

*As a responsible investor, SOMPO Asset Management endeavors to build relationships in which we can have dialogues with investee companies on an ongoing basis. We also strive to practice constructive dialogue that contributes to improving corporate value and sustainable growth. Themes of our dialogues include not just financial issues but also future financial issues (nonfinancial issues). We recently had an opportunity to talk to ENEOS Holdings, Inc., with whom we have had focused discussions on climate change on an ongoing basis.*

Date of dialogue: **July 18, 2023**

Held at Sompo Asset Management



Attendees from **ENEOS Holdings (5020 JP Equity)** :

Mr. Hirokazu Chiyo, manager, ESG Communication Group,  
Investor Relations Department (second from left)

Ms. Rina Kono, ESG Communication Group,  
Investor Relations Department (third from left)

Attendees from **SOMPO Asset Management** :

Tsunoda (far left), Morita (not pictured), and Natsuka (far right),  
Responsible Investment Department

**SOMPO Asset Management (Tsunoda)** : Thank you for talking with us today.

Since the PRI was established in 2006 and the GPIF [Government Pension Investment Fund of Japan] joined the PRI signatories in 2015, the emergence of the idea of ESG has changed the ways investors think, corporate strategies are designed, and corporate information is disclosed in Japan. With that as background, we have invited you to talk with us as a member of the energy industry, for which addressing ESG presents the toughest challenge and which faces the toughest criticisms. So we would like to ask you about your history of ESG-related information disclosure, what you discussed internally, and where you are today. First of all, I'd like to begin by talking about the spring of 2019, when I first had an opportunity to have a dialogue on ESG with your company. At that time, there were few people who thought IR and ESG would merge, as they have today. What was the view at your company?

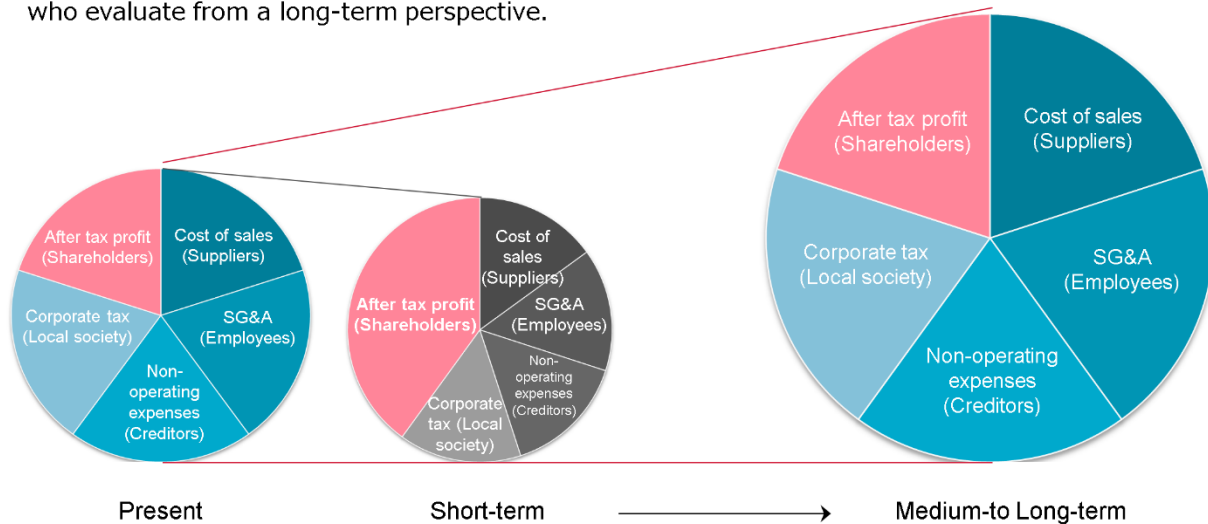
**Chiyo, ENEOS** : Looking back to 2019, we had no concrete vision for IR and ESG. We were beginning to think about what constituted our company's corporate value, and our value-creation model. Executives were starting to talk about how we should frame ESG as corporate value, but we still didn't know where we were headed. Then there were discussions on the question of what the differences between CSR and ESG were. In 2020, we established a basic policy that states, "ESG management involves achieving both social value and economic value," which established our definition of "ESG management." Then, in 2021, we formed our current structure, which positions the IR Group and the ESG Communication Group within the Investor Relations Department.

