Basic Policy for the Fourth Consolidated Medium-Term Management Plan (for Fiscal Years 2010-2012)

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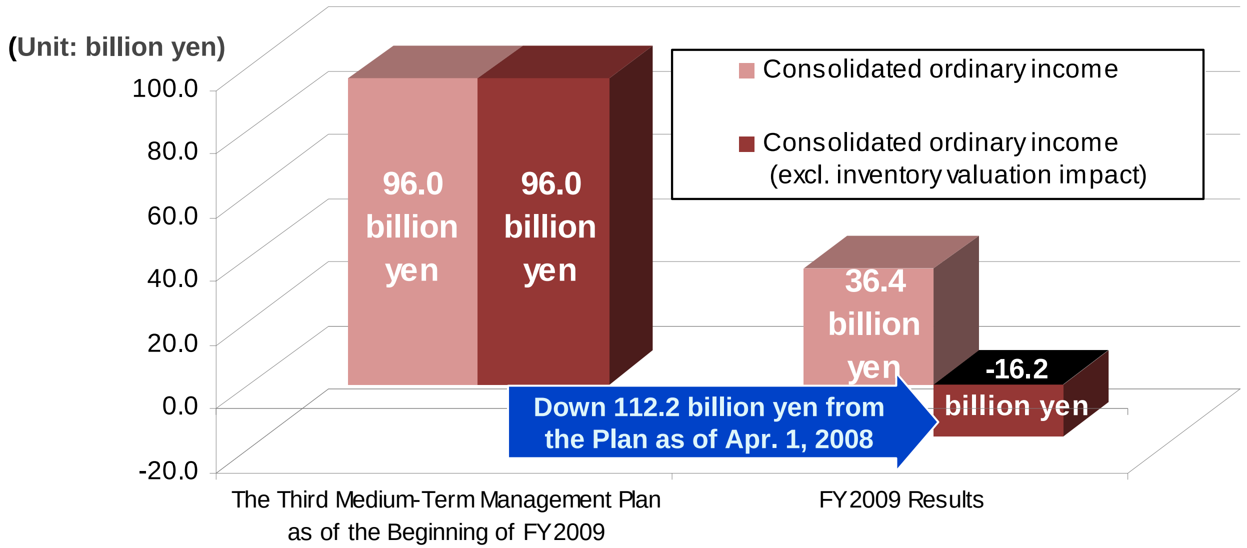
[The 3rd Medium-Term Management Plan] Review of FY2008-2009

Business Environment

- Crude oil prices moved from "wild fluctuations" to "hovering at a high level."
- Stagnancy in overseas oil demand due to global economic recession and accelerated reduction in demand in Japan
- Sluggish oil product market in Japan



Review of the Third Medium-Term Management Plan

- Inability of securing appropriate margins got the Plan's earnings goals unmet and the Company's financial position aggravated.
- Made steady investments to provide "solutions to the issues" and "strategic moves for further growth"

Oil refining and marketing business	・Completion of the new coker facilities ・Completion of the export business infrastructure ・Reduction in published refinery capacity (down 80,000 BD) ・Increased quality market share
Petrochemical business	・Established a new para-xylene (PX) business joint venture with Hyundai Oilbank
Oil E & P business	・Investment for stable crude oil production

[The 4th Medium-Term Management Plan]
Business Environment Recognition and Basic Policy, and Goal Vision

Business Environment Recognition

■ <u>Global economy shifting toward moderate improvement ⇒ Crude oil prices increasing and hovering high</u>

<Global> Expected recovery in the oil and petrochemical product demand led by China
NB. IEA global oil demand forecast for FY 2010 = +2.0% (from 2009)

<Japan> Lower demand for oil products and acceleration in structural changes in the demand (higher demand for light distillate products)

<Industry> Trends of “oil product pricing formula revisions” and “refinery capacity reductions”

Basic Policy of the Fourth Medium-Term Management Plan

1. The oil refining and marketing business to return to profitability ⬅ “Rationalization” and “securing appropriate margins”
2. Increase the portfolio of petrochemical and oil exploration and production businesses ⬅ “Promotion of the mid-to-long-term growth strategy”

Vision of the Fourth Medium-Term Management Plan: Goals

“Establish the business base toward sustainable growth” (Goal for consolidated ordinary income for FY2012: 65 billion yen)
“Re-enhance the financial base” (Goal of net debt-to-equity (D/E) ratio as of the end of FY2012: 1.3 times)

