

Message from the CEO

Pursuing corporate transformation based on our belief that we must make changes now in order to ensure our future

Miyata Tomohide

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Transforming Our Corporate Culture to Prevent the Recurrence of Misconduct

I was appointed Representative Director, CEO of ENEOS Holdings on April 1, 2024.

In response to the incidents of misconduct of top management of ENEOS Holdings and ENEOS that occurred in two consecutive years, we are working with a sense of urgency to prevent the recurrence of such incidents in order to restore the trust of stakeholders.

To prevent the recurrence of misconduct and to ensure that employees can work comfortably and with pride, we will continue to carry out organizational reforms and disclose our progress, and we will not discontinue these efforts even after a certain amount of time has passed.

While referring to the opinions of outside experts, we

are enhancing the director selection process, strengthening compliance awareness among officers, and reviewing the composition ratio of outside directors.

Our employees were extremely disappointed by these misconduct incidents. In response, our management team has pledged to re-establish a work environment where employees can work comfortably and with pride. As the first step, we conducted a survey of 11,000 employees of ENEOS Holdings and ENEOS. The results of the survey included employee comments such as “excessive consideration,” “top-down,” and “emphasis on conventional methods,” indicating that many employees were aware of problems with the culture that had taken root in the organization. By taking appropriate action based on the issues raised, we will focus on improving workforce engagement to achieve a balance of employee engagement, performance, and growth.

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As part of these efforts, ENEOS Holdings and ENEOS have established the “Three Principles for everyone to work in peace” (see page 24), rules to ensure mutual, constructive communication while maintaining an attitude of respect for others. We have also introduced regular surveys to understand the current situation in the workplace and established a system for providing bottom-up feedback to supervisors in managerial positions, which we will link to 360-degree evaluations that will be included in personnel evaluations in the future.

We will continue to monitor the progress of these initiatives through an organization that comprises four members: outside directors Ms. Oka and Ms. Kawasaki, ENEOS president Mr. Yamaguchi, and myself. While monitoring the results of engagement surveys, we will regularly check our progress to ensure that we are moving in the right direction.

Increasing Diversity to Achieve Sound Corporate Growth

When I was young, I was assigned to a global company outside of Japan, where I learned the fundamentals of business. I found that global business is very different from business in Japan, that good leaders know their limitations and never make decisions based on a narrow perspective, and that if you don’t understand something, you should ask someone who does to help you because it is all about how you build your own personal network. Without these lessons, I would not be where I am today.

Having come up in a corporate culture that emphasizes diversity, I feel that a monoculture with a single value system is a risk. In order to maintain a critical and objective point of view, I will surround myself with outside directors and others

who can express various opinions. I will listen to diverse opinions in my decision-making, for which I will take full responsibility.

For example, in terms of gender diversity, more women have been appointed to key positions, such as president of ENEOS Power, CHRO in charge of people strategies at ENEOS Holdings, and general manager or equivalent positions in each division, including director of Kashima Refinery. However, efforts to ensure diversity are not limited to the appointment of women, and we recognize that we are still only halfway there. I will be actively involved in these efforts, including the development of the next generation of leaders.

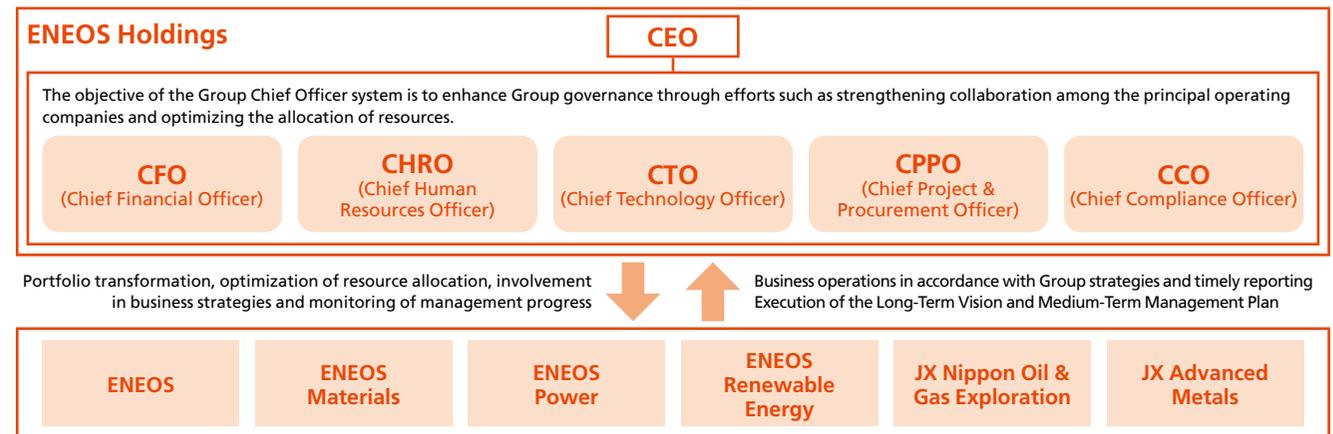
Establishment of the Group Chief Officer System at the Holding Company

