

# Value Creation 21

Information for Analyst Meeting

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Nov. 20, 2002

Keiichiro Okabe

Chairman and Chief Executive Officer

Cosmo Oil Co., Ltd.

 **COSMO OIL CO., LTD.**

<http://www.cosmo-oil.co.jp>

# 1. Rationalization / “Value Creation 21” Management Plan

(Unit: ¥100mil.)

	FY2001 Actual	Fiscal Year 2002									Cumulative achievement from FY00	Original plan
		First Half Year			Second Half Year			Full Year				
		Plan	Actual	% Achievement	Plan	Forecast	% Achievement	Plan	Forecast	% Achievement		
<b>Rationalization</b>	70	19	19	100%	23	23	100%	42	42	100%	112	142
<b>Value creation</b>	81	54	44	81%	79	89	113%	133	133	100%	214	237
<b>Total</b>	<b>151</b>	<b>73</b>	<b>63</b>	<b>86%</b>	<b>102</b>	<b>112</b>	<b>110%</b>	<b>175</b>	<b>175</b>	<b>100%</b>	<b>326</b>	<b>380</b>
<b>Total (on an average year basis)</b>	151	95	82	86%	135	148	110%	230	230	100%	381	435
<b>Subsidiary results</b>	20	6	6	100%	7	7	100%	13	13	100%	33	30
<b>Brought forward from previous period</b>											35	35
<b>Reevaluated Total</b>	<b>171</b>	<b>101</b>	<b>88</b>	<b>87%</b>	<b>142</b>	<b>155</b>	<b>109%</b>	<b>243</b>	<b>243</b>	<b>100%</b>	<b>449</b>	<b>500</b>

\* Total figures shown in the upper section above are recognized in the income statement and total figures (on an average year basis) in the lower section are based on average year sales.

## 2. New Value Creation in Marketing

**Basic Strategy:**  
**Strengthen SS retail business through brand enhancement**  
**Enhance service station (SS) retailing business**

1. Deploy more **self-service SSs** addressing self-service needs



**New categorization of SSs:**

Self-Service & B-cle SS  
 Mid-Range Self SS  
 Self-Pure SS

2. Effort to the car care market



Deploy more **“B-cle”** car care convenience stores network

3. Acquire many excellent customers



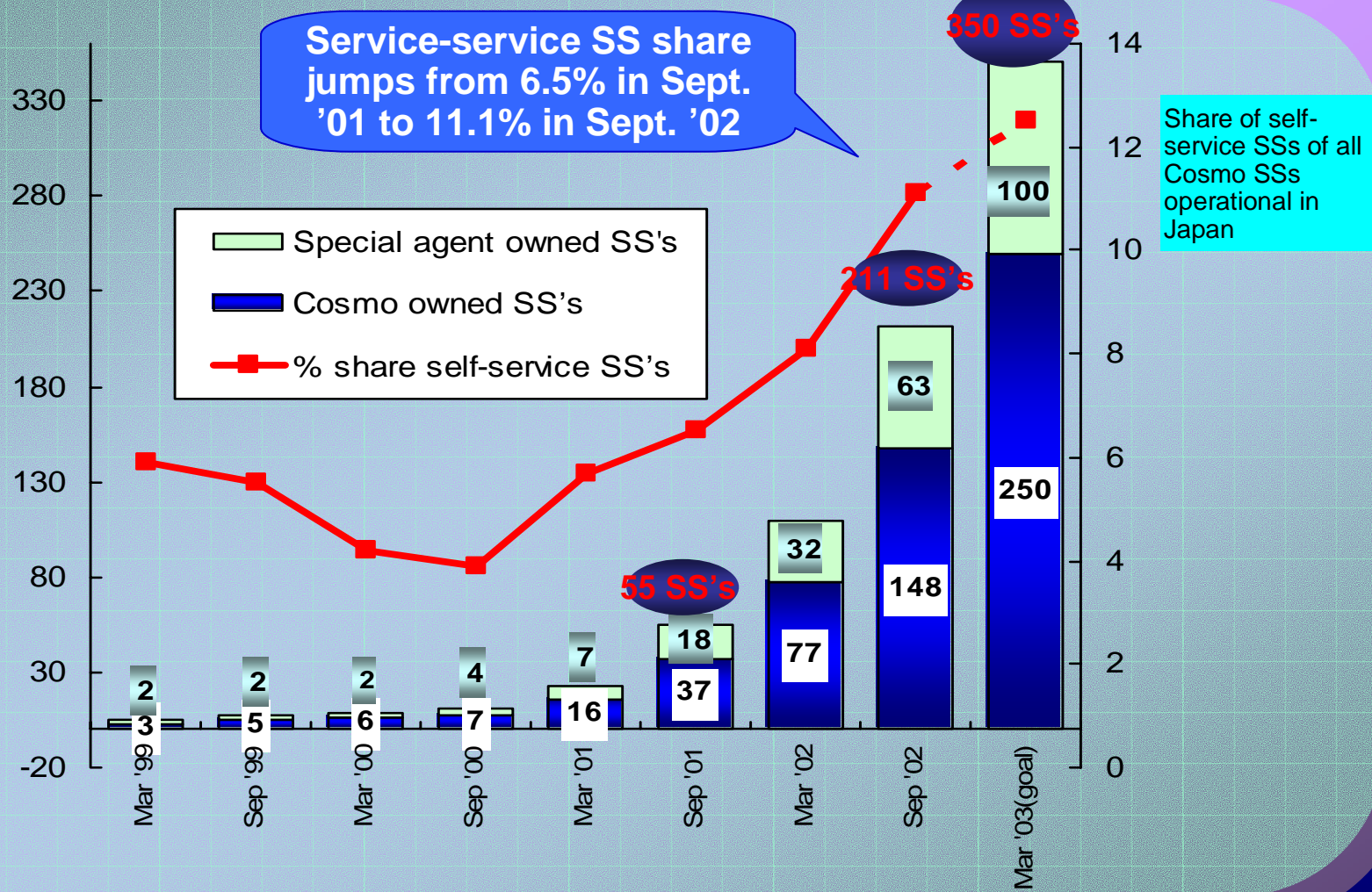
Promote issuance of **“Cosmo The Card”**  
**“Cosmo The Card Eco”** credit cards



