

memorandum for a business integration

Nippon Oil Corporation (Headquarters: Minato Ward, Tokyo; President: Shinji Nishio) and Kyushu Oil Co., Ltd. (Headquarters: Chiyoda Ward, Tokyo; President: Makoto Kihara) signed a memorandum of understanding on March 18, 2008, to enter talks to prepare for a business integration, as is explained below. This move is aimed at strengthening the corporate foundation and domestic competitive positions of the two companies and at supporting growth in their exports of petrochemical and petroleum products to the rapidly expanding economies of the Asia-Pacific region.

Notes

1. Concluded a memorandum of understanding on March 18, 2008

2. Regarding the management integration

- (1) Nippon Oil and Kyushu Oil are to hold discussions to prepare for a business integration.
- (2) The specific method of the business integration as well as the form and value of compensation that shareholders of Kyushu Oil will receive in exchange for their shares will be determined once the aforementioned discussions have been concluded.
- (3) The management integration is scheduled for October 1, 2008.
- (4) The Integration Preparation Committee (IPC) composed of officers and employees from each company is to be set up, along with various subcommittees working under the IPC.

3. Rationale for the business integration

Rising fuel costs stemming from the surge in crude oil prices over the past several years as well as declining domestic demand for fuel oil due to conversion to alternatives and energy conservation efforts have made it imperative for the domestic oil industry to undertake sweeping structural reforms.

There has been concurrent, steady growth in demand for petrochemical and petroleum products throughout the Asia-Pacific region, and we think there will be an increasing number of business opportunities in the region going forward.

Sharing common perceptions about the business environment, Nippon Oil and Kyushu Oil will study specific ways to prepare for a business integration aimed at extending their alliance beyond their existing relationship.

4. Purpose of the business integration

- (1) Concerning their domestic operations, the companies will work together to integrate and streamline their supply chain functions from crude oil procurement and transportation to refining and distribution. Through these endeavors, the companies aim to realize synergies and bolster their competitive positions.

Most of all, in refining, the key objective will be to reinforce the competitiveness of Kyushu Oil's Oita Refinery. The two companies will also work to promote the adoption of best practices at each other's refineries; study ways to add greater value to their products through more effective use of heavy oils and a chemical refinery integration strategy; and work together to attain the goal of becoming one of Japan's top refiners. In domestic sales, the two companies will rationalize and streamline their sales subsidiaries and strive to bolster their competitiveness by optimizing the scale and geographical footprint of their service station networks.

- (2) In overseas operations, for the purpose of expanding their operations in the Asia-Pacific region, the two companies will strive to make the most effective use possible of the infrastructure facilities necessary for exporting petrochemicals and petroleum products to achieve greater flexibility in expanding their export volume.

In petrochemicals, the consolidation of facilities will result in paraxylene production capacity of 1.6 million metric tons per year. The companies will seek to use this capacity to raise their presence in Asian markets going forward.

For further information concerning this matter, please contact:

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[Supplementary Information]  [Basic Facts about Nippon Oil and Kyushu Oil\(PDF:18KB\)](#)