



We strive to realize “Oil & New” while flexibly and optimally responding to the changing environment

Representative Director, Group CEO
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Our commitment to steadily implement the basic policies of "Oil & New" remains unchanged, despite the changing environment

The global economy and the energy industry have been hit by the turbulent waves of successive, unprecedented events, such as the spread of the novel coronavirus (COVID-19) and a drop in crude oil prices. While the Cosmo Energy Group is not immune to these events, I believe that what we need to do remains unchanged even under the current circumstances.

I am strongly convinced that the structural reform we have pushed forward with corporatewide efforts since the 5th Medium-Term Management Plan has made our business more resilient. For example, as a part of the structural reform, we established a structure that is well prepared for a medium-term decline in demand for fuel oil. We therefore responded to the recent decline in fuel oil demand by adjusting procurement from outside the Group, without lowering the operating rate of our refineries. Amid industry consolidation, our strategy to emphasize a balance, rather than an expansion in scale by integration, has worked well. Crude oil and other fossil fuels are indispensable energy sources for people's daily lives, but their consumption is expected to be restrained due to the aggravating climate change caused by global warming. While the prevalent

view is that oil demand will decrease by about half of the present level by 2040, I expect that the transition to a fossil-fuel-society may be accelerated in light of the impact of COVID-19. The "Oil & New" basic policy is to capture long-term big trends, flexibly respond to short-term changes, and increase the competitiveness of the petroleum-related business while simultaneously promoting the shift to renewable energy. We are determined to execute this policy steadily and promptly, with the aim of raising our corporate value.

FY2019 results

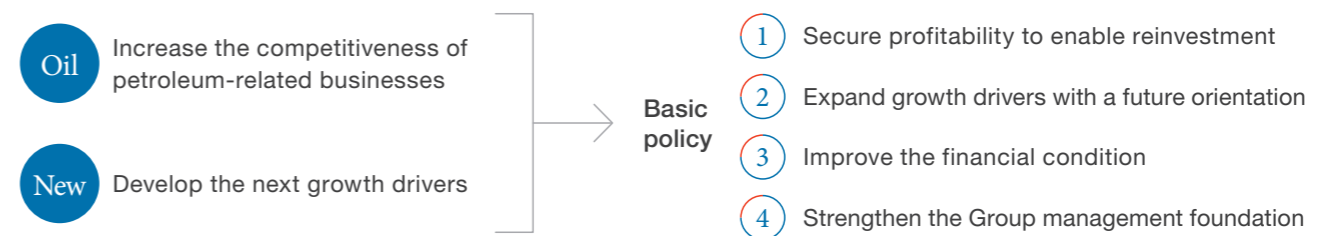
In FY2019, net sales decreased by ¥32.4 billion from the previous year to ¥2,738.0 billion, ordinary profit excluding the impact of inventory valuation decreased by ¥38.9 billion to ¥68.5 billion. Profit attributable to owners of parent decreased by ¥81.3 billion to loss of ¥28.2 billion, mainly due to inventory evaluation loss of ¥52.2 billion that stemmed from a temporary drop in crude oil prices. The Petroleum Business benefitted from the start of the fuel oil supply to Kygnus Sekiyu and the improved low-sulfur fuel oil market, which was driven by the tightened International Maritime Organization (IMO) regulations, but the markets of various products deteriorated due to the impact of the COVID-19 pandemic, which resulted in

The 6th Consolidated Medium-Term Management Plan

Oil & New

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Building the next business portfolio with the petroleum-related business at its core



a decline in profit. The Petrochemical Business' decline in profit was attributable to the deterioration of the petrochemical market, which more than offset the benefit from improvement in output after resolving the negative impact of regular maintenance conducted in FY2018. The Oil E&P Business also posted a decline in profit as the Hail Oil Field reduced production output and crude oil prices declined, despite a recovery in production output by the existing oil fields.

We are making steady progress on the 6th Medium-Term Management Plan

We are making steady progress with our priority measures

in the 6th Medium-Term Management Plan. A variety of measures have been implemented toward the management goal of ¥120 billion in ordinary profit, excluding the impact of inventory valuation by FY2022.

