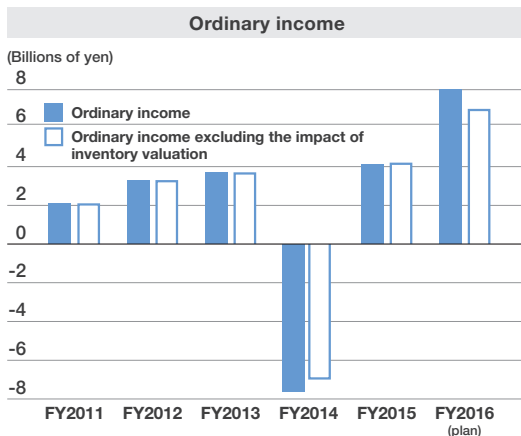


Petrochemical Business

Business Summary

The Cosmo Energy Group is promoting the integrated operation of the petrochemical business and the oil refining business, and in March 2016, it made Maruzen Petrochemical Co., Ltd. a consolidated subsidiary to increase the competitiveness of petrochemical complexes in general. Moreover, the Group is steadily supplying mixed xylene (MX) to Hyundai Cosmo Petrochemical Co., Ltd. (HCP), a joint venture between South Korea's Hyundai Oilbank Co., Ltd. and Cosmo Oil. HCP is striving to reduce costs through measures such as energy-saving modification work on para-xylene (PX) production facilities and attempting to bolster its competitiveness.

Operating Performance



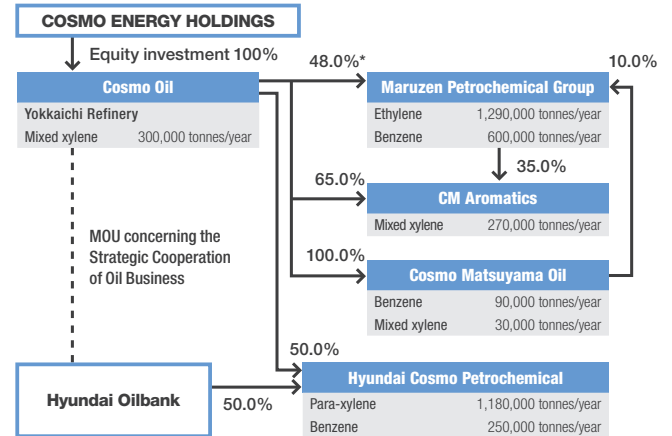
Owing to factors such as the fall in crude oil prices, net sales in the Petrochemical Business Segment were ¥48.1 billion, down ¥7.0 billion year on year. However, the segment posted ordinary income excluding inventory valuation of ¥4.2 billion, marking an improvement of ¥11.2 billion from a loss of ¥7.0 billion in the previous fiscal year, due to favorable ethylene market conditions and a decrease in costs at HCP. In FY2016, the Group projects net sales of ¥417.0 billion, up ¥368.9 billion year on year, in the Petrochemical Business. Owing to a projected recovery in market conditions and cost reductions, as well as the effect of making Maruzen Petrochemical a consolidated subsidiary, we estimate that ordinary income excluding the impact of inventory valuation will increase by ¥2.8 billion year on year to ¥7.0 billion.

Strengths

- **Integrated operation of oil refining business and petrochemical business (establishment of Maruzen Petrochemical as a consolidated subsidiary)**
- **Cost competitiveness at para-xylene production facilities that are the largest in Asia (Hyundai Cosmo Petrochemical)**

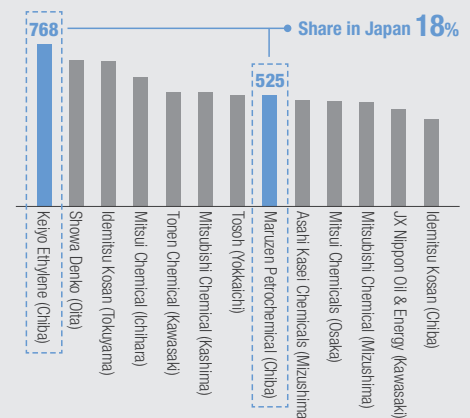
Initiatives to create long-term corporate value

In March 2016, the Company acquired shares of Maruzen Petrochemical, an equity-method affiliated company, and turned it into a consolidated subsidiary. Maruzen Petrochemical possesses ethylene production capacity that boasts a leading scale even in Japan, is continuing to supply high-quality products, and has a solid financial structure. Going forward, the Group will promote the integrated operation of the oil refining business and the petrochemical business together with Maruzen Petrochemical, with the aim of strengthening the competitiveness of each business. Furthermore, we believe that this policy will lead to the reinforcement of the competitiveness of petrochemical complexes in general (Cosmo Oil, Maruzen Petrochemical, and derivative producers), centered on Maruzen Petrochemical. As the first stage in the reinforcement of competitiveness, we have begun to consider joint commercialization with Arakawa Chemical Industries of hydrogenated polymer resins (sanitary materials for paper diapers and other products), for which worldwide demand growth is projected.



* Based on voting rights: 52.7%

Japan's Ethylene Production Capacity (k ton/year)



* Source: Japan Petrochemical Industry 2016 (Year to skip scheduled maintenance)
* Keijo Ethylene is a 55%-owned consolidated subsidiary of Maruzen Petrochemical.