◆ Cosmo Energy Holdings (Stock code: 5021)
Second Quarter of Fiscal 2022 - Financial Results Explanatory Meeting for Analysts and Investors - Summary of Q&A

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

1. Date and time : Friday, November 11, 2022, 13:00 to 13:50 (JST)
2. Attendees : 82 persons
3. Main questions and answers :

Q1: I would like to ask the reason of the decision to repurchase CBs.
In addition, you mentioned that even after the repurchase of the CBs, you expect to build up net worth to approximately 570.0 billion yen. I think it means that even if the full amount is repurchased, net worth will be at a level exceeding the target set out in the Medium-term Management Plan. What is the behind the decision on this repurchase amount?

A1: In the last three years, we have managed to build net worth at a pace that exceeds our expectations.
While it is essential to further improve the financial position, when we considered if there is a need to increase capital at this moment, we determined that there is not a great need.
However, the Company has raised funds through hybrid loans in the past, and when repaying the remaining balance of 30.0 billion yen before maturity, we will be required to allocate the funds of which capital characteristics are equivalent or greater than those of the loans.
Therefore, we decided the policy of allocating 30.0 billion yen of the amount gained from the CB conversion to the repayment of hybrid loans, while repurchasing and retiring the remaining 30.0 billion yen as much as possible.
We have considered a practice of engaging in share buy backs after converting the entire amount of CBs, but as a result of internal consideration, we determined that the repurchase and retirement of CBs would be more beneficial.

Q2: In the Petroleum Business, there are notable increases in costs due to the changing external environment, including at other companies. If the current situation of rising costs continues on into the next fiscal year and beyond, how will you maintain your previous profitability?

A2: Cost factors like ETBE, which have been rising in price recently, are not included in the formula for sales prices. Repair costs and other fixed costs have also been rising, and we are currently absorbing cost increases in both variable and fixed costs through our efforts, but we believe that we will be forced to pass on these increases to sales prices at some point.

Q3: Full-year forecast for FY2022 appears to be at quite a high level profitability compared with the past. Will you aim for further growth during the next medium-term management plan, or place an emphasis on efficiency as a transitional period for replacing the business portfolio?

A3: We believe there is still room for growth in the “Oil” part of “Oil & New”.
The Company is currently trying to link businesses such as wind power generation and car leasing it has been working on, and expand them in an all-encompassing way like Cosmo Zero Carbon Solutions.
Although the overall market will contract in size, we want to enhance CX by combining the uniqueness and brand equity of the Group with DX.
We will implement cost optimizations of course, and we still think there are initiatives we can do with respect to the "Oil" which is considered to be mature and free of change.

Q4: I'd like to ask about refinery trouble. I believe there was recently FCC trouble at the Chiba Refinery, this will not cause any changes to future operations or your strategy in the petroleum business?
Similar troubles have also occurred with your competitors, but in the interests of stable refinery operation, will you need to step up action and invest more during the next medium-term management plan?

A4: In short, there are no major changes to our thinking or strategy. The Company has had experience dealing with tough declines in operating ratio in the wake of the Great East Japan Earthquake, and at the time we invested huge amounts to improve our hardware.
However, since the cause of the accident also has elements that lie in operations, by making improvements to systems as well, we have achieved high operating ratio in recent years through a synergy of hardware and system.
The FCC trouble recently happened with a part we had not predicted, and we believe that countermeasures can be taken the next time and beyond. The reality of operating a refinery makes it difficult to reduce troubles to zero, but we work to reduce trouble as much as possible.
There will be no major changes of investments in refineries in the next medium-term management plan from the current one. If the trouble occur under the current operational structure, it links to increase procurements costs from imports, we aim to build systems capable of stable supply both in terms of equipment and operations.

Q5: I would like to ask about the supply and demand environment for domestic petroleum products.
Over the July to September period, there seems to be a discrepancy between the fluctuation in oil refinery margins by petroleum wholesalers and in spot margins. What are the factors behind this?

A5: From a broad perspective, my understanding is that since demand is lower than supply capacity, each company places a degree of limits on production to maintain the supply and demand balance. The spot margins published by external research firms have perhaps risen so much because refinery trouble has stagnated the supply of products beyond the supply-demand relationship.

Q6: What will be your approach to shareholder return policies during the next medium-term management plan? Will you continue to manage shareholder return based on total payout ratio like your competitors, or will you determine it in light of capital efficiency and cash flow perspectives? Are there any changes from the end of the previous fiscal year?

A6: Our shareholder return policy is currently under consideration, but we will be considering a 50% return as our main focus, while also keeping apprised of trends at our competitors.

Q7: You mentioned that you would prepare bids for the two offshore wind promotional areas. The bidding will take place in a phase where the electricity sales prices have fallen in the first round. Are there any measures for ensuring profitability you can share, including measures on the costs, innovative ways to sell electricity, or otherwise?

A7: As this is an upcoming bid I cannot talk in detail, but we recognize that the major point will be a change from FIT to FIP. With FIT, the electricity sales prices are fixed, but there is a time lag from bid to construction, and the risks are higher during an inflationary phase such as now. As electricity sales prices move in concern with market prices with a FIP scheme, I think it is good in the sense that those risks can be mitigated.

Q8: In terms of production volume, how much effect is expected from implementing water injection at the Hail Oil Field? For example, if oil prices continue at their current levels in 2023 and 2024, would this be a factor in surging profit growth?

A8: From the start of water injection to an actual increase in production volume, we will need to reach an agreement with the Abu Dhabi National Oil Company, after confirming internal pressure and production volume. It is difficult to predict the timing of that, but in terms of the impact on revenue, we expect it will contribute to profit at or above a certain degree.

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