

◆ Cosmo Energy Holdings (5021)

Fiscal 2021 - Financial Results Explanatory Meeting for Analysts and Investors – Summary of Q&A

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–This material contains descriptions regarding future prospects. Notes are provided at the end of this material. –

1. Date and time : Friday, May 13, 2022, 10 a.m. to 11 a.m.
2. Attendees : 85 persons
3. Main questions and answers:

Q1: In conjunction with shareholder returns, you have set a target of 50% of net profit excluding the impact of inventory valuation. Please tell us what factors you took into account to set the 50% goal.

A1: We said previously that the shareholder return ratio would be raised if we achieved 400 billion yen, or the net worth target in the medium-term management plan. With our financial situation improving more rapidly than expected, we have established the target after taking the said number into consideration. In addition, we referred to numbers released by other companies. We will carefully consider shareholder returns going forward to work on a medium-term management plan for the next term, which starts from next year. For now, though, we have set 50% as a target that we can continue to meet for a reasonable period of time.

Q2: Market prices have been rising overseas but have been stable in Japan in 2022. Please describe how such a situation will impact the short position strategy going forward.

A2: Overseas, market prices have been surging recently, mainly due to the Ukraine crisis, which came subsequent to a fall in prices that occurred due to the COVID-19 pandemic.

Our basic policy is to maintain a solid supply from our own refineries to meet domestic demand. We believe that it is possible to continue to secure stable earnings. We can afford to shift the sale of certain products from Japan to overseas,

Q3: Domestic demand is on the decline. Please tell us what steps you will take to maintain the short position strategy in this situation.

A3: We utilize DX and other means to minimize declines in sales, while we conduct sales in a way that gains customers' support. Looking ahead, however, if the operating rate looks likely to decrease due to a decline in domestic demand, we will allocate products for export, depending on overseas market conditions. If domestic demand sees further significant declines, we will probably work on the idea of rebuilding the supply system.

Q4: Is it correct to understand that the overall payout ratio of 50% is sustainable? Also, please tell us about your approach with respect to how much weight you place on the payment of dividends and the purchase of treasury stock, respectively.

A4: We consider that the 50% ratio is sustainable to a certain extent. Regarding your question on weighting, we decide the weight on the payment of dividends after estimating a level at which we will be able to pay stable dividends. We view the purchase of treasury stock as a highly flexible approach, and on this occasion we took into consideration the fact that our share price was relatively low.

Q5: The net worth and net D/E ratio, etc. have been reaching levels comparable with those of other companies. Please tell us to what extent do you expect to improve your financial conditions aiming to acquire an A-level rating. Also, please tell us how it affects shareholder returns in the next medium-term management plan.

A5: As you know, the current rating is BBB+. However, we think that the current financial conditions are already at the A level. Customarily, ratings do not rise quickly. Still, we are expecting the current rating to continue to improve. Under the next medium-term management plan, we will boost net worth while maintaining consistent shareholder returns and will proceed with investments in growth.

Q6: Please describe how rises in overseas market prices have been incorporated into the results forecasts.

A6: We don't expect that the current overseas market conditions will persist for the long term and we have made conservative forecasts based on the current situation.

Q7: Please tell us any factors that impact positively and negatively on the ordinary profit excluding the inventory valuation for FY2022.

A7: Current crude oil prices and exchange rates are at more favorable levels than our assumptions. Such levels, if they continue, will be factors for an upswing.

Q8: Why are exports greater than imports and purchases with respect to profit for FY2022? For exports, is there any possibility of cost increases due to the short position strategy?

A8: In terms of the balance of supply and demand for FY2022, imports and purchases will decrease partly due to the expected decrease in sales (down 2% year on year). On the other hand, we can respond to strong overseas market conditions with diesel fuel for which we have a surplus export capacity.

Q9: How soon do you plan to start production for the secondary oil recovery in the Hail Oil Field? What degree of impact do you expect on ordinary profit, returns on investment and the recovery in production volumes?

