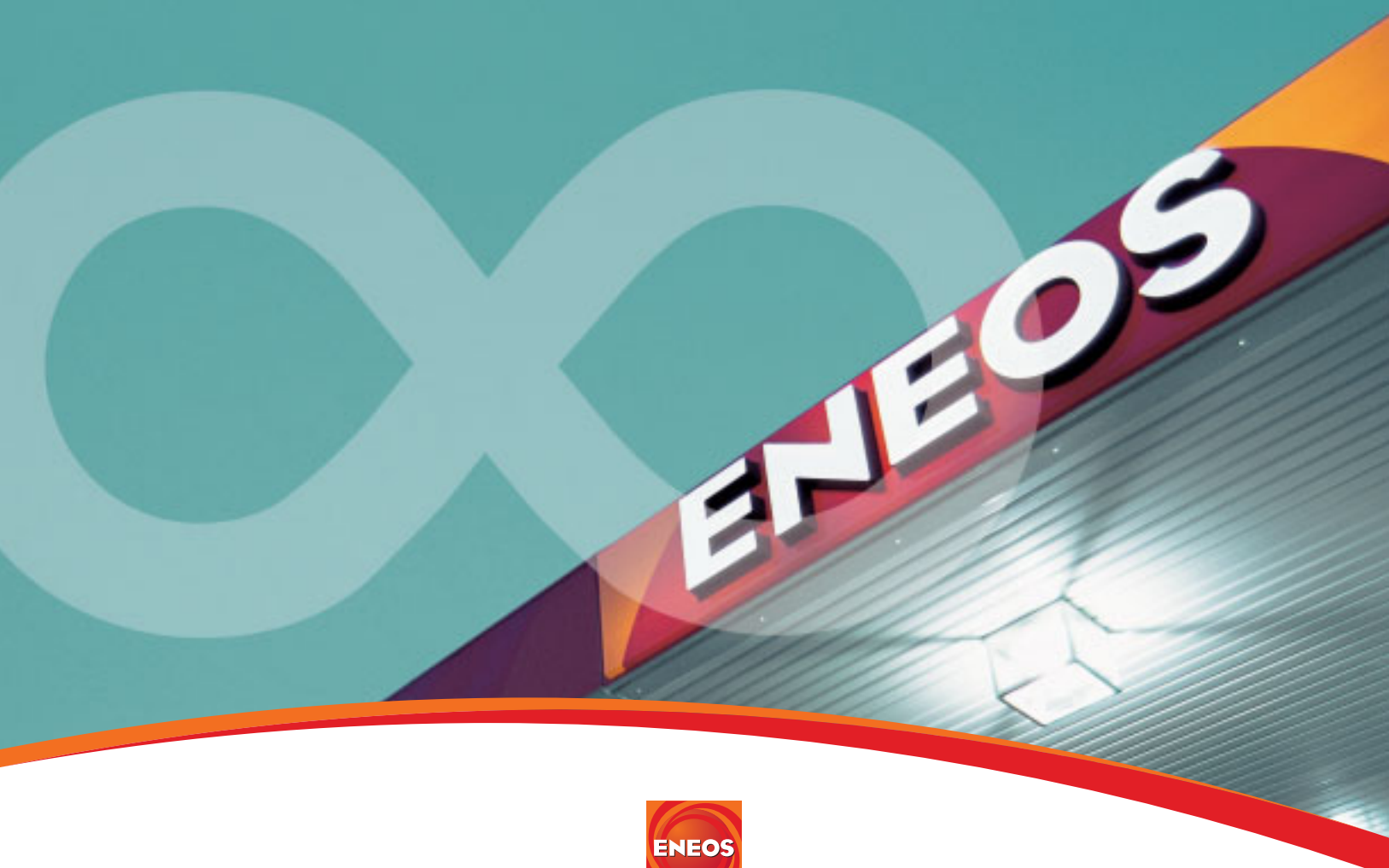




NIPPON OIL CORPORATION
ANNUAL REPORT 2005
Year Ended March 31, 2005

**Become a Comprehensive
Energy Company
for Sustainable Growth**



NIPPON OIL CORPORATION
Your Choice of Energy

Contents

- 2 Operating and Financial Highlights
- 4 A Message from the Management
- 9 Attaining and Exceeding Our Targets
- 36 Board of Directors
- 37 Financial Section
- 60 Principal NOC Group Companies
- 61 Overseas Bases
- 62 Organization Chart
- 63 Investor Information

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.



Become a Comprehensive Energy Company for **Sustainable Growth**

During the current fiscal year, the NOC Group has begun implementing its third medium-term consolidated management plan. This plan has the ambitious goals, to be attained by FY2011, of establishing a system for Group operations as an integrated supplier of petroleum products and as a comprehensive energy company, thereby bolstering the foundation for a future surge in the Group's development and performance.

Nippon Oil has increasingly integrated petroleum product operations ranging from exploration and production (E&P) through refining, distribution, and marketing. Oil and natural gas E&P operations have the potential for contributing to Group profitability and, by expanding these operations, we are seeking to build an integrated system and a balanced profit structure in petroleum product operations and thereby generate stable profits in this business field.

As sources of energy will become more diverse over the medium-to-long term, we believe we must become a comprehensive energy company to maintain high levels of competitiveness and profitability. Therefore, we are proactively working to strengthen our presence in fields that synergistically supplement our core petroleum operations—fields including petrochemicals, LNG, and electric power as well as fuel cells, which are expected to be outstandingly clean and efficient energy sources for society when they are commercialized on a large scale in the future.

Operating and Financial Highlights

Nippon Oil Corporation and Consolidated Subsidiaries



- ✓ Draft of third medium-term consolidated management plan (March 2005)
- ✓ Repurchase of shares and amortization of treasury stock (April 2005)
- ✓ Establishment of integrated LNG operations in Malaysia (September 2004)
- ✓ Acquisition of exploration blocks offshore Vietnam (October 2004)
- ✓ Purchase of NOC Group company shares held by Japan National Oil Corporation (March 2005)
- ✓ Start of commercial production at oil fields offshore northwestern Australia (March 2005)
- ✓ Acquisition of oil and gas producing assets in U.S. Gulf of Mexico (April 2005)
- ✓ Contract for commissioned refining operations on behalf of China National United Oil Corporation (China Oil) (July 2004)
- ✓ Establishment of production systems for sulfur-free vehicular fuels at all seven NOC Group refineries (January 2005)
- ✓ Renewal of contract for commissioned refining operations on behalf of China Oil (April 2005)
- ✓ Start of pilot testing of Internet ITS systems at service stations (October 2004)
- ✓ Arrangement of alliance with “Mizuho Mileage Club” (February 2005)
- ✓ Start of nationwide marketing of ENEOS NEW VIGO (April 2005)
- ✓ Shift to setting benzene-selling prices based on East Asian spot market prices (January 2005)
- ✓ Increase of IPP wholesale electric power supply capacity to 700,000kW (October 2004)
- ✓ Commercialization of household-use fuel cell system, ENEOS ECO LP-1 (March 2005)
- ✓ Launch of ENEOS oil products in Mongolia (May 2004) and the Philippines (December 2004)
- ✓ Opening of LC-Film factory in Suzhou, China (September 2004)
- ✓ Creation of Chinese-language version of ENEOS name (December 2004)
- ✓ Launch of ENEOS PRO-RACING SYNTHETIC in China (February 2005)
- ✓ Opening of Beijing Office (July 2005)
- ✓ Strengthening of alliance with Cosmo Oil to include cross-licensing measures (September 2004)
- ✓ Launch of ENEOS ECOSTAGE motor oil and ENEOS CVT FLUID (December 2004)
- ✓ Reorganization of Group R&D system (July 2005)





Financial Highlights

| FY (Years ended March 31) | Millions of yen | | Thousands of U.S. dollars |
|---|-------------------|------------|---------------------------|
| | 2005 | 2004 | 2005 |
| Net sales | ¥4,924,163 | ¥4,279,751 | \$46,020,215 |
| Net income (loss) | 131,519 | (133,526) | 1,229,150 |
| ROE (%) | 14.8 | (15.2) | |
| <excluding inventory valuation factors> | 10.7 | (13.6) | |
| Cash dividends paid | 10,579 | 12,085 | 112,944 |
| Total assets | 3,514,352 | 3,265,503 | 32,844,411 |
| Total shareholders' equity | 953,240 | 821,202 | 8,908,785 |

* U.S. dollar figures are translated from yen, for convenience only, at the rate of ¥107 to US\$1, the approximate rate of exchange on March 31, 2005.

Operating Highlights

| CY | 2004 | 2003 | 2002 | 2001 |
|--|----------------|--------|--------|--------|
| Production of crude oil and natural gas (BOED) | 111,300 | 65,600 | 49,800 | 47,300 |

| FY (Years ended March 31) | 2005 | 2004 | 2003 | 2002 |
|---|------------------|-----------|-----------|-----------|
| Crude oil imports (million kiloliters) | 64.5 | 62.0 | 63.0 | 58.7 |
| Capacity of refining facilities* ¹ (barrels per stream day)..... | 1,217,000 | 1,272,000 | 1,217,000 | 1,227,000 |
| Sales of petroleum products* ² (million kiloliters) | 55.5 | 54.3 | 54.4 | 50.0 |
| Number of service stations (fixed type) | 11,059 | 11,333 | 11,694 | 11,987 |
| Number of employees* ³ | 13,424 | 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 Management



Representative Director, Chairman of the Board
Fumiaki Watari

PERFORMANCE EXCEEDING THE TARGETS OF THE SECOND MEDIUM-TERM CONSOLIDATED MANAGEMENT PLAN

The NOC Group has dynamically implemented its second medium-term consolidated management plan, which covered the three years through fiscal 2005, ended March 31, 2005, and was designed to build a solid foundation for a future surge of corporate development. During fiscal 2005, the Group recorded ¥212.4 billion in recurring income and a 14.8% ratio of ROE; excluding inventory valuation factors, the Group's recurring income and ROE rose to ¥151.7 billion and 10.7%, respectively, considerably higher than the original target levels. In addition, ¥99.5 billion in cost reductions and efficiency increases were achieved, approximately the level targeted. Moreover, the accelerated application of impairment accounting has helped accelerate our disposal of low-productivity assets and strengthen our base for forward-looking business initiatives. During the three years of the management plan, the Group

has fundamentally improved its profit structure while progressively moving ahead with business development in fields outside its core petroleum refining and marketing operations—such as oil and gas development, petrochemicals, and electric power—where the Group can effectively leverage its strengths to promote its evolution into a comprehensive energy company. (See page 10 for more information on the second medium-term consolidated management plan.)

OUTLOOK THROUGH FISCAL 2011

From the current fiscal year, we have begun addressing additional challenges. Aiming to establish a comprehensive energy company structure by fiscal 2011, we have drafted our third medium-term consolidated management plan, designed to strengthen the foundation for a future surge of corporate development during the three years through fiscal 2008, and our fourth medium-term consolidated management plan, designed to begin a surge of corporate development during the three years

“

During fiscal 2005, the Group recorded ¥212.4 billion in recurring income and a 14.8% ratio of ROE; excluding inventory valuation factors, the Group's recurring income and ROE rose to ¥151.7 billion and 10.7%, respectively, considerably higher than the original target levels.

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Representative Director, President
Shinji Nishio

through fiscal 2011. Having thoroughly improved the NOC Group's operations during the second medium-term consolidated management plan, we are confident that our strategic measures during the next six years will put the Group on track for sustained increases in profitability. (See page 12 for more information on the third medium-term consolidated management plan.)

THE THIRD MEDIUM-TERM CONSOLIDATED MANAGEMENT PLAN

During the period of the third medium-term consolidated management plan, the NOC Group has set itself the financial targets of boosting recurring income to ¥190.0 billion and recording an ROE of 10%. Regarding cost-cutting and efficiency-boosting benefits, we have already generated ¥220.0 billion in such benefits since the April 1999 merger of Nippon Oil Co., Ltd., and Mitsubishi Oil Co., Ltd., and we are striving to generate another ¥33.0 billion in such benefits.

Regarding capital investments, we intend to invest a total of ¥500.0 billion over the next three years, of which approximately 70% will be focused on such strategic investments with such objectives as increasing the scale of oil and gas development operations and petrochemical production volume. These investments are aimed at augmenting NOC's growth potential.

We are also planning to boost our distribution of profit to shareholders. Total cash dividends applicable to fiscal 2005 were increased to ¥10 per share, from ¥7 per share. We have also been taking such measures as the repurchase of our stocks and amortization of those stocks in April 2005, and the third medium-term consolidated management plan calls for raising annual cash dividends to ¥12 per share. (See page 12 for more information on the third medium-term consolidated management plan.)

Our business strategies place emphasis on three major operational fields—(1) petroleum product refining and marketing, (2) overseas operations, and (3) new energy business.



We intend to invest a total of ¥500.0 billion over the next three years, of which approximately 70% will be focused on such strategic investments with such objectives as increasing the scale of oil and gas development operations and petrochemical production volume.



Regarding (1) petroleum product refining and marketing, amid a future gradual decline in domestic demand for petroleum products, we will proceed with measures to increase operational efficiency and boost value added. In refining operations, we are moving further ahead with a chemical refinery integration (CRI) project that is augmenting the production volume of petrochemical products, which are highly valued compared to petroleum products, supporting a rise in exports to the Chinese market. With respect to marketing, we are building a high-value-added service station network and implementing cost-reduction and efficiency-raising measures. All these measures are designed to maximize cash flow.

This cash flow is mainly being invested in (2) overseas operations, particularly oil and gas development projects that can be expected to contribute to our corporate growth. NOC has accumulated a wealth of know-how while steadily expanding its oil and gas exploration and development operations. We intend to further increase the scale of these operations, which help accelerate our corporate growth and also exert a natural hedging effect that counterbalances fluctuations in downstream operations.

In (3) new energy business, the NOC Group is laying the foundations for additional business growth associated with such trends as the deregulation of electric power business and the shift from fossil fuels to a hydrogen-powered society. To make the most of emerging

business opportunities, NOC is leveraging technologies and infrastructure accumulated in oil operations as a means of proactively developing operations in such new energy fields as fuel cells and electric power generation. (See page 12 for more information on the third medium-term consolidated management plan.)

CSR-ORIENTED MANAGEMENT

As a key provider of the energy required by society, NOC has an important responsibility to contribute to society by operating as an exemplary corporate citizen. We are also placing strong emphasis on corporate social responsibility (CSR) measures associated with our traditional dedication to boosting corporate value. Accordingly, in July 2004, we implemented various measures aimed at improving our corporate governance system and ensuring the transparency and soundness of management processes, including those to reduce the number of directors, shorten directors' terms in office, introduce an executive officer system, and increase the rigor of audit systems. In June 2005, we reevaluated the previous focuses of our CSR programs and established the NOC Group CSR Committee to coordinate and supervise CSR activities undertaken throughout the Group. What must be kept in mind is that the task of putting CSR into practice rests with each and every employee. We believe general awareness is important and that CSR is no monopoly of the CSR Committee or departments in charge but is also the responsibility of each individual

“ We believe general awareness is important and that CSR is no monopoly of the CSR Committee or departments in charge but is also the responsibility of each individual working in the Group. ”

working in the Group. We see to it that CSR will be well observed and put into effect daily. Putting CSR into practice is a crucial foundation for NOC's transformation into a comprehensive energy company able to sustain its own dynamic growth over the long term. (See page 35 for more information on our CSR activities.)

REVIEW OF FISCAL 2005

At this point, I will present a summary of the NOC Group's operations in fiscal 2005.

Regarding oil and gas development, the Company continued focusing on its emphasized geographic regions as it worked to increase total production volume by drawing on its accumulated technological expertise and knowledge to proceed with the development of existing assets and acquire additional producing assets. Our Malaysian LNG project was expanded with the start of commercial production at the Serai and Jintan gas fields. Commercial production at oil fields offshore northwestern Australia was initiated in March 2005, and additional rights were acquired in producing oil and gas fields in the U.S. Gulf of Mexico region during the fiscal year. All the shares held by Japan National Oil Corporation in four NOC Group oil and gas project companies were acquired during the year, expanding our shareholdings in projects with which we are highly familiar. These and other measures enabled us to attain the second medium-term consolidated management plan goal of boosting the NOC Group's total oil and

gas output to 150,000 BOED on a crude oil conversion basis, and we are continuing to take measures to further increase this capacity. Primarily in the geographic regions we have emphasized, we will be proactively expanding our asset acquisitions as well as exploration programs. Through a balanced mix of acquisitions and exploration, we are seeking to raise our total oil and gas output to 180,000 BOED by the end of the third medium-term consolidated management plan and to 200,000 BOED by the end of the fourth medium-term consolidated management plan. (See page 18 for more information on our oil and gas development activities.)

In refining operations, we continued working to make effective use of refining capacity and augment the value added of refineries. We handled 20,000 BD of commissioned refining operations during the year on behalf of China National United Oil Corporation (China Oil), and the scale of these operations was increased to 30,000 BD from April 2005. We have also moved forward with CRI programs that are increasing our production capacity for propylene, paraxylene, and benzene—all of which are projected to be in increasing demand in China. (See page 21 for more information on our refining activities.)

We have positioned harmony with the global environment as a crucial element of our CSR programs, and, as an energy provider, we believe we have a very important responsibility to develop and market environment-friendly products. A central strategic theme in our

“ We remain primarily focused on preparing a strong base for a future surge in the Group’s performance as a comprehensive energy company and taking the measures required to ensure that the Group can sustain its growth over the long term. ”

marketing operations is “shifting from quantity to quality,” and this theme is reflected in our development and launch of products featuring particularly high quality with respect to environmental friendliness. For example, we had marketed a sulfur-free (10ppm or less) environmentally friendly premium gasoline product throughout Japan since 2003, and during fiscal 2005, we launched an improved version of that product with still-higher quality regarding environmental quality, ENEOS NEW VIGO. Not restricting its efforts to sulfur-free premium gasoline, the Group has supplied sulfur-free gasoline and diesel fuel nationwide since April 2005. As a result, we autonomously did what it took to begin supplying sulfur-free vehicular fuels throughout Japan three years in advance of regulations mandating such sulfur-free fuels. (See page 24 for more information on our marketing activities.)

