

◆ Cosmo Energy Holdings (Securities code: 5021)  
Q1 FY2023 Financial Results Briefing for Analysts and Institutional Investors Q/A

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-This document contains forward-looking statements. Care instructions are provided at the end of the document.

1. Date and time : Thursday, August 10, 2023 19:00 to 20:00 (JST)
2. Attendees : 72 persons
3. Main question content :

- Q1: In light of the measures to increase enterprise value, I would like to ask you to explain the reasons behind this increase of ¥50 from the time of the announcement of the medium-term management plan in March in regard to shareholder returns and the revision of the minimum dividend.  
While it is also part of enterprise value enhancement policy, the early realization of a total payout ratio of 60% or more has been emphasized repeatedly by the president since the mid-term plan was announced, and we are paying very close attention to this part. Among them, please tell us whether the massiveness of increasing the ratio of the distribution is in raising the lower limit distribution.
- A1: Originally, in the mid-term plan, our main theme was to improve enterprise value and return 60% to shareholders. As I mentioned earlier, we would like to realize this as soon as possible, as we stated in May last time. We have been thinking the measures and the timing of this 60% return, considering the requests of the Tokyo Stock Exchange. This time, we expect to be able to sufficiently achieve net income of ¥55.0 billion for the current fiscal year, and the minimum dividend of ¥250 can be achieved. Based on this decision, we have reached a conclusion.  
We also analyze the tendency for stock prices to be substantially linked to dividends, including in our oil and other industries, such as steel and banking.  
Therefore, we would like to understand that for ¥250 as a result of examining what can be done in order to increase the enterprise value at an early stage.
- Q2: I would like to ask you within the limits available, but there is either a manifestation of intention to acquire additional information from a major shareholder or such a release. After that, your company is also asking for a so-called questions and informational listing.  
I think it will depend on how major shareholder answers the information list, but please explain to the extent possible measures including the future schedule and whether or not you will hold to the General Meeting of Shareholders for Confirmation of Shareholders' Intentions after receiving the information from the major stockholder.
- A2: We received an explanation on the intent of large-scale purchases from a major shareholder on July 27. This day is started by 0 days, and the content is judged within 60 business days.  
While we believe that there will be some interrogation of questionnaires during this time, we will be able to obtain the information of the intention of other shareholders as well, and to decide whether or not to accept it at the Independent Committee and the Board of Directors within 60 business days.  
If the Board of Directors determines that the proposal is unacceptable, we will hold a General Meeting of Shareholders for Confirmation of Shareholders' Intentions to confirm the stockholder's will.
- Q3: As you have not changed your full-year earnings forecasts and made progress in comparison with your plans until 1Q, we are aware that generally in-line is your own appraisal of the whole.  
For example, there were troubles with refineries in the spring in the Petroleum business, there were strength and weaknesses in comparison with the plan in each segment. If there are any factors that concern you in this area, could you please explain them to us?  
In particular, I would like you to explain mainly about the troubles related to oil refineries that are or not so serious as an impact on the balance.
- A3: We recognize that the Petroleum business is below target by about ¥3.0 billion and Petrochemicals below target by about ¥3.0 billion at the time of 1Q.  
We generally recognize that about ¥3.0 billion in the Petroleum business is a cause of refinery trouble, but the actual margin is in a better form than we initially anticipated. We recognize that the actual margins, excluding the time lag, have been 1Q quite well.  
In addition, although August has passed until the 10th, the margin itself has been steady since then.  
We believe that we will be able to fully recover the factors behind the refinery troubles, including the fact that they have already been dispelled and that crude oil prices are picking up, in the 2Q and beyond, and thereby achieve the projected revenues for the fiscal year.
- Q4: I understand that the Petroleum and Petrochemicals businesses explained that 1Q would have bounced down by about ¥3.0 billion each. The outlook for the full year could be restored, but was it lower than you had expected for 1Q account? Or is 1Q in-line finish because it is being returned in other segments such as oil E&P business? Although it's a small detail, let me check.
- A4: We are aware that the Petroleum and Petrochemical businesses are a little lower than we had thought.

