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Itochu Enex Reports Earnings for the Nine Months ended December 31, 2009

Tokyo, Japan, January 29, 2010 -- Itochu Enex Co., Ltd. (TSE: 8133) announced net sales of 769,731 million yen for the nine months ended December 31, 2009, and net income of 2,008 million yen, or 17.19 yen per share.

Results of Operations

During the nine months ended December 31, 2009, the Japanese economy showed signs of partial recovery from the global economy's precipitous downturn, most notably in the form of improvement in corporate earnings. Despite such improvement, Japan is sinking deeper into deflation under the weight of a continued slump in consumer spending. The domestic energy industry also continues to face a slack supply-demand balance in the wake of retrenchment in domestic demand.

Amid such an environment, we have been endeavoring to forge new alliances, win new customers, and improve profit margins through rigorous sales-price management.

Our overall sales volume grew in the nine months ended December 31, 2009, by virtue of incremental sales stemming from the Energy Trade Division's integration into our operations from October 2008, but this growth was offset by sales price declines. Our net sales consequently decreased 16.9% year over year to 769,731 million yen. As a result of the decline in sales coupled with deterioration in the market environment, operating income fell 69.6% year over year to 2,064 million yen, ordinary income fell 62.9% year over year to 2,567 million yen, and net income fell 48.5% year over year to 2,008 million yen.

Segment Information

We have revised our business segmentation as noted below (see "Additional information" under "Segment Information"). Year-over-year comparisons are based on year-earlier data adjusted to conform to the revised segmentation.

Industrial Material Division

The Industrial Material Division earned operating income of 1,232 million yen (down 53.5% year over year) on net sales of 68,300 million yen (down 37.8% year over year) in the nine months ended December 31, 2009.

Although petroleum demand began to recover last quarter as capacity utilization rose in some sectors of the economy, price competition persisted, resulting in an extremely adverse market environment. By adopting a profitability-focused sales approach, the Industrial

Material Division managed to earn a profit even as sales of intermediate distillates, its core products, fell short of their year-earlier level. It endeavored to increase marine fuel sales amid a continued slump in domestic marine shipping by capturing new customers and redeploying refueling tankers. Asphalt sales volume grew year over year as demand recovered in some regions in response to production cuts by major oil companies. LNG sales held firm, buoyed by demand from new customers that we have been supplying since September 2009. We intend to continue to pursue new customers.

At Itochu Industrial Gas Co., Ltd., a Group company that sells high-pressure gases, sales of oxygen and carbon welding gases to automobile and construction machinery manufacturers remained sluggish. Its hydrogen and nitrogen gas sales volumes, however, have been recovering since last quarter, driven mainly by demand from the semiconductor industry.

Car Life Division

The Car Life Division earned operating income of 1,772 million yen (down 55.2% year over year) on net sales of 368,737 million yen (down 23.7% year over year).

In the retail market, sales competition has been intensifying in the wake of two trends. First, gasoline consumption is declining as fuel-efficient vehicles grow in prevalence. Second, domestic demand for petroleum products has retrenched amid the domestic economic slowdown. Price competition has made it extremely difficult to maintain sales prices that provide adequate profit margins.

With the number of domestic gas stations in decline, the Car Life Division has been aggressively expanding its network of refueling stations ("car-life stations") through a strategy of quantitative expansion accompanied by qualitative improvements. In the nine months through December 2009, it added 67 newly affiliated car-life stations to end 2009 with a total of 2,162 stations (a net decrease of 12 stations from March 31, 2009). Despite the decrease in total stations, the newly affiliated stations have contributed to unit volume growth. Sales volume consequently held steady at its year-earlier level.

The Car Life Division is also endeavoring to operationally strengthen its affiliated refueling stations through a retail strategy of managing car-life stations from the customer's standpoint. Meanwhile, it is pursuing additional earnings growth with its Car Collection used car dealerships and Itsumo Rent-a-Car, a new business with a fleet of preowned vehicles launched in the current fiscal year in response to evolving consumer needs. Itsumo Rent-a-Car ended December with 203 locations, well above its first-year target of 150 locations. It continues to make progress in expanding its network of locations.

Energy Trade Division

The Energy Trade Division incurred an operating loss of 583 million yen (versus year-earlier operating income of 1,712 million yen) on net sales of 274,173 million yen (up 16.0% year over year).

With petroleum product demand in the midst of a retrenchment triggered by last year's global recession and tanker demand yet to recover from its deep downturn, the Energy Trade Division remained beset by an inclement environment.

