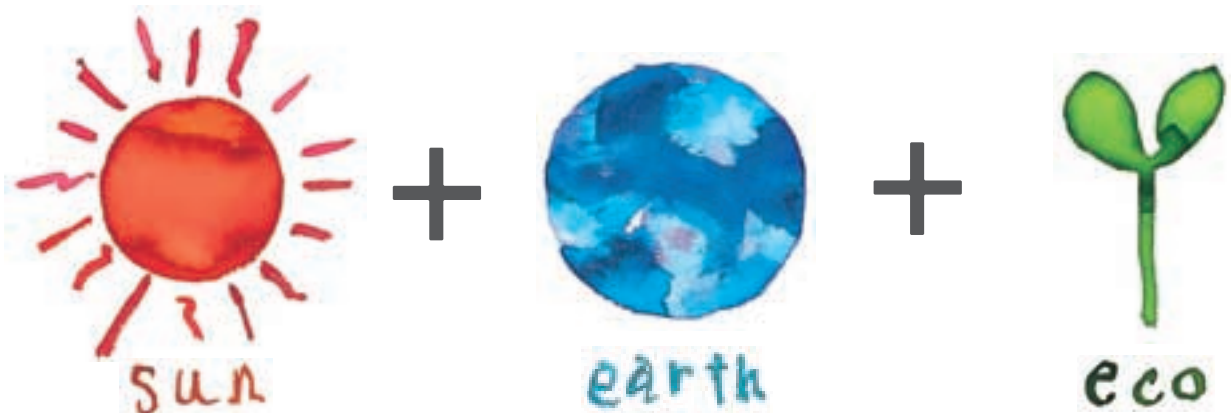


Annual Report 2005



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Fiscal Year Ended March 31, 2005



ITOCHU ENEX CO., LTD.

President's Message

With Itochu Enex's midterm vision "Creation 2008" off to a brisk start, we stand ready to meet the expectations of all our various stakeholders by achieving sustained growth.



Kiyomi Yamada
Representative Director and President

■ Summary of business results for fiscal 2004

During the year under review, the domestic Japanese economy experienced what proved to be a rather slow-paced recovery. Consumer spending was brisk and the employment situation was good thanks to an increase in exports and capital investment, which was fueled by the relatively upbeat U.S. economy and China's continued rapid economic expansion; but those gains tapered off in the second half of the year.

Meanwhile soaring prices for crude oil, which reached historic highs, and for iron ore, coal, and other resources drove up the price of raw materials in their turn. In the petroleum and LP gas sector, where the Itochu Enex Group is a player, increasing demand fueled by economic growth in the Asia region, especially China and India, triggered concerns about shortages in supply capacity. Crude oil and LP gas prices shot up as a result, creating new risks for business.

Despite this increasingly harsh business climate, the Itochu Enex Group succeeded in boosting revenues in the Car-Life Business and Industrial Materials Business. Petroleum products sold steadily owing to a record summer heat wave followed by frigid winter weather at the beginning of this year, and we faced fewer obstacles than usual to passing on price increases triggered by spiraling demand. In the Home-Life Business, however, profits fell despite increased sales, since stiffening competition among LP gas suppliers did not allow us to pass on price increases to the extent that we would have liked.

In the end, consolidated sales totaled 635.23 billion yen (a 14.4% increase over the previous fiscal year), and ordinary income totaled 8.678 billion yen (a 35.7% increase), with declining profits in the Home-Life Business being offset by gains in the other two business sectors. As already announced, however, the reserve set aside to cover losses from the sale of shares of Group company Tokai Corporation was written off as an extraordinary loss for the year in question. On a consolidated basis, therefore, the Group posted its first-ever current net loss, totaling 4.083 billion yen. This overall deficit is attributable to the divestiture of Tokai Corporation, and I would like to take this opportunity to apologize to all our shareholders for any concerns that may have arisen as a result. But please

understand that Tokai Corporation has, for the past several years, faced an uphill battle in the face of an influx of products from China, and Itochu Enex has decided to give priority to investing in areas where its true strengths lie rather than taking yet more remedial measures. The overall deficit for the year under review is purely temporary, and the decision to post it was worth it in the sense that it stands us in good stead to focus management resources on areas where we excel. We are confident that, in fiscal 2005 and beyond, we will achieve the kind of results that live up to the expectations of our shareholders and other stakeholders.

For fiscal 2004 we paid a year-end dividend of 6 yen per share, as in the year before, and an annual dividend of 12 yen per share.

■ Progress of the midterm vision “Creation 2008”

Fiscal 2004 marked the first year of Itochu Enex’s midterm vision “Creation 2008,” which was adopted in April 2004. The vision’s three slogans of “reform,” “refine,” and “create” inspired action on a wide range of fronts.

Under the watchword “reform,” the system of branches and operating offices that had existed since the company’s establishment was abolished, and the company was reorganized into three business divisions. Under the watchword “refine,” we focused and streamlined our organization. And under the watchword “create,” we expanded our presence in the retail sector by building on existing strengths. In the Car-Life Business, for example, a whole new business model for selling used vehicles was established called the Car Collection, and a new credit card service was launched as well. In the Home-Life Business, new services have been steadily unveiled under the “Kurashi-no-Mori” program, the pillar of efforts to bolster our retail presence. In the Industrial Materials Business, meanwhile, Itochu Enex has earned accolades for offering services that address industry’s environmental protection needs, such as the sale of urea solution, which is effective in reducing NOx emissions.

In its first year, then, the midterm vision “Creation 2008” got off to a brisk start indeed on all fronts. Of course, the results so far are merely preliminary. In the second year and beyond, the Itochu Enex Group will need to tackle reform with even greater resolve and dedication than it has

so far to keep pace with the accelerating speed of structural change in the energy sector.

■ CSR management policy

As an integrated energy company, the Itochu Enex Group is constantly expanding its business and venturing into new fields. But a company, we believe, cannot merely concern itself with sales and profits; it has responsibilities to fulfill on a wide range of other fronts as well: compliance with the law, ensuring the safety of its products and services, protecting the environment, respecting human rights and job security. If those responsibilities are to be fully met, the most important thing of all is that those in positions of authority — which means specifically the company leadership, in other words us, and managerial staff — seize the initiative and set a day-to-day example. Also necessary is establishing a climate where individual employees treat the fulfillment of their job responsibilities as a matter of personal pride. And as a company, we are committed to working together as a unified team in implementing CSR programs. To that end we have formulated a Group Declaration of Action and an Environmental Policy, both underpinned by the employee code of ethical conduct.

It is, we believe, our duty as a member of society to achieve sustained growth by maintaining a steady revenue stream, and always to distribute the resulting profits fairly, whether in the form of dividends to shareholders, investment in product development, a reasonable level of pay to employees, or contributions to philanthropic causes.

■ Goals for fiscal 2005

During Fiscal 2005 — the midterm vision’s second year — the Itochu Enex Group will further accelerate efforts to “reform,” “refine,” and “create” as described above. Our goal is to transform ourselves from Japan’s top company specializing in energy to an integrated energy firm with core competences in the three fields of energy, vehicles, and the home. To that end, we will work harder than ever to supply products and services that people truly value in their daily lives.

