



Representative Director, Group CEO

Hiroshi Kiriama

The Cosmo Energy Group will accelerate change toward the future, aiming to evolve into a corporate group that is chosen by society.

Business environment of increasingly drastic change

In recent years, the business environment surrounding the Cosmo Energy Group has been changing drastically. The COVID-19 pandemic, which began in 2020, has yet to come to an end. In addition, Russia invaded Ukraine in February 2022. With these and other events, the future has remained uncertain.

In response to the COVID-19 pandemic, we have continued to hold crisis meetings and have fully enforced infection control measures in the head office and manufacturing divisions.

We have established a teleworking system for all offices, excluding refineries. Regarding vaccinations, we promptly made vaccination possible in the workplace, enabling employees to receive three doses of the vaccine. Due to these

and other ongoing comprehensive measures to prevent infection, there has been no impact on our business continuity, including the operations at our refineries.

Crude oil prices, which greatly impact the Group's business performance, have recovered from the sharp fall due to the decline in crude oil demand caused by the COVID-19 pandemic in 2020. In early FY2021, prices rose to pre-pandemic levels due in part to the recovery of the global economy following the increase of the vaccination rate. Crude oil prices continued to trend upward after that, and in 2022 they surged, partly due to the impact of Russia's invasion of Ukraine. They have hovered at a high level.

A rise in crude oil prices increases the inventory asset value in the short run, and it also generates positive time-lag in product margins, thus positively impacting business results. On the other hand, from the viewpoint of consumers, a rise in prices leads to a decline in demand. It also produces impacts such as an acceleration of energy conversion. Further, it is

believed that, due to the impact of Russia's invasion of Ukraine, the supply-demand balance of crude oil will remain tight for some time.

Record-high profits achieved in FY2021

In FY2021, the Group's business performance remained strong overall thanks in part to the rise of crude oil prices.

Regarding the Petroleum Business, we were able to maintain the operating rates at our refineries at almost 100% because, due to our supplying Kygnus Sekiyu, we have taken a supply shortage position with a sales volume that is greater than production capacity. In addition, profits increased significantly due in part to the rise in crude oil prices.

In the Petrochemical Business, profits increased with the improvement of the market prices of benzene and other petrochemicals.

In the Oil E&P Business, profits increased significantly due to the rise in crude oil prices, which more than offset the year-on-year decrease in the production volume attributed to problems at some oil fields.

In the Renewable Energy Business, the development of onshore wind farms has been steadily progressing and power generation capacity has reached 300,000 kW. Last year was our first year of offshore wind power generation, and we submitted bids for the project off the coast of Yurihonjo City, Akita Prefecture. Unfortunately, we were not selected as an operator of the project, but we learned a lot from this valuable experience, which will be useful for the next bid. Regarding our business performance, profits fell due to the generation of upfront costs related to the development of offshore wind power generation.

The Group promotes four projects: One off the northwest coast of Aomori Prefecture, one in the Akita central sea area, the one off the coast of Yuza, Yamagata Prefecture, and the one off the north coast of Niigata Prefecture. To reflect what we learned in the bid that we did not win for the project off the coast of Yurihonjo City, Akita Prefecture in the prices of future tenders, we will review and reduce construction and operating costs together with consortium members, consider sales destinations by taking green value into account, and take other measures to review the overall supply chain to increase our price competitiveness. Regarding prices, we will acquire a price competitiveness that will enable us to compete internationally. We believe that the fast arrival of the era when consumers are able to use renewable energy at affordable prices will be beneficial for everyone, so we have set it as the goal of our efforts.

In FY2021, ordinary profit excluding the impact of inventory valuation increased ¥84.2 billion year on year, to ¥160.8 billion, and profit attributable to owners of parent rose ¥53.0 billion year on year, to ¥138.9 billion, exceeding the record high achieved in FY2020.

