◆ Cosmo Energy Holdings (Securities code: 5021)
FY2023 Financial Results Briefing for Analysts and Institutional Investors Q&A

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*This document contains forward-looking statements. Cautionary statements Disclaimer is provided at the end of the document.

1. Date and time : Friday, 9 May, 2024, 10:00 to 11:00 (JST)
2. Attendees : 86 persons
3. Major Questions :

Q1: I would like to ask the level of sustainable earnings. In FY2023 and FY2024, ordinary profit excluding the impact of inventory valuation, reached a level of ¥160.0 bn. In FY2023, there were troubles at refineries in addition to turnaround and in FY2024, turnaround are scheduled as well as last year although there was a reaction to the impact of the refinery trouble.
If we add back the profit impact from regular refinery turnaround, the actual value is ¥180 bn, and if additional measures are taken, we would like to ask profit level, whether the higher level has become a point of view.
On this basis, if the measures of the medium-term management plan bear fruit, can further improvement in profit levels be expected in the medium to long term?
A1: FY2023 results were considerably higher than our forecast announced in Nov 2023. The main factor was higher-than-expected margins on petroleum products in the Q4, but since they fluctuate throughout the year, we need to watch closely if the level of margin is sustainable.
However, as a sense of the overall direction, since the margin is expanding after FY2022 and FY2023, we believe that there is the potential to improve the profit level by reducing refinery troubles.
On the other hand, an increase in costs is cited as a negative factor. Currently, cost increase is not eliminated, and the rise in both operating cost and material cost is continuing, so it is a cause for concern about profits.
Overseas petroleum product markets are also highly volatile.
In terms of the actual profit level, we believe that it is steadily improving due to the improvement in margins and the improvement in operating rates at refineries, but it is necessary to closely monitor market conditions and cost factors.

Q2: In terms of shareholder returns, the Company has achieved a total return ratio of 60% since the first year of the medium-term plan, and is assessed as having made good on its promise to return profits early.
On the other hand, based on the fact that the level of net worth has exceeded ¥600.0 bn, I would like to ask you about your thoughts on additional shareholder returns. While we understand that the final year of the medium-term management plan remains about more than 1 year, and that business performance fluctuates as a result of changes in the external environment, we are aware that the expected level of net worth at the end of FY2024 has risen.
I would like to know your current thinking on this matter.
A2: A shareholder returns policy during the 7th Mid-Term Management Plan (hereinafter "7th MTMP") that "when the financial health target based on 2 indicators, such as net worth and net D/E ratio is achieved, the portion exceeding ¥600.0 bn in net worth shall be returned" is not changed at all.
We had expected to achieve ¥600.0 bn in net worth in FY2024, but due to an upturn in FY2023 net worth ¥600.0 bn is achieved an year earlier.
It is necessary to consider the timing and methods, but it should be understood that there is no change in the basic policy.

Q3: Are there factors or constraints that need to be considered in implementing additional returns?
A3: We recognize that there are no particular constraints.

Q4: I imagine a rise in the cost of wind power generation facilities amid rising costs for various types of equipment, but I would like to confirm the profitability of onshore wind power currently being developed and future outlook for future projects.
A4: While there are some factors behind rising costs in the exiting wind power generation business, profitability is not based on FIT system, but on securing customers who purchase the developed green power at prices that can be profitable on an individual basis would be a key.
Nevertheless, there is no doubt that it will become tougher on the whole.

Q5: Are you purchasing certificates for green electricity sales? Although your electricity sales volume increased in FY2022 and FY2023, external environment for electricity sales are challenging.
I would like to ask you about the basis for your strengths and competitiveness against the prospects for growth in the future under such circumstances.
A5: A electricity certificate is purchased for green electricity.
We sell green electricity to municipalities and companies and propose value-added products such as EV leasing. In fields such as data centers and semiconductor-related fields where the need for green electricity is growing.
On the contrary, it is assumed that the sales will be made considering the economical efficiency.

Q6: Despite the strong impression of margins, refinery operations, and etc., I would like to ask the degree of certainty of achieving the forecast of ordinary profit of ¥160.0 bn excluding the impact of inventory valuation in FY2024.
A6: Maintaining refineries' operating rates and efficiency of conservation, a source of earnings, is not straightforward, as refineries grow older.
On the other hand, the Company anticipates realistic levels for overseas market conditions and other factors, and believes that we are able to fully achieve these targets through its efforts.

