

REVIEW OF OPERATIONS

Cosmo Oil, in order to ensure a stable energy supply, is involved in all aspects of oil production, from the upstream business of oil exploration and production, to the downstream aspects of marketing finished petroleum products.

OIL EXPLORATION AND PRODUCTION

The Cosmo Oil Group has been involved in oil exploration and production since the latter 1960s. In the United Arab Emirates (Abu Dhabi), Group companies Abu Dhabi Oil Co., Ltd. and United Petroleum Development Co., Ltd. focus on ensuring stability and sophistication of the Group's operations. In Qatar, where Qatar Petroleum Development Co., Ltd., owned 42.5% by Cosmo Oil, has been conducting exploratory drilling, commercial production is scheduled to commence in fiscal 2006. Adopting selection and concentration, along with an emphasis on safety as its basic investment strategies, Cosmo Oil is seeking to ensure stable production in its core areas of Abu Dhabi and Qatar.

In order to further strengthen the existing oil development business, in July 2003 Cosmo Energy Exploration and Development Co., Ltd. was established out of the International Department, providing the Group with a unified structure for the oil development business.

OIL REFINING

The Cosmo Oil Group refines the crude oil brought from overseas at its four refineries, located in Chiba, Yokkaichi, Sakai and Sakaide, to produce such products as gasoline and kerosene. These refineries are located near cities in

FROM OIL  EXPLORATION,



Japan with large consumer bases, making these production facilities ideal in terms of shipments. A fully integrated production and marketing structure utilizing such areas is the most notable aspect of Cosmo Oil, allowing its production to respond in a timely and appropriate manner.

Currently the Group is focusing on improving efficiency. Along with progress in added-value production through sophisticated refining techniques such as fluid catalytic cracking (FCC), and the lowering of refining costs by cutting maintenance expenses and energy conservation, Cosmo Oil is enhancing its international refining competitiveness through an optimization of the supply and demand balance by making use of diversification in purchasing methods and a strengthening of product exports.

DISTRIBUTION

Cosmo Oil has utilized a number of streamlining measures in its distribution operations as a means of improving efficiency and controlling costs. To improve the utilization rate of its tanker trucks, Cosmo Oil has increased the number of service stations at which the drivers alone unload the trucks, without the need for service station personnel to be present, and in fiscal 2003 acquired tanker trucks with a larger average load capacity of 19kl. Oil storage facilities have also been consolidated, reducing the number of locations from 39 to 38. Along with a rationalization scheme for maritime transport, further reductions have been made in distribution costs.

THROUGH  REFINING,



OIL MARKETING

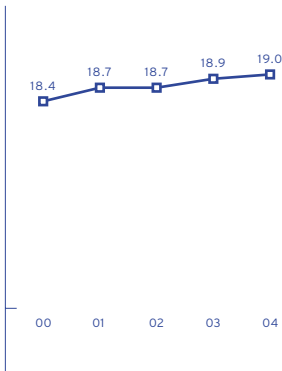
The most important task in expanding the earnings of the Cosmo Oil Group is to improve the selling power of service stations with better quality. In order to accomplish this, it is necessary to strengthen the aspects of the Cosmo Oil brand selected by customers.

First, there are the self-service stations. Surveys show that approximately 46% of customers want self-service stations. All of Cosmo Oil's self-service stations offer 24-hour service, and a smooth payment system at the pump. As evidence of their success, the average monthly sales volume at Cosmo Oil's self-service stations is 391kl, nearly four times the total of 106kl/month at our regular service stations. Compared to the industry average of 193kl/month for self-service stations, it is clear that Cosmo Oil is the preferred choice of customers. In fiscal 2004 the Company was working on the development of a type of service station combined with a convenience store, and has reached an agreement for joint development with Ministop Co., Ltd., a convenience store chain with locations nationwide.

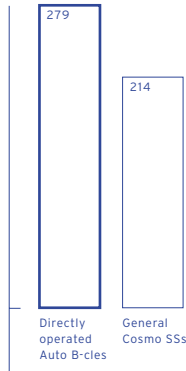
Another customer need is automotive maintenance and repair. Large-scale stores offering car care products and services are being built alongside service stations. Cosmo Oil is also building up its network of Auto B-cle service stations, directly operated businesses that offer comprehensive automotive support, from regular inspections and maintenance to compulsory safety inspection services. Gross profit from car care stations totals ¥2,401,000 per month, well beyond the ¥1,847,000 per month from regular service stations.

