NIPPON OIL CORPORATION
Your Choice of Energy

# FLASH REPORT (CONSOLIDATED BASIS)

May 20, 2005

Company name : Nippon Oil Corporation
Stock listings: Tokyo, Osaka, Nagoya, Fukuoka, and Sapporo Exchanges
Code number: 5001
(URL http://www.eneos.co.jp)
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Date for Convening the Board of Directors Meeting for the Settlement of Accounts: May 20, 2005
U.S. accounting standard: not applied

## 1. Results for Year ended March 31, 2005 (from April 1, 2004 to March 31, 2005)

(Figures less than ￥1 million have been omitted)

### (1)Operating results

| | Net Sales (% change from the previous fiscal year) | | Operating income (% change from the previous fiscal year) | | Recurring income (% change from the previous fiscal year) | |
|---|---|---|---|---|---|---|
| | Millions of yen | | Millions of yen | | Millions of yen | |
| Fiscal 2005 | 4,924,163 | (15.1) | 201,470 | (260.3) | 212,435 | (272.1) |
| Fiscal 2004 | 4,279,751 | (2.2) | 55,918 | (△42.1) | 57,089 | (△37.1) |

| | Net income (% change from the previous fiscal year) | | Net income per share | Net income per share after dilution | Return on equity | Ratio of recurring income to total assets | Ratio of recurring income to net sales |
|---|---|---|---|---|---|---|---|
| | Millions of yen | | Yen | Yen | % | % | % |
| Fiscal 2005 | 131,519 | (−) | 86.72 | − | 14.8 | 6.3 | 4.3 |
| Fiscal 2004 | △133,526 | (−) | △88.76 | − | △15.2 | 1.7 | 1.3 |

Notes: 1.Equity in earnings (losses) of unconsolidated subsidiaries and affiliates:
Year ended March 31, 2005: ￥6,550 million
Year ended March 31, 2004: ￥2,357 million
2.Average number of shares outstanding during fiscal years
Year ended March 31, 2005: 1,508,285,187
Year ended March 31, 2004: 1,508,930,524
3.There was a change in accounting methods.
4.Percentages indicate year-on-year increase/(decrease) in net sales, operating income, recurring income, and net income.

### (2)Financial position

| | Total assets | Total shareholders' equity | Shareholders' equity ratio | Shareholders' equity per share |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | % | Yen |
| Fiscal 2005 | 3,514,352 | 953,240 | 27.1 | 631.77 |
| Fiscal 2004 | 3,265,503 | 821,202 | 25.1 | 544.04 |

Notes: Number of shares outstanding at the end of the period
Year ended March 31, 2005: 1,507,658,357
Year ended March 31, 2004: 1,508,659,792

(3)Cash flows

| | Operating activities | Investing activities | Financing activities | Cash and cash equivalents at end of period |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Fiscal 2005 | 115,731 | △99,491 | △49,984 | 140,478 |
| Fiscal 2004 | 279,969 | △79,060 | △139,309 | 174,535 |

(4)Number of subsidiaries and affiliates

Consolidated subsidiaries: 56, Unconsolidated subsidiaries accounted for by the equity method: 17, Affiliates accounted for by the equity method: 25

(5)Changes in the scope of consolidation

Five affiliates were included into consolidated subsidiaries.
Four existing consolidated subsidiaries were excluded.
Eight affiliates were included into affiliates accounted for by the equity method.
Six existing affiliates accounted for by the equity method were excluded.

## 2. Forecast for fiscal 2006 (April 1, 2005 to March 31,2006)

| | Net Sales | Recurring income | Net income |
|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen |
| Interim period | 2,360,000 | 57,000 | 34,000 |
| Fiscal year | 4,990,000 | 159,000 | 88,000 |

(Reference) Consolidated net income per share for the fiscal year is forecast to be ¥59.79

(Note) Projected consolidated net income per share for the fiscal year is calculated on the basis of the average number o shares outstanding during fiscal year while taking into account the Company's buybuck and cancellation of 50 million shares in April 2005.

* The aforementioned forecasts are forward-looking statements based on all information available to the management at the time of this document’s release. Factors including, but not limited to, economic conditions, oil prices, demand trends for petroleum products, market trends, currency exchange rates, and interest rates, may cause actual results to differ substantially from the anticipated results. Further information related to these performance forecasts and targets may be found on page 5 of the accompanying supplementary information.

