

# **Cosmo Oil Management Policy**

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**Yaichi Kimura**

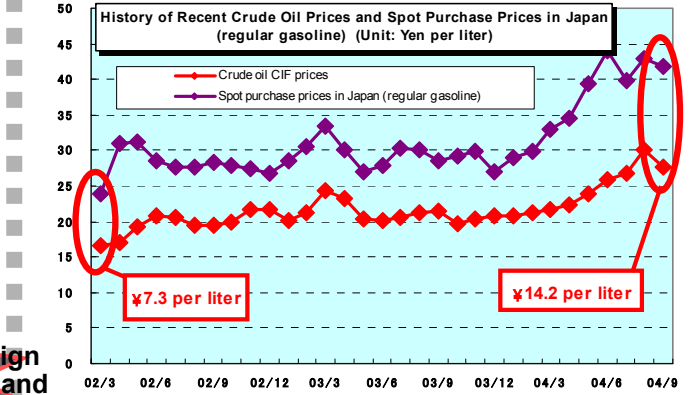
**President**

- 1. Recent Changes in the Management Environment**
- 2. Basic Management Policy**
- 3. Medium-Term Management Plan – Challenges and Progress Being Made in Solving Them**
- 4. Management Goals for Fiscal Year 2004**

# Recent Changes in the Management Environment

## China

- ◆ 9% GDP growth
- ◆ 2008 Beijing Olympics and 2010 Shanghai Expo
- ◆ Increased oil demand
  - Shift demand from coal to oil
  - Progress in motorization
- ◆ Domestic production has peaked
  - More imports



Higher demand and higher prices for petrochemical products

Increased prices of foreign products (strong export and higher prices of imports)

## Refiner

Tightened demand and supply environment

Higher prices of domestic products

## Oil producing countries

Crude oil hikes

## Dealer Wholesaler

## Service Stations

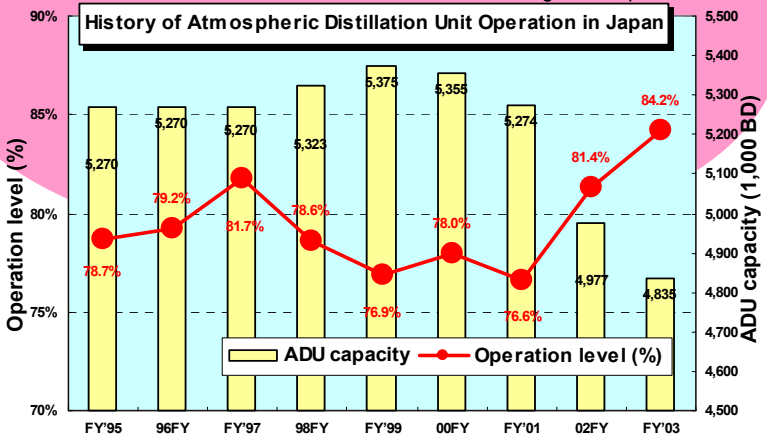
- ◆ Globally tightened demand and supply of oil
  - Increased oil demand (in FY2004, up 2.5 million BD from FY2003)
  - About 30% of the demand from China
  - Saudi Arabia is the only country with room for crude oil production (mainly in heavy crude oil)
- ◆ The U.S.
  - Policy to keep inventories at a low level
  - Enhanced environmental regulations involving gasoline has made oil imports difficult
- ◆ Geopolitical risks
  - Political unrest in Iraq
  - Concern about other conflicts and strikes
- ◆ Opportunity for speculative funds

## Refining

- ◆ Refinery capacity reductions 470,000-BD reduction from the FY2000 level
  - by 11 refineries of 7 companies

- ◆ Put priority over petrochemical exports
  - Enhance petrochemical manufacturing facilities
  - Shift in gasoline materials toward petrochemicals
- ◆ Reduced refinery operations through sulfur-free gasoline production

Increased number of Ss run by oil companies' subsidiaries



- ## Distribution
- ◆ Petroleum companies execute their measures to enhance their affiliated dealers
  - ◆ Petroleum industry-wide decrease of dealers
  - ◆ Reduced volume of non-affiliated dealers
- Return to affiliation

