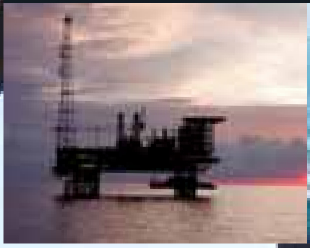
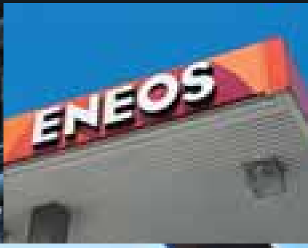
NIPPON OIL CORPORATION

ANNUAL REPORT 2006

Year Ended March 31, 2006





For a Future Surge in Corporate Development...

ENEOS

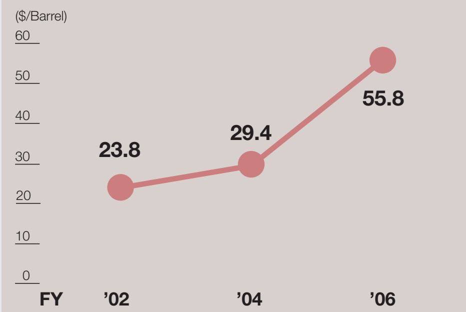
NIPPON OIL

Your Choice of Energy

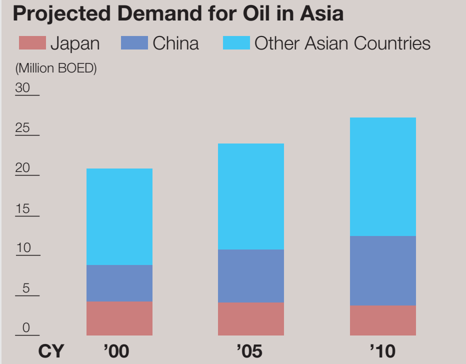
Nippon Oil—At a Glance

Market Sector	Market Environment	Market Data
Exploration & Production (E&P) P20-22	➔Historic surge in crude oil prices ➔Intensifying competition for natural resources with the increasing participation of such rising economic powers as China and India	Crude Oil Prices (CIF)
Refining and Marketing P23-27	➔Japanese domestic markets: Oil still main primary energy source but demand gradually declining little by little ➔Asian markets: Demand growing from countries centered on China	Projected Demand for Oil in Asia
Petrochemicals P23-25	➔Demand growing in Asian markets centered on China ➔Despite growth in production capacity in Asia and the Middle East, continued capacity shortfalls for paraxylene and propylene, etc.	Projected Demand for Paraxylene in Asia
New Energy-Type Business P28-29	➔Acceleration trend of electric power market deregulation ➔Rising expectations regarding the potential of next-generation energy systems for countering global warming	Projected Growth in Demand for Fuel Cells

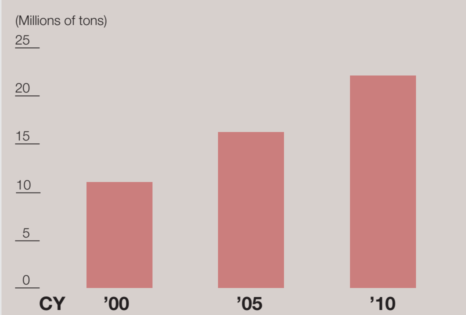
Crude Oil Prices (CIF)



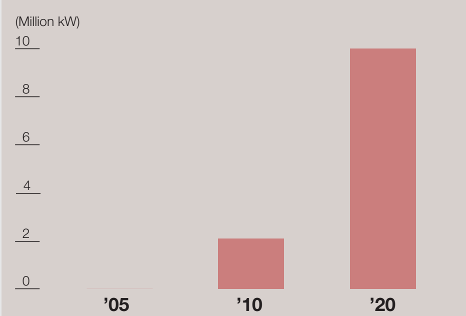
Projected Demand for Oil in Asia



Projected Demand for Paraxylene in Asia



Projected Growth in Demand for Fuel Cells



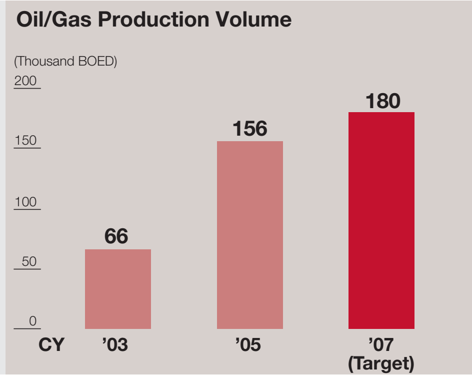
A Cautionary Note on Forward-Looking Statements

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.

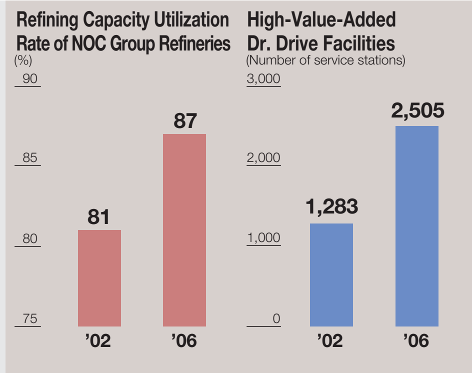
Founded in 1888, Nippon Oil has been a leading company in the Japanese oil industry for more than a century. We have the largest oil refining capacity and the top share of fuel sales in Japan.

NOC Strategy	NOC Data	

➔Proactive measures to expand production volume concentrated in core areas
➔Increase volume to 180,000 BOED by 2007
➔Aiming to boost capacity to 200,000 BOED by 2010

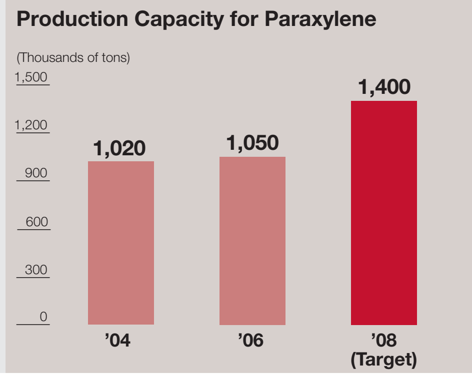


• Retailing = High-Value-Added Service Stations
Strategy Shift from Quantity to Quality
• Increasing the Utilization Rate of Refining Facilities
➔ Refining collaboration with Idemitsu Kosan
➔ Expanding production capacity for exports
➔ Expanding electric power operations
➔ Moving further ahead with the CRI strategy

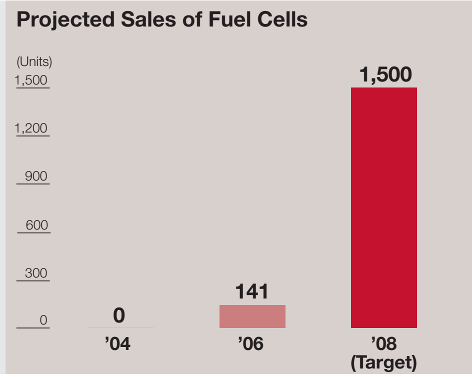


• Chemical Refinery Integration (CRI) Project

• Chemical Refinery Integration (CRI) Project
➔ Leveraging Japan's largest refining capacity to increase production of petrochemicals



➔Proactively expanding electric power operations
➔Commercialized world's first household-use fuel cell system that uses LPG as fuel
➔Commercialized world's first household-use fuel cell system that uses kerosene as fuel



Contents

Major Achievements & Topics ’06

Exploration & Production

- Tangguh LNG Project in Indonesia moves ahead to development stage (Mar. 2005)
- Acquisition of oil and gas producing assets in the Gulf of Mexico, U.S.A. (Apr. 2005)
- Start of development of the Blane field in the North Sea (July 2005)
- Establishment of Tripoli Office, Libya (Sept. 2005)
- Successful bid for exploration and production sharing agreement rights in Libya (Oct. 2005)
- Start of commercial production at oil fields onshore Papua New Guinea (Mar. 2006)
- Operational collaboration agreement with Teikoku Oil Co., Ltd., and INPEX CORPORATION in new oil development project (Apr. 2006)

Refining & Petrochemicals

- Announcement of value-adding plans at the Sendai Refinery (June 2005)
- Arrangement of alliance with Mitsubishi Gas Chemical Company, Inc., in paraxylene business (Oct. 2005)
- Construction of lubricant and grease manufacturing facilities in the U.S. state of Alabama and Guangzhou, China (Oct. 2005)
- Announcement of new facility at the Muroran Refinery for manufacturing the petrochemical product cumene (Nov. 2005)
- Expansion of commissioned refining operations on behalf of China National United Oil Corporation (Mar. 2006)
- Finalization of contract with Nippon Petrochemicals Company, Limited (NPCC) to split off NPCC’s head office departments and shift them to NOC (Apr. 2006)

Marketing

- Merging of service station operating subsidiaries as a means of promoting the consolidation of service station management (Oct. 2005)
- Introduction of Dr. Drive service at service stations in Beijing, China (Jan. 2006)
- Completion of target of nationwide network of 2,500 Dr. Drive high-value-added service stations (Mar. 2006)

New Energy-Type Business

- Completion of the PPS power generation facility of Frontier Energy Niigata Co., Ltd. (July 2005)
- Start of construction of natural gas-fueled power generation facility at the Kawasaki Refinery (Mar. 2006)
- Commercialization of ENEOS ECOBOY 1kW-class household-use FCs that use kerosene as fuel (Mar. 2006)
- Launch of ESCO comprehensive energy conservation service projects at the prefectural government building and police headquarters of Aomori Prefecture (Apr. 2006)
- Official opening of the Mizushima LNG base (Apr. 2006)

Financial & Operating Highlights

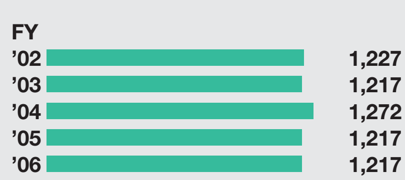
Financial Highlights

	2000	2001	2002
Net sales	¥3,594,911	¥4,076,890	¥3,949,571
Cost of sales	3,245,446	3,691,142	3,555,907
Selling, general and administrative expenses	320,160	315,668	318,432
Operating income	29,304	70,079	75,231
Ordinary income	33,309	62,929	71,023
(excluding inventory valuation factors)	—	—	54,400
Net income (loss)	(4,858)	29,787	24,006
Total shareholders' equity	840,971	898,083	924,140
Total assets	3,760,800	3,971,252	3,444,742
Total current assets	1,611,852	1,875,218	1,419,282
Total current liabilities	1,614,001	1,807,176	1,411,434
Working capital	(2,149)	68,042	7,848
Capital investments	72,600	69,200	122,500
Depreciation and amortization	126,118	123,367	113,461
R&D expenditures	11,370	10,218	10,449
Net interest-bearing debt	1,012,100	925,900	830,800
Amounts per share (yen and U.S. dollars):			
Net income (loss) per share	(3.33)	20.28	16.11
Shareholders' equity per share	577.03	611.29	610.43
Cash dividends per share	7.00	7.00	7.00
Ratios (%):			
ROA (Return on assets)	(0.13)	0.77	0.65
ROE (Return on equity)	(0.6)	3.4	2.6
(excluding inventory valuation factors)	—	—	—
Net debt-equity ratio	120	103	90

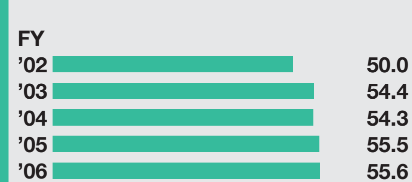
Operating Highlights

Production of Crude Oil and Gas
(BOED)

Capacity of Refining Facilities
(Thousand BOED)



Sales of Petroleum Products
(Million kiloliters)

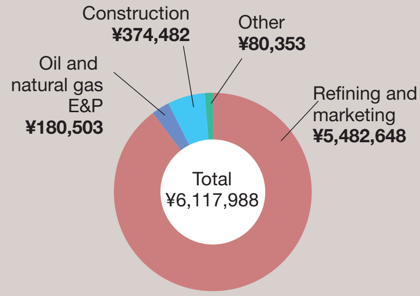


For more-detailed financial and operating data, graphs, and other information, please refer to the Company's *Fact Book 2006*.

Millions of yen				Thousands of U.S. dollars
2003	2004	2005	**2006**	**2006**
¥4,187,392	¥4,279,751	¥4,924,163	**¥6,117,988**	**$52,290,496**
3,785,291	3,928,505	4,437,411	**5,521,192**	**47,189,675**
305,514	295,328	285,281	**292,866**	**2,503,128**
96,586	55,918	201,470	**303,930**	**2,597,692**
90,796	57,089	212,435	**309,088**	**2,641,778**
42,700	81,300	151,700	**142,700**	**1,219,658**
32,281	(133,526)	131,519	**166,510**	**1,423,162**
929,987	821,202	953,240	**1,130,328**	**9,660,923**
3,350,237	3,265,503	3,514,352	**4,231,814**	**36,169,350**
1,329,230	1,395,336	1,569,328	**2,140,951**	**18,298,726**
1,388,397	1,433,424	1,536,810	**1,941,846**	**16,596,974**
(59,167)	(38,088)	32,518	**199,105**	**1,701,752**
148,500	136,900	153,000	**189,800**	**1,622,222**
99,358	107,045	110,031	**135,133**	**1,154,701**
10,037	9,685	11,440	**10,103**	**86,325**
940,200	837,800	820,700	**997,900**	**8,529,915**
21.03	(88.76)	86.72	**114.08**	**0.98**
615.89	544.04	631.77	**775.62**	**6.63**
7.00	7.00	10.00	**12.00**	**0.10**
0.95	(4.04)	3.88	**4.30**	
3.5	(15.3)	14.8	**16.0**	
0.3	(13.6)	10.7	**6.6**	
101	102	86	**88**	

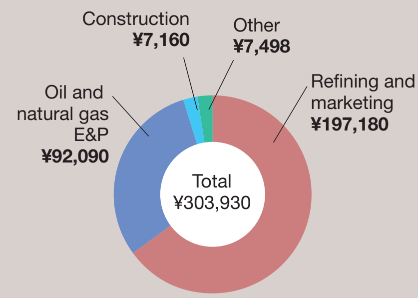
Sales to Third Parties

(Millions of yen)



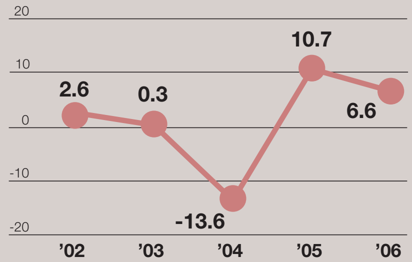
Operating Income

(Millions of yen)



Return on Equity (excluding inventory valuation factors)

(%)

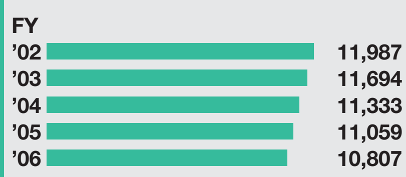


Sales of Paraxylene

(Thousand tons)

Number of Service Stations

(Fixed type)



Number of Employees

A Message from the Management

Fumiaki Watari (seated) Representative Director, Chairman of the Board
Shinji Nishio Representative Director, President

OUTLOOK THROUGH FISCAL 2011

The NOC Group has adopted a Group Philosophy, "Creating the energy future and promoting prosperity and harmony with nature."

In accordance with our philosophy, we are aiming to establish an integrated comprehensive energy company structure by fiscal 2011, ending March 31, 2011. To achieve this, we have drafted our third medium-term consolidated management plan, designed to build the foundation for a future surge in corporate development during the three years through fiscal 2008 to put us on a sustainable growth path during the next three years through fiscal 2011. Having thoroughly improved the NOC Group's operations during the second management plan, we are confident that the implementation of the third and the next management plans will establish integrated systems and a comprehensive energy company structure that will put the Group on the path for sustained increases in profitability.

"The NOC Group is positioned to take advantage of a growing range of business opportunities in Asian markets."

OPERATING ENVIRONMENT

Despite forecasting an annual 1.9% slight decline in domestic demand for petroleum fuels during the four years through fiscal 2011, the Japanese government has announced its projection that oil will continue to be a main component of the country's primary energy source structure.

Because of the rapid expansion of the Asian economies, however, we are anticipating that demand for petroleum and petrochemical products in China, India, and other Asian countries will rise considerably. The NOC Group is positioned to take advantage of a growing range of business opportunities in Asian markets.

THE THIRD MEDIUM-TERM CONSOLIDATED MANAGEMENT PLAN

NOC's third medium-term consolidated management plan is designed to reflect the changing state of our operating environment.

In our domestic petroleum product refining and marketing operations and petrochemicals business, we are striving to cut costs and increase efficiency while also increasing the share of our output accounted for by petrochemicals and taking other measures to increase the value we add in the course of our refining and manufacturing processes. These measures are aimed at generating stable cash flow. On the other hand, we are endeavoring to use our domestically generated cash flow to realize the great growth potential of our overseas operations. We are investing that cash flow in crude oil and natural gas exploration and production (E&P) activities, petrochemicals exports to Asian markets, and overseas lubricant business. Moreover, we are proactively anticipating the hydrogen-based society. By proactively building on the foundation of technologies developed during many years of petroleum refining operations, we are creating a solid base for highly promising fuel cell business. Through these and other strategies, we are aiming to attain a 10% ROE and ¥190 billion in ordinary income in fiscal 2008, which is the last year of the third management plan. (See page 11 for more information.)

REVIEW OF FISCAL 2006

At this point, I will present an overview of the activities undertaken to achieve the third management plan objectives during fiscal 2006, the year ended March 31, 2006—the first year of the plan.

