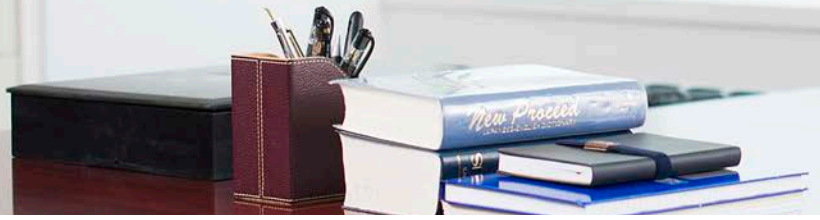
Message from the President and CEO

Aiming to be a Vertically Integrated Global Energy Company

President and CEO

森川桂造

Keizo Morikawa



Management Vision

The Cosmo Energy Group's management vision is "In striving for harmony and symbiosis between our planet, mankind and society, we aim for sustainable growth towards a future of limitless possibilities."

The Cosmo Energy Group is engaged in the petroleum product business. Although our products are taken for granted as essential products in our daily life, we are reminded of their precious value in the case of disasters. At the time of the Kobe, Tohoku and Kumamoto earthquakes, which occurred in 1995, 2011 and 2016 respectively, gasoline and gas oil, which are essential to transport required materials and people, contributed to people's survival, as did heating oil and liquid petroleum gas used for cooking and lighting. Clothing, PET bottles and tires are also made from naphtha, which is another type of petroleum product. The Cosmo Energy Group is thus dealing with daily necessities, which support everyone's daily lives. At the same time, as the Cosmo Energy Group is a corporate entity that has various types of stakeholders, we have to pursue an appropriate level of profits and reward our customers, shareholders, employees, business partners, local residents and the administration. By consistently supplying essential energy for everyone's daily lives, we aspire to keep contributing to society, as stated in the Cosmo Energy Group's management vision.

FY2015 Results and FY2016 Forecasts

In our FY 2015, ended March 31, 2016, we recorded ordinary loss of ¥36.1 billion and net loss attributable to owners of parent of ¥50.2 billion, mainly due to inventory valuation loss of ¥68.7 billion, caused by lower crude oil prices. Ordinary income excluding inventory valuation is ¥32.6 billion. Under such management environment, we have promoted to establish more alliances to enhance competitiveness of our refineries. We began to construct pipelines between our Chiba Refinery and the Chiba Plant of Tonen General Sekiyu K.K. and agreed on a business alliance between our Yokkaichi Refinery and Showa Yokkaichi Sekiyu Co. Ltd. In the petrochemical business, we consolidated Maruzen Petrochemical Co., Ltd. into a subsidiary company in order to create synergies with our petroleum business.

For FY2016, ending March 31 2017, we are forecasting ordinary profit of ¥67.5 billion and net profit attributable to owners of parent of ¥47.5 billion, assuming a gradual rise in crude oil prices. Excluding the inventory valuation, ordinary income is expected to be ¥54.5 billion. In the Oil Exploration & Production business, the Hail oil field development, which will be cost competitive by utilizing the existing facilities for production and shipment, will be in the final stage to start production in the first half of FY2017. In the petroleum business, Chiba Refinery, which has acquired the factory

See page 22 for details on inventory evaluation. ▶

certification, will achieve a two-year long-running operation, improve operating rate, and optimize its maintenance cost. This is expected to improve profit of the petroleum business by approximately ¥7.0 billion. Concerning the petrochemical business, we have begun studies on a reciprocal arrangement of raw materials and fuels between our Chiba Refinery and Maruzen Petrochemical's Chiba Plant, and manufacturing and sales of value-added products through alliance with other companies.

