough in the Japanese economy. Increasingly uncertainty clouded the corporate earnings outlook and personal consumption began to sputter due to the economic slowdown, which stems from international financial market turmoil triggered by the US subprime mortgage crisis, and the impact of soaring prices of crude oil and other natural resources.

In the petroleum distribution industry, sales prices of petroleum products rose in response to the protracted debate on abolishing Japan's "provisional" gasoline tax surcharge and the ongoing rise in crude oil prices. Consequently, consumers refrained from buying and increasingly looked to economize, and signs of a drop in demand that threatens to affect domestic petroleum sales became increasingly clear. In the LPG distribution industry, LPG gas import prices continued rising to record levels, making it difficult to pass costs on into selling prices.

In this business environment, the Group's fuel oil sales volume for the six months ended September 30, 2008, declined 6.6% compared to the same period last fiscal year. Gasoline sales volume declined 0.8%, while kerosene and gasoil sales volumes dropped by 17.6% and 5.3%, respectively. Meanwhile LPG gas sales volume fell by 5.9%.

As a result, despite the drop in sales volume, net sales increased 24.9% compared to the same period last fiscal year to 601,759 million yen, due to the increase in sales prices. Meanwhile, operating income rose 67.4% compared to the same period last fiscal year to 4,157 million yen, due to the effects of cost-cutting efforts and the promotion of profitable sales such as those of middle distillates (kerosene, gasoil, heavy oil A). Ordinary income amounted to 4,322 million yen, a 47.3% increase compared to the same period last fiscal year. Net income rose 117.9% to 2,581 million yen compared to the same period last fiscal year. This increase was partially due to the gain on the divestiture of Itochu Enex's stake in a silent investment partnership due to the securitization of the head-office building in the fiscal first quarter.

Segment Information

Industrial Material Division

Net sales in the Industrial Material Division increased 40.3% compared to the same period last fiscal year to 80,969 million yen, while operating income rose 106.8% to 1,496 million yen.

During the six months ended September 30, 2008, the domestic economic slowdown became increasingly pronounced and crude oil prices remained high, and in response industrial-use fuel customers increasingly looked to economize and accelerated their shift to energy sources other than petroleum, which hampered sales of petroleum-type fuels. As nationwide sales volume of petroleum products dropped significantly below the previous year's level, we worked to increase sales to existing clients and cultivate new customers, while also focusing on sales of heavy oil C, a fuel used in shipping. As a result, we were able to contain the decline in overall fuel oil sales compared to the same period last fiscal year to 2%. We also focused our efforts on passing on the higher cost of crude oil into sales prices, and on balance results were solid.

Itochu Industrial Gas Co., Ltd., a Group company that sells high-pressure gases, saw stronger operating results compared to the same period last fiscal year due to firm demand from the industrial sector.

Additionally, the Alternative Energy Development Office, a division which directly reported to the CEO, was relocated in October to the Energy Solution Department. This organizational move will allow us to take action more flexibly in this developing business area.

Car-Life Division

Net sales in the Car-Life Division increased 23.6% compared to the same period last fiscal year to 455,520 million yen, while operating income rose 19.6% to 3,460 million yen.

During the six months ended September 30, 2008, the Car-Life Division faced various challenges. Domestic gasoline retail prices rose to record-highs, and consumers shifted into belt-tightening mode due to soaring prices of fuel oil. There was a marked decline in domestic demand for gasoline and other petroleum products. In addition, crude oil price volatility led to wild swings in prices for petroleum products, making it extremely difficult to appropriately set sales prices.

The Car-Life Division held to its strategy of quantitative expansion accompanied by qualitative improvements and worked to further expand the Group's earnings base by taking over Konan's petroleum business in September and by making Konan Fleet a wholly owned subsidiary in September. During the six months ended September 30, 2008, we closed down 87 existing fueling stations (Car-Life Stations) and opened 93 new stations, resulting in a total of 2,185 fueling stations in operation at period end, a net increase of 6 fueling stations from the end of last fiscal year. Coupled with strategies to expand use of the Car Enex *Itsumo* Card (430,000 cards issued as of September 30, 2008), this enabled us to minimize the decline in sales volume. In addition, we worked proactively to increase the number of gasoline stations affiliated with our Car Collection service for the purchase and sale of used vehicles, a solid source of earnings for the division. We increased the number of affiliated gas stations to 428, an increase of 13 compared to the end of last fiscal year, and continued to expand the Car-Life Division's revenues by providing better service to customers.

