

## Interview with the President

The ENEOS Group revised its Long-Term Vision and formulated its third Medium-Term Management Plan in May 2023.

The following focuses on questions asked by shareholders and other stakeholders during the formulation process.



### Q1. What social scenario does the ENEOS Group envision for the future?

**A1. We envision the development of a decarbonized and recycling-oriented society by 2040. The speed of change is also accelerating.**

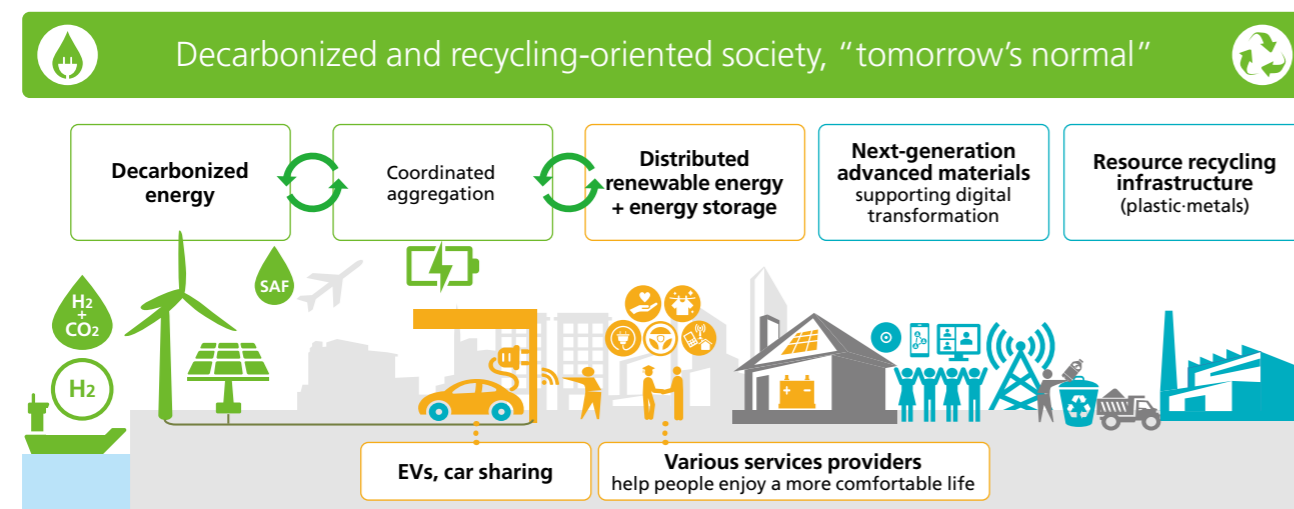
In our Long-Term Vision, we envision the development of a decarbonized and recycling-oriented society by 2040. The scenario is as follows.

In the energy field, in addition to various types of renewable energy and decarbonized energy produced in industry such as hydrogen and synthetic fuels, distributed energy will be produced in homes and communities. Storage batteries to balance supply and demand and systems for optimal control will also become increasingly important.

In the materials field, demand for next-generation advanced materials will increase along with the digital transformation (DX). Recycling infrastructure will be developed, which is expected to result in a circular economy. New services will also be required in response to people's diverse lifestyles.

The speed of transition to such a society is undoubtedly accelerating. As an energy and materials group, we must take on the challenges of the energy transition toward decarbonization.

#### Social Scenario



### Q2. What are your thoughts on the energy supply structure and the ENEOS Group's vision for the future?

**A2. We expect the turning point toward carbon neutrality to be around 2030. We will continue to be a main player in supplying Japan's primary energy needs.**

It is certain that society will move towards carbon neutrality. At this stage, however, it remains unclear what the main sources of primary energy will be in the future and when technological breakthroughs will occur.