As for CSR programs, in July 2005 we revised our Group Declaration of Action and our Environmental Policy, bringing them in line with the risk management

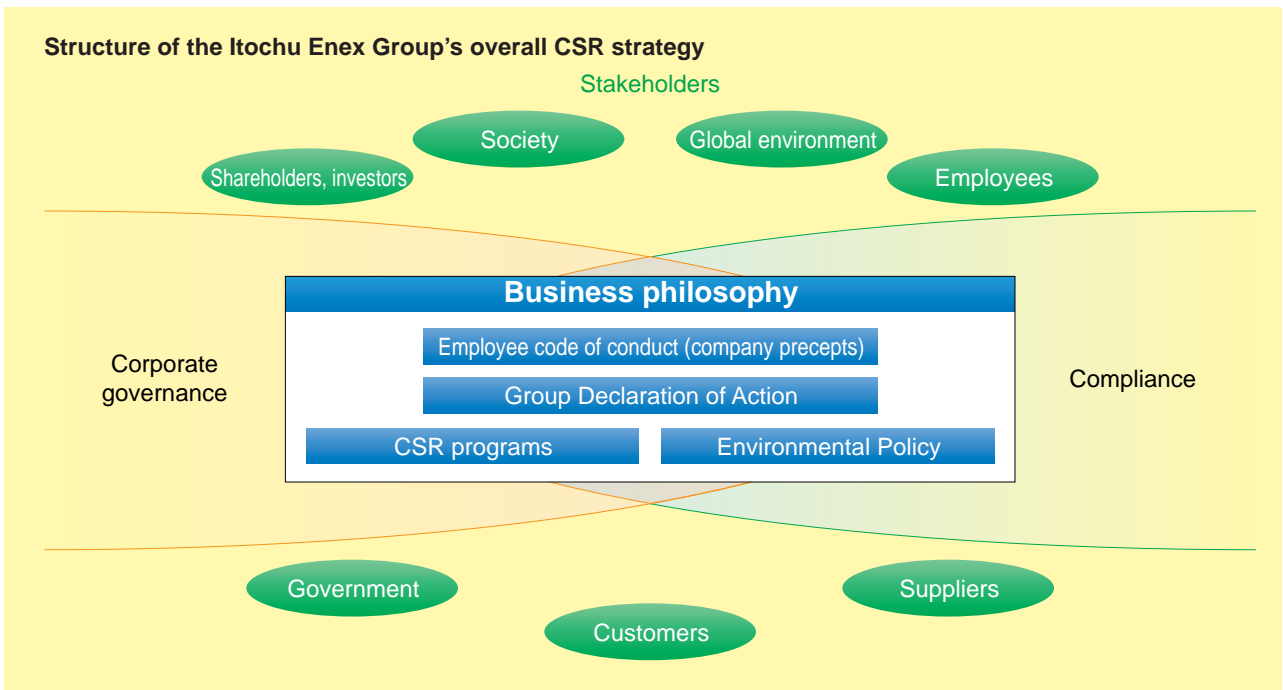
characteristics of the Itochu Enex Group, and formulating a CSR strategy that better reflects its strengths. We are more determined than ever to pursue corporate action in accordance with these guidelines while ensuring the full commitment of all our employees to them.

To the fullest extent possible, we also intend to share information with individual shareholders and investors on the Group's vision, and the wide range of steps being taken in pursuit of it, by holding briefings and utilizing an array of IR tools. Input from shareholders will, we believe, prove

valuable in the implementation of further management reforms.

I look forward to the continued support of all our stakeholders. Rest assured, the Itochu Enex Group intends to live up to your expectations.

Kiyomi Yamada
 Representative Director and President



Car-Life Business

Enhancing comfort and safety on the road via our network of Car-Life Stations — a lot more than just your average service station

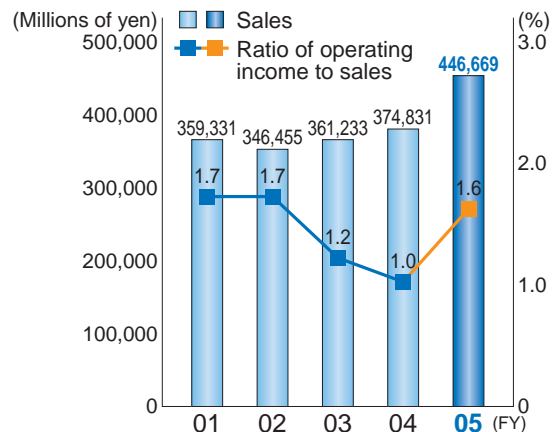
Itochu Enex's Car-Life Business Division sells gasoline, kerosene, gas oils, and fuel oils to some 2,200 affiliated service stations throughout Japan. It is one of the country's largest fuel oil wholesalers affiliated with a trading firm. For the past several years, Itochu Enex's Car-Life Business Division has shifted its focus from developing a network of mere service stations to developing one of what we call Car-Life Stations (CSs). We have been advising vendors that to survive in Japan's ruthlessly competitive service station sector, they need to boost value added by selling not just fuel oil but other products and services as well. Last year we took that concept one step further by unveiling the idea of a "Choice & Selected Station," a new type of Car-Life Station that should prove even more alluring to customers. This we are recommending to vendors as a whole new way of doing business, and we are committed to backing them up to the hilt. In fiscal 2004, for example, we built on our existing network of JAC franchise stations, which buy and sell used cars, and of Holiday vehicle inspection and repair shops by expanding into the sheet metal business as well. In partnership with three non-life insurance companies, we boosted the insurance brokerage services offered at CSs. And we invested in Auto Server Co., Ltd., which has developed a system called ASNET for conducting auto auctions over the Web; that move enabled us to launch what we have christened the "Car Collection," a whole new way to buy and sell cars — via our CSs. As of June 2005 over 170 stations had registered to join the network.

In addition, we established a new company, Auto Joint Kohnan, in a joint venture with domestic Japanese home center giant Kohnan Shoji Co., Ltd. The plan is to set up a large self-service station, carwash, and auto service facilities at home centers. The first such location opened in the city of Ichikawa, Chiba Prefecture, in fiscal 2004. The network is set to expand steadily: thirty locations should be up and running by three years from now.

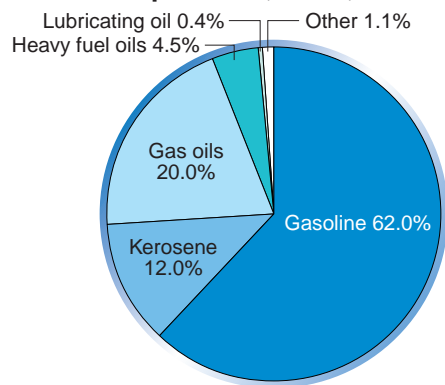
Then there is our exclusive CARENEX itsumo card, which was developed in conjunction with Pocket Card Co., Ltd. as a way to lure customers back to CSs more often. As of June 2005 some 85,000 of these cards had been issued, and the goal is to boost that number to 200,000 before the end of the fiscal year.

Japan's service station industry continues to face an uphill battle. Every year more than a thousand stations are forced out of business. Despite this grim climate, the Itochu Enex network of service stations, or rather CSs, is actually expanding, and its sales volumes are up. The Car-Life Business Division remains committed to developing a CS network that is the customer's No. 1 choice.

Sales and ratio of operating income to sales



Sales Composition (FY 2005)



Home-Life Business

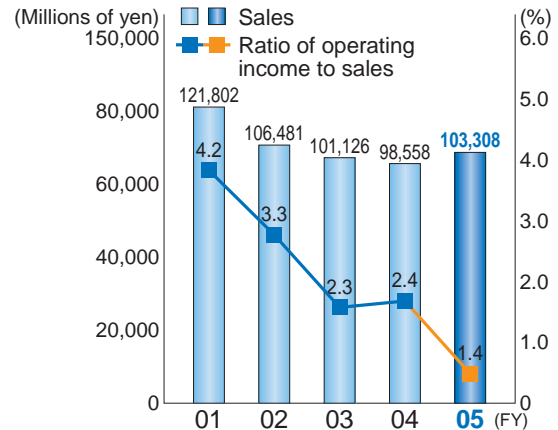
Strengthening ties with the 1.2 million households we supply by developing products, services, and systems that make a real difference

Some 27 million households in Japan, or roughly half the country's 50 million households, use LP gas. Around 1.2 million of those households, plus a good many businesses, are supplied by Itochu Enex's Home-Life Business Division via fourteen regional sales companies and their network of 1,500 sales outlets scattered throughout the country. That represents roughly 5% of Japan's LP gas market. But the Home-Life Business Division does not just sell LP gas. In recent years, taking advantage of the direct contact provided by regular household visits made to inspect gas meters and change gas cylinders, it has been conducting a series of campaigns to boost customer awareness of the advantages of gas, like the "Peace of Mind Inspection Campaign." It has also been using information magazines and the Web to enhance its "Kurashi-no-Mori" service, which sells kitchen, bathroom, and other household products and services.