**Increase retail profits = > Reform the distribution structure**

# (1) Address Self-Service Needs: Historical Changes in the Number of Self-Service SS's, March '99 - Sept. '02

Number of self-service SS's throughout Japan (as of September 30, 2002): About 1,900



Source: Nenryo Yushi Shimbun (Fuel & Oil Journal), Oil Information Center Japan, some information includes assumptions of the company

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## Sales of Cosmo Oil Self-Service SSs

Cosmo  
directly-run

Item	Unit	Self-service service stations				Ordinary full-service SSs
		B-cle	Pure	Other	Total	
No. of SSs		25	58	128	211	-
Automobile fuel sales in volume	(KL/month)	587	337	397	403	190
NV Index	-	4.2	7.1	8.9	7.7	8.3
F Index	(%)	117%	-	66%	77%	89%
Gross profit from car care business	1,000 yen/month	3,813	310	1,381	1,926	1,965
Share of card sales against total sales	(%)	48%	61%	35%	47%	26%

Notes: 1) Full-service SS sales represent sales by Value Creation Program participating SSs

2) Self-service total amounts in F Index and car care gross profit exclude achievements by Pure SSs, respectively.

3) The number of SSs above as of September 30, 2002

## (2) B-cle Car Care Convenience Store Operation Business Size of Car Care Service Market

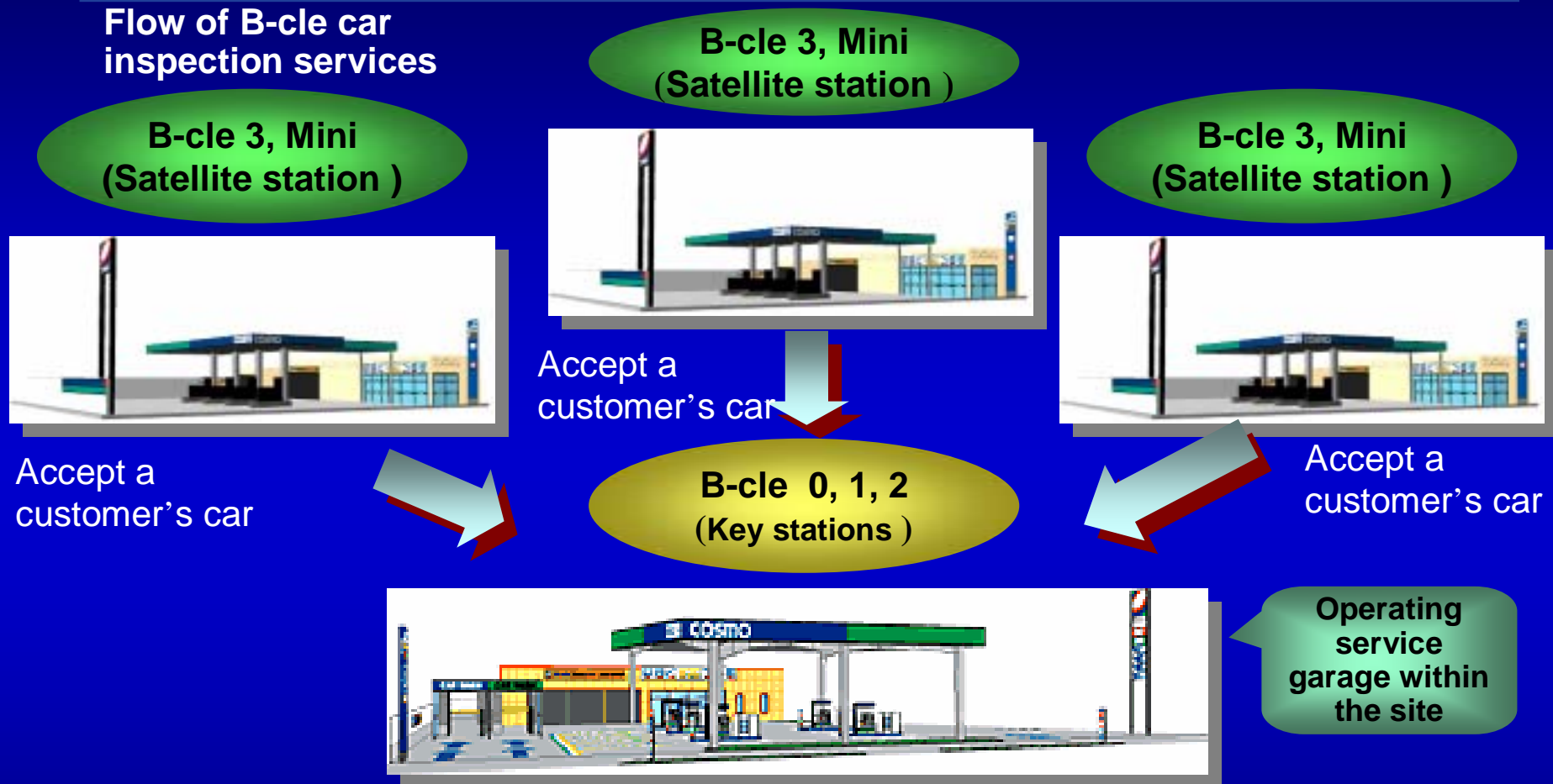
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	Product/service	Total sales (10 bil. yen)	Sales share (%)	Sales per car (yen)	Gross margin (%)	Gross profit per car		SS share (yen/L)	Sales share at SS (%)
						(yen)	(yen/L)		
Products/services handled by SSS	Car wash	35	3%	4,698	90%	4,228	5.8	1.8	32%
	Repair and maintenance for car inspection	286	28%	38,380	80%	30,704	41.8	1.0	3%
	Regular inspection & maintenance	38	4%	5,050	80%	4,040	5.5	0.1	3%
	Repair & maintenance	256	25%	34,340	80%	27,472	37.4	3.3	9%
	Tire	63	6%	8,507	15%	1,276	1.7	0.0	1%
	Oil change	30	3%	4,009	70%	2,806	3.8	1.2	32%
	Battery	13	1%	1,775	25%	444	0.6	0.0	0%
	Detailing	40	4%	5,369	90%	4,832	6.6	0.0	0%
	Total	761	75%	102,128	74%	75,802	103.1	7.5	7%
Not handled by SSS	Car audio (CD/MD, etc.)	26	3%						
	Car navigation/TV devices	5	0%						
	Sheet metal processing & coating	133	13%						
	Other	91	9%						
	Total	255	25%						
	Grand total	1,015	100%						