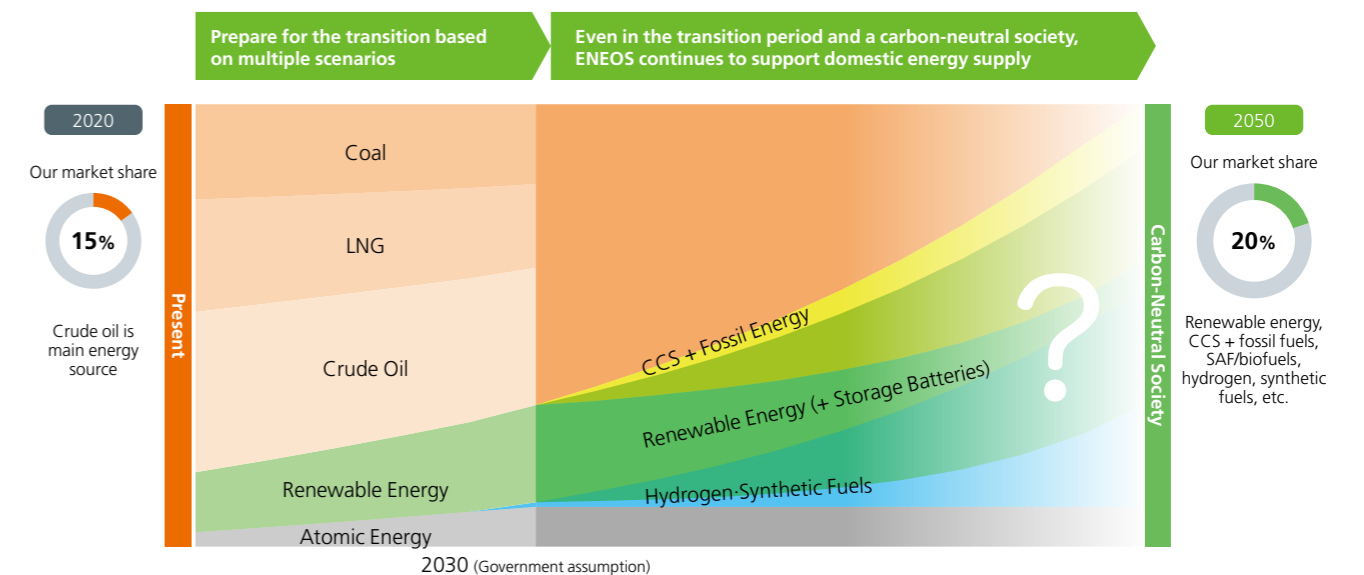
Taking into account policy trends and other factors, we believe that the turning point toward the spread of next-generation energy will be around 2030. For a smooth energy transition, it is necessary to fulfill S+3E<sup>1</sup>. The Group will lead the Japan's energy transition and will continue to be a main player in the future. We aim to capture the largest share in synthetic aviation fuel (SAF), hydrogen, and synthetic fuels, and to supply 20% of Japan's primary energy needs.

This determination is expressed in our Long-Term Vision to take on the challenge of achieving both a stable supply of energy and materials and the realization of a carbon-neutral society.

The large-scale energy transition away from fossil fuels is by no means easy. The spread of petroleum resources, which are "today's normal," was only possible through the bold challenges taken on by our predecessors. In this way, we are confident that the important challenges we are taking on today will lead to "tomorrow's normal," bringing new value to society.

<sup>1</sup> Safety, Energy security, Economic efficiency, Environment

#### Future Domestic Primary Energy Supply Mix (Image)



### Q3. What about the path toward reducing greenhouse gas emissions?

**A3. We aim to halve our CO<sub>2</sub> emissions per unit of energy supply by 2040.**

Looking ahead to the realization of a carbon-neutral society by 2050, we are also steadily working to reduce greenhouse gas emissions, which is an urgent issue. We have set an ambitious target of halving CO<sub>2</sub> emissions per unit of energy supply (carbon intensity or CI) by 2040.

To achieve this, we first aim to achieve carbon neutrality in the Group's greenhouse gas emissions (Scope 1 and 2). To this end, we will make efficiency improvements in manufacturing and businesses, implement CO<sub>2</sub> capture

and storage (CCS), and remove CO<sub>2</sub> from the atmosphere through forest absorption. In addition, in order to reduce greenhouse gas emissions in society as a whole (Scope 3), we will pursue the energy transition through the supply of hydrogen, synthetic fuels, renewable energy and other energy sources, and promote a circular economy through recycling and sharing.