In the petroleum product trading business, domestic sales volumes held relatively firm, but a decline in import and export volumes weighed heavily on earnings.

The marine fuel business likewise experienced unavoidable margin compression due to intensification of price competition and sluggish demand against a backdrop of delayed recovery in economic conditions.

Our shipping operations were hurt by depressed tanker rates amid a contraction in global cargo traffic. It saw its profitability deteriorate drastically as freight rates tracked below vessel costs.

Home Life Division

The Home Life Division earned operating income of 1,323 million yen (up 156.8% year over year) on net sales of 58,520 million yen (down 39.9% year over year).

In terms of sales volume, the Home Life Division still faces stiff headwinds in the form of repercussions from prolonged recession, consumers' growing commitment to energy conservation, and intensification of competition from competing energy sources such as electric power. Although LPG import prices have risen sharply, the LPG business earned satisfactory margins by virtue of widespread adoption of the feedstock cost adjustment system. It consequently achieved substantial year-over-year profit growth, helped by regional sales subsidiaries' cost cutting and efficient management.

Against such a backdrop, we have nearly completed installing our LPG operation support system, G-Bingo, at all regional LPG sales subsidiaries' locations, in the aim of enhancing operating efficiency. By proactively utilizing G-Bingo, we aim to improve our cost competitiveness. We have also adopted the IT-enabled i-Bingo mobile security terminal to reliably carry out security functions and are promoting i-Bingo's adoption throughout the industry. Additionally, we have entered the upstream area by investing in Japan Gas Energy Co., Ltd. (JGE) and participating in its management. We intend to deepen our cooperative ties with JGE and JGE Group appointed distributors in the aim of strengthening our competitiveness by generating midstream and downstream synergies.

Financial Condition

Total assets amounted to 263,116 million yen at December 31, 2009, a 15,529 million yen increase from March 31, 2009. The increase was attributable to growth in trade notes and accounts receivable and inventories. Interest-bearing debt decreased 9,559 million yen to 31,669 million yen over the same timeframe. Net assets increased 226 million to 91,112 million yen at December 31, 2009, as fiscal-year-to-date net income of 2,008 million yen exceeded dividend payments of 1,869 million yen. We consequently ended December with a shareholders' equity ratio of 33.8%.

Cash Flows

Cash and cash equivalents totaled 23,357 million yen at December 31, 2009, a decrease of 19,862 million yen from March 31, 2009. The decrease was largely attributable to the aforementioned reduction in interest-bearing debt.

Operating activities used net cash of 5,904 million yen. Major outflows included a 30,875 million yen increase in trade notes and accounts receivable, a 4,895 million yen increase in inventories, and 3,722 million yen in tax payments. These outflows were partially offset by 4,892 million yen in pretax income and a 26,926 million yen increase in trade notes and accounts payable.

Investing activities used net cash of 2,009 million yen. Major outflows included 3,159 million yen spent to acquire investment securities and 3,435 million yen spent to acquire property, plant and equipment. These outflows were partially funded by a 3,070 million inflow from the divestment of a business unit.

Financing activities used net cash of 11,851 million yen. Major outflows included a 2,215 million yen reduction in short-term borrowings, 6,849 million yen in repayments of long-term borrowings, 572 million yen in bond redemptions, and 1,869 million yen in dividend payments.

Consolidated Earnings Forecasts

The energy industry outlook remains murky both in Japan and overseas. Specific risk factors include trends in oil tanker rates, crude oil prices, and LPG import prices, these trends' impact on retail energy prices, and the ongoing slump in petroleum product demand in response to the economic downturn. Nevertheless, we are working to develop our business globally, strengthen our core businesses, and generate synergies under our Core & Synergy 2010 medium-term management plan, the overarching objective of which is to rebuild the Group's business base by acquiring new enterprise resources, capabilities, and business models to launch the Group on a growth trajectory.

In accord with the Group's medium-term management plan, we are transitioning to a new stage as a "general energy solutions company." Toward this end, we are building new capabilities by developing alternative energy businesses and rebuilding our retail operations from a consumer-oriented perspective ahead of our competitors. In September 2009, we established a Fuel Cell Solar and Electric Vehicle Business Department and commenced sales of distributed-power systems (fuel cells, solar-power-generation systems) for the home through our Group's domestic network. We are also taking part in a joint project (Tsukuba, Ibaraki Prefecture) led by Itochu Corporation to develop low-carbon transportation systems with an eye to the proliferation of next-generation automobiles. Through such initiatives, we aim to cultivate peripheral businesses related to electric vehicles.