(Number of passenger car registered: 74.5 million; Refueling volume: 750 liters per year)

## (2) B-cle: Network for Car Inspection Services

Flow of B-cle car inspection services



Building a local B-cle network **centering on key stations to gain Cosmo's dominant presence** in each geographical area allows local SSs in the area to earn car care service revenues much more than what individual SSs could achieve on their own.

## B-cle SS Sales

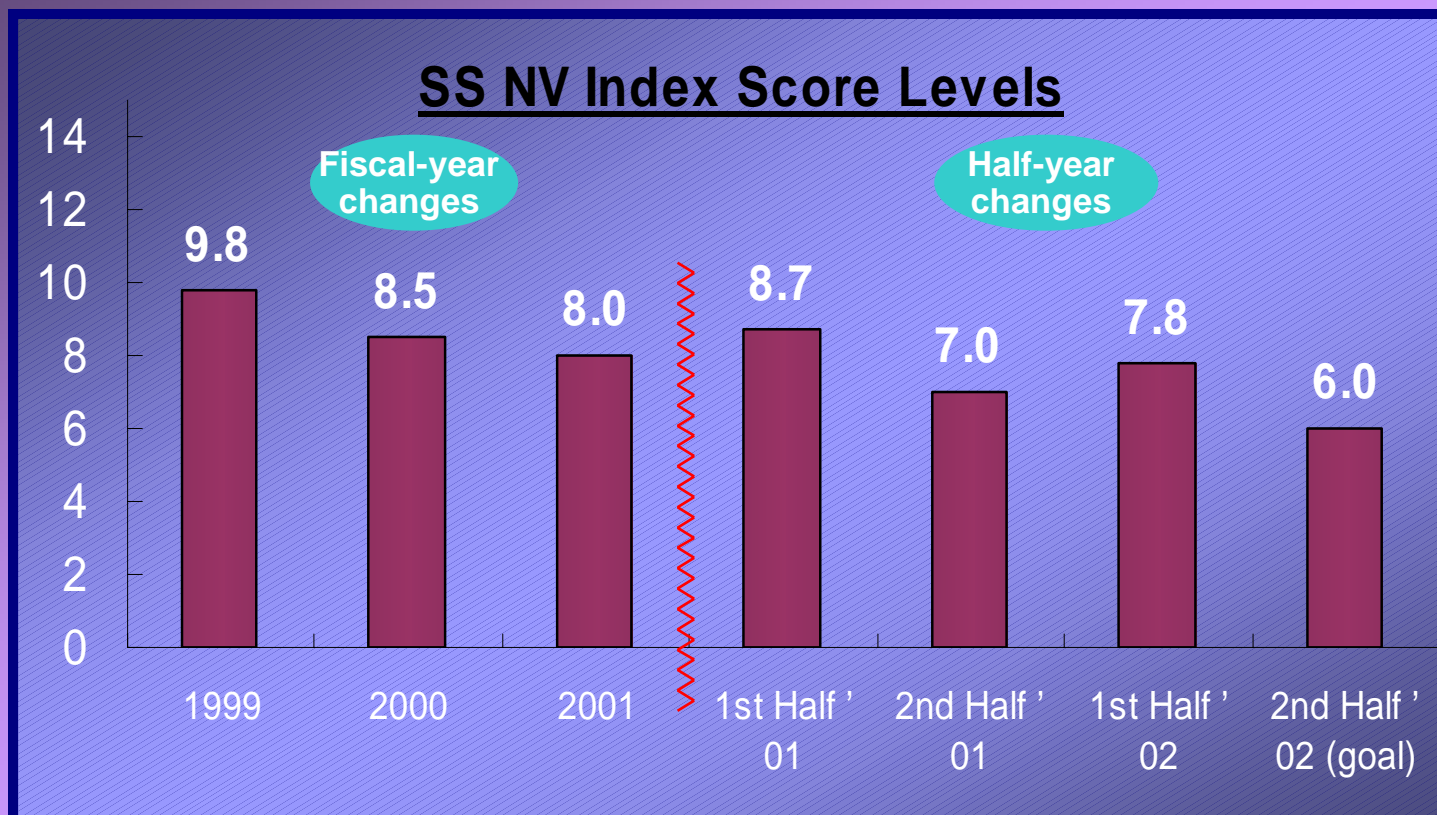
Item	Unit	Full-service SSs			
		B-cle (Key stations)	B-cle (Satellite stations)	B-cle (Total)	Ordinary SSs
No. of SSs		24	171	195	-
Automobile fuel sales in volume	(KL/month)	264	187	195	190
NV Index	-	6.7	6.5	6.6	8.3
F Index	(%)	129%	114%	116%	89%
Gross profit from car care business	(1,000 yen/month)	3,733	2,318	2,451	1,965
Share of card sales against total sales	(%)	39%	32%	33%	26%