→ For details of the ENEOS Group Carbon Neutrality Plan, see pages 29–34.

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### Q4. What are the ENEOS Group's strengths in terms of future potential?

**A4. We have the technologies and customer networks to address each scenario flexibly.**

#### (1) Resilience in dealing with multiple scenarios for the energy transition

As I mentioned earlier, at this stage, there is no definitive answer as to what the main sources of energy will be in a carbon-neutral society, so we are considering multiple scenarios.

One of the Group's strengths is its high resilience in dealing with any of these scenarios, and the fact that we are making investments, conducting research and development, and pursuing demonstration projects. Another strength is the location of our refineries and plants adjacent to industrial customers such as power plants, as well as our ability to make effective use of existing refinery and plant infrastructure without making significant investments.

In addition, the Green Innovation (GI) Fund and other support systems for reaching Japan's target for carbon neutrality by 2050 have been established and are expected

to be expanded in the future. We are steadily taking the necessary steps, such as utilizing government support and partnerships with leading companies in Japan and overseas.

I am proud that the Group has a high level of resilience to future uncertainties.

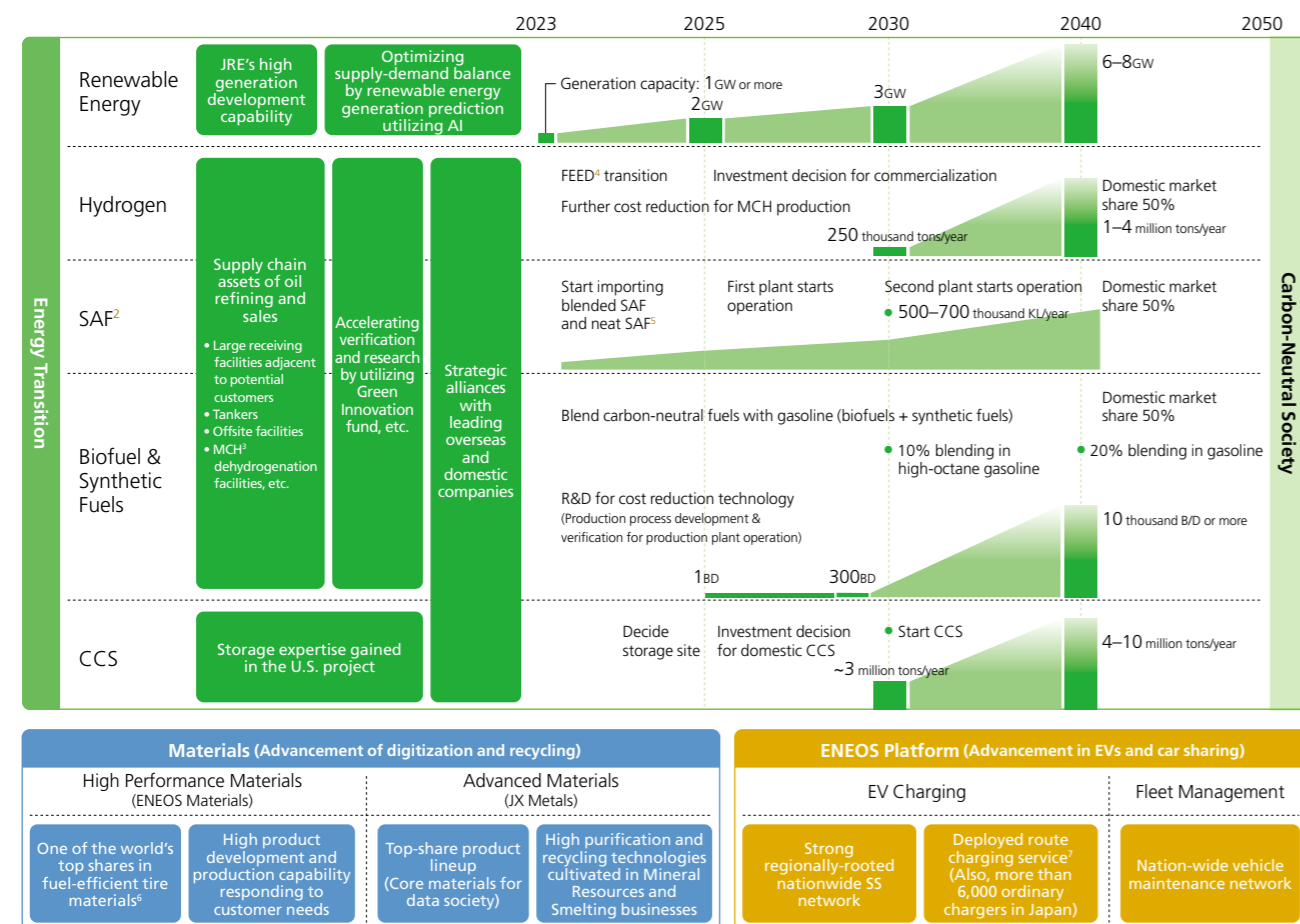
#### (2) Materials supporting a digital society