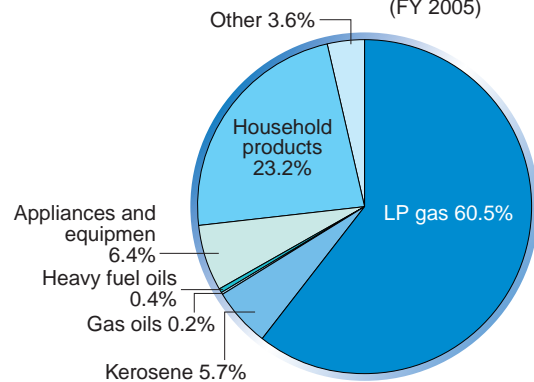
By thus developing and unveiling a steady stream of new products and services, the Home-Life Business Division has, in partnership with its network of sales outlets, been striving to bolster competitiveness and strengthen its business base in the face of intensifying cross-category competition from electricity and city gas in the home energy market. It has also been working to cut costs in collaboration with other firms, by pooling for example refueling facilities and tanker trucks. A case in point is Gastage, an integrated management system for LP gas developed in 2004; this has the potential to become the industry standard.

Itochu Enex also operates a nationwide chain of 136 Autogas stations, which supply LP gas to vehicles; it is indeed Japan's leading company in the field. LP gas shows great promise as a clean, low-emission fuel, and the Home-Life Business Division remains a step ahead of the competition in the supply of LP gas for use in vehicles: it has brought in Japan's first LPG bus, for example, and conducted on-road testing of it on public roads.

Sales and ratio of operating income to sales (incl. Tokai Corporation)



Sales composition (incl. Tokai Corporation) (FY 2005)



Industrial Materials Business

The ultimate expert in industrial energy, taking action on all fronts to meet our customers' energy-saving, environmental, and cost-cutting needs

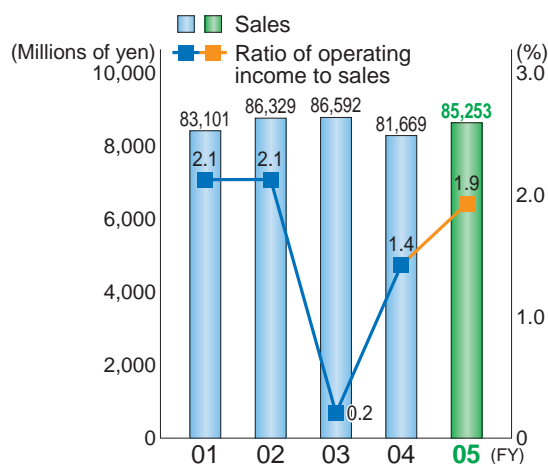
The Industrial Materials Business Division is the ultimate expert in industrial energy. Utilizing its diverse web of procurement channels, its own proprietary petroleum product terminals, and its highly efficient distribution network, it sells primary energy like oil, LP gas, and coal; secondary energy like electric power and heat; and industrial materials like asphalt and cement. Its clientele consists of some 2,500 companies in 3,500 locations throughout Japan — manufacturers, trucking firms, shipping firms, and so forth. The climate in which the industry operates is changing rapidly. Crude oil prices have shot up, Japan is liberalizing its electricity market, and deregulation is advancing on every front. Customers, meanwhile, are clamoring for solutions to their energy-saving, environmental, and cost-cutting needs. The Industrial Materials Business Division is catering to these wide-ranging needs with the concept of “energy solutions.” Not only does it sell petroleum products, LP gas, and ordinary high-pressure gases; it also plans to sell eco-friendly liquefied natural gas (LNG) via both pipeline and satellite terminal, and it is developing a wide range of other new products and services as well.

One example is the sale of the urea solution AdBlue, which when sprayed in the exhaust pipes of diesel trucks dramatically reduces the nitrogen oxide (NOx) content of exhaust gas. Another example is the supply of groundwater filtration systems — effective in slashing water bills — to factories, hospitals, hotels, and other facilities that use large quantities of tap water. In April 2005, meanwhile, we launched a service for maintaining and monitoring power receiving and distribution equipment. This service uses monitoring equipment to remotely maintain and control corporate clients' receiving and distribution facilities, and it reins in power costs through demand control. Now that the electricity market has been liberalized, we have also expanded into the supply of power through on-site generating facilities and the sale of cogeneration systems. We take charge of everything from generation of power and maintenance of equipment through procurement of fuel.

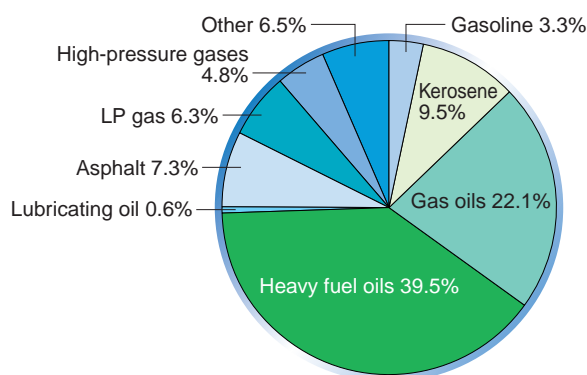
Other areas that we are currently working on include using microorganisms to clean up contaminated soil, commercial operation of Japan's first DME truck service, and the development of a commercial hydrogen station network

for fuel cell vehicles. The Industrial Materials Business Division creates value added like no one else can, its sights firmly set on the needs of society and industry tomorrow.

Sales and ratio of operating income to sales



Sales composition (FY 2005)



Financial Section

Operating Results

Years ended March 31	2001	2002	2003	2004	2005
Net sales (Unit: millions of yen)	564,235	539,265	548,952	555,059	635,230
Cost of sales (Unit: millions of yen)	492,985	469,916	487,012	494,806	573,425
Gross profit (Unit: millions of yen)	71,249	69,348	61,939	60,252	61,805
Ratio of gross profit to net sales (%)	12.63	12.86	11.28	10.86	9.73
Operating income (Unit: millions of yen)	9,824	8,324	3,900	4,312	6,826
Ratio of operating income to net sales (%)	1.74	1.54	0.71	0.78	1.07
Ordinary income (Unit: millions of yen)	10,888	9,610	5,236	6,396	8,678
Ratio of ordinary income to net sales (%)	1.93	1.78	0.95	1.15	1.37
Net income (loss) (Unit: millions of yen)	6,573	5,083	1,227	3,798	(4,083)
Ratio of net income to net sales (%)	1.16	0.94	0.22	0.68	(0.64)

