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Itochu Enex Reports Earnings for the Three Months Ended June 30, 2011

Tokyo, Japan, July 29, 2011 -- Itochu Enex Co., Ltd. (TSE: 8133) announced net sales of 298,982 million yen for the three months ended June 30, 2011, and net income of 520 million yen, or 4.57 yen per share.

Results of Operations

In the three months ended June 30, 2011 (first quarter of the fiscal year ending March 31, 2012), Japan's economy showed overall weakness from the impact of the Great East Japan Earthquake, prolonged yen appreciation and deflation, and an adverse employment environment, notwithstanding signs of an uptrend in the second half of the quarter.

Against a backdrop of instability in the U.S. economy and the Middle East, the petroleum products distribution industry in Japan continued to face an adverse supply and demand environment as crude oil prices remained at high levels and the earthquake disaster caused a decline in demand.

In this operating environment, the Itochu Enex Group launched a new medium-term business plan, Core & Synergy 2013, and has worked to strengthen and improve the core petroleum product sales business. In addition, new Group members JEN Holdings Co., Ltd. and IP Power Systems Corporation engaged in the electric power business. We realigned our global business operations and vigorously engaged in business in overseas markets. We also established the Total-Life Division to create a new lifestyle by delivering eco energy, actively implementing a new business model and pursuing a growth strategy as a company that proposes an optimal mix of energy.

As a result of the above activities, consolidated net sales in the first quarter rose 9.3% year on year to 298,982 million yen, reflecting sharply higher crude oil prices. Operating income rose 117.9% year on year to 1,195 million yen, boosted by cost savings created through restructuring and other streamlining measures. Ordinary income increased 62.7% year on year to 1,641 million yen. Net income was 520 million yen, compared to a net loss of 60 million in the first quarter of the previous year.

Segment Information

Since the Company has added new reporting segments and reconfigured the segments as described in the by-segment information below, figures for the previous first quarter have been restated to reflect the reporting segments for the fiscal year ending March 31, 2012.

Industrial Material Division

The Industrial Material Division earned operating income of 409 million yen (up 68.9% year on year) on net sales of 28,879 million yen (up 35.2% year on year) in the fiscal first quarter.

Sales volumes of Intermediate distillates, principally kerosene, light diesel oil, and grade A heavy oil, developed favorably due to new customer acquisition, and asphalt sales volumes rose on higher sales in eastern Japan. Profits also increased year on year.

In the general high-pressure gas business, lower plant operating rates in the automotive, steel, and electronic parts industries after the earthquake disaster resulted in year-on-year decreases in sales volumes and profits.

On the other hand, JEN Holdings Co., Ltd., which joined the Group on March 31, 2011, achieved a sales increase and higher profits than planned in its on-site electricity and steam supply business, reflecting price increases in the wholesale electricity spot market due to a tight supply and demand situation and higher facilities operating rates.

Car-Life Division

The Car Life Division earned operating income of 845 million yen (up 316.4% year on year) on net sales of 129,726 million yen (up 5.1% year on year) in the fiscal first quarter.

The Division actively recruited new Car-Life Station[1] affiliates and strengthened the sales capabilities of affiliated stations while also working to develop Car-Life Stations into a vital link in a petroleum products supply chain that satisfies the car-life needs of local consumers. Further, we achieved year-on-year growth in profits thanks to success in strengthening the business foundation through the restructuring of Group companies implemented in fiscal

2010. In addition, we continued the ACT Program[2] to reinforce sound management at Car-Life Stations, and the number of participating Car-Life Stations increased from the previous year.

The number of Car-Life Stations at the end of the first quarter was of 2,149, a net increase of 5 stations from the end of the previous fiscal year. During the quarter we added 13 newly affiliated stations and lost 8 stations through closure or disaffiliation amid ongoing attrition of gas stations in Japan.

Furthermore, to ensure that Car-Life Stations perform a vital role as energy supply infrastructure in times of emergency, we are making efforts to build a robust supply chain by reinforcing the functions of Car-Life Stations and developing the station network.

[1]Car-Life Stations: Car-Life Stations are full-service automobile service stations affiliated with Itochu Enex.
[2]ACT Program: ACT stands for “Area Champion Trial.” Under the program, we work closely with Car-Life Station operators to raise their competitiveness by analyzing their station operations and competitive climate, conducting group training, and engaging in other activities.