FY2015 Results and FY2016 Forecasts

(Billion yen)

	FY2015 Results	FY2016 Forecasts
Ordinary income	- 36.1	67.5
Impact of inventory valuation	- 68.7	13.0
Ordinary income excluding inventory valuation	32.6	54.5
Each Segment		
Oil exploration and production business	18.6	7.5
Petroleum business	5.8	35.0
Petrochemical business	4.2	7.0
Other*	4.0	5.0
Profit attributable to owners of parent	- 50.2	47.5
Dividend per share	¥ 40	¥ 50 (plan)

* Including consolidated adjustment

Reference		
Dubai crude oil price (US$ /barrel)	45.7	40.0
Foreign exchange rate (¥/US$)	120.1	110.0

Fifth Consolidated Medium-Term Management Plan

With the long-term aim of becoming a Vertically Integrated Global Energy Company, the Cosmo Energy Group's fifth consolidated medium-term management plan (FY2013 to FY2017) advocates a five-year period for solidifying the base for growth and building a strong management foundation. In the petroleum refinery and petrochemical businesses, in addition to promoting rationalization and efficiencies through alliances, we have identified the three businesses of Oil Exploration & Production, retail (car leasing for individuals) and wind power generation as growth areas, and are actively expanding those businesses. Through such endeavors, we will strive to establish a business portfolio which can withstand fluctuation in crude oil prices and other changes in the environment and is expected to generate stable profits.

Specifically, in the petroleum refinery business, we have established a joint business with the Tonen General Sekiyu at the Chiba Refinery, and have started to construct pipelines between the two refineries. In addition, we have also agreed on a business tie-up contract with Showa Shell Sekiyu K.K. at the Yokkaichi Refinery. Through such activities, we aim to enhance our refinery competitiveness. When the Chiba pipelines are completed, we expect to generate synergies of ¥10 billion annually at both companies stemming from the optimization of facilities based on

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integrated production plans and enhanced added value of products. In the petrochemical business, we will strive to enhance the profitability of the paraxylene business of Hyundai Cosmo Petrochemical (HCP), which has been jointly established with Hyundai Oilbank (HDO). Furthermore, in March 2016, we consolidated Maruzen Petrochemical Co., Ltd. into a subsidiary company and will pursue the generation of synergies through integrated management with the petroleum refinery business.

Regarding profitability, we have set an ordinary income target of ¥110 billion for FY2017 based on the steady implementation of the initiatives of the medium-term management plan, assuming a crude oil price (Dubai) of US$70 per barrel and an exchange rate of ¥120 per dollar.

The Cosmo Energy Group's Strengths and Growth Strategy

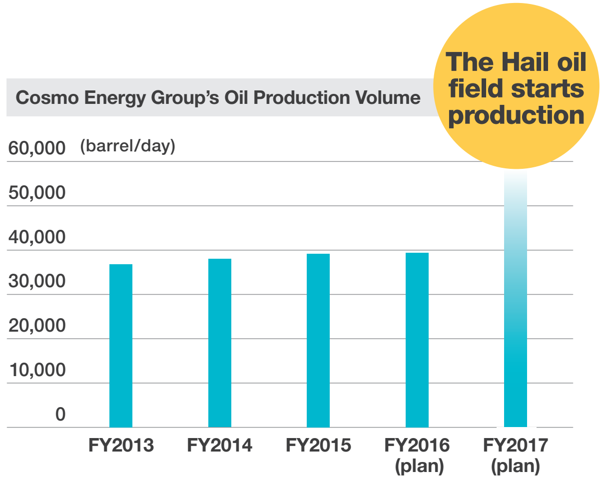
We have identified the businesses of Oil Exploration & Production, retail (car leasing for individuals) and wind power generation as the three growth areas.

The first is the oil E&P business. Our best strength is that, based on our strong relationship of trust with the Emirate of Abu Dhabi, a member of the United Arab Emirates, we are participating in interests in the Middle East as an operator that takes initiatives in the development process. Among our three major operating companies, a project with Abu Dhabi Oil Co., Ltd. has been engaged in stable production for nearly 50 years.

Our group's oil E&P business has competitiveness with low risk as we focus on discovered and yet to be developed oil fields. The Hail oil field, which is under development, is also a highly competitive project, as in the case of our other oilfields that are currently in operation. The start of production at the Hail oil field in the first half of FY2017 is projected to almost double the production volume of Abu Dhabi Oil. In addition, we have entered into a strategic comprehensive cooperative relationship with Compañía Española de Petróleos, S.A.U. (CEPSA)*1, which is fully owned by our largest shareholder International Petroleum Investment Company Group(IPIC)*2. Having a workshop with Abu Dhabi National Oil Company and CEPSA on a regular basis, we are aiming to jointly acquire new interests.