Financial Position

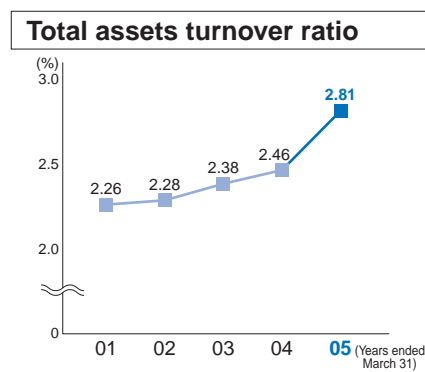
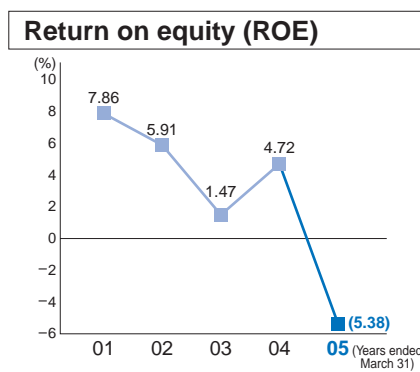
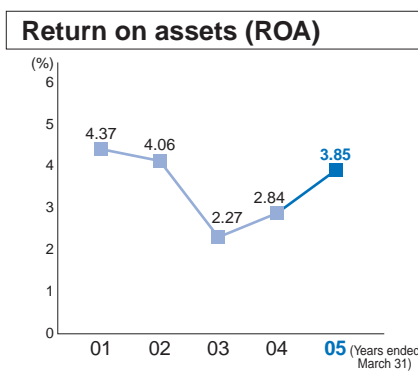
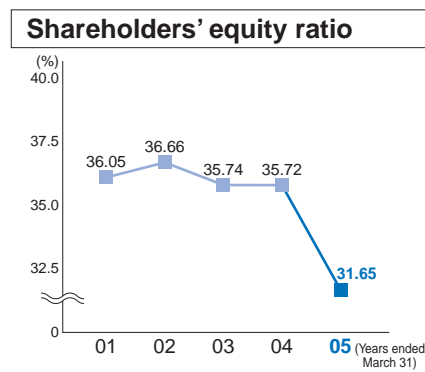
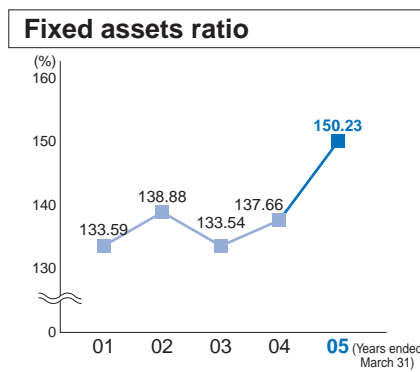
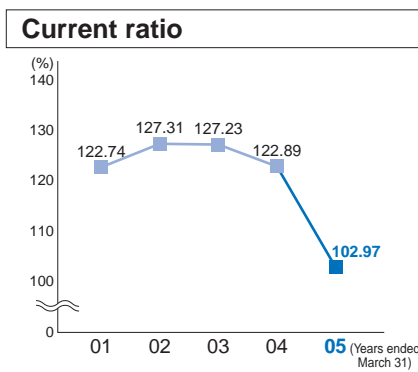
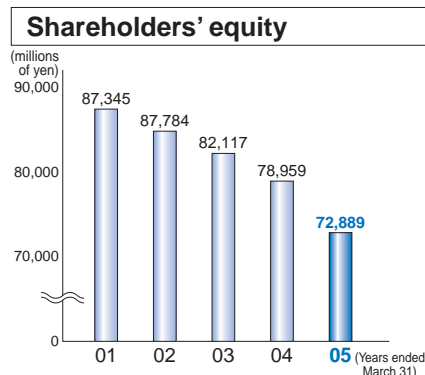
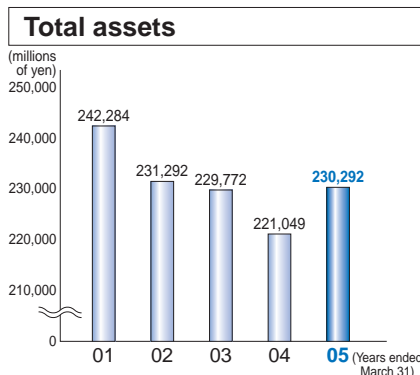
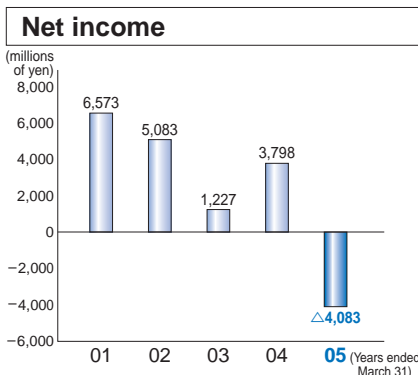
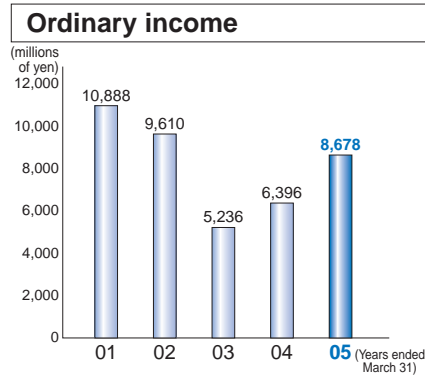
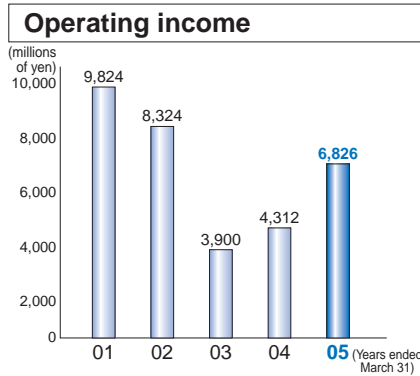
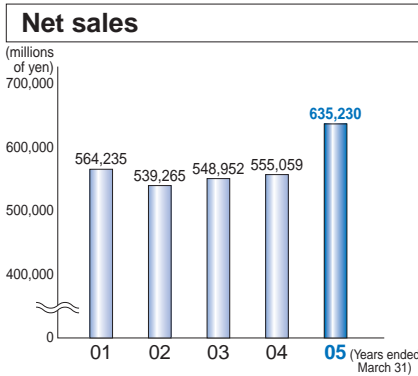
Total assets (Unit: millions of yen)	242,284	231,292	229,772	221,049	230,292
Current assets (Unit: millions of yen)	125,602	113,544	120,108	112,352	120,784
Fixed assets (Unit: millions of yen)	116,681	117,748	109,663	108,696	109,507
Current liabilities (Unit: millions of yen)	102,332	89,189	94,405	91,422	117,299
Long-term liabilities (Unit: millions of yen)	46,191	50,308	46,606	44,134	34,993
Shareholders' equity (Unit: millions of yen)	87,345	87,784	82,117	78,959	72,889

Main Ratios

Current ratio (%)	122.74	127.31	127.23	122.89	102.97
Fixed assets ratio (%)	133.59	138.88	133.54	137.66	150.23
Shareholders' equity ratio (%)	36.05	36.66	35.74	35.72	31.65
Return on assets (ROA) (%)	4.37	4.06	2.27	2.84	3.85
Return on equity (ROE) (%)	7.86	5.91	1.47	4.72	(5.38)
Total assets turnover ratio (times)	2.26	2.28	2.38	2.46	2.81
Fixed assets turnover ratio (times)	4.78	4.60	4.83	5.08	5.82

Per Share Data and Dividend Yield

Net income per share(yen)	66.46	52.44	12.50	40.07	(46.56)
Shareholders' equity per share (yen)	891.95	888.63	887.25	867.06	808.10
Cash dividends per share (yen)	12.00	12.00	12.00	12.00	12.00
Dividend yield (%)	2.58	2.09	2.53	2.11	1.57



Consolidated Balance Sheets

As of March 31, 2005 and 2004

Assets	Millions of yen		Millions of U.S. dollars
	2005	2004	2005
Current assets:			
Cash and deposits	¥ 27,931	¥ 30,142	\$ 260
Notes and accounts receivable - trade	74,995	65,653	698
Marketable securities	100	100	0
Inventories	9,990	9,180	93
Deferred tax assets	2,397	2,117	22
Other	5,369	5,157	49
Total Current assets	120,784	112,352	1,124
Fixed assets:			
Tangible fixed assets			
Buildings and structures	57,772	57,371	537
Machinery and equipment	53,160	52,990	495
Land	34,763	35,419	323
Other	10,798	11,226	101
Accumulated depreciation	(88,605)	(87,305)	(825)
Total Tangible fixed assets	67,889	69,702	632
Intangible fixed assets			
Goodwill	2,060	2,966	19
Other	3,892	2,259	36
Total Intangible fixed assets	5,953	5,226	55
Investments and other assets			
Investment securities	23,122	20,124	215
Long-term loans	2,463	2,759	22
Deferred tax assets	1,724	1,741	16
Other	8,354	9,142	77
Total Investments and other assets	35,664	33,768	332
Total Fixed assets	109,507	108,696	1019
Total assets	¥ 230,292	¥ 221,049	\$ 2,144

Liabilities and Shareholders' Equity	Millions of yen		Millions of U.S. dollars
	2005	2004	2005
Current liabilities:			
Notes and accounts payables - trade	¥ 63,255	¥ 50,689	\$ 589
Short-term borrowings	19,502	22,602	181
Commercial paper	—	5,000	—
Current portion of bonds payable	5,000	—	46
Income taxes payable	2,558	1,005	23
Other current liabilities	26,983	12,124	251
Total current liabilities	117,299	91,422	1,092
Long-term liabilities:			
Bonds payable	5,000	10,000	46
Long-term debt	15,619	15,772	145
Deferred tax liabilities	559	884	5
Allowance for retirement benefits	4,618	4,145	43
Negative goodwill	—	4,305	—
Deferred tax liabilities on revaluation reserve for land	3,413	3,434	31
Other long-term liabilities	5,782	5,591	53
Total long-term liabilities	34,993	44,134	325
Total liabilities	152,292	135,556	1,418
Minority interests	5,109	6,533	47
Shareholders' equity:			
Common stock	19,877	19,877	185
Capital surplus	17,544	17,554	163
Retained earnings	47,788	53,217	444
Unrealized loss on land revaluation	(9,186)	(9,325)	(85)
Unrealized gain on available-for-sale securities	989	1,014	9
Foreign currency translation adjustments	(739)	(557)	(6)
Treasury stock, at cost	(3,384)	(2,811)	(31)
Total shareholders' equity	72,889	78,959	678
Total liabilities, minority interests, and shareholders' equity	¥ 230,292	¥ 221,049	\$ 2,144

