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Itochu Enex Reports Earnings for the Nine Months ended December 31, 2010

Tokyo, Japan, January 31, 2011 -- Itochu Enex Co., Ltd. (TSE: 8133) announced net sales of 840,674 million yen for the nine months ended December 31, 2010, and net income of 1,380 million yen, or 12.13 yen per share.

Results of Operations

During the nine months ended December 31, 2010, the Japanese economy was in a gradual recovery trend driven by improvement in corporate earnings. The economic outlook, however, remained murky, clouded by protracted yen appreciation and an adverse employment environment.

The domestic petroleum distribution industry remained beset by adverse supply and demand fundamentals against a backdrop of recession concerns and growing environmental consciousness among consumers. On the upside, unusually hot summer weather spurred a pickup in unit sales of petroleum products, particularly gasoline.

In this environment, we managed to maintain petroleum product sales at their year-earlier level through efforts to strengthen the earnings foundation of our core petroleum and LPG businesses as the capstone of our Group's Core & Synergy 2010 medium-term business plan, now in its final fiscal year. We are also aggressively branching into alternative energy markets, most notably solar panel sales, to meet society's evolving energy needs.

As a result of these activities, in the nine months ended December 31, 2010, our consolidated net sales grew 9.2% year on year to 840,674 million yen by virtue of higher sales prices. Consolidated operating income grew 86.6% year on year to 3,853 million yen, boosted by cost savings derived from business consolidation and improved operating efficiency. Consolidated ordinary income rose 72.9% year on year to 4,439 million yen. Consolidated net income fell 31.2% year on year to 1,380 million, largely as a result of a 1,036 million yen charge booked in conjunction with adoption of a new accounting standard for asset retirement obligations. Another factor contributing to the decline in net income was non-recurrence of a 2,415 million yen extraordinary gain on a change in an equity interest booked in the year-earlier period.

Segment Information

Industrial Material Division

The Industrial Material Division earned operating income of 1,117 million yen (down 7.2% year on year) on net sales of 80,644 million yen (up 20.8% year on year) in the nine months ended December 31, 2010.

Focused implementation of an area sales strategy and new customer acquisition in the current fiscal year paid off in the form of a year-on-year increase in sales volume. Nevertheless, demand contraction across all of the Industrial Material Division's markets and an adverse price situation continue, and difficulty in passing on higher costs in prices resulted in lower profits.

Sales volume and profits from the general high-pressure gas business developed favorably as shipments to automotive welding and electronic parts customers remained strong.

Sales volume of AdBlue (aqueous urea solution) for vehicles equipped with urea SCR (selective catalytic reduction) systems were up substantially year on year as a result of aggressive new customer acquisition activities.

Car Life Division

The Car Life Division earned operating income of 2,864 million yen (up 61.6% year on year) on net sales of 398,630 million yen (up 8.1% year on year).

Amid concern about a decrease in gasoline sales volume as fuel-efficient vehicles become more prevalent against a backdrop of growing environmental consciousness among consumers, we sought to bolster our sales capabilities by proposing to affiliated Car-Life Stations (i.e., refueling stations) techniques for managing their businesses from the customer's perspective.

The number of Car-Life Stations that have signed up as rental sites for Itsumo Rent-a-Car, a preowned vehicle rental business we are promoting with the aim of developing Car-Life Stations into the go-to hubs for regional car users, increased to 290 locations (53 more than at the previous fiscal year-end).

Additionally, we have implemented our ACT Program to boost management efficiency at Car-Life Stations and ensure their competitiveness as service stations and are providing support for increasing auto-related earnings and engaging in sound Car-Life Station management.

We ended the fiscal second quarter with 2,144 Car-Life Stations, 9 fewer than at the previous fiscal year-end. During the first three quarters, we added 61 newly affiliated stations, partially offsetting a loss of 70 stations from closure or disaffiliation amid the ongoing attrition among domestic gas stations.

In October we implemented a restructuring of Group companies with the aim of optimizing our regional networks of sales companies. We are strengthening our operational foundation by improving the efficiency of the regional sales networks and practicing locally focused management.

