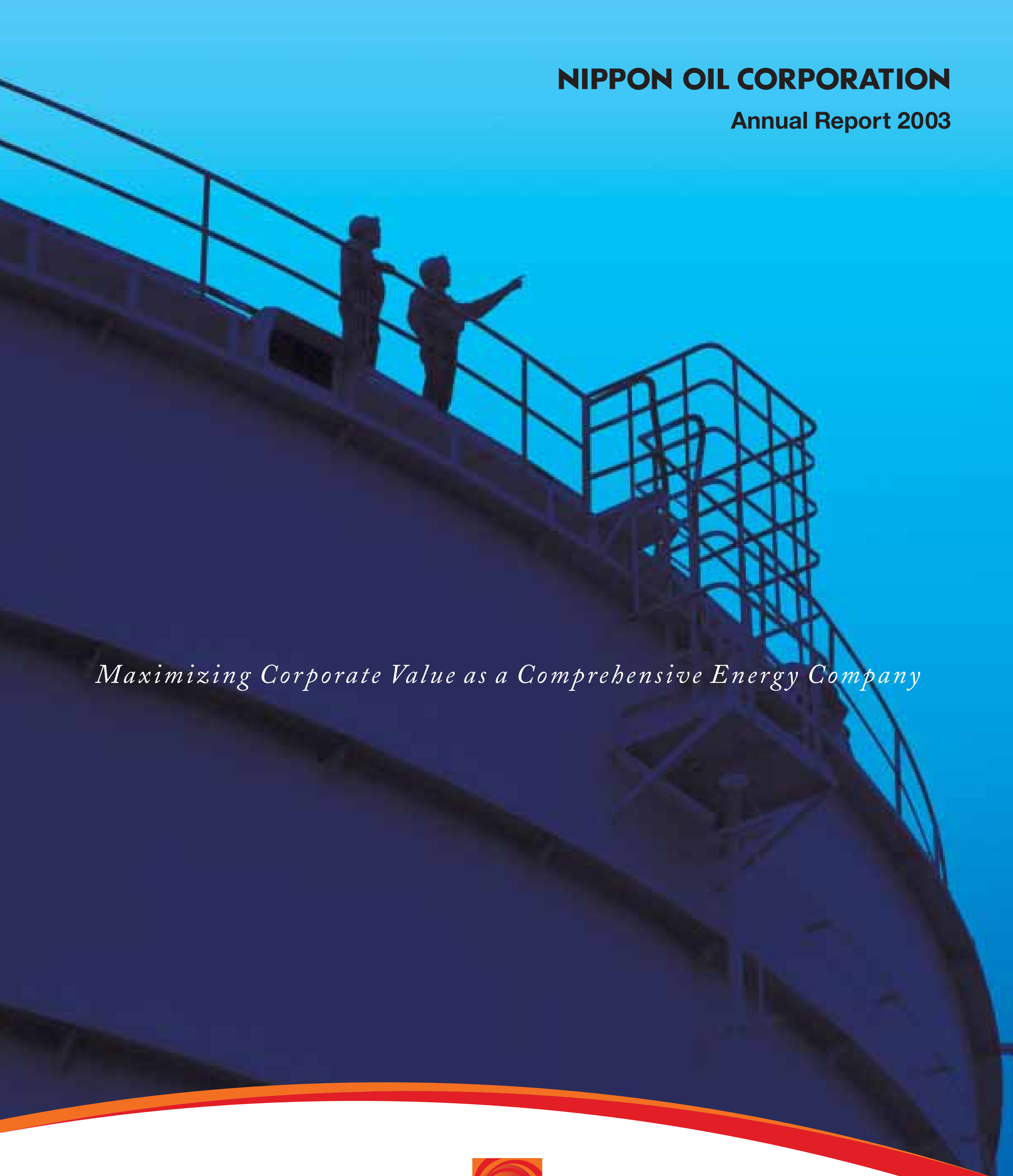
NIPPON OIL CORPORATION

Annual Report 2003



Maximizing Corporate Value as a Comprehensive Energy Company

NIPPON OIL CORPORATION

Your Choice of Energy

Profile

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

Contents

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.

FINANCIAL AND OPERATING HIGHLIGHTS

Nippon Oil Corporation and Consolidated Subsidiaries

Financial Highlights

	Millions of yen		Thousands of U.S. dollars
Years ended March 31, 2003 and 2002	**2003**	2002	**2003**
Net sales	**¥4,187,392**	¥3,949,571	**$34,894,933**
Net income	**32,281**	24,006	**269,008**
Cash dividends paid	**11,591**	13,960	**96,592**
Total assets	**3,350,237**	3,444,742	**27,918,642**
Total shareholders' equity	**929,987**	924,140	**7,749,892**

* U.S. dollar figures are translated from yen, for convenience only, at the rate of ¥120 to US$1, the approximate rate of exchange on March 31, 2002.

Operating Highlights

Years ended March 31, 2003, 2002 and 2001	**2003**	2002	2001
Crude oil imports (million kiloliters)	**63.0**	58.7	62.4
Sales of petroleum products*1 (million kiloliters)	**53.2**	49.0	51.1
Capacity of refining facilities (barrels per stream day)	**1,217,000**	1,227,000	1,227,000*3
Number of employees*2	**13,882**	14,368	14,895

*1 "Sales of petroleum products" represents the domestic petroleum fuel sales volume of the parent company, including sales to consolidated subsidiaries.
*2 The number of employees includes those of Nippon Oil Corporation and all consolidated subsidiaries.
*3 This figure represents capacity as of April 1, 2001.

Notes: 1. Unless otherwise indicated, all dollar figures herein refer to U.S. currency. Billion is used in the American sense of one thousand million.
2. All "net sales" figures by business segment in this annual report represent sales to third parties.
3. In this report, the term "NOC" and such terms as "the Company," "our," and "we" may refer to Nippon Oil Corporation and its consolidated subsidiaries taken as a whole, or to all subsidiaries, affiliates, and associated companies considered part of the NOC Group taken as a whole. When the reference is only to Nippon Oil Corporation, the term "parent company" is used. These terms are used for convenience only. A listing of principal companies and their relationship to NOC is shown on page 56.

Fumiaki Watari, President and Representative Director (CEO)

Operating Environment

Japan's economy remained sluggish during fiscal 2003, ended March 31, 2003. Early in the year, exports were robust, and a trend of a decline in capital investment showed signs of ending. However, conditions in the Japanese economy remained harsh due to such factors as the continued weakness of personal consumption and a leveling off of the rise in exports.

Trends in Japanese demand for petroleum products reflected trends in the Japanese economy. During the first half of fiscal 2003, demand was lower than in the first half of fiscal 2002. From the start of autumn, however, the suspension of operations at numerous nuclear power plants spurred a considerable rise in electric power companies' demand for heavy fuel oil C. Subsequent cold waves led to a rise in demand for kerosene, causing total demand in fiscal 2003 to be higher than in the previous fiscal year. In distribution markets, the rising number of self-service-format service stations further intensified marketing competition and kept petroleum product prices weak.

Reflecting these product demand trends, NOC's consolidated net sales rose 6.0%, to ¥4,187.3 billion ($34,894 million). The combination of increasing sales volume and thoroughgoing efforts to reduce costs and boost efficiency in all business segments—along with our use of the gross average method for inventory valuation, which slowed growth in the cost of sales stemming from the rising level of crude oil prices—caused consolidated operating income to rise ¥21.3 billion, to ¥96.5 billion ($804 million). Consolidated net income for the fiscal year amounted to ¥32.2 billion ($269 million), an increase of ¥8.2 billion.

Measures Taken during the Year

Despite the recent temporary rises in domestic demand for heavy fuel oil C and kerosene, members of Japan's oil industry realize they cannot anticipate a general rise in domestic demand for petroleum products over the medium term. This—along with the protracted domestic economic recession and deregulatory measures that are intensifying competition among companies based in different energy business sectors—makes it extremely important for oil companies to quickly and effectively reduce costs while taking measures to progressively broaden their profit bases.

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

Looking back at our efforts to implement the plan since April 2002, as one means of enhancing profitability in petroleum product business, we arranged a refining tie-up with Idemitsu Kosan Co., Ltd., that has helped us optimize Group refining systems and boost refining efficiency. Regarding marketing, we have taken various steps to augment the marketing power and competitiveness of our service stations. For example, we agreed to collaborate with Lawson, Inc., in developing new types of service station complexes, and we reduced the number of our service station management subsidiaries to 8, from 15 in July 2003. In line with our traditional management emphasis on environmental protection and product quality, we began marketing ENEOS VIGO, an essentially sulfur-free (10ppm or less) high-octane gasoline and low-sulfur (50ppm or less) diesel fuel, in advance of regulations mandating such low sulfur-content levels.

Among our various achievements in new energy business fields, we completed the development of a 1kW-class, LPG-fueled fuel cell for household use and are proceeding now with final precommercialization testing of that product.

Outlook

• Core Business in Petroleum Products

As mentioned, we cannot realistically expect growth in Japanese demand for petroleum products over the medium-to-long term. In fact, the country's electric power industry is working to quickly reduce its dependence on oil by increasing nuclear power capabilities as a means of attaining such goals as lowering costs and promoting environmental protection. Since the temporary halt of Japanese nuclear power plant operations in autumn 2002, however, the oil industry has been taking up the slack in providing the fuels needed to ensure stable electric power supplies. This situation eloquently illustrates the need to have Japan maintain a balanced mix of primary energy sources that can flexibly adjust to changing conditions. It also clearly indicates that petroleum fuels—which have many superior characteristics regarding cost as well as the convenience of usage and storage—will continue to be a principal source of the country's energy for a long time to come. As the leading company in Japan's oil industry, NOC will assiduously promote better consciousness of the problems associated with national energy policies that place excessive emphasis on reducing petroleum fuel usage. We will also continue positioning our operations in petroleum products as our core business and sustain our efforts to increase the profitability of that business. At the same time, we will respond to the increasing need for flexible and diversified energy supply capabilities by proactively expanding our presence in such new energy business fields as electric power, natural gas, and fuel cells.

• Promising New Types of Energy Businesses

It is expected that the 21st century will see a sharp rise in the use of hydrogen as a fuel. Pioneering the development of fuel cells that convert petroleum fuels into hydrogen fuel for many years, the NOC Group believes it is important to quickly establish capabilities for commercializing such fuel cells.

NOC is also intent on maintaining a strong management emphasis on supplying top-quality products that are environment friendly. Japan is projected to continue rapidly increasing the stringency of its environmental protection standards in a manner similar to the United States and Europe, and responding to the new standards will present many challenges. We have demonstrated our ability to commercialize low-sulfur fuels considerably in advance of regulations requiring lower-sulfur content. We intend to continue doing this in the future, while also steadily improving our excellent technologies with applications in new energy fields.

• Full-Scale Strategies for Maximizing Brand Power

The introduction of the ENEOS brand as a unified brand for service stations has been a huge success. We are now implementing a sustained campaign to further strengthen the ENEOS brand and position it in consumers' eyes as a powerful symbol of the NOC Group's diverse capabilities as a comprehensive energy supplier.

All companies in the NOC Group are dedicated to a common management vision—that of becoming a comprehensive energy enterprise that relentlessly and creatively undertakes new challenges in a manner that inspires respect and support on the parts of people throughout society. Based on this unified vision, Group companies are concertedly doing their utmost in diverse business fields to improve their financial performance, strengthen the ENEOS brand, and maximize the Group's aggregate corporate value.

Fumiaki Watari
President and Representative Director (CEO)

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

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

FINANCIAL TARGETS

- Boosting return on equity (ROE)—Increasing ROE to 6.5% by fiscal 2005
- Reducing interest-bearing debt—Reducing interest-bearing debt ¥200 billion from the level as of March 31, 2002, to ¥900 billion as of March 31, 2005

PRINCIPAL MEASURES FOR ATTAINING STRATEGIC OBJECTIVES

- Cost reductions and operational streamlining—Reducing annual costs by approximately 15% from the level in the fiscal year ended March 31, 2002, or ¥100 billion, over the three-year period through fiscal 2005
- Strategic investments—Allocating approximately half the capital investment budget to strategic investments.

ACHIEVEMENTS IN FISCAL 2003

In fiscal 2003, although slack market conditions reduced profit margins, NOC was able to exceed its profitability target. This reflected the Group's cost-reduction measures and efficiency-boosting initiatives as well as its use of the gross average method for inventory valuation, which slowed the growth in cost of sales stemming from the rising level of crude oil prices. In the first year of this plan, the Group's thorough rationalization measures made it possible to cut annual expenses by ¥42.2 billion. NOC's reduction of interest-bearing debt was limited to ¥25 billion, however, owing to the need for funds to increase crude oil reserves and take other measures to ensure the Company's ability to maintain stable operations despite the Iraq crisis.

Of the ¥148.5 billion in capital investments made during fiscal 2002, approximately half was invested in such strategic fields as oil exploration and production, IPP and other electric power business, and environmental protection programs.

ROE Goal

FY2003

3.5%

Net income
¥32.2 billion

FY2005

6.5%

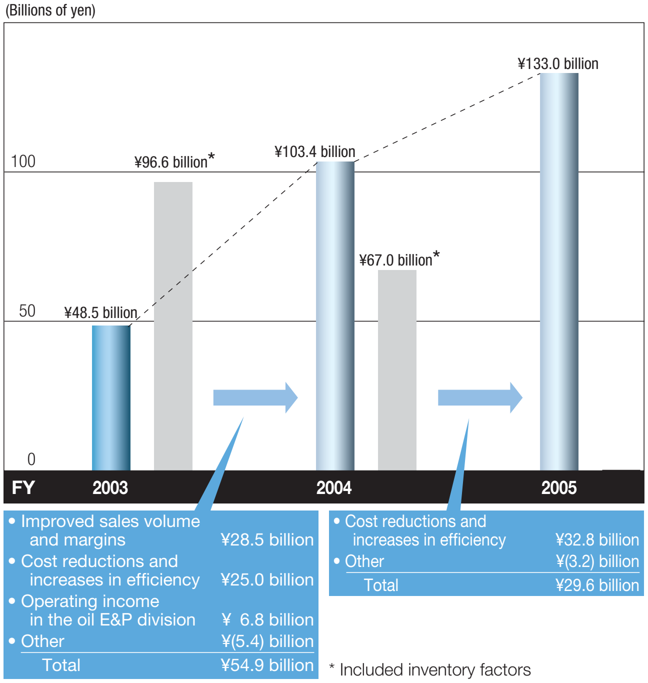
¥65.0 billion

OUTLOOK

• While our operating environment is projected to remain harsh, we will do our utmost to achieve the goals of the medium-term management plan through the implementation of additional efficiency-boosting measures.

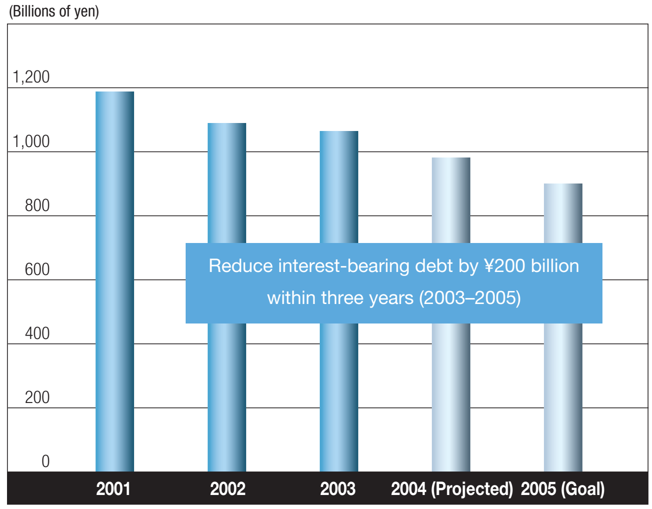
We are seeking to attain the financial goals originally planned, without any modification.