Q5: Regarding the concept of equity repurchase, I believe that when you repurchase your company's own shares, the ratio of major stockholders naturally increases.

Then, when you attempt to return total amount of 60%, it may be difficult to obtain the stock by the company's own stock, or it may not be a problem that the share of the major shareholder will be concentrated. What is your current understanding of method of shareholder return including share buybacks?

A5: Our share buyback would naturally increase a percentage of major shareholder even if they do not anything. At present, it is difficult to obtain the company's own stock in a simple manner.

On the other hand, as I mentioned earlier, I do not expect this situation to continue for more than six months. To a certain extent, and where some sort of goal has been made, I believe that the buying of treasury stock will naturally be one of the methods of return to shareholders.

Q6: What is the basis for this ¥250 in the distribution? I would like to ask for a quantitative explanation as far as possible regarding the fact that the level is not ¥220 or ¥300, and not ¥400, but ¥250.

A6: From many perspectives, but the most obvious way to think about the oil sector's dividend yield is relatively stable, and we calculated backwards.

Q7: I would like you to explain why 1Q resulted in a net loss. I believe that the ordinary profit is positive and negative in the case of income taxes, so I would like you to explain how this amount has been calculated.

A7: Although the Petroleum and Petrochemical businesses have relatively light taxes, these are in red. On the other hand, oil E&P business, which has a heavy tax burden, is in the black, but there is a heavy tax burden and the impact of minority interests. Therefore, consolidated net income is in red if these factors are taken into account.

Q8: The substantial margin is improved except for the time lag. However, the time lag of the margin in 1Q and the substantial margin except for the time lag are improved, we ask you to quantitatively decompose them.

In addition, we would like to explain whether the substantial margins themselves are more expanded than the FY22 4Q alone.

Q8: There is almost no time lag or absolute value for 1Q. However, the time lag in the same period of the previous fiscal year was just under ¥6 per liter, which had a significant impact on profits. On the other hand, as for the portion excluding the so-called time lag, the margin has actually decreased only by a little less than ¥5 per liter. Therefore, we analyze that the margin has substantially improved by approximately ¥1 per liter after subtraction. Compared with 4Q of the previous year, the margin level remained almost unchanged and slightly positive.

Q9: How much is the amount of investment in demonstration facilities for mass production of domestically produced SAF? Also, how much is the cost of procuring this raw material? This is a demonstration facility, so is there very little profit?

A9: We have begun construction of domestic SAF mass production demonstration facilities with the aim of commercialization. The first 30,000 KL large-scale facility will begin commercial operation in 2025, and we expect it to contribute to the profits of this facility. It may be a little misleading.

Although 30,000 KL may not be so large, we believe the first in the country is large.

The figure for investing in SAF during the mid-term plan is ¥25.0 billion. In addition to the 30,000 KL of waste cooking oil-derived plants, some of this includes Alcohol to Jet's SAF manufacturing facilities, which are scheduled to begin operating in 2028. Please understand that it is a part of this ¥25.0 billion investment.

About the cost of raw materials, the joint venture Sapphire Sky Energy Co., Ltd. is formed by three companies: JGC Holdings Co., Ltd., Revo International Company and us. Revo International has been a specialist in the recovery of waste cooking oil for domestic and commercial use since before, and this time, Revo International will expand the recovery volume and supply raw materials to the 30,000 KL of SAF facilities in the future.

Revo International has a very strong collection expertise, connections, and channels and is very competitive in pricing to provide raw materials for this SAF facility.

The Japanese Government has declared that "10% of jet fuel popularized in Japan in 2030 will be replaced by SAF or bio-jet."

The volume is approximately 1.7 million KL. The environmental response of aviation fuels is not only in Japan but also globally, so it is probably a considerable deal. We are not sure what extent, but I think it would be possible to sell it at a relatively good price.

