



KPMG AZSA LLC
OTEMACHI FINANCIAL CITY South Tower
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September 28, 2022

Mr. Yoshimasa Hatake
General Manager, Finance Dept.
COSMO ENERGY HOLDINGS COMPANY, LIMITED
1-1-1, Shibaura, Minato-ku, Tokyo, Japan

Dear Sir:

Enclosed please find the English translation of the Japanese language Consolidated Financial Statements of COSMO ENERGY HOLDINGS COMPANY, LIMITED as at March 31, 2022 and for the year then ended together with the English translation of our Japanese language Independent Auditor's Report dated June 23, 2022. The Japanese original is included in the 7th Annual Securities Report of COSMO ENERGY HOLDINGS COMPANY, LIMITED filed with the director-general of the Kanto Finance Bureau in Japan in accordance with the Financial Instruments and Exchange Act.

We understand that the translated Consolidated Financial Statements together with the translated Independent Auditor's Report will be submitted to the Singapore Exchange Limited (SGX) and following companies as part of the necessary documents required by SGX related to Zero Coupon Convertible Bonds due 2022 on the SGX.

- Mizuho International plc
- Mizuho Trust & Banking (Luxembourg) S.A.
- The Law Debenture Corporation p.l.c.

The translated Consolidated Financial Statements together with the translated Independent Auditor's Report should not be used for any other purposes.

Very truly yours,

KPMG AZSA LLC

By Kyoko Shiga, Partner



Consolidated Financial Statements

COSMO ENERGY HOLDINGS COMPANY, LIMITED
and its subsidiaries

For the Year ended March 31, 2022
Together with Independent
Auditors' Report

KPMG AZSA LLC
September 2022

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The English translation included in this document has been agreed between COSMO ENERGY HOLDINGS COMPANY, LIMITED and KPMG, and KPMG is not responsible for any third party to whom this document is disclosed.

Consolidated Financial Statements

(i) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
ASSETS		
Current assets		
Cash and deposits	*4 52,972	*4 80,328
Notes and accounts receivable - trade	*4 234,635	—
Notes receivable - trade	—	2,635
Accounts receivable - trade	—	*4 280,050
Merchandise and finished goods	122,152	166,942
Work in process	351	58
Raw materials and supplies	126,923	209,023
Accounts receivable - other	46,143	66,055
Other	*4 22,746	*4 62,928
Allowance for doubtful accounts	(116)	(40)
Total current assets	605,808	867,983
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	*4 244,331	241,907
Oil tanks, net	*5 35,781	*5 35,755
Machinery, equipment and vehicles, net	*5 208,999	*5 200,511
Land	*4,*6 315,483	*4,*6 315,353
Leased assets, net	737	2,384
Construction in progress	*5 50,295	*5 40,105
Other, net	9,803	10,598
Total property, plant and equipment	*1 865,433	*1 846,616
Intangible assets		
Software	10,557	11,102
Other	33,785	33,083
Total intangible assets	44,343	44,185
Investments and other assets		
Investment securities	*2,*4 122,402	*2,*4 118,719
Long-term loans receivable	1,030	802
Long-term prepaid expenses	3,169	2,953
Net defined benefit asset	5,471	5,081
Costs recoverable under production sharing	13,018	1,322
Deferred tax assets	40,287	42,858
Other	8,234	8,126
Allowance for doubtful accounts	(310)	(298)
Total investments and other assets	193,303	179,566
Total non-current assets	1,103,080	1,070,369
Deferred assets		
Bond issuance cost	128	56
Total deferred assets	128	56
Total assets	1,709,017	1,938,408

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	266,695	325,780
Short-term loans payable	*4,*7 175,692	*4,*7 195,485
Current portion of bonds payable	17,700	—
Current portion of convertible bonds with share acquisition rights	—	60,000
Commercial paper	37,200	82,300
Accounts payable - other	92,953	102,254
Accrued gasoline taxes	108,368	84,457
Income taxes payable	11,030	33,457
Accrued expenses	*4 4,415	*4 3,434
Provision for bonuses	6,348	8,926
Provision for directors' bonuses	352	867
Other	31,732	57,713
Total current liabilities	752,488	954,675
Non-current liabilities		
Bonds payable	3,000	3,000
Convertible bonds with share acquisition rights	60,000	—
Long-term loans payable	*4,*7 315,759	*4,*7 242,873
Deferred tax liabilities	35,415	40,801
Deferred tax liabilities for land revaluation	*6 5,100	*6 5,107
Provision for special repairs	27,001	37,560
Provision for environmental measures	866	864
Net defined benefit liability	2,992	2,879
Provision for executive remuneration BIP trust	847	1,360
Asset retirement obligations	19,993	22,621
Other	36,431	42,690
Total non-current liabilities	507,408	399,761
Total liabilities	1,259,897	1,354,437
NET ASSETS		
Shareholders' equity		
Capital stock	40,000	40,000
Capital surplus	82,843	82,843
Retained earnings	211,977	343,377
Treasury stock	(2,019)	(1,902)
Total shareholders' equity	332,802	464,318
Accumulated other comprehensive income		
Unrealized gains or losses on available-for-sale securities	4,938	4,610
Deferred gains or losses on hedges	(85)	(536)
Revaluation reserve for land	*6 (21,123)	*6 (21,139)
Foreign currency translation adjustments	5,873	7,691
Remeasurements of defined benefit plans	2,540	1,255
Total accumulated other comprehensive income	(7,855)	(8,118)
Non-controlling interests	124,173	127,771
Total net assets	449,120	583,971
Total liabilities and net assets	1,709,017	1,938,408

(ii) Consolidated Statements of Income and Consolidated Statement of Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net sales	2,233,250	*1 2,440,452
Cost of sales	*2,*4 2,000,584	*2,*4 2,061,600
Gross profit	232,666	378,852
Selling, general and administrative expenses	*3,*4 131,376	*3,*4 143,548
Operating income	101,289	235,303
Non-operating income		
Interest income	368	157
Dividend income	740	798
Rental income on non-current assets	1,543	1,141
Equity in net income of unconsolidated subsidiaries and affiliates	—	2,650
Foreign exchange gains	883	—
Other	2,979	2,900
Total non-operating income	6,515	7,648
Non-operating expenses		
Interest expenses	7,225	6,402
Equity in net losses of unconsolidated subsidiaries and affiliates	447	—
Foreign exchange losses	—	1,243
Other	2,761	2,208
Total non-operating expenses	10,434	9,854
Ordinary income	97,370	233,097
Extraordinary income		
Gain on sales of non-current assets	*5 1,973	*5 305
Gain on sales of investment securities	839	796
Subsidy income	340	1,339
Insurance income	421	2,012
Other	258	549
Total extraordinary income	3,833	5,003
Extraordinary losses		
Loss on sales of non-current assets	3	123
Loss on disposal of non-current assets	*6 6,721	*6 11,313
Impairment loss	*7 267	*7 12,232
Loss on valuation of investment securities	267	2,829
Other	296	9
Total extraordinary losses	7,555	26,507
Income before income taxes	93,648	211,593
Income taxes – current	21,567	62,410
Income taxes – deferred	(17,137)	4,115
Total income taxes	4,430	66,525
Net income	89,218	145,067
Net income attributable to non-controlling interests	3,307	6,177
Net income attributable to owners of parent	85,910	138,890

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net income	89,218	145,067
Other comprehensive income		
Unrealized gains or losses on available-for-sale securities	3,375	(592)
Deferred gains or losses on hedges	(984)	(302)
Revaluation reserve for land	(10)	(8)
Foreign currency translation adjustments	(77)	1,166
Remeasurements of defined benefit plans	4,765	(1,349)
Share of other comprehensive income of entities accounted for using equity method	242	634
Total other comprehensive income	*1 7,311	*1 (451)
Comprehensive income	96,530	144,616
(Breakdown)		
Comprehensive income attributable to owners of parent	92,572	138,634
Comprehensive income attributable to non-controlling interests	3,957	5,981

