

◆ Cosmo Energy Holdings (5021)

Full-Year Financial Results for FY2016 - Financial Results Explanatory Meeting  
for Analysts and Investors - 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 : May 12, 2017 (Fri) 10:00 a.m. - 11:00 a.m.
2. Attendees : 107 persons
3. Main questions :

Q1: The ordinary income excluding inventory valuation levels in 4Q of FY2016 in the petroleum business and the oil E&P business were low. How likely is it that the plan can be achieved in FY2017?

A1: The slowdown in the petroleum business in 4Q (Jan to Mar) was caused by the downturn of the margins for the four main products (\*). However, their margins have improved since April.

The income in 4Q (Oct to Dec) in the oil E&P business was also in a slump, which was mainly caused by the shifted periods of sales figures due to ship assignments and therefore did not generate any particular costs. The plan for FY2017 incorporates both the price increase of crude oil (\$50 in FY2017, an increase from \$41 in FY2016) and the start of production at the Hail Oil Field.

(\*) Four main products: gasoline, kerosene, diesel fuel, and heavy fuel oil A

<Oil E&P business>

Q2: Is the development at the Hail Oil Field going smoothly?

A2: The Hail Oil Field is planned to start production around Autumn of 2017, and construction is proceeding smoothly.

Q3: Tell me about the Hail Oil Field's contribution to income.

A3: The income from the Hail project accounts for approximately 20% of the operating income of the oil E&P business (2.6 billion yen). The oil field is planned to start production around autumn of 2017 and operate to full capacity from the beginning of FY2018. In addition, the Hail Oil Field is not predicted to decay immediately after its peak, and is expected to maintain its production volume at a level equivalent to the peak.

Q4: Tell me about the cost saving attempted by Abu Dhabi Oil Company after the start of production at the Hail Oil Field.

A4: Once production starts at the Hail Oil Field, the production volume of Abu Dhabi Oil Company will double. We therefore predict that the unit cost will be able to be reduced significantly, if not by half.

<Petroleum business>

Q5: Tell me about the spread of petroleum products.

A5: The margins for the four main products in FY2016 remained almost unchanged from the previous year, decreased by approximately 1 yen per liter compared with the plan. Their margins in FY2017 are planned to increase by approximately 1 yen per liter. The margins for the four main products are closely correlated to the price of crude oil. Since the mean oil prices of FY2015 and FY2016 were almost at the same level, the margins for the four main products in those years were also at a similar level. The margins for the four main products have remained firm since April 2017. For the other products, the oil price fell in FY2015 and increased in FY2016, which generated time lag effects mainly on naphtha and jet fuel. The margin improvement in the plan for main four products in FY2017 incorporates the effects of the crude oil selection and the IPP power generation fuel switching, but does not incorporate the demand & supply balance improvement effects, etc. caused by the industrial reconstruction and Act on Sophisticated Methods of Energy Supply Structures.

Q6: What volume is traded on the spot markets?

A6: Although transaction prices on the spot markets are reported, transactions are rarely closed. We feel that the business normalization of dealers is in progress.

<Petrochemical business>

Q7: What is behind the assumption that the ethylene - naphtha spread in FY2017 will decrease from FY2016?

A7: In terms of the business environment, the demand for ethylene in FY2016 became firm while supply was tight due to troubles that occurred in parts of Asia. For FY2017, spread level is under that of FY2016 as you see as there is the potential for increasing supply with the introduction of shale-derived new ethane crackers, etc.

Q8: The ordinary income of the respective quarters (Oct. to Dec. and Jan. to Mar.) in the latter half of FY2016 in the petrochemical business was 8 to 10 billion yen. Can I consider this ?

A8: Maruzen Petrochemical Co., Ltd. which conducts both domestic and export sales, enjoys the benefits of good market conditions overseas from exports only. It implemented regular maintenance in the first half of FY2016, which reduced its export volume to export, but it achieved full capacity in the latter half. In FY2017, it is expected to continue to run at full capacity as regular maintenance is not planned. The results should depend on the market conditions.

<Accounting and financial affairs>

Q9: Tell me about the future prospects regarding the improvement of your finances, which is one of your concerns.

A9: It is expected that our net profit in FY2017 will be 20 billion yen and that the net worth ratio for the year

will be improved by approximately 1%. In addition, cash flow from operating activities is expected to be at an equivalent level to that in FY2016.

Q10: Is free cash flow in FY2017 in the red? Can I expect it to move into the black from FY2018 onwards?

A10: Although the free cash flow in FY2017 is almost at the same level as it was in FY2016, it is expected to head for a surplus from FY2018 onwards as of plans to reduce investments drastically.

Accordingly, interest-bearing debt is expected to decrease. In addition, although capital investment in FY2017 include approximately 20 billion yen, which is the amount that was originally planned to be invested in FY2016, interest-bearing debt at the end of FY2017 is expected to be almost on a par with the level at the end of FY2016 as the oil and other petroleum taxes payment that was originally planned to be made in FY2016 is nearly equal to that amount.

Q11: What will the level of capital investments be from FY2018 onwards?

A11: The amount for capital investments from FY2018 onwards is expected to decrease drastically, although it may not decrease by half.

Although we previously stated that peak investment in growth fields would occur in FY2016, the level of capital investment is expected to be almost the same as in FY2016 as some plans are shifted to FY2017 (things go nearly as planned when seen over the span of two years). The latest medium-term plan (from FY2013 to FY2017) promotes investments in growth fields as planned.

Q12: Are there any possibilities that the deferred tax assets can be allocated again in FY2017?

A12: While discussions with the auditing corporation are required, there should be possibilities if the plan proceeds smoothly.

End

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.