# ANNUAL REPORT **2012**

Fiscal Year Ended March 31, 2012


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

ITOCHU ENEX CO., LTD.

Itochu Enex Group

# Vision & Action

With partnering with society and ordinary people—in the energy field, in the car, in the home—as its corporate philosophy, the Enex Group has delivered petroleum products, liquefied petroleum gas ("LPG") and other energy sources to customers nationwide for half a century. Regardless of changes in energy or how it is delivered, we will deliver energy as a partner of society and ordinary people as long as there are customers with energy needs. Under the Enex Group corporate philosophy, we aim to enrich people's lives through our energy delivery business, and to be the group of choice for customers and society.

## 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

## Growth Strategy

The group medium-term business plan, "Core & Synergy 2013 Phase II"

### Cautionary 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.

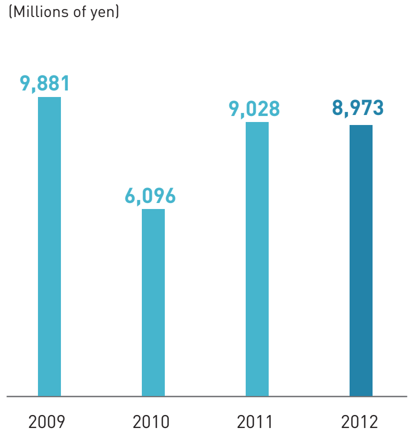
# Consolidated Financial Highlights

ITOCHU ENEX CO., LTD. and its Consolidated Subsidiaries

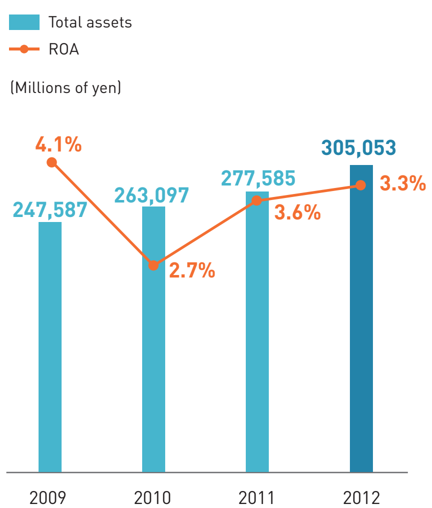
| Years ended March 31 | 2009 | 2010 | 2011 | 2012 | 2012 |
|---|---|---|---|---|---|
| **Results of Operations** | | (Millions of yen) | | | Thousands of U.S. dollars |
| Net sales | ¥ 1,164,708 | ¥ 1,083,761 | ¥ 1,185,732 | ¥ 1,414,161 | $ 17,206,003 |
| Operating income | 9,881 | 6,096 | 9,028 | 8,973 | 109,177 |
| Net income | 5,419 | 4,360 | 3,884 | 3,893 | 47,371 |
| **Financial Position at Year-End** | | | | | |
| Total assets | 247,587 | 263,097 | 277,585 | 305,053 | 3,711,560 |
| Total equity | 90,886 | 92,058 | 94,123 | 96,091 | 1,169,130 |
| **Cash Flows** | | | | | |
| Cash flows from operating activities | 29,263 | 4,962 | 11,481 | (271) | (3,301) |
| Cash flows from investing activities | (1,704) | (3,613) | (8,299) | (6,904) | (84,006) |
| Cash flows from financing activities | (24,840) | (16,988) | (7,091) | (1,392) | (16,943) |
| Cash and cash equivalents at end of year | 43,219 | 27,598 | 23,735 | 15,313 | 186,309 |
| **Amounts per Share** | | (Yen) | | | U.S. dollars |
| Net income: Basic | 52.44 | 37.46 | 34.12 | 34.22 | 0.42 |
| Net assets | 759.66 | 791.24 | 805.95 | 826.68 | 10.06 |
| **Ratios** | | (%) | | | |
| ROE | 6.35 | 4.88 | 4.27 | 4.21 | |
| ROA | 4.1 | 2.7 | 3.6 | 3.3 | |
| Shareholders' equity ratio | 35.85 | 34.24 | 33.05 | 30.62 | |
| **For Reference** | | | | | |
| Number of employees | 3,605 | 3,528 | 3,441 | 3,408 | |
| [Others, average number of temporary employees] | [1,969] | [2,026] | [2,070] | [1,944] | |

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥82.19=U.S.$1, the approximate Tokyo foreign exchange market rate as of March 31, 2012.
2. Number of employees excludes personnel seconded by the Group but includes personnel seconded to it.

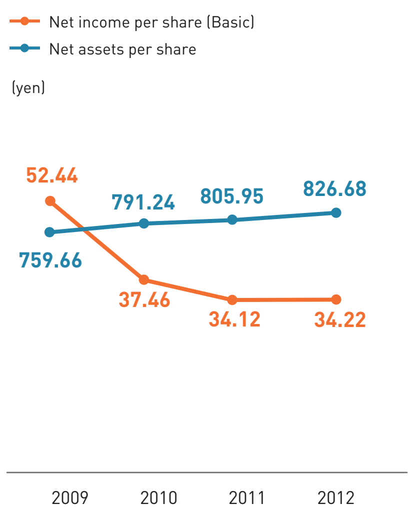
### Operating Income




### Total Assets and ROA




### Amounts per Share

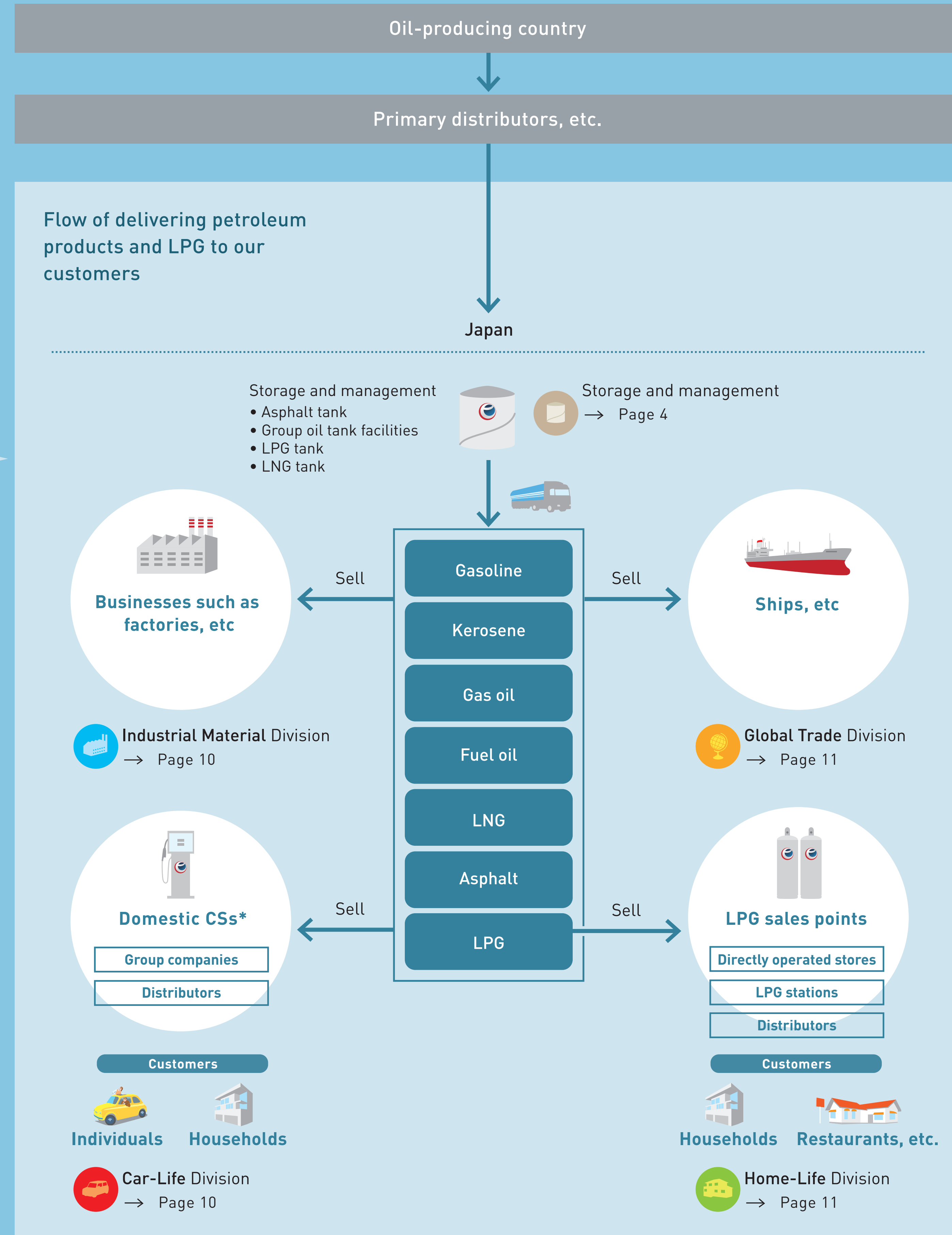


# We will strive to provide best solutions by delivering the “best mix” of energy.

Amid the social trend of aiming for low carbon emissions, there is an increasing need for clean distributed energy. With petroleum products that are superior economically and in terms of convenience forming its core, the Enex Group is developing businesses that generate electric power by an array of natural energy sources, store power to stably utilize these energy sources and supply heat. The Group is developing businesses that “propose the best mix of energy” and select energy that suits customer needs.

The “best mix” of energy to realize a low-carbon society

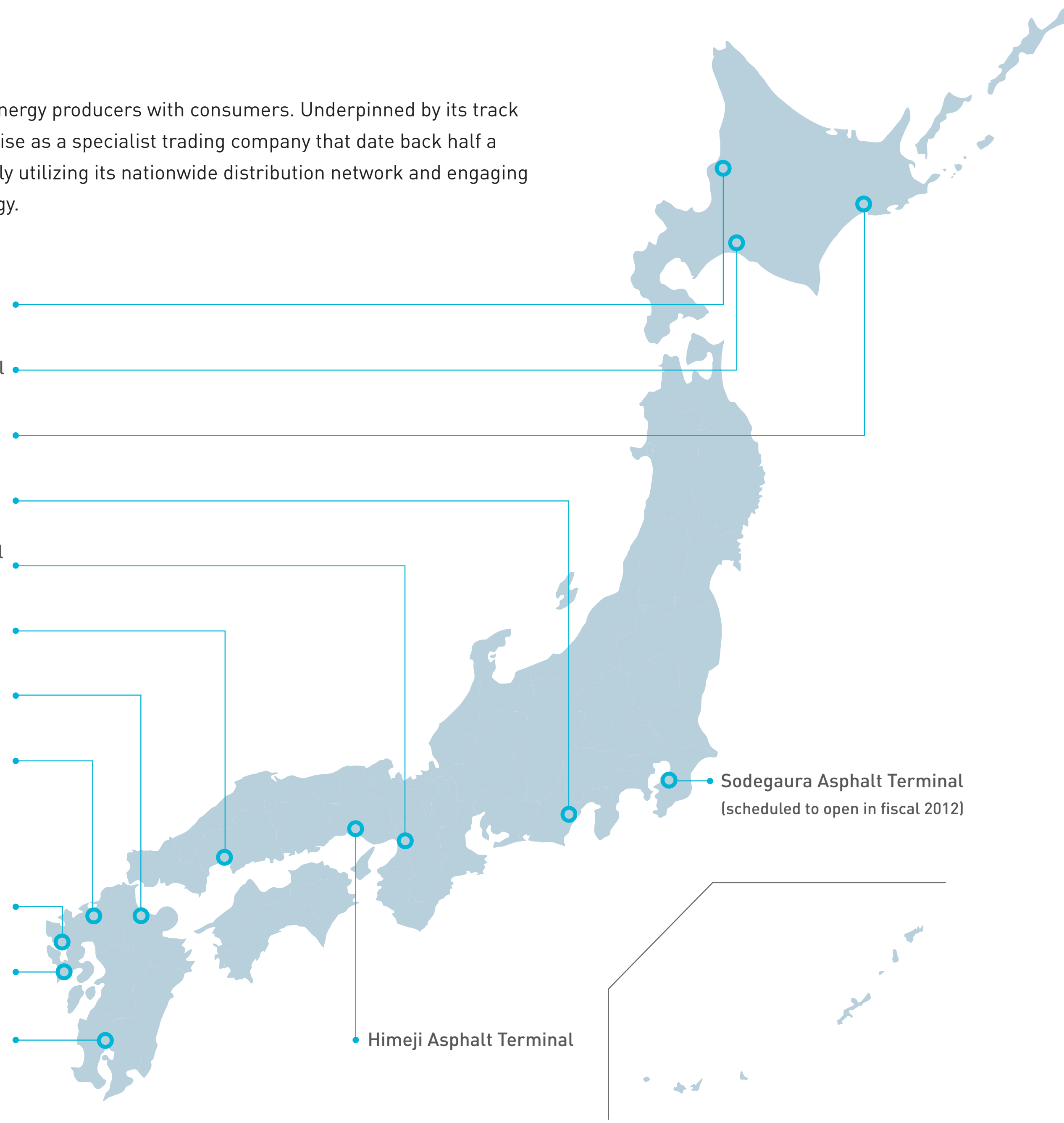
- Promotion of the advanced use of fossil fuels
- Renewable energy
  - Home-Life Division → Page 11
  - Total-Life Division → Page 11
- Electrical energy
  - Electric power-related services → Page 7




*CS: Car-Life Station

# The Nationwide Energy Network of Itochu Enex

The Enex Group connects energy producers with consumers. Underpinned by its track record and wealth of expertise as a specialist trading company that date back half a century, the Company is fully utilizing its nationwide distribution network and engaging in the stable supply of energy.




## Nationwide Sales Network (As of March 31, 2012)

The Enex Group sells gasoline, kerosene, gas oil and oil to 2,157 affiliated CSs, making us the No. 1 energy trading company in Japan in terms of scale. The Group also sells LPG to approximately one million households nationwide through 1,600 sales points.

| No. of CSs | LPG sales points | No. of auto gas stations |
|---|---|---|
| 2,157 | 1,600 | 44 |
| No. 1 Energy Trading Company | | |



## Major Enex Group Oil Tank/Terminal Facilities

Utilizing storage and supply facilities that cover upstream to downstream energy distribution, the Company conducts efficient operations from procurement and storage to delivery to market while giving due consideration to the balance between supply and demand.

### Petroleum product storage facilities


Etajima Oil Terminal


Oigawa Oil Terminal


Nagasaki Gas & Oil Terminal

| | Location | ISO 14001 Certification | Number of Tanks | Tank Applications | Tank Capacity |
|---|---|---|---|---|---|
| **Etajima Oil Terminal** | Etajima-shi, Hiroshima | Acquired in 1998 | 8 | Petroleum products (4) / caustic soda (4) | 144,000KL |
| **Oigawa Oil Terminal** | Yaizu-shi, Shizuoka | Acquired in 2003 | 10 | Petroleum products (2) / chemicals (8) | 15,000KL |
| **Nagasaki Gas & Oil Terminal** | Nagasaki-shi, Nagasaki | Acquired in 2001 | 6 | Petroleum products | 4,800KL |
| **Fukuoka Oil Terminal** | Fukuoka-shi, Fukuoka | Acquired in 2001 | 10 | Petroleum products | 8,900KL |

### Asphalt terminal

| | |
|---|---|
| Location | Fukuoka-shi, Fukuoka |
| ISO 14001 Certification | Acquired in 2001 |
| Tank Capacity | Terminal 1 2,300 tons<br>Terminal 2 1,800 tons |


Fukuoka Asphalt Terminal

**Other asphalt terminals**

Rumoi, Kushiro, Tomakomai, Sakurajima, Osaka, Himeji, Sasebo, Kajiki.

### City gas supply facility

| | |
|---|---|
| Location | Nakatsu-shi, Oita |
| ISO 14001 Certification | Acquired in 2004 |
| Tank Capacity | 300KL |


Nakatsu-Gas Branch

### High-pressure gas stations

| | |
|---|---|
| Location | Sagamihara-shi, Kanagawa |
| Tank Applications | Industrial high-pressure gas<br>Medical high-pressure gas |
| Tank Capacity | 83 tons |


Itochu Industrial Gas Co., Ltd., Kanagawa Branch

**Other high-pressure gas stations**

Kita-kanto Branch, Chiba Branch, Buzen Factory (Kyushu), etc., of ITOCHU INDUSTRIAL GAS CO., LTD.

### Kerosene centers

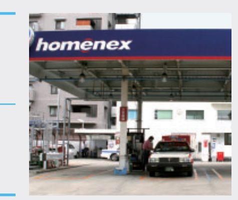
| | |
|---|---|
| Location | Mainly in the Hokkaido region |
| Number | 8 |

### LPG stations

| | |
|---|---|
| Location | Nationwide |
| Number | 42 |

### Auto gas stations

| | |
|---|---|
| Location | Nationwide |
| Number | 44 |



# Launch of New Group Medium-term Business Plan
# Growth Will Continue under New System

The Itochu Enex Group would like to thank its stakeholders for their loyal support.

Firstly, I would like to report that my predecessor, Akira Kodera, was appointed director and chairman, and I was appointed representative director and president at the Board of Directors' Meeting that followed the 52nd General Meeting of Shareholders held in June of this year.

The Group launched its new medium-term business plan, "Core & Synergy 2013," during the fiscal year ended March 31, 2012 (fiscal 2011). During the year, we put into effect sound growth strategies, such as strengthening and improving our core business of sales of petroleum products, enhancing our electric power businesses, proactively developing overseas businesses, and newly establishing the Total-Life Division. Under the ongoing new system, we will target further growth as a company proposing the "best mix" of energy.