Regarding new energy businesses, NOC has operated wholesale independent power producer (IPP) facilities at its Muroran and Marifu refineries since 2004. These facilities and previously established IPP facilities at three other refineries give the Company a total IPP power supply capacity of 700,000kW, and it has also expanded the scale of power producer and supplier (PPS) retail electric power supply operations based at its refineries. In March 2005, we commercialized the world’s first household-use fuel cell that uses liquefied petroleum gas (LPG) as fuel, and this product has attracted considerable attention from diverse industries. NOC has also proceeded steadily with the pilot testing of commercial- and

household-use fuel cells that use kerosene. (See page 28 for more information on our new energy activities.)

As a result of these activities during fiscal 2005, the NOC Group recorded ¥4,924.2 billion in consolidated net sales and boosted consolidated recurring income to the record high level of ¥212.4 billion.

I hope that shareholders understand and approve of our strategy for promoting the NOC Group’s steady evolution into a comprehensive energy company. While very pleased with our strong performance in fiscal 2005, we remain primarily focused on preparing a strong base for a future surge in the Group’s performance as a comprehensive energy company and on taking the measures required to ensure that the Group can sustain its growth over the long term. In line with these goals, we are currently doing our utmost to successfully implement the third medium-term consolidated management plan.



Fumiaki Watari

Representative Director, Chairman of the Board



Shinji Nishio

Representative Director, President

Attaining and
Exceeding
Our **Targets**

Targets

Looking at **Our Progress** under the Second Medium-Term Management Plan

In the six years since it was created through the April 1999 merger of Nippon Oil Co., Ltd., and Mitsubishi Oil Co., Ltd., the NOC Group has resolutely implemented two medium-term management plans designed to build a solid foundation for sustaining dynamic business development despite the intensification of competition in the energy industry.

Attainment of Performance Targets and Other Results

The Group has attained performance figures considerably higher than its medium-term management plan target levels.

| | Initial Target | Actual Performance |
|--|---|---|
| Recurring income (excluding inventory valuation factors) | ¥130.0 billion | ¥212.4 billion (¥151.7 billion) |
| ROE (excluding inventory valuation factors) | 6.5% | 14.8% (10.7%) |
| Cost reductions and efficiency increases for three years | ¥100.0 billion | ¥99.5 billion |
| Balance sheet strengthening measures Accelerated application of impairment accounting problem ¥171.5 billion in FY2004 | Completed disposal of assets from the past | |
| Capital strategy Expansion of strategic investment (in E&P, etc.) Reduction of interest-bearing debt FY2005 cash dividends | Rose to half of total investment ¥214.9 billion of ¥438.4 billion ¥194.0 billion → ¥124.0 billion Increased soundness of financial position ¥7/share → ¥10/share Augmented return to shareholders | |



- A profitability rise in E&P operations and a profit margin expansion in petroleum and petrochemical product operations boosted recurring income (excluding inventory valuation factors) and net income to ¥21.7 billion and ¥66.5 billion.
- As a result, consolidated ROE (excluding inventory valuation factors) surpassed the targeted level by 4.2 percentage points.
- Cost reductions and efficiency increases approximately equivalent to the targets were achieved through measures to lower distribution and personnel expenses and to boost the efficiency of refineries. (See page 21 for more information on refinery efficiency.)
- The early application of impairment accounting standards improved balance-sheet soundness and established a system for the accelerated disposal of low-productivity assets.
- While the shortfall in attaining the interest-bearing debt reduction target was ¥70.0 billion, this reflects the expansion of strategic investment in such fields as E&P. The target would have been attained if the Group had not purchased the shares of E&P project companies held by Japan National Oil Corporation.

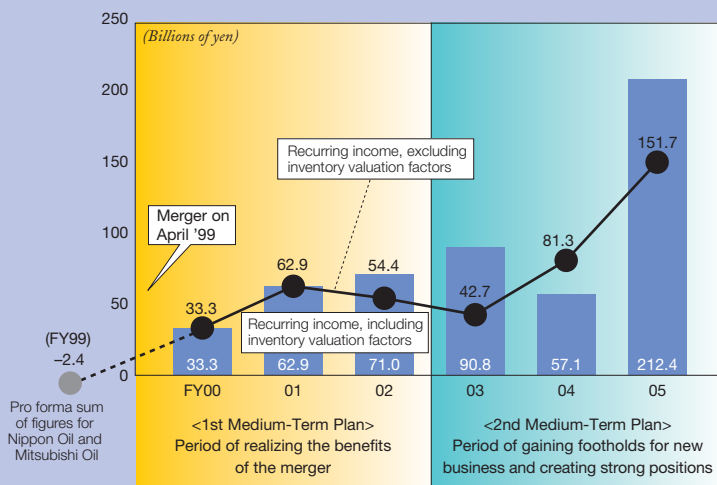
- In light of the attainment of principal goals of the second medium-term management plan, cash dividends were raised from ¥7 per share to ¥10 per share.

Implementation of business strategies proceeded as follows.

- Core petroleum product business operations—Excess refinery capacity was effectively utilized through such initiatives as those related to commissioned refining operations, increased petrochemicals production, and electric power generation. The resolution of excess refinery capacity improved the profit margins for petroleum products.
- Petrochemical operations—Measures were taken to progressively integrate the operations of petrochemical plants and refineries.
- E&P—Production volume was smoothly expanded on schedule, and the contribution to profitability of these operations increased.
- New energy-type business fields—The scale of electric power generation business increased, and fuel cell products were commercialized.

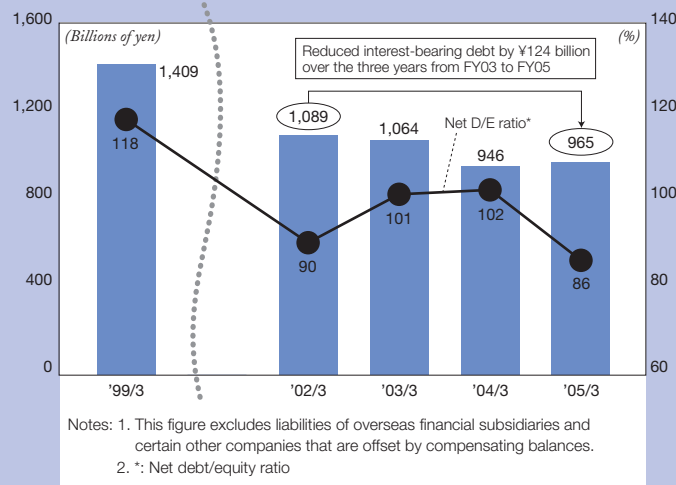
—As a result, a large improvement was achieved in the Group's profit structure.

IMPROVEMENT IN RECURRING INCOME
(Post-Merger, Excluding Inventory Valuation Factors)
FUNDAMENTAL IMPROVEMENT IN THE COMPANY'S PROFIT STRUCTURE



REDUCTION OF INTEREST-BEARING DEBT (FY03-FY05)

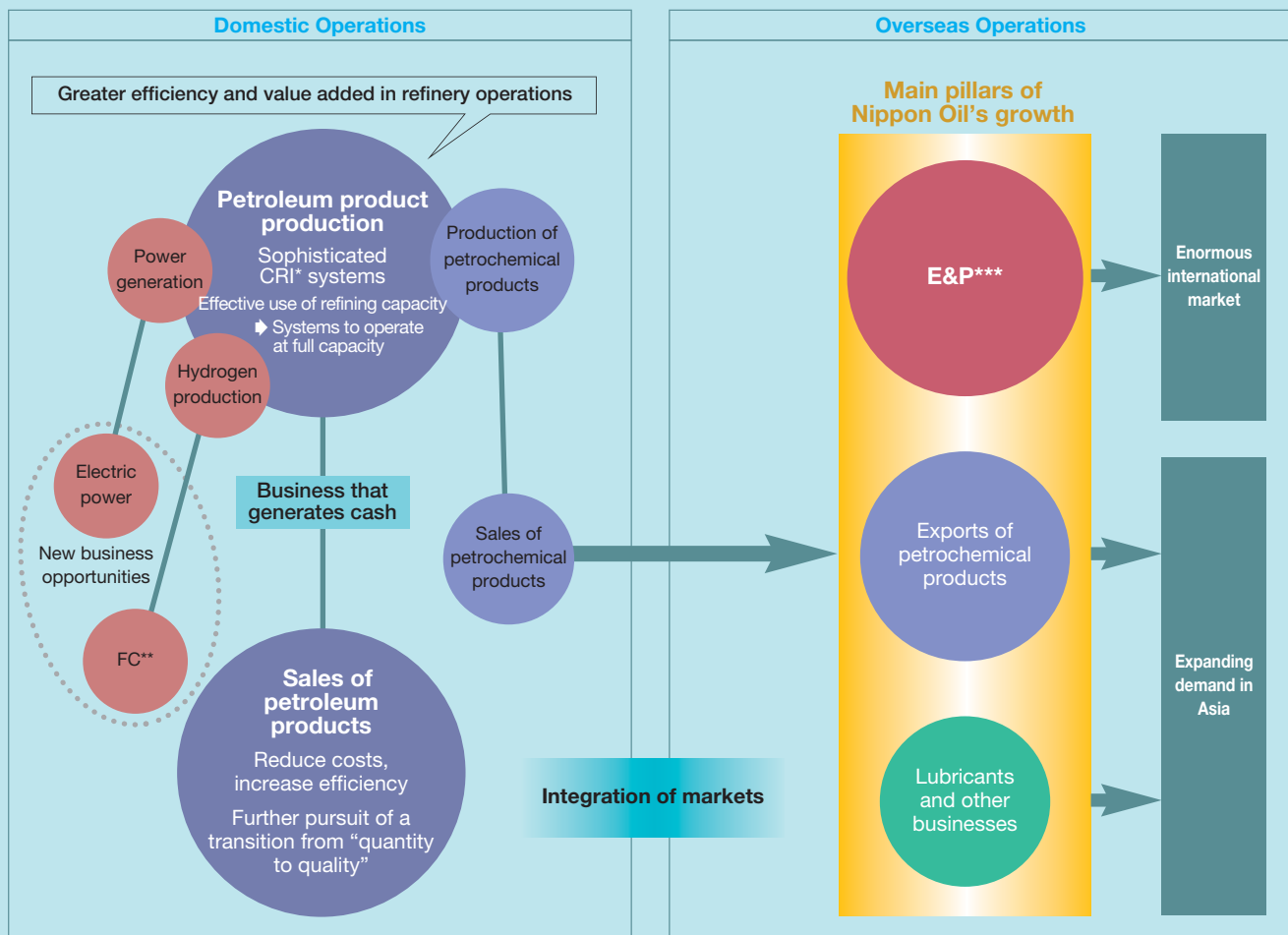
IMPROVED THE LIABILITY RATIO → MOVED CLOSE TO THE PROPER LEVEL



Raising the Bar: **Goals** of Our Medium-Term Management Plan

As described on the previous pages, the Group has worked to build a solid foundation for sustaining dynamic business development through the resolute implementation of the first and second medium-term management plans. Currently, however, the operating environment has undergone major structural changes associated with slack demand for heavy fuel oils in Japan, growth in the scale of energy demand in Asian countries other than Japan, and the increasing need to implement countermeasures to environmental problems.

3rd Medium-Term Plan—Nippon Oil’s Strategic Direction Basic Concepts through FY2011—New Business Model



* CRI: Chemical Refinery Integration ** FC: Fuel Cells *** E&P: Exploration and Production



Basic Strategies for the Period through FY2011

In light of changes in the operating environment, the NOC Group has created a new business model calling for the Group's transformation into a vertically integrated, comprehensive energy company. (See previous page.)

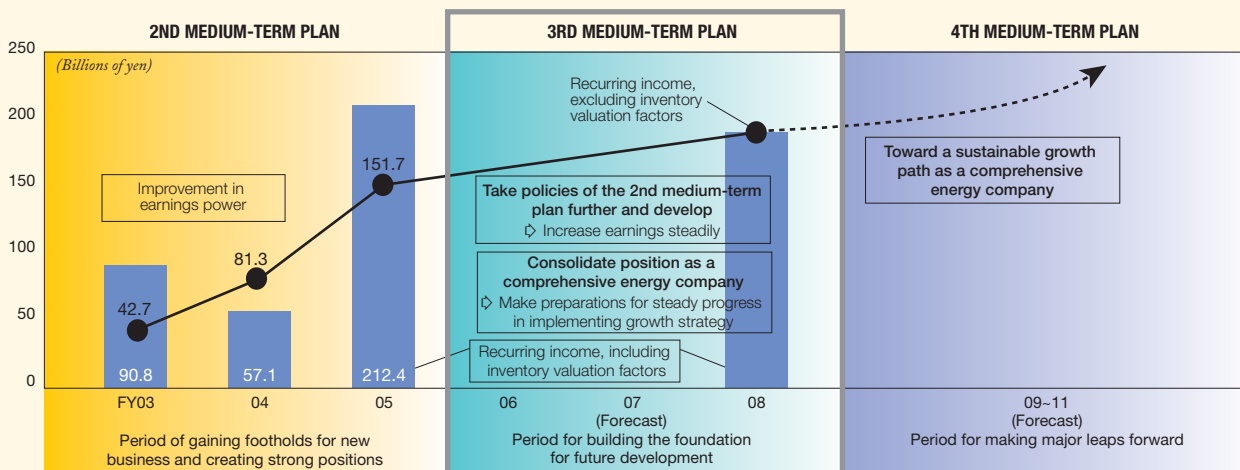
In domestic operations, thorough measures will be taken to augment efficiency and value added. The Group will continue current initiatives—including implementing the chemical refinery integration (CRI) project to boost refining efficiency and proceeding with the creation of a high-value-added service station network—while also undertaking additional measures to reduce costs and boost efficiency, with the goal of generating greater cash flow. Regarding new energy fields, the Group will proactively leverage its infrastructure and technological expertise to expand its electric power generation and fuel cell operations while concurrently seeking additional business opportunities.

Cash flow generated in domestic operations is to be used to fund investments in overseas operations that offer promising growth opportunities. Principal projects include those involving E&P, exports of petrochemicals, and overseas business in lubricants. E&P projects are particularly important, and investments in such projects will continue to be strategically emphasized. Besides gaining considerable know-how while smoothly increasing its production volume,

the Group is benefiting from a growing performance-stabilizing effect that stems from the offsetting effects of crude oil price fluctuations on the profitability of upstream and downstream operations. Having therefore set itself the strategic objective of expanding its oil and natural gas E&P operations, the Group is seeking to attain the objective by focusing ¥200.0 billion of ¥340.0 billion of investments to be made during the third medium-term management plan on E&P operations. Regarding petrochemical and lubricant products, the Group is proactively working to respond to projected demand growth in Asian countries other than Japan, giving particular attention to the Chinese market.

The third medium-term management plan covers the three years from fiscal 2006 through fiscal 2008, which is considered to be a period for building the foundation for a future surge of corporate development. The fourth medium-term management plan is designed to actually begin that surge of development during the three years from fiscal 2009 through fiscal 2011. The third plan is aimed at building on and deepening the accomplishments

POSITIONING OF THE 3RD MEDIUM-TERM PLAN





of the second plan, sustaining a steady rise in profitability, and gradually creating the systems of a comprehensive energy company. The principal features of the plan are as follows.

The plan's central financial goals, to be attained during fiscal 2008, are to generate ¥190 billion in recurring income (up ¥38 billion from fiscal 2005, excluding inventory valuation factors) and an ROE of 10%.

Because ¥220 billion in cost reductions and efficiency increases were achieved during the first and second plan

periods, additional large cost reductions and efficiency increases would be difficult. However, the Group intends to undertake supply-chain reforms involving the reevaluation of its cost structure, thereby adding another ¥33 billion in cost reductions and efficiency increases. Achieving this target is expected to be one of the key means of attaining the previously mentioned financial goals.

The Group's capital strategies call for generating ¥680 billion in cash flow over three years from profit, depreciation, and asset sales. Of this, ¥500 billion will fund

Outline of the Third Medium-Term Management Plan

Financial Goals

ROE

FY08: **10%** (FY05: 14.8%)

Recurring Income
(excluding inventory valuation factors)

FY08: ¥ **190** billion (FY05: ¥151.7 billion)

Efficiency-Increasing Measures

Cost reductions and efficiency increases

FY06-FY08: ¥ **33** billion over three years

Capital Strategy

Cash flow plan

Investments to prepare the way for the growth strategy, expansion in return to shareholders

Capital investment plan

FY06-FY08: ¥ **500** billion over three years

Reduction of interest-bearing debt

FY08: Aim for debt of
¥ **900** billion or less

Business Strategy

Oil refining and marketing,
petrochemical business

New energy-type
business

Overseas operations
(E&P, lubricant business,
and others)



strategic investments in growth businesses, and ¥109 billion will be used to boost shareholder returns—by setting cash dividends per share at ¥12 and using up to ¥50 billion to repurchase and retire up to 50 million NOC shares*. These measures should boost the dividend payout ratio to 20%.

* This is the target set as of March 31, 2005. In fact, however, the Company used ¥38.5 billion to acquire and retire 50 million of its shares during April 2005.

In line with its goal of lowering the balance of interest-bearing debt to ¥900 billion or less, the attainment of this goal will result in a debt-equity ratio of approximately

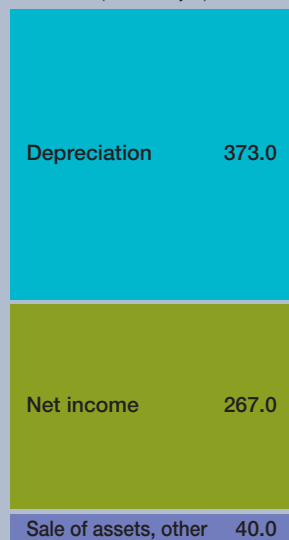
70% by fiscal 2008 year-end, which the Group considers appropriate, and no additional debt reduction efforts are anticipated thereafter. The Group will consider boosting its capital investments if it discovers additional highly promising investment opportunities.

By working to sharpen its strategic focus and concentrate its resources in strategic fields during the third medium-term management plan, the Group intends to make ¥340 billion in capital investments in strategic fields, a figure corresponding to 68% of its total capital investments.