Regarding refining and petrochemicals operations, we proactively moved ahead with steps to broaden the scope of our Chemical Refinery Integration (CRI) project as well as with other measures designed to increase refineries' efficiency and value added. Specifically, we began constructing facilities at the Sendai Refinery to augment production of such petrochemicals as xylene and propylene, and we inaugurated a paraxylene

> **We are seeking to boost our total oil and gas production to 180,000 BOED by the end of fiscal 2008.**

manufacturing alliance with Mitsubishi Gas Chemical Company, Inc. During the period of the current plan, these steps will enable the Group to establish a production capacity of 800,000 tons annually of propylene and 1,400,000 tons annually of paraxylene and then expand its marketing activities aimed at meeting growing demand for petrochemicals in Asian countries. Furthermore, we increased the volume of commissioned refining operations on behalf of China National United Oil Corporation (China Oil) to 30,000 BD, from 20,000 BD in the previous fiscal year, and flexibly responded to numerous other opportunities to satisfy rapidly rising overseas demand for petroleum products in Asia and elsewhere. (See page 14 and page 23 for more information.)

In its domestic marketing operations, NOC has adopted a fundamental strategy of shifting the emphasis from "quantity" to "quality." We worked hard to promote sales of ENEOS NEW VIGO—a high-quality, high-octane, environmentally friendly gasoline product marketed since January 2005—while establishing additional Dr. Drive service stations to create a nationwide network of 2,500 of the high-value-added facilities, which offer a diverse lineup of services, ranging from fueling to statutory vehicle inspection, daily vehicle checkup inspections, and car wash services. (See page 26 for more information.)

With respect to the strategic expansion of our E&P operations, we are seeking to boost our total oil and gas production to 180,000 BOED by the end of fiscal 2008, and we are proceeding with the acquisition of additional promising producing assets, development of existing assets, and other measures aimed at attaining this goal. Commercial production at oil fields offshore northwestern Australia was initiated in March 2005, and additional interests were acquired in producing oil and gas fields in the U.S. Gulf of Mexico region during the fiscal year under review, while oil and gas production projects in Malaysia, Vietnam, Canada, and other locations proceeded smoothly. These measures enabled us to boost the NOC Group's total oil and gas output from 111,000 BOED at the end of fiscal 2005 to 156,000 BOED. Moreover, additional exploration and production-sharing agreements were obtained in the U.K. North Sea and Libya. (See page 20 for more information.)

NOC was the top shareholder in Teikoku Oil Co., Ltd., an oil exploration and production (E&P) company that in April 2006 became integrated with another E&P company, INPEX Corporation, through the establishment of a joint-holding company, INPEX Holdings Inc. Prior to the establishment of the holding company, NOC, Teikoku Oil, and INPEX concluded an agreement that calls for the three companies to consider operational collaboration in new oil development

“This associated gas recovery and utilization project was approved as a Clean Development Mechanism Project (CDM Project) under the Kyoto Protocol.”

projects as well as the strengthening of their cross-shareholdings. It is expected that these measures will further promote the strengthening of the NOC Group’s E&P operations.

In new energy-type business, NOC is emphasizing the development of next-generation energy systems centered on fuel cells, and it commercialized ENEOS ECOBOY household-use fuel cell systems that use kerosene in March 2006. (See page 29 for more information.)

While the NOC Group is realizing its Group Philosophy of “Creating the energy future and promoting prosperity and harmony with nature” in diverse ways, such as the marketing of sulfur-free fuels and the development and marketing of fuel cells, it achieved a noteworthy new type of accomplishment in this regard during fiscal 2006. At our Rang Dong oil field offshore Vietnam, we have piped associated gas generated as a by-product of crude oil production to the mainland and put it to effective use fueling a power plant, thereby realizing a 680,000-ton reduction in CO_2 emissions. In February 2006, this associated gas recovery and utilization project was approved as a Clean Development Mechanism Project (CDM Project) under the Kyoto Protocol. The project is realizing the largest CO_2 emissions reduction of any CDM Project approved anywhere in the world, and NOC’s creation of a new methodology (international rule) is an epochal achievement. Our methodology for the project will apply to future projects that seek to reduce CO_2 emissions through the utilization of associated gas, thereby contributing to considerable CO_2 emissions reductions around the world (See page 33 for more information.)

As a result of these activities during fiscal 2006, on a consolidated basis, the NOC Group recorded ¥6,118.0 billion in net sales (up 24.2%), ¥303.9 billion in operating income (up 50.9% from fiscal 2005), and ¥309.1 billion in ordinary income (up 45.5% from fiscal 2005, although ordinary income would have decreased 5.9% if inventory valuation factors had been excluded). Cash dividends per share applicable to the year were increased ¥2, to ¥12.

While conditions in our operating environment have changed somewhat since we originally drafted the third management plan, the first year of the plan’s implementation went smoothly, and we are maintaining our targets of attaining a 10% ROE and ¥190 billion in ordinary income in fiscal 2008. (See page 11 for more information.)

> The positive results of our strategic efforts are now emerging, and we are **building the foundation** for launching **a future surge of business expansion.**

AN ERA OF UNRELENTING CHANGE

We anticipate numerous major changes that should have a positive effect on the NOC Group's operations, such as growing demand for petroleum and petrochemicals in Asia, deregulation initiatives and the decreasing significance of borders that divide energy markets, and progress being made toward realizing a hydrogen fuel-oriented society. Against this backdrop of unrelenting change, we have been greatly reforming our business model and building a business structure with great growth potential. We have moved ahead with measures to increase the efficiency and added value of our domestic refining and petroleum product marketing operations. The cash flow earned in those operations is being strategically invested in such new growth fields as oil and gas E&P and petrochemicals exports. The positive results of our strategic efforts are now emerging, and we are building the foundation for launching a future surge in business expansion. We are confident that the NOC Group will be able to continue anticipating and effectively responding to the great changes in its operating environment and thereby realizing its own great growth potential.

Through concrete achievements in line with its Group Philosophy, NOC intends to further augment the confidence and trust of all its stakeholders. By doing our utmost to make steady progress in implementing the third management plan, we are determined to realize a sustained rise in our profitability and in our shareholder value.

Fumiaki Watari
Representative Director, Chairman of the Board

Shinji Nishio
Representative Director, President

Third Medium-Term Management Plan Takes Off

Progress of the Third Medium-Term Management Plan

The NOC Group has begun implementing its third medium-term management plan (fiscal 2006–2008).

During these three years, the plan is designed to build a solid foundation for a future surge in corporate development by creating integrated operating systems and a comprehensive energy company structure.

Fiscal 2008 Financial Targets

Ordinary income (excluding inventory valuation factors)* **¥190** billion

ROE **10**%

Emphasized Measures

- **Cost reductions and efficiency increases**
  ¥17 billion over three years
- **Capital investments**
  ¥570 billion in growth fields over three years
- **Interest-bearing debt**
  ¥1,130 billion by the end of fiscal 2008
  Net debt-to-equity ratio of 70% by the end of fiscal 2008

Business Strategies

→ Exploration & Production (E&P)

Boosting our total oil and gas production

→ Refining and Petrochemicals

Increase in refineries' efficiency and value added due to measures in line with the CRI* project

* Chemical Refinery Integration

→ Marketing

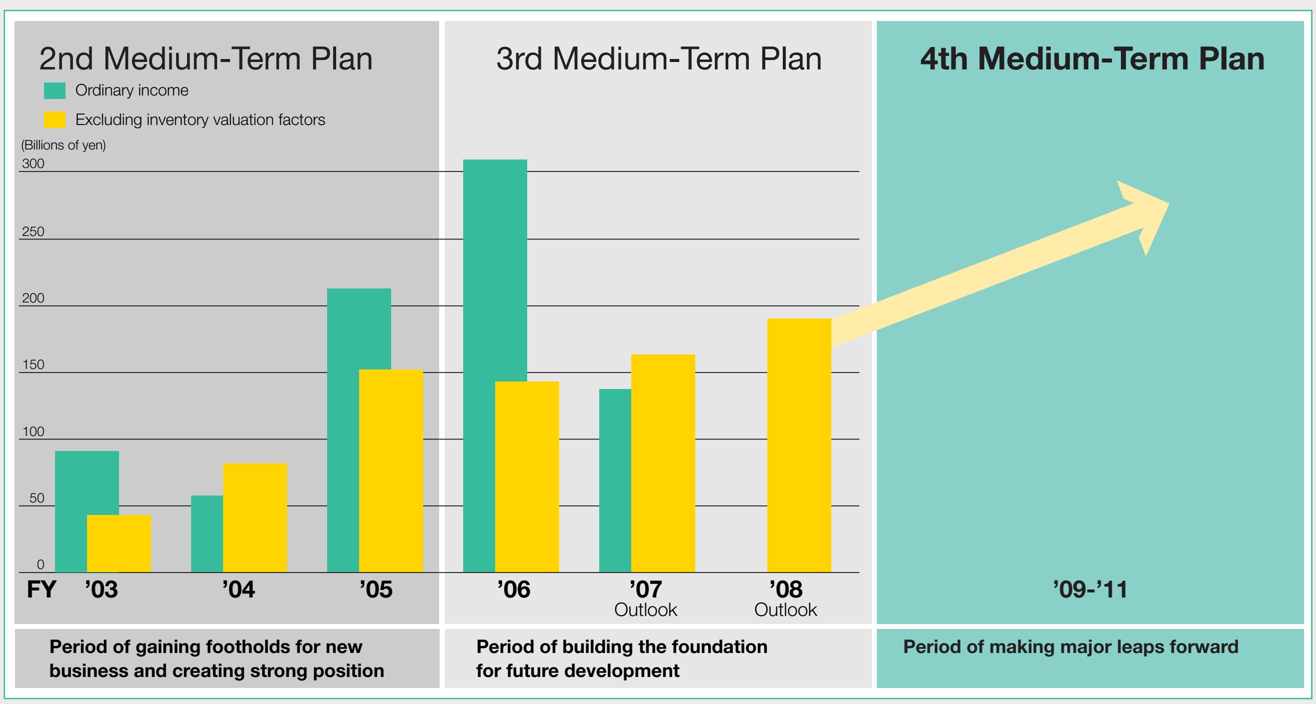
Thoroughly shifting emphasis from "quantity" to "quality"

→ New Energy-Type Business

Further measures to establish a strong niche position in electric power and to prepare for future growth in hydrogen business (fuel cell business)

→ Overseas Operations

Business expansion focused on lubricants and special high-performance petrochemicals



Current Outlook

In fiscal 2008, which is the last year of the third management plan, we are expecting to attain a 10% consolidated ROE and ¥190 billion in consolidated ordinary income.

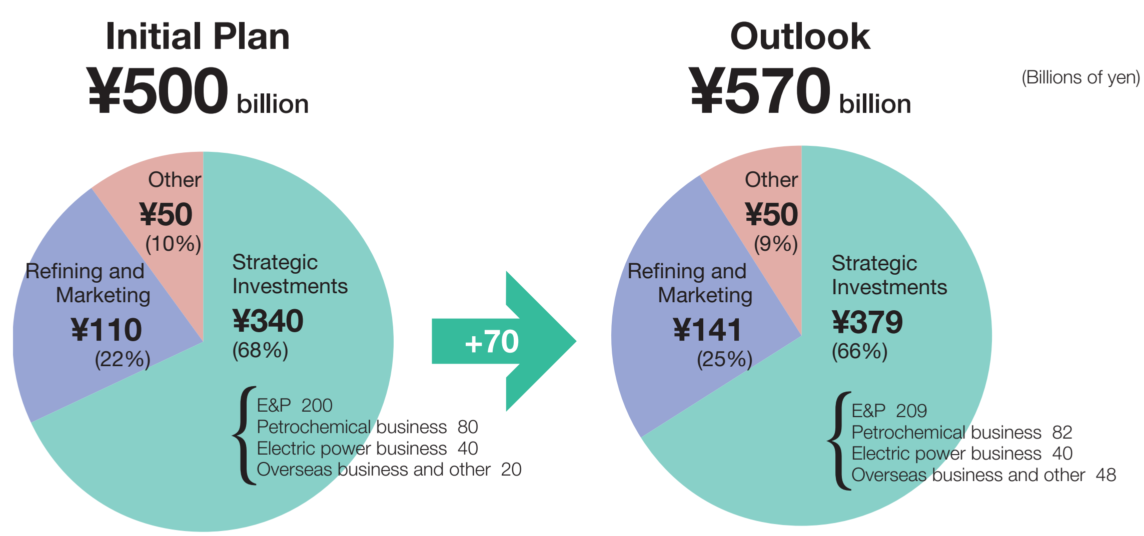
Regarding cost reductions and efficiency increases, the current outlook is to achieve ¥17 billion in cost reductions and efficiency increases over three years. This is lower than the initial plan for three main reasons:
(1) a ¥6 billion rise in costs associated with the strengthening of safety measures and implementation of environmental protection measures, (2) a ¥5 billion rise in costs owing to such external developments as sharp rises in the prices of crude oil and equipment, and (3) a ¥5 billion rise in costs due to increased capital investments in strategic fields.

The current outlook is to implement ¥570 billion in capital investments over three years. This is ¥70 billion higher than the initial plan because of decisions to make ¥39 billion of additional investments in strategic growth fields and ¥31 billion of additional investments in refining and marketing operations.

Because of such factors that include a rise in operating capital requirements due to the sharp rise in crude oil prices, the current outlook is for interest-bearing debt to amount to approximately ¥1,130 billion at the end of fiscal 2008. However, the net debt-to-equity ratio is expected to attain the target level of approximately 70% by the end of fiscal 2008.

With respect to business strategies, the Group is making steady progress in accordance with the plans in its implementation of various business strategies, such as those for increasing the production of E&P operations (see page 20 for more information), those for increasing petrochemicals production based on the CRI project (see page 14 for more information), and those for commercializing fuel cells (see page 29 for more information).

As described, although circumstances have changed since the third management plan was drafted, generally, we had a good start to implement the plan, and the plan is progressing smoothly.



Special Feature: CRI

Accelerating Progress of Chemical Refinery Integration (CRI) Project

Business Environment

1) Structural Changes of Petroleum Fuels Demand in Japan

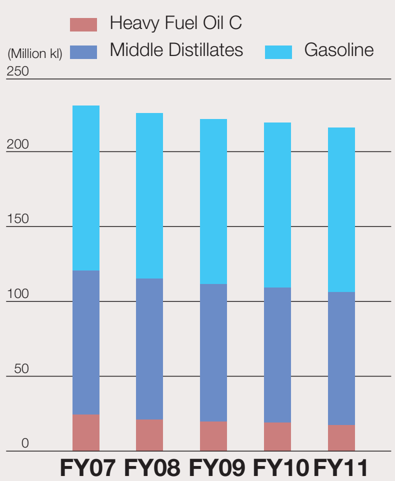
- Domestic demand for petroleum fuels is projected to decrease slightly (average by -1.9% per annum from FY2006 through FY2011).
- Demand for gasoline is flat, and demand for other fuel oil is projected to fall. Changes in the type of fuels used in electric power generation are expected to greatly reduce demand for heavy fuel oil C (average by -8.8% per annum from FY2007 through FY2011).

2) Tightening of Petrochemicals in Asia

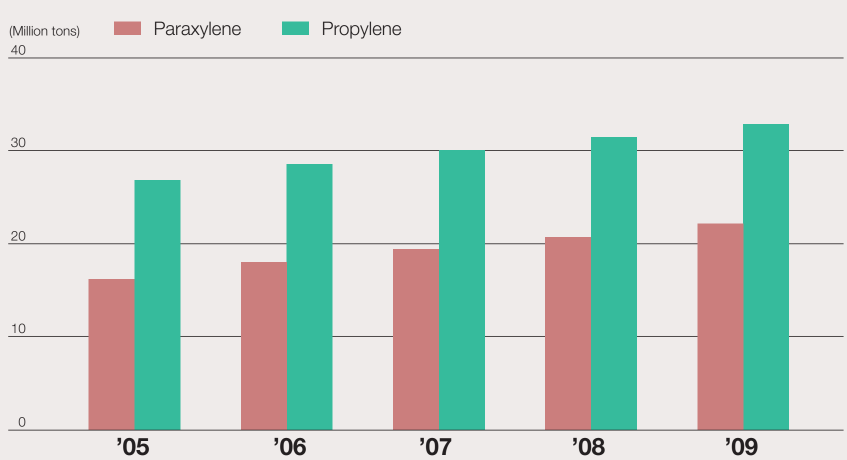
- Looking overseas, rapid economic growth in China, India, and other Asian countries has been accompanied by surging demand growth for petrochemical products.
- Because petrochemicals or their raw materials are produced concurrently with the process of producing oil products from crude oil, the NOC Group can manufacture cost-competitive petrochemicals using internal feedstock.

Despite the prospective slight decline in domestic demand for petroleum products, NOC can expand its business opportunities by producing and exporting petrochemicals to the growing Asian markets.

Forecasts of Domestic Fuel Oil Demand



Demand for Propylene and Paraxylene in Asia



NOC GROUP STRATEGY—THE CHEMICAL REFINERY INTEGRATION (CRI) PROJECT

STRENGTHS

- Largest refining capacity in Japan—NOC has potential for making more-effective use of this capacity in the future.
- Technologies and facilities for integrated production from crude oil to petrochemical products—Further upgrading those technologies and facilities
- Considerable know-how in petrochemical manufacturing and marketing as well as a high share of the global petrochemical market—Ranked 2nd in the world for merchant sales of paraxylene.

CRI STRATEGY

In view of projections of a slight decrease in domestic demand for petroleum fuels, NOC intends to augment its profit-generating capability through its Chemical Refinery Integration (CRI) project. Calling for making use of NOC's top-ranked domestic refining capacity to promote integrated production processes ranging from crude oil refining through petrochemical production, CRI is designed to expand the scale of the Company's operations producing and exporting highly competitive basic petrochemicals in Asia.

STRATEGIC PRODUCTS

CRI will focus on the strategic products, such as propylene and paraxylene.

