Annual Report 2008

Partnering with society
and ordinary people

In the energy field, in the car, in the home

ITOCHU ENEX CO.,LTD.

Fiscal Year Ended March 31, 2008

Profile

An energy trading firm that serves to enrich people's lives

The corporate philosophy of Itochu Enex Co., Ltd. (the "Company"), is "Partnering with society and ordinary people in the energy field, in the car and in the home." The Itochu Enex Group has three core business segments—the Industrial Material Division, which supplies energy of all types for industrial applications; the Car-Life Division, which offers a complete range of services to support drivers; and the Home-Life Division, which provides community-based services mainly for the supply of liquefied petroleum gas (LPG). The Energy Trade Division was newly established in October 2008 for the import/export and logistical functions of petroleum products for global business development. Thus, the Group intends to assume an important mission for local communities and economies with the catchphrase "Energy for all applications, whether as a key component of social infrastructure or as a means of enriching people's lives."

Itochu Enex, which handles various energy sources, exercises responsible environmental stewardship as a continuing crucial theme and reinforces the corporate social responsibility (CSR) and compliance functions toward the development of a sustainable society.

Fields of Business of the Itochu Enex Group

Industrial Material Division

ACTION!

This Division caters to industrial needs by designing and supplying various energy solutions to achieve a reduction in CO_2 emissions from factories. These include fuel conversions that address customers' specific needs.

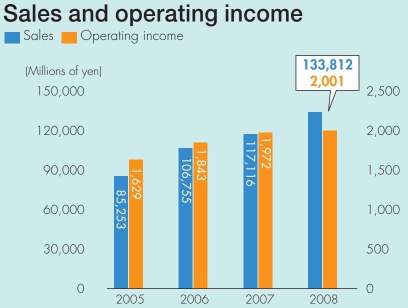
Energy conversion

This is one of our major solutions for resolving the issues between society and industry.

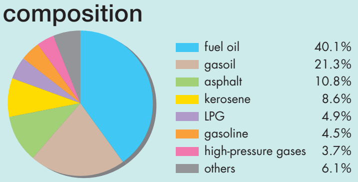
Highlighted Data

Corporate customers **2,500 companies throughout Japan**
Sales of asphalt **10% domestic market share**
Urea solution for urea SCR systems **Approx. 20% domestic market share**

Sales and operating income



Sales composition



Car-Life Division

ACTION!

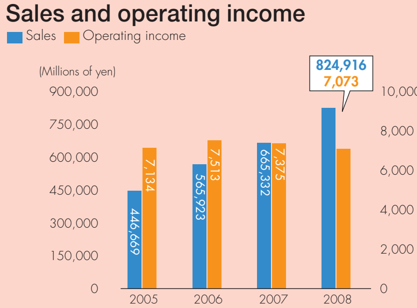
We incorporated Konan Fleet's 139 service stations that sell gasoil for trucks in early September 2008, resulting in the establishment of an industry-leading network.

This is Japan's No. 1 trading firm-affiliated network in terms of the number of affiliated car-life stations (CSs).

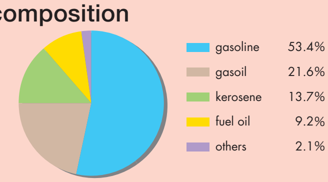
Highlighted Data

2,200 Enex-affiliated CSs throughout Japan
Car Enex Private Brand CSs **410 stations**
Sales volume of gasoline **6% share of domestic gasoline sales**
Car Enex *Itsumo* Card **More than 400,000 members**

Sales and operating income



Sales composition



Home-Life Division

ACTION!

In collaboration with JAPAN ENERGY CORPORATION and NISSHO PETROLEUM GAS CORPORATION, the Company plans to establish an LPG wholesale distributor company.

This Division will ensure more stable provision of LPG by strengthening its wholesale distributor function. This is Japan's No. 1 trading firm-affiliated network in terms of the number of affiliated CSs.

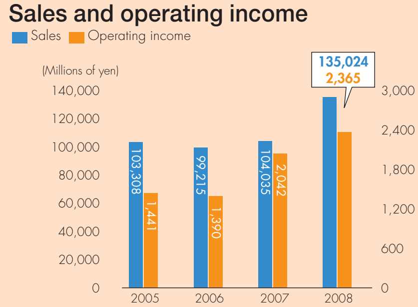
Establishing a wholesale distributor company

Establishing an integrated LPG business group.

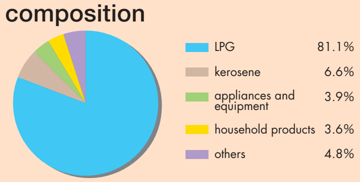
Highlighted Data

Ecore Co., Ltd., covering the Kyushu region **The largest LPG supplier in Kyushu**
With a presence in communities across Japan **Approx. 1.3 million households**
Network of retail outlets throughout Japan **Approx. 1,800 stores**

Sales and operating income



Sales composition



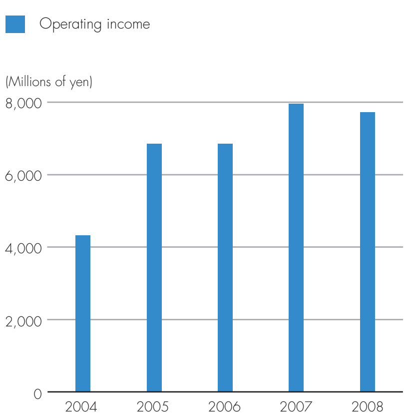
Contents

Consolidated Financial Highlights

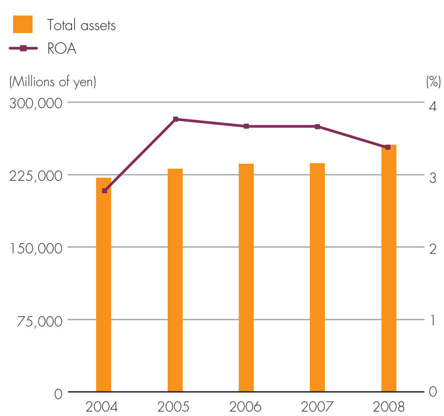
Years ended March 31	2004	2005	2006	2007	2008	2008
Results of Operations (Millions of yen)						(Thousands of U.S. dollars)
Net sales	555,059	635,230	771,894	886,484	1,093,752	10,916,778
Operating income	4,312	6,826	6,824	7,935	7,700	76,854
Net income (loss)	3,798	(4,083)	4,661	4,987	4,187	41,791
Financial Position at Year End (Millions of yen)						(Thousands of U.S. dollars)
Total assets	221,049	230,292	235,619	235,851	255,127	2,546,432
Total equity	78,959	72,889	78,245	82,349	83,708	835,493
Cash Flows (Millions of yen)						(Thousands of U.S. dollars)
Cash flows from operating activities	18,024	16,326	6,304	14,131	14,189	141,631
Cash flows from investing activities	(6,242)	(7,596)	(8,652)	(2,142)	(5,022)	(50,125)
Cash flows from financing activities	(14,242)	(11,133)	511	(5,525)	(8,804)	(87,883)
Cash and cash equivalents at end of year	30,242	28,031	26,364	33,297	33,909	338,447
Amounts per Share (Yen)						(U.S. dollars)
Net income (loss): Basic	40.07	(46.56)	49.70	55.04	45.65	0.46
: Diluted	40.06	—	49.64	55.03	45.65	0.46
Net assets	867.06	808.10	864.11	889.53	891.59	8.90
Ratios (%)						
ROE	4.72	(5.38)	6.17	6.24	5.13	
ROA	2.8	3.8	3.7	3.7	3.4	
Shareholders' equity ratio	35.72	31.65	33.21	34.60	32.06	
For Reference:						
Number of employees	4,375	4,280	2,532	2,852	2,954	
[Others, average number of temporary employees]	[1,599]	[1,492]	[840]	[943]	[954]	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥100.19=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2008.
2. Number of employees excludes personnel seconded by the Group but includes personnel seconded to it.
3. Diluted net income per share is not given for the year ended March 31, 2005, since although residual securities existed, net income per share was negative.
4. For the year ended March 31, 2007, the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Statement No. 5, December 9, 2005) and Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan Guidance No. 8, December 9, 2005) have been applied.

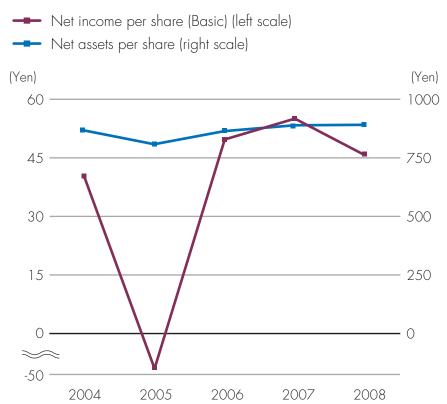
Operating Income



Total Assets and ROA



Amounts per Share



Top Message

Contributing to society through the responsible supply of energy solutions

Akira Kodera
Representative Director and President

Corporate Philosophy

Partnering with society and ordinary people

In the energy field, in the car, in the home

Code of Conduct

Be Ethical

(Reliability and sincerity, creativity and flair, transparency and integrity)

Meeting a difficult operating environment head-on

During fiscal 2007, the year ended March 31, 2008, there were growing concerns of a possible recession in the Japanese economy, reflecting financial uncertainty caused by the subprime housing loan crisis in the United States and the rapid appreciation of the yen, although an increase in capital investments due to improved corporate profits and an undertone of recovery in employment conditions continued.

In the petroleum distribution industry, a drop in domestic demand continued, affected considerably by the soaring prices of petroleum products due to the hike of crude oil prices and a change in consumption preference, as well as the faster-than-expected spread of fuel conversion among consumers. The LPG distribution industry, meanwhile, faced harsh business conditions, including the need to shift purchase prices into selling prices in the face of record-high LPG import prices.

Despite such a difficult business environment, the Group succeeded in boosting sales volumes of fuel oils and LPG through M&A efforts and aggressive marketing activities. As a result, net sales for the consolidated fiscal year under review totaled ¥1,093,752 million, up 23.4% from the previous fiscal year. Nevertheless, operating income decreased 3.0% year on year to ¥7,700 million and net income declined 16.0% to ¥4,187 million, primarily due to the delayed shift of the increase in purchase prices of petroleum products into selling prices. We maintained an annual dividend per share of ¥16 for the year under review, ¥8 of which was an interim dividend.

Aiming for renewed growth, the Group released a new medium-term business plan

In March 2004, the Group formulated the Creation 2008 medium-term vision for the period from April 2004 to March 2009. Its initial purposes of speeding up the decision-making process through the reform of organizational structures and enhanced selection and concentration by streamlining business fields worked well and will be completed at the end of the current fiscal year. During the term of Creation 2008, the Japanese energy market saw rapid and drastic changes, including the hike of crude oil prices, a decline in population, intensifying competition among energy options against the backdrop of environmental issues and a reduction in aggregate demand.

Alarmed by these environmental changes, the Company publicly announced a new medium-term business plan on May 2, 2008—Core & Synergy 2010—to establish new growth strategies.

This new medium-term business plan delineates measures for future business reorganization and reinforcement with a medium-term perspective, to address new issues such as the stagnant growth in internal demand and intensifying competition based on the favorable results achieved from the organizational structural reforms in the Creation 2008 medium-term vision.

Given the significantly changing business environment due to soaring oil prices and the change in the structure of energy demand, the Group endeavors to improve corporate value by steadily carrying out dynamic growth strategies, which are incorporated in Core & Synergy 2010.

Promoting CSR-compliance management to raise stakeholders' trust in the Group

The Itochu Enex Group will execute the new growth strategies and further raise the CSR and compliance functions, which are critical for a trustworthy corporation. I believe that compliance means not only legal compliance as a conventional view, but also includes understanding and meeting the expectations and desires of all the stakeholders—shareholders, investors, society, consumers and business partners. Legal compliance is an absolute precondition to this end. To realize Itochu Enex's corporate philosophy of "Partnering with society and ordinary people in the energy field, in the car and in the home" and obtain people's trust, we will pursue distinctive, high-quality CSR-compliant management.

We have also been quick to put in place a system of internal controls. Steady progress was made in establishing the basic principles for these systems during fiscal 2007 and also measures to ensure the reliability of financial reporting, as required under Japan's Financial Instruments and Exchange Law, through deliberations at the Internal Control Office. The new system of internal controls has become operational in fiscal 2008.

We look forward to the continued support of our shareholders, customers and other stakeholders.

October 2008

Akira Kodera
Representative Director and President
ITOCHU ENEX CO., LTD.

Medium-term business plan of the Itochu Enex Group

Core & Synergy 2010

To the next stage via the implementation of reforms

Basic Policy

By fostering Group unity, the Itochu Enex Group endeavors to develop global businesses horizontally and vertically, strengthen core businesses and create synergies to double its earnings.

Period

Three years (fiscal 2008 through fiscal 2010)

Positioning

The three-year period mentioned above is positioned as a time frame to solidify our future growth course by restructuring the business platform of the Group through the acquisition of new management resources, functions and business models.

The Itochu Enex Group has formulated the new Core & Synergy 2010 medium-term business plan for the three-year period from fiscal 2008 through fiscal 2010, based on the favorable results of the Creation 2008 medium-term vision (fiscal 2004 through fiscal 2008), while adapting to the changing business environment during the period. The Group will implement the plan with the aim of ensuring sustainable corporate growth based on Group unity.

Fiscal 2008 will see the commencement of three large projects.

Business development on a global stage

Succession of the petroleum product-related businesses of the Itochu Group (started on October 1, 2008)

ITOCHU Corporation, its wholly-owned subsidiary ITOCHU Petroleum Japan Ltd. (IPCJ) and the Company have agreed that the domestic sales of petroleum products, the Japan-originated petroleum product trade business of ITOCHU Corporation's Energy Trade Division and the petroleum product logistics business of IPCJ shall be assumed by the Company through a spin-off. The relevant business operations started in October 2008 as the Energy Trade business, in compliance with the spin-off agreement entered into by the three concerned parties.

>> Purpose of the project

This restructuring project aims to pursue synergies such as the expansion in the distribution of petroleum products, the advantage of scale and the improvement of operating efficiency by integrating the relevant businesses of the three parties into Itochu Enex—particularly in view of overseas markets such as Asia where demand for petroleum products is advancing.

>> Businesses to be assumed by Itochu Enex

Domestic sales of petroleum products (e.g., kerosene/gasoil), procurement of shipping spaces for Japan-originated imports/exports, supply of marine fuels, the tank business, sales of lubricants, and other businesses were assumed by Itochu Enex.

Acquiring and reinforcing wholesale distributor functions

Investigating the restructure and merger of the LPG operations

The Company has reached a basic agreement with JAPAN ENERGY CORPORATION, ITOCHU Corporation, NISSHO PETROLEUM GAS CORPORATION and OSAKA GAS CO., LTD., to start the investigation into restructuring and merging their LPG operations (released on February 21, 2008).

>> Purpose of the project

In cooperation with JAPAN ENERGY CORPORATION and NISSHO PETROLEUM GAS CORPORATION, the Company will establish an LPG distribution company to strengthen its wholesale distributor function. Moreover, the five parties to the basic agreement are cooperating to investigate the possibility of establishing an integrated, competitive-edge LPG business group that can ensure improved security and quality services, as well as the steady provision of LPG.

Reinforcing car-life stations(CSs) that sell gasoil for corporate customers

Making Konan Fleet a subsidiary (as of September 1, 2008)

The Company and Konan have reached a basic agreement, under which Itochu Enex makes Konan Fleet, a Konan subsidiary, its wholly-owned subsidiary by assuming the petroleum sales business of Konan and all the shares of Konan Fleet. The project began as of September 1, 2008, in compliance with the acquisition agreement entered into by the parties.

>> Purpose of the project

The trucking firms and the 139 service stations for freight vehicles that were operated by Konan Fleet will be networked as Enex-affiliated CSs to enhance the Group's gasoil sales business and expand its earnings platform.

The Group endeavors to achieve the targets set out in 「Core & Synergy 2010」 by taking advantage of the businesses acquired in association with the project above and other management resources.

Numerical Targets for Doubling Earnings: Consolidated Performance Plan for the Year Ending March 2011

Net sales: ¥1.8 trillion
(Actual result for the year ended March 31, 2008: ¥1.1 trillion)
up 65%

Operating income: ¥15.5 billion
(Actual result for the year ended March 31, 2008: ¥7.7 billion)
up 101%

Ordinary income: ¥15.9 billion
(Actual result for the year ended March 31, 2008: ¥8.3 billion)
up 92%

Net income: ¥8.0 billion
(Actual result for the year ended March 31, 2008: ¥4.1 billion)
up 95%

ROE: 8.0%

EPS: ¥68

Targeted Consolidated Management Indices

The Group intends to solidify efficient business management and raise earnings on a consolidated basis. To this end, effective from fiscal 2008, the year ending March 31, 2009, we are adding ROE and EPS with the aim of further improving asset efficiency and capital efficiency.