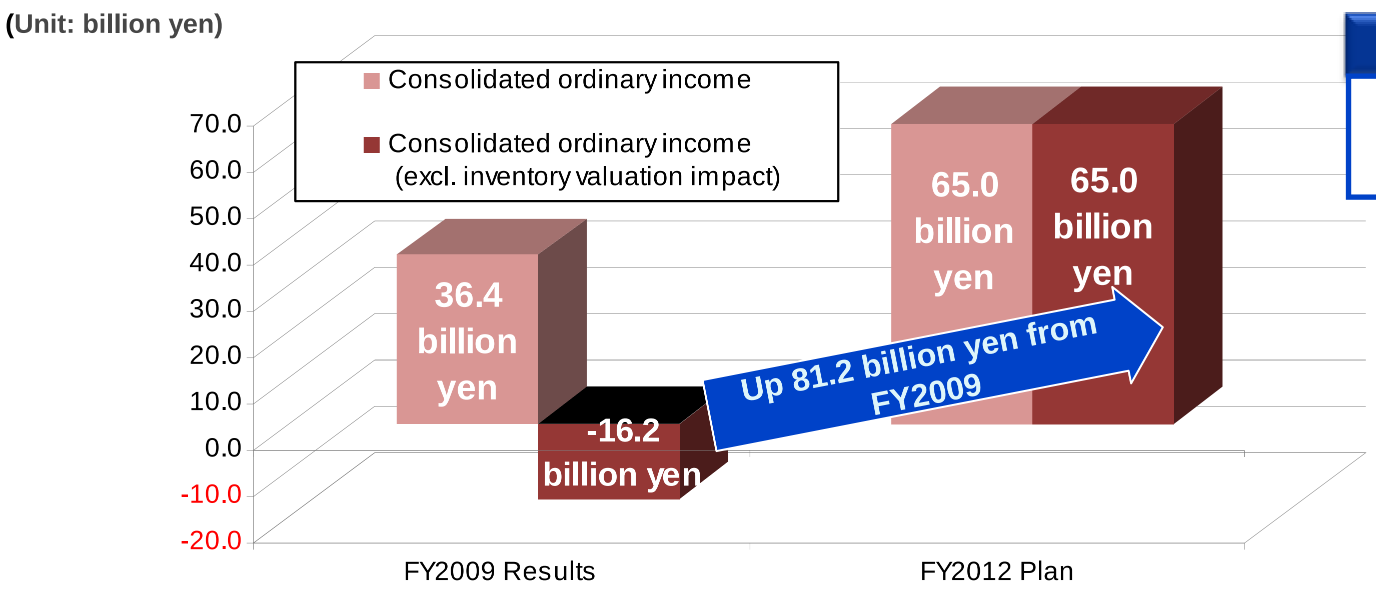
[The 4th Medium-Term Management Plan] Vision

*MX＝Mixed xylene
*PX＝Paraxylene

Investments necessary for making **"strategic moves for further growth"** were executed in the 3rd Medium-Term Management Plan.
In the 4th Medium-Term Management Plan, the Company will make the maximum use of results built up so far and promote the rationalization of operations at the same time, while continuing to invest in the petrochemical and oil exploration and production businesses, thereby **"establishing its business base"** and **"re-enhancing its financial base."**
Keeping further collaboration with IPIC in view, the Company will also aim at **"maximizing its corporate values."**

	The 3rd medium-term management plan "Strategic moves for further growth"	The 4th medium-term management plan "The oil refining and marketing business to return to profitability" "Increase the portfolio of petrochemical and oil exploration and production businesses"		Vision of the fourth medium-term management plan: goals "establishing its business base" "re-enhancing its financial base"
Oil refining and marketing business	Build the coker facilities Improve the export business infrastructure	Maximize the use of the coker, diesel fuel hydrodesulfurization unit	Rationalization and cost reduction	**Establish the business base through the core businesses** Keep the refineries more competitive by maximizing the use of the coker facilities and a shift toward petrochemical businesses
Petrochemical business	Establish a PX joint venture	Establish new MX manufacturing facilities	Start building new PX manufacturing facilities	
Oil E & P business		Extension of the term for the Company's interest in oil exploration and production in Abu Dhabi under negotiations		Maximize relations with oil producing countries to increase the oil E & P business portfolio
Environmental and new energy businesses	ALA, wind power generation, solar power generation, concentrated solar power (CSP) generation		Commercialization promotion	Diversify environmental and new energy businesses
IPIC	Overseas business development			

