

◆ Cosmo Energy Holdings (Securities code: 5021)  
Q2 FY2024 Financial Results Briefing for Analysts and Institutional Investors Q/A

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\*This document contains forward-looking statements. Cautionary statements are provided at the end of the report.

1. Date and time : Wednesday, November 13, 2024 10:00 to 11:00 (JST)
2. Attendees : 88 persons
3. Major Questions :

Q1: Based on the level of performance up to the 1H of FY2024, I would like to ask you about your thoughts to the actual level of earnings.

As the Company has not revised its full-year earnings forecasts, I understand that you consider the target of ¥160.0 billion is achievable, which is ordinary profit excluding the impact of inventory valuation, but it appears that there are strengths and weaknesses in each segment. Against the current forecasts, are you making good progress?

A1: Overall results are trending above the forecasts.

The margin of petroleum products is steady, and we are firmly enjoying the benefits.

Although there were some troubles at refineries, impact of troubles improved year on year, and the Petroleum Business is making steady progress. This is the driver of company-wide performance.

The Petrochemical Business assumed a slump in market conditions at the beginning of the fiscal year, and it remained below expectations in 1H. However, as we are showing in the material, restructuring of the Petrochemical business is underway.

The effects of the share transfer of HCP will soon materialize from 2H, so it can be expected to improve results as of 2H.

On the other hand, we think Oil E&P Business is fully achievable to the forecasts. Although the segment performance depends on crude oil price, the yen has been depreciating recently despite the rapid yen appreciation as of the end of Sep.

Q2: We received a very encouraging impression from the early announcement of efforts to improve the restructuring of the Petrochemical Business. The effect is very clear in sale of HCP shares by eliminating the deficit of - ¥3.0 to - ¥8.0 billion.

On the other hand, although Maruzen Petrochemical has only just started to consider restructuring, we would like to know how much of an improvement in profit and loss can be expected to be realized, and by when, if fixed costs are reduced, for example by shutting down certain facilities.

A2: Maruzen Petrochemical's business restructuring should be connected to reduce fixed costs if the capacity reduction is realized.

Also some unprofitable exports should be dissolved in addition to improving efficiency by consolidating facilities. We expect the effects of ¥3.0 to ¥5.0 billion of improvement in total and the effects to be realized from FY2026 at earliest, as we conduct necessary studies.

Q3: FY2025 is the final year of the current 7th Consolidated Medium-Term Management Plan (hereinafter "7th MTMP"), so discussions on the next medium-term management plan are likely to begin.

In the midst of major changes in the business environment and capital relationship, what are the points to change and strengthen from the 7th MTMP. Also, what are your thoughts on the capital policy, including shareholder returns, in the next medium-term plan?

A3: It is precisely the timing for examining the long-term vision and the next medium-term plan. In the current MTMP, the theme of "Oil & New" is an easy-to-understand, and we do not think there will be any major changes in oil businesses.

In the Petroleum Business, domestic demand for petroleum products is expected to continue for the time being, and it is the key to increase refinery operating ratio in the future. With regard to the Oil E&P Business, since the interests owned by the Group in the Emirate of Abu Dhabi are limited to 2042, until then we will take measures including investments to maximize the production volume of crude oil.

On the other hand in New fields, although direction of carbon neutral in the long term remains the same, the monetization of the business is becoming increasingly uncertain. We believe that how to realize and monetize the new businesses we are working on is an issue to be addressed in the next medium-term management plan and long-term vision.

We will also positively consider shareholder returns, an important element, with an eye to improve the enterprise value.

Q4: Despite changes in crude oil prices and foreign exchange rates since the announcement in May, the Company has not change its forecasts on the back of steady progress in ordinary profit excluding the impact of inventory valuation. With the crude oil price on the downside, there was no change to the profit including the impact of inventory valuation, but is it correct to understand that this means that the actual profit has risen and that the each profit including the impact of inventory valuation will also progress as forecasted?

A4: Despite the changes in crude oil prices and exchange rates at the end of 1H, the current trend of yen depreciation is progressing and the actual margins of petroleum products are robust. Therefore, it is unnecessary to change the forecast, even in each profit including the impact of inventory valuation.

Q5: I would like to check the impact of the time lag included in the four main product margin and the actual margin excluding the time lag.

A5: The impact of the time lag was a - ¥24.2 billion compared to the previous fiscal year. On a year-on-year basis the margin of four main products deteriorated ¥0.5 per liter. Actual margins are improved ¥2.6 per liter, which is excluding the impact of the time lag - ¥3.1 per liter.