We have left unchanged our earnings forecast for the year ending March 31, 2010, as last updated on September 28, 2009. If we decide that the forecast needs to be revised in light of subsequent operating performance, we will promptly disclose a revised forecast.

Financial Statements—Consolidated

(1) Consolidated Balance Sheets

Millions of yen

	December 31, 2009	March 31, 2009
	Amount	Amount
Assets		
Current assets		
Cash and cash equivalents	23,357	43,219
Trade notes and accounts receivable	110,471	79,596
Merchandise and finished products	13,091	8,195
Deferred tax assets	1,601	2,120
Other	11,699	9,439
Allowance for doubtful accounts	(591)	(682)
Total current assets	159,630	141,888
Fixed assets		
Property, plant and equipment		
Buildings and structures	51,376	50,450
Accumulated depreciation	(30,418)	(29,537)
Buildings and structures, net	20,957	20,912
Machinery, equipment and vehicles	31,282	30,853
Accumulated depreciation	(23,043)	(22,131)
Machinery, equipment and vehicles, net	8,238	8,721
Land	35,102	35,454
Leased assets	3,159	2,032
Accumulated depreciation	(643)	(233)
Leased assets, net	2,515	1,798
Construction in progress	76	92
Other	4,919	4,848
Accumulated depreciation	(3,662)	(3,450)
Other, net	1,257	1,398
Net, property, plant and equipment	68,148	68,378
Intangible assets		
Goodwill	5,236	6,561
Other	2,814	3,083
Total intangible assets	8,051	9,645
Investments and other assets		
Investment securities	13,472	12,259
Long-term loans	1,774	3,366
Deferred tax assets	3,527	3,844
Other assets	9,905	9,677
Allowance for doubtful accounts	(1,394)	(1,473)
Total investments and other assets	27,285	27,674
Total fixed assets	103,485	105,698
Total assets	263,116	247,587

	December 31, 2009	March 31, 2009
	Millions of yen	
	Amount	Amount
Liabilities		
Current liabilities		
Trade notes and accounts payable	101,463	74,536
Short-term borrowings	19,726	19,519
Corporate bonds due within one year	444	644
Lease obligations	786	519
Income taxes payable	972	2,882
Accrued bonuses for employees	1,189	2,407
Accrued bonuses for directors and corporate auditors	136	213
Other current liabilities	15,174	16,172
Total current liabilities	139,892	116,895
Long-term liabilities		
Corporate bonds	776	1,148
Long-term debt	10,723	19,917
Lease obligations	2,475	1,629
Deferred tax liabilities	242	236
Deferred tax liabilities on land revaluation	3,095	3,127
Liabilities for retirement benefits	5,827	5,219
Other long-term liabilities	8,970	8,526
Total long-term liabilities	32,111	39,804
Total liabilities	172,003	156,700
Net assets		
Shareholders' equity		
Common stock	19,877	19,877
Capital surplus	18,736	18,736
Retained earnings	59,369	59,462
Treasury stock	(20)	(19)
Total shareholders' equity	97,963	98,057
Valuation and translation adjustments		
Unrealized gains on available-for-sale securities	(936)	(836)
Revaluation reserve for land	(8,223)	(8,456)
Total valuation and translation adjustments	(9,160)	(9,292)
Minority interests	2,309	2,121
Total net assets	91,112	90,886
Total liabilities and net assets	263,116	247,587