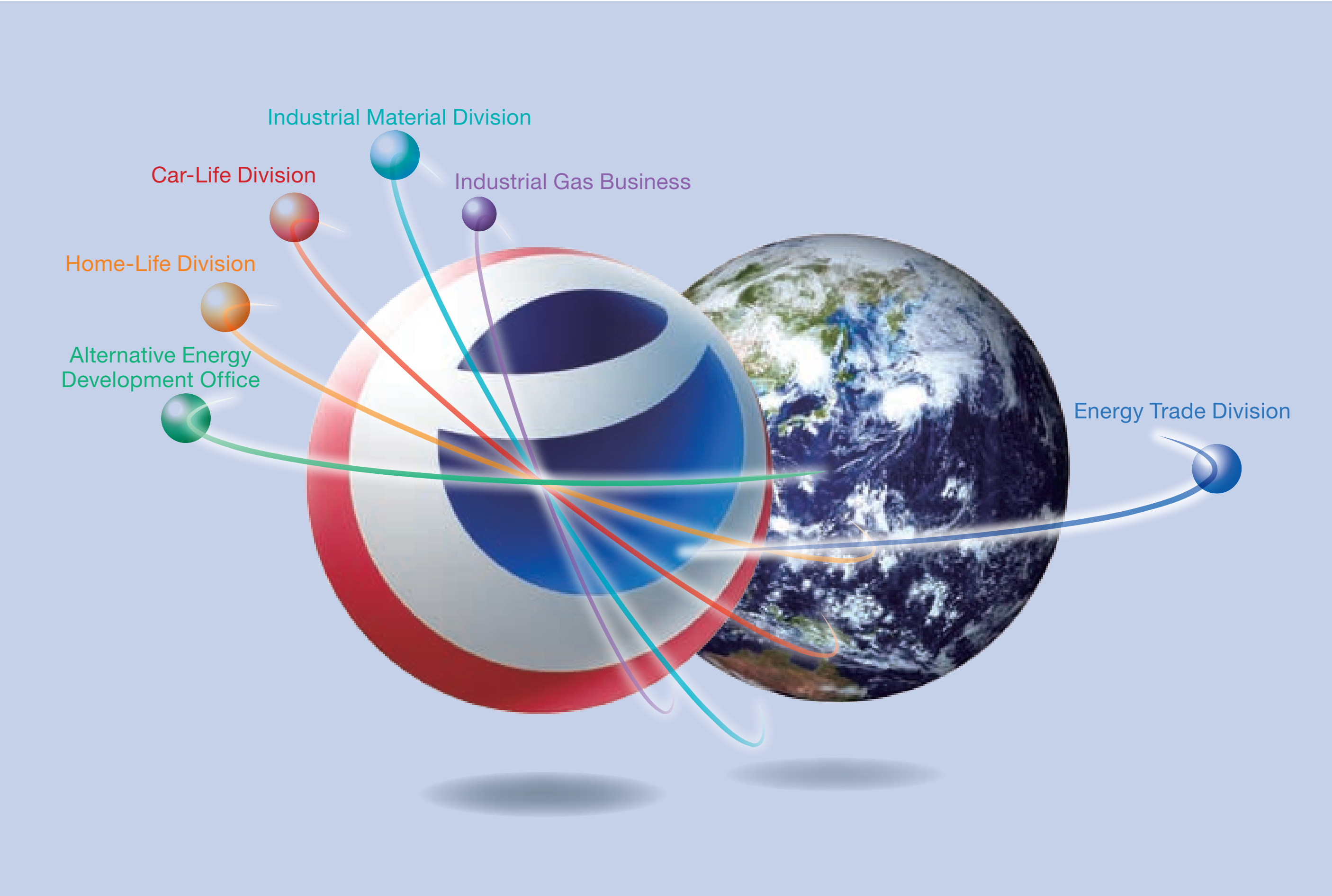
Changes in quantitative plans (Billions of yen)

	Actual results for FY2007	Plan for FY2008	Plan for FY2009	Plan for FY2010
Net sales	1,093.7	1,520.0	1,780.0	1,800.0
Operating income	7.7	10.2	13.5	15.5
Ordinary income	8.3	10.2	13.8	15.9
Net income	4.1	6.0	7.0	8.0
ROE (%)	5.1	6.7	7.5	8.0
EPS (Yen)	45.7	51.0	60.0	68.0

Business Strategies

Reinforcing core businesses and creating synergies

The Industrial Material, Car-Life and Home-Life sectors in the Japanese market are the core businesses of the Group. The newly acquired Energy Trade Division will be positioned as a pillar for our overseas business development in the pursuit of the proactive globalization of markets and/or customers.reinforces the corporate social responsibility (CSR) and compliance functions toward the development of a sustainable society.



In the energy field, in the car and in the home, Itochu Enex moves ahead in Japan and overseas

The contribution of the three core domestic businesses—Industrial Material, Home-Life and Car-Life—as stable earnings platforms will be essential for the Company to maintain its corporate growth. We will create synergies by closely networking the 2,200 CSs, 1,800 LPG retail outlets and 2,500 corporate entrepreneurs located nationwide and allocating new management resources and functions to the respective segments in an efficient manner. In addition, I believe that profitability can be maximized by steadily promoting the Energy Trade business, which was assumed by the Company as an already completed global business model. We are determined to fulfill these new growth strategies and double the earnings of the Group.

Akira Kodera,
Representative Director and President

Core Segments and Synergistic Growth Strategies

Energy Trade Division

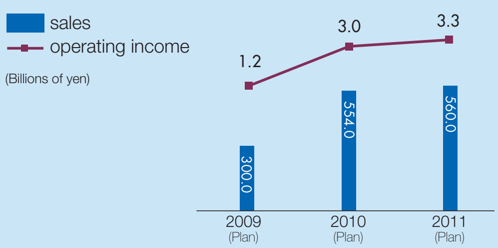
This Division engages in exports/imports of petroleum products for overseas markets including Asia. (Operations started in October 2008.)

Expanding earnings through intra-Group collaborations in Japan and overseas

Synergy

- Expand the export business considerably
- Improve coordination for domestic supply–demand
- Reinforce overseas sales of fuel oils for vessels
- Ensure stable earnings from the ship navigation business
- Strengthen operations by establishing a tank network throughout Japan

While paying close attention to the expanding demand in emerging countries, especially in Asia, and against the backdrop of the overwhelmingly high market share regarding real demand in Japan, we will pursue optimally balanced operations between exports and the domestic supply–demand relationship, as well as the sound development of the domestic logistics structure.



Car-Life Division

This Division delivers vehicle fuels and a variety of services.

Strengthening and expanding the network of affiliated CSs toward the targeted aggregate market share of 10% for gasoline, kerosene and gasoil

Synergy

- Reinforce the CS network and improve station management on an ongoing basis
- Increase sales of gasoil for trucking firms by making Konan Fleet a subsidiary
- Establish an online, peripheral retail business related to Internet sales of used cars as part of our value-added CS networking efforts
- Implement a distinctive regional strategy by affiliating more local gas stations

We will strengthen the relationship with our petroleum wholesaler based on synergies derived from the execution of measures for reinforcing CSs and from coordinating export–import and supply–demand functions. These should contribute to a sounder logistics structure that will enable more optimal pricing.

Industrial Material Division

This Division delivers energy and materials that support industries.

Achieving the top share for certain product categories of industrial petroleum products

Synergy

- Strengthen sales of gasoil for common carriers
- Increase sales via the functional reinforcement of vessels and tanks for fuel distribution in the marine fuel oil market
- Implement a regional strategy by establishing a network of tanks at the asphalt-storage bases

Reinforcing sales of value-added products in the industrial material business

Synergy

- Establish our value-added sales network for promising, high-growth markets such as industrial gases, medical-use gases, high-purity gases and other gases
- Establish the natural gas solution business
- Ensure a domestic market share of 20% for the Urea solution AdBlue for urea SCR systems, which are used exclusively for common carriers

Home-Life Division

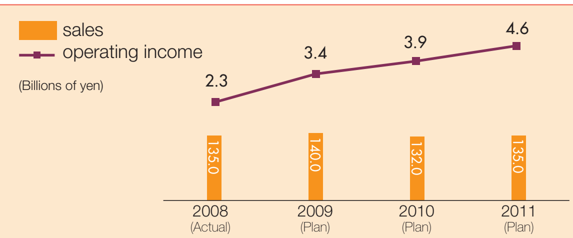
This Division delivers LPG for households and gases for commercial applications.

Strategically moving to realize an integrated production and distribution system by a gaseous fuel and energy-based corporate group

Synergy

- Realize an integrated production and distribution system that covers the upstream and downstream fields by acquiring a next-generation distribution function
- Strengthen wholesale sales by achieving horizontal collaboration in the pursuit of a rationalized distribution function
- Select and concentrate retail trading areas for the purpose of specializing regional shares
- Stabilize earnings by disseminating the raw material cost adjustment system, thereby optimizing operational applications and ensuring transparency in management

We will further implement horizontally extensive regional strategies to strengthen both wholesale and retail fields by realizing an integrated production and distribution system through reinforcing the relationship between Group functions and the wholesale distributor function.



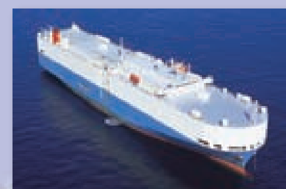
Core Business: Industrial Material Division

Driving force for industries

As an industrial energy and materials expert, the Industrial Material Division sells energy such as oil, LPG and natural gas and materials such as asphalt and cement throughout Japan to customers including manufacturers, trucking firms and shipping companies. We are reinforcing the existing businesses to meet diversifying customer needs. Furthermore, we help society and industry to evolve by developing value-added products and services and providing optimized solutions.

Maintaining industry momentum

The Division sells the energy and materials necessary to help support both industrial vitality and society.



Providing industrial energy and materials

- Industrial fuels that offer excellent cost performance:
  Heavy oils A and C
- Fuel for diesel trucks that support contemporary logistics:
  Gasoil
- Fuel that excels in eco-compliance and cost effectiveness:
  LPG
- Industrial material indispensable to building roads and other elements of social infrastructure:
  Asphalt for roads

Driving industries into the future

We provide energy and eco-compliance products that meet the needs of the times.

- Liquefied natural gas (LNG):
  Clean form of industrial energy
  Enex LNG Sales Co., Ltd., offers customers in places such as Okayama City natural gas energy solutions tailored to large-scale supply needs.
- Urea solution AdBlue:
  Material for urea SCR systems, which enhance environmental measures
  The urea SCR systems are designed to efficiently break down and remove NOx from the exhaust gas of diesel vehicles by spraying it with a urea solution while still in the exhaust pipe. The implementation of the systems is in progress nationwide.

- CardFuel:
  A system for corporate customers that keeps a record of fuel consumption through a nationwide network of service stations
  Awareness of systems for the efficient management of fuel consumption for all owned vehicles has been rising to comply with the Law Concerning the Rational Use of Energy.
- Cogeneration systems:
  Cogeneration systems help improve energy efficiency by recovering exhaust heat produced during the generation of power and using it to produce heat energy in the form of steam or hot water.

Keyman's Commitment

We meet diversifying customer needs and work to be a reliable supplier of energy and materials.

In the market for industrial energy and materials, customer needs have become increasingly diversified and sophisticated when it comes to such issues as cutting costs, saving energy and achieving eco-compliance. Our greatest strength lies in the fact that we possess all-round capabilities backed up by flawless professionalism. We offer a full menu of effective solutions and provide clients with exactly what they require in the most convenient form possible. Guided by the three Qs—quality, quantity and quick response—we plan to continue maximizing our all-round capabilities as we take steps to improve service, expand sales and better cater to customer needs.

Hiroshi Arai,
Representative Director and Senior Managing Director,
General Manager for the Industrial Material Division

Core Business: Car-Life Division

To build unbeatable CSs

The Car-Life Division sells gasoline, kerosene and other fuels to 2,200 service stations throughout Japan. Itochu Enex is Japan's largest energy wholesaler with a trading firm background.

With the motto of "from service station to car-life station," the Car-Life Division offers a complete range of services for drivers, from the sale and purchase of automobiles to inspection and auto service, car washing, light bodywork, automotive parts and car insurance.

The Division is active in making car-life stations(CSs) customers' preferred choice as the most powerful retail format in the market.

Supporting daily car life

The Division sells high-quality petroleum products, which are essential for people's car lives, at Enex-affiliated CSs throughout Japan.

- Petroleum products sold at 2,200 Enex-affiliated stations throughout Japan:
  gasoline, kerosene gasoil, other oils, etc.

Catering to customers' automobile needs

We provide a full range of services for car owners to ensure a convenient and comfortable car life.

- **The Super Car Collection consolidated database of customer and vehicle information**

  This is a revolutionary sales support system without precedent in the gasoline industry. It streamlines operations by consolidating information on customers and their vehicles in all areas of service—buying and selling, vehicle inspection and servicing, and light bodywork.

- **The Car Collection system for the purchase and sale of used vehicles available at any CS**

  A total of 422 gas dealers are affiliated with this program (as of May 31, 2008). The system has become popular as an easy buying-selling scheme of vehicles at our CSs.

- **Mr. Dependable vehicle inspection and servicing**

  This is an upgraded version of the Holiday Vehicle Inspection service, which was designed to be offered by designated vehicle inspection stations. This new service format is intended for certified vehicle inspection stations and, as such, is well suited to the CS format.

- **Touch-up *Yasubei* light bodywork service**

  A light bodywork shop to which customers can pay a quick visit when filling up their car or getting it washed. This new service format is designed for certified vehicle inspection stations.

- **Car Enex *Itsumo* Card, with no signup fees and no annual membership**

  This card enhances life on the road with a wide range of alluring options such as a discount on the price of gas. It has been available for just four years, and already membership has surpassed 400,000.

Keyman's Commitment

We are living up to the expectations of our customers and retailers with an unbeatable CS strategy that is designed for longevity.

Given the extremely difficult business environment for conventional service stations, Itochu Enex is seeking to boost non-gasoline revenues by pursuing a strategy centered on the CS—a formidable new retail format that is dedicated to providing a full range of services for car owners, including the sale and purchase of automobiles, inspection, light bodywork and others. Service stations that make the shift to the CS format are more price-competitive because they enjoy a steady source of non-gasoline revenues. That leads to a favorable cycle in which an increase in customers results in greater sales volumes. Itochu Enex reinforces and develops the customer-supported CS strategy under the guideline of higher customer satisfaction. Looking forward, it also intends to expand its network of large self-service stations and aggressively pursue M&As with the goals of accelerating expansion and boosting sales volumes to live up to the expectations of customers and retailers alike as the industry frontrunner.

Akira Doi,
Representative Director and Managing Director, and General Manager for the Car-Life Division

Core Business: Home-Life Division

LPG as a highly promising energy source

We supply eco-friendly LPG and city gas to approximately 1.3 million households and corporations through a sales network of regional sales companies and 1,800 retail outlets throughout Japan.

We aim to develop gas-based services which are trusted and sustained by regional customers through the provision of detailed support and information under the motto of safety and security.

Through its *Kurashi-no-Mori* service, the Division offers products and services for the kitchen, bathroom and home in general to help customers realize affluent and comfortable lives.

Supporting everyday life

Delivering LPG that brings greater comfort and convenience

Easy-to-use energy with less environmental load:

Household and commercial services of LPG

We supply LPG—which has a small environmental footprint and, being a distributed form of energy, is highly resilient to natural disasters—to customers throughout Japan via our domestic supply terminals.

City gas (LNG) energy:

Nakatsu-Gas Branch

Our Nakatsu-Gas Branch in Oita Prefecture supplies city gas to customers from large-scale customers to ordinary households.

Promoting the spread of environment-friendly LPG vehicles

We promote the spread of eco-friendly LPG vehicles based on the sales activity of advanced LPG vehicles and the optimum performance of our auto gas stations in supplying LPG.

Extending the comfort of daily lives

Crafting value-added, life-related proposals to ensure better households

Kurashi-no-Mori service:

Ideas for better and comfortable living

We offer a variety of products and information in pursuit of more eco-friendly, comfortable and affluent lives advertised via an information magazine and a Web site.

Kurashi-no-Mori Asclass Card:

Enhancing safety, security and comfort in life

A variety of services are available with this credit card, including the privilege of getting and using points, a Home Service that ensures vital assistance in case of emergency, domestic and overseas travel, utilization of 2,000 facilities throughout Japan for preferential treatment and a telephone consulting service for pensions, nursing care and child care.

Keyman's Commitment

We continue to bring people more convenient and comfortable lifestyles through the combination of LPG and ideas for better living.

Because LPG is highly heat efficient and emits little CO_2, its environmental footprint is small; moreover, its ease of transport makes it resilient to natural disasters. The Home-Life Division supplies LPG to households and corporations and offers diversified proposals to support people to help make their lives more comfortable through our *Kurashi-no-Mori* service. Such proposals include the delivery of safety-oriented information, which allows customers to use convenient gas appliances safely, eco-friendly lifestyles, IT-based convenient services and a home renovation service for our customers. We aim to become the community's first choice in the LPG market.

Kenji Moriya,
Director and Managing Director, and General Manager for the Home-Life Division

Industrial Gas Business

Promising gases for the future

High-pressure gases such as oxygen, nitrogen, hydrogen, argon and gas for semiconductors play important roles in diverse industrial fields ranging from steel, chemistry and electronics to foodstuffs and healthcare. To cater to these varied industrial needs, Itochu Industrial Gas Co., Ltd., a member of the Itochu Enex Group, aggressively engages in the industrial gas business. It delivers high-quality, high-pressure gases, which are essential for future lives and society, through its community-based network and safe and speedy distribution system.

Going!

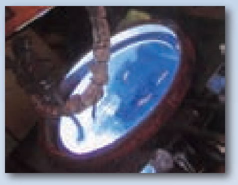
Itochu Industrial Gas, our industrial gas business, networks our bases for the stable provision of high-quality, high-pressure gases through its safe and rapid distribution system.

Catering to diversified gas needs in a variety of fields

Industrial gases that help industries grow

Gases used in every industrial field contribute to the development of various industries.


Liquefied carbon dioxide


MAG (Ar+CO_2) welding

Medical-use gases in the health care field

Oxygen for inhalation and laughing gas (nitrous oxide) for anesthesia and other gases are widely used in the health care domain.


Oxygen gas for medical use

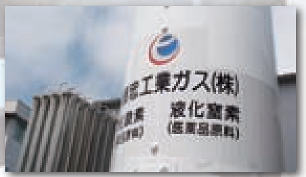

High-pressure oxygen treatment appliance

Special-purpose gases used in leading-edge fields

Gas for semiconductors, high-purity gas and mixed gas are used in leading-edge industrial fields.

