

◆ Cosmo Energy Holdings (Security code: 5021)
ESG Presentation: Main questions and answers

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1. Date and time : Monday, October 30, 2023 10:30 to 11:30 (JST)
2. Attendees : 78 persons
3. Main questions and answers :

Q1: In the announcement on October 24th, I had the impression that many of the contents of the announcement were about the so-called shareholders' common interests or whether the major shareholders might have a conflicts of interest between general shareholders. In this context, we took it as a statement of intent that the Company does not intend to conduct a TOB by an issuer at a premium because it would not lead to improvement of enterprise value. This is an area of particular concern as a risk factor from general shareholders, and we would like to ask this again.

A1: As noted in the document, their past track record has very often resulted in tender in the TOB by an issuer and exit after some large-scale of purchase. Although we have no insight into the interactions between the two parties, we have tried to maintain a calm dialogue with them up to 20% ownership, as this is in fact the case in most of the cases. We are concerned that further buy-ups could lead to a situation similar to past track records. We believe that conducting a TOB by an issuer at a premium that could damage its enterprise value or the shareholders' common interests is not appropriate, and has no intention of accepting such an offer. We would like to ask for the judgment of the shareholders.

Q2: One of the factors behind the decision to adopt an ordinary resolution instead of the MoM used at the previous annual shareholders' meeting was the existence of coercion by the major shareholders against the general shareholders. Please explain the background behind the decision to adopt an ordinary resolution while judging that coercion is present this time as well.

A2: At previous meeting of shareholders, we were decided to set MoM because of the extremely high risks to general shareholders to be coerced, including the fact that the future vision and measures to grow the company had not been clarified at all, and the Company was buying up the shares without explaining the purpose of the large-scale purchase. This time, a statement of intent for the Large-Scale Purchase Actions has been issued in terms of formality. However, the content of the information provided in the information provision procedures was inadequate, not only because the actual status of the Company was unclear, as was subsequently disclosed, but also because there was a lack of specificity about how they would improve the Cosmo Group enterprise value, and in fact, there was some risk of damage to the Cosmo Group enterprise value. From these perspectives, it is considered that the coercion still exists at this time, but since the statement of intent has been submitted, the Board of Directors and others have discussed the issue and, after comprehensive consideration, we decided to set an ordinary resolution as the resolution requirement for the Extraordinary General Meeting of Shareholders.

Q3: CCS will likely be considered in a variety of places in the future, regarding the case studies of CCS alliances in the GX strategy. As of alliances strategy in the GX, is it basically a localized decision for each refinery and discussion of a variety of partnerships on a so-called "complex-by-combinate" basis, or is it a comprehensive company-by-company basis?

A3: Regarding CCS, it is a very large project, and it is not on a scale where we can simply start with the Sakai Refinery and then expand to other refineries. The first step will be to study the feasibility of the project while also utilizing subsidies and other resources. How we approach this project is important, of course. Other GX strategies, for example, may be implemented on a trial basis at a refinery somewhere and can be quickly rolled out horizontally. This will be done on a case-by-case basis. Again, CCS is a large-scale project, and we will proceed while considering how far we can go, including its feasibility.

Q4: With regard to the earlier explanation that the extraordinary shareholders' meeting is an ordinary resolution rather than a MoM, referring to the fact that there is coercion this time as well, but that the statement of intent has been formally submitted, please tell me, to the extent possible, whether this is because the board decided that from a legal standpoint there is a risk of being asked why it is a MoM, or whether the board decided that the statement of intent is available and your explanation is more advantageous for shareholders to decide.

A4: We made a comprehensive decision. Coerciveness itself does not have a clear numerical threshold, and there is a wide range in the way it is received and felt. We would like you to understand that this is the result of comprehensive decision based on various discussions, including how to make it more convincing to the shareholders.

Q5: Regarding GHG reduction, is it your core business to produce methanol and ethanol in the petrochemical business mentioned on page 12? While there are many things to be done in the energy sector in the future, such as GHG reduction, will the utilization of CO₂ in the petrochemicals business become one of your core businesses? If it becomes a core business, please tell us how your company perceives the advantages of doing so.

A5: For example, methanol and ethanol are the petrochemical substitutes on page 12, but at this point we are not placing a strong emphasis on petrochemicals. It is one of the utilization of CO₂ as well as Synthetic fuels and SAF, etc. This approach itself should be seen from upstream. First of all, CO₂ is recovered, and after recovery, there is the possibility of developing it into CCS and storage as you mentioned, and we are also showing that it can be used for other purposes than storage. We are currently working on the recovery of CO₂ first, followed by its use, with the possibility of petrochemicals and SAF as the next step.

[Questions to Independent Outside Director]

Q6: Please answer as chairman of the Nomination and Remuneration Committee. What was the thinking and process behind the selection of the president? As both the energy industry and your company enter a period of change, what perspectives did you focus on when selecting the Group CEO Yamada?