Priority measure 1 Enhanced competitiveness of the Petroleum Business

Regarding the petroleum Business, the IMO has adopted marine fuel regulations that ban the use of the high-sulfur fuel oil in all marine areas. The Cosmo Energy Group has increased the capacity of the Delayed Coker unit at the refinery and has already built a refining system that does not produce high-sulfur fuel oil before the regulation came into force in 2020. Moreover, in

of Yurihonjo, Akita Prefecture, Northwest Coast of Aomori Prefecture, and Akita Central Sea Area. We aim to become a leading company in offshore wind power generation, with generation capacity of 1.0 million kW by 2030, when all rotors are spinning.

The Petrochemical Business is positioned as one of our growth drivers. We are aggressively making investments while pursuing synergies with the Petroleum Business. Maruzen Petrochemical, with Japan's largest-class ethylene production capacity, strives to expand the highly functional product business, which is less prone to changes in the market environment. As an example, Maruzen Petrochemical plans to establish a joint business with Arakawa Chemical Industries to manufacture hydrogenated petroleum resin, used in

disposable diapers and other hygiene products in FY2020. In the same year, Hyundai Cosmo Petrochemical (HCP), a joint venture between the Cosmo Energy Group and Hyundai Oilbank in South Korea, will complete investments to increase production capacity for para-xylene and energy saving in order to become more competitive. We plan to start the commercial operation of a propylene rectifying tower, which is jointly being constructed with Maruzen Petrochemical to add value to basic chemical products in FY2021.

Priority measure 3 Operational innovation (diversity, work-style innovation)

In anticipation of a declining working population over the medium term in Japan, I believe that we must substantially



July 2019, we commenced the fuel products supply to Kygnus Sekiyu, our capital and business alliance partner since 2017. Such increase in sales volume is expected to help generate the profit improvement impact in FY2020. In the Oil E&P Business, the Hail Oil Field began production in FY2017, but intentionally reduced production output in FY2019 as the rate of decline in the reservoir pressure at Hail Oil Field was higher than initially expected. We planned to invest in secondary oil recovery, but in light of a drop in crude oil prices and the global economic conditions, we are reconsidering the timing of the investment. In the future, full production is expected to expand the profit contribution by the Hail Oil Field.

Priority measure 2 Business portfolio transition

The Renewable Energy Business is centered around the wind power generation business. Cosmo Eco Power is one of pioneers in wind power generation and has the third largest market share in Japan. The company is making steady progress on its plan to expand onshore wind power generation capacity from 230,000kW to 400,000kW by FY2022. In case of offshore wind power generation, the change from the feed-in tariff (FIT) scheme to the bidding scheme is likely to entice large companies to enter the market, but we can maintain our competitive advantage, as we are ahead of other large companies and are undertaking projects in many areas, including Akita Port, Noshiro Port, Coast

reduce work that depends on individuals, promote business process outsourcing (BPO), and invest in robotic process automation (RPA), AI, and other IT technologies as a part of operational innovation. We will transform to use a system that allows for a shorter, more flexible work-style, and aim to raise productivity and promote diversity. Major companies of the Cosmo Energy Group have adopted our work-at-home program for employees to support their childcare or nursing care. In FY2019, we expanded the program, enabling employees to telework from any location irrespective of the reason for two days a week (no limit in the number of days for employees with childcare or nursing care as a reason). The program's utilization rate increased by more than three times year over year in FY2019.

More advanced, autonomous, and profound ESG management

As a company in the energy business, the Cosmo Energy Group has been ahead of its peers in undertaking environmental management based on awareness of providing safety and security to people's everyday lives and of bearing responsibility for protecting the global environment. Our recent efforts include energy saving in refineries and plants, expansion of the wind power generation business, and sales of virtually CO₂-free electricity (Cosmo Denki Green). The Cosmo Energy Group is highly rated for its environmental efforts, as recently shown by its ranking as third most environmentally