## Management Performance and Financial Position

### (1) Management Performance

#### Review of Operations for the Fiscal Year

The Japanese economy in the fiscal year under review saw a greater level of capital investments due to a stronger corporate profits environment. However, consumer spending lacked strength and imports to US and China during the second half of the fiscal year slowed. As a result, the business climate shifted away from a recovery trend and took on a stagnant shape at the end of the fiscal year.

#### Petroleum Fuel and Crude Oil

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

Amid this environment, the NOC Group executed various strategies outline below with the management objective to bolster the profitability of its core business, petroleum fuel and crude oil business and to open up new energy businesses.

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

Next, in the area of refining, the NOC Group began national provision of sulfur-free gasoline and diesel in advance of the implementation of new governmental environmental regulations. In addition, as part of the Group's Chemical Refinery Integration (CRI) strategy, production plans for oil refining and petrochemicals were integrated in the April of last year and a new system whereby production for both oil products and petrochemical products could be flexibly modified to respond to demand trends was established. Furthermore, China Oil consigned the refining of 20,000 barrels a day of crude oil to the Group in July of last year and further agreed to up this number to 30,000 barrels a day in April of this year.

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

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

Consequently, the NOC Group's consolidated net sales for the fiscal year under review in the petroleum fuel and crude oil business segment increased 14.8% from the previous year to ¥4.1396 trillion. Profitability was negatively impacted by the time lag associated with the shifting of crude oil costs to sales prices amid the jump in crude oil prices during the fiscal year under review. However, in terms of the E&P business as well as the inventory valuation factors (where inventory valuation decreases cost of goods sold due to the gross average method), the rise in crude oil prices contributed to increasing profitability. Moreover, improvements to fuel oil margins, further cost reductions and increases in efficiency resulted in operating income of ¥163.3 billion, a ¥129.6 billion increase from the previous fiscal year.

**Petrochemical Operations**

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

As a result of these efforts, consolidated net sales from petrochemical operations rose 40.8% from the previous year to ¥349 billion. In addition, although naphtha prices rose, strong overall market conditions and the Group’s efforts to cut costs and increase efficiency led to operating income of ¥23.3 billion, a ¥14.6 billion increase from the previous fiscal year.

**Construction**

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

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

### Other Segments

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

As a result of these efforts, consolidated net sales in the other business segment grew 5.9% from the previous fiscal year to ¥76.1 billion. In addition, operating income jumped ¥100 million from the previous fiscal year to ¥5 billion mainly as a result of implementing further cost-reducing and efficiency-increasing strategies.

### Consolidated Financial Results

On a consolidated basis, net sales of the NOC Group rose 15.1% from the previous fiscal year to ¥4.9242 trillion. Profitability was negatively impacted by the time lag associated with the shifting of crude oil costs to sales prices amid the jump in crude oil prices during the fiscal year under review. However, in terms of the petroleum fuel/natural gas businesses as well as the inventory valuation factors (where inventory valuation decreases cost of goods sold due to the gross average method), the rise in crude oil prices contributed to increasing profitability. Moreover, improvements to fuel oil margins, further cost cutting, and streamlined operations resulted in consolidated operating income of ¥201.5 billion, a ¥145.6 billion increase from the previous fiscal year.

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

The NOC Group also generated non-operating income totaling ¥10.9 billion (up ¥9.7 billion from the previous fiscal year) mainly as a result of an increase in investment profit on equity method and a reduction in interest expense due to declines in the interest rate and the amount of interest-bearing liabilities held by the Group.

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

The NOC Group also generated ¥8.6 billion worth of extraordinary income (up ¥215.4 billion from the previous fiscal year). This was mainly as a result of gain on disposal of fixed assets during the fiscal year under review as a way for the Group to slim-down its balance sheet through the divestment of unneeded assets.

As a result of the above factors, the NOC Group generated consolidated net income of ¥131.5 billion, a ¥265 billion increase from the previous fiscal year.

**Outlook for the Current Fiscal Year**

The NOC Group's outlook for consolidated net income for the current fiscal year is ¥4.99 trillion (¥4.18 trillion on a non-consolidated basis). This is a 1.3% increase from the fiscal year under review. The outlook is based on the Group's position that crude oil prices will continue to remain at high levels for the remainder of the fiscal year.