Consolidated Statements of Income

Years ended March 31, 2005 and 2004

	Millions of yen		Millions of U.S. dollars
	2005	2004	2005
Net Sales	¥ 635,230	¥ 555,059	\$ 5,915
Cost of sales	573,425	494,806	5,339
Gross profit	61,805	60,252	575
Selling, general and administrative expenses	54,978	55,939	511
Operating income	6,826	4,312	63
Non-operating income:			
Interest income	417	459	3
Dividend income	75	269	0
Gain on sale of marketable securities	22	—	0
Amortization of negative goodwill	862	862	8
Exchange gain	269	—	2
Gain on equity-method investments	374	805	3
Other non-operating income	862	1,171	8
Total non-operating income	2,884	3,568	26
Non-operating expenses:			
Interest paid	660	833	6
Exchange loss	—	269	—
Other non-operating expenses	371	382	3
Total non-operating expenses	1,032	1,484	9
Ordinary income	8,678	6,396	80
Extraordinary profits:			
Gain on sale of fixed assets	341	140	3
Gain on deduction of fixed assets	71	—	0
Gain on sale of investment securities	238	133	2
Gain on sale of investments in affiliates	442	—	4
Gain on reversal of allowance for doubtful receivables	8	21	0
Gain on termination of retirement benefit plans	—	188	—
Other extraordinary profits	—	70	—
Total extraordinary profits	1,102	554	10
Extraordinary losses:			
Loss on sale and disposal of fixed assets	1,000	772	9
Loss on sale of investment securities	67	—	0
Loss on valuation of investment securities	—	17	—
Provision for Loss on withdrawal from businesses	9,271	—	86
Loss on reorganizing businesses	—	300	—
Provision for retirement benefits	—	83	—
Loss on valuation of golf club membership	84	116	0
Other extraordinary losses	82	40	0
Total extraordinary losses	10,506	1,330	97
Income (losses) before income taxes and minority interests	(724)	5,620	(6)
Income taxes	3,815	1,397	35
Income tax adjustment	(428)	619	(3)
Minority interest-losses	27	194	0
Net income (losses)	¥ (4,083)	¥ 3,798	\$ (38)

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2005 and 2004

	Millions of yen		Millions of
	2005	2004	U.S. dollars
			2005
Capital surplus:			
Capital surplus at beginning of term	¥ 17,544	¥ 17,543	\$ 163
Increase in capital surplus	0	0	0
Gain on sale of shares in treasury	0	0	0
Capital surplus at end of term	17,544	17,544	163
Retained earnings:			
Retained earnings at beginning of term	53,217	50,452	495
Increase in retained earnings			
Net income	–	3,798	–
Reversal of Revaluation Reserve for Land	–	106	–
Gain on valuation of retirement pension for overseas subsidiaries	9	22	0
Total Increase in retained earnings	9	3,927	0
Reduction in retained earnings			
Net losses	4,083	–	38
Cash dividend	1,090	1,106	10
Director's bonuses	125	55	1
Reduction in unrealized loss on land revaluation	138	–	1
Total Reduction in retained earnings	5,438	1,161	50
Retained earnings at end of term	¥ 47,788	¥ 53,217	\$ 444

Consolidated Statements of Cash Flows

Years ended March 31, 2005 and 2004

	Millions of yen		Millions of U.S. dollars
	2005	2004	2005
Operating activities:			
Income before income taxes and minority interests	¥ (724)	¥ 5,620	\$ (6)
Depreciation and amortization	5,808	5,933	54
Amortization of negative goodwill	(862)	(862)	(8)
Increase (Decrease) in accrued retirement benefits	656	27	6
Increase (Decrease) in allowance for doubtful receivables	252	(246)	2
Loss on devaluation of investment securities	–	17	–
Loss on disposal of tangible fixed assets	1,000	470	9
Foreign exchange loss (gain)	(199)	49	1
Loss (gain) on equity-method investment	(374)	(805)	(3)
Loss on withdrawal from Tokai Corporation business	9,271	–	86
Equity in losses of unconsolidated subsidiaries and associated companies	–	300	–
Loss on valuation of golf club membership	6	21	0
Interest and dividends income	(492)	(729)	(4)
Interest expenses	660	833	6
Transfer to cash flows from investing activities	(1,068)	29	(9)
Transfer to cash flows from financing activities	(4)	8	(0)
Decrease (increase) in trade receivables	(9,366)	4,227	(87)
Decrease (increase) in inventories	(815)	410	(7)
Increase in trade payable	12,510	899	116
Decrease in other assets	35	502	0
Increase in other liabilities	2,085	1,854	19
Bonuses to directors	(125)	(63)	(1)
Subtotal	18,252	18,497	169
Receipt of interest and dividends	766	949	7
Payment of interest	(674)	(868)	(6)
Payment of income taxes	(2,018)	(554)	(18)
Net cash provided by operating activities	16,326	18,024	152
Investing activities:			
Increase in time deposits	(283)	–	(2)
Purchase of marketable securities	(137)	(133)	(1)
Proceeds from sales of marketable securities	159	176	1
Purchase of tangible fixed assets	(4,261)	(6,027)	(39)
Proceeds from sale of tangible fixed assets	1,235	1,338	11
Purchase of intangible fixed assets	(2,411)	(2,141)	(22)
Proceeds from sale of intangible fixed assets	134	44	1
Purchase of investment securities	(3,553)	(332)	(33)
Proceeds from sale of investment securities	1,739	467	16
Acquisition of stock of newly consolidated subsidiaries	–	(803)	–
Purchase of stock of affiliates	(15)	–	(0)
Proceeds from sale of stock of affiliates	–	255	–
Extension of long-term loans	(3,650)	(875)	(33)
Collection of long-term loans	3,625	1,375	33
Other	(177)	413	(1)
Net cash used in investing activities	(7,596)	(6,242)	(70)
Financing activities:			
Increase (decrease) in short-term borrowings, net	(6,643)	489	(61)
Increase in long-term debt	5,196	725	48
Repayment of long-term debt	(6,799)	(8,421)	(63)
Repayment of bonds payable	–	(5,000)	–
Proceeds from sale of treasury stock	63	25	0
Purchase of treasury stock	(639)	(813)	(5)
Dividends payment	(1,091)	(1,104)	(10)
Dividends paid to minority shareholders	(1,219)	(144)	(11)
Net cash used in financing activities	(11,133)	(14,242)	(103)
Effect of exchange rate changes on cash and cash equivalents	188	(34)	1
Net decrease in cash and cash equivalents	(2,215)	(2,495)	(20)
Cash and cash equivalents at beginning of year	30,242	32,735	281
Increase in cash and cash equivalents resulting from merger of consolidated subsidiaries	4	2	0
Cash and cash equivalents, end of year	28,031	30,242	261

Management's Analysis of the Group's Consolidated Financial Position and Operating Results

(1) Business Climate

During the fiscal year that ended March 31, 2005, the domestic Japanese economy experienced what proved to be a rather slow-paced recovery. Consumer spending was brisk and the employment situation was good as both exports and capital investment rose, driven by the relatively upbeat U.S. economy and China's continued rapid economic expansion; but those gains tapered off in the second half of the year. Meanwhile soaring prices for crude oil, which reached historic highs, and for iron ore, coal, and other resources drove up the price of raw materials in their turn, creating new economic risks.

The oil sector faced an urgent need to pass on to customers the rise in product costs triggered by soaring crude prices, and the record summer heat wave drove up demand for car fuel.