Capital Strategy

Cash Flow Plan

<Cash inflow: 680.0 over three years>
(Billions of yen)



<Cash outflow: 680.0 over three years>
(Billions of yen)



Investments to prepare the way for the growth strategy

Increase in return to shareholders

| | FY04 | FY05 | FY06-FY08 |
|---------------------------------|---|-----------|-----------|
| Dividends | ¥7/share | ¥10/share | ¥12/share |
| Dividend payout ratio | — | 12% | 20% |
| Share buybacks | Maximum of 50 million shares Maximum of ¥50 billion* | | |
| Overall return to shareholders: | 38% (FY06-FY08) | | |

* This is the target set as of March 31, 2005. In fact, however, the Company used ¥38.5 billion to acquire and retire 50 million of its shares during April 2005.

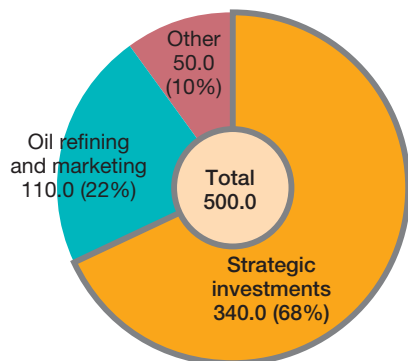
Secure proper liability ratio

Aim for interest-bearing debt of ¥900 billion or less

| | FY05 year-end | FY08 year-end |
|-----------------------|---------------|---------------|
| Net debt/equity ratio | 90% | About 70% |

However, if good investment opportunities are identified during the 3rd medium-term management plan, the Company will implement a flexible investment policy.

Capital Investment Plan



| | (Billions of yen) |
|-----------------------------|-------------------|
| E&P | 200.0 |
| Petrochemical business | 80.0 |
| Electric power business | 40.0 |
| Overseas business and other | 20.0 |
| Total | 340.0 |

<Strict supervision and management of return on investment>
Nippon Oil sets a hurdle rate of return taking account of business risk. Major investment projects are reviewed by the Company's Investment Committee.



Individual Business Strategies

1. E&P OPERATIONS

Upstream operations are a key strategic emphasis for the NOC Group with regard to both growth and profitability. Plans call for focusing the bulk of cash flow investment (¥200 billion over three years) and expanding upstream operations through measures that include the following.

- (1) Concentrating investment in emphasized regions—The Group's emphasized regions include Southeast Asia, the U.K. North Sea region, the U.S. Gulf of Mexico region, and Australia.
- (2) Appropriately balancing asset acquisitions and exploration activities
- (3) Purchasing NOC Group company shares held by Japan National Oil Corporation—In March 2005 (during the second medium-term management plan), shares held by Japan National Oil Corporation in Japan Vietnam Petroleum Company, Limited, and three other NOC Group companies were purchased by NOC. The projects handled by these four companies are highly profitable, and the policy of expanding shareholdings in projects the NOC Group is highly familiar with is expected to play an important role in boosting profitability in E&P operations during the current medium-term plan.

2. OIL REFINING AND PETROCHEMICAL OPERATIONS

Aiming to augment the value added by refineries and raise the efficiency of operating equipment to full capacity, the Group is proceeding with the implementation of the following policies.

- (1) Increasing petrochemical production through additional chemical refinery integration (CRI) initiatives—In view of projections that demand for petrochemicals in

China and other Asian countries will steadily increase, the Group is undertaking investments and additional CRI projects aimed at enabling the expansion of petrochemical exports. Central emphasis is being placed on propylene and paraxylene, for which the supply-demand relationship is expected to be tight.

- (2) Expanding petroleum exports and commissioned refining operations for China-based customers
- (3) Expanding retail power producer and supplier (PPS) operations (See section 4 on the next page.)

3. DOMESTIC MARKETING OPERATIONS

The NOC Group will increase thorough marketing structure reforms—based on its strategic theme of shifting emphasis from quantity to quality—primarily through the following measures.

- (1) Providing highly competitive products—As a key means of boosting profit margins, the Group launched ENEOS NEW VIGO in January 2005 and has subsequently worked to expand sales of that product, which is a premium high-octane gasoline with an environmental-protection and engine-cleaning performance superior to any competing product in Japan.
- (2) Building a network of high-value-added service stations—NOC has developed a unique business model for high-value-added service stations centered on Dr. Drive service stations*. The Group currently has 1,961 Dr. Drive facilities, and plans call for increasing the number to 2,500 by the end of fiscal 2006.

* Dr. Drive facilities provide ordinary vehicle-care services—including lubricant oil checks and changes, vehicle washing and waxing, and tire sales and changing—as well as statutory vehicle inspections (required once every two years), daily vehicle checkup inspections, and a comprehensive range of other vehicle-related services.



- (3) Restructuring the network of affiliated service station operators—Reorganization and consolidation measures are being progressively implemented for marketing subsidiaries to eliminate duplicated networks and reduce the administrative cost of marketing companies.

4. NEW ENERGY OPERATIONS

To expand its new energy operations, NOC is implementing a market-niche strategy for electric power business while preparing for the future growth of hydrogen (fuel cell) business.

- (1) Retail PPS operations—NOC has begun independent power producer (IPP) operations at five of its refineries. Its total power supply capability rose to 700,000kW in autumn 2004, and operations have proceeded smoothly (See the refining section of the operating review for more information.). Plans call for using a natural gas power generation plant currently under construction on idle land at NOC's Kawasaki complex and other parts of the NOC Group's refinery infrastructure to expand retail PPS business. Total PPS sales capability is scheduled to reach 200,000kW in the last year of the current medium-term plan (fiscal 2008) and attain 1,000,000kW when the Kawasaki complex begins operating in fiscal 2009. (Power supply capability figures are on a "project company basis".)
- (2) Distributed-type power generation (cogeneration)—By developing high-efficiency equipment and progressively reducing costs so that it can supply electric power at highly competitive prices, NOC intends to boost the aggregate capacity of its customers' distributed power generation equipment to 230,000kW, from the current level of 170,000kW.

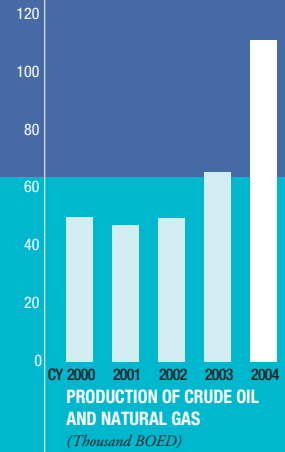
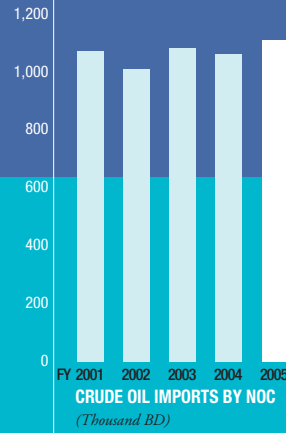
- (3) Fuel cells—Fuel cell technology is a representative hydrogen—power technology that has great worldwide potential for alleviating environmental problems. To prepare for the future growth of fuel cell business, NOC is striving to improve its technologies with respect to costs, durability, and reliability. Having commercialized a 1kW fuel cell for household use in March 2005, NOC is working to boost annual sales of this product to approximately 1,000 units in fiscal 2008, and it is scheduled to commercialize commercial-use and household-use fuel cells that use kerosene as fuel during fiscal 2007.

5. OVERSEAS AND INTERNATIONAL OPERATIONS

In addition to E&P operations, NOC is expanding other overseas and international business centered on lubricants.

- (1) Lubricant oils—Already marketing its lubricant oils to Japan-affiliated customers in China, Taiwan, Thailand, North America, and elsewhere, the NOC Group is taking steps to bolster its overseas lubricant marketing capabilities. The Group aims to boost overseas lubricant sales volume from approximately 140,000kl in fiscal 2005 to 220,000kl in fiscal 2008.
- (2) Liquid crystal (LC)-Film—Since February 2005, the Group has been commercially producing LC-Film at a factory in Suzhou, China, and this product is expected to make a contribution to the attainment of the medium-term profit target.
- (3) Petrochemicals—Plans call for expanding the production and marketing of special high-performance petrochemicals now being manufactured in Texas and Atlanta utilizing NOC's exclusive technologies.

Performance and Strategic Objectives



Exploration & Production (Crude oil and natural gas)



MAJOR ACHIEVEMENTS & TOPICS

- ✓ Establishment of integrated LNG operations in Malaysia (September 2004)
- ✓ Acquisition of exploration blocks offshore Vietnam (October 2004)
- ✓ Purchase of NOC Group company shares held by Japan National Oil Corporation (March 2005)

- ✓ Start of commercial production at oil fields offshore northwestern Australia (March 2005)
- ✓ Acquisition of oil and gas producing assets in U.S. Gulf of Mexico (April 2005)





PRODUCTION VOLUME AND RESERVES BY REGION/COUNTRY

| Region/Country | Production in 2004*2 | | | Proved + Provable Reserves as of December 31, 2004*2 | | |
|----------------|----------------------|--------------------|----------------|--|--------------------|---------------------|
| | Oil (BD) | Gas (Thousand CFD) | Total (BOED) | Oil (Million Barrels) | Gas (Billion CF)*3 | Total (Million BOE) |
| U.S.A. | 500 | 39 | 7,000 | 1 | 54 | 10 |
| U.K. | 10,600 | 40 | 17,200 | 23 | 84 | 37 |
| Southeast Asia | 28,500 | 268 | 73,200 | 86 | 2,642 | 526 |
| Oceania | 2,000 | 0 | 2,000 | 16 | 0 | 16 |
| Canada*1 | 11,900 | 0 | 11,900 | 276 | 0 | 276 |
| Total | 53,500 | 347 | 111,300 | 402 | 2,780 | 865 |

*1 Synthetic oil

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

*3 CF=Cubic feet

POSITIONING OF UPSTREAM OPERATIONS IN THE NOC GROUP

Oil and gas exploration and production (E&P) activities are a main pillar of the NOC Group's growth strategy. In its second medium-term consolidated management plan (fiscal 2003 to fiscal 2005), the Group had the goal of boosting its production from 50,000 BOED (end of fiscal 2002) to 150,000 BOED (end of fiscal 2005) with an eye to establishing systems for integrated operations. The Group is now seeking to further increase its production—to 180,000 BOED during the period of its third medium-term consolidated management plan (fiscal 2006 to fiscal 2008) and to 200,000 BOED by the end of 2010—and expects this rise to contribute to Group profitability.

To realize these production increases, the Group is working to maintain and expand the production volume of existing assets while using the technologies and know-how accumulated in previous E&P operations to acquire additional assets, primarily in the core areas, including Southeast Asia, the U.K. North Sea region, the U.S. Gulf of Mexico region, and Australia. Compared with asset purchases, new exploration projects are associated with relatively higher levels of both risk and returns, and the Group is sustaining its search for oil and gas reserves in its core areas as well as carefully selected opportunities in North Africa, the Middle East, and other regions.

E&P-related investment amounted to ¥120.0 billion during the three years of the second medium-term consolidated management plan, corresponding to approximately 26% of the Group's total investment during that period. Recurring income from E&P operations rose to ¥31.1 billion in fiscal 2005. During the third medium-term consolidated management plan, E&P-related investment is expected to be ¥200.0 billion, or approximately 40% of total Group investment, and operating profit from E&P operations is projected to reach ¥65.0 billion in fiscal 2008. By engaging in a balanced combination of acquisition and exploration projects and maintaining rigorous risk management systems, the Group intends to continue steadily expanding the scale and profitability of its E&P operations through 2010.

ACTIVITIES DURING FISCAL 2005 AND IN THE NEAR FUTURE

The NOC Group expanded its oil and gas production level to 150,000 BOED, which is in line with its second medium-term consolidated management plan, by the end of fiscal 2005 in the above-mentioned core areas with a combination of developing existing assets and acquiring the producing assets.

Regarding the Malaysian LNG project, production from the Helang Gas Field offshore Sarawak began in fiscal 2004, and the Serai and Jintan gas fields came on stream



during fiscal 2005. The NOC Group's stakes in those fields give it rights to gas and condensate amounting to 45,000 BOED on an oil equivalent basis. This supplies feed-gas into the liquefaction plant of Malaysia LNG Tiga Sdn Bhd, in which the Group has a 10% interest, and the LNG from that plant is supplied to customers in Japan, Korea, and other countries. As a result, we have participated in the fully integrated LNG operations in that region. Moreover, five additional gas fields have been discovered in that region, and plans call for steadily developing additional facilities to enable commercial production at those fields.

In addition, commercial production was begun at the Mutineer-Exeter oil fields offshore northwestern Australia in March 2005. The NOC Group's share of the initial production from those fields is approximately 20,000 BD, and this boosted the Group's overall production capacity to the 150,000 BOED level targeted by its second medium-term consolidated management plan.

Rights for additional blocks offshore southern Vietnam were acquired in October 2004, and exploration activities were subsequently begun in those blocks.

In March 2005, Japan National Oil Corporation took bids on its shares in four NOC Group E&P companies—Japan Vietnam Petroleum Company, Limited; Nippon Oil Exploration (Malaysia), Limited; Nippon Oil Exploration (Sarawak) Limited; and Nippon Oil Exploration (Dampier) Pty Ltd—and the NOC Group acquired all of those shares in light of the promising outlook of those companies and their strategic importance to the Group.

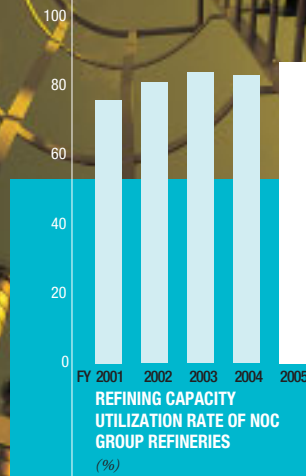
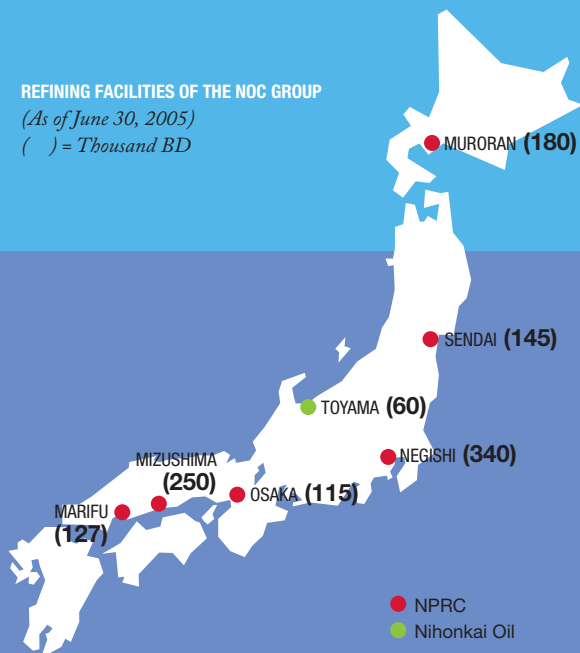
In April 2005, the Group made its first E&P asset acquisition during the period of the third medium-term consolidated management plan, obtaining exploration, development, and production interests, including 28 currently producing oil and gas fields in the U.S. Gulf of Mexico region. Through this kind of transaction, the Group expects to make steady progress toward its goal of augmenting its production capabilities to 180,000 BOED by the end of the current management plan. In addition to producing properties, the properties obtained in the Gulf of Mexico encompass the proved undeveloped discoveries and also further exploration potential, and those potential future development opportunities using existing production facilities are expected to contribute to rises in the Group's production volume and profitability.

Refining

REFINING FACILITIES OF THE NOC GROUP

(As of June 30, 2005)

() = Thousand BD



MAJOR ACHIEVEMENTS & TOPICS

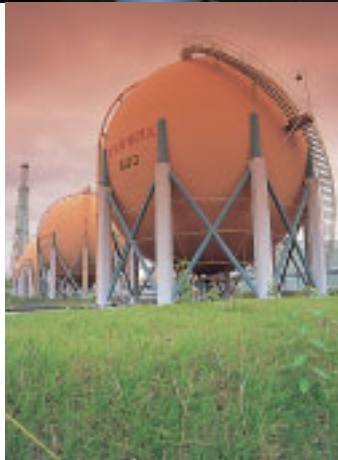
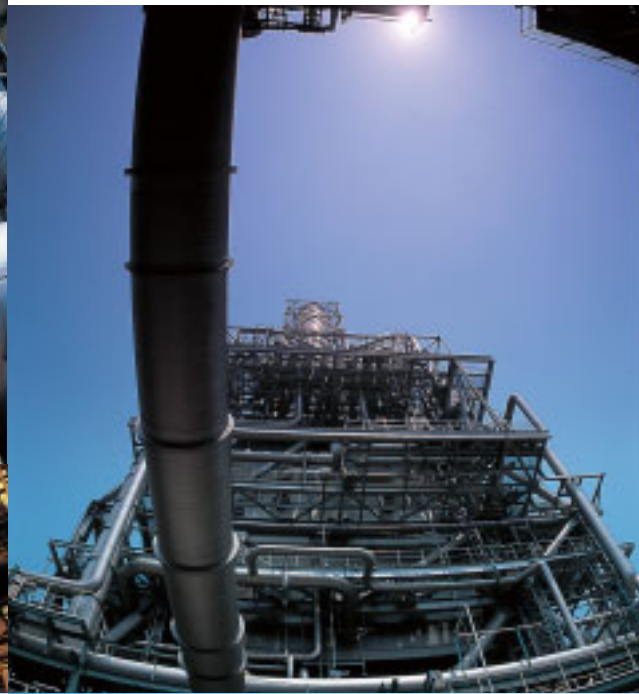
- ✓ Contract for commissioned refining operations on behalf of China National United Oil Corporation (China Oil) (July 2004)
- ✓ Establishment of production systems for sulfur-free vehicular fuels at all seven NOC Group refineries (January 2005)
- ✓ Renewal of contract for commissioned refining operations on behalf of China Oil (April 2005)

ELIMINATING EXCESS CAPACITY THROUGH MEASURES TO MAINTAIN FULL-CAPACITY OPERATIONS

Since the repeal of the Law Concerning Provisional Measures for Importation of Specific Petroleum Products (*Tokuseki Ho*) and the relaxation of regulations on the importation of petroleum products in 1996, Japan's oil industry has been facing problems due to excess refining capacity. The NOC Group responded to this challenge by eliminating 150,000 BD of crude oil processing capacity during the period from 1999 through 2001.

