

A promise to engage in socially responsible management by delivering consistent business results while securing the deep-seated satisfaction of all stakeholders—from customers and suppliers to employees—embodying our corporate message of “Filling Up Your Hearts, Too.”

Yaichi Kimura

President
Cosmo Oil Co., Ltd.



Challenging Business Conditions in FY2008–2009

The petroleum industry was confronted with shifting global market conditions in fiscal 2008 and 2009. Crude oil prices fluctuated wildly in fiscal 2008, with the price of benchmark West Texas Intermediate crude oil surging temporarily to above \$140 per barrel in July 2008, before later plunging to less than \$40 per barrel. Crude oil prices surged once again in fiscal 2009, where they continued to hover at high levels.

At the same time, the impact of the global recession has led to depressed demand in and outside of Japan. The Japanese market in particular is suffering from lower demand due to the economic recession. Meanwhile, several factors have led to a stagnant market for petroleum products in Japan, including lower demand for heavy oil from migration to other fuels as well as sharp declines in gasoline demand due to the growing presence of hybrid vehicles.

The challenging business conditions prevented the Cosmo Oil Group from securing appropriate margins in fiscal 2009, and we consequently fell short of our revenue targets. The Group also put in a weaker financial position, as shareholders' equity declined significantly from recording losses on the valuation of inventories due to the sharply fluctuating crude oil prices in fiscal 2008.

Our Third Consolidated Medium-Term Management Plan, which was initiated in fiscal 2008 as a three-year plan,

was concluded after two years in fiscal 2009. We did this in order to formulate a Fourth Consolidated Medium-Term Management Plan, starting in fiscal 2010, that will enable us to adapt to fast-changing external developments.

Third Consolidated Medium-Term Management Plan—Strategic Positioning for New Growth

Under the guidance of the Third Consolidated Medium-Term Management Plan, we succeeded in strategically positioning the Cosmo Oil Group for new growth. In the oil refining and marketing business, we constructed new heavy oil cracking facilities at the Sakai Refinery for refining of diesel fuel and jet fuel, a move that enhanced the competitiveness of the refinery in light of declining demand for heavy oil. We also strengthened the export infrastructure at our refineries throughout Japan, and beginning in February 2010 reduced our official refining capacity by 80,000 barrels per day to further optimize the balance of supply and demand. In terms of marketing, we increased quality market share through our local service station operators and marketing subsidiaries.

In the petrochemical business, we established a para-xylene manufacturing joint venture in November 2009 with Hyundai Oilbank Co., Ltd., a South Korean company, under our business partnership with International Petroleum Investment Company (IPIC). The entry into the para-xylene segment, which is projected to register future growth,



represents an important strategic move that will strengthen the petrochemical business within the Cosmo Oil Group and help us cope with declining future demand for gasoline. In addition, we made investments to stabilize production in the oil exploration and production business, as a segment that provides a significant portion of our revenues.

Fourth Consolidated Medium-Term Management Plan—Building a Foundation for the Future

Under the Fourth Consolidated Medium-Term Management Plan that covers fiscal 2010–2012, the Cosmo Oil Group will capitalize on the moves we took to strategically position the Group for new growth under the previous management plan in order to build a foundation for sustainable growth.

The global economy is moving on a path of gradual recovery in fiscal 2010, with demand for petroleum and petrochemicals projected to rise centering on developing nations including China. The latest projections (as of August 2010) from the International Energy Agency call for petroleum demand to increase by 2.2% year-on-year in fiscal 2010. Meanwhile, demand for petroleum products is declining in Japan, with the composition of demand changing at an even faster rate.

Amid the shifting market conditions, the Group will implement streamlining initiatives while continuing to make investments in petrochemicals and oil exploration and