Global Trade Division
The Global Trade Division recorded net sales of 116,643 million yen (up 10.6% year on year) and an operating loss of 196 million yen (following an operating loss of 253 million yen in the first quarter of the previous year).

The Division faced an adverse environment in all of its businesses due to the impact of the earthquake disaster and continued high crude oil prices. In the petroleum products trading business, we engaged in trading that reflected customer needs and trading in anticipation of changes in supply and demand. Nevertheless, sales volumes fell year on year as a result of weakening of demand following the earthquake disaster.

In the marine fuel sales business, the Division has taken control of the domestic marine fuel business in fiscal 2012. Sales volumes and profits in this business developed favorably due to the deployment of dedicated fuel supply ships in the Hakata, Kanmon, Chukyo, and Keihin areas. On the other hand, business conditions at overseas operations remained adverse due to the impact of narrowed fuel price differentials between domestic and overseas markets and yen appreciation.

In the tanker business, adverse business conditions continued as tanker rates again failed to recover and fuel costs remained high. Nevertheless, profitability improved as a result of dramatic cost reductions for company-owned vessels and increased operating efficiency for company-managed vessels through the active provision of spot chartering and vessel operation services.

The Project & Investment Department, newly established in fiscal 2012, is actively gathering information and narrowing down prospective projects in preparation for development of overseas businesses.

Home-Life Division

The Home Life Division earned operating income of 843 million yen (up 3.7% year on year) on net sales of 22,751 million yen (down 0.2% year on year).

In the LP gas business, a decline in demand for LP gas resulting from a shift away from dependency on fossil fuels to realize a low-carbon society and a slight year-on-year increase in the average temperature nationwide resulted in a decline in LP gas sales volume year on year. In addition, although damage to business offices and facilities from the earthquake disaster was slight, a temporary sharp decline in residential and commercial demand in the Tohoku and Kita-Kanto areas had a negative impact on sales volume.

Although LP gas import prices reached an historic high in May 2011, we secured 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 addition, we continued to focus on sales of solar power generation systems and EneFarm household fuel cell systems to promote the use of distributed power generation systems, which have increased in importance since the March earthquake. With the aim of further increasing operating efficiency and boosting selling power, we commenced a review of existing direct sales operations and initiatives to realize greater efficiency through the use of IT.

Total-Life Division

The Total-Life Division, newly established in the first quarter, posted net sales of 660 million yen and an operating loss of 245 million yen.

The Division collaborated with oil and LP gas business operators to increase sales of solar power generation systems and EneFarm household fuel cell systems, which the Itochu Enex Group has been actively promoting since fiscal 2011. At the same time, it worked to develop new areas of strength for the Group by stepping up cross-industry collaboration with home builders and real estate agents.

In May 2011 we launched the E-koto Project, a new initiative that stresses the importance of intangibles (*koto* in Japanese) that arise from contact between people and harnesses those intangibles to vitalize people and communities. As of June 2011 the number of retailers offering e-runner electric bikes, announced as the first phase of the project, reached 115 stores. Through this initiative we are expanding the sales network necessary to develop a sales structure for electric vehicle-related businesses. As the second phase of the project, we announced the development of an HEMS[3], a lithium-ion storage battery system for home use. This will be a worry-free, economical, highly convenient storage battery system that makes possible electricity self-sufficiency for household in times of disaster or other emergency.

[3]HEMS: HEMS is an abbreviation for home energy management systems, which automatically control the supply of electricity by connecting electrical products used in the home to IT networks.

Financial Condition

Total assets amounted to 254,287 million yen at quarter-end (June 30, 2011), a 23,297 million yen decrease from March 31, 2011. The decrease is mainly attributable to decreases in trade notes and accounts receivable and cash and deposits. Liabilities amounted to 161,116 million yen at quarter-end, a 22,346 million decrease from March 31, 2011. The decrease is mainly attributable to a decrease in trade notes and accounts payable and payment of income taxes. Net assets decreased 951 million yen to 93,171 million yen at June 30, 2011 due to factors including net income of 520 million yen, dividend payments of 1,366 million yen, and a decrease in unrealized losses on available-for-sale securities of 99 million yen.

Cash flows

Cash and cash equivalents totaled 14,163 million yen at June 30, 2011, a decrease of 9,572 million yen from the previous fiscal year-end. The decrease is attributable to factors including payments for investing activities and repayment of borrowings.