(iii) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2021

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2020	40,000	82,843	132,755	(1,382)	254,217
Cumulative effects of changes in accounting policies					—
Restated balance	40,000	82,843	132,755	(1,382)	254,217
Changes of items during period					
Dividends of surplus			(6,781)		(6,781)
Net income attributable to owners of parent			85,910		85,910
Acquisition of treasury stock				(637)	(637)
Disposal of treasury stock					—
Change in scope of equity method					—
Reversal of revaluation reserve for land			92		92
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	79,221	(637)	78,584
Balance at March 31, 2021	40,000	82,843	211,977	(2,019)	332,802

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2020	2,424	373	(21,020)	5,778	(1,981)	(14,425)	123,047	362,839
Cumulative effects of changes in accounting policies								—
Restated balance	2,424	373	(21,020)	5,778	(1,981)	(14,425)	123,047	362,839
Changes of items during period								
Dividends of surplus								(6,781)
Net income attributable to owners of parent								85,910
Acquisition of treasury stock								(637)
Disposal of treasury stock								—
Change in scope of equity method								—
Reversal of revaluation reserve for land			(92)			(92)		—
Net changes of items other than shareholders' equity	2,513	(458)	(10)	95	4,522	6,661	1,126	7,787
Total changes of items during period	2,513	(458)	(102)	95	4,522	6,569	1,126	86,280
Balance at March 31, 2021	4,938	(85)	(21,123)	5,873	2,540	(7,855)	124,173	449,120

Fiscal year ended March 31, 2022

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2021	40,000	82,843	211,977	(2,019)	332,802
Cumulative effects of changes in accounting policies			(714)		(714)
Restated balance	40,000	82,843	211,263	(2,019)	332,087
Changes of items during period					
Dividends of surplus			(6,781)		(6,781)
Net income attributable to owners of parent			138,890		138,890
Acquisition of treasury stock				(0)	(0)
Disposal of treasury stock				117	117
Change in scope of equity method			(2)		(2)
Reversal of revaluation reserve for land			7		7
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	132,113	116	132,230
Balance at March 31, 2022	40,000	82,843	343,377	(1,902)	464,318

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2021	4,938	(85)	(21,123)	5,873	2,540	(7,855)	124,173	449,120
Cumulative effects of changes in accounting policies								(714)
Restated balance	4,938	(85)	(21,123)	5,873	2,540	(7,855)	124,173	448,405
Changes of items during period								
Dividends of surplus								(6,781)
Net income attributable to owners of parent								138,890
Acquisition of treasury stock								(0)
Disposal of treasury stock								117
Change in scope of equity method								(2)
Reversal of revaluation reserve for land			(7)			(7)		—
Net changes of items other than shareholders' equity	(327)	(450)	(8)	1,817	(1,285)	(255)	3,597	3,342
Total changes of items during period	(327)	(450)	(16)	1,817	(1,285)	(262)	3,597	135,565
Balance at March 31, 2022	4,610	(536)	(21,139)	7,691	1,255	(8,118)	127,771	583,971

(iv) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash flows from operating activities		
Income before income taxes	93,648	211,593
Depreciation	53,564	53,953
Impairment loss	267	12,232
Loss (gain) on sales of non-current assets	(1,970)	(182)
Loss (gain) on disposal of non-current assets	6,721	11,313
Loss (gain) on sales of investment securities	(839)	(796)
Loss (gain) on valuation of investment securities	267	2,829
Subsidy income	(340)	(1,339)
Interest and dividend income	(1,108)	(956)
Insurance income	(421)	(2,012)
Interest expenses	7,225	6,402
Foreign exchange losses (gains)	(1,357)	1,409
Equity in net losses (income) of unconsolidated subsidiaries and affiliates	447	(2,650)
Increase (decrease) in allowance for doubtful accounts	(165)	(88)
Increase (decrease) in provision for special repairs	(2,363)	11,072
Increase (decrease) in provision for environmental measures	(172)	(198)
Increase or decrease in net defined benefit asset and liability	(832)	(1,631)
Decrease (increase) in notes and accounts receivable - trade	(20,191)	(47,380)
Proceeds from costs recoverable under production sharing	3,966	4,092
Decrease (increase) in inventories	(15,086)	(126,575)
Increase (decrease) in notes and accounts payable - trade	33,637	58,382
Decrease (increase) in other current assets	(8,768)	(59,063)
Increase (decrease) in other current liabilities	36,379	15,098
Decrease (increase) in investments and other assets	1,292	900
Increase (decrease) in other non-current liabilities	(1,464)	541
Other, net	127	338
Subtotal	182,461	147,284
Interest and dividend income received	4,147	5,622
Interest expenses paid	(7,235)	(6,489)
Payments for business structure improvement expenses	(529)	(339)
Proceeds from subsidy income	340	1,339
Proceeds from insurance income	421	2,012
Settlement package paid	(600)	—
Income taxes paid	(11,560)	(41,161)
Other, net	—	93
Net cash provided by operating activities	167,445	108,361

(Millions of yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash flows from investing activities		
Purchase of investment securities	(5,758)	(3,168)
Proceeds from sales and redemption of investment securities	4,026	3,457
Purchase of shares of subsidiaries and associates	(1,240)	(1,940)
Proceeds from sales of shares or liquidation of subsidiaries and associates	—	627
Purchase of property, plant and equipment	(72,503)	(45,375)
Payments for disposal of property, plant and equipment	(5,418)	(4,193)
Proceeds from sales of property, plant and equipment	6,298	13,573
Payments for purchases of intangible assets and long-term prepaid expenses	(11,422)	(8,858)
Decrease (increase) in short-term loans receivable	85	(10)
Payments of long-term loans receivable	(42)	(41)
Collection of long-term loans receivable	247	259
Payments into time deposits	(7,355)	(56,291)
Proceeds from refund of time deposits	8,065	34,351
Proceeds from refund of investments in anonymous partnership	80	97
Other, net	352	1
Net cash used in investing activities	(84,584)	(67,511)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	8,050	16,754
Proceeds from long-term loans payable	36,100	—
Repayments of long-term loans payable	(40,123)	(76,875)
Payments into restricted deposits	(115)	(19)
Redemption of bonds	(26,000)	(17,700)
Net increase (decrease) in commercial paper	(48,800)	45,100
Purchase of treasury stock	(637)	(0)
Cash dividends paid	(6,778)	(6,777)
Dividends paid to non-controlling interests	(2,095)	(2,344)
Other, net	(171)	(176)
Net cash used in financing activities	(80,570)	(42,040)
Effect of exchange rate changes on cash and cash equivalents	(1,269)	4,528
Net increase (decrease) in cash and cash equivalents	1,021	3,338
Cash and cash equivalents at beginning of period	43,295	44,518
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(757)	—
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	959	208
Cash and cash equivalents at end of period	*1 44,518	*1 48,066

Notes to Consolidated Financial Statements

(Basis of preparation of consolidated financial statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 33

The names of consolidated subsidiaries are described in “1. Overview of the Company”-“4. Associated companies.”

Wakkanai Wind Power Co., Ltd., which was a consolidated subsidiary for the previous fiscal year, has been excluded from the scope of consolidation for the fiscal year ended March 31, 2022 due to the completion of liquidation.

(2) Names of major non-consolidated subsidiaries

Osadano Gas Center Co., Ltd.

Reason for exclusion from the scope of consolidation

13 non-consolidated subsidiaries are excluded from the scope of consolidation since they are small in scale, and as a result their total assets, net sales, net income (loss) attributable to owners of parent (amount corresponding to equity holdings), and retained earnings (amount corresponding to equity holdings) do not have a material impact on the consolidated financial statements.

2. Application of the equity method

(1) Number of non-consolidated subsidiaries accounted for under the equity method: 13

Names of major companies

Osadano Gas Center Co., Ltd.