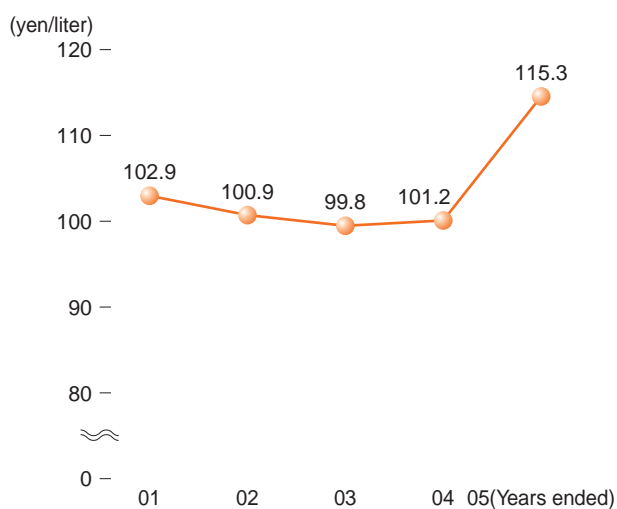
The LP gas sector faced more intense competition than ever from other energy sources - electricity and city gas — while in certain areas of the country price competition between LP gas suppliers became more cutthroat. In June 2005, meanwhile, Itochu Enex signed a stock purchase agreement with Tokai International Holdings, Inc.,

undertaking to transfer ownership of all Tokai Corporation stock in its possession to that company (Tokai International Holdings) as of the end of July. This sale marked Itochu Enex's withdrawal from the business of manufacturing and selling lighters and gas poker. It was designed to enable us to concentrate on our core competence of energy so that we could pursue further gains in management efficiency and become more competitive than ever; it was also conducive to Tokai Corporation's growth strategy in that it would allow it to achieve greater synergies. The 9.271 billion yen loss incurred as a result of the divestiture was written off as an extraordinary loss for the year ending March 31, 2005, being entered in the accounts as part of a reserve to cover losses due to withdrawal from the lighter business.

(2) Financial Policy

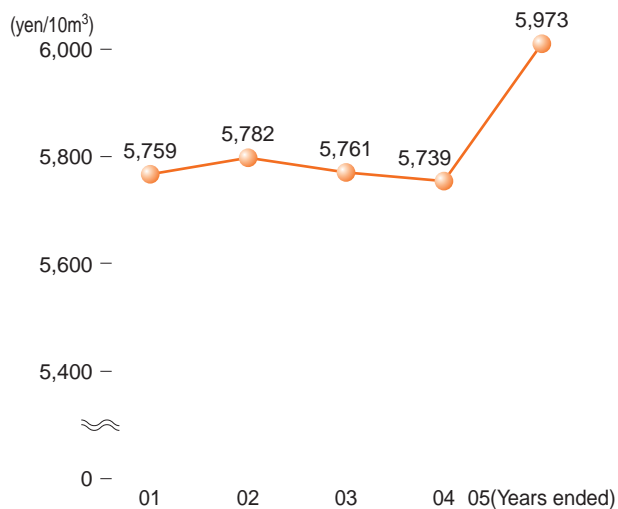
To enhance management efficiency in today's business climate, Itochu Enex uses return on assets (ROA) as an indicator of asset efficiency. The ROA for the term under review was 3.8%, up more than one point over the previous year. Besides adopting ROA, the company has, under the midterm vision "Creation 2008" (covering the years 2004-2008), also developed an Enex version of the EVA method,

Retail price of gasoline



Source: The Oil Information Center

Retail price of LP gas (per 10 m³, for household use)



Source: The Oil Information Center

which is to be brought into full implementation in the course of the fiscal 2005 business plan. Through the effective use of this pair of indicators, we intend to further streamline our business by overhauling unprofitable sectors and consolidating subsidiaries; to further boost asset efficiency; and thereby to bolster ROA to 4.7% by fiscal 2008, the last year of the midterm vision - 0.9 points above its present level.

(3) Liquidity and Sources of Funds

1) Financial Position

As of fiscal 2005 consolidated total assets stood at 230.292 billion yen, up 9.243 billion yen compared to the end of the previous fiscal year.

Current assets stood at 120.784 billion yen, up 8.432 billion yen over the end of the previous fiscal year. There were several major reasons behind the increase: while cash and deposits declined by 2.211 billion yen owing to a reduction in interest-bearing debt, trade receivables rose by 9.341 billion yen thanks to increased sales; inventory increased by 809 million yen because of a build-up in stocks of kerosene and the like; and the amount of short-term loans increased because of 600 million yen in financing to parties with which the company has business dealings.

Fixed assets stood at 109.57 billion yen, up 810 million yen over the end of the previous fiscal year. The increase breaks down as follows. Investments and other assets rose by 1.896 billion yen, intangible fixed assets rose by 726 million yen, and tangible fixed assets declined by 1.812 billion yen.

The reason for the decline in tangible fixed assets was that expenditures on maintaining and upgrading facilities at service stations and consolidated subsidiary Tokai Corporation were disbursed within the bounds of depreciation expenses generated during the year. The increase in intangible fixed assets was partly attributable to the fact that, despite a one-time 442 million yen write-off of the goodwill of Takane U.S.A. Inc., a U.S. subsidiary of Tokai Corporation that manufactures and sells timepieces, 1.233 billion yen was invested in systems to streamline office

operations. Investments and other assets, despite a decline due to repayment of long-term and other loans, increased over the end of the previous fiscal year owing to the acquisition of 2.65 billion yen in new investment securities and the posting of a gain on equity-method investments.

Current liabilities stood at 117.299 billion yen, up 25.877 billion yen over the end of the previous fiscal year. The primary reasons behind the increase were that, despite a 3.099 billion yen decrease in short-term interest-bearing debt, trade receivables climbed by 12.565 billion yen owing to increased sales volumes and a rise in the price of crude; and 12.799 billion yen was posted as a reserve to cover losses arising from withdrawal from the lighter business.

Long-term liabilities stood at 34.993 billion yen, down 9.14 billion yen from the end of the previous fiscal year. The primary reasons for the decline were that 5 billion yen in bonds payable were transferred to current liabilities in accordance with the one-year rule; and that, after the decision to withdraw from the lighter business, 4.305 billion yen in negative goodwill was depreciated, including a 3.874 billion yen one-time depreciation of Tokai Corporation's negative goodwill on the credit side.

Shareholders' equity stood at 72.889 billion yen, down 6.069 billion yen from the end of the previous fiscal year. The primary reasons for the decline were that retained earnings fell by 5.429 billion yen, and that the company purchased 639 million yen worth of treasury stock. The decline in retained earnings was due to the fact that a current net loss of 4.083 billion yen was posted, the result of writing off the reserve set aside to cover losses due to withdrawal from the lighter business; and that 1.355 billion yen was paid out in dividends and such. The purchase of treasury stock was implemented on the market with the goal of enabling the company to conduct business more flexibly by responding effectively to changing economic and corporate conditions. As of the end of the year under review, the company owned 5.89 million treasury shares worth 3.384 billion yen.

2) Cash Flows

Cash and cash equivalents as of March 31, 2005, stood at

28.031 billion yen, down 2.211 billion yen from the end of the previous fiscal year. Of the total of 16.326 billion yen generated from operating activities, 7.596 billion yen was used for investment activities, and 11.133 billion yen was applied to such purposes as reducing interest-bearing debt through financing activities.

Cash flows from operating activities stood at 16.326 billion yen, down 1.698 billion yen from the previous fiscal year. The primary reasons for the decline were an increase in working capital fueled by the rise in crude oil prices, and a 1.464 billion yen increase in corporate tax and other payments during the year due to improved results at consolidated subsidiaries.

Cash flow used for investment activities stood at 7.596 billion yen, up 1.354 billion yen over the previous fiscal year. The chief reasons for the increase were that, while revenues of 1.739 billion yen were generated from the sale of investment securities, business facilities were upgraded, 2.605 billion yen worth of stock was acquired through business tie-ups and the like, and a 1.233 billion yen investment was made in computer systems. Cash flow used in financing activities stood at 11.133 billion yen, down 3.109 billion yen from the previous fiscal year. The primary reason for the decrease was that 5 billion yen worth of bonds payable were redeemed in the previous year through, among other moves, the use of surplus funds to reduce interest-bearing debt.

(4) Operating Results

1) Net Sales

Net sales for the term stood at 635.23 billion yen, up 80.171 billion yen over the previous fiscal year. Details follow by business segment.

In the Industrial Materials Business, the enhancement of the supply and distribution network paid off, and the revenue environment remained stable throughout the year. Volume of asphalt sales rose dramatically, and in the fuel oils market higher crude oil costs were gradually passed on to the customer. As a result, net sales increased by 4.4% year-on-year to 85.253 billion yen.