Supporting customers with the safe and stable provision of high-quality gases

Itochu Industrial Gas Co., Ltd., the sole dedicated, high-pressure gas company in the Itochu Group, engages in the industrial gas business.



Networking production and supply bases into an optimal system

We boast a gas center that has one of the highest infill volumes in the Kanto region. A dedicated health care gas infill facility that is compliant with the Good Manufacturing Practice (GMP) standards was established in 2004.

Improving quality via thoroughly enhanced production and quality management

Advanced inspection system using state-of-the-art equipment

The pressure-proof inspection system for containers is capable of testing 500 gas containers per day on an automatic line.

Responding to a variety of customer requests with a detailed supply system

We have established reasonable supply modes and a stable supply system that ensures higher product quality based on thorough production and quality management.

Keyman's Commitment

We will provide high-quality products and services to support the business operations of our customers.

As the sole dedicated high-pressure gas company in the Itochu Group, Itochu Industrial Gas intends to establish a community-based supply system to provide customers with its original service offerings and engineering proposal capabilities. In the high-pressure gas market, customer needs have become increasingly diversified. Given changes in the business environment, we aim to improve our service quality with extended services such as sales of peripheral equipment and appliances, which are auxiliary to the core sales of high-pressure gases. In addition, we intend to improve and reinforce our functions and roles in the business operations of our customers by precisely anticipating and understanding changes in customer needs, as well as signs of changes in the market.

Hideo Miki,
Representative Director and President, Itochu Industrial Gas Co., Ltd.

Alternative Energy Development Office

Giving assistance to the environment

Demand is growing for the development and dissemination of clean technologies to restrict CO_2, SOx and/or NOx emissions, replace conventional forms of energy and lay the groundwork for the eco-friendly society of the future. The Alternative Energy Development Office has taken up the challenge by working to develop and foster the spread of clean forms of energy—primarily dimethyl ether (DME), hydrogen and biomass.

We will continue to be a pioneer in the full-fledged dissemination of new forms of energy in partnership with such entities as other companies, organizations and municipalities.

Action! Itochu Enex plans to start selling DME produced by Fuel DME Production Co., Ltd., which is located on the premises of the Niigata Plant of Mitsubishi Gas Chemical Company, Inc., during fiscal 2008.

Giving assistance to DME

We are promoting the practical use of DME as an alternative fuel to gasoil.

DME is a multi-energy source with a host of possible applications in homes, automobiles and factories. In addition, it is easy on the environment as it emits no particulate matter (PM). Itochu Enex is interested specifically in DME's potential as a fuel for vehicles, and it has been conducting research on how the fuel can be adapted for use in trucks and other diesel vehicles as a substitute for diesel oil. Our "Research and Development of the DME Infill Unit for Vehicles, as well as Research on the Safety of DME Stations" was adopted by the Kanto Bureau of Economy, Trade and Industry as a contract research theme among its FY2008

DME supply station in Niigata City

Giving assistance to fuel cells

We support the verification test of the large-scale stationary fuel cells promoted by the government.

The fuel cell is a clean energy source that cuts power costs in overall operations and is eco-friendly. Since 2005, the Japanese government has been carrying out a large-scale verification project on this exciting new technology. The project, which will end in 2008, has a goal of bringing fuel cells into use in the home. Itochu Enex is among the project participants and provides the field where the fuel cells are installed. The fuel cells were developed by a major wholesale distributor cooperating in the project (FY2005: 8 cells; FY2006: 12 cells; FY2007: 12 cells). Itochu Enex contributes to the verification test by improving cell reliability with the objective of promoting fuel cell use.

ENE·FARM

The Eneos Ecoboy (kerosene specifications 1-kW class fuel cell)

Giving assistance to hydrogen

We provide our infrastructure for verifying hydrogen energy, the cleanest energy source.

The age of hydrogen energy is just around the corner, and Itochu Enex has been helping to usher it in. In partnership with SINANEN Co., Ltd., and Kurita Water Industries, Ltd., Itochu Enex has been taking part in a three-way verification project on hydrogen fuel cells being conducted at the JHFC Sagamihara Hydrogen Station, which supplies fuel to fuel cell vehicles. Through the verification test at the station, we intend to continue our commitment to help harness hydrogen energy for the needs of society.

Giving assistance to biomass

We study the commercial potential of bioethanol taking into account trends in the leading industrialized countries and Japan.

Plant-derived and inactive fuels are seen as effective tools in the fight against global warming because they simply circulate the CO_2 already present on the planet without increasing the total amount. Both in Japan and overseas, vast amounts of this potential energy remain untapped in such forms as wood chips, livestock waste and sewage digestion gas. Itochu Enex is seeking ways to harness that potential. Bioethanol is garnering particular interest these days, and we intend to put greater effort into exploring its commercial potential. To this end, we will be following developments in Brazil—a leader in this technology—and tracking trends at home in Japan.

Bioethanol manufacturing plant in Brazil

As Team Enex, we are addressing the commercialization of clean energy

Clean energy has become increasingly familiar to many people, reflecting the growing awareness of the environment and technological innovations. The Alternative Energy Development Office plans to start selling DME produced by Fuel DME Production Co., Ltd., which is located on the premises of the Niigata Plant of Mitsubishi Gas Chemical Company, Inc., during fiscal 2008. We visited Brazil, a leader in bioethanol technology, to review the commercialization potential of our project in this field. In the future, we will endeavor to achieve the realization of clean energy on a step-by-step basis in partnership with other companies as well as government and academia, keeping in mind both global trends and Japan's own national energy strategy.

All the staff of the Alternative Energy Development Office

Our Action Guidelines

All employees of the Itochu Enex Group companies endeavor to comply with our Code of Conduct, entitled “Be Ethical,” which builds on our existing corporate precepts, and the Declaration of the Group Code of Conduct, which was established to ensure the commitment to our stakeholders, and to conduct themselves accordingly in their business operations based on CSR and compliance.

Code of Conduct

Be Ethical (Reliability and sincerity, creativity and flair, transparency and integrity)

Declaration of the Group Code of Conduct

● Relationship with customers

1. Safety

<Safe and secure transactions>
We take measures to alleviate any risk of accidents and/or disasters to ensure public safety and provide customers with reliable and secure products and services.

<Quality management of products and merchandise>
We promise to maintain quality and ensure the safety and stable provision of the merchandise that we handle.

2. Sincere response

<Improvement of service quality>
We strive to satisfy customers at all times.

<Management of customer information>
We appropriately use information relating to our customers only within the scope for which consent was obtained to appropriately manage and prevent leaks of such information.

<Handling of accidents and complaints>
We take measures to prevent any risk of accidents and/or complaints and to preclude any recurrences.

● Relationship with business partners

<Fair transactions>
We conduct commercial activities under the principle of fair and free competition and maintain sound, reasonable and transparent relations with the political world and administrative bodies.

<Management of corporate information>
We take appropriate control of corporation information including that relating to our business partners and suppliers and adequately protect their confidential information.

● Relationship with suppliers

<Fair purchasing activity>
We conduct fair purchasing activities with our suppliers.

<Compliance with the Anti-Monopoly Laws>
We strictly observe public rules for business transactions and never participate in fraudulent or dishonest acts such as bid-rigging, cartels and/or any suspicious misconduct that might provide an unfair impression.

<Criteria for procurement>
We carefully select our suppliers in accordance with clear and objective standards including their observance of social norms and social stance toward environmental preservation.

● Relationship with employees

<Respect of human rights>
We respect the individual human rights of officers and employees and never discriminate by reason of gender, ethnicity, origin, religion or value, and we do not infringe on their privacy.

<Respect of health and safety>
We give full consideration to the health and safety of all employees.

<Comfortable workplace environment>
We comply with the applicable laws relating to hazardous materials and aim to create a safe and comfortable workplace environment.

<Fair placement and employment>
We place human resources fairly and are committed to the practice of long-term employment.

<Appropriate personnel evaluation and treatment>
We pursue transparency in terms of personnel evaluation and treatment and properly conduct such activities.

<Use of dedicated consulting channels>
We immediately inform the dedicated consulting staff of any infringement against the Declaration of the Group Code of Conduct, whether such a violation is committed by ourselves or when we find an infringement by any other employee that cannot be directly pointed out face-to-face.

<Prohibition of sexual and power harassment>
We comply with the Equal Employment Opportunity Law to eliminate discrimination between men and women and prevent the occurrence of sexual and power harassment.

● Relationship with local communities

<Social contribution programs>
We intend to contribute to programs that support and/or develop local communities such as participation in volunteer activities as a good corporate citizen.

<Dialogue with citizens>
We maintain close communications with citizens and take part in revitalization projects in local communities.

<Relationship with administrative bodies>
We maintain fair and appropriate relations with public servants and administrative bodies and never conduct such illegal acts as committing bribery or providing business entertainment or gifts.

● Environmental preservation activities

<Continuing environmental activities>
We adhere to strict environmental considerations through our normal business operations as a good corporate citizen.

<Environmental issues in association with our business>
We actively promote environment-friendly businesses.

<Environmental management>
We comply with environment-related laws and ISO standards and address natural preservation through our environmental management system.

<Procurement by green purchasing>
We endeavor to conduct procurements through green purchasing in promoting our business operations.

● Relationship with shareholders and investors

<Precise information disclosure>
We communicate clearly with shareholders and investors by disclosing precise information in a timely manner.

<Stable distribution of profits>
We endeavor to improve operating performance and stably distribute profits with respect to shareholders.

<Active IR and PR activities>
We endeavor to enhance shareholder return by conducting active IR and PR activities.

● Relationship with corporate properties

<Protection of properties and assets>
We use corporate properties and assets in an efficient manner and protect them appropriately.

<Appropriate accounting procedures>
We comply with laws and internal regulations to follow proper and transparent accounting procedures.

<Management of confidential information>
We manage confidential information thoroughly so as to prevent leaks.

● Moderation in corporate behavior

<Compliance>
We observe public and corporate rules and use common sense when taking action. Our officers and managerial staff take the initiative in executing any action with good common sense.

<Prohibition of insider transactions>
We never perform any act in violation of insider transaction restrictions.

<Giving and receiving gifts>
We give or receive gifts within the scope of common sense and socially accepted norms.

<Compliance with the Political Funds Control Law>
We comply with the Political Funds Control Law and the Public Office Election Law and properly handle any relevant issues.

Corporate Governance

Basic policies on corporate governance

Under the philosophy of the Code of Conduct—"Be Ethical (Reliability and sincerity, creativity and flair, transparency and integrity)" and the Declaration of the Group Code of Conduct, Company management always considers such priorities as thorough compliance, emphasis on shareholders' interest, ensuring transparency in business management and swifter decision making. It also works to strengthen corporate governance on an ongoing basis in response to the changing business climate.

Reasonable and highly transparent management system

The Company has implemented an executive officer system to segregate the functions for decision-making on basic management policies and for the execution of duties on business affairs by the Board of Directors and to encourage speedier managerial judgments.

▶ Board of Directors

Regular meetings of the Board of Directors are held monthly and extraordinary meetings are held as required. At meetings of the Board of Directors, decisions are made and important matters are reported with regard to the execution of business affairs, and the duties of the respective directors are supervised by the Board at the same time. Two outside directors are selected and dispatched from ITOCHU Corporation to ensure an objective and neutral approach to the execution of the operational duties performed by the directors.

▶ Board of Corporate Auditors

The Company has implemented a corporate auditor system. To strengthen the management surveillance function and the audit function, three of the four corporate auditors are appointed from outside the Company, one of which is a part-time auditor (outside auditor) who is a lawyer.

▶ Management Advisory Conference

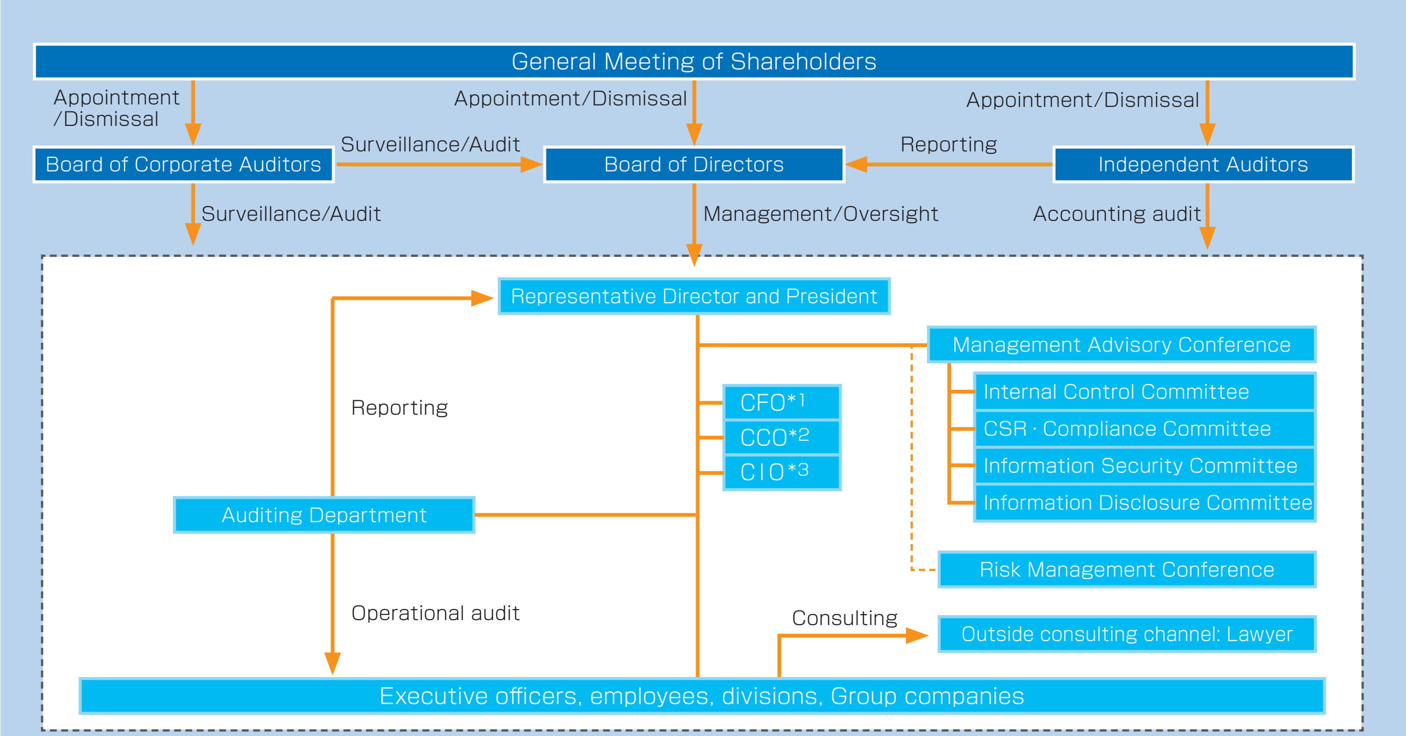
The Management Advisory Conference was established as an advisory body for the President. Its constituent members are standing directors, general managers of the respective divisions and the General Manager of the Corporate Planning Department. The Management Advisory Conference makes discussions on general management policies and important managerial matters on which the President will make the final business judgment.

Streamlined internal control–related systems

Pursuant to the Basic Principles on Internal Control Systems, which were revised at the Board of Directors' meeting held on May 19, 2008, the Company streamlined its accounting rules, regulations on consolidated financial statements and other relevant internal regulations. Furthermore, the Company complies with the applicable accounting standards and laws and has established internal systems to ensure the legality and propriety of its financial reporting.

The Internal Control Office, which was established in fiscal 2007 as a dedicated organization, periodically evaluates and improves the operating status of the internal systems to ensure the propriety of financial reporting and so forth.

Corporate Governance System



Notes: *1. CFO: Chief Financial Officer *2. CCO: Chief Compliance Office *3. CIO: Chief Information Officer

Business administration reinforced

To adapt to the Itochu Enex Group's Core & Synergy 2010 medium-term business plan, which was released in May 2008, the Company has reinforced its business administration system to ensure efficiency and effectiveness while executing business affairs. Through such efforts, the Company intends to raise transparency in its corporate governance system, maintain and further improve the trust of stakeholders and raise the efficiency and effectiveness of organizational operations.

▶ Risk Management Conference

The Risk Management Conference, which is chaired by President Kodera, consists of executive officers and other attendees who are designated by the chairperson, and its meetings are convened by the chairperson as required. The conference's purpose is to promote appropriate risk management policies by carefully identifying the strategic risks for the overall Group and thoroughly evaluating them.

- **Risk map**

  The risk map shows significant managerial risks to which the Company might be exposed. Using this map, the Company reduces and controls risk factors by studying and planning precise countermeasures.

  The risk map and control countermeasures are reviewed every year in response to changes in the business environment. Consistent improvement and reinforcement of the risk map is ensured by applying the plan-do-check-action (PDCA) management cycle.

▶ Group Management Conference

The Group Management Conference is convened, as required, by the chairperson four times per year, in principle. The main purpose of the Group Management Conference is to clarify the corporate approach to the consolidated management of the Group, promote Groupwide strategies and follow up on the status of the targets set out in the business plan. Chaired by President Kodera, the conference consists of executive officers, presidents of Group companies and other attendees who are designated by the chairperson.

▶ Committee System

Several committees have been established as advisory bodies to handle specific managerial issues in which the Management Advisory Conference is involved to help it conduct rational decision-making.

The reports submitted by the respective committees shall reflect realistic assessments on the efficiency and propriety of activities and all aspects of legality and propriety to assist in the Management Council's decision-making. The committee chairpersons shall be appointed by the President from among the chief officers and general managers of the respective divisions, in principle.