The second growth area is the retail business. While domestic service stations are still facing harsh competition and the number of service stations will continue to decrease for the time being, we have also been engaged in . However, – the car life-related business such as vehicle sales and leasing, vehicle inspections, maintenance, and car insurance, in addition

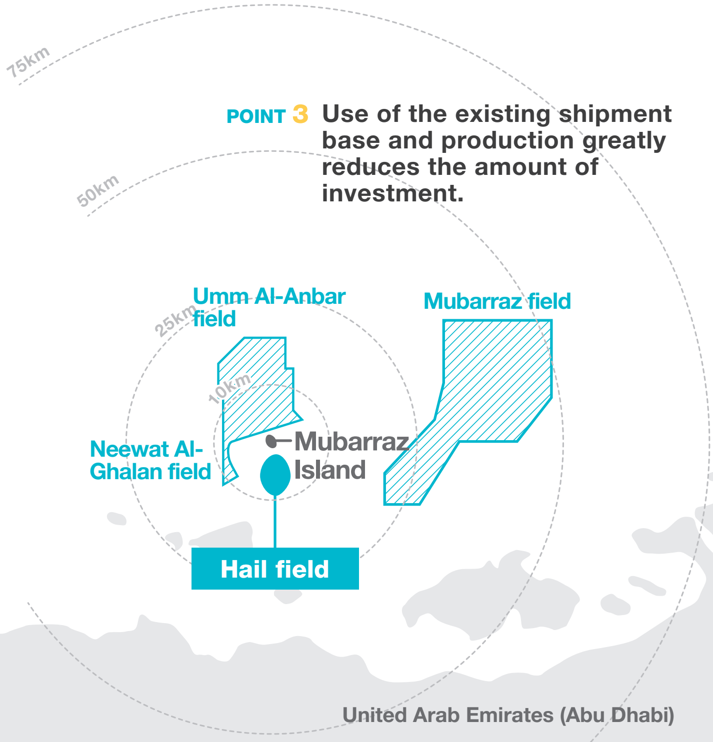
Impact of Production by the Hail Oil Field



POINT 1 Hail's peak production volume is projected to be equivalent to that of Abu Dhabi Oil Company's existing three oil fields.

POINT 2 The Hail oil field and the existing three oil fields enhance cost competitiveness, as production volume increases.

POINT 3 Use of the existing shipment base and production greatly reduces the amount of investment.



to our main business of sales of gasoline and gas oil. The size of this car-life-related market is estimated to be approximately ¥27 trillion.

Compared to competitors in other industries, we receive an overwhelmingly high number of customers, as approximately half a million vehicles visit our service stations per day. We plan to make the most of such contacts with customers and develop our car-life-related business, with its core being car leasing for individuals.

In our car leasing services for individuals, we adopt a monthly fixed rate payment system including car inspections and insurance, etc. We have also acquired a business model patent for combining fuel oil discounts as a package. Our service has been particularly well received by women and seniors who wish to easily use a car in the suburbs. In fact, the number of contracts exceeded 27,000 at the end of FY2015.

The third growth area is wind power generation, which is anticipated to grow due to environmental measures over the long term. Supported by FIT (Feed-in Tariff), which was implemented in FY2012, the business has become a stable source of revenue. Our group company Eco Power Co., Ltd. holds the third largest share of the domestic market in terms of generation capacity. It is currently developing a new wind power generation facility and plans to commence its operation at Watarai Cho in Mie Prefecture, Japan in the second half of FY2016. Power generating capacity is expected to expand from 184,000 kW at the end of FY2015 to around 230,000 kW by the end of FY2017, the final year of the current Medium-Term Management Plan.

It has been claimed that the number of domestic oil wholesale companies will be consolidated into major three companies. Amid an ever-changing management environment, our group, the third largest, needs to conduct expeditious management. While our competitors are expanding their business scale, we will explore the most effective way to ensure sustained growth by utilizing our holding company system as well as our strengths and advantages, rationalizing our operations more rapidly than our competitors, and developing business with mobility and flexibility.

