



PETROLEUM BUSINESS

As the production and sales division for petroleum products, we will promote world-class, stable operations and stable supply to customers.

Business Overview

In the petroleum business, Cosmo Oil, a core company of the Cosmo Energy Group, is mainly engaged in crude oil procurement, manufacturing, distribution, and importation and exportation of petroleum products. Cosmo Oil Marketing, which is also a core company, sells Group products, including petroleum products, to corporate and individual customers.

FY2019 Results and FY2020 Forecasts

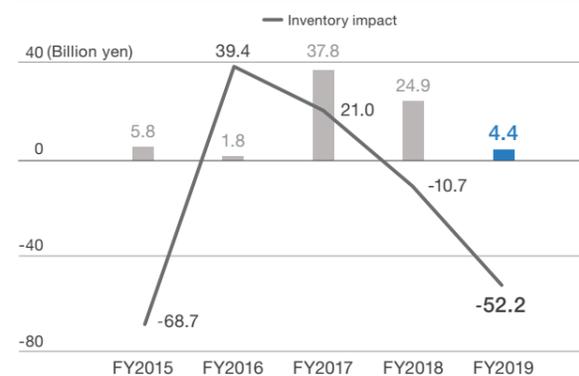
In FY2019, earnings were positively affected by the start of fuel supply to Kygnus Sekiyu and an improvement in low-sulfur C heavy oil market prices associated with the reinforcement of IMO regulations. However, owing to the impact of a negative time lag in oil product margins caused by a fall in crude oil prices and the deterioration of market prices other than the four major petroleum products, particularly naphtha and jet fuel, ordinary income excluding the impact of inventory valuation decreased by ¥20.5 billion from the previous year to ¥4.4 billion yen.

In FY2020, we expect ordinary income excluding the impact of inventory valuation to increase by ¥22.6 billion from the previous year to ¥27.0 billion, due to higher sales resulting from the expanded supply of fuel oil to Kygnus Sekiyu, the elimination of the impact of the time lag on petroleum product margins that occurred in the previous fiscal year, and the elimination of issues at refineries.

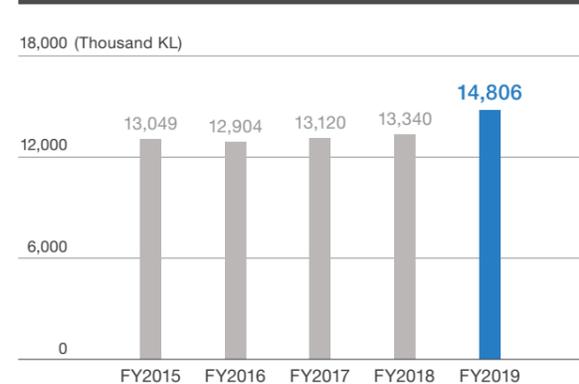
Ordinary income

FY2019 results	¥4.4billion (-¥20.5 billion year on year)
FY2020 forecast	-¥27.0billion (+¥22.6 billion year on year)

Ordinary income (excluding impact of inventory valuation)



Four product sales volume



*The four products are the main petroleum products (gasoline, kerosene, light oil, and type-A heavy oil).

Business strengths and strategies

Risks	Opportunities	Strengths
<ul style="list-style-type: none"> Risks related to crude oil prices and procurement Risks related to petroleum product prices and product demand Risks associated with quality issues, disasters and accidents 	<ul style="list-style-type: none"> Sulfur content restrictions for marine fuel due to strengthening of IMO regulations Expansion of supply to Kygnus amid declining demand Changes in customer trends such as cashless payments Acceleration of digital transformation due to COVID-19 impact 	<ul style="list-style-type: none"> Strengthening competitiveness in oil refining Addressing diversification of customer needs (reinforcing customer connections)

Main Group companies

Cosmo Oil, Cosmo Oil Marketing, Cosmo Oil Sales, Cosmo Oil Lubricants, Sogo Energy, Gyxis (equity-method affiliate), Kygnus Sekiyu (equity-method affiliate), etc.