Cash flows from operating activities

Operating activities used net cash of 2,763 million yen. The principal factor was a decrease of 3,141 million yen in other assets and liabilities as a result of higher payments related to purchases and sales.

Cash flows from investing activities

Investing activities used net cash of 2,695 million yen. Major investment outflows included 1,842 million yen in payments to acquire property, plant and equipment and 348 million in payments for purchases of investment in subsidiaries.

Cash flows from financing activities

Financing activities used net cash of 4,129 million yen. Major financing outflows included 2,620 million yen in repayments of interest-bearing debt and 1,366 million yen in dividend distributions.

Consolidated Earnings Forecasts

Although operating performance could be affected by various factors, including crude oil prices, market conditions, changes in the weather, and the Japanese government's energy policy, we have not revised the full-year consolidated earnings forecast announced on May 10, 2011.

Financial Statements—Consolidated

(1) Consolidated Balance Sheets

Millions of yen

	March 31, 2011	June 30, 2011
	Amount	Amount
Assets		
Current assets		
Cash and cash equivalents	23,735	14,163
Trade notes and accounts receivable	117,449	100,542
Merchandise and finished products	12,273	13,667
Deferred tax assets	2,287	2,266
Other	12,816	15,063
Allowance for doubtful accounts	(624)	(586)
Total current assets	167,938	145,116
Fixed assets		
Property, plant and equipment		
Buildings and structures	52,785	52,999
Accumulated depreciation	(31,393)	(31,778)
Buildings and structures, net	21,392	21,221
Machinery, equipment and vehicles	37,570	37,805
Accumulated depreciation	(25,465)	(25,860)
Machinery, equipment and vehicles, net	12,105	11,945
Land	35,565	35,474
Leased assets	3,967	4,032
Accumulated depreciation	(1,500)	(1,698)
Leased assets, net	2,466	2,334
Construction in progress	627	1,163
Other	5,131	5,238
Accumulated depreciation	(3,906)	(3,968)
Other, net	1,224	1,270
Net, property, plant and equipment	73,381	73,408
Intangible assets		
Goodwill	4,053	3,723
Other	3,143	3,222
Total intangible assets	7,196	6,946
Investments and other assets		
Investment securities	14,460	14,422
Long-term loans	1,575	1,576
Deferred tax assets	3,530	3,357
Other assets	10,434	10,438
Allowance for doubtful accounts	(932)	(978)
Total investments and other assets	29,068	28,816
Total fixed assets	109,646	109,171
Total assets	277,585	254,287

Millions of yen

	March 31, 2011	June 30, 2011
	Amount	
Liabilities		
Current liabilities		
Trade notes and accounts payable	106,597	90,870
Short-term borrowings	8,396	7,849
Lease obligations	1,017	1,022
Income taxes payable	3,127	646
Accrued bonuses for employees	2,559	2,437
Accrued bonuses for directors and corporate auditors	224	143
Other current liabilities	17,204	15,673
Total current liabilities	139,127	118,644
Long-term liabilities		
Corporate bonds	10,000	10,000
Long-term debt	9,081	7,253
Lease obligations	2,345	2,160
Deferred tax liabilities	376	184
Deferred tax liabilities on land revaluation	3,079	3,064
Liabilities for retirement benefits	5,991	6,059
Asset retirement obligations	2,236	2,333
Other long-term liabilities	11,222	11,415
Total long-term liabilities	44,334	42,471
Total liabilities	183,462	161,116
Net assets		
Shareholders' equity		
Common stock	19,877	19,877
Capital surplus	18,736	18,736
Retained earnings	63,795	62,973
Treasury stock	(1,321)	(1,321)
Total shareholders' equity	101,088	100,265
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities	(1,103)	(1,202)
Deferred hedge gains (losses)	3	28
Revaluation reserve for land	(8,236)	(8,258)
Total accumulated other comprehensive income	(9,336)	(9,433)
Minority interests	2,371	2,339
Total net assets	94,123	93,171
Total liabilities and net assets	277,585	254,287