- **Internal Control Committee**

  The Internal Control Committee deliberates on important issues relating to internal controls and reports its views to the Management Council.

- **CSR・Compliance Committee**

  The CSR・Compliance Committee deliberates on general CSR issues and reports its views to the Management Advisory Conference.

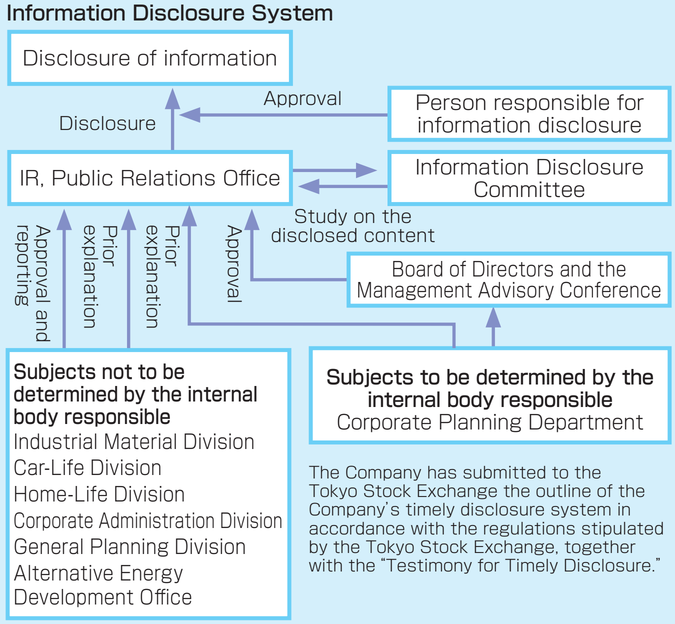
- **Information Security Committee**

  In an advanced information society, any information-related problems such as leakage of information from inside the corporation might harm corporate reliability, which could cause a significant impact on the continuity of business operations. The Information Security Committee deliberates issues relating to general information security, including the Company's own important corporate information and confidential information regarding business partners and individual customers, and reports its views to the Management Advisory Conference to reinforce our information security-related capabilities on an ongoing basis.

- **Information Disclosure Committee**

  The Company has established the Information Disclosure Committee to ensure the appropriate disclosure of information and strengthen the internal disclosure system. The Information Disclosure Committee is positioned as an advisory body on information disclosure to the Board of Directors and the Management Advisory Conference. It examines the propriety and timing of disclosure, the content requiring judgment for disclosure and the content of the annual securities report and endeavors to appropriately disclose the Company's corporate information as quickly as possible.

Information Disclosure System



Keyman's Commitment

Strengthening corporate governance via enhanced management transparency and thorough risk management

In line with the new medium-term business plan of the Itochu Enex Group, we have restructured our business administration system from the standpoint of enhancing corporate governance. The Risk Management Conference was established to enhance the risk management function to cope with our primary risks while enhancing communication between management and the operating fields. In addition, the Risk Management Conference accepts input from the functioning committees to achieve sounder management. All of these initiatives are based on our Code of Conduct entitled "Be Ethical." Itochu Enex will consistently follow the business approach of practicing ethical operations by raising the overall consciousness of the Group while swiftly responding to changes in the business climate.

Michio Nanba,
Managing Director, General Manager for the General Planning Division & Chief Information Officer

Financial Section

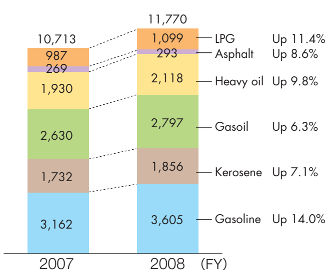
Analysis of consolidated business results for the fiscal year

Net sales

Consolidated net sales for the fiscal year under review totaled ¥1,093,752 million, up ¥207,268 million from the previous fiscal year.

This increase may be primarily attributed to a surge in sales volumes and an increase in selling prices triggered by the rapid appreciation in the price of crude oil. In the petroleum distribution industry, a drop in domestic demand continued, reflecting the rising prices of petroleum products and the change in consumption preference, as well as the faster-than-expected spread of fuel conversion among consumers. The LPG distribution industry, meanwhile, faced harsh business conditions, including the issue of shifting purchases prices into selling prices in the face of record-high LPG import prices. Given such a difficult business environment, the continuing "Quantitative expansion attended by qualitative improvements" strategy due to the inclusion of Itochu Energy Marketing Co., Ltd., as a Group member and the new affiliation of several gas stations led to an increase in sales volumes of the fuel oil sold by the Group—up 14.0% for gasoline, up 6.3% for gasoil, up 9.8% for heavy oil and up 7.1% for kerosene. The sales volume of LPG increased 11.4% year over year, reflecting the establishment of Ecore Co., Ltd., as the largest LPG supplier in the Kyushu region. Sales of other major products increased considerably.

Sales Volume (thousand KL, thousand tons)



The inclusion of Itochu Energy Marketing Co., Ltd., as a Group member and the new affiliation of several gas stations led to an increase in sales volumes of the fuel oil sold by the Group. The sales volume of LPG increased more than 10% year over year, reflecting the startup of ECORE Co., Ltd., as the largest LPG supplier in the Kyushu region.

Operating income

Consolidated operating income totaled ¥7,700 million, down ¥235 million from the previous fiscal year. The primary reason for the decline was the delayed shift of the increase in purchase prices of petroleum products into selling prices.

Net income

Consolidated net income totaled ¥4,187 million, down ¥800 million from the previous fiscal year. Among the reasons behind the decline was ¥441 million for factors related to ordinary income, a ¥242 million reduction in the income tax adjustment and a ¥199 million increase in minority interests.

Analysis of consolidated financial conditions during the fiscal year

Current assets

Current assets stood at ¥158,721 million as of the end of the fiscal year under review, an increase of ¥20,747 million compared with the end of the previous fiscal year. Most of the gain was accounted for by an increase of ¥17,460 million in trade notes and trade accounts mainly due to M&As and the hike of prices and the increase of sales volumes of petroleum products during the year.

Property, plant and equipment

Property, plant and equipment stood at ¥62,415 million as of the end of the fiscal year under review, an increase of ¥607 million compared with the end of the previous fiscal year, the result of active M&As.

Investments and other assets

Investments and other assets for the fiscal year under review decreased ¥2,077 million to ¥33,991 million compared with the end of the previous fiscal year, due to a decline in the value of investment securities held by the Company resulting from the drop in stock prices.

Current liabilities

Current liabilities stood at ¥135,415 million as of the end of the fiscal year under review, an increase of ¥13,665 million compared with the end of the previous fiscal year. Major factors contributing to this increase were a ¥21,042 million increase in trade notes and trade accounts, due to the same reason as the increases in trade notes and trade accounts, and decreases of ¥2,914 million in short-term borrowings and ¥5,944 million in current portion of long-term debt.

Long-term liabilities

Long-term liabilities stood at ¥36,004 million as of the end of the fiscal year under review, an increase of ¥4,253 million compared with the end of the previous fiscal year. This was primarily due to

Keyman's Commitment

We Support Our Growth Strategies through Efficient Management to Improve Corporate Value.

The operating environment of the domestic energy industry continues to be severe with unpredictability in crude oil prices, LPG import price trends and their end markets. In such uncertain circumstances, the Itochu Enex Group will strive to meet the expectations of shareholders and other stakeholders and further improve corporate value. Specifically, we must achieve the growth strategies of our new medium-term business plan, Core & Synergy 2010, which is based on the results of the Creation 2008 medium-term vision. Also, in fiscal 2008 we have begun to aggressively improve asset efficiency and capital efficiency with the management indices of ROE (Return on equity) and EPS (Earnings per share).

Shuji Arimitsu,
Representative Director and Senior Managing Director, General Manager for the Corporate Administration Division and Chief Financial Officer

a ¥3,587 million increase in long-term debt to fund an increase in plant and equipment spending and to pay for the purchase of goodwill, as well as a ¥514 million increase in liability for retirement benefits.

Equity

Equity stood at ¥83,708 million as of the end of the fiscal year under review, an increase of ¥1,359 million compared with the end of the previous fiscal year. Retained earnings climbed ¥2,689 million and minority interests increased ¥1,166 million, whereas the unrealized gain on available-for-sale securities decreased ¥2,529 million. The increase in retained earnings was chiefly due to the posting of net income for the year of ¥4,187 million and was partly offset by a decline of ¥1,468 million due to the payment of cash dividends. The increase in minority interests was primarily attributable to an increase in minority interests in Ecore Co., Ltd. The decrease in the unrealized gain on available-for-sale securities was mainly due to the decline in the value of investment securities held by the Company resulting from the decline in stock prices.

Overview of cash flow

Cash and cash equivalents (hereafter "funds") stood at ¥33,909 million as of the end of the fiscal year under review, an increase of ¥612 million compared with the end of the previous fiscal year. Operating activities resulted in a ¥14,189 million increase in funds, up ¥59 million year on year. This was due to the factors that led to an increase in funds, such as income before income taxes and depreciation expenses, ultimately outweighing the factors leading to a decrease, such as income taxes. Investing activities resulted in a ¥5,022 million increase in funds, expanding the increase by ¥2,881 million year on year. This was due to the factors leading to a jump in funds, such as investment in strengthening business facilities and acquiring goodwill. An increase in the decline in funds from investing activities was recorded because proceeds from sales of investment securities were accounted for in the previous fiscal year. Financing activities resulted in a ¥8,804 million decline in funds, expanding the decline by ¥3,279 million year over year. This was mainly due to the repayment of interest-bearing debt and the payment of cash dividends.

Medium- and long-term management strategy

Four years have passed since the Creation 2008 medium-term vision was formulated for the period from April 2004 to March 2009. Itochu Enex has formulated "Core & Synergy 2010—To the next stage via the implementation of reforms," the new medium-term business plan of the Itochu Enex Group. Its formulation took into account significant changes in the business climate, the anticipated expansion of business scale and the scheduled commencement during fiscal 2008 of the "Start of the Investigation into Restructuring and Merging LPG Gas Operations" on which the Company has reached a basic agreement with JAPAN ENERGY CORPORATION, ITOCHU Corporation, NISSHO PETROLEUM GAS CORPORATION and OSAKA GAS CO., LTD., as well as of the "Master Agreement on the Succession of the Petroleum Product-Related Businesses of ITOCHU Corporation and ITOCHU Petroleum Japan Ltd. by Itochu Enex Co., Ltd.," both of which were publicly announced late in the fiscal year under review as new pillars of profit. We will subsequently carry out the medium-term business plan as a new Groupwide action plan.

Released in March 2004: Creation 2008 medium-term vision

Released in May 2008: Medium-Term Business Plan of the ITOCHU ENEX Group

Core & Synergy 2010

To the next stage via the implementation of reforms

* For details of the Core & Synergy 2010 medium-term business plan of the Itochu Enex Group, see page 4.

Dividend policy

As a matter of basic policy on profit sharing, Itochu Enex is committed to continuously providing steady dividends to shareholders, with a consolidated payout ratio of 30% or more as a benchmark. To this end, we endeavor to reduce total assets and employ well-balanced funds within the Group from medium- and long-term perspectives.

The Company abides by a basic policy of distributing dividends from surplus twice per year with an interim dividend and a year-end dividend. The decision-making entities regarding dividends from surplus are the General Meeting of Shareholders for the year-end dividend and the Board of Directors for the interim dividend. In line with the above policy, we maintained the practice of paying a year-end dividend of ¥8 per share for the fiscal year under review. For the next fiscal year, ending March 31, 2009, we also plan to pay a dividend of ¥16 per share (including an ¥8 per share interim dividend). As for internal reserves, these are channeled into plant and equipment investment in order to strengthen our business platform and further increase the size of our profits. Itochu Enex has determined in its Articles of Incorporation that "The Company may, by a resolution of the Board of Directors, pay interim dividends with September 30 of every year as the record date to determine qualified beneficiaries."

Outlook for the coming fiscal year

The domestic energy industry is currently experiencing several volatile factors in terms of crude oil prices, LPG import price trends and their end market conditions. The Company, therefore, continues to expand and extend its businesses around the nucleus of its domestic network, which is positioned as the core management platform. The Company publicly announced in March 2008 the succession of the petroleum product-related businesses and the petroleum product trade business (i.e., the business for Japan-originated exports/imports) of ITOCHU Corporation, as well as the succession of the petroleum product logistics business of ITOCHU Petroleum Japan Ltd., a wholly-owned subsidiary of ITOCHU Corporation, which covers the chartering of ships for Japan-originated imports/exports, the supply of marine fuels, the tank leasing business and sales of lubricants. We initiated these developments in October 2008 as the nucleus of our future-oriented new growth strategies toward the fulfillment of our overall growth strategies, with the aim of pursuing synergies such as the expansion of the distribution function for petroleum products, the advantage of scale and the improvement of operating efficiency.

In the Industrial Material Division, crude oil prices, which are set at record-high levels, are anticipated to remain at high levels in the short term, thereby causing demand for fuel oil in Japan to continuously decline. Given the current circumstances where the further reorganization of wholesale distributors is continuing and exports of petroleum products are rapidly expanding, however, the supply–demand relationship for domestic petroleum products is forecast to become increasingly tighter, which would make it easier to accelerate the shift of higher purchase prices of petroleum products into selling prices. As in the fiscal year under review, we will concentrate on boosting sales of gasoil, heavy oil C and asphalt as priority products and strengthen the initiative to increase the use of the SS Fuel Card business for the business-use vehicles of corporations.

In the Car-Life Division, a reduction in sales volume has become conspicuous in the end-retail market due to a loss of consumer confidence, which is affected by the shift of drivers' preference to low-fuel-consumption vehicles, a reduction in the driver population and soaring crude oil prices. As a consequence, the business environment surrounding our CSs is expected to deteriorate. Under such difficult business conditions, we will undertake CS management which emphasizes the customer's viewpoint at affiliated service stations to support the creation of CSs that can better satisfy customers. In addition, we will aggressively implement M&As and increase the number of affiliated CSs in order to further boost sales volume. Moreover, we will enhance the competitiveness of the Itochu Enex Group within the industry by promoting automobile-related services. Meanwhile, as part of the "Quantitative expansion attended by qualitative improvements" strategy, the Company assumed and started operation of the petroleum sales business of Konan and its subsidiary Konan Fleet in September 2008. Thus, we intend to expand the earnings platform of the Groupwide network by reinforcing sales of gasoil for trucking firms and freight vehicles.

In the Home-Life Division, the market conditions surrounding the LPG industry are expected to remain severe. Nonetheless, we will strive to reduce costs by improving the efficiency of operations via selection and concentration and promoting IT-based improvement of operating efficiency. In addition, we will initiate an investigation into the restructure and merging of the LPG operations of the five concerned parties—JAPAN ENERGY CORPORATION, ITOCHU Corporation, NISSHO PETROLEUM GAS CORPORATION, OSAKA GAS CO., LTD., and the Company—which was announced in February 2008 to establish an integrated, competitive-edge LPG business group that can ensure the improved security and safety of customers and higher quality services, as well as the steady and efficient provision of LPG, while rationalizing the overall LPG business—from overseas procurement to retailing. Thus, we will strive to establish a solid financial structure by establishing a new business group and structuring the integrated production and distribution system covering the upstream and downstream fields. Moreover, through our *Kurashi-no-Mori* service, which caters to households that use LPG, we endeavor to offer a variety of services and raise customer satisfaction, around the home renovation service (the *Kurashi-no-Mori* Asclass Reform) and the credit card service (the *Kurashi-no-Mori* Asclass Card) in partnership with Asclass LSA Inc.

Forecasted consolidated results for the year ending March 31, 2009

(Percentages indicate the year-over-year change compared with the previous fiscal year for "Annual" and the year-over-year change compared with the interim period of the previous fiscal year for the "Six-month period.")

	Net sales (Millions of yen)		Operating income (Millions of yen)		Ordinary income (Millions of yen)		Net income (Millions of yen)		Net income per share (Yen)
Six-month period	528,000	9.6%	2,200	–11.4%	2,200	–25.0%	1,700	43.5%	18.53
Annual	1,520,000	39.0%	10,200	32.5%	10,200	22.8%	6,000	43.3%	51.33

* For details of the Core & Synergy 2010 medium-term business plan of the Itochu Enex Group, see page 4.

Business Risks

The Company understands that the major business risks of the Itochu Enex Group could have significant effects on the operating results, financial conditions and/or the stock prices of the Company. The Company takes specific measures to avert their occurrence as well as preventive measures. The forward-looking statements below are reviewed every fiscal year on a continued basis.

(1) Security risk related to accidents and disasters

Many of the products and merchandise handled by Group companies are hazardous substances such as gasoline, kerosene, gasoil, heavy oil and LPG. Although the Group pays careful attention to handling systems and education regarding security and the prevention of dangerous incidents for all merchandise, should an unpredictable accident or natural disaster happen, the Group's operating performance and business activities might be affected.

(2) Risk related to environmental pollution such as soil contamination

Soil contamination due to the outflow of fuel oil and other environmental pollution issues at sales facilities (e.g., CSs) and with tanks have attracted increasing attention in recent years. Although the Group undertakes careful soil contamination countermeasures in compliance with stringent internal rules, should any accident that has an adverse impact on the surrounding environment happen for any reason, considerable costs could be incurred accordingly and the Group's operating performance might be affected.

(3) Risk related to information management such as the leakage of personal information

The Group streamlines internal regulations and pays maximum attention to the management of personal information of stakeholders including customers. Nevertheless, should a leakage of personal information happen for any reason, the Group would lose the trust of society and its corporate image would be damaged. Consequently, the Group's operating performance might be affected.

(4) Risk related to information system failure

The Group uses several computer systems in the course of its normal business operations. Should a system failure occur on any information system (e.g., for order reception or ordering) due to a natural disaster, human error or quality-related issue, the Group's operating performance might be affected.

