FOR IMMEDIATE RELEASE
October 29, 2010

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Itochu Enex Reports Earnings for the Six Months ended September 30, 2010

Tokyo, Japan, October 29, 2010 -- Itochu Enex Co., Ltd. (TSE: 8133) announced net sales of 538,958 million yen for the six months ended September 30, 2010, and net income of 698 million yen, or 6.13 yen per share.

Results of Operations

In the six months ended September 30, 2010 (first half of the fiscal year ending March 31, 2011), the Japanese economy was in a gradual recovery trend driven by improvement in corporate earnings. The economic outlook, however, remained murky, clouded by persistent deflationary pressures, an adverse employment environment, protracted yen appreciation, and equity market weakness.

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, this summer’s unusually hot weather spurred a pickup in unit sales of petroleum products, particularly gasoline.

Amid such an environment, we managed to maintain petroleum product sales on a par with their year-earlier level through efforts to strengthen our core petroleum and LPG businesses’ earnings foundation 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.

In the fiscal first half, our consolidated net sales grew 12.1% year on year to 538,958 million yen by virtue of higher sales prices. Consolidated operating income grew 490.6% year on year to 2,145 million yen, boosted by cost savings derived from business consolidation and improved operating efficiency. Consolidated ordinary income rose 321.1% year on year to 2,657 million yen, bolstered by growth in investment income from equity-method affiliates. Consolidated net income fell 16.1% year on year to 698 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 first-half operating income of 634 million yen (down 6.0% year on year) on net sales of 49,008 million yen (up 20.3% year on year).

Although some industries benefited from resurgent demand driven by the government's economic stimulus measures, we faced a continued contraction in demand across all of the Industrial Material Division's markets, resulting in a year-on-year decline in its petroleum product sales volume. Despite the sales decline, we pursued profits by maintaining a profitability-focused sales approach, intensifying our sales efforts, and capturing new customers.

The general high-pressure gas business's sales volume grew year on year, bolstered by robust demand from export industries (e.g., autos, construction machinery, electronic parts). Its profits also were buoyant.

In the newly launched Electric Power business, we completed the PPS (Power Producer & Supplier) registration process in July and are proactively gearing up as a general energy solutions company.

Among environmental businesses, sales volume of AdBlue (aqueous urea solution) for vehicles equipped with urea SCR (selective catalytic reduction) systems were up substantially year on year.

Car Life Division

The Car Life Division earned first-half operating income of 1,330 million yen (up 185.6% year on year) on net sales of 257,660 million yen (up 10.7% year on year).

Despite having fewer affiliated "car-life" stations (i.e., refueling stations) than in the year-earlier period, the Car Life Division achieved petroleum product sales volume equivalent to the year-earlier period by strengthening affiliated car-life stations' sales capabilities through station management from the customer's perspective. Another contributing factor was this summer's record high temperatures, which boosted gasoline consumption relative to summer 2009. We expanded Itsumo Rent-a-Car, a preowned vehicle rental business that we aim to build into a new earnings base, to 271 locations (34 more than at the previous fiscal year-end). Itsumo Rent-a-Car is contributing substantially to growth in auto-related earnings at the establishments that have signed up as rental sites. Additionally, our ACT Program has been supporting sound car-life station management through quantitative analysis directly linked to operating efficiency and initiatives to increase auto-related earnings.

We ended the fiscal second quarter with 2,153 car-life stations, unchanged from the previous fiscal year-end. During the fiscal first half, we added 46 newly affiliated stations to offset a loss of 46 stations from closure or disaffiliation amid the ongoing attrition among domestic gas stations.

Going forward, we will consolidate group companies in the aim of optimizing our regional networks of sales companies and strengthening our operational foundation by practicing locally focused management and improving the efficiency of regional sales networks.

Meanwhile, we are steadily amassing a variety of knowhow in alternative energy technologies, including solar power generation, lithium-ion batteries, and energy supply for recharging of electric vehicles, through our participation in the Tsukuba Project, initiated in May 2010 to commercially develop transportation systems for a low-carbon society.

Energy Trade Division

The Energy Trade Division earned first-half operating income of 27 million yen (versus a year-earlier operating loss of 373 million yen) on net sales of 190,116 million yen (up 11.7% year on year).

In the fiscal first half, the Energy Trade Division faced headwinds in the form of an absence of recovery in petroleum product demand in Japan and other developed countries.

