



Representative Director,
Group CEO

Hiroshi Kiriya

Measures to address the novel coronavirus pandemic

FY2020 was a year that began and ended with the novel coronavirus infection disease (COVID-19). First, I would like to express my deep condolences to those who lost their lives in this unprecedented disaster and my sincere respect and gratitude to those working every day for society and human lives.

The Cosmo Energy Group instituted thorough crisis management as a response to the COVID-19. In accordance with its Crisis Management Regulations, the Group held a crisis countermeasures meeting 22 times from February 2020 to the end of FY2020 to fully enforce measures against COVID-19 in the head office and manufacturing divisions. In addition, a teleworking system was established in all offices, excluding refineries and plants. The Group had previously created a teleworking system by assuming a situation in which it would become difficult to come to work at the time of

the Tokyo Olympic and Paralympic Games to be held in 2020 and succeeded in reducing the attendance rate at head office divisions to around 10% as of May 2020 when a state of emergency was declared by the government. The Group was able to carry out its duty of reliably supplying energy while introducing comprehensive measures to prevent COVID-19 without impact on its operations at its refineries and plants where telework is difficult to introduce. Telework will take root as a new social norm, and we believe that it will continue as part of diversified workstyles and workstyle reforms.

FY2020 was a year when we simulated the transition to a fossil-fuel-free society for the future

On the other hand, COVID-19 had a significant impact on the operating environment for the entire oil industry. With travel restricted worldwide, demand for petroleum was sluggish, and the sales volume of jet fuel for aircraft, in

particular, temporarily declined to 30% of the year-ago level. However, the overall sales volume exceeded the year-ago level in the Group thanks to the full commencement of the supply of 3 million kiloliters of petroleum products a year to Kygnus Sekiyu. There was also the effect of increasing profits due to the positive time lag associated with a sharp rise in crude oil prices in FY2020. With respect to jet fuel, demand for which sharply declined, its impact on the Group was also relatively light by industry standards because the Group has a large share of jet fuel for airfreight. Looking at the performance of each business, profits increased significantly from the previous year in the Petroleum Business, but decreased in the Petrochemical Business and the Oil E&P Business due to the sluggish petrochemical market conditions and a fall in crude oil prices, respectively. Profits also declined in the Renewable Energy Business due to the generation of upfront costs associated with a full-scale entry into the offshore wind power generation business. In FY2020, ordinary profit excluding the impact of inventory valuation increased

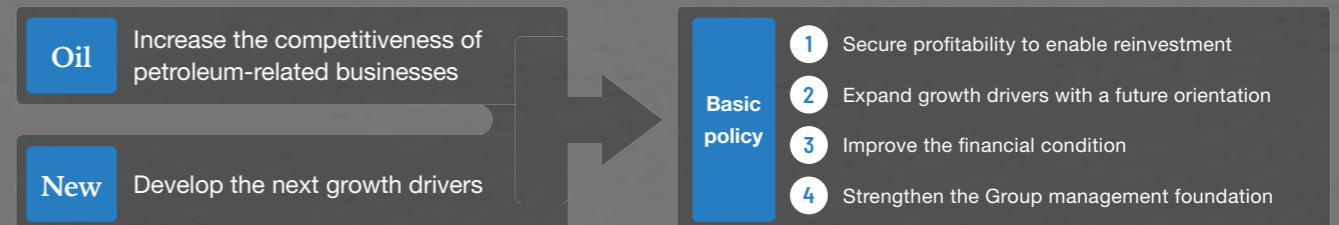
We will fulfill our responsibilities as an energy company to contribute to a sustainable society.

The 6th Consolidated Medium-Term Management Plan

Oil & New

Everything About Oil – And Beyond

The Cosmo Energy Group is making a new and vigorous step into the future. Building the next business portfolio with the petroleum-related business at its core



¥8.1 billion year on year, to ¥76.6 billion, and profit attributable to owners of parent rose ¥114.1 billion year on year, to ¥85.9 billion, marking a record high. In FY2021, however, we think that it is unlikely that we will see a full return to the pre-COVID environment, given that the impact of COVID-19 will still continue. Because international travel remains constrained, demand for jet fuel is expected to remain sluggish. On the other hand, improved crude oil prices are expected to contribute to profits in the Oil E&P Business. As a result of the above, we expect that ordinary profit excluding the impact of inventory valuation will increase ¥3.4 billion year on year, to ¥80.0 billion and that profit attributable to owners of parent will decrease ¥45.9 billion year on year, to ¥40.0 billion in FY2021. In the medium to long term, it is certain that the transition to a decarbonized society will accelerate, and we face a challenge in how to deal with falling demand for fossil fuel. Previously, the oil industry had little experience with extreme changes in demand, so that even a year-on-year change of 2% attracted tremendous interest. However, changes in demand due to the impact of COVID-19 were unprecedented in scale because demand for jet fuel and gasoline fell around 60% and 10%, respectively, on national average. Viewed another way, we think that we were able to simulate a fall in demand for fossil fuel, which we may face in the future. We can now use this to consider management scenarios in the medium to long term.