Our first ESG briefing session was held in the winter of 2019. In normal financial results briefings, discussions tend to focus on short-term results, but since we began dealing with ESG, we've been able to promote our initiatives to investors in terms of a longer time frame than the short to medium term. So we can now talk about things that may not contribute directly to short-term earnings but have tremendous potential to blossom in the future, as well as our related efforts.

**SOMPO** : This diagram represents what we regard as the axes of long-term dialogue with companies. The pie charts represent key items of the income statement, and the size of the circles represents corporate value. What it shows is that although ESG initiatives may result in upfront costs that make the circle smaller in the short term, as long as the ESG initiatives bring positive results over the long term, making the circle larger, we'll support these ESG initiatives. In this regard, I remember you faced tough questions at your ESG briefing session in 2019 on, for example, the financial impact of your ESG initiatives.

## ESG Integration and Intrinsic Value

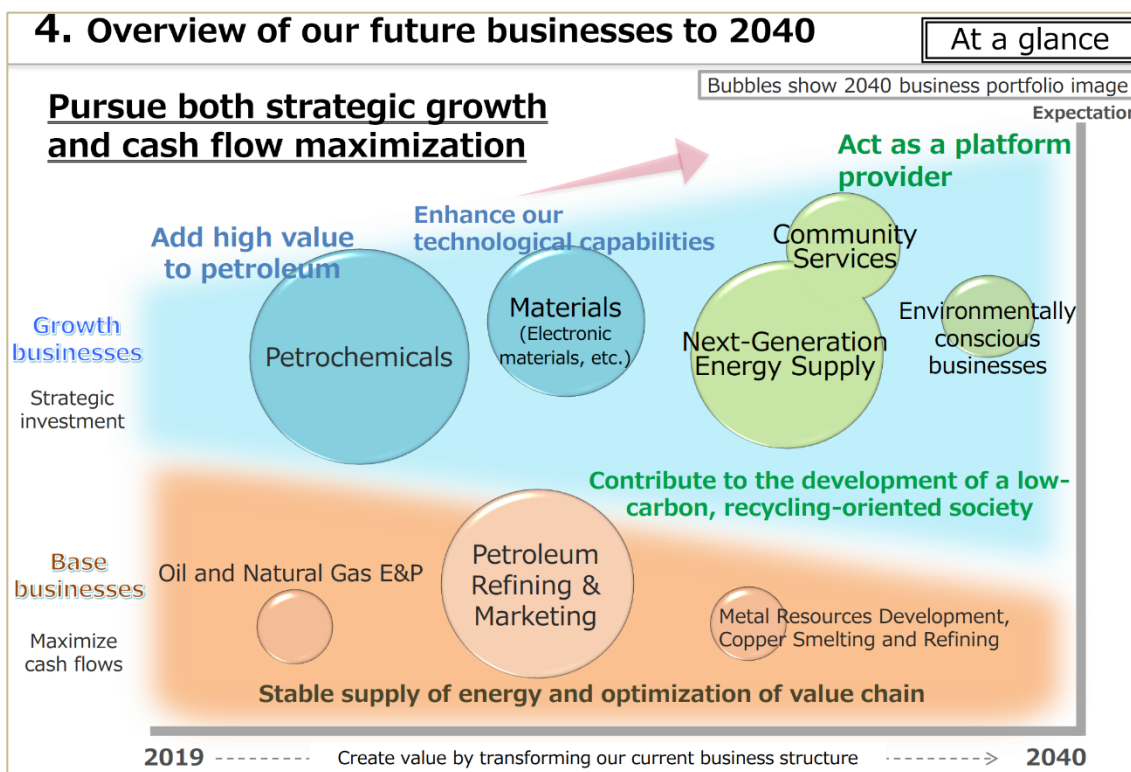
- While many spending associated with ESG are short-term costs, these will be crucial business resources in the longer term.
- A keen interest in ESG is essential for intrinsic value oriented investors, who evaluate from a long-term perspective.



**SOURCE :** SOMPO Asset Management

**Chiyo :** Today, there are efforts underway to standardize disclosure of ESG-related information through discussions at the ISSB. But at that time, investors, analysts, and operating companies each had a different idea of ESG, even if they were all using the same word. According to the TCFD framework, different companies may have different assumptions and ideas, but in those days, people were trying to determine what the standards were. And even today, there are issues about information disclosure in areas that are yet to be standardized. This is because there are still areas where you might conduct a scenario analysis on the future, but whether the results of that analysis will actually play out is another story.