We look forward to the continued support of our stakeholders.

Representative Director and President
Kenji Okada



## Responding to Widespread Demand and Tapping into Demand-Generating Businesses, Proposing the Best Mix of Energy to Customers

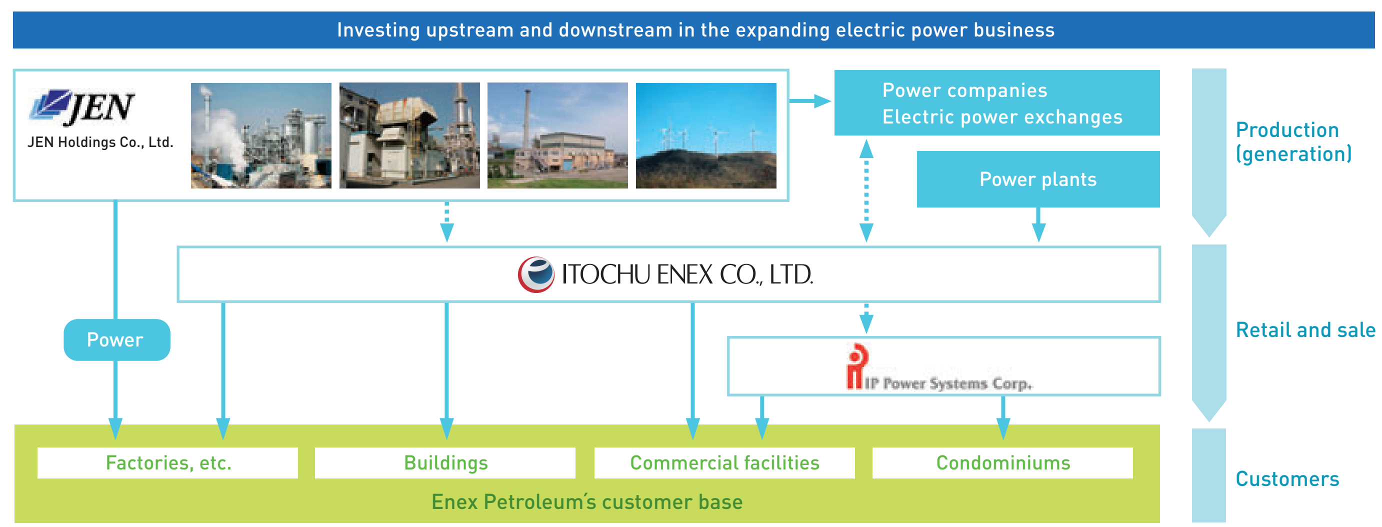
### 1 Itochu Enex worked to strengthen and improve its core business of sales of petroleum products and to move forward with electric power business

In fiscal 2011, the fiscal year ended March 31, 2012, which marked the start of the new group medium-term business plan, "Core & Synergy 2013," the Itochu Enex Group mobilized the wealth of networks and assets developed over our first 50 years of business to increase earnings while strengthening and upgrading our core businesses, developing demand-creative businesses from the consumer's standpoint, and realizing sustained growth in tandem with local communities as a provider of "best mix" energy solutions. These initiatives will strengthen the revenue base that hinges upon the Group's core petroleum product sales business and on which the Group anticipates deploying a range of new businesses.

In the course of fiscal 2011, in addition to strengthening its core petroleum product sales business under the basic policy, the Group put into effect other initiatives, such as enhancing its electric power business, deploying demand-generating businesses from the consumer's standpoint, and proactively developing overseas businesses. Although it was a year in which the business environment continued to be demanding, the Group is making steady progress toward meeting the targets of its new group medium-term business plan.

### 2 In welcoming two companies, the Group gained ground in upstream and downstream electric power business

In order to provide its customers with "best mix" energy, the Group submitted a notice of commencement of a power producer and supplier (PPS) business in July 2010 and started its electric power retailing business in October of that year. In February 2011, the Group became the largest shareholder in IP Power Systems Corporation (IPPS), which provides bulk power purchasing services for collective housing, and in March 2011 made the supplier of power and heat to factories, JEN Holdings Co., Ltd. (JEN), a wholly owned subsidiary. These initiatives served to enhance the Group's electric power business. They also brought within the Group electric power business, ranging from upstream power generation business to downstream retail sales, bringing to fruition the Group's entry into the power and heat supply business and ensuring end-users



for its sales of stable power supplies. In October 2011, IPPS commenced CS* power sales within The Chugoku Electric Power Co., Inc.'s area of jurisdiction, providing a shining example of the synergies being demonstrated by the Group.

*CS: Car-Life Station (comprehensive service station provided by the Group)

### 3 Selling electric scooters. Making progress with HEMS demonstration experiments. Two E-koto shops opened.

A new initiative aimed at energizing people and communities, the E-koto Project launched in May 2011 is centered on the Total-Life Division, which was established at the start of fiscal 2012. A collaborative effort with other business divisions possessing nationwide sales networks and Group companies, the E-koto Project initiative is resulting in the deployment of demand-generating businesses from the consumer's standpoint.

In May 2011, sales of "e-runner" electric vehicles commenced as the E-koto Project's first initiative. The lithium-ion battery fitted to an e-runner can be detached and taken indoors for recharging. The project's second initiative involves the home energy management system (HEMS), a residential lithium-ion power storage system to be sold by Enex that has reached the demonstration experiment stage. In January 2012, another project was activated with the opening of E-koto Shop Yotsukaido (in Chiba Prefecture) and E-koto Shop Shikigaoka (in Hiroshima Prefecture), these being examples of a new type of store that is tailored to each region. Such products as solar power generation systems, ENEFARM household fuel cell systems, lithium-ion recharging systems, and e-runner scooters are displayed at these stores, which not only sell the products but also offer visitors the opportunity to experience first-hand the "best mix" energy lifestyle proposed by the Group.

### 4 Entry into import and wholesale business of petroleum products in the Pacific area

In April 2011, the Group newly established Project & Investment Department within the Global Trade Division. In collaboration with the ITOCHU Corporation group, the Company made progress in its preparations to become more actively involved in overseas business, obtaining by third-party allocation 25% of the shares of IP&E Palau, Inc. in the Republic of Palau in December 2011 and thereby entering the import and wholesale business of petroleum products in the Pacific area. Triggered by this project, the Group aims to establish an overseas business base, using in overseas markets its expertise in the downstream field, which is its greatest strength. The Project & Investment Department is examining prospective projects in preparation for the further development of overseas businesses.

### 5 Expanding into the heat supply business. Developing as the company that provides "best mix" energy solutions

In the current fiscal year, it is expected that the business environment in the energy distribution industry will continue to be demanding. Under the slogan "in Pursuit of a New Stage through Reform," the Group is working to transform its business model and will accelerate execution of its new group medium-term business plan, "Core & Synergy 2013."

In May 2012, the Group acquired Tokyo City Service Co., Ltd. to enter the heat supply business. This move will strengthen the end-user areas—industrial, domestic, and transportation—that underpin petroleum product sales by also entering the area of business use. Having added an electric power business and heat supply businesses to its core petroleum product sales business, the Group is even better placed to respond to customer needs and realize sustained growth as a company that provides the "best mix" energy solutions. The Group intends to remain engaged in medium- to long-term disaster relief efforts directed to those areas affected by the Great East Japan Earthquake until there are clear, ongoing indications that full recovery has taken place.





## Adhering to Growth Strategies, Making Enhancements to the Medium-term Business Plan toward Phase II

Group Medium-term Business Plan

**Core & Synergy 2013**

Phase II: in Pursuit of a New Stage through Reform

**Period** Three years (FY 2011 – FY 2013)

**Positioning** We are positioning the business plan as a foundation on which to expand the management direction formed during the previous "Core & Synergy 2010" business plan, proactively develop new business models, and leverage the 50th anniversary of the company to realize a new leap forward.

**Basic Policy** We will mobilize the wealth of networks and assets developed over our first 50 years of business to increase earnings while strengthening and upgrading our core businesses, developing demand-creative businesses from the consumer's standpoint, and realizing sustained growth in tandem with local communities as a provider of "best mix" energy solutions.

**Key Efforts**

**Improvement of petroleum product distribution functions**
- Enhancing logistics functions utilizing the Group's network of petroleum tanks
- Improving relations with primary distributors and expanding CSs through a private branding strategy

**Deployment of demand-generating business from the consumer's perspective**
- Creating new lifestyles that merge vehicles and homes through the sale of eco-energy
- Selling electric scooters ("e-runner") , electric vehicles (EVs) and EV conversion kits
- Undertaking next-generation CS efforts
- Rebuilding the remodeling business through M&A, etc.

**Transformation into a company providing the best mix of energy**
- Expanding electric power business (strengthening efforts by JEN, IPPS)
- Developing and promoting home energy management system (HEMS)
- Strengthening efforts and expanding sales of fuel cells, solar cells and rechargeable batteries

**Active expansion of overseas business**
- Acquiring a stable investment portfolio
- Growing earnings from commercial distribution and logistics
- Entering the retail market

**Medium- to long-term support activities aimed at post-earthquake reconstruction**
- Participating in medium- to long-term reconstruction support efforts using Itochu Enex management resources until reconstruction is achieved
- Implementing social contribution activities by establishing unique disaster relief know-how

**Quantitative Targets** (Consolidated targets for fiscal 2012)

| | | |
|---|---|---|
| Net sales ¥1,380.0 billion | Operating income ¥11.6 billion | Ordinary income ¥11.3 billion |
| Net income ¥5.2 billion | ROE 5.4% | EPS ¥46.0 |

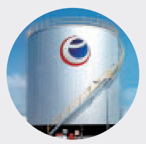
# Business Structure and Segments

The Enex Group is Moving to the Next Stage

## Five divisions work together based on the sales network that we have built.

The Group had previously conducted business centered on four divisions: the Industrial Material Division, the Car-Life Division, the Energy Trade Division and the Home-Life Division. In April 2011, the Energy Trade Division was renamed the Global Trade Division, and the Total-Life Division was established to propose new lifestyle alternatives merging the car and the home by delivering eco-energy to consumers. The current organization is made up of five divisions.


## Industrial Material Division

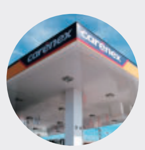


As an expert in industrial-use energy, our Industrial Material Division offers corporate customers optimal energy solutions centered on industrial-use energy, including petroleum, LPG and natural gas, and sales of such industrial materials as asphalt and cement. As environmental awareness is increasing and in response to changing industry needs, the Company is proposing low environmental impact energy conversion featuring environmental responsiveness, power savings and cost reductions.

**Major products and services**

- **Industrial energy**
  Kerosene, gas oil, fuel oil, high-pressure gas, heating supply, LNG
- **Industrial materials, environment-friendly products**
  Asphalt
  High-grade urea (AdBlue)
- **Fuel cards for corporate customers**
  Corporate cards for carriers or manufacturers that own vehicles
- **Cost reduction system**
  Groundwater membrane filtration systems

## Car-Life Division



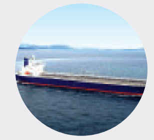
Our Car-Life Division sells gasoline, kerosene, gas oil and oil to 2,157 affiliated CSs, making us the No. 1 energy trading company in Japan in terms of scale. Having swiftly ascertained the changes in diversifying customer needs, we made the transition from an SS (service station) to a CS (Car-Life Station) concept, realizing improved sales outlets and earnings by providing a comprehensive range of automotive services and also creating CSs that are appealing to customers.

**Major products and services**

- **Vehicle fuel**
  Gasoline, kerosene, gas oil, engine oil
- **Car-Life support business**
  Itsumo Rent-a-Car
  Used car sales system (Itsumo Car Net)
  Car business support (cabusu) program for ASP-type CSs
- **Card business**
  **Car ENEX itsumo card**
- **Sales point management support**
  **IT systems**
  E3 (Enex Exciting Engine, a new POS system that includes an accounting system)
  E3 Pro (independent E3 processing using the Internet and computer)

For more details about the major products and services of each business segment, please visit our website.

## Global Trade Division



The Global Trade Division develops import, export and domestic sales business as the core of the petroleum product trading function in the Itochu Group. The division also sells marine fuel at major ports in Japan and overseas and boasts an industry-leading share of the market. Also responsible for the Itochu Group's petroleum trading-related transportation functions across the world, the division is globally developing tanker chartering and operations. Having established the Project and Investment Department in the previous fiscal year, the division is developing overseas business in an enterprising manner.

**Major businesses**

- **Petroleum product trading business**
  Import, export and domestic sale of petroleum products as the core of petroleum product trading in the Itochu Group
- **Marine fuel sales business**
  Trading and selling marine fuels in major ports inside and outside Japan
- **Tanker operation and chartering business**
  Global arrangement and operation of petroleum product tankers
- **Storage tank leasing business**
  Creation of a robust supply network to respond to customers' needs through tanks owned nationwide
- **Project and investment business**
  Implementation of the development of new projects overseas in coordination with the Itochu Group

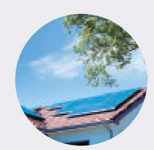
## Home-Life Division


The Home-Life Division delivers environment-friendly lifestyle LPG and city gas energy to a million households and corporate customers throughout Japan. The division supports affluent and comfortable lifestyles by providing and introducing environment-friendly, lifestyle-related products and services. Also actively engaged in sales of eco-energy, the division aims to disseminate clean energy that will realize a low-carbon society.

**Major businesses and products**

- **LPG sales business**
  Household LPG retail sales business
  Wholesale LPG business
  Corporate LPG retail sales business (business, industrial use)
- **City gas sales business (Nakatsu-Gas)**
- **Auto gas business**
- **Lifestyle-related support**
  **"A Happy Life with Gas and Electricity"**

## Total-Life Division

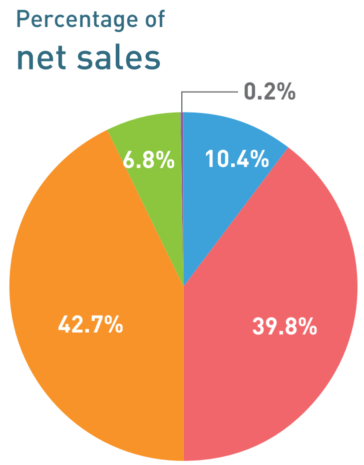


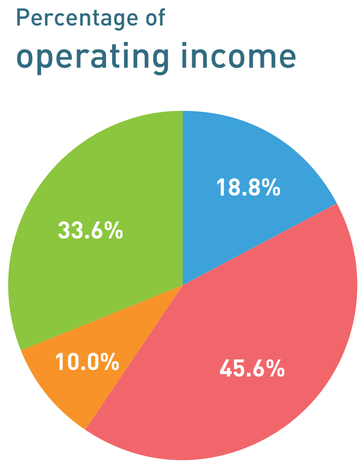
The Total-Life Division was established in April 2011 to propose more comfortable lifestyles to consumer customers. By delivering a variety of eco energy that makes lifestyles richer, we create new lifestyles that merge the car and the home. We will also develop businesses that generate demand from a consumer perspective by changing the way we think to provide not only "goods" but also "concepts."

**Major businesses and products**

- Photovoltaic power generation systems
- ENEFARM residential fuel cells
- Residential lithium ion power storage system
- SupercondenserR
- e-runner electric scooter
- ASCLASS Reform

# Review of Business Operations



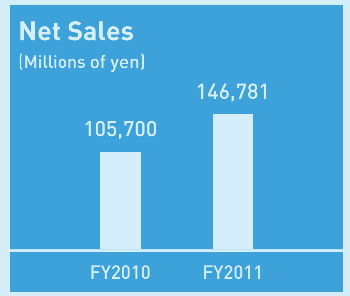



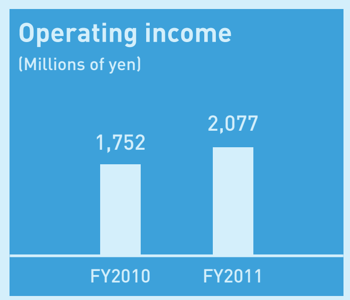

Industrial Material
Car-Life
Global Trade
Home-Life
Total-Life

* Excludes Other (business segment not included in reporting segments) and adjustments

## Industrial Material Division

In its petroleum product sales business, the Industrial Material Division recorded increased sales in kerosene, gas oil, A-grade fuel oil, and asphalt as a result of proactive measures to gain new customers and moves to expand its distribution capabilities, such as by establishing asphalt bases in the Hokkaido and Osaka areas. Operating income showed an improvement on that of fiscal 2010. However, due to a downturn in industrial factory utilization rates, the volume of general high-pressure gas sales business was down on the previous fiscal year. In contrast, in the on-site power and heat supply business at JEN Holdings Co., Ltd. (JEN), which was added to the Group at the end of March 2011, electric power wholesale spot prices remained high due to tight supply and demand. The increase in sales brought about by improved facility utilization rates also made a contribution, resulting in an improvement on the planned figures.