(2) Consolidated Statements of Income

Millions of yen

	Nine months ended December 31, 2008	Nine months ended December 31, 2009
	Amount	Amount
Net sales	926,783	769,731
Cost of sales	873,733	723,674
Gross profit	53,049	46,057
Selling, general and administrative expenses	46,247	43,992
Operating income	6,801	2,064
Other income		
Interest income	233	152
Dividend income	272	221
Purchase discounts	364	187
Gain on foreign currency translation	101	-
Equity in income of unconsolidated subsidiaries and associated companies	-	229
Other	614	666
Total other income	1,585	1,457
Other expense		
Interest expense	580	461
Sales discounts	341	173
Loss on foreign currency translation	-	57
Equity in loss of unconsolidated subsidiaries and associated companies	213	-
Other	323	261
Total other expense	1,459	954
Ordinary income	6,927	2,567
Extraordinary gains		
Gain on sales of property, plant and equipment	130	81
Gain on sales of investment securities	1,403	53
Reversal of allowance for doubtful accounts	194	13
Gain on change in equity interest	-	2,415
Gain on sales of business	137	-
Compensation income for expropriation	-	324
Total extraordinary gains	1,865	2,887
Extraordinary losses		
Loss on sales and disposal of property, plant and equipment	412	431
Loss on sales of investment securities	191	-
Loss on devaluation of investment securities	505	-
Loss on devaluation of golf club membership	54	-
Reorganization losses	41	-
Loss on impairment of long-lived assets	91	132
Head office relocation expense	104	-
Total extraordinary losses	1,401	563
Income before income taxes and minority interests	7,392	4,892
Income taxes		
Current	3,359	1,736
Deferred	(66)	879
Total income taxes	3,293	2,616
Minority interests	199	267
Net income	3,899	2,008

(3) Consolidated Statements of Cash Flows

Millions of yen

	Nine months ended December 31, 2008	Nine months ended December 31, 2009
	Amount	Amount
Cash flows from operating activities		
Income before income taxes and minority interests	7,392	4,892
Depreciation and amortization	4,023	4,772
Loss on impairment of long-lived assets	91	132
Amortization of goodwill	1,441	1,720
Increase (decrease) in allowance for doubtful accounts	(221)	126
Increase (decrease) in liabilities for retirement benefits	500	607
Interest and dividend income	(505)	(374)
Interest expense	580	461
(Gain) loss on foreign currency translation	(101)	93
(Gain) loss on sales and disposal of property, plant and equipment	282	350
(Gain) loss on sales of business	(137)	-
(Gain) loss on change in equity interest	-	(2,415)
Compensation income for expropriation	-	(324)
(Gain) loss on sales of investment securities	(1,212)	(53)
(Gain) loss on devaluation of investment securities	505	-
Head office relocation expense paid	104	-
Reorganization losses	41	-
Loss on devaluation of golf club membership	54	-
Equity in (income) loss of unconsolidated subsidiaries and associated companies	213	(229)
(Increase) decrease in trade notes and accounts receivable	53,496	(30,875)
(Increase) decrease in inventories	6,429	(4,895)
Increase (decrease) in trade notes and accounts payable	(46,455)	26,926
Increase (decrease) in other assets and liabilities	(778)	(3,037)
Sub total	25,745	(2,121)
Interest and dividend income received	578	426
Interest paid	(663)	(487)
Income taxes paid	(3,624)	(3,722)
Net cash provided by (used in) operating activities	22,036	(5,904)
Cash flows from investing activities		
Purchases of property, plant and equipment	(4,474)	(3,435)
Proceeds from sales of property, plant and equipment	1,152	211
Purchases of intangible assets	(1,596)	(1,046)
Proceeds from sales of intangible assets	425	58
Proceeds from sales of business	-	3,077
Purchases of investment securities	(763)	(3,159)
Proceeds from sales of investment securities	1,789	1,441
Proceeds from investments in subsidiaries resulting in change in scope of consolidation	2,877	-
Payments for loans	(3,030)	(885)
Collection of loans	3,056	1,527
Proceeds from compensation for expropriation	-	52
Other	(421)	68
Net cash provided by (used in) investing activities	(985)	(2,090)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings - net	(16,676)	(2,215)
Proceeds from long-term debt	470	-
Repayments of long-term debt	(4,946)	(6,849)
Redemption of bonds	(250)	(572)
Repayments of lease obligations	-	(266)
Repurchases of treasury stock	(18)	(0)
Dividends paid	(1,467)	(1,869)
Dividends paid to minority shareholders of consolidated subsidiaries	(110)	(77)
Other	(33)	-

Net cash provided by (used in) financing activities	(23,032)	(11,851)
Foreign currency translation adjustments on cash and cash equivalents	-	(14)
Net increase (decrease) in cash and cash equivalents	(1,981)	(19,862)
Cash and cash equivalents, beginning of the period	33,909	43,219
Increase in cash and cash equivalents from corporate splits	6,590	-
Cash and cash equivalents, end of the period	38,518	23,357

(4) Notes on the going-concern assumption

Not applicable

(5) Segment Information

Industry segment information:

Nine months ended December 31, 2008 (April 1, 2008 – December 31, 2008)

