

NIPPON OIL CORPORATION Annual Report 2004

Your Choice of Energy



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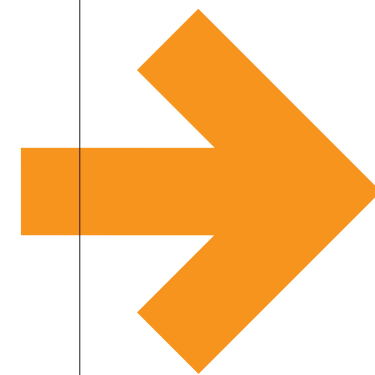
Establishing a Comprehensive Energy Company Establishing Integrated System



* E&P=Exploration and production

Contents

- 1 Second Medium-Term Consolidated Management Plan
- 3 Business Strategy
- 4 Financial and Operating Highlights
- 5 A Message from the President
- 8 Progress of the Second Medium-Term Consolidated Management Plan
- 10 Goal: Establish Integrated System
- 15 Goal: Become a Comprehensive Energy Company
- 36 Board of Directors
- 37 Financial Section
- 60 Principal NOC Group Companies
- 61 Overseas Bases
- 62 Organization Chart
- 63 Investor Information



Our Road Map for Becoming a Comprehensive Energy Company

A Cautionary Note on Forward-Looking Statements

The financial forecasts, management targets, and any other estimates and projections of the Company presented in this report are based on information available to management as of the date set forth within.

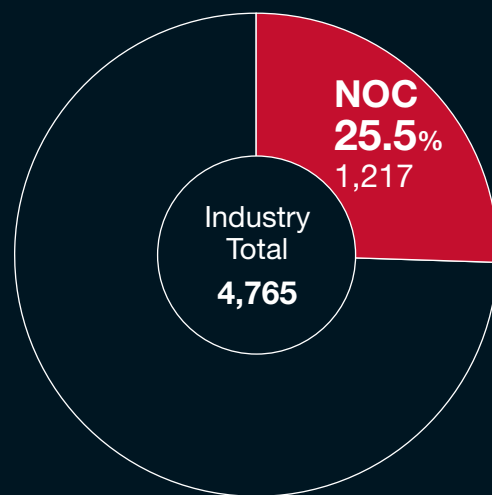
Please note that actual results may vary significantly from projected forecasts due to various uncertain factors, and, as such, readers should take care when making investment decisions based solely on the forecasts herein.

The factors affecting actual results include but are not limited to economic conditions, crude oil prices, demand for and market conditions of oil-related products, and exchange rate and interest rate trends.

In April 2002, the NOC Group began implementing its second medium-term consolidated management plan, which covers the three years through March 2005. This plan calls for the Group to strengthen its competitiveness by enhancing the profitability of its core business in petroleum products while concurrently creating new types of energy businesses. All Group units are concertedly working to achieve the plan's goals, which will promote the maximization of shareholder value.

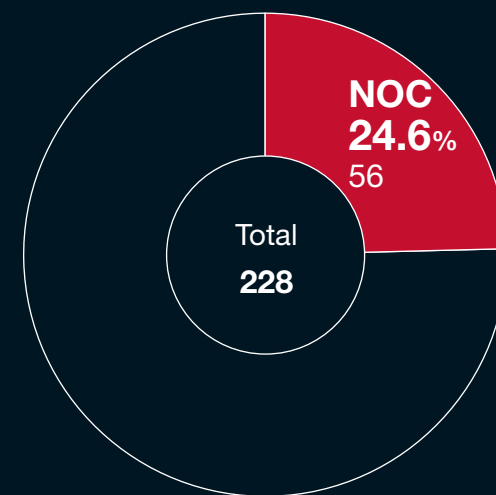
Our Markets and Positioning

● NOC Group Share of Japan's Domestic Refining Capacity (Thousand BD)

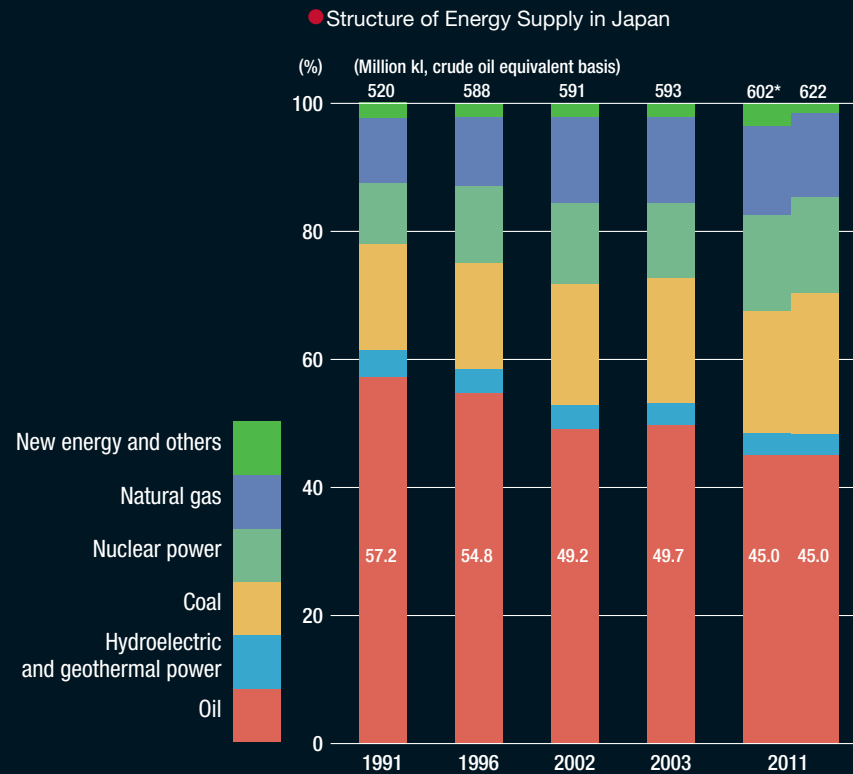


(As of June 1, 2004)

● Share of Domestic Petroleum Fuel Market (million kl)



(As of March 31, 2004)



Source: Ministry of Economy, Trade and Industry (METI), Advisory Committee for Energy

Note: Figures for 2011 are projected. The figure marked with an asterisk and the column below that figure represent the energy consumption levels and energy supply structures that are projected if programs aimed at reducing energy consumption are successfully implemented.

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- 10 Goal: Establish Integrated System
- 15 Goal: Become a Comprehensive Energy Company
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Second Medium-Term Consolidated Management Plan

(April 2002–March 2005)

Objectives

Augment Profitability of Core Business

■ Upstream Operations

- ▶ Goal: Reach output of 150,000 barrels oil equivalent per day (BOED) in exploration and development activities by June 2005

■ Midstream and Downstream Operations

Refining

- ▶ Aiming for optimal production system and cost reductions
- ▶ Increasing value added (Develop comprehensive energy centers)
- ▶ Building facilities complying with environmental regulations and responding technologically

Sales Infrastructure

- ▶ Creating a service station model optimal for Japan
- ▶ Enhancing efficiency of distribution and logistics

Strengthen Overseas Activities (In Asia, focusing on China)

Develop New Energy-Type Business Opportunities

Gas Supply

- ▶ Creating a strong supply chain from production through sales

Electric Power Supply

- ▶ Creating a 1,900,000 kW supply capacity by March 2009

Development of Fuel Cells

Priority Policies to Reach the Objectives

Cost Reductions, Enhancement of Efficiency

■ Total cost reductions projected to amount to ¥102 billion, surpassing the initial goal of ¥100 billion

▶ Breakdown of cost reductions

Transportation and storage cost reductions	¥ 13 billion
Personnel cost reductions	¥ 22
Facility- and equipment-related cost reductions	¥ 31
General efficiency increases	¥ 36

Strategic Investments

■ About one-half to be used for strategic investments

(Oil exploration and development, New energy-type business development, Other)

▶ Investment plan (Total for three years)

Strategic investments (Oil exploration and development, New energy sources, Environment-related)	¥191 billion
Petroleum product sales and refining	¥150
Other investments	¥ 77
Total	¥418



Financial and Operating Highlights

Nippon Oil Corporation and Consolidated Subsidiaries

Financial Highlights

FY (Years ended March 31)	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net sales	¥4,279,751	¥4,187,392	\$40,375,009
Net (loss) income	(133,526)	32,281	(1,259,679)
Cash dividends paid	14,541	11,591	137,179
Total assets	3,265,503	3,350,237	30,806,632
Total shareholders' equity	821,202	929,987	7,747,189

* U.S. dollar figures are translated from yen, for convenience only, at the rate of ¥106 to US\$1, the approximate rate of exchange on March 31, 2004.

Operating Highlights

CY	2003	2002	2001
Production of crude oil and natural gas (BOED)	65,600	49,600	47,500

FY (Years ended March 31)	2004	2003	2002
Crude oil imports (million kiloliters)	62.0	63.0	58.7
Capacity of refining facilities* ¹ (barrels per stream day)	1,272,000	1,217,000	1,227,000
Sales of petroleum products* ² (million kiloliters)	53.3	53.2	49.0
Number of service stations (fixed type)	11,333	11,694	11,987
Number of employees* ³	14,347	13,882	14,368

*¹ These figures represent levels as of March 31 of each year.

*² "Sales of petroleum products" represents the domestic petroleum fuel sales volume of the parent company, including sales to consolidated subsidiaries.

*³ The number of employees includes those of Nippon Oil Corporation and all consolidated subsidiaries.

Notes: 1. Unless otherwise indicated, all dollar figures herein refer to U.S. currency. Billion is used in the American sense of one thousand million.

2. All "net sales" figures by business segment in this annual report represent sales to third parties.

3. In this report, the term "NOC" and such terms as "the Company," "our," and "we" may refer to Nippon Oil Corporation and its consolidated subsidiaries taken as a whole, or to all subsidiaries, affiliates, and associated companies considered part of the NOC Group taken as a whole. When the reference is only to Nippon Oil Corporation, the term "parent company" is used. These terms are used for convenience only. A listing of principal companies and their relationship to NOC is shown on page 60.

A Message from the President

In fiscal 2004, ended March 31, 2004, Nippon Oil Corporation (NOC) enjoyed improved profit margins on petroleum fuel products and made additional progress in its cost-cutting and efficiency-boosting campaigns. This elevated actual operating income, as measured by excluding the effect of the gross average inventory valuation method, but factors including the early application of asset impairment accounting standards caused the Company to record a net loss for the year. Despite this, the Company maintained a proactively forward-looking stance, speeding up its moves to dispose of underutilized assets and investing cash generated by those moves in strategic growth fields. While continuing to move ahead with decisive steps to boost profitability and shareholder value, NOC is adopting policies that give greater attention to environmental protection and corporate social responsibility (CSR), thereby helping enhance the ENEOS brand.

Measures Taken during the Year

Noting such trends as a general shift from industrial use of fuel oil C and progressive distribution system rationalization, many observers expect Japan's overall demand for oil products to decrease over the long term. However, the fundamental energy plan approved by the Cabinet in October 2003 based on the Basic Energy Policy Law reconfirms the crucial importance of petroleum products to Japan. This version of the plan does not mention the previous fundamental energy policy goals of reducing dependence on oil and on Middle Eastern oil sources but refers to oil as "an energy source that meets approximately 50% of Japan's primary energy needs and is expected to remain

a key energy source due to its economical efficiency and ease of use."

Based on its second medium-term consolidated management plan, which covers the three years through fiscal 2005, the NOC Group is concertededly working to strengthen its competitiveness by enhancing the profitability of its core business in petroleum products while concurrently creating new types of energy businesses. We implemented numerous important measures in line with this plan during fiscal 2004.

As one means of boosting core petroleum fuel business profitability, we have steadily expanded our oil and gas production capabilities. In November 2003, we began commercial production at an offshore gas field in Malaysia, for which an NOC Group company is the operator. This made NOC the first Japanese company to establish integrated gas operations ranging from exploration and development through LNG production and sales, and that project also boosted our oil and gas production capabilities to about 65,600 BOED. (See page 16 for more information on exploration and production activities.)

Regarding refining, we have been endeavoring to boost productivity and slash costs at all Group refineries while augmenting cooperation between Nippon Petroleum Refining Company, Limited (NPRC), and Nippon Petrochemicals Company, Limited (NPCC). Currently, we are implementing a chemical refinery integration (CRI) project that aims to help maximize the Group's overall profitability by integrating the production planning of refining and petrochemical production facilities. (See page 18 for more information on refining activities.)

In marketing operations, the Company progressively expanded the marketing region for ENEOS VIGO, a sulfur-free (10ppm or less) environmentally friendly premium gasoline product, and this product has been marketed throughout Japan since November 2003. This reflects our efforts to comply with future environmental protection regulations as early as possible, thereby differentiating our products from those of competitors and greatly strengthening the ENEOS brand. (See page 22 for more information on marketing activities.)

In line with its key strategic goal of creating new energy businesses, NOC steadily advanced with the development of wholesale independent power producer (IPP) and retail power producer and supplier (PPS) electric power supply operations based at its refineries. Regarding fuel cells, NOC developed a commercial-use fuel cell system that uses kerosene as a fuel in advance of competing companies and is now monitoring the testing of this system with the objective of commercializing it in the near future. (See page 26 for more information on new energy-type activities.)

NOC has also intensified its efforts to develop superior technologies and personnel resources, which it considers crucial determinants of corporate competitiveness and growth potential. In fiscal 2004, we reformed our personnel system by introducing a results-oriented, performance-target administration system that links employee remuneration to corporate performance. We expect this move and our reformed system of bonuses to reward technological innovators to promote a general rise in employee productivity. In addition, we introduced an executive officer system in July 2004 to maintain and strengthen our management transparency and soundness

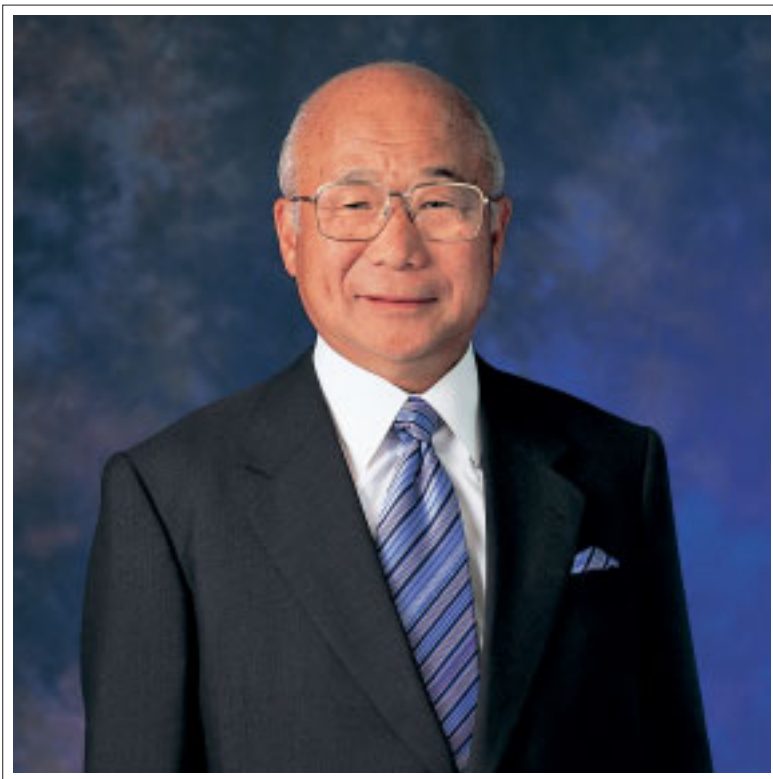
as well as capabilities for responding to changes in our operating environment. (See page 33 for more information on our CSR activities.)

Our decision to apply Japan's new accounting standards for the impairment of fixed assets ahead of schedule caused the recording of considerable special losses during fiscal 2004 but enabled us to quickly increase the soundness of our financial position. In the future, we will continue streamlining our balance sheets by further accelerating our disposition of underutilized assets in line with our policy of selecting strategic business fields and concentrating resources in those fields.

Outlook

Overall demand for petroleum fuels in Japan is projected to continue declining due to such factors as a persistent downtrend in demand for diesel fuel and a drop in demand for fuel oil C following the end of a temporary halt to the operations of certain nuclear power plants. Moreover, deregulatory measures are gradually creating a borderless energy industry characterized by rising competition among companies that previously focused on individual energy industry segments. However, the borderless energy industry is presenting the NOC Group with excellent opportunities to employ its strong oil refining infrastructure and expertise in additional sectors of the energy industry, thereby expanding its operations, increasing its profitability, and transforming itself into a comprehensive energy company.

On the other hand, the demographic graying and shrinking of Japan's population makes it unrealistic to expect growth in overall consumption. To be successful amid these conditions,



A handwritten signature in black ink that reads "F. Watari". The signature is written in a cursive style and is underlined with a horizontal line.

Fumiaki Watari
President and Representative Director (CEO)

companies will have to reduce emphasis on production and marketing volumes while giving greater attention to satisfying customer needs with products, technologies, and services distinguished by their superior quality.

The NOC Group is seeking to sustain stable profitability in its petroleum fuel operations by shifting emphasis from volume to quality. At the same time, the Group is dynamically expanding its presence in such growth sectors of the energy industry as electric power and fuel cells while proactively working to increase the scale of its oil and gas development operations that have considerable profitability potential. We aim to simultaneously increase the stability of our performance and augment our growth potential.

