

PETROLEUM BUSINESS

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



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

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

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.

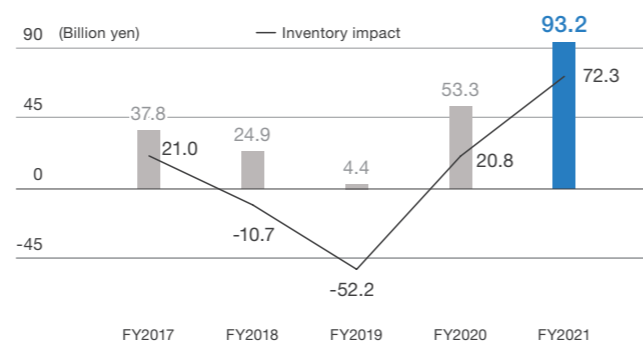
FY2021 Results and FY2022 Forecasts

In FY2021, ordinary profit excluding the impact of inventory valuation was ¥93.2 billion (+¥39.9 billion year on year), due to the improved margin of petroleum products reflecting rising crude oil prices, an increase in the sales volumes reflecting a recovery from the impact of COVID-19 and the high operating rates maintained at our refineries.

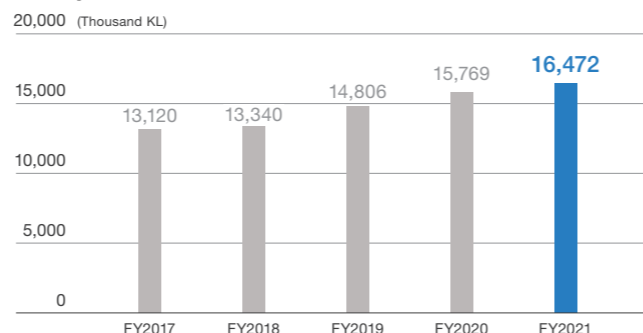
In FY2022, while we expect demand for jet fuel to recover, reflecting the reduced impact of COVID-19, we forecast ordinary profit excluding the impact of inventory valuation to be ¥64.0 billion (-¥29.2 billion year on year), chiefly reflecting the absence of the positive time lag of the margin of the four major products, which was generated in the previous fiscal year due to a rise in crude oil prices.

Ordinary profit (excluding the impact of inventory valuation)

FY2021 results	FY2022 forecasts
¥93.2 billion (+¥39.9 billion year on year)	¥64.0 billion (-¥29.2 billion year on year)



Four product sales volume



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

Identified risks

- Risks related to crude oil price and crude oil procurement
- Risks related to petroleum product prices and demand
- Risks related to accidents at and leakage from refineries and other facilities
- Risks of business continuity associated with rapid environmental changes
- Risks related to book value devaluation of inventories due to a decline in profitability

Opportunities

- Globally accelerating trends toward carbon neutrality and measures for shifting to a decarbonized society
Measures for shifting to a decarbonized society (initiatives regarding the shift to EVs, green electricity, and new fuels)
- Recovery in demand for jet fuel attributed to the relaxation of COVID-19 border controls
- 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 (a supply shortage position associated with fuel supply to Kygnus Sekiyu)
- Reinforcing connections with customers, and presence of connections with service station dealers as our partners
- Development of brand products (Commitment Compulsory Car Inspection, Cosmo Denki (Electricity), Yasashi (friendly) Car Sharing, and Cosmo My Car Lease)
- High level of customer satisfaction, diversification of payment methods, and value creation focused on branding activities

Business strategy

In the Petroleum Business, we have identified risks including the following: the risk that crude oil prices and crude oil procurement will be affected by the Russian invasion of Ukraine and political instability surrounding oil-producing countries in the Middle East; the risk of the fluctuation of petroleum product prices and product demand caused by trends in demand from general consumers, mainly reflecting the impact of COVID-19 and the risk related to accidents and leaks at refineries and service stations and in the distribution process.

On the other hand, our business opportunities include: measures for responding to the shift to EVs, the expansion of green electricity and the development and popularization of new fuels such as SAF,^{*1} which reflect the trend toward decarbonization accelerating globally; measures for responding to changes in customer trends, such as the acceleration of digitalization including CASE^{*2} and MaaS^{*3} and the expansion of cashless payment, and the recovery of demand for jet fuel reflecting the relaxation of COVID-19 border controls.