Notes: 1) Full-service SS sales represent sales by Value Creation Program participating SSs

2) The number of SSs above as of September 30, 2002



### (3) Historical Changes in SS NV Index Score Levels

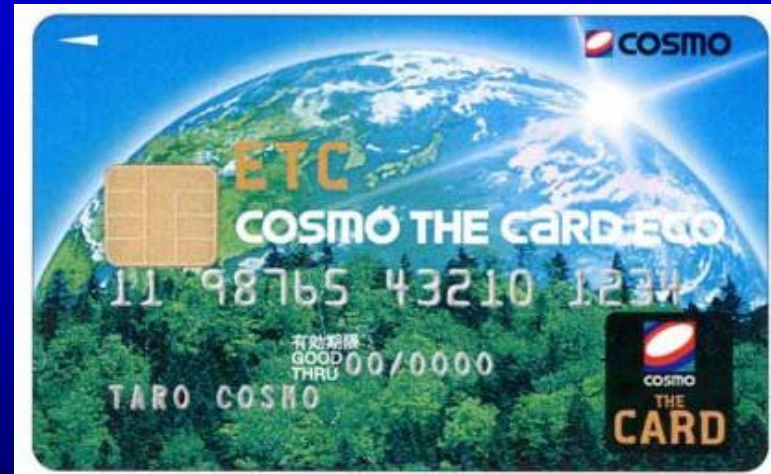


$$\text{SS NAVI Index} = \frac{\text{SS direct expenses} - (\text{Value add gross profit} + \text{gross profit of kerosene sales})}{\text{Automobile fuel sales volume (kl)}} \quad (\text{Unit: 1,000 yen})$$