SAKURABASHI CO. LTD. and Road Shizai Co., Ltd., non-consolidated subsidiaries which were accounted for under the equity method during the fiscal year ended March 31, 2021, were excluded from the scope of application of the equity method since they were merged with COSMO OIL SALES CORPORATION a consolidated subsidiary for the fiscal year ended March 31, 2022. ABU DHABI ENTERPRISES CO. LTD. and A. D. MARINE, INC., non-consolidated subsidiaries which were accounted for under the equity method, were also excluded from the scope of application of the equity method due to the completion of liquidation.

(2) Number of affiliates accounted for under the equity method: 12

Names of major companies

Hyundai Cosmo Petrochemical Co., Ltd., United Petroleum Development Co., Ltd., Gyxis Corporation, Kygnus Sekiyu K.K.

Chiba Arkon Production Limited, an affiliate not accounted for under the equity method during the fiscal year ended March 31, 2021, has been included in the scope of application of the equity method since the fiscal year ended March 31, 2022 from the viewpoint of materiality.

(3) Names of major affiliates not accounted for under the equity method

Ohgishima Oil Terminal Co., Ltd., Kasumisanbashi Kanri Co., Ltd.

Reason for not applying the equity method

Affiliates not accounted for under the equity method are small in scale and net income (loss) attributable to owners of parent (the Company's interest) and retained earnings (the Company's interest) have a minimal impact on the Company's consolidated financial statements individually and in the aggregate.

(4) Application of the equity method

For affiliates whose fiscal year differs from that of the Company, the financial statements for an affiliate's most recent fiscal year are used for equity method accounting.

3. Fiscal years of consolidated subsidiaries

Of the 33 consolidated subsidiaries, the fiscal years of Abu Dhabi Oil Co., Ltd., Qatar Petroleum Development Co., Ltd., Cosmo Oil International Pte. Ltd., Cosmo Oil Europe B.V., and Cosmo E&P Albahriya Limited. end on December 31.

Significant transactions occurring at these subsidiaries between their fiscal year end and the Company's fiscal year end are included in the Company's consolidated financial statements.

4. Summary of significant accounting policies

(1) Measurement methods for significant assets

(i) Securities

Available-for-sale securities

Securities other than equity securities without market prices

Stated at fair value, with net unrealized gains and losses, reported separately in net assets. The cost of securities sold is calculated using the moving average method.

Equity securities without market prices

Stated at cost using the moving average method.

(ii) Inventories

Mainly stated at cost using the gross average method. The carrying amount on the balance sheet is calculated after write-downs for decreases in net realizable value below cost.

(iii) Derivatives

Stated at fair value.

(2) Method of depreciation of significant depreciable assets

- (i) Property, plant and equipment (excluding leased assets)
Property, plant and equipment are, in principle, depreciated using the straight-line method. The useful lives and residual values used are the same as those prescribed in the Corporation Tax Act. However, economic useful lives reflecting estimated actual lives are used for refinery machinery and equipment, structures, and oil tanks owned by Cosmo Oil Co., Ltd. as these differ from the tax-based lives. The service station buildings owned by Cosmo Oil Property Service Co., Ltd. are depreciated based on an economic useful life of 15 years taking past use into consideration. In addition, assets for oil exploration and production owned by Abu Dhabi Oil Co., Ltd. are mainly depreciated using an economic useful life based on the remaining duration of the concession agreement and taking past use into consideration. Assets for wind-power generation owned by Cosmo Eco Power Co., Ltd. and its subsidiaries are mainly depreciated over 20 years based on their economic useful life.
- (ii) Intangible assets (excluding leased assets)
Intangible assets are, in principle, amortized using the straight-line method. The useful lives used are the same as those prescribed in the Corporation Tax Act. However, the straight-line method is applied for software for internal use based on the internal use period (5 years).
- (iii) Leased assets
Leased assets held as lessee under financial lease transactions with transfer of ownership
The depreciation method that is applied to self-owned property, plant and equipment is applied.
Leased assets held as lessee under financial lease transactions without transfer of ownership
The straight-line method with zero residual value over the lease term is applied.
Financial lease transactions without transfer of ownership with a lease start date before March 31, 2008 are accounted for in a manner similar to the accounting treatment for ordinary rental transactions.
- (iv) Long-term prepaid expenses
The straight-line method is applied. The amortization periods are mainly the same as prescribed in the Corporation Tax Act.
- (3) Accounting treatment for deferred assets
Bond issuance cost
The straight-line method is applied to amortize bond issuance costs over the bond redemption period.
- (4) Significant allowances
 - (i) Allowance for doubtful accounts
Allowance for losses on doubtful accounts are recognized based on the expected uncollectible amounts.
 - a) General accounts receivable
The actual historic rate of losses from bad debts is used.
 - b) Specific doubtful receivables, including claims provable in bankruptcy and rehabilitation
The individual collectability consideration method is used.
 - (ii) Provision for special repairs
The amounts of inspection and maintenance costs related to oil tanks that require regular inspections under the Fire Service Act, regular maintenance costs related to machinery and equipment in refineries and plant manufacturing facilities, and other costs incurred in the current fiscal year are recognized.
 - (iii) Provision for environmental measures
The Company and its consolidated subsidiaries provide a reserve for the estimated cost to treat polychlorinated biphenyl (PCB) waste as required by the “Act on Special Measures Concerning Promotion of Proper Treatment of PCB Wastes” (Act No. 65 of 2001).
 - (iv) Provision for bonuses
A provision for bonuses to employees is recognized based on expected payments for the fiscal years ended March 31, 2021 and 2022 respectively.
 - (v) Provision for directors’ bonuses
A provision for bonuses to directors is recognized based on the expected payments for the fiscal years ended March 31, 2021 and 2022 respectively by the Company and certain consolidated subsidiaries.
 - (vi) Provision for executive remuneration BIP trust
A provision is recognized for the cost of the Company’s shares expected to be provided to the Company’s directors (excluding outside directors and audit and supervisory board members), executive officers, and the directors of certain consolidated subsidiaries in accordance with their rank and term in office based on the relevant regulations.
- (5) Liability for retirement benefits
 - (i) Periodic allocation method for the estimated retirement benefits
The retirement benefit obligation is calculated by allocating the estimated retirement benefits until the end of the fiscal year on a benefit formula basis.
 - (ii) Amortization of past service cost and actuarial gains/losses
Past service cost is primarily amortized on a straight-line basis over 10 years, which is shorter than the average remaining years of service of the eligible employees.
Net actuarial gain or loss is primarily amortized from the following year on a straight-line basis over 8 to 10 years, which is shorter than the average remaining years of service of the eligible employees.

- (iii) Accounting treatment for unrecognized actuarial gains or losses and unrecognized past service cost

Unrecognized actuarial gains or losses and unrecognized past service cost are recorded as remeasurements of defined benefit plans, net of tax effect, under accumulated other comprehensive income in net assets.

- (6) Standards for recording significant revenue and cost

The Group mainly offers products in the petroleum business, petrochemical business, oil exploration and production business, renewable energy business and others.

The Group recognizes revenue mainly when a product promised under the contract is delivered to the customer, considering the performance obligation under the contract to have been satisfied when the control of the product has been transferred to the customer.

The Group also recognizes revenue at the time of shipping in accordance with the alternative treatment.

- (7) Foreign currency translation

Foreign currency-denominated receivables and payables are translated into Japanese yen at the spot exchange rate at the fiscal year end date and differences arising from the translation are included in the consolidated statements of income.

The assets, liabilities, revenues and expenses of overseas subsidiaries are translated into Japanese yen at the spot exchange rate on the fiscal year end date and differences arising from the translation are presented as part of foreign currency translation adjustments in net assets.

- (8) Hedge accounting

- (i) Method of hedge accounting

Deferred hedge accounting is applied. Exceptional method is applied for interest rate swaps that meet specific requirements.

