

Fourth Consolidated Medium-Term Management Plan and Third Consolidated Medium-Term CSR Management Plan

Working on Establishing the Business Base for Sustainable Growth and Reinforcing the Finance Base

With the basic policy of establishing a stable earnings base and shifting toward a growth strategy in the Third Consolidated Medium-Term Management Plan, the Cosmo Oil Group steadily executed a variety of programs and investments. However, as crude oil prices hovered at high levels, the Group was unable to secure appropriate margins. The result is that the earnings goals set out in the Third

Plan were not met. In the Fourth Consolidated Medium-Term Management Plan for Fiscal 2010–2012, the Group will establish the business base and reinforce the financial base for sustainable growth by returning the oil refining and marketing business to profitability and enhancing the portfolio of petrochemical and oil exploration and production businesses.

Basic Policy, Earnings, and Financial Goals of the Fourth Consolidated Medium-Term Management Plan

Basic Policy 1 Return oil refining and marketing business to profitability

Basic Policy 2 Enhance the portfolio of petrochemical and oil exploration and production businesses

Basic Policy 3 Maintain and promote CSR and environmental management

FY2012 Consolidated Earnings Goals

Net Sales	¥2,643 billion
Operating Income	¥69 billion
Ordinary Income	¥65 billion
Net Income	¥33 billion

FY2012 Management Index Goals

Return on Equity (ROE)	9.1%
Shareholders' Equity Ratio	25.4%
Debt-to-Equity (D/E) Ratio	1.6 times
Net D/E Ratio	1.3 times

Basic Policy 1

Return Oil Refining and Marketing Business to Profitability

1. Rationalization

- Right-sizing of workforce
- Keep a good balance between "safe operations" and "repair and maintenance cost reduction"

2. Oil refining

- "Reduce crude oil procurement cost" and "improve product mix" through maximum use of the heavy oil cracking (coker) facilities
- Maximize the supply-demand balancing mechanism through appropriate operations of the refineries

3. Oil sales in Japan

- Improve the distilled product structure for sale
- Secure appropriate margins in both distribution and wholesale

4. Oil sales outside of Japan

- Expand stable sales channels in the Asian and Pacific Rim region

Basic Policy 2

Enhance the Portfolio of Petrochemical and Oil Exploration and Production Businesses

1. Petrochemical Business

- Establish new mixed xylene (MX) manufacturing facilities (300 kilotonnes/year)
- Start building new para-xylene (PX) manufacturing facilities (800 kilotonnes/year)

2. Oil Exploration and Production Business

- Obtain renewal of Abu Dhabi Oil's concession
- Start commercial production in the A-Structure South Oil Field being developed by Qatar Petroleum Development Co., Ltd.
- Start early production in the Audacious and Tenacious oil fields off the coast of Australia.

3. Environmental and Renewable Energy Businesses

- ALA: Accelerate commercialization and enhance sales and marketing power
- Wind power generation: Enter the market on a full scale by acquiring stock in Eco Power Co., Ltd.
- Solar photovoltaic power generation: Establish the low-cost production technology for polysilicon
- Concentrated solar power (CSP) generation: Verify feasibility of commercialization

Basic Policy 3

Fiscal 2010 Initiatives and Results under the Third Consolidated Medium-Term CSR Management Plan (Fiscal 2010–2012)