Furthermore, consolidated recurring income is projected to be ¥159 billion (¥53 billion on a non-consolidated basis), and the value of adjusted consolidated recurring income which excludes the effect of inventory factors is projected to be ¥150 billion. This reflects stronger profits in the E&P business as well as a smaller amount generated from the reduction of the inventory effect (a factor that would increase profitability).

As a result, the NOC Group's outlook for consolidated net income for the current fiscal year is ¥88 billion (¥30 billion on a non-consolidated basis). This equates to a projected ROE of 9.1%.

Please note that these forecasts assume an average crude oil price of US$41.5 a barrel and an average currency exchange rate of ¥105 to the dollar for FY2006.

### Dividends

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

## (2)Financial Position

### Balance Sheet

Consolidated assets at the end of the fiscal year under review amounted to ¥3.5144 trillion, up ¥248.9 billion from previous fiscal year end. The balance of assets increased by such factors as a rise in the level of stock prices due to the rapid rise of crude oil prices, the inclusion of three new consolidated subsidiary companies that operate petroleum fuel and natural gas development businesses, and increase of produced crude oil and natural gas assets.

Consolidated shareholders' equity amounted to ¥953.2 billion at the end of the fiscal year under review, an increase of ¥132 billion compared to the previous fiscal year. This was mainly due to accounting for consolidated net income.

Consequently, the shareholders' equity ratio settled at 27.1%.

## Cash Flow

Fiscal year end cash and cash equivalents (hereinafter referred to as “cash”) decreased by ¥34 billion from the end of the previous fiscal year to ¥140.5 billion. The factors influencing cash flow movements in the fiscal year under review were as follows:

Cash flow from operating activities climbed by ¥115.7 billion as positive factors to cash such as net income before tax and other adjustments (¥221 billion) and depreciation expense (¥110 billion), which does not require cash expenditure surpassed negative factors such as the increase in working capital due to the rise in crude oil prices.

Cash flow from investing activities decreased by ¥99.5 billion, mainly as a result of capital investments into the wholesale power supply business of refineries as well as into the construction of new retail petroleum stands. In addition, the NOC Group executed the additional purchase of shares of petroleum fuel and natural gas development businesses of the Group from the Japan Petroleum Development Corporation.

Cash flow from financing activities also decreased by ¥49.9 billion, owing to the payment of cash dividends and the Group’s continued efforts to reduce interest-bearing liabilities.

Trends in the cash flow indicators of the NOC Group are as follows.

| | Year ended March 31, 2002 | Year ended March 31, 2003 | Year ended March 31, 2004 | Year ended March 31, 2005 |
|---|---|---|---|---|
| Shareholders’ equity ratio (%) | 26.8 | 27.8 | 25.1 | 27.1 |
| Ratio of market capitalization to total assets (%) | 26.9 | 22.5 | 27.5 | 32.6 |
| Years needed to retire debt (years) | 5.6 | —* | 3.4 | 8.3 |
| Interest coverage ratio (times) | 5.7 | —* | 13.3 | 6.3 |

Notes:

1. Asterisks indicate that the figures for years needed to retire debt and interest

coverage have not been shown. This is because during the fiscal year ended March 31, 2003, operating cash flow was negative because of a one-time increase in working capital requirements due to the sharp rise in oil prices stemming from the Iraq problem and the falling of the last day of the previous fiscal year on a Japanese national holiday, which resulted in a large decline in unpaid gasoline and other taxes for the previous year.

2. Definitions of indicators are as follows:
   - Shareholders' equity ratio: Shareholders' equity/Total assets
   - Ratio of market capitalization to total assets: Total value of stock at market price/Total assets
   - Years needed to retire debt: Interest-bearing debt/Operating cash flow
   - Interest coverage ratio: Cash flow from operations/Interest paid

3. All indicators have been calculated based on consolidated financial data.
4. Market capitalization has been calculated by multiplying the Company's stock price at the end of the fiscal year by the number of shares outstanding at the end of the fiscal year (after exclusion of treasury stock).
5. Operating cash flow is the cash flow from operations shown in the Consolidated Statement of Cash Flows.
6. Interest-bearing debt is actual interest-bearing debt, defined as the interest-bearing liabilities shown on the consolidated balance sheets less the funds managed (credit assets) of finance subsidiaries. In addition, interest paid has been calculated by subtracting the amount of interest paid by finance subsidiaries to fund their credit asset portfolios from the amount of interest paid shown in the Consolidated Statement of Cash Flows.

