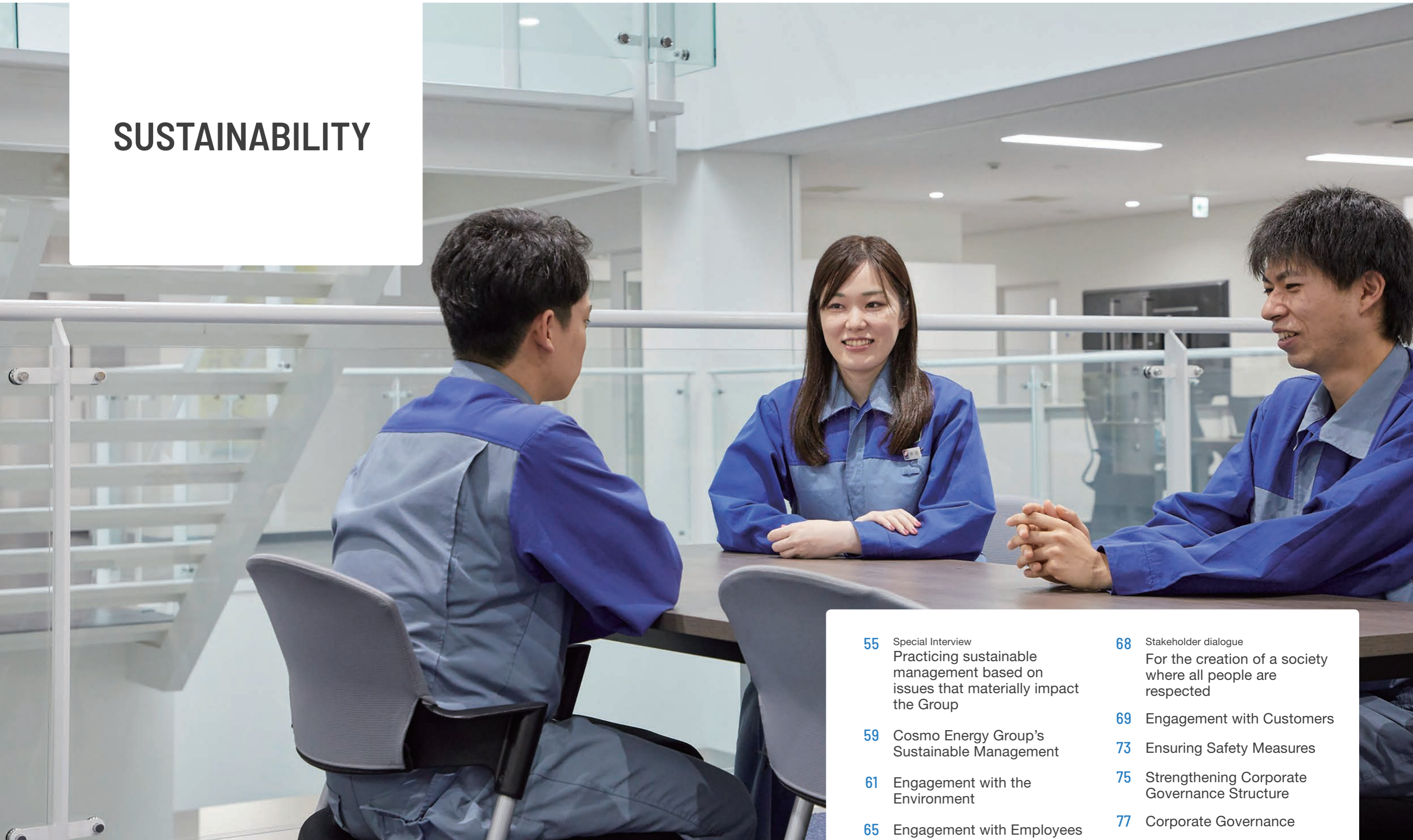


SUSTAINABILITY



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Special Interview

Practicing sustainable management based on issues that materially impact the Group

Representative Director and Group CEO

Hiroshi Kiriya

Chair, Innovation for Cool Earth Forum (ICEF) Steering Committee
Former Executive Director of the International Energy Agency (IEA)
CEO, Tanaka Global, Inc.

Nobuo Tanaka

Cosmo Energy Holdings engages in dialogue with experts to identify the issues that materially impact the Group. As part of this initiative, we invited Mr. Nobuo Tanaka, the CEO of Tanaka Global, Inc., to talk with our president.

See page 18 for the material issue identification process.

— Mr. Tanaka has held a wide variety of positions in his career, having worked for the Ministry of Economy, Trade and Industry and having been the Executive Director of the International Energy Agency (IEA). He has acquired expertise related to the Group's business environment, so this talk will surely be meaningful. First, Mr. Tanaka, would you begin with a statement about this talk?

Tanaka I think it is interesting to consider issues through discussions with many stakeholders. If you do not talk with your stakeholders, identifying material issues is difficult. You need to listen to the opinions of people outside and inside the company.

