

# “Oil & New.” Create achieve the further



Basic policy of the sixth consolidated  
medium-term management plan

- 01 **Secure profitability to  
enable reinvestment**
- 02 **Expand growth drivers  
toward the future**
- 03 **Improve our financial  
condition**
- 04 **Strengthen the Group's  
management foundations**

# future energy and help growth of our planet.

Representative Director, Group CEO **Hiroshi Kiriya**

## Steady progress toward increasing long-term corporate value

Energy is an essential component of everyone's daily life. Global energy consumption is expected to increase in accordance with population growth worldwide and the continued growth of emerging economies. However, crude oil and other fossil fuels, which have supported global economic growth to date, are limited resources. We need to use them sparingly and also introduce other energy sources in order to achieve better-balanced energy consumption. This is why the Cosmo Energy Group, which has grown by having petroleum-related businesses as its core business, created the slogan "Oil & New." It is now seeking to become more competitive in the petroleum-related businesses while at the same time growing the renewable energy business, making it another pillar of profit generation. This is to be achieved by making aggressive investments. In FY2018, the first year of the sixth consolidated medium-term management plan (FY2018 - FY2022), we believe that we took the appropriate steady steps to get closer to realizing our future vision.

The consolidated medium-term CSR management plan, which is aimed at promoting CSR management, is one of the four priority measures in the sixth medium-term management plan. Since 2006, our Group has been a signatory of the Global Compact, a United Nations initiative that encourages businesses to respect 10 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 have confirmed that our consolidated medium-term CSR management plan is progressing steadily. For

example, we are on track toward our CO<sub>2</sub> emission reduction target, which looks ahead to FY2022 (a reduction of 1.2 million tons of CO<sub>2</sub> compared to FY2013). In terms of our health management, Cosmo Energy Holdings and its six group companies\* have been certified as a "Health and Productivity Management Organization 2019 (White 500)" by the Ministry of Economy, Trade and Industry (METI). On top of our health management of employees, our initiatives that aim to achieve a sound work-life balance for employees have been highly commended.

## FY2018 results

In FY2018, net sales increased by ¥247.3 billion from the previous year to ¥2,770.4 billion, ordinary income excluding the impact of inventory valuation increased by ¥11.5 billion to ¥107.4 billion, and profit attributable to owners of parent decreased by ¥19.7 billion to ¥53.1 billion. Ordinary income, excluding the impact of inventory valuation, renewed its record high, mainly due to an increase in the profit of the Oil Exploration and Production (E&P) Business.

The Petroleum Business maintained appropriate margins with an improvement in the domestic supply-demand balance, but generated decreased profit compared to the previous year, mainly due to the negative impact of the regular maintenance of refineries and the suspension of equipment triggered by a malfunction. In addition, the profit of the Petrochemical Business decreased, mainly due to a decline in market conditions and a sales decline caused by the turnaround of plants. In contrast, the Oil E&P Business increased its profit, including a contribution from production at the Hail Oil Field, which commenced full-scale operation in January 2018. This more than offset the impacts of a pump malfunction at the existing oil field and lesser factors.

\* Cosmo Energy Exploration & Production Co., Ltd.; Cosmo Oil Co., Ltd.; Cosmo Oil Marketing Co., Ltd.; Cosmo Oil Lubricants Co., Ltd.; Cosmo Business Associates Co., Ltd.; Cosmo Energy Systems Co., Ltd.

**Accelerating a business portfolio transition in being a more eco-friendly company**

While the 17 Sustainable Development Goals (SDGs) have been attracting increased attention and influencing policies worldwide, many countries and companies are taking initiatives aimed at Goal 7, to “ensure access to affordable, reliable, sustainable and modern energy for all.” Among the manifestations of this concern, governments are establishing infrastructures to encourage the dissemination of electric vehicles and are at the same time continuing to regulate gasoline vehicles in incremental steps. Accordingly, our Group will also continue to aim to solve social issues through our business activities in keeping with concerns regarding issues related to global warming and climate change.

