

PETROLEUM BUSINESS



President, Representative Director, Chief Executive Officer
Cosmo Oil Co., Ltd. President, Representative Director, Chief Executive Officer
Cosmo Oil Marketing Co., Ltd.

Yasuhiro Suzuki Koji Moriyama

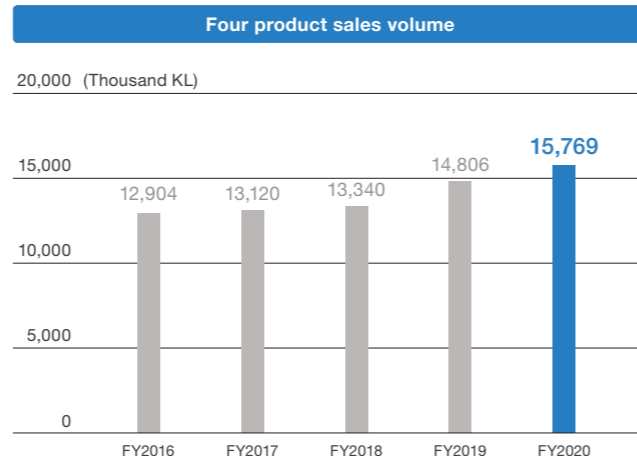
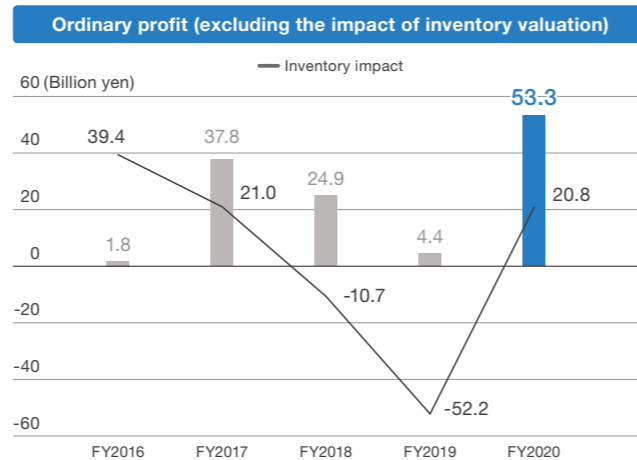
As the production and sales division for petroleum products, we will promote world-class, stable operations and stable supply to customers.

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.

FY2020 Results and FY2021 Forecasts

In FY2020, revenues decreased due to price decreases which resulted from a sharp fall in demand for jet fuel attributed to the COVID-19 pandemic. However, ordinary profit excluding the impact of inventory valuation increased ¥48.9 billion year on year, to ¥53.3 billion, due to an increase in the sales volumes of the four major products that resulted from an increase of supply to Kygnus Sekiyu, as well as the positive time lag in the phase when crude oil prices was rising. In FY2021, ordinary profit excluding the impact of inventory valuation is expected to decrease ¥21.3 billion year on year, to ¥32.0 billion, partly because the positive time lag generated in the previous fiscal year will no longer impact the segment and partly because the cost of refinery fuel will increase due to rising crude oil prices, offsetting an increase in sales volume resulting from a recovery in demand for fuel oil.



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

Ordinary profit (excluding the impact of inventory valuation)

FY2020 results	¥53.3 billion (Up ¥48.9 billion from the previous fiscal year)
FY2021 forecast	¥32.0 billion (Down ¥21.3 billion from the previous year)



Identified risks

- Risks related to crude oil prices and procurement
- Risks related to petroleum product prices and product demand
- Risks related to accidents at and leakage from refineries and other facilities
- Risks associated with quality issues of supplied products



Opportunities

- Measures for shifting to a decarbonized society (initiatives regarding the shift to EVs, green electricity, and new fuels)
- Changes in workstyle in response to the COVID-19 pandemic
- Changes in demand for aviation fuels attributed to ICAO regulations
- CASE (mobility supply, maintenance, etc.) trends
- Changes in customer trends, digitalization, and the wider use of cashless payments



Strengths

- Maintaining high operating rates at refineries despite declining demand
- Reinforcing connections with customers, and presence of connections with service station dealers
- Development of brand products (Commitment Compulsory Car Inspection, Cosmo Denki (Electricity), Yasashi (friendly) Car Sharing, and Cosmo My Car Lease)



COVID-19 impact and response

- Impact**
- Decrease in product sales volumes associated with a decline in demand for jet fuel and other products
 - Decrease in sales of car care at service stations during the states of emergency
- Response**
- Having many employees, mainly those working at the head office, shift to teleworking-based workstyles
 - Restricting entry of external people and ensuring thorough disinfection of workplaces at refineries, which has kept operations unaffected
 - Continuing to provide support for affiliated service stations (distribution of non-contact infrared thermometers, etc.)
 - Using digital tools to communicate with service station dealers