In conjunction with the change in the Group management structure, within the Company, which is now a pure holding company, we have appointed CFO, CHRO, CTO, CPPO,

and CCO as chief executives in the areas of finance, human resources, technology, project management and strategic procurement, and compliance, respectively, which are important management resources and foundations for the Group. Along with me, these CxOs will take on the role and responsibility of looking at the entire Group from a cross-functional perspective and strengthen collaboration among the principal operating companies while considering and implementing the optimal allocation of management resources, thereby realizing a sound and highly effective governance system.

For example, in the technology division, the CTO carries out a role that is integral to company-wide optimization through efforts such as confirming the progress of technology and R&D at each operating company, promoting technological synergies among the companies, managing patents, and allocating human resources. Carbon neutrality in particular is a field with a strong technical orientation, so the role required of the CTO is significant.

Group Chief Officer System



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With regard to human resources, we have established a system that enables the Group to oversee personnel measures that were previously planned and implemented by each operating company individually. The centralized supervision of the CHRO is expected to have a significant effect in terms of strengthening organizational capabilities. The same applies to the succession plan for CEOs and presidents and the appointment of officers. How will we select and develop people with high potential in the future? The CHRO and I will lead these initiatives while maintaining close communication, and this will enable us to develop the next generation of leaders and executives.

Enhancing Earnings Power under the New Group Management Structure

It is necessary to strengthen profitability management for each business. A financial indicator that the Group attaches particular importance to is ROE. In order to increase ROE, we have set ROIC targets for each business in the third Medium-Term Management Plan, which started in fiscal 2023.

First, we will need to improve the utilization rate of our refineries and plants, which is linked to ENEOS's current earnings. A particular challenge is unplanned capacity loss (UCL), which once worsened to 12%, but has recovered to less than 5% with our reduction of operational issues through improvement efforts. We are now executing intensive measures to bring UCL down to as close to zero as possible. The issue to overcome is improving the operation of scheduled maintenance. Due to a shortage of workers with the necessary skills, scheduled maintenance, which used to take one and a half months, now takes about three months, and we must minimize the impacts as much as possible. Given the complexity of related laws and regulations that

must be complied with, such as the Fire Services Law, the High Pressure Gas Safety Act, and the Labor Standards Act, we will pursue improvements by formulating a careful plan in cooperation with the relevant parties.

In order to increase capital profitability it is essential to reform business processes, such as asset sales and the careful selection of invested capital, throughout the Group, and we will proceed with the divestment of low-efficiency assets without exception. In order to do so, we must "visualize" the content and progress of initiatives. We will ascertain the actual situation, clarify issues, and work hard to improve profitability.

A close examination of past projects reveals that poor project management in general, especially in terms of cost and scheduling, led to impairment losses for many projects. This indicates that while the holding company was urging autonomous management by the operating companies, its handling was insufficient. With the change in Group management structure, we have shifted to "strategic leadership-type portfolio management" in which the holding company and the operating companies work together, while the holding company also gets involved in the business strategies of the operating companies as necessary.

We must work together to solve the issues faced by each operating company, and to that end, we have established a system in which ENEOS Holdings provides management resources such as people, goods, funds, and information as appropriate to maximize corporate value. By visualizing the status of projects at each operating company and the challenges they face, we have made it possible to allocate management resources such as people and funds appropriately.