- (ii) Hedging instruments and hedged items

(Currency-related)

Hedging instruments: Forward foreign exchange contracts, currency options

Hedged items: Foreign denominated forecast transactions

(Interest rate-related)

Hedging instruments: Interest rate swaps

Hedged items: Borrowings

(Commodity-related)

Hedging instruments: Crude oil and petroleum product swaps, crude oil and petroleum product futures

Hedged items: Crude oil and petroleum product trading

- (iii) Hedging policy

Exchange rate risk, interest rate risk, and price risk on the hedged items are hedged within a certain range based on internal regulations that prescribe transaction rights and limitations related to derivative transactions.

- (iv) Assessment of hedge effectiveness

The effectiveness of hedges is assessed by comparing the cumulative cash flow fluctuations or market fluctuations of the hedging instruments with cumulative cash flow fluctuations or market fluctuations of the corresponding hedged items for each six month period. However, the assessment of effectiveness is not conducted for interest rate swaps for which the exceptional method is applied.

(Hedge relationships to which the “Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” is applied)

Of the above hedge relationships, the Group has applied the exceptional treatment prescribed in the “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (“PITF”) No. 40, March 17, 2022) to all hedge relationships included in the scope of application of the Practical Solution. The details of the hedge relationships to which the Practical Solution is applied are as follows:

- a. Method of hedge accounting: Exceptional method
- b. Hedging instruments: Interest rate swaps
- c. Hedged items: Borrowings
- d. Type of hedge transactions: Transactions which fix the cash flows

- (9) Definition of “Cash and cash equivalents” in the consolidated statements of cash flows

Cash and cash equivalents as shown in the consolidated statements of cash flows are composed of cash in hand, readily available deposits, and short-term investments with maturities of 3 months or less at the time of purchase that are exposed to insignificant risk of change in value.

(10) Other material matters relating to the preparation of the consolidated financial statements

(i) Accounting treatment for costs recoverable under production sharing

Expenditures made by a consolidated subsidiary during exploration, development and production phases under a production sharing contract are recorded as “Costs recoverable under production sharing” so long as they are recoverable under the terms of the relevant contract.

(ii) Application of the consolidated taxation system

The Company and certain domestic consolidated subsidiaries adopt the consolidated taxation system.

(iii) Accounting for corporate and local income taxes or tax effect accounting related to these taxes

The Company and certain of its domestic consolidated subsidiaries will implement a transition from the consolidated taxation system to the group tax sharing system in the fiscal year ending March 31, 2023. For tax effect accounting and disclosure for corporate and local income taxes, the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021) has been applied since the end of the fiscal year ended March 31, 2022.

As the consolidated taxation system was still applied during the fiscal year ended March 31, 2022, the accounting and disclosure for corporate and local income taxes for the fiscal year are in accordance with the “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)” (PITF No. 5, February 16, 2018) and the “Practical Solution on Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)” (PITF No. 7, February 16, 2018).

(iv) Accounting treatment for beneficial interests in trusts with land as the trust assets

For the beneficial interests in trusts with land as the trust assets that are owned by certain consolidated subsidiaries, all asset and liability accounts within the trusts and all revenue and expenses arising from the trust assets are recorded under the applicable accounts in the consolidated balance sheets and consolidated statements of income.

(Significant accounting estimates)

1. Recoverability of deferred tax assets

(1) Amount recorded in the consolidated financial statements in the fiscal year ended March 31, 2022

	(Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Deferred tax assets	40,287	42,858

(2) Information on significant accounting estimates for identified items

The recoverability of deferred tax assets is reviewed every period and recognized to the extent of tax loss carryforwards and deductible temporary differences which are deemed to reduce the amount of tax in the future.

The Group recorded deferred tax assets of 42,858 million yen in the consolidated balance sheet and the amount before being offset by deferred tax liabilities is 67,782 million yen. The Group adopts the consolidated taxation system. The amount of deferred tax assets before being offset by deferred tax liabilities of the consolidated taxable entity with the Company as the consolidated parent company (“the consolidated tax filing group”) is 42,404 million yen, which represents a high percentage in the consolidated financial statements. The breakdown of the deferred tax assets reported in the consolidated financial statements as of the end of the fiscal year ended March 31, 2022 as a result of the estimation is as described in the notes in (Tax effect accounting).

Despite the fact that significant tax losses have occurred and expired in the past at the consolidated tax filing group, the Company has determined that the deferred tax assets are recoverable, in the expectation that taxable income before adding or subtracting temporary differences will be generated over multiple years in the future after considering the cause of historical significant tax losses was non-recurring, the consolidated medium-term management plan and its progress, and taxable income or tax loss trends in the past and for the fiscal year ended March 31, 2022.

The taxable income before adding or subtracting temporary differences was estimated based on the budget for the following fiscal year, taking into account management’s assessment of the impact of uncertainties. In setting key assumptions, we have assumed that the budget assumptions prepared by the Group will continue, despite the current surge in crude oil prices due to uncertainty over the global situation, including Russia’s invasion of Ukraine. Domestic demand is based on the medium- to long-term demand forecast judged as of March 2022 and the Group assumes that domestic market conditions will remain stable. In addition, refineries are expected to be able to maintain a high level of utilization by securing sales volumes in excess of production volumes.

Management has determined that the accounting estimates made upon considering the recoverability of deferred tax assets are reasonable and an appropriate amount of deferred tax assets was recorded. However, since these estimates contain unpredictable uncertainties, management may change these estimates and reverse deferred tax assets in or after the fiscal year ending March 31, 2023 due to changes in assumptions.

2. Valuation of costs recoverable under production sharing

(1) Amount recorded in the consolidated financial statements in the fiscal year ended March 31, 2022

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Costs recoverable under production sharing (before impairment loss)	13,018	12,171
Impairment loss	—	10,849

(2) Information on significant accounting estimates for identified items

Costs recoverable under production sharing are exploration, development and other related costs spent under the production sharing contract executed with the Qatar government. After the commencement of production, certain costs are recovered for products based on the contract. The amount in the consolidated balance sheet is 1,322 million yen, which has not been recovered yet. If there is an impairment indicator for the costs recoverable under production sharing, they need to be tested for impairment. The impairment test is performed by comparing the undiscounted future cash flows, that are expected to be generated from the assets, with their carrying amounts. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss. For the fiscal year ended March 31, 2022, an impairment loss of 10,849 million yen was recorded as “impairment loss” in the consolidated statements of income for costs recoverable under production sharing. The details are shown in “*7 Impairment loss” in “Notes to Consolidated Statements of Income.”

In the fiscal year ended March 31, 2022, volume of production was lower than expected due to the malfunction of production facilities. With the approach of the expiration date of the production sharing contract (December 2022), the Group examined the details of the proposal for an extension of the contract in consideration of the current production status, and as a result, determined that uncertainty of continuing the business has risen. Accordingly, an impairment test was performed during the fiscal year ended March 31, 2022 and an impairment loss of 10,849 million yen was recorded. The undiscounted future cash flows used in the impairment test were estimated taking into account management’s assessment of the impact of uncertainties based on the budget for the following fiscal year that was prepared by management and the business plan formulated at the end of the fiscal year ended March 31, 2022, which includes key assumptions on production periods, crude oil production and crude oil prices.

Management determined that the accounting estimates made upon considering the valuation of costs recoverable under production sharing were reasonable and an appropriate amount of costs recoverable under production sharing was recorded. However, since these estimates contain unpredictable uncertainties, management may change these estimates and recognize an impairment loss on these assets in or after the fiscal year ending March 31, 2023 due to changes in assumptions.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) (“Revenue Recognition Standard”), etc. since the beginning of the fiscal year ended March 31, 2022, and recognizes revenue in the amount expected to be received in exchange for promised goods or services when the control of those goods or services is transferred to customers. As a result, the Company has changed its accounting method for exchange transactions of petroleum and other products with similar characteristics and values.

