

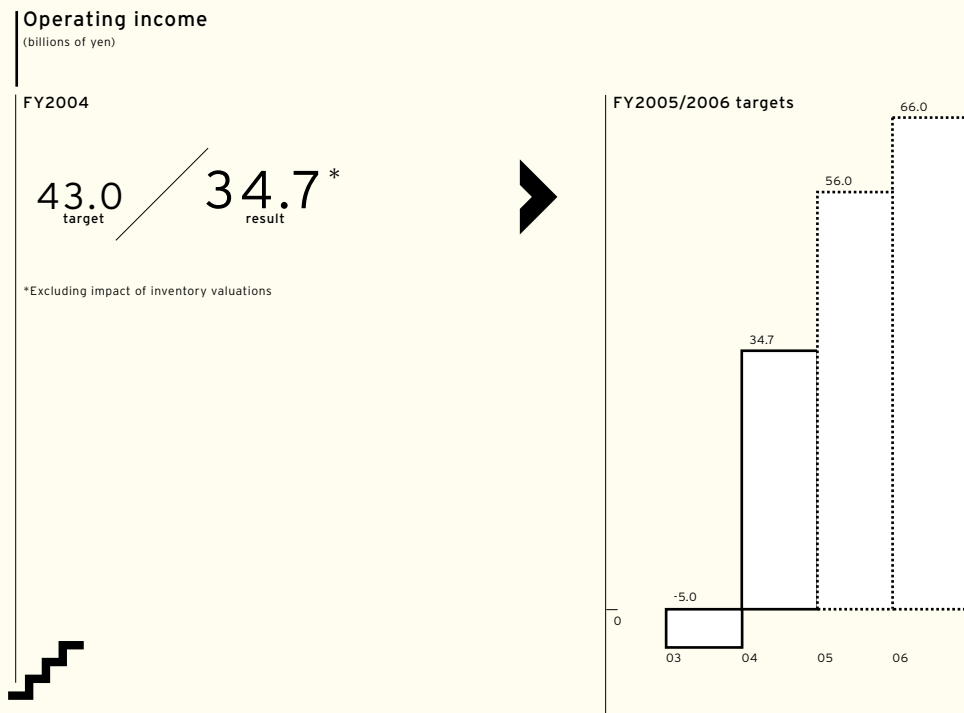


>IMPROVING OUR FOOTWORK

**"Quickly achieving objectives in the Medium-Term Management Plan
is one of my most important duties as President of Cosmo Oil."**

Yaichi Kimura, President

MEDIUM-TERM MANAGEMENT PLAN



FISCAL 2004 RESULTS

- Despite the sharp recovery in overall business results for the fiscal year under review, excluding the impact of inventory valuations, operating income unfortunately did not reach our target. The sales volumes of kerosene and fuel oil A declined due to one of the warmest winter seasons on record. This impact was particularly noticeable because Cosmo Oil has a high dependence on kerosene and fuel oil A sales. Consequently, non-consolidated operating income, excluding the impact of inventory valuations, totaled ¥22.5 billion, ¥4.5 billion below our target of ¥27.0 billion.

Crude oil prices increased during the period and were favorable for consolidated subsidiary Abu Dhabi Oil Co., Ltd. However, the foreign exchange impact of an appreciating yen and a one-time decline in production volumes had a large negative impact on Abu Dhabi Oil Co., Ltd., leading to consolidated operating income of ¥34.7 billion, ¥8.3 billion below our target of ¥43.0 billion. Regarding balance sheet structural reforms, long-term borrowings are steadily declining, with interest-bearing debt falling to ¥559.3 billion as of the end of fiscal 2004, producing an interest-bearing debt ratio of 44.4%. The goal under the current Medium-Term Management Plan is to continue reducing interest-bearing debt to ¥520.0 billion by the end of fiscal 2006 and to achieve an interest-bearing debt ratio of 42.0%, using operating cash flow as the source of funding.