Business strategy

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. However, opportunities in this business environment include demand for measures for the shift to a decarbonized society such as the shift to EVs, the expansion of green electricity, and the development and popularization of new fuels. Other opportunities include changes in customer trends, such as the acceleration of digitalization and the wider use of

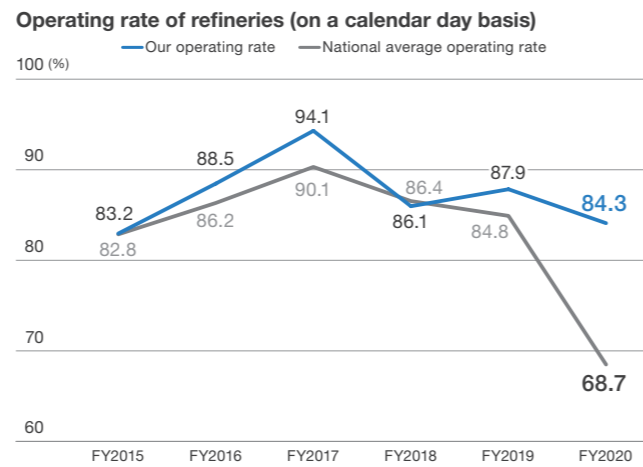
cashless payment services, and changes in workstyles at refineries, service stations, and other places as a result of the COVID-19 pandemic. Our strength in oil refining is that we are able to maintain a high operating rate at our refineries despite the decline in fuel oil demand in Japan because we began supplying Kygnus Sekiyu, moving us to a supply shortage position. In petroleum sales, we are providing value ahead of competitors by developing a variety of brand products that address the diverse needs of customers. Our major brand products include the Carlife Square app, which we developed in response to digitalization, and Cosmo My Car Lease, with which we exceeded 85,000 total contracts as of March 31, 2021. Thus, we are responding to the diversification of car lifestyles.

Competitive advantages 1 Maintaining a high operating rate in a supply shortage position

In the previous Fifth Consolidated Medium-Term Management Plan, we set as one of our main initiatives the task of restoring profitability in the Petroleum Business and worked on structural reforms to secure competitiveness. In 2013, we closed Sakaide Refinery to respond to the Act on Sophisticated Methods of Energy Supply Structures and the medium- to long-term decline in demand. In doing so, we became an organization with three refineries, which has not only reduced fixed costs but also enabled us to maintain a high operating rate of refineries, helping to bolster our competitiveness.

In FY2019, we began supplying fuel oil to Kygnus Sekiyu, which is a major initiative in the ongoing Sixth Consolidated Medium-Term Management Plan. The domestic demand for fuel oil fell sharply due to the COVID-19 pandemic which began later, but we were able to address the situation without lowering the operating rate of our refineries because we had moved to a supply shortage position due to our beginning to supply Kygnus Sekiyu. We believe that, amid the ongoing consolidation of the oil industry, our strategy to emphasize the supply-demand balance, rather than expand in scale through integration, has proved effective.

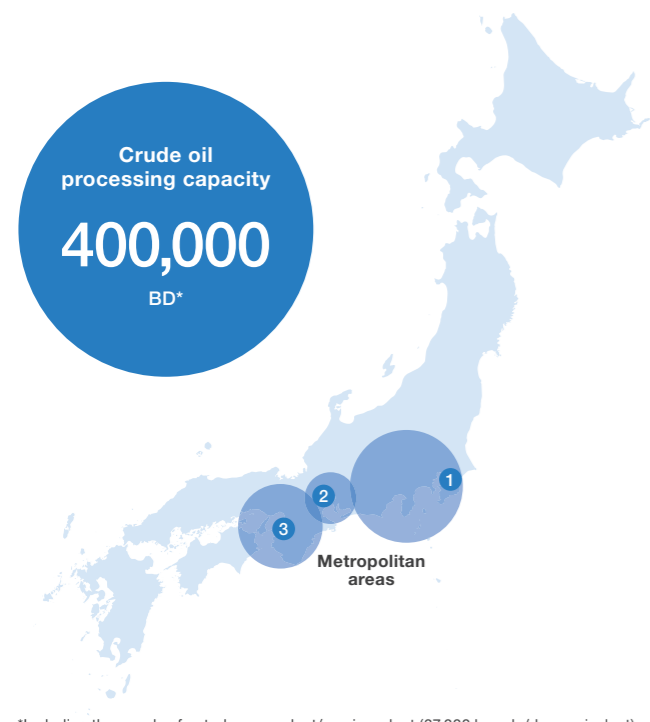
Regarding the impact of the COVID-19 pandemic in FY2021, we basically expect demand for fuel oil to recover, although demand for some types of oil, including jet fuel, will remain sluggish. Against this background, our refineries are planning full operations. We expect that we will be able to maintain a high operating rate by taking advantage of the supply shortage position, which is our competitive advantage, against a certain level of decline in demand.