We believe that the value of oil will remain unchanged up to around 2030. We are therefore seeking to become more competitive in the Petroleum Business and grow our renewable energy business at the same time. In FY2019, we will establish a dedicated department (the Business Development Department), initially to focus on wind power generation, and then to accelerate the development of other new businesses. As part of the sixth medium-term plan, we established the Aomori Seihokuu Offshore Wind Joint Venture Company with Hitachi Zosen

Corporation on April 5, 2019. This company plans to build an offshore wind farm with a maximum capacity of around 500MW in the northwest offshore area of Aomori, and to engage in wholesale business in electric power and operations. For Cosmo Energy, this is its fourth offshore wind farm project. Through such operations, we have become highly regarded for our efforts to prevent global warming. As such, we moved up from 23rd in 2017 to 10th in 2018 in Nikkei Business Publications’ Eco-brand Survey ranking of 560 major corporate brands in Japan. We also received the Encouragement Prize in the 28th Grand Prize for the Global Environment Award (organized by the Fujisankei Communications Group, with backing from METI and the Ministry of the Environment), thanks again to the high evaluation of our Group’s environmental initiatives. I feel that there has been a strong response from consumers and others, who regard us highly as a company that is “Filling up your hearts, too” as advocated in our corporate message.

**Providing car leasing for individuals to enhance customers’ vehicle life**

In addition to developing eco-friendly businesses, we are expanding the car leasing business for individuals in order to acquire a significant share of Japan’s large vehicle life market.

**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.

The Cosmo Energy Group is engaged in the business of leasing cars to individuals to provide consumers with a satisfying vehicle life. Specifically, we have established a user-friendly system by simplifying what needs to be used for the selection of a car model, the preparation of estimates, and paperwork. We also run TV commercials on this topic. These are some of the measures aimed at acquiring market share. In addition to leasing cars for individuals, we also implement other means of business expansion. For example, we entered into a business alliance agreement with Homenet Cars Co., Ltd. to enter into the car sharing business from mid-2019. This is to respond to a recent increase in people's eco-consciousness and budget-mindedness, and their preference to share rather than own a car. We will jointly develop a car sharing business model that uses Homenet Cars' proprietary vehicle unlocking system with the use of a smartphone application. We also entered into an agreement to jointly develop a new format of Cosmo service stations with Carseven Development, Inc., a franchiser of Carseven shops, which buy and re-sell used cars. Through this arrangement, we intend to use Carseven Development's vehicle information and systems and enhance Cosmo service stations' capability to purchase used vehicles. By taking advantage of the Cosmo Energy Group's strengths, such as in the car leasing business for individuals, we can provide one-stop comprehensive services related to our customers' vehicles. In the future, we will look to establish a new store format that can be franchised. As another new development, Cosmo Oil Marketing began selling residential-use "Cosmo Electric Power" on April 1, 2019. This is an attempt to provide electricity at a discount with a simple application procedure to eligible customers\* who have not yet reviewed their electricity rates following the deregulation of electric power retail sales. We aim to acquire a certain number of customers by making use of our contacts with approximately 4.3 million "Cosmo the Card" holders and our group company Sogo Energy's knowledge and insights related to the electric power retail business. "Cosmo Oil doesn't merely pump gas into the car." This is a key phrase in our car leasing business' TV commercial. We will implement a range of measures to disseminate this concept to many more people.



\* Eligible customers are those who live in the service areas of Tohoku Electric Power, Tokyo Electric Power, and Chubu Electric Power, and are under a residential use contract for B or C meter rate lighting with a General Electricity Utility (excluding all-electric homes).

**Our favorable relationship with the Emirate of Abu Dhabi is one of our strengths**

In December 2012, when concessions covering three existing oil fields were extended for 30 years, we acquired an additional concession in the Hail Oil Field. Since this acquisition, our group company Abu Dhabi Oil has been engaged in evaluations using 3D seismic surveys and the drilling of an oil well for evaluation purposes, the construction of an artificial island and above-ground facilities, and the excavation of a new oil production well. Since the Hail Oil Field is located near the existing facilities, new capital investment has been kept to a minimum and the production volume can be boosted and maintained over the long term through the maximum shared use of existing facilities. This will enable it to reduce the per-unit operating cost. Since its foundation in 1968, Abu Dhabi Oil has accumulated a half-century of operating results and reliable environmental and production technologies, and has fostered a friendly, trusting partnership with the Emirate of Abu Dhabi in the United Arab Emirates (UAE). We recognize that this good relationship is one of our Group's strengths.