Meanwhile, through our participation in the Tsukuba Project, initiated in May 2010 to commercially develop transportation systems for a low-carbon society, we are amassing a variety of knowhow in alternative energy technologies, including solar power generation, lithium-ion batteries, and energy supply for recharging of electric vehicles. We are also building new business foundations in the aim of contributing to local communities by making these technologies available at Group Car-Life Stations.

Energy Trade Division

The Energy Trade Division incurred an operating loss of 258 million yen (versus a year-earlier operating loss of 583 million yen) on net sales of 295,177 million yen (up 7.7% year on year).

The Division faced headwinds as petroleum product demand in Japan and other developed countries failed to recover. In the petroleum product trading business, due to a slump in domestic demand for petroleum products and consolidation among major oil companies, the need to balance supply and demand decreased sharply, and trading of seaborne spot cargoes slumped. We strove to secure profits by means of trading that meticulously reflected customer needs and trading in anticipation of changes in supply and demand.

In the marine fuel sales business, amid declining demand such as lower marine cargo traffic in response to the economic slowdown, the Division fared poorly in terms of earnings as a result of yen appreciation and narrowing of the comparatively wide first-quarter fuel price differentials between domestic and overseas markets from the second quarter onward.

The tanker business remained beset by adversity as tanker rates failed to recover above our fleet's breakeven profitability level. In response, we endeavored to halt losses by means including the sale of ships. Although we strove to secure profits by meeting Itochu Group companies' demand for tankers at spot freight rates, the tanker business operated at a loss in the first nine months of the fiscal year.

Home Life Division

The Home Life Division earned operating income of 1,437 million yen (up 8.6% year on year) on net sales of 64,875 million yen (up 10.9% year on year).

Amid changes in the LPG demand structure aimed at the realization of a low-carbon society, LPG sales volume was flat year on year. Although economic recovery boosted commercial and industrial demand, household demand languished in the hot summer weather. Meanwhile, although LPG import prices fluctuated, we were able to secure a fair return thanks to widespread penetration of the gas rate adjustment system. Further, we achieved year-on-year growth in profits through efficient management and cost cutting efforts at the regional sales companies.

In this environment, we pursued expansion of scale by focusing on capturing new direct customers by intensively allocating resources to selected target markets and increasing wholesale sales of LPG cylinders to retailers. At the same time, we worked to increase competitive strength by actively using the G-Bingo LPG operation support system. To contribute to realization of a low-carbon society, we reinforced sales and construction systems for fuel cells (EneFarm) and photovoltaic power generation systems as residential distributed power generation systems.

Financial Condition

At the end of the fiscal third quarter (December 31, 2010), total consolidated assets amounted to 268,726 million yen, a 5,629 million yen increase from March 31, 2010. The increase was mainly attributable to a 6,721 million yen increase in current assets, mainly comprising an increase in cash and cash equivalents due to a decrease in funds required for trading and an increase in merchandise and finished products. This was only partially offset by a 1,092 million yen reduction in fixed assets due largely to depreciation.

Total consolidated liabilities amounted to 177,349 million yen at December 31, a 6,310 million yen increase from March 31, 2010. Although short-term borrowings decreased by 8,862 million yen and long-term borrowings decreased by 2,043 million yen, these decreases were offset by a 5,266 million yen increase in trade notes and accounts payable, an 8,852 billion yen increase in bonds payable, and a 2,113 million yen increase in asset retirement obligations.

Net assets decreased over the same timeframe by 681 million yen to 91,376 million yen at December 31, 2010, largely as a result of 1,821 million yen in dividend distributions, partially offset by net income of 1,380 million yen.

Our shareholders' equity ratio at December 31, 2010, was 33.2%.

Cash flows

Cash and cash equivalents totaled 29,753 million yen at December 31, 2010, an increase of 2,155 million yen from March 31, 2010. The increase was largely attributable to a decline in funds required for trading.

Operating activities provided net cash of 9,528 million yen. This net inflow was derived mainly from pretax income of 3,242 million yen, a non-cash charge of 1,036 million yen booked in conjunction with adoption of a new accounting standard for asset retirement obligations, and a 3,254 million yen decline in funds required for trading due to an increase in trade notes and accounts payable.

Investing activities used net cash of 2,642 million yen. Major investment outflows included 2,686 million yen spent to acquire property, plant and equipment, mainly in conjunction with investment in Car-Life Station facilities.