In the petroleum product trading business, sales volume fell below its year-earlier level amid a sharp decrease in trading of seaborne spot cargoes and much less need to balance supply and demand in the wake of a slump in domestic demand for petroleum products and consolidation among major oil companies. Profitability-wise, we endeavored to capture profits by trading in anticipation of changes in supply and demand and trading to meet specific customer needs.

The marine fuel sales business increased its sales volume by strengthening its sales force amid an adverse environment marked by a slowdown in marine cargo traffic in response to the economic slowdown. However, it fared poorly in terms of earnings as a result of yen appreciation and deterioration in profit margins on imports due to narrowing of fuel price differentials between domestic and overseas markets.

The tanker business remained beset by adversity as tanker rates failed to recover above our fleet's breakeven profitability level. We endeavored to improve our fleet's operating efficiency through such means as redeploying tankers to regions with higher freight rates, seeking additional contracts to operate tankers for other companies, and meeting Itochu Group companies' demand for tankers at spot freight rates. Despite these efforts, the tanker business still incurred a loss in the fiscal first half.

Home Life Division

The Home Life Division earned first-half operating income of 993 million yen (up 34.0% year on year) on net sales of 41,340 million yen (up 15.3% year on year).

Economic recovery boosted commercial and industrial demand for LPG in the fiscal first half, but household demand languished under the weight of the hot summer weather and consumers' growing environmental consciousness. Our LPG sales volume was flat year on year. We have been endeavoring to ensure price transparency and earn adequate profit margins by proactively adopting the feedstock cost adjustment system for setting not only residential but also commercial LPG rates. We achieved year-on-year growth in profits through cost cutting, including rationalization of logistics operations and improvements in operating efficiency through IT utilization.

Amid such an environment, we pursued expansion of scale by focusing on increasing wholesale sales of LPG cylinders to retailers and capturing new direct customers by intensively allocating resources to selected target markets. We also have been endeavoring to gain knowhow in next-generation energy technologies, focusing particularly on sales of solar power system and household fuel cells.

Financial Condition

At the end of the fiscal second-quarter (September 30, 2010), total consolidated assets amounted to 236,520 million yen, a 26,576 million yen decrease from March 31, 2010. The decrease was mainly attributable to a 25,944 million yen reduction in current assets, mainly trade notes and accounts receivable, and a 631 million yen reduction in property, plant and equipment due largely to depreciation.

Total consolidated liabilities amounted to 145,269 million yen at September 30, a 25,770 million yen decrease from March 31, 2010. The decrease was the result of a 25,369 million yen reduction in trade notes and accounts payable, a 9,163 million yen reduction in short-term borrowings, and a 1,895 million yen reduction in long-term borrowings, partially offset by an 8,852 billion yen increase in bonds payable and other liabilities and recognition of a 2,103 million yen asset retirement obligation.

Net assets decreased over the same timeframe by 806 million yen to 91,251 million yen at September 30, 2010, largely as a result of a 910 million yen dividend distribution and 561 million yen in incremental unrealized losses on available-for-sale securities, partially offset by quarterly net income of 698 million yen. Our shareholders' equity ratio at September 30, 2010, was 37.7%.

Cash flows

Cash and cash equivalents totaled 27,294 million yen at September 30, 2010, a decrease of 303 million yen from March 31, 2010. The decrease was largely attributable to repayment of borrowings.

Operating activities provided net cash of 4,977 million yen. This net inflow was derived mainly from pretax income of 1,555 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 2,347 million yen in cash inflows as the net effect of a reduction in trade notes and accounts receivable, increase in inventory, and reduction in trade notes and accounts payable.

Investing activities used net cash of 1,542 million yen. Major investment outflows included 1,395 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 3,720 million yen. Major financing outflows included 2,684 million yen in repayments of interest-bearing debt and a 901 million yen dividend distribution.

