◆ Cosmo Energy Holdings (5021)

Financial Results for FY2019

- 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 : May 22, 2020 (Fri) 10:00 a.m. - 11:00 a.m.
2. Attendees : 90 persons
3. Main questions and answers :

Q1: You plan to pay a dividend of 80 yen for FY2020. While your financial position is weakening, including the repayment of hybrid loans, can we assume that you will maintain 80 yen even if the net D/E ratio substantially exceeds 2.0?

A1: Our understanding of the current increase in the net D/E ratio is that it is a temporary trend caused by COVID-19. Although a loss on valuation of inventory caused by a fall in oil prices and a negative time lag are resulting in the financial impact of 70 billion to 80 billion yen, the situation will naturally return to normal once oil prices recover. While the Oil E&P Business is expected to incur a deficit in FY2020 due to the fall in oil prices, we will be able to reach the goal in the final year of the Medium-Term Plan while maintaining the dividend of 80 yen, even while taking this impact into account. Therefore, we do not intend to change our dividend policy.

Q2: What are the prospects for cash flow in your plan for FY2020? Additionally, what is your outlook for investment?

A2: We expect that free cash flow in FY2020 will be negative due in part to a decrease in earnings. We are currently revising our investment plan because the preconditions for investment have changed significantly due to the large fall in oil prices. We are also changing the timing of the Hail secondary recovery investment. Currently, we are reexamining all investments. We planned to reduce investment in the last two years of the Medium-Term Plan in the first place, and hope to improve free cash flow in FY2021 and FY2022.

Q3: The Petroleum Business expects large profit growth in the FY2020 plan. How sizable is the impact of the reversal of negative time lag and the contribution of the IMO regulations to LSC profit in comparison to the previous year?

A3: The negative time lag will be reversed, that is, a positive time lag will be created when the oil price starts an upward trend. We are looking at the oil price in our forecasts based on the red broken line in the graph on page 2 of the presentation material. Because it rises step by step, from 20 dollars to 25 dollars, 30 dollars, and 40 dollars, a positive time lag begins to appear. However, our forecasts are conservative and do not take into account the impact of a positive time lag. Concerning the IMO, the situation is completely different from normal due to the impact of COVID-19. Among crude oil, heavy oil has become more expensive and, among products, LSC is more expensive than middle distillates. While it is difficult to create benefits as we are unable to enjoy an improvement in the market of middle distillates, such as diesel fuel, we expect to ensure at least some benefits from LSC.

Q4: The negative time lag should become neutral in FY2020 to be a profit growth factor. What is the extent of impact in comparison to the previous year?

A4: The financial impact in the previous year was approximately 23 billion yen. We do not anticipate any impact from the time lag in FY2020.

Q5: What are the components of the extraordinary income and loss in FY2019?

A5: The extraordinary loss is 15.7 billion yen, an increase of 6.8 billion yen from the previous year. We have posted an impairment loss of 3.2 billion yen from the Qatar Petroleum Development. There are no other special factors, and the loss on the disposal of non-current assets was primarily a result of regular maintenance. The extraordinary income was 13.4 billion yen, an increase of 5.2 billion yen. This includes compensation of approximately 7.8 billion yen from Gyxis Corporation.

Q6: What are the components of each business in the FY2020 plan?

A6: The Petroleum Business includes an increase of 23.0 billion yen thanks to a higher margin mainly as a result of the removal of the negative time lag, an increase of 3.3 billion yen because of sales growth through the supply of products to Kygnus Sekiyu K.K., an increase of 5.6 billion yen because of growth in import and export and purchase, and a decrease of 9.3 billion yen due to other factors.

In the Petrochemical Business, HCP was primarily affected by a decline in the paraxylene market. The price caused a fall of 4.9 billion yen, the quantity caused a decrease of 0.3 billion yen due to the regular maintenance of Maruzen Petrochemical, and an increase in expenses such as depreciation resulted in a decline of 2.5 billion yen.

A decrease in the Oil E&P Business was due largely to selling prices, which was 50.3 billion yen decrease. Sales quantity and expenses remained mostly unchanged. In the Other Businesses, an increase in expenses for the start of the offshore phase of Cosmo Eco Power

Ltd. and consolidated treatment resulted in a decrease of 4.4 billion yen.

Q7: What is the sensitivity of the FY2020 plan?