Forecast Operating Income



* Included inventory factors

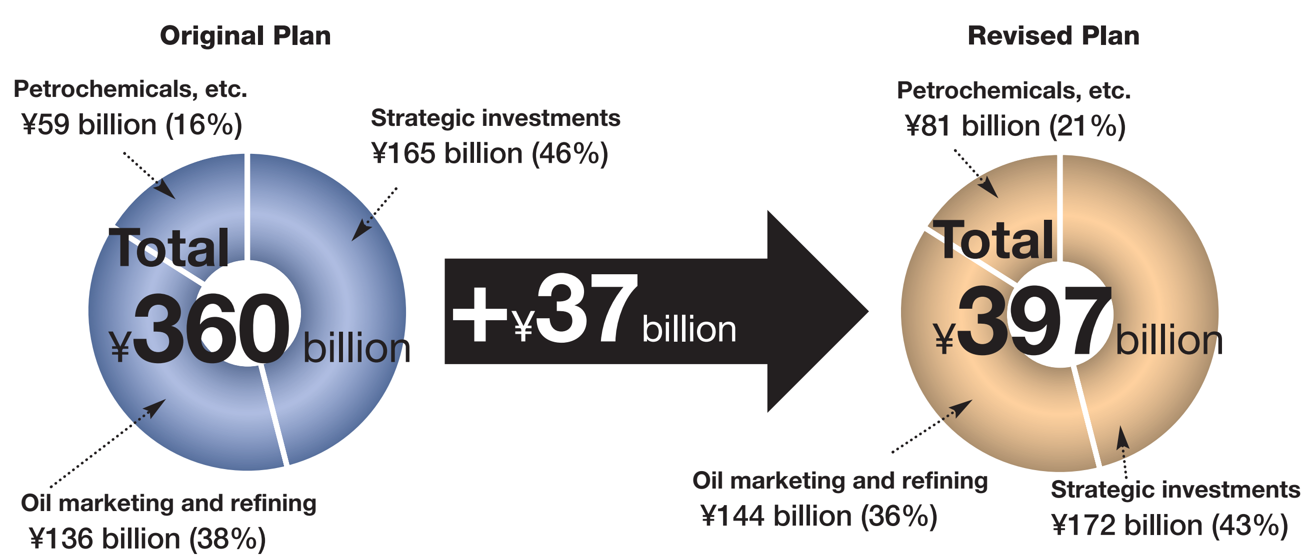
Reduction of Interest-Bearing Debt



Notes: 1. Debt associated with deposits made by overseas financial subsidiaries to secure loans is not included.
2. As of March 31

None of the principal measures for attaining strategic objectives have been modified since the original version of the plan except for capital investment measures. The original budget for capital investments has been increased ¥37.0 billion to fund such investments as those aimed at increasing the production of oil exploration and development operations and at installing equipment for boosting petrochemicals output. Plans call for funding the additional investments from cash flow generated by increasing the sale of such assets as employee dormitories and service stations and by further reducing liquidity on hand.

Capital Investments (FY2002–FY2005: actual expenditure basis)



Accumulated capital investments from FY2003 through FY2005

Initiatives

NOC Group Management Strategies Aimed at Increasing Shareholder Value

The NOC Group is concertedly striving to realize its management vision—that of becoming a comprehensive energy enterprise that relentlessly and creatively undertakes new challenges in a manner that inspires respect and support from people throughout society—by augmenting the profitability of its core petroleum operations and establishing additional energy-related businesses.

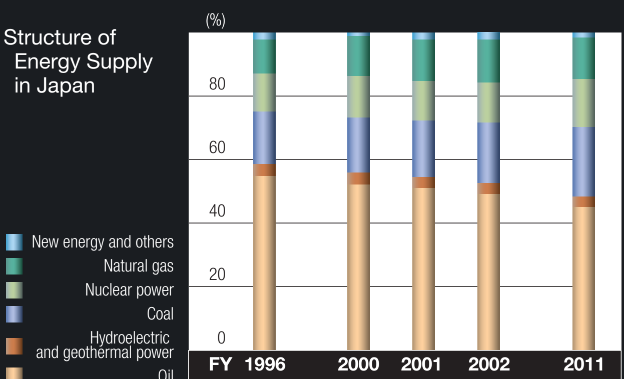
While maintaining their commitment to this common management vision, NOC Group members will in the future be seeking to expand their operations in diverse business fields, strengthening the ENEOS brand to become a top company in the energy industry. In these ways, the Group will continue doing its utmost to maximize its shareholder value.

Implementing rationalization measures to boost competitive-ness and profitability in core petroleum operations

Question

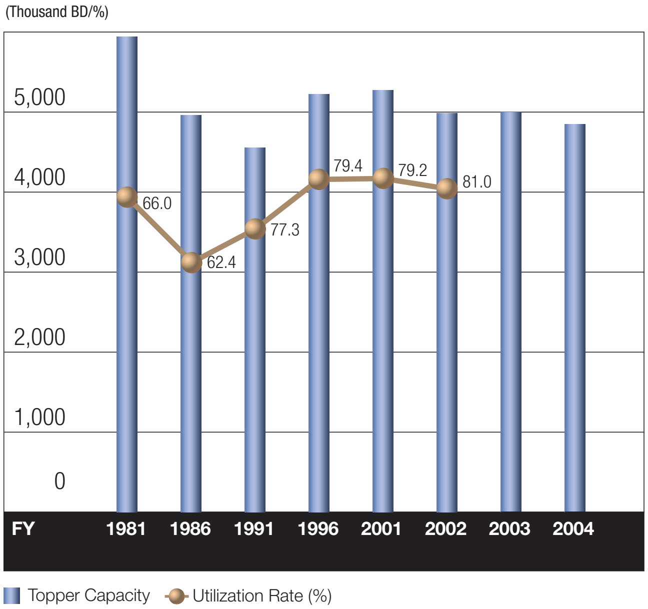
If Japan's domestic demand for petroleum products is tending to decline, should the NOC Group continue to view petroleum product operations as its core business?

Structure of Energy Supply in Japan



Background: Japan's policy for reducing CO_2 emissions is promoting a shift away from traditional petroleum fuels, and the rationalization of distribution operations is expected to reduce trucking-related demand for diesel fuel. Due to these and other factors, it appears that domestic demand for petroleum products will tend to decline gradually over the long term.

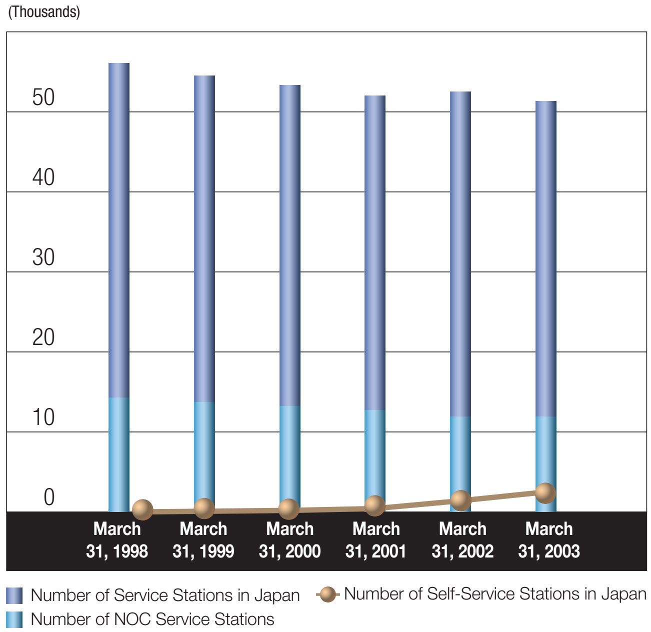
Topper Capacity and Utilization Rate of All Refineries in Japan



Sources: Petroleum Association of Japan (PAJ) and others

Note: Data for "Utilization Rate" in fiscal 2003 and 2004 have not yet been released by PAJ.

Number of Service Stations in Japan



Initiative *One*

Answer

While demand for petroleum fuels may decline, such fuels are expected to remain important primary energy sources due to their various superior characteristics, including those related to price, convenience, and ease of storage. However, Japan's oil industry is suffering from the "two surpluses"—excess levels of refining capacity and inordinate numbers of service stations—that are obstructing the efforts of individual oil companies to generate stable profits. To survive the current crisis, oil companies will have to make additional efforts to rationalize and increase the efficiency of their operations through measures that include the retirement of certain refining and marketing facilities. Once the two surpluses have been eliminated and supply is brought into balance with demand, those oil companies that remain will once again be well positioned to sustain stable profitability. Although it is the leader in Japan's oil industry, the NOC Group will not be complacent about its strengths—it will continue relentlessly working to boost the competitiveness of its refineries and service stations, augment the efficiency of its marketing channels, and take other measures to ensure the continued viability of its petroleum product operations. The NOC Group will continue to make petroleum products its core business. By increasing the profitability of its operations in this field, the Group intends to build a rock-solid base of operations.

Reducing crude oil processing capacity while making refineries into comprehensive energy bases

Question

What is NOC doing in response to Japan's surplus of refining capacity?

Background: Since Nippon Oil Co., Ltd., and Mitsubishi Oil Co., Ltd., merged in 1999, Japan's oil industry has proceeded steadily with restructuring, and that has led to the industry's concentration into four principal groups—the NOC/Cosmo Oil group, the Exxon/Mobil group, the Japan Energy/Showa Shell group, and the Idemitsu Kosan group. Most groups have moved to reduce and consolidate their refining capabilities. There still remains surplus capacity, however, and reducing this surplus continues to present Japan's oil industry with a critical challenge.

Major Developments

3 Reduction of NOC Group crude oil processing capacity by 10,000 BD

1 Merger of Koa Oil Company, Limited, and Tohoku Oil Co., Ltd., with Nippon Petroleum Refining Company, Limited (NPRC)

2 Cooperation with Idemitsu Kosan Co., Ltd., in refining operations

Initiative *Two*

Answer

Since 1999, the NOC Group has discontinued crude oil processing at three of its refineries. Since April 2003, it has moved to eliminate an additional portion of its crude oil processing capacity. Following the implementation of cost-cutting measures at its remaining refineries, the Group has maintained a refinery network with superior competitiveness.

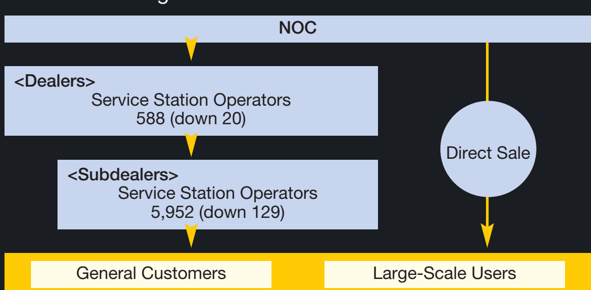
At the same time, in line with its strategy for making its refineries into comprehensive energy bases, the NOC Group has been building electric power generation and supply facilities as well as LNG storage and supply bases on the grounds of refineries. The Group's petrochemical manufacturing and refining companies have begun integrating their production plans, enabling such benefits as the use of oil-refining facilities to increase the output of petrochemical products.

Augmenting the competitive-ness of marketing operations by increasing the value added of service stations in line with customer needs

Question

What is NOC doing to increase the marketing power of its service stations?

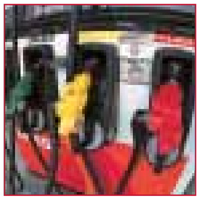
NOC's Marketing Channels



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

Background: In the oil industry's service station sector, the excessive number of facilities and the establishment of a growing number of self-service facilities have led to intense competition among service stations. This has forced oil companies to make diverse efforts aimed at upgrading the marketing power of affiliated service stations.

Major Developments

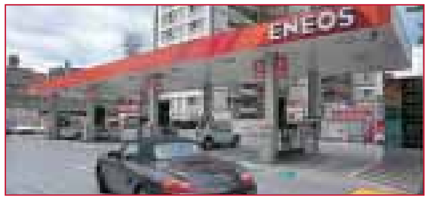


3 Agreement regarding cooperative establishment of self-service facilities incorporating convenience stores

4 Collaboration regarding the bonus point accumulation system used by TSUTAYA video/DVD/CD rental franchises

1 Launch of low-sulfur (50ppm or less) diesel fuel and ENEOS VIGO essentially sulfur-free (10ppm or less) environment-friendly premium gasoline

2 Increase in number of Dr. Drive facilities to 1,610 during fiscal 2003



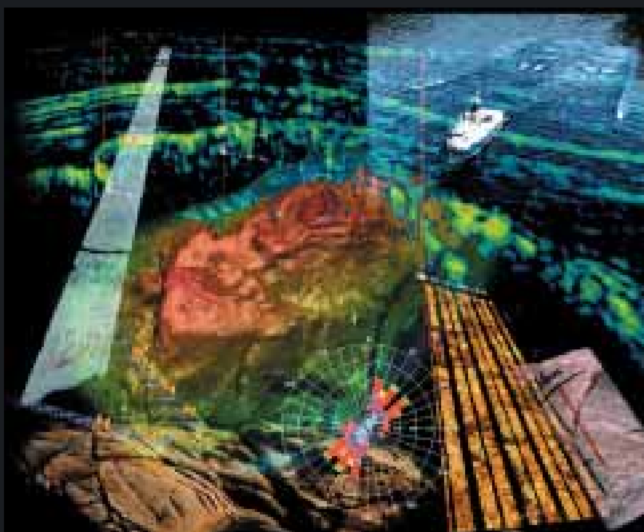
5 Consolidation of 15 service station management subsidiaries into 8

Initiative *Three*

Answer

NOC has developed environment-friendly gasoline and diesel fuel products and moved quickly to begin the marketing of those products. To encourage customers to select NOC service stations from among many competing facilities, NOC is taking various steps to increase the value added of service stations in line with customer needs. For example, it is converting service stations into Dr. Drive facilities with comprehensive capabilities for supporting all aspects of customers' car lives or composite service station complexes that offer convenience stores and other amenities. NOC is also increasing the efficiency and competitiveness of its marketing operations by consolidating its marketing subsidiaries and retiring unprofitable service stations.

Better balancing oil operations by expanding oil and gas production capabilities



Question

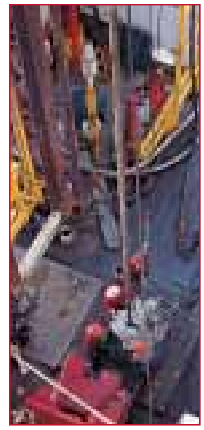
What is the role of oil exploration and development operations in NOC's strategy?

Background: While oil exploration and development operations can be highly profitable, they also entail considerable risks. The NOC Group is placing emphasis on expanding its oil exploration and development operations while strictly limiting the associated risks.