(5) Risk related to crude oil prices and market conditions regarding petroleum products

The prices of petroleum products handled by the Group are directly influenced by the fluctuations of crude oil prices and/or exchange rates. Regarding the fluctuations of the selling prices of its products, the Group's operating performance might be affected in association with several factors such as its relationship with competitors, market quotation prices and the time lag required for the shift of purchase prices into selling prices.

(6) Risk related to fluctuations in interest rates

The Group endeavors to reduce the value of its interest-bearing debt. Nevertheless, should the borrowing rate rise in the future as a result of interest rate fluctuations, the financing cost would increase and the Group's operating performance might be affected.

(7) Risk due to fluctuations in the prices of securities held

Regarding investment securities held by the Group, an evaluation loss on securities held would be incurred if stock prices drop in view of economic conditions and/or the fluctuation risk inherent in the stock market. Should any such significant evaluation loss on securities occur, the Group's operating performance might be affected.

(8) Risk related to industrial trends or competition

The Group had 2,179 affiliated CSs as of March 31, 2008, for sales of mainstay fuel oil. Several are exposed to fierce sales competition depending on region and have been forced to restructure their business or close station facilities. Although the Company endeavors to diversify the source of the CSs' revenues through management guidance services such as sales of used cars and vehicle inspections, the Group's operating performance might be affected by the entry of competitors and more intense sales competition than anticipated.

The LPG sales business currently faces not only industrial competition with competitors of the same trade but also extended competition from other energy sources such as city gas and electricity. Accordingly, the Group's operating performance might be affected by the business trends in these different industries—for example, due to the adverse impact on the sales volume and the selling price of LPG.

(9) Risk related to weather variations

The consumption volumes of kerosene, heavy oil and LPG, which are mainly consumed as heating energy sources in winter, are closely related to weather fluctuations. As a result, the Group's operating performance might be affected by abnormal weather conditions.

(10) Risk related to large-scale customers

The Group undertakes transactions with several large-scale customers. Should the transaction relationship with any one of them deteriorate for any reason, including a decline in net sales or a risk to credibility, the Group's operating performance might be affected.

(11) Risk related to bad debts

Should a considerable sum of bad debt be incurred at any of our business partners due to the difficult business climate, adverse business trends and/or unfavorable domestic or overseas economic conditions, the Group's operating performance might be affected.

(12) Risk related to subsidiaries and affiliates

Most of the subsidiaries and affiliates of the Group engage in oil sales, LPG sales and other consumer-oriented businesses. Should any of them be exposed to adverse consumer trends or economic conditions, the Group's operating performance might be affected.

(13) Risk related to a possible decline in bond credit rating

The Company has obtained a credit rating given by an external rating institution. Should its rating decline due to deteriorating financial conditions, the Company's direct fund procurement method for debts, etc., might be affected.

(14) Risk related to performance projections and dividend predictions

Regarding performance projections and dividend predictions publicly announced in accordance with stock exchange regulations, the Company may revise its projections according to the relevant stock exchange regulations in the event that the domestic and/or overseas economic environment changes considerably.

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	¥33,909	¥33,297	$338,447
Receivables:			
Trade notes and trade accounts	106,258	88,798	1,060,565
Unconsolidated subsidiaries and associated companies	475	1,199	4,741
Short-term loans	1,105	1,689	11,029
Allowance for doubtful accounts	(679)	(807)	(6,777)
Inventories	9,686	7,762	96,676
Deferred tax assets *(Note 10)*	1,638	1,956	16,349
Prepaid expenses and other current assets	6,329	4,081	63,170
Total current assets	158,721	137,975	1,584,200
PROPERTY, PLANT AND EQUIPMENT *(Note 4)*:			
Land *(Note 6)*	32,796	32,729	327,338
Buildings and structures	44,129	43,868	440,453
Machinery and equipment	34,016	31,340	339,515
Construction in progress	206	733	2,056
Total	111,147	108,670	1,109,362
Accumulated depreciation	(48,732)	(46,862)	(486,396)
Net property, plant and equipment	62,415	61,808	622,966
INVESTMENTS AND OTHER ASSETS:			
Investment securities *(Notes 3 and 6)*	11,516	15,903	114,942
Investment in and advances to unconsolidated subsidiaries and associated companies	2,284	1,543	22,797
Long-term loans	2,207	2,506	22,028
Goodwill *(Note 5)*	4,251	4,672	42,429
Deferred tax assets *(Note 10)*	2,707	1,043	27,019
Other assets	12,282	11,653	122,587
Allowance for doubtful accounts	(1,256)	(1,252)	(12,536)
Total investments and other assets	33,991	36,068	339,266
TOTAL	¥255,127	¥235,851	$2,546,432

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term borrowings *(Note 6)*	¥12,308	¥15,222	$122,847
Current portion of long-term debt *(Note 6)*	4,876	10,819	48,668
Payables:			
Trade notes and trade accounts	100,432	79,390	1,002,415
Unconsolidated subsidiaries and associated companies	944	1,115	9,422
Income taxes payable	2,402	1,673	23,974
Accrued expenses	2,829	2,885	28,236
Other current liabilities	11,624	10,647	116,020
Total current liabilities	135,415	121,751	1,351,582
LONG-TERM LIABILITIES:			
Long-term debt *(Note 6)*	20,062	16,475	200,240
Liability for retirement benefits *(Note 7)*	4,307	3,793	42,988
Deferred tax liabilities *(Note 10)*	250	966	2,495
Deferred tax liabilities on land revaluation difference *(Note 10)*	3,191	3,296	31,849
Other long-term liabilities	8,194	7,221	81,785
Total long-term liabilities	36,004	31,751	359,357
COMMITMENTS AND CONTINGENT LIABILITIES *(Notes 13 and 17)*			
EQUITY *(Notes 8 and 19)*:			
Common stock, authorized, 387,250,000 shares; issued, 96,356,583 shares in 2008 and 2007	19,878	19,878	198,403
Capital surplus	17,783	17,782	177,493
Retained earnings	55,830	53,142	557,241
Unrealized gain (loss) on available-for-sale securities	(284)	2,245	(2,835)
Land revaluation difference *(Note 12)*	(8,836)	(8,869)	(88,192)
Treasury stock, at cost: 4,626,013 shares in 2008; 4,628,491 shares in 2007	(2,585)	(2,585)	(25,801)
Total	81,786	81,593	816,309
Minority interests	1,922	756	19,184
Total equity	83,708	82,349	835,493
TOTAL	¥255,127	¥235,851	$2,546,432

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income

Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollar (Note 1)
	2008	2007	2008
NET SALES	¥1,093,752	¥886,484	$10,916,778
COST OF SALES	1,027,742	823,669	10,257,930
Gross profit	66,010	62,815	658,848
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES *(Note 11)*	58,310	54,880	581,994
Operating income	7,700	7,935	76,854
OTHER INCOME (EXPENSES):			
Interest and dividend income	527	355	5,260
Interest expense	(591)	(497)	(5,899)
Gain (loss) on sales of investment securities – net	241	(129)	2,405
Loss on sales of investment in unconsolidated subsidiaries and associated companies		(624)	
Loss on devaluation of investment securities	(472)		(4,711)
Purchase discounts	527	454	5,260
Sales discounts	(401)	(270)	(4,002)
Equity in earnings of unconsolidated subsidiaries and associated companies	92	289	918
Gain on sales of property, plant and equipment	563	132	5,619
Loss on sales and disposal of property, plant and equipment	(767)	(568)	(7,655)
Loss on impairment of long-lived assets *(Note 4)*	(137)	(61)	(1,367)
Other – net	482	552	4,811
Other income (expenses) – net	64	(367)	639
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	7,764	7,568	77,493
INCOME TAXES *(Note 10)*:			
Current	3,616	3,061	36,091
Deferred	(314)	(556)	(3,134)
Total income taxes	3,302	2,505	32,957
MINORITY INTERESTS IN NET INCOME	275	76	2,745
NET INCOME	¥4,187	¥4,987	$41,791
PER SHARE OF COMMON STOCK *(Notes 2.q and 18)*:			
Basic net income	¥45.65	¥55.04	$0.46
Diluted net income	45.65	55.03	0.46
Cash dividends applicable to the year	16.00	16.00	0.16

See notes to consolidated financial statements.

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity

Years Ended March 31, 2008 and 2007

	Thousands	*Millions of Yen*								
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (loss) on Available-for-sale Securities	Land Revaluation Difference	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, March 31, 2006	90,348	¥19,878	¥17,560	¥50,757	¥2,182	¥(8,880)	¥(3,251)	¥78,246		¥78,246
Reclassified balance as of April 1, 2006 *(Note 2.j)*									¥763	763
Net income				4,987				4,987		4,987
Cash dividends, ¥16.0 per share				(1,453)				(1,453)		(1,453)
Bonuses to directors and corporate auditors				(162)				(162)		(162)
Purchase of treasury stock	(3)						(3)	(3)		(3)
Disposal of treasury stock	1,383		222				542	764		764
Land revaluation difference				(11)		11				
Decrease resulting from exclusion of subsidiary accounted for by the equity method				(976)			127	(849)		(849)
Net change in the year					63			63	(7)	56
BALANCE, MARCH 31, 2007	91,728	19,878	17,782	53,142	2,245	(8,869)	(2,585)	81,593	756	82,349
Net income				4,187				4,187		4,187
Cash dividends, ¥16.0 per share				(1,468)				(1,468)		(1,468)
Bonuses to directors and corporate auditors										
Purchase of treasury stock	(5)						(5)	(5)		(5)
Disposal of treasury stock	8		1				5	6		6
Land revaluation difference				(33)		33				
Net increase resulting from change in subsidiary accounted for by the equity method				2				2		2
Net change in the year					(2,529)			(2,529)	1,166	(1,363)
BALANCE, MARCH 31, 2008	91,731	¥19,878	¥17,783	¥55,830	¥(284)	¥(8,836)	¥(2,585)	¥81,786	¥1,922	¥83,708

	Thousands of U.S. Dollars (Note 1)								
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (loss) on Available-for-sale Securities	Land Revaluation Difference	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2007	$198,403	$177,483	$530,402	$22,407	$(88,512)	$(25,801)	$814,382	$7,546	$821,928
Net income			41,791				41,791		41,791
Cash dividends, $0.16 per share			(14,652)				(14,652)		(14,652)
Bonuses to directors and corporate auditors									
Purchase of treasury stock						(50)	(50)		(50)
Disposal of treasury stock		10				50	60		60
Land revaluation difference			(320)		320				
Net increase resulting from change in subsidiary accounted for by the equity method			20				20		20
Net change in the year				(25,242)			(25,242)	11,638	(13,604)
BALANCE, MARCH 31, 2008	$198,403	$177,493	$557,241	$(2,835)	$(88,192)	$(25,801)	$816,309	$19,184	$835,493

See notes to consolidated financial statements.

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years Ended March 31, 2008 and 2007

	Millions of Yen		*Thousands of U.S. Dollar (Note 1)*
	2008	2007	2008
OPERATING ACTIVITIES			
Income before income taxes and minority interests	¥7,764	¥7,568	$77,493
Adjustments for:			
Income taxes – paid	(2,779)	(3,719)	(27,737)
Directors' bonuses paid		(167)	
Depreciation and amortization	6,796	6,271	67,831
Gain on sales of property, plant and equipment	(563)	(132)	(5,619)
Loss on sales and disposal of property, plant and equipment	767	568	7,655
(Gain) loss on sales of investment and marketable securities – net	(241)	753	(2,405)
Loss on devaluation of investment securities	472		4,711
Loss on impairment of long-lived assets	137	61	1,367
Allowance for doubtful accounts	(185)	(40)	(1,846)
Provision for retirement benefits	514	509	5,130
Equity in earnings of unconsolidated subsidiaries and associated companies	(92)	(289)	(918)
Other - net	(81)	74	(799)
Changes in certain assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(10,716)	428	(106,957)
(Increase) decrease in inventories	(1,898)	6	(18,944)
Increase in prepaid expenses and other current assets	(2,274)	(388)	(22,697)
Increase in trade notes and accounts payable	14,386	1,021	143,587
Increase in other current liabilities	2,182	1,607	21,779
Total adjustments	6,425	6,563	64,138
Net cash provided by operating activities	14,189	14,131	141,631

INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(5,491)	(6,803)	(54,806)
Proceeds from sales of property, plant and equipment	1,676	265	16,728
Purchases of investment securities	(2,488)	(11,327)	(24,833)
Proceeds from sales of investment securities	2,318	11,743	23,136
Purchases of intangible assets	(1,706)	(2,135)	(17,028)
Proceeds from sales of intangible assets	121	140	1,208
Purchase (proceeds) of investments in subsidiaries resulting from change in scope of consolidation	628	(67)	6,268
Collection of (payments for) short-term loans – net	(586)	332	(5,849)
Proceeds from sales of stock investment in subsidiaries		5,468	
Collection of long-term loans – net	953	525	9,512
Other – net	(447)	(283)	(4,461)
Net cash used in investing activities	(5,022)	(2,142)	(50,125)
FINANCING ACTIVITIES			
Decrease in short-term bank loans – net	(3,730)	(6,861)	(37,229)
Proceeds from long-term debt	8,200	7,750	81,834
Repayments of long-term debt	(6,740)	(5,702)	(67,272)
Repayments of bond payable	(5,000)		(49,905)
Repurchase of treasury stock	(5)	(2)	(50)
Proceeds from sales of treasury stock	6	764	60
Dividends paid	(1,535)	(1,474)	(15,321)
Net cash used in financing activities	(8,804)	(5,525)	(87,883)
CASH AND CASH EQUIVALENTS INCREASED BY CHANGE IN CONSOLIDATION SCOPE		450	
CASH AND CASH EQUIVALENTS INCREASED BY MERGER	249	19	2,485
NET INCREASE IN CASH AND CASH EQUIVALENTS	612	6,933	6,108
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	33,297	26,364	332,339
CASH AND CASH EEQUIVALENTS, END OF YEAR	¥33,909	¥33,297	$338,447

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 consolidated financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ITOCHU ENEX CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100.19 to $1, the approximate rate of exchange at March 31, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. The consolidated financial statements as of March 31, 2008 include the accounts of the Company and its 21 significant (21 in 2007) subsidiaries (together, the "Group"). Significant consolidated subsidiaries are Itochu Industrial Gas Co., Ltd., Kokura Kosan Energy Co., Ltd., Itochu Petroleum Sales Co., Ltd., and Ecore Co., Ltd.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

During the year ended March 31, 2008, Itochu Energy Marketing Co., Ltd. became a consolidated subsidiary, as it was newly capitalized by the Company and Michinoku Petroleum Co., Ltd. was excluded from the scope of consolidation, as it was liquidated.

In April, 2007, Itochu Enex Home-Life Kyushu Co., Ltd. (consolidated subsidiary) merged with Idex Gas K.K. The Company owns 51% of the shares of the new company named Ecore Co., Ltd. and accounted for it by the purchase method of accounting.

The Company does not consolidate 22 (25 in 2007) subsidiaries due to their immateriality in terms of consolidated total assets, net sales, net income and retained earnings.

Investments in 22 (25 in 2007) unconsolidated subsidiaries and 21 (24 in 2007) associated companies are accounted for by the equity method, including one significant associated company, Konan Fleet Co., Ltd. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized principally over a period of 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents
Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Inventories
Substantially all merchandise inventories are stated at the lower of cost, determined by the moving-average method, or market.
Consumer-related goods are stated at cost, determined by the first-in, first-out method.

d. Marketable and Investment Securities
Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:
i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and ii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

e. Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to the buildings. Property, plant and equipment acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007.
The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥113 million ($1,128 thousand).

Property, plant and equipment had been depreciated up to 95% of acquisition cost with 5% of residual value carried forward to the next fiscal year. However, in accordance with the revised corporate tax law, such 5% portion of property, plant and equipment is to be systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost.
The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥136 million ($1,357 thousand).

The range of useful lives is principally from 2 to 50 years for buildings and structures and from 2 to 22 years for machinery and equipment.