Kiriya We are doing this for the first time. Previously, we identified material issues internally as we were formulating consolidated medium-term management

plans. However, we have decided to review the issues and increase the transparency of the identification process in light of the social situations surrounding the Group, which are changing from moment to moment, and the growing importance of sustainability. Internal directors held a lively discussion. While minority opinions were also given, as long as we limit our discussions to inside the company we will end up with conventional thinking. This thinking is based entirely on our own logic. We want to know how things look from outside the company. I feel that it is important to know this. I would like to know your frank opinions.

— What material issues have you identify this time?

Kiriya We started by selecting 154

priority issues from other companies' examples, guidelines, and other sources, based on the GRI standards, the SDGs, and the SASB standards, and other guidance. We then narrowed the list down to 41 candidate material issues. Ten of these issues have been identified as the most important material issues at present. Regarding the environment, the E of ESG, we have selected three issues: product specifications, clean fuel blends and clean technology opportunities. Regarding social issues, the S of ESG, we selected occupational safety & health management and diversity and equal opportunity. The G in ESG is corporate governance, and in this area we selected five issues: safe operations and stable supply, risk management, compliance, structural reform of businesses that are the foundation for revenue, and ethics and integrity. I feel that the company will be in trouble in the future unless we get a handle on these issues. Therefore, we would like to listen to experts' opinions to improve our understanding of these issues.

Tanaka I was surprised that your highest priority is climate change. I think it is great that, even though you are an oil company, you are engaging in activities with the awareness that climate action is the most important material issue. You have formulated the Oil & New strategy and have been making the Oil part as green as possible while expanding the New part. These have been the two pillars of your activities, yes?

— Please tell us about the recent situation surrounding the energy industry.

Tanaka Recently, consumer behavior has changed greatly. Oil has been greatly affected by the new behavior patterns stemming from the COVID-19 pandemic. Therefore, oil companies all over the world face the issue of how to find new businesses as an oil company. I have been looking at energy from the supply side. I feel, however, that hereafter I need to look at it from the demand side. Dr. Fatih Birol, the current IEA Executive Director, says that the Paris Agreement "may be less difficult to realize than before." There are three reasons for this. One is the declining

cost of renewable energy. The second is that more than 120 countries have declared they will achieve carbon neutrality by 2050. The third reason is the decarbonization of businesses. In the United States, the decarbonization movement is accelerating, mainly in the IT industry where Google, Apple, Facebook, and Amazon, called GAFA, are representative. The movement also involves supply chains. These companies are being followed by automakers, which have also begun to publish declarations of their goals for achieving carbon neutrality. This means that suppliers must decarbonize their energy sources in line with the decarbonization on the demand side. In this situation, the companies that supply parts to Apple and Mercedes must make carbon-neutral parts. In this way, the restrictions on both the supply and demand sides will greatly change the energy sector.

— Could you tell us your idea about the catalyst for the revision of material issues in response to this movement, Mr. Kiriya?

Kiriya When we created the current mid-term plan (FY2018-FY2022), we rethought what would happen regarding oil in the future. Although we deal in fossil fuels, we factored the transition to a fossil-fuel-free society and an oil-free society into our long-term vision and there was heated internal discussion about it. While many oil companies turn to gas, this doesn't make much of a difference as gas is also a fossil fuel. An outside director of the Mubadala Investment Company (MIC) in the Emirate of Abu Dhabi also says that we should, "shift to a fossil-fuel-free society." This is why we made the big decision to shift our focus to renewable (energy). Employees accepted this idea smoothly because it is consistent with Cosmo's branding as a company that is focused on the environment. The term material issue was not yet familiar to us at that time. Looking back, I feel it was a discussion that led to the identification of material issues. And we were able to quickly embody that idea during the COVID-19 pandemic. Oil is a

complementary product. Crude oil is refined to produce many petroleum products, such as gasoline, jet fuel, diesel oil, and heavy oil. However, demand for jet fuel dropped suddenly due to the lockdowns and people voluntarily refraining from travel. Gasoline consumption has also been decreasing, which will result in a major change in the composition of oil products. It is difficult to fit the supply into these demand-side changes.

Tanaka The same is true for Abu Dhabi and Saudi Arabia. When Saudi Aramco¹ held a Board of Directors meeting in Tokyo about five years ago, a question was asked: In what year do you think oil demand will reach its peak? U.S. economic analyst and energy expert Daniel Yergin answered, "I think that will happen in 2035." This is common knowledge among energy experts. However, I said, "It could happen before 2030." In fact, recently, some people have said that 2019 might have been the peak year because of COVID-19.

Kiriya I see. To respond to this change, we have recently begun considering hydrogen, ammonia and methanation,² for example. All in all, the conclusion is that going green will require a huge amount of renewable energy. We will increase renewable (energy) while also developing infrastructure for hydrogen and ammonia. We are planning to develop them in parallel, although we have no idea which will remain and which will become the mainstay.

Tanaka You are focusing your efforts on wind power. I think this is the right choice. Above all, there is still significant room for growth in offshore wind power generation, so I personally place a lot of hope on it.

— Mr. Tanaka, you also lecture about gender balance and climate change. What do you think about diversity and equal opportunity, one of our material issues?

