

◆ Cosmo Energy Holdings (5021)

Financial Results for Second Quarter of FY 2018

- 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 : November 9, 2018 (Fri) 10:00 a.m. - 11:00 a.m.
2. Attendees : 78 persons
3. Main questions and answers

<Petroleum business>

Q1: What extent have results due to temporary causes such as equipment trouble and pumps trouble at existing oil fields been reflected on the financial results for the second quarter and the full-year earnings forecast?

A1: Because of equipment trouble at the Sakai Refinery, decreases of 4 billion yen and 2.6 billion yen in income for the first half and the second half, respectively, were incorporated. The trouble at the Sakai refinery plant was fully resolved in late October, and it has returned to normal operations. In the oil exploration and production business, although peak production continued according to plan at the Hail Oil Field, production capacity will not recover in the second half as in the first half because of pumps trouble at existing oil fields. Therefore, a profit decrease of about 10 billion yen as compared to the initially announced estimate is forecast due to a fall in production volume on a full-year basis.

Q2: Please provide information about what level of appropriate margin is expected in future.

A2: Because oil prices fluctuate so drastically, it is difficult to say that the current margin is appropriate. However, we expect that the stable margin in the first half will be maintained in the following year.

Q3: Please provide information about the background to the start of allowance for future regular maintenance cost from the second quarter.

A3: Our Company was obligated to conduct regular maintenance at the Chiba Refinery each year because of the past accident at the refinery. However, a two-year long run was approved and a four-year long run has come into sight toward the future. Therefore, on consultation with the auditors, the Company started provisions for levelling future regular maintenance costs. Beginning with the Chiba Refinery, We will record the allowance for regular maintenance costs in order.

Q4: Please provide information about the background of the sales volume for the second quarter, which remained almost unchanged.

A4: Strong sales of individual car leasing business, among other favorable causes, should contribute to securing the sales volume.

Q5: Please provide information about the car leasing business and your future initiative, as well as the reasons what car leasing was able to contribute to securing the sales volume.

A5: The individual car leasing business posted solid growth (120% to 130% year on year). Car leasing is closely linked to TV commercials. Many customers applied for the car leasing service after watching our TV commercials. The car leasing service of the Company is sold as a package with the fuel oil discount and other services. Customers who use the leasing service can enjoy greater advantages by using the Company's SS. Consequently, the Company can secure the sales volume. The cumulative number of cars leased exceeded 50,000 units. We will aim for further growth.

Q6: Please provide information about the specific actions to be taken in relation to equipment for compliance with the IMO regulations in 2020 and the changes in the market situation after the IMO regulations are applied.

A6: For compliance with the IMO regulations, work to increase Delayed Coker Unit capacity at the Sakai Refinery will be conducted. With the increase, we will work on preventing the production of high-sulfur C fuel oil. The Chiba Refinery prepares for flexible actions, either the supply of low-sulfur C fuel oil or raw materials for FCC by using direct desulfurization unit. The changes due to the IMO regulations will be the worsening of the overall market conditions for high-sulfur C fuel oil, and the possibility of increased demand for diesel fuel distillates to be mixed in high-sulfur C fuel oil for compliance with the IMO regulations. For our Company, with a high yield ratio of diesel fuel, a positive impact is likely. Our measures to ensure our equipment complies with the IMO regulations will be completed with the regular maintenance scheduled in 2019. Accordingly, actions for compliance with the IMO regulations will be mostly completed by around the fall of 2019.

<Oil exploration and production business>

Q7: Please provide information about the future course of action. Has the Company considered a project following the Hail Oil Field? Or will the Company change the focus to the “New” part of “Oil & New,” included in the slogan under the current medium-term management plan?

A7: In terms of macro-direction, the Company intends to change focus to the “New” part. At the same time, existing oil fields will decline without exploration. Like the Hail Oil Field, only when oil producing countries propose a project with secure crude reserves and sharing of existing facilities for creating synergies, the Company will consider the acquisition of new concessions.

Q8: I understand that production volume decreased due to pumps trouble at the existing oil fields. Please provide information about the causes for the decrease, the volume, the prospect for recovery and structural issues, if any.

A8: There were more pumps trouble than estimated at existing oil fields, resulting in a decrease in production volume. Of the two rigs which Abu Dhabi Oil Co., Ltd. has, one is used exclusively for exploration of the Hail Oil Field. For stable production of the Hail Oil Field, ten wells are needed. The seventh well is currently being drilled and the remaining wells are expected to all be drilled by the beginning of 2019. After completion of the drilling, the rig will be used for recovery of the existing oil fields. We forecast that the production of the existing oil fields will recover from 2019.

<Petrochemical business>

Q9: Please provide information about the future management strategy for the petrochemical business.

A9: In the short term, we intend to make effective use of the unused distillates of Cosmo Oil Co., Ltd., Maruzen Petrochemical Co., Ltd, and Cosmo Matsuyama Oil Co., Ltd., among other actions, to enhance synergies. However, from a somewhat longer-term perspective, we need to change the focus from petroleum to petrochemical. One future theme will be to what extent gasoline distillates, among others, will be changed into raw materials for petrochemical products.

<Wind Power Generation>

Q10: Please provide information about the pace of capacity increase of the onshore wind power generation business.

A10: The area of land suitable for onshore wind power generation has gradually decreased. However, our Company has a specific plan until 2024. With the progress of the plan, the current capacity of 227,000kW can be expanded into about 500,000kW.

Q11: Please provide information about the current initiatives for offshore wind power generation.

A11: Our group is leading one project and making a partial contribution to two projects. The national government is developing the systems and the external environment is not yet fully established. However, our group is steadily moving forward with a proactive approach.

<Cash flow, shareholder return>

Q12: Please provide information about the forecasts for cash flows for FY2018.

A12: An increase of a little over 100 billion yen in cash flows from operating activities, a decrease of a little less than 100 billion yen in cash flows from investing activities, an increase of 10 billion yen in free cash flow and a decrease of about 10 billion yen in net interest-bearing debt are forecasted.

Q13: Looking at the current plan, it seems that the net DER at the end of FY2018 will be less than two times. Is there a possibility of reconsidering the policy for shareholder returns? Please provide your views as president.

A13: The criteria of net DER of not more than two times is still an important factor in considering shareholder returns. However, shareholder returns will not be decided only based on that indicator. By ascertaining the trends of oil prices and ethylene and other market conditions, we will look at the status of other financial indicators.

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.