The Group resolved the excess capacity problem through the proactive implementation of measures designed to promote the effective utilization of its refining facilities during the second medium-term management plan.

First, having arranged a refining alliance with Idemitsu Kosan Co., Ltd., NOC, in April 2003, began supplying that company with 40,000 BD of products refined on a commissioned basis and simultaneously reduced its refining capacity by 10,000 BD, to 1,217,000 BD. In July 2004, NOC obtained a contract to refine 20,000 BD of oil for



China National United Oil Corporation (China Oil) on a commissioned basis, and the Company therefore boosted its total refining capacity 30,000 BD from April 2005.

Besides commissioned refining arrangements, NOC has worked to expand the scope of its refineries' operations and thereby transform refineries into consolidated energy bases that can make fuller use of their facilities. For example, the Group has established heavy and residual oil products as fuels for electric power generating facilities at its refineries because the demand shift to lighter petroleum products is creating surplus supplies of heavy distillates. In addition, the NOC Group is implementing a chemical refinery integration (CRI) project* intended to increase production of high-value-added petrochemicals. In particular, the Group plans to continue augmenting production capacity for such products as paraxylene and propylene, which are in increasing demand in China and other Asian countries. Accordingly, it expanded and upgraded the facilities of Oita Paraxylene Co., Ltd., in fall 2004; constructed a new propylene recovery unit at the Negishi Refinery in spring 2004; and is constructing new high-purity propylene manufacturing units at the Mizushima Refinery and

the Kawasaki plant of Nippon Petrochemicals Company, Limited (NPCC), to be completed in fall 2005. The Group does not plan to bolster its ethylene production capacity, however, in view of a projected surge in relatively inexpensive ethylene exports from the Middle East. Because these CRI measures have led to the use of a portion of refining facilities for manufacturing high-value-added products other than fuels, they are just as effective as facility retirements as a means of eliminating surplus capacity for the entire Group in the short term.

During the period of the third medium-term management plan, the NOC Group will further augment the value added of its refineries by continuing to increase the sophistication of CRI programs, arrange commissioned refining contracts, export products to China and elsewhere, and create PPS facilities. At the same time, the Group will work to increase the efficiency of its refineries by taking measures that enable facilities to be constantly operated at full capacity even during seasonal demand downturns, while procuring supplies from other sources during seasonal periods of relatively high demand. Steps aimed at helping upgrade CRI programs include the July 2005



consignment of NPCC's R&D facility to NOC and the April 2006 integration of NPCC's head office departments with those of NOC. These steps are expected to enable the unification of processes from crude oil procurement through the outputting of finished petroleum and petrochemical products as well as marketing and research systems.

* The chemical refinery integration (CRI) project is designed to integrate the production plans for petroleum products and petrochemical products, with the goal of maximizing the Group's overall profit from operations in both product areas.

RESPONDING TO ENVIRONMENTAL PROTECTION NEEDS

The NOC Group is taking diverse initiatives based on its belief that maintaining harmony between business operations and the global environment is a crucial task and a fundamental element of each company's responsibility to society. Recognizing its important responsibility as an energy provider for developing and supplying environment-friendly products, the Group has proactively developed the technologies required for sulfur-free (10ppm or less) gasoline and diesel fuel as well as invested in the facilities required for producing those fuels. The Group

developed a sulfur-free, high-octane premium gasoline—ENEOS VIGO—in advance of competing companies. This product was marketed from April 2002, and an improved version, ENEOS NEW VIGO, was launched in January 2005.

Regarding sulfur-free, regular gasoline, the Group has developed "ROK-Finer" process technology to greatly reduce the sulfur content of gasoline without a concurrent drop in octane levels. Gasoline-desulfurizing facilities leveraging this technology have been constructed at the Sendai, Negishi, and Mizushima refineries, while existing desulfurizing facilities at other refineries have been upgraded and expanded. The Group has developed a high-performance catalyst technology for desulfurizing diesel fuel, taken measures to upgrade and expand diesel fuel desulfurizing facilities, and otherwise prepared sulfur-free, diesel fuel manufacturing systems. As a result, all the Group's seven refineries had systems for supplying sulfur-free gasoline and diesel fuel as of January 2005, in advance of the date such facilities will become mandatory in Japan. The sulfur-free fuels have been supplied nationwide (excluding Okinawa and certain small islands) since April 2005.

Marketing and Distribution

MAJOR ACHIEVEMENTS & TOPICS

- ✓ Start of pilot testing of Internet ITS systems at service stations (October 2004)
- ✓ Arrangement of alliance with “Mizuho Mileage Club” (February 2005)
- ✓ Start of nationwide marketing of ENEOS NEW VIGO (April 2005)

THOROUGHLY SHIFTING EMPHASIS FROM QUANTITY TO QUALITY

Japan’s 1996 relaxation of petroleum product import restrictions halted the trend of growth in the number of service stations in Japan. Subsequently, intensifying competition began reducing the number, and the winnowing out of uncompetitive facilities was accelerated by the legalization of self-service service stations in 1998. Since then, the number has continued decreasing steadily. Japan currently has approximately 50,000 service stations, of which the NOC Group operates about 11,000—the country’s largest service station network. As price-oriented competition among service stations intensifies, NOC recognizes that it cannot simply take pride in the large scale of its marketing network but must implement the following strategies for shifting its marketing emphasis from quantity to quality.

The first strategy is to **supply highly competitive products**. From November 2003, the Group began the nationwide marketing of an essentially sulfur-free (10ppm or less), premium gasoline called ENEOS VIGO that is

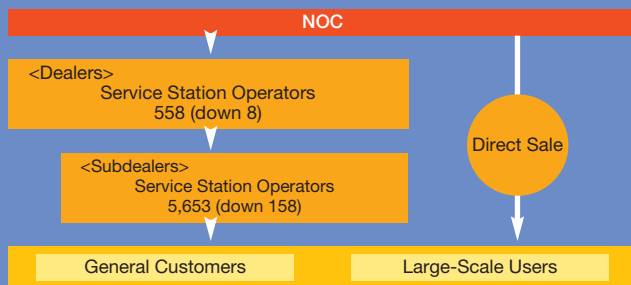


environment-friendly and also offers superior performance regarding fuel consumption and acceleration. An improved version of this product launched in January 2005, ENEOS NEW VIGO has been developed to feature more-powerful engine-cleaning capability that helps reduce the volume of vehicles’ emissions of carbon dioxide, carbon monoxide, and nitrogen oxides. As the consciousness of environmental protection issues among consumers increases, products with these kinds of superior environment-friendliness features are steadily growing in popularity as well as competitive power.

The second strategy is to **build a high-value-added service station network**. Most Japanese car owners are quite meticulous regarding automobile maintenance. Noting this, the NOC Group is seeking to increase the competitive power of its service station network by emphasizing the creation of high-value-added Dr. Drive service stations. Dr. Drive facilities provide ordinary vehicle-care services—including lubricant oil checks and changes, car washing and waxing, and tire sales and changing—as well as statutory vehicle inspections (required once every two years in Japan), daily vehicle checkup inspections, and a



NOC's Marketing Channels



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

comprehensive range of other vehicle-related services. Aiming to provide drivers with refreshment and peace of mind by offering services just as dependable as those of trusted family doctors, Dr. Drive facilities always feature certified mechanics that have undergone special training qualifying them to be “Dr. Drive Advisors,” and their presence enables the growing number of seniors and women who drive in Japan to casually discuss their vehicular issues and be reassured their vehicles will be put in top condition. As in previous years, Dr. Drive facilities undertook a car checkup campaign during February and March 2005, and this campaign led to the performance of 69,000 inspections throughout Japan, up 3,000 from 2004. 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. At the end of fiscal 2005, the Group had 1,961 Dr. Drive facilities, up 90 from the previous fiscal year-end. Plans call for further increasing this number and making self- and full-service Dr. Drive facilities the primary form of facility in the NOC Group service station network, thereby building a network distinguished by an unusually high level of value added.

In preparation for the commercialization of new Internet ITS service station-based information services, NOC cooperated with NEC and Tatsuno Mechatronics in conducting pilot testing of a next-generation service station system. By creating wireless communications links with car navigation systems, this system enables service stations to undertake the real-time gathering of information on remaining fuel volume and other data related to individual cars, calculate cars’ remaining driving range before refueling, transmit optimal refueling timing information and service station marketing campaign information to car navigation systems, guide drivers to the nearest service stations, and quickly inform drivers when their vehicles should be brought in for regular periodic checks and maintenance. Plans currently call for commercializing Internet ITS service in Dr. Drive facilities sometime in 2007 or later, after which the range of services is to be progressively broadened.

NOC is also building cooperative relationships with a growing number of credit card issuers that are leaders in their respective industries. Since first undertaking collaboration with Toyota in 1996, the Company has formed card alliances with such companies as JAL, ANA, NTT DoCoMo, and TSUTAYA. From February 2005, an additional alliance with Mizuho Bank enables Mizuho Mileage



Club Card holders to obtain bonus points at NOC service stations, further increasing the value added of the Company's service station network.

The third strategy is to **restructure the network of affiliated service station operators**. NOC service stations are managed by them. In addition to the strategies described above, NOC is seeking to enhance the competitiveness of its service stations by providing those operators with various advice and assistance related to low-cost management techniques. For service station operators in which NOC has a majority shareholding, reorganization and consolidation measures are being taken, including those to eliminate duplicated networks and to reduce administrative costs through the unification of head office functions. While there were 15 subsidiary service station operators as of December 2002, almost all of them were consolidated by region into three operators as of April 2004. Plans call for reducing this number further to two by October 2005.

ORGANIZATIONAL REFORM OF MARKETING UNITS

To better meet customers' increasingly diverse needs by providing energy solutions as a comprehensive energy company, NOC strengthened its organizational structure through organizational reforms of marketing units on July 1, 2005. Nippon Petroleum Gas Company, Limited (a NOC subsidiary engaged in the manufacture and marketing of LPG and other products), was merged with the parent company. At the same time, to comprehensively handle the Group's efforts to meet home energy needs for fuel oil, LPG, and other products, the parent company established its Fuel Retail Sales Division, which coordinates retail marketing operations through marketing affiliates and subsidiaries. Business in such new energy fields as natural gas, electric power, and cogeneration systems was previously the responsibility of product-specific units—the Gas Business Department, the Power Business Department, and the Total Energy System Business Department. These departments have been eliminated and their functions unified within the newly established Energy Solution Division, which handles marketing operations directed at corporate customers, and the new division's marketing capabilities have been strengthened and expanded.

Petrochemicals



MAJOR ACHIEVEMENTS & TOPICS

- ✓ Shift to setting benzene-selling prices based on East Asian spot market prices (January 2005)

As described earlier in this report, the NOC Group is implementing a CRI project designed to unify the production plans of petroleum refining and petrochemical manufacturing units as well as create optimized production systems. The core of the Group's petrochemical operations is Nippon Petrochemicals Company, Limited (NPCC), which produces and markets its own products and also markets the petrochemical products of other Group units.

In fiscal 2005, strong demand from China and other Asian countries enabled Japan's petrochemical industry to increase its exports and helped maintain a good supply-demand balance.

Against this backdrop, NPCC worked to expand its sales in Japan as well as its exports to growing markets in other Asian countries while setting its selling prices at appropriate levels that reflected changes in raw material prices and conditions in various markets. In the past, for example, benzene prices were set quarterly retrospectively based on U.S. domestic prices, but in January 2005 NPCC switched to a system of setting prices monthly and in advance based on prices in the East Asian spot market. The Company is seeking to make this the standard price setting mechanism in the Asian region for benzene just the same as for how paraxylene already is. Regarding propylene, after discussions with customers, in April 2005 the Company introduced a new formula for setting domestic prices based on a composite price index, of which one-third is the East Asian spot price. As previously, export prices are set in line with conditions in the Asian markets.

With respect to basic petrochemical production, NOC is considering implementing CRI-related measures to increase its output volume of propylene, paraxylene, benzene, and other chemicals. As for functional petrochemicals, the Company's special technologies and other capabilities have enabled it to earn the top share of the global market for ethylidene norbornene (ENB), which is used to increase the resistance of synthetic rubber to heat and light, and Super Aromatic Solvent (SAS), a pressure-sensitive paper solvent. In late 2003, NPCC began operating a new ENB plant in the United States that increased annual Group manufacturing capacity for ENB to 40,000 tons, and the Group's ENB sales volume has increased smoothly. NOC intends to continue implementing CRI measures that upgrade its competitiveness and sales volume in basic petrochemical markets while also seeking to further increase the profitability of its functional petrochemical operations by rigorously evaluating operations in each product field based on an emphasis on profitability and taking various measures to strengthen highly profitable operations.

New Energy-Type Business

MAJOR ACHIEVEMENTS & TOPICS

- ✓ Increase of IPP wholesale electric power supply capacity to 700,000kW (October 2004)
- ✓ Commercialization of household-use fuel cell system, ENEOS ECO LP-1 (March 2005)


NATURAL GAS AND LNG

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

In upstream operations, NOC is participating in the Malaysia LNG Tiga Project. The project produces natural gas at fields offshore Sarawak, Malaysia (see page 18), liquefies the natural gas at the liquefaction plant of Malaysia LNG Tiga Sdn Bhd (NOC has a 10% interest.), and supplies the LNG to customers in Japan, South Korea, and other countries.

The plant can produce up to 6.8 million tons of LNG per year. In fiscal 2005, 6.7 million tons of LNG were shipped based on short-, medium-, and long-term contracts. Of this, approximately 1.6 million tons were delivered to such companies in Japan as Tokyo Gas Co., Ltd., Toho Gas Co., Ltd., Osaka Gas Co., Ltd., The Tokyo Electric Power Co., Inc. (TEPCO), and Japan Petroleum Exploration Co., Ltd. (JAPEX).

Another LNG project in which NOC is participating is the Tanguh LNG Project in Indonesia, which is now under construction and planned to begin production from the latter half of 2008 with a capacity of approximately 7.6 million tons per year. The project has already secured sales agreements totaling 7.45 million tons of LNG with customers in Asia and North America.



As for downstream operations, the NOC Group is moving ahead with strategic infrastructure projects focusing on specific regions. Those projects range from LNG receiving terminals as the starting point for natural gas supply, LNG distribution business to new power plants that create incremental LNG demand, and other natural gas related facilities. A new LNG receiving terminal is under construction in the compound of NPRC's Mizushima Refinery scheduled to start operations in April 2006, and market development efforts are now being made targeting industrial users and local city gas companies in that region. NOC plans to construct another LNG receiving terminal in Hachinohe in the Tohoku region. This terminal is scheduled to provide local city gas companies and industrial users with natural gas and LNG via pipelines/tank trucks from March 2007.

Thus, NOC is establishing an integrated system from upstream to downstream operations to ensure stable natural gas supplies. Amid a steady increase in demand for natural gas due to the fuel's "clean energy" characteristics, the NOC Group continues to expand its natural gas and LNG business.

ELECTRIC POWER

Deregulation of the Japanese electric power industry is encouraging a growing number of companies from diverse industries to enter the electric power business. Wholesale power supply by independent power producers (IPPs) has been permitted since 1995, and the permitted scope for the retail electric power supply business of power producer and suppliers (PPSs) has been progressively broadened since 2000. NOC is well positioned to maintain strong competitiveness in electric power operations by making good use of its huge refining infrastructure and by utilizing heavy oil fractions from its refining operations as a fuel for its power

generation plants, of which the quantity produced is projected to exceed demand. We plan to earn a stable profit by expanding our electric power operations to an extent that permits us to make the most of our special competitive advantages.

We started operations of IPP plants at the Marifu and Muroran refineries in April and October 2004, respectively. These plants and the already existing IPP plants at the Osaka, Yokohama, and Negishi refineries now provide a total supply capacity of 700,000kW, an amount that would meet the electricity demand of approximately 1.7 million households.

NOC has also been proactively expanding its PPS retail electric power supply business. Besides providing power to office buildings and other customers in the Tokyo-Yokohama metropolitan area by using the surplus internal generating capacity of the Negishi Refinery and other, the Company is promoting joint power generation projects. In July 2005, we commenced procuring 35,000kW of power for our PPS operations from Frontier Energy Niigata Co., Ltd.—a joint venture of Nippon Steel Corp., NOC, and Mitsubishi Corp. Furthermore, a joint venture of NOC and Tokyo Gas Co., Ltd.—Kawasaki Natural Gas Generation Co., Ltd.—is planning to construct an 800,000kW natural gas-fueled power generation plant that is scheduled to begin operations in 2008, and we are considering the construction of additional power generation plants at Group refineries which would be fueled by surplus refinery products. Electric power is one of NOC's important strategic business fields. The Company already has established systems for IPP operations with a total supply capacity of 700,000kW, and it intends to further expand its PPS operations in the future.

In line with its policy for the conservation of the natural environment, NOC is also engaged in the wind-power generation business. The Company is operating a 1,500kW wind-power facility at its Akita Depot and plans to further increase the scale of its wind-power business.

TOTAL ENERGY SYSTEMS (TESs)

In its total energy system (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 and heat. Important products in this field include the ECO TOYOU line of in-house developed, cogeneration systems, which feature superior power generation efficiency and environment-friendliness. The total generating capacity of installed and ordered TESs has continued to rise steadily, reaching 170,000kW at the end of fiscal 2005.

The total supply capability of all of NOC's various electric power operations was approximately 900,000kW at the end of fiscal 2005. By fiscal 2009, the Company plans to more than double this capacity, to 1,960,000kW (700,000kW in IPP operations, 1,000,000kW in PPS operations, 250,000kW in NERS operations, and 10,000kW in wind-power operations), through such steps as 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

Since 1986, the NOC Group has undertaken fuel cell R&D programs based on NOC's hydrogen refining and catalyst technologies. Because fuel cells are environment-friendly, next-generation energy systems with great potential, the Group is preparing to begin full-scale commercial operations in this field in the future. In March 2005, we commercialized the ENEOS ECO LP-1, the world's first household-use fuel cell system that uses liquefied petroleum gas (LPG) as fuel. The low carbon dioxide emissions and other environment-friendly characteristics of this product have attracted considerable attention from diverse industries since its commercialization was announced in December 2004. Plans call for installing 150 ENEOS ECO LP-1 units during fiscal 2006, primarily in the Kanto region, then undertaking nationwide marketing from fiscal 2007, aiming to install more than 1,000 units during fiscal 2008. NOC has also proceeded steadily with the development and field testing of commercial- and household-use fuel cell systems that use kerosene, and plans currently call for commercializing these products in fiscal 2007. The NOC Group intends to move ahead with measures enabling it to maintain a leading position in the fuel cell field.