1) Because the raw materials for these products are by-products of the petroleum refining process, NOC can manufacture cost-competitive petrochemicals.

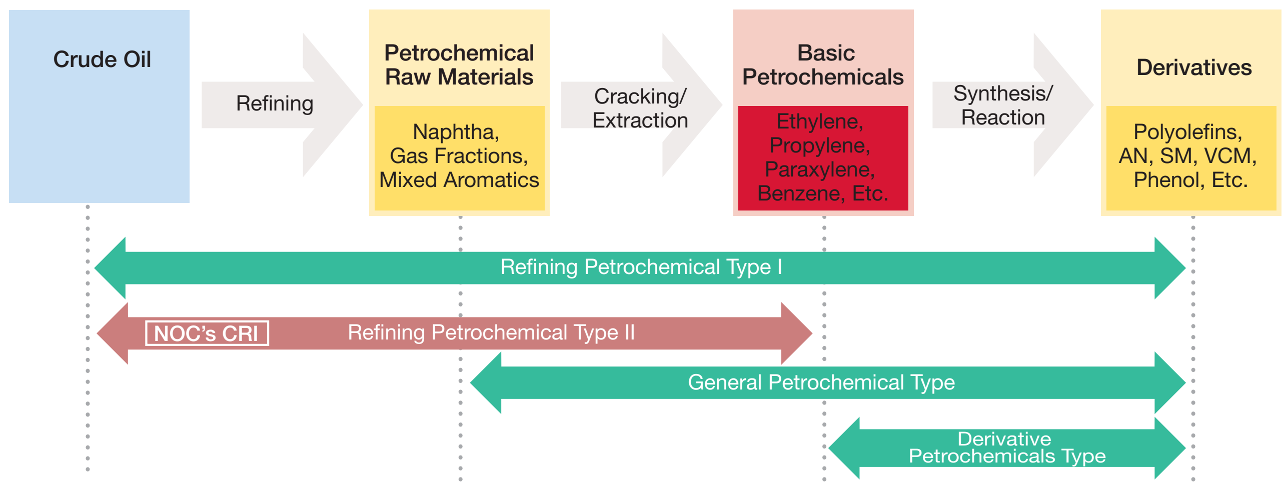
2) Asian markets for propylene, paraxylene, and their derivative products are expected to become tight.

(These strategic products are used as feedstock for manufacturing derivative products—such as polypropylene, acrylic resins, polyester, and polycarbonate—for which demand will inevitably rise in step with the development of Asian economies. Despite plans for additional production and delivery of such petrochemical feedstock, supply growth in the Asian region is projected to continue lagging behind rapid demand growth.)

* Ethylene is not positioned as a strategic product within CRI, because of the difficulty of competing in Asian markets with ethylene derived from inexpensive natural gas in the Middle East.

3) Because NOC already has the requisite manufacturing and marketing know-how, it will be able to expand its business by making use of its existing infrastructure.

Petrochemical Business Domain



(The NOC Group has facilities able to annually produce 800,000 tons of propylene and 1,000,000 tons of paraxylene, 2nd largest in the world for mechant sales.)

SCOPE OF CRI STRATEGY

As shown in the chart on page 16, the NOC Group's CRI strategy is focused on the refining petrochemical type II domain and gives priority to reinforcing the Group's competitiveness in product fields centered on those petrochemicals. As mentioned, NOC is confident that the market for basic petrochemicals, such as propylene and paraxylene, that the Company has dominant technologies and facilities for producing, is the very field to put forth its competitiveness.

* Although there are some giant corporate groups in the Asian petrochemical industry (such as the India-based Reliance Group and the China-based SINOPEC Group) engaged in the refining petrochemical type I domain, the number of such groups is small, and the number of companies focused on derivative petrochemicals is much greater. NOC intends to leverage its competitive advantages to supply such derivative petrochemical product companies with the basic petrochemicals emphasized by the CRI strategy, and it is confident that it can thereby maintain a solid position as a petrochemical feedstock supplier.

CRI INVESTMENTS

NOC's plans for increasing petrochemical production are shown in the following table. The third medium-term plan (fiscal 2006 through fiscal 2008) calls for strategic investments that include ¥80 billion of investment for increasing petrochemical production.

NOC Group Production Volume (Thousand tons/year)

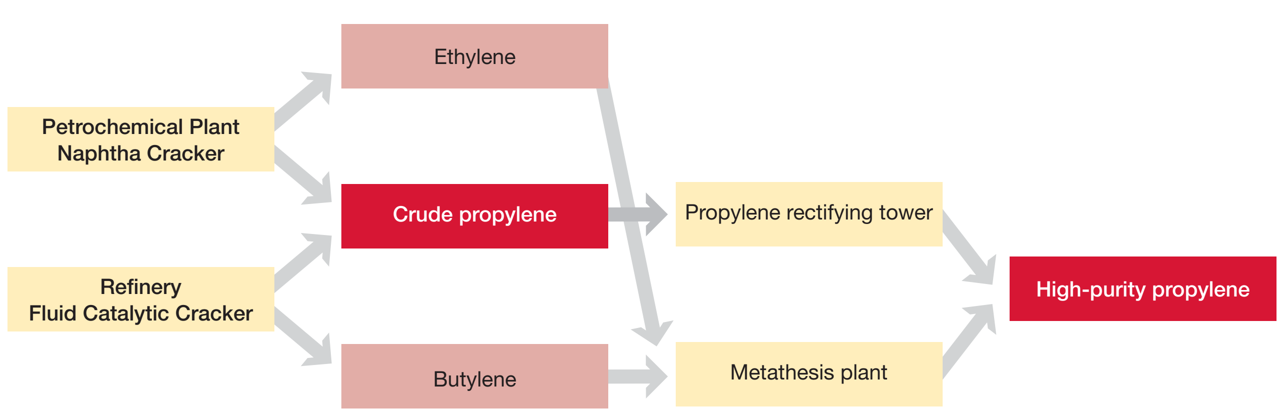
	FY2004	FY2005-7	FY2010 Target
Paraxylene	1,000	**1,400**	2,000
Propylene	600	**800**	1,000

More-specific investment plans for expanding petrochemical production during the plan are as follows.

Propylene—Augmentation from 600,000 Tons to 800,000 Tons

Propylene	
Oct. 2005	Propylene rectifying tower at the Mizushima Refinery
Mar. 2006	Metathesis plant at the Kawasaki plant of NPCC
By the end of FY2008	Propylene rectifying tower at the Sendai Refinery

Production Flow of High-Purity Propylene



Plans call for extracting crude propylene and C_4 fraction (butylenes) from fluid catalytic cracking (FCC) facilities (used to produce light and middle distillates from heavy oil) at the NOC Group's seven refineries and using those materials as feedstock for increased production of high-value-added, high-purity propylene. The installation of propylene rectifiers enables crude propylene extracted from FCC units to be transformed into high-purity propylene. In addition, the introduction of the metathesis process enables the productive use of C_4 fraction—previously only used for gasoline production and/or as a fuel in refineries—for the production of high-purity propylene.

As a result of these initiatives, NOC's propylene production capacity is to be boosted 0.2 million ton—from 0.6 million ton to 0.8 million ton—by fiscal 2008.

Paraxylene—Augmentation from 1,000,000 Tons to 1,400,000 Tons

Paraxylene	
FY2007	CCR-PLAT at the Sendai Refinery to increase mix-xylene production capacity
FY2007	Paraxylene business alliance with Mitsubishi Gas Chemical
FY2008	Increase of the paraxylene production volume of the alliance

Production capacity will be boosted from one million tons to 1.4 million tons by the end of fiscal 2008 through the alliance with Mitsubishi Gas Chemical in the paraxylene business. The feedstock for the additional production is to be supplied in the form of mixed xylene produced by a CCR-PLAT reformer facility currently under construction at the Sendai Refinery.

Cumene—Establishing New Capacity of 170,000 Tons

By 2008, NOC will construct a new cumene facility at its Muroran Refinery and commence the manufacture and marketing of that product.

* Cumene (isopropyl benzene), a high-value-added derivative of propylene and benzene, is a raw material for phenol and polycarbonate.

Moving Further Ahead with More Advanced CRI Measures in the Future

By 2010, current CRI strategy plans call for NOC to increase its annual production capacity for propylene and paraxylene to one million tons and two million tons, respectively, as targets. Concrete provisions for achieving these targets will be incorporated in the next fourth medium-term management plan.

What NOC is targeting is to further strengthen its integrated production from crude oil to petrochemicals by more advanced CRI measures. One of the key points is to utilize heavy oil fractions, which are projected to be produced in quantities that exceed demand in the future, as petrochemical feedstock by developing and introducing new or improved technologies.

As described above, the CRI strategy is an important strategy for increasing the profitability of NOC's core petroleum refining and marketing business. The dynamic implementation of the strategy is expected to help maximize the overall profitability of the NOC Group.

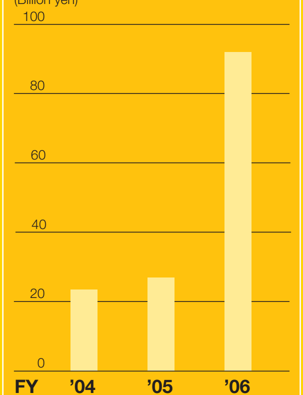

7BE-4A
7BE-4E
7BE-4F
7BE-4C
7BE-4D

Exploration & Production
(Crude oil and natural gas)

MAJOR ACHIEVEMENTS & TOPICS

- Tangguh LNG Project in Indonesia moves ahead to development stage (March 2005)
- Acquisition of oil and gas producing assets in the Gulf of Mexico, U.S.A. (April 2005)
- Start of development of the Blane field in the North Sea (July 2005)
- Establishment of Tripoli Office in Libya (September 2005)
- Successful bid for exploration and production sharing agreement rights in Libya (October 2005)
- Start of commercial production at oil fields onshore Papua New Guinea (March 2006)

Exploration & Production Operating Profit
(Billion yen)



POSITIONING OF UPSTREAM OPERATIONS IN THE NOC GROUP

Oil and gas exploration and production (E&P) activities are an increasingly important part of the NOC Group's growth strategy. In its third management plan, the Group has the goal of boosting its production to 180,000 BOED in 2007 and to 200,000 BOED by 2010 on the project companies' entitlement basis.

To realize these production increases, the Group works to maintain and expand the production volume of existing assets and to acquire additional assets, primarily in the core areas of Southeast Asia, the U.K. North Sea region, the U.S. Gulf of Mexico region, and Australia while using accumulated technologies and know-how. The Group is also sustaining its efforts to undertake new exploration projects in its core areas as well as take advantage of carefully selected exploration opportunities in North Africa and the Middle East. By acquiring solid E&P assets and promising new exploration rights within the framework of a rigorous risk management system, the Group is seeking to replenish and expand proven reserves in a manner that harmonizes with existing operations as well as increase the Group's business scale and profitability.

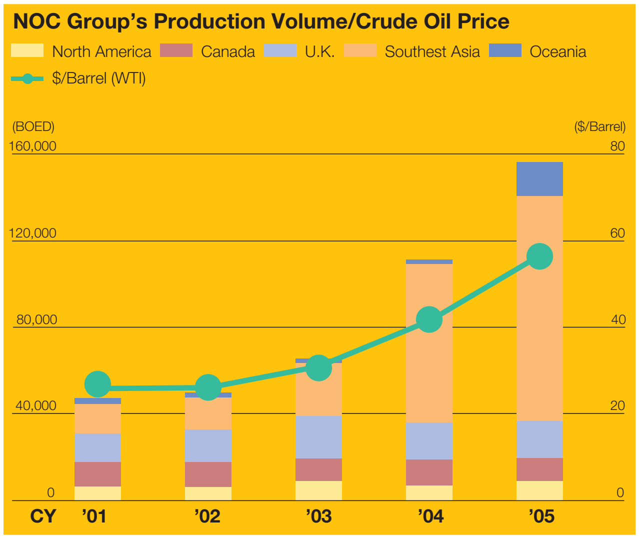
Also, the NOC Group is actively expanding its operations in both the upstream and downstream sectors of natural gas and LNG related business (See page 28.).

In upstream operations, NOC holds interests of some gas fields (Block SK-8: 37.5%, Block SK-10: 75%) in the Malaysia LNG Tiga Project. The natural gas produced from the fields offshore Sarawak, Malaysia is sent through pipeline to the liquefaction plant of Malaysia LNG Tiga Sdn Bhd (NOC has a 10% interest.). After liquefying the natural gas at that plant, Malaysia LNG Tiga markets the LNG to customers in Japan, other Asian countries, and the United States. The plant can produce up to 6.8 million tons of LNG per year. In fiscal 2006, 6.7 million tons of LNG were shipped based on short-, medium-, and long-term contracts. Another LNG project in which NOC is participating is the Tangguh LNG Project in Indonesia. The Company has a 12.2% interest in the project, a highly promising project with estimated natural gas reserves of approximately 14 trillion cubic feet. The project's liquefaction plant is now under construction, and plans call for it 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.

ACTIVITIES DURING FISCAL 2006 AND IN THE NEAR FUTURE

In March 2005, commercial production was begun at the Mutineer-Exeter oil fields offshore northwestern Australia, where oil was discovered in 1998.

In April 2005, the NOC Group obtained interests in 64 blocks, including 28 currently producing oil and gas fields in the U.S. Gulf of Mexico region, which is one of the Group's core areas. The Group's share of the production of the assets amounted to 13,000 BOED at the time of their purchase, and the Group made steady progress towards its goal of increasing its production to 180,000 BOED during the period of the third management plan. Peripheral areas of the blocks contain many reserves that have been discovered but



For more detailed information, please refer to the *NOC Fact Book 2006,* page 12.

not yet developed. Moreover, the exploration potential of deep-shelf blocks has been confirmed, and the efficient additional development of these areas with existing production facilities is expected to further augment profitability. Meanwhile, a series of major hurricanes that hit the southeast region of the United States during 2005 caused damage to the Group's production facilities in the region that inevitably led to temporary production halts. By the end of March 2006, however, production had been resumed at 20 oil and gas fields.

In Vietnam, in the Rang Dong oil field offshore, the Group has constructed additional platforms.

The above measures boosted the Group's total oil and gas production during calendar 2005 to 156,000 BOED.

Production at the SE Mananda field onshore Papua New Guinea was initiated in March 2006. While this is a small-scale field, the Group expects to discover and develop additional oil fields in that region.

In the North Sea, with respect to the Blane field, construction of production facilities was begun in July 2005, following the approval of the development by the U.K. and Norway governments. Production is scheduled to begin in late 2006, with the Group's share of peak production volume projected to be 2,000 BOED.

The NOC Group acquired two exploration blocks in Libya in a round of bidding held in October 2005. Since the successful conclusion of the Exploration and Production-Sharing Agreement ("EPSA") in December 2005, the Group has been taking various measures aimed at initiating exploration activities as quickly as possible. Libya is one of the world's top countries in terms of oil and gas reserve volume, and the Group has long been seeking business opportunities in that country. NOC is the first Japanese company to undertake exploration operations there, and it is proactively preparing for those operations through measures centered on its Tripoli Office, which was established in September 2005.

Refining & Petrochemicals

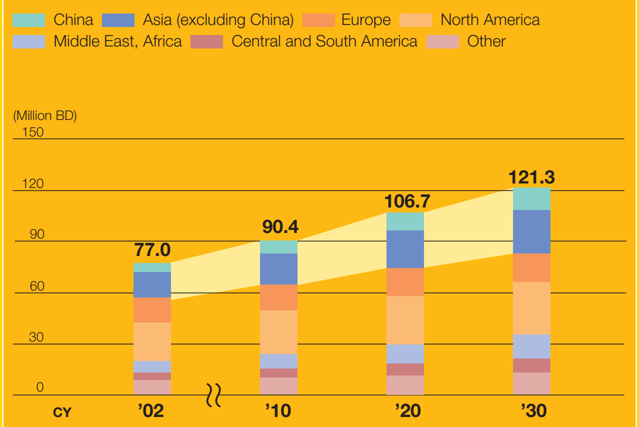
MAJOR ACHIEVEMENTS & TOPICS

- Announcement of value-adding plans at the Sendai Refinery (June 2005)
- Arrangement of alliance with Mitsubishi Gas Chemical in paraxylene business (October 2005)
- Announcement of new facility at the Muroran Refinery for manufacturing the petrochemical product cumene (November 2005)
- Renewal of contract for commissioned refining operations on behalf of China National United Oil Corporation (March 2006)
- Finalization of contract with Nippon Petrochemicals Company, Limited (NPCC) to split off NPCC's head office departments and shift them to NOC (April 2006)
- Business alliance with Japan Energy Corporation (June 2006)

Long-Term Outlook for World Oil Demand (by Region)

World demand for oil will hold steady.

→ Substantial growth expected in Asia, especially China



Source: International Energy Agency

MAINTAIN FULL-CAPACITY OPERATIONS THROUGH MEASURES TO ELIMINATE EXCESS CAPACITY

Japan's oil industry has been facing problems of excess refining capacity since the relaxation of regulations on the importation of petroleum products due to the repeal of the Law Concerning Provisional Measures for Importation of Specific Petroleum Products *(Tokuseki Ho)* in 1996. The NOC Group responded to this challenge by reducing 150,000 BD of crude oil refining capacity during the period from 1999 through 2001. In 2003, the Group further rationalized its refining capacity by reducing an additional 10,000 BD to the current level of 1,217,000 BD.

In addition, NOC has eliminated its excess capacity by undertaking commissioned refining operations on behalf of other companies and by expanding the scope of refinery operations to other than petroleum fuel production like petrochemical production (CRI) (See page 14.), electric power generation (See page 28 for more information.), and others. During the period of the third management plan, the NOC Group will increase the efficiency of its refineries by taking measures to further augment the value-added production through the measures described below and maintain its facilities to be constantly operated at full capacity even during demand downturns, while procuring supplies from other sources during periods of relatively high demand.