Value creation and rationalization

(billions of yen)

FY2004

Value creation

7.0
target

7.7
result

110.2%
achievement ratio

Rationalization

7.2
target

6.8
result

94.7%
achievement ratio

Total

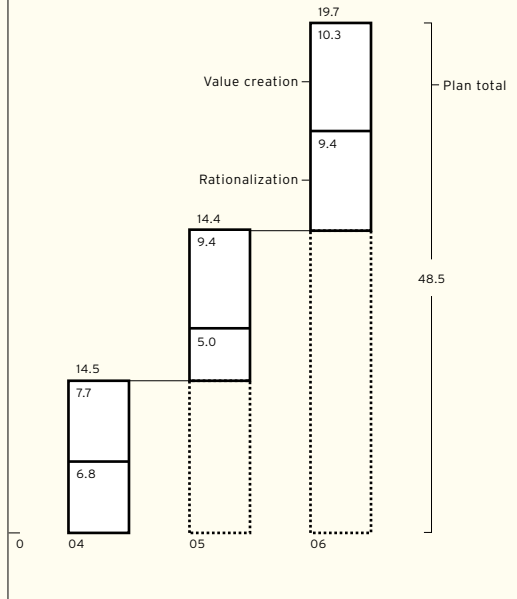
14.2
target

14.5
result

102.4%
achievement ratio



FY2005/2006 targets



UPDATE ON MEDIUM-TERM MANAGEMENT PLAN AND RATIONALIZATION EFFORTS

- > While the impact of external factors led to lower-than-targeted earnings, there was steady progress in establishing a business structure that is not swayed by external factors, as is outlined in the Medium-Term Management Plan. The actual amount of earnings improvement from value creation and rationalization in oil refining and marketing in the first year of the plan was ¥14.5 billion, or 102.4% of the original goal of ¥14.2 billion. A particularly significant achievement was the increase in the proportion of gasoline and diesel oil sales through directly operated service stations and marketing subsidiaries to 29%, which boosted profit margins and created value of ¥4.6 billion in the Oil Marketing division.

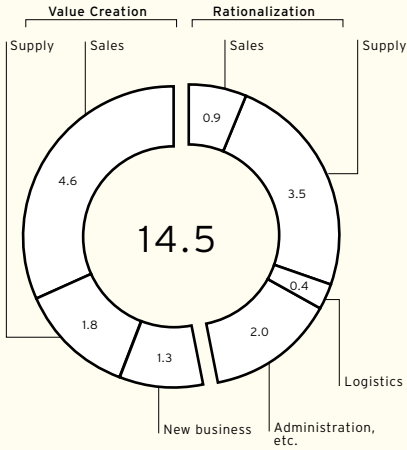
In the Oil Refining division, topper and fluid catalytic cracking unit (FCC) operating ratios improved, as refining margins expanded and imports as well as domestic purchases were reduced while refining operations were expanded. Topper operating ratios exceeded the industry average of 83.0% in reaching 87.8%, while FCC operating ratios reached 92.5%, meaning they are essentially operating at full capacity.



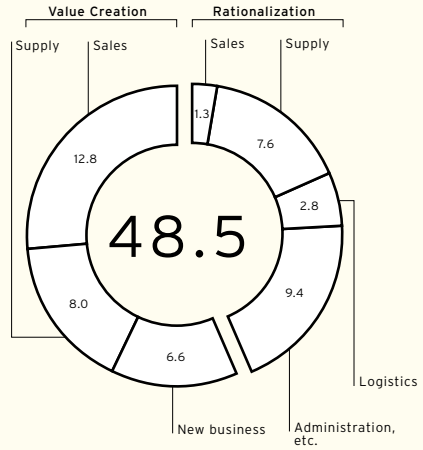
Value creation and rationalization

(billions of yen)