Overseas Operations



MAJOR ACHIEVEMENTS AND TOPICS

- ✓ Launch of ENEOS oil products in Mongolia (May 2004) and the Philippines (December 2004)
- ✓ Opening of LC-Film factory in Suzhou, China (September 2004)
- ✓ Creation of Chinese-language version of ENEOS name (December 2004)
- ✓ Launch of ENEOS PRO-RACING SYNTHETIC in China (February 2005)
- ✓ Opening of Beijing Office (July 2005)

With the ever rapid growth of the China-driven East Asian economy, the NOC Group has put its strategic focus on the Asian region. In 1995, NOC participated in the establishment of TIANJIN NISSEKI Lubricants & Grease Co., Ltd., a China-based lubricant manufacturing and marketing company in which NOC has a 40% shareholding. As the operations have smoothly expanded, its annual manufacturing capacity is to be expanded by 40%, or to 50,000kl during fiscal 2005. NOC has also marketed lubricants on a consignment basis, working with local partners, in such markets as Taiwan, Thailand, South Korea, and Vietnam.

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 from October 2002. The marketing area for those products was extended to India in January 2004, Mongolia in May 2004, and the Philippines in December 2004. This brought the number of Asian countries, excluding Japan, to 11 in which ENEOS Oil has been marketed. In fiscal 2005, approximately 8,500kl of ENEOS Oil was sold overseas, and the sales volume is expected to rise to 10,000kl in fiscal 2006. We have made diverse efforts to promote the ENEOS brand through participation in trade exhibitions and advertising and public relations activities, and a Chinese-language version of the ENEOS name—Yinengxin (meaning new performance)—has also been applied and used since December 2004 to maximize brand recognition in China.

The quickly expanding operations of numerous Japan-based companies in China and other Asian countries have the potential for considerably expanding Asian markets for premium lubricants, and we plan to do our utmost to fully develop those markets.

NOC is engaged in China-based businesses associated with various other products, including the operation of a transshipment terminal for asphalt as well as a factory that manufactures LC-Film for use with the LCDs of mobile phones. In May 2003, the Company established Nippon Oil LC Film (Suzhou) Corporation in Suzhou, China, and that subsidiary began full-scale manufacturing operations in February 2005. The use of such film is increasing particularly in China, Taiwan, and South Korea. Reflecting the increasing demand and the worldwide shift from

Construction

monochrome to color mobile phone displays, global sales of the film in fiscal 2005 amounted to ¥3.4 billion, up by 500% from fiscal 2002. The completion of the Suzhou factory has boosted the Group's total LC-Film manufacturing capacity to 2.4 million m² per year.

In July 2005, NOC launched the administrative office in Beijing to be in charge of all NOC Chinese operations, serving as a means of promoting additional growth in the Group's China operations, improving liaison with local clients and partners, and serving as a base for the consolidated supervision of all Group bases in China. Following the establishment of the Beijing Office, the Group's Shanghai Office has discontinued its regional oversight work and tightened its focus on local businesses.

The sustained rise in demand for petroleum products in China and other Asian countries is presenting NOC with promising opportunities to increase its commissioned refining operations and exports of petroleum and petrochemical products. In July 2004, NOC signed a 20,000 BD crude oil processing contract with China Oil, one of China's top two oil companies, and the volume of our commissioned refining work for the contract was increased to 30,000 BD in April 2005. In addition to commissioned refining products, we exported 220,000kl of heavy fuel oil to China. We will continue to maintain a flexible approach to the exporting businesses while monitoring trends in supply-demand relationships and in prices in Japan and overseas markets.



The NOC Group is engaged in construction business primarily through NIPPO Corporation Co., Ltd. (NIPPO). This subsidiary and other Group construction companies have continued to focus on obtaining orders for civil engineering work centered on road paving as well as on bolstering its marketing operations for asphalt composites and other products and on expanding its orders related to private-sector construction projects. Soil contamination countermeasures have continued to receive considerable attention as an important environmental protection field, and the Group continued working, primarily through NIPPO, to develop new soil purification technologies and expand participation in various types of soil-related environmental protection operations.

Research and Development



MAJOR ACHIEVEMENTS & TOPICS

- ✓ Strengthening of alliance with Cosmo Oil to include cross-licensing measures (September 2004)
- ✓ Launch of ENEOS ECOSTAGE motor oil and ENEOS CVT FLUID (December 2004)
- ✓ Reorganization of Group R&D system (July 2005)

Aiming to extend its overall technology development capabilities while moving further ahead with long-term R&D programs focused on such themes as hydrogen energy and sustainable energy systems, NOC consolidated its Group R&D planning and intellectual property management operations within its Research & Development Department in July 2005. In addition, specialized R&D units serving the Group's lubricant oil, fuel cell, and petrochemical operations have been consolidated within the Central Technical Research Laboratory.

During fiscal 2005, the NOC Group invested ¥11.4 billion in R&D operations, including the following programs.

With respect to petroleum refining operations, the Group is engaged in research aimed at responding to environmental protection regulations and increasing refinery efficiency. Such research has led to the commercialization of manufacturing process and catalyst technologies needed for sulfur-free (10ppm or less), environmentally friendly fuels. For example, NOC's new ROK-Finer process

technology is able to greatly reduce the sulfur content of gasoline without a concurrent drop in octane levels. Highly evaluated throughout the world, this exclusive technology has already been licensed to major oil companies based in the United States and Europe. Following the August 2004 completion of tests using a ROK-Finer facility constructed at the Sendai Refinery, we have created similar facilities at the Negishi and Mizushima refineries*, enabling shipments of sulfur-free, regular gasoline from January 2005.

NOC is developing various environment-friendly lubricants for vehicular and industrial applications. The Company recently bolstered its product lineup in this field with the launch of the ENEOS FLEET and ENEOS INDUSTRIAL series as well as is working to expand the sales of these products. We have also pioneered the development of various products—such as ENEOS ECOSTAGE SMOW-20 motor oil, which meets the American Petroleum Institute's latest standards designed to increase the fuel efficiency of gasoline engines and reduce the burden on exhaust gas purification units, and ENEOS CVT FLUID, a specialized oil that meets the needs of the growing number of vehicles equipped with continuously variable transmissions—and begun marketing.

The Group is developing solid-polymer-type stationary fuel cell systems that use liquid and gaseous petroleum fuels. In March 2005, we began marketing the ENEOS ECO LP-1, which is the world's first 1kW-class, household-use fuel cell that uses liquefied petroleum gas (LPG) as fuel. We are also pilot testing 10kW-class commercial-use and 1kW-class household-use fuel cells that use kerosene and intend to commercialize these products in fiscal 2007.

As a participant in a Japanese government demonstration research project, NOC became the first in Japan to construct a hydrogen fuel station that uses naphtha-reforming technology to generate hydrogen. This hydrogen fuel station began operating in April 2003.

In petrochemical operations, NOC is seeking to make use of previously unused C4 and C5 distillate fractions. Having developed exclusive technology for transforming C4 distillate into isooctane, the Company is considering the construction of a full-scale facility employing this technology, which has the potential of supplying octane-boosting gasoline additives and also may be used to supply high-purity alkylphenol and others.

* The NOC Group's other four refineries have responded to sulfur-free, regular gasoline production needs by augmenting their hydrodesulfurization facilities.

Corporate Governance

The NOC Group is working to augment and strengthen its capabilities for implementing corporate strategies and its corporate governance systems, with the goals of establishing systems for rapid and dynamic decision making and operational execution as well as ensuring the transparency and soundness of management.

BASIC AIMS OF THE REFORMS OF GOVERNANCE SYSTEMS

Amid a further increase in the harshness of the competitive environment for energy companies, the Group has a strong need to upgrade its management strategy development capabilities and establish a system for “rapid and dynamic decision making and operational execution” that is responsive to changes in the business environment.

In response to changes in the shareholding structure, the Group is further increasing its emphasis on shareholder value. At the same time, as increasing attention is focused on the concept of corporate social responsibility (CSR), the Group believes it must further augment its efforts to ensure the “transparency and soundness of management” in order to gain the trust of all its stakeholders.

To respond to such changes in the business environment, the Company took the following corporate governance reform measures during fiscal 2005.

1. Direction of Corporate Governance Reforms

In view of its history, business modes, and future business strategies, the Company has chosen to implement reforms that promote the strengthening of its Board of Auditor system.

2. Concrete Content of Corporate Governance Reforms

- 1) The number of directors specified in the Company’s Articles of Incorporation has been reduced from “30 or less” to “20 or less.”
- 2) The term of directors has been reduced from two years to one year.
- 3) Executive officers have been elected from among all division executive directors, deputy division directors, and general managers of departments/laboratories/offices/branches on the basis of the criteria that they meet the required qualifications as leaders among employees and have the necessary capabilities for managing a major division, with the aim of establishing a rapid and responsive system for the conduct of business operations.
- 4) To strengthen the auditing system, without waiting for the end of the grace period offered by Japan’s Commercial Code, the Company has moved to ensure that three of its five Board of Corporate Auditor members are full-fledged “outside auditors” unaffiliated with the Company, thereby creating a system able to supervise and control management from an objective and fair perspective. In addition, as another means of strengthening the auditing system, a secretariat for Board of Corporate Auditor members has been created, thus clearly making the secretariat for the financial auditor’s audits and the Board of Corporate Auditors’ audits independent from operational execution units.
- 5) To strengthen Group management, the presidents of the three main NOC subsidiaries (Nippon Petroleum Refining, Nippon Petrochemicals, and Nippon Oil Exploration) are added to members of NOC’s Board of Directors. In addition, the three companies’ important capital investments and other items necessary for the Group’s strategic management are discussed for approval or reported at NOC’s Board of Directors’ meetings.

IMPLEMENTATION OF MEASURES

RELATED TO CORPORATE GOVERNANCE

1. Reason for Choosing to Use the Board of Corporate Auditors’ System

Having set itself the mission of becoming a comprehensive energy company with operations centered on petroleum, NOC has clearly defined its operational scope. For this

type of company, to promote operational execution in line with Companywide strategies, NOC believes it is desirable to make decisions regarding important operational execution measures based on deliberation by the Board of Directors and Executive Committee.

In addition, because auditing functions in NOC are fully performed by the Board of Auditors' members, the Board of Corporate Auditors' system is to be maintained, and the Company has chosen to become a company that works to strengthen its Board of Corporate Auditors' system.

2. Election of Outside Directors and Auditors

Three of the Company's five Board of Corporate Auditors' members are full-fledged "outside auditors" unaffiliated with the Company. The Company does not have any outside directors.

3. Assignment of Specialized Staff for Outside Auditors

To strengthen auditing capabilities of all members of the Board of Corporate Auditors, including outside members,

three employees have been assigned to work as the Board of Corporate Auditors' secretariat.

4. Progress in Introduction of Executive Officer System

In NOC, the chairman of the board has chaired the Board of Directors, and the president is responsible for operational execution. To serve as a consultative body for the president, the Company has established the Executive Committee comprised of the president, executive vice presidents, and senior vice presidents. The Executive Committee assists the president with respect to operational execution.

The Board of Directors supervises and controls the operational execution of the president as well as makes important management decisions based on laws, regulations, and NOC's Articles of Incorporation. In addition, the Board of Corporate Auditors and its members audit the Board of Directors and representative directors, and the financial auditing company performs financial audits. In these ways, we are working to strengthen NOC's business supervision and control capabilities.

COMPENSATION OF DIRECTORS AND CORPORATE AUDITORS

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 | 20 | 252 | 8 | 42 | 28 | 294 |
| Bonuses allocated from profit | 19 | 72 | 6 | 15 | 25 | 87 |
| Retirement allowances based on decisions of the General Meeting of Shareholders | 7 | 269 | 3 | 41 | 10 | 311 |
| Total | — | 594 | — | 98 | — | 693 |

Notes:

- Regarding directors, compensation is based on Article 269-1-1 of the Commercial Code and is limited to ¥70 million per month (excluding the employee salaries of directors who also perform services as employees) based on a resolution made at the January 29, 1999, General Meeting of Shareholders.
- The compensation limit for corporate auditors is ¥7 million per month based on a resolution made at the January 29, 1999, General Meeting of Shareholders.
- The above amounts do not include salaries (including regular bonuses) of ¥72 million paid to 11 directors who also perform services as employees.
- At the end of the fiscal year, the Company had 16 directors and 5 corporate auditors.

COMPENSATION OF CORPORATE AUDITOR

- Total compensation to be paid to Shin Nihon & Co., the independent auditor of the Company, and its consolidated subsidiaries ¥138 million
- Total portion of "a." to be paid as compensation for auditing and certifying the Company's financial statements ¥137 million
- Total portion of "b." to be paid as compensation for financial auditing work ¥ 48 million

CSR

To respond to the expectations of stakeholders and inspire still greater trust on the part of society, the NOC Group is strategically promoting the reinforcement of its CSR.

ESTABLISHMENT OF THE CSR DEPARTMENT

In July 2004, the NOC Group defined four focus areas in its efforts to promote CSR-oriented management, namely “Compliance,” “Environment & Safety,” “Quality Assurance,” and “Respect for Human Rights and Dignity,” and stepped up the initiatives in these specified areas. At the same time, the CSR Department was reinstated immediately under the president as it inherited the internal auditing functions from the defunct Audit Department, and assumed the role of planning and making recommendations for the CSR-oriented management. These moves have resulted in the creation of a CSR-oriented management promotion system.

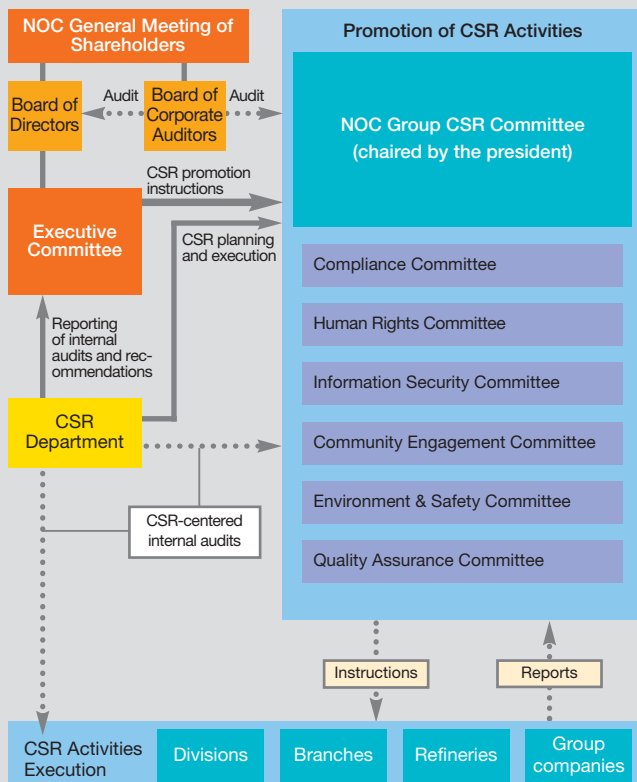
ESTABLISHMENT OF GROUP CSR COMMITTEE

In June 2005, “Information Security” and “Social Contribution” were added to the previous four areas of CSR activities, now comprising six defined areas. To integrate the CSR operations in these six areas and provide unified oversight for the entire Group, we established the CSR Committee (chaired by the president) and six subordinate organizations (chaired by the associated executive directors of divisions (Please refer to the accompanying chart.)). Through these activities, we aim at the establishment of an industry group that steadily fulfills its responsibilities to society with the support of its individual employees’ devotions to live up to the Group Philosophy.

* For more-detailed information related to the Group’s CSR activities in each of the six emphasized fields, please refer to *CSR Report 2005*.



The NOC Group’s CSR Promotion System



Board of Directors

(As of July 1, 2005)



Fumiaki Watari



Shinji Nishio



Naokazu Tsuda



Makoto Satani



Toshikazu Kobayashi



Ikutoshi Matsumura



Yoichiro Shiozawa



Yukihiro Matsuyama



Masahito Nakamura



Michihiro Mouri



Shigeo Hirai



Kan Ueno

**Representative Director,
Chairman of the Board**
Fumiaki Watari

**Representative Director,
President**
Shinji Nishio

**Representative Directors,
Executive Vice Presidents**

Naokazu Tsuda
Fuel Retail Sales Division

Makoto Satani
Overseas Business Division

Toshikazu Kobayashi
Environment, Safety & Quality
Management Division,
Manufacturing Technology
& Engineering Division

Directors, Senior Vice Presidents

Ikutoshi Matsumura
Executive Director of the Research
& Development Division

Yoichiro Shiozawa
Executive Director of the Corporate
Management Division II

Yukihiro Matsuyama
Executive Director of the Energy
Solution Division

Masahito Nakamura
Executive Director of the Lubricants
& Specialties Business Division

Michihiro Mouri
Executive Director of the Fuel Cell
& Merchandise Business
Division

Shigeo Hirai
Executive Director of the Corporate
Management Division I

Kan Ueno
Executive Director
of the Supply Division

Directors

Yasushi Kimura
General Manager of the Lubricants
& Specialties Business
Coordination Department

Yasuo Kamino
General Manager of the Marketing
Planning Department

Satoru Katougi
General Manager of the Energy Solution
Planning & Coordination Department

Makoto Kuramochi
Representative and General Manager
of the Beijing Office

Minoru Ozawa
President and Representative Director
of Nippon Petroleum
Refining Company, Limited

Takashi Nishibe
President and Representative Director
of Nippon Petrochemicals Company,
Limited

Teruo Omori
President and Representative Director
of Nippon Oil Exploration Limited

Standing Corporate Auditors
Seiji Sakamoto
Hiroshi Maru

Corporate Auditors
Masao Fujii
Setsuo Umezawa
Koji Furukawa

Executive Officers
Shun Kurimoto
General Manager of the Environment
& Safety Department
Kozo Imachi
General Manager of the Energy Solution
Planning & Coordination Department
Hikaru Kitamura
General Manager of the Secretariat
Seiichi Isshiki
General Manager of the Comptrollers
Department
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

Eiji Omori
General Manager of the
Marketing Department II

Naoaki Tsuchiya
General Manager of the Petroleum
Trading & Shipping Department

Akitaka Ogura
General Manager of the
Marketing Department I

Michio Ikeda
General Manager of the Corporate
Planning & Management Department

Yukihiro Tabata
General Manager of the Human
Resources Department

Jun Matsuzawa
General Manager of the
Tohoku Branch Office

Hajime Okazaki
General Manager of the Central
Technical Research Laboratory

Yoshiki Hirayama
General Manager of the
Chugoku Branch Office

Financial
Section



Management's Discussion and Analysis of Operations

ENVIRONMENT

The Japanese economy in the fiscal year under review saw a higher level of capital investment due to a stronger corporate profit environment. However, consumer spending lacked strength, and imports to the United States and China slowed during the second half of the fiscal year. As a result, the business climate shifted away from a recovery trend and became sluggish at the end of the fiscal year.