Intangible assets are amortized by the straight-line method over their estimated useful lives. Computer software for internal use is capitalized as an asset and is amortized by the straight-line method over the useful life of five years.

f. Long-lived assets
The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

g. Goodwill
Goodwill is carried at cost less accumulated amortization, which is calculated by the straight-line method.

h. Allowance for Doubtful Accounts
The allowance for doubtful account is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

i. Bonuses to Directors and Corporate Auditors
Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable. Effective from the year ended March 31, 2007, the Company applied Accounting Standard of Directors' Bonuses (Accounting Standards Board of Japan "ASBJ", Statement No. 4, November 29, 2005). As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2007 have each declined by ¥181 million.

j. Presentation of Equity
On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets, as the case may be, are now presented as components of equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statements of changes in equity.

k. Accrued Retirement Benefits
The Group has an obligation to pay retirement benefits to its employees, and therefore the Group provides accrued retirement benefits based on the estimated amount of projected benefits obligation and the fair value of plan assets. Unrecognized prior service cost is amortized by the straight-line method over a 9-year period, which is shorter than the average remaining years of service of the eligible employees. Unrecognized actuarial gain or loss is primarily amortized immediately from the following year on a straight-line method over a 9-year period, which is shorter than the average remaining years of service of the eligible employees.

l. Retirement Allowances for Directors and Corporate Auditors
The Group recorded accrued retirement benefits for directors and corporate auditors based on the amount calculated in accordance with the internal policies. However, effective June 22, 2007, the Group terminated its unfunded retirement allowance plan for all directors and corporate auditors. The outstanding balance of retirement allowances for directors and corporate auditors as of March 31, 2007 was reclassified to the long-term liabilities in the year ended March 31, 2008.

m. Leases
Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transaction if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements. All other leases are accounted for as operating leases.

n. Income Taxes
The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. Foreign Currency Transactions
All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. The foreign exchange gains and losses from translations are recognized in the consolidated income statements to the extent that they are not hedged by forward exchange contracts.

p. Derivatives and Hedging Activities
The Company uses derivative financial instruments to manage its exposures to fluctuations in market prices for purchasing and interest rate on certain liabilities. The Company does not enter into derivatives for trading or speculative purposes.
Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated income statements and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.
The Company evaluates hedge effectiveness for commodity swaps by comparing total cash flow of hedging instruments and items hedged.
The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

q. Per Share Information
Basic net income per share is computed by dividing net income available or common shareholders by the

weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.
Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

r. New Accounting Pronouncements

Measurement of Inventories - Under generally accepted accounting principles in Japan (“Japanese GAAP”), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, “Accounting Standard for Measurement of Inventories,” which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting - On March 30, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions,” which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

Lessor

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessor’s financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee shall be recognized as investments in lease.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Non-current:			
Marketable equity securities	¥ 8,792	¥ 14,169	$ 87,754
Debt securities	2,472	1,473	24,673
Other	252	261	2,515
Total	¥ 11,516	¥ 15,903	$ 114,942

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2008 and 2007 were as follows:

	Millions of Yen			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 8,626	¥ 1,174	¥ 1,551	¥ 8,249
Debt securities	2,374	3	105	2,272
March 31, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 8,726	¥ 3,876	¥ 78	¥ 12,524
Debt securities	1,477		4	1,473

	Thousands of U.S. Dollars			
March 31, 2008	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 86,096	$ 11,718	$ 15,480	$ 82,334
Debt securities	23,695	30	1,048	22,677

Held-to-maturity securities and available-for-sale securities whose fair value is not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Held-to-maturity:			
Unlisted corporate bonds	¥200		$1,996
Available-for-sale:			
Unlisted equity securities	543	¥1,645	5,420
Other	252	261	2,515
Total	¥995	¥1,906	$9,931

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at March 31, 2008 are as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
	Held-to-Maturity	
Due in one year or less		
Due in one to five years	¥ 200	$ 1,996
Due in five to ten years		
Due after ten years		
Total	¥ 200	$ 1,996

4. LONG-LIVED ASSETS

The Group identifies groups of assets based on the managerial accounting categories except for idle assets, land, buildings and structures which are individually reviewed.
For the years ended March 31, 2008 and 2007, the book values of the above assets were written down to their respective recoverable amounts by ¥137 million ($1,367 thousand) and ¥ 61 million, respectively. These decreases in value are included in other expenses as impairment loss. The respective recoverable amounts are measured using the net sales price principally based on the official notice prices assessed and published by the Commissioner of the National Tax Administration

5. GOODWILL

Goodwill at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Goodwill			
Goodwill on purchase of a specific business, etc.	¥4,018	¥4,397	$40,104
Consolidation goodwill	233	275	2,325
Total	¥4,251	¥4,672	$42,429

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2008 and 2007 consisted of bank overdrafts.

The weighted-average interest rates applicable to short-term borrowings as of March 31, 2008 and 2007 are 1.251% and 1.011%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Long-term bank loans due through 2013 at average interest rates of 1.220% in 2008and 1.087% in 2007	¥24,938	¥22,294	$248,908
Unsecured 0.87% corporate bonds due through February 2008		5,000	
Total	24,938	27,294	248,908
Less current portion	(4,876)	(10,819)	(48,668)
Long-term debt, less current portion	¥20,062	¥16,475	$200,240

The annual maturities of long-term debt were summarized as follows:

Years ending March 31	*Millions of Yen*	*Thousands of U.S. Dollars*
2009	¥ 4,876	$ 48,668
2010	4,807	47,979
2011	7,729	77,144
2012	7,419	74,049
2013	107	1,068
Total	¥24,938	$248,908

The carrying amounts of assets pledged as collateral for trade accounts payable of ¥107 million ($1,068 thousand) and short-term borrowings of ¥500 million ($4,991 thousand) at March 31, 2008 were as follows:

	Millions of Yen	*Thousands of U.S. Dollars*
Land	¥ 74	$ 739
Investment securities	8	80
Total	¥ 82	$ 819

In addition, investment securities of ¥409 million ($4,082 thousand) is deposited as guarantee for commodity futures trading at March 31, 2008.

The Company entered into commitment lines contract with banks. Outstanding bank commitment lines contracted, but not provided for as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Credit facilities	¥3,000	¥3,000	$29,943
Used			
Unused	¥3,000	¥3,000	$29,943

7. RETIREMENT AND PENSION PLANS

Under most circumstances, employees terminating their employment are entitled to certain severance payments based on their rates of pay at the time of termination, length of service and certain other factors. If the termination is involuntary, caused by retirement at the normal retirement age, or caused by death, the employee is entitled to greater payments than in the case of voluntary termination.

The Group has a lump-sum retirement plan, defined contribution pension plans and tax qualified pension plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2008 and 2007 for the Group defined benefit plans:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Retirement benefit obligation	¥ (7,682)	¥ (7,977)	$(76,674)
Plan assets at fair value	1,950	2,378	19,463
Unrecognized actuarial loss	466	602	4,651
Unrecognized prior service cost	959	1,204	9,572
Net liability	¥ (4,307)	¥ (3,793)	$(42,988)

Certain consolidated subsidiaries apply simplified methods in calculating their retirement and severance benefit obligation.

The components of net periodic benefit costs are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Service cost	¥533	¥521	$5,320
Interest cost	64	63	639
Amortization of actuarial loss	173	172	1,727
Amortization of prior service cost	245	245	2,445
Net periodic benefit costs	¥1,015	¥1,001	$10,131

In addition, the Group recorded expenses related to defined contribution pension plans of ¥418 million ($4,172 thousand) for the year ended March 31, 2008 and ¥274 million for the year ended March 31, 2007 in retirement benefit obligation. The Group paid additional retirement benefits of ¥231 million ($2,306 thousand) for the year ended March 31, 2008 and ¥87 million for the year ended March 31, 2007. These are recorded in selling, general and administrative expenses.
Retirement benefit expenses of certain consolidated subsidiaries which apply simplified methods are recorded in "Service cost".

Assumptions for the years ended March 31, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate	1.6%	1.6%
Expected rate of return on plan assets	0.0%	0.0%
Amortization period of prior service cost	9 years	9 years
Recognition period of actuarial loss	9 years	9 years

8. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends
Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.
The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.
Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥ 3 million.

(b) Increase / decreases and transfer of common stock, reserve and surplus
The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total

amount of additional paid-in capital and legal reserve may be reserved without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights
The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.
Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity.
The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. STOCK OPTION

The stock options outstanding as of March 31, 2008 are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2002 Stock Option	6 Directors (excluding outside directors)	38,000 shares	July 1, 2002	¥676	Within 3 years after vested
	6 Corporate Officers	12,000 shares	July 1, 2002	¥676	Within 3 years after vested
	21 Employees (employees who meet certain criteria stated in the company rules)	63,000 shares	July 1, 2002	¥676	Within 3 years after vested

(share)

For the year ended March 31, 2008	2002 Stock Option
Vested	
March 31, 2007 − Outstanding	14,000
Vested	
Exercised	8,000
Canceled	6,000
March 31, 2008 − Outstanding	
Exercise price	¥676
Average stock price at exercise	¥957

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.7% for the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Deferred tax assets:			
Business tax payable	¥ 194	¥ 140	$ 1,936
Accrued expenses	217		2,166
Allowance for doubtful accounts	1,366	1,296	13,634
Accrued bonuses for employees	910	967	9,083
Tax loss carryforwards	401	548	4,002
Liability for retirement benefit	1,759	1,525	17,557
Accrued retirement benefits for directors and corporate auditors	310	272	3,094
Loss on devaluation of investment securities	509	394	5,080
Unrealized loss on available-for-sale securities	192		1,916
Elimination of internal profit in consolidation	628	635	6,268
Other	518	397	5,171
Less valuation allowance	(1,485)	(1,164)	(14,822)
Total	5,519	5,010	55,085
Deferred tax liabilities:			
Reserve for special depreciation	(1,181)	(1,173)	(11,788)
Unrealized gain on available-for-sale securities		(1,545)	
Other	(243)	(259)	(2,424)
Total	(1,424)	(2,977)	(14,212)
Net deferred tax assets	¥4,095	¥2,033	$40,873

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Deferred tax assets on land revaluation	¥5,488	¥5,563	$54,776
Less valuation allowance	(5,488)	(5,563)	(54,776)
Deferred tax liabilities on land revaluation	(3,191)	(3,296)	(31,849)
Deferred tax liabilities on land revaluation – net	¥(3,191)	¥(3,296)	$(31,849)

Taxes on income consist of corporation, inhabitants and enterprise taxes. Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2008 is not presented, because the difference was less than five percent of the normal effective statutory tax rate.

Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2007 was as follows:

Normal effective statutory tax rate	40.7%
Entertainment expenses and others that are not deductible permanently	3.7
Dividend income and others that are not taxable permanently	(10.9)
Other	(0.4)
Actual effective tax rate	33.1%

At March 31, 2008, certain subsidiaries have tax loss carryforwards aggregating approximately ¥401 million ($4,002 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	*Millions of Yen*	*Thousands of U.S. Dollars*
2009		
2010	¥3	$30
2011	11	110
2012	65	649
2013	52	519
2014 and thereafter	270	2,694
Total	¥401	$4,002

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Freight and warehousing	¥9,397	¥9,072	$93,792
Payroll	14,915	14,153	148,867
Provision for accrued bonuses to employees	2,195	2,337	21,908
Provision for accrued bonuses to directors and corporate auditors	199	181	1,986
Rent	6,892	6,097	68,789
Depreciation and amortization	2,013	1,762	20,092
Amortization of goodwill	1,642	1,602	16,389
Provision for allowance for doubtful accounts	179	150	1,787
Provision for accrued pension and severance costs	1,421	1,263	14,183
Provision for accrued retirement benefits for directors and corporate auditors	125	201	1,248

12. LAND REVALUATION DIFFERENCE

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 1999. The resulting land revaluation difference represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation difference account and related deferred tax liabilities. As of March 31, 2008, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,698 million ($46,891 thousand).

13. LEASES

(Lessee)
The Group leases certain machinery, computer equipment and other assets. Total rental expenses including lease payments under finance leases for the years ended March 31, 2008 and 2007 were ¥1,153 million ($11,508 thousand) and ¥1,158 million.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 was as follows:

	As of March 31, 2008				As of March 31, 2007			
	Millions of Yen				*Millions of Yen*			
	Buildings and Structures	Machinery and Equipment	Intangible Assets	Total	Buildings and Structures	Machinery and Equipment	Intangible Assets	Total
Acquisition cost	¥36	¥5,793	¥506	¥6,335	¥67	¥6,027	¥426	¥6,520
Accumulated depreciation	28	3,999	199	4,226	46	4,012	104	4,162
Net leased property	¥8	¥1,794	¥307	¥2,109	¥21	¥2,015	¥322	¥2,358

	As of March 31, 2008			
	Thousands of U.S. Dollars			
	Buildings and Structures	Machinery and Equipment	Intangible Assets	Total
Acquisition cost	$359	$57,820	$5,051	$63,230
Accumulated depreciation	279	39,915	1,986	42,180
Net leased property	$80	$17,905	$3,065	$21,050

Obligations under finance leases:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Due within one year	¥1,068	¥1,125	$10,660
Due after one year	2,031	2,255	20,271
Total	¥3,099	¥3,380	$30,931

Depreciation expense, interest expense under finance leases:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Depreciation expense	¥1,131	¥1,125	$11,289
Interest expense	55	50	549

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the declining-balance method and the interest method, respectively.

(Lessor)
The Group leases certain machinery, computer equipment and other assets. Total lease income under finance leases for the years ended March 2008 and 2007 were ¥430 million ($4,292thousand) and ¥505 million, respectively.
Pro forma information of leased property such as acquisition cost, accumulated depreciation, receivables under finance leases, depreciation expense, interest income from finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 was as follows:

	As of March 31, 2008			As of March 31, 2007		
	Millions of Yen			*Millions of Yen*		
	Buildings and Structures	Machinery and Equipment	Total	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥36	¥2,224	¥2,260	¥49	¥2,643	¥2,692
Accumulated depreciation	28	1,620	1,648	33	1,871	1,904
Net leased property	¥8	¥604	¥612	¥16	¥772	¥788

	As of March 31, 2008		
	Thousands of U.S. Dollars		
	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	$359	$22,198	$22,557
Accumulated depreciation	279	16,170	16,449
Net leased property	$80	$6,028	$6,108

Receivables under finance leases:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Due within one year	¥ 399	¥ 467	$ 3,982
Due after one year	652	853	6,508
Total	¥1,051	¥1,320	$10,490

Depreciation expense, interest income under finance leases:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
Depreciation expenses	¥371	¥435	$3,703
Interest income	16	16	160

Interest income, which is not reflected in the accompanying consolidated statements of income, is computed by the interest method.

(Operating lease)

The minimum rental commitments under noncancellable operating leases at March 31, 2008 were as follows:

	Millions of Yen
	2008
Due within one year	¥238
Due after one year	
Total	¥238

14. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The following schedule describes the type and changes in the total number of shares issued, and the type and changes in the number of treasury stock:

	Number of Shares as of March 31, 2007	Increase	Decrease	Number of Shares as of March 31, 2008
Share issued				
Common stock	96,356,583			96,356,583
Total	96,356,583			96,356,583
Treasury stock				
Common stock (Notes i and ii)	4,628,491	5,522	8,000	4,626,013
Total	4,628,491	5,522	8,000	4,626,013

(Notes)

i) An increase of 5,522 shares of common stock held in treasury resulted from the acquisition of shares of less than one unit.

ii) A decrease of 8,000 shares of common stock held in treasury resulted from exercise of stock options.

	Number of Shares as of March 31, 2006	Increase	Decrease	Number of Shares as of March 31, 2007
Share issued				
Common stock	96,356,583			96,356,583
Total	96,356,583			96,356,583
Treasury stock				
Common stock (Notes i and ii)	6,008,748	3,224	1,383,481	4,628,491
Total	6,008,748	3,224	1,383,481	4,628,491

(Notes)

i) An increase of 3,224 shares of common stock held in treasury resulted from the acquisition of shares of less than one unit.

ii) A decrease of 1,383,481 shares of common stock held in treasury resulted from the followings:

(a) Decreased of 422,481 shares because Shinanen Co., Ltd. was excluded from the scope as they were accounted for under the equity method.

(b) 850,000 shares were provided to Mitsuuroko Co., Ltd. for a business alliance.

(c) Decreased 111,000 shares due to exercise of stock options.

Dividends paid during the year ended March 31, 2008 were as follows:

(Resolution)	Type of Shares	*(Millions of Yen)* Total Dividends	*(Yen)* Dividends per Share	Record Date	Effective Date
General shareholders' meeting held on June 22, 2007	Common stock	¥734	¥8	March 31, 2007	June 25, 2007
Board of Directors' meeting held on October 31, 2007	Common stock	¥734	¥8	September 30, 2007	December 7, 2007

(Resolution)	Type of Shares	*(Thousands of U.S. Dollars)* Total Dividends	*(U.S. Dollars)* Dividends per Share	Record Date	Effective Date
General shareholders' meeting held on June 22, 2007	Common stock	$7,326	$0.08	March 31, 2007	June 25, 2007
Board of Directors' meeting held on October 31, 2007	Common stock	$7,326	$0.08	September 30, 2007	December 7, 2007

Dividends paid during the year ended March 31, 2007 were as follows:

(Resolution)	Type of Shares	*(Millions of Yen)* Total Dividends	*(Yen)* Dividends per Share	Record Date	Effective Date
General shareholders' meeting held on June 22, 2006	Common stock	¥726	¥8	March 31, 2006	June 25, 2006
Board of Directors' meeting held on October 31, 2006	Common stock	¥727	¥8	September 30, 2006	December 8, 2006

15. DERIVATIVES

The Company enters into petroleum products futures to hedge petroleum market risk and interest rate swaps contracts to manage its interest rate exposures on certain liabilities. The Company does not hold or issue derivatives for speculative trading purposes. The petroleum products futures are exposed to market risk which is created by potential fluctuations in market conditions. Market risk in interest rate swaps is basically offset by opposite movements in the value of hedged liabilities. Because the counterparties to these derivatives are limited to highly rated members in petroleum exchange and domestic financial institutions, the Company does not anticipate any losses arising from credit risk.

The execution and control of derivatives are controlled by the dealing department based on the internal rules, which states the authority and the limit in dealing. The dealing status is reported to and reviewed by the administration department.

The contract or notional amounts of derivatives which are shown in the below table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

The Company had the following derivatives contracts outstanding at March 31, 2008 and 2007:

	(Millions of Yen)					
	2008			2007		
	Contract Amount	Fair Value	Unrealized Gain / Loss	Contract Amount	Fair Value	Unrealized Gain / Loss
Commodity futures:						
Buying	¥2,610	¥2,721	¥111	¥1,290	¥1,380	¥90
Selling	(2,172)	(2,201)	(29)	(1,897)	(2,019)	(122)

	(Thousands of U.S. Dollars)		
	2008		
	Contract Amount	Fair Value	Unrealized Gain / Loss
Commodity futures:			
Buying	$26,050	$27,158	$1,108
Selling	(21,679)	(21,968)	(289)

Fair value is calculated based on the futures price. Derivative contracts which qualify for hedge accounting for the years ended March 31, 2008 and 2007 are excluded from the disclosure of market value information.

16. RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	2008	2007	2008
ITOCHU Corporation, shareholder:			
Purchases	¥96,758	¥72,183	$965,745
Acquisition of stock of consolidated subsidiary	215		2,146
Trade notes and trade accounts payable	8,347	7,188	83,312
Unconsolidated subsidiaries and associated companies:			
Sale of stock			
Proceeds from sales		¥5,468	
Capital gain		285	

17. CONTINGENT LIABILITIES

At March 31, 2008, the Group had the following contingent liabilities:

	Millions of Yen	*Thousands of U.S. Dollars*
Guarantors of lease debt of Maruso Sekiyu Co., Ltd. and other 15 companies	¥77	$769
Securitization of trade notes receivable	253	2,525
Securitization of trade accounts receivable	705	7,037

18. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2008 and 2007 is as follows:

	Millions of Yen	*Thousands of Shares*	*Yen*	*Dollar*
For the year ended March 31, 2008:	Net income	Weighted average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥4,187	91,732	¥45.65	$0.46
Effect of Dilutive Securities				
Stock option		0		
Diluted EPS				
Net income for computation	¥4,187	91,732	¥45.65	$0.46
For the year ended March 31, 2007:				
Basic EPS				
Net income available to common shareholders	¥4,987	90,615	¥55.04	
Effect of Dilutive Securities				
Stock option		11		
Diluted EPS				
Net income for computation	¥4,987	90,626	¥55.03	

19. SUBSEQUENT EVENTS

(1) Dividends
The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended March 31, 2008, were approved at a general shareholders' meeting held on June 20, 2008:

	Total dividends		Dividends per share			
Type of shares	*(Millions of Yen)*	*(Thousands of U.S. Dollars)*	*(Yen)*	*(U.S. Dollars)*	Record date	Effective date
Common stock	¥734	$7,326	¥8	$0.08	March 31, 2008	June 23, 2008

(2) Spin-off Agreement on the Succession of the Petroleum Products-Related Businesses
The Company, ITOCHU Corporation (ITOCHU) and ITOCHU Petroleum Japan Ltd. (IPCJ), a wholly owned subsidiary of ITOCHU, entered into a Spin-off Agreement on April 30, 2008. By this agreement, as of October 1, 2008, the effective date for the spin-off (hereinafter collectively called the "Spin-off"), the Company will assume the following petroleum products-related businesses engaged in by ITOCHU and IPCJ.

(a) Business to be assumed by the Company
Petroleum Products Trade Business:
Domestic sales and export/import business in Japan of petroleum products (e.g. kerosene, gas oil) engaged by ITOCHU's Energy Trade Division.

IPCJ Business:
The logistics business for petroleum products engaged in by IPCJ for the chartering and operating of tankers, the supply of marine fuels, the operation of petroleum storage tanks and trading of lubricating oil.

(b) Sales amounts of the businesses to be assumed by the Company for the year ended March 31, 2007
Petroleum Products Trade Business: ¥392,412 million ($3,916,678 thousand)

IPCJ Business: ¥101,264 million ($1,010,720 thousand)

(c) Date and method of the Spin-off
Effective date: October 1, 2008
Petroleum Products Trade Business:
Split-up, absorption-type spin-off, with ITOCHU's Petroleum Products-Related Business being spun off and the Company will be the successor. The Company will allot 11,755,952 shares of its common stock to ITOCHU as consideration for the Petroleum Products Trade Business, of these 7,131,666 shares will be issued at the time of spin-off and 4,624,286 shares will be held in treasury by the Company.

IPCJ Business:
Corporate separation-type spin-off, with IPCJ's logistics business being spun off and the Company will be the successor. The Company will allot and issue 13,392,857 shares of its common stock to IPCJ as consideration for the IPCJ Business.

(d) Amounts of assets and liabilities of the business to be assumed by the Company as of September 30, 2007
Petroleum Products Trade Business:
Assets ¥26,349 million ($262,990 thousand)
Liabilities ¥26,344 million ($262,940 thousand)
IPCJ Business:
Assets ¥16,342 million ($163,110 thousand)
Liabilities ¥14,261 million ($142,340 thousand)

(3) Master Agreement on the Acquisition of the Petroleum Sales Business
The Company and Konan Co., Ltd. (Konan) entered into a master agreement on the acquisition of the petroleum sales business of Konan by the Company on April 24, 2008. This petroleum sales business includes shares of Konan Fleet Co., Ltd. (Konan Fleet), a subsidiary of Konan and also an affiliate of the Company and Konan Fleet will become a wholly owned subsidiary of the Company.

(a) Business to be acquired by the Company
Konan:
Wholesale of petroleum products mainly gas oil and real-estate leasing.
Konan Fleet:
Retail of petroleum products mainly gas oil.

(b) Sales amounts of the business to be acquired by the Company for the year ended March 31, 2007
Konan: ¥11,107 million ($110,859 thousand)
Konan Fleet: ¥166,288 million ($1,659,727 thousand)

(c) Date and method of the Acquisition
The final contract is to be signed in late July 2008 and the effective date of the acquisition will be early September 2008. The Company is considering a method, such as split agreement, using Cash as consideration. Details of the acquisition of the business will be determined upon consultation of both parties.

(d) Amounts of assets and liabilities of the business to be succeeded by the Company as of January 31, 2008
Assets ¥5,230 million ($52,201 thousand)
Liabilities Nil

(4) Transfer of investment into silent partnership for liquidation of head-office building
As described in Note 23, the Company established a silent partnership for liquidation of the head-office building in March 2003. The Company transferred all of its investment in this silent partnership, ¥250 million ($2,495 thousand), to ORIX Real Estate Corporation for ¥1,651 million ($16,479 thousand). The Company will relocate its head office to Granpark Tower (Minato-ku, Tokyo) in October 2008.

20. SEGMENT INFORMATION

The Company operates in the following industries:

Industrial Material consists of energy and material supplies for customers, high-pressure gas productions, asphalt, cement, LNG (liquefied natural gas), and sales of urea aqueous solution.

Car Life consists of sales and services for car owners centered mainly on car-life-stations such as gasoline, heating oil, light diesel oil, heavy fuel oil, grease, automobile supplies, car inspection, maintenance, used cars.

Home Life consists of sales of goods and services relating to family lives such as liquefied petroleum gas, equipment (combustion, kitchen, air conditioning, household equipments), commodities, catalogue merchandise, communication devices, books, and sundries.

Information about industry segments, geographical segments and sales to foreign customers of the Company and subsidiaries for the years ended March 31, 2008 and 2007, is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen					
	2008					
	Industrial Material	Car Life	Home Life	Total	Eliminations / Corporate	Consolidated
Sales to customers	¥133,812	¥824,916	¥135,024	¥ 1,093,752	¥	¥ 1,093,752
Intersegment sales						
Total sales	133,812	824,916	135,024	1,093,752		1,093,752
Operating expenses	131,811	817,843	132,659	1,082,313	3,739	1,086,052
Operating income	¥ 2,001	¥ 7,073	¥ 2,365	¥ 11,439	¥ (3,739)	¥ 7,700

b. Total assets, Depreciation, Impairment loss and Capital Expenditures

	Millions of Yen					
	2008					
	Industrial Material	Car Life	Home Life	Total	Eliminations / Corporate	Consolidated
Total assets	¥ 26,619	¥127,193	¥ 55,543	¥ 209,355	¥ 45,772	¥ 255,127
Depreciation	260	2,908	1,507	4,675	479	5,154
Impairment loss		104	33	137		137
Capital expenditures	541	3,613	1,701	5,855	329	6,184

a. Sales and Operating Income

	Thousand of U.S. Dollars					
	2008					
	Industrial Material	Car Life	Home Life	Total	Eliminations / Corporate	Consolidated
Sales to customers	$ 1,335,582	$8,233,517	$ 1,347,679	$10,916,778	$	$10,916,778
Intersegment sales						
Total sales	1,335,582	8,233,517	1,347,679	10,916,778		10,916,778
Operating expenses	1,315,610	8,162,921	1,324,074	10,802,605	37,319	10,839,924
Operating income	$ 19,972	$ 70,596	$ 23,605	$ 114,173	$ (37,319)	$ 76,854

b. Total assets, Depreciation, Impairment loss and Capital Expenditures

	Thousand of U.S. Dollars					
	2008					
	Industrial Material	Car Life	Home Life	Total	Eliminations / Corporate	Consolidated
Total assets	$ 265,685	$ 1,269,518	$ 554,377	$ 2,089,580	$ 456,852	$ 2,546,432
Depreciation	2,595	29,025	15,041	46,661	4,781	51,442
Impairment loss		1,038	329	1,367		1,367
Capital expenditures	5,400	36,061	16,978	58,439	3,284	61,723

a. Sales and Operating Income

	Millions of Yen					
	2007					
	Industrial Material	Car Life	Home Life	Total	Eliminations / Corporate	Consolidated
Sales to customers	¥ 117,117	¥ 665,332	¥ 104,035	¥ 886,484	¥	¥ 886,484
Intersegment sales						
Total sales	117,117	665,332	104,035	886,484		886,484
Operating expenses	115,145	657,956	101,993	875,094	3,455	878,549
Operating income	¥ 1,972	¥ 7,376	¥ 2,042	¥ 11,390	¥ (3,455)	¥ 7,935

b. Total assets, Depreciation, Impairment loss and Capital Expenditures

	Millions of Yen					
	2007					
	Industrial Material	Car Life	Home Life	Total	Eliminations / Corporate	Consolidated
Total assets	¥ 21,421	¥ 118,373	¥ 49,293	¥ 189,087	¥ 46,764	¥ 235,851
Depreciation	224	2,750	1,251	4,225	444	4,669
Impairment loss		61		61		61
Capital expenditures	434	4,414	2,162	7,010	383	7,393

Notes:

As discussed in Note 2-e, due to the revised corporate tax law effective from April 1, 2007, property, plant and equipment, which are acquired by the Company and its domestic consolidated subsidiaries on or after April 1, 2007, are depreciated under the new law. As a result, operating expenses increased for Industrial Material, Car Life, and Home Life for the year ended March 31, 2008 by ¥5 million ($50 thousand), ¥66 million ($659 thousand), and ¥41 million ($409 thousand), respectively, decreasing operating income by the same amount.

Property, plant and equipment, which are acquired by the Company and its domestic consolidated subsidiaries on or before March 31, 2007, are depreciated under the old method. However, such 5% portion of property, plant and equipment is systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law.

The effect of this treatment was to increase operating expenses for Industrial Material, Car Life, Home Life, and Elimination and Corporate for the year ended March 31, 2008 by ¥11 million ($110 thousand), ¥76 million ($759 thousand), ¥46 million ($459 thousand), and ¥3 million ($30 thousand), respectively, and to decrease operating income by the same amount.

(2) Geographical Segments
Information on the geographical segments is not presented due to the immateriality of the Companies' overseas operations.

(3) Sales to Foreign Customers
Information on the sales to foreign customers is not presented due to the immateriality of the Companies' overseas sales compared with consolidated net sales.

21. SPECIAL PURPOSE ENTITIES WITH DISCLOSURE REQUIREMENT

(1) Outlines of the special purpose entities with disclosure requirements along with outlines of transactions with these special purpose entities

The Company utilized its corporate headquarter building to secure access to stable funding in March 2003. Regarding this securitized funding activity, the Company used a special purpose entity in the form of a special limited liability company. Firstly, the Company transferred the trust beneficiary of the real estate to the special purpose entity and then received the funding from the special purpose entity which raised funds with a nonrecourse loan, secured by the said transferred trust beneficiary interest in proceeds of the sales of the assets.
Regarding this securitized funding activity, the Company also rents part of the transferred real estate. In addition, the Company entered into a silent partnership agreement with the special purpose entity and has an investment based on the agreement. The Company plans to collect all of its investment in the silent partnership and therefore believes that there is no possibility of bearing losses in the future as of March 31, 2008.
During the year ended March 31, 2008, the total assets and liabilities owned by the special purpose entity as of the most recent closing date is ¥5,148 million ($ 51,382 thousand) and ¥3,463 million ($ 34,564 thousand), respectively. The Company retains no shares with shareholder voting rights of the special purpose entity nor provides directors or employees.

(2) Amount of transaction with the special purpose entities in the current consolidated fiscal year

	Millions of Yen		
	Amount of transaction or balance as of March 31, 2008	Gains and losses (Item)	(Amounts)
Investment in the silent partnership (*1)	250	Dividend	36
Rental transaction (*2)		Lease payment	238

	Thousands of U.S. Dollars		
	Amount of transaction or balance as of March 31, 2008	Gains and losses (Item)	(Amounts)
Investment in the silent partnership (*1)	2,495	Dividend	359
Rental transaction (*2)		Lease payment	2,375

(*1) It represents the balance of investment in the silent partnership as of March 31, 2008. Dividend on investment in the silent partnership is included in other income (expenses).

(*2) The Company may rent the transferred real estate and the rental transaction is accounted for in the same manner as operating lease. The rental transaction is a non-cancelable operating lease and the obligation under such a lease as of March 31, 2008 is ¥238 million ($ 2,375 thousand) that will be due within one year.

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81(3)3457 7321
Fax: +81(3)3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ITOCHU ENEX CO., LTD.:

We have audited the accompanying consolidated balance sheets of ITOCHU ENEX CO., LTD. (the "Company") and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ITOCHU ENEX CO., LTD. and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 19(2) to the consolidated financial statements, the Company, ITOCHU Corporation ("ITOCHU") and ITOCHU Petroleum Japan Ltd. ("IPCJ") entered into a Spin-off Agreement on April 30, 2008. By this agreement, as of October 1, 2008, which is the effective date for the spin-off, the Company will assume certain petroleum products-related businesses engaged in by ITOCHU and IPCJ.

As discussed in Note 19(3) to the consolidated financial statements, the Company and Konan Co., Ltd. ("Konan") entered into a master agreement for the acquisition of the petroleum sales business of Konan by the Company on April 24, 2008.

As discussed in Note 19(4) to the consolidated financial statements, the Company transferred all of its investment in a silent partnership in order to liquidate its investment in the head-office building.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 20, 2008

Corporate Profile

Corporate Information

Company Name	ITOCHU ENEX CO., LTD.
Head Office Address	Granpark Tower 3-4-1 , Shibaura, Minato-ku, Tokyo 108-8525, Japan
Established	January 28, 1961
Paid-in Capital	19.87767 billion Japanese yen
Business Divisions	Industrial Material Division Car-Life Division Energy Trade Division Home-Life Division
Principal Locations	Marketing offices : Hokkaido, Tohoku, Kanto, Higashi-Nihon, Chubu, Kansai, Chugoku & Shikoku, Kyushu *Other offices are located in regions throughout the country.
ITOCHU ENEX Group	Consolidated subsidiaries: 21 Non-consolidated subsidiaries (covered by the equity method): 22 Affiliates (covered by the equity method): 21 (As of March 31, 2008)
Number of Employees	601 (simple substance basis) (including 178 at subsidiaries) 2,954 (on a consolidated basis) (As of March 31, 2008)
Stock Exchange Listing	Tokyo (First Section) Stock name : ENEX Stock code: 8133
Main Financial Institutions	The Sumitomo Trust & Banking Co., Ltd. Sumitomo Mitsui Banking Corporation Resona Bank Mizuho Corporate Bank

Description of Our Business

Industrial Material Division

The Industrial Material Division is an industrial energy expert. It sells primary energy such as oil, LPG and coal; secondary energy such as electricity and heat; and industrial materials such as asphalt and cement to 2,500 companies in 3,500 locations throughout Japan, including manufacturers, trucking firms and shipping companies.

It also caters to today's growing energy-saving, eco-compliance and cost-cutting needs by designing and supplying various energy solutions. These include urea solutions, groundwater filtration systems and cogeneration systems.

Car-Life Division

Itochu Enex is Japan's largest energy wholesaler with a trading firm background, directly selling gasoline and kerosene to some 2,200 service stations. The Car-Life Division does much more than just sell gasoline, kerosene and oil; in line with Itochu Enex's vision of replacing the traditional service station with something truly comprehensive—the car-life station—it offers a complete range of services for drivers, from sale and purchase of automobiles to inspection and auto service, car washing, light bodywork, automotive parts and car insurance.

Energy Trade Division

This Division engages in domestic sales of petroleum products and exports/imports of Japan-originated petroleum products bound for overseas markets, as well as the global deployment of the petroleum product logistics business covering the chartering of ships for Japan-originated imports/exports, the supply of marine fuels, the tank leasing business and sales of lubricants.

While paying close attention to the expanding demand in emerging countries, especially in Asia, and against the backdrop of the overwhelmingly high market share regarding real demand in Japan, we will pursue optimally balanced operations between exports and the domestic supply–demand relationship, as well as the sound development of the domestic logistics structure.

Home-Life Division

The Home-Life Division supplies LPG to 1.3 million households and companies via a network of seven regional sales companies and 1,800 retail outlets. Taking advantage of the direct contact made possible by the regular household visits personnel make to carry out safety inspections and such, it conducts an ongoing campaign to boost awareness of the advantages of gas. Futhermore, through its *Kurashi-no-Mori* service, advertised via an information magazine and Internet Web site, it offers products and services for the kitchen, bathroom and home in general. In addition, it runs a nationwide network of 133 auto gas stations, which supply LPG to taxis and other vehicles.

Corporate Philosophy

Partnering with society and ordinary people
— In the energy field, in the car, in the home —

Field of Business

Energy for all applications, whether as a key component of social infrastructure or as a means of enriching people's lives

ITOCHU ENEX Group*

Industrial Material Business and Others

Itochu Industrial Gas Co., Ltd.
Enex LNG Sales Co., Ltd.
Itochu Enex Support Co., Ltd.

Car-Life Business

Tohoku Tank Firm Co., Ltd.
Itochu Petroleum Sales Co., Ltd.
ENEHAN Co., LTD.
Enex Auto Co., Ltd.
Enex Petroleum Sales Higashi-Nihon Co., Ltd.
Konan Fleet Corporation
Enex Petroleum Sales Nishi-Nihon Co., Ltd.
Kokura Kosan Energy Co., Ltd.
Oita Kyuseki Sales Co., Ltd.
Passtech Co.Ltd.

