

Financial Strategy and Financial Report

Given that the medium-term management plan was achieved ahead of schedule, we aim for a higher level in both execution of growth strategy and provision of shareholder returns.

Representative Director, Senior Managing Executive Officer
In charge of Sustainability Initiative Dept., Accounting Dept. and Finance Dept.

Takayuki Uematsu

Financial targets under the medium-term management plan achieved earlier than planned

Under the Sixth Consolidated Medium-Term Management Plan (the sixth management plan) for the five-year period from FY2018, we have been working under the policy of strengthening our financial foundation by increasing the profitability of Oil E&P and oil refining businesses while also improving the business portfolio for subsequent growth in view of the long-term direction. As financial targets, we set a number of financial indicators, aiming to increase net worth to a level that allows us to endure environmental changes in the market and achieve a net D/E ratio of 1.0-1.5 times as soon as possible, by strengthening of profitability and improving our financial condition.

In FY2021, which is the fourth year, ordinary profit excluding the impact of inventory valuation was ¥160.8 billion, and profit attributable to owners of parent was ¥138.9 billion, both record highs, mainly due to the improved margin reflecting rising crude oil prices and high operating rates maintained at our refineries. In addition, improvements to our financial situation made progress thanks to the significant improvement of profitability, resulting in net worth at ¥456.2 billion (net worth ratio: 23.5%) and net D/E ratio at 1.04. We were able to achieve all financial targets under the sixth management plan, which include free cash flow and ROE in addition to the above, a year earlier than planned. While this is attributable in part to

rising crude oil prices as an external factor, the Group's short position strategy and high operating rates maintained at refineries led to the result, which I evaluate highly. In FY2022, the final year under the sixth management plan, we expect both ordinary profit excluding the impact of inventory valuation and profit attributable to owners of parent to decline year on year, due in part to resolution of the positive time lag that was generated in the Petroleum Business in the previous fiscal year. While the external environment involves uncertain factors, such as U.S. FRB's interest rate hike and the Russian invasion of Ukraine, we aim to surely achieve the full-year targets that we announced in May.

Increasing shareholder returns

I believe that we have reached a level that enables us to provide a certain amount of shareholder returns because the improvement of our financial situation has made progress, as well as because our profitability was strengthened mainly in the Petroleum Business due to the steady implementation of measures set under the sixth management plan. Reflecting this, in FY2022, we will further increase shareholder returns to move to the next stage.

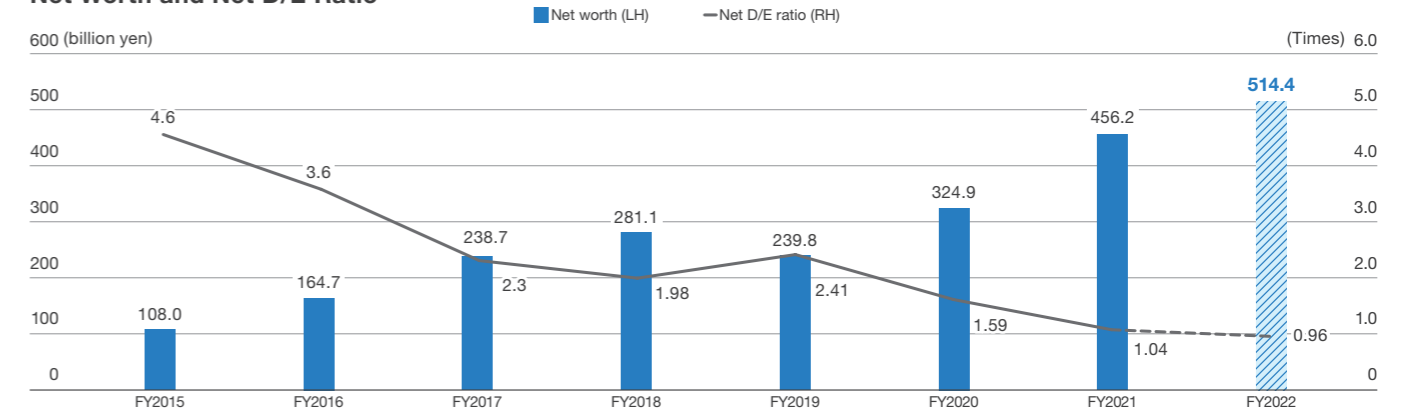
Specifically, we have set a target of shareholder returns at 50% of net profit, excluding the impact of inventory valuation. Regarding dividends, we will increase the amount by ¥50 per year, to ¥150 per share. We will also implement the Group's