UNDERTAKING COMMISSIONED REFINING OPERATIONS AND EXPANDING EXPORTS

Since April 2003, NOC has supplied Idemitsu Kosan Co., Ltd., with 40,000 BD of products refined on a commissioned basis. In July 2004, NOC obtained a contract to refine 20,000 BD of oil on commission for China National United Oil Corporation (China Oil), and, against the backdrop of abundant demand for petroleum products in China, the contracted volume had been increased year by year and became 40,000 BD from April 2006.

While Japanese domestic demand for petroleum fuels is projected to edge downward, demand in the Asian region, particularly in China and India, for petroleum and petrochemical products is expected to surge along with the region's economic development. Moreover, the progressive implementation of environmental regulations is boosting demand for low-sulfur (10 to 50ppm) diesel fuel. In response to these contrasting domestic and overseas situations, the NOC Group intends to proactively expand its exports of jet fuel, low-sulfur diesel fuel, heavy fuel oil C, and other petroleum products in addition to its commissioned refining operations: Accordingly, the Group plans to strengthen the export capabilities of each of its refineries. The first stage of this project entails the investment of ¥1.1 billion in fiscal 2006 to increase export-capable refining capacity to 200,000 BD to flexibly respond to supply-demand situations in Japan and overseas.

ADVANCING CRI STRATEGY

The NOC Group is enforcing the policy to expand the scope of refinery operations to include operations other than petroleum fuel production. Measures in enforcement of the policy center on the Chemical Refinery Integration (CRI) project, aiming to utilize refinery facilities to help increase the Group's production of high-value-added petrochemicals as a strategy for augmenting Group profitability (See page 14 for more information on the CRI project.). The project places particular emphasis on increasing production capacity for strategic petrochemical products, such as paraxylene and propylene, which are expected to be in increasing demand in China and other Asian countries.

During the period of the third management plan, NOC planned to increase its annual production capacity for propylene and paraxylene to 0.8 million ton and 1.4 million tons, respectively, proceeding with the implementation of capital expenditure at Group refineries and plants. Moreover, as a means of developing business in petrochemical products with a relatively high level of added value, NOC is preparing to initiate business in cumene.

To attain its CRI strategy targets, the Company has begun considering the creation of new technologies and other measures required to make effective use of distillate fractions that are underutilized or in surplus supply.

Because effectively implementing CRI will require greater liaison between the Group's petrochemical and refining business, NOC recently absorbed the head office functions of NPCC, a subsidiary that previously handled both petrochemical production operations and the marketing of all petrochemicals produced by the NOC Group. As a result, NOC is better able to respond in a timely manner to petrochemical supply-demand and market trends and thereby optimize the Group's business plans.

In June 2006, NOC and Japan Energy Corporation agreed to enter a business alliance. Because we and Japan Energy have adjacent refineries in the Mizushima petrochemical complex, we have cooperated previously as a part of large-scale plans to promote a high level of integration. Based on the new alliance, however, we have begun considering plans to progressively integrate the operations of the two companies' refineries in Mizushima. The alliance is not restricted to refining operations but calls for collaboration in upstream operations, distribution, fuel cells, and technology development. We are expecting it to generate considerable synergistic benefits.

EXPANDING ELECTRIC POWER OPERATIONS

NOC has a huge refining infrastructure as well as considerable know-how regarding the operation of electric power plants. By effectively leveraging these strengths and by fueling its power generation plants with heavy oil fractions from its refining operations that are projected to be produced in quantities that exceed demand, NOC is confident that it can maintain strong competitiveness in electric power operations. Accordingly, the Company intends to earn a stable profit by expanding its electric power operations to an extent that permits it to make the most of its special competitive advantages. NOC initiated wholesale independent power producer (IPP) operations in 1998, when an IPP facility at the Osaka Refinery began operating, and, by the end of fiscal 2005, it was operating IPP facilities at five of its refineries (Osaka, Yokohama, Negishi, Marifu, and Muroran). These facilities have a total power supply capability of 700,000kW, making NOC the third-largest IPP company in Japan. Moreover, the Company began power producer and supplier (PPS) operations in 2002 and retail electric power supply operations in 2003. The third management plan calls for the Company to expand its PPS and retail electric power supply operations by creating such facilities as a natural gas-fueled power plant on idle land at the Kawasaki Refinery and a PPS power plant at the Sendai Refinery (See page 28 for more information on new energy-type operations.).

GLOBAL NICHE STRATEGY FOR HIGH-PERFORMANCE CHEMICAL PRODUCTS

Another principal element of NOC's petrochemical operations besides the CRI operations described previously is the Company's business manufacturing and marketing high-performance petrochemical products used in diverse applications. For example, the Company has earned the top share of the global markets for ethylidene norbornene (ENB), a cross-linking agent in synthetic rubber used to increase the resistance to heat and light (See the Overseas Operations section on page 30 for more information.), and also markets such products as high-boiling-point Super Aromatic Solvent (SAS), applied to a pressure-sensitive paper solvent and synthetic insulation oil, and Xydar, a liquid crystal polymer, which is marketed as a high-performance super engineering plastic. Created by leveraging the Company's special technologies and other capabilities, these high-performance functional petrochemicals are generally characterized by high profit margins and high global market shares, and NOC targets further expanding the scale and profitability of functional petrochemicals business in the future as its global niche strategy.

Marketing

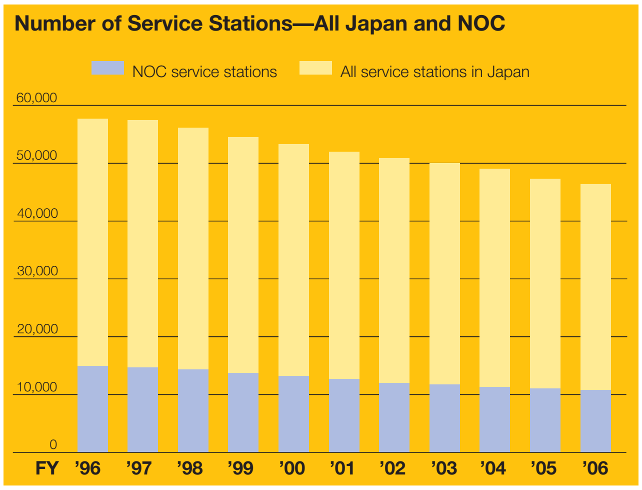
MAJOR ACHIEVEMENTS & TOPICS>

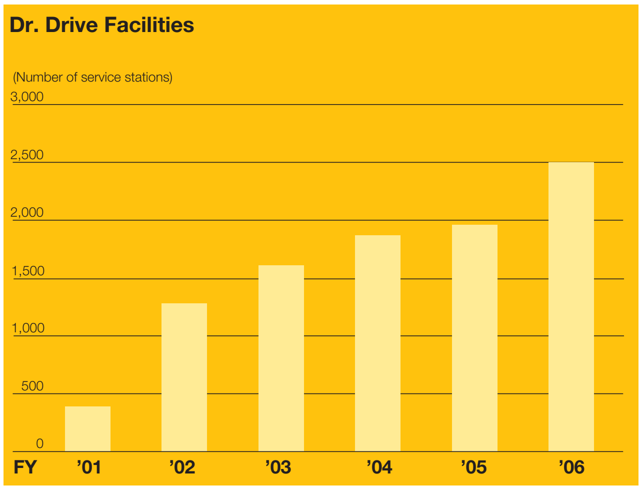
- Merging of service station operating subsidiaries as a means of promoting the consolidation of service station management (October 2005)
- Completion of nationwide network target of 2,500 Dr. Drive high-value-added service stations (March 2006)

THOROUGHLY SHIFTING EMPHASIS FROM QUANTITY TO QUALITY

The 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 unprofitable facilities were progressively winnowed out 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.** In January 2005, the Group began marketing a new environment-friendly premium gasoline called ENEOS NEW VIGO, which reduces friction inside engines to enhance both fuel economy and acceleration. Its improved engine-cleaning capabilities remove grime from air valves and injectors to prevent deterioration in engine performance. In addition, these capabilities generally clean up engine interiors in ways that reduce the amount of carbon monoxide, hydrocarbons, and NO_x in emission gases. NOC has been a leader in marketing essentially sulfur-free (10ppm or less) gasoline products, which lower the levels of harmful substances in exhaust emissions. 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. In December





2005, NOC became the first company in its industry to be awarded the *Environment Minister's Award for Activities that Help Prevent Global Warming*. The Company received this award in view of its production, marketing, and technology development operations related to ENEOS NEW VIGO and other sulfur-free fuels.

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 competitiveness 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 three years after new vehicles are purchased and every two years thereafter), daily vehicle checkup inspections, and a comprehensive range of other vehicle-related services. Aiming to be the starting place for secure and comfortable driving by offering services just as dependable as those of trusted family doctors, Dr. Drive facilities always feature certified mechanics who have undergone special training qualifying them to be "Dr. Drive Advisors," and their presence enables all drivers not familiar with vehicular mechanics to casually discuss their vehicular issues and be reassured their vehicles will be put in top condition. Because these characteristics make Dr. Drive facilities considerably more competitive than ordinary service stations, during the first year after ordinary service stations are converted into Dr. Drive facilities, their average monthly gross profit sometimes grows by approximately ¥200,000. The number of Dr. Drive facilities has risen rapidly since NOC began their full-scale creation in 2000. At the end of fiscal 2006, the Group had 2,505 Dr. Drive facilities, a figure that is up 542 from the previous fiscal year-end and represents the attainment of the initial goal of creating a nationwide network of 2,500 Dr. Drive facilities. Plans call for maintaining this number while further increasing the quality of service Dr. Drive facilities offer through additional efforts to enhance their technical capabilities for maintenance work, make their car care products and physical facilities more attractive, and thereby augment their ability to attract and satisfy customers.

The third strategy is to **restructure the network of affiliated service station operators** that manage all NOC service stations. 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 overlapping networks and to reduce administrative costs through the unification of head office functions. In October 2005, two operators with overlapping business regions in the Kanto region based around Tokyo—IDOMCO Communications Co., Ltd., and Ozawa and Company Limited—were merged and renamed ENEOS Frontier Co., Ltd.

New Energy-Type Business

MAJOR ACHIEVEMENTS & TOPICS

- Completion of the PPS power generation facility of Frontier Energy Niigata Co., Ltd. (July 2005)
- Start of comprehensive pilot operation of the Mizushima LNG base (January 2006)
- Commercialization of the ENEOS ECOBOY kerosene-fueled, household-use fuel cell system (March 2006)
- Launch of ESCO comprehensive energy conservation service projects at the prefectural government building and police headquarters of Aomori Prefecture (April 2006)
- Official opening of the Mizushima LNG base (April 2006)

NATURAL GAS AND LNG

The NOC Group is actively expanding its operations in both the upstream (See pages 20-22.) and downstream sectors of natural gas and LNG related business.

As for downstream operations in Japan, the NOC Group constructed a new LNG receiving terminal using existing infrastructure in the compound of NPRC's Mizushima Refinery, which began supplying gas to nearby gas companies and industrial users in May 2006. NOC is also constructing an LNG receiving terminal for domestic marine shipments on a former transshipment depot site in Hachinohe, Aomori Prefecture. This terminal is scheduled to provide local city gas companies and industrial users with natural gas and LNG from March 2007.

Amid a steady increase in demand for natural gas due to the fuel's "clean energy" characteristics, NOC, as a comprehensive energy company, is continuing efforts to expand the range of profit-earning opportunities in its natural gas and LNG business.

ELECTRIC POWER

NOC is well positioned to maintain strong competitiveness in electric power operations by making good use of its huge refining infrastructure and by utilizing residue from its refining operations as fuel for its power generation plants. 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.

NOC already has IPP plants at five Group refineries (See pages 23-25.) that have a total supply capacity of 700,000kW, making the Company the third-largest IPP in Japan. In addition to wholesale IPP operations, NOC is proactively developing its power producer and supplier (PPS) retail electric power supply business under the third medium-term management plan. Besides providing power to customers by using the surplus internal generating capacity of the Negishi Refinery and other facilities since July 2005, the Company has procured power for PPS retail power marketing operations from Frontier Energy Niigata Co., Ltd.—a joint venture created in cooperation with Nippon Steel Corp. and Mitsubishi Corp. Furthermore, a joint venture of NOC and Tokyo Gas Co., Ltd.—Kawasaki Natural Gas Generation Co., Ltd.—is constructing an 800,000kW natural gas-fueled power generation plant that is scheduled to begin operations in fiscal 2009. A high-efficiency power generation plant fueled with associated gas is under construction at the Sendai Refinery, and the

Company is currently considering the retail marketing of power from that plant. In line with its policy for the conservation of the natural environment, NOC is also engaged in the wind-power generation business.

TOTAL ENERGY SYSTEMS (TESs)

NOC is contributing to increase energy efficiency and to reduce energy-related environmental impact by developing and marketing petroleum fuel-based cogeneration systems or supplying electric power (and heat) from the systems. At the end of fiscal 2006, the Company had installed cogeneration systems with a total generating capacity of approximately 220,000kW. Making good use of the technologies accumulated in TES business, NOC began providing energy service company (ESCO*) services for the capital building and other nearby buildings in Aomori Prefecture from April 2006 using a combination of petroleum fuel-based cogeneration systems and comprehensive methods for reducing buildings' energy consumption. In addition, in fiscal 2008, NOC plans to begin B.O.O.** business at manufacturing facilities of Fujifilm Co., Ltd. NOC intends to develop and promote a wide variety of energy business formats tailored to the diverse needs of customers.

* ESCO business involves comprehensive energy conservation services that aim to conserve energy without reducing customer convenience and obtain remuneration that corresponds to a portion of the customers' savings achieved due to higher energy efficiency.

** B.O.O. is the acronym for "build, own, operate" business, which differs from conventional on-site energy system services in that equipment operation and management services are also supplied.

By fiscal 2009, the Company will boost this capacity, to approximately 2,000,000kW, through such steps as the start of IPP operations at the Muroran Refinery, the procurement of power for PPS business from Frontier Energy Niigata, and the operation of the Kawasaki-based joint venture with Tokyo Gas.

NOC's Electric Power Supply Capacity

	Fiscal 2008	Fiscal 2009
IPPs	700,000kW	700,000kW
PPSs	200,000kW*	1,000,000kW*
Cogeneration	230,000kW	250,000kW
Wind power	10,000kW	10,000kW
Total	1,140,000kW	1,960,000kW

*On a project-company basis

FUEL CELLS

Because fuel cells are environment-friendly, next-generation energy systems with great potential, the NOC 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, and the Company installed 141 ENEOS ECO LP-1 units by March 2005. *Nikkan Kogyo Shimbun* selected it as one of the winners of its "10 big new product awards," saying it "has attracted attention as an environment-friendly energy source and is a significant step toward the hydrogen-oriented society of the future." NOC has begun proactively marketing the ENEOS ECO LP-1, aiming to install more than 1,000 units by fiscal 2008.

In addition, NOC commercialized ENEOS ECOBOY household-use fuel cell systems that use kerosene in March 2006. This product offers the high comprehensive energy efficiency level of 81% (compared with a range of 30% to 40% energy efficiency for the conventional system of generating energy at a power plant and transmitting it to customers), and its carbon dioxide emissions per energy unit supplied are 30%-40% lower than those of thermal power plants. The Company is aiming to install 100 ENEOS ECOBOY systems during fiscal 2007.

Household-Use Fuel Cell System Marketing Targets

Fiscal 2006	Fiscal 2008
141 units (attained)	1,500 units (target)

Overseas Operations

<MAJOR ACHIEVEMENTS & TOPICS>

- Start of construction of Sunrise Chemicals' No. 2 ENB manufacturing facility (September 2005)
- Construction of lubricant and grease production plant in the U.S. state of Alabama (October 2005)
- Construction of lubricant and grease production plant in Guangzhou, China (October 2005)
- Introduction of Dr. Drive service at service stations in Beijing, China (January 2006)
- Expansion of the volume of commissioned refining on behalf of China Oil (March 2006)

To meet needs associated with the growing operations of Japan-based automobile manufacturers and other Japan-based companies throughout the world, NOC is seeking to increase its overseas sales of lubricants. This is an important pillar of the Company's strategy for overseas operations.

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 more than 40%, from 35,000kl to 50,000kl, during 2006. The Company has also established a Guangzhou-based lubricant-manufacturing subsidiary, Nippon Oil (Guangzhou) Lubricants Corp., which is now constructing a production plant with a 27,000kl annual manufacturing capacity that is scheduled to begin operating in September 2006. At that time, in the form of the new company and Tianjin Nisseki Lubricants & Grease, NOC will have a two-base, lubricant-manufacturing network well positioned to supply both the southern and northern regions of China.

In the U.S. state of Alabama, NOC has established another lubricant-manufacturing subsidiary, Nippon Oil Lubricants (America) LLC, which is now constructing a production plant with an annual manufacturing capacity of 38,000kl for lubricants and 800 tons for grease that is scheduled to begin operating in October 2006. While the NOC Group has previously marketed lubricants in the United States using products manufactured on a commissioned basis, the Alabama plant will be the Group's first lubricant plant in the United States.

As a result of these initiatives to expand production capacity, NOC is planning to augment its overseas lubricant sales volume by 53% over the three years—from 143,000kl in 2004 to 220,000kl in 2007.

Sales of Lubricants (Thousands of kiloliters)

	CY2004 (Actual)	CY2005 (Actual)	CY2007 (Planned)
China	43	49	80
Other Asian Countries	71	74	90
Total for Asia	114	123	170
United States	21	23	40
Europe	7	7	10
Total for Overseas	143	153	220
Japan	794	—	—

While Japanese demand for petroleum products is expected to slightly decline, the 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. NOC will continue to maintain a flexible approach to the exporting business while monitoring trends in supply-demand relationships and in prices in Japan and overseas markets. (For more information, please see page 24.).

