

Changes in the Management Environment

As an upward trend continued, oil prices hit record levels.
Demand for petroleum products in Japan remained strong in 2005.

Strong economic growth achieved by China and other BRICs countries contributed to a steady performance of the global economy as well as to a rise in demand for crude oil in 2005. In addition, damage to the U.S. oil refinery operations on the Gulf Coast in late August resulted in a further rise in crude oil prices, and this upward trend propelled crude oil to record price levels during the term under review.

Regarding recent exchange rate movements, the dollar began 2005 at the ¥102 level. Amid forecasts of successive interest-rate hikes in the U.S., the dollar continued to strengthen against the yen, except for a short, temporary decline, after which the dollar again appreciated against the yen, fueled by strong demand for the U.S. currency. The dollar finished the year at the ¥118 yen level.

In the Japanese market, rising crude oil prices and the growing demand for petroleum products amid the unusually cold winter temperatures forced prices to surge in the first quarter (January-March). This was followed by a temporary easing, but from the latter half of the second quarter, prices again began increasing until the end of the third quarter, resulting in a nearly across-the-board price hike for all grades of oil. In the fourth quarter, gasoline prices decreased. In contrast, kerosene and grade A fuel oil, used as fuels for heaters, surged in response to a severe cold wave. Although it was quite difficult to raise sales prices quickly enough to pass on to our customers the higher price of crude oil, we managed to implement price hikes.