Summary of Consolidated Financial Results

(billion yen)	FY2021 results	FY2020 results	Changes	FY2022 forecasts	Changes
Ordinary profit (excluding the impact of inventory valuation)	160.8	76.6	84.2	155.0	- 5.8
Profit attributable to owners of the parent	138.9	85.9	53.0	93.0	- 45.9
Net worth	456.2	324.9	131.3	514.4	58.2
Net worth ratio (%)	23.5	19.0	4.5	25.7	2.2
Net D/E ratio (times)	1.04 [*]	1.59 [*]	- 0.55	0.96	- 0.08

^{*}Concerning the ¥30 billion hybrid loan made on March 31, 2020, 50% of this loan is included in Equity.

Net Worth and Net D/E Ratio



first share repurchases of ¥20.0 billion*. From FY2023 onward, we will maintain the above level of shareholder returns as the base. We plan to announce a specific shareholder return policy in the next medium-term management plan.

^{*}Completed on July 6, 2022

Fund procurement for achieving a transition strategy

At the Cosmo Energy Group, in May 2022 we disclosed our roadmap for achieving net zero carbon emissions by 2050. We will begin considering specific climate change initiatives and the direction of investments. Going forward, we will need to consider large-scale investments in the offshore wind power generation business and other areas as one of transition strategies toward a long-term sustainable society. In this process, we aim to diversify funding sources further to prepare for global moves to achieve carbon neutrality. At the Cosmo Energy Group, we will continue to procure short-term funds indirectly from financial institutions and directly by issuing commercial paper. For long-term funds, we will consider direct procurement by issuing corporate bonds, in addition to direct procurement from financial institutions. At the same time, we would like to continue considering the possibility of ESG financing.

We will also strive to improve our financial situation further and achieve a higher rating, so as to diversify funding sources. The Cosmo Energy Group's rating was improved to BBB+ last

Increasing shareholder returns

Annual dividend per share			Share repurchases [*]
FY2022 forecast	FY2021 result	YoY change	
¥150	¥100	¥50	¥20 billion

^{*}Completed on July 6, 2022

year. However, ratings of our peers in the industry are A or higher. We believe acquiring and maintaining a rating of A or higher is essential from the viewpoint of flexible funding. In addition, we understand it is necessary to increase net worth to a certain level, partly because we posted an inventory valuation loss of around ¥200 billion when crude oil prices dropped significantly in the past. We will consider the appropriate level of net worth in time with the formulation of the next medium-term management plan.

To our valued stakeholders

At the Cosmo Energy Group, our priority tasks have been improving profitability and strengthening our financial foundation. I believe that, due to the implementation of strategy under the sixth management plan in addition to the fruits of measures taken in the past, we have established a framework that enables us to achieve a higher level in both execution of our growth strategy and the provision of shareholder returns.

Further, in light of the recent global moves to achieve carbon neutrality, we would like to produce a new management plan featuring integration of financial and non-financial aspects and announce it as the next medium-term management plan.

We hope to deepen engagement with stakeholders further, so as to achieve medium- to long-term growth in an environment with declining domestic demand for oil. I would like to ask for your continued support.

Financial Strategy and Financial Report

Business Results & Forecast, Cash Flow Situation, and Analysis of Financial Position

Summary of Consolidated Profit

FY2021 Results

In FY2021, ordinary profit increased ¥135.7 billion year on year, to ¥233.1 billion, and net profit attributable to owners of parent increased ¥53.0 billion year on year, to ¥138.9 billion. Actual ordinary profit excluding the impact of inventory valuation increased by ¥84.2 billion to ¥160.8 billion.

Concerning the segment breakdown of ordinary profit excluding the impact of inventory valuation, the profit of the Petroleum Business was ¥93.2 billion, up ¥39.9 billion year on year. This primarily reflects the improved margin, reflecting the positive time lag associated with rising crude oil prices, high operating rates maintained at our refineries, and an increase in the sales volumes of the four major products. Profit from the Petrochemical Business increased ¥16.9 billion year on year, to ¥13.6 billion thanks to improvements in the market for benzene and the absence of the impact of regular maintenance at Maruzen Petrochemical and the postponed receipt of naphtha, which existed in the previous fiscal year. Profit in the Oil E&P Business increased ¥30.9 billion year on year, to ¥44.8 billion, due to the rise in crude oil prices, which offset a decrease in sales volume. In the Renewable Energy Business, operating profit decreased ¥0.6 billion year on year to ¥3.5 billion due to generation of upfront cost associated with Cosmo Eco Power's development of the offshore wind power generation facilities.