##### Materials supporting advanced needs

In addition to next-generation energy, we expect earnings growth in the materials business.

The Group possesses advanced technologies and high market shares in the semiconductor materials and ICT materials that support the digital society, and high performance materials such as elastomers, which are in high demand and have excellent environmental performance. These materials are indispensable for the realization of a carbon-neutral society.

#### Strengths for Tomorrow's Normal



<sup>2</sup> Sustainable Aviation Fuel <sup>3</sup> Methylcyclohexane: a hydrogen carrier <sup>4</sup> Front End Engineering Design <sup>5</sup> SAF raw materials before mixing <sup>6</sup> Solution polymerization styrene-butadiene rubber <sup>7</sup> ENEOS Charge Plus

### (3) ENEOS Platform as social infrastructure

We have a nationwide service station network that is a real and strong point of contact with customers and local residents. In addition to the locations and number of our service stations, another key strength is that we have accumulated a large amount of extremely useful data. We will make the most of these strengths by building a system

to provide route charging services for EVs, next-generation energy, and new services, for which demand is expected to increase in the future.

Through the utilization of this service station network as the ENEOS Platform, "tomorrow's normal" will take root throughout society.

### Q5. What are your measures for achieving the energy transition?

**A5. We will establish advantages as a pioneer by preparing for the expansion phase of decarbonization investment after 2030, focusing on improving the efficiency of our fossil fuels business and developing intangible assets required for the future.**

The energy transition for continuing our role as a main player naturally requires a substantial strategic investment. We intend to expand our capital investment for decarbonization in earnest from 2030 onward.

In the meantime, we will make the necessary investments to ensure resilience for the future, but we will not unnecessarily inflate our balance sheet. We will focus on the development of intangible assets not booked on the balance sheet, such as technological development, collaboration with leading partners, utilization of support systems from the government, and above all, human resources development. Meanwhile, we will also streamline and improve the efficiency of our existing fossil-resource-derived energy businesses in line with the decline in demand in the domestic market.