Strong results are expected again in FY2022, elevating shareholder returns to the next stage

The Cosmo Energy Group has been moving forward with its five-year Sixth Consolidated Medium-Term Management Plan since 2018 under the slogan, “Oil & New.” FY2022 is the final year of the Sixth Medium-Term Plan, but we achieved the plan’s management goals at the end of FY2021, one year ahead of schedule. We position FY2022 as a period of transition when we will consider the next policy and strategy in preparation for the Seventh Medium-Term Management Plan.

Our earnings power has increased due to the steady implementation of the Sixth Medium-Term Plan and our success significantly improving our financial condition and achieving the goals of the medium-term plan one year early. In view of our future growth strategy, we believe that we need to continue to improve our financial condition. At the same time, we also believe that we have already reached a level where we can return a certain amount to our shareholders. In FY2022, we will increase shareholder returns, elevating them to the next stage. Specifically, we will offer shareholder returns with the target of 50% of profit attributable to owners of parent excluding the impact of inventory valuation. We plan to pay an annual dividend of ¥150 per share (interim dividend of ¥75 and year-end dividend of ¥75), up ¥50 from the previous fiscal year. Further, we plan to repurchase our own stock, with the total number of acquired shares at 8 million or with an upper limit in the total acquisition amount of ¥20 billion. From FY2023 onwards, we will consider shareholder returns based on this same level of returns and announce a specific shareholder return policy in the next medium-term management plan.

Regarding performance forecasts for FY2022, in the Petroleum Business, there are no planned large-scale regular repairs of our refineries, so we would like to maintain high operating rates to steadily earn profits. Globally, demand declined due to the COVID-19 pandemic, and the market prices of products dropped. At present, however, demand has been trending toward recovery due to the recovery of global economy. In addition, product prices have been

*Completed on July 6, 2022



rising, partly reflecting the impact of Russia’s invasion of Ukraine. Regarding jet fuel, which was affected most greatly, the environment has improved in terms of both quantity and prices. In Japan, the supply-demand environment has remained stable. While there are influences from fluctuations of crude oil prices, the basic environment has been favorable. Regarding the Petrochemical Business, the improvement of market prices is expected to be difficult because the COVID-19 pandemic will continue to impact the business to a certain extent in FY2022. Regarding the Oil E&P Business, we expect the earnings environment to be favorable because crude oil prices have been high. In the Renewable Energy Business, while our onshore power generation projects will progress steadily, expenses, including labor expenses are expected to be generated due to the full-scale development of offshore wind power generation facilities.

As a result of the above, we expect that ordinary profit excluding the impact of inventory valuation will decrease ¥5.8 billion year on year, to ¥155.0 billion and that profit attributable to owners of parent will decrease ¥45.9 billion year on year, to ¥93.0 billion in FY2022.

Going beyond the Sixth Consolidated Medium-Term Management Plan, Oil & New

The Sixth Medium-Term Plan started in FY2018, which means that we formulated it in FY2017. At that time, the oil industry in Japan was being reorganized. Now, the domestic environment is improved compared to that period. We secure appropriate margins, and the supply-demand balance is stable. Crude oil prices, which had been expected to rise, have actually risen higher than expected.

We do not deny that it is partly because the environment has been better than projected by the medium-term plan and the significant increase of crude oil prices that we were able to achieve our goals one year early. However, we proceeded steadily with the structural reform of our foundation. Operating rates have been rising, and sales volumes have also been increasing. We have also steadily increased our ability to generate cash flow from operating activities.

Operating rates at our refineries are much higher than other companies. Since the Great East Japan Earthquake, we have been taking thorough safety measures, which also results in our ability to maintain high operating rates. We have made capital investments for safety, introduced an Operation Management System (OMS), and taken thorough measures regarding both tangible and intangible aspects of our business. Because we have spent more than ten years working on this theme, we feel great pleasure and a sense of achievement, with our achievements taking the form of much higher operating rates and significantly fewer accidents than other companies.

Our financial condition has also improved. Thanks to the structural reform pushed forward during the Sixth Medium-Term Management Plan, our financial condition now enables us to take an aggressive stance as we create the Seventh Medium-Term Management Plan.