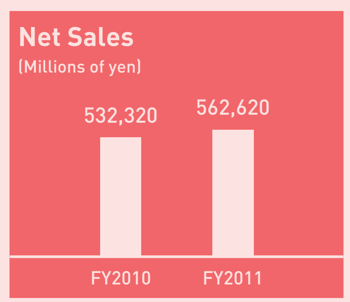


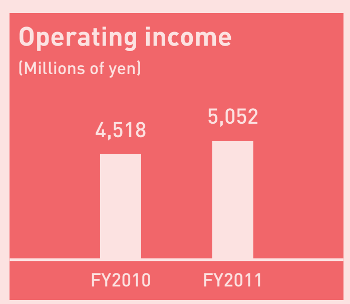




## Car-Life Division

Although the year was characterized by such factors as the Great East Japan Earthquake, soaring oil prices, and sluggish demand in the Japanese economy, the Car-Life Division recorded steady sales volumes in fiscal 2011. This result was achieved by strengthening its sales capabilities at CS affiliates and promoting expansion of its business base by forming new business groupings. Carrying out management rationalization by realigning each Group company and strengthening business bases also made a contribution, resulting in operating income being above that of the previous fiscal year. The ACT Program* was implemented, targeting the largest-ever number of CS entries and helping to establish sound CS management. Efforts were made to establish a CS network capable of acting as energy supply bases during post-earthquake recovery and reconstruction measures or even during a natural disaster. The overall number of Group CS facilities in operation in fiscal 2011 totaled 2,157 (a net increase of 13 locations compared with the previous fiscal year).

* The Area Champion Trial (ACT) Program strongly supports stores by having them work together with the Company to realize "CSs that can survive in the future" by analyzing CS store power, conducting research on competitors, and holding training sessions.

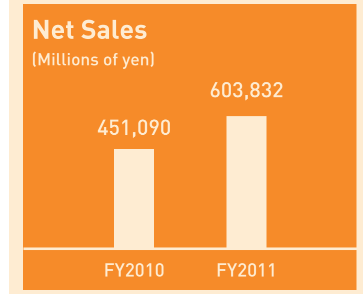


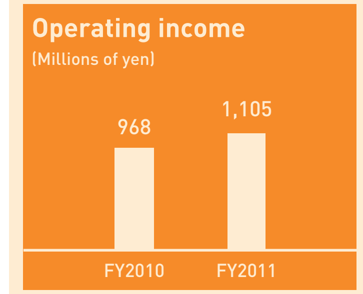






## Global Trade Division

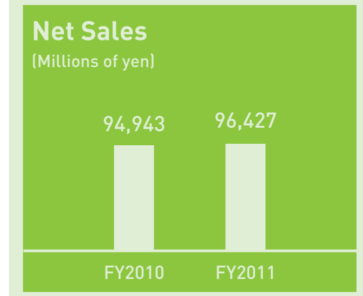
In its petroleum product trade business, the Global Trade Division accumulated transactions in response to market changes and collaborated more closely with Kokura Enterprise Energy Co., Ltd., which resulted in both sales volumes and profit surpassing the fiscal 2010 totals. In its marine fuel sales business, there was a marked increase in sales volume in business to domestic operators, which ensured that there was a year-on-year profit improvement. In its tanker chartering business, the division promoted cost reductions in vessel ownership and increased the operational efficiency of their own vessels, which resulted in improved profit and loss. The division's Project & Investment Department obtained shares in IP&E Palau, Inc. in December 2011, prompting entry into the petroleum product import and wholesale business in the Pacific area. While using its expertise in the downstream field in overseas markets, the division's Project & Investment Department is examining prospective projects in preparation for the further development of overseas businesses.

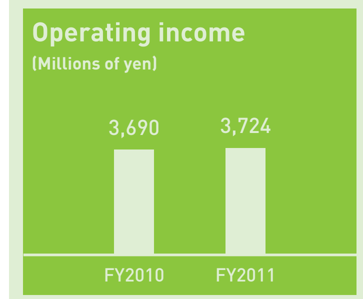



## Home-Life Division

As temperatures were low throughout Japan in the peak demand fourth quarter, the LPG sales volumes, which are primarily to households, were up on the previous fiscal year. The effects of the fall in demand up until that time meant that sales for the year showed a decrease. In contrast, import prices for LPG reached record highs in March and enabled the Home-Life Division to ensure a reasonable profit thanks to the raw material cost adjustment system. To expand the LPG business base and enhance competitiveness, progress was made with the formation of new company groupings by area, and business efficiency improvements and cost reductions implemented. With a view to expanding sales of solar power generation systems and ENEFARM residential fuel cells, the division has re-established its direct sales system for household use and will work to make utilization of an LPG-based energy distribution system more widespread.



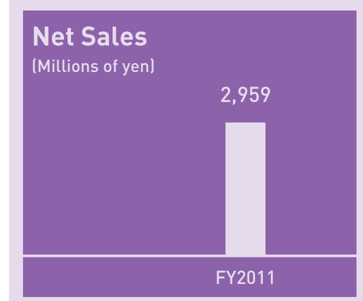



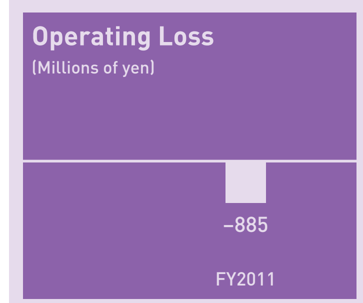

## Total-Life Division

New sales channels were created and progress was made in the active sales promotion of solar power generation systems and ENEFARM systems. Sales commenced of the first initiative in the E-koto Project that is aimed at energizing people and communities, the "e-runner" electric vehicle, and by the end of March 2012 there were 513 stores handling sales. The project's second initiative, the residential lithium-ion power storage system HEMS* has reached the demonstration experiment stage. The division also opened two E-koto Shops, facilities that integrate home and car.

* An acronym for Home Energy Management System. HEMS is an electric power supply system that under normal operations automatically charges lithium-ion storage batteries at night, when power is less expensive, provides efficient power supply when used in combination with solar power generation systems and fuel cell systems, and can also serve as an emergency power source.

As the Total-Life Division was newly established in fiscal 2011, there are no performance data for FY2010 Period.



# CSR/Compliance Management

## Corporate Governance

Based on the Group 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 ensuring thorough compliance, emphasizing shareholders' interest, ensuring transparency in business management and promoting swifter decision making while working to strengthen corporate governance. The Company also introduced an executive officer system to separate the execution of operations from decisions on basic management policies made by the Board of Directors, and to accelerate decision making by management.

## Internal Control Systems

Based on the November 2010 revisions to the Basic Principles on Internal Control Systems, the Company upgraded its accounting rules, regulations governing its consolidated financial statements as well as other internal regulations and complied with accounting standards and other related laws and regulations. The Company is thus building up its internal controls to ensure the legality and appropriateness of its financial reporting. The Internal Control Office periodically evaluates and improves the internal systems to ensure the propriety of financial reporting.

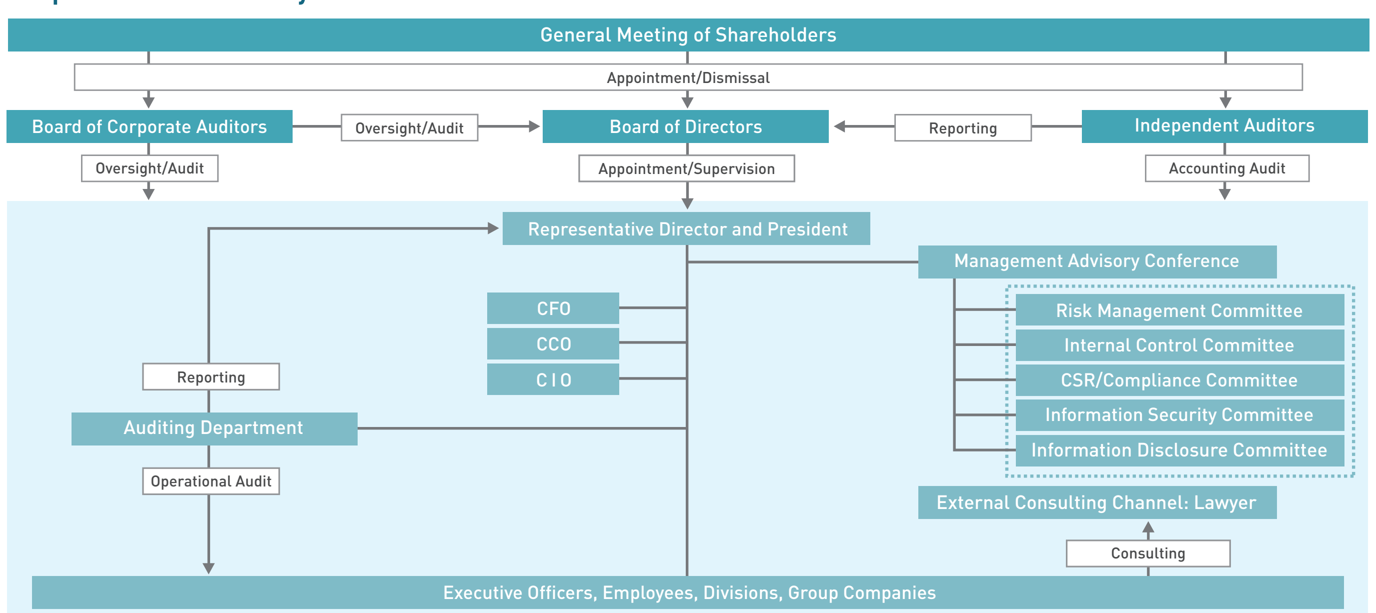
## Systems Should an Emergency Situation Arise

In preparation for an unexpected event, an "Emergency Contact Network," which is a communication system that allows constant communication among all levels, from each business division to the president, has been set up. The system is intended to allow information to be collected rapidly and the correct response to be made in the event of an accident or risk occurring within the Group. In the case of  natural disaster such as an earthquake, typhoon or torrential rain, the system is intended to swiftly provide an understanding of damage made to the Group's facilities and sales points while enabling responses to secure lifelines. The system is in operation around the clock, 365 days a year, including outside working hours.

## Strengthening BCP Based on Disaster Scenarios

In anticipation of such emergency situations as a major disaster or an influenza outbreak, Enex has formulated a business continuity plan (BCP). Having gained response experience at the time of the Great East Japan Earthquake, we once again recognized the importance of crisis management at the time of a large-scale disaster from a BCP perspective, renaming the Disaster Headquarters the BCP/Disaster Response Headquarters, while reorganizing and strengthening its functions.

### Corporate Governance System




### New, Enhanced BCP/Disaster Response Headquarters

Headed by the president and having the chief compliance officer (CCO) as its vice president, the Response Headquarters' members comprise the presidents and general managers of each business division as well as each divisional head of the headquarters' management division. When a large-scale disaster strikes, members are obliged to meet at a designated location, draw up plans for a unified chain of command, expand systematic collaboration and respond to the situation in a unified manner. In the event that a disaster in the Tokyo Metropolitan Area brings the headquarters building functions to a halt, a backup system will also be formed to move those same headquarters management functions to either the Chubu or Kansai branch.

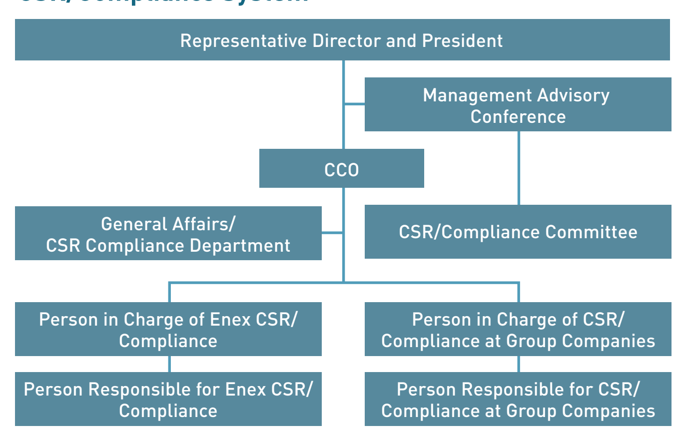
## CSR/Compliance System

In addition to the chief compliance officer (CCO) being the senior person with overall responsibility and the CSR/Compliance Committee positioned as an advisory board to the Management Advisory Conference, a person responsible for CSR/Compliance is assigned at every business division and Group company. The Company ensures thorough CSR compliance throughout the Group by managing each role and function on an organizational basis.

### CSR/Compliance Committee

Headed by the CCO, the CSR/Compliance Committee is the organization that forms the core of the CSR/compliance system. Meeting at the behest of the CCO, the committee deliberates Groupwide policies with regard to corporate social responsibility (CSR), important environmental improvement activities (environmental management system) and topics related to security based on a comprehensive framework before making the necessary resolutions and appropriate proposals.

### CSR/Compliance System




## CSR/Compliance Program

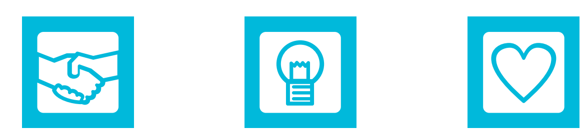
This program ensures the thorough implementation of CSR/compliance efforts across all divisions. Covering important items from a CSR/compliance perspective—including a system to promote CSR/compliance activities, the corporate philosophy, the employee Code of Conduct, the Declaration of the Group Code of Conduct, responses to any accidents and complaints that arise, upgrading the Emergency Contact Network, setting up the Disaster Response Headquarters—the program is actively utilized for education and training purposes and in day-to-day operations.

## Internal/External Consulting Channels

The Company has set up internal and external (a law firm) consulting channels to enable prompt notification when an employee is found to have infringed or is likely to have infringed the Declaration of the Group Code of Conduct, or when executives or other employees carry out acts in violation, or cases where these cannot be identified as having occurred or if there are concerns that a violation could occur. In order to protect the consultation mechanism and internal whistleblowers, repeat lectures are held during CSR/compliance training sessions that are continually raising awareness.

Enex Group Code of Conduct

**"Be Ethical"**



**Reliability & Sincerity** **Creativity & Flair** **Transparency & Integrity**

In accordance with the Company having embraced the spirit of the company motto not long after being founded in 1962, these were enacted as the Group employees' Code of Conduct in 2001. The Enex Group shall regard them as its basic CSR/compliance guidelines and the Code of Conduct to which all employees must adhere as it undertakes its day-to-day operations.

# Directors and Officers (As of October 1, 2012)

Director and Chairman
**Akira Kodera**

Representative Director and President
**Kenji Okada**

Representative Director and Senior Managing Officer
**Akira Doi**
Assistant to President

Representative Director and Senior Managing Officer
**Hiroshi Arai**
General Manager for Total-Life Division

Director and Managing Officer
**Yutaka Tanaka**
General Manager for Corporate Administration Division, Chief Financial Officer and Chief Information Officer

Director and Managing Officer
**Tatsunosuke Nagao**
General Manager for Industrial Material Division

Director and Managing Officer
**Hideo Nakamura**
General Manager for Car-Life Division

Director and Managing Officer
**Masanobu Takagi**
General Manager for Global Trade Division

Director and Managing Officer
**Akio Nakayama**
General Manager for Home-Life Division

Director and Managing Officer
**Hiroyuki Yumeno**
General Manager for Corporate Planning & Development Division, Chief Compliance Officer and Charge Officer for Post-Disaster Recovery and Reconstruction

Director
**Masanori Toyoshima**
Chief Operating Officer for Energy Division in Energy & Chemicals Company, ITOCHU Corporation

Standing Corporate Auditor
**Shuichi Morozumi**

Standing Corporate Auditor
**Yoshikazu Ishii**

Corporate Auditor
**Masayasu Tanaka**
Chief Financial Officer for Metals & Minerals Company, ITOCHU Corporation

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

Managing Officer
**Koji Tsutsumi**
Assistant General Manager for Global Trade Division and General Manager for Products Trade & Supply Department in Global Trade Division

Managing Officer
**Fumio Shimizu**
Assistant General Manager for Car-Life Division and General Manager for Planning & Administration Department in Car-Life Division

Executive Officer
**Hiroto Jinnouchi**
Manager for Kyushu Branch in Car-Life Division

Executive Officer
**Koji Yamada**
Manager for Chubu Branch in Car-Life Division

Executive Officer
**Hiroshi Hayashida**
General Manager for Total-Life Development Department in Total-Life Division
President for ASCLASS Inc.

Executive Officer
**Masatsugu Takashima**
General Manager for Planning & Administration Department in Global Trade Division

Executive Officer
**Toshiyuki Tsuruoka**
General Manager for Asphalt Department in Industrial Material Division

Executive Officer
**Kouichi Otabe**
General Manager for Marine Fuel Department II in Global Trade Division

Executive Officer
**Nobusuke Ozaki**
General Manager for Human Resources Department in Corporate Planning & Development Division

Executive Officer
**Keiichi Matsuzuka**
General Manager for Energy Management Department in Industrial Material Division
President for JEN Holdings Co., Ltd.



## Financial Section



# Overview of Fiscal 2011 Business Results

## Operating Conditions and Itochu Enex's Efforts

In the fiscal year ended March 31, 2012 (fiscal 2011), the Japanese economy that had suffered a decline due to the effects of the Great East Japan Earthquake continued to show signs of recovery with the subsequent rebuilding of supply chains. However, hampered by protracted appreciation of the yen and uncertainties regarding the global economy, the recovery made only gradual progress and the signs were weak overall.

In the petroleum product distribution industry, crude oil prices that had risen due to the situation in the Middle East remained high because of the ongoing geopolitical risks. With the exception of the high-demand fuel oil for electric power, Japanese demand was below that of the previous fiscal year because of the earthquake and delayed economic recovery.

Under these circumstances, the Itochu Enex Group launched its new medium-term business plan, Core & Synergy 2013, and worked to strengthen and improve its core business of sales of petroleum products. The Group made headway in its electric power-related businesses by newly adding JEN Holdings Co., Ltd. (JEN) and IP Power Systems Corporation (IPPS) to the Group companies, proactively developed overseas businesses, established the Total-Life Division that creates new lifestyles by delivering eco-energy, worked on a new business model as a company based on best-mix energy proposals, and put into effect its growth strategies.