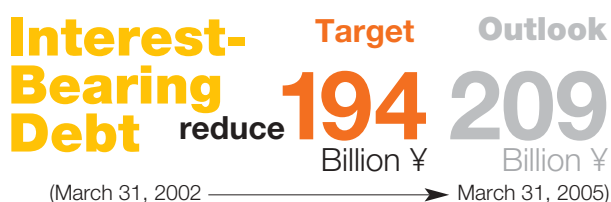
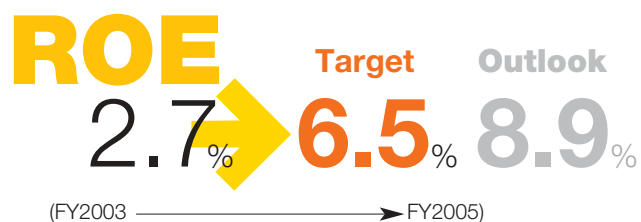
Besides the quality of products, technologies, and services, Japan's society is increasing its attention to corporate quality levels, as

manifested in the degree of companies' trustworthiness and dependability regarding CSR. NOC is committed to realizing superior quality in all sectors of its comprehensive energy operations. Our outstanding corporate quality is evident in such environmental protection initiatives as our pioneering launches of sulfur-free gasoline and other environment-friendly products as well as our clean development mechanism project at our portion of the Rang Dong fields offshore Vietnam. We are working with similar vigor to ensure that our compliance systems are rigorous and effective. In these ways, we are determined to maintain the confidence of society and boost the value of our brands.

NOC is relentlessly working to augment shareholder value by building a solid presence as a top runner in each principal sector of the energy industry.

Progress of the Second Medium-Term Consolidated Management Plan

Financial Targets (over 3 years)

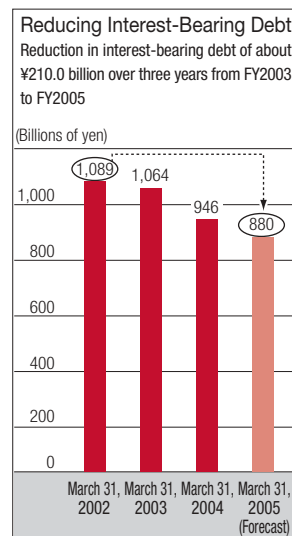
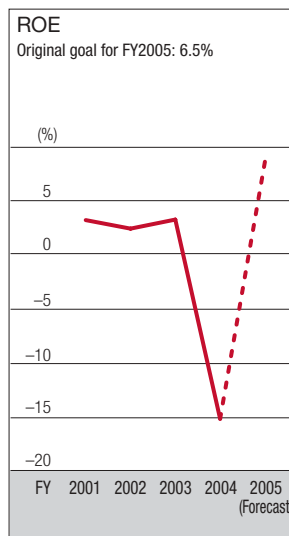


In the three years after it was created through the April 1999 merger of Nippon Oil Co., Ltd., and Mitsubishi Oil Co., Ltd., the NOC Group implemented a medium-term management plan that focused primarily on realizing the potential benefits of the merger through thorough operational integration and rationalization measures as well as efforts to create a more competitive and dynamic business base.

In April 2002, the NOC Group began implementing its second medium-term consolidated management plan, which covers the three years through March 2005. This plan calls for the Group to strengthen its competitiveness by enhancing the profitability of its core business in petroleum products while concurrently creating new types of energy businesses. All Group units are concertedly working to achieve the plan's goals by the end of fiscal 2005.

Principal Measures for Attaining Strategic Objectives

- **Cost reductions and operational streamlining**—Reducing annual costs ¥100 billion over the three-year period through fiscal 2005



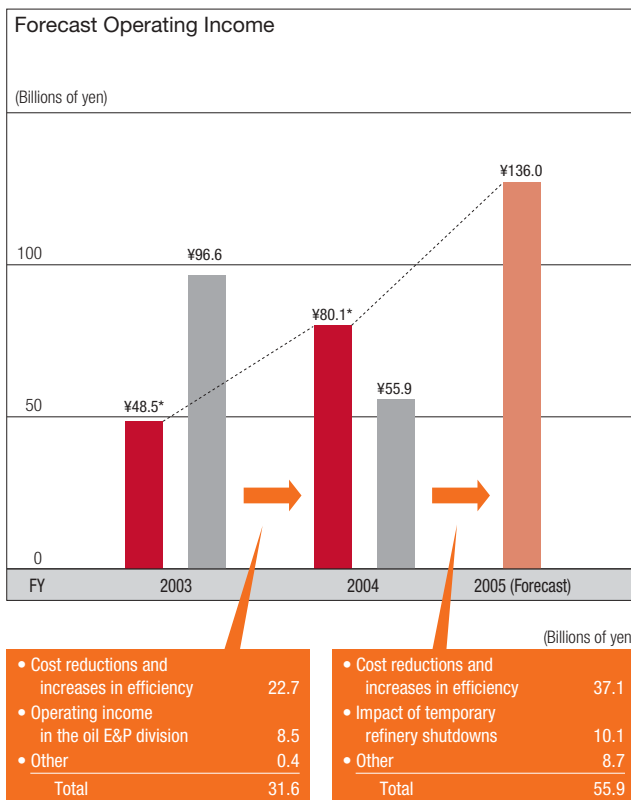
* Debt associated with deposits made by overseas financial subsidiaries to secure loans is not included.

- **Strategic investments**—Allocating approximately half the capital investment budget to strategic investments

Achievements and Outlook

In fiscal 2004, consolidated operating income declined ¥40.7 billion, to ¥55.9 billion. However, actual operating income (excluding the effect of the gross average method for inventory valuation) increased ¥31.6 billion, as improved profit margins on the sale of petroleum products and the implementation of cost-cutting and efficiency-boosting measures more than offset the impact of a temporary shutdown of two refineries.

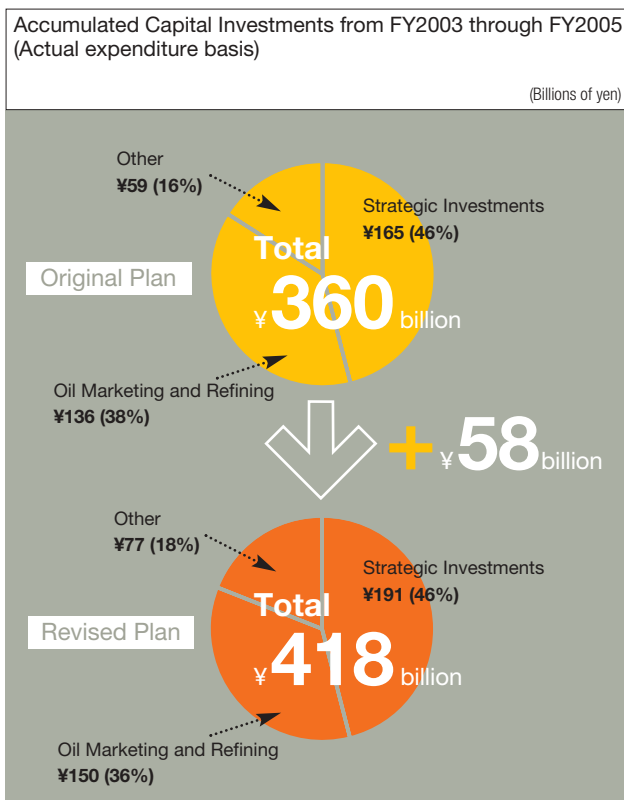
The balance of extraordinary income and expenses was an expense of ¥206.8 billion. This resulted from such factors as NOC's early application of accounting standards related to the impairment of fixed assets, which led to ¥171.5 billion in special losses, and the voluntary early retirement programs of the parent company and one consolidated subsidiary, which necessitated the provision of an additional ¥12.1 billion in a special allowance for early retirement plans.



Thus, a net loss of ¥133.5 billion was recorded, and the ROE was a negative 15.2%. However, this reflected the Company's early application of new accounting standards with the goal of further strengthening and increasing the soundness of its financial position more rapidly. Plans call for continuing to streamline NOC's consolidated balance sheet by further accelerating the disposition of underutilized assets in line with the Company's policy of selecting strategic business fields and concentrating resources in those fields.

In fiscal 2005, NOC anticipates that it will record ¥136.0 billion in actual operating income, excluding the effect of the gross average inventory valuation method, approximately the level previously targeted. The Company expects that its ROE will be approximately 9.8%, significantly higher than the 6.5% level originally planned. Even if shareholders' equity is not reduced by the application of new asset impairment standards, ROE is projected to rise to 8.4%.

At the end of fiscal 2004, after two of the three fiscal years covered by the plan, NOC had reduced its interest-bearing debt by ¥143.0 billion, and the reduction during fiscal 2005



is projected to exceed the planned amount by ¥15.0 billion.

In the first two years of the plan, the Group's thorough rationalization measures made it possible to cut annual expenses by ¥64.9 billion, and the cost reduction over three years is projected to exceed the planned amount by ¥2.0 billion.

Of the ¥285.4 billion in capital investments made in the first two years of the plan, approximately half was invested in such strategic fields as oil exploration and production, IPP and other electric power business, and environmental protection programs. Capital investment during the three years through fiscal 2005 is expected to exceed the projection announced in May 2003 by ¥21.0 billion and amount to ¥58.0 billion more than projected three years ago at the start of the second medium-term consolidated management plan. Reflecting the Company's efforts to increase its sales of underutilized assets and reduce its liquidity on hand, the rise in capital investment is not impeding the reduction of interest-bearing debt.





Goal:

Establish Integrated System

Japan's first integrated LNG supply system



In line with its goal of achieving vertically integrated operations, the NOC Group has the current goal of boosting its own crude oil and gas production capacity from 50,000 BOED to 150,000 BOED. Oil development has the potential to be highly profitable but it also involves considerable risks. Drawing on its abundant experience, NOC is taking steps to effectively limit the risks it bears as it expands the scale of its upstream operations. This expansion should contribute to the stabilization of Group profitability.

LNG Projects

The NOC Group has a 10% equity share of liquefaction company Malaysia LNG Tiga Sdn Bhd, and commercial production at the LNG project in Bintulu, Sarawak, Malaysia commenced in March 2003. To supply natural gas to the plant, the NOC Group began commercial production at the Helang Gas Field in Block SK-10 offshore Sarawak in November 2003 and at the Serai and Jintan gas fields in Block SK-8, which is located adjacent to Block SK-10, in June 2004 and August 2004, respectively. This has enabled NOC to become the first Japanese company to establish integrated gas operations ranging from exploration and development through LNG production and sales. The three fields are projected to have a maximum combined production capacity of 170,000 BOED of natural gas and 42,000 BOED of condensate. The natural gas is transported through a pipeline to the LNG plant. After its liquefaction, LNG is sold to customers in such countries as Japan and Korea. In Indonesia, work is proceeding with the goal of beginning the commercial production of LNG using gas produced at the Berau block offshore Papua from 2007, thereby further reinforcing the Group's integrated capabilities.

MALAYSIA



MALAYSIA LNG TIGA PROJECT

Gas Supply

Participants

SK-10
 NOMA*1 (Operator): 75%
 (NOC has a 40.15% share of NOMA.)
 Petronas Carigali Sdn. Bhd.: 25%

SK-8
 NOSA*2: 37.5%
 (NOC has a 39.02% share of NOSA.)
 Shell Oil & Gas (Malaysia) LLC (Operator): 37.5%
 Petronas Carigali Sdn. Bhd.: 25%

Start/Volume

Helang Gas Field:
 November 2003
 40,000 BOED*3

Serai Gas Field:
 June 2004
 50,000 BOED*3

Jintan Gas Field:
 August 2004
 80,000 BOED*3

Liquefaction

Liquefaction Company

Malaysia LNG Tiga Sdn Bhd
 Production volume:
 6.8 million tons/year
 Production start: March 2003

Shareholders:
 NOLN*4: 10%
 (NOC has a 100% share of NOLN.)
 Petronas: 60%
 The State of Sarawak: 10%
 Shell Gas Holdings (Malaysia) Limited: 15%

Diamond Gas Netherlands B.V.: 5%
 *4 Nippon Oil LNG (Netherlands) B.V.

Marketing

Major Customers

Tohoku Electric Power Co., Inc.
 Gas consortium (Tokyo Gas Co., Ltd., Toho Gas Co., Ltd., Osaka Gas Co., Ltd.)
 Japan Petroleum Exploration Co., Ltd.
 The Tokyo Electric Power Co., Inc.
 Korea Gas Corporation

*1 Nippon Oil Exploration (Malaysia), Limited
 *2 Nippon Oil Exploration (Sarawak), Limited
 *3 Projected maximum production capacity of the gas fields

Goal:

Become a
Comprehensive
Energy Company

**Entry into electric power
business**



EXPANDING IPP AND PPS OPERATIONS

IPP Plants of the NOC Group
(As of October 2004)
() = Thousand kW



Japan has progressively relaxed regulations governing the electric power and gas industries since 1995, causing a rise in competition among traditional electric power and gas companies as well as companies from other industries that have recently begun electric power and/or gas business. The elimination of entry barriers for electric power business has presented NOC with excellent opportunities to undertake low-cost electric power generation business by making additional use of its existing refinery infrastructure as well as heavy oil products, which are projected to be in over-supply in Japan in the future.

The NOC Group has already begun wholesale independent power producer (IPP) operations at its Yokohama, Osaka, Negishi, and Marifu refineries, and an IPP facility at the Muroran refinery is scheduled to begin operating in October 2004. At that time, the Group's five IPP plants will have a combined capacity of more than 700,000kW, enough to meet

the needs of approximately 1.7 million households. This will make NOC the third largest company in Japan's IPP sector.

Since 2000, Japan has been relaxing regulations related to electric power retailing, enabling companies other than traditional electric power companies to begin electric power retailing operations. In response, the NOC Group has initiated power producer and supplier (PPS) retail electric power supply operations using the excess capacity of power plants at its refineries that were established to meet the refineries' internal power supply requirements.

NOC is considering the future establishment of additional power generation facilities fueled with residual heavy oils and other products that are projected to be available in quantities greater than demand. It also plans to further expand its PPS operations by obtaining additional supplies of electric power from outside the Group.

Performance and Strategic Objectives

Exploration & Production

(Crude oil and natural gas)



All exploration and production (E&P) activities are invested in and managed by Nippon Oil Exploration Limited (NOEX), a wholly owned subsidiary of Nippon Oil Corporation (NOC).

NOEX has 12 E&P projects active in 10 countries throughout the world (Australia, Canada, Indonesia, Japan, Malaysia, Myanmar, Papua New Guinea, the United Kingdom, the United States, and Vietnam). NOEX acts as operator for the Malaysian, U.S., and Vietnamese projects.

In 2003, total net production from these projects was about 65,600 BOED (Refer to table on page 17.), an increase of 32% from 50,000 BOED in 2002. Combined total sales equaled \$738 million, and the after-tax profit was \$145 million. Total sales increased 51%, from \$488 million, and total after-tax profits increased 26%, from \$115 million in 2002.

The production rate increased mainly as a result of the start of production from the Helang Gas Field in Malaysia as well as of the staged development at the Rang Dong oil field in Vietnam (as highlighted as follows). Both fields are operated by project companies of NOEX. Higher oil and gas prices also contributed to the strong profits.

Highlights in 2003

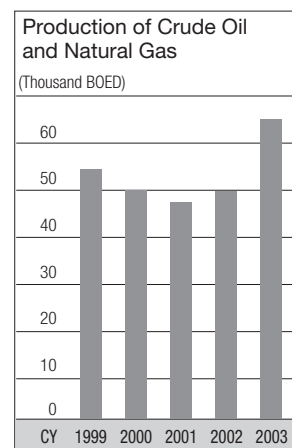
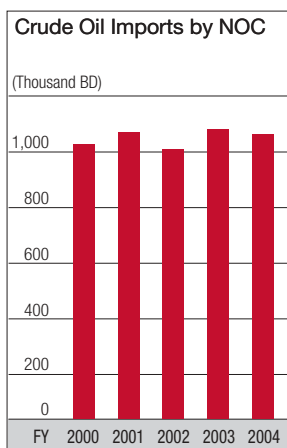
Commencement of Gas Production in Malaysia

In November, Nippon Oil Exploration (Malaysia), Limited (NOMA), 40.15% owned by NOEX, commenced gas production from the Helang Gas Field in Malaysia. NOMA was awarded a 75% working interest in Block SK-10 in 1987 as the operator and discovered the Helang Gas Field in 1990. The approximate daily production rate of the field reached 250 million cubic feet per day (CFD) of gas and 20,000 BD of condensate. The gas is fed into Malaysia's third LNG Project (MLNG Tiga), and the LNG is supplied to Japan as well as other countries.

Progress in the Staged Rang Dong

Oil Field Development in Vietnam

In October, Japan Vietnam Petroleum Co., Ltd. (JVPC), 53.13% owned by NOEX, completed the installation of new platforms and other facilities, thereby increasing future oil recovery and accelerating oil production. The average production rate in the fields was approximately 54,000 BOED in 2003. The progress in the staged development will contribute to sustain a higher production rate in 2004.



Development Plan Approval in Australia

The development plan for the Mutineer and Exeter oil fields in Block WA-191-P was accepted in October by the Government of Western Australia as well as the Commonwealth Government. Production commencement is expected in mid-2005, with a maximum production rate of approximately 100,000 BD. Nippon Oil Exploration (Dampier) Pty Ltd, 51% owned by NOEX, holds a 25% working interest in these fields.

Increase in Working Interest in Myanmar

Nippon Oil Exploration (Myanmar), Limited, 50% owned by NOEX, acquired additional working interest in the Yetagan gas field from Premier Oil plc, increasing its share from 14% to 19%.

NOEX has set a production target of 150,000 BOED for the second medium-term consolidated management plan. After the first two years of the plan, the production rate

reached 100,000 BOED in April 2004, and we are convinced that the target will be achieved by mid-2005. Because of the production increase as well as higher oil and gas prices, E&P business significantly contributes to the consolidated profits of the NOC Group. We are formulating a further growth target starting in 2005, aiming at establishing a vertically integrated oil and gas business of the NOC Group. To realize this goal, we plan to be engaged in exploration activities as well as further acquisitions.