In the Sixth Medium-Term Management Plan, we announced our stance towards decarbonization with the slogan, Oil & New. As far as I can recall, in FY2018 there were not so many companies that had clarified their stance on decarbonization. Currently, environmental awareness is taken for granted, and I feel that the trend of creating new businesses that connect the environment to business has been established. An example of this is EVs.

The direction we have taken is that we will shift to renewable energy with a focus on wind power as the fossil fuels business continues to shrink in the future. During the Seventh Medium-Term Management Plan, we believe that the trend will be stronger, not to mention that going back to the past trend is unthinkable.

Maintaining our strong relationship of trust with the Emirate of Abu Dhabi

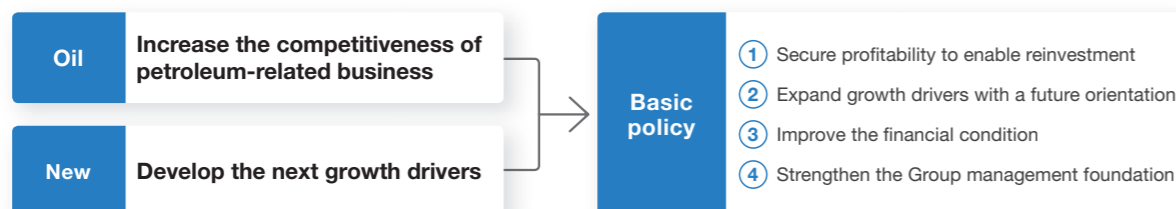
As the Cosmo Energy Group transforms its business portfolio toward decarbonization, its relationship with the Emirate of Abu Dhabi has entered a new phase.

In March 2022, Mubadala Investment Company (hereinafter, “Mubadala”), which was a major Cosmo Energy Holdings shareholder, offered shares of Cosmo Energy Holdings stock for sale. Mubadala is a company from the oil-producing Emirate of Abu Dhabi, and their decision is the result of Mubadala’s intent to change its investment strategy and invest proactively in technology, infrastructure, life science, and other sectors because its strategic alliance with us has resulted in certain achievements. Although the capital relationship with Mubadala was dissolved, the strong trust-based relationship with the Emirate of Abu Dhabi that has continued for more than 50 years will never be dissolved, and our business in the Emirate of Abu Dhabi will continue. At present, we are proceeding with the exploration of Block 4, a new exploration block in the Emirate of Abu Dhabi, and considering a collaboration with Abu Dhabi Future Energy

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



Company PJSC-Masdar, a leading renewable energy company in the country, and several collaborations with Abu Dhabi National Oil Company (ADNOC) in CCS/CCUS, and other decarbonization fields. Thus, we will deepen our relationship with the country.

Towards the achievement of net zero carbon emissions by 2050

The Cosmo Energy Group believes that formulating and implementing a management plan based on even greater consideration of climate change is essential for the sustainable development of our planet, society and ourselves. Therefore, we regard climate change countermeasures as one of our most important material issues. We made the 2050 Carbon Net Zero Declaration in May 2021, and conducted a TCFD scenario analysis as the first step toward the achievement of net zero carbon emissions by 2050.

Through the scenario analysis conducted using the IEA's 1.5°C, 2°C and 4°C scenarios, we identified climate change risks and opportunities in our business activities and evaluated the financial impact of the actualization of any of these risks.

We evaluated physical risks and transition risks and found that transition risks such as changes in energy demand and the energy mix may greatly impact the Group.

While they are risks, we can also regard them as opportunities. We will realign our business portfolio to fulfill energy demand and customer needs in our efforts to ensure the sustainable development of our businesses.

Having made the Carbon Net Zero Declaration, in May 2022 we disclosed our roadmap for net zero carbon emissions by 2050 based on a TCFD scenario analysis. In this roadmap, we have set a reduction target to be achieved by 2030, the halfway point, to ensure the steady progress of our decarbonization initiatives. While fulfilling our responsibility to maintain a stable energy supply, we will work on our conversion to zero-carbon energy, negative emissions

technologies and other initiatives with the goals of reducing emissions 30% by 2030 and achieving carbon net zero by 2050.