FY2004



FY2004-2006 targets



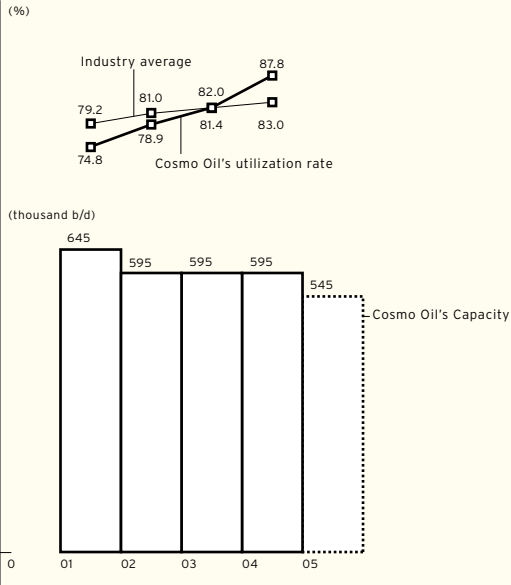
In addition, efforts under the structural earnings improvement program to maximize the potential capacity of secondary facilities such as FCC through the production of high-value-added petroleum products resulted in a ¥1.8 billion improvement in earnings. Consequently, solid progress was made in coping with structural changes in demand, which was one important issue to be addressed in the Medium-Term Management Plan.

In new businesses, the start-up of independent power producer (IPP) operations at the Yokkaichi Refinery produced ¥1.3 billion of additional revenues.

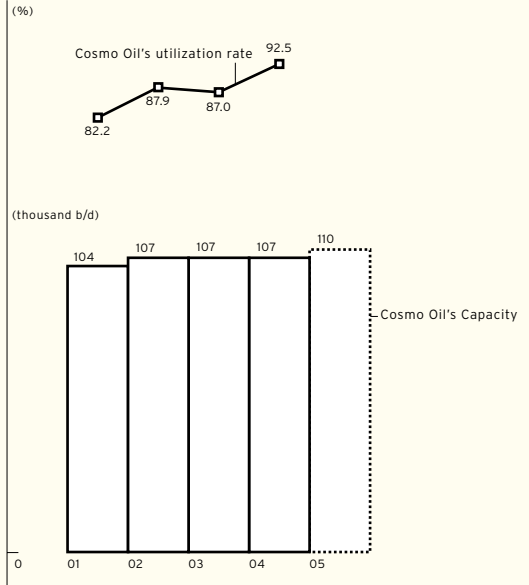
The amount of earnings improvement achieved as a result of the above value creation measures was ¥7.7 billion, or 110.2% of the ¥7.0 billion target. On the other hand, the amount of improvement in earnings from rationalization efforts was ¥6.8 billion, or 94.7% of the target of ¥7.2 billion. While rationalization in terms of cost savings in the supply structure was greater than planned, the reduction in sales promotion expenses was less than planned because of an accelerated pace of new self-service stations in the Oil Marketing division, and there were delays in rationalizing distribution.



Changes in topper capacity and utilization rate



Changes in FCC capacity and utilization rate



While not included in the Medium-Term Management Plan, the alliance with Nippon Oil Corporation has progressed to the sharing of supply and distribution infrastructure. While related savings were ¥11.0 billion, compared with planned savings of ¥15.0 billion, Cosmo Oil intends to further deepen and upgrade this alliance with future cooperative proposals.

