

Message from the President



Keizo Morikawa

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K. Morikawa

Securing Safe and Reliable Operations to Fulfill Our Mandate as a Vertically Integrated, Comprehensive Energy Company

Restoring Operations at the Chiba Refinery

In fiscal 2011, we carefully investigated the causes of the fire and explosions at the Chiba Refinery triggered by the March 2011 earthquake. Based on the results, we formulated detailed measures to prevent similar accidents and worked to restore refinery operations. Here again, I must express our deepest apologies to the people in the community and others who were inconvenienced by the accident. In August 2011, Cosmo Oil submitted an accident investigation report by our Accident Investigation Committee to Japanese authorities. We have made every effort to strengthen our safety management based on the recurrence prevention measures we drew up under the instruction of government authorities.

We partially restarted refining equipment operations in January 2012, and in March and April brought two topping units back online to conduct regular maintenance. We are currently working on replacing the liquefied petroleum gas (LPG) tanks that burned in the accident, in preparation for a full restart of refinery operations.

The Chiba Refinery was the site of another major accident on June 28, 2012, involving a leakage of asphalt outside the refinery grounds. I would like to express our sincere apologies for the accident and assure stakeholders that we will make every effort to prevent any such accident from occurring again. We take seriously the obligation to live up to the trust that has been placed in us.

Moving forward, we will make seismic improvements to storage tanks and secure physical and operational improvements in fields such as emergency response and operating technology, as we strive to enhance operational safety and fully restore operations at the Chiba Refinery.

Business Performance

Our oil refining and sales have been heavily impacted by lower demand and a sluggish economy in Japan, while the long-term shutdown of our main Chiba Refinery has also had a major impact on our business performance. The cost of securing a reliable supply of petroleum products has increased. Lost export opportunities and mounting repair costs have further impacted our results, leading to a consolidated net loss for fiscal 2011.

To address this situation, we continue implementing comprehensive streamlining and innovation as outlined in our Fourth Consolidated Medium-Term Management Plan, which began in fiscal 2010. We are determined to solidify the earnings base for oil refining and sales, and will establish a more direct and flexible supply framework.

To report on the progress of our management plan, in the oil exploration business we expect to continue securing a reliable supply of oil. Our ongoing efforts to build ties with oil-producing nations have resulted in the renewal of concession agreements in Abu Dhabi and signing of concession agreements for new unexplored or discovered areas.

In the petrochemical business, Hyundai Cosmo Petrochemical Co., Ltd., which is our joint venture with international partner Hyundai Oilbank Co., Ltd., is ahead of schedule on expansion plans for paraxylene production. Hyundai Cosmo will finish the construction of large-scale paraxylene production facilities with an 800-kilotonne annual capacity in South Korea in late 2012.

In the oil refining and sales business, we launched the operation of our bio-ETBE manufacturing facilities for eco-friendly fuel, and constructed new mixed xylene (MX) manufacturing facilities and commenced MX exports. Both products illustrate how we are strengthening competitiveness by offering higher added value.

In the environmental business segment, our subsidiary EcoPower Co., Ltd., constructed three new wind power generation sites with a total capacity of some 90,000 kilowatts. This subsidiary is also weighing the possibility of building its first mega solar power generation facility featuring arrays of solar panels on vacant lots where our oil depots used to be. Also in the environmental business, the Cosmo Group supplies 80% of the world's supply of 5-aminolevulinic acid (ALA), which is widely considered an effective fertilizer. We are working to expand the applications for ALA, such as for hair growth treatment and supplements and cosmetics.

Despite the challenging business conditions we face today, we are making steady strides toward growth in the oil exploration, petrochemical, and environmental business segments. As a Group, we are striving to become a vertically integrated, comprehensive energy company, focusing our energies on the environmental business in addition to oil exploration, oil refining and sales, and petrochemicals.

Securing the Confidence of Society

The Cosmo Oil Group is pursuing socially responsible management and a stronger revenue base in every aspect of its business activities in order to perform its responsibilities to society through its main business.

Safety, human rights, and the environment are the highest priorities in our commitment to socially responsible management. We recognize that, to deliver on this pledge, we must ensure that every employee embraces the Cosmo Oil Group Code of Conduct and puts it into action. Our people are the key to running a business that fulfills our responsibilities to society.

Today, the Cosmo Oil Group is tackling the issue of safety in every organization and at every site. Commitment to safety should never be limited to certain business locations or employees. We understand that we will have to work hard to win back the public's trust after the accidents at the Chiba Refinery, by demonstrating a sense of urgency and securing safe and reliable operations. We are confident that our efforts will lead to consistent and appropriate revenues which in turn will allow us to continue fulfilling our vital role in the functioning of Japanese society.

We also have a mission to engage in social, environmental, and community initiatives that give back to society, sharing the financial success that our honest business activities have earned. These efforts will also help us to win back public confidence and enhance the competitiveness of the Cosmo Oil Group. To achieve these aims, it is my duty as a leader to execute the strategies we have outlined in the Third Consolidated Medium-Term CSR Management Plan.

The Cosmo Oil Group has participated in the United Nations Global Compact since 2006. This is another measure of our dedication to socially responsible management that respects basic and global principles in the areas of human rights, labor standards, the environment, and anti-corruption. These basic principles are also reflected in the Cosmo Oil Group Code of Conduct, which governs our efforts to deliver on social expectations and contribute to a sustainable society.

Fiscal 2012 represents the last fiscal year of the Third Consolidated Medium-Term CSR Management Plan. Rather than viewing it as the end of a chapter, we will use it as a building-block year to restore public confidence, and identify both immediate priority areas to address and long-term initiatives. We will re-embrace our corporate principles and focus on the activities that are most meaningful to our valued stakeholders.