Home-Life Division

Net sales in the Home-Life Division increased 17.3% compared to the same period last fiscal year to 65,269 million yen, while operating income declined 12.5% to 501 million yen.

During the six months ended September 30, 2008, the extreme summer heat, record-high LPG import prices, and a slowdown in consumption due to global economic turmoil resulted in the most difficult business environment ever experienced by the Home-Life Division. Amid this environment, we worked to acquire new clients, proactively introduced the Raw Materials Cost Adjustment System at sales companies across the country, and otherwise made efforts to shore up appropriate margins, but in the end both sales volume and profits suffered.

Under such conditions, we worked proactively to streamline our business and cut costs through area strategies to select and focus on key activities primarily at our 7 sales companies across Japan, and began building an LPG Business Support System for the purpose of improving our LPG operations. In business areas other than LPG, expand revenues and improve customer satisfaction by actively developing our *Kurashi-no-Mori* Asclass Reform home renovation service and *Kurashi-no-Mori* Asclass Card credit card.

On February 21, 2008, we announced a joint-study on the prospective restructuring and integration the LPG businesses of Japan Energy Corporation, Itochu Corporation, Nissho Petroleum Gas Corporation, Osaka Gas, and Itochu Enex. This study is progressing smoothly.

Financial Condition

Assets, Liabilities and Net Assets

Total assets amounted to 270,191 million yen at September 30, 2008, an increase of 15,063 million yen from March 31, 2008. This rise was primarily the result of the increase in assets associated with the transfer of business interests from Konan and making Konan Fleet a consolidated subsidiary. Interest-bearing debt increased 5,280 million yen to 42,526 million yen over the six months to September 30, 2008. Despite dividend payments totaling 733 million yen, net assets at the end of the interim period were up 1,819 million yen from March 31, 2008, to 85,527 million yen due to net income of 2,581 million yen for the six months ended September 30, 2008. As a result, the shareholders' equity ratio was 30.9%.

Cash Flows

Cash and cash equivalents totaled 34,098 million yen at September 30, 2008, an increase of 189 million yen from March 31, 2008.

Net cash provided by operating activities was 5,870 million yen. This was primarily the result of 4,850 million yen in income before income taxes and minority interests and proceeds of 15,639 million yen from the collection of trade notes and accounts receivable, which were partly offset by outlays of 14,221 million yen to repay trade notes and accounts payable.

Net cash provided by investing activities amounted to 674 million yen. Major factors included income of 2,877 million yen attributable to the acquisition of shares in Konan Fleet, making it a consolidated subsidiary, and 1,783 million yen in proceeds from sales of investment securities, which were partly offset by outlays of 2,980 million yen for purchases of property, plant and equipment and 1,146 million yen for purchases of intangible assets.

Net cash used in financing activities totaled 6,355 million yen, primarily due to outlays of 5,615 million yen for the repayment of debt and 843 million yen for the payment of dividends.

Outlook for the Fiscal Year Ending March 31, 2009

In October, Itochu Enex launched a new Trade Business Division comprising the petroleum product domestic sales business and the petroleum product trade business (Japan-originated exports and imports) that it acquired from Itochu Corporation and the petroleum product logistics business that it acquired from Itochu Petroleum Japan Ltd., a wholly owned subsidiary of Itochu Corporation. The petroleum product logistics business acquired from Itochu Petroleum Japan covers the chartering of ships for Japan-originated imports and exports, the supply of shipping fuels, tank leasing, and sales of lubricants. In pursuit of potential synergistic benefits generated by the expansion of petroleum product distribution functions, the advantages of scale, and improved business efficiency, we will build a solid base to support strategies for steady and strong growth in this first year of the Group's medium-term business plan, titled "Core & Synergy 2010."

Moreover, the petroleum sales business that we acquired from Konan in September and now-wholly owned subsidiary Konan Fleet will also contribute to future earnings growth.