	Priority Items	Themes	Major Activity Policy/Goals
Third Consolidated Medium-Term CSR Management Plan	Improve functioning of CSR promotion structure	Strengthen structures for improving implementation	• Review the appointment and duties of personnel in charge of CSR promotion to enhance the Group's CSR promotion system
		Further increase recognition and understanding of Code of Conduct	• Continue regular internal training • Implement monitoring (CSR Status Survey)
		Promote efficient operations in conformity with company rules and manuals	• Standardize and simplify business operations by using internal infrastructures, and strengthen information management
		Restructure risk management structure	• Identify risks on a company-wide basis and establish countermeasures • Conduct continual education and training on business continuity plan (BCP)
	Strengthen safety management (Third Consolidated Medium-Term Safety Plan) → See p. 30 for more details.	Raise safety level by setting quantitative targets for reducing accidents, assessing results and making improvements	• Refineries and Cosmo Matsuyama Oil Co., Ltd.: Achieve and maintain a record of zero accidents: Reduce unsafe and failure incidents by 90% or more from the benchmark year (Sep. 2006–Aug. 2007) by 2010 • Other departments (offices/Group companies): Continue and develop safety management activities to meet specific objectives, i.e., reduce or eliminate work-related injuries, reduce or eliminate accidents/incidents
	Enhance human rights/personnel policies (Third Consolidated Medium-Term Human Rights/Personnel Plan) → See p. 31 for more details.	Respect human rights: Prevent harassment and eliminate discrimination Respect diversity/equal opportunity: Maintain fairness in hiring Promote physical and mental health care: Prohibit overwork and implement specified health exams Support balance between work and home life: Promote childcare and family healthcare leave and support leisure activities	• Achieve participation rate of 80% or more in human rights training for Cosmo Oil employees (including those temporarily dispatched; excluding shift workers) • Maintain and improve employment rate of people with disabilities (higher than the legally mandated rate of 1.8%) • Gradually decrease excessive working hours (350 working hours per year) • Maintain or improve the average paid time off utilization rate of employees (excluding shift workers) (Cosmo Oil: 80% or more, Group companies: improve current records)
	Promote environmental initiatives (Fourth Consolidated Medium-Term Environment Plan) → See p. 34 for more details.	Respond strategically to prevent global warming while ensuring continuation of business	• Reduce CO ₂ by amount equivalent to approx. 3% (220 kilotonnes) or more of annual emissions in Group's business areas (crude oil extraction, crude oil transport, refining, and product transport and storage at oil depots) by fiscal 2012 (compared to level before implementation of measures). Reductions achieved by the wind power generation business will be included in overall amount. • Control the volume of greenhouse gas emissions in manufacturing, product transport and storage processing as well as in offices and the R&D Center
		Reduce environmental impact	• Identify environmental risks that may arise at times of normal operations and times of irregular operations; implement response measures for each • Reduce industrial waste: achieve final disposal rate of less than 0.5% at Cosmo Oil and less than 5.0% in total at target companies ¹ • Enhance internal/external audits for thorough environmental management • Adopt rigorous measures to ensure soil preservation • Promote Eco Office activities (Group-wide goal: Reduce copy paper by 9%, company car fuel consumption by 6%, and office electricity consumption by 7% from the averages of fiscal 2007–2009) • Promote green purchasing
		Promote environmental contribution activities	• Promote environmental contribution activities through Cosmo Oil Eco Card Fund • Protect biodiversity
	Promote communication activities that respond to society	Establish effective communication activities based on stakeholder feedback	• Maintain communication with all stakeholders, including customers, local communities, shareholders, investors and societies around the world

1. Target companies include Cosmo Oil Co., Ltd., Cosmo Engineering Co., Ltd., Cosmo Matsuyama Oil Co., Ltd., Cosmo Oil Lubricants Co., Ltd., Cosmo Petroleum Gas Co., Ltd., and Hokuto Kougyo Co., Ltd.

Fiscal 2010 Initiatives and Results under the Fourth Consolidated Medium-Term Management Plan and Third Consolidated Medium-Term CSR Management Plan

Ordinary Income of ¥96.1 Billion Achieved in Fiscal 2010

The Cosmo Oil Group has focused on improving margins by appropriately balancing oil product supply and demand and rationalizing business operations. The Group has strengthened its earnings base by leveraging the Sakai Refinery coker facilities, which launched full operation in October 2010, and also by establishing

a proper petroleum supply-demand balance and expanding its oil exploration business. The earnings acquired through these measures will be allocated for capital investment designed to spur future growth and for paying down interest-bearing debt in order to further strengthen the Group's financial position and earnings base.

Fiscal 2011 Management Policy

Management Policy

- Ensure stable supply of energy
- Maintain and enhance the earnings base for the oil refining and marketing and sales business
- Increase profit in the oil exploration and production business

Supplies

- Increase production at three existing refineries in West Japan to support product supply
- Restore Chiba Refinery operations as soon as possible by giving the top priority to ensuring safe operations
- Expand earnings by operating coker facilities

Sales

- Respond to demand related to reconstruction from the earthquake and secure right margins

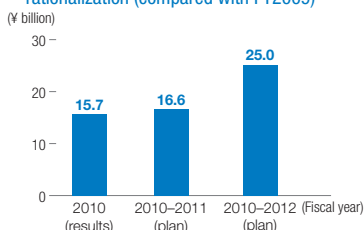
Oil Exploration and Production

- Make the maximum use of benefits from higher crude oil prices through increased oil production

Rationalization Initiatives

Efforts to rationalize and increase efficiency across the entire Cosmo Oil Group, as well as reduced promotional expenses due to the earthquake, resulted in a reduction of ¥15.7 billion in expenses in fiscal 2010.