[The 4th Medium-Term Management Plan] FY2012 Earnings and Financial Goals



Assumptions (FY2010-12)

Crude oil price: USD75/bbl
Exchange rate: 90 yen/USD

Segment-Specific Improvement Plans (FY2012 vs. FY2009)

Oil refining and marketing business
83.2billion yen (-48.2 billion yen ⇒35.0 billion yen)
* (out of which above 25.0 billion yen is to be improved through rationalization)

Petrochemical business -0.9 billion yen (4.9 billion yen ⇒4.0 billion yen)

Oil E & P business -5.4 billion yen (29.4 billion yen ⇒24.0 billion yen)

Other 4.3 billion yen (-2.3 billion yen ⇒2.0 billion yen)

Total 81.2 billion yen (-16.2 billion yen ⇒65.0 billion yen)

Management Goals (FY2012 vs. FY2009)

	FY2009 Results	FY2012 Goal	Change from FY2009
ROE (%)	-3.3%	9.1%	Improved by 12.5 points
Net worth ratio (%)	19.2%	25.4%	Improved by 5.6 points
Debt-to-equity (D/E) ratio (times)	2.5	1.6	Improved by 0.9 points
Net D/E ratio (times)	1.7	1.3	Improved by 0.4 points

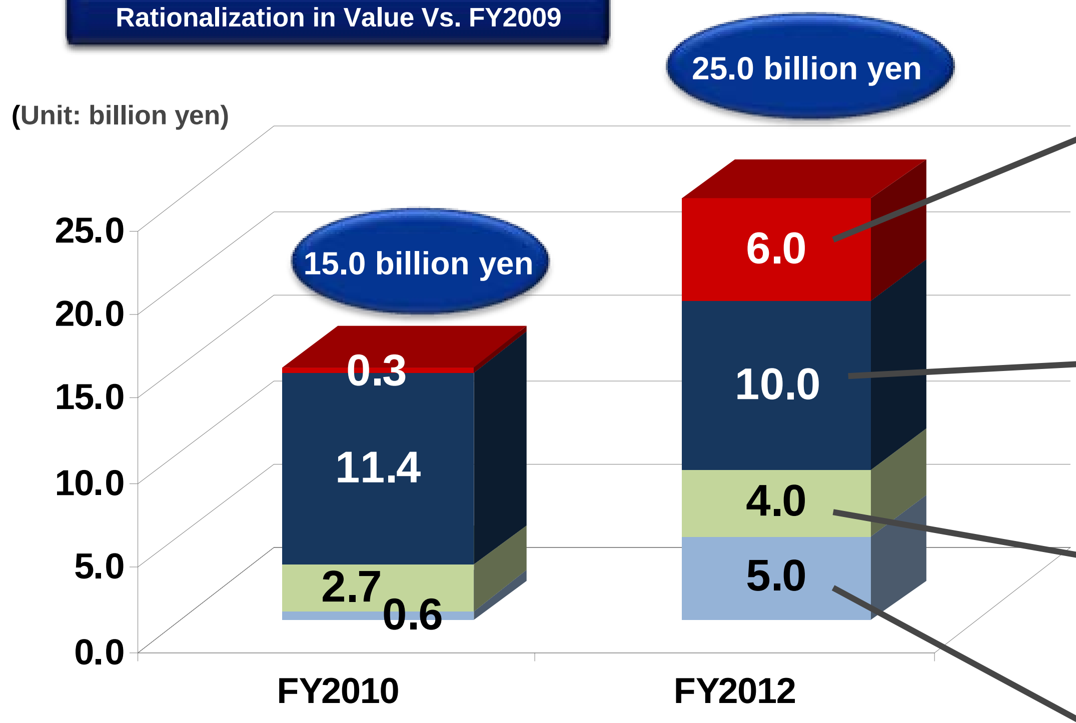
[The 4th Medium-Term Management Plan] Basic Policy 1. Get the Oil Refining and Marketing Business to Return to Profitability (through Rationalization)