PERFORMANCE DURING THE YEAR

Consolidated Financial Results

On a consolidated basis, net sales of the NOC Group rose 15.1% from the previous fiscal year, to ¥4,924.2 billion. Profitability was negatively impacted by the time lag associated with the shifting of crude oil costs to sales prices amid the jump in crude oil prices during the fiscal year under review. However, regarding the petroleum fuel/natural gas businesses as well as inventory valuation factors (where inventory valuation decreases the cost of goods sold due to the gross average method), the rise in crude oil prices contributed to increasing profitability. Moreover, fuel oil margin improvement, further cost-cutting, and operational streamlining resulted in consolidated operating income of ¥201.5 billion, a ¥145.6 billion increase from the previous fiscal year.

In line with the NOC Group's second consolidated medium-term management plan, the Company set a target of saving ¥100 billion from cost-reducing and efficiency-increasing measures over a three-year period through March 31, 2005. At the end of the fiscal year under review, actual savings totaled ¥99.5 billion, just short of the target but very close to that goal nonetheless.

The NOC Group also generated non-operating income totaling ¥10.9 billion (up ¥9.7 billion from the previous fiscal year), mainly as a result of an increase in investment profit as well as a reduction in interest expenses due to declines in the interest rate and the Group's interest-bearing liabilities.

Consequently, consolidated recurring income amounted to ¥212.4 billion, an increase of ¥155.3 billion from the previous fiscal year. When excluding the inventory valuation factors, consolidated recurring income totaled ¥151.7 billion, an increase of ¥70.4 billion from the previous fiscal year.

The NOC Group also generated ¥8.6 billion worth of extraordinary income (up ¥215.4 billion from the previous fiscal year). This was mainly as a result of the gain on disposal

of fixed assets during the fiscal year under review, which reflected the Group's moves to slim down its balance sheet through the divestment of unneeded assets.

As a result of the above factors, the NOC Group generated consolidated net income of ¥131.5 billion, a ¥265.0 billion increase from the previous fiscal year.

Petroleum Fuel and Crude Oil

Regarding domestic demand for fuel products during the fiscal year under review, the demand for gasoline surpassed levels in the previous year due to a heat wave in the summer. Kerosene saw a jump in demand between January and March because of severely cold weather, but unseasonably warm weather at the end of 2004 caused full-year demand to decrease. Demand for diesel remained at levels similar to those in the previous year, and demand for heavy fuel oil C was lower than levels in the previous year because of a significant decrease in demand for thermal power generation as the operation of nuclear power plants recommenced.

Amid this operating environment, the NOC Group executed various strategies outlined below with the management objectives of bolstering the profitability of its core businesses—petroleum fuel and crude oil business—and developing new energy businesses.

In the area of crude oil and natural gas exploration and production ("E&P"), the NOC Group began commercial operations at the Helang Gas Field located offshore of Sarawak, Malaysia in 2003. Continuing from this liquefied natural gas ("LNG") project, the Group also began commercial operations at two other gas fields (Serai and Jintan) during the fiscal year under review. In addition to this, commercial production of an oil field in the ocean off of Western Australia began in March 2005. The Group also acquired mining rights and began exploration off the shore of southern Vietnam and acquired rights to explore oil and gas fields in the Gulf of Mexico, where commercial production operations are already under way. Moreover, the Group purchased the shares of four Group E&P companies from Japan Petroleum Development Corporation.

Next, in the area of refining, the NOC Group began the nationwide provision of sulfur-free gasoline and diesel in advance of the implementation of new governmental environmental regulations. In addition, as part of the Group's chemical refinery integration (CRI) strategy, production plans for

oil refining and petrochemicals were integrated in April 2004, and a new system whereby production for both oil products and petrochemical products can be flexibly modified to respond to demand trends was established. Furthermore, China Oil consigned the refining of 20,000 BD of crude oil to the Group in July 2004 and further agreed to raise this number to 30,000 BD in April 2005.

With respect to marketing, the NOC Group added a further feature to its ENEOS VIGO product, a fuel that is sulfur-free, promotes fuel economy, and increases acceleration. The new feature of the ENEOS NEW VIGO brand of high-quality, high-octane gasoline is that it drastically improves the cleaning qualities of the fuel within the engine. The NOC Group also proceeded with the development of new Dr. Drive facilities. As a result, the number of such facilities at the end of March 2005 totaled approximately 2,000.

In regards to the creation of new energy businesses, the NOC Group has already begun operation of two power generation facilities, at the Marifu Refinery and the Muroran Refinery, in April and October 2004, respectively. As a result, the Group's electricity supply capacity surpassed 70MW when combined with the existing power generation facilities at the Osaka, Yokohama, and Negishi refineries. Furthermore, in the area of fuel cells, the Group succeeded in the commercial production of the ENEOS ECO LP-1, an LPG-based environmentally friendly fuel-cell battery designed for residential use in March 2005.

Consequently, the NOC Group's consolidated net sales for the fiscal year under review in the petroleum fuel and crude oil business segment increased 14.8% from the previous year, to ¥4,139.6 billion. Profitability was negatively impacted by the time lag associated with the shifting of crude oil costs to sales prices amid the jump in crude oil prices during the fiscal year under review. However, regarding the E&P business as well as the inventory valuation factors (where inventory valuation decreases the cost of goods sold due to the gross average method), the rise in crude oil prices contributed to increasing profitability. Moreover, improvements to fuel oil margins, further cost reductions, and increases in efficiency resulted in operating income for this business segment of ¥163.3 billion, a ¥129.6 billion increase from the previous fiscal year.

Petrochemical Operations

Domestic demand for petrochemical products remained firm while robust demand in Asian markets, especially China, led to higher exports during the fiscal year under review. In addition, the effect of sharp rises in crude oil prices made its way to product prices, resulting in significantly improved profitability figures for all petrochemical companies. Amid these developments, the NOC Group worked to promote sales, particularly exports to Asian countries, and formed an appropriate pricing structure that reflects current raw material prices and market conditions in Asia. In addition, the Group worked to thoroughly implement cost-cutting and operational streamlining strategies as well as worked to increase the cost-competitiveness of its commodity products operations by coordinating more closely with the oil refinery side of the Group. Moreover, the Group focused on strengthening the functional chemicals business and cultivating high-performance products.

As a result of these efforts, consolidated net sales from petrochemical operations rose 40.8% from the previous year, to ¥349.0 billion. In addition, although naphtha prices rose, strong overall market conditions and the Group's efforts to cut costs and increase efficiency led to operating income for this business segment of ¥23.3 billion, a ¥14.6 billion increase from the previous fiscal year.

Construction

Despite a trend in increasing private capital investments, Japan's road building and other construction industries continued to operate in a harsh environment for winning orders as public investment remained weak. Against this backdrop, the NOC Group proactively worked to win orders and made efforts to strengthen the sale of construction products, particularly asphalt mix.

As a result of these efforts, consolidated net sales in the NOC Group's construction segment rose 1.6% from the previous year, to ¥359.5 billion. With regard to profitability, despite the significant jump in raw materials prices as a result of soaring crude oil prices, the Group's efforts to cut costs and increase efficiency led to a ¥1.2 billion increase in this segment's operating income from the previous year, to ¥6.7 billion.

Other Segments

Amid a continuingly severe environment for petroleum product distribution operations, the NOC Group proactively expanded its marketing of a wide array of automobile-related products, with an emphasis on ENEOS-branded products. In its real-estate operations, the Group enhanced its management services system and planned equipment improvements in order to provide a better office environment for its clients.

As a result of these efforts, consolidated net sales in the other business segment grew 5.9% from the previous fiscal year, to ¥76.1 billion. In addition, operating income jumped ¥0.1 billion from the previous fiscal year, to ¥5.0 billion, mainly as a result of implementing further cost-cutting and efficiency-increasing strategies.

FINANCIAL POSITION

Balance Sheet

Consolidated total assets at the end of the fiscal year under review amounted to ¥3,514.4 billion, up ¥248.9 billion from the previous fiscal year-end. The balance of assets was increased by such factors as a rise in the level of stock prices due to the rapid rise of crude oil prices, the inclusion of three new consolidated subsidiaries that operate petroleum fuel and natural gas development businesses, and an increase in crude oil and natural gas assets.

Consolidated shareholders' equity amounted to ¥953.2 billion at the end of the fiscal year under review, an increase of ¥132.0 billion compared with the previous fiscal year-end. This was mainly due to accounting for consolidated net income.

Consequently, the shareholders' equity ratio rose to 27.1%, from 25.1%.

Cash Flows

Fiscal year-end cash and cash equivalents (hereinafter referred to as "cash") decreased ¥34.0 billion from the end of the previous fiscal year, to ¥140.5 billion. The factors influencing cash-flow movements in the fiscal year under review were as follows:

Net cash provided by operating activities amounted to ¥115.7 billion, as positive factors to cash—such as income before income taxes and minority interests and other adjustments (¥221.0 billion) and depreciation and amortization (¥110.0 billion), which does not require cash expenditure—surpassed negative factors, such as the increase in working capital due to the rise in crude oil prices.

Net cash used in investing activities was ¥99.5 billion, mainly as a result of capital investments in the wholesale power supply business of refineries as well as in the construction of new service stations. In addition, the NOC Group executed the additional purchase of shares of Group petroleum fuel and natural gas development businesses from Japan Petroleum Development Corporation.

Net cash used in financing activities was ¥49.9 billion, owing to the payment of cash dividends and the Group's continued efforts to reduce interest-bearing liabilities.

Capital Investment

In principle, capital investment projects are planned so that they can be funded with cash flow, or profit plus depreciation. Of the ¥153.9 billion in capital investments made during fiscal 2005, ¥129.0 billion was invested in such strategic fields as oil exploration and production (E&P), IPP and other electric power business, and environmental protection programs.

Dividends

In regards to the year-end dividend for the fiscal year under review, the NOC Group will raise the amount by ¥2, to ¥6. This is in response to the strong support and expectations of shareholders during the implementation of the second consolidated medium-term management plan and the fact the Group was able to attain its profit goals in the plan. As a result, full-year dividends (including the mid-term dividend) will increase by ¥3, to ¥10.

Business Risks

The NOC Group faces a variety of risks that may play an important role in impacting its financial condition, managerial performance, and cash flow. The main risks are outlined below:

1. Impact of fluctuating currency exchange rates (against the U.S. dollar) and crude oil prices

a. Impact on Inventory Assets

The NOC Group mainly utilizes the cost method based on the gross average method for valuing its inventory assets. With this valuation method, when crude oil prices (in yen) rise above the unit price of inventory, inventory assets begin pushing down the cost of goods sold (in this instance, the cost of goods sold increases slower than crude oil prices due to the low price of inventory), thus making it a positive profitability factor.

On the other hand, when crude oil prices (in yen) fall below the unit price of inventory, the valuation of

inventory assets pushes up the cost of goods sold, thus making it a negative profitability factor.

b. Impact on Crude Oil and Natural Gas Exploration and Production (E&P) Business

In the area of E&P, a rise in crude oil prices is a positive factor for profitability because it leads to an increase in revenues. On the other hand, a drop in crude oil prices is a negative factor for profitability because it leads to a decrease in revenues.

2. Impact of fluctuations in demand and market conditions for petroleum fuel and petrochemical products

The demand for petroleum products fluctuates depending on climate conditions (such as unseasonably cool summers or warm winters) and the economic conditions of the time. Demand for petrochemical products will fluctuate depending on economic growth and trends in Asian markets as export dependence on Asia, in particular China, increases. Sales of the NOC Group's products will also be impacted by these fluctuations, and demand trends are thus a profitability factor.

In addition, the domestic market for petroleum fuel products will fluctuate as a result of the supply and demand environment for domestic petroleum fuel products, local reselling conditions, and movements in the overseas market for petroleum fuel products. Similarly, the market for petrochemical products will fluctuate depending on raw naphtha prices and market conditions in East Asia. Although the NOC Group revises sales prices to reflect these fluctuations, such changes in the market environment may be considered a profitability factor.

3. Impact of fluctuating interest rates

An increase in interest rates is considered a negative profitability factor because it will increase interest expense on loans and other interest-bearing liabilities and consequently adversely affect the balance of financial expenses. On the other hand, a fall in interest rates is considered a positive profitability factor because it will decrease interest expense on loans and other interest-bearing liabilities and consequently improve the balance of financial expenses.

4. Risks arising from overseas businesses

The NOC Group's procurement, production, exporting, and sales activities are carried out not only in Japan, but on a global scale, including such areas as North America, Europe, and Asia/Oceania. The Group believes that certain risks as outlined as follows exist in its overseas activities.

a. Country risks—Political and economic turmoil in foreign countries and a freezing of currency exchanges and a default on loans triggered by them

b. Social turmoil arising from strikes, terrorist activities, war, epidemics, etc.

c. Disasters arising from an act of God

d. Restrictions arising from new regulations, such as import restrictions and export trade management rules

The generation of such risks will hinder the NOC Group's overseas business activities and consequently may lead to an adverse financial performance.

5. Impact of trends in public investments and private capital investments

The NOC Group's construction segment relies heavily on contracted paving, civil engineering, and construction projects. The profitability of this segment, therefore, fluctuates greatly depending on trends in the public investment and private capital investment (including private residential investments) fields.

6. Impact of stricter environmental regulations

From the standpoint of global environmental protection, new regulations on quality or the need to blend in biomass fuels may result in cost increases in the NOC Group's operations. Costs may be in the form of capital investments in refineries or an increase in variable costs.

7. Risks arising from information systems

Earthquakes, floods, and other natural disasters may damage information systems and cease normal business operations. A situation such as this may compromise the NOC Group's production and sales activities as well as have a major negative impact on the business of vendors.

8. Operational risks associated with production facilities

The NOC Group operates production facilities not only in Japan but also on a global scale. Natural disasters or unforeseen events at any of these facilities that leads to a ceasing of production may have a negative impact on the overall financial performance of the Group.

Please note that although these risks contain items that may be forward-looking in nature, they are based on information available to the Group at the end of the fiscal year under review. In addition, the risks above should be not considered a full list of risks that the Group may face in its operations.

Five-Year Financial and Operating Summary

Nippon Oil Corporation and Consolidated Subsidiaries

Five-Year Financial Summary

| Years ended March 31 | Millions of yen | | | | |
|--|-------------------|------------|------------|------------|------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Net sales | ¥4,924,163 | ¥4,279,751 | ¥4,187,392 | ¥3,949,571 | ¥4,076,890 |
| Cost of sales | 4,437,411 | 3,928,505 | 3,785,291 | 3,555,907 | 3,691,142 |
| Selling, general and administrative expenses | 285,281 | 295,328 | 305,514 | 318,432 | 315,668 |
| Operating income | 201,470 | 55,918 | 96,586 | 75,231 | 70,079 |
| Net income (loss) | 131,519 | (133,526) | 32,281 | 24,006 | 29,787 |
| Total assets | 3,514,352 | 3,265,503 | 3,350,237 | 3,444,742 | 3,971,252 |
| Total shareholders' equity | 953,240 | 821,202 | 929,987 | 924,140 | 898,083 |
| Total current assets | 1,569,328 | 1,395,336 | 1,329,230 | 1,419,282 | 1,875,218 |
| Total current liabilities | 1,536,810 | 1,433,424 | 1,388,397 | 1,411,434 | 1,807,176 |
| Working capital | 32,518 | (38,088) | (59,167) | 7,848 | 68,042 |
| Capital expenditures | 153,000 | 136,900 | 148,500 | 122,500 | 69,200 |
| R&D expenditures | 11,440 | 9,685 | 10,037 | 10,449 | 10,218 |

Five-Year Operating Summary

| Years ended March 31 | 2005 | 2004 | 2003 | 2002 | 2001 |
|--|------------------|-----------|-----------|-----------|-----------|
| Crude oil imports (million kiloliters) | 64.5 | 62.0 | 63.0 | 58.7 | 62.4 |
| Sales of petroleum products* (million kiloliters) | 55.5 | 54.3 | 54.4 | 50.0 | 52.4 |
| Capacity of refining facilities (barrels per stream day) | 1,217,000 | 1,272,000 | 1,217,000 | 1,227,000 | 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, 2005 and 2004 | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|-------------------|-------------------|---------------------------------------|
| | 2005 | 2004 | 2005 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 140,478 | ¥ 174,535 | \$ 1,312,879 |
| Time deposits (Note 7) | 3,250 | 4,311 | 30,374 |
| Short-term investments in securities (Note 4) | 19,384 | 3,009 | 181,159 |
| Notes and accounts receivable (Note 7): | | | |
| Trade | 611,258 | 578,850 | 5,712,692 |
| Other | 67,623 | 57,553 | 631,991 |
| Less allowance for doubtful receivables | (5,901) | (4,289) | (55,150) |
| Inventories (Note 5) | 636,704 | 498,857 | 5,950,505 |
| Deferred income taxes (Note 10) | 33,517 | 41,543 | 313,243 |
| Other current assets | 63,012 | 40,964 | 588,897 |
| Total current assets | <u>1,569,328</u> | <u>1,395,336</u> | <u>14,666,617</u> |
| Investments and long-term receivables: | | | |
| Investments in unconsolidated subsidiaries and affiliates | 68,763 | 73,744 | 642,645 |
| Investments in other securities (Notes 4 and 7) | 226,328 | 220,830 | 2,115,215 |
| Long-term receivables (Note 7) | 29,055 | 27,856 | 271,542 |
| Total investments and long-term receivables | <u>324,148</u> | <u>322,431</u> | <u>3,029,421</u> |
| Property, plant and equipment (Notes 6 and 7): | | | |
| Land | 686,993 | 701,519 | 6,420,495 |
| Buildings | 798,094 | 813,131 | 7,458,822 |
| Oil tanks | 259,043 | 259,213 | 2,420,963 |
| Machinery and equipment | 1,518,190 | 1,468,515 | 14,188,692 |
| Construction in progress | 45,980 | 61,774 | 429,720 |
| | <u>3,308,301</u> | <u>3,304,154</u> | <u>30,918,701</u> |
| Less accumulated depreciation | (1,946,912) | (1,918,380) | (18,195,439) |
| Property, plant and equipment, net | <u>1,361,389</u> | <u>1,385,774</u> | <u>12,723,262</u> |
| Deferred income taxes (Note 10) | 21,927 | 24,426 | 204,925 |
| Other assets (Note 7) | 237,558 | 137,534 | 2,220,168 |
| Total assets | <u>¥3,514,352</u> | <u>¥3,265,503</u> | <u>\$32,844,411</u> |