In the Car-Life Business, the dramatic rise in the cost of

petroleum products triggered by higher crude prices urgently needed to be passed on to customers, which objective was largely achieved for all forms of oil, including gasoline. Sales volumes of gasoline and gas oils climbed dramatically, in part because of the record hot summer, but the volume of kerosene sold through major oil company chains declined from the previous year owing to the mild winter. As a result, net sales increased by 19.2% year-on-year to 446.669 billion yen.

In the Home-Life Business, circumstances were harsh as the historic rise in the price of imported LP gas that continued throughout the year forced down profit margins at all stages of distribution, including both wholesale and retail. Sales volumes of LP gas for household use declined owing to the hot summer weather. Nonetheless, the division worked hard to expand sales channels by implementing marketing efforts and acquiring retail sales rights; as a result, it managed to do about as well as the year before, with net sales increasing by 4.8% year-on-year to 103.308 billion yen.

2) Income

Although rising crude oil prices drove up buying costs during the year, we were able to secure profit margins by passing on the increases to sales prices, and profits also rose thanks to a jump in sales volumes.

Operating income stood at 6.826 billion yen, up 2.514 billion yen over the previous fiscal year. The primary reason for this was a dramatic rise in income that resulted from an increase in gross profit and a 961 million yen reduction in selling, general, and administrative expenses, the latter being due to, among other factors, cuts in freight rates paid and pension plan reforms (the employees' pension fund was dissolved and replaced by a defined contribution pension plan).

By business segment, operating income was 1.629 billion yen (a 43.4% year-on-year increase) in the Industrial Materials Business, 7.134 billion yen (a 98.9% year-on-year increase) in the Car-Life Business, and 1.441 billion yen (a 39.1% year-on-year decline) in the Home-Life Business. Ratio of operating income to net sales stood at 1.9% in the

Industrial Materials Business, 1.6% in the Car-Life Business, and 1.4% in the Home-Life Business.

Ordinary income stood at 8.678 billion yen, up 2.282 billion yen over the previous fiscal year. The primary reasons for this were a 538 million yen improvement in foreign exchange profit/loss at Tokai Corporation, and an increase in profits due to a dramatic rise in operating income - this despite the fact that profits from equity-method investments declined by 430 million yen, profits from futures trading based on supply and demand declined by 227 million yen, and the financial account balance declined by 64 million yen because of, among other factors, lower dividends.

Net income declined by 7.882 billion yen from the previous fiscal year to show a loss of 4.083 billion yen. Despite extraordinary gains, including a 238 million yen profit on sale of investment securities and a 442 million yen profit on the sale of affiliated company stock, income fell dramatically overall. This was because of the decision to withdraw from the lighter business by selling off the stock of Tokai Corporation, in consequence of which 9.271 billion yen was entered in the accounts as part of a reserve to cover resulting losses. As a result, net income per share for the term under review stood at minus 46.56 yen.

(5) Outlook for the Coming Fiscal Year

With so many concerns on the horizon, including the opaque situation in China and sustained high resource prices, the domestic Japanese economy can expect to continue to face an uncertain climate. In the energy sector in particular much remains unpredictable, including the movement of crude oil and imported LP gas prices, and what impact that movement may have on retail prices.

In the Industrial Materials Business, we intend to expand sales of fuel oil to industrial users, make every effort to win new customers, and give priority to securing profit margins. We will also pursue expansion into new energy fields, including the sale of LNG. And, as part of our ESCO business, we will sign up new clients for our maintenance and monitoring service for power receiving and distribution equipment, which cuts power costs. In the pursuit of greater

revenues, we are thus committed to becoming a “Total Energy Service Business” capable of meeting all our customers’ energy needs.

In the Car-Life Business, we will be aggressive in pursuing M&As as a means of expanding our presence in the energy market. In the automobile sector, our network of JAC franchise stations, which buy and sell used cars, and of Holiday vehicle inspection and repair shops is being joined by the expanding Car Collection system, whereby new and used vehicles are bought and sold through service stations. By working in synergy with affiliated service stations, we plan to boost revenues and improve the consolidated bottom line.

As for the CARENEX itsumo card, the immediate goal is to issue 100,000 of these, and we hope to have 200,000 in circulation before the end of fiscal 2005. Under our new strategy for the Total Car Life business, meanwhile, we have teamed up with Kohnan Shoji Co., Ltd. to establish a chain of “Auto Joint Kohnan” mega car life malls in major shopping centers. The first of these malls, which combine a self-service station with a vehicle inspection and sheet metal shop, opened for business in Ichikawa, Chiba Prefecture, in March of this year. The chain is set to expand steadily throughout Japan: the goal is to have thirty such malls in operation by three years from now. In another move designed to place our automobile business on a firmer footing than ever, we will also be working with several non-life insurance companies to get ourselves fully established in the non-life insurance brokerage business.

In the Home-Life Business, our goal for the year is to bolster our competitiveness so that we can prevail in the face of rival forms of energy. That will involve expanding our business base through ongoing acquisition of retail sales rights, and strengthening our chain of sales companies. On May 2, 2005, we finished taking over LP gas supply service to 21,000 homes in Shimane Prefecture. This move will impose various special expenses during the coming fiscal year, being the first year of operation, and result in depreciation expenses; but it will ultimately contribute, we believe, to expanding our base of operations and bolstering our competitiveness. Meanwhile, under our “Kurashi-no-Mori”

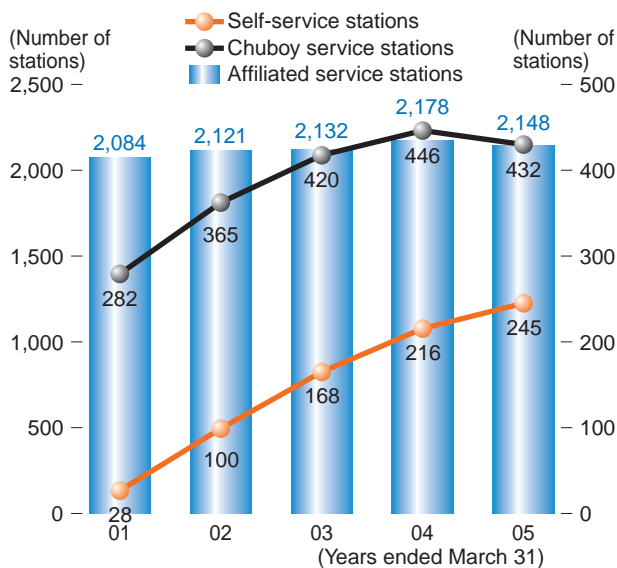
program, which caters to households that use LP gas, we will take advantage of our strengths as an LP gas supplier to encourage people to switch over to gas for cooking and hot water. With one eye on the coming fuel cell age, we will also be promoting decentralized power generation through the sale of the Ecowill home cogeneration system. And we are committed to fostering widespread use of vehicles powered by LP gas, a low-emission, eco-friendly form of energy. Already last October, in partnership with Coop Eco Vehicle Development Corporation, we began conducting practical testing of a full-sized bus powered by LP gas with the goal of ultimately getting such vehicles on the road.

It is not easy to predict how crude oil and imported LP gas prices will move during the new fiscal year, nor what the

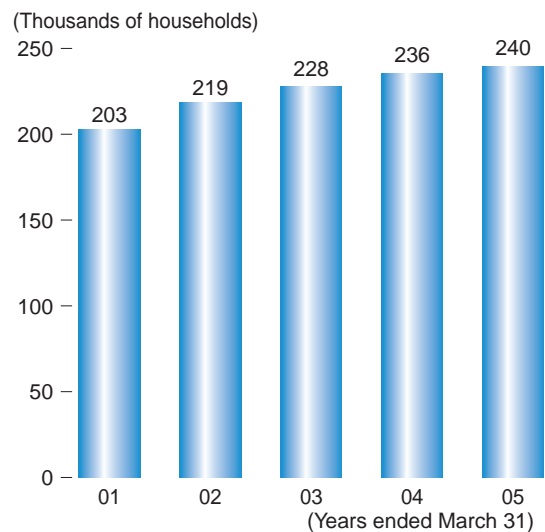
situation will be like on the retail market. Whatever the case, the whole Itochu Enex Group is committed to achieving the goals set out for Year Two of the midterm vision "Creation 2008."