This is what you can see clearly if you look at how our medium-term management plans have evolved. Our first medium-term management plan in 2017 was centered on the management integration between JX and TonenGeneral and there was little reference to ESG. However, the second medium-term management plan in 2019 included ESG-related risks and time frames. After a 2020 review, we announced the target of achieving carbon neutrality by 2040. That said, the document released at that time didn't go beyond expressing the potential of each business in our "base businesses" and "growth businesses" in the sizes of bubbles along the two axes of "time frame" and "expectation."



**SOURCE :** JXTG Holdings Long-Term Vision

[https://www.hd.eneos.co.jp/english/company/system/pdf/jxtg\\_en\\_ot\\_fy2019\\_01.pdf](https://www.hd.eneos.co.jp/english/company/system/pdf/jxtg_en_ot_fy2019_01.pdf)

**SOMPO :** We hadn't imagined you would make a carbon neutrality pledge in 2020, so when you did, it was a surprise. At that time, the government still had little to say about reducing greenhouse gas emissions. So my question is, where did the idea for you to make such a pledge ahead of the government come from—for the leading company in the energy industry to do so?

**Chiyo :** I think the view of the management team at the time played a major role. Calls for CO<sub>2</sub> reduction began to grow louder after the Paris Agreement was adopted at COP21 in 2015. In 2019, the GPF [the Norwegian Government Pension Fund Global] announced a decision to divest from oil and gas in phases. These developments led to the idea that emitting CO<sub>2</sub> itself may become a risk in the future and I think such an idea had a major impact.

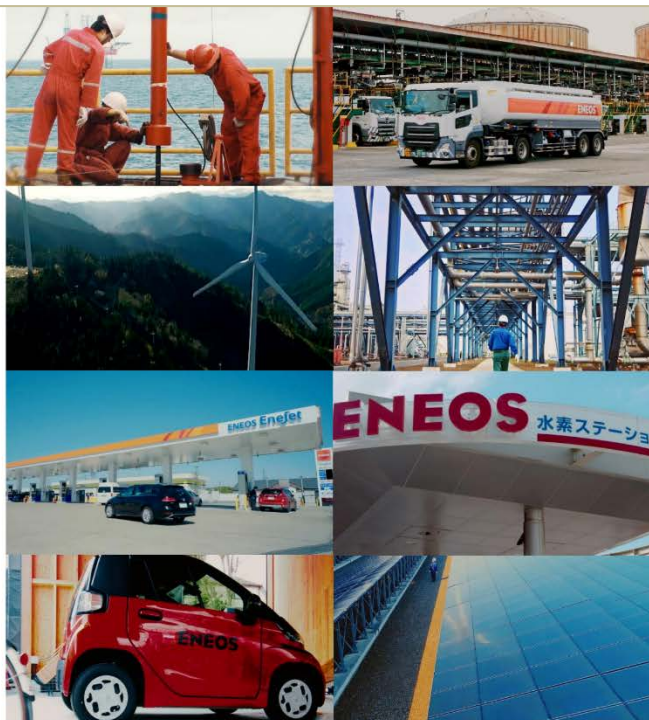
**SOMPO :** There is a quote from a director of your company that left a strong impression on me. It is this: "We've been told again and again since we joined the company that our main business will eventually vanish (as oil resources run out eventually)." I thought the attitude of taking on business with that level of determination and future outlook was amazing. Am I correct in understanding that the company has been able to press ahead without faltering,



even in the face of the major changes brought on by the carbon neutrality movement, because such determination is shared among everybody in the company?

**Chiyo** : The medium-term management plan we announced this year contains the phrases "today's normal" and "tomorrow's normal."

First of all, from the perspective of our corporate DNA, so to speak, our social mission is "to supply energy to society," rather than "to supply oil and gasoline." And when times change, the source of energy needs to change. So if "today's normal" for us is to supply gasoline, then what we have to do now is to work on "tomorrow's normal." We joined our company on the assumption that Japan's demand for oil peaked in the second half of the 1990s and would steadily decline thereafter. We have always felt that we would have to shift our assets and portfolios in the future and I think the oil companies had sufficient time to come to that conclusion. We have taken a broad range of measures in the past in response to the declining demand for oil, which included consolidation and disposal of facilities and industrial realignment, and I think the results of these cumulative efforts have given us an advantage.