**Commitment Line Contracts**

To raise working capital efficiently, NOC has concluded a commitment line contract with a syndicate of 11 banks with which it has transaction relationships. This commitment line provides the Company with funding up to ¥80 billion and US$200 million. There were no borrowings under these commitment lines during the fiscal year under review.

### (3) Business Risks

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

1. Impact of fluctuating currency exchange rates (against the US dollar) and crude oil prices.
   a. Impact on Inventory Assets

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

   On the other hand, when crude oil prices (in yen) fall below the unit price of inventory, the valuation of inventory assets pushes up the cost of goods sold, thus making it a negative profitability factor.

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

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

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

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

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

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

4. Risks arising from overseas businesses
   The NOC Group’s procurement, production, exporting and sales activities are carried out not only in Japan, but on a global scale in areas such as North America, Europe and Asia/Oceana. The Group believes that certain risks as outlined below exist in its overseas activities.
   a. Country risks – Political and economic turmoil in foreign countries and a freezing of currency exchanges and a default on loans triggered by them.
   b. Social turmoil arising from strikes, terrorist activities, war, epidemics, etc.
   c. Disasters arising out of an act of god.
   d. Restrictions arising from new regulations, such as import restrictions and export trade management rules.

   The generation of such risks will hinder the NOC Group’s overseas business activities and consequently, may lead to worsened financial performance.

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

6. Impact of stricter environmental regulations
   From the standpoint of global environmental protection, new regulations on quality or the need to blend in biomass fuels may result in cost

increases to the NOC Group’s operations. Costs may be in the form of capital investments into refineries or an increase in variable costs.

7. Risks arising from information systems
   Earthquakes, floods and other natural disasters may damage information systems and cease normal business operations. In a situation such as this, production and sales activities of the NOC Group will not only be compromised but it may have a major negative impact on the business of vendors.

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

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

# CONSOLIDATED BALANCE SHEETS

| | Previous fiscal year March 31, 2004 | | Year ended March 31, 2005 | | Change from the previous |
|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen |
| Assets | | | | | |
| Current assets | 1,395,336 | 42.7% | 1,569,328 | 44.7% | 173,992 |
| Cash and cash time deposits | 178,846 | | 143,729 | | △ 35,117 |
| Trade notes and accounts receivable | 578,850 | | 611,258 | | 32,408 |
| Short-term investments in securities | 3,009 | | 19,384 | | 16,374 |
| Inventories | 498,857 | | 636,704 | | 137,846 |
| Deferred income taxes | 41,543 | | 33,517 | | △ 8,026 |
| Other current assets | 94,228 | | 124,734 | | 30,506 |
| Fixed assets | 1,870,137 | 57.3% | 1,945,006 | 55.3% | 74,868 |
| Property, plant and equipment | 1,385,774 | | 1,361,389 | | △ 24,384 |
| Buildings and Structures | ( 282,455 ) | | ( 266,257 ) | | ( △ 16,197 ) |
| Oil tanks・Machinery and equipment・Other | ( 340,024 ) | | ( 362,158 ) | | ( 22,134 ) |
| Land | ( 701,519 ) | | ( 686,993 ) | | ( △ 14,526 ) |
| Construction in progress | ( 61,774 ) | | ( 45,980 ) | | ( △ 15,794 ) |
| Intangible fixed assets | 56,396 | | 49,293 | | △ 7,102 |
| Investments and other assets | 427,967 | | 534,322 | | 106,355 |
| Investment securities | ( 291,003 ) | | ( 289,814 ) | | ( △ 1,189 ) |
| Deferred income taxes | ( 24,426 ) | | ( 21,927 ) | | ( △ 2,499 ) |
| Other investment and assets | ( 112,537 ) | | ( 222,581 ) | | ( 110,044 ) |
| Deferred assets | 29 | 0.0% | 17 | 0.0% | △ 11 |
| Bond issuance expenses and other | 29 | | 17 | | △ 11 |
| Total assets | 3,265,503 | 100.0% | 3,514,352 | 100.0% | 248,849 |

