

Capital and Operational Alliance between The NMOC Group and
Teikoku Oil Co., Ltd.

February 18, 2000

In order to enhance our comprehensive competitiveness in the overall oil and natural gas business ranging from upstream through downstream operations, Nippon Mitsubishi Oil Corporation (headquarters: Minato Ward, Tokyo; President: Hidejiro Ohsawa; hereinafter referred to as "Nippon Mitsubishi"), Nippon Oil Exploration Limited (headquarters: Minato Ward, Tokyo; President: Kazuo Tomita; hereinafter referred to as "Nippon Oil Exploration"), and Teikoku Oil Co., Ltd. (headquarters: Shibuya Ward, Tokyo; President: Akira Isono; hereinafter referred to as "Teikoku Oil") hereby announce that we have reached a basic agreement on a capital and operational alliance, as detailed below, whereby we will establish a cooperative structure toward the development of new businesses in the oil and natural gas production.

1. Essentials of the Basic Agreement

- a. The three companies Teikoku Oil, Nippon Mitsubishi, and Nippon Oil Exploration will be engaged in a wide-ranging operational alliance for the oil and gas business ranging from upstream through downstream operations.
- b. While advancing the operational alliance specified in (1) above, Teikoku Oil and Nippon Oil Exploration will investigate the development of an internationally competitive structure in the oil and gas business.
- c. Teikoku Oil will increase its capital via a third-party allocation of new shares equivalent to 15% of its total shares outstanding, and Nippon Mitsubishi will purchase all of these shares.

2. Reasons for the Capital and Operational Alliance

For Nippon Mitsubishi, oil operations represent a core business, and the alliance is being established in an effort to create a comprehensive business structure from upstream through downstream operations. In the upstream area, Nippon Mitsubishi holds oil and natural gas interests in diverse geographical locations including Southeast Asia, North America, and Europe. At the same time, Nippon Mitsubishi is also actively engaged in the oil and gas exploration and production business via its operating subsidiary Nippon Oil Exploration.

On the other side, Teikoku Oil has been engaged in wide-ranging exploration and production business domestically and internationally as one of Japan's principal oil and natural gas development companies ever since its foundation in 1941. At present, Teikoku Oil is actively developing its natural gas and other businesses, including the construction of a natural gas supply system utilizing domestic gas fields and pipelines, and has accumulated a wealth of experience and technological expertise.

When Teikoku Oil was founded in accordance with the national policy at that time, it absorbed the exploration and production division of the former Nippon Oil Co., Ltd., and the two firms have maintained a close relationship for over half a century up until the present day.

Along with the progress of administrative deregulation, the internationalization of the Japanese energy industry is presently advancing at a rapid pace. To ensure the efficient and stable supply of oil and natural gas, which are absolutely essential for the nation's economy and the people's livelihood, there are calls for Japanese oil development firms to secure the production of self-developed oil and natural gas, and to convert to a strong corporate structure to facilitate sustainable and growing business operations.

Given these conditions, Nippon Mitsubishi, Nippon Oil Exploration, and Teikoku Oil have all concluded that the formation of a robust energy corporate group ranging from upstream through downstream operations is the optimal strategy to enhance our competitive strengths for development, procurement, and sales in the global oil market, and accordingly we have agreed to develop a close alliance in all fields related to the exploration, development, production, transport, and sales of oil and natural gas both overseas and within Japan.

While the specific details of the alliance will be determined henceforth through discussions among the three companies, at this time, to further strengthen our capital ties, the third-party stock allocation by Teikoku Oil will be purchased by Nippon Mitsubishi.

3. Areas under Consideration for the Operational Alliance

At present, Nippon Mitsubishi, Nippon Oil Exploration, and Teikoku Oil (hereinafter

referred to as "the companies") are considering the following alliance areas toward making the optimal use of each firm's management resources, strengthening our upstream oil and gas business, and achieving expansive development of our overall businesses from upstream through downstream operations, and we shall hold discussions and conduct examinations of the detailed contents from now on.

(1) Upstream business (overseas oil and gas exploration and production)

- New businesses: For new overseas projects, the companies shall aim at efficient joint operations through personnel and financial cooperation based on our close alliance relationship.
- Existing businesses: For existing overseas projects owned or operated by the individual companies, the companies shall aim at mutual participation and joint operations via rational means.
- Technological cooperation: The companies shall work towards sharing their exploration, development, and production technologies, utilize these technologies for the advancement of joint businesses, and promote joint research and development of new technologies.

(2) Downstream businesses

- Natural gas businesses: The companies shall advance the upgrading of infrastructure based on the existing one presently owned by the individual companies, and shall jointly address further development of domestic natural gas business.
- Petroleum products businesses: The companies shall examine the rationalization of distribution costs through the mutual utilization of the distribution infrastructure (oil terminals and transportation facilities) owned by the individual companies.
- Technological cooperation: The companies shall work towards sharing their existing energy use technologies that utilize oil and natural gas as fuels, and promote joint research and development of new technologies.

4. Issuance of New Shares via the Third-Party Allocation

Along with this alliance agreement, Teikoku Oil shall increase its capital via a third-party allocation of 39.93 million new shares (equivalent to 15% of its total shares

outstanding), which will all be purchased by Nippon Mitsubishi. This capital increase is scheduled to take place on March 14, 2000, assuming validity in compliance with the stipulations of the Securities and Exchange Law. Following this allocation, combined with the shares it already owns, Nippon Mitsubishi shall then own a total of 16.47% of Teikoku Oil's total shares outstanding, and thus become Teikoku Oil's largest shareholder.

Teikoku Oil intends to utilize the capital gained from this third-party allocation as operational funds for its domestic and overseas oil and natural gas exploration, development, production, transport, and sales businesses, beginning with the advance of its overseas oil and gas businesses and the expansion of its domestic natural gas infrastructure.

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