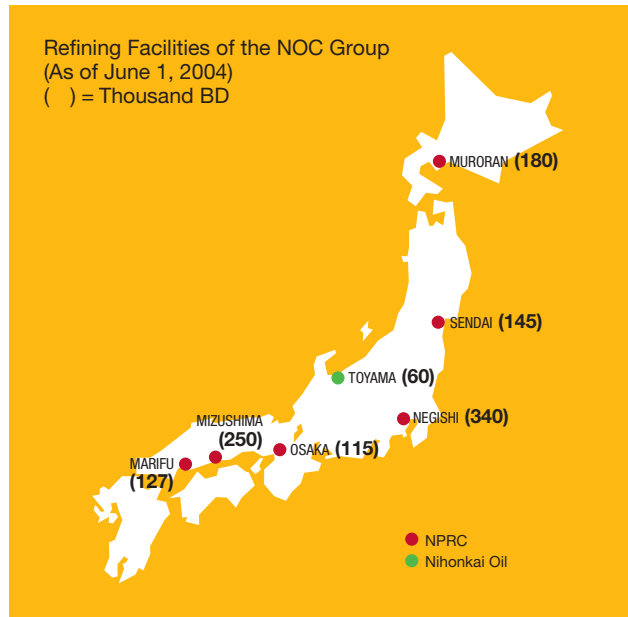
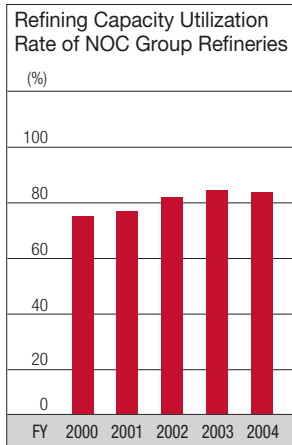
Production Volume and Reserves by Region/Country

Region/Country	Production in 2003*2			Proved + Provable Reserves as of December 31, 2003*2		
	Oil (BD)	Gas (Thousand CFD)	Total (BOED)	Oil (Million B)	Gas (Billion CF)	Total (Million BOE)
U.S.A.	600	51	9,000	1	77	14
U.K.	12,700	41	19,600	26	95	42
Southeast Asia	15,400	53	24,400	94	2,421	496
Oceania	2,000	0	2,000	26	0	26
Canada*1	10,600	0	10,600	284	0	284
Total	41,300	145	65,600	431	2,593	862

*1 Synthetic oil

*2 These figures are on the project companies' entitlement basis.

Refining



While Japan previously protected its oil industry in view of the crucial importance of petroleum products, the progressive internationalization and deregulation of Japan's economy have led to the increasing relaxation of oil industry related regulations. At the end of 2001, the country effectively deregulated oil refining, importing, and marketing operations. The series of regulatory relaxation measures made it evident that Japan's oil industry had excess capacity for both refining and marketing, and each company in the industry was forced to implement various strategies for rationalizing and boosting the efficiency of its refining and marketing systems as well as reducing its overall costs. In view of the prospect of a long-term trend of decline in domestic demand for petroleum products as well as the likelihood that import tariffs on petroleum products will be lowered or eliminated, it is expected that the industry's operating environment will become increasingly harsh.

Refinery Numbers and Processing Capacities of Group Companies in Japan's Oil Industry

(As of June 1, 2004)

Group Company	Number of Refineries	Refining Capacity (Thousand BD)
NOC Group	7	1,217
Exxon/Mobil Group	5	936
Idemitsu Kosan Group	4	640
Cosmo Oil	4	595
Japan Energy Group	3	582
Showa Shell Sekiyu Group	3	515
Others	3	280
Total	29	4,765

Source: Petroleum Association of Japan

Eliminating Excess Refining Capacity

Against this backdrop, NOC reduced its refining capacity by 150,000 BD during the three years from 1999 through 2001 by discontinuing refining operations at its Niigata and Kawasaki refineries as well as the Kainan refinery of an affiliate, Wakayama Petroleum Refining Co., Ltd. In addition, while NOC had previously created tie-ups involving distribution-related collaboration, the Company recently has arranged alliances—with Cosmo Oil Co., Ltd., in 1999, and Idemitsu Kosan Co., Ltd., in April 2003—that call for



cooperating in refining operations. Through the alliance with Idemitsu, we have been able to reduce our refining capacity by a further 10,000 BD, to 1,217,000 BD.

The alliance with Idemitsu is projected to enable the lowering of annual costs by ¥2.5 billion. It has also helped NOC expeditiously make additional progress in the refining capacity reduction campaign it has undertaken since the April 1999 merger.

The NOC Group has an average production volume of approximately 1,000,000 BD but a refining capacity of 1,217,000 BD, as just mentioned. This could be interpreted to mean that the Group had approximately 200,000 BD in excess refining capacity. In fact, however, the Group has almost completed its short-term campaign to eliminate excess capacity in view of the following factors.

- The alliance with Idemitsu requires the NOC Group to handle consigned refining operations on behalf of Idemitsu and supply that company with 40,000 BD of products (approximately two million kiloliters a year).

- NOC is implementing a strategy for transforming refineries into comprehensive energy bases by broadening the scope of refinery operations to include fields outside petroleum product manufacturing and thereby more-effectively leveraging refineries' capabilities.

Concrete examples of the broadened scope of refinery operations include such electric power businesses as IPP and PPS operations that use heavy and residual oil products as fuels as well as the CRI project. The CRI project aims to augment overall Group profitability by integrating production planning for fuel and petrochemical products and augmenting production of high-value-added petrochemical products.

This project has boosted refineries' capacity for producing such petrochemical products as xylene, benzene, propylene, and paraxylene (including output supplied to NPCC), and this capacity is projected to increase the Group's annual profits by approximately ¥3.0 billion in fiscal 2005. This kind of program for reducing refineries' fuel output is an effective alternative means for reducing surplus refining capacity.



To make effective use of our refining capabilities, we are exporting petroleum products to China and other countries, while also processing crude oil on behalf of China National United Oil Corporation (China Oil) from July 2004.

In view of the points already mentioned and the need for a modest reserve capacity to compensate for turnaround shutdowns as well as unscheduled shutdowns, the Company considers its current refining capacity to be at an optimal level.

Boosting Refinery Competitiveness

During the period covered by the second medium-term consolidated management plan, the Group has been steadily reducing refining costs through its NPRC Efficient Operation Strategy (NEOS). NOC is also implementing a Best Practice campaign to promote the Groupwide use of advantageous operational technologies and know-how developed and accumulated at individual refineries. These campaigns are boosting efficiency at all refineries, thereby helping reduce costs and maximize gross profitability. As a result of these

efforts, surveys conducted by U.S.-based Solomon Associates, Inc., in 2000 and 2002 indicate that the NOC Group has attained a level of efficiency that is higher than the averages for Japan as well as for the entire Asia region, and the margin of superiority relative to the Japan average was higher in 2002. The Group is maintaining a high level of competitiveness in its refining operations.

Responding to Environmental Issues

Anticipating the increasing stringency of environmental protection regulations, NOC has proactively worked to develop low-sulfur fuels. Having launched a sulfur-free (10ppm or less) premium gasoline, ENEOS VIGO, the Company is hurrying to commercialize a sulfur-free regular gasoline product, and it has developed a new type of gasoline desulfurization technology, called ROK-Finer, for this purpose. We have already obtained several domestic and overseas patents for this technology, and licensed part of its technology to several major oil companies based in North America and Europe. A



portion of the related technology development work was carried out as a part of the technology development program of the Petroleum Energy Center (PEC).

To prepare for the commercialization of ROK-Finer technology, NOC began in July 2003 to construct a pilot facility at its Sendai Refinery that will have a production capacity of 31,000 BD, and plans call for beginning full-scale operation of this plant from September 2004. As a result, NOC intends to begin supplying sulfur-free regular gasoline and sulfur-free diesel fuel in January 2005.

Ensuring Operational Safety

At the same time as it proceeds with measures to boost efficiency and increase the value added by its refining facilities, NOC is giving renewed recognition to the overriding importance of ensuring operational safety. In August 2003, the Company discovered deficiencies regarding certified safety inspections at the Marifu and Osaka refineries. Greatly regretting these incidents and perceiving them as clear

lessons on the importance of renewed vigilance, we are building improved safety management systems designed to ensure that such incidents never recur. Specifically, the head office now plays a greater role in supervising safety management operations at each refinery, and systems have been established to further heighten facilities' reliability through regular consultations among executives responsible for refining and product manufacturing facilities. We are continuing to consider additional means for further strengthening and optimizing our safety management systems by giving due attention to the three related factors of people, facilities, and systems.



Marketing and Distribution

There are approximately 50,000 service stations in Japan, of which the NOC Group operates about 11,000—the country's largest service station network. All of the Company's service stations display unified ENEOS logos and market ENEOS-brand products. Thus, wherever they go in Japan, travelers will frequently catch sight of distinctive signs featuring the ENEOS brand name on a red and orange background. NOC's dominant market share is highly beneficial but also carries risks. The relaxation of restrictions on imports of petroleum fuels and such other oil industry related regulations as those related to self-service facilities has led to intensified competition among service stations that is expected to continue dictating the merger or liquidation of relatively inefficient service station operators.

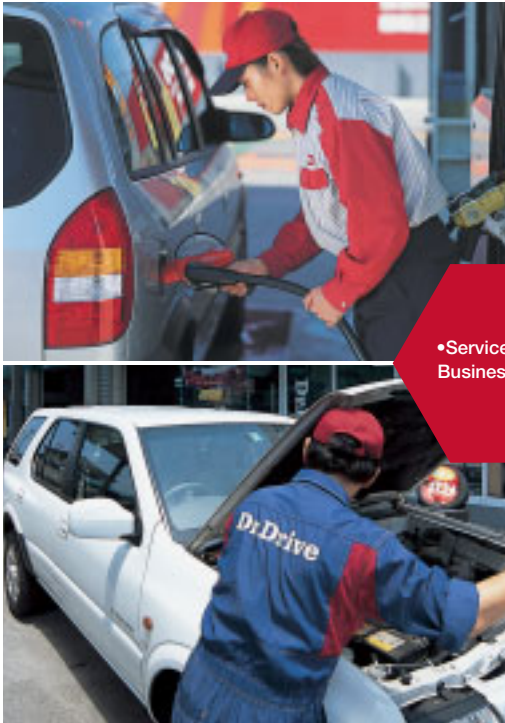
Amid this harsh environment, NOC cannot simply take pride in the large scale of its marketing network; it must ensure that the network generates a high level of value added. Giving greater emphasis to quality than volume, the NOC Group's marketing strategy calls for the Group to meet consumers' needs for high-quality products and services



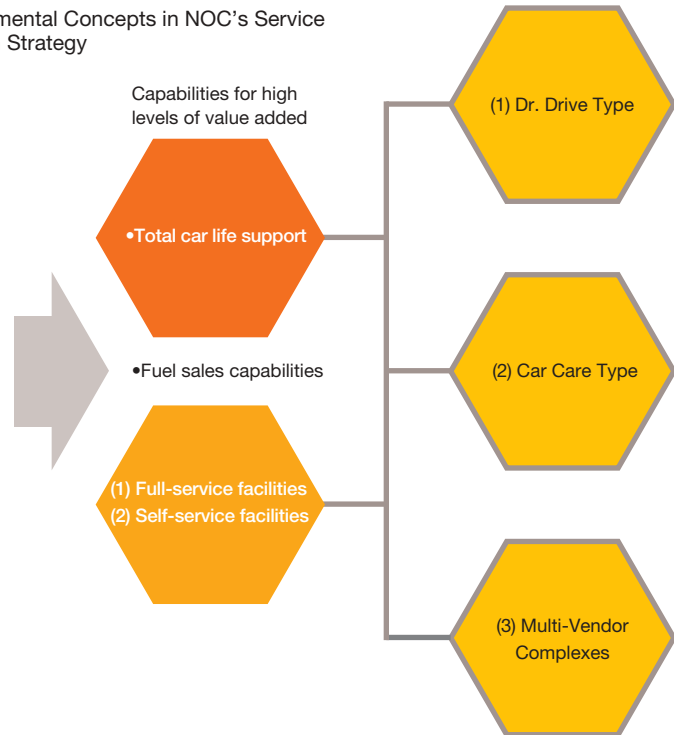
while also supplying affiliated service station operators with the kinds of products and business systems they require to strengthen their profit bases and competitiveness. Specifically, we are seeking to (1) develop high-value-added service stations, (2) increase marketing network efficiency, and (3) provide highly competitive products. By effectively pursuing these goals, we intend to augment the power of the ENEOS brand and make it the most popular brand in our industry.

Developing High-Value-Added Service Stations

NOC's high-value-added service station development strategy should be understood in relation to motor vehicle trends in Japan. For most Japanese drivers, their automobile is not a simple transportation tool; it is a precious symbol of the convenience that comes with personal success and affluence. Accordingly, Japanese are generally quite meticulous regarding automobile maintenance. Moreover, new vehicles must undergo statutory inspections after three years and once every two years thereafter. Because vehicles have to be in perfect condition to pass those inspections, automobile



Fundamental Concepts in NOC's Service Station Strategy



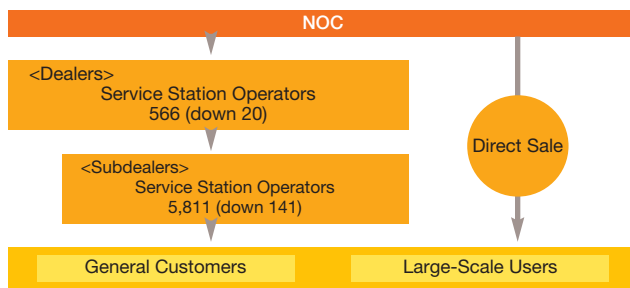
owners tend to consider vehicle maintenance on a daily basis. Recently, the number of female and elderly drivers has been increasing, and these drivers are particularly intent on having their vehicles maintained by someone they can trust to work carefully and conscientiously. Drivers tend to feel more comfortable with the service stations that they visit frequently for such needs as fuel and car washes, and NOC's nationwide network of service stations is designed to maximize customers' convenience, comfort, and peace of mind.

The NOC Group's strategy is for creating high-value-added service stations that provide consistently high-quality car care centers on Dr. Drive facilities, which strive to offer services as dependable as those of trusted family doctors. Certified mechanics are always on duty at each Dr. Drive facility, enabling the facility to handle vehicle checkups, maintenance, and periodic statutory vehicle inspections as well as providing such everyday car care products and services as oil, tires, and car washing and waxing. Just as in 2003, Dr. Drive facilities undertook a car checkup campaign during February and March 2004, and this campaign led to

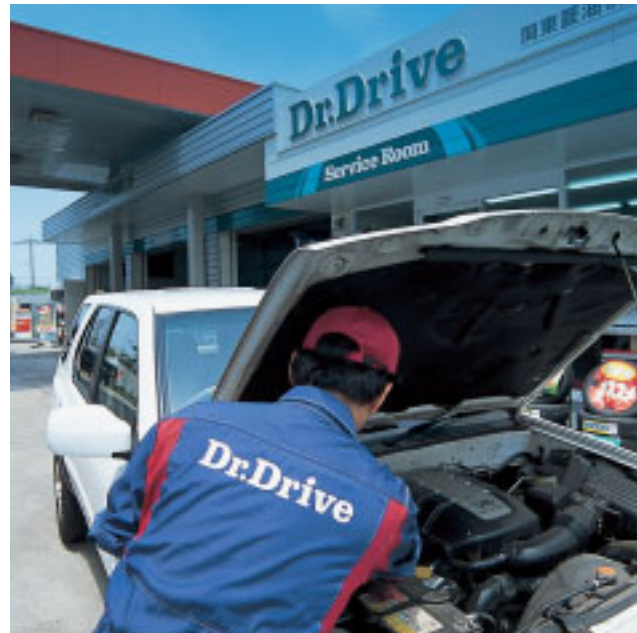
the performance of 66,000 inspections throughout Japan, up 12,000 from 2003. Car owners having their vehicles checked were given a questionnaire, and almost all of them showed their high opinion of the checkup service by giving responses indicating that they were satisfied with the nature of the checkup and plan to come back to the relevant facility for more checkups and maintenance work. During the first year after ordinary service stations are converted into Dr. Drive facilities, their average monthly gross profit rises by an average of approximately ¥200,000.

The number of Dr. Drive facilities at the end of fiscal 2004 was 1,871, up 261 from fiscal 2003. Intending to make Dr. Drive facilities the main type of facility in its service station network, NOC plans to boost the number of Dr. Drive facilities to 2,500 by the end of fiscal 2005. Depending on the characteristics of service station sites and local markets, the Company also creates car care-type facilities as well as high-value-added service station complexes that incorporate coffee shops, fast-food restaurants, or convenience stores.

NOC's Marketing Channels



Figures in parentheses represent changes from the levels in the previous fiscal year.



The number of self-service facilities in Japan is rapidly rising, and NOC had established 520 such facilities as of the end of fiscal 2004, but the Company is not seeking to create service stations that focus on high-volume fuel sales alone. We intend to create three types of service stations—Dr. Drive facilities, car care-type facilities, and multi-vendor complexes—and make decisions about whether to introduce self-service fueling on a case-by-case basis. At the end of fiscal 2004, there were 140 self-service Dr. Drive facilities and 83 self-service facility complexes, including four complexes incorporating a Lawson convenience store and one complex with a Tully's coffee shop.

NOC is also increasing its marketing activities via the Internet. The Company's <http://www.eneos.com> Web site now features an upgraded system for statutory vehicle inspection service reservations, and, since March 2002, the site has included the ENEOS Shopping Mall section, through which customers can purchase diverse automobile-related and other products. About 25% of ENEOS Shopping Mall

transactions involve customers paying for and picking up their purchases at ENEOS service stations. We are proactively addressing diverse other business opportunities involving the Internet marketing of automobile-related goods and services.