**CONSOLIDATED BALANCE SHEETS**

| | Previous fiscal year March 31, 2004 | | Year ended March 31, 2005 | | Change from the previous fiscal year |
|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen |
| Liabilities | | | | | |
| Current liabilities | 1,433,424 | 43.9% | 1,536,810 | 43.7% | 103,386 |
| Trade notes and accounts payable | 347,401 | | 434,704 | | 87,302 |
| Short-term loans | 175,119 | | 244,150 | | 69,030 |
| Commercial paper | 121,000 | | 97,000 | | △ 24,000 |
| Accounts payable | 521,350 | | 421,448 | | △ 99,902 |
| Other current liabilities | 268,551 | | 339,507 | | 70,955 |
| Long-term liabilities | 909,763 | 27.9% | 927,431 | 26.4% | 17,668 |
| Bonds | 231,968 | | 166,304 | | △ 65,663 |
| Long-term loans | 398,556 | | 446,206 | | 47,649 |
| Deferred income taxes | 78,013 | | 102,212 | | 24,198 |
| Retirement allowances for employees | 111,725 | | 106,835 | | △ 4,890 |
| Other long-term liabilities | 89,498 | | 105,873 | | 16,374 |
| Total liabilities | 2,343,187 | 71.8% | 2,464,241 | 70.1% | 121,054 |
| Minority interests in consolidated | 101,113 | 3.1% | 96,870 | 2.8% | △ 4,243 |
| Shareholders' equity | | | | | |
| Common stock | 139,436 | 4.3% | 139,437 | 4.0% | 1 |
| Capital surplus | 274,838 | 8.4% | 274,852 | 7.8% | 14 |
| Retained earnings | 371,471 | 11.4% | 489,729 | 13.9% | 118,258 |
| Net unrealized gain on securities | 46,766 | 1.4% | 60,743 | 1.7% | 13,976 |
| Translation adjustments | △ 8,123 | △0.3% | △ 7,403 | △ 0.2% | 720 |
| Less treasury common stock, at cost | △ 3,186 | △0.1% | △ 4,118 | △ 0.1% | △ 932 |
| Total shareholders' equity | 821,202 | 25.1% | 953,240 | 27.1% | 132,037 |
| Total liabilities, minority interest, and shareholders' equity | 3,265,503 | 100.0% | 3,514,352 | 100.0% | 248,849 |

# CONSOLIDATED STATEMENTS OF INCOME

| | Previous fiscal year April 1 ,2003 ～ March 31, 2004 | Year ended April 1 ,2004～ March 31, 2005 | Change from the previous fiscal year |
|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen |
| Net sales | 4,279,751 | 4,924,163 | 644,412 |
| Cost of sales | △ 3,928,505 | △ 4,437,411 | △ 508,906 |
| Selling, general and administrative expenses | △ 295,328 | △ 285,281 | 10,046 |
| Operating income | 55,918 | 201,470 | 145,551 |
| Non-operating profits and expenses | | | |
| Non-operating profits | 28,991 | 36,736 | 7,745 |
| Interest and dividend income | ( 5,380 ) | ( 5,751 ) | ( 371 ) |
| Foreign exchange gains | ( 635 ) | ( 3,686 ) | ( 3,051 ) |
| Equity in earnings of unconsolidated subsidiaries and affiliates | ( 2,357 ) | ( 6,550 ) | ( 4,192 ) |
| Other | ( 20,618 ) | ( 20,748 ) | ( 129 ) |
| Non-operating expenses | △ 27,820 | △ 25,771 | 2,049 |
| Interest | ( △ 20,829 ) | ( △ 18,748 ) | ( 2,081 ) |
| Expenses for bonds | ( △ 359 ) | ( △ 283 ) | ( 75 ) |
| Other | ( △ 6,631 ) | ( △ 6,739 ) | ( △ 107 ) |
| Recurring income | 57,089 | 212,435 | 155,346 |
| Special gains | 19,399 | 32,679 | 13,279 |
| Special losses | △ 226,162 | △ 24,156 | 202,005 |
| Income before income taxes and minority interests | △ 149,672 | 220,958 | 370,630 |
| Income taxes | △ 14,925 | △ 60,797 | △ 45,871 |
| Deferred income taxes | 22,780 | △ 21,782 | △ 44,562 |
| Minority interests in earnings of consolidated subsidiaries | 8,291 | △ 6,858 | △ 15,150 |
| Net income | △ 133,526 | 131,519 | 265,045 |

