

Interview with Outside Directors

Enhancement of long-term corporate value

Accelerating management speed in a rapidly changing business environment

Independent Outside Director, Supervisory Committee Member
Sakae Kanno

* See details of his biography on p. 30.



Q How do you see the Cosmo Energy Group? Please also tell us what you think the advantage or strengths and the issues of the Cosmo Energy Group.

A As a general oil and energy company, Cosmo Energy Group operates an integrated business from oil exploration and production (upstream) to oil refining and marketing (downstream) and petrochemical business, has a strong profit structure, and has established a robust value chain structure as the third strongest player among its peers despite being small in scale. Our challenge going forward is to complete the measures for the Medium-Term Management Plan and to infallibly profit from all the outcome.

Q How do you evaluate the management as an outside director?

A I evaluate the fact that the Medium-Term Management Plan is identified as the main pillar of all management plans, not merely as a wish list. Cosmo has overcome tremendous handicaps from the major earthquake in 2011 and have speedily strengthened foundation of each business. This has resulted in exceeding the targets in improving business portfolio and significant enhancement of profit structure.

Q Do you see any change in management after the transformation to a holding company structure?

A Due to separation of supervision and execution, the roles for each have been clarified: the holding company to take an overview of the whole group and each core operating company to take responsibility for execution. As a result, specific issues and challenges for each business segment have been identified. As each takes responsibility in addressing to the issue, I feel a sense of speed in management and that outcome is emerging.

Q What role do you intend to play as an outside director?

A In addition to attending meetings of the Board of Directors, I have discussions with each segment. I try to speak out candidly on issues emerging from these meetings in order to contribute to active discussions at the Board meetings.

Q Is there anything you particularly keep in mind when speaking out at the Board meetings?

A Whatever an agenda item is, I try to understand the logic behind it. In particular, I think the current and future market assessment and visualizing risks are important.

Q What do you think is needed for Cosmo Energy Group to further raise corporate value?

A As roles of the holding company and each core operating company have become clear, I feel that the management speed has increased. However, given a rapid change in the business environment, we need to accelerate more.

Q Will you give a message to shareholders?

A In the Fifth Consolidated Medium-Term Management Plan, triggered by the transformation to a holding company structure, the development of the business portfolio and the enhancement of competitiveness for refining segment have been advanced more than planned. As their impact should appear on earnings over time, I sincerely hope that you keep looking forward to the future of the Group.

The Cosmo Energy Group currently has 4 outside directors out of 10 directors. Two outside directors are from Japan and the remaining two from the Emirate of Abu Dhabi.

We interviewed two of them and received candid feedback and useful suggestions: from Mr. Kanno, Independent Outside Director, mainly on the changes in the management before and after the transforming to a holding company structure; and from Mr. Kaabi who joined the Board as Outside Director in June 2017, mainly on measures for further enhancing corporate value.

Improve free cash flow generation for realizing more robust financial position and stable and attractive dividends

Outside Director

Musabbeh Al Kaabi

* See details of his biography on p. 29.



Q Please tell us what you think the advantages or strengths and the issues of the Cosmo Energy Group.

A I think that Cosmo's strengths are a long-standing history and extensive experience in the Japanese downstream sector, which has enabled it to respond to drastically changing business environment. On the other hand, Cosmo is facing a very challenging business environment in Japan. The biggest issue at this stage is its highly leveraged balance sheet, which may limit its ability to pursue new growth opportunities and withstand volatility in the energy market.

Q What do you think is necessary for the Cosmo Energy Group to further improve its corporate value?

A I believe that Cosmo should develop a solid five-year strategy, which should focus on enhancing the profitability of the refining and marketing business. In addition, a strong emphasis should be put on the expansion of its wind power business and petrochemical segments. Cosmo should strive to improve its free cash flow generation to improve its financial position and pay stable and attractive dividends to its shareholders.

Q As you join the Board of Directors as an outsider director, will you share with us what kind of role you hope to play?

A As an outside director, I intend to bring an objective and external perspective to the evaluation of a company's prospects, assist in setting and revising strategy and objectives, support the company as it navigates through an uncertain commodity prices outlook, and consider management's plans for succession planning.

Q What does MIC, as a top shareholder of the Cosmo Energy Holdings, want Cosmo management to do?

A Since its transformation to a holding company structure in October 2015, as separating the supervisory function from operational execution, Board of Directors of the holding company is focusing more clearly on the strategic management of the group. We support several business transformation initiatives taken by management since the transformation to the holding company. We expect Cosmo management to strive to improve cash flows and the balance sheet, ensure stable dividends, and identify new areas of growth in local and overseas markets.

Q Will you give a message to shareholders?

A The demand for oil products in Japan has been in structural decline, driven by the aging population and improved fuel efficiency. Cosmo Energy Group has responded to the challenges by undertaking several initiatives to enhance competitiveness of its refining, marketing and petrochemical segments, as well as developing the Hail Oil Field in Abu Dhabi and increasing its footprint in wind power business. All these measures are expected to strengthen Cosmo's position.