The Company has implemented the Revenue Recognition Standard, etc. in accordance with the transitional treatment prescribed in the proviso to paragraph 84 of the Revenue Recognition Standard. The cumulative effect of retroactively applying the new accounting policies prior to the beginning of the fiscal year ended March 31, 2022 is added to or deducted from retained earnings at the beginning of the fiscal year ended March 31, 2022 and the new accounting policies have been applied to the balance since the beginning of the fiscal year ended March 31, 2022. However, the Company has implemented the method prescribed in paragraph 86 of the Revenue Recognition Standard and the new accounting policy has not been applied retroactively to contracts for which almost all revenue amounts had been recognized prior to the beginning of the fiscal year ended March 31, 2022 in accordance with the previous treatment.

As a result of the application, net sales decreased by 654,126 million yen, cost of sales decreased by 652,774 million yen, selling, general and administrative expenses decreased by 1,180 million yen, operating income decreased by 172 million yen, and ordinary income and income before income taxes respectively increased by 410 million yen during the fiscal year ended March 31, 2022.

In addition, as a result of reflecting the cumulative effect to the net asset at the beginning of the fiscal year ended March 31, 2022, the balance of retained earnings in the consolidated statements of changes in net assets at the beginning of the fiscal year ended March 31, 2022 decreased by 714 million yen.

The effect on per-share information is described in the relevant part.

“Notes and accounts receivable - trade,” which had been presented as “current assets” in the consolidated balance sheet of the previous fiscal year, is presented as “notes receivable - trade”, “accounts receivable - trade”, and “other” from the fiscal year ended March 31, 2022, due to the application of the Revenue Recognition Standard, etc. However, no reclassification was made for the previous fiscal year using the new presentation method, in accordance with the transitional treatment prescribed in paragraph 89-2 of the Revenue Recognition Standard. Furthermore, the notes to “revenue recognition” for the previous fiscal year are not included in this report, in accordance with the transitional treatment prescribed in paragraph 89-3 of the Revenue Recognition Standard.

(Application of the Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) (“Fair Value Measurement Standard”), etc. since the beginning of the fiscal year ended March 31, 2022. In accordance with the transitional treatment prescribed in paragraph 19 of the Fair Value Measurement Standard and paragraph 44-2 of “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company has applied the new accounting policies prescribed by the Fair Value Measurement Standard, etc. prospectively. The effect on the consolidated financial statements was immaterial.

In addition, the Company has decided to provide information for the breakdown by fair value hierarchy of financial instruments in the notes to “financial instruments.” However, the notes do not include information for the previous fiscal year, in accordance with the transitional treatment prescribed in paragraph 7-4 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019).

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

Previously, certain consolidated subsidiaries had mainly adopted the declining-balance method (excluding buildings acquired in and after April 1998 and attached facilities, structures and oil tanks acquired in and after April 2016, which were depreciated by the straight-line method) to calculate depreciation of property, plant and equipment (excluding leased assets). However, the depreciation method was changed to the straight-line method from the fiscal year ended March 31, 2022.

As a result of the validation of depreciation methods adopted for large-scale capital investments of consolidated subsidiaries completed successively in and after 2020, we determined the straight-line method to be more reasonable as we expect long-term stable operations of production facilities and average return on investment.

As a result, operating income, ordinary income and income before income taxes for the fiscal year ended March 31, 2022 have respectively increased by 1,940 million yen, as compared with the previous method.

(Additional information)

(Transactions for delivering the Company’s own stock to directors and executive officers through a trust)

The Company has introduced a Board Incentive Plan (BIP) trust for the purpose of offering incentives to the Company’s directors (excluding outside directors and audit and supervisory board members), executive officers, and the directors of core operating companies (“executives”).

Under the BIP trust, the Company acquires in bulk its own shares for the amount expected to be provided to executives, and provides its own shares to the executives in accordance with their rank and term in office based on the relevant regulations prescribed in advance.

The gross price method is applied for the accounting for trusts in accordance with the “Practical Solution on Transactions for Delivering the Company’s Own Stock to Employees through Trust” (ASBJ PITF No. 30, March 26, 2015). Accordingly, the Company’s own stock in the trust is recorded in treasury stock under shareholders’ equity based on the book value in the trust. At March 31, 2021, the book value of the treasury stock was 2,011 million yen (number of shares: 1,076 thousand) and at March 31, 2022, the book value of the treasury stock was 1,893 million yen (number of shares: 1,004 thousand).

(Notes to Consolidated Balance Sheets)

*1 Accumulated depreciation of property, plant and equipment

	As of March 31, 2021	As of March 31, 2022
Accumulated depreciation	1,078,498 million yen	1,107,618 million yen

*2 Non-consolidated subsidiaries and affiliates

	As of March 31, 2021	As of March 31, 2022
Investment securities	79,979 million yen	88,075 million yen
(Of which investments in joint ventures)	(52,843)	(52,425)

3 Contingent liabilities

Guarantees are provided for mainly borrowings from financial institutions and fulfilling contracts by affiliates and other companies as follows:

As of March 31, 2021		As of March 31, 2022	
Chiba Arkon Production Limited	6,566 million yen	Chiba Arkon Production Limited	5,292 million yen
Japan Biofuels Supply LLP	1,143	Japan Biofuels Supply LLP	4,814
North Hokkaido Wind Energy	2,222	North Hokkaido Wind Energy	2,222
Transmission Corporation		Transmission Corporation	
Akita Yurihonjo Offshore Wind GK	2,816	Akita Yurihonjo Offshore Wind GK	—
Other	349	Other	67
Total	13,098	Total	12,396

*4 Assets pledged as collateral

(1) Assets pledged as collateral

	As of March 31, 2021	As of March 31, 2022
Land	124,180 million yen	123,200 million yen
Cash and deposits	21,662	40,087
Notes and accounts receivable - trade	8,421	—
Accounts receivable - trade	—	11,741
Buildings and structures	361	—
Investment securities (Note)	1,293	1,817
Total	155,918	176,846

(Note) Investment securities were pledged as collateral to secure the borrowings of the investee of Cosmo Eco Power Co., Ltd., a consolidated subsidiary.

(2) Secured debts

	As of March 31, 2021	As of March 31, 2022
Long-term loans payable (including current portion)	52,192 million yen	46,598 million yen
Debts related to transactions with banks	20,991	20,991

(3) Assets provided as collateral mainly as sales guarantees

	As of March 31, 2021	As of March 31, 2022
Other current assets	1,176 million yen	13,951 million yen

*5 Accumulated balance of government subsidies recorded as a reduction of property, plant and equipment

	As of March 31, 2021	As of March 31, 2022
Oil tanks	62 million yen	62 million yen
Machinery, equipment and vehicles	3,389	3,389
Construction in progress	210	237
Total	3,661	3,688

*6 Revaluation of land for business use

Three consolidated subsidiaries revalued land for business use based on the “Law Concerning Revaluations of Land” (Law No. 34, promulgated on March 31, 1998). Based on the revaluation amounts, the consolidated subsidiaries recorded the amount corresponding to the taxes on the valuation difference in the liabilities section as “Deferred tax liabilities for land revaluation” and the revaluation amount, net of taxes, was recorded in the net assets section as “Revaluation reserve for land.”

- Revaluation method...The refineries of Cosmo Oil Co., Ltd., a consolidated subsidiary, were revalued based on the appraisal value prescribed in Article 2-5 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119, promulgated on March 31, 1998), and other business lands were revalued using roadside land prices prescribed in Article 2-4 of the Order for Enforcement of the Act on Revaluation of Land with reasonable adjustments.