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

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|--|--------------------------|--------------------------|---------------------------------------|
| | 2005 | 2004 | 2005 |
| LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Short-term loans (Note 7) | ¥ 247,552 | ¥ 258,657 | \$ 2,313,570 |
| Current portion of long-term debt (Note 7) | 159,331 | 112,542 | 1,489,075 |
| Notes and accounts payable: | | | |
| Trade | 434,704 | 347,401 | 4,062,654 |
| Other | 190,661 | 203,955 | 1,781,879 |
| Excise taxes payable (Note 11) | 230,786 | 317,395 | 2,156,879 |
| Accrued income taxes | 61,746 | 8,806 | 577,065 |
| Accrued expenses | 47,269 | 40,520 | 441,766 |
| Deferred income taxes (Note 10) | 3,230 | — | 30,187 |
| Other current liabilities | 161,527 | 144,145 | 1,509,598 |
| Total current liabilities | <u>1,536,810</u> | <u>1,433,424</u> | <u>14,362,710</u> |
| Long-term liabilities: | | | |
| Long-term debt (Note 7) | 612,511 | 630,525 | 5,724,402 |
| Accrued retirement benefits (Notes 3 and 8) | 106,835 | 111,725 | 998,458 |
| Reserve for inspection of oil tanks, machinery and equipment, and vessels | 32,627 | 33,661 | 304,925 |
| Deferred income taxes (Note 10) | 102,212 | 78,013 | 955,252 |
| Other long-term liabilities | 73,245 | 55,836 | 684,533 |
| Total long-term liabilities | <u>927,431</u> | <u>909,763</u> | <u>8,667,579</u> |
| Minority interests in consolidated subsidiaries | 96,870 | 101,113 | 905,327 |
| Shareholders' equity (Note 9): | | | |
| Common stock: | | | |
| Authorized—2,000,000,000 shares | | | |
| Issued—1,514,508,343 shares in 2005 and 1,514,507,271 shares in 2004 | 139,437 | 139,436 | 1,303,150 |
| Capital surplus | 274,852 | 274,838 | 2,568,710 |
| Retained earnings (Note 18) | 489,729 | 371,471 | 4,576,907 |
| Unrealized holding gain on securities, net of deferred income taxes (Note 4) | 60,743 | 46,766 | 567,692 |
| Translation adjustments | (7,403) | (8,123) | (69,187) |
| | <u>957,359</u> | <u>824,389</u> | <u>8,947,280</u> |
| Less treasury stock, at cost: | | | |
| 6,849,986 shares in 2005 and 5,847,479 shares in 2004 (Note 18) | (4,118) | (3,186) | (38,486) |
| Total shareholders' equity | <u>953,240</u> | <u>821,202</u> | <u>8,908,785</u> |
| Contingent liabilities (Note 14) | | | |
| Total liabilities, minority interests and shareholders' equity | <u>¥3,514,352</u> | <u>¥3,265,503</u> | <u>\$32,844,411</u> |

Consolidated Statements of Shareholders' Equity

Nippon Oil Corporation and Consolidated Subsidiaries

| Years ended March 31, 2005 and 2004 | Number of shares | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|--|---------------------|-----------------|-----------|---------------------------------------|
| | 2005 | 2005 | 2004 | 2005 |
| Common stock: | | | | |
| Beginning of year | 1,514,507,271 | ¥139,436 | ¥139,436 | \$1,303,140 |
| Additions | 1,072 | 0 | — | 0 |
| End of year | 1,514,508,343 | ¥139,437 | ¥139,436 | \$1,303,150 |
| Capital surplus: | | | | |
| Beginning of year | | ¥274,838 | ¥274,829 | \$2,568,579 |
| New stock issuance..... | | 0 | — | 0 |
| Gain on retirement of treasury stock..... | | 13 | — | 121 |
| Adjustment for merger of subsidiaries | | — | 8 | — |
| End of year | | ¥274,852 | ¥274,838 | \$2,568,710 |
| Retained earnings (Note 18): | | | | |
| Beginning of year | | ¥371,471 | ¥513,199 | \$3,741,692 |
| Adjustment for inclusion in consolidation or equity method of accounting | | — | 2,956 | — |
| Net income (loss) | | 131,519 | (133,526) | 1,229,150 |
| Cash dividends paid | | (12,085) | (10,579) | (112,944) |
| Bonuses to directors and statutory auditors | | (425) | (509) | (3,972) |
| Net decrease in inclusion of consolidated subsidiaries | | (558) | — | (5,215) |
| Net decrease in exclusion of equity affiliates..... | | (167) | — | (1,561) |
| Net decrease in inclusion of equity affiliates..... | | (24) | — | (224) |
| Decrease resulting from retirement of common stock | | — | (67) | — |
| Loss on sales of treasury stock | | — | (2) | — |
| End of year | | ¥489,729 | ¥371,471 | \$4,576,907 |
| Unrealized holding gain on securities, net of deferred income taxes (Note 4): | | | | |
| Beginning of year | | ¥ 46,766 | ¥ 11,907 | \$ 437,065 |
| Net change during the year | | 13,976 | 34,859 | 130,617 |
| End of year | | ¥ 60,743 | ¥ 46,766 | \$ 567,692 |
| Translation adjustments: | | | | |
| Beginning of year | | ¥ (8,123) | ¥ (6,546) | \$ (75,916) |
| Net change during the year | | 720 | (1,576) | 6,729 |
| End of year | | ¥ (7,403) | ¥ (8,123) | \$ (69,187) |
| Treasury stock (Note 18): | | | | |
| Beginning of year | | ¥ (3,186) | ¥ (2,839) | \$ (29,776) |
| Net change during the year | | (932) | (347) | (8,710) |
| End of year | | ¥ (4,118) | ¥ (3,186) | \$ (38,486) |

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, 2005 and 2004 | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|--|-----------------|-----------------|---------------------------------------|
| | 2005 | 2004 | 2005 |
| Operating activities: | | | |
| Income (loss) before income taxes and minority interests | ¥220,958 | ¥(149,672) | \$2,065,028 |
| Depreciation and amortization | 110,031 | 107,045 | 1,028,327 |
| Amortization of excess of cost over net assets acquired | (1,384) | (1,152) | (12,935) |
| Reversal of allowance for doubtful receivables | (2,295) | (4,957) | (21,449) |
| Provision for accrued retirement benefits | (4,888) | 2,611 | (45,682) |
| (Reversal of) provision for reserve for inspection of oil tanks, machinery and equipment, and vessels | (1,024) | 866 | (9,570) |
| Interest and dividend income | (5,751) | (5,380) | (53,748) |
| Interest expense | 18,748 | 20,829 | 175,215 |
| Gain on sales of property, plant and equipment | (24,395) | (12,045) | (227,991) |
| Loss on disposal of property, plant and equipment | 12,024 | 16,990 | 112,374 |
| Impairment losses | 4,211 | 171,482 | 39,355 |
| Gain on sales of investments in securities | (2,556) | (4,130) | (23,888) |
| (Increase) decrease in notes and accounts receivable | (27,877) | 28,610 | (260,533) |
| (Increase) decrease in inventories | (137,814) | 11,101 | (1,287,981) |
| Increase in notes and accounts payable and excise taxes payable | 2,283 | 85,285 | 21,336 |
| Other, net | (9,490) | 46,137 | (88,692) |
| Subtotal | 150,779 | 313,620 | 1,409,150 |
| Interest and dividends received | 7,249 | 7,853 | 67,748 |
| Interest paid | (18,661) | (21,597) | (174,402) |
| Income taxes paid | (11,296) | (19,906) | (105,570) |
| Early retirement incentive payments | (12,338) | — | (115,308) |
| Net cash provided by operating activities | 115,731 | 279,969 | 1,081,598 |
| Investing activities: | | | |
| Decrease in time deposits | 1,060 | 7,680 | 9,907 |
| Decrease in short-term investments in securities and investments in other securities | 765 | 21,081 | 7,150 |
| Additions to property, plant and equipment | (108,812) | (119,507) | (1,016,935) |
| Proceeds from sales of property, plant and equipment | 41,680 | 15,640 | 389,533 |
| Acquisition of consolidated subsidiaries | (16,363) | — | (152,925) |
| Purchase of shares of a consolidated subsidiary | (1,927) | — | (18,009) |
| (Increase) decrease in long-term receivables | (2,531) | 9,116 | (23,654) |
| Other | (13,364) | (13,072) | (124,897) |
| Net cash used in investing activities | (99,491) | (79,060) | (929,822) |
| Financing activities: | | | |
| Decrease in short-term loans | (17,525) | (7,038) | (163,785) |
| Proceeds from long-term debt | 99,636 | 98,462 | 931,178 |
| Repayment of long-term debt | (115,491) | (215,946) | (1,079,355) |
| Cash dividends paid | (15,857) | (14,541) | (148,196) |
| Other | (746) | (245) | (6,972) |
| Net cash used in financing activities | (49,984) | (139,309) | (467,140) |
| Effect of exchange rate changes on cash and cash equivalents | (197) | (2,955) | (1,841) |
| (Decrease) increase in cash and cash equivalents | (33,941) | 58,644 | 317,206 |
| Cash and cash equivalents at beginning of year | 174,535 | 109,638 | 1,631,168 |
| Increase in cash and cash equivalents resulting from inclusion in consolidation | 14 | 6,252 | 131 |
| Decrease in cash and cash equivalents resulting from exclusion from consolidation | (128) | — | (1,196) |
| Cash and cash equivalents at end of year | ¥140,478 | ¥174,535 | \$1,312,879 |

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, 2005

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 5 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 overseas 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.

Prior service is amortized as incurred by the straight-line method, principally over 5 years. Actuarial gain or loss is amortized commencing in the subsequent period by the straight-line method, principally over 5 years.

(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 vessels

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 vessels. A reserve for the inspection of oil tanks, machinery and equipment, and vessels 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, 2005 and 2004 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 ¥107 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2005. 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. CHANGE IN METHOD OF ACCOUNTING

Effective April 1, 2004, the Company and its three major consolidated subsidiaries changed the timing of the amortization of actuarial gain or loss from the period realized or incurred, to the year following the year in which the gain or loss was recognized. This change was made in order to meet the early year-end closing and to enhance the efficiency of the Company's accounting procedures.

The effect of this change was to increase the provision for accrued retirement benefits by ¥1,307 million (\$12,215 thousand) and to decrease operating income, income before income taxes and minority interests by ¥1,286 million (\$12,019 thousand).

4. SECURITIES

a) Marketable securities classified as held-to-maturity securities at March 31, 2005 and 2004 were as follows:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|------|---------------------------|
| | 2005 | 2004 | 2005 |
| Carrying amount | ¥864 | ¥863 | \$8,075 |
| Aggregate market value | 866 | 873 | 8,093 |
| Net unrealized holding gain | ¥ 2 | ¥ 10 | \$ 19 |

b) Marketable securities classified as other securities at March 31, 2005 and 2004 were as follows:

| March 31, 2005 | 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 | ¥68,961 | ¥176,395 | ¥107,435 | \$644,495 | \$1,648,551 | \$1,004,065 |
| Debt securities | 14 | 15 | 0 | 131 | 140 | 0 |
| Other | 51 | 52 | 0 | 477 | 486 | 0 |
| | ¥69,028 | ¥176,463 | \$107,435 | \$645,121 | \$1,649,187 | \$1,004,065 |

| March 31, 2004 | Millions of yen | | |
|-----------------------|------------------|-----------------|-----------------------------|
| | Acquisition cost | Carrying amount | Net unrealized holding gain |
| Stocks | ¥61,831 | ¥146,311 | ¥84,481 |
| Debt securities | 14 | 14 | 0 |
| Other | 100 | 101 | 0 |
| | ¥61,947 | ¥146,428 | ¥84,481 |

c) Sales of securities classified as other securities amounted to ¥4,289 million (\$40,084 thousand) and ¥17,741 million, with a net aggregate gain of ¥2,244 million (\$20,972 thousand) and ¥2,495 million for the years ended March 31, 2005 and 2004, respectively.

d) The redemption schedule at March 31, 2005 for securities with maturity dates is summarized as follows:

| March 31, 2005 | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Due in one year or less | ¥19,158 | \$179,047 |
| Due after one year through five years | 25,778 | 240,916 |
| Due after five years through ten years | 1 | 9 |

5. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-----------------|---------------------------|
| | 2005 | 2004 | 2005 |
| Merchandise and finished products | ¥121,004 | ¥103,012 | \$1,130,879 |
| Crude oil | 159,819 | 104,937 | 1,493,636 |
| Merchandise and crude oil in transit | 132,688 | 98,344 | 1,240,075 |
| Work in process | 161,292 | 136,951 | 1,507,402 |
| Containers and supplies | 43,485 | 35,297 | 406,402 |
| Real estate for sale | 18,413 | 20,315 | 172,084 |
| | ¥636,704 | ¥498,857 | \$5,950,505 |

6. IMPAIRMENT LOSS ON FIXED ASSETS

The impairment of fixed assets for the years ended March 31, 2005 and 2004 resulted primarily from a significant decrease in the market value of the Company's land as well as from the overall deterioration of its business environment.

Loss on impairment of fixed assets for the years ended March 31, 2005 and 2004 consisted of the following:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------|-----------------|----------|------------------------------|
| | 2005 | 2004 | 2005 |
| Service stations | | | |
| Land | ¥1,878 | ¥ 72,002 | \$17,551 |
| Other | 24 | 424 | 224 |
| | 1,903 | 72,427 | 17,785 |
| Plants | | | |
| Land | — | 17,308 | — |
| Other | — | 255 | — |
| | — | 17,563 | — |
| Buildings for rent | | | |
| Land | 201 | 14,943 | 1,879 |
| Building | 99 | 2,184 | 925 |
| Other | 534 | — | 4,991 |
| | 836 | 17,128 | 7,813 |
| Other businesses | | | |
| Land | — | 23,669 | — |
| Building | — | 4,185 | — |
| Other | — | 1,924 | — |
| | — | 29,780 | — |
| Idle properties and equipments | | | |
| Land | 1,093 | 32,851 | 10,215 |
| Other | 378 | 1,731 | 3,533 |
| | 1,471 | 34,582 | 13,748 |
| Total | ¥4,211 | ¥171,482 | \$39,355 |

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 idle properties and equipments 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 by real estate appraisal standards.

Losses on the impairment of fixed assets for the years ended March 31, 2005 and 2004 were recorded as an extraordinary item.

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, 2005 and 2004 were approximately 0.3% and 0.2%, respectively.

Long-term debt at March 31, 2005 and 2004 is summarized as follows:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|---|------------------|-----------|------------------------------|
| | 2005 | 2004 | 2005 |
| 1.60% unsecured convertible bonds in yen, due March 2005 | ¥ — | ¥ 69,628 | \$ — |
| Unsecured Eurobonds in U.S. dollars, due through February 2007, at interest rates ranging from 2.13% to 2.76% | 12,270 | 16,063 | 114,673 |
| 1.10% unsecured Eurobonds in Euro, due September 2005 | 3,548 | 3,382 | 31,906 |
| Unsecured bonds in yen, due through May 2013, at interest rates ranging from 0.61% to 3.40% | 177,300 | 177,600 | 1,675,009 |
| Unsecured Eurobonds in yen, due through April 2013, at interest rates ranging from 0.06% to 2.98% | 38,919 | 40,374 | 380,887 |
| Loans from banks, life insurance companies and government agencies, due through March 2022, at interest rates ranging from 0.13% to 6.70%: | | | |
| Secured | 112,218 | 103,509 | 1,048,766 |
| Unsecured | 427,585 | 332,509 | 3,996,121 |
| | 771,841 | 743,067 | 7,213,486 |
| Less current portion | (159,331) | (112,542) | (1,489,075) |
| | ¥612,511 | ¥630,525 | \$5,724,402 |

Assets pledged at March 31, 2005 and 2004 as collateral for long-term debt or other debt were as follows:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|---------------------------|
| | 2005 | 2004 | 2005 |
| Time deposits | ¥ 46 | ¥ 65 | \$ 430 |
| Notes and accounts receivable | 811 | 1,320 | 7,579 |
| Land | 233,236 | 225,234 | 2,086,318 |
| Other property, plant and equipment, net | 275,494 | 261,572 | 2,574,710 |
| Investments in other securities | 39,717 | 28,963 | 371,187 |
| Long-term receivables | 3,142 | 4,988 | 29,364 |
| Other assets | — | 31 | — |

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---------------------------|-----------------|---------------------------|
| 2006 | ¥159,331 | \$1,489,075 |
| 2007 | 78,826 | 736,692 |
| 2008 | 73,596 | 687,813 |
| 2009 | 72,734 | 679,757 |
| 2010 and thereafter | 387,354 | 3,620,131 |
| | ¥771,843 | \$7,213,486 |

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 (WPPF). In accordance with the provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the separation of the substitutional portion from the corporate portion of the benefit obligation under its WPPF 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 recognized a gain of ¥3,483 million (\$32,551 thousand) for the year ended March 31, 2005.

a) Accrued retirement benefits at March 31, 2005 and 2004 consisted of the following:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|------------|---------------------------|
| | 2005 | 2004 | 2005 |
| Retirement benefits obligation | ¥(267,703) | ¥(284,319) | \$(2,501,897) |
| Plan assets at fair value | 163,555 | 154,286 | 1,528,551 |
| Unfunded retirement benefits obligation | (104,147) | (130,032) | (973,336) |
| Unrecognized actuarial loss | 8,932 | 24,474 | 83,477 |
| Unrecognized prior service cost | (11,619) | (6,167) | (108,589) |
| Accrued retirement benefits | ¥(106,835) | ¥(111,725) | \$ (998,458) |

b) Retirement benefits expenses for the years ended March 31, 2005 and 2004 are outlined as follows:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|---------|------------------------------|
| | 2005 | 2004 | 2005 |
| Service cost | ¥7,782 | ¥ 9,314 | \$ 72,729 |
| Interest cost | 5,388 | 6,309 | 50,355 |
| Expected return on plan assets | (2,871) | (1,787) | (26,832) |
| Amortization of actuarial loss | 7,849 | 7,997 | 73,355 |
| Amortization of prior service cost | (336) | (1,081) | (3,140) |
| | 17,812 | 20,753 | 166,467 |
| Gain on transfer of the substitutional portion of WFPF | (3,483) | — | (32,551) |
| | ¥14,329 | ¥20,753 | \$133,916 |

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

| As of March 31, | 2005 | 2004 |
|--|--------------------|-------------|
| Discount rate | Mainly 2.0% | Mainly 2.0% |
| Expected rate of return on plan assets | Mainly 2.0% | 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 41% for the year ended March 31, 2005

An analysis of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2005 is as follows:

| Year ending March 31, | 2005 |
|--|--------------|
| Statutory tax rate | 40.6% |
| Adjustments: | |
| Non-deductible expenses | 0.7 |
| Non-taxable dividend income | (0.6) |
| Different tax rates applied to the income of consolidated subsidiaries | (2.0) |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (1.2) |
| Inhabitants' per capita taxes | 0.3 |
| Adjustment of valuation allowance | 0.1 |
| Other | (0.5) |
| Effective tax rate | 37.4% |

The corresponding analysis for the year ended March 31, 2004 has been omitted as loss before income taxes and minority interests was recorded.

