

Fourth Medium-Term Consolidated Management Plan 2008-2010 “Challenge for Change”

Nippon Oil Corporation (President: Mr. Shinji Nishio) announced its Fourth Medium-Term Consolidated Management Plan, a three-year business plan for the 2008-2010 fiscal years.

1. The Fourth Medium-Term Consolidated Management Plan

The previous Third Medium-Term Consolidated Management Plan implemented during fiscal 2005-2007 focused on developing the Company's growth strategy by generating cash flows in the core Refining and Marketing as well as Oil and Natural Gas Exploration and Production (E&P) businesses. It also focused on establishing an “integrated system” and a “comprehensive energy company group framework.” During the period covered by the plan, the business environment changed more dramatically than anticipated on several fronts, including the decline in domestic demand for petroleum products and sharply higher crude oil prices. The Fourth Medium-Term Consolidated Management Plan is a medium-term strategy designed to lay a firm base for the future in an increasingly adverse business environment. Under the slogan “Challenge for Change,” the three-year plan sets a course for “structural reform of existing businesses and reinforcing foundations for new business.”

The plan prioritizes reforming the business structure to enable a quick response to changes in the business environment and reestablishing the Refining and Marketing business. In addition, the plan advances the Company's strategy for long-term growth through the steady expansion of the Oil and Natural Gas E&P business and by strengthening business overseas and in new technology fields. The plan also promotes environmental management by setting specific environmental targets as the base of the Company's business activities.

2. Financial Targets and Environmental Targets

The Fourth Medium-Term Consolidated Management Plan sets the following financial and environmental targets.

(1) Financial Targets

The fourth management plan aims at achieving ¥200 billion in consolidated ordinary income (excluding inventory valuation factors) and a consolidated ROE of 8% by the end of fiscal 2010.

(2) Environmental Targets

While the Company has ardently promoted a wide variety of environmental measures in each of its medium-term environmental management plans, the fourth management plan establishes a new set of environmental targets reflecting the growing urgency to aggressively address environmental concerns.

One of the plan's key environmental targets is to reduce the Company's specific energy consumption (the amount of energy used per volume of oil converted by the crude distillation unit) to 20% less than the fiscal 1990 level by fiscal 2010.

In addition to reducing CO² at the oil refining stage, we will continue to proactively engage in practices and activities that contribute to resolving environmental issues, such as offering eco-friendly products, promoting power production using clean energy natural gas, and activating the Clean Development Mechanism (CDM) for the recovery and utilization of associated gas from the Rang Dong oil field in Vietnam.

3. Profit Distribution Policy

The fourth management plan sets an annual dividend distribution of ¥20 per share beginning in fiscal 2008 and recommits the Company to further enhancing profit distribution to each shareholder and establishing a stable dividend rate unaffected by short-term fluctuations in earnings. The plan aims to establish a dividend rate of above a 2% dividend on equity ratio (DOE).

4. Capital Expenditure Program

The fourth management plan allocates total capital expenditure of ¥850 billion for the three years of the plan to lay the foundation for the growth strategy. Investment will prioritize strategic areas with particular focus on expanding the Oil and Natural Gas E&P business and enhancing the competitiveness of the Refining and Marketing business. While raising the ratio of these operations in our overall business, the plan seeks to limit general overhead spending, such as for refinery maintenance and repair, through selective and focused investment.

5. Priority Topics and Policies

Resolve Short-Term Issues	(1) Reestablish the Refining and Marketing business
Activate Medium- and Long-Term Growth Strategies	(2) Steadily expand the Oil and Natural Gas E&P business (3) Leverage alliances to strengthen overseas business (4) Promote new technology-based businesses

(1) Reestablish the Refining and Marketing business

The first step to reestablishing the Refining and Marketing business will be to substantially improve the profitability of the core domestic operations. Steps in this direction will include integrating business with Kyushu Oil Co., Ltd., making smooth progress converting Nihonkai Oil Co., Ltd.'s Toyama Refinery into an oil terminal, and realizing the maximum effects of the rationalization and streamlining of operations. We will also endeavor to raise competitiveness at the production level by minimizing equipment operating trouble at production bases and promoting the use of equipment and other methods to improve crude oil refining operations.

Focus will also be placed on increasing sales of our petroleum products while closely monitoring market trends both in Japan and overseas. There is little we can do to ameliorate the drop in domestic demand for petroleum products; however, we expect overseas demand, particularly elsewhere in Asia, to grow and will work to flexibly and aggressively expand petroleum product exports. In the domestic market, we will seek to build a more transparent and fair pricing system for petroleum products. In addition, we will revise and refocus our service station network and continue to promote the improvement of the high-value-added services offered at the service stations. We will also continue efforts to meet the full array of our customers' energy needs by supplying a diverse range of energy products, while aiming to expand sales of natural gas and LNG as well as to strengthen the electric power supply and coal businesses.

(2) Steadily expand the Oil and Natural Gas E&P business

The Oil and Natural Gas E&P business is key to our growth strategy. The fourth management plan outlines continuing business development in the four core regions of the U.S. Gulf of Mexico, the U.K. North Sea, Southeast Asia, and Oceania, with the aim of establishing a production system generating 70,000 barrels per day (BD). Our long-term vision is to continue expanding the operation to achieve a production volume of 200,000 BD by fiscal 2015, and the Fourth management plan elevates our investment in exploration and development to reach that goal.

We will also seek to identify and acquire superior product assets and continue to closely examine profitability, the investment risk-return balance, and other factors, including the ongoing high cost of crude oil, when purchasing assets.

(3) Leverage alliances to strengthen overseas business

We will strengthen our operations targeting overseas markets with a particular focus on the expanding Asia market.

While continuing to fully leverage our strategic alliances with South Korea's SK Energy and the China National Petroleum Company (CNPC) group, we will expand facilities at production bases in Japan and overseas as well as bolster our international marketing network to increase exports of fuel oil and sales of petrochemicals. In addition, in the lubricants business, we will steadily strengthen the overseas manufacturing and marketing systems and seek to gain further market penetration for the ENEOS brand. We will also continue aggressively promoting our proprietary refining processes, catalysts, and other technologies developed in-house.

(4) Promote new technology-based businesses

We will fortify our R&D system aiming to continue to make solid advances in fuel cell and other new technology businesses, with the aim of ensuring ongoing Company development in the future.

The Company continues to make significant advances developing fuel cell batteries utilizing hydrogen refining and catalyst

technologies developed for our petroleum refinement processes and is a world leader in the field of residential-use stationary fuel cell systems. Cultivating this business will add a key resource for ensuring the Company's long-term business growth, and we are progressing toward commencing the mass production of residential-use stationary fuel cell systems by speeding up our fuel cell developmental activities, enhancing fuel cell system performance and reliability, and optimizing fuel cell manufacturing efficiency to reduce production costs. We are advancing these activities with increased urgency in light of the current conditions of high crude oil prices, dwindling domestic demand for petroleum products, and environmental issues.

We are also continuing to develop business from our ongoing research of solar power generation systems, which includes the development of a combined fuel cell and solar power generation system. Fuel cells are at the core of our home energy strategy, and we are exploring ways to construct a business model for providing comprehensive solutions and sales of home energy equipment with low environmental impact. In addition, we are focusing R&D resources in fields where we can best apply our technological strength and will continue to accelerate R&D to bring promising products to market.

The Fourth Medium-Term Consolidated Management Plan provides a clear framework for "structural reform of existing businesses and reinforcing foundations for new business" to guide the Company through the currently harsh business environment and set a course for sustainable growth into the future as a consummate energy company.