Early Application of Fixed Asset Impairment Accounting and Revisions in the Forecast for Fiscal 2004

(From April 1, 2003 to March 31, 2004)

http://www.eneos.co.jp

March 26, 2004



Highlights of the Forecast Revisions

Crude oil price (\$/Bbl)	(Jan-Ma 27.4 (28.4)	r 20	(Ion M					
Crude oil price (\$/Bbl)	27.4 (28.4)		(Jan-Mar 2004) (Jan-Mar 2004) (Jan-Mar 2004)					
	27.7 (20.4)		27.8 (29.5)		+0.4(+1.1)			
Yen/dollar exchange rate (yen/\$) 1	112.7 (105.0)		113.3 (107.1)		+0.6 (+2.1)			
	(billion yen)		(billion yen)		(billion yen)			
Net sales	4,245		4,270		+25.0	.,		
	,		,			(Inventory		
Operating income	44.0		53.0		+9.0	factors:		
Net non-operating gain (loss)	0		2.0		+2.0	+11.0 billion yen, others)		
Recurring income	44.0		55.0		+11.0			
(Excluding inventory factors)	(81.6)		(81.6)		(±0)			
Net extraordinary loss	-5.5	4.	-207.0	 	-201.5			
Net income	14.0		-136.0		-150.0			

Unless otherwise indicated, all figures are for fiscal years, which end on March 31 of the year indicated.

Breakdown of Extraordinary Losses

(billion yen)

(1) Losses on revaluation of fixed assets	-170.0
(2) Additional payments for early retirees	-15.0
(3) Liquidation and revaluation losses related to consolidated subsidiaries	
(4) Revaluation losses on real estate developed for sale	-5.5
(5) Losses on disposal of assets and other	-6.6
Total	-207.0

NIPPON OIL 2

Initiatives to Improve Balance Sheet Soundness (1)

Early Application of Fixed Asset Impairment Accounting

Breakdown of 170 Billion Yen in Valuation Losses					
Nippon Oil Corporation	-115.5 billion yen				
(Related to service stations)	(-70.6)				
(Related to idle assets)	(-30.4)				
(Related to real estate business)	(-14.5)				
Wakayama Petroleum Refining Co., Ltd	30.5				
NIPPO Corporation and Other Consolidated Subsidiaries	-24.0				
Total	170.0 billion yen				

NIPPON OIL

Initiatives to Improve Balance Sheet Soundness (1) Computation of Valuation Losses

(1) Grouping of fixed assets

- -Operating assets, including service stations and refineries: Valuation losses are measured and recognized for individual assets.
- -Idle assets: Valuation losses are measured for individual assets
- -Among non-cash generating assets: (i) Valuation losses on depots, branch offices, company housing and other such assets are measured and recognized by region. (ii) Valuation losses on parent company housing, recreation facilities, and other such assets are measured and recognized as a group.

(3) Recognition of valuation losses

-Of those operating assets deemed to show evidence of valuation losses, those for which the book value is greater than the future cash flow to be generated by the asset in question before discounting are recognized as having valuation losses.

(2) Judgments on evidence of valuation losses (operating assets)

-For land assets with unrealized losses, the Company adopts stricter fixed asset impairment criteria than required. According to generally applied accounting rules, when the market value of land has fallen by approximately 50% below book value, these assets are treated as showing evidence of valuation losses.

Under the Company's criteria, if the market value has declined to approximately 30% below the book value (acquisition cost), these assets are deemed to show evidence of valuation losses.

(4) Measurement of valuation losses

- Valuation losses are computed by subtracting the potential recovery value of the asset from the book value. The recovery value is the larger of (a) the future discounted cash flow or (b) the net sale value.



