◆ Cosmo Energy Holdings (5021)

Financial Results for Third 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 : February 15, 2019 (Fri) 09:30 a.m. - 10:30 a.m.
2. Attendees : 49 persons
3. Main questions and answers

<Petroleum business>

Q1: In the petroleum business, I see total profit from import and export operations down approximately 10 billion yen in the third quarter, mainly due to regular maintenance at the Chiba Refinery and the equipment issue at the Sakai Refinery. Am I correct in understanding that profit will recover in the next year? In addition, you said that you started providing an allowance of the cost for regular maintenance at the Chiba Refinery from this year. Are you also considering the provision of similar allowances for the Sakai and Yokkaichi Refineries?

A1: We are in the process of assessing impacts of next year's import and export operations, taking maintenance patterns into consideration. We do not expect that there will be any more impacts of import and export operations that we experienced this year due to the equipment issue in the Sakai Refinery. In addition, we plan to start providing allowances for the Sakai and Yokkaichi Refineries as we do for the Chiba Refinery, going forward. As far as the next year is concerned, we estimate that maintenance costs including allowances on which we are currently working will remain unchanged from this year's level.

Q2: Please provide your insights on profitability in the fourth quarter (January – March) with respect to the petroleum business.

A2 : We project an increase of 8.1 billion yen in profit (ordinary profit excluding the impact of inventory valuation) from the petroleum business in the fourth quarter (January - March) compared to the third quarter (October - December). We expect that impacts of decreased profit arising from import and export operations will be eliminated primarily due to the recovery of margins and restoration of equipment and subsequent full operation in the Sakai Refinery. The petroleum business generated approximately 3.0 billion yen (ordinary profit excluding the impact of inventory valuation) in the third quarter. We assume that this is mainly due to the impact of time lags that reflect a sharp decline in crude oil prices in the third quarter (October – December). If time lag impacts are eliminated, planned profits for the fourth quarter (January – March) are within reach.

Q3: Please provide your insight on impacts on Cosmo's financial results given by the overseas market situation (Singapore)? How should we assess impacts on refinery operations and domestic market situations?

A3: With respect to domestic and overseas market situations, there are concerns about margin factors domestically due to the increasing difference between domestic and overseas prices. Having said that, given the limited capacity of import infrastructure such as tanks, imported oil products will not have any material impacts on domestic market situations. In addition, margins will continue to be secured to some extent because they are secured on a shipment basis. We are not considering making any adjustments by factoring in overseas market situations, with respect to supply and demand.

<Oil exploration and production business>

Q4: Please provide information about forecasts on the production volume of existing oil fields and the Hail Oil Field for next year.

A4: Pump repair is steadily underway at existing oil fields from January 2019. Even so, we are carefully assessing whether or not production volume will recover as expected in consideration of the delicate aspects of oil fields. Regarding the Hail Oil Field, we are in the process of examining what approach should be adopted to earn returns while also considering the optimization of the total production of the oil field.

Q5: You said that you are working on approaches to earn returns from the perspective of increasing the production of the Hail Oil Field. Specifically, what method are you considering? For example, are you considering stabilizing production on a long-term basis by controlling the production for the moment, or other approaches such as raising return rates by implementing new investments?

A5: As you pointed out, one option is to raise return rates from a long-term perspective by decreasing the current production volume of the Hail Oil Field. In general, production volume declines in many oil fields including the Hail Oil Field, it is necessary to make investments to earn secondary returns. We will work on the possibility of making investments for secondary returns and the timing of thereof, if we decide to make such investments, among other matters, through the end of fiscal 2019.

<Evaluation of improvements in cash flows and financial conditions>

Q6: Please provide information about the status of cash flows (hereafter, "CF") in the third quarter and forecasts on the net DER at the end of fiscal 2018.

A6: In the third quarter, CF from operating activities was almost neutral, while negative 56.0 billion yen was recorded in CF from investing activities. CF from financing activities were positive due to the efforts of making up for negative free CF. CF in the third quarter reflected seasonal factors such as the impact of the New Year's holiday and accumulation of inventories to respond to winter demand. Free CF, which were negative in the third quarter, are expected to be neutral in fiscal 2018 due to CF from operating activities and CF from investing activities achieving a balance. The net DER factoring in subordinated loans is forecast to be approximately two times.

Q7: Please provide your evaluation of improvements in financial conditions.

A7: As far as the Company is concerned, the petroleum business has a significant impact on net profit. Profit, therefore, declined mainly due to the serious impact of a sharp decline in crude oil prices in November and

December. However, such decreases in profits in the current quarter were attributable to the impact of time lags caused by downfall of crude oil prices. Margins on a shipment basis excluding the impact of time lags were higher by slightly more than one yen than the level in the same period of the previous year (April – December). We understand that the structure of sales margins have changed on an industry-wide basis and become more sustainable. Therefore, our insights are that steady progress will be made on improvements in financial conditions even in and after fiscal 2019 towards the achievement of objectives.

<Shareholder return>

Q8: Please provide us with information about shareholder returns, going forward.

A8 : Although we place high priority on improving financial conditions, we will consider our return policy by factoring in the balance between the improvement of financial conditions and shareholder returns. Whether or not the net DER is below two times is an important indicator in terms of assessing the progress on improvements in financial conditions. That said, however, the indicator does not strictly dictate that dividends should never be increased unless and until the ratio falls below two times. We will consider shareholder returns by factoring in improvements in financial conditions in the future as well as the trends of crude oil prices that affect the robustness of capital in terms of the impact of inventory valuation.

<Zero Coupon Convertible Bonds due 2022 (being bonds with stock acquisition rights) >

Q9: I see explanations on the issuance of convertible bonds with the stock acquisition rights (hereinafter, “CB”) from page 58 of the presentation material handouts. Please tell us about any points to which we should pay attention.

A9: The CB issue does not indicate any change in the amount of investment or CF during the medium-term management plan, but a partial change in financing pertaining to CF from financial activities. Full-scale development of offshore wind power generation will be forecasted in the next medium-term management plan. Today we see large companies entering the renewable energy business. The competitive environment is expected to be harsher than the level assumed in the medium-term management plan due to a range of factors, such as the change in the purchase price setting system from feed-in tariff to bidding. Given these environments, we must further improve financial conditions to strengthen business development capabilities going forward, and so decided to issue CB. In addition, the issuance of CB was carried out due to the Company’s lack of capital and also triggered partly by the repayment of subordinated loans.

End