<p><b>Commitment to Realizing the Group Philosophy</b></p> <p><b>Supporting “today’s normal,” taking the lead for “tomorrow’s normal”</b></p> <p><b>We continue to support everyday life with tireless efforts and strong leadership.</b></p> <p><b>We take action for positive change and continue to take on challenges, while pursuing every possible combination of the strengths of diverse people, technologies, and ideas.</b></p> <p>"Today's normal" in our day-to-day lives—its presence is anything but ordinary.</p> <p>From the time when "today's normal" life was not ordinary, the ENEOS Group has always been a frontrunner, committed to developing and supplying energy and materials essential to the everyday life of each age.</p> <p>Now, we aim to achieve "tomorrow's normal," a decarbonized, recycling-oriented society, where next-generation energy, materials and services are essential.</p> <p>We will continue to take the lead in creating and innovating "tomorrow's normal" to be a corporate group that is trusted by and indispensable to society.</p> <p><b>ENEOS Group</b></p>	
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**SOURCE** : ENEOS Holdings FY2023 - FY2025 Third Medium-Term Management Plan  
[https://ssl4.eir-parts.net/doc/5020/ir\\_material5/206127/00.pdf](https://ssl4.eir-parts.net/doc/5020/ir_material5/206127/00.pdf)

**SOMPO** : I'd like to ask you how you worked out the 2040 net-zero target. You can't envision how you may achieve a long-term target set in 2040, which involves many uncertainties, if your approach is based solely on forecasts, which represent an aggregation of efforts planned based on past performance. So my question is about how you reflected the information gained from backcasting, starting from 2040.

**Chiyo** : Given a time frame through 2040, one needs a viewpoint of how to interpret social and macro assumptions and what options management may choose, so top-down thinking takes precedence. When we announced the 2040 target in 2020, the view of management at the time featured prominently in it. In that regard, I think incorporation of the ESG perspective has made it easier to understand the management time frame. Setting a target under the time frame through 2040 forces you to think about your expectations for the future, including technological advancement, so I think the level of difficulty is very high.

**SOMPO** : How did investors react when you announced your 2040 carbon-neutral target in 2020? I think you did a great job as your company set the target on its own.

**Chiyo** : When we announced the target, there were positive reactions about the progressive nature of it, but that was because it was immediately followed by the government's announcement of its target. But I do believe we were able to show what we had worked hard on, braving wide-ranging issues and taking advantage of the resources and information we had. A key outcome in the process of setting the target announced in 2020 was that **it made us think about what carbon neutrality was all about**. This discussion is what made our current targets possible. In 2020, we only had visual diagrams about what the opportunities would be and how we might address them. But in the materials disclosed in 2023, we had reached a point where we considered financial matters. In terms of time frame, we think we'll reach a turning point around 2030. That is why we must build on what we can see ahead of that time. We are thinking about asset holding and capacity levels that will enable us to stay competitive in 2030 and beyond. This is because demand for oil will decrease but demand for energy will remain. What enables us to develop a story like this, which we can explain in a consistent manner, is the fact that we are building on our past efforts.

**SOMPO** : Your company's plans feel amazingly solid to me because you take fund allocation and balance sheet into consideration, unlike plans that present only sales and profit figures. As fund allocation and balance sheet can be decided as you like, they can be understood easily if you explain, "We changed it this way because we changed the assumptions." Looking back on the past few years, **I feel as an investor that your company has deepened the content of your**

information disclosure gradually, in steps.