## (4) "Cosmo The Card" Credit Card Business



Cosmo The Card

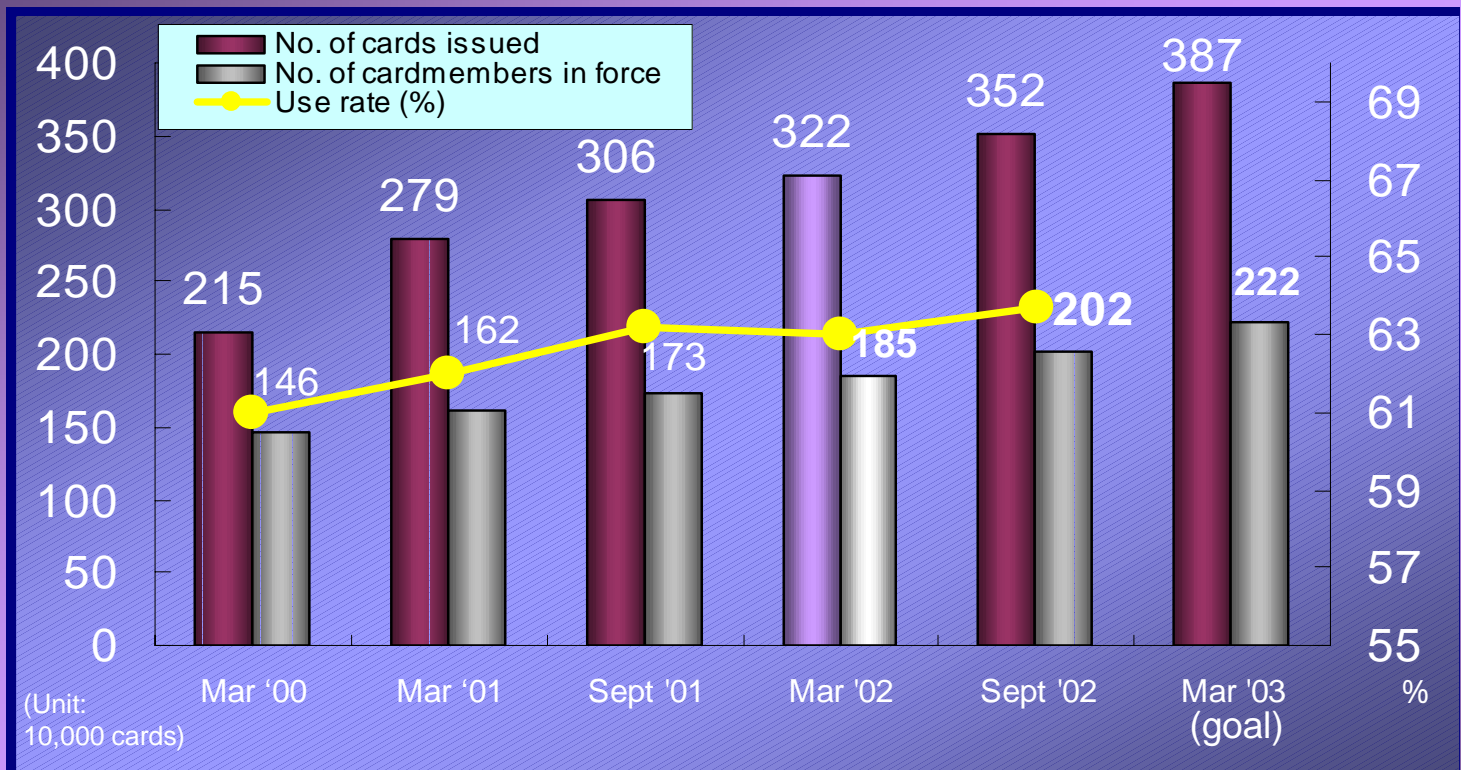


Cosmo The Card Eco

 **COSMO OIL CO., LTD.**

# (4) Cosmo The Card : Cards in Force and Cardmember Evaluation

## Cosmo The Card – Cards issued



### Evaluation of Cosmo The Card membership

	Cosmo The Card "Eco" cardmembers	Cosmo The Card cardmembers	Cash members
Monthly auto fuel purchase volume (L/month)	109.5	100.3	55.8
High-octane gasoline ratio (%)	31.8	22.4	17.9
Value creation (Yen/L)	18.1	11.0	7.2



# Analysis of the “Cosmo The Card” Business

## (Competitive Advantages of Cosmo The Card)

<p><b>Spot card issuance</b></p>	<p>· Cosmo’s house card that can address demands for simplified credit assessment and quick card issuance</p> <p>It has also developed the new “Quick Box” unmanned, automated card issuing machine.</p> <p><u>Immediate provisional card issuance scheme (including Quick Box use)</u></p> <p><u>Patent application filed for this business model</u></p>								
<p><b>Customer information</b></p>	<p>Customer purchase information gained on the card payment system is used for effective marketing planning.</p>								
<p><b>Unique value creation</b></p>	<p><b>Its unique services benefit its members:</b></p> <table border="0"> <tr> <td data-bbox="616 861 929 933"> <p>“Mileage” frequent customer program</p> </td> <td data-bbox="952 861 1870 957"> <p>A member can earn 1 mile per 200-yen-worth purchase of products other than fuel oil 1-liter-worth cash refund awarded per mile (or 10 yen per L)</p> </td> </tr> <tr> <td data-bbox="616 997 929 1069"> <p>ETC IC chip installation on the card</p> </td> <td data-bbox="952 997 1870 1085"> <p>ETC chips are installed on all Cosmo the Card Eco cards while they Are installed on Cosmo the Card house cards per cardholders’ request.</p> </td> </tr> <tr> <td data-bbox="616 1141 929 1181"> <p>Internet membership</p> </td> <td data-bbox="952 1117 1870 1181"> <p>An Internet member can earn miles from purchases on the shopping website.</p> </td> </tr> <tr> <td data-bbox="616 1236 929 1310"> <p>Consumer financing service</p> </td> <td data-bbox="952 1212 1870 1252"> <p>A small-amount loan service is also added to the card (as requested).</p> </td> </tr> </table>	<p>“Mileage” frequent customer program</p>	<p>A member can earn 1 mile per 200-yen-worth purchase of products other than fuel oil 1-liter-worth cash refund awarded per mile (or 10 yen per L)</p>	<p>ETC IC chip installation on the card</p>	<p>ETC chips are installed on all Cosmo the Card Eco cards while they Are installed on Cosmo the Card house cards per cardholders’ request.</p>	<p>Internet membership</p>	<p>An Internet member can earn miles from purchases on the shopping website.</p>	<p>Consumer financing service</p>	<p>A small-amount loan service is also added to the card (as requested).</p>
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## (4) Cosmo The Card



## Analysis of the "Cosmo The Card" Business - II

### {Share of "Cosmo The Card" sales of total gasoline sales }

		March '99	March '00	March '01	March '02	Sept '02
Monthly volume of motor gasoline sales with the card	(1,000 KI)	68	79	89	92	103
Total motor gasoline sales volume per month	(1,000 KI)	439	433	424	409	417
Share of card sales of total sales	(%)	15%	18%	21%	22%	<b>25%</b>

Notes: MG:Motor gasoline

### { "Cosmo The Card" as compared with cards issued by other companies }

	Number of cards			% share		
	House cards	Triple cards	Total	House cards	Triple cards	Total
<b>Cosmo</b>	304	18	322	48%	2%	24%
Japanese oil companies total	634	736	1,370	-	-	-