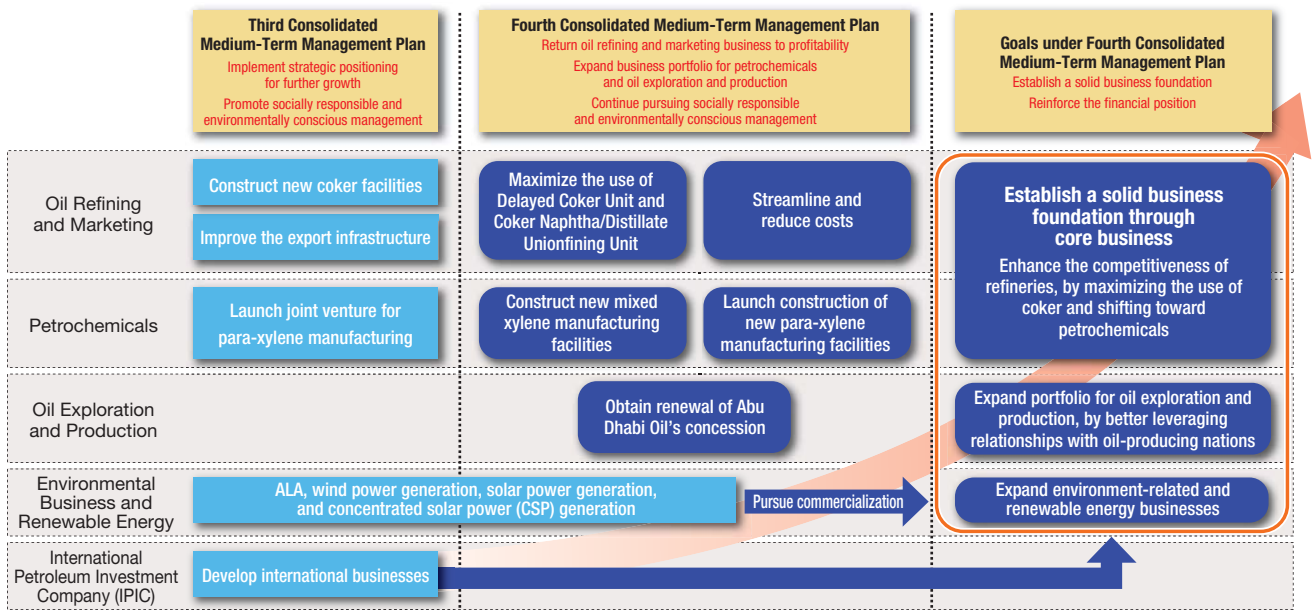
production, as outlined in our latest management plan. We will endeavor to establish a solid business base and reinforce our financial position, while engaging in socially responsible management to further enhance our corporate value.

Enhancing Profitability of Core Business and Achieving Growth in New Business Segments

The Fourth Consolidated Medium-Term Management Plan sets an urgent priority to return our core oil refining and marketing business to profitability. This will require that we optimize our profits through streamlining initiatives and by securing appropriate margins. We have formulated a streamlining plan under which we will adjust our workforce, while reducing costs in a way that balances safety with the need to reduce repair and maintenance costs at our refineries. We will also leverage the newly constructed heavy oil cracking facilities at the Sakai Refinery to optimize the balance of production to cope with changes in the composition of demand.

In the petrochemical business, which is projected to register future growth, together with the oil exploration and production business, we will expand our business portfolio in order to increase profits throughout the Group. The plans for the para-xylene manufacturing business are to construct facilities with the world's largest production capacity of 800 kilotonnes per line, to go on line in fiscal 2013. These facilities

Management Plan Outline



will secure an overwhelming advantage in terms of cost competitiveness.

We are also developing the business for 5-aminolevulinic acid (ALA), which promises to have diverse applications including for fertilizer, feeds, pharmaceuticals, cosmetics, and health products. In addition, we are advancing our businesses for renewable energy including in the areas of wind power generation, solar power generation, and concentrated solar power (CSP) generation.

Setting Our Sights on Sustainable Growth

Our latest management plan sets a mandate for the Cosmo Oil Group to generate consolidated ordinary income of ¥65 billion in fiscal 2012, in the final year of the plan. We will leverage the resulting profit-earning capabilities to reinforce our financial position, with the goal of achieving a net debt-to-equity (D/E) ratio¹ of 1.3 times at the end of fiscal 2012. This will match the net D/E ratio that we recorded at the end of fiscal 2008.

1. Net D/E ratio = (Interest-bearing debt - Cash and deposits) ÷ Net worth

Second Consolidated Medium-Term CSR Management Plan—Successfully Raising Employee Awareness

We have identified socially responsible management as one of our basic policies under the Fourth Consolidated Medium-Term Management Plan. When we formulated the previous management plan, we also drew up the Second Consolidated Medium-Term CSR Management Plan, which set the following priorities: (1) strengthen CSR promotion structures on a consolidated Group basis, (2) build safety management structures, (3) foster the protection of human rights and personnel-related measures, (4) promote environmental response, and (5) strengthen relationships with stakeholders.