(2) Consolidated Statements of Income

Millions of yen

	Three months ended June 30, 2010 Amount	Three months ended June 30, 2011 Amount
Net sales	273,485	298,982
Cost of sales	258,914	283,982
Gross profit	14,570	15,000
Selling, general and administrative expenses	14,022	13,805
Operating income (loss)	548	1,195
Other income		
Interest income	30	19
Dividend income	210	220
Purchase discounts	71	49
Gain on foreign currency translation	11	—
Equity in income of unconsolidated subsidiaries and associated companies	197	204
Other	200	225
Total other income	721	718
Other expense		
Interest expense	116	115
Sales discounts	60	51
Loss on foreign currency translation	—	37
Other	85	66
Total other expense	261	271
Ordinary income	1,008	1,641
Extraordinary gains		
Gain on sales of fixed assets	31	33
Gain on sales of parent company's shares	282	—
Reversal of allowance for doubtful accounts	31	—
Gain on sales of business	70	—
Compensation income for expropriation	—	12
Total extraordinary gains	415	45
Extraordinary losses		
Loss on sales and disposal of fixed assets	62	100
Loss on devaluation of investment securities	—	316
Loss on devaluation of golf club membership	8	—
Loss on impairment of long-lived assets	73	4
Effect of adoption of new accounting standards for asset retirement obligations	1,036	—
Other	—	6
Total extraordinary losses	1,181	428
Income before income taxes and minority interests	243	1,259
Income taxes		
Current	402	573
Deferred	(208)	45
Total income taxes	194	619
Income before minority interests	49	639
Minority interests	109	118
Net income (loss)	(60)	520

Statements of Comprehensive Income

Millions of yen

	Three months ended June 30, 2010	Three months ended June 30, 2011
	Amount	Amount
Income before minority interests	49	639
Other comprehensive income		
Unrealized gains on available-for-sale securities	(346)	(99)
Share of other comprehensive income of associates accounted for using equity method	(24)	25
Total other comprehensive income	(371)	(74)
Comprehensive income	(321)	565
Components:		
Comprehensive income attributable to owners of the parent	(431)	446
Comprehensive income attributable to minority interests	109	118

(3) Consolidated Statements of Cash Flows

Millions of yen

	Three months ended June 30, 2010	Three months ended June 30, 2011
	Amount	Amount
Cash flows from operating activities		
Income before income taxes and minority interests	243	1,259
Depreciation and amortization	1,463	1,540
Loss on impairment of long-lived assets	73	4
Amortization of goodwill	493	431
Increase (decrease) in allowance for doubtful accounts	32	7
Increase (decrease) in liabilities for retirement benefits	143	67
Interest and dividend income	(240)	(239)
Interest expense	116	115
(Gain) loss on foreign currency translation	(229)	(52)
Equity in (income) loss of unconsolidated subsidiaries and associated companies	(197)	(204)
(Gain) loss on sales and disposal of fixed assets	31	67
(Gain) loss on sales of parent company's shares	(282)	―
(Gain) loss on revaluation of investment securities	―	316
(Gain) loss on sales of business	(70)	―
Compensation income for expropriation	―	(12)
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	26,222	16,907
(Increase) decrease in inventories	(1,487)	(1,393)
Increase (decrease) in trade notes and accounts payable	(23,617)	(15,727)
Increase (decrease) in other assets and liabilities	944	(3,141)
Sub total	4,683	(53)
Interest and dividend income received	342	359
Interest paid	(180)	(49)
Income taxes paid	(2,712)	(3,019)
Net cash provided by (used in) operating activities	2,132	(2,763)
Cash flows from investing activities		
Purchase of marketable securities	―	(673)
Purchases of property, plant and equipment	(435)	(1,561)
Proceeds from sales of property, plant and equipment	82	161
Purchases of intangible assets	(93)	(281)
Proceeds from sales of intangible assets	14	2
Proceeds from sales of business	70	―
Proceeds from sales of parent company's shares	328	―
Purchases of investment securities	(27)	(0)
Proceeds from sales of investment securities	0	0
Purchase of investment in subsidiaries	―	(348)
Proceeds from liquidation of associated companies	12	―
Payments for loans	(67)	(179)
Collection of loans	130	198
Proceeds from compensation for expropriation	―	12
Other	(637)	(25)
Net cash provided by (used in) investing activities	(622)	(2,695)
Cash flows from financing activities		
Increase (decrease) in short-term borrowings - net	355	369
Repayments of long-term debt	(3,202)	(2,707)
Redemption of bonds	(1,148)	―
Repayments of lease obligations	(271)	(281)
Repurchases of treasury stock	(0)	(0)
Dividends paid	(910)	(1,366)
Dividends paid to minority shareholders of consolidated subsidiaries	(125)	(143)
Net cash provided by (used in) financing activities	(5,303)	(4,129)