A6: With the energy industry in the midst of a decarbonization trend, it is indisputable that the CEO is the right person to lead the Company through the transformation from Oil to the New domain. Therefore, succession planning is one of our most important strategic issues. Several groups of candidates are being evaluated through staffing and external training to determine whether they have the capabilities and qualities appropriate for the position of president. The Nomination and Remuneration Committee receives information from the executive side on the performance and personnel evaluations for each fiscal year, and the CEO ultimately selects the final candidate and drafts a proposal to the Nomination and Compensation Committee, which deliberates on the appropriateness of the candidate and reports back to the Board of Directors. The Committee then deliberates on the appropriateness of the candidate and reports back to the Board of Directors. This "deliberation of appropriateness" is a difficult task, but in addition to personnel evaluation information, the Committee continuously monitors candidates over a long period of time by utilizing regular meetings, periodic briefings on business operations, and interviews. The first reason for appointing Mr. Yamada is that he has a broad understanding of our group's business operations, as evidenced by his career history. He is also very personable and has excellent centripetal force to lead others. After his appointment, I felt that he has the courage not to be swayed in times of emergency. Compared to the age of the presidents of other former retailers, we were able to appoint a young person to the position early on. I have high expectations for the future.

Q7: Regarding the medium-term management plan, you have set numerical targets such as ROE and ROIC, I would like to know the background behind the setting of these targets. Also, regarding the certainty of achieving these targets, can the Company be achieved during the period of the medium-term management plan? If you think the Company can achieve them, please tell us the reasons and support.

A7: We believe that capital efficiency will become one of the most important factors as investments in the *New field* increase in the future. One of the reasons for setting the targets is to strengthen the management and follow-up of investments. 6% or more for ROIC and 10% or more for ROE, ROIC is an indicator that allows for cost of capital conscious investments, which must always exceed WACC. ROIC is also suitable for making investment decisions over a three- to five-year span, which is in line with the three-year period of our medium-term management plan. It also has the advantage of making it easier to manage segments. During the period of the 6th Consolidated Medium-Term Management Plan, profitability was substantially secured, and the refinery utilization rate was the highest in the industry, and we believe that the Company will be able to achieve this. We also believe that capital efficiency is first and foremost important when considering capital policies for capital efficiency, shareholder returns, and financial soundness.

Q8: I would like to hear your views and thoughts on "the use of Outside capital in Cosmo Eco Power." Given the growth potential of the sector and the high expectations of the capital market, it seems like a reasonable option to raise equity capital for the project from the capital market and other players.

A8: From a CSR perspective, the Group has a social responsibility to provide a safe and stable supply of energy, and the entire supply chain must fulfill this responsibility in the event of an emergency, such as a disaster. Energy supply is a long-lasting business that takes time to build infrastructure. The renewable energy business is still at the stage of starting up, and it is necessary to raise funds by utilizing the Group's human resources and creditworthiness. We do not think it is appropriate to divest from the business at this stage, and we can consider the use of outside capital in the future after we have gained a certain level of competence.

Q9: Regarding the structure of the Board of Directors, there are currently four independent outside directors out of nine, but I would like to know if it is appropriate for the Group to increase this number to a majority in the future.

A9: Regarding the number of independent outside directors, we have strengthened corporate governance considerably over the past few years. We hope to increase the number to a majority in the future. We are currently considering how to further strengthen corporate governance at the earliest possible date, including requesting outside and internal organizations.

Q10: Regarding the adoption of the ordinary resolution at the Extraordinary General Meeting of Shareholders, even though the MoM was adopted at the previous annual shareholders' meeting, I would like to know what suggestions were made by the outside directors in the course of these discussions, which led to the conclusion that the resolution was an ordinary resolution.

A10: The adoption of the MoM has been the subject of lively discussion and different opinions among the outside directors. While the MoM was adopted for the annual shareholders' meeting basically from the perspective of coercion, it is appropriate for this extraordinary shareholders' meeting to adopt the MoM by ordinary resolution. This is only my view as a member of the Board of Directors. On the other hand, speaking as a member of the Independent Committee, of which an independent outside director is also a member, the main objective is to prevent arbitrary decisions by the Board of Directors and to further enhance the fairness and objectivity of the operation of the policy for responding to a large-scale purchase. As for the law firm advising the Independent Committee, a different firm from that on the executive side is employed. From the standpoint of the members of the Independent Committee, we believe that it was a reasonable decision to use an ordinary resolution at this extraordinary shareholders' meeting, as we believe that it is easier to ask our shareholders for their insight, common sense, and decisions.

Q11: How do you balance the GHG reduction target and ROIC? How to solve the dilemma that ROIC will not increase if GHG reduction contributions are emphasized? How are you organizing this point, including the time frame? Also, I believe that you have a responsibility to supply oil, but I think that you do not have a social responsibility to supply electricity.

A11: Although the balance between GHG reduction and ROIC is a difficult issue, we believe that we should increase the profit of the renewable energy business, in other words, we should be the first to realize wind power revenue. The 7th Consolidated Medium-Term Management Plan, formulated backcasting from 2030, calls for an investment of ¥140 billion over three years, four times the amount of the 6th Consolidated Medium-Term Management Plan. We are working to achieve a shift in our axis to more wind power as quickly as possible. We believe this will ultimately lead to both GHG reductions and ROIC.

In the area of electricity supply, the Group has built a customer base backed by the trust through the stable supply in its *Oil* business. This is where we differ from the business models of other companies. We believe that the Group's responsibility to provide a stable supply of electricity to its customers also comes into play.

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.