# APPROPRIATION OF CONSOLIDATED RETAINED EARNINGS

| | Previous fiscal year<br>April 1 ,2003 ～<br>March 31, 2004 | Year ended<br>April 1 ,2004 ～<br>March 31, 2005 |
|---|---|---|
| | Millions of yen | Millions of yen |
| Capital reserve | | |
| Ⅰ. Balance at beginning of the period | 274,829 | 274,838 |
| Ⅱ. Increase in Capital reserve | 8 | 14 |
| Gains from retirement of treasury stock | ( － ) | ( 13 ) |
| Gains from issuance of new stocks | ( － ) | ( 0 ) |
| Gains from mergers | ( 8 ) | ( － ) |
| Ⅲ. Balance at end of the period | 274,838 | 274,852 |
| Retained earnings | | |
| Ⅰ. Balance at beginning of the period | 513,199 | 371,471 |
| Ⅱ. Increase in retained earnings | 2,956 | 131,519 |
| Net income | ( － ) | ( 131,519 ) |
| Increase due to increase in companies accounted by the equity method | ( 2,956 ) | ( － ) |
| Ⅲ. Appropriations of retained earnings | 144,685 | 13,261 |
| Net loss | ( 133,526 ) | ( － ) |
| Cash dividends | ( 10,579 ) | ( 12,085 ) |
| Directors' bonuses | ( 509 ) | ( 425 ) |
| Decrease due to increase in consolidated subsidiaries | ( － ) | ( 558 ) |
| Decrease due to decrease in companies accounted by the equity method | ( － ) | ( 167 ) |
| Decrease due to increase in companies accounted by the equity method | ( － ) | ( 24 ) |
| Write-off of shares held in a merged company | ( 67 ) | ( － ) |
| Net loss on retirement of treasury stock | ( 2 ) | ( － ) |
| Ⅳ. Retained earnings at end of the period | 371,471 | 489,729 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Previous fiscal year April 1 ,2003 ～ March 31, 2004 | Year ended April 1 ,2004 ～ March 31, 2005 |
|---|---|---|
| Ⅰ. Cash flows from operating activities | | |
| Income before income taxes and minority interests | △ 149,672 | 220,958 |
| Depreciation and amortization | 107,045 | 110,031 |
| (Increase) decrease in notes and accounts receivable | 28,610 | △ 27,877 |
| (Increase) decrease in inventories | 11,101 | △ 137,814 |
| Decrease (increase) in notes and accounts payable and excise taxes payable | 85,285 | 2,283 |
| Losses due to revaluation | 171,482 | 4,211 |
| Other | 59,768 | △ 21,013 |
| Sub-total | 313,620 | 150,779 |
| Interest and dividends received | 7,853 | 7,249 |
| Interest paid | △ 21,597 | △ 18,661 |
| Income taxes paid | △ 19,906 | △ 11,296 |
| Payment for special early retirement benefits | — | △ 12,338 |
| Net cash provided (used in) by operating activities | 279,969 | 115,731 |
| Ⅱ. Cash flows from investing activities | | |
| Decrease (increase) in time deposits | 7,680 | 1,060 |
| Additions to property, plant and equipment | △ 119,507 | △ 108,812 |
| Proceeds from sales of property, plant and equipment | 15,640 | 41,680 |
| Net (increase) decrease in marketable and investment securities | 21,081 | △ 17,524 |
| Other | △ 3,955 | △ 15,895 |
| Net cash (used in) provided by investing activities | △ 79,060 | △ 99,491 |
| Ⅲ. Cash flows from financing activities | | |
| (Decrease) increase in short-term loans | △ 7,038 | △ 17,525 |
| (Decrease) increase in long-term loans and bonds | △ 117,484 | △ 15,854 |
| Other | △ 14,786 | △ 16,603 |
| Net cash (used in) provided by financing activities | △ 139,309 | △ 49,984 |
| Ⅳ. Effect of exchange rate changes on cash and cash equivalents | △ 2,955 | △ 197 |
| Ⅴ. Decrease in cash and cash equivalents | 58,644 | △ 33,941 |
| Ⅵ. Cash and cash equivalents at beginning of period | 109,638 | 174,535 |
| Ⅶ. Increase in cash and cash equivalents due to inclusion in consolidation | 6,252 | 14 |
| Ⅷ. Decrease in cash and cash equivalents due to exclusion from consolidation | — | △ 128 |
| Ⅸ. Cash and cash equivalents at end of the period | 174,535 | 140,478 |