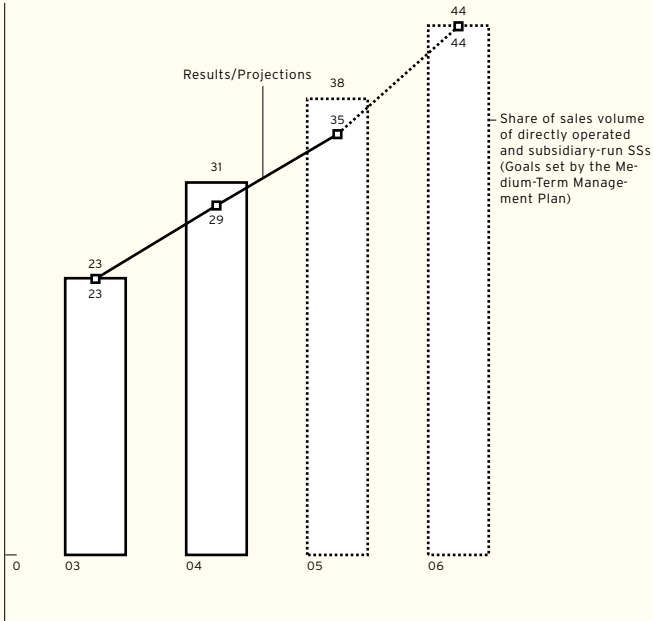
In terms of overall progress, because fiscal 2004 results were above expectations, we have increased confidence that fiscal 2005 plans can be achieved. Because the conversion of the earnings structure through rationalization has led to new value created under the plan, Cosmo Oil is on the cusp of a future growth stage. As the person ultimately responsible for establishing a base from which future growth will spiral, I consider the earliest possible achievement of the Medium-Term Management Plan to be one of my most important responsibilities as Chief Executive of Cosmo Oil.

> STRIDING TOWARD

G R E A T E R S U C C E S S

Directly operated and marketing subsidiaries share of automobile fuel sales volume

Results/Projections vs. Goals (%)



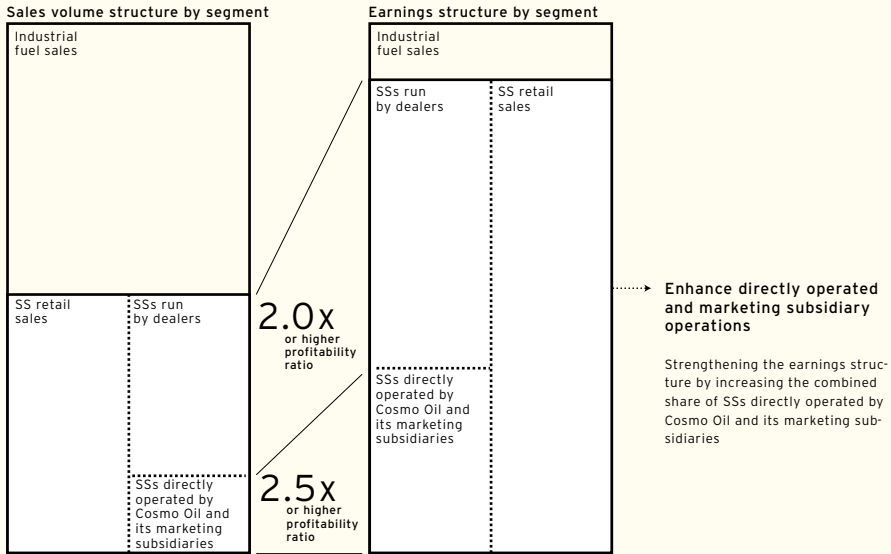
SOLID EVIDENCE OF STRUCTURAL DISTRIBUTION REFORMS WITH A 29% DIRECTLY OPERATED/MARKETING SUBSIDIARY RATIO

- > A striking accomplishment of Cosmo Oil's fiscal 2004 results is the solid evidence of progress in the building of a foundation for stable earnings generation. The value creation achieved in marketing operations was ¥4.6 billion in fiscal 2004, or 115.9% more than was planned.

A further ¥5.9 billion improvement is planned for fiscal 2005, as we continue to focus on value creation in promoting reforms in our distribution structure. The main factor behind the better than planned improvement in the marketing segment was the solid increase in the ratio of highly profitable directly operated and marketing subsidiary sales. We will be further enhancing our earnings base by expanding the directly operated/marketing subsidiary ratio of total service station gasoline and diesel oil sales to 44% by fiscal 2006.