The Sixth Consolidated Medium-Term Management Plan "Oil & New"

Three years have passed since the five-year Sixth Consolidated Medium-Term Management Plan began in FY2018. Currently, crude oil prices are lower than they were at the time the assumptions were made for the Medium-Term Management Plan, a reflection of the impact of COVID-19. However, because of our efforts to strengthen profitability by executing the measures set out in the Medium-Term Management Plan, we are making steady progress with our accumulation of net worth. While the remaining period of the current Medium-Term Management Plan is two years, we believe that we will be able to achieve management goals such as a net D/E ratio of 1.0 - 1.5, a net worth ratio of 20% or more, net worth of ¥400 billion or more and ROE of 10% or more in FY2022, the final year.

1 Oil:Oil E&P Business

An "Oil" topic in "Oil & New" was the acquisition of a new exploration block "Offshore Block 4" in the Emirate of Abu Dhabi of UAE in February 2021. While the transition to a fossil-fuel-free society will proceed across the globe in the medium to long term, demand for fossil fuels will not disappear overnight. We believe that it is also the Group's responsibility to supply energy required within the megatrend toward carbon neutrality. We regard the acquisition of a new

exploration block this time as a means to fulfill this responsibility. Our policy is to ensure oil-based energy in the process of making the transition to a decarbonized society by 2030 and 2040. The new oil field is adjacent to the currently operating oil field of Abu Dhabi Oil, and we will operate the new oil field with a few additional investments by making good use of the equipment in the field of Abu Dhabi Oil. We will also look at developing the technologies required for a decarbonized society, such as carbon dioxide capture and storage (CCS) and carbon dioxide capture, utilization and storage (CCUS). We firmly maintain the direction of generating solid profits from the petroleum-related businesses, our current core businesses, transforming our business portfolio by investing the profit from the petroleum-related businesses in renewable energy, and working to realize a sustainable society.

2 New: First year of offshore wind power generation

With respect to "New," there was a significant change in that offshore wind power generation, which the Group centered on Cosmo Eco Power had been pursuing, was positioned as a major power supply associated with the government's declaration of carbon neutrality by 2050. The government has set a target of introducing offshore wind power generation with a maximum capacity of 45 million kW, four times the previous target, by 2040. 2021 is a year that can be said to be the first year of offshore wind power generation, given the start of bidding for offshore wind power projects being promoted by the government. Seeing the tide turning, many companies have entered the offshore wind power generation business, and competition is intensifying. However, the Group has accumulated technologies

and experience as a pioneer in this field. In a bidding in 2021, the business operators of the offshore wind power generation project off the coast of Yurihonjo City, Akita Prefecture, in which Cosmo Eco Power participates, will be selected in autumn 2021. In addition, from FY2022, bidding for an offshore wind power generation project off the northwest coast of Aomori Prefecture, in which Cosmo Eco Power will become the largest equity investor, will take place. It is our current task to leverage our strengths to win these bids. We will actively invest management resources in the growing wind power generation business. As a near-term goal, we aim to increase the current installed capacity of about 300,000 kW, combined with that of onshore wind power generation which is making steady progress, to over 1.5 million kW by 2030. We will grow the wind power generation

business into a next-generation core business by becoming a leading in renewable energy.

Promotion of Sustainable Management

The Cosmo Energy Group Management Vision says, "In striving for harmony and symbiosis between the planet, people and society, we aim for sustainable growth towards a future of limitless possibilities." As such, we were among the first in the industry to promote environmental management, with sustainable growth (or sustainability) as a corporate pillar. However, given the recent rapid growth of society's interest in sustainability, we feel that the Group needs to evolve its sustainable management further. Therefore, we established the Sustainability Initiative



Department in April 2020 to develop our governance system for sustainable management. We are now considering a number of specific measures, with the Sustainability Initiative Department as the department in charge of this. As a result, we expressed our support for the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in December 2020 and established the Sustainability Strategic Conference in April 2021 as a body that I chair. The conference considers and determines non-financial policies and indicators. In addition, we announced the Carbon Net Zero Declaration in May 2021. Another step forward that we have taken is to identify materialities (priority issues). Going forward, we will prepare management plans in consideration of the materialities we have identified. While we currently prepare a medium-term management plan and a medium-term sustainability plan separately, we will

integrate them into a single medium-term management plan from the next seventh consolidated medium-term management plan. Both the management team and employees will focus more strongly on sustainable management as a result of setting targets the Group should achieve, by combining financial and non-financial targets. The priority of management decisions will be determined by being aware of both financial and non-financial aspects, and business budgets and investment plans will also be prepared based on this priority. We believe that promoting sustainable management will lead to branding activities. The Group's public image has included aspects such as "Friendly to people and nature" and "Environmentally friendly." This brand image is an asset of the Group, and we believe that we will be able to preserve an advantage even in increasingly diversified businesses because these assets will be

strengthened if we reinforce sustainable management. In February 2006, the Group signed on to the United Nations Global Compact (UNGC). We will continue to support the UNGC Ten Principles in the four areas of human rights, labor, the environment, and anti-corruption, as we seek to contribute to the development of a sustainable society and the achievement of the SDGs through everything we do.