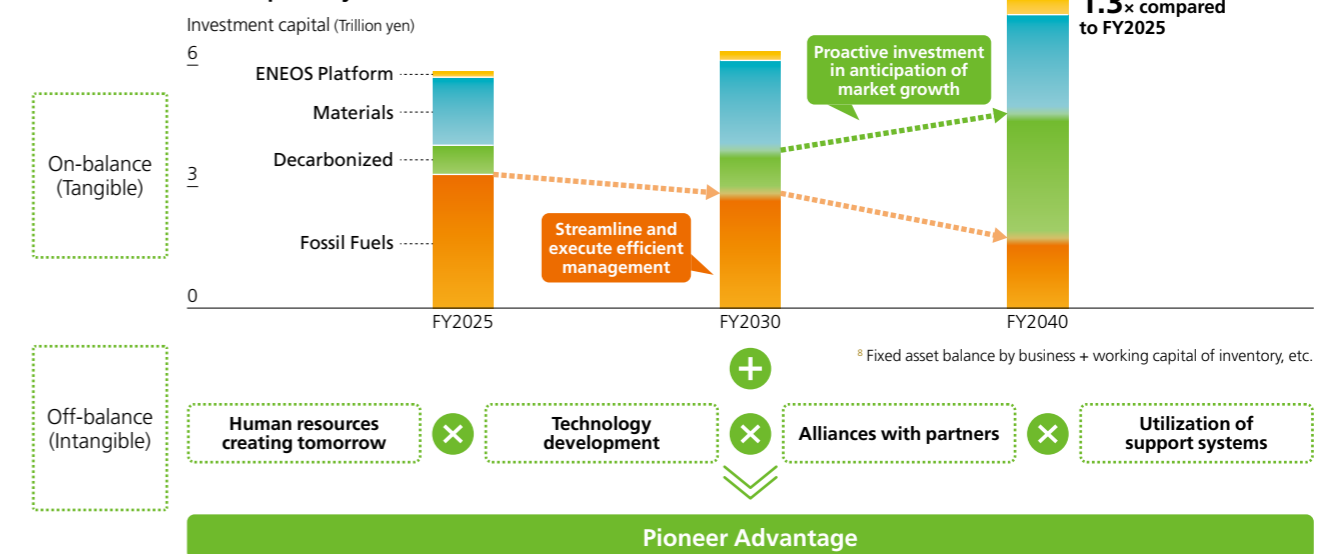
For the Company, which has mainly dealt with fossil fuels, the challenge of achieving carbon neutrality is a major transformation that can be viewed as a "second founding" of sorts. We believe that the most important key to success or failure is human resources. Through various

measures, we will foster a corporate culture in which management and employees align their perspectives to ensure that our Long-Term Vision is realized. We will secure and develop human resources and other intangible assets during the third Medium-Term Management Plan to establish our advantage as a pioneer.

In addition, we will monitor the growth of the decarbonization market and expand capital investment in promising fields from 2030 onward. In terms of the scale of capital to be invested, we plan to increase the total amount by 1.3 times compared to fiscal 2025 by 2040.

When implementing full-scale investments, we will incorporate the perspective of cold-eye reviews to narrow investments down to those that are expected to exceed the cost of capital. Especially in energy transition fields, such as renewables, long-term rather than short-term returns are needed. We must carefully consider this point and convey the status of the investment plan to shareholders and investors as appropriate.

#### Scale of Investment Capital<sup>8</sup> by Business Area



<sup>8</sup> Fixed asset balance by business + working capital of inventory, etc.

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### Q6. What is the optimal portfolio and what is the key to achieving it?

**A6. We expect the decarbonized business to grow after 2030 and will pursue the capital efficiency of each business using rigorous ROIC management.**

#### Portfolio plan based on the progress of the energy transition

Currently, fossil energy accounts for more than half of the Group's earnings. Under the third Medium-Term Management Plan, we will implement various measures following the basic policies of "establish a solid earnings base," "accelerate execution of measures for energy transition," and "enhance the management base," to maximize earnings in our current business portfolio.

At the same time, by 2030, in addition to upfront investment in decarbonization, we will build a business foundation for EV charging and the ENEOS Platform to meet the needs of local communities and individuals. By around 2040, the "permeation" phase of the energy transition, we expect our earnings portfolio to comprise 50% decarbonized energy and fossil energy offset by CCS and other measures, and 50% materials and the ENEOS Platform.

The expected changes in the portfolio are illustrated in the third Medium-Term Management Plan (see the figure below). In the figure, since the Electricity business spans both "fossil fuels" and "decarbonized," the scale is shown outside the pie charts. The overseas business ratio is also shown. In anticipation of the population decline in Japan, we will grasp the needs of overseas energy transitions and

increase the ratio of overseas business.