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

	September 30, 2010	March 31, 2010
	Amount	Amount
Assets		
Current assets		
Cash and cash equivalents	27,294	27,599
Trade notes and accounts receivable	83,979	112,148
Merchandise and finished products	10,745	10,294
Deferred tax assets	1,862	1,781
Other	11,325	9,368
Allowance for doubtful accounts	(523)	(562)
Total current assets	134,684	160,629
Fixed assets		
Property, plant and equipment		
Buildings and structures	51,515	50,467
Accumulated depreciation	(30,547)	(29,939)
Buildings and structures, net	20,967	20,527
Machinery, equipment and vehicles	30,622	30,727
Accumulated depreciation	(23,223)	(22,767)
Machinery, equipment and vehicles, net	7,398	7,959
Land	35,071	35,161
Leased assets	3,782	3,557
Accumulated depreciation	(1,140)	(815)
Leased assets, net	2,641	2,741
Construction in progress	294	147
Other	4,913	4,935
Accumulated depreciation	(3,814)	(3,749)
Other, net	1,099	1,186
Net, property, plant and equipment	67,473	67,724
Intangible assets		
Goodwill	4,128	4,797
Other	2,606	2,627
Total intangible assets	6,734	7,425
Investments and other assets		
Investment securities	12,942	13,922
Long-term loans	1,695	1,787
Deferred tax assets	3,751	3,199
Other assets	10,443	9,674
Allowance for doubtful accounts	(1,204)	(1,265)
Total investments and other assets	27,627	27,317
Total fixed assets	101,835	102,467
Total assets	236,520	263,096

	September 30, 2010	March 31, 2010
		Millions of yen
	Amount	Amount
Liabilities		
Current liabilities		
Trade notes and accounts payable	77,866	103,235
Short-term borrowings	8,119	17,283
Corporate bonds due within one year	-	444
Lease obligations	1,082	872
Income taxes payable	922	2,802
Accrued bonuses for employees	2,266	2,129
Accrued bonuses for directors and corporate auditors	136	185
Other current liabilities	13,584	13,225
Total current liabilities	103,977	140,177
Long-term liabilities		
Corporate bonds	10,000	704
Long-term debt	7,635	9,531
Lease obligations	2,512	2,597
Deferred tax liabilities	229	242
Deferred tax liabilities on land revaluation	3,079	3,094
Liabilities for retirement benefits	5,839	5,533
Asset retirement obligations	2,103	-
Other long-term liabilities	9,890	9,157
Total long-term liabilities	41,291	30,861
Total liabilities	145,269	171,039
Net assets		
Shareholders' equity		
Common stock	19,877	19,877
Capital surplus	18,736	18,736
Retained earnings	61,521	61,718
Treasury stock	(1,321)	(1,320)
Total shareholders' equity	98,814	99,011
Valuation and translation adjustments		
Unrealized gains on available-for-sale securities	(1,286)	(724)
Deferred hedge gains (losses)	(69)	12
Revaluation reserve for land	(8,236)	(8,221)
Total valuation and translation adjustments	(9,592)	(8,933)
Minority interests	2,029	1,979
Total net assets	91,251	92,057
Total liabilities and net assets	236,520	263,096

(2) Consolidated Statements of Income

Millions of yen

	Six months ended September 30, 2009	Six months ended September 30, 2010
	Amount	Amount
Net sales	480,625	538,958
Cost of sales	450,839	509,130
Gross profit	29,786	29,828
Selling, general and administrative expenses	29,423	27,683
Operating income (loss)	363	2,145
Other income		
Interest income	105	44
Dividend income	195	210
Purchase discounts	114	143
Gain on foreign currency translation	40	74
Equity in income of unconsolidated subsidiaries and associated companies	9	210
Other	453	404
Total other income	919	1,087
Other expense		
Interest expense	340	232
Sales discounts	116	118
Other	194	224
Total other expense	651	574
Ordinary income	631	2,657
Extraordinary gains		
Gain on sales of property, plant and equipment	42	60
Gain on sales of parent company’s shares	-	282
Gain on sales of investment securities	52	-
Reversal of allowance for doubtful accounts	34	31
Gain on sales of business	-	70
Gain on change in equity interest	2,415	-
Total extraordinary gains	2,543	443
Extraordinary losses		
Loss on sales and disposal of property, plant and equipment	311	340
Loss on devaluation of investment securities	-	76
Loss on devaluation of golf club membership	-	8
Loss on impairment of long-lived assets	73	84
Effect of adoption of new accounting standards for asset retirement obligations	-	1,036
Total extraordinary losses	385	1,546
Income before income taxes and minority interests	2,789	1,555
Income taxes		
Current	1,429	956
Deferred	358	(275)
Total income taxes	1,787	680
Income before minority interests	-	874
Minority interests	168	175
Net income	832	698