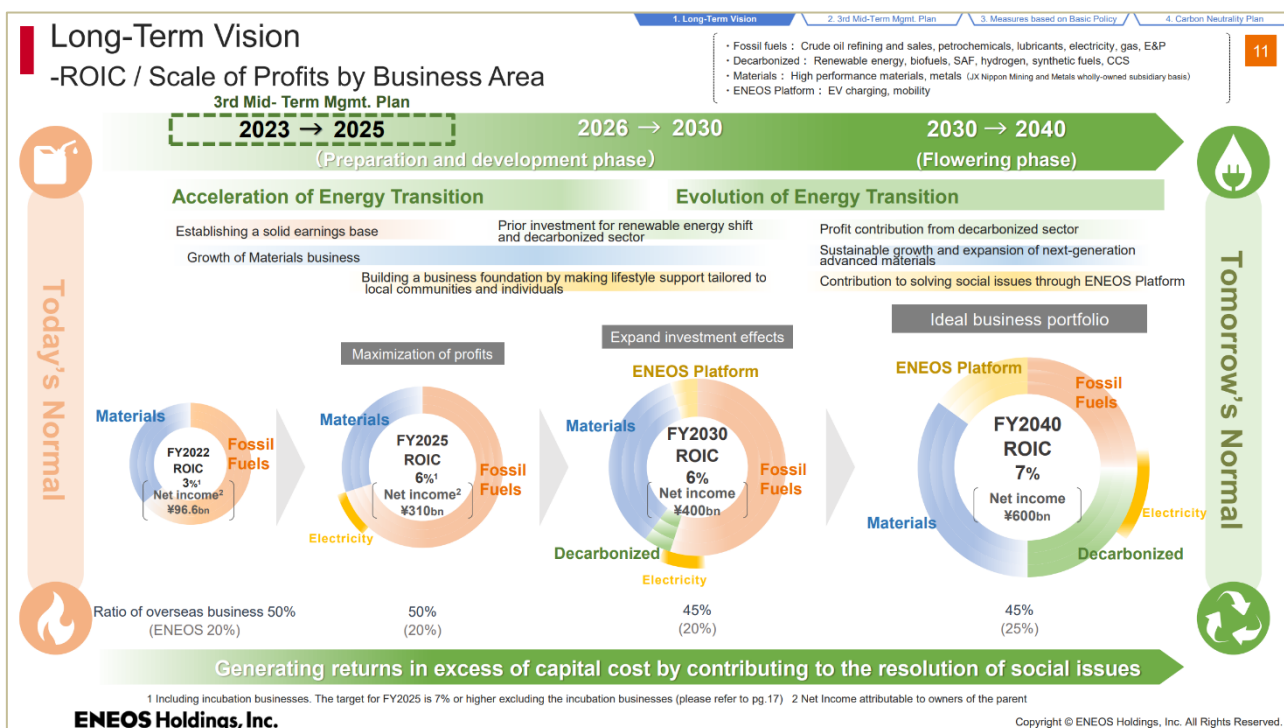
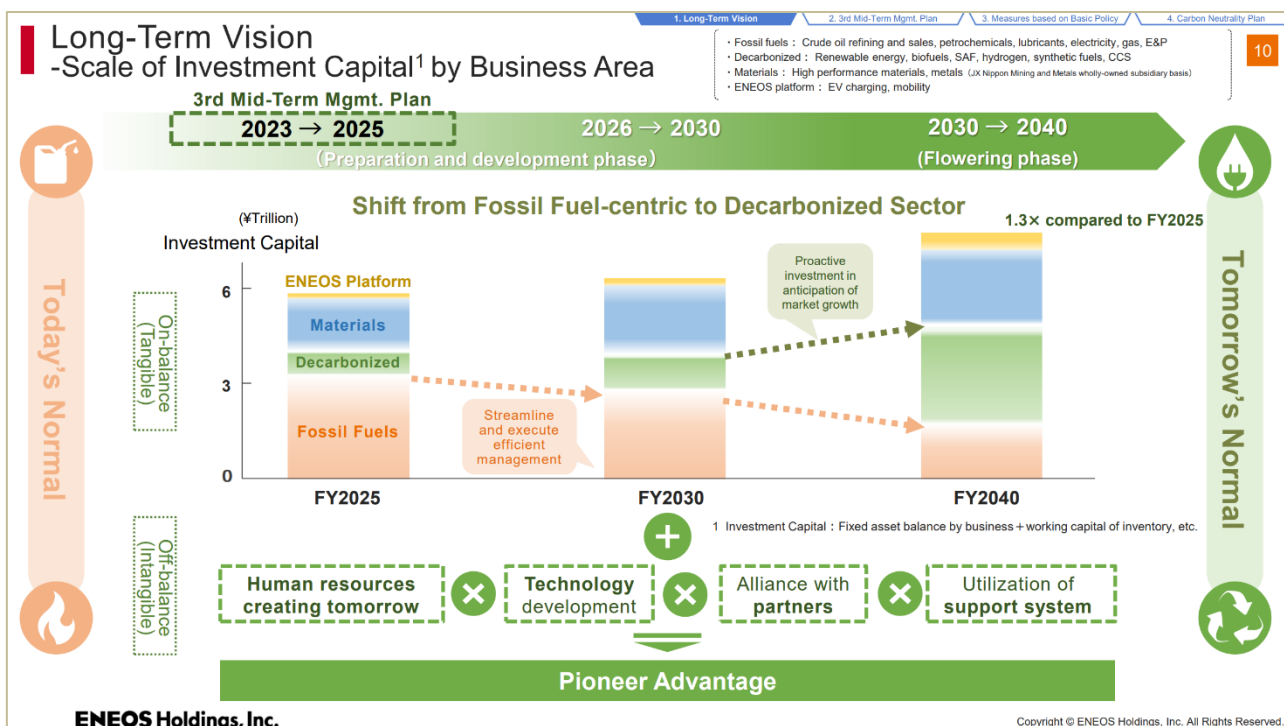
**Chiyo** : As this future vision in fiscal 2040 is the cumulative result of our investment plans, we considered our own thinking on various matters and what may happen under which strategy. Whether a strategy or initiative may prove a success or a failure is important, of course, but I think there is significance in creating such a vision because resource allocation can be carried out according to management's policy. At the same time, what has changed in our company is that an awareness that ESG, especially where it concerns climate change, is inseparable from management plans has emerged. If management had not had such an awareness, it would have been difficult to design this kind of plan.

