

◆ Cosmo Energy Holdings (Securities code: 5021)
Q3 FY2023 Financial Results Briefing for Analysts and Institutional Investors Q/A

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

1. Date and time : Friday, February 9, 2024 10:00 to 10:55 (JST)
2. Attendees : 81 persons
3. Main question content:

Q1: Regarding shareholder returns, you mentioned that the Company was able to adopt a flexible shareholder return method in light of changes in the shareholder composition. Based on the explanation so far, I think it suggests that the environment has become easier to implement share buybacks, but is the response also based on the intention of Iwatani Corporation (hereinafter "Iwatani"), which has newly become a major shareholder?

Please tell us about the state of discussions with Iwatani and the impact on the capital policy that you set out in the seventh medium-term management plan.

A1: There is no change in our capital policy from what we have conveyed to date, and there is no change in our policy of a total return ratio of 60% or more during the term of the medium-term management plan. In addition, while it is difficult to achieve more than 60% in a single fiscal year, the desire to realize returns as early as possible remains unchanged.

We have heard that Iwatani is currently under review by the Japan Fair Trade Commission, and although we have begun discussions with Iwatani, there is no fact that we can publicly announce it at this time.

Q2: Regarding the operation rate of refineries, we believe that there is no major turnaround in FY2025 and high operation can be expected. From FY2024 onwards I would like to ask about the outlook for the utilization rate for FY2025.

A2: In FY2024, a major turnaround is planned at 2 locations (Chiba and Yokkaichi Refinery), which is expected to be the same impact as in FY2023 (Chiba and Sakai Refinery). FY2025 will be a year in which there are no scheduled major turnaround, and the utilization rate is expected to increase compared to FY2024.

On the other hand, in FY2023, there were some troubles at the refineries, so reducing them is a major theme for the next fiscal year. We would like to improve the operation rate by reducing the trouble although there will be major turnaround in FY2024 the same scale as FY2023.

Q3: In terms of the margin environment for domestic petroleum products, the Oct.-Dec. 2023 trend of lower crude oil prices put downward pressure on margins due to the impact of the time lag, but the results were solid.

I think the factors behind this include an improvement in the actual margin. Please tell us about the background of the trend in the actual margin for the current fiscal year and the outlook for the margin environment for the next fiscal year.

A3: Actual margins have been improving not only in the Oct.-Dec. 2023 period but also in the long-term trend. We recognize that this trend is common across the industry and believes that cost pass-through may be progressing. The trend is expected to remain unchanged for the next fiscal year, but if the subsidies to curb the impact of a surge in gasoline and other fuel prices ends by Apr. 2024, there is a possibility of some impact.

Q4: As for the intention of returning profits to shareholders described in page 5 of explanatory materials, the Company recognized that it would like to return profits to shareholders at an early stage and acquire treasury shares. If you aim to achieve 60% in a single fiscal year, we can calculate that there would be a share buyback in this fiscal year, but what is the background to the decision to forego the share buyback this time?

A4: Crude oil prices are on a downward trend, and there is a possibility that the yen will appreciate considerably in the direction of the exchange rate, although the yen is weakening at present. In this case, the negative time lag could have a significant effect.

On the other hand, Iwatani is under review by the Japan Fair Trade Commission, and if we implement a share buyback, the figure of their equity stock will fluctuate. Although there are no legal problems at this point, we would like to clarify these points and determine the timing of implementation.

Q5: What is your thought about improving ROIC of the Petroleum business, particularly about narrowing down the denominator assets, or what you are thinking about now?

A5: While we do not intend to have extra fixed assets, inventory is a large asset in Petroleum business. Because we have a short position strategy, we basically lack products. Since there is a risk that the Company will not be able to respond to a situation in which there is some troubles etc., at the refinery or a sudden increase in demand, we are managing our inventory to a certain extent. We discuss where the best points are in view of both ROIC and stable operation.

Q6: What do you think about the same thing in the Petrochemical business? At Q2 results briefing, it was mentioned that the petrochemical complex was important in the Petrochemical business. If there is an update based on the latest trends of other companies in the same industry, I would also like to see you take a step forward in thinking about what will happen not only at the industrial complex but also in the industry.

A6: Unlike Petroleum business, the operation rate of petrochemicals is quite sluggish. On the other hand, since Petrochemical business is extremely complex in downstream, it is difficult to take products from factories that are located far away, unlike Petroleum business. In this sense, it is recognized that a study is required in the industrial complex. We need to conduct various studies with Maruzen Petrochemical Co., Ltd., which is our group company.

Q7: I would like to ask you about your perception of Q3 performance. The Company has not revised its full-year forecasts and commented on them generally in line with expectations. Please tell us if there are any strengths or weaknesses in each business segment in relation to the Company's forecasts.