## Segment Information

### Business Segment

Year ended March 31, 2004（April 1 ,2003 ～March 31, 2004）

| | Petroleum fuel and crude oil | Petrochemical | Construction | Other | Total | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| Ⅰ Net sales | | | | | | | |
| （1） Sales to third parties | 3,606,365 | 247,927 | 353,636 | 71,822 | 4,279,751 | － | 4,279,751 |
| （2） Intergroup sales and transfers | 170,345 | 19,842 | 741 | 13,840 | 204,769 | (204,769) | － |
| Total sales | 3,776,710 | 267,769 | 354,378 | 85,662 | 4,484,521 | (204,769) | 4,279,751 |
| Operating expenses | 3,743,048 | 259,089 | 348,905 | 80,792 | 4,431,835 | (208,002) | 4,223,833 |
| Operating income (loss) | 33,662 | 8,680 | 5,472 | 4,870 | 52,686 | 3,232 | 55,918 |
| Ⅱ Assets, Depreciation and Capital expenditures | | | | | | | |
| Assets | 2,775,163 | 167,181 | 360,087 | 145,844 | 3,448,276 | (182,773) | 3,265,503 |
| Depreciation | 87,733 | 6,771 | 5,456 | 7,092 | 107,054 | (9) | 107,045 |
| | 149,414 | － | 16,701 | 5,365 | 171,482 | － | 171,482 |
| Capital expenditures | 102,676 | 10,234 | 7,392 | 11,153 | 131,457 | － | 131,457 |

Notes:
1. Business segments are based on the classifications used by the Company internally for management of its businesses.
2. Principal products by business segment are as follows:
(1) Petroleum fuel and crude oil: Petroleum products, including gasoline, naphtha, kerosene, diesel fuel, and fuel oil, as well as oil exploration and development
(2) Petrochemical operations: Petrochemical products, including ethylene, paraxylene, and other products
(3) Construction: Asphalt paving, civil engineering construction, building construction
(4) Other: Activities include sales of automotive products, such as tires, lease financing, insurance agency business, real estate rentals, travel agency business, computer-related operations, financial services, and food product business
3. Depreciation and capital expenditures includes exploration- and development-related investment in petroleum fuel and crude oil business that is accounted for in the "Investments and other assets" item as well as associated amortization expense.

Year ended March 31, 2005（April 1 ,2004 ～March 31, 2005）

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

Notes:

1. Business segments are based on the classifications used by the Company internally for management of its businesses.
2. Principal products by business segment are as follows:
   (1) Petroleum fuel and crude oil: Petroleum products, including gasoline, naphtha, kerosene, diesel fuel, and fuel oil, as well as oil exploration and development
   (2) Petrochemical operations: Petrochemical products, including ethylene, paraxylene, and other products
   (3) Construction: Asphalt paving, civil engineering construction, building construction
   (4) Other: Activities include sales of automotive products, such as tires, lease financing, insurance agency business, real estate rentals, travel agency business, computer-related operations, financial services, and food product business
3. Depreciation and capital expenditures includes exploration- and development-related investment in petroleum fuel and crude oil business that is accounted for in the "Investments and other assets" item as well as associated amortization expense.
4. Changes to Accounting Standards Etc.

Change to Expense Treatment Method for Mathematically Calculated Differences

The Company and its principal three consolidated subsidiaries have changed their expense treatment method for mathematically calculated differences; from the consolidated fiscal year under review, mathematically calculated differences are accounted for as expenses in the fiscal year following the fiscal year in which the mathematically calculated differences arise. Compared with the previous method, the effect of this change for the consolidated fiscal year under review is to increase operating expenses for petroleum fuel and crude oil business by 1,273 million yen and increase operating expenses for petrochemical business by 13 million yen. Consequently, the the effect of this change is to reduce operating income for petroleum fuel and crude oil business by 1,273 million yen and reduce operating income for petrochemical operations by 13 million yen.