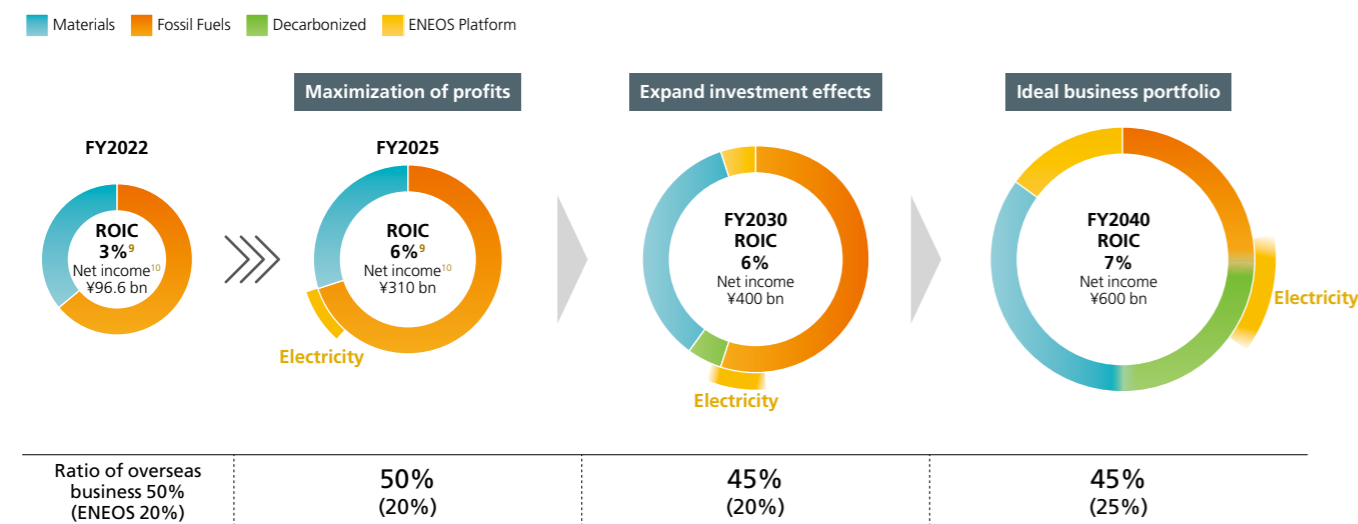
#### Importance of generating returns in excess of capital cost

In the third Medium-Term Management Plan, the Group will introduce rigorous business management based on the return on invested capital (ROIC) in pursuit of increased capital efficiency. By disclosing ROIC results, targets, and weighted average cost of capital (WACC) for each business, and converting the High Performance Materials business, the Electricity business, and the Renewable Energy business into separate companies, we will shift to autonomous management that visualizes the results of each business and focuses on results.

For businesses with low profitability (i.e., businesses that do not exceed WACC), we will set deadlines and make fundamental improvements. If there is still no improvement, we will consider business continuity or withdrawal based on certain criteria.

In 2022, we were unable to generate sufficient returns above WACC. However, in 2025, the final year of the third Medium-Term Management Plan, we anticipate ROIC of 6%. In 2030, we expect to generate returns, such as 6%, that will always exceed WACC, rising to 7% in 2040.

#### ROIC / Scale of Profits by Business Area



<sup>9</sup> Including incubation businesses. The target for FY2025 is 7% or higher excluding the incubation businesses.  
<sup>10</sup> Net Income attributable to owners of the parent

### Q7. How do you analyze the current situation of ENEOS's price-to-book ratio (PBR)? How will you improve it?

**A7. First, it is important to achieve the third Medium-Term Management Plan. We will focus carefully on the equity spread and further enhance dialogue with our stakeholders.**

Our WACC is about 4%, of which the cost of equity is about 8%. On the other hand, ROE excluding inventory valuation effects has been below the cost of equity, averaging around 6% over the past five years, and the so-called equity spread continues to be negative.

Although we have formulated a growth strategy that covers the petroleum business, mainly in the decarbonized business area, we recognize that growth expectations from the equities markets is negative due to the protracted time frame until the realization of profits.

