

Review of Operations: Petroleum Business

FY2012 RESULTS

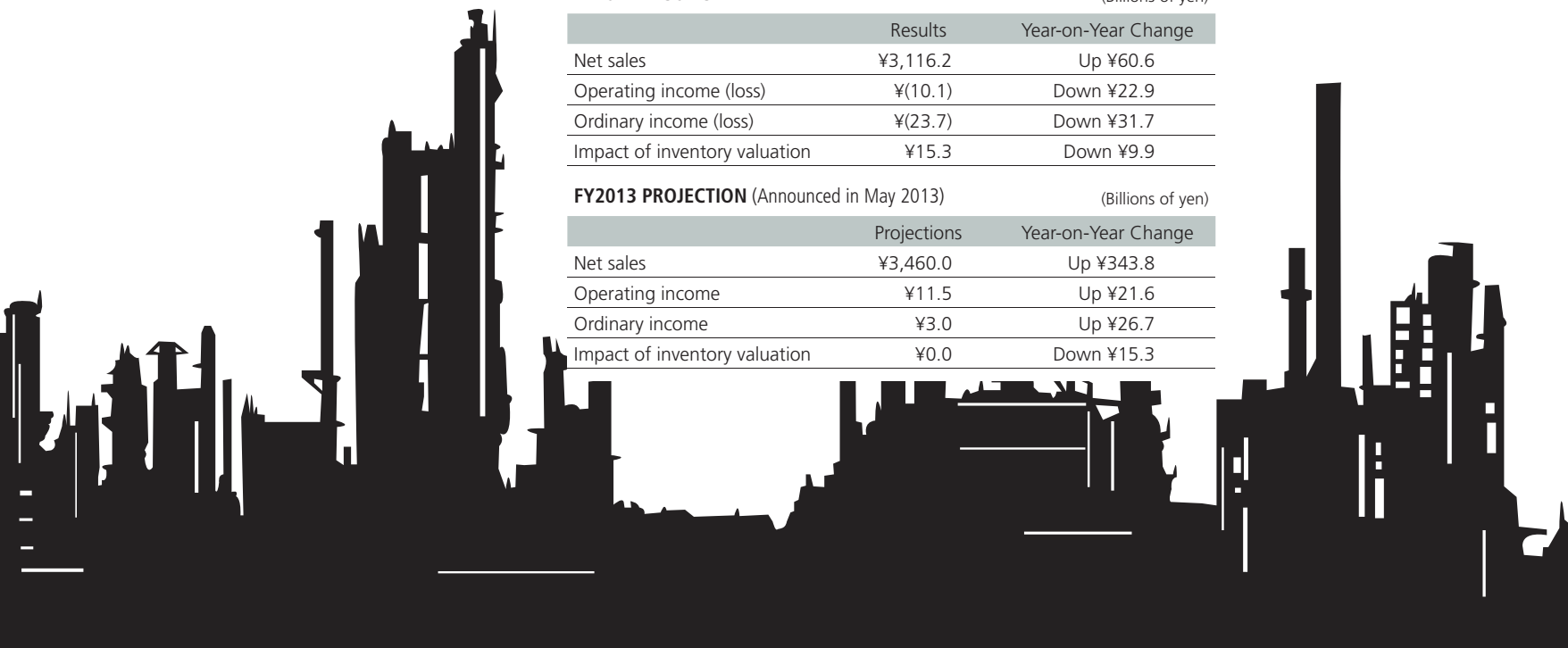
(Billions of yen)

	Results	Year-on-Year Change
Net sales	¥3,116.2	Up ¥60.6
Operating income (loss)	¥(10.1)	Down ¥22.9
Ordinary income (loss)	¥(23.7)	Down ¥31.7
Impact of inventory valuation	¥15.3	Down ¥9.9

FY2013 PROJECTION (Announced in May 2013)

(Billions of yen)

	Projections	Year-on-Year Change
Net sales	¥3,460.0	Up ¥343.8
Operating income	¥11.5	Up ¥21.6
Ordinary income	¥3.0	Up ¥26.7
Impact of inventory valuation	¥0.0	Down ¥15.3



STRATEGIES

With the full-scale resumption of operations at the Chiba Refinery, the Petroleum Business will strive to return to profitability by overhauling its export structure and optimizing petroleum product profit margins by responding flexibly to supply-demand conditions.