**Ensure stable earnings**

- Create stable cash flows by ensuring earnings in response to changes in the macro environment

- Ensure that the Medium-Term Management Plan programs will be put into action
- Ensure that cash flows will be provided from operating activities

**Ensure sustainable growth with society to gain earnings**

**Social responsibilities**

- Assume social responsibility, including environmental issues, as a corporate member of society
- Legal compliance and information disclosure on a timely basis
- Promote highly transparent corporate governance

# Medium-Term Management Plan – Challenges and Progress Being Made in Solving Them

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<Major challenges identified in the  
Medium-Term Management Plan>

**Address the excess  
facility issue**

**Promote structural reform  
in distribution**

**Promote rationalization and  
value creation**

**Reduce interest-baring debts**

**CSR management**

<Cumulative progress made by the first half  
of FY2004>

**Decided to reduce atmospheric  
distillation unit capacity at the Yokkaichi  
and Sakaide Refineries**

(will flexibly address when to put this decision into action)

**Improved the sales channel structure by  
increased automobile fuel sales volumes  
at subsidiary dealer SSs**

\*(automobile fuel sales account for 29% (as of September  
30, 2004))

**Transferred the expertise to  
independent wholesalers**

**Produced a total of ¥19.9  
billion**

(plan achievement rate of 99%)

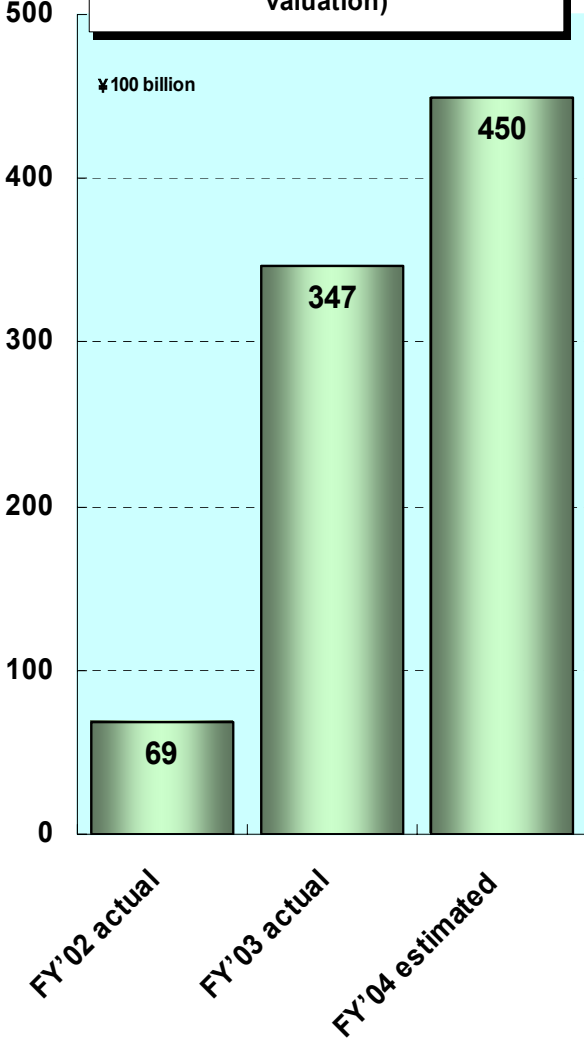
**Reduced a total of ¥22.7  
billion**

(¥539.9 billion as of September 30, 2004)