**SOMPO** : Aside from what may actually happen in 2040, for investors, it's heartening to know that your company has made preparations to the level that you did. By the way, let me switch topic here: is there anything you expect from investors?

**Chiyo** : I want to know how investors see us. Of course, many would point out that our efforts for the future involve significant business risks. On the other hand, we are a company that is responsible for about 15% of Japan's energy supply. Do they see the value of a company that supports 15% of Japan's energy supply in terms of its role of providing a stable supply of energy?

It's true we have our own issues, and we have received various opinions from investors about this point. Regarding the nonfinancial aspects, we have confidence in the fact that, through our role of supplying energy, we have been able to provide value to society and we have been able to provide energy-related facilities to society. We are thinking about how we can showcase this aspect so it can be reflected in our share price.





SOURCE : ENEOS Holdings FY2023 - FY2025 Third Medium-Term Management Plan

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**SOMPO** : Your Carbon Neutrality Plan Briefing Session in July 2023 clearly conveyed the message that you regard carbon neutrality as a business opportunity and intend to profit from it. Have you noticed an increase in the number of investors paying attention to your company, driven by expectations that your company will contribute to Japan's energy transition and help the country achieve carbon neutrality?

**Chiyo** : Unfortunately, I think we have yet to reach a place where we can perceive that sort of change first hand. We used this slide in the briefing session (page 8) you mentioned.

The purpose was to demonstrate that we had developed a plan that clearly shows that we had thought about the future in determining resource allocation and also shows the levels of return that we aim to generate. Going forward, we will continue to convey our efforts to replace our business portfolio while adjusting the direction we are heading, depending on the situation, and increasing returns each year.

**SOMPO** : I think a key to resolving future share valuation is to increase the certainty of your future outlook.

**Chiyo** : Judging from policy developments of the Japanese government, we think the turning point will come for Japan as a whole in around 2030, and I think the key element to watch in our latest medium-term management plan is whether we will be able to lay the foundation by that time. We will remain highly attentive to how the government plans to go about addressing the transition and efforts to curb greenhouse gas emissions and will steadily build on what we can do given our strengths.

I believe our main strength is that we have infrastructure and supply chains that have already been established. When we think of the workings and cost burdens of energy infrastructure, the most effective way is to put existing infrastructure to effective use, which reduces costs as well. I hope we can clearly convey that the energy transition cannot be achieved without our involvement.



Profile of **Hirokazu Chiyo** :

After joining ENEOS Holdings in 2005, Mr. Chiyo was assigned to the company's supply-demand division. He subsequently worked in the investor relations division, the corporate planning division, the Office for Preparation of Management Integration between the former JX and former TonenGeneral Sekiyu, and the Business Innovation Department. He was then assigned to the ESG Promotion Department in fiscal 2019 and the current Investor Relations Department in fiscal 2021. He has worked in investor relations for a total of seven years.

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