Through these efforts, we expect to achieve the following consolidated results for the year: net sales of 629 billion yen (down 1.0% from the previous year), ordinary income of 7.5 billion yen (down 13.6%), and net income of 4.2 billion yen (compared to a net loss of 4.083 billion yen during the previous year). Note that since, from the new fiscal year, Tokai Corporation will no longer be among the enterprises covered by the consolidated accounts, that company's impact on the bottom line, which was factored into last year's results, has been excluded from the above forecast.

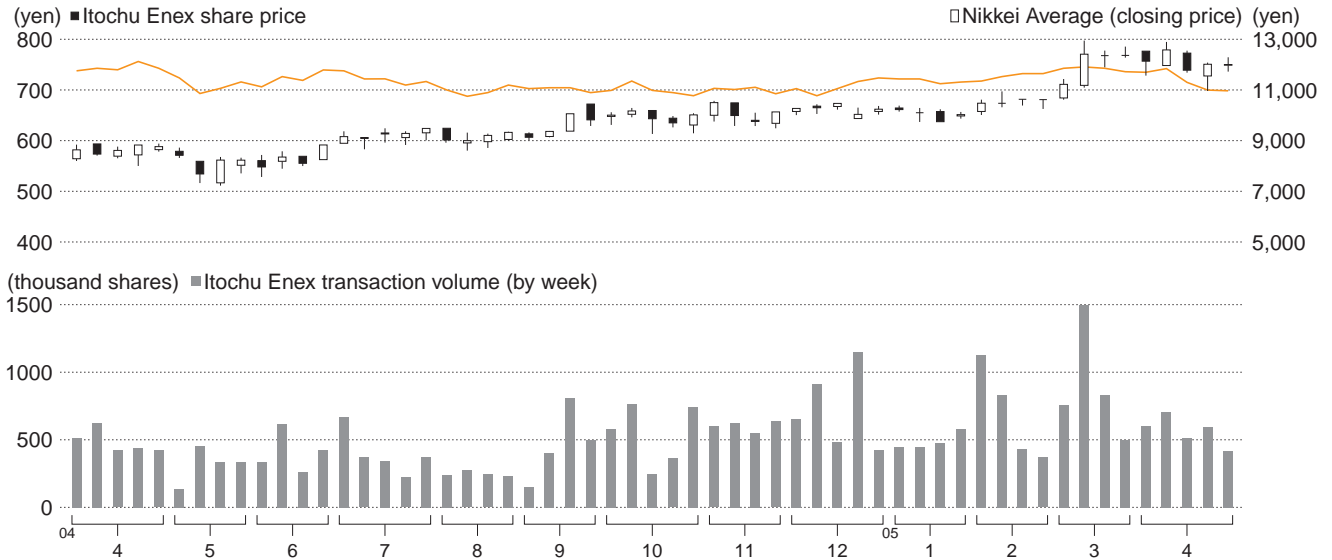
Number of service stations



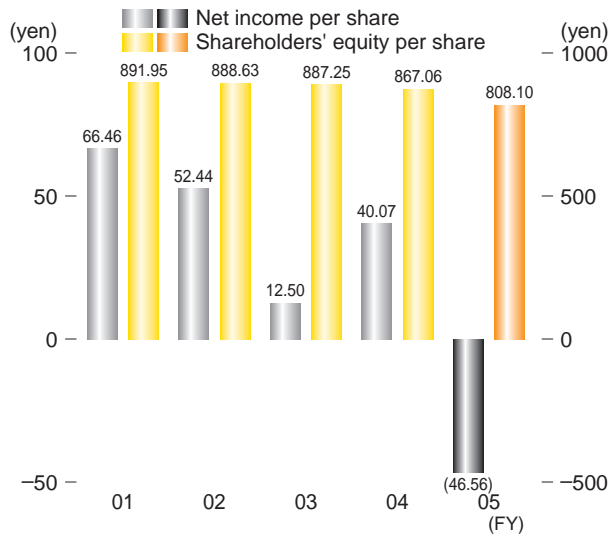
Number households using LP gas



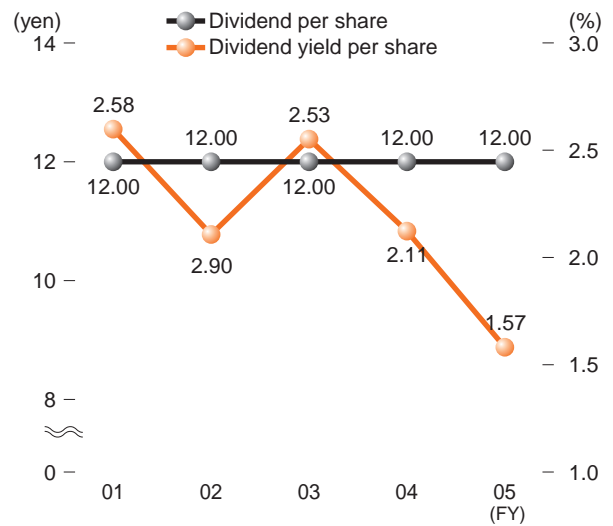
Share price & transaction volume



Net income per share/Shareholders' equity per share (left scale) (right scale)



Dividend per share/Dividend yield per share (left scale) (right scale)



Treasury stock

1. Acquisition

Common stock: 1,006 thousand shares
 Acquisition cost: 639 million yen

2. Sale

Common stock: 121 thousand shares
 Proceeds received: 62 million yen

3. Shares held on the balance sheet date

Common stock: 5,890 thousand shares

Corporate Directory (as of June 26, 2005)

Company Name: Itochu Enex Co., Ltd.

Head Office Address: 24-12, Meguro 1-chome, Meguro-ku,
Tokyo 153-8655, Japan

Phone: +81-3-5436-8200
+81-3-5436-9356 (IR/CSR office)

Home Page: <http://www.itcenex.com>

Established: January 28, 1961

Common Stock: ¥19.87767 billion

Number of Employees: 667 (as of March 31, 2005)

Business Line: Principally engaged in the sale of petroleum products and LP gas; also purchases and sells automobile supplies and used cars, and sells housing-related equipment via catalogs and special events.

Business Divisions:

Car-Life Business Division, Home-Life Business Division, Industrial Materials Business Division

Principal Locations:

Marketing Offices: Kyushu, Chu-shikoku, Kansai, Chubu, Higashinihon, Kanto, Tohoku, Hokkaido

Note: In addition, there are 26 outlets under the control of these offices.

Itochu Enex Group

Consolidated subsidiaries: 41

Non-consolidated subsidiaries (covered by the equity method): 36

Affiliates (covered by the equity method): 25 (as of March 31, 2005)

Directors and Officers

Representative Director and President	Kiyomi Yamada
Representative Director and Senior Managing Director	Seiki Yamanishi
Managing Directors	Hiroshi Arai Shuji Arimitsu Hideo Miki Shunichi Honkado
Executive Director	
Directors	Akira Yokota Koji Takayanagi
Standing Corporate Auditors	Toshio Sato Fumio Sato Tetsuo Mori
Corporate Auditor	Shuichi Nanba
Senior Executive Officers	Tokuji Shingae Akira Doi
Executive Officers	Mamoru Kashiwaguchi Masamoto Uehara Masaaki Itoyama Kenji Moriya Noriaki Nishioka Michio Nanba Masaru Takahashi

Shareholder Information (as of June 26, 2005)

Total number of shares and shareholders

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

Number of shares issued and outstanding: 96,356,583

Number of shareholders: 8,573 (822 fewer than the year before)

Trading unit of shares: 100 shares

Shareholders, by type

Other domestic companies	48.75%
Domestic financial institutions	21.72%
Individuals etc.	22.21%
Foreign corporations	7.12%
Domestic securities companies	0.20%

Stock listing: Tokyo (1st Section)

Name: ENEX

Principal shareholders

Shareholder	Number of shares (thousands)	Voting rights (%)
Itochu Corporation	18,667	21.03
Itochu Energy Marketing Co., Ltd.	17,132	19.30
Enex Fund	3,528	3.97
Japan Trustee Services Bank, Ltd. (trust account)	3,315	3.74
The Master Trust Bank of Japan, Ltd. (trust account)	3,112	3.51
Nippon Life Insurance Company	2,203	2.48
The Sumitomo Trust & Banking Co., Ltd.	1,974	2.22
The Master Trust Bank of Japan, Ltd. (trust management account)	1,917	2.16
Itochu Enex Employee Holdings Co., Ltd.	1,848	2.08

Note: In addition to the above, the Company holds 5,890,000 ordinary shares in treasury.