Home-Life Business

Itochu Enex Home-Life Hokkaido Co., Ltd.
Itochu Enex Home-Life Tohoku Co., Ltd.
Itochu Enex Home-Life Kanto Co., Ltd.
Kanagawa Gas Terminal Co., Ltd.
Itochu Enex Home-Life Chubu Co., Ltd.
Itochu Enex Home-Life Kansai Co., Ltd.
Itochu Enex Home-Life Nishi-Nihon Co., Ltd.
ECORE Co., Ltd.
Enex Clean Power Energy Co., Ltd.

As of September 1, 2008

*The companies in which Itochu Enex Co., Ltd. owns more than 50% of total shares are listed here.

Directors and Officers

Representative Director and President
Akira Kodera

Representative Director and Senior Managing Director
Hiroshi Arai
General Manager for the Industrial Material Division

Representative Director and Senior Managing Director
Shuji Arimitsu
General Manager for the Corporate Administration Division and Chief Financial Officer

Representative Director and Managing Director
Akira Doi
General Manager for the Car-Life Division

Director and Managing Director
Kenji Moriya
General Manager for the Home-Life Division

Director and Managing Director
Yutaka Tanaka
General Manager for the Energy Trade Division and General Manager for the Planning & Administration Department

Director
Seiki Yamanishi
Representative Director and President of Konan Fleet Corporation

Director
Masanobu Takagi
Chief Operating Officer for the Energy Trade Division of the Energy, Metals & Minerals Company, Itochu Corporation

Director
Toshihisa Fuse
General Manager for the International Energy Trading Dept. 2 in the Energy Trade Division of the Energy, Metal & Minerals Company, Itochu Corporation

Standing Corporate Auditor
Shozo Nozoe

Standing Corporate Auditor
Noriaki Nishioka

Corporate Auditor
Shuichi Nanba
Lawyer representing the Momoo, Matsuo & Nanba Legal Office

Corporate Auditor
Shuichi Okazaki
Chief Financial Officer for the Energy, Metals & Minerals Company, Itochu Corporation

Managing Director
Masamoto Uehara
Assistant General Manager for the Corporate Administration Division, General Manager for the Human Resources and General Affairs Department and Chief Compliance Officer

Managing Director
Michio Nanba
General Manager for the General Planning Division and Chief Information Officer

Executive Officer
Masaru Takahashi
Assistant General Manager for the Energy Trade Division and General Manager for the Petroleum Products Trading & Logistics Department

Executive Officer
Masahiro Kono
Assistant General Manager for the General Planning Division and General Manager for the Group Strategy Department

Executive Officer
Naohide Hata
General Manager for the Supply Administration Department in the Car-Life Division

Executive Officer
Tatsunosuke Nagao
General Manager for the Asphalt Department in the Industrial Material Division

Executive Officer
Tetsumi Hiraoka
Assistant General Manager for the Industrial Material Division, General Manager for the Planning Department and General Manager for the Industrial Energy Sales Department

Executive Officer
Osamu Takatsuji
General Manager for the Legal & Credit Corporate Administration Department in the Corporate Administration Division

Executive Officer
Masatoshi Tanigawa
Assistant General Manager for the Car-Life Division

Executive Officer
Hideo Nakamura
Manager for the Chugoku & Shikoku Branch in the Car-Life Division

Executive Officer
Kouji Tsutsumi
General Manager for the Planning Department in the Car-Life Division

Executive Officer
Takashi Asukai
General Manager for the Planning Department in the Home-Life Division

Executive Officer
Hiroyuki Yumeno
General Manager for the Administration Department in the Car-Life Division

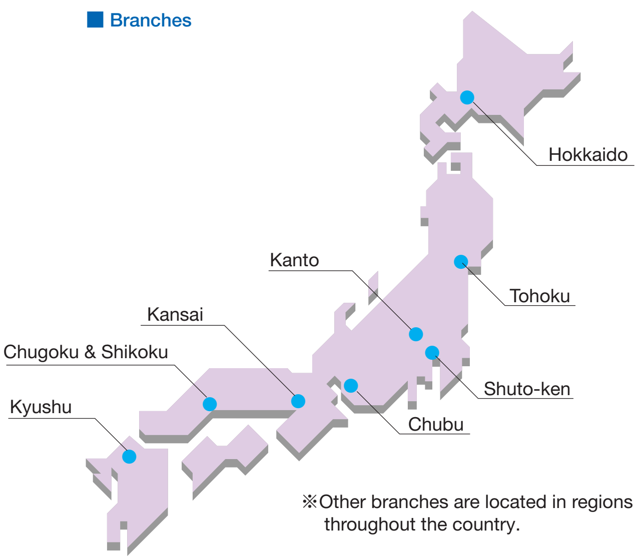
Executive Officer
Fumio Shimizu
Manager for the Kyushu Branch in the Car-Life Division

As of October 1, 2008

Organization Chart

- General Meeting of Shareholders
  - Supervisory Board Corporate Auditor
  - Board of Directors
    - President
      - Chief Financial Officer
      - Chief Compliance Officer
      - Chief Information Officer
      - Industrial Material Division
        - Planning Department
        - Card-Fuel System Sales Department
        - Energy Solution Department
          - Alternative Energy Development Office
        - Asphalt Department
        - Industrial Energy Sales Department
        - Administration Department
      - Car-Life Division
        - Planning Department
        - Hokkaido Branch
        - Tohoku Branch
        - Kanto Branch
        - Shuto-ken Branch
        - Chubu Branch
        - Kansai Branch
        - Chugoku & Shikoku Branch
        - Kyushu Branch
        - Supply Administration Department
        - Administration Department
      - Energy Trade Division
        - Petroleum Products Trading & Logistics Department
        - Tanker Department
        - Marine Fuel Department
        - Planning & Administration Department
      - Home-Life Division
        - Planning Department
        - Sales Promotion Department
        - Security System Department
        - Nakatsu-Gas Branch
        - Administration Department
      - Corporate Administration Division
        - Legal & Credit Corporate Administration Department
        - Human Resources & General Affairs Department
        - Finance & General Accounting Department
        - CSR･Compliance Department
        - Internal Control Office
      - General Planning Division
        - Corporate Planning Department
          - IR, Public Relations Office
        - IT Planning Department
        - Group Strategy Department
      - Auditing Department

Branches



※Other branches are located in regions throughout the country.

Terminals

Kushiro Asphalt Terminal
Rumoi Asphalt Terminal
Oigawa Asphalt Terminal
Sakurajima Oil Terminal
Etajima Oil Terminal
Fukuoka Oli Terminal
Fukuoka Asphalt Terminal 1
Fukuoka Asphalt Terminal 2
Nagasaki Gas & Oil Terminal
Sasebo Asphalt Terminal
Kajiki Asphalt Terminal

Training Center

Itochu Enex Central Training Center

Company Timeline

1961 Jan. The Company is founded with capital of ¥60 million when Itochu Sekiyu K.K., a subsidiary of Itochu Corporation, is split up (Itochu Sekiyu K.K. was originally founded in January 1949 as Nishinihon Beiyu K.K., changing its name in April 1951). Its purpose is to sell the products manufactured at the new refinery built at Mizushima by Itochu Corporation in alliance with longstanding business partner Nippon Mining Co., Ltd. (This marks Itochu's entry into the petroleum sector.)

1965 May The Company acquires the stock of Oita Kyuseki Hanbai Co., Ltd. (today a consolidated subsidiary).

1970 Mar. It acquires the stock of Unoshima Sansuiso K.K., and enters the high-pressure gas market.

1971 Apr. It boosts its capital from ¥0.6 billion to ¥1 billion.

1977 Apr. In order to change the par value of its stock, it merges with Itochu Fuel Corporation, headquartered at 2-36 Tsurigane-cho, Higashi-ku, Osaka.

1978 Feb. It is listed on the Second Section of the Osaka Securities Exchange and the Tokyo Stock Exchange.

1979 Sep. It is promoted to the First Section of the Osaka Securities Exchange and the Tokyo Stock Exchange.

1983 Jun. Its head office moves from Osaka to Tokyo.

1990 May. The Company's high-pressure gas division is spun off to form Itochu High-Pressure Gas Co., Ltd. (today Itochu Industrial Gas Co., Ltd.).

Jul. The Company takes over the goodwill of Itochu Oil Co., Ltd., the internal oil sales subsidiary of Itochu Corporation.

1996 Feb. Its headquarters move to 1-24-12, Meguro-ku, Tokyo, Japan.

1997 Oct. The Company acquires the stock of Tokai Corporation, which is in the process of being restructured.

Dec. It acquires the stock of Seibu Petroleum Corporation (a consolidated subsidiary at the end of the fiscal year).

1998 Apr. The Company's "CicoMart" division is spun off to form CicoMart Co., Ltd.

Sep. Itochu Fine Gas Co., Ltd. buys out Itochu High-Pressure Gas Co., Ltd. and is renamed Itochu Industrial Gas Co., Ltd. (today a consolidated subsidiary).

1999 Mar. The Company acquires additional stock of Itochu Petroleum Sales Co., Ltd. (today a consolidated subsidiary) and becomes its largest shareholder.

2000 Apr. It buys out Seibu Petroleum Corporation and establishes the Tokyo Seibu branch office.

Oct. A court declares the completion of restructuring at Tokai Corporation.

2001 Mar. The Company takes over a gas supply service in Nakatsu City, Oita Prefecture, with the goal of breaking into the city gas market.

Jul. The Company changes its name from Itochu Fuel Corporation to Itochu Enex Co., Ltd. Its 18 consolidated subsidiaries are renamed at the same time.

Nov. The Company sells off the stock of CicoMart Co., Ltd.

2002 Feb. It acquires additional stock of Sinanen Co., Ltd. (today an affiliate covered by the equity method) and becomes its largest shareholder.

2003 Oct. It delists itself from the Osaka Securities Exchange.

2004 Apr. It scraps the existing branch-office system in favor of a system organized around business divisions.

2005 May. Takigawa Enex Co., Ltd. (today Itochu Enex Home-Life Nishi-Nihon Co., Ltd.) takes over the business of Takigawa Industries Co., Ltd. and commences operations.

Jul. The Company acquires the stock of Kokura Enterprise Vehicle Service Co., Ltd. (today consolidated subsidiary Kokura Enterprise Energy Co., Ltd.).

Sep. It sells off the stock of Tokai Corporation.

Oct. Kokura Enterprise Energy Co., Ltd. takes over the business of Kokura Enterprise Co., Ltd. and commences operations.

Oct. The Itochu Enex Group adopts a single unified logo, the Enex Mark.

2006 May ITOCHU ENEX CO., LTD. establishes the basic policy for its internal control system.

Sep. ITOCHU ENEX CO., LTD. and Kokura Kosan Energy Co., Ltd., a wholly-owned subsidiary, jointly take over the petroleum business of Yanase Petroleum Sales Co., Ltd.

Oct. Enex Clean Power Energy Co., Ltd., a wholly-owned subsidiary, concludes a special agency agreement with Hyundai Motor Japan, incorporated in Japan, and commences domestic sales of LPG automobiles manufactured by Hyundai Motor Company.

2007 Apr. ITOCHU ENEX CO., LTD. acquires the stock of Itochu Energy Marketing Co., Ltd., a firm to be operated as a wholly-owned subsidiary.

Apr. Ecore Co., Ltd., the largest LPG sales company in the Kyushu area, is founded through the consolidation of Itochu Enex Home-Life Kyushu (a wholly-owned subsidiary of the Company) and IDEX GAS K.K. (a wholly-owned subsidiary of Shin-Idemitsu Co., Ltd.), and commences operations. (Investment ratio: the Company 51%, Shin-Idemitsu 49%)

2008 Feb. JAPAN ENERGY Corporation, ITOCHU Corporation, OSAKA GAS CO., LTD., and NISSHO PETROLEUM GAS CORPORATION, come to a basic agreement to begin the reorganization and integration of the LPG business.

Sep. Agreements are made to separate the oil sales business run by Konan Corporation and the stocks of Konan Fleet Corporation, transferring them to ITOCHU ENEX CO., LTD.

Oct. Agreements are made to separate the petroleum product trading business run by ITOCHU corporation, and the Petroleum product logistics business run by ITOCHU Petroleum Japan Ltd. from the companies and transferring the businesses to ITOCHU ENEX CO., LTD. We then started its operations as a trade business.

Shareholder Information

(As of March 31, 2008)

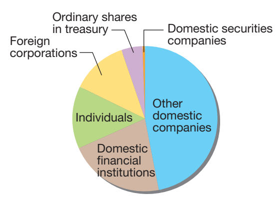
Number of shares authorized to be issued 387,250,000

Number of shares issued and outstanding 96,356,583

Number of shareholders 9,170

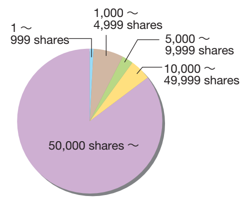
Trading unit of shares 100 shares

Shareholders, by type



Other domestic companies	47.17%
Domestic financial institutions	21.37%
Individuals	13.84%
Foreign corporations	12.38%
Ordinary shares in treasury	4.80%
Domestic securities companies	0.44%
	100%

Shareholders, by the number of shares held



1 ～ 999 shares	1.07%
1,000 ～ 4,999 shares	6.64%
5,000 ～ 9,999 shares	2.55%
10,000 ～ 49,999 shares	4.48%
50,000 shares ～	85.26%
	100%

Principal shareholders

Shareholder	Number of shares held (thousands)	Investment Ratio (%)
Itochu Corporation	35,799	39.03
Japan Trustee Services Bank, Ltd. (trust account)	3,532	3.85
The Master Trust Bank of Japan, Ltd. (trust account)	3,051	3.33
Enex Fund	2,533	2.76
Nippon Life Insurance Company	2,203	2.40
The Sumitomo Trust & Banking Co., Ltd.	1,974	2.15
Trust & Custody Services Bank Ltd. (security investment trust account)	1,910	2.08
Sinanen Co., Ltd.	1,570	1.71
JAPAN ENERGY CORPORATION	1,452	1.58
Itochu Enex Employee Shareholding Association	1,340	1.46

* Voting rights exclude 4,626,000 ordinary shares in treasury.

Business Procedures/Others

Listed stock exchange Tokyo (Security name: ENEX)

Stock code 8133

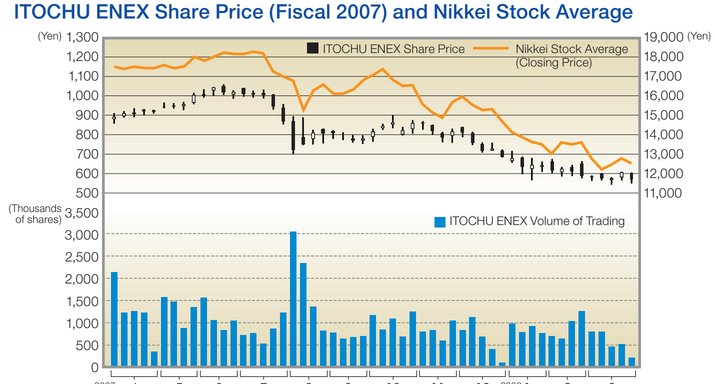
Method of notification Publication on the Company's homepage
http://www.itcenex.com/english
(In the event that public notice cannot be made via the Internet, the *Nihon Keizai Shinbun* newspaper will be used.)

Accounting period Ending March 31 of every year

Ordinary general meeting of shareholders Held in June of every year

Important dates
Ordinary general meeting of shareholders: March 31
Year-end dividend: March 31
Interim dividend: September 30

<Reference>
ITOCHU ENEX Share Price (Fiscal 2007) and Nikkei Stock Average



<Reference>
Maximum and Minimum Share Price for the Past Five Years by Fiscal Year

Fiscal Year	Maximum Price (Yen)	Minimum Price (Yen)
2003	582	433
2004	801	510
2005	1,013	680
2006	896	642
2007	1,058	544

Shareholder transfers

Shareholders' list manager	The Sumitomo Trust & Banking Co., Ltd. 4-5-33 Kitahama, Chuo-ku, Osaka-shi
Main office	The Sumitomo Trust & Banking Co., Ltd. securities agent department, 2-3-1 Yaesu, Chuo-ku, Tokyo
Mail address	1-10 Nikko-cho, Fuchu-shi, Tokyo 183-8701
Telephone reference	The Sumitomo Trust & Banking Co., Ltd. securities agent department
Request for change of address notice, etc.	Area booking collect call service 0120-175-417
Other queries	Area booking collect call service 0120-176-417
Agent locations	The Sumitomo Trust & Banking Co., Ltd. head office and all branch offices in Japan

Purchase of fractional shares

Main offices	The Sumitomo Trust & Banking Co., Ltd. securities agent department 2-3-1 Yaesu, Chuo-ku, Tokyo Area booking collect call service 0120-176-417 The Sumitomo Trust & Banking Co., Ltd. head office and all branch offices in Japan
Purchase fees	The amount of the fee is established separately, and is equivalent to the fee related to trust of stock trading.

Notice on forward-looking statements
The forward-looking statements addressed in this report such as the outlook on the Company's future performance were judged appropriate by the management of the Company based on information available at the time of publication. Please note that actual results may differ considerably from the current projections depending on fluctuations in exchange rates, market trends, economic circumstances and other factors.

Medium-term business plan of the ITOCHU ENEX Group

Core & Synergy 2010

To the next stage via the implementation of reforms

ITOCHU ENEX CO., LTD.

Annual Report
Published in October 2008

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R70

This annual report is printed on 70% recycled paper using soy ink.