Regarding ethylidene norbornene (ENB), the NOC Group has earned more than 70% of the global market. Fifty-fifty joint ventures with Sanyo Chemical Industries, Ltd., are operating facilities in Japan and in United States, which have an annual manufacturing capacity of 20,000 tons each, and, in response to growth in global demand, the Group has begun constructing a new manufacturing facility in the United States. This facility will have an annual manufacturing capacity of 20,000 tons, and it will begin commercial operation in June 2007. As a result, the level of the NOC Group's total ENB production capacity will be raised to 60,000 tons per year, thereby further consolidating the Group's solid position as the world's leading ENB supplier.

In January 2006, NOC began cooperating with Petro China Company Limited China Marketing Company Beijing Branch in introducing NOC's exclusive Dr. Drive car-care service at a service station in Beijing. In light of the rapid increase in the use of automobiles in China, rising demand is projected for high-value-added service stations with augmented car-care capabilities. The Group will work to demonstrate the feasibility and effectiveness of such service stations in China and consider related business initiatives based on data from the investigation.

Also in January 2006, NOC's LC-Film manufacturing subsidiary in Suzhou, China, doubled its annual manufacturing capacity, to 800,000m^2. As a result, the Group's total LC-Film manufacturing capacity, including the capacity of the Suzhou plant and a domestic plant in Nagano Prefecture, amounted to 1.6 million m^2 per year. NOC's LC-Film has an approximately 50% share of the global color mobile phone display market, and it is also being used with the displays of digital cameras and electronic dictionaries. The Group intends to further increase its production and marketing of LC-Film, aiming to boost its sales of this product from ¥4.6 billion in fiscal 2005 to ¥10.0 billion in fiscal 2007.

Construction

CONSTRUCTION

The NOC Group is engaged in construction business primarily through NIPPO Corporation Co., Ltd. (NIPPO). This subsidiary and other Group construction companies are handling road-paving projects as well as such various other projects as those related to building construction, the construction and engineering of oil- and other energy-related facilities, and environmental protection.

In fiscal 2006, although Japan's construction sector benefited from a trend of recovery in private-sector construction investment, conditions in the sector remained severe due to such factors as a persistent trend of decline in public-sector investment and a continued rise in raw materials costs that reflects the surge in crude oil prices. These and other factors created a harsh operating environment. Amid these conditions, the NOC Group's construction units strove to obtain orders for road-paving, civil engineering, and other construction projects as well as to promote greater sales of such products as asphalt mixture. As a result of these activities and efforts to improve profitability through cost-cutting and efficiency-boosting measures, the Group achieved a year-on-year rise in its operating income in the construction sector.

Research & Development

MAJOR ACHIEVEMENTS & TOPICS

- New structure for research collaboration between NOC and Tokyo University's Research Center for Advanced Science and Technology related to environmental and energy issues (October 2005)
- Receipt of the *Environment Minister's Award for Activities that Help Prevent Global Warming* (November 2005)

In fiscal 2006, the NOC Group invested ¥10.1 billion in R&D operations, including the following programs.

Regarding R&D programs related to petroleum products, the Group is working to prevent air pollution and CO_2 emissions by developing new refining and catalyst technologies that facilitate the production of sulfur-free (10ppm or less) fuels. In addition, the operation of fuel-desulfurizing facilities employing NOC's recently developed ROK-Finer technology was begun in 2005. This approach has enabled the Group to initiate nationwide sales of sulfur-free gasoline and diesel products prior to the introduction of government regulations requiring all such products to be sulfur-free. During fiscal 2006, NOC received the *Environment Minister's Award for Activities that Help Prevent Global Warming* in recognition of the Group's "production and marketing of sulfur-free regular gasoline and development of gasoline-desulfurization technologies." NOC is also developing various environment-friendly lubricants for vehicular and industrial applications, and the Company is working to further bolster its product lineup in this field.

In petrochemicals, the Group has the strategy of producing petrochemicals from heavy petroleum products currently or projected to be in surplus, and it is developing conversion technologies required to realize this goal. In functional chemicals, we are seeking to meet abundant demand in countries centered on the East Asian region by developing new manufacturing technologies and additional high-value-added products.

In addition to the development and commercial launch of household-use fuel cells (See pages 28 and 29.), as a participant in a Japanese government demonstration research project aimed at expediting vehicular fuel cell use and the creation of related hydrogen-fuel-supply infrastructure, NOC became the first company in Japan to construct a hydrogen fuel station that uses naphtha-reforming technology to generate hydrogen.

CSR

Group Philosophy

Your Choice of Energy

Creating the energy future and promoting prosperity and harmony with nature.

[Six values we respect]

Ethics
New ideas
Environmental harmony
Relationships
Global approaches
You

THE GROUP'S BASIC CSR POLICY

Having articulated the Group Philosophy above, NOC has drafted the NOC Group CSR Rules to clearly define the Group's basic CSR policy. This policy calls for every individual employee to work sincerely to act in accordance with the philosophy to ensure that the Group dependably carries out its responsibilities to society and is able to earn the trust of its stakeholders.

ACTIVITIES DURING FISCAL 2006

As part of its programs aimed at realizing the Group Philosophy, "Creating the energy future and promoting prosperity and harmony with nature," the NOC Group implemented a project at the Rang Dong oil field offshore Vietnam to pipe associated gas generated as a by-product of crude oil production to the mainland and put it to effective use fueling a power plant. As this project has enabled a 680,000-ton reduction in annual CO_2 emissions, in February 2006, the United Nations Framework Convention on Climate Change (UNFCCC) approved it as a Clean Development Mechanism Project (CDM Project) under the Kyoto Protocol. Rather than viewing the project as a means of obtaining emissions rights, NOC takes pride in the following outstanding characteristics of the project.

This is the first approved CDM Project involving the effective utilization of associated gas.

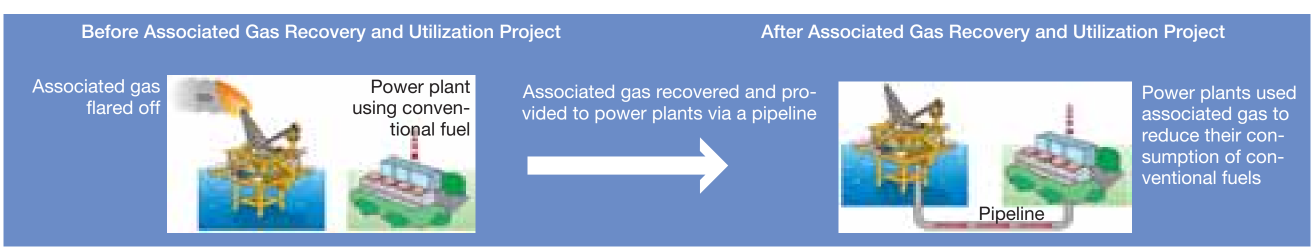
It is the most effective CDM Project approved anywhere in the world in terms of the size of the associated CO_2 emissions reduction.

It will serve as a model for subsequent projects aiming to reduce CO_2 emissions by recovering and utilizing associated gas. As a result, the project will promote numerous other projects that reduce CO_2 emissions.

Rather than simply obtaining emissions rights from other parties, the Group itself undertook all project-related processes, from planning through receipt of CDM approval.

Another goal of the NOC Group's distinctive social contribution programs is to help create a sustainable society by promoting greater use of environment-friendly, hydrogen-based energy. In March 2006, the Group created the ENEOS Hydrogen Fund Charitable Trust, which initially has ¥1.5 billion in assets. Plans call for the trust to annually provide ¥50 million of grants to support basic research related to hydrogen energy supplies. It is the largest charitable fund to be established by an individual company in Japan to date, and NOC is confident that it will play a significant role in expediting the onset of a hydrogen energy-centered society.

* For more information about specific NOC Group activities in each of the six emphasized areas for Groupwide CSR management promotion efforts, please see the *CSR Report 2006*.



Corporate Governance

NOC recognizes that maintaining a consistent record of ensuring that all its business activities and other corporate activities are fair, appropriate, and transparent is an extremely important means of maximizing corporate value for the NOC Group as a whole. Based on this recognition, the Group is working to further expand and strengthen its corporate governance systems.

BASIC APPROACH TO CORPORATE GOVERNANCE

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. At the same time, the Group believes it must further augment its efforts to ensure the "transparency and soundness of management" to respond to the trust and confidence of all its stakeholders.

To respond to the changes in its operating environment just described, NOC has established corporate governance systems with the following features.

(1) The term of directors is one year, and directors must be approved by the regular general meeting of shareholders each year.

(2) To strengthen Group management, the presidents of principal Group companies are made members of NOC's Board of Directors.

(3) The Company has established a Board of Auditors, and the majority of members of that board are outside auditors with specialized expertise.

(4) NOC is strengthening its Groupwide CSR promotion systems centered on the Group CSR Meeting.

In April 2006, NOC established its Internal Control Project Office, which is advancing with the rechecking and confirmation of the appropriateness of financial reporting and the effectiveness of all the Group's internal control systems.

IMPLEMENTATION OF MEASURES RELATED TO CORPORATE GOVERNANCE

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

NOC's Board of Directors is comprised of directors thoroughly familiar with the Group's operations, and they work to maintain and increase the efficiency and responsiveness of management. On the other hand, NOC believes that augmenting its systems for the performance of audits by corporate auditors, which have been given greater authority by successive revisions of Japan's Company Law, is a desirable means of maintaining and strengthening management soundness, and it has therefore established its Board of Auditors.

2. Election of Outside Auditors

Three of its five Board of Corporate Auditor members are full-fledged "outside auditors" unaffiliated with the Company. NOC does not currently have outside directors.

Name	Work History
Masao Fujii	Former judge in Japan's Supreme Court
Setsuo Umezawa	Former head of Japan's National Tax Agency and former chairman of the Fair Trade Commission of Japan
Koji Furukawa	Former director and vice president of Mitsubishi Corporation and chief compliance officer for that company

3. Creation of Specialized Support Staff for Outside Officers

To augment the auditing capabilities of all the corporate auditors, including the outside auditors, NOC has established its Secretariat of Corporate Auditors, which has a three-person staff that is completely and clearly independent of the Group's business execution departments as well as of the Group's command systems, including the personnel evaluation system.

4. Operational Execution Systems

In NOC, the president is responsible for operational execution decisions regarding items other than those that are defined by laws, regulations, NOC's Articles of Incorporation, and NOC's Board of Directors' regulations as being items that are to be determined by the Board of Directors. Before making operational execution decisions, the president presents related issues for consideration and discussion by the Executive Committee, which is comprised of the president, executive vice presidents, and senior vice presidents and has the role of assisting the president with respect to operational execution decisions. Important operational execution decisions are reported to the Board of Directors, while reports on the Executive Committee's consideration and consultation processes and results are made to the Board of Auditors.

Chaired by the chairman of the Board, the Board of Directors made decisions regarding items that are defined by laws, regulations, NOC's Articles of Incorporation, and NOC's Board of Directors' regulations as being items that are to be determined by the Board of Directors. In addition, the Board of Directors conducts interviews regarding reporting items and supervises and controls the president's operational execution measures and the performance of job duties by each director. Furthermore, with the goal of strengthening Group management, the presidents of principal affiliates are added as members of the Board of Directors.

The corporate auditors attend Board of Directors' meetings and audit the job performance of directors. During fiscal 2006, the five corporate auditors, including the three outside corporate auditors, attended all 13 Board of Directors' meetings, at which they posed questions and expressed opinions regarding discussion and reporting items. They also, when needed, received reports from directors, investigated decision-related documents, and examined records related to financial accounts and important meetings as well as received reports from directors and employees of the Company and directors and officers of subsidiaries regarding the performance of their job duties, and thereby performed audits of directors' job performance on an ongoing, day-to-day basis. Furthermore, the corporate auditors work to increase the effectiveness of audits by receiving audit reports and other reports from the financial auditor and the CSR Department, which is an internal audit department.

The independent financial auditor performs financial audits and thereby strengthens and expands the Company's capabilities for supervising and controlling management.

COMPENSATION OF DIRECTORS AND CORPORATE AUDITORS

The compensation of each director and corporate auditor is determined, based on consideration of the Company's performance as well as of the role and contribution of each director and corporate auditor, within the scope of the total remuneration figure authorized by the General Meeting of Shareholders, in accordance with internal regulations created by a vote of the Board of Directors in the case of directors and in accordance with internal regulations created by a vote of the Board of Auditors in the case of auditors.

The following table shows compensation paid to directors and corporate auditors for the fiscal year.

COMPENSATION OF INDEPENDENT AUDITOR

Total compensation to be paid to the independent auditor of the Company is as follows.

Compensation based on work covered by article 2-1 of the certified public accountant law ¥55 million

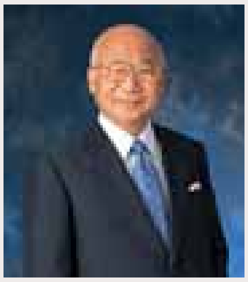
Compensation based on work other than that mentioned above ¥15 million

Compensation Item	Directors (Number of recipients)	Amount (¥ million)	Corporate Auditors (Number of Recipients)	Corporate Auditors Amount (¥ million)	Total (Number of Recipients)	Amount (¥ million)
Compensation based on the Articles of Incorporation and decisions of the General Meeting of Shareholders	21	¥472	6	¥ 67	27	¥540
Bonuses allocated from profit	23	190	8	28	31	218
Retirement allowances based on decisions of the General Meeting of Shareholders	2	95	1	14	3	109
Total	—	¥758	—	¥109	—	¥867

Notes: 1. The above amounts do not include salaries (including regular bonuses) of ¥45 million paid to 5 directors who also perform services as employees.
2. At the end of the fiscal year, the Company had 19 directors and 5 corporate auditors. (The different figures for the number of recipients reflects the retirement of directors and corporate auditors during the fiscal year under review.)

Board of Directors

(As of July 1, 2006)


Fumiaki Watari


Shinji Nishio


Naokazu Tsuda


Makoto Satani


Toshikazu Kobayashi


Ikutoshi Matsumura


Yukihiro Matsuyama


Masahito Nakamura


Michihiro Mouri


Shigeo Hirai


Kan Ueno


Seiichi Isshiki

Representative Director, Chairman of the Board

Fumiaki Watari

Representative Director, President

Shinji Nishio

Representative Directors, Executive Vice Presidents

Naokazu Tsuda
Supply Division, 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

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 Chemical Division

Seiichi Isshiki
Executive Director of Corporate Management Division II

Directors

Yasushi Kimura
Deputy Director of the Lubricants & Specialties Business Division

Yasuo Kamino
Deputy Director of the Fuel Retail Sales Division

Satoru Katougi
Deputy Director of the Energy Solution Division

Makoto Kuramochi
Representative and General Manager of the Beijing Office

Akira Kitamura
General Manager of Secretariat

Junichi Kohashi
Deputy Director of the Manufacturing Technology & Engineering Division

Minoru Ozawa
President and Representative Director of Nippon Petroleum Refining 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
Kozo Imachi
Hideo Tabuchi
Hideaki Kobashi
Eiji Omori
Naoaki Tsuchiya
Akitaka Ogura
Michio Ikeda
Yukihiro Tabata
Jun Matsuzawa
Hajime Okazaki
Yoshiki Hirayama
Junichiro Takano
Seijiro Yamazaki
Haruo Nakano
Shunsaku Miyake
Wataru Mawatari
Nobuyuki Tanahashi
Masahiro Yoshida
Michiyasu Kobayashi

For more-detailed financial data, graphs, and other information, please refer to the Company's *Fact Book 2006*.

Management's Discussion and Analysis of Operations

ENVIRONMENT

The Japanese economy in the fiscal year under review showed further signs of recovery as export levels continued to rise from the previous fiscal year, personal consumption levels gradually grew amid a backdrop of improved employment and income conditions, and capital investment levels continued to increase. Also, the Asian economy, in general, displayed high growth levels, especially in China and India, as exports outside of Asia rose and internal demand, such as personal consumption levels, remained strong.

PERFORMANCE DURING THE YEAR

Consolidated Financial Results

On a consolidated basis, net sales of the NOC Group rose 24.2% from the previous fiscal year to finish at ¥6,118.0 billion. Operating income inclusive of inventory valuation factors (where inventory valuation using the gross average method puts downward pressure on the cost of goods sold) also increased during the fiscal year under review by ¥102.5 billion from the previous fiscal year to finish at ¥303.9 billion, mainly due to a significant rise in crude oil prices. When inventory valuation factors are excluded, operating income fell by ¥3.3 billion from the previous fiscal year to finish at ¥137.5 billion. This is mainly because of the tightening of margins for petroleum and petrochemical products despite a rise in income generated from the E&P business for the same reason (i.e., rising crude oil prices).

The Company also generated ¥5.2 billion worth of non-operating income (a ¥5.8 billion decrease from the previous fiscal year) mainly as a result of a foreign exchange gain. Consequently, consolidated ordinary income for the fiscal year under review amounted to ¥309.1 billion, an increase of ¥96.7 billion from the previous fiscal year. When excluding inventory valuation factors, consolidated ordinary income totaled ¥142.7 billion, a decrease of ¥9.0 billion from the previous fiscal year.

The NOC Group also generated other expenses of ¥10.8 billion (a ¥19.3 billion decrease from the previous fiscal year). This was mainly as a result of a gain/loss on sales/disposal of fixed assets as a way for the Group to slim down its balance sheet through the divestment of unneeded assets.

As a result of the above factors, the NOC Group's consolidated net income for the fiscal year under review increased by ¥35.0 billion to finish at ¥166.5 billion.