- Date of revaluation...March 31, 2002 (December 31, 2001 for one consolidated subsidiary)

	As of March 31, 2021	As of March 31, 2022
Difference between fair value at the end of the fiscal year and book value after land revaluation	(30,790) million yen	(30,544) million yen

As of March 31, 2021

Long-term loans payable (including current portion) from banks of 101,940 million yen includes financial covenants which accelerate obligations under the applicable loan agreements. (The main covenants are as follows:)

	Final repayment date	Loan balance	Financial covenants
(1)	September 30, 2024	45,000 million yen	(i) The Company shall not recognize an ordinary loss recorded in its consolidated statement of income for three consecutive periods. (ii) The Company shall maintain the amount of net assets recorded in its consolidated balance sheet at the end of each fiscal year at 156.6 billion yen or more.
(2)	April 30, 2021	34,120 million yen	The Company shall maintain the amount of net assets recorded in its consolidated balance sheet at the end of each fiscal year at 152.0 billion yen or more.
(3)	April 3, 2024	10,000 million yen	(i) The Company shall not recognize an ordinary loss recorded in its consolidated statement of income for three consecutive periods. (ii) The Company shall maintain the amount of net assets recorded in its consolidated balance sheet at the end of each fiscal year at 213.6 billion yen or more.
(4)	March 31, 2023	10,000 million yen	(i) The Company shall not recognize an ordinary loss recorded in its consolidated statement of income for two consecutive periods. (ii) The Company shall maintain the amount of net assets recorded in its consolidated balance sheet at the end of each fiscal year at 241.1 billion yen or more.

As of March 31, 2022

Long-term loans payable (including current portion) from banks of 54,160 million yen includes financial covenants, which accelerate obligations under the applicable loan agreements. (The main covenants are as follows:)

	Final repayment date	Loan balance	Financial covenants
(1)	September 30, 2024	15,600 million yen	(i) The Company shall not recognize an ordinary loss recorded in its consolidated statement of income for three consecutive periods. (ii) The Company shall maintain the amount of net assets recorded in its consolidated balance sheet at the end of each fiscal year at 156.6 billion yen or more.
(2)	April 28, 2022	17,060 million yen	The Company shall maintain the amount of net assets recorded in its consolidated balance sheet at the end of each fiscal year at 152.0 billion yen or more.
(3)	April 3, 2024	10,000 million yen	(i) The Company shall not recognize an ordinary loss recorded in its consolidated statement of income for three consecutive periods. (ii) The Company shall maintain the amount of net assets recorded in its consolidated balance sheet at the end of each fiscal year at 213.6 billion yen or more.
(4)	March 31, 2023	10,000 million yen	(i) The Company shall not recognize an ordinary loss recorded in its consolidated statement of income for two consecutive periods. (ii) The Company shall maintain the amount of net assets recorded in its consolidated balance sheet at the end of each fiscal year at 241.1 billion yen or more.

(Notes to Consolidated Statements of Income)

*1 Revenue from contracts with customers

Net sales are not classified into revenue from contracts with customers and other revenue. The amount of revenue from contracts with customers is presented in “(Revenue recognition), 1. Disaggregation of revenue from contracts with customers” in “Notes to Consolidated Financial Statements.”

*2 Write-down of inventories for decreases in net realizable value below cost

The year-end carrying amount of inventories is stated after the write-down for decreases in net realizable value below cost. The write-down of inventories is recognized in cost of sales in the period the write-down occurs.

The Group adopts the reversal method. The amount of write-down, the amount of reversal of write-down and their net amount are as follows:

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Write-down of inventories recognized in cost of sales	1,230 million yen	1,364 million yen
Reversal of inventories write-down recognized as a reduction of cost of sales	(40,177)	(1,230)
Net amount	38,946	(134)

*3 Selling, general and administrative expenses

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Subcontract expenses	26,850 million yen	27,825 million yen
Salaries	22,729	23,602
Freight costs	18,535	20,346
Rental expenses	11,275	11,496
Depreciation	7,922	8,111

*4 Total research and development expenses included in general and administrative and manufacturing expenses

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
	3,975 million yen	4,803 million yen

*5 Gain on sales of non-current assets

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Land	1,522 million yen	112 million yen
Machinery and equipment	344	176

*6 Loss on disposal of non-current assets

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Buildings and structures	922 million yen	473 million yen
Machinery and equipment	709	755
Removal costs	4,904	8,935

*7 Impairment loss

The Group assesses possible impairment of non-current assets based on the minimum identifiable group of assets which generate independent cash flows. The petroleum business assets for service stations operated directly by the Group are grouped by individual service station. The petroleum business assets for distribution are grouped as one unit. For wind power generation, Independent Power Producer (IPP), real estate leasing and idle assets, assessment is made by individual property. The petrochemical business assets are grouped for each business. For oil exploration and production business, assets are grouped based on the entire oil exploration and production business for each company.

Fiscal year ended March 31, 2021

Business use	Location	Type	Impairment loss (Millions of yen)
Petroleum business	COSMO OIL SALES HOKKAIDO COMPANY – Self Station Fujino (Minami-ku, Sapporo City, Hokkaido) and 2 other assets	Buildings and structures Other	190
Petrochemical business	Maruzen Petrochemical Co., Ltd. – Chiba Plant (Ichihara City, Chiba Prefecture)	Buildings and structures Machinery, equipment and vehicles	51
Idle assets	Cosmo Oil Property Service Co., Ltd. – Hino Asahigaoka (Hino City, Tokyo) and 19 other assets	Land Other	25
Total			267

Breakdown of impairment losses for each business use (Millions of yen)

Petroleum business: 190 (of which, buildings and structures: 154, other: 36)

Petrochemical business: 51 (of which, buildings and structures: 2, machinery, equipment and vehicles: 48)

Idle assets: 25 (of which, land: 13, other: 12)

Impairment losses were recorded in the petroleum business mainly due to lower market prices such as a decline in land prices. The recoverable amount is mainly measured based on its value in use. The value in use is calculated by discounting the estimated future cash flows using a rate of 3.5%.

In the petrochemical business, impairment losses were recorded mainly due to a decision to withdraw from the business. The recoverable amount is mainly measured based on its value in use. The value in use is assessed as zero because no future cash flows are expected.

Impairment losses on idle assets were recorded mainly due to lower market prices such as a decline in land prices. The recoverable amount for idle assets is mainly measured based on the net sales value, and for the measurement of highly material asset groups, the valuation amount based on real estate appraisal standards is used.

Fiscal year ended March 31, 2022

Business use	Location	Type	Impairment loss (Millions of yen)
Petroleum business	HOKUTO INDUSTRIES Co., Ltd. – Head office (Hokuto City, Hokkaido) and one other asset	Land Other	26
Oil exploration and production business	Qatar Petroleum Development Co., Ltd. (State of Qatar)	Costs recoverable under production sharing	10,849
Petrochemical business	Maruzen Petrochemical Co., Ltd. – Chiba Plant (Ichihara City, Chiba Prefecture) and one other asset	Buildings and structures, Oil tanks Machinery, equipment and vehicles Other	1,311
Idle assets	Cosmo Oil Property Service Co., Ltd. – Milk Road Komono (Mie County, Mie Prefecture) and 27 other assets	Land Other	45
Total			12,232

Breakdown of impairment losses for each business use (Millions of yen)

Petroleum business: 26 (of which, land: 23, other: 2)

Oil exploration and production business: 10,849 (of which, costs recoverable under production sharing: 10,849)

Petrochemical business: 1,311 (of which, buildings and structures: 199, machinery, equipment and vehicles: 918, oil tanks: 51, other: 142)

Idle assets: 45 (of which, land: 13, other: 32)

Impairment losses were recorded in the petroleum business mainly due to lower market prices such as a decline in land prices. The recoverable amount is mainly measured based on the net sales value, which is calculated based on roadside prices and other factors.