Millions of yen

	Industrial Material	Car Life	Energy Trade	Home Life	Total	Elimination/ Corporate	Consolidated
Sales							
(1) Sales to customers	114,648	664,755	50,006	97,372	926,783	-	926,783
(2) Intersegment sales or transfers	43	1,313	10,468	-	11,825	(11,825)	-
Total	114,692	666,069	60,474	97,372	938,608	(11,825)	926,783
Operating income	2,756	5,389	169	515	8,831	(2,029)	6,801

Nine months ended December 31, 2009 (April 1, 2009 – December 31, 2009)

Millions of yen

	Industrial Material	Car Life	Energy Trade	Home Life	Total	Elimination/ Corporate	Consolidated
Sales							
(1) Sales to customers	68,300	368,737	274,173	58,520	769,731	-	769,731
(2) Intersegment sales or transfers	715	5,861	23,603	-	30,179	(30,179)	-
Total	69,015	374,598	297,776	58,520	799,911	(30,179)	769,731
Operating income (loss)	1,232	1,772	(583)	1,323	3,745	(1,680)	2,064

Notes: 1. Method of segmentation of business:
Business operations are categorized according to similarities in the way the goods are used by end consumers.

2. Main lines of business by segment

Industrial Material:
Energy and material supplies for customers, high-pressure gas production, and sales of asphalt, cement, LNG (liquefied natural gas), urea aqueous solution, and other materials.

Car Life:
Consumer sales and services, mainly at car-life-stations, including gasoline, heating oil, light diesel oil, heavy fuel oil, grease, automobile supplies, car inspections, maintenance, used cars, and car rental services.

Energy Trade:
Import and export of petroleum products, regulation of supply of and demand for petroleum products in Japan, chartering and operation of tankers, import and sale of marine fuels, purchase and sale of lubricating oil, logistics services for petroleum storage tanks and facilities.

Home Life:
Sales of everyday goods and services such as liquefied petroleum gas, equipment (combustion equipment, kitchen equipment, air-conditioning equipment, and household equipment), commodities, catalogue merchandise, and sundries.

3. Additional information

(1) During the three months ended December 31, 2008, the Company acquired the petroleum products trade business and the petroleum products logistics business of Itochu Corporation and Itochu Petroleum Japan Ltd., respectively. These petroleum product-related businesses are categorized as a newly added business segment, Energy Trade.

(2) During the three months ended June 30, 2009, to streamline business management, the Company consolidated overlapping businesses of the Company and its consolidated subsidiaries and reorganized segments as follows.

- The Company's "special sales" business was transferred to consolidated subsidiary Kokura Kosan Energy Co., Ltd., and reclassified from the Car Life Division to the Energy Trade Division.
- Kokura Kosan Energy Co., Ltd.'s marine fuel business was transferred to the Company and reclassified from the Car Life Division to the Industrial Material Division.

Segment information for the nine months ended December 31, 2008 based on the new segment classifications used for the nine months ended December 31, 2009, is as follows.

Nine months ended December 31, 2008 (April 1, 2008 – December 31, 2008)

Millions of yen

	Industrial Material	Car Life	Energy Trade	Home Life	Total	Elimination/ Corporate	Consolidated
Sales							
(1) Sales to customers	109,883	483,258	236,269	97,372	926,783	-	926,783
(2) Intersegment sales and transfers	43	1,313	10,468	-	11,825	(11,825)	-
Total	109,927	484,571	246,737	97,372	938,608	(11,825)	926,783
Operating income	2,650	3,953	1,712	515	8,831	(2,029)	6,801

Geographical Segment Information:

Nine months ended December 31, 2008 (April 1, 2008 – December 31, 2008) and nine months ended December 31, 2009 (April 1, 2009 – December 31, 2009)

Not applicable

Overseas Sales:

Nine months ended December 31, 2008 (April 1, 2008 – December 31, 2008) and nine months ended December 31, 2009 (April 1, 2009 – December 31, 2009)

Details are omitted from this report as overseas sales accounts for less than 10% of total sales.

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

Not applicable

(7) Significant subsequent events

Itochu Enex's board of directors met on January 29, 2010, and passed a resolution to repurchase shares as permitted by Article 156 of the Companies Act when interpreted according to Article 165, paragraph 3, of the Act. The repurchase is aimed at enabling agile execution of capital strategies in response to changes in the operating environment.

(1) Class of stock: Common stock
(2) Potential total number of shares to be repurchased: 3,000,000 (upper limit)
(3) Total purchase price: ¥1,500 million (upper limit)
(4) Repurchase period: February 1, 2010 – February 26, 2010