Initiatives to Improve Balance Sheet Soundness (2)

Reasons for Losses Related to Service Stations

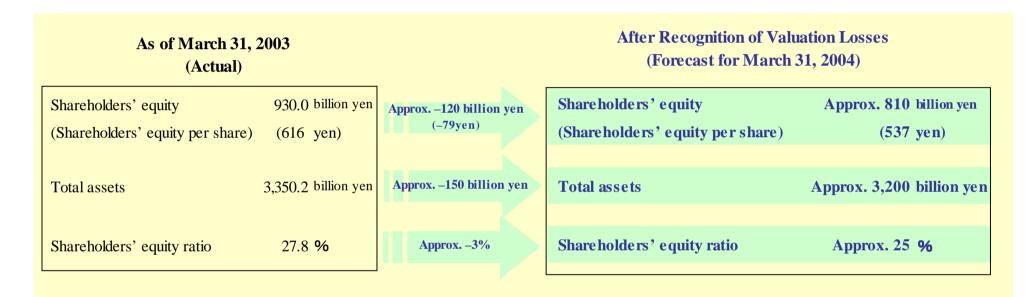
(1) Substantial decline in land prices

From the latter half of the 1980s through the mid-1990s, Nippon Oil invested aggressively in directly owned service stations, with objective of improving and broadening its sales network to growing competition as deregulation proceeded.

(2) Decline in return on investment because of sharp deterioration in sales margins following deregulation

Initiatives to Improve Balance Sheet Soundness (3)

Impact of Valuation Losses on Shareholders' Equity



For reference: Net unrealized gains on land holdings and other assets on a consolidated basis after revaluation to market value were

Approx. 600 billion yen

Initiatives to Improve Balance Sheet Soundness (4)

(billion yen)

Measures to Increase Return on Assets

(1) Early sale of unprofitable service stations, idle assets and others

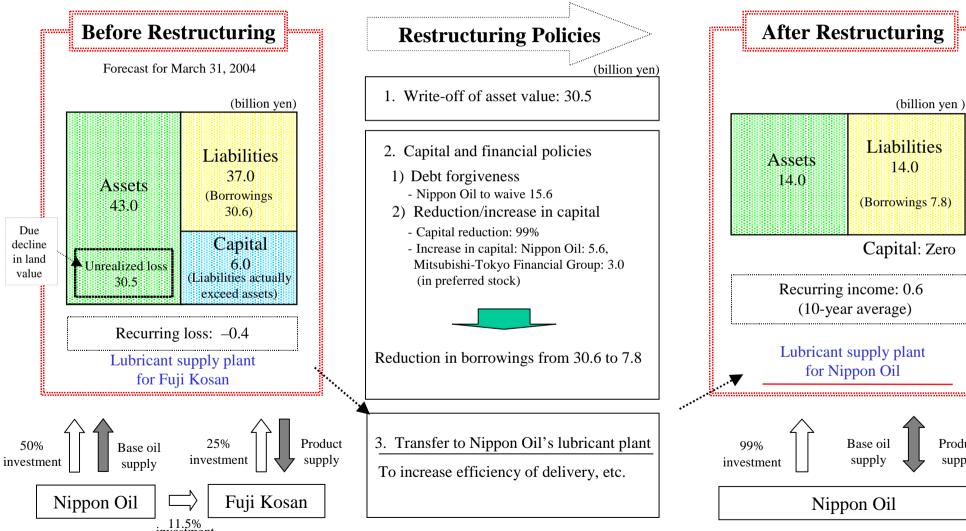
Value of assets scheduled for sale

(Total from FY2003 to FY2005)	79.0
FY 2003 (Actual)	27.0
FY 2004 (Forecast)	29.0
FY 2005 (Planned)	23.0

Under the Third Medium-Term Consolidated Management Plan (scheduled to begin in FY2006) Nippon Oil will accelerate the pace of asset sales

(2) Stricter screening prior to commitment of investment funds and close monitoring of profitability thereafter

Outline of the Wakayama Petroleum Refining Restructuring



11.5% investment **NIPPON OIL**

Product

supply

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.