Forecasts for FY2022

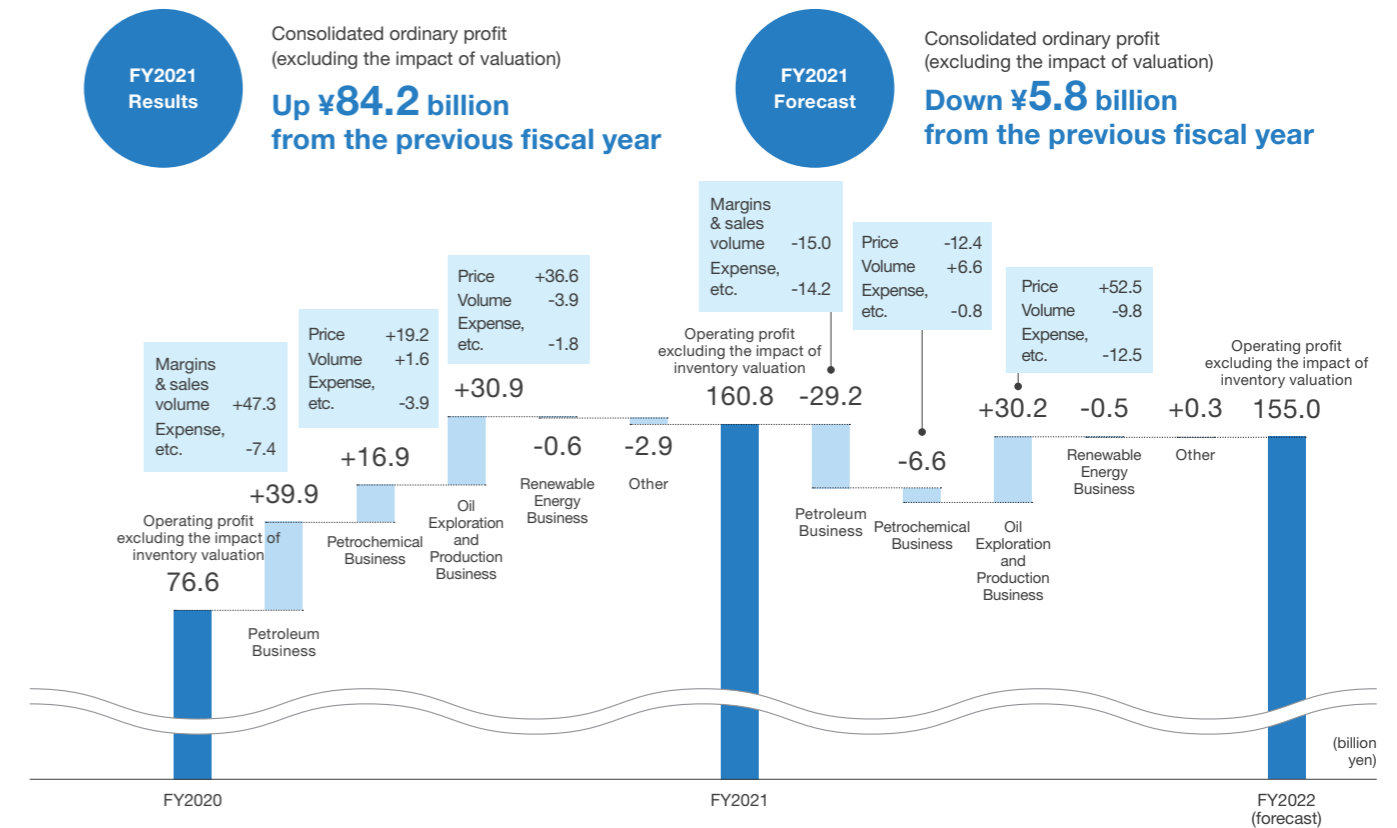
In FY2022, ordinary profit is forecast to be ¥190.0 billion, down ¥43.1 billion from FY2021, and profit attributable to owners of parent is expected to be ¥93.0 billion, down ¥45.9 billion year on year. Real ordinary profit excluding the impact of inventory valuation is expected to be ¥155.0 billion, down ¥5.8 billion from the previous fiscal year.