Rationalization Plan

Policy

■ Reduce costs by rationalizing operations toward establishing the business base:
⇒ Right-sizing of the employee
⇒ Keep a good balance between “safe operations” and “repair and maintenance cost reduction”

Rationalization in Value Vs. FY2009



■ Right-sizing of the employee
- Attritions through compulsory retirement
- Use of the re-employment after compulsory retirement system
- Clamp-down on new hiring
- Cosmo Oil Group: Total 4,500 employees ⇒ Total 4,000 employees

■ Repair and maintenance cost reduction:
- Maintenance optimization
- Repair and maintenance cost reductions by suspended operations of facilities
- Reduction in regular maintenance expenses

■ Rationalization at the marketing department, etc.:
- Reduction in SS facility rental and sales promotion costs
- Logistic efficiency improvement

■ Rationalization at overhead cost administration and affiliates:
- Reduction in advertising and publicity and other controllable costs

Note: A reduction in repair and maintenance cost in FY2012 vs. FY2010 is estimated to be smaller due to an anticipated increase in regular maintenance cost for FY2012.

[The 4th Medium-Term Management Plan] Cash Flow Balance Forecast (FY2010-12)

Cash Flow Balance Forecast

Cash Outflow Policy

- Stable return of profits to shareholders (in the form of dividends)
- Strict selections of projects for investments and loans to reduce interest-bearing debts

Cash Inflows 290.0 billion yen	Profits 100.0 billion yen	Depreciation expenses 190.0 billion yen	
Cash Outflows 290.0 billion yen	Dividends 20.0 billion yen	Investments and loans 180.0 billion yen	Reduction in interest-bearing debts, etc. 90.0 billion yen

Notes:
1) The dividend is assumed to be 8 yen per year
2) Reduction in interest-bearing debts: 60 billion yen; Timing difference in gasoline tax payments: 30 billion yen

[The 4th Medium-Term Management Plan] Investment Plan (FY2010-12)

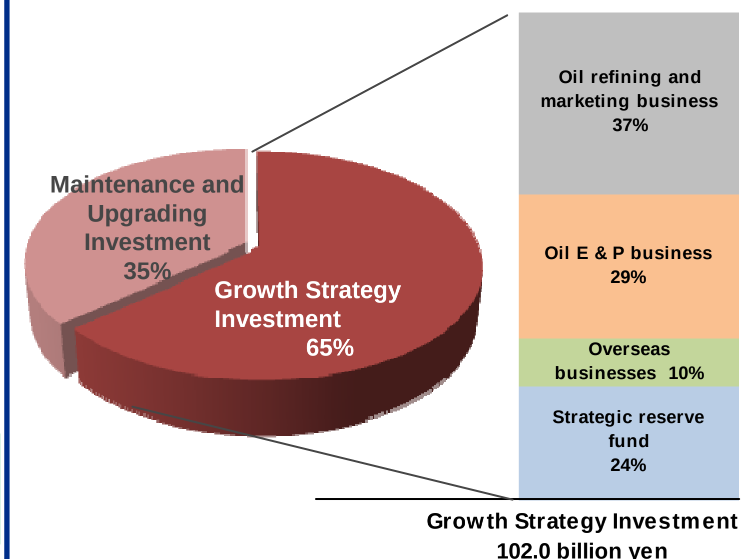
Investment Policy

- Direct about 65% of the total investment budget to growth strategy investment projects
- Make strict selection of growth strategy investments in the oil refining and marketing business, while expanding the portfolio of growth strategy investment projects for the oil exploration and production, and export oil and petrochemical businesses.

Breakdown of the Investment Plan

Growth Strategy Investment 102.0 billion yen	Oil refining and marketing business - New MX facility construction and self-service SS openings, etc.	38.0
	Oil E & P business - Increase in crude oil production in Qatar and Australia	30.0
	Overseas businesses - PX business expansion	10.0
	Strategic reserve fund - For additional growth strategy investment projects	24.0
Maintenance and Upgrading Investment	Oil refinery/SS repair and maintenance and up grading Stable production in existing oil development mining lots, etc.	58.0
Total (FY2010-12)		160.0

Investment Portfolio by Segment



Notes:
- The investment plan above does not consist with the cash outflow plan since it is developed on an acquisition basis.
- The "strategic reserve fund" will be used for new investment projects for the oil exploration and production business and overseas businesses.