In the Seventh Medium-Term Management Plan, we aim to build a structure that integrates climate change risks and opportunities into our management strategies. The Cosmo Energy Group is also an energy provider. Therefore, it is important that we understand the speed of society's decarbonization as we think about our own path to decarbonization. We cannot fulfill our mission to maintain stable energy supply unless we provide society with the type of energy it demands in the amount it needs.

Improvement of the customer experience (CX),DX and branding

I believe that one of the Cosmo Energy Group's goals is related to CX, the Customer Experience. At the Cosmo Energy Group, we deal in energy as a commodity. It is difficult to differentiate a commodity itself. Therefore we must ensure that we are chosen by customers by providing additional customer value and a superior customer experience (CX).

The key points in our provision of an optimal CX to customers are branding and DX.

We have had many points of contact with customers, including service stations. Of course, we have been analyzing and making use of our experience at those points of contact. By analyzing a large amount of data using DX, however, we will be able to visually understand what would have been implicit knowledge and note things that we were unaware of before. By reviewing our previous practices and habits and even dismantling them where necessary, we will more broadly and deeply understand customer needs to increase customer satisfaction.

We have started to promote DX in earnest under the catchphrase, "Full-fledged DX." In November 2021, we invited Ms. Noriko Rzonca to be our first CDO and established the Corporate DX Strategy Dept. By pushing forward with DX, we will improve the

digital literacy of the Group as a whole and accelerate data-driven management. We will build an environment which will enable human resources to acquire the skills needed by the Group as a whole and recruit and develop human resources with these skillsets.

The Cosmo Energy Group deals in energy, a commodity that is difficult to differentiate, and we aim to develop a virtuous circle in which we are chosen by customers because of our integration of branding and DX and provision of an optimal CX, which will further strengthen the Cosmo brand.

Strengthening of the Cosmo brand will positively impact not only existing businesses but also the new businesses we enter. For example, a good brand image will increase the possibility of success when advancing an environmental business, such as a wind power generation business. While the environment surrounding us continues to change significantly, it will become more necessary to take on an array of challenges that are not limited to environmental businesses. We would like to strengthen the Cosmo brand to create an environment that will enable young employees to take on new challenges with new values without difficulty and succeed in their attempts.

Sustainable Management

We strongly feel that stakeholders' demand that companies be sustainable has been growing every year.

We have built a system for pushing forward with sustainable management, including the Sustainability Strategic Conference that I chair as the representative director. In FY2021, the Sustainability Strategic Conference met a total of eight times including extraordinary sessions. At the meetings, we identified and developed a consensus on current issues and opportunities, such as climate-related disclosure conforming to the TCFD recommendations and the establishment of a relevant philosophy system and policies. We also addressed issues, such as human

rights, diversity and employees' wellness management, and built a foundation for holistically addressing ESG matters.

Regarding the executives' remuneration plan, we have linked about 10% of their remuneration to the ESG evaluation, so we believe we can increase the effectiveness of our sustainable management and express our determination toward sustainable management.

In formulating the Seventh Medium-Term Management Plan, we will integrate the medium-term management plan and the consolidated medium-term sustainability management plan, which previously were formulated separately. We will thus deepen our sustainability management with an awareness of both non-financial and financial aspects of our businesses.

Further, the Cosmo Energy Group signed the United Nations Global Compact (UNGC) in February 2006. We will continue striving for the realization of the Ten Principles related to human rights, labor, environment and anti-corruption, and with all of these initiatives, we will contribute to the sustainable development of society and the achievement of the SDGs.

To Our Valued Stakeholders

Conversations with investors and other stakeholders are valuable opportunities to listen to your opinions. The opinions of our stakeholders are considered by the Board of Directors and reflected in our management. We will work toward our shared goal of improving our corporate value. Let me reiterate that the environment surrounding us continues to change significantly. Amid these major changes, we will aim to achieve carbon neutrality by 2050 while fulfilling our mission to maintain a stable energy supply.

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.

