

Highlights of Oil Distributors' Financial Results for Fiscal Year Ended March 2022

The following are Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the fiscal year ended March 2022 (FY2021) and earnings forecasts for FY2022 of the following three companies (the "Three Companies"): Idemitsu Kosan Co., Ltd. ("Idemitsu Kosan") (security code: 5019), ENEOS Holdings, Inc. ("ENEOS HD") (security code: 5020) and Cosmo Energy Holdings Co., Ltd. ("Cosmo Energy HD") (security code: 5021).

1. Industry Trend

Dubai crude oil prices in FY2021 were USD 78 per barrel, up by USD 33 compared to FY2020. On the back of economic activities recovering around the world, the crude oil prices rose from the beginning of the period, exceeding USD 80 in October 2021 for the first time in seven years. Although the prices fell to the USD 70 range in November and December due to the tapping of strategic oil reserves by the U.S. and other countries and concern about expansion of omicron strain, they have been on a rise again since January 2022. Partly because of Russia's invasion in Ukraine, the prices hit an eight-year high of USD 113 in March 2022. Since economic sanctions on Russia are unlikely to end in a short period, the crude oil prices seem to continue to be subject to an upward pressure going forward. Also, COVID-19 pandemic situations such as the spread of variants and geopolitical risks in the Middle East, among others, are assumed to have impacts on the crude oil prices.

Although domestic demand for petroleum products has been on a long-term downward trend, demand in FY2021 turned around from FY2020 due to a rebound from the falls under the pandemic. According to Petroleum Statistics by the Ministry of Economy, Trade and Industry, the total sales volume of domestic fuel oil in FY2021 was 153.48 million kl, slightly up 1.0% year on year. The sales volume of jet fuel increased to 3.31 million kl, up 21.2% year on year, but gasoline continued to decline to 44.50 million kl, down 2.2% year on year. In FY2022, domestic demand for petroleum products is expected to basically remain the same as the previous period. However, the long-term downward trend will remain unchanged, and the pace of demand decline may accelerate for the purpose of realizing carbon neutrality.

In FY2021, the reduction of crude oil processing capacity at domestic refineries has not progressed, but the Three Companies continued operations with an emphasis on securing margins. As a result, the average operation rate of domestic refineries seems to have stayed within the 70% range, following FY2020. Meanwhile, Cosmo Energy HD's refinery operation rate was kept above 90%, higher than the other companies, partly due to the effect of starting to offer oil to KYGNUS SEKIYU K.K. from FY2019.

2. Financial Results

Total operating income of the Three Companies for FY2021 (Gross Profit less SG & A Expenses is used only for ENEOS HD, the same applies hereafter) significantly improved to 1,380.5 billion yen (2.6 times year on year) (Chart 1). The main reasons of the income increase were improvements in the following factors: profits of the oil exploration business due to rises in crude oil prices; and margins for petroleum products thanks to ameliorating inventory valuation effect and positive time lag effects. Even the total operating income excluding inventory valuation effect of the Three Companies for FY2021 was 704.7 billion yen (up 54.8% year on year), an increase for the second consecutive period.

By segment, the Three Companies saw income improvement in almost all segments. The petrochemicals segment achieved an income increase mainly because of rising product market conditions. Resource segments other than petroleum, including ENEOS HD's metal business and Idemitsu Kosan's coal business, achieved a significant income increase due to surging resource prices.

On the financial front, the Three Companies' total interest-bearing debt increased due to expanded working capital, etc. On the other hand, their total equity capital (equity attributable to owners of the parent for ENEOS HD, the same applies hereafter) significantly increased in tandem with an increase in net profit, exceeding increases in the interest-bearing debt. As a result, at the end of FY2021, DER based on the Three Companies' total equity capital and interest-bearing debt (after evaluation of the equity content of ENEOS HD's subordinated bonds and Cosmo Energy HD's subordinated loans for both figures, the

same applies hereafter) stood at 0.9x, slightly improved from 1.0x at end-FY2020 (Chart 2). FY2021 interest-bearing debt/EBITDA ratio based on their total EBITDA and interest-bearing debt excluding inventory valuation effect in FY2021 was 3.6x, improved from 4.1x in FY2020.