Increasing Marketing Network Efficiency

NOC service stations are managed by affiliated service station operators. To enhance the profitability and competitiveness of its service stations, NOC is providing affiliated service station operators with suggestions and proposals of methods for achieving low-cost operations. Subsidiary service station operators in which NOC has a majority shareholding are being restructured and merged to enable such benefits as the consolidation and reduction of administrative department and head office costs. While there were 15 subsidiary service station operators as of December 2002, almost all of them have already been consolidated into 3 by region. They are well structured to effectively implement NOC's strategies



for building solid profit bases. They are expected to increase their contribution to consolidated profitability and also increase their performance in providing the parent company with market and customer trend data that facilitates the drafting of marketing plans. The parent company is also planning to expedite the sale of directly owned service stations with substandard profitability.

Providing Highly Competitive Products

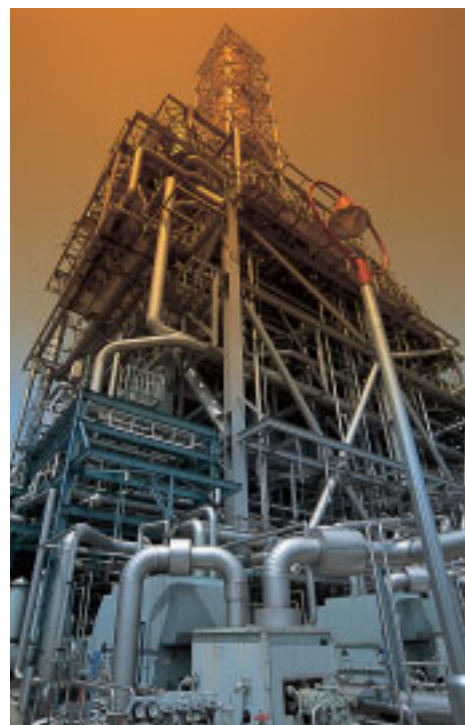
Strengthening the ENEOS brand is the most effective means of augmenting the efficiency and value added of the NOC Group's marketing operations.

NOC has proactively worked to increase the quality and the environmental friendliness of its fuels, and its superior refining and processing technologies enabled it to begin the nationwide marketing of an essentially sulfur-free (10ppm or less) environment-friendly premium gasoline called ENEOS VIGO from November 2003. The Company has marketed ENEOS VIGO as a product that is "good for your car, good

for the world." It contains friction (adjustment/reduction) ingredients that increase combustion efficiency and can thereby boost acceleration by 5% while reducing fuel consumption 3% (based on a comparison with ENEOS VIGO without the additives conducted by NOC's Central Technical Research Laboratory). In addition to the sulfur-free premium gasoline, we have sulfur-free regular gasoline and diesel fuel products in the final stages of development, and we expect to add them to our product lineup during 2005.

In addition to providing products of superior quality, NOC believes effectively building brand power requires continual attention to and emphasis on customer satisfaction. Accordingly, we regularly conduct surveys on our brand recognition and brand image among customers as well as on customers' opinions and complaints. Based on the results of those surveys, we continually work to further improve products and services in ways that maximize customer satisfaction and foster a sustained rise in brand power.

New Energy-Type Business



Natural Gas

The NOC Group is actively expanding its operations in both the upstream and downstream sectors of natural gas related business.

NOC has a 10% interest in Malaysia LNG Tiga Sdn. Bhd., a joint venture with Malaysia's state oil company, PETRONAS, the Sarawak State Government, Shell Gas Holdings (Malaysia) Limited, and Diamond Gas Netherlands B.V. The LNG production plant owned by the joint venture consists of two gas liquefaction trains with a combined annual production level of 6.8 million tons. The first train commenced its LNG production in March 2003, followed by the start-up of the second train in October 2003. The produced LNG has been shipped and delivered to customers in such countries as Japan and South Korea.

Two of NOC's upstream subsidiaries, one of which is acting as operator, are cooperating with Shell and PETRONAS to develop gas fields offshore Sarawak to feed the Malaysia LNG Tiga Project.

NOC is arranging the sale of the LNG from the project to customers in Japan. A considerable number of LNG Sale and Purchase Agreements have been concluded, including those with Tohoku Electric Power Co., Inc., Tokyo Gas Co., Ltd., Toho Gas Co., Ltd., Osaka Gas Co., Ltd., Japan Petroleum Exploration Co., Ltd. (JAPEx), and The Tokyo Electric Power Co., Inc. (TEPCO).

Among those agreements, the LNG deliveries to JAPEx and TEPCO started in 2003, and 530,000 metric tons of LNG were supplied to the two companies in fiscal 2003.

NOC discovered a number of huge gas fields off the north-west coast of Papua Province in Indonesia. Preparations are under way for the development of the fields, known as the Tangguh LNG Project. Production is slated to begin in 2007, when supply of the LNG to Fujian Province in China is scheduled to begin under the Sale and Purchase Agreement with China National Offshore Oil Corp. and Fujian Investment & Development Co., Ltd. In its early stages, annual production capacity is expected to be seven to eight million tons. With huge reserves in the ground, NOC envisages a substantial capacity expansion in the future.

In various regions of Japan, the NOC Group is working vigorously to build and expand infrastructure and marketing routes for LNG.

Mizushima LNG Co., Ltd.—a joint venture company of NOC and Chugoku Electric Power Co., Inc.—is constructing the new LNG receiving terminal in the compound of NPRC's Mizushima Refinery, while Mizushima LNG Sales Co., Ltd., is marketing LNG to utilities and industrial users in the Chugoku region. The new terminal is planned to start operations in April 2006.

NOC plans to construct another LNG receiving terminal in Hachinohe in the Tohoku region that will start operating in March 2007.

By utilizing the technical and marketing skills of the NOC Group, NOC continues to develop LNG demand through NexT Energy Co., Ltd.—a joint venture with Teikoku Oil Co., Ltd.—in the region along Teikoku Oil's natural gas pipelines, as well as through Hokuriku Erunesu Co., Ltd.—a joint venture with Hokuriku Electric Power Co., Inc., and Chubu Electric Power Co., Inc.—in the Hokuriku region.

Electric Power Operations

In line with its goal of being a comprehensive energy company, NOC views electric power operations as a highly promising field. The business enables the Company to make good use of its huge refining infrastructure and fuel its power generation plants at relatively low cost with the heavy oil fractions that are inevitable products of refining operations but are projected to be generated in quantities exceeding demand.

We began our electric power business with IPP operations in 1998. In June 2003, we began the commercial operation of a 340,000kW power generation plant at the Negishi Refinery—an extremely large-capacity plant compared to other IPP facilities in Japan. In April 2004, we initiated the operation of a coke-fueled IPP plant at the Marifu Refinery, and an additional IPP plant is scheduled to begin operating at the Muroran Refinery from October 2004. At that time, we will have five IPP plants—at the Osaka, Yokohama, Negishi, Marifu, and Muroran refineries—with a total supply capacity exceeding 700,000kW.

Drawing on the know-how it has accumulated in the course of IPP business and power plants established to meet refineries' internal requirements, NOC has undertaken power producer and supplier (PPS) retail electric power supply business. The parent company became authorized to engage in PPS business in September 2002 and currently is engaged in such business using the surplus internal generating capacity of the Negishi Refinery and the Kawasaki plant of Nippon Petrochemicals Company, Limited (NPCC). Since July 2003, we have conducted PPS business based on contracts to provide 20,000kW of power to All Nippon Airways Co., Ltd., government and other public offices, and other customers, primarily in the Tokyo metropolitan area.

PPS business in Japan is currently limited to “specified high voltage consumers” contracting for 2,000kW of power or more. From April 2005, however, PPS business can be initiated with “high voltage consumers” contracting for 50kW of power or above, and this change is expected to increase the potential clientele for PPS operations by 2.5 times. In light of this, the NOC Group is considering various means of expanding its retail power supply business. Besides considering the construction of new generating facilities fueled with residual oil and other fuels at Group refineries, we intend to procure power from Frontier Energy Niigata Co., Ltd.—a joint venture of NOC, Nippon Steel Corp., and Mitsubishi Corp.—as well as a joint venture of NOC and Tokyo Gas that plans to establish a natural gas-fueled power generating plant in Kawasaki.

NOC is also engaged in business involving wind-power generation, which is a highly clean and environment-friendly type of energy. The Company began operating a wind-power facility at its Akita Depot in March 2003. With the goal of further increasing the scale of this business, we are currently conducting wind-related surveys that are primarily focused on the sites of existing Group facilities.

Total Energy Systems (TES)

In its total energy systems (TES) on-site energy system operations, NOC is helping increase energy efficiency and reduce energy-related environmental impact by developing and marketing petroleum fuel-based cogeneration systems and by

using such systems itself to supply customers with electric power. In October 2002, the Company launched ECO TOYOU170, a highly environment-friendly, kerosene-fueled cogeneration system with a 170kW power supply capability. We further reinforced our TES product lineup with the October 2003 launch of ECO TOYOU A195. This product uses low-sulfur fuel oil A, which has a higher calorific value than kerosene, and offers even higher energy efficiency. The TES line was further bolstered in January 2004, when NOC began marketing new integrated total energy/heating/air-conditioning systems that use the waste heat of ECO TOYOU units to provide heating and air-conditioning. At the end of fiscal 2004, the total generating capacity of installed and ordered TESs amounted to 150,000kW.

The total supply capacity of all of NOC's various electric power operations was approximately 710,000kW at the end of fiscal 2004. By fiscal 2009, the Company plans to more than double this capacity, to 1,900,000kW, through such steps as the start-up of an IPP plant at the Muroran Refinery, the procurement of power for PPS business from Frontier Energy Niigata, and the operation of the Kawasaki-based joint venture with Tokyo Gas.

Fuel Cells



Having sustained and expanded its fuel cell R&D programs since 1986, the NOC Group has accumulated considerable expertise and had noteworthy successes, such as its 1995 development of the world's first kerosene-fueled fuel cell. Fuel cells simultaneously help promote energy conservation and environmental protection, and great progress has been made in fuel cell technologies during the past few years. In view of this, the NOC Group is striving to maintain a strong position as a front-runner in fuel cell technologies and business.

NOC has completed the development of 1kW-class household-use fuel cells that use liquefied petroleum gas (LPG) as fuel. This product has been undergoing monitor testing since February 2003, and more than 10 units have already been installed and placed in operation at the test facility. Based on the testing data, the Company is planning to commercialize 1kW-class, household-use fuel cells that use LPG in fiscal 2006. Moreover, while extracting hydrogen from kerosene is more difficult than extracting hydrogen from city gas or LPG, NOC has proceeded steadily with the development of fuel cells that use kerosene, including 10kW commercial-use fuel cells and 1kW household-use fuel cells. These two products have been demonstration tested since March 2004 and April 2004, respectively, and plans call for commercializing such products in fiscal 2007. We have also developed a 5kW naphtha-fueled, commercial-use fuel cell product that has been undergoing field testing and demonstration testing since July 2001. These examples show that the Company is pioneering the development of technologies that will be the foundation for next-generation energy business. Aiming to expedite the commercialization and widespread use of stationary fuel cells, we are proactively engaging in associated national projects and undertaking the cooperative development of such systems with other companies as well as universities.

As a comprehensive energy company, NOC has also been working to help promote fuel-cell-powered vehicles and create a hydrogen distribution and service station network by developing a petroleum-based, fuel-cell fuel in cooperation with leading automobile manufacturers and by undertaking research related to the manufacture, transport, and storage of hydrogen. Since July 2002, the Company has participated in a national research project aimed at helping create a hydrogen supply infrastructure. In connection with this project, the Company has operated a hydrogen service station in Yokohama's Asahi Ward since April 2003 and leased fuel cell (and battery pack) powered hybrid vehicles (FCHVs) from Toyota Motor Co., Ltd., for use in hydrogen infrastructure demonstration testing.

Petrochemicals



Although naphtha prices were high, a continued recovery in domestic demand for petrochemicals, strong demand for such products from China and other Asian countries, and rationalization efforts enabled Japan's petrochemical industry to improve its profitability during fiscal 2004. Against this backdrop, Nippon Petrochemicals Company, Limited (NPCC), and other Group petrochemical units worked to promote higher sales and the attainment of appropriate price levels. As a result, consolidated net sales in petrochemical operations rose 12.7% from the previous year, to ¥247.9 billion, while operating income grew ¥3.0 billion, to ¥8.7 billion.

Operations of Main Group Petrochemical Unit of NPCC

NPCC, which is the hub of all the NOC Group's petrochemical operations, has been striving to thoroughly rationalize its operations and cut costs within the framework of its NC21 (Necessary Challenge 21) plan since fiscal 2002. Moreover, by increasing its collaboration with the refining units of NPRC, NPCC is leveraging NPRC's infrastructure and know-how to steadily boost its competitiveness in basic petrochemical operations. NPCC is also progressively restructuring its business portfolio of functional chemical operations.

- Basic Petrochemical Operations—NPCC is striving to realize international cost-competitiveness in basic

petrochemicals by making the most of competitive advantages stemming from being a member of the NOC Group, which can handle the integrated production of basic chemicals beginning with crude oil as a raw material. In April 2004, NPCC has introduced a manufacturing optimization system that coordinates the operations of its Kawasaki plant and all of NOC's refineries. This system is enabling additional measures aimed at maximizing the benefits of cooperation among Group units. NPCC is focusing primarily on propylene, benzene, and paraxylene, for which the supply-demand relationship in the Asian region is projected to become increasingly tight. An additional propylene manufacturing facility (metathesis unit) will be installed at the Kawasaki plant in early 2006, boosting annual production capacity around 800,000 tons. Paraxylene manufacturing requires particularly close coordination with raw materials production at refineries, and the NOC Group, as the world's second largest manufacturer of paraxylene for sale to external customers, is preparing to make the most of its huge production capacity in both domestic and overseas marketing activities.

- Functional and High-Performance Petrochemical Operations—A plan to double NPCC's production capacity for linear alkylbenzene (LAB), a raw material for detergents, was achieved in July 2004. Regarding ethylidene norbornene (ENB), NPCC has collaborated with another company in establishing U.S.-based Sunrise Chemical LLC., which began operating its new plant in December 2003. This increases annual Group manufacturing capacity for ENB to 40,000 tons, more than half the level of global demand. In these ways, NPCC is leveraging its various business and technological strengths to launch and strengthen new business initiatives designed to further enhance its profitability.

Fiscal 2005 is the final year of NPCC's NC21 plan, and the company is striving to attain the goals of that plan while also preparing for subsequent performance gains through further rationalization and cost-cutting measures that help it build a solid profit structure that is not excessively vulnerable to changes in the operating environment.

Construction

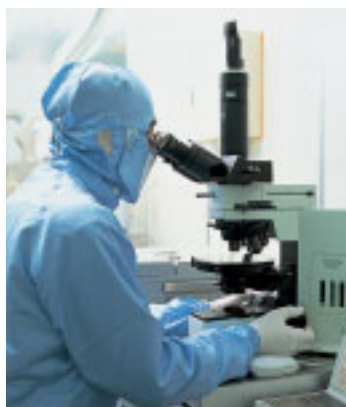


Despite some signs of recovery in private capital investment, Japan's road building and construction industries continued to operate in a harsh environment for winning new orders as public investment continued to shrink. Against this backdrop, NIPPO Corporation Co., Ltd., and other NOC Group construction companies proactively worked to leverage their superior technologies to win orders for construction work and expand their product sales. Consolidated net sales in the construction segment rose 16.3%, to ¥353.6 billion. Despite the implementation of cost-cutting and efficiency-boosting measures, however, a drop in profit margins attributable to intensifying competition depressed operating income ¥2.5 billion, to ¥5.5 billion.

Establishment of NIPPO—Aiming to consolidate and strengthen Group civil engineering and construction units, NOC transformed Dai Nippon Construction Co., Ltd., into a subsidiary of Nippon Hodo Co., Ltd., in March 2003 and shifted the construction division of Nippon Oil Engineering and Construction Co., Ltd., to Nippon Hodo in October 2003, at which time Nippon Hodo was renamed NIPPO Corporation. In the future, plans call for NIPPO to broaden its profit base by expanding its operations into fields on the periphery of road building.



Research and Development



As part of a strategy for strengthening their R&D system, NOC and NPRC greatly revised their system for awarding bonuses to staff who make significant discoveries and inventions. This revision allows for annual bonuses of up to ¥100 million to be paid depending on the actual value of the relevant discoveries and inventions. The new system is designed to promote the proactive creation of new technologies and business models, boost employees' motivation for dynamically creative R&D activities, facilitate the recruitment of outstanding researchers, and generate numerous patents and other intellectual property that will make significant contributions to NOC's consolidated profitability.

In fiscal 2004, the NOC Group's total R&D expense amounted to ¥9.7 billion.

The Group has made sustained efforts to help reduce air pollution and CO₂ emissions by enhancing the quality of petroleum fuels for motor vehicles. In November 2003, we began the nationwide marketing of an environment-friendly high-octane gasoline called ENEOS VIGO that is essentially sulfur-free (10ppm or less), and we are preparing to begin shipments of regular gasoline and diesel fuel products from January 2005.

Regarding refining operations, the Group is engaged in research aimed at helping meet environmental protection regulations and boost efficiency. Having developed its exclusive ROK-Finer technology, which reduces the sulfur content of gasoline, NOC is constructing a ROK-Finer technology demonstration plant at its Sendai Refinery that is scheduled to begin operating during 2004.

NOC is developing various environment-friendly lubricants for vehicular and industrial applications. During fiscal 2004, the Company launched the ENEOS FLEET and the ENEOS INDUSTRIAL series of products as well as products used in the diesel particulate filter units required to meet new vehicle exhaust regulations.

With respect to petrochemicals, the Group completed the construction of an ENB production plant in the U.S. state of Texas, and that plant began operating from August 2003.