Financing activities used net cash of 4,776 million yen. Major financing outflows included 2,828 million yen in repayments of interest-bearing debt and 1,821 million yen in dividend distributions.

Consolidated Earnings Forecasts

The petroleum industry outlook remains clouded by several adverse trends, including fuel-efficient vehicles' growing prevalence, environmental restrictions aimed at realization of a low-carbon society, and contraction in petroleum product demand in response to economic stagnation and crude oil price, LPG import price, and tanker freight rate trends and their impact on retail energy prices.

Against such a backdrop, we will seize the initiative in our domestic petroleum product distribution operations to further strengthen and expand the foundations of our core businesses with newly acquired enterprise resources, capabilities, and business models in preparation for the future during the current fiscal year, the final year of our Core & Synergy 2010 medium-term business plan. Atop these core businesses' foundations, we intend to build business models revolving around renewable energy, electric power, and advanced use of fossil fuels to create a new stage for our transformation into a general energy solutions company.

We leave unchanged our consolidated earnings forecast for the current fiscal year announced on April 30, 2010, although our future operating performance could be affected by various factors, including crude oil prices, market conditions, and changes in the weather.

Financial Statements—Consolidated

(1) Consolidated Balance Sheets

Millions of yen

	December 31, 2010	March 31, 2010
	Amount	Amount
Assets		
Current assets		
Cash and cash equivalents	29,753	27,599
Trade notes and accounts receivable	111,308	112,148
Merchandise and finished products	13,105	10,294
Deferred tax assets	1,601	1,781
Other	12,164	9,368
Allowance for doubtful accounts	(583)	(562)
Total current assets	167,351	160,629
Fixed assets		
Property, plant and equipment		
Buildings and structures	51,606	50,467
Accumulated depreciation	(30,789)	(29,939)
Buildings and structures, net	20,816	20,527
Machinery, equipment and vehicles	30,587	30,727
Accumulated depreciation	(23,351)	(22,767)
Machinery, equipment and vehicles, net	7,235	7,959
Land	35,071	35,161
Leased assets	3,874	3,557
Accumulated depreciation	(1,313)	(815)
Leased assets, net	2,560	2,741
Construction in progress	563	147
Other	4,969	4,935
Accumulated depreciation	(3,859)	(3,749)
Other, net	1,109	1,186
Net, property, plant and equipment	67,358	67,724
Intangible assets		
Goodwill	3,769	4,797
Other	2,615	2,627
Total intangible assets	6,384	7,425
Investments and other assets		
Investment securities	13,333	13,922
Long-term loans	1,621	1,787
Deferred tax assets	3,505	3,199
Other assets	10,402	9,674
Allowance for doubtful accounts	(1,230)	(1,265)
Total investments and other assets	27,631	27,317
Total fixed assets	101,374	102,467
Total assets	268,726	263,096

	December 31, 2010	March 31, 2010
	Amount	Amount
Liabilities		
Current liabilities		
Trade notes and accounts payable	108,502	103,235
Short-term borrowings	8,420	17,283
Corporate bonds due within one year	-	444
Lease obligations	1,048	872
Income taxes payable	722	2,802
Accrued bonuses for employees	1,197	2,129
Accrued bonuses for directors and corporate auditors	147	185
Other current liabilities	15,237	13,225
Total current liabilities	135,275	140,177
Long-term liabilities		
Corporate bonds	10,000	704
Long-term debt	7,488	9,531
Lease obligations	2,465	2,597
Deferred tax liabilities	228	242
Deferred tax liabilities on land revaluation	3,079	3,094
Liabilities for retirement benefits	5,958	5,533
Asset retirement obligations	2,113	-
Other long-term liabilities	10,740	9,157
Total long-term liabilities	42,074	30,861
Total liabilities	177,349	171,039
Net assets		
Shareholders' equity		
Common stock	19,877	19,877
Capital surplus	18,736	18,736
Retained earnings	61,292	61,718
Treasury stock	(1,321)	(1,320)
Total shareholders' equity	98,585	99,011
Valuation and translation adjustments		
Unrealized gains on available-for-sale securities	(932)	(724)
Deferred hedge gains (losses)	(150)	12
Revaluation reserve for land	(8,236)	(8,221)
Total valuation and translation adjustments	(9,318)	(8,933)
Minority interests	2,109	1,979
Total net assets	91,376	92,057
Total liabilities and net assets	268,726	263,096