Accumulated results of three years of rationalization (compared with FY2009)



Oil Refining and Marketing Initiatives

The Cosmo Oil Group aims to expand earnings by maximizing the use of coker facilities to address changing demand structures. In terms of its marketing of oil products, the Group is focused on establishing a proper petroleum supply-demand balance and ensuring more stable margins.



Delayed coker (heavy oil cracking facility)

Petrochemical Initiatives

To meet growing demand in newly emerging countries for para-xylene (PX), a raw material for making PET resin, the Cosmo Oil Group has established HC Petrochem Co., Ltd. (HCP), a joint venture with Hyundai Oilbank Co., Ltd. in South Korea, to go into the PX business. The new facilities, which will operate the world's largest production line at 1,180,000 tonnes a year, are planned for completion in 2013.



Para-xylene (PX) manufacturing facilities

New Business Initiatives

The Group is also pursuing environment-related businesses in order to establish a foundation for future growth.

- ALA (5-aminolevulinic acid)
- Wind power generation
- Solar power generation
- Concentrated solar power (CSP) generation



Penta Garden (liquid fertilizers containing ALA)

Degree of achievement: ○ Achieved △ Partially achieved × Not achieved

Fiscal 2010 Initiatives and Results	Achievement of Goal
<ul style="list-style-type: none"> • CSR Promotion Committee verified fiscal 2010 CSR performance and issues and adopted policy on activities to start in fiscal 2011 • Appointed 64 employees to be responsible for CSR promotion and 91 employees to be in charge of promotion initiatives 	○
<ul style="list-style-type: none"> • Implemented internal corporate ethics training from October to December (3,611 participants) • Implemented CSR Status Survey in February 2011 (4,828 respondents) 	○
<ul style="list-style-type: none"> • Streamlined business operation flow in September with improvements to online approval database • Conducted information management in April by converting hard copies of the list of important documents to a digital database 	○
<ul style="list-style-type: none"> • Identified risks on company-wide basis and reevaluated countermeasures from March to May • Conducted education and training on BCP in September 	○
<ul style="list-style-type: none"> • Refining and manufacturing: Recorded continual decrease since 2008 in number of unsafe and failure incidents at refineries and Cosmo Matsuyama Oil Co., Ltd. (143 in 2008 → 126 in 2009 → 99 in 2010). 	△
<ul style="list-style-type: none"> • Distribution: 2 mixing-oil accidents at Cosmo Delivery Service Co., Ltd.; 1 marine oil spill at Cosmo Kaiun Co., Ltd.; 0 ships run aground • Marketing and other departments: 0 work-related injuries at Marketing Dept.; 2 accidents at Project Development Dept.; 2 incidents at R&D Dept. 	△
<ul style="list-style-type: none"> • Participation rate in human rights training: 83% 	△
<ul style="list-style-type: none"> • 2.2% rate achieved at Cosmo Oil 	△
<ul style="list-style-type: none"> • Decreased the number of employees working excessively long hours to 359 (167 less than in fiscal 2009) 	△
<ul style="list-style-type: none"> • Cosmo Oil fell short of goal at 78.4%; 13 of 18 Group companies improved records. 	△
<ul style="list-style-type: none"> • Reduced CO₂ emissions by 240 kilotonnes • Submitted report summarizing greenhouse gas emissions in accordance with Japan's Act on the Rational Use of Energy and Act on Promotion of Global Warming Countermeasures 	△
<ul style="list-style-type: none"> • Identified 10 risks and considered precautions (Precautions completed for one risk and under ongoing consideration for 9 risks) • Achieved final disposal rate of less than 0.5% at Cosmo Oil and less than 2.9% in total at target companies¹ • Conducted internal/external audits and environmental inspections • Took actions as planned (cleanup at 28 service stations) • Achieved goals for copy paper and company vehicle fuel; did not achieve goal for office electricity • Achieved 100% green purchasing for specified items 	△
<ul style="list-style-type: none"> • Continued to implement 11 Cosmo Oil Eco Card Fund projects; selected 4 new projects • Measured impact of business operations on biodiversity in business areas and formulated action policy 	△
<ul style="list-style-type: none"> • Improved CSR evaluation in "Filling Up Your Hearts, Too" Declaration 2011 activities over the previous year • Implemented Cosmo Forest activities in Ichihara, Sakai and Matsuyama cities • Sent 1,804 cards as part of the Christmas Card Project 	○