*1 A major Spanish petroleum company
*2 An investment company in the energy and related sectors that is fully owned by the Abu Dhabi government

Accelerating Management Efficiency by Establishing a Holding Company System

In October 2015, we incorporated a holding company structure comprised of a holding company and three core operating companies in the areas of oil exploration & production, oil refining and petrochemicals, and oil product sales. Our objectives in establishing the new system are threefold: (1) to distribute stable dividends; (2) to ensure prompt decision-making by transferring responsibility and authority to business companies; and (3) to promote alliances in each business segment. Contributions and dividends from each business company will enable our group to provide stable dividends even when we incur inventory valuation losses caused by a drop in crude oil prices. I am expecting that partial optimization will lead to total optimization. Furthermore, I have been encouraged by an increase in constructive suggestions from each business company at the time of making important decisions concerning investments and alliances and their swifter execution of business measures.

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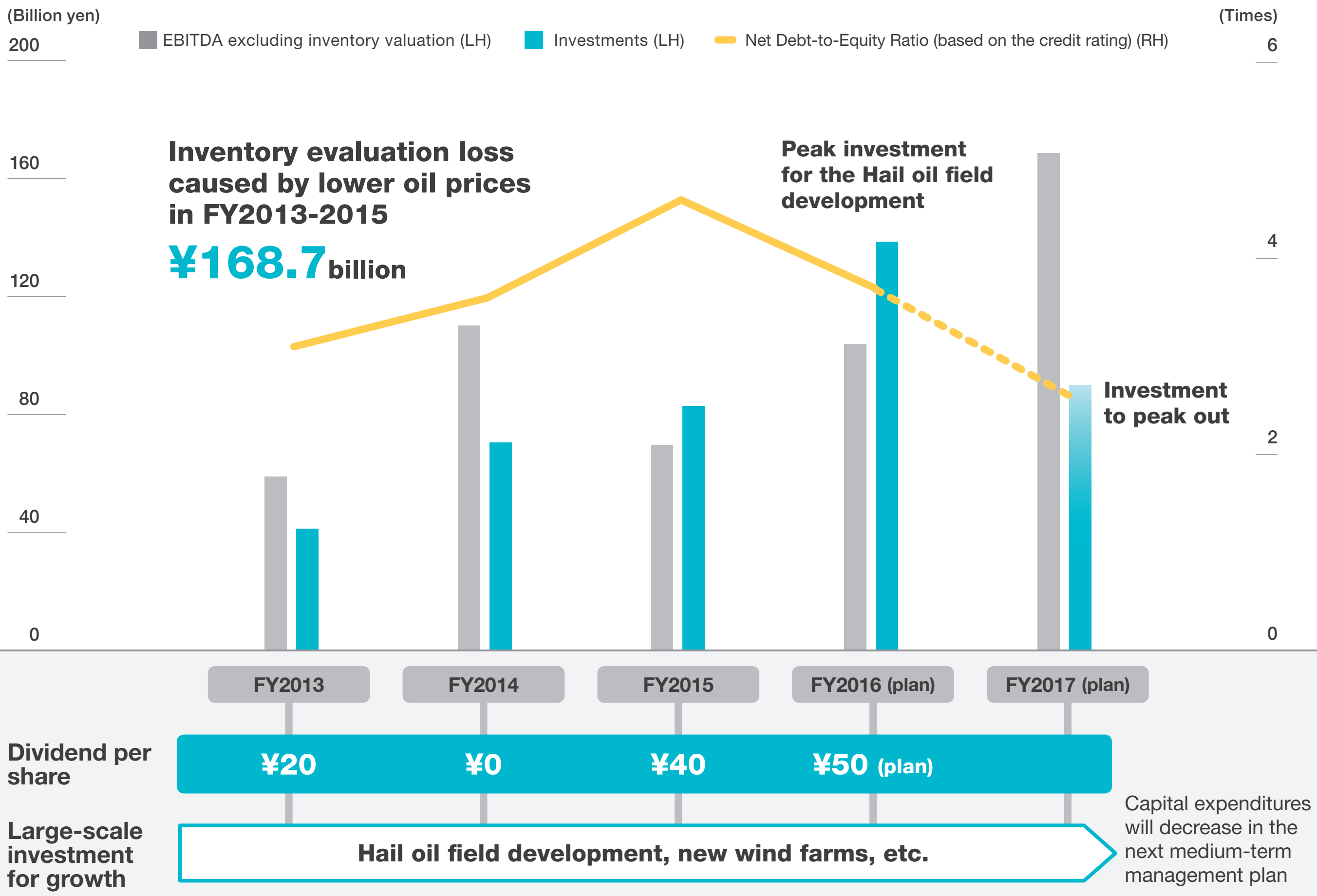
Enhancing Corporate Governance