Major Developments

2 Acquisition of oil and gas reserves in the Brae oil field of the U.K. North Sea

3 Start of production at the Aconcagua gas field in the U.S. Gulf of Mexico



1 Start of development of the Serai gas field off the coast of Malaysia’s state of Sarawak

4 Increase of production in the Rang Dong field off the coast of Vietnam

Initiative *Four*

Answer

The NOC Group is seeking to better balance its upstream and downstream oil operations by expanding its oil and gas production capabilities from the current level of about 50,000 barrels of oil equivalent per day (BOED) to 150,000 BOED within a few years. Concentrating its investments in regions where it can make best use of the know-how and data it has accumulated in the course of previous oil exploration and development operations, the Group is proceeding with measures in those regions to acquire additional producing assets and increase production from current fields. In these ways, NOC aims to increase the scale and profitability of its crude oil development operations while reducing exploration risks to the greatest practical extent. While the Group’s operations are primarily in midstream and downstream business sectors, the expansion of its upstream operations and crude oil reserves is expected to promote stabler profitability.

Expanding overseas business in response to boosting overseas demand for the NOC Group's products and dynamic economic development in Asian countries

Question

What are NOC's major strategies for expanding its overseas business?

Background: The increasing overseas presence of Japan-based automobile manufacturers and other factors are boosting overseas demand for the NOC Group's lubricant products. Signs of economic recovery have emerged in many Asian countries, and a particularly sharp rise in automobile-related demand is expected in China, which has maintained exceptionally dynamic economic development.

Major Developments

2 Establishment of Nippon Oil (U.S.A.) Limited's Chicago Office

3 Proactive expansion of petroleum exports to Asian countries and of lubricant and petrochemical operations in Asian countries

4 Establishment of Nippon Oil (Shanghai) Corporation and Nippon Oil LC Film (Suzhou) Corporation in China

1 Enhanced sales of ENEOS-brand high-performance lubricant oil products in Asian countries

5 Construction and pilot operation of ethylidene norbornene (ENB) production plant in Houston, Texas, by Nisseki Chemical Texas Inc.

Initiative *Five*

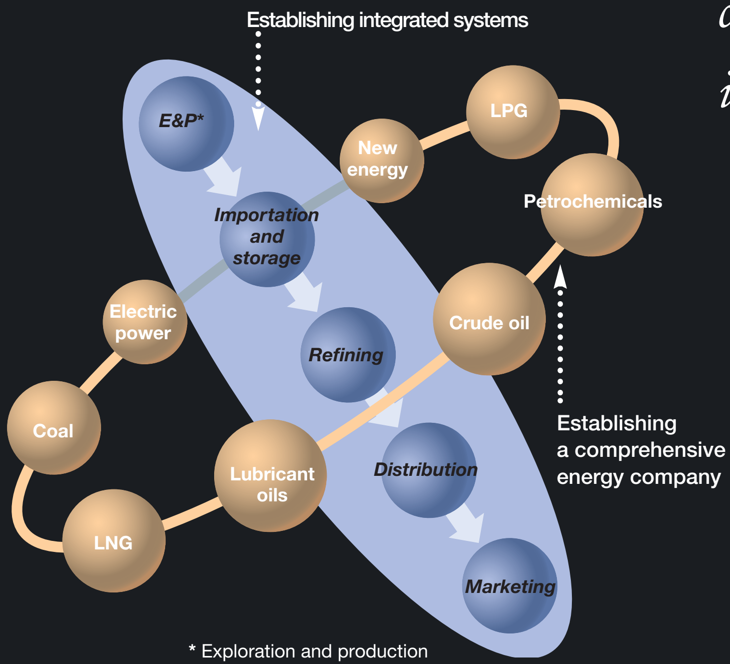
Answer

In response to automobile manufacturers and other major consumers of NOC products, the NOC Group is strengthening the global supply system for its lubricant products. The Group is investing considerable efforts in marketing its ENEOS-brand, high-performance lubricants in China, Korea, and Vietnam, and preparations are being made to progressively extend the geographic scope of ENEOS automotive lubricant product marketing operations to include Thailand, Indonesia, and other countries in Southeast Asia.

Anticipating the upcoming deregulation measures planned for in China's petroleum product market, the NOC Group is strongly emphasizing proactive moves to expand its operations in that market. In November 2002, NOC established Nippon Oil (Shanghai) Corporation, a wholly owned subsidiary, to coordinate the NOC Group's activities in China. In June 2003, the Company established Nippon Oil LC Film (Suzhou) Corporation, which will manufacture and market liquid crystal films for use in mobile phones.

Another NOC subsidiary, Nippon Petrochemicals Co., Ltd., has two manufacturing and marketing subsidiaries in the United States, and it has been able to smoothly increase its sales in North and South American and European markets.

Making the most of infra-structure and technological capabilities to grow businesses in new energy fields



Question

Why does NOC want to be a comprehensive energy company?

Background: In line with its policy of giving top priority to stable energy supplies, Japan has established regulations that limited the types of companies permitted to operate in individual energy market segments, such as electric power, natural gas, and petroleum fuels. However, recent deregulation measures have started to create a borderless energy industry, with companies no longer being required to confine their operations to individual energy segments. The creation of a borderless energy industry is enabling companies to become comprehensive energy companies.

Major Developments

1 Start of commercial operation of an IPP facility[1] at the Negishi Refinery

2 Start of retail electric power supply business as a power producer and supplier (PPS)

3 Delivery of first LNG shipment from Malaysia LNG-Tiga Sdn. Bhd.[2]

4 Start of monitor testing of advanced fuel cell electric power system for household use

5 Start of operation of wind-power facility within grounds of the Company's Akita Depot

1. The Independent Power Producer (IPP) facility at the Negishi Refinery is the third NOC commercial electric power facility to commence operations, following facilities at the Yokohama and Osaka refineries.

2. NOC has a 10% equity interest in Malaysia LNG-Tiga Sdn. Bhd., which handles LNG production and sales for the Malaysia LNG-3 Project and has constructed two gas liquefaction plants with a combined annual production level of 7.6 million tons.

Initiative *Six*

Answer

The emergence of a borderless energy industry in Japan is presenting the NOC Group with excellent opportunities to establish a presence in additional sectors of the energy industry. Key Group resources in this regard include the strong infrastructure of its refineries, LNG procurement rights, and technology and know-how required for the development of energy distribution systems and fuel cells. By strengthening the profitability of its core oil operations and efficiently investing cash flow from those operations in such new energy fields as electric power and natural gas business, the NOC Group is preparing to transform itself into a comprehensive energy enterprise with an optimally diversified and balanced business portfolio.

Broadening the application and benefits of environment-friendly products and technologies

Question

What are NOC's approaches to contributing to society as a good corporate citizen?

Background: A rise in general awareness of environmental issues and other issues concerning the role of companies in society has made it increasingly important that companies contribute to society rather than focusing exclusively on their financial performance. Today, companies are expected to proactively fulfill their legal and ethical as well as environmental responsibilities to society.

Major Developments

1 Provision to Chinese refineries of environmental protection technologies

4 Contribution of 0.01% of sales revenue from ENEOS card use to Japan's National Land Afforestation Promotion Organization

2 Provision to Iranian refineries of technologies for reducing diesel fuel sulfur content

3 Contribution of funds in Vietnam for the support of children with hearing and/or speech handicaps and for the establishment of primary schools

5 Establishment of Groupwide rules on corporate ethics and a Corporate Ethics Committee

Initiative *Seven*

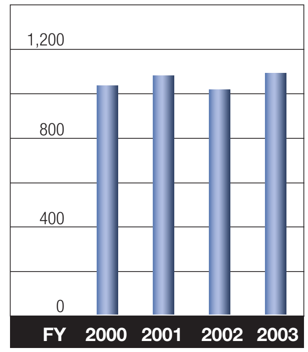
Answer

In accordance with its fundamental goal of operating in harmony with the natural environment, the NOC Group has made sustained efforts to develop environment-friendly products as well as environment-friendly technologies for use at refineries and other facilities. These include such technologies as those for lowering CO_2 emissions and for reducing and recycling refinery wastes. The NOC Group also broadens the applications and benefits of its accumulated technological expertise by providing technical assistance to companies in oil-producing countries as well as Asian countries where the Group has a presence.

Exploration & Production (Crude Oil and Natural Gas)

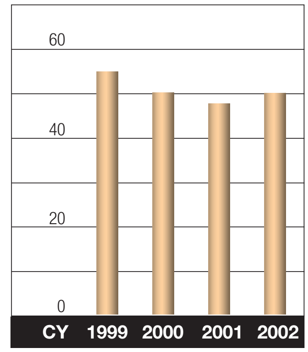
Crude Oil Imports by NOC

(Thousand BD)



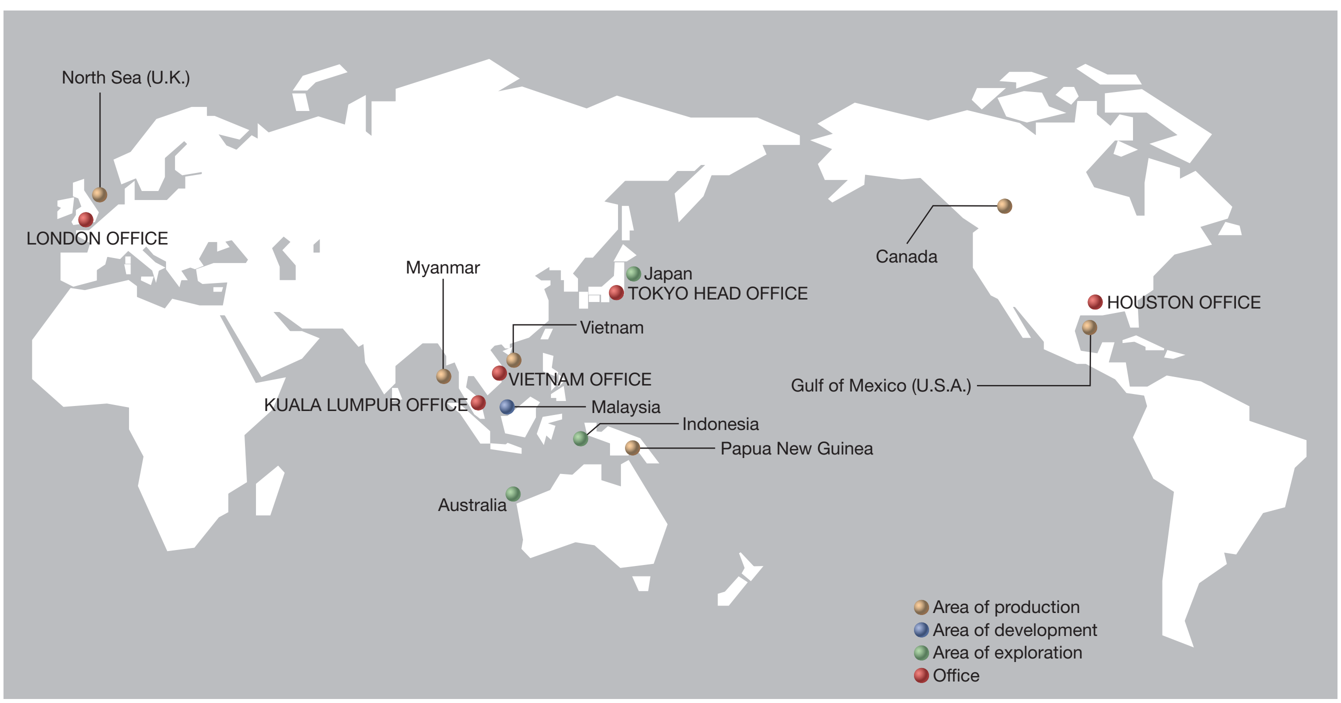
Production of Crude Oil and Natural Gas

(Thousand BOED)



As to exploration and production (E&P), the NOC Group is active in 10 countries and currently produces oil and gas in Vietnam (operator for the Rang Dong oil field), the U.K. North Sea, Canada, Papua New Guinea, the United States (operator in 12 blocks), and Myanmar. The Group's total share of production was approximately 50,000 BOED in 2002. The Group aims at becoming a vertically integrated energy company and securing 15% of the total volume of

Principal E&P Operations



crude oil which the Group processes. For that purpose, the Group is working to increase its annual production rate to 150,000 BOED within a few years.

We will achieve this goal by improving the production capacity of the existing fields and purchasing new assets.

In Vietnam, the production from two newly constructed platforms has commenced. As a result, the production rate increased from 50,000 BD to 68,000 BD, and the Vietnam project achieved 57 million barrels of cumulative production from Rang Dong in December 2002.

In the United States, production in the Aconcagua gas field started in September 2002. The Group purchased a 12.5% interest in the field in 2001. The work to increase production in Myanmar is an ongoing process. It is anticipated that the rate will be raised from the present 260MMcfd to 400MMcfd in 2005.

In Malaysia, the Group, acting as operator, is now developing the Helang gas field, which was discovered in Block SK-10 in 1990. The production is planned to begin from October 2003. The natural gas is to feed the Malaysia LNG-Tiga Project, and the LNG will be supplied to Japan and other Asian countries.

The Group has declared the commercial viability of discoveries in the Mutinner and Exeter oil fields offshore Western Australia. Production is planned to begin by 2005.

Regarding the acquisition of producing properties, the Group purchased an interest in the Brae oil and gas fields in the North Sea in 2002.

The Group is seeking to augment and optimize its E&P asset portfolio by purchasing new assets as well as by reorganizing current assets through farm-outs and divestitures. By further expanding its E&P operations and obtaining experience and knowledge in selected places around the world, NOC intends to make E&P operations a core business of the NOC Group.