- 1 Chiba Refinery 177,000 BD**
 - Maximum use of direct desulfurization unit
→ Stable production of IMO regulation-compliant oil
 - Installation of equipment to remove impurities in FCC residual oil (FY2021)
- 2 Yokkaichi Refinery 86,000 BD**
 - Installation of equipment to remove impurities in FCC residual oil (FY2021)
- 3 Sakai Refinery 100,000 BD**
 - Increase in coker capacity from 29,000 to 31,000 BD (FY2019)
→ High-sulfur C heavy oil upgraded to intermediate fractions due to increase (establishment of bottomless system)



Sakai Refinery coker

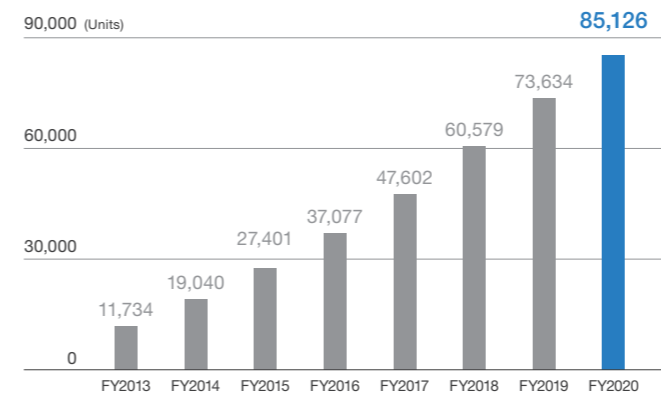


*Including the supply of petroleum product/semi product (37,000 barrels/day equivalent) from the Idemitsu Kosan Group (Showa Yokkaichi Sekiyu) based on the business alliance
*As of March 31, 2020

Competitive advantages 2 Strengthening ties with customers by developing brand products

There has been rapid change in the Petroleum Business, in the environment surrounding car lifestyles and mobility. Digitalization in car lifestyles is evolving further due to changes in the social environment, such as the decline in fuel oil demand and in the size of the working population, changes in lifestyles associated with the wider use of digital devices, CASE (Connected, Autonomous, Shared & Services, Electric), and MaaS (Mobility as a Service). The Cosmo Energy Group began digitalization initiatives ahead of others, by developing the Carlife Square app and launching services in August 2019. Carlife Square, an important tool for strengthening digital connections with customers, includes Commitment Compulsory Car Inspection, which enables customers to complete everything from estimation to payment on the app, and various other services such as the provision of discount coupons for gasoline and car care products and information on recommended refueling times. The services have been utilized by many customers since their launch. As of March 31, 2021, the total number of downloads has reached approx. 3.17 million.

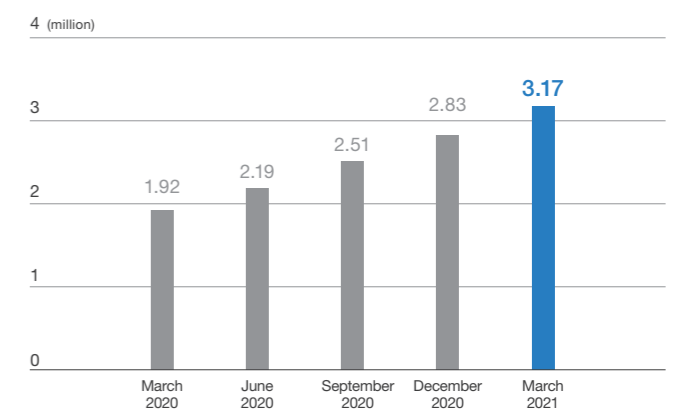
Cumulative Number of Cosmo Car Leasing Contracts



Cosmo My Car Leasing Store shops

In addition, the total number of Cosmo My Car Lease contracts, which have been highly acclaimed by customers since their launch, have exceeded 85,000 as of March 31, 2021. Operating 270 Cosmo My Car Leasing Stores all over Japan as stores dedicated to vehicle sales, we will continue to address the diversification of car lifestyles. In the electricity retail sales business, we are promoting the sale of Cosmo Denki (Electricity) for households. In October 2020, we began selling products through the Cosmo Denki Business, a new plan catering to the needs of all corporate customers by supplying services from low voltage to extra-high voltage power, and Cosmo Denki Business Green, which features the use of virtually 100% renewable energy sources, in response to the growing awareness of climate change and other environmental issues faced by corporate customers. Digitalization is expected to continue and the environment surrounding car lifestyles will continue to change. At the Cosmo Energy Group, we will strengthen our ties with customers and continue to develop and expand brand products, so that we can support customers' car lifestyles and mobility in response to social change.

Number of Carlife Square downloads



Carlife Square App