Major assets (as of March 31, 2020)

Crude oil processing capacity*	Number of domestic SS	Number of Cosmo the Card holders	Car leasing
400,000 BD Domestic share: Approx. 11.4%	Number of service stations (SS) 2,755	Approx. 4.21 million	Cumulative total: 73,634 contracts

*Including the supply of petroleum product/semi product (37,000 barrels/day equivalent) from Idemitsu Showa Shell Group based on the business alliance

Business strategies

In the petroleum business, we recognize the following risks: The risk of fluctuation in crude oil prices due to trends in supply and demand, the risk of impact on crude oil procurement due to political instability surrounding oil-producing countries in the Middle East, the risk of fluctuation in petroleum product prices and product demand caused by trends in demand from general consumers, risks related to products and services of the Cosmo Energy Group, and the risk of accidents at refineries and gas stations. In addition, it is possible that the decline in petroleum product demand will accelerate due to the impact of the COVID-19 pandemic.

On the other hand, the following opportunities exist in the business environment. In the case of oil refining, low-sulfur C heavy oil market prices are expected to improve due to the strengthening of IMO regulations and the Cosmo Energy Group will be able to maintain sales volume at the same level as the previous fiscal year due to increased supply to Kygnus Sekiyu. In the case of petroleum sales, there are changes in consumer trends, such as an increase in cashless payments among general consumers and the acceleration of the digital transformation due to the impact of the COVID-19 pandemic.

One of the strengths of the Group, in the case of oil refining, is our

establishment of a bottomless refinery system by strengthening Sakai Refinery's coker capacity and implementing other measures to boost our competitiveness in oil refineries. In the case of petroleum sales, we are providing value ahead of competitors by developing a variety of products that address customers' current diverse needs. While the digitalization of people's lives is accelerating due to the COVID-19 pandemic, the Group will strengthen connections with customers and provide a variety of products that support vehicle life, mobility, and living through the Carlife Square app.



PETROLEUM BUSINESS

Competitive advantages

1 Strengthening competitiveness in oil refining

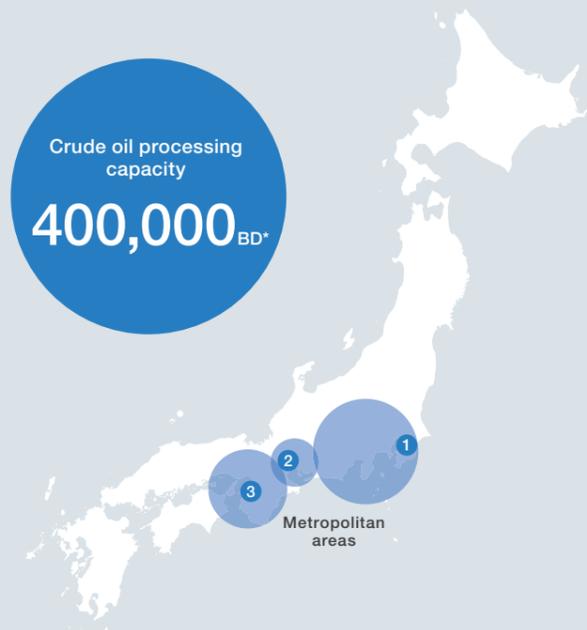
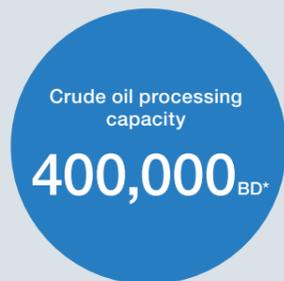
In January 2020, the International Maritime Organization (IMO) strengthened environmental regulations to reduce the content of sulfur in marine fuel oil from 3.5% to 0.5%. As a result, demand for high-sulfur C heavy oil, which was conventionally used as marine fuel oil, is decreasing, but demand for oil that complies with the low-sulfur regulations is increasing. As an oil refining company, we addressed two challenges: managing a decline in demand for high-sulfur C heavy oil and ensuring a stable supply of oil that complies with the regulations.