3. Highlights for Rating

For FY2022, all the Three Companies expect a decrease both in operating income (IFRS for ENEOS HD, the same applies hereafter) and operating income excluding inventory valuation effect. The income decreases will likely be caused by the following factors: the end of positive time lag that contributed to an income increase in FY2021 and a decrease in inventory valuation effect in the petroleum products business; and the divestment of part of oversea resource interests by ENEOS HD and Idemitsu Kosan in FY2021. That said, because domestic petroleum products' margins excluding time lag effect are stable and crude oil prices are expected to remain high, the Three Companies' earnings will stay solid, in JCR's view.

Crude oil prices will continue to be a fluctuating factor for their FY2022 business performance forecasts. For FY2022, ENEOS HD assumes Dubai crude oil prices as USD 90 per barrel and Idemitsu Kosan and Cosmo Energy HD as USD100, up by USD 12 and USD 22 from FY2021, respectively. In April and May 2022, they were around above USD 100, but crude oil prices have originally been volatile and are assumed to continue to fluctuate with various factors. In addition to demand trend, attention should be paid to the impacts of situation in Ukraine, coordinated production cuts by OPEC members and non-OPEC oil-producing countries, geopolitical risks in oil-producing countries, and other factors on supply.

The Three Companies' equity capital is expected to increase in FY2022 as well thanks to profit accumulation. Meanwhile, all of them plan to increase capital investments and investments/loans in comparison to those in FY2021, and intend to expand shareholder returns including share buy-backs. For this, the pace of their financial improvement is expected to remain slow. In addition, as the speed of financial improvement at each company differs, the degree of improvement might vary. JCR will confirm the progress in each company's financial improvement and incorporate it into ratings.

Hiroyuki Chikusa, Masayoshi Mizukawa

(Chart 1) Financial Results of Oil Distributors

(JPY 100 mn, %)

| Fiscal Period | | Net Sales | Operating Income | Ordinary Income | Net Income Attributable to Owners of the Parent | Inventory Valuation Effect | Operating Income less Inventory Valuation | Net Income/ Net Sales |
|------------------------------|---------|-----------|-----------------------------------|------------------|---|-----------------------------|--|-----------------------|
| Idemitsu Kosan (5019) | FY2020 | 45,566 | 1,400 | 1,083 | 349 | 75 | 1,325 | 0.8 |
| | FY2021 | 66,867 | 4,344 | 4,592 | 2,794 | 2,322 | 2,012 | 4.2 |
| | FY2022F | 86,000 | 1,900 | 2,100 | 1,650 | 500 | 1,400 | 1.9 |
| Cosmo Energy HD (5021) | FY2020 | 22,332 | 1,012 | 973 | 859 | 208 | 804 | 3.8 |
| | FY2021 | 24,404 | 2,353 | 2,330 | 1,388 | 723 | 1,630 | 5.7 |
| | FY2022F | 29,300 | 1,930 | 1,900 | 930 | 350 | 1,580 | 3.2 |
| Fiscal Period | | Net Sales | Gross Profit less SG & A Expenses | Operating Income | Profit Attributable to Owners of the Parent | Inventory Valuation Effect | Operating Income less Inventory Valuation | Net Income/ Net Sales |
| ENEOS HD (5020) | FY2020 | 76,580 | 2,809 | 2,541 | 1,139 | 387 | 2,154 | 1.5 |
| | FY2021 | 109,217 | 7,107 | 7,859 | 5,371 | 3,703 | 4,156 | 4.9 |
| | FY2022F | 128,000 | N.A. | 3,400 | 1,700 | 0 | 3,400 | 1.3 |
| Fiscal Period | | Net Sales | Operating Income | — | Net Income | Inventory Valuation Effects | Operating Income less Inv. Valuation Effects | Net Income/ Net Sales |
| Total of the Three Companies | FY2020 | 144,478 | 5,223 | — | 2,348 | 670 | 4,553 | 1.6 |
| | FY2021 | 200,489 | 13,805 | — | 9,555 | 6,758 | 7,047 | 4.8 |
| | FY2022F | 243,300 | N.A. | — | 4,280 | 850 | N.A. | 1.8 |

(Source: Prepared by JCR based on financial materials of above companies)

Notes:

- Figures for FY2022 are forecasts announced by each company.
- Figures for ENEOS HD are based on IFRS.
- Gross Profit less SG & A Expenses is used only for ENEOS HD in Total of the Three Companies' Operating Income.
- Total of the Three Companies' Net Income is a sum of Net Income Attributable to Owners of the Parent under Japanese GAAP, and that of Profit Attributable to Owners of the Parent under IFRS.