Millions of yen

(2) Consolidated Statements of Income

Millions of yen

	Nine months ended December 31, 2009	Nine months ended December 31, 2010
	Amount	Amount
Net sales	769,731	840,674
Cost of sales	723,674	795,239
Gross profit	46,057	45,434
Selling, general and administrative expenses	43,992	41,580
Operating income (loss)	2,064	3,853
Other income		
Interest income	152	64
Dividend income	221	239
Purchase discounts	187	198
Gain on foreign currency translation	-	39
Equity in income of unconsolidated subsidiaries and associated companies	229	107
Other	666	713
Total other income	1,457	1,363
Other expense		
Interest expense	461	329
Sales discounts	173	172
Loss on foreign currency translation	57	-
Other	261	275
Total other expense	954	777
Ordinary income	2,567	4,439
Extraordinary gains		
Gain on sales of property, plant and equipment	81	104
Gain on sales of parent company's shares	-	282
Gain on sales of investment securities	53	-
Reversal of allowance for doubtful accounts	13	30
Gain on change in equity interest	2,415	-
Gain on sales of business	-	73
Compensation income for expropriation	324	-
Total extraordinary gains	2,887	490
Extraordinary losses		
Loss on sales and disposal of property, plant and equipment	431	461
Loss on devaluation of investment securities	-	76
Loss on devaluation of golf club membership	-	11
Loss on impairment of long-lived assets	132	100
Effect of adoption of new accounting standards for asset retirement obligations	-	1,036
Total extraordinary losses	563	1,687
Income before income taxes and minority interests	4,892	3,242
Income taxes		
Current	1,736	1,619
Deferred	879	(13)
Total income taxes	2,616	1,605
Income before minority interests	-	1,636
Minority interests	267	255
Net income	2,008	1,380

(3) Consolidated Statements of Cash Flows

Millions of yen

	Nine months ended December 31, 2009	Nine months ended December 31, 2010
	Amount	Amount
Cash flows from operating activities		
Income before income taxes and minority interests	4,892	3,242
Depreciation and amortization	4,772	4,503
Loss on impairment of long-lived assets	132	100
Amortization of goodwill	1,720	1,391
Increase (decrease) in allowance for doubtful accounts	126	56
Increase (decrease) in liabilities for retirement benefits	607	386
Interest and dividend income	(374)	(304)
Interest expense	461	329
(Gain) loss on foreign currency translation	93	(137)
Equity in (income) loss of unconsolidated subsidiaries and associated companies	(229)	(107)
(Gain) loss on sales and disposal of property, plant and equipment	350	357
(Gain) loss on sales of parent company's shares	-	(282)
(Gain) loss on sales of investment securities	(53)	-
(Gain) loss on devaluation of investment securities	-	76
(Gain) loss on sales of business	-	(73)
(Gain) loss on change in equity interest	(2,415)	-
Compensation income for expropriation	(324)	-
Loss on devaluation of golf club membership	-	11
Effect of adoption of new accounting standards for asset retirement obligations	-	1,036
(Increase) decrease in trade notes and accounts receivable	(30,875)	708
(Increase) decrease in inventories	(4,895)	(2,674)
Increase (decrease) in trade notes and accounts payable	26,926	5,219
Increase (decrease) in other assets and liabilities	(3,037)	(683)
Sub total	(2,121)	13,159
Interest and dividend income received	426	497
Interest paid	(487)	(394)
Income taxes paid	(3,722)	(3,734)
Net cash provided by (used in) operating activities	(5,904)	9,528
Cash flows from investing activities		
Purchases of property, plant and equipment	(3,435)	(2,686)
Proceeds from sales of property, plant and equipment	211	312
Purchases of intangible assets	(1,046)	(979)
Proceeds from sales of intangible assets	58	243
Proceeds from sales of business	3,077	73
Proceeds from sales of parent company's shares	-	328
Purchases of investment securities	(3,159)	(81)
Proceeds from sales of investment securities	1,441	0
Proceeds from liquidation of associated companies	-	12
Payments for loans	(885)	(316)
Collection of loans	1,527	972
Proceeds from compensation for expropriation	52	90
Other	68	(613)
Net cash provided by (used in) investing activities	(2,090)	(2,642)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings - net	(2,215)	(163)
Repayments of long-term debt	(6,849)	(10,586)
Issuance of bonds	-	9,950
Redemption of bonds	(572)	(1,148)
Repayments of lease obligations	(266)	(880)
Repurchases of treasury stock	(0)	(0)
Dividends paid	(1,869)	(1,821)
Dividends paid to minority shareholders of consolidated subsidiaries	(77)	(125)
Net cash provided by (used in) financing activities	(11,851)	(4,776)