A9: We will start water injection around the end of this year or beginning of next year. While monitoring recoveries in pressure, we will increase production through discussion with the oil producing country. Therefore, any impacts on ordinary profit are expected to occur next fiscal year or thereafter. With the volume of production recovering to the initially projected level, sufficient returns on investment are expected to be made even if we assume conservative prices for crude oil.

Q10: The shareholder return policy you have provided is more aggressive than the one presented in the Q3 results. What changes have occurred over that past three months?

A10: The profit environment for the March quarter showed a significant upward trend. As a result, the net worth rose to 450 billion yen exceeding the target of 400 billion yen. Given this situation, we assumed that it is possible to improve our financial situation while simultaneously maintaining consistent shareholder returns even with a payout ratio of 50%. As you will see from our profit margin, our earnings capability is improving.

Q11: The recent improvements in financial conditions include temporary factors such as the impact on inventories and time lags of refinery margins as a result of crude oil price rises. There are risks of a decline in the crude oil price, etc. What is your position on shareholder returns if that happens?

A11: By making it 50% of net profit excluding inventory valuation, we think that the situation will be manageable. Since we are able to maintain high operating rates at our refineries, our ability to secure net profit excluding inventory valuation has improved.

Q12: What are the time lag effects for the margins of four products in FY2021 and FY2022?

A12: The time lag for FY2021 was up 2.3 yen per liter in terms of the absolute value and up 1.3 yen per liter in comparison with the year-ago level. Taking the recent crude oil price rises into account, 1.9 yen is reflected as a time lag, rather than the entire value.

Q13: Is there the possibility of favorable market conditions in Asia leading to the tightening of domestic supply and demand conditions?

A13: We understand that domestic wholesale prices are determined based on comprehensive consideration of a range of factors. Any significant increase in spreads from crude oil prices in the Asian market may affect domestic margins.

Q14: In conjunction with the repurchase of treasury stock, how will you treat the treasury shares that you acquire?

A14: Basically, we will cancel them.

Q15: You have issued a report about a large share holding to individual shareholders. Do you have any comments on this?

A15: We will refrain from providing an answer with respect to matters on individual shareholders.

Q16: Please tell us what you are working on now with regards to the selection of KPIs and changes in portfolios in the next medium-term management plan. I would like you to work on these issues while simultaneously facilitating engagement with investors.

A16: We are moving forward with discussions with respect to KPIs. We were working to establish KPIs, giving priority to financial conditions. However, with our financial situation improving rapidly, we are considering the selection of new KPIs. For now, I will refrain from providing a specific answer. Regarding changes in business portfolios, for now, we are working on the next medium-term management plan based on a three-year span. But it is difficult to see the effect in a three-year span. Therefore, we will examine the investments for the next medium-term management plan from medium- to long-term perspectives, while considering the direction of business portfolios.

We believe that engagement with investors is very important. So we will engage with investors' voices to work on the next medium-term management plan.

Q17: What are your views on the renewal of interests in Qatar Petroleum Co., Ltd., which is drawing near? Please tell us your policy.

A17: We are in the process of negotiating the renewal of interests with oil producing countries. We are unable to provide specific details about the negotiation, except that the renewal of interests depends on conditions that are being discussed.

Q18: Screening procedures for bids on onshore wind power generation are being changed. Please describe any impacts that the change will have on Cosmo's strategies, etc.

A18: We will rebuild our strategies and participate in bids based on new screening procedures. Our understanding is that screening procedures are currently being reviewed, and there are many uncertain areas. As such, we will refrain from disclosing specific details here, except mentioning that we will move forward with a range of initiatives with an eye toward generating over 1,500,000kW, a target set for FY2030.

End

This Q&A contains forward-looking statements about the plans, strategies and performance of Cosmo Energy Group. These statements are based on forecasts we produced by assessing information currently available to us. These statements include assumptions and judgments that are based on information currently available to us.