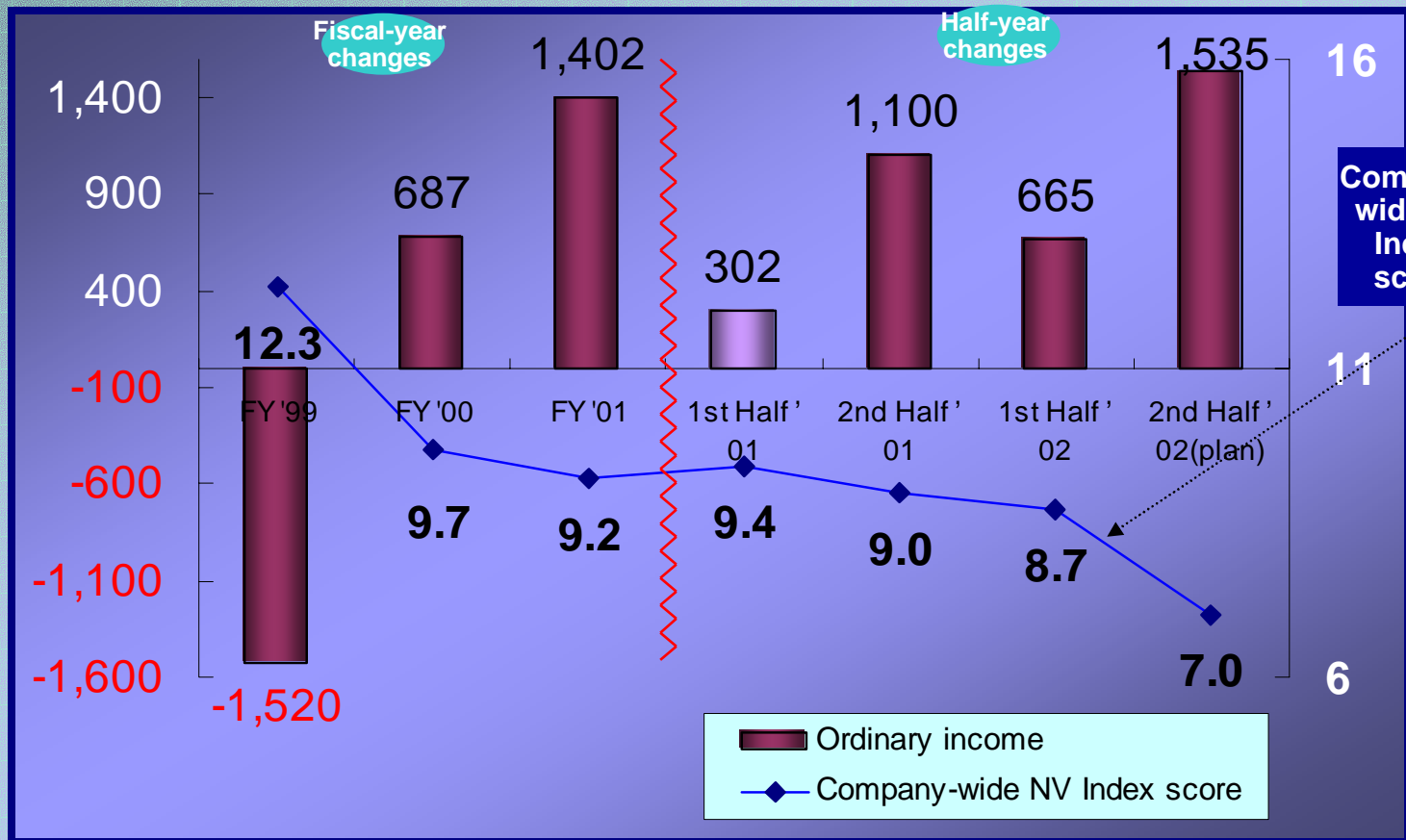
Notes: As of March-end 2002

(Unit: 10,000 cards)

Source: Monthly Gasoline Stand

# (5) Historical Changes in Operating Results of Cosmo Oil Services

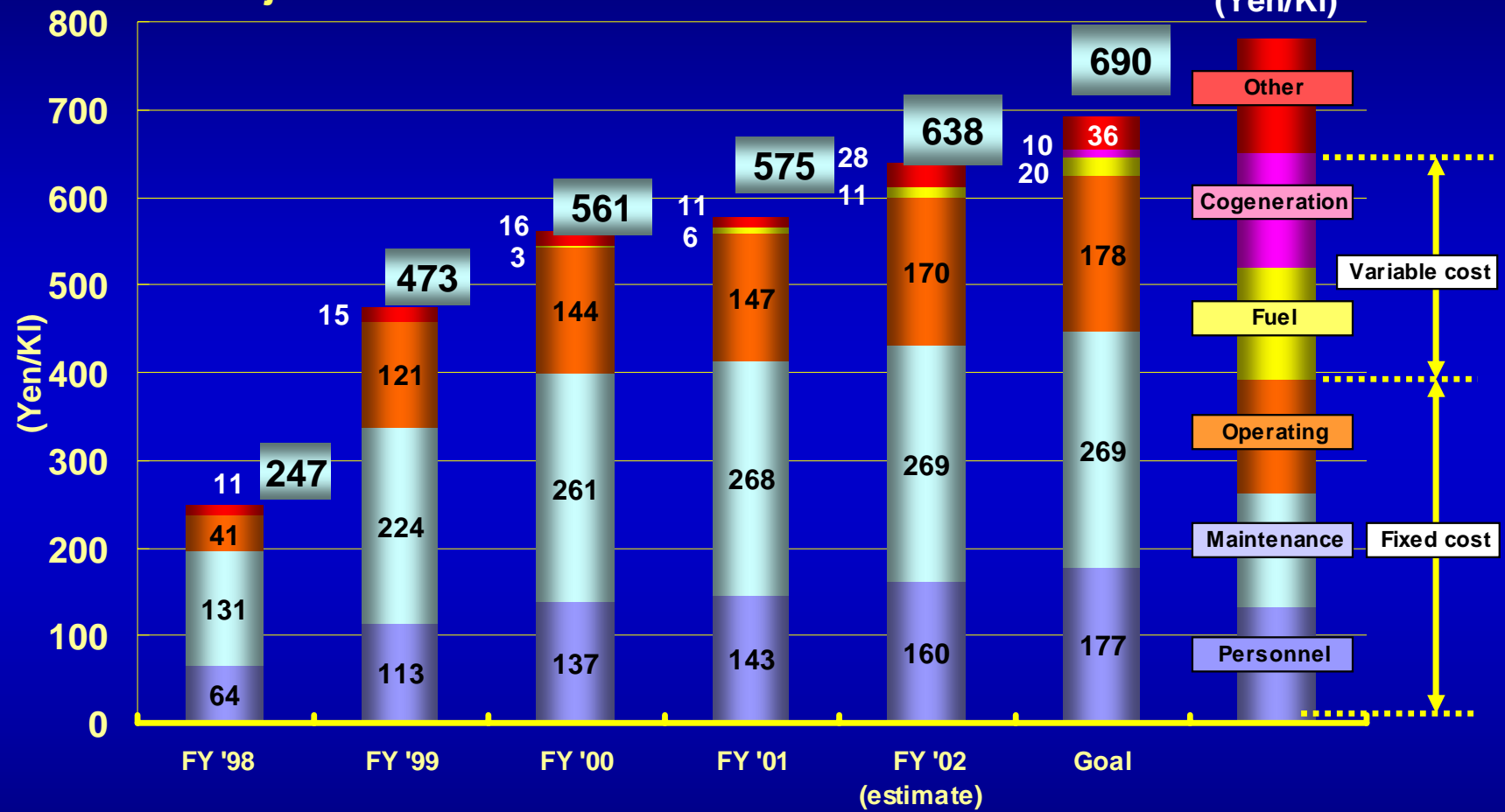
Ordinary income (Mil yen)