A7: The Petroleum Business will have an increase of 2.0 billion yen if the price of crude petroleum rises $1.00/B due to the impact of inventory. A decrease of 0.5 billion yen in the cost of fuel consumption will result in a total increase of 1.5 billion yen. A rise of 1 yen/dollar in the exchange rate will result in an increase of 1.2 billion yen, and a decrease of 0.3 billion yen in the cost of fuel consumption will result in total growth of 0.9 billion yen. In the Oil E&P Business, an increase in crude oil price of $1/B will cause an increase of 0.9 billion yen. A rise in the exchange rate by 1 yen/dollar will add 0.2 billion yen.

Q8: I think an improvement in net D/E ratio and equity growth are among the conditions for a dividend increase. Will the timing of a dividend increase be delayed by the current impact of COVID-19? Will the conditions for a dividend increase change?

A8: Amid the current decrease in demand and oil prices due to COVID-19, how these factors recover will be the determinants. We are currently facing a fall in profit due to both factors, and early recovery of demand and oil prices should enable us to return to the initial pace. We will consider dividends while also observing improvements in our financial position.

Q9: The disparity between domestic and overseas markets in the previous fiscal year helped reduce import prices and create benefits in the supply to Kygnus. Has this disparity been decreasing recently? What is your view of its impact during the current fiscal year?

A9: The domestic and overseas disparity continuous to exist and is in fact increasing. Currently, 20% to 30% of the Petroleum product demand in the world has disappeared. Refineries are reducing operations and oil-producing countries are following behind this trend and reducing production. In this process, the Singaporean market offers a product cheaper than crude oil. Selling imports in the domestic market will return adequate profit. Meanwhile, because the domestic demand is unfortunately decreasing, profit that we should have gained will be disappointing due to the fall in demand.

Q10: Describe the impact if demand falls below the level assumed in the FY2020 plan.

A10: Concerning jet fuel, jet fuel distillates are mostly the same as kerosene distillates, and when demand for kerosene grows in winter, we will be able to meet demand to some extent by combining jet and kerosene. Because there is no demand for kerosene in summer, however, when jet production is already minimized and we are keeping the lowest balance possible. A fall in demand below our assumption will force us to reduce processing. As for the impact of gasoline, we should be able to cover some decrease in demand because we are still importing a considerable amount.

Q11: What is your view of the domestic base margin of the Petroleum Business in the FY2020 plan, taking into account the reversal of time lag and the recent demand and supply?

A11: We have placed the base margin just as in the previous year. Usually, a positive time lag occurs as the oil price rises. Our plan, however, is conservative and does not consider the time lag. We expect, in reality, that a positive time lag will appear in addition to the base margin. We will raise or reduce wholesale prices if necessary, even when demand is decreasing, and through this we should be able to ensure a profit margin.

Q12: You stated that in FY2020, the cost at Cosmo Eco Power for the development of offshore wind power generation will increase. How will such cost accumulate before the start of the wind-power operation?

A12: In FY2020, labor and other expenses for the development of the offshore wind power generation will increase by approximately 1.0 billion yen, which will reduce the profit. Although there will be a large investment made before the start of the operation, it will be occur in or after FY2022, during the next Medium-term Plan. In FY2020, we will incur advance expenses for strengthening our personnel system.

Q13: The presentation material states that a surplus will be secured even if the cost of competitiveness of the Oil E&P Business is $30/B. The current assumption for the cost is $31/B, which is a deficit. Have the assumptions changed?

A13: There has not been a particular change. While we think the profit is mostly flat at $30/B, the increase is a result of a rise in depreciation and other expenses. We will continue to have relative competitiveness.

Q14: What is the impact of COVID-19 on the FY2020 plan?

A14: The current FY2020 plan is tentative and we are simultaneously developing a detailed budget. While it is difficult to indicate the impact of COVID-19, the largest impact is the oil price. The oil price is dominant, and we consider that most of the impact of COVID-19 derives from the oil price. In view of demand, the impact appears largely on gasoline and jet fuel. However, we consider that the decrease in jet fuel will only remove import and sale through our import position and the profit and loss balance will be zero. As for the decrease in gasoline, we missed the opportunities for sales in Japan by importing it, and a corresponding negative impact is expected.

Q15: The corporate tax in the FY2020 plan seems to be high considering that deficits are expected in segments other than the Petroleum Business. Tell us about the tax burden.

A15: The amount of tax payable may seem high because the Oil E&P Business incurs a certain amount of tax even when the ordinary profit was negative.