In construction operations, NOC is striving to develop technologies needed to provide improved paving materials that help alleviate the heat-island effect in urban areas, reduce noise, and promote improved water drainage.

Overseas Operations



The NOC Group's overseas operations strategy centers on the expansion of business in Asian countries, particularly China, which is expected to sustain rapid rates of economic growth.

As a part of its plan for extending business in ENEOS brand products into overseas markets, the Company began marketing "ENEOS Oil", lubricant oil products, in China in October 2002. This brought the number of Asian countries other than Japan in which ENEOS Oil is marketed to seven. In fiscal 2004, approximately 7,300kl of ENEOS Oil was sold overseas, and this sales volume is expected to rise to 12,000kl in fiscal 2005. The rise is projected to be especially rapid in China, reflecting the quickly expanding local operations of numerous Japan-based companies as well as our efforts to promote the ENEOS brand through participation in trade exhibitions and advertising and public relations activities.

Moreover, sales of lubricant oil to the U.S. and European units of Japan-based automobile manufacturers continued to be robust during fiscal 2004.

In August 2003, NOC finalized an exclusive contract with China National Petroleum Company (CNPC) regarding the production and distribution of refrigerant oil for household electrical appliances, and in September 2003, NOC began the commercial production and distribution of this product in China.

Noting China's plans to progressively deregulate wholesale and retail sales of petroleum fuels, we established Nippon Oil (Shanghai) Corporation in November 2002, a wholly owned subsidiary that is serving as the NOC Group's local headquarters and has begun developing relationships with prospective customers.

In view of the sustained rise in demand for petroleum products in China and other Asian countries, NOC believes it has promising opportunities to increase its exports of petroleum and petrochemical products. During fiscal 2004, the Company exported to China 770,000kl of petroleum fuels, primarily heavy fuel oil. We will continue to maintain a flexible approach to export business while monitoring trends in supply-demand relationships and in prices. Since signing a 20,000BD crude oil processing contract with China Oil in July 2004, NOC has processed crude oil purchased by China Oil at NOC refineries in Japan and shipped the refined oil products to China.

As another part of its strategy for increasing overseas business in ENEOS brand products, in October 2003 and in January 2004, NOC opened its first two ENEOS CAR CENTRE comprehensive automobile-goods shops in Malaysia.

In May 2003, the Company established Nippon Oil LC Film (Suzhou) Corporation, which will manufacture and market liquid crystal films for use in mobile phones. Construction of the subsidiary's factory began in September 2003, and the factory is scheduled to begin operating in August 2004.

Corporate Social Responsibility



Besides operating as a comprehensive energy company to help assure society of stable energy supplies, the NOC Group has lived up to its responsibility to make its operations as friendly as possible to the global environment. Besides operating in an environmentally friendly manner, however, it has become increasingly necessary in recent years for companies to demonstrate their commitment to fulfilling a full range of responsibilities to society. While companies are not legally required to undertake corporate social responsibility (CSR) campaigns, companies realize that taking initiatives to achieve good CSR performance will tend to consolidate their support within society and strengthen their competitiveness over the long term. Outstanding CSR performance has been a chief goal of NOC since its establishment, and highlighting this performance is a key part of the Company's strategy for reinforcing the ENEOS brand.

Reflecting this, in July 2003, the NOC Group broadened the scope of its Environment & Safety Department to include promoting a full range of contributions to society. Also during

fiscal 2004, the Group established the NOC Environmental Vision and third medium-term consolidated management plan, which call for further increasing the proactiveness of the Group's efforts to expand its operations while concurrently promoting the creation of a sustainable society. Moreover, to augment capabilities for planning, proposing, supervising, and auditing CSR management policies related to such issues as compliance, environmental protection, quality control, and human rights and dignity, we transformed the Internal Audit Department into the Corporate Social Responsibility Department as of July 1, 2004.

As a part of its efforts to protect the natural environment and otherwise contribute to society, NOC has become a participant in the World Bank's Community Development Carbon Fund (CDCF) program, a leading global environmental protection program that enables participants to finance greenhouse gas emission reduction programs and obtain verified emission reductions (ERs).



While participating in the development of the Rang Dong oil fields offshore Vietnam, NOC has helped reduce greenhouse gas emissions by increasing the beneficial utilization of gases generated during oil production. In recognition of this, the project was recognized by the Japanese government as a Clean Development Mechanism (CDM*) in December 2003, the Japanese government's first recognition of a CDM project associated with the oil industry. NOC intends to undertake the procedures needed to gain international recognition of its CDM activities, and it expects to have the Rang Dong field CDM project internationally certified during 2004.

*One of the Kyoto Accord mechanisms, the CDM is a system designed to promote the use of advanced countries' technologies and funding for greenhouse gas emission reduction projects in developing countries, with the United Nations giving verified emission reduction credits to the entities that undertake or enable the greenhouse gas emission reduction projects.

As another part of its efforts to reinforce its environmental management systems, NOC completed the development of its EMSITE environmental information management system and began using this system throughout the Group in early

fiscal 2005. EMSITE helps Group units efficiently compile environmental accounting data and environmental impact data as well as enables the unified management of that data. Besides compiling and managing the data, EMSITE will allow the Group to comprehensively evaluate the benefits of its environmental protection programs in quantitative terms.

The NOC Group's social contribution activities in Vietnam also include financial contributions to facilities for underprivileged children and support activities for people in areas affected by flooding. The Group has sustained technical support activities centered on environmental protection technologies in such countries as Iran, China, Indonesia, Qatar, the UAE, and Kuwait, and it is considering additional means of contributing to societies through programs involving the participation of its employees. As a pilot case for such employee participation activities, we have begun organizing reforestation and other socially beneficial programs that involve the participation of volunteers from among employees.

Corporate Governance and Compliance

The NOC Group believes that outstanding CSR performance requires a solid corporate governance base reinforced by effective compliance systems. Since the 1999 merger, NOC has greatly reduced the number of its directors, from 30 to 19, while striving to build highly efficient management systems. The parent company has articulated its compliance philosophy in the form of the “Standards of Conduct/Six Values We Respect” and “Action Guidelines.” To strengthen its Groupwide compliance system, NOC created the Nippon Oil Group Business Ethics Committee in December 2002.

Aiming to further increase the Group’s management emphasis on shareholder value, NOC implemented the governance reform measures described below immediately after their approval at the June 2004 regular general meeting of shareholders. Based on consideration of the most appropriate governance systems in light of the Group’s current situation, we have elected to work to strengthen our Board of Auditors system.

• Strengthening Group Management

—Appointed the CEOs of principal Group companies to be NOC directors so that they will undertake the reporting and discussion of items involving Group strategy at meetings of the Board of Directors.

• Establishing Executive Officer System to Promote Rapid and Flexible Decision Making

—Further reduced number of directors, from 19 to 16

—Reduced the term of directors, from two years to one year

—Introduced an executive officer system: By separating the Board of Directors’ role of strategic decision making from the executive officers’ role of strategic implementation, the new system is designed to increase the quality and speed of decision making as well as increase the clarity of responsibility of operational execution and efficiency of operational execution.

• Increasing Management Transparency and Soundness

—Strengthened the Board of Auditors system: Increased the rigor of the definition of “outside” with regard to the three outside auditors on the Board of Auditors*. The new standard requires that the three outside auditors be people who have never been a director or an employee of the Company or any of its subsidiaries, and this standard is designed to promote auditing activities that are even more objective and fairer than they were previously.

*This represents the application of standards stipulated by the 2001 revision of the Commercial Code two years in advance of their requirement.

These reform measures are designed to promote a further increase in the soundness and vigor of the NOC Group’s governance systems as well as an additional rise in the Group’s emphasis on CSR performance.

Compensation of Directors and Corporate Auditors

Compensation of Directors						
The following table shows compensation paid to Directors and Corporate Auditors for the fiscal year.						
Compensation Item	Directors		Corporate Auditors		Total	
	Number of recipients	Amount (¥ million)	Number of recipients	Amount (¥ million)	Number of recipients	Amount (¥ million)
Compensation based on the Articles of Incorporation and decisions of the General Meeting of Shareholders	19	227	6	42	25	269
Bonuses allocated from profit	23	96	5	15	28	111
Retirement allowances based on decisions of the General Meeting of Shareholders	1	38	1	8	2	46
Total	—	362	—	65	—	427

Note: The above amounts do not include salaries (including regular bonuses) of ¥180 million paid to 12 directors who also perform services as employees. At the end of the fiscal year, the Company had 19 directors and 5 corporate auditors. These numbers and the number of recipients in the table above may not agree because of the retirement of certain directors and corporate auditors.

Compensation of Corporate Auditors

Compensation for preparing the auditors’ report, based on the auditing contract	¥47 million
Other compensation	¥ 0 million

Board of Directors

(As of July 1, 2004)



Fumiaki Watari



Shinji Nishio



Teruo Omori



Tatsunosuke Okabe



Naokazu Tsuda



Makoto Satani



Toshikazu Kobayashi



Ikutoshi Matsumura



Yoichiro Shiozawa



Yukihiro Matsuyama



Masahito Nakamura

President and Representative Director (CEO)

Fumiaki Watari

Executive Vice President and Representative Director (CFO)

Shinji Nishio

Executive Officer and Executive Director of the Corporate Management Division I

Executive Vice President and Representative Director

Teruo Omori

Executive Officer and Executive Director of the Environment, Safety & Quality Management Division

Managing Directors

Tatsunosuke Okabe

Executive Officer and Executive Director of the Energy Innovation Division

Naokazu Tsuda

Executive Officer and Executive Director of the Fuel Retail Sales Division

Makoto Satani

Executive Officer and Executive Director of the Overseas Business & Supply Division

Toshikazu Kobayashi

Executive Officer and Executive Director of the Manufacturing Technology & Engineering Division

Ikutoshi Matsumura

Executive Officer and Executive Director of the Research & Development Division

Yoichiro Shiozawa

Executive Officer and Executive Director of the Corporate Management Division II

Yukihiro Matsuyama

Executive Officer and Executive Director of the Energy Solution Division

Masahito Nakamura

Executive Officer and Executive Director of the Lubricants & Specialties Business Division

Directors

Michihiro Mour

Executive Officer and Deputy Director of the Research & Development Division

Shigeo Hirai

General Manager of the Corporate Planning & Management Department

Minoru Ozawa

President and Representative Director of Nippon Petroleum Refining Company, Limited

Takashi Nishibe

President and Representative Director of Nippon Petrochemicals Company, Limited

Masaru Kai

President and Representative Director of Nippon Oil Exploration Limited

Standing Corporate Auditors

Hideo Okazaki

Seiji Sakamoto

Corporate Auditors

Masao Fujii

Setsuo Umezawa

Koji Furukawa

Executive Officers

Makoto Koseki

General Manager of the Gas Business Department of the Energy Innovation Division

Shun Kurimoto

General Manager of the Environment & Safety Department of the Environment, Safety & Quality Management Division

Yasushi Kimura

General Manager of the Kyushu Branch Office

Yasuo Kamino

General Manager of the Marketing Department of the Fuel Retail Sales Division

Directors

Kozo Imachi

General Manager of the Total Energy System Business

Department of the Energy Innovation Division

Satoshi Katogi

General Manager of the Kanto I Branch Office

Makoto Kuramochi

General Manager of the Lubricants & Specialties Business Department of the Lubricants & Specialties Business Division

Hikaru Kitamura

General Manager of the Secretariat

Seiichi Isshiki

General Manager of the Comptrollers Department of the Corporate Management Division I

Yasushi Kono

General Manager of the Supply & Overseas Business Department of the Overseas Business & Supply Division

Yukio Yamagata

General Manager of the Tokyo Branch Office

Hiroshi Mochizuki

General Manager of the Kansai Branch Office

Hideo Tabuchi

General Manager of the Corporate Social Responsibility Department

Hideaki Kobashi

General Manager of the Chubu Branch Office

Financial Section

Management's Discussion and Analysis of Operations

Environment

During the fiscal year ended March 31, 2004, the U.S. economy acted as a locomotive in strengthening the trend of recovery in the global economy. Against this backdrop, the Japanese economy began showing signs of recovery toward the end of the year, reflecting such trends as the growing firmness of personal consumption and a rise in exports to China and other Asian countries that was accompanied by growth in corporate capital investment.

Performance during the Year

Consolidated Financial Results

On a consolidated basis, net sales of the NOC Group were up 2.2%, to ¥4,279.8 billion. Operating income declined ¥40.7 billion, to ¥55.9 billion, owing to the temporary shutdown of two refineries and an increase in the cost of sales associated with the use of the gross average method for inventory valuation, which offset the benefits of the rise in profit margins and the implementation of cost-cutting and efficiency-boosting measures.

In line with its second consolidated medium-term management plan, the Company has set the target of implementing cost reductions and operational streamlining measures during the three years of the plan that reduce annual costs by ¥100.0 billion over the three-year period through March 2005. During the first two years of this period, the Company has reduced annual costs ¥64.9 billion.

The balance of nonoperating income and expenses rose ¥7.0 billion, to income of ¥1.2 billion. This reflected such factors as a drop in interest expense owing to declines in interest rates and in the Company's balance of interest-bearing debt.

Consequently, recurring income was ¥57.1 billion. In real terms excluding the effect of inventory factors, recurring income would have been ¥81.3 billion and advanced ¥38.6 billion.

The balance of extraordinary income and expenses was an expense of ¥206.8 billion. This resulted from such factors as the Company's expeditious application of accounting

standards related to the impairment of fixed assets, which led to ¥171.5 billion in special losses, and a voluntary early retirement program, which necessitated the provision of an additional ¥12.1 billion in a special allowance for early retirement plans.

Thus, a net loss of ¥133.5 billion was recorded, compared with net income of ¥32.3 billion in the previous year. This was primarily owing to extraordinary expenses greatly exceeding the value of operating income.

Based on the consideration of this performance and other factors, NOC declared a year-end cash dividend of ¥4 per share.

Petroleum Fuel and Crude Oil

Overall demand for oil products in Japan was below their level in the previous fiscal year. Gasoline demand was up somewhat, and, during the first half of the year, a delay in the restart of power generation at certain nuclear plants led to a large surge in demand for heavy fuel oil C for thermal power generation plants. However, unseasonably warm winter weather depressed kerosene demand, while such factors as the progressive rationalization of distribution operations caused a fall in demand for diesel fuel.

NOC's consolidated net sales for the fiscal year under review in the petroleum fuel and crude oil business segment edged up 0.2% from the previous year, to ¥3,606.4 billion. Profitability was positively affected by a rise in the volume of sales to electric power companies, an improvement in fuel oil profit margins, and an increase in profit from oil and natural gas development operations. However, operating income declined ¥39.3 billion, to ¥33.7 billion, owing to such factors as temporary refinery shutdowns and an increase in the cost of sales that reflected the use of the gross average method for inventory valuation.

Petrochemical Operations

Against the backdrop of rising naphtha prices, the petrochemical industry benefited from a continued recovery in domestic demand and a surge in exports that reflected robust demand

in China and other Asian countries. These benefits and the results of rationalization programs supported improvement in the performance of petrochemical companies.

Amid these developments, the NOC Group worked to promote sales and set prices at levels that are appropriate in light of current raw materials prices.

The Group also took thorough cost reduction and operational rationalization measures, worked to increase the cost-competitiveness of its general-use chemicals operations by coordinating them more closely with oil refining operations, and focused efforts on strengthening and further developing its lineup of specialty and high-performance chemicals.

Consolidated net sales in petrochemical operations rose 12.7% from the previous year, to ¥247.9 billion. In addition, although naphtha prices rose, overall market conditions were favorable, and the volume of sales of such products as ethylene and propylene increased. This trend and the results of the Company's cost-cutting and efficiency-raising measures boosted operating income ¥3.0 billion, to ¥8.7 billion.

Construction

Despite signs of recovery in private capital investment, Japan's road building and other construction industries continued to operate in a harsh environment for winning new orders as public investment remained weak, owing to a substantial reduction in the annual public works budget. Against this backdrop, the NOC Group proactively worked to win orders for construction work.

Consolidated net sales in NOC's construction segment rose 16.3%, to ¥353.6 billion. Despite the implementation of cost-cutting and efficiency-boosting measures, however, a drop in profit margins attributable to intensifying competition depressed operating income ¥2.5 billion, to ¥5.5 billion, compared with the previous year.

Other

As conditions for petroleum product distribution operations have become severer, NOC has proactively expanded its marketing of a wide array of automobile-related products,

focusing especially on ENEOS brand goods. In its real estate operations, NOC has faced challenges associated with the completion of major office building projects, which have placed a considerable volume of new office space on the market, increased vacancy rates, intensified competition for tenants, and thereby depressed office rental prices. However, the Company has worked effectively to overcome those challenges by upgrading its administration and service systems as well as improving facilities so that it can supply higher-quality office environments.

Consolidated net sales in the other business segment grew 12.4%, to ¥71.8 billion. Despite cost reductions and efforts to improve the efficiency of operations, however, a decrease in revenue from real estate operations and other factors caused operating income to decline ¥1.4 billion, to ¥4.9 billion.

Financial Position

Balance Sheets

At the balance-sheet date, consolidated total assets amounted to ¥3,265.5 billion, down ¥84.7 billion from the level at the previous fiscal year-end. This balance was increased by such factors as a rise in the level of stock prices that increased latent gains on cross-stockholdings and the effect of the last day of the fiscal year falling on a Japanese national holiday, which led to a significant temporary rise in unpaid gasoline and other taxes and funds held for the payment of those taxes. However, these effects were more than offset by the expeditious application of accounting standards for fixed asset impairment and a ¥118.0 billion drop in the balance of interest-bearing debt, from ¥1,064.0 billion to ¥946.0 billion. The second consolidated medium-term management plan calls for further reducing the balance of interest-bearing debt by ¥200.0 billion over three years; the balance has already been reduced ¥143.0 billion in the first two of those years.