	Full-year forecast for the fiscal year ending March 31, 2009	
	Amount (millions of yen)	Year-over-year increase (%)
Net sales	1,520,000	39.0
Operating income	10,200	32.5
Ordinary income	10,200	22.8
Net income	6,000	43.3

The Group's business activities may be affected by a wide range of factors, including crude oil prices, the market environment, and climate change. However, at present no changes have been made to the outlook for full-year consolidated operating results announced on May 2, 2008.

Financial Statements—Consolidated

(1) Consolidated Balance Sheets

	As of September 30, 2008	As of March 31, 2008
	Amount	Amount
Assets		
Current assets		
Cash and cash equivalents	34,098	33,909
Trade notes and accounts receivable	108,161	106,691
Merchandise	11,516	9,685
Deferred tax assets	1,903	1,638
Other	9,846	7,475
Allowance for doubtful accounts	(916)	(678)
Total current assets	164,610	158,721
Fixed assets		
Property, plant and equipment		
Buildings and structures	45,628	44,128
Accumulated depreciation	(25,264)	(24,879)
Buildings and structures, net	20,363	19,248
Machinery, equipment and vehicles	30,052	29,440
Accumulated depreciation	(21,084)	(20,637)
Machinery, equipment and vehicles, net	8,968	8,802
Land	35,172	32,796
Construction in progress	426	206
Other	6,024	4,575
Accumulated depreciation	(3,428)	(3,214)
Other, net	2,595	1,361
Net, property, plant and equipment	67,526	62,415
Intangible assets		
Goodwill	8,038	4,251
Other	2,632	2,730
Total intangible assets	10,671	6,981
Investments and other assets		
Investment securities	12,521	13,377
Long-term loans	2,634	2,629
Deferred tax assets	3,590	2,706
Other assets	10,528	9,551
Allowance for doubtful accounts	(1,892)	(1,255)
Total investments and other assets	27,382	27,009
Total fixed assets	105,580	96,406
Total assets	270,191	255,127

	As of September 30, 2008	Millions of yen As of March 31, 2008
	Amount	Amount
Liabilities		
Current liabilities		
Trade notes and accounts payable	103,493	100,525
Short-term borrowings	18,859	17,183
Corporate bonds due within one year	1,144	-
Income taxes payable	2,655	2,402
Accrued bonuses for employees	2,348	2,194
Accrued bonuses for directors and corporate auditors	157	199
Other current liabilities	15,964	12,909
Total current liabilities	144,623	135,415
Long-term liabilities		
Corporate bonds	1,470	-
Long-term debt	21,053	20,062
Deferred tax liabilities	258	249
Deferred tax liabilities on land revaluation	3,177	3,190
Liabilities for retirement benefits	5,094	4,307
Other long-term liabilities	8,986	8,194
Total long-term liabilities	40,040	36,004
Total liabilities	184,663	171,419
Net assets		
Shareholders' equity		
Common stock	19,877	19,877
Capital surplus	17,783	17,783
Retained earnings	57,528	55,830
Treasury stock	(2,601)	(2,585)
Total shareholders' equity	92,588	90,906
Valuation and translation adjustments		
Unrealized gains on available-for-sale securities	(357)	(284)
Land revaluation difference	(8,692)	(8,836)
Total Valuation and translation adjustments	(9,050)	(9,120)
Minority interests	1,989	1,922
Total net assets	85,527	83,707
Total liabilities and net assets	270,191	255,127

(2) Consolidated Statements of Income

	Millions of yen
	Six months ended September 30, 2008
	Amount
Net sales	601,759
Cost of sales	569,773
Gross profit	31,985
Selling, general and administrative expenses	27,827
Operating income	4,157
Other income	
Interest income	109
Dividend income	225
Purchase discounts	264
Other	487
Total other income	1,087
Other expense	
Interest expense	307
Sales discounts	242
Equity in loss of unconsolidated subsidiaries and associated companies	139
Other	233
Total other expense	922
Ordinary income	4,322
Extraordinary gains	
Gain on sales of property, plant and equipment	59
Gain on sales of investment securities	1,401
Reversal of allowance for doubtful accounts	76
Gain on sales of business	131
Total extraordinary gains	1,669
Extraordinary losses	
Loss on sales and disposal of property, plant and equipment	220
Loss on sales of investment securities	184
Loss on devaluation of investment securities	503
Loss on devaluation of golf club membership	28
Loss on impairment of long-lived assets	59
Reorganization losses	41
Head office relocation expense	103
Total extraordinary losses	1,141
Income before income taxes and minority interests	4,850
Income taxes	
Current	2,575
Deferred	(484)
Total income taxes	2,091
Minority interests in net income	177
Net income	2,581