Principal Projects

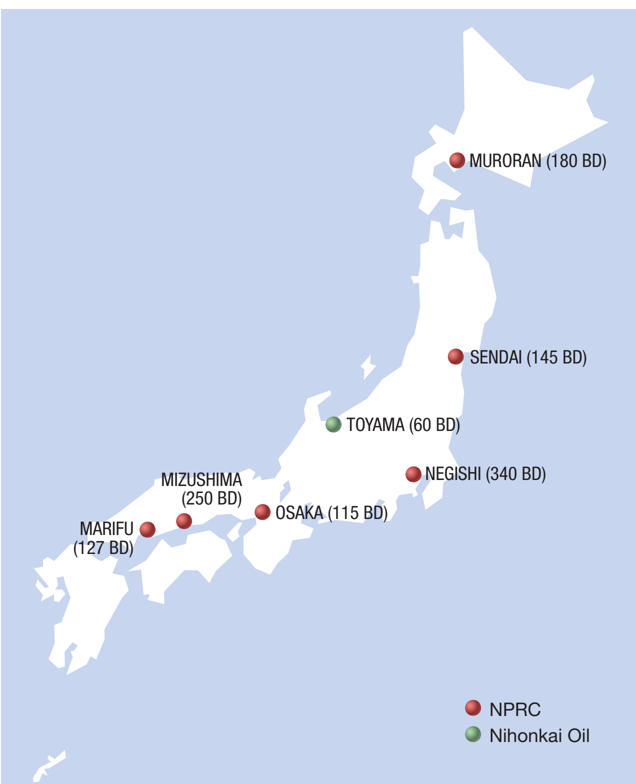
Project/Companies	Date of Interest Award/ Acquisition	Oil and Gas Field	Field Production (BOED)	Working Interest (%)	Company Entitlement (BOED)
Vietnam					
Japan Vietnam Petroleum Co., Ltd.	Oct. 1992	Rang Dong	44,000	46.5	10,700
U.K. North Sea					
MOC Exploration (U.K.) Ltd.	July 1993	Andrew, Mungo, Monan, Pierce	124,000	3.48–11.18	8,400
Nippon Oil Exploration and Production U.K. Limited	Dec. 1996	Magnus, Brae	100,400	4.0–7.9	6,600
United States					
Nippon Oil Exploration U.S.A. Limited	Dec. 1990	Orchard North, Fordham, Virgo, Aconcagua, others	28,200	6.14–50.00	6,300
Canada					
MOCAL Energy Limited	Jan. 1992	Syncrude	229,500	5.00	11,500
Papua New Guinea					
Japan Papua New Guinea Petroleum Company, Limited	July 1990	Kutubu, Moran, Gobe (including South East Gobe)	46,100	6.78–12.50	2,100
Myanmar					
Nippon Oil Exploration (Myanmar), Limited	Sept. 1991	Yetagun	38,400	14.17	4,200

All of the upstream operations are managed by Nippon Oil Exploration Limited (NOEX), a 100% subsidiary of NOC.
Note: Figures represent average production during calendar 2002

Refining

Refining Facilities of the NOC Group

(As of April 1, 2003) (Thousand BD)



Refinery Numbers and Processing Capacities of Group Companies in Japan's Oil Industry
(As of April 30, 2003)

Group Company	Number of Refineries	Topper Capacity (Thousand BD)
NOC Group	7	1,217
Idemitsu Kosan Group	6	790
Exxon/Mobil Group	5	936
Cosmo Oil	4	595
Japan Energy Group	3	582
Showa Shell Sekiyu Group	3	515
Others	3	262
Total	31	4,897

Source: Petroleum Association of Japan

Japan's excess refining capacity and projections of declining demand for petroleum fuels over the long term are making it increasingly important to reduce surplus refining facilities and enhance the efficiency of petroleum fuel production systems. Based on expectations that the recent shift from petroleum fuels to coal and LNG will continue, NOC projects that a considerable drop in power companies' consumption of heavy fuel oil C is likely to cause a chronic surplus of heavy fuel oil C.

In December 2002, NOC and Idemitsu Kosan Co., Ltd., agreed to collaborate in refining operations. Under this agreement, NOC supplied Idemitsu Kosan with 40,000 BD of petroleum products and was able to reduce its annual operating expenses by approximately ¥2.5 billion. As another means of building a more-efficient production system, the Group reduced its crude oil processing capacity by 10,000 BD. These steps and the steady implementation of other streamlining measures enabled the Group to cut its annual refining and manufacturing expenses by approximately ¥25.1 billion during fiscal 2003.

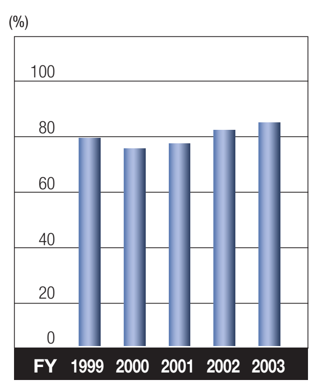
As a result of these efforts, the NOC Group has a high level of refining efficiency. U.S.-based Solomon Associates, Inc., estimates that Nippon Petroleum Refining Company, Limited (NPRC), has attained a level of efficiency that is higher than the average for the entire Asian region, including Japan. Accordingly, NOC does not currently plan to further reduce its crude oil processing capacity but has adopted a strategy aimed at making more-effective use of its refining facilities by expanding the capabilities of such facilities with respect to business operations other than oil refining, such as business generating and marketing electric power and business storing and marketing LNG.

To enhance its overall competitiveness, the NOC Group is implementing a chemicals-refinery integration (CRI) project. Currently, the CRI project involves the integration of production planning for the Negishi Refinery of NPRC, and the nearby plant in Kawasaki of Nippon Petrochemicals Company, Limited (NPCC), as well as the increase of petrochemicals production at the Negishi Refinery. Consideration is being given to augmenting petrochemicals production at additional refineries and thereby achieving a ¥3.0 billion reduction in annual operating costs by fiscal 2005. These measures for reducing refineries' yields of petroleum fuels by boosting yields of petrochemicals are another effective means of reducing the Group's excess refining capacity.

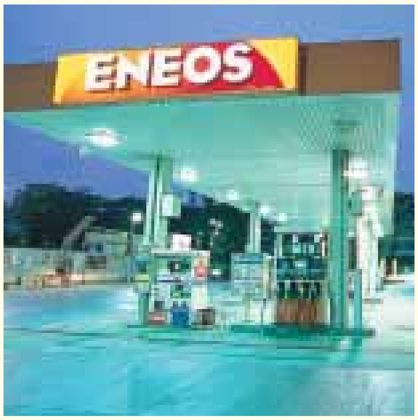
Anticipating that environmental protection regulations will become increasingly strict, the NOC Group has assiduously worked to equip itself with capabilities for supplying fuels with ever-lower levels of sulfur and realized such capabilities in advance of competitors. Because the Group's refineries have long employed high-performance facilities, the level of investment required to meet sulfur reduction targets has been relatively low. In contrast, some refineries of other companies that would require relatively large investments to meet upcoming environmental protection regulations are likely to be retired. ENEOS VIGO, an essentially sulfur-free (10ppm or less) premium gasoline, is already being produced at all the NOC Group's refineries, and the Group is currently considering concrete measures for producing essentially sulfur-free regular gasoline. In July 2003, NOC began constructing a pilot facility of 31,000 BD employing the Company's exclusive ROKFiner sulfur-free-gasoline-manufacturing technology. The facility is the first FCC gasoline desulfurization unit to be constructed in Japan. If ROKFiner technology is proven to be practical, it will enable commercial-scale production of sulfur-free regular gasoline, which has remained a difficult challenge to date.

The NOC Group will continue actively pioneering the development of technologies and installation of equipment needed to anticipate new environmental protection and product quality standards while simultaneously working to maximize the efficiency of its refining network in line with changing demand trends.

Topper Capacity Utilization Rate of NOC Group Refineries



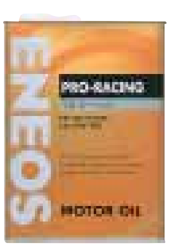
Marketing and Distribution

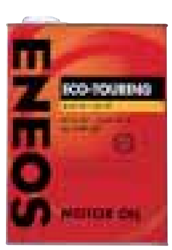


The excessive number of service stations in Japan has led to intense price competition, and NOC is seeking to overcome the challenges of this competition by leveraging the strong appeal of its ENEOS brand and establishing high-value-added service stations. The Company operates the largest service station network in Japan—approximately 12,000 facilities—all of which display unified ENEOS logos and market ENEOS-brand products.

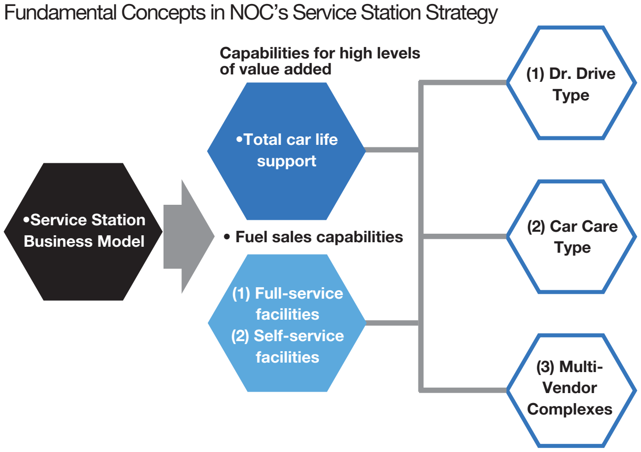
NOC has established a rising number of self-service facilities to respond to changes in customer needs and market trends, but it is not seeking to create service stations that focus on high-volume fuel sales alone. A key foundation for the strength of the ENEOS brand is drivers' confidence that they can find consistently high-value-added products and services at any outlet within the NOC retailing network.

Based on the due consideration of the special characteristics of individual service station sites and their local markets, the Company seeks to build high-value-added franchises based on one of the following three service station formats: (1) Dr. Drive facilities, which always have certified mechanics on duty so that they can handle vehicle checkups, maintenance, and periodic statutory vehicle inspections as well as the provision of a full range of such services as car washing and waxing; (2) car care service outlets, which supplement profit earned on fuel sales by marketing a variety of consistently high-quality car care goods supplied by NOC; and (3) service station complexes, which feature service stations along with various types of restaurants and stores.





Fundamental Concepts in NOC's Service Station Strategy



The upgrading of service stations into Dr. Drive facilities is a key part of NOC's strategy for building a premium service station brand. The number of such facilities rose by 327, to 1,610, in fiscal 2003 and is expected to grow by another 648 in fiscal 2004.

With an eye to augmenting customer convenience as well as service station profitability, NOC is striving to increase the number, variety, and scale of composite service station complexes. During fiscal 2003, the Company began cooperating with Lawson, Inc., in developing a new type of self-service facility incorporating a Lawson convenience store. NOC and Culture Convenience Club Co., Ltd., also undertook collaboration regarding the bonus point accumulation system used by the TSUTAYA video/DVD/CD rental franchises of that company.

NOC is proactively using the Internet to augment the services and productivity of its service stations. The Company's http//www.eneos.com Web site provides customers with diverse information and can be used to make reservations for vehicle checkups before statutory vehicle inspections. NOC is collaborating with several Internet-based marketing programs, and customers using those programs can pay for and pick up their purchases at ENEOS service stations.

Superior products and services are an important aspect of NOC's car life support concept, and NOC believes that being a conspicuous leader in marketing environment-friendly fuel products is an important means of enhancing the ENEOS brand.

NOC launched environment-friendly gasoline and diesel fuel products during fiscal 2003. In April 2002, the Company introduced an essentially sulfur-free (10ppm or less) environment-friendly premium gasoline called ENEOS VIGO in Japan's two largest metropolitan regions, and the scope of marketing was broadened to include 32 of Japan's prefectures in July 2003. ENEOS VIGO has been popular with customers, adding to the marketing strengths of NOC service stations. Japan is expected to reduce the maximum permissible diesel fuel sulfur content from the current level of 500ppm to 50ppm in 2005, but NOC began marketing diesel fuel that meets this standard in the greater Tokyo metropolitan area from September 2002 and initiated full-scale marketing throughout Japan, with the exception of Okinawa, from April 1, 2003.

NOC is promoting the reorganization and consolidation of service station management subsidiaries into a smaller number of larger companies. This strategy is aimed at strengthening operations in the sales sector by retiring unprofitable service stations while creating a streamlined marketing structure that helps to reduce indirect costs and promoting the growth and establishment of service station operators with lower cost structures and higher profitability. Rationalization of this kind is an essential part of NOC's strategies for augmenting efficiency and reducing costs. To maximize the benefits of its efficiency-raising measure, the Company is also sustaining relentless efforts to build highly efficient distribution channels.

New Energy Business

NATURAL GAS

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

NOC has equity interests in Malaysia LNG-Tiga Sdn. Bhd., a joint venture with Malaysia's state oil company, PETRONAS; the Sarawak State Government; Shell Gas Holdings (Malaysia) Ltd.; and Diamond Gas Netherlands B.V. The LNG production plant owned by the joint venture consists of two gas liquefaction trains with a combined annual production level of 6.8 million tons. The first train commenced its LNG production in March 2003, while the second train is expected to come on stream in the latter half of 2003. At the end of March, the joint venture shipped its first cargo to Japan Petroleum Exploration Co., Ltd. Two of NOC's upstream subsidiaries, one of which is acting as operator, are cooperating with Shell and PETRONAS to develop gas fields offshore Sarawak to feed the Malaysia LNG-Tiga Project. NOC is arranging the sale of the LNG from the project to customers in Japan. A considerable number of LNG sale and purchase agreements have been concluded, including those with Tohoku Electric Power Co., Inc., Japan Petroleum Exploration Co., Ltd., Tokyo Gas Co., Ltd., Toho Gas Co., Ltd., Osaka Gas Co., Ltd., and The Tokyo Electric Power Co., Inc.

NOC discovered a number of huge gas fields off the northwest coast of Papua Province in Indonesia. Preparations are under way for the development of the fields, known as the Tangguh LNG Project. Production is slated to begin in 2007, when supply of the LNG to Fujian Province in China is scheduled to begin under the Sale and Purchase Agreement with China National Offshore Oil Corp. and Fujian Investment & Development Co., Ltd. In its early stages, annual production capacity is expected to be 7.0 million tons. With huge reserves in the ground, NOC envisages a substantial capacity expansion in the future.

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

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

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

ELECTRIC POWER

Demand for heavy fuel oil, which is inevitably produced at crude oil refineries, is projected to decline owing to future structural changes in the oil market. NOC is therefore working to increase the operational competitiveness and profitability of its refineries by undertaking heavy-oil-based electric power generation. The electric power generated with heavy fuel oil at power generation plants known as IPP facilities is supplied to regional power companies on a wholesale basis.

NOC's IPP plants at its Osaka and Yokohama refineries began operating in 1998 and 2000, respectively. An asphalt-fueled integrated gasification combined cycle (IGCC) facility began operating at the Negishi Refinery in June 2003. Additional IPP plants at the Muroran and Marifu refineries will be completed and begin supplying power on a wholesale basis to regional power companies from April 2004 and October 2004, respectively. NOC's total electric power generation capacity will exceed 700,000kW in 2004.

Responding to the relaxation of regulations regarding the retail marketing of electric power to certain types of high-volume energy users, the NOC Group obtained authorization to engage in such business as a power producer and supplier (PPS) in September 2002. The Group is initially undertaking PPS operations using about 20,000kW of the Negishi Refinery's internal generating capacity that is considered surplus after meeting power requirements within the refinery. From July 2003, for instance, NOC began using the Negishi Refinery's power generating facility to provide 8,232kW of retail electric power to All Nippon Airways Co., Ltd., and 5,800 kW to government and other public offices. Taking advantage of the further deregulation of the retail power market in April 2005, the NOC Group plans to seek opportunities to expand the electric power generating facilities at other refineries and use those facilities to expand its PPS business.

In June 2003, NOC, Nippon Steel Corp., and Mitsubishi Corp. created a joint venture company—Frontier Energy Niigata Co., Ltd.—that will have 110,000kW of generating capacity and undertake business wholesaling that power to PPSs. By taking receipt of stable and reasonably priced power from Frontier Energy Niigata, NOC will be able to increase the scale and competitiveness of its PPS businesses.

In March 2003, NOC inaugurated a new wind-power facility within the grounds of its Akita Depot and began supplying 1,500kW of power to Tohoku Electric Power.

TES OPERATIONS

In its total energy systems (TES) operations, NOC has helped boost energy use efficiency and reduce the environmental impact of energy use by continually developing improved cogeneration systems, dynamically marketing such systems, and otherwise encouraging the provision of energy by cogeneration systems. In October 2002, NOC launched the ECO TOYOU 170, a highly environment-friendly, kerosene-fueled system with a 170kW power supply capability. In fiscal 2003, NOC's TES product marketing activities centered on sales of the Nippon Oil Energy Retail System[1] (NERS) as well as sales of cogeneration machinery and kerosene-fueled heat pumps (KHPs), and the aggregate capacity of NERS systems installed or on order reached approximately 140,000kW.

At March 31, 2003, the NOC Group's electric power business involved a generation network providing roughly 330,000kW of power. In view of the successful start of IPP operations and the growth in NERS operations, the Group is aiming to increase its electric power supply capacity to 1.4 million kW by fiscal 2010.