Our strength in oil refining is the point that we are able to maintain high operating rates at our refineries despite the decline in fuel oil demand because we began supplying fuels to Kygnus Sekiyu, moving us to a supply shortage position. Our strength in petroleum sales is that we are providing value ahead of competitors by developing brand products that address the diverse needs of customers. We are responding to the diversification of car lifestyles through efforts such as the development of the Carlife Square app and the provision of Cosmo My Car Lease, through which we have exceeded 96,000 total contracts. Further, our strength in the electricity retail sales business is that we can provide electricity featuring the use of virtually 100% renewable energy sources, which is linked to the wind energy generated by Cosmo Eco Power, as demand for green electricity has been growing. We have also released the Cosmo Zero Carbon Solution, which provides renewable energy and EVs as a one-stop solution, thus supporting corporate customers and local governments in their decarbonization efforts by working together with local service station operators.

Joined ACT FOR SKY, an organization implementing initiatives for the commercialization, popularization, and expansion of SAF produced in Japan.



*1 SAF: Sustainable Aviation Fuel This fuel is produced mainly from biomass-derived raw materials, including plants, as well as waste and waste food oil from restaurants and households. It enables the reduction of CO₂ emissions compared to fossil fuels.

*2 CASE: An acronym for Connected, Autonomous, Shared & Services, and Electric.

*3 MaaS (Mobility-as-a-Service): A next-generation transportation service that combines conventional means of transportation and traditional transportation services with various technologies, such as automated driving and AI.



Initiatives and achievements under the medium-term management plan

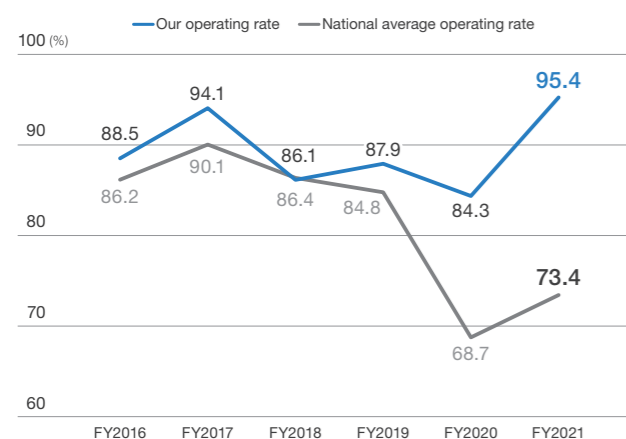
Oil refining business

High operating rates maintained with stable operation

In FY2019, we began supplying fuels to Kygnus Sekiyu, which is a major initiative in the 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 rates of our refineries because we had moved to a supply shortage position due to our beginning to supply fuels to 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.

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%. This resulted in a shift of demand from high-sulfur C heavy oil to low-sulfur C heavy oil that conforms to the regulations. At the Cosmo Energy Group, we increased the coker capacity of the Sakai Refinery in 2019, in addition to making the maximum use of the direct desulfurization unit at the Chiba Refinery, to ensure a stable supply of oil complying with the regulations.

Operating rate of refineries (on a calendar day basis)



The Super Nintei Mark that only super nintei jigyoisha are allowed to use



This resulted in the establishment of a system that does not produce high-sulfur C heavy oil (bottomless system) and made it possible to increase the production of profitable products.

Further, the Chiba Refinery obtained super nintei jigyoisha (tokutei nintei jigyoisha) certification in April 2021, followed by the Yokkaichi Refinery in August 2022. To continue safe, stable operations, we will push forward with safety activities by enhancing the development of specialized human resources, conducting high-level risk assessments, implementing advanced technologies, and taking other initiatives.

In June 2022, Japan began to accept foreign tourists again, relaxing its COVID-19 border controls. Reflecting this, the number of international passenger flights to and from Japan is expected to increase. Therefore, demand for jet fuel is anticipated to increase year on year.

The refineries of the Cosmo Energy Group plan to operate at their full capacity again this fiscal year. We expect that we will be able to maintain high operating rates by taking advantage of the supply shortage position, which is our competitive advantage, against a certain level of decline in demand.