Up to now, ENEOS Holdings and ENEOS were almost integrated, but under the new structure, ENEOS Holdings



has become a pure holding company, and ENEOS, as an operating company, will concentrate on executing its strategies for growth. In addition, ENEOS Holdings is now much closer to ENEOS Materials, ENEOS Power, and ENEOS Renewable Energy, which makes collaboration easier than before, leading to more efficient and speedier management. Going forward, we will continue to review our portfolio and add or replace businesses as appropriate.

Looking toward Our Long-Term Vision

The ENEOS Group Long-Term Vision states that we are taking on the challenge of achieving both a stable supply of energy and materials and the realization of a carbon-neutral society, and we are now working toward energy transition away from fossil fuels.

Given current circumstances such as the heightened geopolitical risks in Ukraine and the Middle East, we do not expect a sharp decline in demand for petroleum and chemicals, and we will continue to make solid contributions

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in these areas. In addition to improving the refinery utilization rate in the Petroleum Products business and maximizing the value of existing projects in the Oil and Natural Gas E&P business, we are looking to establish existing businesses that support the majority of cash flow as the foundation of earnings through business process transformation and other means.

We will focus on LNG, which is now recognized as a low-carbon solution as a fossil fuel necessary to support the transition period. In August, the Goi Thermal Power Plant (Unit 1), a state-of-the-art LNG-fired power plant boasting one of the world's highest levels of power generation efficiency, began operation. Combined with the fact that we are able to procure highly competitive LNG, we expect that this business will contribute to earnings.

With regard to investment in energy transition, in renewable energy, we were recently selected as an offshore wind power producer in Happo Town and Noshiro City in Akita Prefecture, and we are also steadily expanding our onshore wind power and solar power capacity. If necessary, we will also consider overseas projects. We will also focus on other investments, such as hydrogen, CCS (carbon capture and storage), and synthetic fuels, utilizing government support. However, we believe that the main sources of next-generation energy will become apparent around 2030, and we are currently accumulating expertise by participating in demonstration projects led by the government. Eventually, as Japan's energy policy becomes clearer, the market will begin to move, and the prospects for commercialization will also increase. We will pursue technological innovation so that we can flexibly carry out large-scale investments at that time, while making preparations, including in the financial aspect, to ensure that we have multiple options.

The challenge for the future is the development of

global human resources. As we move forward with energy transition and business portfolio transformation, it is clear that hydrogen, CCS, and offshore wind power opportunities will be accessible beyond the confines of Japan. From basic research to technology development, production technology, and supply chains, restructuring in accordance with global standards is required. We recognize the urgent need to retain and develop people who can lead such a global strategy.

Enhancing Human Capital for the Future

I firmly believe that for a company, human capital is the most important management capital and people provide the highest investment efficiency. In terms of workforce engagement in particular, we will carry out management in a way that balances employee engagement, performance, and growth.

Generally speaking, a situation where "the salary is the same whether you work or not" will only increase the number of people who do not take their work seriously because they find it "easy" or "not worth it." Instead, by fairly evaluating contributions to corporate value, we will increase the number of people who are actively involved in high-value-added work that contributes to maintaining and improving corporate value.

Respecting individuals and providing opportunities that suit them will enable everyone to grow. In the process, of course, we will also value the way each individual works. We will listen carefully to the wishes of the individual in considering workplace assignment. Rather than having employees stay in the same organization or position for long periods of time, we will provide them with opportunities to broaden their horizons and grow through appropriate job rotation, so that they can design their own careers.

We believe that such efforts will lead to an increase in the retention rate.

Additionally, it is important to foster leadership. How can we increase the number of leaders who can encourage their team members, strengthen organizational capabilities, and produce results? To achieve this, we will significantly strengthen training to develop the next-generation leaders.

To Shareholders and Investors

Finally, I would like to say to our shareholders and investors that we place particular importance on ROE in our management. I will focus on both equity and returns, and pursue sustainable profitability. The ENEOS Group is the top corporate group in Japan's energy sector and will continue to be sustainable. To this end, we ask our shareholders, investors, and other stakeholders for their continued support and guidance as we move forward.

We must make changes now in order to ensure our future. This is my commitment to you that we will pursue corporate transformation with a strong determination.

September 2024



Miyata Tomohide
Representative Director, CEO
ENEOS Holdings, Inc.