conscious company out of 627 companies by business people in the 2020 Nikkei Corporate Image Survey. Along with the Consolidated Medium-Term Management Plan, we are implementing the Consolidated Medium-Term CSR Management Plan. In light of increasing greater social demand for environmental, social, and governance (ESG), our ESG efforts need to be more advanced, autonomous, and profound. In April 2020, we therefore established the Sustainability Promotion Department to advance environmental activities and to augment our social and governance activities to a cutting-edge level, similar to that of the environmental activities. In February 2006, the Cosmo Energy Group signed the United Nations Global Compact (UNGC). Endorsing its 10 principles on the protection of human rights, the elimination of unfair labor, environmental initiatives and anti-corruption, we will continue efforts to realize these principles. I have seen great progress in promoting diversity. In FY2019, we welcomed Ms. Takayama as independent outside director. I felt the Board of Director's discussion became substantially more active and diverse by having a woman join the Board. We also promoted a female employee to an executive officer position in April 2020. As a result, the Cosmo Energy Group was selected as a "Nadeshiko Brand," which was jointly sponsored by the Tokyo Stock Exchange and Japan's Ministry of Economy, Trade and Industry (METI), which selects outstanding companies in promoting the advancement and success of women in the workplace.

"Filling up your hearts, too" under the COSMO brand

The Cosmo Energy Group has been recognized under the brand name "Cosmo Oil." However, in view of the transition to a fossil-fuel-free society, we are transforming our business portfolio with a growing focus on the Renewable Energy Business in addition to positioning the Petroleum Business as the main business. In view of this, we also intend to promote COSMO as a brand that unifies the entire group, including the Renewable Energy Business, to replace "Cosmo Oil." Our corporate message, "Filling up your hearts, too," will continue to be used as a brand statement for the entire group. A brand that is established based on consistent branding earns the trust and expectations of consumers and leads to enhanced business competitiveness. Such a brand may facilitate the hiring of excellent people and raise the work morale of employees. We will therefore unify our diverse business activities under the "COSMO" brand, make



our unique value and existence known through it, and raise our brand value.

FY2020 forecasts

For FY2020 (ending March 31, 2021), we are forecasting ordinary profit of ¥30.0 billion, excluding the impact of inventory valuation, and profit attributable to owners of parent of ¥14.5 billion. While global demand in fuel oil is expected to decline due to the impact of COVID-19, the Petroleum Business is projecting a similar sales volume as in FY2019, thanks to an increase in the supply of fuel products to Kygnus Sekiyu. In addition, ending of the negative time lag by which the product margin reflects the FY2019 drop in crude oil prices, and assuming the absence of impact from accidents caused by typhoons or other events, enable us to forecast higher ordinary profit (excluding the impact of inventory valuation) by ¥22.6 billion from the previous year. In contrast, the Petrochemical Business is expecting a decrease of ¥7.7 billion year on year in ordinary profit due to the deteriorating overseas markets and the impact of regular maintenance of Maruzen Petrochemical. The Oil E&P Business will be negatively

affected by a decline in crude oil prices and is expecting a decrease of ¥49.0 billion year on year in ordinary profit. There is no doubt that the business environment will be harsh, but our mainstay Petroleum Business has strength in terms of positioning in the supply/demand balance as mentioned above. Specifically, we are in a short position and our production capacity is less than our sales volume, as we started the supply to Kygnus Oil in FY2019. This places us in a unique position compared to most other refineries in the world, which are plagued with excess capacity and currently run at a low operating rate. Even if demand for fuel oil drops further due to the impact of COVID-19, we believe that we can continue operation without lowering the operating rate.

Shareholder return is promoted while considering optimal financial conditions at the same time

In FY2019 we posted an inventory evaluation loss, caused by a drop in crude oil prices, and did not make sufficient progress in improving the overall financial condition. Nevertheless, in light of steady progress on implementing the measures of each business, we considered the

situation comprehensively from the medium- to long-term viewpoint and decided to pay dividends of ¥80 per share in FY2019. We intend to make sustainable, stable dividend payments while achieving optimal financial conditions at the same time.

The COVID-19 pandemic is having a great effect on the Cosmo Energy Group and we may have to reconsider the timing of implementation for some measures. I believe that now is a time of testing for companies and their management on the correctness of their judgments, according to the situation at hand.

I am confident that the Cosmo Energy Group is becoming a company that can flexibly rebalance its business portfolio and establish its scenario depending on the changing environment. I can say this because measures we have implemented have made us stronger. The current harsh business environment should be a great opportunity for our group. Our entire group will work together to become a good company that we can all be proud of and a prevailing company that can grow sustainably.

We sincerely hope that our shareholders, customers, business partners and all other stakeholders will continue to extend their support for many years to come.