

Aiming for building up the financial strength needed to correspond to changes in the market environment

Director, Senior Executive Officer
In charge of Corporate Communication Dept.,
Accounting Dept., Finance Dept.
Takayuki Uematsu

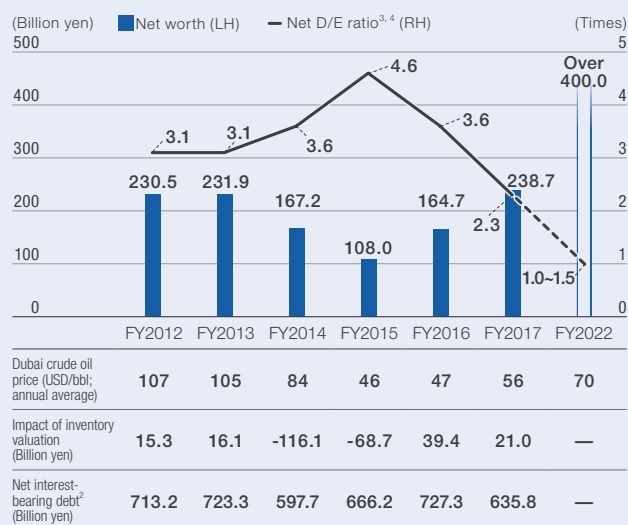
Toward improving financial condition

During the previous consolidated medium-term management plan, our industry's environment was significantly changed due to consolidation, fluctuation in crude oil prices, and other factors. In such an environment, we continued the growth and steadily made the investment needed for enhancing our competitiveness, including the development of the Hail Oil Field, while making those investments with due consideration to maintaining well-balancing financial conditions, on the basis of the previous consolidated medium-term management plan. While our financial condition deteriorated temporarily in FY2014 and FY2015 due to the impact of inventory valuation¹ that stemmed from a decline in crude oil prices, we have achieved significant improvement by FY2017, the final year of the the previous consolidated medium-term management plan, compared to the end of FY2012. We recorded net interest-bearing debt² of ¥635.8 billion and a net debt to equity ratio³ (after partially accounting for hybrid loans⁴) of 2.3 times. The new consolidated medium-term management plan that started in FY2018 has the goal of increasing our earning power and improving our financial condition so as to achieve a level of net worth (over ¥400 billion) that can tide us over changes in the market environment, including changes in crude oil prices. We also intend to strengthen cash management and make highly selective investments, with an eye on the long-term business environment, for early achievement of management goals in the new consolidated medium-term management plan. We are currently improving our financial position faster than

Key points in improving financial strength

- 1 Increase shareholders' equity based on profits
- 2 Strengthen cash management
- 3 Careful selection of investments, with an eye on the long-term environment

Early achievement of management goals



expected when we developed the new consolidated medium-term management plan. We will strive to enhance shareholder returns while considering the balance between progress of the new consolidated medium-term management plan and investment in growth.

Management Goals of New Consolidated Medium-Term Management Plan

	Free cash flow	Net worth (Net worth ratio)	Net D/E Ratio ³ (After partially accounting for Hybrid Loans ⁴)	ROE
Management Goals (FY2022)	Over ¥150 billion (FY 2018 - FY 2022 Five years total)	Over ¥400 billion (Over 20%)	1.0-1.5 times	Over 10%

1. See pages 25 and 26 on the impact of inventory valuation.

2. Total interest-bearing debts net of cash and deposits etc. as of the end of the period

3. One of indicators to measure a company's financial soundness. Measured by dividing Net interest bearing debts by Shareholders' equity. A lower ratio generally means that a company is financially sounder.

4. Calculated on the basis that 50% of ¥60 billion Hybrid Loan made on April 1, 2015 is included in Equity.



Cash balance and use of funds

During the years from FY2018 to FY2022, we will carry out growth investment and ensure payment of shareholder returns while giving high priority to its balance with the financial position of the company.

We plan to generate incoming cash of ¥535.0 billion by combining profit attributable to owners of parent and depreciation, etc. and expect free cash flow (cumulative of five years) of ¥175.0 billion during the new consolidated medium-term management plan.

Regarding our investment plan, we plan to proactively allocate approximately 40% of the total investment to increase competitiveness and for growth. Specifically, we will invest to increase the capacity of our Delayed Coker unit at Sakai Refinery, increase added value of petrochemical products, and discover business opportunities and guide efforts pointed toward the next growth stage, including development of offshore wind power sites.

The new consolidated medium-term management plan incorporates investment of around ¥450.0 billion in total but use of sale and leaseback* and other means is expected to reduce the net investment amount to ¥360.0 billion (cumulative of five years), down 22% from the previous consolidated medium-term management plan.

- Actively use approximately 40% of the total investment for an increase in competitiveness and growth investment.
- The net amount of investment is down 22% from the previous consolidated medium-term management plan.
- Expand business by using means that will not impair the balance sheet, such as sale and leaseback*.

* Method of financial transaction in which one sells a facility, such as a wind farm, and leases it back.

Shareholder return policy

We recognize shareholder returns as one of the important management priorities. Given our history of no dividend payment in some years, we have adopted the principle of making stable dividend payments and aim for further returns to shareholders while considering the balance between our progress toward management goals and growth investment.

Cash Balance and Use of Funds(FY2018-FY2022)

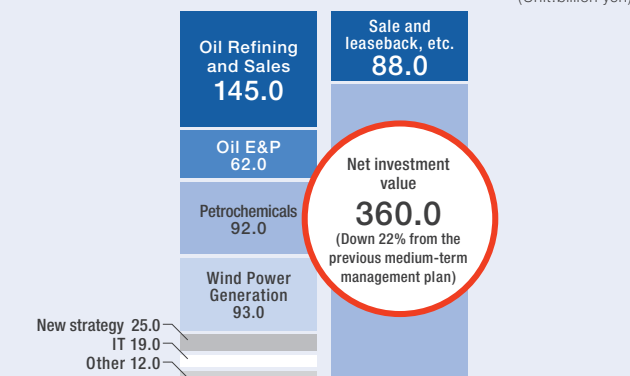
(Unit: billion yen)



* Strategic investment is net amount reflecting sale and leaseback etc.

Investment Plan(FY2018-FY2022)

(Unit: billion yen)



Dividends per share

(Yen)

FY2014	FY2015	FY2016	FY2017	FY2018 (Plan)
0	40	50	50	50