We set out to pursue these activities on a Group-wide basis, through concrete initiatives that involve all employees.

The previous CSR management plan had a noticeable effect on our employees, encouraging them to be self-motivated to get involved as opposed to passively involved.

Although we achieved the general goals of the previous CSR management plan, there is still more work to do. Specifically, there is more that we can do to build safety management structures and foster the protection of human rights and personnel-related measures, both of which directly affect all our employees.

Third Consolidated Medium-Term CSR Management Plan—Emphasizing Initiatives through Core Business

The Cosmo Oil Group places the highest emphasis on pursuing CSR initiatives through our core business. In formulating the Fourth Consolidated Medium-Term Management Plan, we identified the need to continue pursuing socially responsible and environmentally conscious management as one of our basic policies. This guided our development of the Third Consolidated Medium-Term CSR Management Plan that we launched in fiscal 2010 to further enhance our socially responsible management.

The latest CSR management plan sets a priority on pursuing initiatives for securing safety and achieving stable operations, as well as conservation of the global environment, for employees to embrace and achieve through their own self-driven actions in each workplace. The Cosmo Oil Group Code of Conduct is central to these activities, guiding all employees to engage in CSR initiatives. In 2008, we revised the wording of the Code of Conduct to consistently use “we” in each major statement, and changed the contents to encourage employees to take direct action. We hope that these changes will further raise CSR awareness among our employees, motivating our employees to give serious thought to what they must do, and translate this into action.

Corporate Continuity Built on Safe Operations

The Third Consolidated Medium-Term CSR Management Plan continues to stress the need to pursue initiatives to secure safe operations as one of our highest priorities. The safety of our day-to-day work and dependability of our operations will enable us to meet our social responsibility, which is to secure a stable supply of oil as our core business.

The Cosmo Oil Group is taking diverse steps to secure the safety of all business activities and build safe workplaces. In our critical production activities, we are implementing further initiatives to strengthen safety management for equipment, together with other initiatives such as having employees routinely point to and call out hazards and actions. Every one of our employees must be self-motivated to pursue these initiatives, if we are to eliminate occupational accidents and incidents. We will raise awareness among all of our employees to embrace this attitude, so that we can pursue safety initiatives at an even more sophisticated level.

Contributing to Environmental Conservation as Citizens of the Earth

Conservation of the global environment is another important cornerstone of our CSR initiatives. The Cosmo Oil Group will strengthen its environmentally conscious management by: (1) responding strategically to prevent global warming while ensuring continuation of business, (2) reducing environmental impact, and (3) promoting environmental contribution activities. We are also working to develop renewable sources of energy that have a low environmental impact, so that we may further integrate CSR initiatives into our business.

Corporations are members of society and citizens of the earth, as are their employees. The Cosmo Oil Group must be

committed to pursuing initiatives for conservation of the global environment through the range of our business activities. Even small acts can have a significant impact on environmental issues, if each of us takes action. We are committed to raising the environmental awareness of our employees, so that they are self-motivated to take action.

Fulfilling the Hearts of Every Employee

Employees are the driving force behind every facet of our corporate activities, as well as being our assets. Under the Third Consolidated Medium-Term CSR Management Plan, we have made it a priority to build positive workplaces that respect human rights and provide a vibrant and motivating working environment for employees. Demonstrating our commitment in this regard, we joined the United Nations Global Compact in 2006, and have continued our focus on management that respects the Compact's basic rules concerning human rights, labor standards, the environment and anti-corruption.

Our slogan of "Filling Up Your Hearts, Too" drives our pursuit of services that raise customer satisfaction. Likewise, we must also fulfill the hearts of our employees who provide these services, if we are to offer services and business activities that satisfy our customers and society.

At the same time, we have to be profitable and achieve consistent business results, if we are to keep people employed and meet our social responsibility as a corporation. The Cosmo Oil Group is committed to securing full compliance and engaging with society in good faith in order to have a positive social impact and for the sake of all stakeholders including our employees.