## Overview of Operating Results

As a result of the above, consolidated net sales for the fiscal year under review totaled ¥1,414,161 million, up 19.3% from the previous fiscal year, due to the increase in sales prices brought about by the soaring prices for crude oil. In contrast, operating income edged down 0.6%, to ¥8,973 million, due to reduced margins brought about by sharp rises in crude oil and liquefied petroleum gas ("LPG") that continued into the fourth quarter and despite efforts to strengthen the business base by Group reorganization and reduce costs by streamlining management. Net income edged up 0.2%, to ¥3,893 million, thanks to an improvement in extraordinary loss compared with the previous fiscal year.

## Overview of cash flow

Cash and cash equivalents stood at ¥15,313 million at the end of the fiscal year under review, a decrease of ¥8,422 million compared with the end of the previous fiscal year. The decrease was mainly attributable to the expense of trading funds, including an increase in trade notes and accounts receivable. The cash flow situation during the fiscal year under review, and the main contributory factors, are as follows.

### Net cash used in operating activities

Net cash used in operating activities totaled ¥271 million. This was mainly due to ¥8,952 million of income before income taxes and minority interests and ¥8,342 million of depreciation and amortization being partially offset by ¥13,297 million of the expense of trading funds, including an increase in trade notes and accounts receivable, and ¥4,362 million of income taxes paid.

### Net cash used in investing activities

Net cash used in investing activities totaled ¥6,904 million. This was primarily due to ¥7,609 million in expenditure for the purchases of property, plant and equipment through investment in heat and power supply equipment and LNG pipe facilities as well as for the purchases of intangible assets.

### Net cash used in financing activities

Net cash used in financing activities totaled ¥1,392 million. This was mainly due to ¥1,457 million in income from an increase in interest-bearing debt, including loans payable, as well as the payments of ¥2,420 million for dividends paid and ¥429 million for purchase of treasury stock.

| Fiscal year ended March 31, | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| Shareholders' equity ratio | 35.9% | 34.2% | 33.1% | 30.6% |
| Shareholders' equity ratio based on market value | 24.4% | 21.3% | 19.5% | 18.1% |
| Ratio of cash flow to interest-bearing debt | 1.4 years | 5.6 years | 2.4 years | — years |
| Interest coverage ratio | 26.8x | 5.9x | 17.5x | —x |

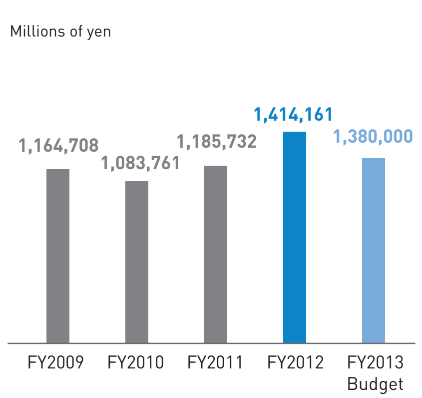
Notes: 1. **Shareholders' equity ratio** Shareholders' equity / total assets
**Shareholders' equity ratio based on market value** Market capitalization / total assets
**Ratio of cash flow to interest-bearing debt** Interest-bearing debt / cash flow
**Interest coverage ratio:** Cash flow / interest payments
2. The figures above are consolidated figures.
3. Market capitalization is calculated by multiplying the closing price on the Tokyo Stock Exchange for the final day of the fiscal year (or the final business day of the market if the final day is a holiday) by the number of shares obtained, by deducting treasury shares from the number of outstanding shares.
4. Cash flow is the total cash flow from operating activities in the Consolidated Statements of Cash Flows, and interest-bearing debt is all liabilities shown on the Consolidated Balance Sheets for which interest is paid.
5. The ratio of cash flow to interest-bearing debt and the interest coverage ratio are omitted for the fiscal year ended March 31, 2012, because that year's operating cash flow was negative.

## Outlook for the Coming Fiscal Year

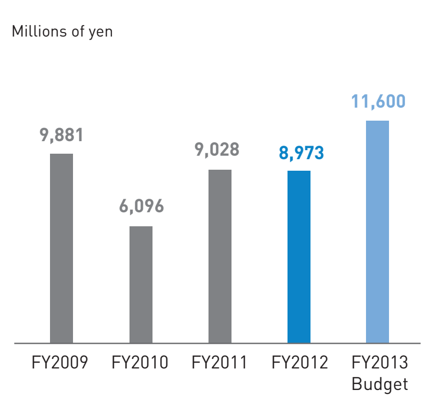
Despite the signs of recovery seen in the Japanese and global economies, ongoing risk of downward pressure is predicted. The environment in the petroleum product distribution industry is expected to remain harsh due to such factors as a decline in domestic demand caused by high prices for crude oil and the proliferation of fuel-efficient cars.

Amid such circumstances, the Group will strengthen and improve its core business and work to tap into demand-generating businesses under the second year of its Core & Synergy 2013 medium-term business plan. As a company based on best-mix energy proposals, we will aim to achieve sustainable growth in tandem with local communities while meeting the plan's consolidated performance assessment figures.

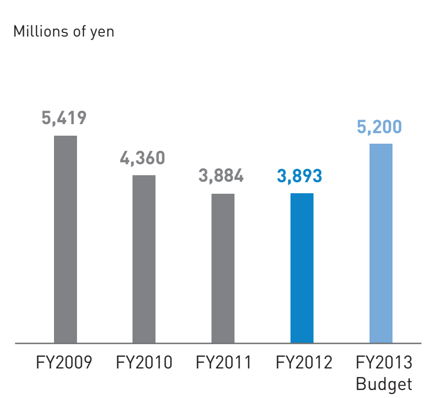
**Net sales**



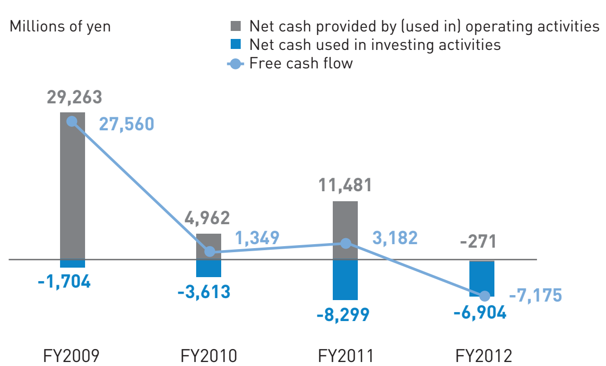

**Operating income**



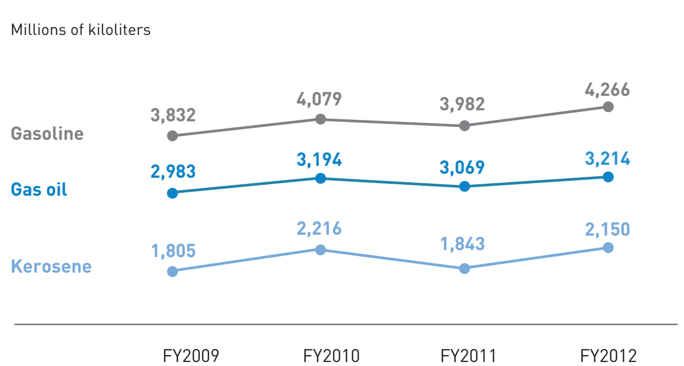

**Net income**




**Free cash flow**




**Changes in sales volumes of three main products**



# Consolidated Balance Sheet

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries
March 31, 2012

| | Millions of Yen 2012 | Millions of Yen 2011 | Thousands of U.S. Dollars (Note 1) 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents *(Note 15)* | ¥ 15,313 | ¥ 23,735 | $ 186,309 |
| Receivables: | | | |
| Trade notes and trade accounts *(Note 15)* | 149,705 | 116,920 | 1,821,446 |
| Unconsolidated subsidiaries and associated companies *(Note 15)* | 1,833 | 571 | 22,305 |
| Short-term loans | 478 | 424 | 5,813 |
| Other | 7,787 | 7,101 | 94,750 |
| Allowance for doubtful accounts | (306) | (624) | (3,728) |
| Inventories | 14,899 | 12,274 | 181,271 |
| Deferred tax assets *(Note 11)* | 1,685 | 2,287 | 20,500 |
| Prepaid expenses and other current assets *(Note 3)* | 6,483 | 5,250 | 78,893 |
| Total current assets | 197,877 | 167,938 | 2,407,559 |
| **PROPERTY, PLANT AND EQUIPMENT** *(Notes 4 and 6)*: | | | |
| Land | 35,085 | 35,565 | 426,876 |
| Buildings and structures | 53,988 | 52,786 | 656,864 |
| Machinery and equipment | 44,899 | 42,702 | 546,285 |
| Lease assets *(Note 14)* | 4,381 | 3,968 | 53,306 |
| Construction in progress | 1,904 | 627 | 23,171 |
| Total | 140,257 | 135,648 | 1,706,502 |
| Accumulated depreciation | (66,623) | (62,266) | (810,601) |
| Net property, plant and equipment | 73,634 | 73,382 | 895,901 |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities *(Notes 3, 7, and 15)* | 7,161 | 7,696 | 87,128 |
| Investment in and advances to unconsolidated subsidiaries and associated companies | 6,630 | 7,061 | 80,669 |
| Long-term loans *(Note 15)* | 1,167 | 1,280 | 14,196 |
| Goodwill *(Note 5)* | 3,431 | 4,053 | 41,742 |
| Deferred tax assets *(Note 11)* | 2,724 | 3,530 | 33,143 |
| Other assets | 13,048 | 13,578 | 158,754 |
| Allowance for doubtful accounts | (619) | (933) | (7,532) |
| Total investments and other assets | 33,542 | 36,265 | 408,100 |
| TOTAL | ¥305,053 | ¥277,585 | $3,711,560 |

See notes to consolidated financial statements.

| | Millions of Yen 2012 | Millions of Yen 2011 | Thousands of U.S. Dollars (Note 1) 2012 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES:** | | | |
| Short-term bank loans *(Notes 7 and 15)* | ¥ 9,000 | ¥ 6,949 | $ 109,504 |
| Commercial paper *(Notes 7 and 15)* | 4,000 | | 48,668 |
| Current portion of long-term debt *(Notes 7 and 15)* | 8,434 | 2,465 | 102,622 |
| Payables: | | | |
| Trade accounts *(Note 15)* | 125,693 | 103,650 | 1,529,299 |
| Unconsolidated subsidiaries and associated companies *(Note 15)* | 4,566 | 3,821 | 55,549 |
| Income taxes payable | 2,383 | 3,127 | 28,992 |
| Accrued expenses | 3,406 | 3,510 | 41,443 |
| Other current liabilities | 15,663 | 15,606 | 190,568 |
| Total current liabilities | 173,145 | 139,128 | 2,106,645 |
| **LONG-TERM LIABILITIES:** | | | |
| Long-term debt *(Notes 7 and 15)* | 12,291 | 21,427 | 149,543 |
| Liability for retirement benefits *(Note 8)* | 6,239 | 5,992 | 75,907 |
| Deferred tax liabilities *(Note 11)* | 164 | 377 | 1,999 |
| Deferred tax liabilities on land revaluation difference *(Note 11)* | 2,672 | 3,080 | 32,508 |
| Asset retirement obligations *(Note 9)* | 2,339 | 2,237 | 28,463 |
| Other long-term liabilities | 12,112 | 11,221 | 147,365 |
| Total long-term liabilities | 35,817 | 44,334 | 435,785 |
| **COMMITMENTS AND CONTINGENT LIABILITIES** *(Notes 14 and 18)* | | | |
| **EQUITY** *(Notes 10 and 20)*: | | | |
| Common stock, authorized, 387,250,000 shares; issued, 116,881,106 shares in 2012 and 2011 | 19,878 | 19,878 | 241,850 |
| Capital surplus | 18,737 | 18,737 | 227,966 |
| Retained earnings | 65,186 | 63,796 | 793,116 |
| Treasury stock—at cost | | | |
| 3,888,444 shares in 2012 and 3,037,695 shares in 2011 | (1,750) | (1,322) | (21,287) |
| Accumulated other comprehensive income (loss): | | | |
| Unrealized loss on available-for-sale securities | (1,031) | (1,104) | (12,540) |
| Deferred gain (loss) on derivatives under hedge accounting | (4) | 3 | (44) |
| Land revaluation difference *(Note 13)* | (7,627) | (8,236) | (92,801) |
| Foreign currency translation adjustments | 20 | | 239 |
| Total | (8,642) | (9,337) | (105,146) |
| Minority interests | 2,682 | 2,371 | 32,631 |
| Total equity | 96,091 | 94,123 | 1,169,130 |
| TOTAL | ¥305,053 | ¥277,585 | $3,711,560 |

# Consolidated Statement of Income

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2012

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| NET SALES | ¥1,414,161 | ¥1,185,732 | $17,206,003 |
| COST OF SALES | 1,349,557 | 1,120,831 | 16,419,967 |
| Gross profit | 64,604 | 64,901 | 786,036 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES *(Note 12)* | 55,631 | 55,873 | 676,859 |
| Operating income | 8,973 | 9,028 | 109,177 |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | 320 | 319 | 3,889 |
| Interest expense | (466) | (439) | (5,674) |
| Gain on sales of investment securities—net | 31 | 163 | 374 |
| Loss on devaluation of investment securities *(Note 3)* | (418) | (76) | (5,081) |
| Purchase discounts | 248 | 248 | 3,017 |
| Sales discounts | (216) | (227) | (2,632) |
| Equity in earnings of unconsolidated subsidiaries and associated companies | 116 | 323 | 1,408 |
| Foreign exchange (losses) gains—net | (84) | 142 | (1,021) |
| Gain on sales of property, plant and equipment | 349 | 113 | 4,246 |
| Loss on sales and disposal of property, plant and equipment | (358) | (516) | (4,352) |
| Loss on impairment of long-lived assets *(Note 4)* | (117) | (101) | (1,426) |
| Gain on transfer of business | | 74 | |
| Compensation income for expropriation | 21 | | 257 |
| 50th anniversary ceremony cost | | (246) | |
| Loss on adjustment for changes in accounting standard for asset retirement obligations *(Note 9)* | | (1,037) | |
| Gain on sales of parent stock | | 282 | |
| Losses from a natural disaster | (27) | (304) | (323) |
| Other—net | 580 | 435 | 7,059 |
| Other expenses—net | (21) | (847) | (259) |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | 8,952 | 8,181 | 108,918 |
| INCOME TAXES *(Note 11)*: | | | |
| Current | 3,596 | 4,273 | 43,753 |
| Deferred | 985 | (482) | 11,984 |
| Total income taxes | 4,581 | 3,791 | 55,737 |
| NET INCOME BEFORE MINORITY INTERESTS | 4,371 | 4,390 | 53,181 |
| MINORITY INTERESTS IN NET INCOME | 478 | 506 | 5,810 |
| NET INCOME | ¥ 3,893 | ¥ 3,884 | $ 47,371 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| PER SHARE OF COMMON STOCK *(Note 2.q)*: | | | |
| Basic net income | ¥ 34.22 | ¥ 34.12 | $ 0.42 |
| Cash dividends applicable to the year | 16.00 | 20.00 | 0.19 |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2012

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| NET INCOME BEFORE MINORITY INTERESTS | ¥4,371 | ¥4,390 | $53,181 |
| OTHER COMPREHENSIVE INCOME (LOSS) *(Note 19)*: | | | |
| Unrealized gain (loss) on available-for-sale securities | 73 | (376) | 887 |
| Land revaluation difference | 383 | | 4,657 |
| Share of other comprehensive gain (loss) in associates | 12 | (12) | 151 |
| Total other comprehensive income (loss) | 468 | (388) | 5,695 |
| COMPREHENSIVE INCOME | ¥4,839 | ¥4,002 | $58,876 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | ¥4,361 | ¥3,496 | $53,066 |
| Minority interests | 478 | 506 | 5,810 |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Year Ended March 31, 2012

| | Thousands | Millions of Yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Accumulated Other Comprehensive Income (Loss) | | | | | | |
| | Number of Shares of Common Stock Outstanding | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain (Loss) on Available-for-Sale Securities | Deferred Gain (Loss) on Derivatives under Hedge Accounting | Land Revaluation Difference | Foreign Currency Translation Adjustments | Total | Minority Interests | Total Equity |
| BALANCE, APRIL 1, 2010 | 113,845 | ¥19,878 | ¥18,737 | ¥61,719 | ¥(1,321) | ¥ (725) | ¥12 | ¥(8,221) | | ¥(8,934) | ¥1,979 | ¥92,058 |
| Net income | | | | 3,884 | | | | | | | | 3,884 |
| Cash dividends, ¥16.0 per share | | | | (1,822) | | | | | | | | (1,822) |
| Purchase of treasury stock | (2) | | | | (1) | | | | | | | (1) |
| Land revaluation difference | | | | 15 | | | | (15) | | (15) | | |
| Net change in the year | | | | | | (379) | (9) | | | (388) | 392 | 4 |
| BALANCE, MARCH 31, 2011 | 113,843 | 19,878 | 18,737 | 63,796 | (1,322) | (1,104) | 3 | (8,236) | | (9,337) | 2,371 | 94,123 |
| Net income | | | | 3,893 | | | | | | | | 3,893 |
| Cash dividends, ¥20.0 per share | | | | (2,277) | | | | | | | | (2,277) |
| Purchase of treasury stock | (850) | | | | (428) | | | | | | | (428) |
| Land revaluation difference | | | | (226) | | | | 226 | | 226 | | |
| Net change in the year | | | | | | 73 | (7) | 383 | ¥20 | 469 | 311 | 780 |
| BALANCE, MARCH 31, 2012 | 112,993 | ¥19,878 | ¥18,737 | ¥65,186 | ¥(1,750) | ¥(1,031) | ¥(4) | ¥(7,627) | ¥20 | ¥(8,642) | ¥2,682 | ¥96,091 |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated Other Comprehensive Income (Loss) | | | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain (Loss) on Available-for-Sale Securities | Deferred Gain (Loss) on Derivatives under Hedge Accounting | Land Revaluation Difference | Foreign Currency Translation Adjustments | Total | Minority Interests | Total Equity |
| BALANCE, MARCH 31, 2011 | $241,850 | $227,966 | $776,200 | $(16,081) | $(13,423) | $39 | $(100,210) | | $(113,594) | $28,849 | $1,145,190 |
| Net income | | | 47,371 | | | | | | | | 47,371 |
| Cash dividends, $0.24 per share | | | (27,703) | | | | | | | | (27,703) |
| Purchase of treasury stock | | | | (5,206) | | | | | | | (5,206) |
| Land revaluation difference | | | (2,752) | | | | 2,752 | | 2,752 | | |
| Net change in the year | | | | | 883 | (83) | 4,657 | $239 | 5,696 | 3,782 | 9,478 |
| BALANCE, MARCH 31, 2012 | $241,850 | $227,966 | $793,116 | $(21,287) | $(12,540) | $(44) | $(92,801) | $239 | $(105,146) | $32,631 | $1,169,130 |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Year Ended March 31, 2012