A7: I would like you to recognize that Q3 results are basically progressing steadily toward achieving the full-year forecast. By segment, the Petroleum business was slightly higher, and other businesses were generally in line with the plan announced as of November 2023.

Q8: I would like to ask about the idea of minimum dividends. You raised the annual dividend to ¥300 per share in Q2, while the minimum dividend was left unchanged at ¥250 per share. In the explanation at the time of Q2, the Company wanted to consider whether or not to raise the lower limit of dividends based on the future earnings outlook. Is there any change based on the progress toward full-year earnings and the actual margin environment?

A8: We believe that we will be able to fully continue paying dividends of ¥300 per share. However, in order to achieve a total return ratio of 60% or more, we would like to organize our approach as a whole, including not only dividends but also share buybacks, so we have left the lower limit of dividends unchanged this time.

Q9: I think the target was set at FY2024 for increased production associated with the secondary recovery investments of the Hail Oil Field in the Oil Exploration and Production business, and I would like to ask if there is an update to the schedule.

A9: In July 2023, water injection has been started to increase production. Although it is difficult to respond accurately to the specific timing of the recovery in production due to the need for consultation with oil-producing countries, we expect the latter half of FY2024, which will have a minimal impact on FY2024 results.

We will continue our efforts to increase production as early as possible.

Q10: Regarding the unplanned shutdown, I think it was a little more last year and this year. Please let me know if you have a concrete image of how you are going to reduce the number.

A10: In the Sixth Medium-Term Management Plan, the operation rate was upper half of 90%, which was very high, excluding the impact of regular maintenance etc,. This is precisely the result of the strengthening of the software, and hardware including manuals aspects in OMS (Operation Management System). On the other hand, the unplanned suspension is increasing last year and this year, and the trend is to strengthen OMS and APM (Asset Performance Management). Excluding the impact of regular maintenance, we would like to keep the operation rate at a minimum between the middle and latter half of 90%.

Q11: Regarding discussions with Iwatani, can we expect measures to emerge along with quantitative earnings?

A11: It's true that we're talking about it on various channels, but I can't say anything specific here, so I'd like to refrain. On the other hand, the hydrogen business, for example, is difficult to contribute to earnings recently because it will become a long-term business not only in the Company and Iwatani, but also other competitors.

Q12: We would like to hear your views on the outcome of the auction for the second round of offshore wind. The prices of the winning bidders for "Offshore Oga City, Katagami City and Akita City in Akita Prefecture", and "Offshore Murakami City and Tainai City in Niigata Prefecture" were at the lower limit of ¥3 /kWh. We would like to know whether they were within your expectations or whether you need to change your strategies.

A12: Regarding the outcome of the second round of bids, it was very disappointing that our group failed to win the bid. Currently, we are analyzing the results internally, but not all the results have yet been published, so we would like to conduct a detailed verification after the announcement.

As for the bidding price, the price of ¥3 /kwh has appeared in FIP's system, but it is not actually sold at this price, and many companies are finding other partner by themselves for PPA (Power Purchase Agreement).

At this time, we do not believe the bid price this time will affect the third round or our strategy.

Q13: With regard to the composition of the Board of Directors, 2 outside directors have been added this time, but is there any impact from the major shareholder replacing Iwatani? I would like to hear your thoughts on the future direction of the Company.

A13: The appointment of directors has been under consideration for more than 6 months. As we have repeatedly held dialogues with institutional investors, we have concluded that we should have a majority of independent outside directors, which has led to the announcement this time. The change in major shareholders was made in Dec. 2023, and is not taken into account in this release.

Iwatani has been talking about a variety of topics, including not only the case of directors. I would like you to understand that we have indicated the member of the Board of Directors we are currently thinking about for the next fiscal year.

Q14: The Company is aiming to eliminate the unplanned outage, but is it likely to resolve the downturn in facilities that occurred this fiscal year? In addition, there was a report that No.1 CDU at the Chiba refinery has recently been suspended operations. Please tell us about the situation of recovery and the outlook for the impact for the next fiscal year.

A14: Regarding the troubles that occurred in the current fiscal year, we are working to prevent the recurrence of such troubles from the standpoint of OMS, and we are rolling out these troubles to prevent similar problems at other refineries from occurring again. This fiscal year's trouble will not affect the FY2024 or later. No.1 CDU shutdown at Chiba refinery is also temporary, and we are responding to it so that it can be launched at an early stage. We recognize financial impact from this shutdown will not be none in FY2024.

End

This document and the information contained herein contain forward-looking statements about our plans, strategies and performance. These statements reflect forward-looking statements based on information currently available to the Company. As a result, actual results may differ materially from the information described and included herein due to a variety of external factors.