(Chart 2) Financial Conditions of Oil Distributors

(JPY 100 mn, times, %)

| Fiscal Period | | Equity Capital | Interest-bearing Debt | DER | EBITDA less Inventory Valuation | Interest-bearing Debt/ EBITDA less Inventory Valuation | Operating Cash Flow | Investing Cash Flow |
|------------------------------|--------|---|-----------------------|-----|---------------------------------|--|---------------------|---------------------|
| Idemitsu Kosan (5019) | FY2019 | 11,500 | 13,036 | 1.1 | 2,043 | 6.4 | ▲ 327 | ▲ 1,344 |
| | FY2020 | 11,509 | 12,797 | 1.1 | 2,545 | 5.0 | 1,704 | ▲ 1,098 |
| | FY2021 | 14,121 | 13,368 | 0.9 | 3,288 | 4.1 | 1,461 | ▲ 1,116 |
| Cosmo Energy HD (5021) | FY2019 | 2,547 | 6,663 | 2.6 | 1,173 | 5.7 | 1,117 | ▲ 842 |
| | FY2020 | 3,399 | 5,943 | 1.7 | 1,351 | 4.4 | 1,674 | ▲ 845 |
| | FY2021 | 4,712 | 5,686 | 1.2 | 2,179 | 2.6 | 1,083 | ▲ 675 |
| Fiscal Period | | Equity Attributable to Owners of the Parent | Interest-bearing Debt | DER | EBITDA less Inventory Valuation | Interest-bearing Debt/ EBITDA less Inventory Valuation | Operating Cash Flow | Investing Cash Flow |
| ENEOS HD (5020) | FY2019 | 23,110 | 23,008 | 1.0 | 4,853 | 4.7 | 5,107 | ▲ 3,713 |
| | FY2020 | 23,251 | 20,369 | 0.9 | 5,756 | 3.5 | 6,790 | ▲ 3,067 |
| | FY2021 | 30,107 | 25,854 | 0.9 | 6,871 | 3.8 | 2,095 | ▲ 3,499 |
| Fiscal Period | | Equity Capital | Interest-bearing Debt | DER | EBITDA less Inventory Valuation | Interest-bearing Debt/ EBITDA less Inventory Valuation | Operating Cash Flow | Investing Cash Flow |
| Total of the Three Companies | FY2019 | 37,158 | 42,708 | 1.1 | 8,070 | 5.3 | 5,897 | ▲ 5,900 |
| | FY2020 | 38,159 | 39,110 | 1.0 | 9,652 | 4.1 | 10,170 | ▲ 5,012 |
| | FY2021 | 48,940 | 44,909 | 0.9 | 12,339 | 3.6 | 4,639 | ▲ 5,290 |

(Source: Prepared by JCR based on financial materials of above companies)

Notes:

- Interest-bearing Debt is a sum of corporate bonds and borrowings for ENEOS HD, and a sum of borrowings, corporate bonds, and CP for Idemitsu Kosan and Cosmo Energy HD.
- ENEOS HD's Equity Attributable to Owners of the Parent and Interest-bearing Debt for FY2021 are amounts after evaluation of subordinated bonds' equity content.
- Cosmo Energy HD's Equity Capital and Interest-bearing Debt are amounts after evaluation of subordinated loans' equity content.
- Total of the Three Companies' Equity Capital is a sum of Shareholders' Equity under Japanese GAAP, and that of Equity Attributable to Owners of the Parent under IFRS.

<Reference>

Issuer: Idemitsu Kosan Co., Ltd.

Long-term Issuer Rating: A+ Outlook: Stable

Issuer: ENEOS Holdings, Inc.

Long-term Issuer Rating: AA- Outlook: Stable

Issuer: Cosmo Energy Holdings Co., Ltd.

Long-term Issuer Rating: BBB+ Outlook: Stable

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