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **OPERATING ACTIVITIES:** | | | |
| Income before income taxes and minority interests | ¥ 8,952 | ¥ 8,181 | $108,918 |
| Adjustments for: | | | |
| Income taxes—paid | (4,362) | (3,964) | (53,068) |
| Depreciation and amortization | 8,342 | 7,901 | 101,497 |
| Gain on sales of property, plant and equipment | (349) | (113) | (4,246) |
| Loss on sales and disposal of property, plant and equipment | 358 | 516 | 4,352 |
| Gain on transfer of business | | (74) | |
| Gain on sales of parent stock | | (282) | |
| Gain on sales of investment securities—net | (31) | (163) | (374) |
| Compensation income for expropriation | (21) | | (257) |
| Loss on devaluation of investment securities | 418 | 76 | 5,081 |
| Loss on impairment of long-lived assets | 117 | 101 | 1,426 |
| Decrease in allowance for doubtful accounts | (195) | (201) | (2,376) |
| Provision for retirement benefits | 218 | 420 | 2,657 |
| Equity in earnings of unconsolidated subsidiaries and associated companies | (116) | (323) | (1,408) |
| Loss on adjustment for changes in accounting standard for asset retirement obligations | | 1,037 | |
| Losses from a natural disaster | 27 | 304 | 323 |
| Changes in assets and liabilities, net of newly consolidated subsidiaries: | | | |
| Increase in trade notes and accounts receivable | (33,341) | (4,744) | (405,652) |
| Increase in inventories | (2,515) | (1,842) | (30,595) |
| Increase in prepaid expenses and other current assets | (1,499) | (3,910) | (18,242) |
| Increase in trade notes and accounts payable | 22,559 | 2,980 | 274,470 |
| Increase in other current liabilities | 1,026 | 5,371 | 12,478 |
| Other—net | 141 | 210 | 1,715 |
| Total adjustments | (9,223) | 3,300 | (112,219) |
| **Net cash (used in) provided by operating activities** | (271) | 11,481 | (3,301) |
| **INVESTING ACTIVITIES:** | | | |
| Payments for purchases of marketable securities | (1,674) | | (20,363) |
| Proceeds from redemption of marketable securities | 675 | | 8,213 |
| Proceeds from sales of property, plant and equipment | 1,477 | 404 | 17,974 |
| Purchases of property, plant and equipment | (5,938) | (3,516) | (72,249) |
| Proceeds from sales of investment securities | 436 | 1,199 | 5,311 |
| Purchases of investment securities | (480) | (2,229) | (5,845) |
| Proceeds from sales of intangible assets | 4 | 293 | 44 |
| Purchases of intangible assets | (1,671) | (1,712) | (20,328) |
| Proceeds from transfer of business | | 74 | |
| Proceeds from liquidation of subsidiaries and affiliates | 18 | 12 | 217 |
| Purchase of investments in subsidiaries | (457) | (3,078) | (5,566) |
| Collection of (payment for) loans—net | (87) | 1,250 | (1,060) |
| Other—net | 793 | (996) | 9,646 |
| **Net cash used in investing activities** | ¥ (6,904) | ¥ (8,299) | $ (84,006) |

# Consolidated Statement of Cash Flows

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Year Ended March 31, 2012

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| FINANCING ACTIVITIES: | | | |
| Increase (decrease) in short-term bank loans—net | ¥ 1,986 | ¥ (1,925) | $ 24,163 |
| Increase in commercial paper—net | 4,000 | | 48,668 |
| Proceeds from long-term debt | | 9,950 | |
| Repayments of long-term debt | (4,529) | (13,168) | (55,109) |
| Purchase of treasury stock | (429) | (1) | (5,217) |
| Dividends paid | (2,420) | (1,947) | (29,448) |
| Net cash used in financing activities | (1,392) | (7,091) | (16,943) |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | 44 | (17) | 539 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (8,523) | (3,926) | (103,711) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 23,735 | 27,598 | 288,785 |
| INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES | 101 | 63 | 1,235 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | ¥15,313 | ¥23,735 | $ 186,309 |

DETAILS FOR PURCHASE OF INVESTMENTS IN SUBSIDIARIES:

Increase in assets and liabilities due to a newly consolidated subsidiary, JEN Holdings Co., Ltd., and net payments for the stock acquisition:

| | |
|---|---|
| Current assets | ¥ 1,808 |
| Noncurrent assets | 7,581 |
| Current liabilities | (2,507) |
| Long-term liabilities | (3,270) |
| Minority interests | (11) |
| Acquisition cost | 3,601 |
| Cash and cash equivalents from the acquisition | (523) |
| Net payments | ¥ 3,078 |

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Year Ended March 31, 2012

## 1. BASIS OF PRESENTATION OF 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 Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the 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 2011 consolidated financial statements to conform to the classifications used in 2012.

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 ¥82.19 to $1, the approximate rate of exchange at March 31, 2012. 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.

Certain reclassifications have been made in the 2011 financial statements to conform to the classifications used in 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Consolidation

The consolidated financial statements as of March 31, 2012 include the accounts of the Company and its 23 (25 in 2011) significant subsidiaries (collectively, the "Group"). Significant consolidated subsidiaries include Itochu Industrial Gas Co. Ltd.; Kokura Enterprise Energy Co., Ltd.; Enexfleet Co., Ltd. (formerly Konan Fleet Corporation); 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.

Former consolidated subsidiaries of the Company, Itochu Petroleum Sales Co., Ltd. and Enex Clean Power Energy Co., Ltd., were excluded from the scope of consolidation because these companies were merged into the Company and its consolidated subsidiary, Itochu Enex Home-life Kanto Co., Ltd., respectively.

The Company does not consolidate 17 (18 in 2011) subsidiaries due to their immateriality in terms of consolidated total assets, net sales, net income, and retained earnings.

Investments in 17 (18 in 2011) unconsolidated subsidiaries and 19 (18 in 2011) associated companies are accounted for by the equity method, including one significant associated company, Japan Gas Energy Corporation. 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.

For the year ended March 31, 2012, the Company newly invested in IM Marine S.A., Inc., and acquired additional shares of Etajima Sekiyu Futo Co., Ltd. and Moriya Medical Oxygen Co., Ltd., which had been included in investments in associated companies accounted for by the equity method. As a result, these companies became subsidiaries of the Company and investments in these subsidiaries are accounted for by the equity method effective for the year ended March 31, 2012. Investments in former unconsolidated subsidiaries, Kanagawa Gas Terminal Co., Ltd. and Melon Gas Co. Ltd., are no longer accounted for by the equity method because these companies were merged into consolidated subsidiaries, Itochu Enex Home-life Kanto Co., Ltd. and Itochu Enex Home-life Nishi-nihon Co., Ltd., respectively. Former associated companies, JAVA Shipholding S.A. and Yamashita Kanko Co. Ltd., were excluded from the scope of consolidation due to liquidations. Moreover, investments in two newly invested companies, Green Earth Co., Ltd. and IP&E Palau, Inc., have been included in associated companies accounted for by the equity method effective for the year ended March 31, 2012.

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 over a period of mainly 5 years.

All consolidated subsidiaries have a March 31 fiscal year end, which is the same as that of the Company, and their fiscal year end financial statements are used for consolidation. The fiscal year end financial statements of companies accounted for under equity method are also used for consolidation even if their fiscal year ends are different from that of the Company.

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.

# Notes to Consolidated Financial Statements

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2012

### b. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method

In March 2008, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and 5) exclusion of minority interests from net income, if contained.

### c. Business Combinations

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development ("IPR&D") acquired in the business combination is capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

### d. 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.

### e. Inventories

Petroleum products are stated at cost determined by the moving-average method and consumer-related goods are stated at cost, determined by the last purchase method.

However, inventories held for sale in the ordinary course of business are 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 net selling value, if appropriate.

### f. Investment Securities

Investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities, which are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

### g. Property, Plant and Equipment and Intangible Assets

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed principally 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 and the electric power facilities.

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. The useful lives for lease assets are the terms of the respective leases.

Intangible assets, which are included in "Other assets" under Investment and Other Assets in the consolidated balance sheet, 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 5 years.

### h. 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 at 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.

### i. Goodwill

Goodwill is carried at cost less accumulated amortization, which is calculated by the straight-line method over the useful life of principally 5 years.

### j. Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

### k. Employees' Retirement Benefits

The Group has an obligation to pay retirement benefits to its employees. The Group accounts for the liability for retirement benefits based on the projected benefit 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 using a straight-line method over a 9-year period, which is shorter than the average remaining years of service of the eligible employees.

### l. Asset Retirement Obligations

In March 2008, the ASBJ published ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

### m. Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's statements.

# Notes to Consolidated Financial Statements

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2012

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions.

### n. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement 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, interest rate, and foreign currency exchange. The Company does not enter into derivative transactions for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivative transactions 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 derivative transactions used for hedging purposes, if derivative transactions qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivative transactions 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 is recognized and included in interest expense or income.

### q. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

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.

Diluted net income per share and related information are not presented because there were no dilutive instruments outstanding for the years ended March 31, 2012 and 2011.

### r. Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies

When a new accounting policy is applied with a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors

When an error in prior-period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

## 3. INVESTMENT SECURITIES

Investment securities as of March 31, 2012 and 2011 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Current: | | | |
| Marketable debt securities | ¥ 999 | | $12,158 |
| Total | ¥ 999 | | $12,158 |
| Noncurrent: | | | |
| Equity securities: | | | |
| Marketable equity securities | ¥6,699 | ¥7,211 | $81,510 |
| Other | 462 | 485 | 5,618 |
| Total | ¥7,161 | ¥7,696 | $87,128 |

The cost and aggregate fair values of investment securities at March 31, 2012 and 2011 were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2012 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| Equity securities | ¥8,298 | ¥443 | ¥2,042 | ¥6,699 |
| Debt securities | 1,000 | | 1 | 999 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2011 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| Equity securities | ¥9,072 | ¥329 | ¥2,190 | ¥7,211 |
| Debt securities | | | | |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| March 31, 2012 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| Equity securities | $100,960 | $5,391 | $24,841 | $81,510 |
| Debt securities | 12,167 | | 9 | 12,158 |

The information for available-for-sale securities, which were sold during the years ended March 31, 2012 and 2011, was as follows:

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2012 | Proceeds | Realized Gains | Realized Loss |
| Available-for-sale: | | | |
| Equity securities | ¥436 | ¥42 | ¥11 |
| Total | ¥436 | ¥42 | ¥11 |

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2011 | Proceeds | Realized Gains | Realized Loss |
| Available-for-sale: | | | |
| Equity securities | ¥871 | ¥166 | ¥3 |
| Total | ¥871 | ¥166 | ¥3 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| March 31, 2012 | Proceeds | Realized Gains | Realized Loss |
| Available-for-sale: | | | |
| Equity securities | $5,311 | $506 | $132 |
| Total | $5,311 | $506 | $132 |

The loss on devaluation of investment securities for the years ended March 31, 2012 and 2011 were ¥418 million ($5,081 thousand) and ¥76 million, respectively.

## 4. LONG-LIVED ASSETS

The Group identifies a group of assets based on managerial accounting categories, except for idle assets, land, buildings and structures, which are individually reviewed for impairment.

For the years ended March 31, 2012 and 2011, the book values of long-lived assets were written down to their respective recoverable amounts by ¥117 million ($1,426 thousand) and ¥101 million, respectively. The amount for the year ended March 31, 2012 consisted of ¥63 million ($772 thousand) for buildings and structures, ¥53 million ($641 thousand) for land and ¥1 million ($13 thousand) for other assets. The amount for the year ended March 31, 2011 consisted of ¥47 million for buildings and structures and ¥54 million for land.

These decreases in value are included in other expenses as loss on impairment of long-lived assets.

The recoverable amounts of assets in use were measured at the net sales price.

The recoverable amounts of idle assets were measured at the net sales price principally based on the official notice prices assessed and published by the Commissioner of the National Tax Administration.

# Notes to Consolidated Financial Statements

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Year Ended March 31, 2012

## 5. GOODWILL

Goodwill at March 31, 2012 and 2011 consisted of the following:

| | *Millions of Yen* 2012 | *Millions of Yen* 2011 | *Thousands of U.S. Dollars* 2012 |
|---|---|---|---|
| Goodwill: | | | |
| Goodwill on purchase of a specific business, etc. | ¥1,939 | ¥2,040 | $23,587 |
| Consolidation goodwill | 1,492 | 2,013 | 18,155 |
| Total | ¥3,431 | ¥4,053 | $41,742 |

Goodwill at March 31, 2012 represents goodwill of ¥3,461 million ($42,115 thousand) net of negative goodwill of ¥30 million ($373 thousand). Goodwill at March 31, 2011 represents goodwill of ¥4,094 million net of negative goodwill of ¥41 million.

## 6. INVESTMENT PROPERTY

The Company and its consolidated subsidiaries own petroleum-related facilities, such as tank farms, gas stations, and liquefied petroleum gas ("LPG") stations, for rent all over Japan. Revenue and cost related to the real estate for rent were recorded in net sales and cost of sales, respectively. Net profit related to the real estate for rent was ¥934 million ($11,369 thousand) and ¥530 million for the years ended March 31, 2012 and 2011, respectively. Net gain on sale recorded in other income was ¥140 million ($1,704 thousand) for the year ended March 31, 2012. Impairment loss recorded in other expenses was ¥117 million ($1,426 thousand) and ¥101 million for the years ended March 31, 2012 and 2011, respectively, as discussed in Note 4.

The carrying amounts, changes in such balances, and market prices of such properties are as follows:

*Millions of Yen*

| Carrying Amount: April 1, 2011 | Carrying Amount: Increase/(Decrease) | Carrying Amount: March 31, 2012 | Fair Value: March 31, 2012 |
|---|---|---|---|
| ¥24,920 | ¥(1,606) | ¥23,314 | ¥18,875 |

*Millions of Yen*

| Carrying Amount: April 1, 2010 | Carrying Amount: Increase/(Decrease) | Carrying Amount: March 31, 2011 | Fair Value: March 31, 2011 |
|---|---|---|---|
| ¥23,657 | ¥1,263 | ¥24,920 | ¥21,373 |

*Thousands of U.S. Dollars*

| Carrying Amount: April 1, 2011 | Carrying Amount: Increase/(Decrease) | Carrying Amount: March 31, 2012 | Fair Value: March 31, 2012 |
|---|---|---|---|
| $303,197 | $(19,539) | $283,658 | $229,654 |

Notes:

1) Carrying amount recognized in balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.

2) Fair value of properties as of March 31, 2012 and 2011 is measured by the Company in accordance with its Real Estate Appraisal Standards (including properties adjusted by index).

## 7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2012 and 2011 consisted of bank overdrafts. The weighted-average interest rates applicable to short-term bank loans as of March 31, 2012 and 2011 were 0.657% and 0.855%, respectively. The Company issued commercial paper for the year ended March 31, 2012. The weighted-average interest rate applicable to commercial paper as of March 31, 2012 was 0.137%.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

| | *Millions of Yen* 2012 | *Millions of Yen* 2011 | *Thousands of U.S. Dollars* 2012 |
|---|---|---|---|
| Long-term borrowings from banks and insurance companies due through 2014 at average interest rates of 1.391% in 2012 and 1.890% in 2011 | ¥ 7,684 | ¥10,529 | $ 93,487 |
| Lease obligation | 3,041 | 3,363 | 37,008 |
| Unsecured 0.580% corporate bonds due through July 2013 | 5,000 | 5,000 | 60,835 |
| Unsecured 0.790% corporate bonds due through July 2015 | 5,000 | 5,000 | 60,835 |
| Total | 20,725 | 23,892 | 252,165 |
| Less current portion: | | | |
| Long-term borrowings | (7,350) | (1,448) | (89,425) |
| Lease obligation | (1,084) | (1,017) | (13,197) |
| Long-term debt, less current portion | ¥12,291 | ¥21,427 | $149,543 |

The annual maturities of long-term debt at March 31, 2012 were as follows:

| Years Ending March 31 | Long-term Borrowings: Millions of Yen | Long-term Borrowings: Thousands of U.S. Dollars | Corporate Bonds: Millions of Yen | Corporate Bonds: Thousands of U.S. Dollars | Lease Obligation: Millions of Yen | Lease Obligation: Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| 2013 | ¥7,350 | $89,425 | | | ¥1,084 | $13,197 |
| 2014 | 118 | 1,436 | ¥5,000 | $60,835 | 851 | 10,356 |
| 2015 | 49 | 589 | | | 525 | 6,387 |
| 2016 | 47 | 572 | 5,000 | 60,835 | 290 | 3,523 |
| 2017 | 34 | 418 | | | 158 | 1,928 |
| 2018 and thereafter | 86 | 1,047 | | | 133 | 1,617 |
| Total | ¥7,684 | $93,487 | ¥10,000 | $121,670 | ¥3,041 | $37,008 |

The carrying amount of assets pledged as collateral for trade accounts payable of ¥226 million ($2,752 thousand) at March 31, 2012 was as follows:

| | *Millions of Yen* | *Thousands of U.S. Dollars* |
|---|---|---|
| Investment securities | ¥6 | $71 |
| Total | ¥6 | $71 |

In addition, investment securities of ¥1,140 million ($13,874 thousand) were deposited as guarantees for commodity futures trading at March 31, 2012.