[1] NERS business involves the installation of a petroleum- or gas-fueled cogeneration system at a customer's facility to provide the customer with electric power and heat at a relatively low cost. The cost of machinery and installation work is being borne by NOC.

FUEL CELLS

In April 2003, NOC implemented an organizational restructuring program aimed at strengthening its fuel-cell-related R&D capabilities as well as other capabilities needed to expedite the commercialization of fuel cells and expansion of associated business.

Regarding stationary fuel cells, NOC has been engaged in the R&D and pilot testing of proton-exchange membrane fuel cells that are compact and can be fueled with either liquid petroleum fuels or LPG. Having begun pilot testing a household fuel cell that is fueled with LPG from February 2003, the Company is planning to begin commercially marketing a 1kW-class household fuel cell product of this type during 2004 or 2005.

As part of its work toward popularizing fuel cells as a comprehensive energy company, NOC is developing a petroleum-based, fuel-cell fuel in cooperation with leading automobile manufacturers. Aiming to help create the fuel supply infrastructure needed for fuel cells, the Company is conducting such research as that related to the storage and transport of hydrogen. Since July 2002, the Company has participated in a national research project aimed at demonstrating the practicality of technologies for a hydrogen supply infrastructure. In connection with this project, the Company constructed a hydrogen service station in Yokohama. NOC intends to supply hydrogen for use in the road testing of fuel-cell-powered vehicles.

Petrochemicals

Companies in Japan's petrochemical industry generally enhanced their profitability during fiscal 2003 due to such factors as a trend toward recovery in domestic demand during the latter half of the year, the continued strength of exports to Asian countries and improvement in the balance of supply and demand for such exports, and benefits generated by rationalization programs. Against this backdrop, Nippon Petrochemicals Company, Limited (NPCC), which handles most of the NOC Group's petrochemicals operations, worked to increase its sales and promote product selling prices that reflected raw materials prices. In line with its Necessary Challenge 21st Century (NC21) medium-term management plan, NPCC took thorough measures to reduce costs and boost efficiency. It also continued augmenting cooperation with NOC Group refineries to boost its competitiveness regarding commodity products and focused particular attention on the strengthening and development of operations in functional chemical products and high-performance products.

As a result, net sales of the Group's petrochemicals units increased 6.3% from the level in the previous fiscal year, to ¥219.9 billion. A rise in sales volume combined with the benefits of cost reductions to boost operating income ¥4.8 billion, to ¥5.7 billion.

In view of the weakness of economic conditions in Japan and the intensification of international competition, the environment for the NOC Group's petrochemicals operations is expected to remain harsh. However, the Group is taking steps to considerably reduce costs and otherwise rationalize its petrochemicals operations so that it can build a profit structure that is not easily affected by external trends.

Construction

During fiscal 2003, Japan's road building and construction industries faced harsh conditions for obtaining new orders due to such factors as a large drop in civil works investment and the weakness of private-sector capital investment. Amid these conditions, Nippon Hodo Co., Ltd., and other NOC Group construction companies strove proactively to promote new project orders.

Although net sales in construction operations decreased 8.0% from the level in the previous year, to ¥303.9 billion, efforts to reduce costs and enhance efficiency supported a ¥0.1 billion rise in operating income, to ¥7.9 billion.

The NOC Group has decided to integrate its construction and engineering operations through the absorption of Nippon Oil Engineering and Construction Co., Ltd., by Nippon Hodo. After this transaction, which is scheduled to take place in October 2003, Nippon Hodo will be renamed NIPPO Corporation. The integration is designed to significantly reduce construction costs and indirect costs as well as to facilitate the expansion of operations that draw on technical capabilities in the fields of both construction and engineering. Benefits from the integration should enable the NOC Group to realize sales increases and cost reductions of ¥2.0 billion in construction and engineering operations during the three years through fiscal 2006. By serving as the hub of the Group's construction and engineering operations, NIPPO will do its utmost to effectively utilize the Group's capabilities.

R&D

NOC annually invests approximately ¥10 billion in its R&D operations. These operations encompass R&D programs to develop and improve petroleum products and refining technologies as well as programs related to a broad range of other products.

Regarding petroleum products, NOC has helped contribute to the reduction of air pollution by developing and marketing such high-quality fuels as an essentially sulfur-free (10ppm or less) high-octane gasoline called ENEOS VIGO and a low-sulfur diesel fuel (sulfur content of 50ppm or less). To respond to the future introduction of still stricter environmental protection regulations, the Company is proceeding with the development of innovative catalysts and other low-sulfur fuel manufacturing technologies. In addition, to increase the efficiency of refineries and better tailor its output to the prospective structure of Japanese demand for fuels, the Company is developing hydrocracking catalysts for heavy oils. As a means of making good use of sulfur, a by-product of refining operations, NOC has developed a technology for mixing molten sulfur with steel-making slag, coal ash, and other industrial by-products and waste products, and thereby creating a solid amalgam. This amalgam is expected to find use as a raw material for artificial reefs, sewer pipes, and other products.

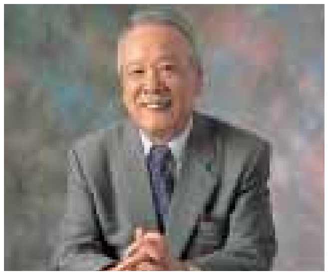
With respect to lubricants, NOC is developing environment-friendly products designed to meet new environmental regulations and a diesel engine oil for vehicles that employ a diesel particulate filter. The Company is also working to promote the sales of such products as Super Highland SE hydraulic fuel, which helps reduce energy consumption; lubricants for refrigeration systems that employ HFC refrigerants; and cutting fluid for minimum-quantity lubricant systems.

Recently, there has been increasing demand for asphalt-paving materials that can help alleviate the heat-island effect in urban areas, improve living environments, and replenish groundwater reserves. NOC is effectively responding to such demands. During fiscal 2003, it completed the development of and began marketing such products as Cool Pervious—which has superior heat insulation, water-drainage, and noise-reduction characteristics—and Aqua Pervious, which features excellent water permeability.

BOARD OF DIRECTORS

(As of June 27, 2003)

Fumiaki Watari



Takao Suzuki

Shinji Nishio

Tatsunosuke Okabe

Eiichi Sugiyama

Teruo Omori

Naokazu Tsuda

Makoto Satani

President and Representative Director (CEO)

Fumiaki Watari

Executive Vice President and Representative Director

Takao Suzuki

Executive Vice President and Representative Director (CFO)

Shinji Nishio

Managing Directors

Tatsunosuke Okabe

Eiichi Sugiyama

Teruo Omori

Naokazu Tsuda

Makoto Satani

Directors

Ikutoshi Matsumura

Yoichiro Shiozawa

Youjirou Taki

Yukihiro Matsuyama

Masahito Nakamura

Makoto Koseki

Michihiro Mouri

Yasushi Kimura

Shigeo Hirai

Yasuo Kamino

Seiichi Isshiki

Standing Corporate Auditors

Takaya Maruta

Hideo Okazaki

Corporate Auditors

Mitsutake Okano

Masao Fujii

Masayuki Matsushita

Financial Section

Environment

During fiscal 2003, ended March 31, 2003, the Japanese economy remained sluggish. During the first half of the year, exports to Asia and other regions were robust, and the decline in capital investment showed signs of ending. However, these positive trends were offset by such factors as the continued weakness of personal consumption and a gradual leveling off of the rise in exports.

Performance by Business Segment

Petroleum Fuel and Crude Oil—Demand for oil in Japan rose above the level for the previous year as relatively strong growth was seen in gasoline consumption, the halt of nuclear power plant operations from autumn led to a large surge in sales of heavy fuel oil C for thermal power plants, and cold winter weather spurred growth in the use of kerosene for home heating. Against the backdrop of a sharp rise in the number of self-service stations, competition at the retail level intensified further and petroleum product prices continued to be weak.

Amid this environment, NOC Group units worked concertedly to strengthen the profitability of the Group's core oil-related businesses and create new energy businesses.

To increase refining efficiency and establish a supply system that is optimal in light of projections of a drop in Japanese demand for petroleum products over the long term, NOC finalized a refining collaboration agreement with Idemitsu Kosan Co., Ltd., in December 2002. From April 2003, NOC supplied Idemitsu with 40,000 BD of petroleum products and also reduced its crude oil processing capacity by 10,000 BD. The Group completed the installation of additional advanced diesel fuel desulfurizing equipment at all of its refineries during fiscal 2003 and from April 2003 began supplying diesel fuel with 50ppm or less sulfur content throughout Japan except for Okinawa.

In marketing operations, NOC launched an essentially sulfur-free (10ppm or less) environment-friendly premium gasoline called ENEOS VIGO in Japan's two largest metropolitan regions from April 2002, and the scope of marketing was broadened to include 32 of Japan's prefectures from July 2003. Also during fiscal 2003, the Company began cooperating with Lawson, Inc., in developing a new type of self-service station complex incorporating a Lawson convenience store.

With respect to crude oil and natural gas exploration and production operations, NOC acquired oil and gas reserves in the Brae oil field of the North Sea, increased production in the Rang Dong field off the coast of Vietnam, initiated commercial production at a major gas field in the Gulf of Mexico, and otherwise worked to steadily increase its production volume.

Regarding new energy operations, NOC has been participating in the Malaysia LNG-3 project for many years and received the first LNG shipment from that project in March 2003, making it the first Japanese company to undertake fully integrated LNG business encompassing both upstream and downstream operations.

Seeking to promote the use of environment-friendly fuel cells, NOC proceeded with the final precommercialization testing of a 1kW-class, LPG-fueled fuel cell for household use.

NOC's consolidated net sales for the fiscal year under review in the petroleum fuel and crude oil business segment grew 7.6%, to ¥3,599.6 billion ($29,996 million). Although the profit margin on sales fell, the Company's continued cost-cutting efforts and the use of the gross average method of inventory valuation, which restrained the cost of sales amid sharply rising crude oil prices caused by such situations as the political instability in Venezuela and the Iraqi crisis. This resulted in a ¥15.9 billion increase in operating income, to ¥72.9 billion ($607 million).

Petrochemical Operations—Companies in Japan's petrochemical industry generally enhanced their profitability during fiscal 2003, reflecting a rise in domestic demand during the latter half of the year, the continued strength of exports to Asian countries, and benefits generated by rationalization programs. Against this backdrop, the NOC Group's petrochemicals units worked to increase their sales and promote product selling prices that reflected raw materials prices. Besides taking thorough measures to reduce costs and boost efficiency, these units continued augmenting cooperation with NOC Group refineries to boost their competitiveness in commodity product business as well as focusing particular attention on the strengthening and development of operations in functional chemical products and high-performance products.

As a result, consolidated net sales of Group petrochemicals units increased 6.3% from the level in the previous fiscal year, to ¥219.9 billion ($1,832 million). A rise in sales volume combined with the benefits of cost reductions to boost operating income ¥4.8 billion, to ¥5.7 billion ($47 million).

Construction—During fiscal 2003, a large drop in public works investment and the weakness of private-sector capital investment reduced total construction investment in Japan to below ¥60 trillion for the first time in 16 years, presenting the road-building and construction industries with an environment of unprecedented severity with regard to obtaining new orders.

While NOC Group construction units strove proactively to promote new orders and product sales amid these conditions, consolidated net sales in construction operations decreased 8.0% from the level in the previous year, to ¥303.9 billion ($2,533 million). Despite the intense competition for orders and the large drop in public works investment, Group units' efforts to reduce costs and enhance operational efficiency supported a ¥0.1 billion rise in operating income, to ¥7.9 billion ($66 million).

Other—Amid an increasingly harsh operating environment for oil distribution operations, the Group proactively marketed ENEOS brand products and other motor vehicle related products. However, the completion of large-scale office buildings intensified competition for office tenants and sharply depressed office rent levels.

As a result, consolidated sales in the other business segment declined 2.7%, to ¥63.8 billion ($532 million). Operating income increased ¥0.1 billion, to ¥6.2 billion ($52 million), owing to cost-reduction activities and efforts to increase efficiency.

Financial Position

Assets

Total assets declined 2.7%, or ¥94.5 billion, to ¥3,350.2 billion ($27,918 million), mainly owing to a decrease of 6.3%, or ¥90.0 billion, in total current assets. This was principally the result of drops of ¥125.4 billion in cash and cash equivalents, ¥27.1 billion in time deposits, and ¥69.7 billion in short-term investments in securities. Partially offsetting these decreases were rises of ¥30.7 billion in notes and accounts receivable and ¥100.2 billion in inventories. Total investments and long-term receivables decreased 7.8%, or ¥24.6 billion, to ¥291.2 billion ($2,427 million), as a ¥5.7 billion rise in investments in unconsolidated subsidiaries and affiliates was offset by a ¥28.8 billion drop in investments in other securities. The net value of property, plant and equipment slipped 0.6%, or ¥9.1 billion, to ¥1,542.9 billion ($12,857 million).

Liabilities and Shareholders' Equity

Total current liabilities declined 1.6%, or ¥23.0 billion, to ¥1,388.3 billion ($11,569 million). This decline reflected falls of ¥20.3 billion in the current portion of long-term debt and ¥84.5 billion in excise taxes payable, which were largely offset by rises of ¥48.7 billion in short-term loans and ¥45.5 billion in notes and accounts payable.

Total long-term liabilities decreased 7.9%, or ¥78.7 billion, to ¥920.8 billion ($7,673 million). This was mainly due to a drop of ¥76.6 billion in long-term debt.

Total shareholders' equity increased 0.6%, or ¥5.8 billion, to ¥929.9 billion ($7,749 million). This reflected a ¥20.9 billion rise in retained earnings, which was mostly offset by an ¥11.5 billion drop in unrealized holding gains on securities, net of deferred income taxes, and a ¥2.5 billion rise in treasury common stock. The equity ratio increased 1.0 percentage point, to 27.8%.

Cash Flows

Net cash used in operating activities amounted to ¥49.5 billion ($412 million). Net cash used in investing activities totaled ¥16.1 billion ($134 million), and net cash used in financing activities was ¥55.9 billion ($466 million). As a result, cash and cash equivalents decreased ¥125.4 billion during the year and amounted to ¥109.6 billion ($913 million) at March 31, 2003.

Net cash used in operating activities amounted to ¥49.5 billion ($412 million), a change of ¥245.1 billion compared with ¥195.6 billion of net cash provided by operating activities in the previous year. This reflected temporary rises in funding requirements associated with the sharp rise in crude oil prices, which necessitated a greater amount of working capital, and the Company's accelerated retirement program. It also reflected the fact that the last day of the previous fiscal year was a holiday, which caused the payment of excise taxes payable for the previous fiscal year to be delayed until after the start of the fiscal year under review.

Net cash used in investing activities totaled ¥16.1 billion ($134 million), a change of ¥161.8 billion compared with ¥145.6 billion of net cash provided by investing activities in the previous year, as the value of net cash used for the acquisition of property, plant and equipment and other purposes exceeded the value of net cash provided from decreases in time deposits and securities sales.

Net cash used in financing activities was ¥55.9 billion ($466 million), a ¥453.4 billion change compared with ¥509.4 billion of net cash used in financing activities in the previous year. This reflected the payment of cash dividends as well as efforts to reduce interest-bearing debt.