Refining and Marketing

During the fiscal year under review, the demand for heavy fuel oil A and general-use heavy fuel oil C decreased from the previous period as companies converted their systems to gas and coal fueled systems due to the dramatic increase in crude oil costs. Also, gasoline demand was sluggish as the popularity of economical vehicles grew. Diesel demand decreased from the previous fiscal year as a result of a decline in the number of diesel vehicles used on the roads. Finally, in spite of a surge in demand stemming from the early winter and resultant cold spell, heating oil demand remained flat on a year-to-year basis. This resulted in a slight decrease in demand for overall fuel products from the previous fiscal year.

In regards to petrochemicals, steady internal demand and surging demand from other Asian countries, especially China, continued.

Against this operating environment, the NOC Group pursued the following measures to achieve the management objectives of bolstering the profitability of its core oil and petrochemical products business and to open up new energy businesses.

In the area of oil refining and petrochemical production, the NOC Group formulated a strategy to pursue the integration of refining and petrochemical operations in its third medium-term management plan. This strategy known as CRI (Chemical Refinery Integration) was implemented in part to prepare for the ever-expanding demand for petrochemicals in the Asian markets, more specifically China. As part of this strategy, a decision was made to build a plant to increase the production of petrochemical products, such as xylene and propylene, of the Group's Sendai Refinery. Also, it was decided to build a highly efficient power generating plant that will utilize by-product gas, with the overall objective of creating a high-value-added refinery. In addition, the NOC Group strengthened its production of petrochemicals by entering into an agreement with Mitsubishi Gas Chemical Company, Inc., to produce paraxylene. As a result of the agreement, the NOC Group controls 51% of the shares of the subsidiary that is responsible for its manufacturing. Finally, a decision was made to construct a production plant to create cumene (isopropylbenzene), a high-value-added petrochemical product, at the Muroran Refinery by utilizing the benzene and propylene produced at the existing plant.

On the oil products marketing side of the business, the NOC Group continued its national sales campaign for the "ENEOS NEW VIGO" product to further increase brand awareness and bolster sales for this sulfur-free, high-quality, high octane gasoline which drastically improves the engine-cleaning capability. We also proceeded with the opening of new Dr. Drive facilities during the fiscal year. As a result, the number of such facilities in operation at the end of March 2006 surpassed 2,500. Moreover, we introduced the Dr. Drive car care concept to the overseas market in January 2006 when we launched the service at a gasoline station in Beijing, China. This project was implemented jointly with the Petro China Company Limited China Marketing Company Beijing Branch. At the same time, two distributors in the Tokyo metropolitan area with overlapping sales networks (IDOMCO Communications Co., Ltd., and Ozawa and Company Limited) were merged into a new company (ENEOS Frontier Corporation) as part of our efforts to reorganize our distribution network. By doing so, back-office cost reductions can be achieved, and the increase in efficiency of our service station network results in stronger competitiveness in the marketplace.

In the field of petrochemical sales, the NOC Group aimed to continue promoting its sales activities, specifically exports to Asian markets, and worked to form a product pricing structure that appropriately reflects the raw material prices and the market prices in Asia. In addition, the Group thoroughly implemented cost-cutting and operational streamlining strategies as well as worked to increase the cost-competitiveness of its wide-use products operations by coordinating more closely with the oil refinery side of the business. Moreover, the Group focused on strengthening its functional chemicals business and worked to develop more high-performance products.

As the NOC Group executes the various strategies outlined in the third medium-term management plan, drastic changes have been made to the organizational structure of the Group in order to establish an ideal format for its business functions. On July 1, 2005, as part of this overall strategy, Nippon Petroleum Gas Company, Ltd. was merged into NOC. This decision was made after determining that there was a need to properly respond to the energy needs of our clients, and the optimal manner to achieve this was to integrate marketing of LPG (liquefied petroleum gas) in addition to LNG, electricity, and petroleum products. Also, we saw the need to expand our current practice of integrating the petroleum refining and marketing business with the petrochemicals business in the production field to such other areas as sales and R&D. In line with this concept, as of April 1, 2006 NOC merged the R&D, management, and sales functions of Nippon Petrochemicals Company, Limited, the core petrochemicals business of the Group, into the overall Group structure and, as a result, created a dynamic organization that is able to push forward with CRI.

In the field of new energy-type business, as part of the Group's overall retail power strategy, operations commenced at the Niigata Power Plant in July 2005, which is owned by Frontier Energy Niigata Co., Ltd. (of which the NOC Group holds a 35% stake). Also, in February 2006, construction of the Kawasaki Natural Gas Power Generating Facility began. Full operational commencement of the plant, which is owned by Kawasaki Natural Gas Power Generating Co., Ltd. (of which the NOC Group holds a 51% stake), is planned for 2008. Moreover, construction of the LNG platform at the Mizushima Refinery (a joint construction project with The Chugoku Power Electric Company, Inc.) which had been under way since 2002 was completed and operations commenced in April 2006.

In the area of fuel cells (FCs), the NOC Group launched the ENEOS ECOBOY, the world's first heating oil based FC battery for residential use, in March 2006. By the end of March 2007, 100 such units are expected to be installed in homes throughout the nation. This is in addition to the ENEOS ECO LP-1, the LPG-based, environmentally friendly, FC battery for residential use that was launched in March 2005. Currently, field tests for the heating oil based FC battery for commercial use is being carried out with the aim to commercialize the product during the current fiscal year (FY2007).

Consequently, the NOC Group's consolidated net sales for the fiscal year under review in the petroleum refining and marketing business increased 32.4% from the previous fiscal year, to ¥5,482.6 billion. Operating income including the inventory valuation factors (where inventory valuation using the gross average method puts downward pressure on the cost of goods sold) increased ¥33.9 billion from the previous fiscal year to finish at ¥197.2 billion, mainly as a result of the significant rise in crude oil prices. However, when the inventory valuation factors are excluded, operating income fell ¥69.5 billion from the previous fiscal year to finish at ¥30.8 billion. This was because margins for petroleum and petrochemical products tightened, including the influence that fuel costs (utilized by the Group to operate plant equipment) increased as crude oil prices soared.

Please note that the net sales and operating income figures for this business segment contain ¥421.1 billion worth of net sales and ¥39.8 billion worth of operating income generated from the petrochemical products business.

Exploration and Production of Oil and Natural Gas

Profitability improved in E&P business mainly due to a rise in crude oil prices during the fiscal year under review. As part of the Group's focus on maintaining and expanding the production volume of this business segment, commercial production of an oil field off the coast of Western Australia began in March 2005. Also, we purchased rights for producing oil and gas fields (a total of 28) in the Gulf of Mexico from U.S.-based Devon Energy Corporation in April 2005. Furthermore, the cumulative production volume of oil fields off the coast of Vietnam achieved more than 100 million barrels in June 2005, while construction of a production facility for a natural gas exploration business in Indonesia began in March. Finally, the NOC Group acquired the exploration blocks off the coast of Libya in the Mediterranean Sea.

Consequently, net sales in the E&P business segment increased 166.8% from the previous fiscal year, to finish at ¥180.5 billion. Operating income increased ¥68.7 billion, to finish at ¥92.1 billion mainly due to price increases and production volume factors but also because of a change in the classification of a portion of oil and natural gas exploration project companies from an equity method company to a consolidated subsidiary.

Additionally, in the fiscal year under review, Teikoku Oil Co., Ltd., and INPEX Corporation agreed to merge their operations. To mark this event, NOC signed a letter of intent with the newly formed company to promote the collaborative exploration of new crude oil sources, with the goal to stabilize domestic energy supply. Going forward, we plan to further discuss the concept of strengthening our collaborative relationship with this group through the injection of capital.

Construction

Despite an increase in private capital investments, Japan's road building and construction industries continued to operate in a tough demand environment as public investment remained weak. Against this backdrop, the NOC Group proactively worked to secure construction orders.

As a result of these efforts, consolidated net sales in the construction segment increased 4.2% from the previous fiscal year, to end at ¥374.5 billion. On the profitability side, the segment generated operating income of ¥7.2 billion (an increase of ¥0.4 billion from the previous fiscal year) as efforts to reduce costs and increase efficiency offset the significant rise in raw material prices, a consequence of soaring crude oil costs.

Other Segments

Amid a continuingly tough operating environment in the field of petroleum product distribution, the NOC Group proactively expanded its marketing efforts for a wide array of automobile-related products, with an emphasis on ENEOS brand goods. In our real-estate operations, the Group enhanced its management services systems and made capital improvements to existing facilities in order to increase tenant satisfaction levels.

As a result of these efforts, consolidated net sales in the other business segment grew 5.6% from the previous fiscal year under review, to end at ¥80.4 billion. In addition, operating income increased ¥0.9 billion from the previous fiscal year, to finish at ¥5.9 billion. This was mainly due to our efforts to cut costs and increase operational efficiency.

FINANCIAL POSITION

Balance Sheet

Consolidated total assets at the end of the fiscal year under review totaled ¥4,231.8 billion, an increase of ¥717.5 billion from the previous fiscal year-end. The increase is generally attributed to a significant rise in inventory assets as a result of a rise in crude oil prices, the conversion of two petroleum fuel and natural gas exploration businesses from equity method companies to a consolidated subsidiary, and the increase of produced assets in the oil and natural gas areas.

Consolidated shareholders' equity totaled ¥1,130.3 billion at the end of the fiscal year under review, an increase of ¥177.1 billion from the previous fiscal year-end. This was achieved mainly because of positive factors such as consolidated net income surpassing negative factors such as the implementation of a year-end dividend and the retirement of common stock.

For the above reasons, the NOC Group's shareholders' equity ratio at year-end was 26.7%.

Cash Flows

Year-end cash and cash equivalents (hereinafter referred to as "cash") increased ¥74.0 billion from the previous fiscal year-end, to finish at ¥214.5 billion. The cash flow movements and the factors influencing them during the fiscal year under review were as follows:

Cash inflow from operating activities was ¥34.0 billion as positive factors to cash such as income before income taxes and minority interests (¥298.3 billion) and depreciation and amortization expenses which does not require cash expenditures (¥135.1 billion) surpassed negative factors such as an increase in working capital due to a rise in crude oil prices.

Cash outflow from investment activities was ¥115.1 billion, mainly as a result of capital investments into petrochemical equipment to be installed at the Group's refinery locations. In addition, further cash was expended with the purchase of exploration rights for oil and gas fields in the U.S. portion of the Gulf of Mexico by the Group's E&P business.

Cash inflow from financing activities was ¥126.0 billion as positive factors such as the borrowing of working capital as a result of rising crude oil prices outweighed negative factors such as share buybacks which were executed (to retire common stock) as well as dividend payments.

Capital Investments

In principle, capital investment projects are planned so that they can be funded with cash flow, or profit plus depreciation. Of the ¥189.8 billion in capital investments made during the fiscal year under review, ¥122.4 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

Based on the profit sharing policies of NOC, the year-end dividend for the fiscal year under review is anticipated to be ¥6 per share. As a result, full year dividends (including the interim dividend) will increase ¥2, to ¥12 per share.

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 as follows:

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 valuating 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, 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 Exploration and Production of Oil and Natural Gas (E&P)

In the area of E&P, a rise in crude oil prices (in yen) is a positive factor for profitability because it leads to an increase in revenues. On the other hand, a drop in crude oil prices (in yen) 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 for the NOC Group's products will also be impacted by these fluctuations, and, as such, demand trends are determined to be 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 sale prices to reflect these fluctuations, such changes may be considered a profitability factor depending on the market environment.

3. Impact of fluctuating interest rates

An increase in interest rates is considered a negative profitability factor because it would increase interest expense on loans and other interest-bearing liabilities and consequently worsen the balance of financial expenses. On the other hand, a fall in interest rates is considered a positive profitability factor because it would 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 also on a global scale in areas such as North America, Europe, and Asia/Oceania. The Group believes that certain risks as outlined below exist in its overseas activities.

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

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

c. Disasters arising out of 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 worsened 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 on trends in the public investment and private capital investment (including private residential investment) 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 to the NOC Group's operations. Costs may be in the form of capital investments into 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. In a situation such as this, production and sales activities of the NOC Group will not only be compromised but it may 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.

Consolidated Balance Sheets

Nippon Oil Corporation and Consolidated Subsidiaries

March 31, 2006 and 2005	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 2) 2006
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 214,476**	¥ 140,478	**$ 1,833,128**
Time deposits (Note 6)	**243**	3,250	**2,077**
Short-term investments in securities (Note 3)	**24,292**	19,384	**207,624**
Notes and accounts receivable (Note 6):			
Trade	**773,589**	611,258	**6,611,872**
Other	**84,307**	67,623	**720,573**
Less allowance for doubtful receivables	**(4,223)**	(5,901)	**(36,094)**
Inventories (Note 4)	**951,046**	636,704	**8,128,598**
Deferred income taxes (Note 9)	**36,816**	33,517	**314,667**
Other current assets	**60,401**	63,012	**516,248**
Total current assets	**2,140,951**	1,569,328	**18,298,726**
Investments and long-term receivables:			
Investments in unconsolidated subsidiaries and affiliates	**151,151**	68,763	**1,291,889**
Investments in other securities (Notes 3 and 6)	**244,864**	226,328	**2,092,855**
Long-term receivables (Note 6)	**17,073**	29,055	**145,923**
Total investments and long-term receivables	**413,088**	324,148	**3,530,667**
Property, plant and equipment (Notes 5 and 6):			
Land	**680,044**	686,993	**5,812,342**
Buildings	**801,328**	798,094	**6,848,957**
Oil tanks	**262,742**	259,043	**2,245,658**
Machinery and equipment	**1,562,759**	1,518,190	**13,356,915**
Construction in progress	**77,081**	45,980	**658,812**
	3,383,957	3,308,301	**28,922,709**
Less accumulated depreciation	**(2,013,721)**	(1,946,912)	**(17,211,291)**
Property, plant and equipment, net	**1,370,235**	1,361,389	**11,711,410**
Deferred income taxes (Note 9)	**20,685**	21,927	**176,795**
Other assets (Note 6)	**286,853**	237,558	**2,451,735**
Total assets	**¥4,231,814**	¥3,514,352	**$36,169,350**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	**2006**
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 6)	**¥ 513,188**	¥ 247,552	**$ 4,386,222**
Current portion of long-term debt (Note 6)	**84,509**	159,331	**722,299**
Notes and accounts payable:			
Trade	**580,081**	434,704	**4,957,957**
Other	**235,388**	190,661	**2,011,863**
Excise taxes payable (Note 10)	**227,191**	230,786	**1,941,803**
Accrued income taxes	**65,745**	61,746	**561,923**
Accrued expenses	**49,629**	47,269	**424,179**
Deferred income taxes (Note 9)	**70**	3,230	**598**
Other current liabilities	**186,042**	161,527	**1,590,103**
Total current liabilities	**1,941,846**	1,536,810	**16,596,974**
Long-term liabilities:			
Long-term debt (Note 6)	**652,075**	612,511	**5,573,291**
Accrued retirement benefits (Note 7)	**98,849**	106,835	**844,863**
Reserve for inspection of oil tanks, machinery and equipment, and vessels	**34,310**	32,627	**293,248**
Deferred income taxes (Note 9)	**160,329**	102,212	**1,370,333**
Other long-term liabilities	**104,835**	73,245	**896,026**
Total long-term liabilities	**1,050,400**	927,431	**8,977,778**
Minority interests in consolidated subsidiaries	**109,238**	96,870	**933,658**
Shareholders' equity (Note 8):			
Common stock:			
Authorized—2,000,000,000 shares			
Issued—1,464,508,343 shares in 2006 and 1,514,508,343 shares in 2005	**139,437**	139,437	**1,191,769**
Capital surplus	**275,015**	274,852	**2,350,556**
Retained earnings (Note 17)	**599,517**	489,729	**5,124,077**
Unrealized holding gain on securities, net of deferred income taxes (Note 3)	**122,456**	60,743	**1,046,632**
Translation adjustments	**(167)**	(7,403)	**(1,427)**
	1,136,258	957,359	**9,711,607**
Less treasury stock, at cost:			
7,236,818 shares in 2006 and 6,849,986 shares in 2005	**(5,929)**	(4,118)	**(50,675)**
Total shareholders' equity	**1,130,328**	953,240	**9,660,923**
Contingent liabilities (Note 13)			
Total liabilities, minority interests and shareholders' equity	**¥4,231,814**	¥3,514,352	**$36,169,350**

Consolidated Statements of Income

Nippon Oil Corporation and Consolidated Subsidiaries

Years ended March 31, 2006 and 2005	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 2) 2006
Net sales (Notes 10 and 16)	**¥6,117,988**	¥4,924,163	**$52,290,496**
Cost of sales (Note 10)	**5,521,192**	4,437,411	**47,189,675**
Gross profit	**596,796**	486,751	**5,100,821**
Selling, general and administrative expenses (Notes 11 and 12)	**292,866**	285,281	**2,503,128**
Operating income (Note 16)	**303,930**	201,470	**2,597,692**
Non-operating income (expenses):			
Interest expense	**(23,160)**	(18,748)	**(197,949)**
Interest and dividend income	**11,262**	5,751	**96,256**
Foreign exchange gain	**8,426**	3,686	**72,017**
Asset rental income	**10,657**	11,486	**91,085**
Equity in earnings of unconsolidated subsidiaries and affiliates	**4,929**	6,550	**42,128**
Loss on valuation of derivatives	**(7,407)**	—	**(63,308)**
Other, net	**2,618**	2,239	**22,376**
	5,158	10,965	**44,085**
Ordinary income	**309,088**	212,435	**2,641,778**
Other income (expenses):			
Gain on sales of property, plant and equipment	**8,213**	24,263	**70,197**
Loss on disposal of property, plant and equipment	**(12,462)**	(13,239)	**(106,513)**
Write-downs of investments in securities and other assets	**(3,414)**	(1,020)	**(29,179)**
Gain on sales of securities	**1,024**	2,134	**8,752**
Special allowance for early retirement plans	**(1,162)**	(451)	**(9,932)**
Write-downs of real estate for sale	**(81)**	(607)	**(692)**
Loss on impairment of fixed assets (Note 5)	**(3,868)**	(4,211)	**(33,060)**
Loss on damage from natural disaster	**—**	(1,378)	**—**
Loss on cost of elimination of asbestos	**(1,810)**	—	**(15,470)**
Other, net	**2,805**	3,033	**23,974**
	(10,756)	8,522	**(91,932)**
Income before income taxes and minority interests	**298,332**	220,958	**2,549,846**
Income taxes (Note 9):			
Current	**117,551**	60,797	**1,004,709**
Deferred	**2,865**	21,782	**24,487**
Income before minority interests	**177,915**	138,377	**1,520,641**
Minority interests in earnings of consolidated subsidiaries	**11,404**	6,858	**97,470**
Net income	**¥ 166,510**	¥ 131,519	**$ 1,423,162**

