



We execute our new consolidated medium-term management plan to achieve a long-term increase in corporate value under the slogan of the plan, “Oil & New”.

President, Representative Director, Chief Executive Officer **Hiroshi Kiriya**

All of us in the Cosmo Energy Group did our best, enabling us to recover to a profitable position

FY2017 (ended March 31, 2018) was the final year of the previous consolidated medium-term management plan (FY2013 to FY2017) and my first year as President and CEO. I am pleased that we were able to generate a far greater profit than planned at the beginning of the year. This was a result of all of our employees' steady execution of a wide range of initiatives in the midst of a tough period characterized by a decline in crude oil prices, the continuing impact of the Great East Japan Earthquake of

2011 and the accident at the Chiba Refinery, and an ongoing oil industry consolidation in Japan. I would like to extend my thanks to shareholders, customers, business partners, and all other stakeholders for supporting us during such a harsh period.

FY2017 results

In FY2017, the final year of the previous consolidated medium-term management plan, ordinary income increased by ¥35.5 billion from the previous year, to ¥116.9 billion, and profit attributable to owners of parent increased by ¥19.6 billion, to ¥72.8 billion. Ordinary income excluding the impact of inventory valuation



Basic policy of the new consolidated medium-term management plan

- 1 Secure profitability to enable reinvestment
- 2 Expand growth drivers toward the future
- 3 Improve our financial condition
- 4 Strengthen the Group's management foundations

increased by ¥53.9 billion, to ¥95.9 billion. The Petroleum Business achieved an increase in ordinary income from the previous year, thanks to safe operation and high operating ratios at our refineries, and maintained appropriate margins with an improvement in the domestic supply-demand balance. The Oil Exploration and Production (E&P) Business also posted a rise in profit, attributable to a rise in crude oil prices in FY2017. The Petrochemical Business also saw increased profit, thanks to the absence of regular maintenance at Maruzen Petrochemical, in addition to the firm market conditions. At the end of FY2017, the net worth ratio improved 3.3 points from the end of the previous year to 14.1%, while the net debt to equity ratio* was 2.3 times, down 1.3 points from the end of the previous year.

Realignment of the business portfolio in keeping with ongoing efforts to reduce CO₂ emissions as the long-term direction of our business. Taking an expected decline in oil demand as opportunity

Awareness for Sustainable Development Goals (SDGs) is increasing worldwide and many countries and companies

are working proactively to achieve the goals. Global warming and climate change are important keywords for the Cosmo Energy Group's long-term business environment. Based on the Paris Agreement, the Japanese government is targeting reduction in CO₂ emissions of 26% by FY2030 (compared to FY2013). Our Group has also set its own targets, at similar reduction levels. To achieve those or comparable reduction targets, the transition to a fossil-fuel-free society is expected to accelerate worldwide, accompanied by the widespread use of electric vehicles and the expansion of the sharing economy. Given these changes as well as an expected decline in population in Japan, while we are likely to continue to see domestic demand for gasoline in the future, the demand is likely to decline.

In this environment, we will seek to increase our competitiveness in the petroleum-related businesses and at the same time to grow our renewable energy business into a profit generator by making active investments. We are thereby anticipating significant changes in our profit structure over the next 20-30 years. Specifically, we envision the following changes:

First, the Petroleum Business is expected to contribute

*Calculated on the basis that 50% of the ¥60 billion Hybrid Loan made on April 1, 2015 is included in Equity.

Enhancing the earnings strength of the Petroleum-related businesses and growing the Renewable Energy Business into a new main business segment

less profit in line with the decline in domestic demand, despite our efforts to increase competitiveness. On the other hand, the Oil E&P Business is likely to maintain its general profit level as production at the Hail Oil Field will offset a decline in production volume elsewhere. While competition against overseas companies is likely to intensify, we also believe we can enhance earnings strength in the Petrochemical Business as global demand is expected to grow on the back of global population growth. We will achieve this by increasing competitiveness with greater synergies with the Petroleum Business, and by continuing to expand our specialty products. We envision significant growth and profit in our wind power generation and other renewable energy business, which should become a business mainstay within several decades. Anticipating this future, I would like our Group to make a vigorous step forward in FY2018, my second year as President and CEO. We created a slogan “Oil & New” in the new medium-term management plan (FY2018 to FY2022). We are determined to strengthen our business portfolio and establish a solid financial position, enabling us to achieve sustainable growth.

New consolidated medium-term management plan (FY2018 - FY2022), “Oil & New, Everything About Oil – And Beyond”

The slogan of the new consolidated medium-term management plan is “Oil & New”, “Oil” means petroleum itself. We believe that our petroleum-related businesses will continue to have growth potential up to around 2030 and that we can profit from aggressive business management on that basis.