**Marketing strategy:
Earnings structure of the directly operated and
marketing subsidiary enhancement strategy**



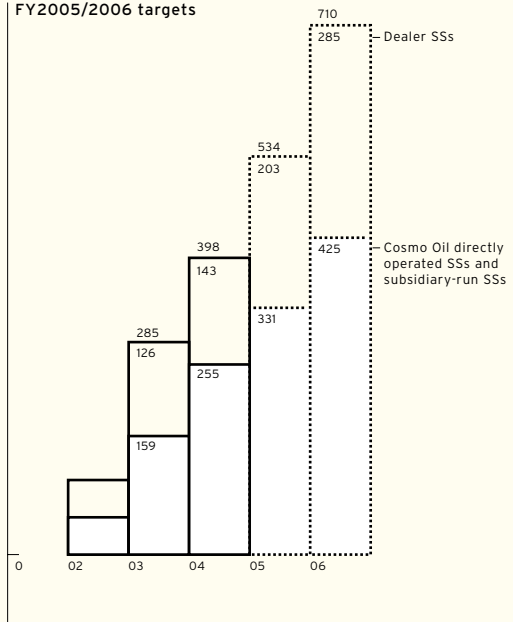
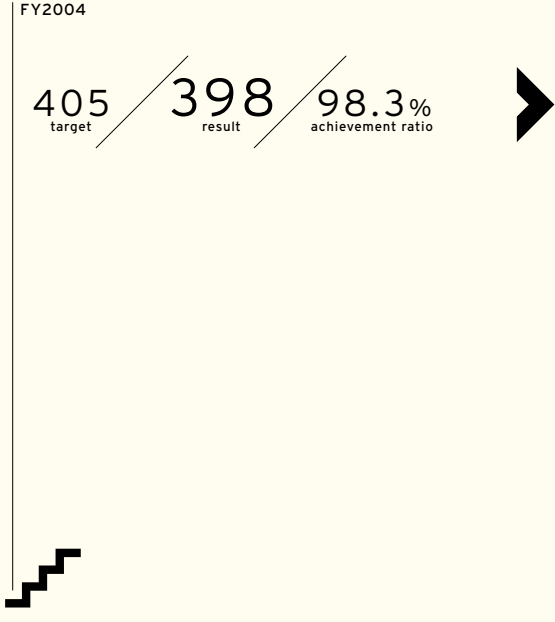
Note: Sales of gasoline, kerosene, diesel oil and fuel oil A

REASON FOR INCREASING THE DIRECTLY OPERATED/MARKETING SUBSIDIARY RATIO

- > The sale of automobile fuel oil through service stations is a main source of revenue and earnings for Cosmo Oil. Approximately 40% of the Company's sales volumes are sold through directly operated service stations or those operated by marketing subsidiaries and designated independent dealers. Sales of automobile fuel oil through service stations account for approximately 90% of earnings, with sales through directly operated service stations and those operated by marketing subsidiaries producing the best profit margins. This is because the strategic collaborative marketing efforts among directly operated and subsidiary-operated service stations to uniformly and actively promote higher sales volume self-service stations and to expand non-fuel merchandise sales works to lower selling costs.



Number of self-service SSs

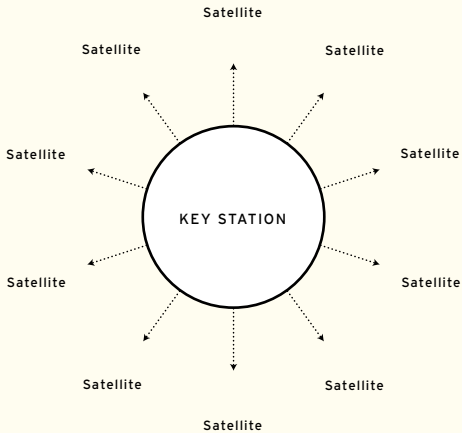


TACTIC 1: ESTABLISHMENT OF NEW DIRECTLY OPERATED AND SUBSIDIARY-OPERATED LARGE-SCALE SELF-SERVICE STATIONS

- > Cosmo Oil has two strategies to raise the directly operated/marketing subsidiary ratio. The first is the establishment of new large-scale self-service stations operated directly or through marketing subsidiaries, and the second is revitalization of loss-producing designated independent dealers by converting them to directly operated self-service stations. Presently, the nationwide ratio of self-service stations to total service stations is 6% to 7%, compared to an optimal ratio of around 45% as indicated by customer needs. However, it is also a fact that self-service alone does not draw customers. The reason that Cosmo Oil continues to promote self-service stations amidst a declining pace of self-service station diffusion among other companies in the industry is our accumulated know-how in directly operated/marketing subsidiary self-service stations. Our strength is the ability to provide a uniform level of service in all our service stations. Evidence