Years ended March 31, 2006 and 2005	Yen 2006	Yen 2005	U.S. dollars (Note 2) 2006
Net income per share—Basic:	**¥114.08**	¥86.72	**$0.98**
Cash dividends per share attributable to the year	**12.00**	10.00	**0.10**

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

Consolidated Statements of Shareholders' Equity

Nippon Oil Corporation and Consolidated Subsidiaries

Years ended March 31, 2006 and 2005	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 2) 2006
Common stock:			
Beginning of year	**¥139,437**	¥139,436	**$1,191,769**
End of year	**¥139,437**	¥139,437	**$1,191,769**
Capital surplus:			
Beginning of year	**¥274,852**	¥274,838	**$2,349,162**
New stock issuance	**0**	0	**0**
Gain on retirement of treasury stock	**162**	13	**1,385**
End of year	**¥275,015**	¥274,852	**$2,350,556**
Retained earnings (Note 17):			
Beginning of year	**¥489,729**	¥371,471	**$4,185,718**
Adjustment for inclusion in consolidation or equity method of accounting	**43**	—	**368**
Net increase arising from merger	**445**	—	**3,803**
Net income	**166,510**	131,519	**1,423,162**
Redemption of owned capital	**(37,577)**	—	**(321,171)**
Cash dividends paid	**(17,816)**	(12,085)	**(152,274)**
Bonuses to directors and statutory auditors	**(719)**	(425)	**(6,145)**
Net decrease resulting from inclusion of subsidiaries in consolidation	**(392)**	(558)	**(3,350)**
Net decrease resulting from exclusion of subsidiaries from consolidation	**(624)**	—	**(5,333)**
Net decrease resulting from exclusion of affiliates from equity method	**—**	(167)	**—**
Net decrease resulting from inclusion of affiliates in equity method	**(2)**	(24)	**(17)**
Decrease resulting from retirement of common stock	**(78)**	—	**(667)**
End of year	**¥599,517**	¥489,729	**$5,124,077**
Unrealized holding gain on securities, net of deferred income taxes (Note 3):			
Beginning of year	**¥ 60,743**	¥ 46,766	**$ 519,171**
Net change during the year	**61,712**	13,976	**527,453**
End of year	**¥122,456**	¥ 60,743	**$1,046,632**
Translation adjustments:			
Beginning of year	**¥ (7,403)**	¥ (8,123)	**$ (63,274)**
Net change during the year	**7,235**	720	**61,838**
End of year	**¥ (167)**	¥ (7,403)	**$ (1,427)**
Treasury stock:			
Beginning of year	**¥ (4,118)**	¥ (3,186)	**$ (35,197)**
Net change during the year	**(1,811)**	(932)	**(15,479)**
End of year	**¥ (5,929)**	¥ (4,118)	**$ (50,675)**

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

Consolidated Statements of Cash Flows

Nippon Oil Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 2)
Years ended March 31, 2006 and 2005	**2006**	2005	**2006**
Operating activities:			
Income before income taxes and minority interests	**¥298,332**	¥220,958	**$2,549,846**
Depreciation and amortization	**135,133**	110,031	**1,154,983**
Amortization of excess of cost over net assets acquired	**(753)**	(1,384)	**(6,436)**
Reversal of allowance for doubtful receivables	**(3,601)**	(2,295)	**(30,778)**
Reversal of allowance for accrued retirement benefits	**(7,635)**	(4,888)	**(65,256)**
Provision for (reversal of) reserve for inspection of oil tanks, machinery and equipment, and vessels	**1,344**	(1,024)	**11,487**
Interest and dividend income	**(11,262)**	(5,751)	**(96,256)**
Interest expense	**23,160**	18,748	**197,949**
Gain on sales of property, plant and equipment	**(8,322)**	(24,395)	**(71,128)**
Loss on disposal of property, plant and equipment	**8,851**	12,024	**75,650**
Loss on impairment of fixed assets	**3,868**	4,211	**33,060**
Gain on sales of investments in securities	**(2,457)**	(2,556)	**(21,000)**
Increase in notes and accounts receivable	**(138,466)**	(27,877)	**(1,183,470)**
Increase in inventories	**(317,203)**	(137,814)	**(2,711,137)**
Increase in notes and accounts payable and excise taxes payable	**119,627**	2,283	**1,022,453**
Other, net	**54,817**	(9,490)	**468,521**
Subtotal	**155,432**	150,779	**1,328,479**
Interest and dividends received	**13,037**	7,249	**111,427**
Interest paid	**(22,791)**	(18,661)	**(194,795)**
Income taxes paid	**(111,559)**	(11,296)	**(953,496)**
Early retirement incentive payments	**(97)**	(12,338)	**(829)**
Net cash provided by operating activities	**34,021**	115,731	**290,778**
Investing activities:			
Decrease in time deposits	**561**	1,060	**4,795**
(Increase) decrease in short-term investments in securities and investments in other securities	**(173)**	765	**(1,479)**
Additions to property, plant and equipment	**(97,916)**	(108,812)	**(836,889)**
Proceeds from sales of property, plant and equipment	**19,876**	41,680	**169,880**
Acquisition of shares of consolidated subsidiaries	**—**	(16,363)	**—**
Proceeds from sales of shares of consolidated subsidiaries	**4,112**	—	**35,145**
Proceeds from sales (payments for purchases) of shares of consolidated subsidiaries due to change in scope of consolidation	**641**	(1,927)	**5,479**
Increase in cost of exploration and production of oil and related assets	**(45,734)**	—	**(390,889)**
Decrease (increase) in long-term receivables	**10,751**	(2,531)	**91,889**
Other	**(7,194)**	(13,364)	**(61,487)**
Net cash used in investing activities	**(115,073)**	(99,491)	**(983,530)**
Financing activities:			
Increase (decrease) in short-term loans	**248,488**	(17,525)	**2,123,829**
Proceeds from long-term debt	**122,437**	99,636	**1,046,470**
Repayment of long-term debt	**(185,791)**	(115,491)	**(1,587,957)**
Expenditure for purchase of treasury stock	**(39,351)**	—	**(336,333)**
Cash dividends paid	**(19,940)**	(15,857)	**(170,427)**
Other	**127**	(746)	**1,085**
Net cash provided by (used in) financing activities	**125,969**	(49,984)	**1,076,658**
Effect of exchange rate changes on cash and cash equivalents	**9,660**	(197)	**82,564**
Increase (decrease) in cash and cash equivalents	**54,577**	(33,941)	**466,470**
Cash and cash equivalents at beginning of year	**140,478**	174,535	**1,200,667**
Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries	**19,409**	14	**165,889**
Increase in cash and cash equivalents resulting from merger in consolidation	**10**	—	**85**
Decrease in cash and cash equivalents resulting from exclusion from consolidation	**—**	(128)	**—**
Cash and cash equivalents at end of year	**¥214,476**	¥140,478	**$1,833,128**

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, 2006

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. Investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method. All significant inter-company 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 income 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 those arising from minority interests in consolidated subsidiaries are reflected as translation adjustments.

(d) 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.

(e) 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.

(f) 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.

(g) Inventories

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

(h) 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.

(i) 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 cost 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.

(j) 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.

(k) 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.

(l) 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.

Effective the year ended March 31, 2006, the Company changed its accounting treatment of bonuses to directors and statutory auditors and commenced charging these directly to income during the corresponding period. The effect of this change in method of accounting was to decrease operating income, ordinary profit and income before income taxes and minority interests by ¥816 million ($6,974 thousand).

(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, 2006 and 2005 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.

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 ¥117 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2006. 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. SECURITIES

a) Marketable securities classified as held-to-maturity securities at March 31, 2006 and 2005 were as follows:

March 31,	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Carrying value	**¥64**	¥864	**$547**
Aggregate market value	**63**	866	**538**
Net unrealized holding gain	**¥ (0)**	¥ 2	**$ (0)**

b) Marketable securities classified as other securities at March 31, 2006 and 2005 were as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2006	Acquisition cost	Carrying amount	Net unrealized holding gain	Acquisition cost	Carrying amount	Net unrealized holding gain
Stocks	**¥54,548**	**¥215,689**	**¥161,141**	**$466,214**	**$1,843,496**	**$1,377,274**
Debt securities	**17**	**18**	**0**	**145**	**154**	**0**
Other	**—**	**—**	**—**	**—**	**—**	**—**
	¥54,566	**¥215,707**	**¥161,141**	**$466,376**	**$1,843,650**	**$1,377,274**

	Millions of yen		
March 31, 2005	Acquisition cost	Carrying amount	Net unrealized holding gain
Stocks	¥68,961	¥176,395	¥107,435
Debt securities	14	15	0
Other	51	52	0
	¥69,028	¥176,463	¥107,435

c) Sales of securities classified as other securities amounted to ¥2,277 million ($19,462 thousand) and ¥4,289 million, with a net aggregate gain of ¥1,488 million ($12,718 thousand) and ¥2,244 million for the years ended March 31, 2006 and 2005, respectively.

d) The redemption schedule at March 31, 2006 for securities with maturity dates is summarized as follows:

March 31, 2006	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥24,246	$207,231
Due after one year through five years	2,720	23,248
Due after five years through ten years	6,101	52,145
Due over ten years	100	855

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

March 31,	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Merchandise and finished products	**¥189,436**	¥121,004	**$1,619,111**
Crude oil	**264,378**	159,819	**2,259,641**
Merchandise and crude oil in transit	**230,149**	132,688	**1,967,085**
Work in process	**210,044**	161,292	**1,795,248**
Containers and supplies	**41,016**	43,485	**350,564**
Real estate for sale	**16,020**	18,413	**136,923**
	¥951,046	¥636,704	**$8,128,598**

5. LOSS ON IMPAIRMENT OF FIXED ASSETS

Recognition of impairment losses on fixed assets for the years ended March 31, 2006 and 2005 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, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Service stations:			
Land	**¥1,183**	¥1,878	**$10,111**
Other	**—**	24	**—**
	1,183	1,903	**10,111**
Plants:			
Land	**—**	—	**—**
Other	**424**	—	**3,624**
	424	—	**3,624**
Buildings for rent:			
Land	**—**	201	**—**
Buildings	**—**	99	**—**
Other	**—**	534	**—**
	—	836	**—**
Idle properties and equipment:			
Land	**1,867**	1,093	**15,957**
Other	**392**	378	**3,350**
	2,260	1,471	**19,307**
Total	**¥3,868**	¥4,211	**$33,060**

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

An impairment loss on buildings for rent, other businesses and certain idle properties and equipment was recorded at the total of 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 in accordance with real estate appraisal standards.

6. 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, 2006 and 2005 were approximately 0.4% and 0.3%, respectively.

Long-term debt at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Unsecured Eurobonds in U.S. dollars, due through February 2007, at interest rates ranging from 4.45% to 4.91%	**¥ 12,810**	¥ 12,270	**$ 109,487**
1.10% unsecured Eurobonds in Euros, due September 2005	**—**	3,548	**—**
Unsecured bonds in yen, due through June 2015, at interest rates ranging from 0.61% to 3.35%	**160,000**	177,300	**1,367,521**
Unsecured Eurobonds in yen, due through April 2013, at interest rates ranging from 0.30% to 1.62%	**24,368**	38,919	**208,274**
Loans from banks, life insurance companies and government agencies, due through March 2022, at interest rates ranging from 0.23% to 6.70%:			
Secured	**91,254**	102,845	**779,949**
Unsecured	**448,151**	436,958	**3,830,350**
	736,584	771,843	**6,295,590**
Less current portion	**(84,509)**	(159,331)	**(722,299)**
	¥652,075	¥612,511	**$5,573,291**

Assets pledged at March 31, 2006 and 2005 as collateral for long-term debt or other debt were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Time deposits	**¥ 49**	¥ 46	**$ 419**
Notes and accounts receivable	**297**	811	**2,538**
Land	**217,821**	223,236	**1,861,718**
Other property, plant and equipment, net	**229,950**	283,286	**1,965,385**
Investments in other securities	**73,416**	39,717	**627,487**
Long-term receivables	**2,624**	3,142	**22,427**

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 84,509	$ 722,299
2008	77,343	661,051
2009	72,511	619,752
2010	75,678	646,821
2011 and thereafter	426,542	3,645,658
	¥736,584	$6,295,590

7. RETIREMENT BENEFITS

The Company and its major consolidated subsidiaries have defined benefit pension plans for their employees who are covered by non-contributory plans which fall under the Welfare Pension Fund Plan of Japan.

Accrued retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Retirement benefits obligation	**¥(265,103)**	¥(267,735)	**$(2,265,838)**
Plan assets at fair value	**200,193**	163,618	**1,711,051**
Unfunded retirement benefits obligation	**(64,909)**	(104,116)	**(554,778)**
Unrecognized actuarial (loss) gain	**(24,463)**	8,901	**(209,085)**
Unrecognized prior service cost	**(9,476)**	(11,619)	**(80,991)**
Accrued retirement benefits	**¥ (98,849)**	¥(106,835)	**$ (844,863)**

Retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Service cost	**¥ 7,746**	¥ 7,782	**$66,205**
Interest cost	**5,023**	5,388	**42,932**
Expected return on plan assets	**(3,832)**	(2,871)	**(32,752)**
Amortization of actuarial loss	**4,226**	7,849	**36,120**
Amortization of prior service cost	**(2,049)**	(336)	**(17,513)**
	11,115	17,812	**95,000**
Gain on transfer of the substitutional portion of WPFP	**—**	(3,483)	**—**
	¥11,115	¥14,329	**$95,000**

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

As of March 31,	**2006**	2005
Discount rate	**Mainly 2.0%**	Mainly 2.0%
Expected rate of return on plan assets	**Mainly 2.0%**	Mainly 2.0%

8. SHAREHOLDERS' EQUITY

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and the additional paid-in capital account equals 25% of the common stock account. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock upon approval by the Board of Directors. The Code further provides that if the total amount of additional paid-in capital 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. The Company's shares of common stock have no par value in accordance with the Code.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law stipulates similar requirements on distributions of earnings to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

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.

9. 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, 2006

An analysis of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2006 was as follows:

Year ended 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 significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Deferred tax assets:			
Property, plant and equipment	**¥ 16,232**	¥ 15,897	**$ 138,735**
Accrued retirement benefits	**39,977**	38,955	**341,684**
Depreciation	**13,314**	12,715	**113,795**
Net operating loss carryforwards	**14,875**	8,978	**127,137**
Loss on revaluation of securities	**20,324**	20,165	**173,709**
Loss on impairment of assets	**52,802**	56,303	**451,299**
Other	**67,906**	54,738	**580,393**
Valuation allowance	**(91,647)**	(75,573)	**(783,308)**
Total deferred tax assets	**133,786**	132,180	**1,143,470**
Deferred tax liabilities:			
Fair value of subsidiaries on consolidation	**70,303**	70,353	**660,880**
Reserves under Special Taxation Measures Law	**39,421**	43,539	**336,932**
Net unrealized holding gain on securities	**87,146**	43,212	**744,838**
Other	**39,812**	25,072	**340,274**
Total deferred tax liabilities	**236,684**	182,178	**2,022,940**
Net deferred tax liabilities	**¥(102,897)**	¥ (49,997)	**$ (879,462)**

A corresponding analysis for the year ended March 31, 2006 has been omitted due to the immaterial difference between the statutory and effective tax rates for the year then ended.

10. 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 income. Excise taxes amounted to ¥1,015,013 million ($8,675,325 thousand) and ¥1,121,597 million for the years ended March 31, 2006 and 2005, respectively, and represented approximately 17% and 23% of net sales for the respective years.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Freight	**¥107,112**	¥102,350	**$ 915,487**
Personnel expenses	**72,011**	66,072	**615,479**
Retirement benefits	**5,544**	9,722	**47,385**
Repair and inspection costs	**10,205**	7,808	**87,222**
Rental expenses	**15,899**	16,021	**135,889**
Depreciation and amortization	**23,918**	24,683	**204,427**
Other	**58,175**	58,623	**497,222**
	¥292,866	¥285,281	**$2,503,128**

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of ¥10,103 million ($86,350 thousand) and ¥11,440 million were charged to income as incurred for the years ended March 31, 2006 and 2005, respectively.

13. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
As endorser of trade notes	**¥ —**	¥ 286	**$ —**
As guarantors of indebtedness of:			
Unconsolidated subsidiaries and affiliates	**16,730**	30,001	**142,991**
Others	**21,513**	27,425	**183,872**
	¥38,243	¥57,713	**$326,863**

14. 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, 2006 and 2005, 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:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Acquisition costs	**¥9,572**	¥9,608	**$81,812**
Accumulated depreciation	**3,858**	4,130	**32,974**
Net book value	**¥5,713**	¥5,477	**$48,829**

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, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Lease payments	**¥1,999**	¥2,097	**$17,085**
Depreciation	**1,818**	1,927	**15,538**
Interest expense	**175**	203	**1,496**

Future minimum lease payments (exclusive of the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥1,677	$14,333
2008 and thereafter	4,492	38,393
Total	¥6,169	$52,726

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2006 for noncancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥215	$1,838
2008 and thereafter	185	1,581
Total	¥400	$3,419

Lessor

(a) Finance leases

The following amounts represent the acquisition costs, accumulated depreciation and net book value of machinery and equipment leased out at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Acquisition costs	**¥18,058**	¥18,208	**$154,342**
Accumulated depreciation	**9,061**	7,480	**77,444**
Net book value	**¥ 8,996**	¥10,727	**$ 76,889**

The following amounts represent lease revenues relating to finance leases accounted for as operating leases, the *pro forma* depreciation expense of the leased assets and the *pro forma* interest income on lease revenues (calculated by the interest method) at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2006**	2005	**2006**
Lease revenues	**¥4,041**	¥4,031	**$34,538**
Depreciation	**3,639**	3,629	**31,103**
Interest income	**440**	499	**3,761**

Future minimum lease revenues (exclusive of the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥3,534	$30,205
2008 and thereafter	6,001	51,291
Total	¥9,536	$81,504

(b) Operating leases

Future minimum lease revenues subsequent to March 31, 2006 for noncancelable operating leases are immaterial.

15. 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 open derivatives positions at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
2006	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Currency:						
Forward foreign exchange contracts	**¥62,889**	**¥63,045**	**¥ 111**	**$537,513**	**$538,846**	**$ 949**
Interest-rate contracts:						
Swaps	**¥ 5,161**	**¥ 161**	**¥ 161**	**$ 44,111**	**$ 1,376**	**$ 1,376**
Commodity swaps	**¥ 7,202**	**¥ (1,592)**	**¥(1,592)**	**$ 61,556**	**$ (13,607)**	**$(13,607)**
Commodity options:						
Collars	**¥28,349**	**¥ (5,527)**	**¥(5,527)**	**$242,299**	**$(47,239)**	**$(47,239)**

	Millions of yen		
2005	Notional amount	Fair value	Unrealized gain (loss)
Currency:			
Forward foreign exchange contracts	¥39,477	¥40,021	¥476
Interest-rate contracts:			
Swaps	¥ 4,884	¥ 463	¥463
Commodity options:			
Collars	¥ 2,472	¥ 257	¥257

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

16. SEGMENT INFORMATION

The business of the Company and its consolidated subsidiaries is divided into the following four categories: Refining and Marketing, Oil and Natural Gas E&P*, Construction and Other. The Refining and Marketing segment comprises gasoline, naphtha, kerosene, diesel fuel, heavy fuels, petrochemical products (paraxylene, benzene), plastics and others; the Oil and Natural Gas E&P segment comprises exploration for, and production of, oil and natural gas; the Construction segment comprises paving, civil engineering and construction; and the Other segment comprises leasing, finance, insurance, data processing and other businesses.

*Exploration and production

The business and geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is summarized as follows:

Business segments

	Millions of yen						
Year ended March 31, 2006	Refining and Marketing	Oil and Natural Gas E&P	Construction	Other	Total	Eliminations	Consolidated
Sales to third parties	**¥5,482,648**	**¥180,503**	**¥374,482**	**¥ 80,353**	**¥6,117,988**	**¥ —**	**¥6,117,988**
Intergroup sales and transfers	**9,285**	**—**	**1,285**	**15,285**	**25,856**	**(25,856)**	**—**
Total sales	**5,491,933**	**180,503**	**375,768**	**95,638**	**6,143,844**	**(25,856)**	**6,117,988**
Operating expenses	**5,294,753**	**88,412**	**368,607**	**89,785**	**5,841,559**	**(27,501)**	**5,814,058**
Operating income	**¥ 197,180**	**¥ 92,090**	**¥ 7,160**	**¥ 5,853**	**¥ 302,285**	**¥ 1,645**	**¥ 303,930**
Assets	**¥3,412,601**	**¥404,078**	**¥391,319**	**¥135,765**	**¥4,343,765**	**¥(111,950)**	**¥4,231,814**
Depreciation and amortization	**¥ 85,026**	**¥ 38,946**	**¥ 4,792**	**¥ 6,374**	**¥ 135,139**	**¥ (5)**	**¥ 135,133**
Loss on impairment of fixed assets	**¥ 3,834**	**¥ —**	**¥ 34**	**¥ —**	**¥ 3,868**	**¥ —**	**¥ 3,868**
Capital expenditures	**¥ 84,892**	**¥ 63,903**	**¥ 4,628**	**¥ 4,985**	**¥ 158,411**	**¥ —**	**¥ 158,411**

	Millions of yen						
Year ended March 31, 2005	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
Loss on impairment of fixed assets	¥ 4,211	¥ —	¥ —	¥ —	¥ 4,211	¥ —	¥ 4,211
Capital expenditures	¥ 84,974	¥ 10,447	¥ 5,494	¥ 6,600	¥ 107,516	¥ —	¥ 107,516

	Thousands of U.S. dollars						
Year ended March 31, 2006	Refining and Marketing	Oil and Natural Gas E&P	Construction	Other	Total	Eliminations	Consolidated
Sales to third parties	**$46,860,239**	**$1,542,761**	**$3,200,701**	**$ 686,778**	**$52,290,496**	**$ —**	**$52,290,496**
Intergroup sales and transfers	**79,359**	**—**	**10,983**	**130,641**	**220,991**	**(220,991)**	**—**
Total sales	**46,939,598**	**1,542,761**	**3,211,692**	**817,419**	**52,511,487**	**(220,991)**	**52,290,496**
Operating expenses	**45,254,299**	**755,658**	**3,150,487**	**767,393**	**49,927,855**	**(235,051)**	**49,692,803**
Operating income	**$ 1,685,299**	**$ 787,094**	**$ 61,197**	**$ 50,026**	**$ 2,583,632**	**$ 14,060**	**$ 2,597,692**
Assets	**$29,167,530**	**$3,453,658**	**$3,344,607**	**$1,160,385**	**$37,126,197**	**$(956,838)**	**$36,169,350**
Depreciation and amortization	**$ 726,718**	**$ 332,872**	**$ 40,957**	**$ 54,479**	**$ 1,155,034**	**$ (43)**	**$ 1,154,983**
Loss on impairment of fixed assets	**$ 32,769**	**$ —**	**$ 291**	**$ —**	**$ 33,060**	**$ —**	**$ 33,060**
Capital expenditures	**$ 725,573**	**$ 546,179**	**$ 39,556**	**$ 42,607**	**$ 1,353,940**	**$ —**	**$ 1,353,940**

Changes in Classification of Business Segments

Business segments previously consisted of four segments entitled “Petroleum Fuel and Crude Oil,” “Petrochemical Operations,” “Construction,” and “Other” because of their similarities in nature and classification. Effective this fiscal year, the segmentation has been revised as follows: “Refining and Marketing,” “Oil and Natural Gas E&P,” “Construction” and “Other.”

- Figures for the “Oil and Natural Gas E&P” sector are presented separately because this sector is positioned as a highly important strategic growth field and the Company’s third medium-term consolidated management plan calls for proactively proceeding with investments in this area.
- Figures for petrochemical operations were shown separately in previous years but have been included, effective this year, in the “Refining and Marketing” segment. The Company’s Chemical Refinery Integration (CRI) project led to an integration in March 2004 of the production planning for the Company’s refining and petrochemical production facilities and to calls for additional measures to create a flexible system for manufacturing both petrochemicals and petroleum products. The current plans as of April 1, 2006 call for progressively integrating these areas at the Head Office.

The following business segment information for the year ended March 31, 2005 has been revised to conform to the Company's current segmentation.

	Millions of yen						
Year ended March 31, 2005	Refining and Marketing	Oil and Natural Gas E&P	Construction	Other	Total	Eliminations	Consolidated
Sales to third parties	¥4,420,962	¥ 67,649	¥359,456	¥ 76,095	¥4,924,163	¥ —	¥4,924,163
Intergroup sales and transfers	9,869	—	1,665	14,857	26,392	(26,392)	—
Total sales	4,430,831	67,649	361,122	90,952	4,950,556	(26,392)	4,924,163
Operating expenses	4,269,852	40,557	354,375	85,968	4,750,755	(28,061)	4,722,693
Operating income	¥ 160,978	¥ 27,091	¥ 6,746	¥ 4,984	¥ 199,801	¥ 1,668	¥ 201,470
Assets	¥2,834,573	¥260,814	¥380,709	¥157,395	¥3,633,492	¥(119,139)	¥3,514,352
Depreciation and amortization	¥ 85,155	¥ 12,615	¥ 5,113	¥ 7,155	¥ 110,037	¥ (5)	¥ 110,031
Loss on impairment of fixed assets	¥ 4,211	¥ —	¥ —	¥ —	¥ 4,211	¥ —	¥ 4,211
Capital expenditures	¥ 75,891	¥ 19,530	¥ 5,494	¥ 6,600	¥ 107,516	¥ —	¥ 107,516

Geographical segments

	Millions of yen						
Year ended March 31, 2006	Japan	North America	Asia and Oceania	Europe	Total	Eliminations	Consolidated
Sales to third parties	**¥5,828,966**	**¥ 49,037**	**¥ 206,108**	**¥ 33,876**	**¥6,117,988**	**¥ —**	**¥6,117,988**
Intergroup sales and transfers	**63,146**	**268,824**	**810,379**	**1,077,332**	**2,219,683**	**(2,219,683)**	**—**
Total sales	**5,892,113**	**317,861**	**1,016,487**	**1,111,209**	**8,337,671**	**(2,219,683)**	**6,117,988**
Operating expenses	**5,684,900**	**309,329**	**946,112**	**1,093,595**	**8,033,937**	**(2,219,879)**	**5,814,058**
Operating income	**¥ 207,212**	**¥ 8,532**	**¥ 70,375**	**¥ 17,613**	**¥ 303,737**	**¥ 196**	**¥ 303,930**
Total assets	**¥3,832,876**	**¥198,036**	**¥ 313,095**	**¥ 243,490**	**¥4,587,498**	**¥ (355,683)**	**¥4,231,814**

	Millions of yen						
Year ended March 31, 2005	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

	Thousands of U.S. dollars						
Year ended March 31, 2006	Japan	North America	Asia and Oceania	Europe	Total	Eliminations	Consolidated
Sales to third parties	**$49,820,222**	**$ 419,120**	**$1,761,607**	**$ 289,538**	**$52,290,496**	**$ —**	**$52,290,496**
Intergroup sales and transfers	**539,709**	**2,297,641**	**6,926,316**	**9,207,966**	**18,971,650**	**(18,971,650)**	**—**
Total sales	**50,359,940**	**2,716,761**	**8,687,923**	**9,497,513**	**71,262,145**	**(18,971,650)**	**52,290,496**
Operating expenses	**48,588,889**	**2,643,838**	**8,086,427**	**9,346,966**	**68,666,128**	**(18,973,325)**	**49,692,803**
Operating income	**$ 1,771,043**	**$ 72,923**	**$ 601,496**	**$ 150,538**	**$ 2,596,009**	**$ 1,675**	**$ 2,597,692**
Total assets	**$32,759,624**	**$1,692,615**	**$2,676,026**	**$2,081,111**	**$39,209,385**	**$ (3,040,026)**	**$36,169,350**

17. SUBSEQUENT EVENTS

(a) The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved at a meeting of the shareholders of the Company held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥6=$0.05 per share)	¥8,756	$74,838

(b) On June 20, 2006, the Company concluded a basic agreement to enter into a business alliance with Japan Energy Corporation. The Company and Japan Energy Corporation plan to cooperate in each field of exploration and production of oil and natural gas, oil refining, distribution, and fuel cell technology development in order to strengthen their international competitiveness.

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, 2006 and 2005, and the related consolidated statements of income, 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, 2006 and 2005, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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.

Ernst & Young ShinNihon

June 29, 2006

Principal NOC Group Companies

(As of July 1, 2006)

OIL REFINING AND WHOLESALING

Nippon Petroleum Refining Company, Limited
Capital: ¥5,000 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: ¥5,000 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 Business Services Co., Ltd.
Capital: ¥50 million (100%)
Established: 2004
Business: Provision of accounting, payroll and welfare services for Nippon Oil Group

*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, 2006)

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Fax: (3) 6250-8851

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Atlanta Nisseki CLAF, Inc., Head Office
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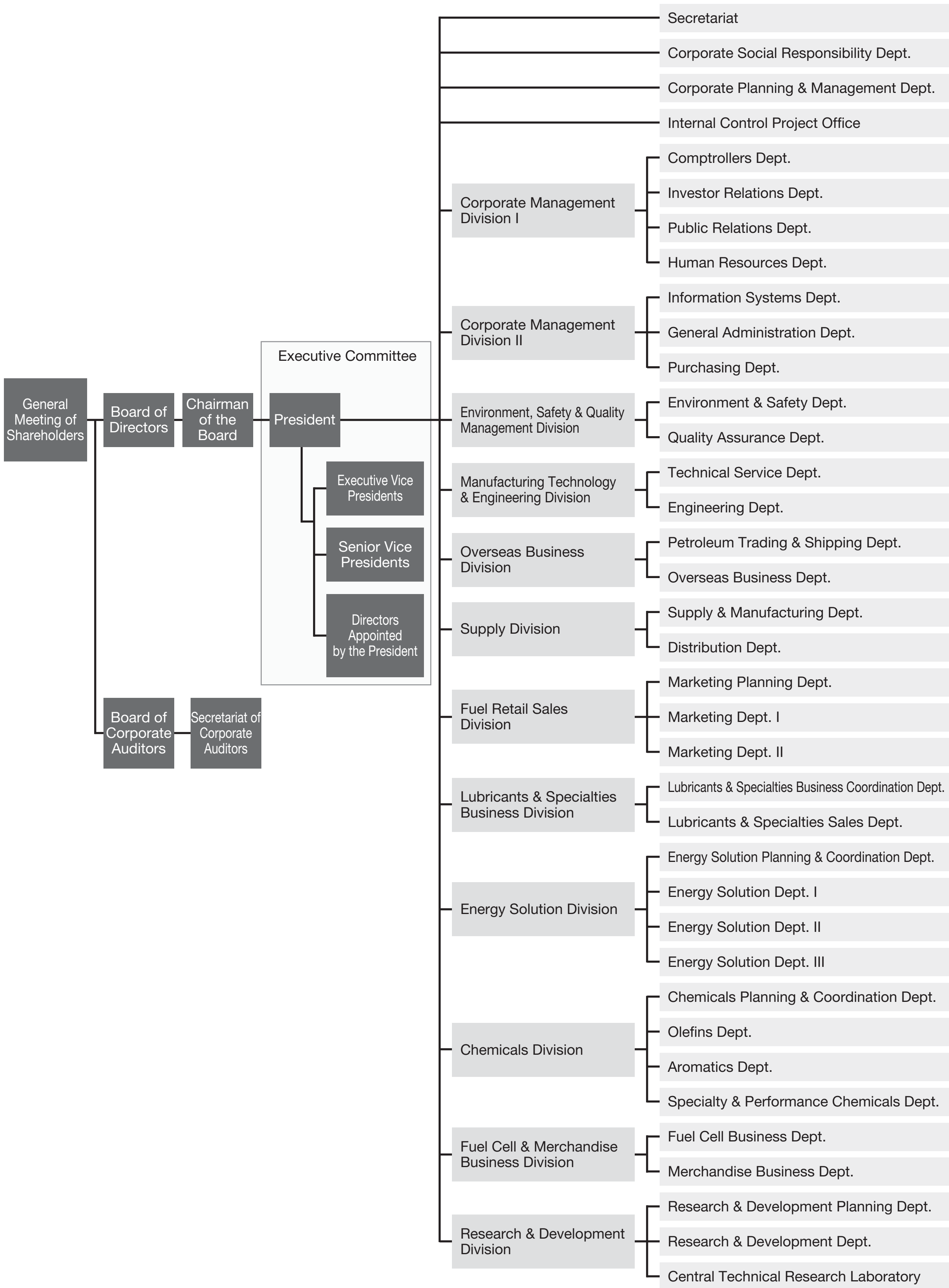
France
Phone: (442) 277-624
Fax: (442) 275-472

Organization Chart

(As of July 1, 2006)



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

Investor Information

(As of July 1, 2006)

Date of Establishment

May 10, 1888

Paid-in Capital

¥139,437 million

Head Office

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Minato-ku, Tokyo 105-8412, Japan
Phone: +81-3-3502-1184 (IR Department)
Fax: +81-3-3502-9862
Website: http://www.eneos.co.jp

Securities Traded

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

Transfer Agent

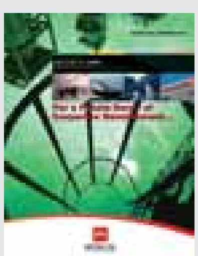
The Chuo Mitsui Trust and Banking Co., Ltd.

Major Shareholders (as of March 31, 2006)

	Number of shares held (thousand shares)	(%)
Japan Trustee Services Bank, Ltd. (Trust Unit)	71,552	4.9
The Master Trust Bank of Japan, Ltd. (Trust Unit)	70,759	4.8
Mizuho Corporate Bank, Ltd.	47,298	3.2
Mitsubishi Corporation	45,435	3.1
Sumitomo Mitsui Banking Corporation	40,398	2.8
The Bank of Tokyo–Mitsubishi, Ltd.	30,317	2.1
Tokio Marine & Nichido Fire Insurance Co., Ltd.	29,323	2.0

Other Publications

These NOC publications can be obtained from our website.



Fact Book 2006

http://www.eneos.co.jp/english/ir/library/index
Data book for oil and petrochemicals markets and NOC Group financial data

CSR Report 2006

http://www.eneos.co.jp/english/sustainability/index
NOC Group activities for CSR

NIPPON OIL CORPORATION

Your Choice of Energy

Mixed Sources
Product group from well-managed forests and other controlled sources
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