The Company entered into commitment line contracts with banks. Outstanding bank commitment lines contracted, but not provided for, as of March 31, 2012 and 2011 were as follows:

| | *Millions of Yen* 2012 | *Millions of Yen* 2011 | *Thousands of U.S. Dollars* 2012 |
|---|---|---|---|
| Credit facilities | ¥5,000 | ¥6,030 | $60,835 |
| Used | | 940 | |
| Unused | ¥5,000 | ¥5,090 | $60,835 |

## 8. 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, 2012 and 2011 for the Group defined benefit plans:

| | *Millions of Yen* 2012 | *Millions of Yen* 2011 | *Thousands of U.S. Dollars* 2012 |
|---|---|---|---|
| Retirement benefit obligation | ¥(7,079) | ¥(7,210) | $(86,134) |
| Plan assets at fair value | 569 | 683 | 6,931 |
| Unrecognized actuarial loss | 233 | 267 | 2,839 |
| Unrecognized prior service cost | 38 | 268 | 457 |
| Net liability | ¥(6,239) | ¥(5,992) | $(75,907) |

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* 2012 | *Millions of Yen* 2011 | *Thousands of U.S. Dollars* 2012 |
|---|---|---|---|
| Service cost | ¥503 | ¥525 | $ 6,117 |
| Interest cost | 78 | 68 | 947 |
| Recognition of actuarial loss (gain) | 23 | (33) | 284 |
| Amortization of prior service cost | 244 | 251 | 2,973 |
| Net periodic benefit costs | ¥848 | ¥811 | $10,321 |

In addition, the Group recorded expenses related to defined contribution pension plans of ¥434 million ($5,280 thousand) for the year ended March 31, 2012 and ¥414 million for the year ended March 31, 2011 in retirement benefit obligation. The Group paid additional retirement benefits of ¥63 million ($762 thousand) for the year ended March 31, 2012 and ¥117 million for the year ended March 31, 2011. These were 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, 2012 and 2011 are set forth as follows:

| | 2012 | 2011 |
|---|---|---|
| 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 |

## 9. ASSET RETIREMENT OBLIGATIONS

The Group recorded asset retirement obligations related to future restoration of petroleum-related facilities, such as gas stations and LPG stations, and electric power production facilities associated with lease agreements.

### (a) Assumptions mainly used in calculation of asset retirement obligations

| | 2012 | 2011 |
|---|---|---|
| Expected useful life | 34 years | 34 years |
| Discount rate | 2.4% | 2.4% |

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### (b) Changes in gross asset retirement obligations

| | Millions of Yen 2012 | 2011 | Thousands of U.S. Dollars 2012 |
|---|---|---|---|
| Balance at beginning of year | ¥2,255 | ¥2,081 | $27,437 |
| Additional provisions associated with the acquisition of property, plant and equipment | 31 | 19 | 382 |
| Reconciliation associated with passage of time | 53 | 49 | 643 |
| Reduction associated with settlement of asset retirement obligations | (56) | (5) | (679) |
| Other changes | 73 | 111 | 882 |
| Balance at end of year | ¥2,356 | ¥2,255 | $28,665 |

Note: Balance at April 1, 2010 resulted from the application of "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008) effective April 1, 2010.

## 10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, 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 a Board of Directors, (2) having independent auditors, (3) having a 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 Companies Act permits companies to distribute dividends-in-kind (noncash 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 Companies Act 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) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends 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 amount of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reserved without limitation. The Companies Act 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 Companies Act 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 Companies Act, stock acquisition rights are now presented as a separate component of equity. The Companies Act 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.

## 11. 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 rate of approximately 40.7% for the years ended March 31, 2012 and 2011.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011 are as follows:

| | Millions of Yen 2012 | 2011 | Thousands of U.S. Dollars 2012 |
|---|---|---|---|
| **Deferred tax assets:** | | | |
| Enterprise tax payable | ¥ 180 | ¥ 265 | $ 2,195 |
| Accrued expenses | 155 | 200 | 1,884 |
| Allowance for doubtful accounts | 136 | 347 | 1,653 |
| Accrued bonuses to employees | 1,029 | 1,067 | 12,520 |
| Tax loss carryforwards | 170 | 335 | 2,071 |
| Liability for retirement benefits | 2,236 | 2,439 | 27,201 |
| Long-term accrued expenses | 87 | 125 | 1,061 |
| Loss on devaluation of investment securities | 245 | 96 | 2,986 |
| Impairment loss of fixed assets | 234 | 245 | 2,848 |
| Excess depreciation | 274 | 247 | 3,331 |
| Asset retirement obligations | 803 | 913 | 9,766 |
| Unrealized loss on available-for-sale securities | 569 | 757 | 6,917 |
| Asset adjustment related to business combination | 157 | 308 | 1,916 |
| Elimination of internal profit in consolidation | 356 | 393 | 4,336 |
| Other | 397 | 677 | 4,824 |
| Less valuation allowance | (1,066) | (1,019) | (12,975) |
| Total | ¥ 5,962 | ¥ 7,395 | $ 72,534 |
| **Deferred tax liabilities:** | | | |
| Asset retirement obligations | ¥ (364) | ¥ (457) | $ (4,424) |
| Reserve for special depreciation | (1,075) | (1,123) | (13,077) |
| Other | (278) | (375) | (3,389) |
| Total | ¥(1,717) | ¥(1,955) | $(20,890) |
| Net deferred tax assets | ¥ 4,245 | ¥ 5,440 | $ 51,644 |

| | Millions of Yen 2012 | 2011 | Thousands of U.S. Dollars 2012 |
|---|---|---|---|
| Deferred tax assets on land revaluation | ¥ 4,436 | ¥ 5,179 | $ 53,973 |
| Less valuation allowance | (4,436) | (5,179) | (53,973) |
| Deferred tax liabilities on land revaluation | (2,672) | (3,080) | (32,508) |
| Deferred tax liabilities on land revaluation—net | ¥(2,672) | ¥(3,080) | $(32,508) |

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011 is as follows:

| | 2012 | 2011 |
|---|---|---|
| Normal effective statutory tax rate | 40.7% | 40.7% |
| Expenses not deductible for income tax purposes | 4.3 | 5.6 |
| Per capita inhabitants tax | 1.5 | 1.6 |
| Adjustment to deferred tax assets due to changes in tax rate (Note) | 3.7 | |
| Other—net | 1.0 | (1.6) |
| Actual effective tax rate | 51.2% | 46.3% |

Note: On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.7% to 38.0% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.6% afterwards. The effect of this change was to decrease deferred tax assets and unrealized loss on available-for-sale securities in the consolidated balance sheet as of March 31, 2012 by ¥409 million ($4,981 thousand) and ¥81million ($993 thousand), respectively, and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥328 million ($3,988 thousand). Moreover, deferred tax liabilities on land revaluation decreased by ¥383 million ($4,657 thousand) and land revaluation difference increased by the same amount.

At March 31, 2012, certain subsidiaries have tax loss carryforwards aggregating approximately ¥502 million ($6,109 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 |
|---|---|---|
| 2013 | | |
| 2014 | | |
| 2015 | ¥84 | $1,019 |
| 2016 | 47 | 567 |
| 2017 | 129 | 1,573 |
| 2018 and thereafter | 242 | 2,950 |
| Total | ¥502 | $6,109 |

# Notes to Consolidated Financial Statements

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## 12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Payroll | ¥17,894 | ¥17,884 | $217,717 |
| Provision for accrued bonuses to employees | 2,595 | 2,560 | 31,578 |
| Provision for accrued bonuses to directors and corporate auditors | 288 | 224 | 3,503 |
| Rent | 9,481 | 10,012 | 115,353 |
| Depreciation and amortization | 2,267 | 2,088 | 27,586 |
| Amortization of goodwill | 1,729 | 1,809 | 21,034 |
| Provision for allowance for doubtful accounts | (195) | 311 | (2,374) |
| Provision for accrued pension and severance costs | ¥ 1,265 | ¥ 1,213 | $ 15,394 |

## 13. 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, 2012, the carrying amount of the land after the above one time revaluation exceeded the market value by ¥7,169 million ($87,227 thousand), of which ¥3,162 million ($38,476 thousand) is relating to the land classified as investment property.

## 14. LEASES

### (Finance lease—Lessee)

The Group leases certain machinery mainly for petroleum products sales, computer equipment and other assets. Total rental expenses including lease payments under finance leases for the years ended March 31, 2012 and 2011 were ¥481 million ($5,855 thousand) and ¥879 million, respectively.

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008, such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense, and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis, was as follows:

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | |
| | Buildings and Structures | Machinery and Equipment | Intangible Assets | Total | Buildings and Structures | Machinery and Equipment | Intangible Assets | Total |
| Acquisition cost | ¥31 | ¥2,367 | ¥139 | ¥2,537 | ¥31 | ¥4,223 | ¥299 | ¥4,553 |
| Accumulated depreciation | 31 | 2,299 | 124 | 2,454 | 30 | 3,933 | 248 | 4,211 |
| Net leased property | | ¥ 68 | ¥ 15 | ¥ 83 | ¥ 1 | ¥ 290 | ¥ 51 | ¥ 342 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Buildings and Structures | Machinery and Equipment | Intangible Assets | Total |
| Acquisition cost | $376 | $28,805 | $1,684 | $30,865 |
| Accumulated depreciation | 376 | 27,975 | 1,506 | 29,857 |
| Net leased property | | $ 830 | $ 178 | $ 1,008 |

Obligations under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Due within one year | ¥187 | ¥495 | $2,273 |
| Due after one year | 22 | 221 | 275 |
| Total | ¥209 | ¥716 | $2,548 |

Depreciation expense, interest expense, and other information under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Depreciation expense | ¥208 | ¥467 | $2,536 |
| Interest expense | 8 | 20 | 92 |
| Total | ¥216 | ¥487 | $2,628 |
| Lease payments | ¥481 | ¥879 | $5,855 |

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.

### (Finance lease—Lessor)

The Group leases certain machinery, computer equipment and other assets. Total lease income under finance leases for the years ended March 31, 2012 and 2011 were ¥69 million ($843 thousand) and ¥165 million, respectively.

As discussed in Note 2.m, finance leases that are not deemed to transfer ownership, which commenced prior to April 1, 2008, are accounted for in manner similar to ordinary operating lease transactions with certain "as if capitalized" information in the notes to the consolidated financial statements. Pro forma information of such leases commenced prior to April 1, 2008, such as acquisition cost, accumulated depreciation, credit under finance leases, depreciation expense, and interest income on an "as if capitalized" basis, for the years ended March 31, 2012 and 2011 was as follows:

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2012 | | 2011 | | |
| | Machinery and Equipment | Total | Buildings and Structures | Machinery and Equipment | Total |
| Acquisition cost | ¥467 | ¥467 | ¥5 | ¥949 | ¥954 |
| Accumulated depreciation | 459 | 459 | 5 | 908 | 913 |
| Net leased property | ¥ 8 | ¥ 8 | | ¥ 41 | ¥ 41 |

| | Thousands of U.S. Dollars | |
|---|---|---|
| | 2012 | |
| | Machinery and Equipment | Total |
| Acquisition cost | $5,684 | $5,684 |
| Accumulated depreciation | 5,583 | 5,583 |
| Net leased property | $ 101 | $ 101 |

Receivables under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Due within one year | ¥18 | ¥74 | $214 |
| Due after one year | 2 | 23 | 24 |
| Total | ¥20 | ¥97 | $238 |

Depreciation expense and interest income under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Depreciation expenses | ¥22 | ¥67 | $273 |
| Interest income | | 2 | 5 |

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

### (Operating lease—Lessee)

The minimum rental commitments under noncancelable operating leases at March 31, 2012 and 2011 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Due within one year | ¥1,232 | ¥1,626 | $14,991 |
| Due after one year | 1,607 | 2,690 | 19,547 |
| Total | ¥2,839 | ¥4,316 | $34,538 |

### (Operating lease—Lessor)

The minimum rental commitments under noncancelable operating leases at March 31, 2012 and 2011 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Due within one year | ¥ 488 | ¥ 495 | $ 5,932 |
| Due after one year | 729 | 1,231 | 8,872 |
| Total | ¥1,217 | ¥1,726 | $14,804 |

## 15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### (1) Group policy for financial instruments

The Group mainly uses secure deposits and bank loans to fund its operations. The Group uses derivative financial instruments to reduce risks from fluctuation in market prices, interest rate and foreign exchange and does not use derivative transactions for trading or speculative purposes.

### (2) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Operating payables such as trade notes and trade accounts payable are due within one year. Operating receivables and payables denominated in foreign currencies are exposed to foreign currency fluctuation risk. The Group utilizes foreign currency forward and other contracts to hedge foreign currency fluctuation risk. Investment securities mainly consist of equity securities and are exposed to market fluctuation risk. These are mainly securities of companies with which the Company has a business relationship and the Group reviews the fair values of such securities quarterly. Short-term borrowings, including

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commercial paper, are mainly used to finance operating capital and long-term debt (mostly due within 5 years), including bonds payable, are mainly used to finance capital investments. Long-term variable interest rate debt is exposed to interest rate fluctuation risk. The Group utilizes derivative transactions such as interest rate swap contracts to hedge fluctuation risk. Evaluation of hedge effectiveness of the interest rate swaps is omitted as the interest rate swaps meet the requirements for exceptional treatment. The Company and some companies in the Group utilize petroleum products futures, which are exposed to market risk. Interest rate swap contracts are exposed to interest fluctuation risk, and foreign currency forward contracts are exposed to foreign currency fluctuation risk.

### (3) Risk management for financial instruments

#### Credit risk management

The Group follows internal rules and monitors the major customers' credit conditions periodically and manages the due dates and balances for each customer. The Group enters into derivative transactions only with highly rated financial institutions to mitigate credit risk, and the Group has concluded that there is no material credit risk.

#### Market risk management (foreign exchange risk and interest rate risk)

The Company utilizes interest rate swap contracts to hedge the fluctuation risk in interest payment of variable interest rate debt. The Company and some companies in the Group utilize foreign currency forward contracts to mitigate foreign currency fluctuation risk. Regarding the investment securities, the Group regularly reviews the fair value and issuers' financial condition. The execution and control of derivative transactions are controlled by the dealing department based on internal rules, which prescribe the authority and the limits in dealing. The dealing status is reported to and reviewed by the administration department.

#### Liquidity risk management

Each company in the Group prepares and updates the cash management plan monthly and calculates the necessary amount on hand. The Group manages liquidity risk by maintaining the amount calculated by each company.

### (4) Fair values of financial instruments

Fair values of financial instruments are based on the market price or the rationally calculated values with certain assumptions in case no market prices exist. The rationally calculated values may fluctuate in case different assumptions are applied. The contract amounts regarding derivative transactions described in Note 16 do not indicate market risk related to derivative transactions.

#### (a) Fair value of financial instruments

| | Millions of Yen | | |
|---|---|---|---|
| | 2012 | | |
| | Carrying Amount | Fair Value | Unrealized Gain/(Loss) |
| Cash and cash equivalents | ¥ 15,313 | ¥ 15,313 | |
| Trade notes and trade accounts receivable | 149,705 | 149,705 | |
| Receivables from unconsolidated subsidiaries and associated companies | 1,833 | 1,833 | |
| Investment securities | 6,699 | 6,699 | |
| Long-term loans | 1,611 | 1,623 | ¥12 |
| Total | ¥175,161 | ¥175,173 | ¥12 |
| Short-term bank loans | ¥ 9,000 | ¥ 9,000 | |
| Commercial paper | 4,000 | 4,000 | |
| Trade accounts payable | 125,693 | 125,693 | |
| Payables to unconsolidated subsidiaries and associated companies | 4,566 | 4,566 | |
| Long-term debt | 20,725 | 20,728 | ¥3 |
| Total | ¥163,984 | ¥13,987 | ¥3 |

| | Millions of Yen | | |
|---|---|---|---|
| | 2011 | | |
| | Carrying Amount | Fair Value | Unrealized Gain/(Loss) |
| Cash and cash equivalents | ¥ 23,735 | ¥ 23,735 | |
| Trade notes and trade accounts receivable | 116,920 | 116,920 | |
| Receivables from unconsolidated subsidiaries and associated companies | 571 | 571 | |
| Investment securities | 7,211 | 7,211 | |
| Long-term loans | 1,859 | 1,868 | ¥9 |
| Total | ¥150,296 | ¥150,305 | ¥9 |
| Short-term bank loans | ¥ 6,949 | ¥ 6,949 | |
| Trade accounts payable | 103,650 | 103,650 | |
| Payables to unconsolidated subsidiaries and associated companies | 3,821 | 3,821 | |
| Long-term debt | 23,892 | 23,964 | ¥72 |
| Total | ¥138,312 | ¥138,384 | ¥72 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2012 | | |
| | Carrying Amount | Fair Value | Unrealized Gain/(Loss) |
| Cash and cash equivalents | $ 186,309 | $ 186,309 | |
| Trade notes and trade accounts receivable | 1,821,446 | 1,821,446 | |
| Receivables from unconsolidated subsidiaries and associated companies | 22,305 | 22,305 | |
| Investment securities | 81,510 | 81,510 | |
| Long-term loans | 19,601 | 19,743 | $142 |
| Total | $2,131,171 | $2,131,313 | $142 |
| Short-term bank loans | $ 109,504 | $ 109,504 | |
| Commercial paper | 48,668 | 48,668 | |
| Trade accounts payable | 1,529,299 | 1,529,299 | |
| Payables to unconsolidated subsidiaries and associated companies | 55,549 | 55,549 | |
| Long-term debt | 252,165 | 252,204 | $39 |
| Total | $1,995,185 | $1,995,224 | $39 |

#### Cash and cash equivalents

The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time.