Company-wide NV Index score

### 3. Supply Department (1) Rationalization

700-Yen Project - Cumulative Unit Cost Reductions



Cumulative cost reduction	FY '98	FY '99	FY '00	FY '01	FY '02	Goal
	74	142	168	173	191	225 (¥100 Mil)





### 3. Supply Department (2) Value Creation – Supply Chain Management (SCM) Enhancement

16

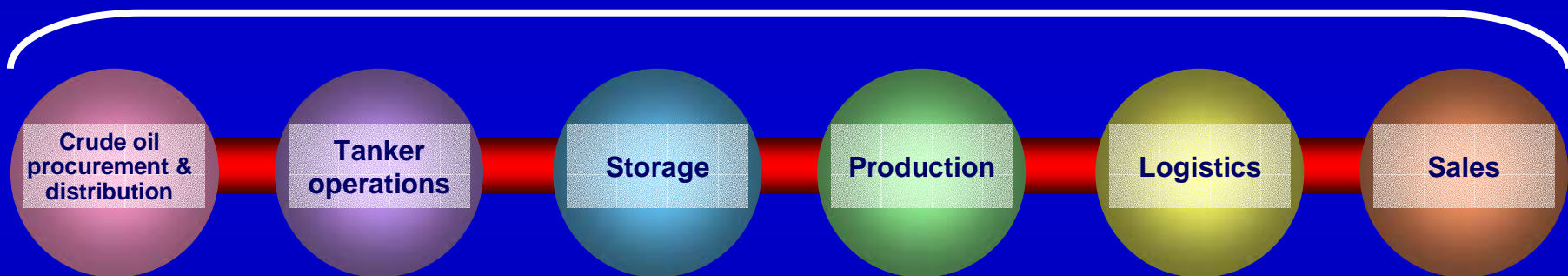
Optimize operations where  
necessary at respective  
departments



Implementation of an optimized  
operation system as a whole



Real-time information sharing +  
enhanced cooperation among departments



#### <Benefits gained through optimized operations>

1. Implement the best mix between product output and market input
2. Improve values added to production through the most effective use of refineries
3. Implement lower cost operations through optimized tanker operations, inventory management, and regional transportation.

#### <Competitive advantages in SCM>

1. Integration of production with marketing
2. Refineries located close to urban markets with huge consumption of oil products
3. Enable real-term information sharing in the SAP introduced environment

## 4. New Businesses

### Cancer treatment and high-performance fertilizer technical compound 5-(Aminolevulinic Acid) selling business

**Cosmo has established its unique technology to produce a technical compound for medicines and agricultural fertilizers at a lower cost and has now commercially launched the technical product in the medical and agricultural markets. (This production technology received the 1999 Japan Biotechnology Society Technical Award.)**

- 5-ALA – One of the amino acids within living organisms, playing an important role in metabolism
- Scope of application and commercialization – The product has been commercialized to manufacture cancer treatment and plant fertilizer products in the medical and agricultural markets.
- Features of the Cosmo technical production method –  
 Cosmo established a unique enzyme production method using bacteria, enabling high volume production of a high purity product at about one-tenth the cost of the conventional chemical synthetic method.  
**Conventional production method costing about ¥50,000 per gram    Cosmo production method only costing about ¥5,000 per gram**  
 The Cosmo method improves health and crop safety (as it enables production without using hazardous chemical compounds)
- Market valuation – The medical technical market is estimated at 10 billion yen or more.