Foreign currency translation adjustments on cash and cash equivalents	(14)	(17)
Net increase (decrease) in cash and cash equivalents	(19,862)	2,092
Cash and cash equivalents, beginning of the period	43,219	27,598
Increase in cash and cash equivalents resulting from change in scope of consolidation	-	63
Cash and cash equivalents, end of the period	23,357	29,753

(4) Notes on the going-concern assumption

Not applicable

(5) Segment Information

Industry segment information:

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

Geographical Segment Information:

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

Not applicable

Overseas Sales:

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.

Segment information

1. Overview of reportable segments
(April 1, 2010 – December 31, 2010)

The Company’s reportable segments are components of the Company about which separate financial information is available. These segments are subject to periodic examinations to enable the Company’s board of directors to decide how to allocate resources and assess performance.

The Company is organized into business divisions. Each business division conducts business based on strategies for each category of target customers and markets. The Company’s four reportable segments correspond to its business divisions, namely the Industrial Materials, Car Life, Energy Trade, and Home Life Divisions.

Industrial Material

Energy and material supplies for customers, high-pressure gas production, sales of asphalt, cement, LNG (liquefied natural gas), urea aqueous solution, electricity 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, cars, automobile supplies, next-generation energy systems (fuel cells, solar power systems, etc.), car inspections, maintenance, 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), next-generation energy systems (fuel cells, solar power systems, etc.), commodities, catalogue merchandise, and sundries.

2. Reportable segment information

Nine months ended December 31, 2010 (April 1, 2010 – December 31, 2010)

Millions of yen

	Reportable segment					Other *1	Total	Adjustments *2	Amounts on the quarterly consolidated statements of income *3
	Industrial Material	Car Life	Energy Trade	Home Life	Total				
I. Sales									
(1) Sales to customers	80,644	398,630	295,177	64,875	839,328	1,345	840,674	-	840,674
(2) Intersegment sales or transfers	397	2,317	18,764	-	21,479	1,625	23,104	(23,104)	-
Total	81,041	400,948	313,942	64,875	860,807	2,971	863,778	(23,104)	840,674
Segment income (loss)	1,117	2,864	(258)	1,437	5,160	64	5,225	(1,371)	3,853

Notes:
1. “Other” comprises businesses, such as back-office outsourcing services that are not included in reportable segments.
2. The minus 1,371 million yen adjustment for segment income is 1,371 million yen of unallocated corporate expenses. The main component of these unallocated corporate expenses is SG&A expenses that are not attributable to reportable segments.
3. Segment income adjustments are based on operating income reported on the quarterly consolidated statements of income for the corresponding period.

3. Impairment loss on fixed assets or goodwill by reportable segment

(April 1, 2010 – December 31, 2010)

Material impairment loss on fixed assets

In response to a decline in market prices, the Company reduced the book value of idle assets in its Car Life segment to their net realizable value. An impairment loss of 94 million yen was consequently booked for the nine months ended December 31, 2010.

In response to a decline in market prices, the Company reduced the book value of idle assets in its Home Life segment to their net realizable value. An impairment loss of 6 million yen was consequently booked for the six months ended December 31, 2010.

Additional information

Effective the first quarter of the fiscal year ending March 31, 2011, the Company adopted the *Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information* (ASBJ Statement No. 17, revised March 27, 2009) and its accompanying *Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related information* (Guidance No. 20, March 21, 2008).

(6) Notes on Significant Changes in Shareholders' Equity

Not applicable