DISTRI BUTION,

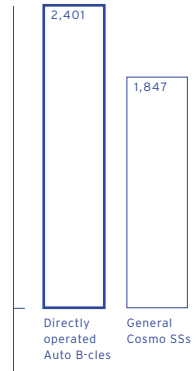
Average load capacity of tanker trucks
(kl)



Competitive advantages brought by Auto B-cles—Automobile fuel sales volume
(kl/month)



Gross profit from car care business
(thousands of yen/month)



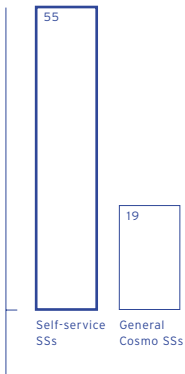
Cosmo Oil is also employing a strategy of offering its own credit card as a means of increasing customer convenience. Cosmo The Card is an in-house credit card that can only be used at Cosmo service stations. The card can be issued instantaneously at service stations, makes payment smooth, and offers a cash-back system based on the amount of fuel and car-care products and services purchased, making it popular with drivers and helping to expand the number of loyal customers. The card is particularly well suited to self-service stations, where approximately 55% of all customers use it for payment.

The Company also offers an in-house training program to help cultivate service station personnel, who are the foundation of better service. Accumulated expertise in operating service stations is shared with sales subsidiaries and affiliated stores, while each member of the service station staff conducts thorough field service tailored to the particular characteristics of the region.

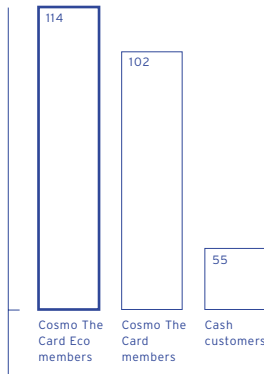
Service stations these days do not simply sell gasoline and diesel fuel, but are judged on the degree of comfort they provide to their customers, a shift from “quantity” to “quality.” The initiatives and measures noted above are what will nourish the formation of an unmatched Cosmo Oil brand. The Cosmo Oil Group will continue to work toward providing products and services at competitive prices that genuinely satisfy customers.

MARKETING,  AND SELLING,

Cosmo The Card use rate
(%)



Competitive advantages brought by Cosmo The Card -Automobile fuel purchase volume
(kl/month)



Average purchase of car care products
(yen/month)



RESEARCH AND DEVELOPMENT

The Cosmo Oil Group participates in a special research project with the New Energy and Industrial Technology Development Organization (NEDO) and Petroleum Energy Center (PEC) in the field of petroleum products and refining technologies, and has developed a diesel oil desulfurization catalyst that enables the production of sulfur-free diesel oil (sulfur content of 10ppm or less) thanks to higher activation than other catalysts on the market. We have been conducting feasibility performance tests by using the catalyst technology at our refineries since May 2004.

In the new energy field, we participate in a special research project with the Japan National Oil Corporation (JNOC) involving the development of a proprietary catalyst for gas-to-liquid (GTL) technology for the manufacture of clean fuels such as kerosene and diesel oil that do not contain sulfur or aromatic compounds. We have commenced feasibility studies on the commercialization of GTL oil while conducting experiments at a pilot plant in Hokkaido.

In the field of environmental technologies, we have launched full-scale operations for reducing sludge generated at wastewater processing facilities at our refineries. These efforts have achieved a dramatic reduction in excess sludge, which must be disposed of as industrial waste. We began selling the equipment by licensing it to Cosmo Engineering Co., Ltd. In addition, Cosmo Oil developed and began trial sales from December 2002 of Immunoeco DXN, a reagent kit able to simply measure dioxin levels using the immunoassay method. Moreover, Cosmo Oil began sales of Pentakeep V, the world's first fertilizer with ALA, and signed a sales agreement with Seiwa Co., Ltd. in June 2003. The product was developed for agriculture applications using ALA (5-aminolevulinic acid) using the Company's low-cost manufacturing methods.

Cosmo Oil Group's research and development costs for fiscal 2004 totaled ¥3,558 million (oil business: ¥3,496 million; other businesses: ¥62 million).

TO EFFORTS FOR THE



FUTURE OF ENERGY





AND FOR THE BENEFIT OF STAKEHOLDERS