Consolidated shareholders' equity amounted to ¥821.2 billion, down ¥108.8 billion from the level at the previous

fiscal year-end. Despite a rise in gains on the revaluation of securities, shareholders' equity decreased due to the effect of the net loss on retained earnings. As a result, the shareholders' equity ratio was 25.1%.

Cash Flows

Consolidated cash and cash equivalents (hereinafter, cash) at the end of the fiscal year under review amounted to ¥174.5 billion, representing a rise of ¥64.9 billion from the end of the previous fiscal year. The factors influencing cash flows were as follows:

Cash provided by operating activities climbed to ¥280.0 billion as the ¥149.7 billion net loss before tax adjustments was offset by such non-cash items as ¥107.0 billion in depreciation and amortization, a ¥171.5 billion loss on the impairment of fixed assets, and ¥12.1 billion in a special allowance for early retirement plans. These factors considerably boosted the cash provided by operating activities. In addition, the delay to the subsequent fiscal year of payment of gasoline and other taxes created a temporary rise in the level of cash provided by operating activities.

Cash used in investing activities decreased to ¥79.1 billion and was mainly due to capital investments in IPP facilities at refineries and petroleum marketing facilities.

Cash used in financing activities fell to ¥139.3 billion, owing to the payment of cash dividends and efforts to reduce interest-bearing debt.

Capital Investment

In principle, capital investment projects are planned so that they can be funded with cash flow, or profit plus depreciation. Of the ¥136.9 billion in capital investments made during fiscal 2004, approximately half was invested in such strategic fields as oil exploration and production, IPP and other electric power business, and environmental protection programs. Capital investment during the three years through fiscal 2005 is expected to exceed the projection announced in May 2003 by ¥21.0 billion and amount to ¥58.0 billion more than projected three years ago at the start of the second medium-term consolidated management plan.

Basic Policy on Profit Distribution

Viewing profit distribution to shareholders as an important management priority, the Company has a fundamental policy of sustaining stable dividend levels while striving to increase the dividend level based on due consideration of performance and the balance of funding requirements and sources. In addition, the Company gives due consideration to the need to strengthen internal reserves for use in funding the Group's medium- to long-term development plans.

Business Risks

The principal risk with the potential for influencing the Group's business performance and financial position are as follows.

1. Influence of Crude Oil Prices and Dollar-Yen Exchange Rate Fluctuations

Influence of Selling Prices—Each change in crude oil prices and currency exchange rates is reflected in monthly revisions to selling prices. However, the domestic market for petroleum products is affected by such factors as price competition stemming from surplus refining capacity, a rise in the number of self-service facilities, price competition stemming from the kerosene marketing activities of home centers, and prices in overseas petroleum product markets. Because of this, it is sometimes difficult to pass cost rises along as higher selling prices, and the degree to which cost rises can be passed along as higher selling prices is a factor that can influence profitability.

Regarding the currency exchange risks associated with the approximately one-month period from crude oil tanker loading to settlement, in principle, the Group uses currency forward exchange contracts to ensure a fixed exchange rate is sustained. The value of currency forward exchange contracts is within the range of actual demand, and such contracts are not used speculatively.

Influence of Inventories—The Group mainly uses the gross average method to value its inventories. Because of this,

when yen-denominated crude oil prices rise higher than the average price of inventory units, the gross average method will have the effect of reducing the cost of sales (slowing the rise in the cost of sales), thereby having a positive effect on profitability. However, when yen-denominated crude oil prices fall lower than the average price of inventory units, the gross average method will have the effect of increasing the cost of sales (slowing the fall in the cost of sales), thereby having a negative effect on profitability.

Influence of Exploration and Development Profit—Rising crude oil prices increase the sales revenue of oil exploration and development operations, thereby having a positive influence on such operations' profitability. Inversely, falling crude oil prices decrease the sales revenue of those operations and have a negative influence on their profitability.

2. Influence of Changes in Demand for Petroleum Products

Demand for petroleum products fluctuates in line with such factors as economic conditions, weather conditions, and the number of motor vehicles as well as being influenced by fuel-type conversions, such as a shift to the use of natural gas. Because the Group's sales volume changes due to these factors, demand trends are a factor affecting the Group's profitability.

3. Influence of Interest Rate Fluctuations

Rising interest rates exert a negative influence on the balance of the Company's financial income expenses by boosting the cost of interest payments on borrowings and other debt.

The Company's medium-term management plan sets targets for the reduction of interest-bearing debt. By realizing this reduction, the Company is striving to lower its exposure to risks associated with interest rate fluctuations.

4. Influence of Environmental Protection Regulation Tightening

Aiming to help protect the global environment, measures are being taken throughout the world to promote the lowering of

motor vehicle fuel sulfur content. In Japan, the sulfur content of gasoline and diesel fuel must be reduced to 50ppm or less by 2005. In addition, plans call for requiring sulfur content of 10ppm or less (effectively sulfur-free) by 2008 for gasoline and by 2007 for diesel fuel.

The Group has already progressed with sulfur-reduction measures in advance of regulatory requirements, and it plans to ship sulfur-free gasoline and diesel to its service stations from January 2005. However, if additional measures were taken in the future to increase the rigor of environmental protection regulations, there is a possibility that the Group's costs might be increased, owing to higher capital investment and variable costs at refineries and other factors.

5. Influence of Oil-Related Import Tariff Reforms

Japan currently levies import tariffs on crude oil and on petroleum products. Of these two tariffs, the crude oil tariff is to be eliminated from April 2006. The petroleum product tariff is also to be reformed at that time, but the nature of the changes to that tariff is not yet determined. If the petroleum product tariff is eliminated or greatly reduced, it is projected that imports of fuel oil C from abroad would reduce domestic fuel oil C prices, and this might have a negative influence on the profitability of refineries that produce high yields of fuel oil C.

6. Influence of Fluctuations in Public- and Private-Sector Capital Investment

The Group's construction units focus primarily on paving, civil engineering, and construction contracting work. The profitability of these units is greatly affected by trends in public-sector capital investment and private-sector capital investment (including housing investment).

The above-mentioned risks are the principal risks the Group faces according to the judgment of the Group at the present time. However, the above-mentioned risks are not a complete list of the risks faced by the Group.

Five-Year Financial and Operating Summary

Nippon Oil Corporation and Consolidated Subsidiaries

Five-Year Financial Summary

Years ended March 31	Millions of yen				
	2004	2003	2002	2001	2000
Net sales	¥4,279,751	¥4,187,392	¥3,949,571	¥4,076,890	¥3,594,911
Cost of sales	3,928,505	3,785,291	3,555,907	3,691,142	3,245,446
Selling, general and administrative expenses	295,328	305,514	318,432	315,668	320,160
Operating income.....	55,918	96,586	75,231	70,079	29,304
Net (loss) income.....	(133,526)	32,281	24,006	29,787	(4,858)
Total assets.....	3,265,503	3,350,237	3,444,742	3,971,252	3,760,800
Total shareholders' equity.....	821,202	929,987	924,140	898,083	840,971
Total current assets.....	1,395,336	1,329,230	1,419,282	1,875,218	1,611,852
Total current liabilities	1,433,424	1,388,397	1,411,434	1,807,176	1,614,001
Working capital.....	(38,088)	(59,167)	7,848	68,042	(2,149)
Capital expenditures.....	136,900	148,500	122,500	69,200	72,600
R&D expenditures	9,685	10,037	10,449	10,218	11,370

Five-Year Operating Summary

Years ended March 31	2004	2003	2002	2001	2000
Crude oil imports (million kiloliters)	62.0	63.0	58.7	62.4	60.0
Sales of petroleum products* (million kiloliters).....	53.3	53.2	49.0	51.1	52.2
Capacity of refining facilities (barrels per stream day)	1,272,000	1,217,000	1,227,000	1,348,000	1,348,000

* All sales volume figures represent domestic sales volumes of petroleum fuels. Figures for sales volumes of NOC, NISSEKI, and Mitsubishi Oil represent the sales of the parent company only, and figures for Mitsubishi Oil include barter sales.

Consolidated Balance Sheets

Nippon Oil Corporation and Consolidated Subsidiaries

March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 174,535	¥ 109,638	\$ 1,646,557
Time deposits (Note 7)	4,311	11,747	40,670
Short-term investments in securities (Note 4)	3,009	9,042	28,387
Notes and accounts receivable (Note 7):			
Trade	578,850	592,178	5,460,849
Other	57,553	55,712	542,953
Less allowance for doubtful receivables	(4,289)	(4,501)	(40,462)
Inventories (Note 5)	498,857	479,131	4,706,198
Deferred income taxes (Note 10)	41,543	27,969	391,915
Other current assets	40,964	48,311	386,453
Total current assets	<u>1,395,336</u>	<u>1,329,230</u>	<u>13,163,547</u>
Investments and long-term receivables:			
Investments in unconsolidated subsidiaries and affiliates	73,744	81,567	695,698
Investments in other securities (Notes 4 and 7)	220,830	172,307	2,083,302
Long-term receivables (Note 7)	27,856	37,393	262,792
Total investments and long-term receivables	<u>322,431</u>	<u>291,268</u>	<u>3,041,802</u>
Property, plant and equipment (Notes 6 and 7):			
Land	701,519	864,025	6,618,104
Buildings	813,131	826,946	7,671,047
Oil tanks	259,213	259,561	2,445,406
Machinery and equipment	1,468,515	1,391,655	13,853,915
Construction in progress	61,774	83,801	582,774
	<u>3,304,154</u>	<u>3,425,990</u>	<u>31,171,264</u>
Less accumulated depreciation	<u>(1,918,380)</u>	<u>(1,883,086)</u>	<u>(18,097,925)</u>
Property, plant and equipment, net	<u>1,385,774</u>	<u>1,542,904</u>	<u>13,073,340</u>
Deferred income taxes (Note 10)	24,426	37,554	230,434
Other assets (Note 7)	137,534	149,278	1,297,491
Total assets	<u>¥3,265,503</u>	<u>¥3,350,237</u>	<u>\$30,806,632</u>

The accompanying notes are an integral part of the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 7)	¥ 258,657	¥ 258,746	\$ 2,440,160
Current portion of long-term debt (Note 7)	112,542	212,563	1,061,717
Notes and accounts payable:			
Trade	347,401	354,463	3,277,368
Other	203,955	176,698	1,924,104
Excise taxes payable (Note 11)	317,395	222,777	2,994,292
Accrued income taxes	8,806	13,813	83,075
Accrued expenses	40,520	43,143	382,264
Deferred income taxes (Note 10)	—	0	—
Other current liabilities	144,145	106,191	1,359,858
Total current liabilities	<u>1,433,424</u>	<u>1,388,397</u>	<u>13,522,868</u>
Long-term liabilities:			
Long-term debt (Note 7)	630,525	654,525	5,948,349
Accrued retirement benefits (Note 8)	111,725	103,186	1,054,009
Reserve for inspection of oil tanks, machinery and equipment, and ships	33,661	32,823	317,557
Deferred income taxes (Note 10)	78,013	77,735	735,972
Other long-term liabilities	55,836	52,608	526,755
Total long-term liabilities	<u>909,763</u>	<u>920,879</u>	<u>8,582,670</u>
Minority interests in consolidated subsidiaries	101,113	110,973	953,896
Shareholders' equity (Note 9):			
Common stock:			
Authorized—2,000,000,000 shares			
Issued—1,514,507,271 shares in 2004 and 2003	139,436	139,436	1,315,434
Capital surplus	274,838	274,829	2,592,811
Retained earnings (Note 18)	371,471	513,199	3,504,443
Unrealized holding gain on securities, net of deferred income taxes (Note 4)	46,766	11,907	441,189
Translation adjustments	(8,123)	(6,546)	(76,632)
	<u>824,389</u>	<u>932,826</u>	<u>7,777,255</u>
Less treasury stock, at cost:			
5,847,479 shares in 2004 and 5,376,238 shares in 2003	(3,186)	(2,839)	(30,057)
Total shareholders' equity	<u>821,202</u>	<u>929,987</u>	<u>7,747,189</u>
Contingent liabilities (Note 14)			
Total liabilities, minority interests and shareholders' equity	¥3,265,503	¥3,350,237	\$30,806,632

Consolidated Statements of Shareholders' Equity

Nippon Oil Corporation and Consolidated Subsidiaries

Years ended March 31, 2004 and 2003	Number of shares	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2004	2003	2004
Common stock:				
Beginning of year	1,514,507,271	¥139,436	¥139,436	\$1,315,434
End of year	1,514,507,271	¥139,436	¥139,436	\$1,315,434
Capital surplus:				
Beginning of year		¥274,829	¥274,829	\$2,592,726
Adjustment for merger of subsidiaries		8	—	75
End of year		¥274,838	¥274,829	\$2,592,811
Retained earnings (Note 18):				
Beginning of year		¥513,199	¥492,236	\$4,841,500
Adjustment for inclusion in consolidation or equity method of accounting		2,956	(107)	27,887
Net (loss) income		(133,526)	32,281	(1,259,679)
Cash dividends paid		(10,579)	(10,595)	(99,802)
Bonuses to directors and statutory auditors		(509)	(614)	(4,802)
Decrease resulting from retirement of common stock		(67)	—	(632)
Loss on sales of treasury stock		(2)	—	(19)
End of year		¥371,471	¥513,199	\$3,504,443
Unrealized holding gain on securities, net of deferred income taxes (Note 4):				
Beginning of year		¥ 11,907	¥ 23,503	\$ 112,330
Net change during the year		34,859	(11,596)	328,858
End of year		¥ 46,766	¥ 11,907	\$ 441,189
Translation adjustments:				
Beginning of year		¥ (6,546)	¥ (5,529)	\$ (61,755)
Net change during the year		(1,576)	(1,016)	(14,868)
End of year		¥ (8,123)	¥ (6,546)	\$ (76,632)
Treasury stock:				
Beginning of year		¥ (2,839)	¥ (336)	\$ (26,783)
Net change during the year		(347)	(2,502)	(3,274)
End of year		¥ (3,186)	¥ (2,839)	\$ (30,057)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Nippon Oil Corporation and Consolidated Subsidiaries

Years ended March 31, 2004 and 2003	Millions of yen		Thousands of U.S. dollars (Note 2)
	2004	2003	2004
Operating activities:			
(Loss) income before income taxes and minority interests	¥(149,672)	¥ 64,203	\$ (1,412,000)
Depreciation and amortization	107,045	99,358	1,009,858
Amortization of excess of cost over net assets acquired	(1,152)	(314)	(10,868)
Reversal of allowance for doubtful receivables	(4,957)	(7,069)	(46,764)
Provision for accrued retirement benefits	2,611	1,179	24,632
Provision (reversal) of reserve for inspection of oil tanks, machinery and equipment, and ships	866	(8,480)	8,170
Interest and dividend income	(5,380)	(6,317)	(50,755)
Interest expense	20,829	26,536	196,500
Gain on sales of property, plant and equipment	(12,045)	(15,028)	(113,632)
Loss on disposal of property, plant and equipment	16,990	11,026	160,283
Impairment losses	171,482	—	1,617,755
Gain on sales of investments in securities	(4,130)	(1,965)	(38,962)
Decrease (increase) in notes and accounts receivable	28,610	(39,823)	269,906
Decrease (increase) in inventories	11,101	(101,784)	104,726
Increase (decrease) in notes and accounts payable and excise taxes payable	85,285	(31,420)	804,575
Other, net	46,137	12,820	435,255
Subtotal	313,620	2,919	2,958,679
Interest and dividends received	7,853	9,522	74,085
Interest paid	(21,597)	(27,248)	(203,745)
Income taxes paid	(19,906)	(19,504)	(187,792)
Early retirement incentive payments	—	(15,238)	—
Net cash provided by (used in) operating activities	279,969	(49,549)	2,641,217
Investing activities:			
Decrease in time deposits	7,680	27,163	72,453
Decrease in short-term investments in securities and investments in other securities	21,081	57,585	198,877
Additions to property, plant and equipment	(119,507)	(86,186)	(1,127,425)
Proceeds from sales of property, plant and equipment	15,640	22,693	147,547
Decrease (increase) in long-term receivables	9,116	(1,663)	86,000
Other	(13,072)	(35,763)	(123,321)
Net cash used in investing activities	(79,060)	(16,170)	(745,849)
Financing activities:			
(Decrease) increase in short-term loans	(7,038)	49,576	(66,396)
Proceeds from long-term debt	98,462	144,066	928,887
Repayment of long-term debt	(215,946)	(236,614)	(2,037,226)
Cash dividends paid	(14,541)	(11,591)	(137,179)
Other	(245)	(1,385)	(2,311)
Net cash used in financing activities	(139,309)	(55,948)	(1,314,236)
Effect of exchange rate changes on cash and cash equivalents	(2,955)	(3,888)	(27,877)
Increase (decrease) in cash and cash equivalents	58,644	(125,556)	553,245
Cash and cash equivalents at beginning of year	109,638	235,044	1,034,321
Increase in cash and cash equivalents due to inclusion in consolidation	6,252	150	58,981
Cash and cash equivalents at end of year	¥174,535	¥109,638	\$ 1,646,557

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Oil Corporation and Consolidated Subsidiaries
March 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Company and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the accounts prepared by the Company in accordance with the provisions set forth in the Securities and Exchange Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

As permitted under the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and all its significant subsidiaries. The investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of cost over the underlying equity in net assets at the dates of acquisition of the major consolidated subsidiaries is amortized by the straight-line method over five years.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost or less. Where there has been a permanent decline in the value of the investments, the Company has written them down to reflect the impairment.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies included in the current and noncurrent foreign currency accounts of the Company, of its domestic consolidated subsidiaries and of its affiliates accounted for by the equity method have been translated into yen at the rates of exchange in effect at the year-end. Translation differences are charged or credited to income.