#### Trade notes and trade accounts receivable and receivables from unconsolidated subsidiaries and associated companies

The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time.

#### Investment securities

The fair value of stocks is based on the price on stock exchanges and that of bonds is based on the price of bond markets or the price presented by the counterparty financial institutions. Please see Note 3.

#### Long-term loans

Long-term loans are classified by specific terms, and the fair values are calculated by discounting related cash flows with the rate which would be applied if a new loan were offered in the same situation. The amounts in the above tables include current portion of long-term loans of ¥444 million ($5,405 thousand) and ¥282 million as of March 31, 2012 and 2011, respectively.

#### Trade accounts payable and payables to unconsolidated subsidiaries and associated companies

The carrying value is deemed to approximate the fair value since such instruments are scheduled to be settled in a short period of time.

#### Short-term bank loans and commercial paper

The carrying value is deemed to approximate the fair value since such instruments are scheduled to be settled in a short period of time.

#### Long-term debt

The fair value of long-term borrowings is calculated by discounting the sum of principal and interest by the rate which would be used if a new loan were borrowed in the same situation. The fair value of long-term variable interest rate debt of ¥4,000 million ($48,668 thousand) and ¥4,000 million as of March 31, 2012 and 2011, respectively, is calculated by discounting the sum of principal amounts corresponding interest rate swap contracts at a reasonably estimated rate. The amounts in the above tables include current portion of long-term debt of ¥7,350 million ($89,425 thousand) and ¥1,448 million as of March 31, 2012 and 2011, respectively.

For the years ended March 31, 2012 and 2011, the fair value of corporate bond payable is based on the market price.

#### Derivatives

The information of the fair value for derivatives is included in Note 16.

#### (b) Financial instruments whose fair value cannot be reliably determined

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | 2012 | 2011 | 2012 |
| Investments in equity instruments that do not have a quoted market price in an active market | ¥ 462 | ¥ 485 | $ 5,618 |
| Investments in equity instruments of subsidiaries that do not have a quoted market price in an active market | 1,975 | 2,560 | 24,024 |
| Investments in equity instruments of associated companies that do not have a quoted market price in an active market | 4,656 | 4,205 | 56,645 |
| Total | ¥7,093 | ¥7,250 | $86,287 |

# Notes to Consolidated Financial Statements

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2012

### (5) Maturity analysis for financial assets and securities with contractual maturities

| March 31, 2012 | Millions of Yen<br>Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
|---|---|---|---|---|
| Cash and cash equivalents | ¥ 15,313 | | | |
| Trade notes and trade accounts receivable | 149,705 | | | |
| Receivables from unconsolidated subsidiaries and associated companies | 1,833 | | | |
| Long-term loans | 444 | ¥773 | ¥305 | ¥89 |
| Total | ¥167,295 | ¥773 | ¥305 | ¥89 |

| March 31, 2012 | Thousands of U.S. Dollars<br>Due in One Year or Less | Due after One Year through Five Years | Due after Five Years through Ten Years | Due after Ten Years |
|---|---|---|---|---|
| Cash and cash equivalents | $ 186,309 | | | |
| Trade notes and trade accounts receivable | 1,821,446 | | | |
| Receivables from unconsolidated subsidiaries and associated companies | 22,305 | | | |
| Long-term loans | 5,405 | $9,407 | $3,708 | $1,081 |
| Total | $2,035,465 | $9,407 | $3,708 | $1,081 |

Please see Note 7 for annual maturities of long-term debt and Note 14 for obligations under finance leases.

## 16. DERIVATIVES

The Company engages in derivative transactions involving petroleum products futures to hedge petroleum market risk, interest rate swap contracts to manage its interest rate exposures on certain liabilities, and foreign exchange forward contracts to hedge the risk in assets and liabilities exposed to foreign currency fluctuations. The Company does not hold or issue derivative transactions for trading or speculative purposes. The petroleum products futures are exposed to market risk, which is created by potential fluctuations in market conditions. Interest rate swaps are exposed to risks of potential interest rate fluctuations, and foreign exchange forward contracts are exposed to risks of potential foreign currency fluctuations. Because the counterparties to these derivative transactions are limited to high-rated members of a petroleum exchange and domestic financial institutions, the Company does not anticipate any losses arising from credit risk.

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

Derivative transactions to which hedge accounting is not applied at March 31, 2012 and 2011:

| At March 31, 2012 | Millions of Yen<br>Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain/(Loss) |
|---|---|---|---|---|
| Foreign currency forward contracts: | | | | |
| Buying U.S.$ | ¥5,485 | | ¥125 | ¥125 |
| Selling U.S.$ | 431 | | (14) | (14) |
| Commodity futures: | | | | |
| Buying | 15,885 | | 664 | 664 |
| Selling | 20,574 | | (1,301) | (1,301) |

| At March 31, 2011 | Millions of Yen<br>Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain/(Loss) |
|---|---|---|---|---|
| Foreign currency forward contracts: | | | | |
| Buying U.S.$ | ¥4,866 | | ¥44 | ¥44 |
| Selling U.S.$ | 114 | | (2) | (2) |
| Selling Singapore $ | 74 | | 0 | 0 |
| Commodity futures: | | | | |
| Buying | 14,189 | | 1,121 | 1,121 |
| Selling | 15,015 | | (1,375) | (1,375) |

| At March 31, 2012 | Thousands of U.S. Dollars<br>Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain/(Loss) |
|---|---|---|---|---|
| Foreign currency forward contracts: | | | | |
| Buying U.S.$ | $66,734 | | $1,523 | $1,523 |
| Selling U.S.$ | 5,246 | | (166) | (166) |
| Commodity futures: | | | | |
| Buying | 193,277 | | 8,084 | 8,084 |
| Selling | 250,327 | | (15,832) | (15,832) |

Derivative transactions to which hedge accounting is applied at March 31, 2012 and 2011:

| At March 31, 2012 | Millions of Yen<br>Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
|---|---|---|---|---|
| Interest rate swaps: | | | | |
| (fixed rate payment, floating rate receipt) | Long-term debt | ¥4,000 | | Note |

| At March 31, 2011 | Millions of Yen<br>Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
|---|---|---|---|---|
| Interest rate swaps: | | | | |
| (fixed rate payment, floating rate receipt) | Long-term debt | ¥4,000 | ¥4,000 | Note |

| At March 31, 2012 | Thousands of U.S. Dollars<br>Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
|---|---|---|---|---|
| Interest rate swaps: | | | | |
| (fixed rate payment, floating rate receipt) | Long-term debt | $48,668 | | Note |

Note: Fair value of interest rate swaps that meet the requirements for special accounting was included in the fair value of corresponding long-term debt.

Foreign currency forward contracts which qualify for hedge accounting are excluded from the above table as the amount is not material.

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions.

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

## 17. RELATED PARTY TRANSACTIONS

Transactions with related parties for the years ended March 31, 2012 and 2011 were as follows:

| | Millions of Yen<br>2012 | 2011 | Thousands of U.S. Dollars<br>2012 |
|---|---|---|---|
| ITOCHU Corporation, shareholder: | | | |
| Sales | ¥13,292 | ¥2,407 | $161,727 |
| Purchases | 24,884 | 4,623 | 302,764 |
| Trade notes and trade accounts receivable | 2,492 | 323 | 30,322 |
| Trade notes and trade accounts payable | 2,702 | 1,783 | 32,881 |
| Japan Gas Energy Corporation, associated company: | | | |
| Purchases | ¥27,382 | ¥27,039 | $333,153 |
| Trade notes and trade accounts payable | 3,527 | 2,943 | 42,912 |

## 18. CONTINGENT LIABILITIES

At March 31, 2012, the Group had the following contingent liabilities:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Guarantors of bank loan by Altoss Co., Ltd. | ¥90 | $1,095 |
| Guarantors of lease debt of Iinuma Sekiyu and other 12 companies | 19 | 235 |
| Securitization of trade notes receivable | 64 | 777 |
| Securitization of trade accounts receivable | 71 | 863 |

## 19. COMPREHENSIVE INCOME

The components of other comprehensive income for the year ended March 31, 2012 were as follows:

| | Millions of Yen<br>2012 | Thousands of U.S. Dollars<br>2012 |
|---|---|---|
| Unrealized gain (loss) on available-for-sale securities: | | |
| Gains arising during the year | ¥ (81) | $ (991) |
| Reclassification adjustments to profit or loss | 342 | 4,167 |
| Amount before income tax effect | 261 | 3,176 |
| Income tax effect | (188) | (2,289) |
| Total | ¥ 73 | $887 |
| Land revaluation difference: | | |
| Income tax asset | ¥383 | $4,657 |
| Total | ¥383 | $4,657 |
| Shares of other comprehensive income in earnings of affiliates: | | |
| Gains arising during the year | ¥ 12 | $ 153 |
| Reclassification adjustments to profit or loss | (0) | (2) |
| Total | ¥ 12 | $ 151 |
| Total other comprehensive income | ¥468 | $5,695 |

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

# Notes to Consolidated Financial Statements

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries
Year Ended March 31, 2012

## 20. SUBSEQUENT EVENTS

### (1) Stock purchase agreement

The Company entered into stock purchase agreement with Tokyo Electric Power Company ("TEPCO") to acquire part of the stock of Tokyo City Service Co., Ltd. ("Tokyo City Service"), held by TEPCO as of April 27, 2012.

(a) Main reasons for stock purchase

In order to become a provider of "best mix" energy solutions, the Company proactively develops new business models and leverages its 50th anniversary to realize a new leap forward, according to Group Medium-Term Business Plan "Core & Strategy 2013" and under the corporate philosophy "Partnering with society and ordinary people."

Tokyo City Service is engaged in the heat supply business (*) in accordance with the Heat Supply Business Act, providing heat storage services and collecting fees to invest in and maintain its facilities.

In the heat supply business, Tokyo City Service is a leading energy-efficient operator, operating 17 heat supply centers, mainly consist of high-efficiency and heat-storage electrical heat pump systems, and has accumulated know-how of peak electricity demand shifting, energy cost saving and low carbon technology. Tokyo City Service is also a pioneer in utilization of the unharnessed energy sources, specifically focusing on thermal energy conversion.

Moreover, as Tokyo City Service's heat pump-related technologies and services are expected to have overseas demand, the Company aims to develop a new business using these technologies and/or services.

In addition to further strengthening its existing petroleum products-based business in "industrial material," "home life" and "car life," the Company intends to expand its business to include the area for "business use," through Tokyo City Service, and pursues synergy between its existing core business, i.e., sales of petroleum products, and new businesses, i.e., electricity-related business and heat supply business as a provider of "best mix" energy solutions.

* Heat supply business is a business to transmit and distribute cold and hot water to a group of office and other buildings from heating and cooling plants.

(b) Brief summary of Tokyo City Service

Head office: Tokyo, Japan
Establishment: September 9, 1987
Major business: Heat supply business, heat storage service contract operation, contract operation of heat supply facilities and energy-related consulting business
Share capital: ¥400 million ($4,867 thousand)
Summary of recent financial information

| | As of and for the Year Ended March 31, 2011 | |
|---|---|---|
| | Yen | U.S. Dollars |
| Net assets | ¥11,858 million | $144,281 thousand |
| Total assets | 17,571 million | 213,789 thousand |
| Net assets per share | 1,482,117 | 18,033 |
| Net sales | 10,984 million | 133,637 thousand |
| Operating income | 1,279 million | 15,558 thousand |
| Ordinary income | 1,303 million | 15,859 thousand |
| Net income | 773 million | 9,403 thousand |
| Net income per share | 96,594 | 1,175 |

(c) Date of stock purchase

May 22, 2012

(d) Number of shares purchased and ownership percentage after stock purchase

Number of shares purchased: 5,329 shares
Purchase price: ¥9,618 million ($117,021 thousand)
Ownership percentage after stock purchase:
The Company 66.6%
TEPCO 33.4%

### (2) Issuance of bonds

On May 22, 2012, the Company issued the following bonds, in accordance with the comprehensive resolution concerning the issuance of bonds adopted at the meeting of the Board of Directors held on March 26, 2012 and according to the terms and conditions resolved by the Board of Directors on May 15, 2012.

| | The Thirteenth Series 7-Year Bonds | The Fourteenth Series 10-Year Bonds |
|---|---|---|
| Total amount of issue | ¥5,000 million ($60,835 thousands) | ¥10,000 million ($121,669 thousands) |
| Issue price | ¥100 with a par value of ¥100 | ¥100 with a par value of ¥100 |
| Interest rate | 0.736% per annum | 1.202% per annum |
| Payment date | May 22, 2012 | May 22, 2012 |
| Redemption condition | Bullet repayment | Bullet repayment |
| Redemption date | May 22, 2019 | May 22, 2022 |
| Collateral for bonds | Unsecured | Unsecured |
| Use of funds | Working capital | Working capital |
| Covenants | Restriction on pledging assets | Restriction on pledging assets |

### (3) Appropriations of retained earnings

The following appropriation of retained earnings at March 31, 2012 was approved at the Company's shareholders' meeting held on June 21, 2012:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥8 ($0.10) per share | ¥904 | $10,998 |

## 21. SEGMENT INFORMATION

### (1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group has its business divisions identified by customers and markets. Each business division develops its strategy for customers and markets, and operates its business.

Therefore, each business division is considered as a reportable segment. The Group consists of five (four in 2011) segments: "Industrial Material," "Car Life," "Global (formerly Trade)," "Home Life," and "Total Life," which was added for the year ended March 31, 2012 due to the launch of a new business division.

Moreover, for the year ended March 31, 2012, the Group reorganized "Global" to include the marine fuel business, which had been included in "Industrial Material," and "Industrial Material" to include the fleet card business, which had been included in "Car Life," in order to streamline its business operations. Intersegment sales or transfers were also reexamined to reflect changes in management technique.

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

Car Life consists of sales and services for car owners centered mainly on car-life stations such as gasoline, heating oil, gas oil, fuel oil, grease, automobile supplies, car inspection, maintenance, car rental and alternative energy equipment (fuel cell and photovoltaic power generation, etc.) for vehicles.

Global consists of trading petroleum products, domestic demand and supply adjustments, chartering and operating tankers, supply of marine fuels, trading lubricating oil, logistics and operations of petroleum storage, and development and implementation of overseas projects.

Home Life consists of sales of goods and services relating to family lives such as LPG, equipment (combustion, kitchen, air-conditioning and household equipment), commodities, catalogue merchandise, sundries and alternative energy equipment (fuel cell and photovoltaic power generation, etc.) for households.

Total Life consists of sales of alternative energy equipment, double power generation systems, automobiles, automobile supplies and electric motorcycles, services for vehicles such as development of electric vehicle ("EV") and related business, car inspection, maintenance, sheet-metal processing and car rental, and services for housing, including development of home energy management systems ("HEMS") and renovation.

Segment information for the year ended March 31, 2011 has been reclassified to conform to the presentation adopted for the year ended March 31, 2012.

### (2) Methods of measurement for the amounts of sales, profit (loss), assets, liabilities, and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies." Income by the reportable segment is based on operating income. Intersegment transactions are based on prevailing market price.