Q6: I understand that the full-year forecast is fully achievable. On the other hand, given that the Company has not announce the additional return, and the total payout ratio in the 7th MTMP is 60% or more, there still seems to be room for return.

Please tell us about the time horizon for implementing additional returns.

A6: Again, although the Company's performance will be significantly affected by oil prices and foreign exchange rates, we believe that if the current business environment continues, we will be able to fully meet our full-year forecasts.

Regarding the timing of additional shareholder returns, there is a desire to carefully assess the domestic and overseas business environment, including political changes. In addition, the Company's policy is to achieve a total payout ratio of 60% or more over the 3-year cumulative period against net income excluding the impact of inventory valuation, but we will positively consider additional shareholder returns as soon as possible.

Q7: How do you see the potential for synergies from the capital and business alliance with Iwatani Corporation compared to the point at which they were originally anticipated?

Please tell us about the sense of temperature in the process of repeated efforts for 6 months from the Apr. 2024 capital and business alliance agreement.

A7: Various studies had been conducted since before the capital and business alliance agreement, but after the alliance, it is more diverse than expected.

Regarding the construction of a hydrogen supply chain, while securing hydrogen is important for our group's refining business, we did not have the idea of supplying hydrogen as the center of the hydrogen supply chain before. The Company has started to consider the scheme, as it is worth the challenge, although it will take time to monetize it through this cooperation.

Iwatani Corporation also has a vast customer base for selling LPG in the area of utilization of business foundation. Given that there are few overlaps with our SS client base, we have the potential to take on various challenges while paying attention to the handling of personal information. For example, we believe there is a possibility of introducing customers of our car leasing business to customers of LPG of Iwatani Corporation.

Q8: Regarding the capital and business alliance with Iwatani Corporation, we would like to confirm the timeframe of each project.

A8: The hydrogen station business is already in progress. Further, carbon dioxide trading and utilize its business foundation can be expected in the near future. On the other hand, the construction of hydrogen supply chain requires capital investment, and it is considered assuming the latter half of 2020's.

Q9: We understand, actual margins on petroleum products were strong in 1H, but we would also like to confirm the outlook for 2H and beyond.

In addition, while the overseas (Singapore) market is sluggish, is there any impact on the domestic margin?

A9: On domestic margins improvement have continued for more than 7 years since around 2017. The domestic margin has never collapsed significantly although there is sometime a spot impact in sluggish overseas market conditions. In addition, since around 2023, margins have been improving further as the impact of inflation has been passed on, but the improvement trend is continuing and there are no specific concerns that it will worsen. Only concern is about the temporary disruption caused by discussions on fuel subsidies and the abolition of the provisional tax rate.

We believe the current margin environment is expected to continue in the 2H of the fiscal year.

Q10: As it is difficult to forecast crude oil and foreign exchange rates while aiming to realize early returns, will you determine the return after assessing the results at the end of the fiscal year?

A10: Although it is difficult to state the timing of implementation, the idea remains that we want to give back as soon as possible, taking into account the outlook and other factors, rather than at the end of the term.

Q11: In terms of expanding *New fields*, the current scale of earnings in the renewable energy business is ¥2.0 to ¥3.0 billion, and the Company has forgone bidding for the third round of offshore wind power generation. Even if you add projects for collaboration with Iwatani Corporation and other investments, will you have to revise your initial expectations for the pace of earnings growth?

Regarding this point, if there are any issues that need to be considered for the next medium-term management plan, please tell us.

A11: *New fields* is mainly connected to carbon neutral and related activities.

So we need to make a calm judgment considering inflation and the shift of national policies to the utilization of nuclear power generation.

Our main objective is not to engage in the Renewable Energy Business, but it is important to decide how to invest in enhancing enterprise value and how to generate profits, we will determine whether each investment is profitable. However, it is difficult to forecast the situation in 10 years in the carbon neutral field.

I would like to discuss these issues firmly at the Board of Directors meetings, including how to reflect next medium-term management plan and long-term vision.

Q12: The fact that we heard comments that you do not have strong commitment into *New field*, but a firm assessment of profitability, leads to a kind of relief in the capital market.

I think many of them are small in terms of earnings scale, but if there is any prominent progress, please tell us about it.

A12: In the onshore wind power generation business, the Company is steadily advancing the planned projects, we were able to win a bid for FIP in “Noushi” in Aomori prefecture, our largest capacity as shown in the material. As the operation commencement is a little further, we will proceed after carefully assessing the return on investment.

In electricity sales business performed very well, with 3,400 facilities introducing the “Cosmo Denki Business Green (Green electricity business)” beyond. As the market holds strong demand centered on corporate customers, we will strive to expand this business while closely monitoring profitability.

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.