(3) Consolidated Statements of Cash Flows

	Millions of yen Six months ended September 30, 2008
	Amount
Cash flows from operating activities	
Income before income taxes and minority interests	4,850
Depreciation and amortization	2,599
Loss on impairment of long-lived assets	59
Amortization of goodwill	830
Increase (decrease) in allowance for doubtful accounts	26
Increase (decrease) in provision for retirement benefits	304
Interest and dividend income	(335)
Interest expense	307
(Gain) loss on sales of property, plant and equipment	161
(Gain) loss on sales of business	(131)
(Gain) loss on sales of investment securities	(1,217)
(Gain) loss on devaluation of investment securities	503
Head office relocation expense paid	103
Reorganization losses	41
Loss on devaluation of golf club membership	28
Equity in (income) loss of unconsolidated subsidiaries and associated companies	139
(Increase) decrease in trade notes and accounts receivable	15,639
(Increase) decrease in inventories	(61)
Increase (decrease) in trade notes and accounts payable	(14,221)
Increase (decrease) in other assets and liabilities	(1,546)
Sub total	<u>8,080</u>
Interest and dividend income received	395
Interest paid	(301)
Income taxes paid	(2,303)
Net cash provided by (used in) operating activities	<u>5,870</u>
Cash flows from investing activities	
Purchases of property, plant and equipment	(2,980)
Proceeds from sales of property, plant and equipment	306
Purchases of intangible assets	(1,146)
Proceeds from sales of intangible assets	406
Purchases of investment securities	(351)
Proceeds from sales of investment securities	1,783
Purchases of investments in subsidiaries resulting in change in scope of consolidation	2,877
Payments for loans	(1,515)
Collection of loans	1,842
Other	(547)
Net cash provided by (used in) investing activities	<u>674</u>
Cash flows from financing activities	
Increase (decrease) in short-term bank - net	(1,191)
Proceeds from long-term debt	120
Repayments of long-term debt	(4,423)
Repurchases of treasury stock	(15)
Dividends paid	(733)
Dividends paid to minority shareholders of consolidated subsidiaries	(110)
Net cash provided by (used in) financing activities	<u>(6,355)</u>
Net increase (decrease) in cash and cash equivalents	<u>189</u>
Cash and cash equivalents, beginning of the period	<u>33,909</u>
Cash and cash equivalents, end of the period	<u>34,098</u>

Effective this fiscal year, the Company has adopted the *Accounting Standards for Quarterly Financial Reporting* (ASBJ Statement No. 12) and its accompanying *Guidance on Accounting Standards for Quarterly Financial Reporting* (ASBJ Guidance No. 14). Consolidated financial statements for the period under review are prepared based on the Regulations on the Terminology, Format and Preparation of Quarterly Financial Statements.

(4) Notes on the going-concern assumption

Not applicable

(5) Segment Information

Industry segment information:

Six months ended September 30, 2008 (April 1, 2008 – September 30, 2008)

	Industrial Material	Car Life	Home Life	Total	Elimination /Corporate	Consolidated
Sales and operating income						
Sales						
(1) Sales to customers	80,969	455,520	65,269	601,759	-	601,759
(2) Intersegment sales	-	-	-	-	(-)	-
Total	80,969	455,520	65,269	601,759	(-)	601,759
Operating income	1,496	3,460	501	5,458	(1,300)	4,157

Millions of yen

Geographical Segment Information:

Not applicable

Overseas Sales:

Not applicable

(6) Significant changes in shareholders' equity during the period

Not applicable

Reference Material

Consolidated financial statements for the six months ended September 30, 2007

(1) Consolidated Statements of Income

		Millions of yen	
		Six months ended September 30, 2007	
		Amount	%
Net sales		481,928	100.0
Cost of sales		451,266	93.6
Gross profit		30,661	6.4
Selling, general and administrative expenses		28,178	5.9
Operating income		2,483	0.5
Other income			
Interest income	98		
Dividend income	277		
Purchase discounts	238		
Equity in income of unconsolidated subsidiaries and associated companies	15		
Other	407	1,037	0.2
Other expense			
Interest expense	293		
Sales discounts	168		
Other	123	585	0.1
Ordinary income		2,935	0.6
Extraordinary gains			
Gain on sales of property, plant and equipment	159		
Gain on reversal of allowance for doubtful accounts	44		
Gain (loss) on change in equity interest	79	283	0.0
Extraordinary losses			
Loss on sales and disposal of property, plant and equipment	287		
Loss on devaluation of investment securities	277		
Loss on impairment of long-lived assets	93	658	0.1
Income before income taxes and minority interests		2,559	0.5
Income taxes			
Current	1,209		
Deferred	29	1,239	0.3
Minority interests in net income		135	0.0
Net income		1,185	0.2

(2) Consolidated Statements of Cash Flows

Millions of yen

Six months
ended
September 30,
2007

	Amount
Cash flows from operating activities	
Income before income taxes and minority interests	2,559
Depreciation and amortization	2,440
Loss on impairment of long-lived assets	93
Amortization of goodwill	820
Increase in allowance for doubtful accounts	0
Increase in provision for retirement benefits	275
Interest and dividend income	(376)
Interest expense	293
Equity in income of unconsolidated subsidiaries and associated companies	(15)
Gain (loss) on change in equity interest	(79)
Transfer to cash flows from investing activities	405
Decrease in trade notes and accounts receivables	5,986
(Increase) decrease in inventories	(2,013)
Increase (decrease) in trade notes and accounts payable	(1,911)
Increase in other current assets	(1,117)
Increase (decrease) in other current liabilities	(377)
Sub total	<u>6,983</u>
Interest and dividend income received	361
Interest paid	(297)
Income taxes paid	(1,717)
Net cash provided by (used in) operating activities	<u>5,329</u>
Cash flows from investing activities	
Purchases of property, plant and equipment	(2,392)
Proceeds from sales of property, plant and equipment	520
Purchases of intangible assets	(973)
Proceeds from sales of intangible assets	64
Purchases of investment securities	(1,582)
Proceeds from sales of investment securities	824
Purchases of investments in subsidiaries resulting from change in scope of consolidation	627
Payments for loans	(1,374)
Collection of loans	1,837
Other	(660)
Net cash provided by (used in) investing activities	<u>(3,109)</u>
Cash flows from financing activities	
Decrease in short-term loans - net	(3,960)
Proceeds from long-term debt	1,200
Repayments of long-term debt	(1,776)
Proceeds from sales of treasury stock	5
Repurchases of treasury stock	(3)
Dividends paid by parent company	(733)
Dividends paid to minority shareholders of consolidated subsidiaries	(67)
Net cash provided by (used in) financing activities	<u>(5,335)</u>
Net decrease in cash and cash equivalents	<u>(3,116)</u>
Cash and cash equivalents, beginning of the period	<u>33,297</u>
Increase in cash and cash equivalents resulting from mergers and increased number of consolidated subsidiaries	232
Cash and cash equivalents, end of the period	<u>30,413</u>

(3) Segment Information

Industry segment information:

Six months ended September 30, 2007 (April 1, 2007 – September 30, 2007)

	Industrial Material	Car Life	Home Life	Total	Elimination /Corporate	Millions of yen Consolidated
Sales and operating income						
Sales						
(1) Sales to customers	57,709	368,588	55,630	481,928	-	481,928
(2) Intersegment sales	-	-	-	-	(-)	-
Total	57,709	368,588	55,630	481,928	(-)	481,928
Operating expense	56,985	365,694	55,058	477,737	1,707	479,445
Operating income	723	2,894	572	4,190	(1,707)	2,483

Geographical Segment Information:

Six months ended September 30, 2007 (April 1, 2007 – September 30, 2007)

Not applicable

Overseas Sales:

Six months ended September 30, 2007 (April 1, 2007 – September 30, 2007)

Not applicable