### Simplified Dioxin measurement kit selling business

**Cosmo has developed and commercialized an innovative high-sensitive and low-density dioxin measurement kit.**

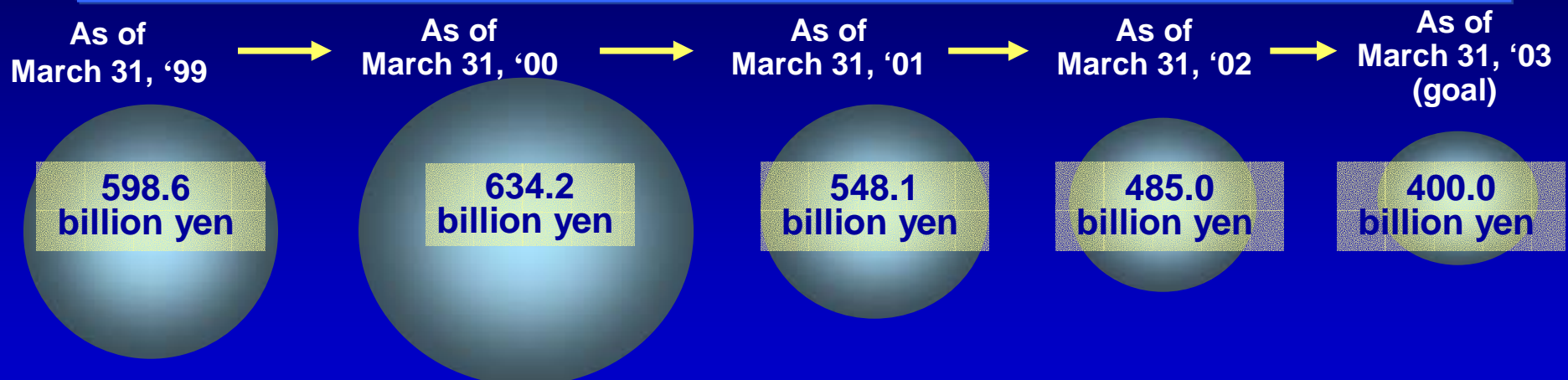
- Features of the Cosmo measurement method – Providing higher sensitivity and lower density detection than competitors' methods.

	Detectable density (pg)	Time required
Cosmo	0.5	3hr
Competitive Product 1	1	6hr
Competitive Product 2	50	40min
Competitive Product 3	200	2days

Notes: pg = picogram, or one-trillionth of 1 gram

- Market value – Simplified dioxin analysis market of about 300 million yen in 2001  
 The simplified dioxin measurement market is expected to further grow (as the simplified method is certified as a quasi official method)  
 About 8 times larger according to the forecast by Fuji-keizai Co., Ltd.  
 About 10 times larger according to the industry forecast hearing survey

# 5. Plan to Reduce Interest-Bearing Debts



## Asset liquidation, sales results and future plan

(Unit: ¥100mil.)

**< FY1999-2000 results >**

- Accelerated collection of accounts receivable due to shortened payment terms 200
- SS securitization 336
- Disposal of negotiable securities 53
- Sales of employee dormitories 62
- Sales of unused land after closure of distribution terminals (DTs) and SSs 279

} 930

**< FY2001 results >**

- Liquidation of accounts receivable 214
- Disposal of negotiable securities 64
- Sales of employee dormitories 39
- Sales of unused land after closure of DTs and SSs 40

} 357

**< FY2002 plan >**

- Liquidation of accounts receivable
- Disposal of negotiable securities
- Sales of employee dormitories
- Sales of Yokohama and Kobe sites
- Consider other asset liquidation

} 713

Plan: Gain 200 billion yen

## (Reference 1) Rationalization / Value Creation 21 Results by Department

(Unit: ¥100mil.)

	Department	FY2001 Actual	FY2002					Cumulative achievement from FY00	Original plan
			1st Half Actual	2nd Half Forecast	Full Year				
					Original plan	Forecast	Achievement		
Rationalization	Supply	10	8	15	23	23	100%	33	49
	Marketing	10	5	4	8	9	113%	19	20
	Logistics	40	4	1	4	5	125%	45	52
	Administration, etc.	10	2	3	7	5	71%	15	21
	Sub total	70	19	23	42	42	100%	112	142
Value creation	Supply	21	11	15	26	26	100%	47	39
	Marketing	60	33	74	107	107	100%	167	198
	Sub total	81	44	89	133	133	100%	214	237
<b>Total</b>	<b>151</b>	<b>63</b>	<b>112</b>	<b>175</b>	<b>175</b>	<b>100%</b>	<b>326</b>	<b>380</b>	
Total (on an average year basis)	151	82	148	230	230	100%	381	435	
Sales subsidiary results	20	6	7	13	13	100%	33	30	
Overachieved results brought over from previous year							35	35	
<b>Grand total</b>	<b>171</b>	<b>88</b>	<b>155</b>	<b>243</b>	<b>243</b>	<b>100%</b>	<b>449</b>	<b>500</b>	

## (Reference 2) Environmental Management

# Efforts to Aim at Becoming An Environmentally Advanced Company

- Promote company-wide efforts in accordance with the medium-term plan -

Cosmo recognizes the importance of corporate environmental stewardship.

- Global environmental issues looking more serious and obvious
- Social responsibility becoming more essential as part of corporate activities in addition to profit pursuit
- Entering an era in which companies active in environmentalism are increasingly selected while maintaining their financial balance.

### Positioning of environmentalism

- We at Cosmo promote environmental activities both inside and outside of our operating facilities under our environmental policy of creating new business opportunities (including new energy, natural gas and other alternative fuel) that will help increase our corporate values and create new additional values.

### Actions taken during the first half of Fiscal Year 2002:

- April 2002 –: Introduction of the “Blue Earth 21” medium-term environmental plan and a new environmental management organization
- April –: Introduction of the “Cosmo The Card ‘Eco’” to encourage cardmembers to participate in environmental contribution activities (46,000 cardmembers acquired as of mid-October 2002)
- September: Under its carbon dioxide emission contract with an Australian partner in June 2001, Cosmo exerted an option to acquire a right to emit 24,000 tons of CO<sub>2</sub>.
- Establishment of a company-wide organization dedicated to managing soil contamination issues to develop soil investigation, management and preventive plans for respective sites for execution.
- A variety of grass-roots environmental programs so far in place across the company, including paper resource reductions, waste classification, internal education.