Tanaka Every year since 2014, the Innovation for Cool Earth Forum (ICEF) is held in Tokyo as a part of a Japanese government initiative. The purpose of this meeting is to have leaders from all over

the world gather in one place and discuss climate change mitigation through technological innovation. I serve the ICEF as a kind of chairman. Last year, there was a recommendation regarding the possibility of synergy between gender and climate change. The idea is that women will play a great role in the promotion of innovation. A positive analysis suggests that it is not gender neutrality but a larger percentage of women participating that improves climate change strategy performance. It is great that you are working hard on the promotion of diversity and equal opportunity initiatives. You support and have endorsed the TCFD recommendations. I think you will continue to disclose a lot of information including the results of scenario analyses. I think you should include diversity indices in the creation of scenarios and the formulation of business plans and disclose them. For example, you should set a target such as increasing the ratio of women in the Board of Directors to 30%. That will actually give a positive impact in (tackling) global environmental problems. This is my hypothesis.

Kiriyama That sounds interesting. Since I became the president, we have been increasing the percentage of outside directors that are women. This year,

another female director joined us, increasing the percentage to 20%. Adding another woman will increase it to 30%. The presence of women leads to lively, diverse discussions. They provide opinions from different perspectives, which I feel is really good. We would like to reflect gender issues in specific personnel measures.

Tanaka Unfortunately, at energy companies, the percentage of women tends to be low. This is true not only in Japan, but globally. Generally, the number of women is small in the traditional oil and gas industry. However, the opposite is happening in the renewable energy industry, where the number of women is relatively large. It appears that because renewable energy is a new field, it is easy for women to enter it. I think that if you shift to new fields, there is the opportunity to increase the number of women.

Kiriyama In our administrative division, the percentage of women is high. However, in the sales and production divisions, the percentage of men is high. Although half of our customers are women, men are the majority at the sales division. That is strange, isn't it? We would like to promote diversification by improving the gender balance in our divisions.

Tanaka The material issues we have

identified include occupational safety & health management and safe operations and stable supply. Generally, women are said to have a greater awareness of safety and security.

Kiriyama The Great East Japan Earthquake caused an explosion and fire at the LPG storage and shipment facilities at the Chiba Refinery. That made us painfully aware that our highest priority should be safety. If women have a greater awareness of compliance with safety principles, this means that gender balance is important, yes?

— Mr. Tanaka, could you summarize the Group's most important material issues?

Tanaka I think your material issues are right in line with your strategy. Climate change is the most important issue, and product specifications, clean fuel blends, wind power and other clean technologies are connected to it. The biggest job is considering which type of environmentally friendly energy will enable us to profit. Regarding this, we will reflect the changes in demand and consumer behaviors that I mentioned earlier in our decision-making to make the right decisions at the right times. There are many possible scenarios. I don't know what will happen or which of the scenarios will be accurate. If you enter the world of the TCFD, you will

We will promote sustainable management to create a good, sustainable company that fulfills the needs of society.



naturally have to identify scenarios. So you should set parameters in line with each scenario, and the important point is the measures that you take to protect yourself from each risk. Scenario analysis is the key at the present time, when the future is highly uncertain. Accordingly, you should create some high-quality scenarios and discuss what impacts relevant material issues will give on each other and what actions will enable you to address the issues in the future. I think that is the only way to survive. It is wonderful that diversity and safety are positioned high among the most important material issues. Further, I was surprised to see that ethics and integrity is positioned this high. This is rare. Recent political situations in Japan and other countries during the COVID-19 pandemic make us think about what justice is. I feel that ethics and integrity is an unignorable element of corporate activities.

Kiriyama I feel that this is probably a part of our corporate culture. Now, we are promoting sustainable management, but since before we began to do so, I have highly valued the idea of corporate social responsibility (CSR). I think that how a company fulfills its social responsibilities and acts as a good corporate citizen is precisely an issue of corporate ethics. I

believe that this spirit will continue to be important regardless of how the social situation changes.

— Finally, could each of you share a closing message?

Tanaka Thank you very much for creating this opportunity to exchange opinions with President Kiriyama. I think listening to the opinions of external experts like this is very valuable. As I said earlier, when both men and women actively participate in a company, they share different opinions about each material issue. I feel that you will achieve something interesting if you focus on diversity and connect it to other material issues. Therefore, I think that you should formulate plans while keeping in mind the connections or relationships between material issues.

Kiriyama Thank you very much for your very valuable opinions. We believe each material issue is an independent matter, but it is interesting to listen to your perspective, where you see these issues as related to each other. We will create and analyze scenarios with an awareness of the bearing material issues have on each other.

Tanaka Please create a good, sustainable company.

— Thank you very much for your time today.



The ways to identify new businesses in this era of change is an issue faced by oil companies all over the world.

During this talk held on March 8, 2021, sufficient measures were taken to prevent COVID-19 infections.

1 Saudi Aramco: Saudi Arabia's state-run oil company boasting the largest crude oil reserve, crude oil production, and crude oil export volume in the world
2 Methanation: A technology for synthesizing methane from hydrogen and CO₂