Six-Year Financial and Operating Summary

Nippon Oil Corporation, Nippon Oil Company, Limited, Mitsubishi Oil Company, Limited and Consolidated Subsidiaries

Six-Year Financial Summary

	Millions of yen					
Years ended March 31	**2003**	2002	2001	2000	1999	1998
Net sales						
NOC	**¥4,187,392**	¥3,949,571	¥4,076,890	¥3,594,911	¥ —	¥ —
NiSSEKI	**—**	—	—	—	2,406,323	2,626,156
Mitsubishi Oil	**—**	—	—	—	1,019,334	1,147,906
Cost of sales						
NOC	**3,785,291**	3,555,907	3,691,142	3,245,446	—	—
NiSSEKI	**—**	—	—	—	2,148,715	2,342,452
Mitsubishi Oil	**—**	—	—	—	941,537	1,059,399
Selling, general and administrative expenses						
NOC	**305,514**	318,432	315,668	320,160	—	—
NiSSEKI	**—**	—	—	—	229,711	244,014
Mitsubishi Oil	**—**	—	—	—	92,977	113,618
Operating income (loss)						
NOC	**96,586**	75,231	70,079	29,304	—	—
NiSSEKI	**—**	—	—	—	27,897	39,689
Mitsubishi Oil	**—**	—	—	—	(15,180)	(25,110)
Net income (loss)						
NOC	**32,281**	24,006	29,787	(4,858)	—	—
NiSSEKI	**—**	—	—	—	9,722	11,483
Mitsubishi Oil	**—**	—	—	—	(20,234)	(35,969)
Total assets						
NOC	**3,350,237**	3,444,742	3,971,252	3,760,800	—	—
NiSSEKI	**—**	—	—	—	2,914,617	2,853,780
Mitsubishi Oil	**—**	—	—	—	892,859	971,802
Total shareholders' equity						
NOC	**929,987**	924,140	898,083	840,971	—	—
NiSSEKI	**—**	—	—	—	656,349	655,766
Mitsubishi Oil	**—**	—	—	—	182,563	187,023
Total current assets						
NOC	**1,329,230**	1,419,282	1,875,218	1,611,852	—	—
NiSSEKI	**—**	—	—	—	1,423,217	1,320,940
Mitsubishi Oil	**—**	—	—	—	368,047	458,485
Total current liabilities						
NOC	**1,388,397**	1,411,434	1,807,176	1,614,001	—	—
NiSSEKI	**—**	—	—	—	1,439,384	1,315,607
Mitsubishi Oil	**—**	—	—	—	350,435	439,704

(continued from the previous page)

Years ended March 31	2003	2002	2001	2000	1999	1998
	Millions of yen					
Working capital						
NOC	**¥ (59,167)**	¥ 7,848	¥ 68,042	¥ (2,149)	¥ —	¥ —
NiSSEKI	**—**	—	—	—	(16,167)	5,333
Mitsubishi Oil	**—**	—	—	—	17,612	18,781
Capital expenditures						
NOC		79,561	54,811	78,833	—	—
NiSSEKI	**—**	—	—	—	107,784	107,929
Mitsubishi Oil	**—**	—	—	—	36,720	30,187
R&D expenditures						
NOC		10,449	10,218	11,370	—	—
NiSSEKI	**—**	—	—	—	12,207	15,392
Mitsubishi Oil	**—**	—	—	—	2,705	3,676

Six-Year Operating Summary

Years ended March 31	2003	2002	2001	2000	1999	1998
Crude oil imports (million kiloliters)						
NOC	**63.0**	58.7	62.4	60.0	—	—
NiSSEKI	**—**	—	—	—	42.5	44.5
Mitsubishi Oil	**—**	—	—	—	20.9	21.8
Sales of petroleum products*1 (million kiloliters)						
NOC	**53.2**	49.0	51.1	52.2	—	—
NiSSEKI	**—**	—	—	—	57.3	56.8
Mitsubishi Oil	**—**	—	—	—	30.0	31.4
Capacity of refining facilities (barrels per stream day)						
NOC	**1,217,000**	1,227,000	1,227,000*2	1,348,000	—	—
NiSSEKI	**—**	—	—	—	893,000	893,000
Mitsubishi Oil	**—**	—	—	—	475,000	475,000

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

*2 This figure represents capacity as of April 1, 2001.

Consolidated Balance Sheets

Nippon Oil Corporation and Consolidated Subsidiaries

March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 109,638**	¥ 235,044	**$ 913,650**
Time deposits (Note 5)	**11,747**	38,879	**97,892**
Short-term investments in securities (Note 3)	**9,042**	78,767	**75,350**
Notes and accounts receivable (Note 5):			
Trade	**592,178**	556,021	**4,934,817**
Other	**55,712**	61,140	**464,267**
Less allowance for doubtful receivables	**(4,501)**	(5,785)	**(37,508)**
Inventories (Note 4)	**479,131**	378,897	**3,992,758**
Deferred income taxes (Note 8)	**27,969**	30,005	**233,075**
Other current assets	**48,311**	46,310	**402,592**
Total current assets	**1,329,230**	1,419,282	**11,076,917**
Investments and long-term receivables:			
Investments in unconsolidated subsidiaries and affiliates	**81,567**	75,865	**679,725**
Investments in other securities (Notes 3 and 5)	**172,307**	201,198	**1,435,892**
Long-term receivables (Note 5)	**37,393**	38,847	**311,608**
Total investments and long-term receivables	**291,268**	315,911	**2,427,233**
Property, plant and equipment (Note 5):			
Land	**864,025**	865,686	**7,200,208**
Buildings	**826,946**	831,196	**6,891,217**
Oil tanks	**259,561**	261,730	**2,163,008**
Machinery and equipment	**1,391,655**	1,388,520	**11,597,125**
Construction in progress	**83,801**	70,575	**698,342**
	3,425,990	3,417,710	**28,549,917**
Less accumulated depreciation	**(1,883,086)**	(1,865,623)	**(15,692,383)**
Property, plant and equipment, net	**1,542,904**	1,552,087	**12,857,533**
Deferred income taxes (Note 8)	**37,554**	33,467	**312,950**
Other assets	**149,278**	123,994	**1,243,983**
Total assets	**¥3,350,237**	¥3,444,742	**$27,918,642**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2003	2002	**2003**
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term loans (Note 5)	**¥ 258,746**	¥ 209,965	**$ 2,156,217**
Current portion of long-term debt (Note 5)	**212,563**	232,961	**1,771,358**
Notes and accounts payable:			
Trade	**354,463**	304,892	**2,953,858**
Other	**176,698**	180,736	**1,472,483**
Excise taxes payable (Note 9)	**222,777**	307,334	**1,856,475**
Accrued income taxes	**13,813**	14,672	**115,108**
Accrued expenses	**43,143**	46,807	**359,525**
Deferred income taxes (Note 8)	**—**	1,014	**—**
Other current liabilities	**106,191**	113,048	**884,925**
Total current liabilities	**1,388,397**	1,411,434	**11,569,975**
Long-term liabilities:			
Long-term debt (Note 5)	**654,525**	731,155	**5,454,375**
Accrued retirement benefits (Note 6)	**103,186**	102,007	**859,883**
Reserve for inspection of oil tanks, machinery and equipment, and ships	**32,823**	37,911	**273,525**
Deferred income taxes (Note 8)	**77,735**	76,400	**647,792**
Other long-term liabilities	**52,608**	52,187	**438,400**
Total long-term liabilities	**920,879**	999,662	**7,673,992**
Minority interests in consolidated subsidiaries	**110,973**	109,505	**924,775**
Shareholders' equity (Note 7):			
Common stock:			
Authorized—2,000,000,000 shares			
Issued—1,514,507,271 shares in 2003 and 2002	**139,436**	139,436	**1,161,967**
Capital surplus	**274,829**	274,829	**2,290,242**
Retained earnings (Note 16)	**513,199**	492,236	**4,276,658**
Unrealized holding gains on securities, net of deferred income taxes (Note 3)	**11,907**	23,503	**99,225**
Translation adjustments	**(6,546)**	(5,529)	**(54,550)**
	932,826	924,476	**7,773,550**
Less treasury stock, at cost:			
5,376,238 shares in 2003 and 580,525 shares in 2002	**(2,839)**	(336)	**(23,658)**
Total shareholders' equity	**929,987**	924,140	**7,749,892**
Contingent liabilities (Note 12)			
Total liabilities, minority interests and shareholders' equity	**¥3,350,237**	¥3,444,742	**$27,918,642**

Consolidated Statements of Income

Nippon Oil Corporation and Consolidated Subsidiaries

Years ended March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
Net sales (Notes 9 and 15)	**¥4,187,392**	¥3,949,571	**$34,894,933**
Cost of sales (Note 9)	**3,785,291**	3,555,907	**31,544,092**
Gross profit	**402,101**	393,663	**3,350,842**
Selling, general and administrative expenses (Notes 10 and 11)	**305,514**	318,432	**2,545,950**
Operating income (Note 15)	**96,586**	75,231	**804,883**
Other income (expenses):			
Interest expense	**(26,329)**	(34,880)	**(219,408)**
Interest and dividend income	**6,317**	8,848	**52,642**
Foreign exchange (loss) gain	**(775)**	12,243	**(6,458)**
Asset rental income	**13,236**	10,564	**110,300**
Gain on sales of property, plant and equipment	**14,947**	17,547	**124,558**
Loss on disposal of property, plant and equipment	**(11,403)**	(33,838)	**(95,025)**
Write-downs of investments in securities and other assets	**(12,489)**	(5,966)	**(104,075)**
Gain on sales of securities	**1,965**	4,516	**16,375**
Equity in earnings of unconsolidated subsidiaries and affiliates	**2,108**	3,949	**17,567**
Special allowances for early retirement plans	**(15,238)**	(2,058)	**(126,983)**
Provision of reserve for inspection of oil tanks, machinery and equipment, and ships	**—**	(6,816)	**—**
Write-down of real estate for sale	**(1,900)**	(3,154)	**(15,833)**
Other, net	**(2,824)**	(2,482)	**(23,533)**
	(32,383)	(31,525)	**(269,858)**
Income before income taxes and minority interests	**64,203**	43,705	**535,025**
Income taxes (Note 8):			
Current	**18,692**	23,382	**155,767**
Deferred	**7,649**	(9,741)	**63,742**
Income before minority interests	**37,861**	30,064	**315,508**
Minority interests in earnings of consolidated subsidiaries	**(5,580)**	(6,058)	**(46,500)**
Net income	**¥ 32,281**	¥ 24,006	**$ 269,008**

Years ended March 31, 2003 and 2002	Yen 2003	Yen 2002	U.S. dollars (Note 2) 2003
Net income per share (Note 1 (o)):			
Basic	**¥21.03**	¥15.75	**$0.18**
Diluted	**20.76**	15.65	**0.17**
Cash dividends per share attributable to the year	**7.00**	7.00	**0.06**

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, 2003 and 2002	Number of shares 2003	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
Common stock:				
Beginning of year	**1,514,507,271**	**¥139,436**	¥137,176	**$1,161,967**
Increase resulting from an exchange of common stock (Note 7)	**—**	**—**	2,260	**—**
End of year	**1,514,507,271**	**¥139,436**	¥139,436	**$1,161,967**
Capital surplus:				
Beginning of year		**¥274,829**	¥247,011	**$2,290,242**
Increase resulting from an exchange of common stock (Note 7)		**—**	27,817	**—**
End of year		**¥274,829**	¥274,829	**$2,290,242**
Retained earnings (Notes 7 and 16):				
Beginning of year		**¥492,236**	¥477,911	**$4,101,967**
Adjustment for merger of subsidiaries and affiliates		**—**	1,202	**—**
Adjustment for inclusion in consolidation or equity method of accounting		**(107)**	—	**(892)**
Net income		**32,281**	24,006	**269,008**
Cash dividends paid		**(10,595)**	(10,285)	**(88,292)**
Bonuses to directors and statutory auditors		**(614)**	(598)	**(5,117)**
End of year		**¥513,199**	¥492,236	**$4,276,658**
Unrealized holding gains on securities, net of deferred income taxes (Note 3):				
Beginning of year		**¥ 23,503**	¥ 46,994	**$ 195,858**
Net change during the year		**(11,596)**	(23,490)	**(96,633)**
End of year		**¥ 11,907**	¥ 23,503	**$ 99,225**
Translation adjustments:				
Beginning of year		**¥ (5,529)**	¥ (10,922)	**$ (46,075)**
Net change during the year		**(1,016)**	5,392	**(8,467)**
End of year		**¥ (6,546)**	¥ (5,529)	**$ (54,550)**
Treasury stock:				
Beginning of year		**¥ (336)**	¥ (88)	**$ (2,800)**
Net change during the year		**(2,502)**	(248)	**(20,850)**
End of year		**¥ (2,839)**	¥ (336)	**$ (23,658)**

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

Consolidated Statements of Cash Flows

Nippon Oil Corporation and Consolidated Subsidiaries

Years ended March 31, 2003 and 2002	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars (Note 2) 2003
Operating activities:			
Income before income taxes and minority interests	**¥ 64,203**	¥ 43,705	**$ 535,025**
Depreciation and amortization	**99,358**	113,461	**827,983**
Amortization of excess of cost over net assets acquired	**(314)**	(301)	**(2,617)**
(Reversal of) provision for allowance for doubtful receivables	**(7,069)**	1,365	**(58,908)**
Provision for accrued retirement benefits	**1,179**	981	**9,825**
(Reversal) provision of reserve for inspection of oil tanks, machinery and equipment, and ships	**(8,480)**	8,400	**(70,667)**
Interest and dividend income	**(6,317)**	(8,849)	**(52,642)**
Interest expense	**26,536**	35,247	**221,133**
Gain on sales of property, plant and equipment	**(15,028)**	(17,547)	**(125,233)**
Loss on disposal of property, plant and equipment	**11,026**	26,774	**91,883**
Gain on sales of investments in securities	**(1,965)**	(4,516)	**(16,375)**
(Increase) decrease in notes and accounts receivable	**(39,823)**	89,148	**(331,858)**
(Increase) decrease in inventories	**(101,784)**	10,301	**(848,200)**
(Decrease) in notes and accounts payable and excise taxes payable	**(31,420)**	(32,589)	**(261,833)**
Other, net	**12,820**	(17,120)	**106,833**
Subtotal	**2,919**	248,460	**24,325**
Interest and dividends received	**9,522**	10,095	**79,350**
Interest paid	**(27,248)**	(36,044)	**(227,067)**
Income taxes paid	**(19,504)**	(24,845)	**(162,533)**
Early retirement incentive payments	**(15,238)**	(2,058)	**(126,983)**
Net cash (used in) provided by operating activities	**(49,549)**	195,608	**(412,908)**
Investing activities:			
Decrease in time deposits	**27,163**	110,678	**226,358**
Decrease in short-term investments in securities and investments in other securities	**57,585**	104,762	**479,875**
Additions to property, plant and equipment	**(86,186)**	(79,561)	**(718,217)**
Proceeds from sales of property, plant and equipment	**22,693**	31,927	**189,108**
(Increase) decrease in long-term receivables	**(1,663)**	6,589	**(13,858)**
Other	**(35,763)**	(28,710)	**(298,025)**
Net cash (used in) provided by investing activities	**(16,170)**	145,685	**(134,750)**
Financing activities:			
Increase (decrease) in short-term loans	**49,576**	(425,725)	**413,133**
Proceeds from long-term debt	**144,066**	116,965	**1,200,550**
Repayment of long-term debt	**(236,614)**	(186,126)	**(1,971,783)**
Cash dividends paid	**(11,591)**	(13,960)	**(96,592)**
Other	**(1,385)**	(566)	**(11,542)**
Net cash used in financing activities	**(55,948)**	(509,414)	**(466,233)**
Effect of exchange rate changes on cash and cash equivalents	**(3,888)**	2,833	**(32,400)**
Decrease in cash and cash equivalents	**(125,556)**	(165,287)	**(1,046,300)**
Cash and cash equivalents at beginning of year	**235,044**	399,393	**1,958,700**
Increase in cash and cash equivalents due to inclusion in consolidation	**150**	—	**1,250**
Decrease in cash and cash equivalents due to exclusion in consolidation	**—**	(160)	**—**
Increase in cash and cash equivalents due to merger of subsidiaries	**—**	1,099	**—**
Cash and cash equivalents at end of year	**¥109,638**	¥235,044	**$ 913,650**

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, 2003

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 and practices generally accepted and applied 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 and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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

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

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

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

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

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

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

(c) Foreign currency translation

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

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

(d) Appropriation of retained earnings

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

(e) Cash equivalents

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

(f) Securities

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

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

(g) Inventories

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

Effective April 1, 2001, the Company and six major consolidated subsidiaries changed their method of inventory costing from the last-in, first-out method to the average method. This change was made in order to achieve a better matching of revenues and expenses for the year, with costs reflecting the price variation of crude oil against the balance sheet. The effect of this change was to increase income before income taxes by ¥16,598 million for the year ended March 31, 2002.