Specifically, although demand for gasoline in Japan is projected to decline, we expect to expand sales share through a capital and business alliance with Kygnus Sekiyu and improve our earnings strength, driven by the high operating ratios of the refineries. We will also increase the capacity of our Delayed Coker unit at Sakai Refinery and build a refining system which doesn’t produce high sulfur fuel oil, ahead of the year 2020 when the marine fuel regulations of the International Maritime Organization (IMO)¹ will come into force. This will allow us to convert the heavy oil fraction, which is subject to the regulations, into diesel fuel oil and other products, leading to an expansion in our lineup of profitable products.

“New” means all non-oil businesses. We will particularly invest in renewable energy and new businesses. No matter how things change in the world, energy remains indispensable. In particular, we anticipate that renewable energy will become much more significant than at present. We are therefore convinced that even if our business portfolio changes in the future, the Cosmo Energy Group will remain an energy company needed in society.

FY2022 management goals

We conservatively forecast the market condition under the assumptions for the crude oil price (70\$/B) and product market conditions, which have ¥51 billion negative impact. On the other hand, we expect to generate profit improvement of approximately ¥80 billion (compared to FY2017), with contributions from structural factors such as an increase in cracking capacity in the Petroleum Business and a production increase of the Hail Oil Field in the Oil E&P Business.

Management Goals for FY2022

Ordinary income
(excluding impact of inventory valuation)

Over **¥120** billion

Net worth
(Net worth ratio)

Over **¥400** billion
(Over 20%)

Net D/E ratio²

1.0-1.5 times

Reduction in greenhouse gas emissions
(Compared to FY2013)

FY2022

Down 16%
(Reduction of 1.2 million tons
in CO₂ emissions)

FY2030

Down 26%
(Reduction of 2.0 million tons
in CO₂ emissions)

1: The International Maritime Organization (IMO) has set a global limit for sulfur in marine fuel oil.

2: Calculated on the basis that 50% of the ¥60 billion Hybrid Loan made on April 1, 2015 is included in Equity.

In the meantime, by taking account of the structural improvement and the assumptions for the crude oil price and product market conditions, the management goals are ordinary income (excluding the impact of inventory valuation) of over ¥120 billion (compared to ¥95.9 billion in FY2017); net worth of over ¥400 billion (compared to ¥238.7 billion at the end of FY2017); and a net debt to equity ratio of 1.0-1.5 times (compared to 2.3 times at the end of FY2017).

Initiatives for profit improvement

I would now like to explain where we expect to generate profit improvement of approximately ¥80 billion (compared to FY2017). First is an improvement of about ¥42 billion (ordinary income base, excluding the impact of inventory valuation) in the Petroleum Business. Specific plans include an increase in the Delayed Coker capacity at Sakai Refinery, the use of a pipeline between our Chiba Refinery and the JXTG Energy's Chiba Refinery, an increase in the added value of our products that satisfy new IMO regulations, the start of fuel products supply to Kygnus Sekiyu, and the contribution of our "vehicle life" business. Second is an improvement of about ¥35 billion in the Oil E&P Business, mainly from the contribution of the Hail Oil Field, which has been operating at peak production volume since January 2018. Third is the Petrochemical Business, which should see an improvement in profit of about ¥1 billion (¥8 billion in terms of cash flow, including depreciation) by making investments to increase the competitiveness of basic chemical products and pursuing synergies with refining operations.

Fourth is an improvement of ¥2 billion from our renewable energy business (ordinary income base) by developing onshore wind farms. Finally, while we have not quantified it, we plan to develop new businesses at an early stage so that additional profit improvement can be realized.

Active investment in boosting competitiveness and in growth areas

We plan to make net investments worth ¥360 billion during the new consolidated medium-term management plan, which would be a 22% reduction compared to the previous consolidated medium-term management plan, when large investments, such as development of the Hail Oil Field, were made.

While being selective, we will make active investments and allocate approximately 40% of our total investment to enhancing our business portfolio. Specific plans include enhancing the Delayed Coker capacity of Sakai Refinery, increasing the added value of petrochemical products, and developing offshore wind farms as a next-generation business.



Wind power station (Sakata Port)



Delayed Coker (Sakai Refinery)



FY2018 forecasts

For FY2018 (ending March 31, 2019), which is the first year of the new consolidated medium-term management plan, we are forecasting ordinary income of ¥121.0 billion (expecting no impact of inventory valuation) and profit attributable to owners of parent of ¥57.0 billion. The Petroleum Business is projecting a decrease of ¥5.8 billion year on year in ordinary income, excluding the impact of inventory valuation, due to a negative impact from sales activities that are consistent with crude oil processing volume, which will offset the expected profit improvement from the utilization of the pipeline of Chiba Refinery and from high operating ratios at the refineries. The Oil E&P Business, on the other hand, is expecting an increase of ¥38.7 billion year on year in ordinary income, thanks to an increase in production, driven by the Hail Oil Field, which has maintained peak production volume from January 2018. The Petrochemical Business is expecting a decrease of ¥8.4 billion year on year in ordinary income, given a decrease in the margin for ethylene and the financial effect of regular maintenance.