The accounts of the foreign consolidated subsidiaries are translated into yen as follows: all assets, liabilities and retained earnings at the end of the year and items in the consolidated statements of operations including net income, at the rate of exchange in effect at the year-end; capital stock, at historical rates; and cash dividends paid, at the rate of exchange in effect when paid. Translation differences arising from the balance sheet items are included in shareholders' equity and minority interests, in consolidated subsidiaries as translation adjustments.

(d) Appropriation of retained earnings

Cash dividends paid and bonuses to directors and statutory auditors are recorded in the financial year in which the proposed appropriations of retained earnings are approved by the Board of Directors and/or the shareholders.

(e) Cash equivalents

The Company and its consolidated subsidiaries substantially consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(f) Securities

The accounting standard applicable to securities requires that all securities be classified into three categories: trading, held-to-maturity securities or other.

Held-to-maturity securities have been stated at their amortized cost. Marketable securities classified as other securities have been stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities have been stated at cost. Cost of securities sold has been determined by the moving average method.

(g) Inventories

Inventories are stated mainly at cost determined principally by the average method.

(h) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost.

Depreciation of property, plant and equipment is computed principally by the straight-line method for buildings, and by the declining-balance method for other property, plant and equipment, over the estimated useful lives of the respective assets.

Significant renewals and improvements are capitalized at cost. Maintenance and repairs are charged to income.

(i) Leases

Noncancelable leases are accounted for primarily as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(j) Retirement benefits

Accrued retirement benefits are stated principally at the amount calculated based on the present value of the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for unrecognized actuarial gain or loss, and unrecognized prior service cost. Actuarial gain or loss and prior service cost are amortized as incurred by the straight-line method principally over five years.

The Employee Pension Fund Plan of NOC and a consolidated subsidiary was approved by the Japanese government for an exemption from the substitutional portion of the benefit obligation on April 1, 2004. The related gain on the transfer of the substitutional portion has been calculated at ¥3,462 million (\$32,660 thousand) and is expected to be recorded during the year ending March 31, 2005.

(k) Income taxes

Deferred income taxes are determined based on the differences between the amounts determined for financial reporting purposes and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(l) Reserve for inspection of oil tanks, machinery and equipment, and ships

The Company and its domestic consolidated subsidiaries are required periodically to inspect their oil tanks, the machinery and equipment of their oil refineries, and their ships. A reserve for the inspection of oil tanks, machinery and equipment, and ships is provided for the current portion of the estimated total cost for such work.

(m) Research and development costs

Research and development costs are charged to income when incurred.

(n) Derivatives

Derivatives are stated at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by qualified forward foreign exchange contracts and currency swaps are translated at the corresponding contract rates.

(o) Amounts per share

Basic net income per share for the years ended March 31, 2004 and 2003 has been computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted net income per share is computed based on the amount of net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds.

2. U.S. DOLLAR AMOUNTS

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥106 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2004. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

3. ACCOUNTING CHANGE

Effective April 1, 2003, the Company and its domestic consolidated subsidiaries and affiliates adopted a new accounting standard for impairment accounting for fixed assets as early adoption of the standards was permitted from the fiscal year ended March 31, 2004. The effect of the adoption of this new standard was to increase loss before income taxes and minority interests by ¥173,649 million (\$1,638,198 thousand) for the year ended March 31, 2004.

4. SECURITIES

a) Marketable securities classified as held-to-maturity securities at March 31, 2004 and 2003 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Carrying amount	¥863	¥864	\$8,142
Aggregate market value	873	886	8,236
Net unrealized holding gain	¥ 10	¥ 22	\$ 94

b) Marketable securities classified as other securities at March 31, 2004 and 2003 were as follows:

March 31, 2004	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying amount	Net unrealized holding gain	Acquisition cost	Carrying amount	Net unrealized holding gain
Stocks	¥61,831	¥146,311	¥84,481	\$583,311	\$1,380,292	\$796,991
Debt securities	14	14	0	132	132	0
Other	100	101	0	943	953	0
	¥61,947	¥146,428	¥84,481	\$584,406	\$1,381,396	\$796,991

March 31, 2003	Millions of yen		
	Acquisition cost	Carrying amount	Net unrealized holding gain
Stocks	¥67,239	¥92,173	¥24,934
Debt securities	630	635	5
Other	100	99	(1)
	¥67,970	¥92,908	¥24,938

c) Sales of securities classified as other securities amounted to ¥17,741 million (\$167,368 thousand) and ¥5,123 million, with a net aggregate gain of ¥2,495 million (\$23,538 thousand) and ¥1,729 million for the years ended March 31, 2004 and 2003, respectively.

d) The redemption schedule at March 31, 2004 for securities with maturity dates is summarized as follows:

March 31, 2004	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥ 3,813	\$ 35,972
Due after one year through five years	48,991	462,179
Due after five years through ten years	51	481

5. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Merchandise and finished products	¥103,012	¥ 97,174	\$ 971,811
Crude oil	104,937	115,898	989,972
Merchandise and crude oil in transit	98,344	105,573	927,774
Work in process	136,951	106,681	1,291,991
Containers and supplies	35,297	33,594	332,991
Real estate for sale	20,315	20,209	191,651
	¥498,857	¥479,131	\$4,706,198

6. IMPAIRMENT LOSS ON FIXED ASSETS

The impairment of fixed assets for the year ended March 31, 2004 related primarily to the significant decrease in the market value of the Company's land as well as to the overall deterioration of its business environment.

Loss on impairment of fixed assets for the year ended March 31, 2004 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Service stations		
Land.....	¥ 72,002	\$ 679,264
Other.....	424	4,000
	<u>72,427</u>	<u>683,274</u>
Plants		
Land.....	17,308	163,283
Other.....	255	2,406
	<u>17,563</u>	<u>165,689</u>
Buildings for rent		
Land.....	14,943	140,972
Building	2,184	20,604
	<u>17,128</u>	<u>161,585</u>
Other businesses		
Land.....	23,669	223,292
Building	4,185	39,481
Other.....	1,924	18,151
	<u>29,780</u>	<u>280,943</u>
Non-performing assets		
Land.....	32,851	309,915
Other.....	1,731	16,330
	<u>34,582</u>	<u>326,245</u>
Total	<u>¥171,482</u>	<u>\$1,617,755</u>

An impairment loss on service stations and plants was recorded at the amount by which the acquisition cost of each asset exceeded its future cash flows, discounted at 4.5%.

An impairment loss on buildings for rent, other businesses and certain non-performing assets was recorded at the amount by which the acquisition cost of each asset exceeded its estimated fair value. The estimated fair value of these assets, if material, was determined using real estate appraisal standards.

7. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans are principally unsecured and generally represent bank overdrafts, commercial paper and notes maturing within one year. The weighted-average interest rates for the years ended March 31, 2004 and 2003 were approximately 0.2% and 0.2%, respectively.

Long-term debt at March 31, 2004 and 2003 is summarized as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
1.60% unsecured convertible bonds in yen, due March 2005.....	¥ 69,628	¥ 69,628	\$ 656,868
Unsecured Eurobonds in U.S. dollars, due through February 2007, at interest rates ranging from 1.19% to 1.72%	16,063	27,002	151,538
1.10% unsecured Eurobonds in Euro, due September 2005	3,382	3,147	31,906
Unsecured bonds in yen, due through May 2013, at interest rates ranging from 0.60% to 3.40%	177,600	217,600	1,675,472
Unsecured Eurobonds in yen, due through April 2013, at interest rates ranging from 0.06% to 1.62%	40,374	50,403	380,887
Loans from banks, life insurance companies and government agencies, due through February 2030, at interest rates ranging from 0.2% to 6.7%:			
Secured	103,509	119,633	976,500
Unsecured	332,509	379,673	3,136,877
	<u>743,067</u>	<u>867,088</u>	<u>7,010,066</u>
Less current portion	(112,542)	(212,563)	(1,061,717)
	<u>¥630,525</u>	<u>¥654,525</u>	<u>\$5,948,349</u>

Convertible bonds, unless previously redeemed, are convertible into shares of common stock of the Company at the following conversion prices:

	Conversion price per share	Conversion period
1.6% unsecured convertible bonds in yen, due March 2005	¥1,864.30	January 10, 1990–March 30, 2005

Assets pledged at March 31, 2004 and 2003 as collateral for long-term debt or other debt were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Time deposits	¥ 65	¥ 3	\$ 613
Notes and accounts receivable	1,320	—	12,453
Land	225,234	261,726	2,124,849
Other property, plant and equipment, net	261,572	228,804	2,467,660
Investments in other securities	28,963	20,246	273,236
Long-term receivables	4,988	6,146	47,057
Other assets	31	—	292

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥112,542	\$1,061,717
2006	155,410	1,466,132
2007	72,946	688,170
2008	64,347	607,047
2009 and thereafter	337,821	3,186,991
	<u>¥743,067</u>	<u>\$7,010,066</u>

8. RETIREMENT BENEFITS

The Company and its consolidated subsidiaries have unfunded retirement benefits plans for their employees. Employees whose services with the Company and its consolidated subsidiaries are terminated are, in most circumstances, entitled to lump-sum retirement benefits determined by reference to their basic rates of pay, length of service and the conditions under which the terminations occur. Certain portions of the unfunded retirement benefits plans are covered by non-contributory pension plans and by contributory funded defined pension plans pursuant to the Welfare Pension Insurance Law of Japan.

On April 1, 2004, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for exemption from the obligation for benefits related to future employee services under the substitutional portion of its Welfare Pension Fund Plans (WFPF). In accordance with the provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company will account for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WFPF as of the date of approval of its exemption, assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and related pension plan assets had been completed as of that date. As a result, the Company will recognize a gain of ¥3,462 million (\$32,660 thousand) for the year ending March 31, 2005.

a) Accrued retirement benefits at March 31, 2004 and 2003 consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefits obligation	¥(284,319)	¥(268,045)	\$(2,682,255)
Plan assets at fair value	154,286	129,689	1,455,528
Unfunded retirement benefits obligation	(130,032)	(138,356)	(1,226,717)
Unrecognized actuarial loss	24,474	38,227	230,887
Unrecognized prior service cost	(6,167)	(3,057)	(58,179)
Accrued retirement benefits	¥(111,725)	¥(103,186)	\$(1,054,009)

b) Retirement benefits expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥ 9,314	¥10,773	\$ 87,868
Interest cost	6,309	7,275	59,519
Expected return on plan assets	(1,787)	(1,702)	(16,858)
Amortization of actuarial loss	7,997	8,150	75,443
Amortization of prior service cost	(1,081)	(147)	(10,198)
	¥20,753	¥24,348	\$195,783

c) The assumptions used in accounting for the above plans were as follows:

As of March 31,	2004	2003
Discount rates	Mainly 2.0%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 0.5%	Mainly 0.5%

9. SHAREHOLDERS' EQUITY

Retained earnings include a legal reserve provided in accordance with the Commercial Code. In principle, this reserve is not available for dividends, but it may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code, however, does provide that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

Retained earnings also include retained earnings appropriated for special reserves in accordance with the Special Taxation Measures Law and the Commercial Code. The reserves are deducted from taxable income when provided and are to be reversed to taxable income in subsequent years through direct appropriations of retained earnings.

10. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 42% for 2004 and 2003.

An analysis of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2004 has been omitted as loss before income taxes and minority interests was recorded. The corresponding analysis for the year ended March 31, 2003 has also been omitted as the difference was immaterial.

The significant components of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Property, plant and equipment	¥ 16,058	¥ 16,171	\$ 151,491
Accrued retirement benefits.....	39,324	36,711	370,981
Depreciation	12,553	13,535	118,425
Net operating loss carryforwards	17,631	6,644	166,330
Loss on revaluation of securities	15,234	14,600	143,717
Loss on impairment of assets.....	57,908	—	546,302
Other	60,941	48,550	574,915
Valuation allowance	(66,752)	(12,415)	(629,736)
Total deferred tax assets	152,899	123,799	1,442,443
Deferred tax liabilities:			
Fair value of subsidiaries on consolidation	72,642	70,332	685,302
Reserves under Special Taxation Measures Law	40,927	38,717	386,104
Net unrealized holding gain on securities	33,781	10,633	318,689
Other.....	17,590	16,326	165,943
Total deferred tax liabilities	164,942	136,010	1,556,057
Net deferred tax liabilities	¥ (12,042)	¥ (12,211)	\$ (113,604)

New legislation was enacted in March 2003, which will decrease the aggregate statutory tax rate by approximately 2% effective the fiscal year beginning after March 31, 2004. The effect of this tax rate change was to decrease net deferred tax liabilities and income tax expense by ¥1,302 million and ¥1,027 million, respectively, as of and for the year ended March 31, 2003 and to increase net unrealized holding gain on securities by ¥275 million at March 31, 2003.

11. EXCISE TAXES

Excise taxes are levied on gasoline and diesel fuel when delivered to customers and are included under net sales and cost of sales in the consolidated statements of operations. These taxes amounted to ¥1,053,667 million (\$9,940,255 thousand) and ¥1,034,919 million for the years ended March 31, 2004 and 2003, respectively, and represented approximately 25% of net sales for both years.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses at March 31, 2004 and 2003 consisted of the following:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Freight	¥103,967	¥112,882	\$ 980,821
Personnel expenses.....	69,653	67,450	657,104
Retirement benefits	11,466	14,774	108,170
Repair and inspection costs	9,523	9,793	89,840
Rental expenses	17,966	18,614	169,491
Depreciation and amortization.....	25,657	24,910	242,047
Other	57,092	57,087	538,604
	¥295,328	¥305,514	\$2,786,113

13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of ¥9,685 million (\$91,368 thousand) and ¥10,037 million were charged to income as incurred for the years ended March 31, 2004 and 2003, respectively.

14. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2004 and 2003:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
As endorser of trade notes	¥ 1,677	¥ 1,616	\$ 15,821
As guarantors of indebtedness of:			
Unconsolidated subsidiaries and affiliates	26,585	27,309	250,802
Others	29,084	33,475	274,377
	<u>¥57,347</u>	<u>¥62,401</u>	<u>\$541,009</u>

15. LEASES

Lessee

(a) Finance leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased buildings and machinery and equipment as of March 31, 2004 and 2003, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition costs	¥8,921	¥8,378	\$84,160
Accumulated depreciation	3,828	4,902	36,113
Net book value	<u>¥5,092</u>	<u>¥3,476</u>	<u>\$48,038</u>

The following amounts represent the lease payments relating to finance leases accounted for as operating leases, the pro forma depreciation expense of the leased assets (calculated by the straight-line method over the lease terms) and the pro forma interest portion of the lease payments (calculated by the interest method) at March 31, 2004 and 2003:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease payments	¥2,113	¥1,907	\$19,934
Depreciation	1,971	1,817	18,594
Interest expense	197	179	1,858

Future minimum lease payments (exclusive of the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥1,963	\$18,519
2006 and thereafter	3,844	36,264
Total	<u>¥5,808</u>	<u>\$54,792</u>

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2004 for noncancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥208	\$1,962
2006 and thereafter	352	3,321
Total	<u>¥560</u>	<u>\$5,283</u>

Lessor

(a) Finance leases

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased machinery and equipment at March 31, 2004 and 2003:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Acquisition costs	¥16,830	¥12,879	\$158,774
Accumulated depreciation	6,720	6,403	63,396
Net book value	¥10,109	¥ 6,476	\$ 95,368

The following amounts represent the lease revenues relating to the finance leases accounted for as operating leases, the pro forma depreciation expense of the leased assets and the pro forma interest portion of the lease revenues (calculated by the interest method) at March 31, 2004 and 2003:

March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Lease revenues	¥3,359	¥2,714	\$31,689
Depreciation	3,030	2,450	28,585
Interest income	359	265	3,387

Future minimum lease revenues (exclusive of the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 3,073	\$28,991
2006 and thereafter	7,433	70,123
Total	¥10,507	\$99,123

(b) Operating leases

Future minimum lease revenues subsequent to March 31, 2004 for noncancelable operating leases are immaterial.

16. DERIVATIVES

The Company and its consolidated subsidiaries have utilized forward foreign exchange contracts, currency options, currency swaps, interest-rate swaps, interest-rate caps, commodity swaps and commodity collars in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates, interest rates and commodity prices.

The notional amounts, fair value and unrealized gain or loss on derivatives at March 31, 2004 and 2003 are summarized as follows:

2004	Millions of yen			Thousands of U.S. dollars		
	Notional amounts	Fair value	Unrealized gain (loss)	Notional amounts	Fair value	Unrealized gain (loss)
Currency:						
Forward foreign exchange contracts	¥ 4,508	¥4,436	¥ (71)	\$ 42,528	\$41,849	\$ (670)
Interest-rate:						
Swaps	¥40,000	¥ (132)	¥(132)	\$377,538	\$ (1,245)	\$(1,245)

2003	Millions of yen		
	Notional amounts	Fair value	Unrealized gain (loss)
Currency:			
Forward foreign exchange contracts	¥ 3,640	¥3,711	¥ 71
Interest-rate:			
Swaps	¥40,000	¥ (266)	¥(266)

Note: The above information is presented exclusive of hedging transactions.

17. SEGMENT INFORMATION

The business of the Company and its consolidated subsidiaries is divided into the following four categories: petroleum fuel and crude oil, petrochemical operations, construction and other.

The petroleum fuel and crude oil segment comprises gasoline, naphtha, kerosene, diesel fuel, heavy fuels and other; the petrochemical operations segment comprises ethylene, plastics and other; the construction segment comprises paving, civil engineering and construction; and the other segment comprises leasing, finance, insurance, data processing and other businesses.