Sakai Refinery coker

Petroleum sales business

Expansion of the car life business

In the Sixth Consolidated Medium-Term Management Plan, we set the expansion of car life business as a target and put in place a policy of creating a virtuous circle involving the business and the fuel oil retail business. The environment surrounding car lifestyles and mobility in the Petroleum Business is changing rapidly due to the decline in fuel oil demand and in the size of the working population. In addition, changes in lifestyles associated with the popularization of digital devices and the digitalization of car lifestyles, including CASE and MaaS, are accelerating.

The Cosmo Energy Group began digitalization initiatives by developing the Carlife Square app and launched the services in August 2019. The services have been utilized by many customers since their launch. As of March 31, 2022, the total number of downloads has reached approx. 4.72 million. Further, in February 2022, we began to provide Cosmo SS Pay, an app payment service that permits users to pay for fuel oil just by showing a QR code.* We are the first oil wholesaler to add a payment function to our own smartphone app. It has grown more convenient, as it is compatible with d Payment® provided by NTT DOCOMO, a new payment method. Reinforcing connections with customers, this service also contributes to sales of gasoline in the "Oil" of "Oil & New." We will continue to expand apps as our platforms in our efforts to improve customer convenience.

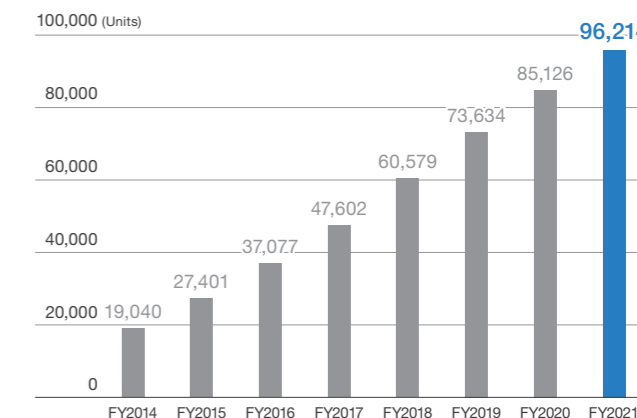
The total number of Cosmo My Car Lease contracts, which have been highly acclaimed by customers since their launch, had exceeded 96,000 as of March 31, 2022. Operating 304 Cosmo My Car Leasing Stores all over Japan as stores dedicated to vehicle sales and leasing, we will continue to address the diversification of car lifestyles.

In the electricity retail sales business, we began to sell Cosmo Denki (Electricity) for households in FY2019 and Cosmo Denki Green in December 2019. Further, in October 2020, the company began to provide the Cosmo Denki Business and Cosmo Denki Business Green services to its corporate customers. In September 2021, we began to sell the Cosmo Zero Carbon Solution, which provides renewable energy and EVs, etc. as a one-stop solution for corporate customers and local governments engaging in decarbonization initiatives. We are proposing this solution to corporations and local governments by working together with local service station operators.

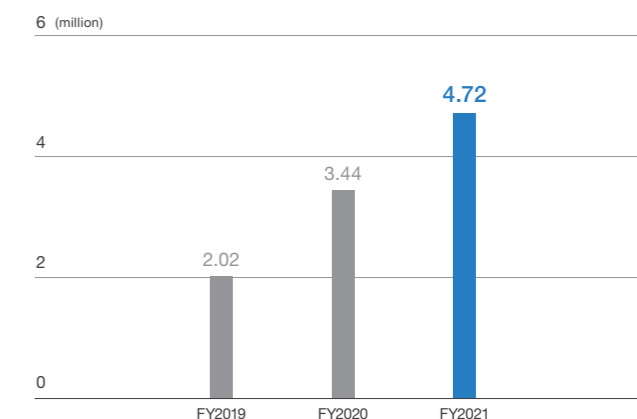
At the Cosmo Energy Group, we will continue to strengthen connections with customers and develop and expand brand products to support customers' car lifestyles, mobility, and home lives.

* QR Code is the registered trademark of DENSO WAVE.

Cumulative Number of Cosmo Car Leasing Contracts



Number of Carlife Square downloads



Cosmo Zero Carbon Solution