Financial improvement and stable shareholder return

Our capital policy in the new consolidated medium-term management plan is to carry out growth investment and shareholder returns while considering the balance with our financial position. With the aim of improving our financial condition, which was impaired during the previous consolidated medium-term management plan mainly due to the impacts of the crude oil price decline and the Great East Japan Earthquake of March 2011, we intend to focus on increasing shareholders' equity first.

At the same time, we are committed to returning profit to shareholders, who have been supporting us in times both good and challenging. Achieving stable dividend payments is the basic policy but we aim at enhancing returns to shareholders, with due consideration to balancing our progress toward achieving our management goals and growth investment. I sincerely appreciate the understanding of our shareholders.

Promoting the consolidated medium-term CSR management plan, which contributes to achieving the SDGs

Our name starts with Cosmo, "relating to the world or universe," incorporating our wish to help enrich lives and hearts of humans inhabiting this planet. However, we are also aware that we inevitably place some degree of burden on the global environment as we mainly handle fossil fuels in our role of providing a stable supply of

primary energy and petroleum-derived chemicals that are essential to everyone's daily lives. While necessarily functioning within this reality, we have integrated corporate management with CSR initiatives in planning and their implementation. Since 2006 our Group has been a signatory of the Global Compact, a United Nations initiative that encourages businesses to respect ten principles for solving global issues and realizing a sustainable society. We respect basic principles on human rights, labor, the environment, and the prevention of corruption, and endeavor to incorporate in our activities an international viewpoint with the aim of enhancing our CSR activities. I want our Group to be "a good company" and "a sustainable company." By that I mean a company that generates sufficient returns, which is important from the viewpoint of sustainability, and a company that can contribute to achieving SDGs from the viewpoint of Creating Shared Value (CSV). To contribute to accomplishing SDGs through CSV can be taken to mean I intend to be a company that excels from the perspective of the Environment, Society, and Governance (ESG). Moreover, I want our Group to be "a good company" for our employees. In this regard, we will continue to promote workstyle innovation and diversity. Specifically, we believe that we need to reform our way of working in order to bring about better outcomes from fewer hours of work. We are therefore encouraging the greater use of IT, the use of AI in business operations, the adoption of Robotic Process Automation (RPA) to achieve more efficient, automated business processes using cognitive technologies, operational reform, and Business Process Outsourcing (BPO). We developed the new consolidated medium-term CSR management plan, in line with the new consolidated medium-term management plan, just as we did during the previous plan. In an effort to contribute to reducing CO₂ emissions, we are targeting a 26% reduction in emissions

by FY2030, compared to the level in FY2013, in line with the target of the Japanese government. In addition, we set targets based on the perspective of ESG, which include ensuring safety measures at the refineries and strengthening our corporate governance structure. The consolidated medium-term CSR management plan will be promoted not only by our Group but by our entire supply chain network, including our business partners.

Enhancing corporate governance

We have established our corporate governance structure with the aim of promoting sustainable growth and raising medium- to long-term corporate value, and have enhanced the auditing and supervising functions of the Board of Directors by appointing Japanese and non-Japanese Outside Directors. Looking ahead, we will further enhance the structure in order to respond to the changing business environment and enable swift decision making, for example by further promoting diversity in outside directors. Maruzen Petrochemical, a consolidated subsidiary of our Group, announced that it was involved in inappropriate conduct regarding quality inspections. We took this event seriously. The entire Cosmo Energy Group is determined to thoroughly comply with laws and regulations and to improve our Group governance, obtaining advice from outside experts.

Message to stakeholders

The Cosmo Energy Group's mission is to fulfill the needs of our customers by safely and reliably providing high-quality products and services, as expressed in our declaration to our shareholders, customers, business partners, and all other stakeholders with a slogan, "Filling Up Your Hearts, Too." We will continue to fulfill our mission and create sustainable corporate value. We sincerely hope that our stakeholders will continue to extend their support to us for many years to come.

Sustainable Development Goals (SDGs*)



* The Sustainable Development Goals (SDGs*) were adopted by 193 member countries at the United Nations Summit in September 2015. There are 169 targets for 17 goals, to be achieved in 15 years, from 2016 to 2030.