The business and geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is summarized as follows:

Business segment

Year ended March 31, 2004	Millions of yen						
	Petroleum fuel and crude oil	Petrochemical operations	Construction	Other	Total	Eliminations	Consolidated
Sales to third parties	¥3,606,365	¥247,927	¥353,636	¥ 71,822	¥4,279,751	¥ —	¥4,279,751
Intergroup sales and transfers	170,345	19,842	741	13,840	204,769	(204,769)	—
Total sales	3,776,710	267,769	354,378	85,662	4,484,521	(204,769)	4,279,751
Operating expenses	3,743,048	259,089	348,905	80,792	4,431,835	(208,002)	4,223,833
Operating income.....	¥ 33,662	¥ 8,680	¥ 5,472	¥ 4,870	¥ 52,686	¥ 3,232	¥ 55,918
Assets.....	¥2,775,163	¥167,181	¥360,087	¥145,844	¥3,448,276	¥(182,773)	¥3,265,503
Depreciation and amortization	¥ 87,733	¥ 6,771	¥ 5,456	¥ 7,092	¥ 107,054	¥ (9)	¥ 107,045
Impairment losses	¥ 149,414	¥ —	¥ 16,701	¥ 5,365	¥ 171,482	¥ —	¥ 171,482
Capital expenditures	¥ 102,676	¥ 10,234	¥ 7,392	¥ 11,153	¥ 131,457	¥ —	¥ 131,457

Year ended March 31, 2003	Millions of yen						
	Petroleum fuel and crude oil	Petrochemical operations	Construction	Other	Total	Eliminations	Consolidated
Sales to third parties	¥3,599,622	¥219,904	¥303,982	¥ 63,883	¥4,187,392	¥ —	¥4,187,392
Intergroup sales and transfers	155,527	19,318	1,545	18,202	194,593	(194,593)	—
Total sales	3,755,149	239,223	305,527	82,085	4,381,986	(194,593)	4,187,392
Operating expenses	3,682,211	233,508	297,547	75,833	4,289,100	(198,294)	4,090,806
Operating income.....	¥ 72,938	¥ 5,714	¥ 7,980	¥ 6,252	¥ 92,885	¥ 3,700	¥ 96,586
Assets.....	¥2,861,159	¥172,298	¥328,492	¥151,475	¥3,513,425	¥(163,188)	¥3,350,237
Depreciation and amortization	¥ 81,824	¥ 6,127	¥ 5,131	¥ 6,538	¥ 99,621	¥ (262)	¥ 99,358
Capital expenditures.....	¥ 112,817	¥ 4,774	¥ 10,047	¥ 6,616	¥ 134,256	¥ —	¥ 134,256

Year ended March 31, 2004	Thousands of U.S. dollars						
	Petroleum fuel and crude oil	Petrochemical operations	Construction	Other	Total	Eliminations	Consolidated
Sales to third parties	\$34,022,311	\$2,338,934	\$3,336,189	\$ 677,566	\$40,375,009	\$ —	\$40,375,009
Intergroup sales and transfers	1,607,028	187,189	6,991	130,566	1,931,783	(1,931,783)	—
Total sales	35,629,340	2,526,123	3,343,189	808,132	42,306,802	(1,931,783)	40,375,009
Operating expenses	35,311,774	2,444,236	3,291,557	762,189	41,809,764	(1,962,283)	39,847,481
Operating income.....	\$ 317,566	\$ 81,887	\$ 51,623	\$ 45,943	\$ 497,038	\$ 30,491	\$ 527,528
Assets.....	\$26,180,783	\$1,577,179	\$3,397,047	\$1,375,887	\$32,530,906	\$(1,724,274)	\$30,806,632
Depreciation and amortization	\$ 827,670	\$ 63,877	\$ 51,472	\$ 66,906	\$ 1,009,943	\$ (85)	\$ 1,009,858
Impairment losses	\$ 1,409,566	\$ —	\$ 157,557	\$ 50,613	\$ 1,617,755	\$ —	\$ 1,617,755
Capital expenditures.....	\$ 968,642	\$ 96,547	\$ 69,736	\$ 105,217	\$ 1,240,160	\$ —	\$ 1,240,160

Geographical areas

Year ended March 31, 2004	Millions of yen						
	Japan	North America	Asia and Oceania	Europe	Total	Eliminations	Consolidated
Sales to third parties	¥4,184,934	¥ 36,284	¥ 45,513	¥ 13,019	¥4,279,751	¥ —	¥4,279,751
Intergroup sales and transfers	23,211	109,511	461,814	505,935	1,100,473	(1,100,473)	—
Total sales	4,208,146	145,796	507,327	518,954	5,380,225	(1,000,473)	4,279,751
Operating expenses	4,177,792	135,245	497,928	513,512	5,324,478	(1,100,644)	4,223,833
Operating income.....	¥ 30,353	¥ 10,551	¥ 9,399	¥ 5,442	¥ 55,747	¥ 171	¥ 55,918
Total assets.....	¥3,110,254	¥ 95,433	¥105,633	¥159,554	¥3,470,874	¥ (205,371)	¥3,265,503

Year ended March 31, 2003	Millions of yen						
	Japan	North America	Asia and Oceania	Europe	Total	Eliminations	Consolidated
Sales to third parties.....	¥4,088,058	¥ 31,172	¥ 55,116	¥ 13,045	¥4,187,392	¥ —	¥4,187,392
Intergroup sales and transfers	28,664	70,698	415,559	481,951	996,875	(996,875)	—
Total sales	4,116,722	101,871	470,676	494,997	5,184,267	(996,875)	4,187,392
Operating expenses	4,033,255	95,642	461,382	494,515	5,084,796	(993,990)	4,090,806
Operating income.....	¥ 83,466	¥ 6,229	¥ 9,293	¥ 481	¥ 99,471	¥ (2,884)	¥ 96,586
Total assets.....	¥3,201,796	¥100,972	¥ 99,517	¥166,154	¥3,568,440	¥(218,202)	¥3,350,237

Year ended March 31, 2004	Thousands of U.S. dollars						
	Japan	North America	Asia and Oceania	Europe	Total	Eliminations	Consolidated
Sales to third parties.....	\$39,480,509	\$ 342,302	\$ 429,368	\$ 122,821	\$40,375,009	\$ —	\$40,375,009
Intergroup sales and transfers	218,972	1,033,123	4,356,736	4,772,972	10,381,821	(10,381,821)	—
Total sales	39,699,491	1,375,434	4,786,104	4,895,792	50,756,840	(10,381,821)	40,375,009
Operating expenses	39,413,132	1,275,896	4,697,434	4,844,453	50,230,925	(10,383,434)	39,847,481
Operating income.....	\$ 286,349	\$ 99,538	\$ 88,670	\$ 51,340	\$ 525,915	\$ 1,613	\$ 527,528
Total assets.....	\$29,342,019	\$ 900,311	\$ 996,538	\$1,505,226	\$32,744,094	\$ (1,937,462)	\$30,806,632

18. SUBSEQUENT EVENT

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a meeting of the shareholders of the Company held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥4=\$0.04 per share)	¥6,043	\$57,009
Bonuses to directors and statutory auditors	87	821

Report of Independent Auditors

The Board of Directors
Nippon Oil Corporation

We have audited the accompanying consolidated balance sheets of Nippon Oil Corporation and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Oil Corporation and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 3, Nippon Oil Corporation and its domestic consolidated subsidiaries and affiliates adopted a new accounting standard for impairment accounting for fixed assets as early adoption of the standard was permitted from the fiscal year ended March 31, 2004.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Shin Nihon & Co.

June 29, 2004

Principal NOC Group Companies

(As of July 1, 2004)

OIL REFINING AND WHOLESALING

Nippon Petroleum Refining Company, Limited

Capital: ¥40,000 million (100%)
Established: 1951
Business: Refining and processing of petroleum products

Nippon Petroleum Processing Company, Limited

Capital: ¥200 million (100%)
Established: 1960
Business: Manufacture, processing, and sale of specialized lubricants, greases, and other products

Nihonkai Oil Co., Ltd.

Capital: ¥4,000 million (66%)
Established: 1967
Business: Refining and processing of petroleum products

Wakayama Petroleum Refining Co., Ltd.

Capital: ¥4,420 million (99.0%)
Established: 1992
Business: Manufacture of lubricants

OIL STORAGE AND TRANSPORT

Nippon Oil Staging Terminal Company, Limited

Capital: ¥6,000 million (100%)*1
Established: 1967
Business: Operation of petroleum storage and terminal facilities

Nippon Oil Tanker Corporation

Capital: ¥4,000 million (100%)*2
Established: 1951
Business: Ocean transport of crude oil and petroleum products

Okinawa CTS Corporation

Capital: ¥495 million (65%)
Established: 1973
Business: Crude oil stockpiling

GAS BUSINESS

Nippon Petroleum Gas Company, Limited

Capital: ¥4,480 million (95.4%)*3
Established: 1955
Business: Manufacture, import, and sale of LPG

OIL DEVELOPMENT AND OVERSEAS OPERATIONS

Nippon Oil Exploration Limited

Capital: ¥9,815 million (100%)
Established: 1968
Business: Exploration for and development of oil and natural gas

Nippon Oil Exploration and Production U.K. Limited

Capital: £49 million (100%)*4
Established: 1996
Business: Exploration for and development and production of oil and natural gas

Nippon Oil Exploration U.S.A. Limited

Capital: \$68 million (100%)*4
Established: 1989
Business: All types of oil development and overseas operations, based on the laws of Delaware State

Japan Canada Oil Limited

Capital: ¥4,000 million (100%)*4
Established: 1992
Business: Exploration for and development and sale of oil

Japan Vietnam Petroleum Company, Limited

Capital: ¥22,530 million (53.1%)*4
Established: 1992
Business: Exploration for and development of oil and natural gas

OVERSEAS OIL MARKETING

Nippon Oil (U.K.) plc*5

Capital: \$5 million (100%)
Established: 1986
Business: Purchase, sale, import, and export of crude oil and petroleum products

Nippon Oil (U.S.A.) Limited

Capital: \$3 million (100%)
Established: 1960
Business: Purchase, sale, import, and export of crude oil and petroleum products

Nippon Oil (Asia) Pte. Ltd.

Capital: S\$300,000 (100%)
Established: 1980
Business: Purchase, sale, import, and export of crude oil and petroleum products

PETROCHEMICALS BUSINESS

Nippon Petrochemicals Company, Limited

Capital: ¥10,000 million (100%)
Established: 1955
Business: Manufacture, processing, and sale of petrochemical products

CONSTRUCTION AND ENGINEERING

NIPPO Corporation Co., Ltd.

Capital: ¥15,325 million (56.9%)
Established: 1934
Business: Road paving, civil engineering, and construction

OTHER

Nippon Oil (Australia) Pty. Limited

Capital: A\$77 million (100%)
Established: 1988
Business: Purchase, sale, import, and export of coal and LNG

Nippon Oil Finance (Netherlands) B.V.

Capital: Euro9 million (100%)
Established: 1988
Business: Fund-raising and fund management

Nippon Oil Real Estate Company, Limited

Capital: ¥500 million (100%)
Established: 1959
Business: Sale, purchase, leasing, and management of real estate

Nippon Oil Trading Corporation

Capital: ¥330 million (100%)
Established: 1957
Business: Planning of marketing and promotional campaigns for service stations, development and marketing of products for such campaigns, travel agency business, and operation of sports facilities

Nippon Oil Information Technology Corporation

Capital: ¥300 million (100%)
Established: 1985
Business: Commissioned development and operation of computer and communications system

*1 Includes the shares owned by Nippon Petroleum Refining Company, Limited (50.0%)

*2 Includes the shares owned by Nippon Petroleum Refining Company, Limited (96.0%)

*3 Includes the shares owned by Nippon Petroleum Refining Company, Limited (5.9%)

*4 The shares owned by Nippon Oil Exploration Limited

*5 The shares owned by NMOC (U.K.) Limited, a wholly owned subsidiary of NOC

Note: Figures in parentheses indicate percentage of equity ownership.

Overseas Bases

(As of July 1, 2004)

Abu Dhabi Office

Al Masaood Tower,
Suite No. 503 (5th Floor),
Sheikh Hamdan Street,
P.O. Box 43212, Abu Dhabi,
United Arab Emirates
Phone: 2631-4991
Fax: 2631-0151

Jakarta Office

MidPlaza 2, 22nd Floor,
Jl Jend. Sudirman Kav. 10-11,
Jakarta 10220, Indonesia
Phone: (21) 573-1234
Fax: (21) 574-2275

Nippon Oil Exploration U.S.A. Limited

5847 San Felipe, Suite 2800,
Houston, Texas 77057, U.S.A.
Phone: (713) 260-7400
Fax: (713) 978-7800

Japan Vietnam Petroleum Company, Limited

Vietnam Office

Petro Vietnam Towers 7th Floor, No. 8,
Hoang Dieu St., Vung Tau,
S.R. Vietnam
Phone: (64) 856937
Fax: (64) 856943

Nippon Oil Exploration (Malaysia), Limited

Miri Office

Wisma Interhill Building, 3rd Floor, Lot 1168,
Miri Waterfront Commercial Center,
98008 Miri, Sarawak, Malaysia
Phone: (85) 444111
Fax: (85) 419036

Kuala Lumpur Office

Level 10, Tower 2,
MNI Twins, 11, Jalan Pinang,
50450 Kuala Lumpur, Malaysia
Phone: (3) 2168-3838
Fax: (3) 2078-7680

Nippon Oil (U.K.) plc

2nd Floor, New Liverpool House,
15 Eldon Street, London EC2M 7LD, U.K.
Phone: (20) 7309-6960
Fax: (20) 7309-6969

Nippon Oil Exploration and Production U.K. Limited

2nd Floor, New Liverpool House,
15 Eldon Street, London EC2M 7LD, U.K.
Phone: (20) 7309-7650
Fax: (20) 7309-7676

Nippon Oil (U.S.A.) Limited

San Ramon Office

2680 Bishop Drive, Suite 275,
San Ramon, California 94583, U.S.A.
Phone: (925) 355-1101
Fax: (925) 355-1109

New York Office

565 Fifth Avenue, 22nd Floor,
New York, New York 10017, U.S.A.
Phone: (212) 986-7385
Fax: (212) 599-2628

Chicago Office

300 Park Blvd., #105,
Itasca, Illinois 60143, U.S.A.
Phone: (630) 875-9701
Fax: (630) 875-9702

Nippon Oil (Asia) Pte. Ltd.

6 Battery Road, #29-02,
Singapore 049909
Phone: 6223-6732
Fax: 6224-8921

Nippon Oil (Australia) Pty. Limited

Level 32, Chiefly Tower, 2 Chiefly Square,
Sydney, N.S.W. 2000, Australia
Phone: (2) 9221-3366
Fax: (2) 9221-9462

Taiwan Nisseki Co., Ltd.

149, Chien Kuo 4th Road,
Kaohsiung, Taiwan
Phone: (7) 561-2608
Fax: (7) 561-2625

Nippon Oil (Shanghai) Corporation

Shanghai Office

HSBC Tower, 101 Yin Cheng East Rd., Pudong,
Shanghai 200120, China
Phone: (21) 6841-2008
Fax: (21) 6841-2010

Guangzhou Office

Room 2312, Dongshan Plaza, No. 69 Xian Lie
Road (C), Guangzhou 510095, China
Phone: (20) 8732-4035/4036
Fax: (20) 8732-4050

Tianjin Nisseki Lubricants & Grease Company, Limited

Hangu, Tianjin 300480, China
Phone: (22) 2568-6378/6038
Fax: (22) 2568-6138

Nippon Oil LC Film (Suzhou) Corporation

555 Jin Feng Road, Suzhou,
Jiangsu 215129, China
Phone: (0512) 6701-5588
Fax: (0512) 6701-5589

Nippon Oil Thailand Ltd.

Q. House Ploenjit (14A),
598 Ploenchit Rd., Lumpini,
Pathumwan, Bangkok 10300, Thailand
Phone: 2627-3971~6
Fax: 2627-3980

Nippon Oil Malaysia Sdn. Bhd.

G17, Jusco Metro Prima, 1 Jalan Metro Prima,
52100 Kepong, Kuala Lumpur, Malaysia
Phone: (3) 6250-8853
Fax: (3) 6250-8851

Nisseki Chemical Texas Inc.

10500 Bay Area Blvd.,
Pasadena, Texas 77507, U.S.A.
Phone: (713) 754-1000
Fax: (713) 754-1001

Atlanta Nisseki CLAF, Inc.

3391, Town Point Drive, Suite 225,
Kennesaw, Georgia 30144, U.S.A.
Phone: (770) 859-9885
Fax: (770) 859-0515

Organization Chart

(As of July 1, 2004)



Departments marked * deal with both NOC's business and NPRC's.

(As of July 1, 2004)

Investor Information

(As of July 1, 2004)

Date of Establishment

May 10, 1888

Paid-in Capital

¥139,436 million

Head Office

3-12, Nishi Shimbashi 1-chome,
Minato-ku, Tokyo 105-8412, Japan
Phone: (03) 3502-1184 (IR Department)
Fax: (03) 3502-9862
Website: <http://www.eneos.co.jp>

Securities Traded

Common stock listed on the Tokyo, Osaka,
Nagoya, Fukuoka, and Sapporo exchanges

Transfer Agent

The Chuo Mitsui Trust and Banking Co., Ltd.
Head Office, Transfer Agency Department,
8-4, Izumi 2-chome, Suginami-ku,
Tokyo 168-0063, Japan
Phone: (03) 3323-7111

Major Shareholders (as of March 31, 2004)

	Number of shares held (thousand shares)	(%)
Japan Trustee Services Bank, Ltd. (Trust Unit)	145,990	9.6
The Master Trust Bank of Japan, Ltd. (Trust Unit)	79,377	5.2
Mizuho Corporate Bank, Ltd.	73,887	4.9
Mitsubishi Corporation	45,435	3.0
Sumitomo Mitsui Banking Corporation	40,398	2.7
The Tokio Marine and Fire Insurance Co., Ltd.	31,323	2.1
The Bank of Tokyo-Mitsubishi, Ltd.	29,387	1.9

NIPPON OIL CORPORATION
Your Choice of Energy