Q7: Petroleum product margins were better than anticipated, particularly in FY2023 Q4, how are you perceived the background of that?
Although improvement of margin has various aspects, including recovery of fixed costs, how do you see the continuity of the level of margins?
A7: When we revised our earnings forecast in Nov. last year, we did not assume that the margin level would increase to this point although we recognized that cost pass-through is progressing amid inflation as a whole. There are fluctuations by month, but on a quarterly basis, margins are steadily expanding.
We believe that it will continue to have an advantage in terms of cost competitiveness as we intend to maximize operating rates through our "short position strategy" although fixed costs are in a rising phase .

Q8: With regard to the capital-and-business alliance with Iwatani Corporation, I'm paying attention to the area of the alliance.
I think that you have been promoted already fields so far, such as operation of hydrogen stations, but what new initiatives are being taken from the perspective of enhancing enterprise value? Please tell us a little more specific direction about the benefits of the alliance.
A8: In the field of energy, we are selling LPG through our group company, Gyxis corporation. In the field of industrial gas, we are also selling carbon dioxide from our refineries, we will consider expanding them.
In chemicals & mineral resources, Iwatani Corporation is selling cobalt and other products, and we are also aiming to enter the lithium resource development business in the US, it will consider whether the 2 companies will be able to collaborate.
We also believe it has room to collaborate in the field of electronic materials.
Finally, although there are various hurdles to realization, new opportunities utilizing the customer bases owned by both companies, we would also like to proceed with the examination of business.
In this way, the situation is starting to accelerate collaboration in all fields, regardless of the hydrogen field.

Q9: Regarding shareholder returns, we would like to confirm your thinking on the timing of achieving a total return ratio of 60% or more.
A9: As we have been explained before, we did not promise to realize 60% return in a single fiscal year. However, in light of the steady improvement in profit levels, the Company announced that it would acquire our own treasury stock at this time.
While it is difficult to discuss the timing of the implementation, we will consider the issue in the future in light of the fact that it is possible to implement share buybacks flexibly even during the fiscal year, while at the same time we want to implement shareholder returns as soon as possible.

Q10: I would like to check whether if you are considering a revision of 7th MTMP as indicators such as financial health are achieved.
A10: I understand that there is such an expectation as the financial targets are being achieved in the

first year. On the other hand, it is important to confirm the movement of overseas markets conditions and domestic margins and to develop the petrochemical business over the long term.

Q11: I would like to ask you to update on the status of secondary recovery of the Hail Oil Field. I would like to confirm whether this is included in the FY2024 forecast, as the prospect of a recovery in production was expected at the end of FY2024.

A11: Water injection for secondary recovery of the Hail Oil Field has already been carried out, and we are waiting a recovery of production volume.
It initially assumed the end of FY2024, but it is expected to be FY2025 at this point. As Abu Dhabi Oil is a Dec. account settlement company, the benefits of recovery of the Hail production will be reflected in the FY2025. This is not a fundamental problem, but rather a slight delay.

Q12: I would like to ask about ROIC by segment. In FY2023, the percentage was 7.6% for the entire company, but what was the result by each segment?

A12: In FY2023, the Petroleum business and the Oil E&P business drove ROIC increases. Excluding the Petrochemical business, which recorded a deficit due to sluggish market conditions, the Renewable Energy business is behind the Petroleum business and the Oil E&P business.
The Renewable Energy business is currently centered on onshore wind power, where profits are relatively firm, therefore, a certain level of ROIC has been maintained for this segment.

Q13: I think your capital policies of 7th MTMP and profitability of existing businesses based on present external environment is evaluated to a certain extent. However, in order to further improve your P/B ratio level, you may need to explain the future potential of ROIC in new businesses such as the renewable energy business and SAF.
In the energy-related industries, many companies are engaged in new businesses, but from the perspective of profitability and ROIC, it is not currently a driving force, and it is difficult to expect it as a pillar of growth in the capital market.
In proceeding with discussions with the capital markets, it seems that disclosing ROIC by each business segment is required.
I understand that the Petroleum and the Oil E&P business will be the driving force as the market condition is currently a positive factor, but I would like to ask you to consider disclosing ROIC figures and position of the Renewable Energy Business and new businesses under the 7th MTMP assumptions or Vision 2030.

A13: This is something that you have commented on before, and we will continue to consider it.
Taking SAF as an example, the domestic market has not yet been formed, and it is not easy to predict, for example, that the development of the institutional aspects is waiting, but we will consider it in light of the points that have been pointed out.

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