

◆ Cosmo Energy Holdings (5021)

First Quarter of Fiscal 2020

- 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 : Aug 14, 2020 (Fri) 6:00 p.m. – 7:00 p.m.
2. Attendees : 75 persons
3. Main questions and answers :

Q1: What is the trend for the oil refining margin in the first quarter results and in July and August in comparison to the plan?

A1: The refining margin has been mostly in line with our expectations. We planned the first quarter results assuming the temporary fall in the oil price that actually occurred. From the second quarter, we expect to be able to ensure an average margin.

Q2: What were the factors behind the postponement of the investment for water flooding in Hail?
Is it an assessment that the oil price fell below the break-even point?

A2: We decided to postpone the investment for water flooding in Hail after comprehensively considering the current cash flow and all other factors, rather than the break-even point for the oil price. We will continue to carefully examine the conditions in our decision making.

Q3: How did the refund for income taxes in the first quarter arise?

A3: While the full-year earnings forecast assumes that profit will be secured, the results before taxes in the first quarter showed a deficit mainly due to inventory valuation. On the assumption of full-year profit, the quarterly settlement was made by refunding taxes. In the process of ensuring profit from the second quarter on, we will post tax expenses corresponding to profit and come to a general tax rate for the full-year results.

Q4: What are the factors behind the price in the Petrochemical Business? What are the prospects for the current fiscal year?

A4: The price was affected mainly by HCP and Maruzen Petrochemical. At Maruzen Petrochemical, the purchase of naphtha was delayed from the previous fiscal year and caused a temporary fall in the margin. Considering that the spread between ethylene and naphtha is improving and Maruzen Petrochemical basically handles most tasks in tandem with costs, we expect that a decent profit

will be made from the second quarter. The paraxylene market is weaker than expected, and overall profit may fall below the amount currently announced.

Q5: What is the outlook for cash flow?

A5: While extremely volatile seasonal factors arise in the first quarter, we believe this is the bottom. In the full year, we expect that the decrease in free cash flow will be reduced to 30 to 40 billion yen. The amount of investment is large in the current fiscal year. Therefore, we expect that the free cash flow will inevitably be negative. The running expenses in the first quarter, however, appear somewhat adverse partly due to special factors such as the quarterly delay and the impact of inventory. We expect this to recover from the second quarter and therefore expect that net D/E ratio for the full year will reach the level as of March 31, 2020, despite the net D/E ratio of 3.09 in the first quarter.

Q6: What is the impact of the negative time lag in the first quarter and will it be recoverable in the future?

A6: I am uncertain whether the term “time lag” is correct based on its definition, but we use it for the difference between loaded and unloaded crude oil we accepted. In general, in June and August, we expect to collect a time lag equivalent to approximately 5 billion yen, including 70% to 80% of the amount not collected between April and June.

Q7: To what level should the oil price recover for you to be able to recover the negative time lag in the first quarter?

A7: It is difficult to answer in terms of oil price because it is affected by the condition of the margin each time.

Q8: What is the reason for the year-on-year decrease of 7.4 percentage points in the SD-based operating ratio?

A8: Contributing factors include some issues and supply-demand adjustment due to a fall in demand for jet fuel.

Q9. How long will you postpone the part of the capital expenditure that you mentioned?

A9: Investments totaling 40 billion yen, including the water flooding of the Hail Oil Field and ERP, will be postponed.

In the FY2020 full-year plan, however, the effect of postponing these investments is not visible. In the plan, we will also accumulate the postponing of medium and small investments to reduce capital expenditure from more than 100 billion yen to below 100 billion yen.

Q10: What are the percentages of base investment and growth investment in the 98.5 billion yen in capital expenditure for FY2020?

A10: Of the investment of approximately 100 billion yen, approximately 40 billion yen will be investments related to the base investment and the remainder will be strategic investments such as the investment to pursue net present value and ERP renewal.

Q11: There was news about high octane. Will it affect your profit and loss?

A11: No situation has been discovered so far that may affect our profit and loss, and there has been no impact on our business plans and sales activities.

Q12: What are the progress and schedule for the offshore wind power project?

A12: The offshore area of Yurihonjo, Akita Prefecture has been designated as a promotion area and is the first target.

Ultimately, the operator will be determined by bidding, and will be selected around next summer at the earliest.

The northwest offshore area of Aomori Prefecture has also been designated as an area with high potential and we are working toward its designation as a promotion area. At the Port of Akita and the Port of Noshiro, construction has already started and is progressing steadily towards the start of operation in 2022.

Q13: What are the factors for the first quarter results being higher or lower than the forecasts in each segment?

A13: We expected the sales volume of four major products, particularly gasoline, in the Petroleum segment to be slightly weak, and the results exceeded the forecast. The sales volume of jet fuel was higher than expected and also contributed to the results. Another positive factor was the time lag. We expect to see a rebound of about 5 billion yen from the second quarter. The plan does not include the time lag, which will be a factor contributing to the full-year results.

In the Petrochemical segment, factors such as market conditions caused the results to fall below the forecast.

In the Oil E&P segment, the oil price will certainly be a factor for exceeding the forecast as a price effect if it remains at 40 dollars.

While the current results are above the forecast, we are keeping the forecasts unchanged at this time partly because future trends in oil prices and sales volumes are uncertain.

Q14: The sales volume of the four major products exceeded that of the previous year. How are the results in comparison to the plan?

A14: The sales volume of the four major products was strong at 105.6% of the plan.

Q15: What are the factors for the high level crude oil production in the Oil E&P segment?

A15: The performance of the existing oil field of Abu Dhabi Oil Company was relatively strong.

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.