As for the segment breakdown of ordinary profit excluding the impact of inventory valuation, Petroleum Business profit is expected to decrease ¥29.2 billion year on year, to ¥64.0 billion, partly because profit will decrease chiefly due to the absence of the positive time lag effects in the previous fiscal year and an increase in in-house fuel costs resulting from an increase in crude oil prices while earnings from JET and products other than the four major products are likely to increase due to the improvement of overseas market conditions. Profit from the Petrochemical Business is expected to decrease ¥6.6 billion year on year, to ¥7.0 billion, due to the deterioration of the market prices of petrochemicals, such as benzene, while the sales volume of Maruzen Petrochemical will increase because of the elimination of the impact of regular maintenance that occurred in the previous fiscal year. In the Oil E&P Business, we expect profit to increase ¥30.2 billion year on year to ¥75.0 billion due to the rise of crude oil prices. In the Renewable Energy Business, operating profit is expected to decrease ¥0.5 billion year on year to ¥3.0 billion, due to generation of upfront cost, including labor expenses, which is associated with Cosmo Eco Power's full-scale development of the offshore wind power generation facilities.

Outline of consolidated statement of income (YOY comparison)

(billion yen)	FY2021	Changes	FY2022 Forecast	Changes
Net sales	2,440.5	207.2	2,930.0	489.5
Operating profit	235.3	134.0	193.0	-42.3
Ordinary profit	233.1	135.7	190.0	-43.1
Inventory impact	72.3	51.5	35.0	-37.3
Ordinary profit (excluding the impact of inventory valuation)	160.8	84.2	155.0	-5.8
Petroleum	93.2	39.9	64.0	-29.2
Petrochemical	13.6	16.9	7.0	-6.6
Oil exploration and production	44.8	30.9	75.0	30.2
Renewable Energy Business	3.5	-0.6	3.0	-0.5
Other	5.7	-2.9	6.0	0.3
Profit attributable to owners of parent	138.9	53.0	93.0	-45.9
Dubai crude oil price (US\$/barrel, April to March)	78	33	100	22
Foreign exchange rate (¥/US\$, April to March)	112	6	125	13
For reference				
Dubai crude oil price (US\$/barrel, Jan. to Dec.)	69	27	95	26
Foreign exchange rate (¥/US\$, Jan. to Dec.)	110	3	123	13

*Dubai crude oil price in Nov. 2021 to Oct. 2022



Outline of Consolidated Cash Flows and Consolidated Balance Sheet

Financial Position

In FY2021, free cash flow decreased from the previous fiscal year because cash flows from operating activities declined because of an increase in inventory, although negative cash flow from investing activities decreased.

Regarding financial indicators, net worth, net worth ratio, and net D/E ratio improved significantly from FY2020 due in part to the posting of profit attributable to owners of parent. Above all, the net D/E ratio improved significantly by 0.55 points from 1.59 in the previous fiscal year to 1.04. Thus, the target net D/E ratio in the sixth management plan, which is 1.0-1.5, was achieved one year earlier than planned.

In FY2022, it is forecast that net D/E ratio will continue to be improved as in the previous fiscal year, and net worth will also increase.

Consolidated Cash Flows

(billion yen)	FY2020	FY2021
Cash flows from operating activities (1)	167.4	108.4
Cash flows from investing activities (2)	-84.6	-67.5
Free cash flow (1+2)	82.8	40.9
Cash flows from financing activities	-80.6	-42.0
Cash and cash equivalents at end of the period	44.5	48.1

Consolidated Balance Sheet

(billion yen)	Mar. 31, 2021	Mar. 31, 2022	Changes
Total assets	1,709.0	1,938.4	229.4
Net assets	449.1	584.0	134.9
Net worth	324.9	456.2	131.3
Net worth ratio	19.0	23.5	4.5
Net interest-bearing debt ^{*1}	556.4	503.3	-53.1
Net debt-to-equity ratio (times) ^{*2}	1.59	1.04	-0.55

*1 Total interest-bearing debts net of cash and deposits, etc. as of the end of the period
*2 Calculated on the basis that 50% of the ¥30 billion Hybrid Loan made on March 31, 2020, is included in equity.