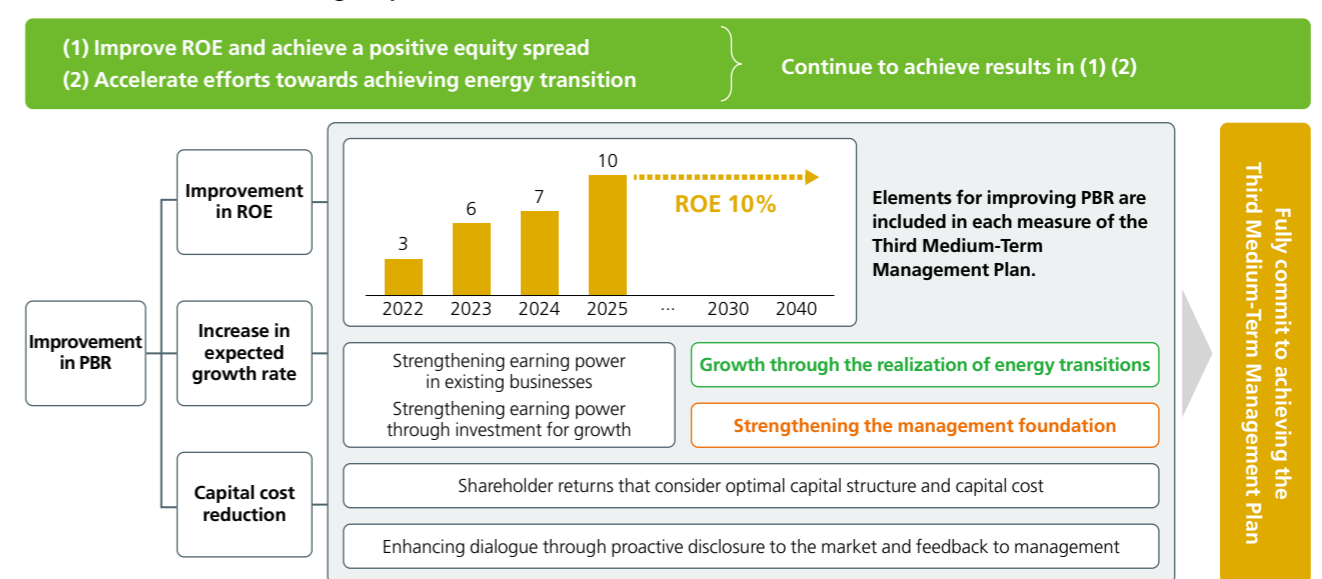
In light of this situation, we believe that our PBR can be improved and exceed one time by (1) improving ROE and making the equity spread positive, and (2) by steadily accelerating and growing efforts to realize energy

transitions economically and technologically, and by continuing to produce these results, increasing the probability of success, and gaining trust in our ability to meet future expectations.

First, we will make every effort to achieve the third Medium-Term Management Plan, and will actively disclose the progress of growth businesses, one of our initiatives for realizing the energy transition, and our stories for monetization, in an effort to enhance our reputation in equities markets. In addition, we will expand dialogue with stakeholders and utilize the findings in management.

We plan to continue discussions by the Board of Directors on how to increase our PBR, and disclose the status of these efforts.

#### Initiatives Aimed at Enhancing Corporate Value



### Q8. Can you provide closing words to stakeholders?

**A8. We will dedicate our best efforts to continuing to be a company that is required by society.**

For the ENEOS Group, which has been engaged in fossil fuels businesses since its founding, the challenge of the energy transition is truly a major undertaking that can be seen as our "second founding." By fostering a corporate culture of transformation and taking on challenges, and consistently providing the energy, materials, and services needed by society, today and tomorrow, we will meet the expectations of all stakeholders and enhance our corporate

value. In order to achieve this, we will first steadily implement the various measures I have discussed above and exert our best efforts to achieve the third Medium-Term Management Plan and, by extension, the Long-Term Vision.

I ask shareholders and other stakeholders for your continued support and guidance of the ENEOS Group as we move forward.