◆ Cosmo Energy Holdings (Stock code: 5021)
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, May 12 2023, 10:00 to 11:00 (JST)
2. Attendees : 84 persons
3. Main questions and answers :

Q1: Is the increase in the "Expense, other" category in the FY2023 forecast for Oil E&P Business structural or an impact due to something temporary? Even at the cost competitive oil field in Abu Dhabi, please let me confirm whether the break-even point has risen.
A1: The "Expense, other" category increasing ¥12.1 billion year on year is because we have planned a lot of maintenance and upkeep work, in addition to inflationary effects. That does not mean there are special structural issues at the oil field in Abu Dhabi.

Q2: You mentioned that you will purchase a 20% equity interest in Cosmo Abu Dhabi Energy Exploration & Production from CEPSA, but is this due to the policy of the other party, or is it due to you working actively?
A2: The trigger for this was the policy of CEPSA, but after giving it consideration as the Company, we determined that the risks were limited and that it posed significant economic benefits to us, so we decided to go ahead with the purchase.

Q3: It appears that refining costs are rising in the Petroleum Business due to inflation. In light of these circumstances where refining costs are increasing structurally, is it possible to revise refining margins? Previously you have mentioned passing cost increases on to margins, but what is your thinking on this now?
A3: As petroleum products are commodities, we need to make decisions while looking at trends within the industry, and we also work to pass on some of our costs. Additionally, in terms of the domestic margin environment, as there is a slight rising trend, we believe it is important to properly follow this.
Structurally, petroleum wholesaler is an industry heavily weighted towards fixed costs, so increasing operating rates while lowering costs per unit price is a major strategic direction.

Q4: On the start of collaboration in the supply of electricity from wind power plants without relying on the FIT system, how do you see the impact on profitability due to the switch from the FIT system to the FIP system? In comparison to the business environment under the FIT system, do you expect a switch to the FIP system will increase risks but increase profitability?
A4: This case is meant to be a demonstration to determine risk and profitability. Under the FIT system, we operated under circumstances where electricity would always be purchased at a fixed price. At the Goto-Hassakubana Wind Power Plant that switched to the FIP system, we need to make adjustments internally to meet our obligation to achieve the same amount of planned values at the same time while assuming the price under the FIT system. If the adjustments don't go well, there will be a loss, but if the environment allows us to sell higher than the FIT system, we can generate significant returns. In this case, we have started a demonstration project to find how we can increase the accuracy of predictions and make adjustments.

Q5: How should we view returns from negotiated transactions and power generation forecasts?

A5: Under the FIP system, since it is possible to sell electricity and green electricity value separately, we want to confirm what kind of value can be produced through a demonstration project.

Q6: For the green electricity supply chain which is one of the pillars of the 7th Medium-term Management Plan (hereinafter the “7th MTMP”), is our understanding correct that the upstream power generating business is part of the Renewable Energy Business segment, and downstream electricity selling is part of the Petroleum Business segment?
In addition, could there also be a segmentation of the green electricity supply chain after this area has been strengthened?

A6: Your understanding of the current positioning of the power generating business and electricity selling is correct. As we aim to achieve profits on the scale of ¥40.0 billion in the future, we assume that it is possible that the green electricity supply chain will become a single segment.

Q7: The Company disclosed financial results on the basis of ordinary profit excluding the impact of inventory evaluation, but in light of the fact that there is still ambiguity in the non-controlling interests and tax rate of the Oil E&P Business, will disclosure on a net profit excluding the impact of inventory valuation basis be easier to understand? I think it would be better to have discussions about the levels of ROE and ROIC on the basis of a net profit excluding the impact of inventory valuation.
Also, is internal management also handled on an ordinary profit basis excluding the impact of inventory valuation?

A7: We also internal manages a net profit excluding the impact of inventory valuation as a key indicator. As the tax rate for the Oil E&P Business is related to confidentiality obligations with oil-producing countries, we would like to make disclosures a future issue for consideration.

Q8: The largest shareholder released a notice about a shareholder proposal regarding the dispatch of outside directors. What is your view of this proposal at this time?