**FY2019 forecasts**

For FY2019 (ending March 31, 2020), we are forecasting ordinary income of ¥106.0 billion, excluding the impact of inventory valuation, and profit attributable to owners of parent of ¥60.0 billion. The Petroleum Business is projecting an increase of ¥12.1 billion year on year in ordinary income excluding the impact of inventory valuation, mainly due to the start of the supply of fuel products to Kygnus Sekiyu. The Oil E&P Business is expecting a decrease of ¥16.9 billion year on year in ordinary income, as the Hail Oil Field will reduce production output. The Petrochemical Business is forecasting an increase of ¥2.7 billion year on year in ordinary income due to the absence of the impact of regular maintenance, which was the case in FY2018. The International Maritime Organization (IMO) has adopted marine fuel regulations that will reduce the allowable sulfur content in marine fuel oil from the current 3.5% to 0.5% in 2020. Since this regulation will ban the use of the now-common high sulfur fuel oil in all marine areas, oil-related companies will have to cope with the major challenge of the potential reduction in demand for

high sulfur fuel oil. Our Group will increase the capacity of our Delayed Coker unit at the refinery and build a refining system that does not produce high sulfur fuel oil ahead of the year 2020, when the regulation will come into force.

Moreover, the fuel products supply to Kygnus Sekiyu, our capital and business alliance partner, is expected to provide another revenue growth opportunity for us in FY2019. In the Petrochemical Business, we commenced the full-scale production of ethylene from naphtha. We will respond to changes in the environment and pursue synergies with refining operations.

**FY2019 priorities: Enhance preventive maintenance of facilities and further improve our financial position**

As a company in the energy business, the Cosmo Energy Group carries out all its business activities while keeping security and safety in mind as one of our priority issues. In order to respond to the IMO regulations and supply fuel products to Kygnus Sekiyu, we need to maintain high operating ratios at the refineries, which makes the stability of refinery operations all the more important.

From these perspectives, in FY2019 we intend to fundamentally reconsider maintenance and enhance preventive maintenance, which means facility repair before (and to prevent) potential breakdowns. We will also augment both software and hardware to rebuild the infrastructure required to be a secure, safe energy provider.

Meanwhile, in the past several years we have strived to address our priority issue of improving our financial position, which was impaired as a result of the Great East Japan Earthquake in March 2011. Thanks to improved profit levels, the pace of our financial improvement has accelerated faster than expected at the time of developing the sixth medium-term plan. Our net D/E ratio has improved to less than two times. With due consideration of these factors, we raised the per-share dividend by 30 yen to 80 yen in FY2018. In FY2019, we will increase capital expenditure for preventive maintenance, but we intend to raise the return to shareholders by fully profiting from revenue opportunities and further improving our financial position.





**Our aim: To become a company with high employee satisfaction and even higher customer satisfaction**

While workstyle innovation is advocated extremely loudly nowadays, we have strived for many years to improve a range of personnel programs, revise wages, and improve the employment conditions for employees. In spite of all our efforts, I suspected that there must have been more than a few employees who were worried about the future of energy and could not imagine the future vision of our company. As a result, in 2018, we strongly promoted the new corporate slogan “Oil & New” in the sixth medium-term plan . This was received with enthusiasm by our employees, and they have become more constructively engaged in their work. This came as a pleasant surprise to me. I believe that our employees now consider their work to be worthwhile and are more satisfied, because their roles and the company’s future have been clearly identified. To repeat, our tasks are to establish a strong financial position by enhancing the profitability of the Petroleum Business and the Oil E&P Business, which are expected to be robust up to around 2030, and to enhance the business portfolio with the main focus on the renewable energy business for future growth. Aimed at creating a better work environment, our strategy also includes the additional adoption of IT

and outsourcing in order to reduce work volumes and shorten work hours. In FY2018, the total annual work hours per person declined to less than 1,900 hours. We have also implemented a better environment for enabling employees to take vacations. Employees in managerial positions are now taking more paid vacations than in the past. We anticipate that productivity will be further enhanced in the future.

At the Cosmo Energy Group, we are dedicated to creating future energy and helping achieve the further growth of our planet. My job as President is to ensure that our customers and business partners are aware of this mission and to establish a workplace in which our employees can dedicate themselves to our businesses together. We are committed to achieving the management goals of the sixth medium-term plan and the key performance indicators (KPIs) of the consolidated medium-term CSR management plan. At the same time, we are strongly determined to develop the wind power generation and other renewable energy business.

We will endeavor to help solve social challenges through our business activities, with the aim of creating the sustainable corporate value of the Cosmo Energy Group. We sincerely hope that our shareholders, customers, business partners and all other stakeholders will continue to extend their support to us for many years to come.