As we incorporate a holding company system, we are working on the enhancement of our corporate governance system with the aim of increasing our long-term corporate value. Complying with the Japanese corporate governance code, we have added two independent outside directors so that we can incorporate multidirectional perspectives from outside our group and industries other than the oil industry. In accordance with the transition to a company with a supervisory committee, four of our ten directors are outside directors, including two supervisory committee members. Moreover, by forming a nomination and remuneration advisory committee and by introducing an executive remuneration system linked to business performance, we have ensured business transparency and have strengthened our accountability.

Capital Policy Focused on the Future

We have been executing numerous large-scale upfront investments mainly in the period of our current mid-term management plan, such as the Delayed Coker Unit (heavy oil thermal cracking unit) at the Sakai Refinery, the development of the Hail oil field, a paraxylene production facility at Hyundai Cosmo Petrochemical (HCP), and a wind power generation business. In addition, we recorded an inventory valuation loss of approximately ¥170 billion over three years from FY2013 due to a sharp decline in crude oil prices, and suffered from an increase in cost and an opportunity loss, which were caused by the impact of the March 2011 earthquake at Chiba Refinery, our main refinery. As a result, our equity capital was significantly impaired. However, we are expecting a significant drop in the amount of investment in and after FY2017 as an investment in the Hail oil field will peak in FY2016, and many of our large investments are entering a stage where we collect a large

Cash Flow Improves as the Amount of Investment Peaks Out



investment return. Despite expecting a decrease in domestic sales volume of oil products, we believe that the profitability of our petroleum business will stabilize as demand and supply in the domestic market are becoming more balanced following the enactment of the Act on Sophisticated Methods of Energy Supply Structures. Moreover, we intend to expand profit by realizing alliances among refineries and in our three growth areas, and as we will streamline our balance sheet by adopting measures such as business divestments and asset sales, we will significantly improve our cash flow and financial position.

We regard our dividend policy as the highest priority issue in our capital strategy, and we are committed to stable dividend payments. In FY2015, we recorded a consolidated ordinary loss due to an inventory valuation loss stemming from lower oil prices, but we paid a dividend of ¥40 per share for the year, as we are expecting that the implementation of the above measures will enable us to realize a profit turnaround going forward. For FY2016, we are planning to increase the dividend per share to ¥50 and improve our financial structure at the same time.

Promoting CSR Management

Although our group provides stable energy that is essential to everyone's daily lives, we are also aware that we inevitably place some degree of burden on the global environment, as we mainly handle fossil fuels. Based on our full awareness and consideration of this fact, our group is promoting CSR management that combines the management plan and our CSR initiatives. We believe that profit generation and CSR activities should go hand in hand and that we must achieve both to expand corporate value. Among our CSR activities, it is most important for our group to implement safety control measures completely and successfully. Our refineries, in addition to their conventional measures, will implement a new operating management system to realize safe operation and stable supply at a higher level than the world standard. Furthermore, we have been a member of the "Global Compact" since 2006 and have been promoting CSR management by respecting basic principles on human rights, labor, the environment, and the prevention of corruption. We will also raise productivity by positively promoting diversity and making decisions by incorporating various ideas and opinions of employees with diverse backgrounds. Other important initiatives include increasing the number of expatriate employees, fostering human resources capable of global operations, and promoting the participation of women.

We will remedy long working hours and focus on "working style reform", so as to raise productivity and enhance corporate value.

Message to Shareholders

The environment surrounding Japan's oil industry is severe and rapidly evolving. We are now entering a stage where we collect a return from our recent investments. I would like you to know that we will adhere to our stable dividend payments, despite recording losses on an accounting basis, as we are fully confident of our future profit potential and the recovery of our cash flow. By allocating our financial sources to growth areas in which we can leverage our strengths, the Cosmo Energy Group will expand its corporate value while serving society as a public institution. We sincerely hope our shareholders understand our management vision and will continue to extend their support for many years to come.

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President and CEO
Keizo Morikawa