# Notes to Consolidated Financial Statements

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Year Ended March 31, 2012

### (3) Information about sales, profit (loss), assets, liabilities, and other items is as follows.

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | | | | |
| | Reportable Segment | | | | | | | | | |
| | Industrial Material | Car Life | Global | Home Life | Total Life | Total | Other | Total | Reconciliations | Consolidated |
| **Sales:** | | | | | | | | | | |
| Sales to external customers | ¥146,781 | ¥562,620 | ¥603,832 | ¥96,427 | ¥2,959 | ¥1,412,619 | ¥1,542 | ¥1,414,161 | | ¥1,414,161 |
| Intersegment sales or transfers | 4,852 | 51,583 | 27,262 | 5 | 2,899 | 86,601 | 2,045 | 88,646 | ¥(88,646) | |
| Total | ¥151,633 | ¥614,203 | ¥631,094 | ¥96,432 | ¥5,858 | ¥1,499,220 | ¥3,587 | ¥1,502,807 | ¥(88,646) | ¥1,414,161 |
| Segment profit (loss) | ¥ 2,077 | ¥ 5,052 | ¥ 1,105 | ¥ 3,724 | ¥ (885) | ¥ 11,073 | ¥ 38 | ¥ 11,111 | ¥ (2,138) | ¥ 8,973 |
| Segment assets | 45,472 | 117,786 | 71,762 | 51,762 | 1,377 | 288,159 | 925 | 289,084 | 15,969 | 305,053 |
| **Other:** | | | | | | | | | | |
| Depreciation | 884 | 3,340 | 320 | 1,433 | 52 | 6,029 | 4 | 6,033 | 580 | 6,613 |
| Amortization of goodwill | 153 | 832 | 123 | 711 | | 1,819 | | 1,819 | (90) | 1,729 |
| Equity in earnings of unconsolidated subsidiaries and associated companies | (86) | 17 | 35 | 145 | (1) | 110 | | 110 | 6 | 116 |
| Investments in unconsolidated subsidiaries and associated companies | 1,581 | 114 | 482 | 4,143 | 100 | 6,420 | | 6,420 | 20 | 6,440 |
| Increase in property, plant and equipment and intangible assets | 3,385 | 1,901 | 195 | 1,274 | 56 | 6,811 | | 6,811 | 798 | 7,609 |

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | | | | | |
| | Reportable Segment | | | | | | | | | |
| | Industrial Material | Car Life | Global | Home Life | Total Life | Total | Other | Total | Reconciliations | Consolidated |
| **Sales:** | | | | | | | | | | |
| Sales to external customers | ¥105,700 | ¥532,320 | ¥451,090 | ¥94,943 | | ¥1,184,053 | ¥1,679 | ¥1,185,732 | | ¥1,185,732 |
| Intersegment sales or transfers | 2,306 | 27,135 | 25,413 | | | 54,854 | 2,144 | 56,998 | ¥(56,998) | |
| Total | ¥108,006 | ¥559,455 | ¥476,503 | ¥94,943 | | ¥1,238,907 | ¥3,823 | ¥1,242,730 | ¥(56,998) | ¥1,185,732 |
| Segment profit (loss) | ¥ 1,752 | ¥ 4,518 | ¥ 968 | ¥ 3,690 | | ¥ 10,928 | ¥ 85 | ¥ 11,013 | ¥ (1,985) | ¥ 9,028 |
| Segment assets | 34,999 | 112,126 | 52,688 | 51,337 | | 251,150 | 951 | 252,101 | 25,484 | 277,585 |
| **Other:** | | | | | | | | | | |
| Depreciation | 311 | 3,517 | 308 | 1,424 | | 5,560 | 4 | 5,564 | 528 | 6,092 |
| Amortization of goodwill | 20 | 823 | 195 | 861 | | 1,899 | | 1,899 | (90) | 1,809 |
| Equity in earnings of unconsolidated subsidiaries and associated companies | 70 | 33 | 80 | 134 | | 317 | | 317 | 6 | 323 |
| Investments in unconsolidated subsidiaries and associated companies | 1,606 | 452 | 19 | 4,481 | | 6,558 | | 6,558 | 14 | 6,572 |
| Increase in property, plant and equipment and intangible assets | 669 | 2,154 | 260 | 1,274 | | 4,357 | 1 | 4,358 | 871 | 5,229 |

| | Thousands of U.S. Dollars | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | | | | | | |
| | Reportable Segment | | | | | | | | | |
| | Industrial Material | Car Life | Global | Home Life | Total Life | Total | Other | Total | Reconciliations | Consolidated |
| **Sales:** | | | | | | | | | | |
| Sales to external customers | $1,785,871 | $6,845,360 | $7,346,784 | $1,173,215 | $ 35,999 | $17,187,229 | $18,774 | $17,206,003 | | $17,206,003 |
| Intersegment sales or transfers | 59,037 | 627,605 | 331,691 | 67 | 35,276 | 1,053,676 | 24,871 | 1,078,547 | $(1,078,547) | |
| Total | $1,844,908 | $7,472,965 | $7,678,475 | $1,173,282 | $ 71,275 | $18,240,905 | $43,645 | $18,284,550 | $(1,078,547) | $17,206,003 |
| Segment profit (loss) | $ 25,268 | $ 61,470 | $ 13,439 | $ 45,308 | $(10,764) | $ 134,721 | $ 462 | $ 135,183 | $ (26,006) | $ 109,177 |
| Segment assets | 553,251 | 1,433,097 | 873,120 | 629,785 | 16,755 | 3,506,008 | 11,262 | 3,517,270 | 194,290 | 3,711,560 |
| **Other:** | | | | | | | | | | |
| Depreciation | 10,754 | 40,640 | 3,888 | 17,431 | 638 | 73,351 | 57 | 73,408 | 7,055 | 80,463 |
| Amortization of goodwill | 1,861 | 10,124 | 1,494 | 8,649 | | 22,128 | | 22,128 | (1,094) | 21,034 |
| Equity in earnings of unconsolidated subsidiaries and associated companies | (1,046) | 203 | 428 | 1,770 | (15) | 1,340 | | 1,340 | 68 | 1,408 |
| Investments in unconsolidated subsidiaries and associated companies | 19,239 | 1,385 | 5,867 | 50,405 | 1,222 | 78,118 | | 78,118 | 243 | 78,361 |
| Increase in property, plant and equipment and intangible assets | 41,187 | 23,129 | 2,373 | 15,496 | 680 | 82,865 | | 82,865 | 9,712 | 92,577 |

Notes:

1) "Other" is a segment not included in any other reportable segments, such as commissioned business for the administrative work.

2) Total corporate expenses included in "Reconciliations" for "Segment profit," which were not allocated to reportable segments, for the years ended March 31, 2012 and 2011 were ¥(2,138) million ($(26,006) thousand) and ¥(1,985) million, respectively. Total corporate expenses principally consist of general and administrative expenses, which are not attributable to any reportable segment.

3) Total corporate assets included in "Reconciliations" for "Segment assets," which were not allocated to reportable segments, as of March 2012 and 2011 was ¥15,969 million ($194,291 thousand) and ¥25,484 million, respectively. Total corporate asset principally consists of cash and cash equivalents, which cannot be allocated to any reportable segment.

4) Segment profit (loss) is adjusted for operating profit in the accompanying consolidated statements of income.

### (4) Information about products and services

Information about products and services is not presented since sales amount of single product or service to external customers accounted for more than 90% of consolidated net sales of the Company.

### (5) Information about geographical areas

(a) Sales

Information about geographical areas is not presented since sales in Japan accounted for more than 90% of consolidated net sales of the Company.

(b) Property, plant and equipment

Property, plant and equipment information by geographic area is not presented since all property, plant and equipment are located in Japan.

### (6) Information about major customers

Information about major customers is not presented since no outside sales to major customers accounted for more than 10% of consolidated net sales of the Company.

# Notes to Consolidated Financial Statements

ITOCHU ENEX CO., LTD. and Consolidated Subsidiaries

Year Ended March 31, 2012

## (7) Information about impairment loss on property, plant and equipment and intangible assets by reportable segment

| | Industrial Material | Car Life | Global | Home Life | Total Life | Other | Elimination/ Corporate | Total |
|---|---|---|---|---|---|---|---|---|
| *Millions of Yen* 2012 | | | | | | | | |
| Impairment loss on assets | | ¥104 | | ¥13 | | | | ¥117 |
| *Millions of Yen* 2011 | | | | | | | | |
| Impairment loss on assets | | ¥95 | | ¥6 | | | | ¥101 |
| *Thousands of U.S. Dollars* 2012 | | | | | | | | |
| Impairment loss on assets | | $1,269 | | $157 | | | | $1,426 |

## (8) Information about amortization of goodwill and unamortized balance by reportable segment

| | Industrial Material | Car Life | Global | Home Life | Total Life | Other | Elimination/ Corporate | Total |
|---|---|---|---|---|---|---|---|---|
| *Millions of Yen* 2012 | | | | | | | | |
| Amortization | ¥153 | ¥ 842 | ¥123 | ¥ 711 | | | ¥ (90) | ¥1,739 |
| Unamortized balance | 577 | 1,339 | 81 | 1,588 | | | (124) | 3,461 |
| *Millions of Yen* 2011 | | | | | | | | |
| Amortization | ¥ 20 | ¥ 833 | ¥195 | ¥ 861 | | | ¥ (90) | ¥1,819 |
| Unamortized balance | 681 | 2,107 | 204 | 1,315 | | | (213) | 4,094 |
| *Thousands of U.S. Dollars* 2012 | | | | | | | | |
| Amortization | $1,861 | $10,249 | $1,494 | $ 8,649 | | | $(1,094) | $21,159 |
| Unamortized balance | 7,015 | 16,287 | 988 | 19,321 | | | (1,496) | 42,115 |

## (9) Information about amortization of negative goodwill and unamortized balance by reportable segment

| | Industrial Material | Car Life | Global | Home Life | Total Life | Other | Elimination/ Corporate | Total |
|---|---|---|---|---|---|---|---|---|
| *Millions of Yen* 2012 | | | | | | | | |
| Amortization | | ¥10 | | | | | | ¥10 |
| Unamortized balance | | 31 | | | | | | 31 |
| *Millions of Yen* 2011 | | | | | | | | |
| Amortization | | ¥10 | | | | | | ¥10 |
| Unamortized balance | | 41 | | | | | | 41 |
| *Thousands of U.S. Dollars* 2012 | | | | | | | | |
| Amortization | | $125 | | | | | | $125 |
| Unamortized balance | | 373 | | | | | | 373 |



# Independent Auditors' Report

Deloitte.

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying consolidated balance sheet of ITOCHU ENEX CO., LTD. and consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**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, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

**Convenience Translation**

Our audit 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 LLC

June 21, 2012

Member of
**Deloitte Touche Tohmatsu Limited**

# Corporate Profile (As of June 1, 2012)

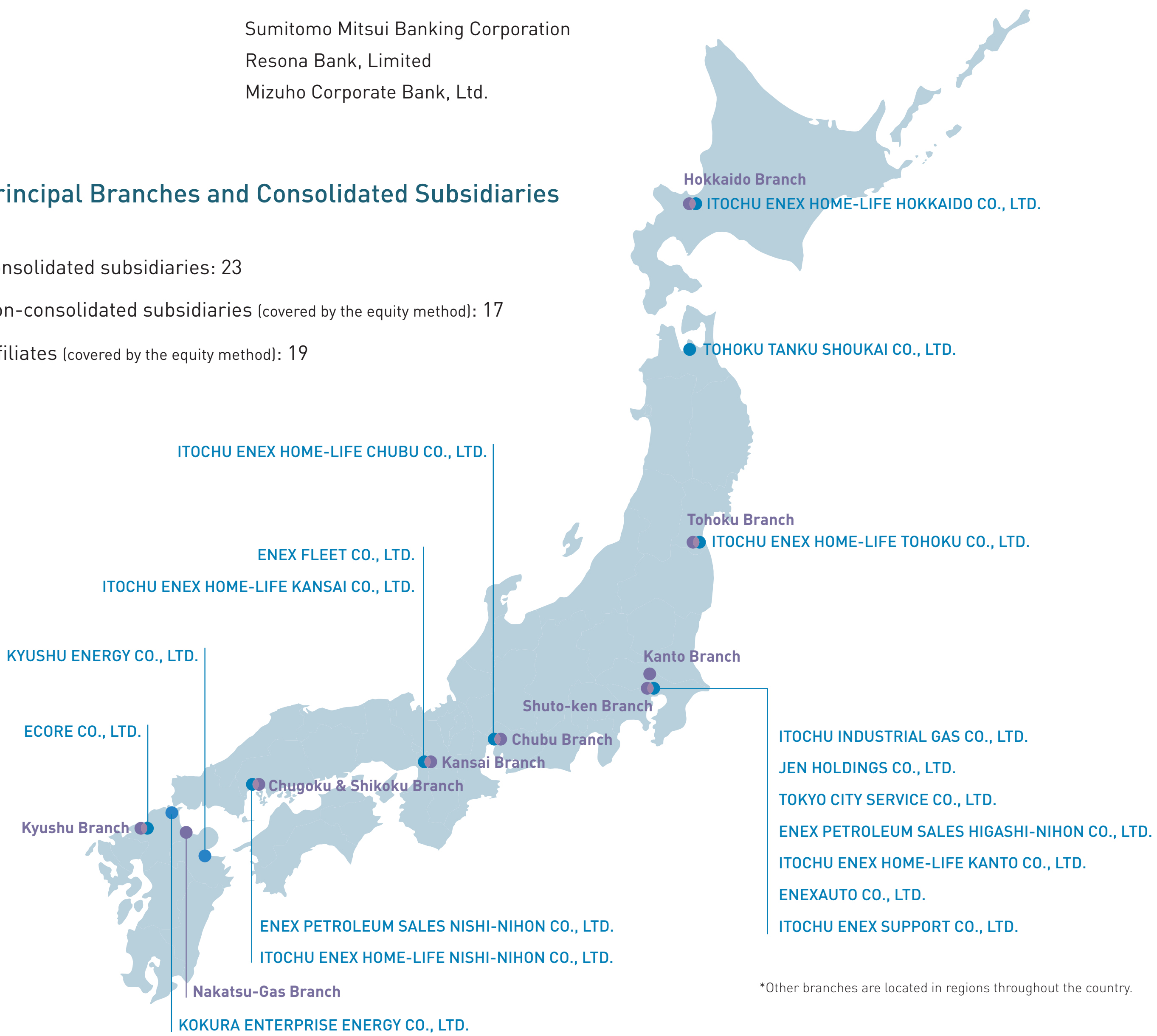
| | |
|---|---|
| **Company Name** | ITOCHU ENEX CO., LTD. |
| **Head Office Address** | Granpark Tower 3-4-1, Shibaura, Minato-ku, Tokyo 108-8525, Japan |
| **Established** | January 28, 1961 |
| **Paid-in Capital** | 19,877.67 million yen |
| **Business Divisions** | Industrial Material Division<br>Car-Life Division<br>Global Trade Division<br>Home-Life Division<br>Total-Life Division |
| **Number of Employees** (As of March 31, 2012) | 666 (Non-consolidated)<br>(including 198 at subsidiaries)<br>3,408 (Consolidated) |
| **Main Financial Institutions** | Sumitomo Mitsui Trust Bank, Limited<br>Sumitomo Mitsui Banking Corporation<br>Resona Bank, Limited<br>Mizuho Corporate Bank, Ltd. |

## Principal Branches and Consolidated Subsidiaries

Consolidated subsidiaries: 23

Non-consolidated subsidiaries (covered by the equity method): 17

Affiliates (covered by the equity method): 19




*Other branches are located in regions throughout the country.



# Organization Chart (As of June 1, 2012)

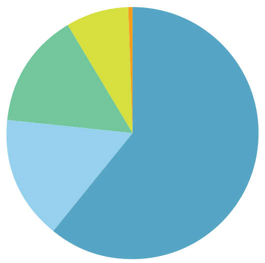
# Stock/Shareholder Information (As of March 31, 2012)

## Stock Information

| | |
|---|---|
| Number of shares authorized to be issued | 387,250,000 |
| Number of shares issued and outstanding | 116,881,106 |
| Number of shareholders | 9,348 |
| Trading unit of shares | 100 shares |

### Distribution of shares

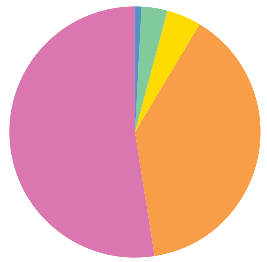
#### By type of shareholders



| | |
|---|---|
| Other entities | 60.87% |
| Individuals, others | 16.03% |
| Financial institutions | 14.71% |
| Foreign entities, etc. | 7.86% |
| Securities companies | 0.53% |

Note:"Individuals, others" includes treasury stock (3,888 thousand shares).

#### By the number of shares held



| | |
|---|---|
| 50,000 shares | 0.96% |
| 10,000-49,999 shares | 3.37% |
| 5,000-9,999 shares | 4.51% |
| 1,000-4,999 shares | 38.70% |
| 1-999 shares | 52.46% |

### Principal Shareholders

| Name | Number of Shares Held (Thousands) | % of Total Shares Issued |
|---|---|---|
| ITOCHU Corporation | 60,947 | 53.94 |
| Japan Trustee Services Bank, Ltd. (trust account) | 3,457 | 3.06 |
| Enex Fund | 3,389 | 3.00 |
| Nippon Life Insurance Company | 2,203 | 1.95 |
| JX Holdings, Inc. | 2,009 | 1.78 |
| The Sumitomo Trust & Banking Co., Ltd.* | 1,974 | 1.75 |
| SINANEN Co., Ltd. | 1,764 | 1.56 |
| Itochu Enex Employee Shareholding Association | 1,570 | 1.39 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 1,316 | 1.17 |
| Mellon Bank, N.A. as Agent for its Client Mellon Omnibus U.S. Pension | 1,121 | 0.99 |

* Trade name changed to Sumitomo Mitsui Trust Bank, Limited on April 1, 2012.

## Shareholder Information

| | |
|---|---|
| Stock exchange listing | Tokyo (First Section); Stock name: ENEX |
| Stock code | 8133 |
| Method of notification | Publication on the Company's website |
| | http://www.itcenex.com/english |
| | (In the event that public notice cannot be made via the Internet, the *Nihon Keizai Shimbun* newspaper will be used.) |
| Accounting period | Ending March 31 of every year |
| Important dates | Ordinary general meeting of shareholders: June |
| | Year-end dividend: March 31 |
| | Interim dividend: September 30 |

ITOCHU ENEX CO., LTD.

ANNUAL REPORT

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