A8: We intend to make decisions about the shareholder proposal after going through the appropriate procedures. Regarding requests from the largest shareholder, the other party claimed to have considered a corporate spin-off, including public listing, but as we showed in the 7th MTMP, we believe the first priority is to expand the Renewable Energy Business within the Group.

Q9: What is the thinking in your FY2023 forecast regarding export margins in the Petroleum Business?

A9: The overseas market was solid with refining margins remaining at a high level in FY2021 and FY2022, but we expect to decline in FY2023. However, in addition to originally having taken a short position, we plan to have regular maintenance (turnaround) in FY2023, impact on imports will be greater than export margins. That is why we think we will be able to procure while the overseas market has calmed down.

Q10: In FY2022, increased costs occurred in the Petroleum Business due to inflation. Will this trend continue in FY2023?

A10: We expect this trend to continue in FY2023, as regular maintenance costs and other costs are affected by inflation.

Q11: Where do you see the Petrochemical Business heading in the future? I think you have incorporated increased costs due to inflation into your FY2023 forecast, is the business structured for increased costs on an ongoing basis, as with other businesses?

A11: Firstly, as with other businesses, costs are on the rise in the petrochemical business due to inflation.
Regarding the outlook for the Petrochemical Business, new plants have been launched in China that are equivalent to the entire production capacity in Japan over the past few years.

However, due to the impact of zero-COVID policies in China, demand has fallen, and combined with the increase in supply capacity, this has caused excess supply, contracting the spread for petrochemical products.
Demand has recently been on a recovery track and the worst is behind us, but we need to look carefully at whether to continue with structural improvements. In addition, we see efforts to increase competitiveness on a per-complex level to be a common challenge facing each company. In the 7th MTMP, Maruzen Petrochemical, of our group, plans to focus on lowering the ratio of basic chemical products and increase the ratio of functional chemical products such as semiconductor photoresist resins, in an effort to ensure it will win even if market conditions for commodity products fluctuate.

Q12: In the 7th Medium-term Management Plan, you plan to improve profit by ¥63.0 billion by FY2025 through structural improvements to the Oil Business(Total of Petroleum business, Oil E&P business, and other). How will this be reflected in the FY2023 plan?
A12: The first year of the 7th MTMP was developed to incorporate our FY2023 plan, but we expect the effects of structural improvements to the Oil Business to emerge in the latter half of the medium-term management plan's duration. For example, for improvements to the operating rates of refineries, we plan to achieve shortening of regular maintenance by FY2025. In addition, increased production at the Hale Oil Field is expected from FY2024 onwards. In this way, the effects of various measures will emerge in FY2024 and FY2025.

Q13: In March, the Tokyo Stock Exchange published a notice, part of which asked listed companies to analyze the current state of the equity cost and return on equity, formulate and disclose improvement plans, and implement initiatives. What is your approach to this notice, and what are your future disclosure plans?
A13: We announced the 7th MTMP based on the theme of enhancing enterprise value a short while before the notice from the Tokyo Stock Exchange. Specifically, enhancing enterprise value means improving the PBR, and we recognize this as being consistent with the direction of what the Tokyo Stock Exchange requested in its notice.
In the 7th MTMP we have disclosed our capital policy for the first time, and we have aimed to maximize enterprise value through a three-pronged approach that places equal emphasis on shareholder return, financial health and capital efficiency. Among them, shareholder return represents our commitment, and we treat it as significantly important. In the FY2023 plan, we forecast dividends of ¥200 per share. As this represents a total payout ratio of only around 30% of the ¥55.0 billion of net profit excluding the impact of inventory valuation, we hope to achieve returns as soon as possible after ongoing consideration.
As this shows, we believe that we have already laid the foundation and we will continue to discuss initiatives aimed at enhancing enterprise value and our disclosure schedule in Board of Directors meetings.

Q14: Your target for ROIC is at least 6% by FY2025 in the 7th MTMP, and it is at least 8% by FY2030 according to Vision 2030. What are the recent results?
In addition, when viewed by segment, how does each segment relate to the companywide average?
A14: FY2022 result was 6.1%, and we forecast 5.6% in the FY2023 plan.
The Petroleum Business has a relatively high figures, while the ROIC in the Oil E&P Business fluctuates based on crude oil prices. At this point the ROIC in the Renewable Energy Business is not low, there is not a large difference between segments.

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