In the oil exploration and production business, volume of production was lower than expected due to the malfunction of production facilities. With the approach of the expiration date of the production sharing contract, the Group examined the details of the proposal for an extension of the contract in consideration of the current production status. As a result, the Group determined that uncertainty of continuing the business has risen and recorded an impairment loss. The recoverable amount is mainly measured based on its value in use. The value in use is calculated by discounting the estimated future cash flows using a rate of 5.8%.

In the petrochemical business, impairment losses were recorded mainly due to a decision to withdraw from the business. The recoverable amount is mainly measured based on its value in use. The value in use is assessed as zero because no future cash flows are expected.

Impairment losses on idle assets were recorded mainly due to lower market prices such as a decline in land prices. The recoverable amount for idle assets is mainly measured based on the net sales value, and for the measurement of highly material asset groups, the valuation amount based on real estate appraisal standards is used.

(Notes to Consolidated Statements of Comprehensive Income)

*1 Reclassification and tax effect related to other comprehensive income

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Unrealized gains or losses on available-for-sale securities :		
Increase (decrease) during the fiscal year	5,370 million yen	(588) million yen
Reclassification adjustment	(760)	(251)
Before income tax effect	4,610	(840)
Income tax effect	(1,234)	247
Unrealized gains or losses on available-for-sale securities	3,375	(592)
Deferred gains or losses on hedges :		
Increase (decrease) during the fiscal year	(218)	(9,223)
Reclassification adjustment	(2,426)	(379)
Adjustment of acquisition cost of assets	1,225	9,046
Before income tax effect	(1,418)	(555)
Income tax effect	434	253
Deferred gains or losses on hedges	(984)	(302)
Revaluation reserve for land :		
Income tax effect	(10)	(8)
Foreign currency translation adjustments :		
Increase (decrease) during the fiscal year	(77)	1,166
Foreign currency translation adjustments	(77)	1,166
Remeasurements of defined benefit plans :		
Increase (decrease) during the fiscal year	6,886	(1,259)
Reclassification adjustment	1	(648)
Before income tax effect	6,887	(1,907)
Income tax effect	(2,121)	558
Remeasurements of defined benefit plans	4,765	(1,349)
Share of other comprehensive income of entities accounted for using equity method :		
Increase (decrease) during the fiscal year	242	634
Total other comprehensive income	7,311	(451)

(Notes to Consolidated Statements of Changes in Net Assets)

Fiscal year ended March 31, 2021

1 Class and total number of shares issued and treasury stock

	Number of shares as of April 1, 2020	Increase in shares during the fiscal year	Decrease in shares during the fiscal year	Number of shares as of March 31, 2021
Shares issued				
Common shares	84,770,508	—	—	84,770,508
Total	84,770,508	—	—	84,770,508
Treasury stock				
Common shares	(Note 2) 725,261	(Note 1) 354,732	—	(Note 2) 1,079,993
Total	725,261	354,732	—	1,079,993

(Notes) 1 The increase of 354,732 shares in the number of treasury stock of common shares is due to the purchase of shares less than one unit of 232 shares and the purchase of 354,500 shares of the Company's stock by the BIP trust.

2 The number of treasury stock of common shares includes treasury stock held by the BIP trust (721,972 shares as of April 1, 2020, and 1,076,472 shares as of March 31, 2021).

2 Share acquisition rights

Company	Details of share acquisition rights	Class of shares subject to share acquisition rights	Number of shares subject to share acquisition rights				Balance as of March 31, 2021 (Millions of yen)
			As of April 1, 2020	Increase	Decrease	As of March 31, 2021	
The Company	Euro-yen dominated convertible bonds with share acquisition rights due 2022	Common shares	15,794,461	241,030	—	16,035,491	60,000

(Notes) 1 Convertible bonds with share acquisition rights are accounted for using the lump-sum method.

2 The number of shares subject to share acquisition rights is based on the assumption that share acquisition rights were exercised.

3 The number of shares subject to share acquisition rights increased due to adjustment of the conversion price.

3 Dividends

(1) Cash dividends paid

(Resolution)	Share class	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 25, 2020 Ordinary general meeting of shareholders	Common shares	6,781	80	March 31, 2020	June 26, 2020

(Note) Dividends for treasury stock held by BIP trust included in total dividends: 57 million yen

(2) Dividends for which the record date was in the fiscal year ended March 31, 2021 that took effect after March 31, 2021

(Resolution)	Share class	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 24, 2021 Ordinary general meeting of shareholders	Common shares	6,781	Retained earnings	80	March 31, 2021	June 25, 2021

(Note) Dividends for treasury stock held by the BIP trust included in total dividends: 86 million yen

Fiscal year ended March 31, 2022

1 Class and total number of shares issued and treasury stock

	Number of shares as of April 1, 2021	Increase in shares during the fiscal year	Decrease in shares during the fiscal year	Number of shares as of March 31, 2022
Shares issued				
Common shares	84,770,508	—	—	84,770,508
Total	84,770,508	—	—	84,770,508
Treasury stock				
Common shares	(Note 2) 1,079,993	(Note 1) 285	(Note 1) 71,752	(Note 2) 1,008,526
Total	1,079,993	285	71,752	1,008,526

(Notes) 1 The increase of 285 shares in the number of treasury stock of common shares is due to the purchase of shares less than one unit. The decrease of 71,752 shares in the number of treasury stock is due to the delivery of shares from the BIP trust to beneficiaries.

2 The number of treasury stock of common shares includes treasury stock held by the BIP trust (1,076,472 shares as of April 1, 2021, and 1,004,720 shares as of March 31, 2022).

2 Share acquisition rights

Company	Details of share acquisition rights	Class of shares subject to share acquisition rights	Number of shares subject to share acquisition rights				Balance as of March 31, 2022 (Millions of yen)
			As of April 1, 2021	Increase	Decrease	As of March 31, 2022	
The Company	Euro-yen dominated convertible bonds with share acquisition rights due 2022	Common shares	16,035,491	207,064	—	16,242,555	60,000

(Notes) 1 Convertible bonds with share acquisition rights are accounted for using the lump-sum method.

2 The number of shares subject to share acquisition rights is based on the assumption that share acquisition rights were exercised.

3 The number of shares subject to share acquisition rights increased due to adjustment of the conversion price.

3 Dividends

(1) Cash dividends paid

(Resolution)	Share class	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
June 24, 2021 Ordinary general meeting of shareholders	Common shares	6,781	80	March 31, 2021	June 25, 2021

(Note) Dividends for treasury stock held by the BIP trust included in total dividends: 86 million yen

(2) Dividends for which the record date was in the fiscal year ended March 31, 2022 that took effect after March 31, 2022

(Resolution)	Share class	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
June 23, 2022 Ordinary general meeting of shareholders	Common shares	8,476	Retained earnings	100	March 31, 2022	June 24, 2022

(Note) Dividends for treasury stock held by the BIP trust included in total dividends: 100 million yen

(Notes to Consolidated Statements of Cash Flows)

*1 The reconciliations of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2021 and 2022 are as follows:

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Cash and deposits account	52,972 million yen	80,328 million yen
Time deposits exceeding three months	(1)	(23,005)
Trust deposits with restrictions on use	(1,819)	(1,872)
Deposits with restrictions on withdrawal	(6,633)	(7,385)
Cash and cash equivalents	44,518	48,066

2 Details of significant non-monetary transactions

Fiscal year ended March 31, 2021

None.

Fiscal year ended March 31, 2022

None.

(Lease transactions)

(Lessee)

Operating lease transactions

Non-cancellable lease commitments

(Millions of yen)

Category	As of March 31, 2021	As of March 31, 2022
Due within one year	1,807	1,748
Due after one year	1,819	1,776
Total	3,626	3,525

(Financial instruments)

1 Circumstances of financial instruments

(1) Policy for financial instruments

The Group raises funds through direct financing such as issuance of bonds and indirect financing including bank borrowings for capital investments for refineries and wind-power generation sites and working capital. Derivative transactions are conducted according to internal management rules stipulating transaction authority and transaction limits to hedge against hedgeable foreign currency risk, interest rate risk and price risk within a certain range. The basic policy is that all transactions are based on the principle of actual demand and that derivative transactions are not entered into for speculative purposes.