Q10: Does SAF facility produce fractions other than JET fuel?

A10: In part, bio-naphtha will come out.

Q11: About Offshore Wind, half a year has not passed since the mid-term plan was announced, so there may not be any new information in particular. However, from the viewpoint of the domestic offshore wind, the company has been told that it is likely that you will be able to make money, and if there is any, please let us know.

A11: To say qualitatively, we believe that more and more companies tend to procure green electricity. This can be found in newspapers and other media, especially in NTT, in addition to data-center companies such as Amazon and Google. We believe that these companies will be increasingly promising in the future to procure green electricity. Also, this hasn't changed much from the last time, but I feel that the companies that are members of RE100 are becoming much more willing to procure. In the sense that the number of customers is expanding, I think we are in a very good trend right now.

Comment: I'm just impressed, about you raising the lower limit of the dividend this time, I thought it was a good step. Even without raising the lower limit, it could have been possible to raise this year's dividend. However, by raising the lower limit, I think you have taken a step forward, and I appreciate it in a positive way, so I would like to continue to engage or discuss your company's situation in the future.

Q13: Regarding investments, you mention ¥16.1 billion in investment securities, please tell us what you invested in.

A13: The investment consisted of the purchase of additional minority shares in Cosmo Abu Dhabi Energy Development, a subsidiary of the Oil E&P Business.

Q14: You said that you assumed your company's cost of equity to be 7 to 8% based on the CAPM, what is the basis for this calculation?

A14: The CAPM-based cost of equity presented here is essentially based on Bloomberg data; for the calculation of beta, it is calculated as a two-year weekly average. The basis for such calculations, although we refrain from responding to individual figures.

Q15: You say you refrain from disclosing individual numbers, but Bloomberg's 2-year weekly beta shows 0.599 in raw data and 0.733 after adjustment. Is it correct to understand that these are the same level of number you are using?

A15: As for the target, You're right.

Q16: Regarding the progress of the 1Q results for FY2023, you mentioned that the Petrochemical business was down ¥3.0 billion. Please explain the current market conditions.

A16: Regarding olefins, ethylene and propylene have been quite sluggish and have continued to deteriorate since April. Of course, we had reflected the sluggish market conditions when we formulate the budget, but they are even lower than we had assumed at that time.

Regarding aromatics, naphtha-mixed xylene has remained at a moderate level. The market for mixed xylene-paraxylene is slightly under the plan, and we recognize that the situation will not improve much in the 2Q.

Q17 The presentation material includes a topic on the establishment of green electricity supply chain profit foundation. At the time of the mid-term plan announcement, we were told that it would be established from now on, so we thought it would take some time to realize the plan. Please let me confirm whether we understand that green electricity supply chain profit foundation is progressing well, or whether you are aware that you need to speed up a little more.

A17: We believe that it will take a little more time to establish the profit foundation announced in the mid-term plan. What we have indicated at this time is one point in various measures.

To begin with, in the area of power generation in the green electricity supply chain, it is necessary to acquire offshore wind power or further expand onshore wind power. In addition, the sales of green power need to be expanded accordingly.

Please understand that it will take a little more time to work since we plan to try the electricity storage and supply-demand adjustment parts at the validation level, starting this year.

Q18: Please make sure at the point of shareholder return. You mentioned that the target of profit attributable to owners of parent of ¥55.0 billion is achievable to a certain degree of high accuracy. On the other hand, given that the total payout ratio of more than 60% indicated in the mid-term plan, this leaves approximately ¥10.0 billion for shareholder return.

Let me confirm your ideas on this point, should we assume that we cannot expect any more in the current fiscal year.

A18: We believe that there is still room for returning profits to shareholders, if we assume ¥55.0 billion and of 60% or more. We will continue to consider when and how to do, while monitoring the progress of our business performance. Please understand that nothing has been decided yet.

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.