We identified materialities with stakeholder expectations in mind

Now, we have newly identified materialities. While we have always retained the concept of "materiality," we followed a process with stakeholder expectations in mind when we identified materialities this time, using methods such as extracting issues from standards

such as the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, conducting a questionnaire of employees, interviewing investors, holding dialogues with experts and having active discussions at meetings of the Board of Directors. The materialities we identified this time are not greatly different from what we have always recognized, but they are issues that can be shared not only within the company, but also with the Group's stakeholders and with broader society.

1 Materialities related to the environment

As an energy business operator, we recognize that responding to climate change is naturally the highest priority issue we must address. In May, 2021, the Cosmo Energy Group announced the Carbon Net Zero Declaration to reduce greenhouse gases (GHG) emitted from the Group's businesses to effectively zero (GHG Scope: Scope 1 and Scope 2). Our initiatives for carbon net zero will be a tremendous challenge. To best tackle this challenge, the Group is currently preparing milestones based on the scenario analysis of the Task Force on Climate-related Financial Disclosures (TCFD). In the next consolidated medium-term management plan starting from FY2023, we will materialize the milestones in a form that integrates financial and non-financial targets designed to achieve carbon net zero.

2 Materialities related to society

We are addressing diversity and equal opportunity as priority issues. We appointed Ms. Yasuko Takayama and Ms. Ryuko Inoue as independent outside directors in FY2019 and FY2021, respectively. Now, the ratio of female directors is 20%, which helps significantly vitalize and diversify discussions at the Board of Directors meetings, and we are confident in our progress in advancing diversity. We are still working on this

issues, and aim to accelerate our initiatives. We will also continue workstyle reforms, including telework. Regarding our initiatives in human rights, we provided training for senior executives as well as new employees and corporate ethics training at each office to ensure that we operate in a way that respects basic human rights and neither commit nor have a hand in any violation of human rights. We will continue to strengthen our efforts to protect and respect the human rights of all individuals, using e-learning and other methods.

3 Materialities related to governance

Safe operation and stable supply are materialities which the Group always prioritizes. March 2021 marked the 10th anniversary of the Great East Japan Earthquake. The Group has been working to improve safety with the determination to never again cause a serious accident like the one that occurred at Chiba Refinery. We have been developing a system by actively investing in safety, including the introduction of an operation management system (OMS). As a result of our voluntary safety initiatives, Chiba Refinery was certified by the Ministry of Economy, Trade and Industry as the ninth Accredited Business (commonly known as a "Super Accredited Business") across the country in April 2021 in the "Super Accredited Businesses System under the High Pressure Gas Safety Act," being recognized as a factory with an excellent safety level. We will continue our efforts to further improve safety in both equipment and procedures, including further raising employee awareness.

The stable supply of energy is our permanent raison d'être.

The net D/E ratio is expected to reach between 1.0 to 1.5, the goal of the

Medium-Term Management Plan, at the end of FY2021, reflecting a significant increase in net profit in FY2020. However, we still have some way to go before we achieve net worth of ¥400.0 billion, the goal of the Medium-Term Management Plan, and will continue to seek to improve our financial position.

We have decided to pay an annual dividend of ¥80 per share for FY2020. We will continue to put more weight on shareholder returns, while simultaneously exploring ways to bolster our financial situation, a basic policy of the Medium-Term Management Plan.

We believe that our business with petroleum is "essential work" that is indispensable to the world. We think that particularly at a time like this with the COVID-19 pandemic, people will be reminded of what their lifeline is and which company is responsible for it. Although energy will transform from petroleum to renewable energy such as wind power, it will remain true that a business that supplies energy will support society and people's lives. I believe that consistently supplying energy as a social lifeline is the permanent *raison d'être* of the Group. I think that there will be numerous movements and developments toward carbon net zero in 2050 but recognize that it is a goal that can never be achieved without major changes. Therefore, we will build a resilient business structure able to respond to future changes by investing in future pillars such as renewable energy and promoting sustainable management while simultaneously securing earnings in the Petroleum Business.

We will continue to aim to be a valuable company for our shareholders, customers, business partners and all other stakeholders. We sincerely hope that you will continue to extend your support for many years to come.