(h) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost.

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

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

(i) Leases

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

(j) Retirement benefits

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

(k) Income taxes

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

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

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

Effective April 1, 2001, a major consolidated subsidiary also changed its method of accounting for the reserve for inspection of machinery to the accrual basis. This change was made in order to achieve a better matching of revenues and expenses for the year and to enhance the Company's financial condition. The effect of this change was to decrease income before income taxes by ¥6,261 million for the year ended March 31, 2002.

(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

Until the year ended March 31, 2002, basic net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year.

In accordance with an accounting standard for earnings per share which became effective April 1, 2002, basic net income per share for the year ended March 31, 2003 has been computed based on the net income attributable to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.

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

Net income per share for the year ended March 31, 2002 has been recomputed and restated based on this revised accounting standard.

(p) Treasury stock and reduction of legal reserves

Effective April 1, 2002, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for treasury stock and the reduction of the legal reserves. The effect of the adoption of this new standard was immaterial.

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 the rate of ¥120=US$1.00, the approximate rate of exchange in effect on March 31, 2003. 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, 2003 and 2002 were as follows:

March 31,	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars 2003
Carrying amount	**¥864**	¥863	**$7,200**
Aggregate market value	**886**	887	**7,383**
Net unrealized holding gain	**¥ 22**	¥ 24	**$ 183**

b) Marketable securities classified as other securities at March 31, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars		
March 31, 2003	Acquisition cost	Carrying amount	Net unrealized holding gain	Acquisition cost	Carrying amount	Net unrealized holding gain
Stocks	**¥67,239**	**¥92,173**	**¥24,934**	**$560,325**	**$768,108**	**$207,783**
Debt securities	**630**	**635**	**5**	**5,250**	**5,292**	**42**
Other	**100**	**99**	**(1)**	**833**	**825**	**(8)**
	¥67,970	**¥92,908**	**¥24,938**	**$566,417**	**$774,233**	**$207,817**

	Millions of yen		
March 31, 2002	Acquisition cost	Carrying amount	Net unrealized holding gain
Stocks	¥75,976	¥121,612	¥45,637
Debt securities	2,110	2,150	39
Other	1,129	1,133	5
	¥79,217	¥124,898	¥45,680

c) Sales of securities classified as other securities amounted to ¥5,123 million ($42,692 thousand) and ¥12,985 million with a net aggregate gain of ¥1,729 million ($14,408 thousand) and ¥4,118 million for the years ended March 31, 2003 and 2002, respectively.

d) The redemption schedule at March 31, 2003 for securities with maturity dates is summarized as follows:

March 31, 2003	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥13,996	$116,633
Due after one year through five years	54,871	457,258
Due after five years through ten years	51	425
Due after ten years	—	—

4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

March 31,	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars 2003
Merchandise and finished products	**¥ 97,174**	¥ 93,735	**$ 809,783**
Crude oil	**115,898**	71,152	**965,817**
Merchandise and crude oil in transit	**105,573**	61,501	**879,775**
Work in process	**106,681**	96,759	**889,008**
Containers and supplies	**33,594**	30,767	**279,950**
Real estate for sale	**20,209**	24,982	**168,408**
	¥479,131	¥378,897	**$3,992,758**

5. 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, 2003 and 2002 were approximately 0.2% and 0.8%, respectively.

Long-term debt at March 31, 2003 and 2002 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
1.60% unsecured convertible bonds in yen, due March 2005	**¥ 69,628**	¥140,854	**$ 580,233**
Unsecured Eurobonds in U.S. dollars, due through February 2007, at interest rates ranging from 1.51% to 2.21%	**27,002**	42,093	**225,017**
1.10% unsecured Eurobonds in Euro, due September 2005	**3,147**	2,912	**26,225**
Unsecured bonds in yen, due through December 2012, at interest rates ranging from 0.61% to 5.20%	**217,600**	207,000	**1,813,333**
Unsecured Eurobonds in yen, due through January 2007, at interest rates ranging from 0.07% to 4.2%	**50,403**	60,192	**420,025**
Loans from banks, life insurance companies and government agencies, due through February 2030, at interest rates ranging from 0.29% to 7.32%:			
Secured	**119,633**	136,970	**996,942**
Unsecured	**379,673**	374,095	**3,163,942**
	867,088	964,117	**7,225,733**
Less current portion	**(212,563)**	(232,961)	**(1,771,358)**
	¥654,525	¥731,155	**$5,454,375**

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

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

Assets pledged at March 31, 2003 and 2002 as collateral for long-term debt or other debt were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Time deposits	**¥ 3**	¥ 3	**$ 25**
Notes and accounts receivable	**—**	632	**—**
Land	**261,726**	300,074	**2,181,050**
Other property, plant and equipment, net	**228,804**	235,154	**1,906,700**
Investments in other securities	**20,246**	27,124	**168,717**
Long-term receivables	**6,146**	7,304	**51,217**

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥212,563	$1,771,358
2005	111,870	932,250
2006	157,616	1,313,467
2007	69,508	579,233
2008 and thereafter	315,529	2,629,408
	¥867,088	$7,225,733

6. RETIREMENT BENEFITS

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

a) Accrued retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Retirement benefit obligation	**¥(268,045)**	¥(262,015)	**$(2,233,708)**
Plan assets at fair value	**129,689**	142,452	**1,080,742**
Unfunded retirement benefit obligation	**(138,356)**	(119,562)	**(1,152,967)**
Unrecognized actuarial loss	**38,227**	18,084	**318,558**
Unrecognized prior service cost	**(3,057)**	(528)	**(25,475)**
Accrued retirement benefits	**¥(103,186)**	¥(102,007)	**$ (859,883)**

b) Retirement benefit expenses for the years ended March 31, 2003 and 2002 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Service cost	**¥10,773**	¥10,821	**$ 89,775**
Interest cost	**7,275**	7,589	**60,625**
Expected return on plan assets	**(1,702)**	(2,052)	**(14,183)**
Amortization of actuarial loss	**8,150**	4,285	**67,917**
Amortization of prior service cost	**(147)**	(35)	**(1,225)**
	¥24,348	¥20,608	**$202,900**

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

As of March 31,	**2003**	2002
Discount rates	**Mainly 2.5%**	Mainly 3.0%
Expected rate of return on plan assets	**Mainly 0.5%**	Mainly 0.5%

7. SHAREHOLDERS' EQUITY

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

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

8. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 42% for 2003 and 2002. The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2002 was as follows:

March 31,	2002
Statutory tax rate	41.9%
Adjustments:	
Non-deductible expenses	4.5
Non-taxable dividend income	(3.8)
Different tax rates applied to the income of consolidated subsidiaries	(5.4)
Equity in earnings of unconsolidated subsidiaries and affiliates	(3.7)
Gain on dilution at consolidated subsidiaries and affiliates	(2.7)
Inhabitants' per capita taxes	1.1
Adjustment of valuation allowance	(0.4)
Other	(0.3)
Effective tax rate	31.2%

An analysis of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2003 has been omitted as the difference was immaterial.

The significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Deferred tax assets:			
Property, plant and equipment	**¥ 16,171**	¥ 16,536	**$ 134,758**
Accrued retirement benefits	**36,711**	36,018	**305,925**
Depreciation	**13,535**	17,653	**112,792**
Net operating loss carryforward	**6,644**	3,175	**55,367**
Loss on revaluation of securities	**14,600**	13,418	**121,667**
Other	**48,550**	53,163	**404,583**
Valuation allowance	**(12,415)**	(10,010)	**(103,458)**
Total deferred tax assets	**123,799**	129,954	**1,031,658**
Deferred tax liabilities:			
Fair value of subsidiaries on consolidation	**70,332**	72,709	**586,100**
Reserves under Special Taxation Measures Law	**38,717**	36,797	**322,642**
Net unrealized holding gain on securities	**10,633**	19,395	**88,608**
Other	**16,326**	14,993	**136,050**
Total deferred tax liabilities	**136,010**	143,896	**1,133,417**
Net deferred tax liabilities	**¥ (12,211)**	¥ (13,942)	**$ (101,758)**

New legislation was enacted in March 2003, which will decrease the aggregate statutory tax rate by approximately 2% effective the fiscal year beginning after March 31, 2004. The effect of this tax rate change was to decrease net deferred tax liabilities by ¥1,302 million ($10,850 thousand) at March 31, 2003 and income tax expense by ¥1,027 million ($8,558 thousand) for the year ended March 31, 2003 and to increase the net unrealized holding gain on securities by ¥275 million ($2,292 thousand) at March 31, 2003.

9. EXCISE TAXES

Excise taxes are levied on gasoline and diesel fuel when delivered to customers and are included under net sales and cost of sales in the consolidated statements of income. These taxes amounted to ¥1,034,919 million ($8,624,325 thousand) and ¥1,008,626 million for the years ended March 31, 2003 and 2002, respectively, and represented approximately 25% and 26% of net sales for the respective years.

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Freight	**¥112,882**	¥111,808	**$940,683**
Personnel expense	**67,450**	73,953	**562,083**
Retirement benefit expense	**14,774**	13,129	**123,117**
Repair and inspection expense	**9,793**	20,832	**81,608**
Rental expense	**18,614**	19,712	**155,117**
Depreciation and amortization	**24,910**	25,623	**207,583**
Other	**57,087**	53,372	**475,725**
	¥305,514	¥318,432	**$2,545,950**

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of ¥10,037 million ($83,642 thousand) and ¥10,449 million were charged to income as incurred for the years ended March 31, 2003 and 2002, respectively.

12. CONTINGENT LIABILITIES

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
As endorser of trade notes	**¥ 1,616**	¥ 2,832	**$ 13,467**
As guarantors of indebtedness of:			
Unconsolidated subsidiaries and affiliates	**27,309**	36,375	**227,575**
Others	**33,475**	30,749	**278,958**
	¥62,401	¥69,958	**$520,008**

13. 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, 2003 and 2002, 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,	**2003**	2002	**2003**
Acquisition costs	**¥8,378**	¥9,666	**$69,817**
Accumulated depreciation	**4,902**	5,029	**40,850**
Net book value	**¥3,476**	¥4,636	**$28,967**

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, 2003 and 2002:

	Millions of yen		Thousands of U.S. dollars
March 31,	**2003**	2002	**2003**
Lease payments	**¥1,907**	¥2,215	**$15,892**
Depreciation	**1,817**	2,093	**15,142**
Interest	**179**	204	**1,492**

Future minimum lease payments (exclusive of the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥1,762	$14,683
2005 and thereafter	2,526	21,050
Total	¥4,289	$35,742

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2003 for noncancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥160	$1,333
2005 and thereafter	237	1,975
Total	¥397	$3,308

Lessor

(a) Finance leases

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased machinery and equipment at March 31, 2003 and 2002:

March 31,	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars 2003
Acquisition costs	**¥12,879**	¥12,031	**$107,325**
Accumulated depreciation	**6,403**	6,071	**53,358**
Net book value	**¥ 6,476**	¥ 5,960	**$ 53,967**

The following amounts represent the lease revenues relating to the finance leases accounted for as operating leases, the pro forma depreciation expense of the leased assets and the pro forma interest portion of the lease revenues (calculated by the interest method) at March 31, 2003 and 2002:

March 31,	Millions of yen 2003	Millions of yen 2002	Thousands of U.S. dollars 2003
Lease revenues	**¥2,714**	¥2,893	**$22,617**
Depreciation	**2,450**	2,596	**20,417**
Interest	**265**	283	**2,208**

Future minimum lease revenues (exclusive of the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥2,728	$22,733
2005 and thereafter	4,450	37,083
Total	¥7,178	$59,817

(b) Operating leases

Future minimum lease revenues subsequent to March 31, 2003 for noncancelable operating leases are immaterial.