FY2012 PERFORMANCE

Overall demand for petroleum products in Japan exceeded the previous period in FY2012. Despite stagnant demand for gasoline and kerosene, this overall increase was largely attributable to the upswing in heavy fuel oil C used for electric power generation reflecting the shutdown of operations at nuclear power stations resulting in improved operating ratios at thermal power generation plants. From the Company's perspective, demand in Japan decreased 1.5% during the period under review as effects were felt from the shutdown of the Chiba Refinery, despite increased sales of heavy fuel oil C.



Export volumes were impacted by scarce available capacity following the suspension of operations at the Chiba Refinery. Exports of diesel fuel were also held to 45,000 kl. As a result, total sales volume edged down 0.5% year on year.

Against the backdrop of this operating environment, the Petroleum Business segment posted net sales of ¥3,116.2 billion, up ¥60.6 billion. This was mainly due to the increase in sales prices as a result of the weak yen and the upswing in sales of heavy fuel oil C used for electric power generation. Cosmo Oil incurred an ordinary loss in the Petroleum Business segment of ¥23.7 billion. This was compared with ordinary income of ¥8.0 billion in FY2011. Despite a substantial decrease in the cost of finding alternative supplies as a result of the suspension of operations at the Chiba Refinery, this deterioration in earnings was largely attributable to the impact of the decline in sales volume.

OUTLOOK FOR FY2013

Looking at sales volume in Japan in the year ending March 2014, results from a domestic demand perspective are forecast to decline 2.1%. This is mainly due to the downturn in demand from thermal power plants for heavy fuel oil C. Turning to exports, the available capacity is expected to recover on the back of the resumption of operations at the Chiba Refinery. The target for middle distillate export volume has been set at 1,540,000 kl compared with the export of 45,000 kl in the previous fiscal year.

Cosmo Oil's Total Sales Volume and Estimates (Announced In May 2013)

	FY2012	FY2011	Change	FY2013 Estimate (% change from FY2012)
Domestic sales	24,361	24,732	-1.5%	-2.1%
Gasoline	5,999	6,249	-4.0%	-0.6%
Kerosene	2,246	2,416	-7.0%	0
Diesel fuel	4,414	4,615	-4.4%	-4.9%
Heavy fuel oil A	1,963	2,196	-10.6%	-1.1%
Naphtha	6,270	6,224	+0.7%	0
Jet fuel	476	477	-0.2%	+0.1%
Heavy fuel oil C	2,993	2,555	+17.1%	-7.9%
Middle distillate export volume (Diesel fuel and jet fuel)	45	209	-78.5%	+3,329.2%
Total sales volume	36,891	37,094	-0.5%	+4.3%



From a profit perspective, we project a substantial jump in earnings owing to the significant decline in alternative supply costs due to the reopening of the Chiba Refinery and the resumption of export activity.

As a result, in FY2013, we forecast segment net sales of ¥3,460.0 billion, up ¥343.8 billion, and ordinary income of ¥3.0 billion, a positive turnaround of ¥26.7 billion.

MAJOR INITIATIVES

Strengthen Marketing Capabilities

Amid the continued decline in demand in Japan for such automobile fuels as gasoline and diesel fuel, Cosmo Oil has placed considerable weight on strengthening initiatives at service stations in an effort to build a stable domestic sales channel.

We have commenced an electronic cash-based settlement service focusing on our Cosmo the Card credit card while aggressively promoting a variety of campaigns through our service station network. As a result, the number of active card members has increased 160,000 for a total membership of 3,970,000.

In our Cosmo B-cle Lease business, we have introduced a flat-rate system encompassing maintenance, tax, and other expenses. At the same time, we have taken steps to complement our package of services with discount privileges. These initiatives have been well received by the market with the cumulative total number of automobile leases breaking through the 5,000 level in March 2013.

Moving forward, Sojitz Energy Corporation, which directly operates service stations and engages in the wholesale of petroleum products, was included in the Company's scope of consolidation as a subsidiary on January 31, 2013. The name of the company was then changed to Sogo Energy Corporation. Looking ahead, we will work to maximize the synergy benefits between the wide-ranging procurement sources, customer base, human resources, and know-how acquired from Sojitz Energy and our petroleum product stable supply capabilities, logistics network, customer base, high brand image, and Cosmo the Card credit card membership.

Building on these measures, we will make every effort to capture customers and to further increase service station profitability.

Trends in the Number of Active Cosmo the Card (Credit Cards)