Before January 2020, when the regulations were strengthened by the IMO, we established a system (bottomless) that does not produce high-sulfur C heavy oil by increasing the nominal capacity of the delayed coker unit at Sakai Refinery from 29,000 barrels per day to 31,000 barrels per day. In addition, by maximizing use of the direct desulfurization unit of Chiba Refinery, we established a system that enables oil that is compliant with the regulations to be produced stably. In addition, we plan to install equipment to remove impurities in

the residual oil of the fluid catalytic cracking (FCC) facilities at Chiba Refinery and Yokkaichi Refinery by the end of FY2020. After installing this equipment, as we will be able to use FCC residual oil as regulatory compliant oil. We expect to be able to establish a more efficient production system.

What is a delayed coker unit?

By thermally decomposing low-value added asphalt (heavy oil) fractions with this facility, it is possible to produce high-value added intermediate fractions (kerosene, light oil, and A heavy oil). By effectively using this facility, it will be possible to address excess high-sulfur C heavy oil due to IMO regulations and to increase production of profitable types of oil.



- 1 Chiba Refinery 177,000BD**
 - Maximum use of direct desulfurization unit
 - ➔ Stable production of IMO regulation-compliant oil
 - Installation of equipment to remove impurities in FCC residual oil (FY2020)
- 2 Yokkaichi Refinery 86,000BD**
 - Installation of equipment to remove impurities in FCC residual oil (FY2020)
- 3 Sakai Refinery 100,000BD**
 - Increase in coker capacity from 29,000 to 31,000BD (FY2019)
 - ➔ High-sulfur C heavy oil upgraded to intermediate fractions due to increase (establishment of bottomless system)



Sakai Refinery coker

* Including the supply of petroleum product/semi product (37,000 barrels/day equivalent) from Idemitsu Showa Shell Group (Showa Yokkaichi Sekiyu) based on the business alliance
* As of March 31, 2020

2 Addressing diversification of customer needs (strengthening connections with customers)

The environment surrounding mobility is changing rapidly due to the evolution of technology in vehicles and the acceleration of digitalization. Moreover, digitalization is steadily evolving, with the mainstream tool of communication with customers changing to the smartphone, for example. To respond to these changes in society, we launched a new app called Carlife Square in August 2019 as part of the reinforcement of connections with customers. Carlife Square includes Commitment Compulsory Car Inspection, which allows customers to complete estimation to payment on the app, and also offers discount coupons for gasoline and car care, and information on recommended refueling time.

The app is used by many customers and hit one million downloads two months after the service launched, with a cumulative total of 2.19 million downloads as of June 2020. In addition, the Cosmo car leasing business, used by many customers since sales began, has steadily increased the number of sales units, and the cumulative total number of contracts exceeded 70,000 at the end of January 2020. Regarding the business format for selling vehicles that addresses the diversification of vehicle use through a one-stop service, we renewed the brand to "Cosmo My Car Leasing Store" in

November 2019, and as of the end of June 2020, we had expanded it to 239 stores nationwide (including the former "Car Consultation Counters"). In order to provide a new energy service to customers, we started selling "Cosmo Denki (Electricity)," home-use electricity, in April 2019. In addition to expanding the sales area nationwide (excluding Okinawa), we launched "Cosmo Denki Green," a 100% renewable energy plan, in December 2019. In February 2020, we started

selling two new electricity plans: "Cosmo Denki Point Plus," which awards "d" points corresponding to electricity charges, and "Cosmo Denki Select," which enables customers to use either a video distribution service or an electronic magazine service provided by NTT Docomo Inc. We will continue to strengthen connections with customers and develop products to support customers' vehicle ownership, mobility and lifestyles.

Cumulative Number of Cosmo Car Leasing Contracts



Cosmo My Car Leasing Store shops



Carlife Square app