14. DERIVATIVES

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

The notional amounts, fair value and unrealized gain or loss on derivatives at March 31, 2003 and 2002 are summarized as follows:

2003	Millions of yen Notional amounts	Millions of yen Fair value	Millions of yen Unrealized gain (loss)	Thousands of U.S. dollars Notional amounts	Thousands of U.S. dollars Fair value	Thousands of U.S. dollars Unrealized gain (loss)
Currency:						
Forward foreign exchange contracts	**¥ 3,640**	**¥3,711**	**¥ 71**	**$ 30,333**	**$30,925**	**$ 592**
Interest rate:						
Swaps	**¥40,000**	**¥ (266)**	**¥(266)**	**$333,333**	**$ (2,217)**	**$(2,217)**

2002	Millions of yen Notional amounts	Millions of yen Fair value	Millions of yen Unrealized gain (loss)
Currency:			
Forward foreign exchange contracts	¥ 4,090	¥4,104	¥ 14
Interest rate:			
Swaps	¥40,000	¥ (397)	¥(397)
Caps	500	0	(0)
	¥40,500	¥ (397)	¥(397)

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

15. SEGMENT INFORMATION

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

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

The business and geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 is summarized as follows:

Business segment

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

	Millions of yen						
Year ended March 31, 2002	Petroleum fuel and crude oil	Petrochemical operations	Construction	Other	Total	Eliminations	Consolidated
Sales to third parties	¥3,346,486	¥206,844	¥330,563	¥ 65,677	¥3,949,571	¥ —	¥3,949,571
Intergroup sales and transfers	121,554	15,769	548	15,485	153,357	(153,357)	—
Total sales	3,468,040	222,613	331,111	81,163	4,102,929	(153,357)	3,949,571
Operating expenses	3,411,007	221,794	323,257	75,059	4,031,119	(156,778)	3,874,340
Operating income	¥ 57,033	¥ 819	¥ 7,854	¥ 6,104	¥ 71,810	¥ 3,420	¥ 75,231
Assets	¥2,914,917	¥168,612	¥339,116	¥187,560	¥3,610,207	¥(165,464)	¥3,444,742
Depreciation and amortization	¥ 95,369	¥ 6,257	¥ 4,932	¥ 7,082	¥ 113,642	¥ (180)	¥ 113,461
Capital expenditures	¥ 89,917	¥ 4,411	¥ 15,741	¥ 5,468	¥ 115,539	¥ (12,992)	¥ 102,547

	Thousands of U.S. dollars						
Year ended March 31, 2003	Petroleum fuel and crude oil	Petrochemical operations	Construction	Other	Total	Eliminations	Consolidated
Sales to third parties	**$29,996,850**	**$1,832,533**	**$2,533,183**	**$ 532,358**	**$34,894,933**	**$ —**	**$34,894,933**
Intergroup sales and transfers	**1,296,058**	**160,983**	**12,875**	**151,683**	**1,621,608**	**(1,621,608)**	**—**
Total sales	**31,292,908**	**1,993,525**	**2,546,058**	**684,042**	**36,516,550**	**(1,621,608)**	**34,894,933**
Operating expenses	**30,685,092**	**1,945,900**	**2,479,558**	**631,942**	**35,742,500**	**(1,652,450)**	**34,090,050**
Operating income	**$ 607,817**	**$ 47,617**	**$ 66,500**	**$ 52,100**	**$ 774,042**	**$ 30,833**	**$ 804,883**
Assets	**$23,842,992**	**$1,435,817**	**$2,737,433**	**$1,262,292**	**$29,278,542**	**$(1,359,900)**	**$27,918,642**
Depreciation and amortization	**$ 681,867**	**$ 51,058**	**$ 42,758**	**$ 54,483**	**$ 830,175**	**$ (2,183)**	**$ 827,983**
Capital expenditures	**$ 940,142**	**$ 39,783**	**$ 83,725**	**$ 55,133**	**$ 1,118,800**	**$ —**	**$ 1,118,800**

Geographical areas

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

Year ended March 31, 2002	Japan	North America	Asia and Oceania	Europe	Total	Eliminations	Consolidated
	Millions of yen						
Sales to third parties	¥3,852,171	¥40,281	¥ 48,681	¥ 8,437	¥3,949,571	¥ —	¥3,949,571
Intergroup sales and transfers	27,945	47,400	316,694	482,750	874,791	(874,791)	—
Total sales	3,880,117	87,682	365,375	491,187	4,824,362	(874,791)	3,949,571
Operating expenses	3,816,925	83,118	360,102	488,538	4,748,685	(874,344)	3,874,340
Operating income	¥ 63,191	¥ 4,564	¥ 5,273	¥ 2,648	¥ 75,677	¥ (446)	¥ 75,231
Total assets	¥3,302,645	¥76,081	¥ 82,108	¥152,887	¥3,613,723	¥(168,981)	¥3,444,742

For the year ended March 31, 2002, the Company changed the classification of a domestic consolidated subsidiary to Asia and Oceania, from Japan, in order to achieve a better presentation of its operations by geographical area.

The effects of this change as of and for the year ended March 31, 2002 were to increase total sales, operating income and total assets in the Asia and Oceania segment by ¥17,478 million, ¥5,025 million and ¥35,411 million, respectively, and to decrease total sales, operating income and total assets in the Japan segment by ¥16,916 million, ¥5,025 million and ¥35,411 million, respectively.

Year ended March 31, 2003	Japan	North America	Asia and Oceania	Europe	Total	Eliminations	Consolidated
	Thousands of U.S. dollars						
Sales to third parties	**$34,067,150**	**$259,767**	**$ 459,300**	**$ 108,708**	**$34,894,933**	**$ —**	**$34,894,933**
Intergroup sales and transfers	**238,867**	**589,150**	**3,462,992**	**4,016,258**	**8,307,292**	**(8,307,292)**	**—**
Total sales	**34,306,017**	**848,925**	**3,922,300**	**4,124,975**	**43,202,225**	**(8,307,292)**	**34,894,933**
Operating expenses	**33,610,458**	**797,017**	**3,844,850**	**4,120,958**	**42,373,300**	**(8,283,250)**	**34,090,050**
Operating income	**$ 695,550**	**$ 51,908**	**$ 77,442**	**$ 4,008**	**$ 828,925**	**$ (24,033)**	**$ 804,883**
Total assets	**$26,681,633**	**$841,433**	**$ 829,308**	**$1,384,617**	**$29,737,000**	**$(1,818,350)**	**$27,918,642**

16. SUBSEQUENT EVENT

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2003, were approved at a meeting of the shareholders of the Company held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥4=$0.03 per share)	¥6,045	$50,375
Bonuses to directors and statutory auditors	111	925

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, 2003 and 2002, 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 independently on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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 to the consolidated financial statements.

Shin Nihon & Co.

June 27, 2003

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of Nippon Oil Corporation and its consolidated subsidiaries under Japanese accounting principles and practices.

PRINCIPAL NOC GROUP COMPANIES

(As of July 1, 2003)

OIL REFINING AND WHOLESALING

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

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

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

Wakayama Petroleum Refining Co., Ltd.
Capital: ¥12,000 million (50.0%)
Established: 1992
Business: Manufacture of lubricants

OIL STORAGE AND TRANSPORT

Nippon Oil Staging Terminal Company, Limited
Capital: ¥6,000 million (100%)*1
Established: 1967
Business: Operation of petroleum storage and terminal facilities

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

Okinawa CTS Corporation
Capital: ¥4,000 million (65%)
Established: 1973
Business: Crude oil stockpiling

GAS BUSINESS

Nippon Petroleum Gas Company, Limited
Capital: ¥4,480 million (95.2%)*3
Established: 1955
Business: Manufacture, import, and sale of LPG

OIL DEVELOPMENT AND OVERSEAS OPERATIONS

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

Nippon Oil Exploration U.S.A. Limited
Capital: $68 million (100%)
Established: 1989
Business: All types of oil development and oversea operations, based on the laws of Delaware State

Japan Canada Oil Co., Ltd.
Capital: ¥4,000 million (100%)
Established: 1992
Business: Exploration for and development and sale of oil

Nippon Oil Exploration and Production U.K. Limited
Capital: £49 million (100%)
Established: 1996
Business: Exploration for and development and production of oil

Japan Vietnam Petroleum Co., Ltd.
Capital: ¥22,530 million (53.1%)
Established: 1992
Business: Exploration for and development of oil

OVERSEAS OIL MARKETING

Nippon Oil (U.S.A.) Limited
Capital: $3 million (100%)
Established: 1960
Business: Purchase, sale, import, and export of crude oil and petroleum products

Nippon Oil (Asia) Pte. Ltd.
Capital: S$300,000 (100%)
Established: 1980
Business: Purchase, sale, import, and export of crude oil and petroleum products

PETROCHEMICALS BUSINESS

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

CONSTRUCTION AND ENGINEERING

Nippon Oil Engineering and Construction Co., Ltd.
Capital: ¥600 million (100%)
Established: 1982
Business: Engineering, construction, and maintenance of refining and other related facilities

Nippon Hodo Co., Ltd.
Capital: ¥14,924 million (56.0%)
Established: 1934
Business: Road paving, civil engineering, and construction

OTHER

Nippon Oil (Australia) Pty. Limited
Capital: A$76 million (100%)
Established: 1988
Business: Purchase, sale, import, and export of coal and LNG

Nippon Oil Finance (Netherlands) B.V.
Capital: Euro9 million (100%)
Established: 1988
Business: Fund-raising and fund management

Nippon Oil Real Estate Company, Limited
Capital: ¥500 million (100%)
Established: 1959
Business: Sale, purchase, leasing, and management of real estate

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

Nippon Oil Information Systems Company, Limited*4
Capital: ¥310 million (100%)
Established: 1985
Business: Design and installation of advanced data-processing and communications networks

*1 Includes the shares owned by Nippon Petroleum Refining Company, Limited (50.0%)
*2 Includes the shares owned by Nippon Petroleum Refining Company, Limited (96.0%)
*3 Includes the shares owned by Nippon Petroleum Refining Company, Limited (5.9%)
*4 As of April 1, 2003, all operations of Nippon Oil Information Systems Company, Limited, were taken over by Nippon Oil Information Technology Corporation, a company that was established through the employment of the corporate split-off method.
Note: Figures in parentheses indicate percentage of equity ownership.

OVERSEAS OFFICES

(As of July 1, 2003)

Abu Dhabi Office
Al Masaood Tower,
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Fax: 2631-0151

Jakarta Office
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Jl Jend. Sudirman Kav. 10-11,
Jakarta 10220, Indonesia
Phone: (21) 573-1234
Fax: (21) 574-2275

Nippon Oil Exploration (Vulcan) Pty. Limited
Perth Office
Level 9, St. George's Court,
16 St. George's Terrace,
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Australia
Phone: (08) 9221-2709
Fax: (08) 9221-2719

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

Japan Vietnam Petroleum Co., Ltd.
Vietnam Office
Petro Vietnam Towers 3F No. 9,
Hoang Dieu St., Vung Tau,
S.R. Vietnam
Phone: (64) 856937
Fax: (64) 856943

Nippon Oil Exploration (Malaysia), Limited
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Kuala Lumpur City Centre,
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NOC (U.K.) Limited
38 Finsbury Square,
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Fax: (20) 7309-6969

Nippon Oil Exploration and Production U.K. Limited
38 Finsbury Square,
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Nippon Oil (U.S.A.) Limited
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2680 Bishop Drive, Suite 275,
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Fax: (925) 355-1109

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New York, New York 10017, U.S.A.
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Fax: (212) 599-2628

Nippon Oil (U.S.A.) Limited
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300 Park Blvd., #105,
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Phone: (630) 875-9701
Fax: (630) 875-9702

Nippon Oil (Asia) Pte. Ltd.
6 Battery Road, #29-02,
Singapore 049909
Phone: 6223-6732
Fax: 6224-8921

Nippon Oil (Australia) Pty. Limited
Level 27, Chiefly Tower, 2 Chiefly Square,
Sydney, N.S.W. 2000, Australia
Phone: (2) 9221-3366
Fax: (2) 9221-9462

Tianjin Nisseki Lubricants & Grease Company, Limited
Hangu, Tianjin, China 300480
Phone: (22) 2568-6378
Fax: (22) 2568-6138

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

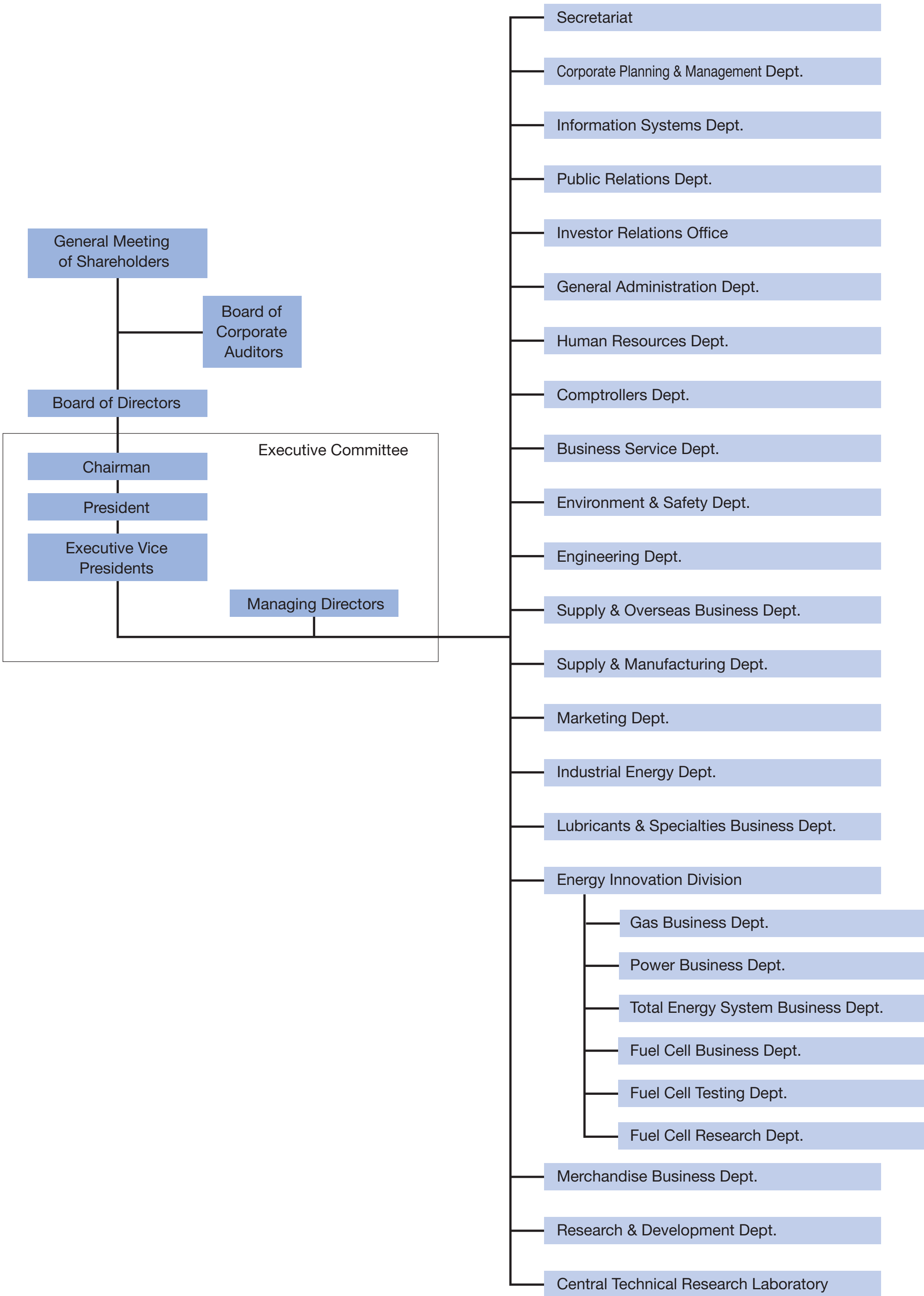
Nippon Oil Thailand Ltd.
Q. House Ploenjit (14A),
598 Ploenchit Rd., Lumpini,
Pathumwan, Bangkok 10300, Thailand
Phone: 2627-3971~6
Fax: 2627-3980

Nisseki Chemical Texas Inc.
10500 Bay Area Blvd.,
Pasadena, Texas 77507, U.S.A.
Phone: (281) 474-2030
Fax: (281) 474-3070

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

ORGANIZATION CHART

(As of July 1, 2003)



Investor Information

Date of Establishment
May 10, 1888

Paid-in Capital
¥139,436 million

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

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

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

Major Shareholders (as of March 31, 2003)

	Number of shares held (thousand shares)	(%)
Japan Trustee Service Trust and Banking (Trust Unit)	138,260	9.1%
Mizuho Corporate Bank, Ltd.	73,887	4.9
The Master Trust Bank of Japan, Ltd. (Trust Unit)	65,150	4.3
Sumitomo Mitsui Banking Corporation	49,398	3.3
Mitsubishi Corporation	45,435	3.0
The Tokyo Marine and Fire Insurance Company, Limited	31,323	2.1
The Bank of Tokyo–Mitsubishi, Ltd.	29,387	1.9
Mitsui Sumitomo Insurance Company, Limited	26,297	1.7
Pension Fund Trustee Mitsui Asset Trust and Banking Company, Limited (2 Unit)	24,262	1.6
Sompo Japan Insurance Inc.	20,815	1.4

NIPPON OIL CORPORATION

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