Auto B-cle network



The Auto B-cle network features key stations, in which investments are concentrated. Ten smaller satellite stations in the vicinity of each key station act as customer service points and operate at lower costs.

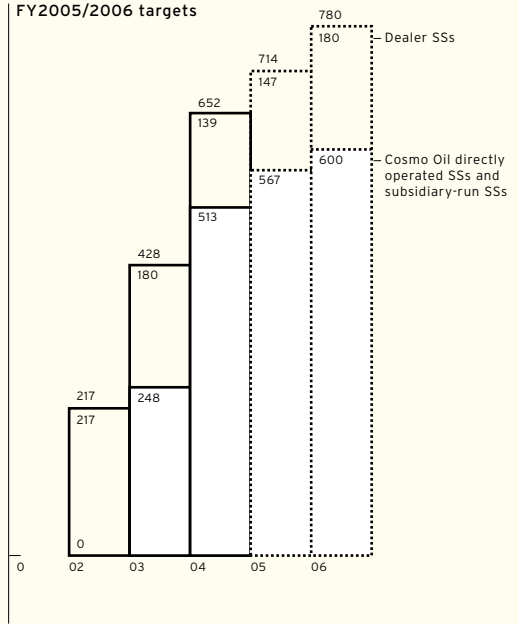
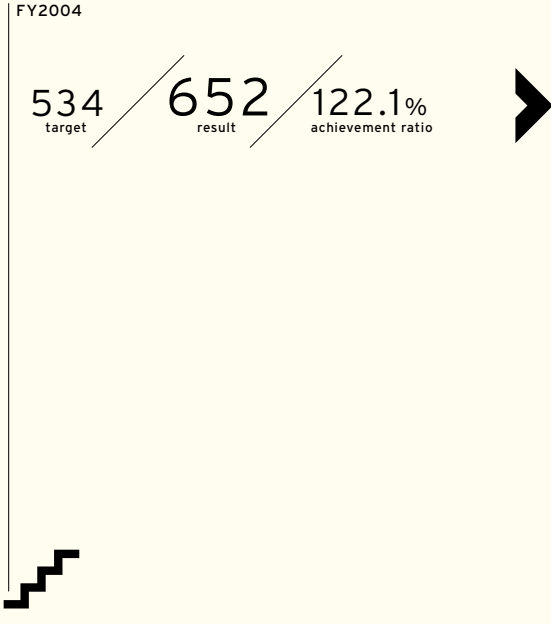
of this is the fact that Como Oil's self-service station average monthly sales volumes are 391kl/month, which is roughly two times the industry average of 193kl/month. Of the 405 self-service stations we planned to have open by the end of fiscal 2004, 398 are in operation, and are an indication of the progress being made in establishing the basis for distribution reforms. The goal for the end of fiscal 2006 is 710 self-service stations.

TACTIC 2: RESPONDING TO CUSTOMER CAR CARE NEEDS WITH THE AUTO B-CLE SERVICE STATION NETWORK

- > Cosmo Oil's strategic response to the car care needs of customers is the creation of the directly operated Auto B-cle network. The Auto B-cle network strategy consists of a core of key large-scale service stations offering car repair, car wash and other car care facilities, with 10 other small and medium-sized satellite



Number of Auto B-cle SSs



service stations in the vicinity of each key station acting as the customer service point for mandatory automobile inspection and maintenance services. By creating such a network, investment cost can be minimized through concentrated investment in the key service station, while customers are able to receive the same level and quality of service as the key station at any of the satellite stations. In addition, direct operation means that car care profits are directly reflected in Cosmo Oil's consolidated financials. We had 652 Auto B-cle service stations at the end of fiscal 2004, and are aiming for 780 by the end of fiscal 2006.



