

◆ Cosmo Energy Holdings (5021)

Second Quarter of Fiscal 2020

- Financial Results Explanatory Meeting for Analysts and Investors – Summary of Q&A

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– This material contains descriptions regarding future prospects. Notes are provided at the end of this material –

1. Date and time : November 13, 2020 (Fri) 10:00 a.m. – 11:00 a.m.
2. Attendees : 63 persons
3. Main questions and answers

Q1: Regarding wind power generation, you say that you aim to increase capacity to more than 600,000 kW by FY 2030 with your offshore wind power generation alone. Do you mean that you will exceed 600,000 kW when the projects at the three sites that were explained on the previous page, are completed? Could you give us a specific picture for each project?

A1: We believe that we will exceed 600,000 kW if the target capacity is achieved in three areas: the promotion area, the promising area, and the area considered to have progressed to a certain level of preparations for starting projects. We cannot give specific pictures of the individual projects because our investment ratios compared to our joint venture partners and other details are undetermined and subject to change at this point.

Q2: When will capital expenditures related to offshore wind power generation begin to increase? Are we right in thinking that the investments will not be fully consolidated in the balance sheet?

A2: We plan to begin investing mainly in the next mid-term plan. Within our current assumptions, we believe that full consolidation will not occur.

Q3: The negative impact of the COVID-19 pandemic on earnings in the full year is estimated at -72.0 billion yen. What are the grounds for the estimations for the respective segments? What factors are needed to get onto a path to recovery in the next fiscal year?

A3: It should be assumed that the estimations are not based on rigorous scrutiny because it is difficult to identify the impact of COVID-19. In the Oil E&P segment, estimated to decrease profit by 39.3 billion yen year on year due to the decline in crude oil prices. In the Petrochemical segment, demand did not fully rebound from the effects of COVID-19, and there tended to be excess supply. As a result, estimated to decrease profit by 15.2 billion yen year on year due to price effects. In the Petroleum segment, the influence of improvement in fuel consumption costs reflecting the decline in crude oil prices is estimated to be +11.7 billion yen while the impact of the significant

decline in demand for JET is estimated to be -19.7 billion yen. The impact of the decrease in sales volume of the four major products, mainly demand for gasoline, is estimated to be -9.9 billion yen. While we do not expect a full recovery to happen after the COVID-19 pandemic ceases to impact us, we believe that substantial recovery will be achieved.

Q4: What is your dividend policy? Could you describe it in relation to your financial position targets?

A4: Last year, we increased the dividend with the confidence that we would achieve the financial targets within the remaining period of the mid-term plan. This year, however, results are below assumptions because of the COVID-19 pandemic. We believe that, even in these circumstances, we can achieve the financial targets while keeping the dividend at 80 yen. Regarding priority order, we would like to consider shareholder returns including dividends by assuming that financial targets will be achieved.

Q5: Could you give us a picture of how much you expect to earn from offshore wind power generation with a capacity of 1 million kW to 1.5 million kW in FY2030 and more than 3.0 million kW in the long-term vision?

A5: In a past analyst meeting, I explained that capacity will be approx. 1 million kW in 2030 and our earnings target for the year is 20.0 billion yen. While the competitive conditions have grown fiercer since that time, we still aim to establish a wind power generation business capable of earning 20.0 billion yen around 2030 by reducing costs and taking other measures. While the target of 3.0 million kW partly reflects our desires, it is true that there are a considerable number of pipelines that we have yet to open up at the moment. In addition, we have some projects in which the current approach to power transmission and distribution will not allow us to move into the development phase but which will emerge if the government's approach changes in the future. Therefore, 3.0 million kW is not an outright dream, and we would like to achieve it.

Q6: The oil refining margin in Japan has been steady. What do you think you can do to maintain the current margin?

A6: We believe that *gyotenyoku*, petroleum products that a primary distributor sells without attaching its own brand to it, and channels for *gyotenyoku* have mostly disappeared or been minimized due to a significant change in the structure of distribution. In this environment, our wholesale price has long been accepted. In the past, the wholesale price we offered would be driven down by *gyotenyoku*, but we believe the price has actually been stable under the current structure. Because primary distributors have a similar cost structure, we believe that the wholesale prices they offer will continue to be accepted under the current distribution structure.

Q7: Is it possible that demand in Japan will continue to decline, causing supply and demand to be imbalanced and then conditions will return to what they were unless oil refining capacity is reduced accordingly?

A7: It is possible to supply a surplus from equipment operations in Japan, but we do not think it is a good idea. We believe that we will be driven to stop operating some equipment if exports become unprofitable.

Q8: Regarding the Petrochemical business, you forecast an ordinary loss of 12.5 billion yen for the full year, which we believe is attributed mainly to market conditions. What measures will you take to move into the black or reduce the deficit?

A8: The ethylene and propylene markets have begun to recover. Regarding olefin, we have moved into the black on a single month basis. Aromatics market conditions have been poor for a long time, but there are signs of a slight improvement. Specifically, we have two lines of equipment for aromatic products, which convert naphtha or MX into paraxylene. While we adjust operations in accordance with market conditions, we believe that market recovery is the only fundamental solution and waiting for the recovery is all we can do.

Q9: Previously, regarding shareholder return, you included the statement, "We will increase shareholder return ratio while considering our financial standing." Has the increase of shareholder return been postponed slightly due to the COVID-19 pandemic?

A9: We mentioned before that we would consider shareholder return when the net D/E ratio has fallen below 2.0. We actually increased the dividend to 80 yen when the ratio fell below 2.0. This year, our path toward recovery from COVID-19 has gone more slowly than we imagined. Therefore, we prioritized a quick recovery while keeping shareholder return unchanged. Our original intent was to consider both financial standing and shareholder return. At present, however, we believe that we must prioritize the recovery of financial standing because it has worsened due to COVID-19.

Q10: What political backup do you expect or need regarding wind power generation as the national government promotes renewable energy and decarbonization?

A10: If we are to fully enter offshore wind power generation, we will need to have a very robust financial standing. Recently major players have entered, a bidding system has been introduced. Therefore, we believe the national government will shift to a policy of expanding renewable energy and decarbonization while keeping prices at a certain level. While the government is gradually revising systems in a way that will be advantageous for wind power generation, we would like the national government to take the initiative in infrastructure, including its approach

to grid interconnection, how new entrants should share burdens, and the problem of harbor improvement.

Q11: What is the perceived oil refining margin for the first half compared to the initial plan? Is the perceived level for the second half higher or lower than the initial plan?

A11: The margin for the four major products for the first half is slightly higher than the announced value. The result was slightly better in spite of the estimated negative time lag effect for the first half of 5.0 billion yen. The margin for the four major products for the second half is expected to be on par with the first-half result.

Q12: Are there second or third new businesses beyond offshore wind power generation?

A12: We know we have to identify new businesses. However, we have yet to do so. The conditions right now are conducive to offshore wind power generation, so we would like to start by focusing on it and doing our best.

This Q&A contains forward-looking statements about the plans, strategies and performance of Cosmo Energy Group. These statements include assumptions and judgments that are based on information currently available to us. As such, the actual results may differ from those mentioned herein, due to various factors in the external environment.