(3) Consolidated Statements of Cash Flows

Millions of yen

	Six months ended September 30, 2009	Six months ended September 30, 2010
	Amount	Amount
Cash flows from operating activities		
Income before income taxes and minority interests	2,789	1,555
Depreciation and amortization	3,123	2,965
Loss on impairment of long-lived assets	73	84
Amortization of goodwill	1,140	958
Increase (decrease) in allowance for doubtful accounts	5	(29)
Increase (decrease) in liabilities for retirement benefits	421	306
Interest and dividend income	(301)	(254)
Interest expense	340	232
(Gain) loss on foreign currency translation	(107)	(135)
Equity in (income) loss of unconsolidated subsidiaries and associated companies	(9)	(210)
(Gain) loss on sales and disposal of property, plant and equipment	269	280
(Gain) loss on sales of parent company's shares	-	(282)
(Gain) loss on sales of investment securities	(52)	-
(Gain) loss on devaluation of investment securities	-	76
(Gain) loss on sales of business	-	(70)
(Gain) loss on change in equity interest	(2,415)	-
Loss on devaluation of golf club membership	-	8
Effect of adoption of new accounting standards for asset retirement obligations	-	1,036
(Increase) decrease in trade notes and accounts receivable	(556)	28,168
(Increase) decrease in inventories	(1,578)	(451)
Increase (decrease) in trade notes and accounts payable	1,222	(25,369)
Increase (decrease) in other assets and liabilities	(3,113)	(1,273)
Sub total	1,251	7,594
Interest and dividend income received	344	443
Interest paid	(334)	(225)
Income taxes paid	(2,923)	(2,835)
Net cash provided by (used in) operating activities	(1,662)	4,977
Cash flows from investing activities		
Purchases of property, plant and equipment	(2,123)	(1,395)
Proceeds from sales of property, plant and equipment	96	147
Purchases of intangible assets	(846)	(722)
Proceeds from sales of intangible assets	12	198
Proceeds from sales of business	3,077	70
Proceeds from sales of parent company's shares	-	328
Purchases of investment securities	(3,159)	(27)
Proceeds from sales of investment securities	350	0
Proceeds from liquidation of associated companies	-	12
Payments for loans	(512)	(199)
Collection of loans	1,131	748
Other	176	(702)
Net cash provided by (used in) investing activities	(1,798)	(1,542)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings - net	(5,218)	(500)
Repayments of long-term debt	(6,038)	(10,405)
Issuance of bonds	-	9,950
Redemption of bonds	(322)	(1,148)
Repayments of lease obligations	(171)	(580)
Repurchases of treasury stock	(0)	(0)
Dividends paid	(934)	(910)
Dividends paid to minority shareholders of consolidated subsidiaries	(77)	(125)
Net cash provided by (used in) financing activities	(12,763)	(3,720)
Foreign currency translation adjustments on cash and cash equivalents	-	(16)
Net increase (decrease) in cash and cash equivalents	(16,223)	(303)
Cash and cash equivalents, beginning of the period	43,219	27,598
Cash and cash equivalents, end of the period	26,996	27,294

(4) Notes on the going-concern assumption

Not applicable

(5) Segment Information

Industry segment information:

Six months ended September 30, 2009 (April 1, 2009 – September 30, 2009)

Millions of yen

	Industrial Material	Car Life	Energy Trade	Home Life	Total	Elimination/ Corporate	Consolidated
Sales							
(1) Sales to customers	41,753	232,820	170,194	35,857	480,625	-	480,625
(2) Intersegment sales or transfers	525	4,372	14,787	-	19,685	(19,685)	-
Total	42,278	237,192	184,982	35,857	500,310	(19,685)	480,625
Operating income (loss)	700	465	(373)	741	1,533	(1,170)	363

Geographical Segment Information:

Six months ended September 30, 2009 (April 1, 2009 – September 30, 2009)

Not applicable

Overseas Sales:

Six months ended September 30, 2009 (April 1, 2009 – September 30, 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 – September 30, 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

Six months ended September 30, 2010 (April 1, 2010 – September 30, 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	49,008	257,660	190,116	41,340	538,126	832	538,958	-	538,958
(2) Intersegment sales or transfers	234	1,920	13,995	-	16,150	1,094	17,245	(17,245)	-
Total	49,243	259,581	204,111	41,340	554,276	1,926	556,203	(17,245)	538,958
Segment income	634	1,330	27	993	2,986	42	3,029	(883)	2,145

Notes:
1. "Other" comprises businesses, such as back-office outsourcing services that are not included in reportable segments.
2. The minus 883 million yen adjustment for segment income is 883 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 – September 30, 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 81 million yen was consequently booked for the six months ended September 30, 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 2 million yen was consequently booked for the six months ended September 30, 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