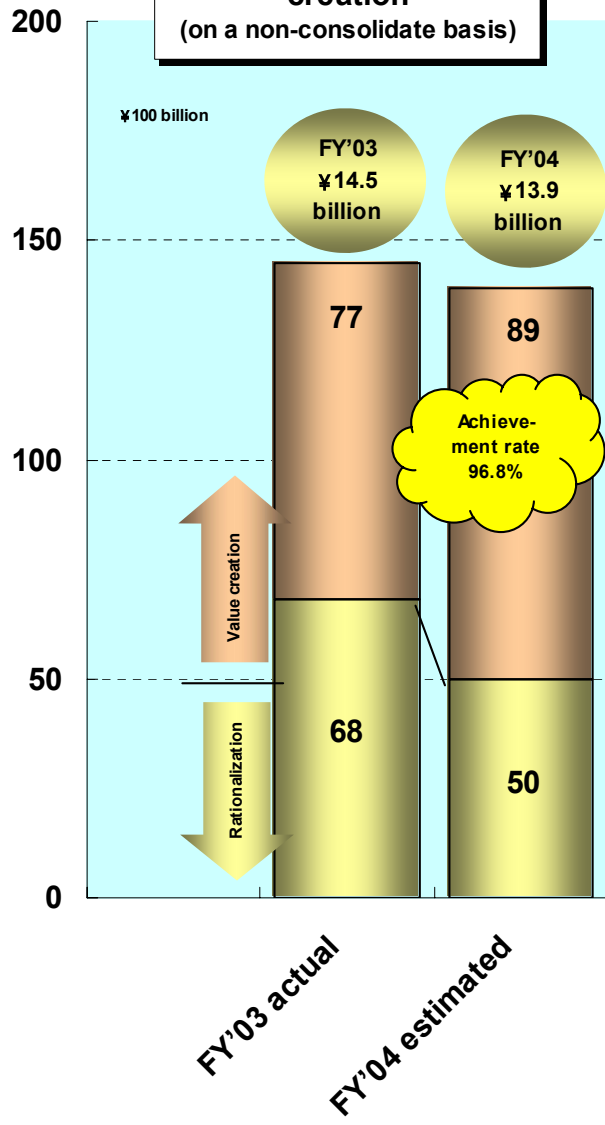
**Improved the risk management and social  
responsibility-focused management  
organization, etc.**

# Management Goals for Fiscal Year 2004

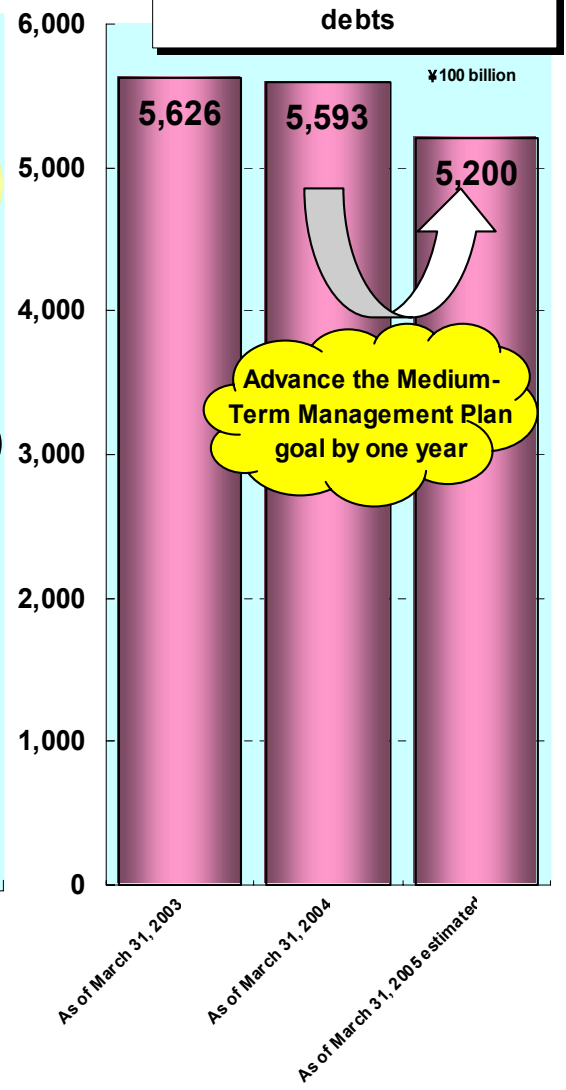
**Consolidated operating income**  
(excluding impact by inventory valuation)



**Rationalization and value creation**  
(on a non-consolidate basis)



**Consolidated interest-bearing debts**



## **Cautionary Statement Regarding Forward-Looking Scenarios**

**This presentation contains statements that constitute forward-looking scenarios. While such forward-looking scenarios may include statements based on a variety of assumptions and relating to our plans, objectives or goals for the future, they do not reflect our commitment or assurance of the realization of such plans, objectives or goals.**