

◆ Cosmo Energy Holdings (5021)

Q&A from FY2020 Small Meeting with president

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

1. Date and time: December 14, 2020 (Mon) 04:00 p.m. - 05:00 p.m.
2. Attendees: 21 persons
3. Main questions and answers

Q1: What is your outlook on free cash flow and dividends in the foreseeable future?

A1: We expect that free cash flow will improve substantially in FY2021 and FY2022. We are planning to reduce investment significantly in FY2021 and FY2022.

Earnings can be expected to increase thanks to an upward trend in the oil price and stable domestic market.

We will consider dividend payments taking into account the balance with our financial position and planned investments such as offshore wind power.

Q2: Your target power generation capacity for offshore wind power is approximately 600,000 Kw by FY2030. What is the likelihood of achieving that target and the projected earning level?

A2: While competitors are entering the market now, Cosmo started out earlier. In bidding, not only prices, but qualitative factors are considered, in which we have an advantage. We expect to achieve 600,000 Kw in 2030 by accumulating the projects currently planned. As for earnings, the target of 20 billion yen becomes more realistic if we win the bidding for these projects.

Q3: Prime Minister Suga has set decarbonization as one of the government's goals.

What are your plans for the Petroleum and Oil E&P Businesses?

A3: While it is a complex issue, we project that the future direction is global shrinkage. We expect, however, that the speed of shrinkage will vary among petroleum products. The fall in demand for gasoline, for instance, will be fast while demand for jet fuel will not decrease as quickly. In the oil refining business, the streamlining of refineries will accelerate both in Japan and overseas as demand declines. We expect, meanwhile, that demand for petrochemical products will remain steady and the Petroleum and Petrochemical Businesses will be increasingly integrated. Investments in the Oil E&P Business are globally stagnant due in part to COVID-19. Despite a fall in demand, a trend in which supply becomes tighter and the oil price rises may emerge at some point. The government has set a goal of carbon neutrality by 2050. We will work on the assumption that this trend may accelerate, but will

never slow down.

Q4: How will you maintain the assets of each business segment over the timeframe of the next several decades?

A4: Currently, Cosmo's sales in oil refining exceeds production and its assets are not considered excessive.

As stated in our long-term vision, "Oil & New," we will take early measures not to accumulate excessive assets while reforming our business portfolio. In the oil sales business, while the impact of EVs cannot be estimated, we plan to grow a virtual business using apps and other tools, which does not rely on the assets of service stations.

Q5: As regards offshore wind power, the upper limit of FIT unit price is reportedly 29 yen and earnings are projected to decrease. What are your thoughts about this? In addition, you do not have experience in offshore wind power in Japan. How will you respond to this?

A5: We expect that the government will promote nuclear power and renewable energy in order to achieve carbon neutrality.

Among the renewable energy options, offshore wind power is the most likely candidate, and it will not be promoted with prices that are unviable for business operators.

Although we may be optimistic, we expect that an environment more appropriate for businesses will emerge going forward. As for risks associated with a lack of experience in Japan, we will respond to bidding while relying on knowledge from past cases in Europe to reduce risks.

Q6: The current market prices of petroleum products that are low overseas and high in Japan are supposedly advantageous. What are your plans for the period after the impact of COVID-19 subsidies?

A6: The domestic market is stable based on the structure with the three refiner-marketers and we expect it to remain steady in the coming years. We have been able to achieve high margins despite importing from overseas due to the impact of COVID-19. We expect that the margin will decrease from the current level after the impact of COVID-19 subsidies and the Asian market will remain weaker than the Japanese market for some time, given factors such as the establishment of new refineries.

Q7: What is the approximate size of investment in offshore wind power and what the time required to recoup your investment? Is there a possibility to cash in at an early stage using sale-and-leaseback, etc.

like on-land wind power?

A7: Recouping investment in electric power takes a long time and, in some cases, it cannot be readily posted in the balance sheet. We are not considering full consolidation of the current

projects. While sale-and-leaseback is an option, it is common in Europe to sell the facilities at an early stage and carry out operations only. We are considering various techniques to decide how we will do it.

Q8: How did you run the PDCA cycle of investments in new businesses in the past? What are your criteria for business discontinuation?

A8: We submit investment reviews to the board of directors each year and run the PDCA cycle. Power generation may be our first large investment in a new business. In Petroleum Business, discontinuation is not likely once an investment in refinery equipment has been made. In Oil E&P Business, too, we do not have strong expectations of spinning off the business although it may be feasible with some projects.

Q9: Do you plan to set GHG reduction targets in response to the Japanese government's declaration to achieve carbon neutrality?

A9: We are currently in preparation. The goals for 2040 and 2050 will take into account this policy to an extent, as well as future technological innovation and other factors.

Q10: The government has plans such as the termination of the sale of gasoline-powered automobiles as part of its efforts for carbon neutrality. Will you change your outlook for your financial position and refinery operation?

A10: How we will offset CO₂ is important in achieving carbon neutrality by 2050.

Since petroleum products inevitably discharge CO₂, the impact is not only from gasoline-operated automobiles; it is necessary to consider how we treat our refineries. We expect that demand for gasoline will decline first, and we should take early measures such as integrating leftover gasoline distillates into the Petrochemical Business while monitoring the situation.

As for our financial position, we should operate without damaging the balance sheet.

Q11: Do you have a quantitative indicator for a future increase in dividends?

A11: We are at the stage of developing concepts for the next medium-term plan, and investment in offshore wind power may become our priority. We will discuss the balance with shareholder returns while developing the next medium-term plan.

Q12: What is your thinking about the debt-equity balance in the investment in offshore wind power?

A12: We have a rough idea that approximately 20% will be equity and the rest will be project finance.

Q13: Regarding the abolition of refineries, the gradual shutting down of Cosmo's three refineries will likely be difficult. What are your plans?

A13: We are considering some ideas. Although it is difficult to provide specific answers here, we are examining what we can do while refineries across Japan are gradually shut down in the future.

Q14: What are your thoughts about carbon pricing?

A14: We see two aspects to carbon pricing, namely, carbon tax and emission rights trading. A large amount of tax is paid for petroleum to begin with, and we are interested in what will happen if taxes actually become neutral. In view of investment profitability, we are already making a substantial investment in energy conservation and any additional investment would not be profitable.

Investment profitability may improve once the system of emission rights trading is established, and we are paying attention to the design of the future emission rights trading system.

Q15: What are your plans for service stations amid a fall in demand due to decarbonization and other trends?

A15: We are developing auto-lease and platform businesses. We will distribute timely information by gathering diverse information about customers using apps and other tools, raise Cosmo's brand value in addition to winning the price competition, and seek ways to survive. We believe that it will be easier than other companies to establish our brand due to Cosmo's small size.

Q16: How do you plan to respond to the trend of the hydrogen society?

A16: There are two issues. One is infrastructure development when hydrogen becomes the main fuel in the future. The other is the need for the conversion to green hydrogen that does not discharge CO₂ during the hydrogen refining process. Renewable energy must be developed in order to produce green hydrogen and we want to focus first on wind power as a renewable energy source. We will need to take measures for service station infrastructure after taking steps for green hydrogen.

Q17: You plan to use the knowledge you gained in Europe for offshore wind power. What do you think about European companies entering the market as competitors? Is there a possibility that you will establish an alliance with a European company in the future?

A17: It is difficult for European companies to enter the market independently due to issues unique to Japan such as fishery rights.

We do not expect to win bids without incorporating our knowledge gained in Europe in

some way in the future, which is not limited to the issue of capital.

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.