Number of Cosmo The Cards in force
(millions of cards)

FY2004

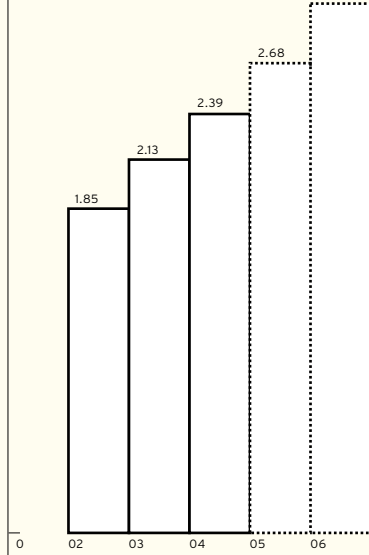
2.50 / 2.39
target / result

Customer utilization ratio

65%



FY2005/2006 targets

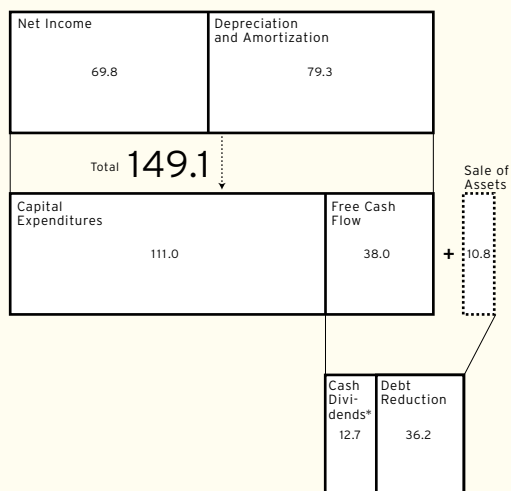


TACTIC 3: A CARD TO FURTHER ENHANCE THE CONVENIENCE OF SELF-SERVICE AND AUTO B-CLE STATIONS

- > There is a high degree of synergy between self-service stations and the Cosmo The Card credit card issued by Cosmo Oil, as 55% of self-service customers pay with the card, and as of the end of fiscal 2004 it was utilized by 65% of our card members. The reason that customers use the card is that it allows them to buy fuel and car care services without using cash, to conveniently and smoothly pay at the pump, and to receive cash-back benefits when purchasing fuel or car care merchandise, while the cards also have an ETC (electronic toll collection) function. In addition, once customers experience the convenience of the card, they continue to use it at Cosmo Oil's service stations. Consequently, Cosmo The Card is an important tool for drawing customers to newly opened self-service stations. The actual number of cards in force in fiscal 2004 was 2.39 million, compared with a planned 2.50 million, while the plan for fiscal 2006 is for 3.02 million cards in force.

Effective use of resources:**Allotment of funds**

(billions of yen)



*Cash dividends assumed at 6 yen per share

FINANCIAL STRATEGY AND CAPITAL EXPENDITURE PLANS

- > In order to ensure financial health, Cosmo Oil plans to reduce interest-bearing debt to ¥520.0 billion by the end of fiscal 2006. On the other hand, our Medium-Term Management Plan represents the cusp of a new growth stage, meaning that investment is required to support earnings growth through value creation. Our three-year plan calls for ¥111.0 billion in capital expenditures, which exceeds projected depreciation and amortization of ¥79.3 billion. However, we believe this level of investment is necessary to facilitate operating cash flows from fiscal 2007 onward.

These capital expenditures mainly consist of investment in environmental countermeasures, investment in directly operated/marketing subsidiary self-service station development, and crude oil exploration.

Our aim is to improve corporate value through earnings growth made possible by the abundant cash flows generated by value creation, and the reduction of interest-bearing debt.

As for shareholder returns, it is our intention to continue paying stable dividends, while maintaining an appropriate balance with interest-bearing debt reduction and forward-looking investment.