The significant components of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|------------|------------------------------|
| | 2005 | 2004 | 2005 |
| Deferred tax assets: | | | |
| Property, plant and equipment | ¥ 15,897 | ¥ 16,058 | \$ 148,570 |
| Accrued retirement benefits..... | 38,955 | 39,324 | 364,065 |
| Depreciation | 12,715 | 12,553 | 118,832 |
| Net operating loss carryforwards | 8,978 | 17,631 | 83,907 |
| Loss on revaluation of securities | 20,165 | 15,234 | 188,458 |
| Loss on impairment of assets..... | 56,303 | 57,908 | 526,196 |
| Other | 54,738 | 60,941 | 511,570 |
| Valuation allowance | (75,573) | (66,752) | (706,290) |
| Total deferred tax assets | 132,180 | 152,899 | 1,235,327 |
| Deferred tax liabilities: | | | |
| Fair value of subsidiaries on consolidation | 70,353 | 72,642 | 657,505 |
| Reserves under Special Taxation Measures Law | 43,539 | 40,927 | 406,907 |
| Net unrealized holding gain on securities | 43,212 | 33,781 | 403,850 |
| Other..... | 25,072 | 17,590 | 234,318 |
| Total deferred tax liabilities | 182,178 | 164,942 | 1,702,598 |
| Net deferred tax liabilities | ¥ (49,997) | ¥ (12,042) | \$ (467,262) |

11. EXCISE TAXES

Excise taxes are levied on gasoline and diesel fuel when delivered to the customers and are included under net sales and cost of sales in the consolidated statements of operations. These taxes amounted to ¥1,121,597 million (\$10,482,215 thousand) and ¥1,053,667 million for the years ended March 31, 2005 and 2004, respectively, and represented approximately 23% and 25% of net sales for the respective years.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses at March 31, 2005 and 2004 consisted of the following:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|------------------------------------|-----------------|----------|------------------------------|
| | 2005 | 2004 | 2005 |
| Freight | ¥102,350 | ¥103,967 | \$ 956,542 |
| Personnel expenses | 66,072 | 69,653 | 617,495 |
| Retirement benefits | 9,722 | 11,466 | 90,860 |
| Repair and inspection costs..... | 7,808 | 9,523 | 72,972 |
| Rental expenses | 16,021 | 17,966 | 149,729 |
| Depreciation and amortization..... | 24,683 | 25,657 | 230,682 |
| Other | 58,623 | 57,092 | 547,879 |
| | ¥285,281 | ¥295,328 | \$2,666,178 |

13. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of ¥11,440 million (\$106,916 thousand) and ¥9,685 million were charged to income as incurred for the years ended March 31, 2005 and 2004, respectively.

14. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2005 and 2004:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|----------------|------------------------------|
| | 2005 | 2004 | 2005 |
| As endorser of trade notes | ¥ 286 | ¥ 1,677 | \$ 2,673 |
| As guarantors of indebtedness of: | | | |
| Unconsolidated subsidiaries and affiliates | 30,001 | 25,425 | 280,383 |
| Others | 27,425 | 30,145 | 256,308 |
| | <u>¥57,713</u> | <u>¥57,247</u> | <u>\$539,374</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, 2005 and 2004, 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 |
|--------------------------------|-----------------|---------------|------------------------------|
| | 2005 | 2004 | 2005 |
| Acquisition costs | ¥9,608 | ¥8,921 | \$89,794 |
| Accumulated depreciation | 4,130 | 3,828 | 38,598 |
| Net book value | <u>¥5,477</u> | <u>¥5,092</u> | <u>\$51,187</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, 2005 and 2004:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|------------------------|-----------------|--------|------------------------------|
| | 2005 | 2004 | 2005 |
| Lease payments | ¥2,097 | ¥2,113 | \$19,598 |
| Depreciation | 1,927 | 1,971 | 18,009 |
| Interest expense | 203 | 197 | 1,897 |

Future minimum lease payments (exclusive of the interest portion thereon) subsequent to March 31, 2005 for finance leases accounted for as operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---------------------------|--------------------|------------------------------|
| 2006 | ¥1,846 | \$17,252 |
| 2007 and thereafter | 4,187 | 39,131 |
| Total | <u>¥6,033</u> | <u>\$56,383</u> |

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2005 for noncancelable operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---------------------------|--------------------|------------------------------|
| 2006 | ¥205 | \$1,916 |
| 2007 and thereafter | 196 | 1,832 |
| Total | <u>¥402</u> | <u>\$3,757</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, 2005 and 2004:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------|-----------------|---------|---------------------------|
| | 2005 | 2004 | 2005 |
| Acquisition costs | ¥18,208 | ¥16,830 | \$170,168 |
| Accumulated depreciation | 7,480 | 6,720 | 69,907 |
| Net book value | ¥10,727 | ¥10,109 | \$100,252 |

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, 2005 and 2004:

| March 31, | Millions of yen | | Thousands of U.S. dollars |
|-----------------------|-----------------|--------|---------------------------|
| | 2005 | 2004 | 2005 |
| Lease revenues | ¥4,031 | ¥3,359 | \$37,673 |
| Depreciation | 3,629 | 3,030 | 33,916 |
| Interest income | 499 | 359 | 4,664 |

Future minimum lease revenues (exclusive of the interest portion thereon) subsequent to March 31, 2005 for finance leases accounted for as operating leases are summarized as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---------------------------|-----------------|---------------------------|
| 2006 | ¥ 3,462 | \$ 32,355 |
| 2007 and thereafter | 7,683 | 71,804 |
| Total | <u>¥11,146</u> | <u>\$104,168</u> |

(b) Operating leases

Future minimum lease revenues subsequent to March 31, 2005 for noncancelable operating leases are immaterial.

16. DERIVATIVES

The Company and its consolidated subsidiaries utilize 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, 2005 and 2004 are summarized as follows:

| 2005 | 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 | ¥39,477 | ¥40,021 | ¥476 | \$368,944 | \$374,028 | \$4,449 |
| Interest-rate contracts: | | | | | | |
| Swaps | ¥ 4,884 | ¥ 463 | ¥463 | \$ 45,645 | \$ 4,327 | \$4,327 |
| Commodity options: | | | | | | |
| Collars | ¥ 2,472 | ¥ 257 | ¥257 | \$ 23,103 | \$ 2,402 | \$2,402 |

| 2004 | Millions of yen | | |
|--|------------------|------------|------------------------|
| | Notional amounts | Fair value | Unrealized gain (loss) |
| Currency: | | | |
| Forward foreign exchange contracts | ¥ 4,508 | ¥4,436 | ¥ (71) |
| Interest-rate contracts: | | | |
| Swaps | ¥40,000 | ¥ (132) | ¥(132) |

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, 2005 and 2004 is summarized as follows:

Business segments

| Year ended March 31, 2005 | Millions of yen | | | | | | |
|--------------------------------------|------------------------------|--------------------------|--------------|----------|------------|--------------|--------------|
| | Petroleum fuel and crude oil | Petrochemical operations | Construction | Other | Total | Eliminations | Consolidated |
| Sales to third parties | ¥4,139,639 | ¥348,972 | ¥359,456 | ¥ 76,095 | ¥4,924,163 | ¥ — | ¥4,924,163 |
| Intergroup sales and transfers | 240,357 | 16,110 | 1,665 | 14,857 | 272,991 | (272,991) | — |
| Total sales..... | 4,379,996 | 365,082 | 361,122 | 90,952 | 5,197,154 | (272,991) | 4,924,163 |
| Operating expenses | 4,216,695 | 341,737 | 354,375 | 85,968 | 4,998,777 | (276,083) | 4,722,693 |
| Operating income..... | ¥ 163,301 | ¥ 23,344 | ¥ 6,746 | ¥ 4,984 | ¥ 198,377 | ¥ 3,092 | ¥ 201,470 |
| Assets..... | ¥2,986,974 | ¥172,518 | ¥380,709 | ¥157,395 | ¥3,697,597 | ¥(183,245) | ¥3,514,352 |
| Depreciation and amortization | ¥ 89,894 | ¥ 7,874 | ¥ 5,113 | ¥ 7,155 | ¥ 110,037 | ¥ (5) | ¥ 110,031 |
| Impairment losses | ¥ 4,211 | ¥ — | ¥ — | ¥ — | ¥ 4,211 | ¥ — | ¥ 4,211 |
| Capital expenditures | ¥ 84,974 | ¥ 10,447 | ¥ 5,494 | ¥ 6,600 | ¥ 107,516 | ¥ — | ¥ 107,516 |

| 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, 2005 | Thousands of U.S. dollars | | | | | | |
|--------------------------------------|------------------------------|--------------------------|--------------|-------------|--------------|---------------|--------------|
| | Petroleum fuel and crude oil | Petrochemical operations | Construction | Other | Total | Eliminations | Consolidated |
| Sales to third parties | \$38,688,215 | \$3,261,421 | \$3,359,402 | \$ 711,168 | \$46,020,215 | \$ — | \$46,020,215 |
| Intergroup sales and transfers | 2,246,327 | 150,561 | 15,561 | 138,850 | 2,551,318 | (2,551,318) | — |
| Total sales..... | 40,934,542 | 3,411,981 | 3,374,972 | 850,019 | 48,571,533 | (2,551,318) | 46,020,215 |
| Operating expenses | 39,408,364 | 3,193,804 | 3,311,916 | 803,439 | 46,717,542 | (2,580,215) | 44,137,318 |
| Operating income..... | \$ 1,526,178 | \$ 218,168 | \$ 63,047 | \$ 46,579 | \$ 1,853,991 | \$ 28,897 | \$ 1,882,897 |
| Assets..... | \$27,915,645 | \$1,612,318 | \$3,558,028 | \$1,470,981 | \$34,556,981 | \$(1,712,570) | \$32,844,411 |
| Depreciation and amortization | \$ 840,131 | \$ 73,589 | \$ 47,785 | \$ 66,869 | \$ 1,028,383 | \$ (47) | \$ 1,028,327 |
| Impairment losses | \$ 39,355 | \$ — | \$ — | \$ — | \$ 39,355 | \$ — | \$ 39,355 |
| Capital expenditures..... | \$ 794,150 | \$ 97,636 | \$ 51,346 | \$ 61,682 | \$ 1,004,822 | \$ — | \$ 1,004,822 |

Geographical segments

| Year ended March 31, 2005 | Millions of yen | | | | | | |
|--------------------------------------|-------------------|-----------------|------------------|-----------------|-------------------|--------------------|-------------------|
| | Japan | North America | Asia and Oceania | Europe | Total | Eliminations | Consolidated |
| Sales to third parties | ¥4,810,287 | ¥ 38,656 | ¥ 61,925 | ¥ 13,294 | ¥4,924,163 | ¥ — | ¥4,924,163 |
| Intergroup sales and transfers | 18,596 | 166,512 | 517,603 | 670,380 | 1,373,093 | (1,373,093) | — |
| Total sales..... | 4,828,884 | 205,169 | 579,528 | 683,674 | 6,297,257 | (1,373,093) | 4,924,163 |
| Operating expenses | 4,656,579 | 191,265 | 569,560 | 678,531 | 6,095,936 | (1,373,242) | 4,722,693 |
| Operating income..... | ¥ 172,304 | ¥ 13,904 | ¥ 9,967 | ¥ 5,143 | ¥ 201,320 | ¥ 149 | ¥ 201,470 |
| Total assets..... | ¥3,269,593 | ¥109,380 | ¥208,598 | ¥176,432 | ¥3,764,004 | ¥ (249,652) | ¥3,514,352 |

| 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, 2005 | Thousands of U.S. dollars | | | | | | |
|--------------------------------------|---------------------------|--------------------|--------------------|--------------------|---------------------|-----------------------|---------------------|
| | Japan | North America | Asia and Oceania | Europe | Total | Eliminations | Consolidated |
| Sales to third parties..... | \$44,955,953 | \$ 361,271 | \$ 578,738 | \$ 124,243 | \$46,020,215 | \$ — | \$46,020,215 |
| Intergroup sales and transfers | 173,794 | 1,556,187 | 4,837,411 | 6,265,234 | 12,832,645 | (12,832,645) | — |
| Total sales..... | 45,129,757 | 1,917,467 | 5,416,150 | 6,389,477 | 58,852,869 | (12,832,645) | 46,020,215 |
| Operating expenses | 43,519,430 | 1,787,523 | 5,322,991 | 6,341,411 | 56,971,364 | (12,834,037) | 44,137,318 |
| Operating income..... | \$ 1,610,318 | \$ 129,944 | \$ 93,150 | \$ 48,065 | \$ 1,881,495 | \$ 1,393 | \$ 1,882,897 |
| Total assets..... | \$30,556,944 | \$1,022,243 | \$1,949,514 | \$1,648,897 | \$35,177,607 | \$ (2,333,196) | \$32,844,411 |

18. SUBSEQUENT EVENT

(1) The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2005, were approved at a meeting of the shareholders of the Company held on June 29, 2005:

| | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Year-end cash dividends (¥6=\$0.06 per share) | ¥9,058 | \$84,654 |
| Bonuses to directors and statutory auditors | 218 | 2,037 |

(2) At the Board of Directors' meeting held on March 31, 2005, the purchase of 50,000,000 shares of the Company's treasury stock by an appropriation of retained earnings on a timely basis was approved. The acquisition was made in April 2005 at market prices and the related acquisition cost totaled ¥38,450 million (\$359,346 thousand).

The Board of Directors also resolved on April 28, 2005 to retire treasury stock during April 2005.

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, 2005 and 2004, 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, 2005 and 2004, 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 changed the timing of the amortization of actuarial gain or loss.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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.



June 29, 2005

Principal NOC Group Companies

(As of July 1, 2005)

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

Wakayama Petroleum Refining Co., Ltd.

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

Nihonkai Oil Co., Ltd.

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

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

EXPLORATION AND PRODUCTION

Nippon Oil Exploration Limited

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

Japan Vietnam Petroleum Company, Limited

Capital: ¥22,530 million (97.1%)*³
Established: 1992
Business: Exploration and production of oil and natural gas

Nippon Oil Exploration (Sarawak) Limited

Capital: ¥14,880 million (76.5%)*³
Established: 1991
Business: Exploration and production of natural gas

OVERSEAS OIL MARKETING

Nippon Oil (U.K.) plc*⁴

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 (57.2%)
Established: 1934
Business: Road paving, civil engineering, and construction

OTHER

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 (51%)
Established: 1985
Business: Commissioned development and operation of computer and communications system

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

*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 The shares owned by Nippon Oil Exploration Limited

*⁴ 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, 2005)

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

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Jakarta 10220, Indonesia
Phone: (21) 573-1234
Fax: (21) 574-2275

Beijing Office

Room 1917-1918,
China World Tower 1,
China World Trade Center No. 1,
Jian Guo Men Wai Avenue,
Beijing 100004, P.R. China

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
Lot 1168, 3rd Floor, Wisma Interhill Building,
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Phone: (85) 444111
Fax: (85) 419036

Kuala Lumpur Office

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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,
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Fax: (20) 7309-6969

Nippon Oil Exploration and Production U.K. Limited

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Fax: (630) 875-9702

San Ramon Office

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Phone: (925) 355-1101
Fax: (925) 355-1109

Houston Office

5847 San Felipe, Suite 2850,
Houston, Texas 77057, U.S.A.
Phone: (713) 781-1300
Fax: (713) 781-1329

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

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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.

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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, 2005)



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

Investor Information

(As of July 1, 2005)

Date of Establishment

May 10, 1888

Paid-in Capital

¥139,437 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, 2005)

| | Number of shares held (thousand shares) | (%) |
|---|--|-----|
| Japan Trustee Services Bank, Ltd. (Trust Unit) | 101,715 | 6.7 |
| The Master Trust Bank of Japan, Ltd. (Trust Unit) | 98,547 | 6.5 |
| Mizuho Corporate Bank, Ltd. | 73,887 | 4.9 |
| Mitsubishi Corporation | 45,435 | 3.0 |
| Sumitomo Mitsui Banking Corporation | 40,398 | 2.7 |
| The Bank of Tokyo-Mitsubishi, Ltd. | 29,387 | 1.9 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 29,323 | 1.9 |

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