Foreign currency translation adjustments on cash and cash equivalents	(2)	16
Net increase (decrease) in cash and cash equivalents	(3,796)	(9,572)
Cash and cash equivalents, beginning of the period	27,598	23,735
Cash and cash equivalents, end of the period	23,801	14,163

(4) Notes on the going-concern assumption

Not applicable

(5) Segment Information

Segment Information

<u>Three months ended June 30, 2010 (April 1, 2010 to June 30, 2010)</u>

1. Net sales, income/loss by reportable segment

Millions of yen

	Reportable segment					Other *1	Total	Adjustments *2	Amounts on the consolidated statements of income *3
	Industrial Material	Car Life	Energy Trade	Home Life	Total				
I. Sales									
(1) Sales to customers	24,859	127,119	98,300	22,805	273,085	399	273,485	–	273,485
(2) Intersegment sales or transfers	149	532	6,935	–	7,618	549	8,167	(8,167)	–
Total	25,008	127,652	105,236	22,805	280,703	948	281,652	(8,167)	273,485
Segment income (loss)	205	274	(288)	813	1,005	19	1,025	(477)	548

Notes:
1. "Other" comprises businesses, such as back-office outsourcing services that are not included in reportable segments.
2. The negative 477 million yen adjustment for segment income is 477 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.

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

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 73 million yen was consequently booked for the three months ended June 30, 2010.

<u>Three months ended June 30, 2011 (April 1, 2011 to June 30, 2011)</u>

1. Net sales, income/loss by reportable segment

Millions of yen

	Reportable segment						Other *1	Total	Adjustments *2	Amounts on the consolidated statements of income *3
	Industrial Material	Car Life	Global Business	Home Life	Total-Life	Total				
I. Sales										
(1) Sales to customers	28,879	129,726	116,643	22,751	660	298,661	321	298,982	–	298,982
(2) Intersegment sales or transfers	728	5,981	5,607	–	453	12,771	517	13,288	(13,288)	–
Total	29,608	135,707	122,251	22,751	1,114	311,432	838	312,271	(13,288)	298,982
Segment income (loss)	409	845	(196)	843	(245)	1,656	3	1,660	(465)	1,195

Notes:
1. "Other" comprises businesses, such as back-office outsourcing services that are not included in reportable segments.
2. The negative 465 million yen adjustment for segment income is 465 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.

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

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 4 million yen was consequently booked for the three months ended June 30, 2010.

3. Changes in reportable segments and related information

The Company is organized into business divisions, which correspond to the Company's reportable segments.

During the first quarter of the fiscal year ending March 31, 2012, the Total Life division was newly established and added to the Company's reportable segment. The Company also reorganized its business operation to streamline its management. The reorganization includes shifting of vessel oil business from the Industrial Material segment to the Global Business segment and shifting of fleet card business from the Car Life segment to the Industrial Material segment. In accord with the changes, the Company has revised its management methods for intersegment sales or transfers.

The following is the segment information for the three months ended June 30, 2010, rearranged in the new segmentation method that was used for the three months ended June 30, 2011.

Three months ended June 30, 20110 (April 1, 2010 to June 30, 2010)

Millions of yen

	Reportable segment						Other *1	Total	Adjustments *2	Amounts on the consolidated statements of income *3
	Industrial Material	Car Life	Global Business	Home Life	Total-Life	Total				
I. Sales										
(1) Sales to customers	21,364	123,405	105,509	22,805	—	273,085	399	273,485	—	273,485
(2) Intersegment sales or transfers	263	4,993	6,935	—	—	12,193	549	12,742	(12,742)	—
Total	21,628	128,399	112,444	22,805	—	285,278	948	286,227	(12,742)	273,485
Segment income (loss)	242	203	(253)	813	—	1,005	19	1,025	(477)	548

Notes: 1. “Other” comprises businesses, such as back-office outsourcing services that are not included in reportable segments.
2. The negative 477 million yen adjustment for segment income is 477 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.

(6) Notes on Significant Changes in Shareholders’ Equity

Not applicable