(2) Nature and extent of risks arising from financial instruments

Notes receivable - trade, accounts receivable - trade and accounts receivable - other are exposed to customer credit risk. Investment securities primarily include shares related to operating or capital alliances with business partners and are exposed to price risk.

Notes and accounts payable - trade and accounts payable - other are mostly due within one year. Certain are denominated in foreign currencies for the import of crude oil and are exposed to currency fluctuation risks, but they are hedged using forward foreign exchange contracts. The main uses of borrowings, commercial paper and bonds payable are working capital funds (mainly short-term) and capital investment funds (long-term). Certain of these are exposed to interest rate risk, but they are hedged using derivative transactions (interest rate swaps).

The derivative transactions used by the Group are forward foreign exchange contracts and currency options for the purpose of hedging against currency risk of U.S. dollar denominated crude oil and petroleum product imports, interest rate swaps for the purpose of stabilizing interest rate risk of interest payable on borrowings, and commodity futures and swaps for the purpose of hedging against price risk of imports and exports of crude oil and petroleum products.

Please refer to the “Basis of preparation of consolidated financial statements” in “4. Summary of significant accounting policies (8) Hedge accounting” for information on hedging instruments, hedged items, hedging policy and the method of evaluation of hedge effectiveness.

(3) Risk management for financial instruments

(i) Management of credit risk (risk pertaining to default on amounts due by business partners)

With regard to trade receivables, the Group regularly monitors the condition of business partners according to the credit management system and sets collateral and transaction limits in order to allow for early detection and mitigation of receivables which may be uncollectible due to deterioration of financial condition. Held-to-maturity securities have negligible credit risk because they are limited to bonds with high credit ratings. Derivative transactions are limited to those with a highly creditworthy major bank, trading company or petroleum company, as the counterparty, and the credit risk is judged to be low.

(ii) Management of market risk (fluctuation risk of currency, interest rates and crude oil prices)

Investment securities are mainly shares, and the fair value of listed shares is periodically tracked. Furthermore, the Group uses forward foreign exchange contracts and currency options to hedge currency fluctuation risk of trade payables primarily denominated in foreign currencies. Furthermore, interest rate swaps are used to hedge interest rate risk of interest payable on borrowings, and commodity futures and swaps are used to hedge price risk pertaining to the import and export of crude oil and petroleum products.

Derivative transactions are executed and managed according to internal management rules stipulating transaction authority and transaction limits.

(iii) Management of liquidity risk related to financing (risk that payment cannot be executed by the due date)

The Company manages liquidity risk by creating and updating cash flow plans in a timely manner and maintaining the necessary liquidity on hand.

(4) Supplementary explanation of estimated fair value of financial instruments

Certain assumptions have been made in the calculation of the value, and the value may change if different assumptions are made. With regard to the contract amounts related to derivative transactions in the note on “Derivatives,” the amount itself is not an indication of the market risk pertaining to derivative transactions.

2 Fair value of financial instruments

The consolidated balance sheet amounts, fair values and differences between these amounts are as follows:

The following items are omitted, since they are settled in a short period of time and their fair values approximate their carrying amounts: cash and deposits, notes receivable - trade, accounts receivable - trade, accounts receivable - other, notes and accounts payable - trade, short-term loans payable (including current portion of long-term loans payable), current portion of bonds payable, commercial paper, accounts payable - other, accrued gasoline taxes, and income taxes payable.

As of March 31, 2021

	Consolidated balance sheet amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Investment securities (*1)			
Available-for-sale securities	19,139	19,139	—
Total assets	19,139	19,139	—
(1) Bonds payable	3,000	3,092	92
(2) Convertible bonds with share acquisition rights	60,000	60,965	965
(3) Long-term loans payable	315,759	315,663	(96)
Total liabilities	378,759	379,720	961
Derivatives (*2)	6,640	6,640	—

(*1) These are not included in “(1) Investment securities” because they have no market price and the fair value is extremely difficult to determine. The consolidated balance sheet amount of these financial instruments is as follows. The Company recognized impairment losses of 245 million yen on unlisted shares during the year ended March 31, 2021.

Category	As of March 31, 2021 (Millions of yen)
Unlisted shares	103,262

(*2) Net receivables and payables arising from derivative transactions are shown as a net amount and items with total net payables are shown in parentheses.

As of March 31, 2022

	Consolidated balance sheet amount (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Investment securities (*1)			
Available-for-sale securities	19,037	19,070	33
Total assets	19,037	19,070	33
(1) Current portion of convertible bonds with share acquisition rights	60,000	60,513	513
(2) Bonds payable	3,000	2,985	(14)
(3) Long-term loans payable	242,873	239,739	(3,133)
Total liabilities	305,873	303,238	(2,635)
Derivatives (*2)	8,697	8,697	—

(*1) Equity securities without market prices are not included in “(1) Investment securities.” The consolidated balance sheet amount of these financial instruments is as follows. The Company recognized impairment losses of 2,827 million yen on unlisted shares during the year ended March 31, 2022.

Category	As of March 31, 2022 (Millions of yen)
Unlisted shares	99,682

(*2) Net receivables and payables arising from derivative transactions are shown as a net amount and items with total net payables are shown in parentheses.

(Notes) 1 Maturity of financial assets

As of March 31, 2021

	Due within one year (Millions of yen)	Due after one year through five years (Millions of yen)	Due after five years through ten years (Millions of yen)	Due after ten years (Millions of yen)
Cash and deposits	52,972	—	—	—
Notes and accounts receivable - trade	234,635	—	—	—
Accounts receivable - other	46,143	—	—	—
Investment securities				
Available-for-sale securities with maturities				
Bonds(Bonds payable)	—	—	—	705
Total	333,751	—	—	705

As of March 31, 2022

	Due within one year (Millions of yen)	Due after one year through five years (Millions of yen)	Due after five years through ten years (Millions of yen)	Due after ten years (Millions of yen)
Cash and deposits	80,328	—	—	—
Notes receivable - trade	2,635	—	—	—
Accounts receivable - trade	280,050	—	—	—
Accounts receivable - other	66,055	—	—	—
Investment securities				
Available-for-sale securities with maturities				
Bonds(Bonds payable)	—	—	—	705
Total	429,070	—	—	705

2 Maturity of bonds payable, long-term loans payable and other interest-bearing debts

As of March 31, 2021

	Due within one year (Millions of yen)	Due after one year through two years (Millions of yen)	Due after two years through three years (Millions of yen)	Due after three years through four years (Millions of yen)	Due after four years through five years (Millions of yen)	Due after five years (Millions of yen)
Short-term loans payable	102,774	—	—	—	—	—
Commercial paper	37,200	—	—	—	—	—
Bonds payable	17,700	—	—	—	3,000	—
Convertible bonds with share acquisition rights	—	60,000	—	—	—	—
Long-term loans payable	72,917	76,578	52,241	40,339	15,936	130,662
Total	230,592	136,578	52,241	40,339	18,936	130,662

As of March 31, 2022

	Due within one year (Millions of yen)	Due after one year through two years (Millions of yen)	Due after two years through three years (Millions of yen)	Due after three years through four years (Millions of yen)	Due after four years through five years (Millions of yen)	Due after five years (Millions of yen)
Short-term loans payable	121,232	—	—	—	—	—
Commercial paper	82,300	—	—	—	—	—
Current portion of convertible bonds with share acquisition rights	60,000	—	—	—	—	—
Bonds payable	—	—	—	3,000	—	—
Long-term loans payable	74,253	43,263	51,408	17,005	30,196	101,000
Total	337,785	43,263	51,408	20,005	30,196	101,000

3 Matters related to the breakdown of fair value level of financial instruments

The fair value of financial instruments is classified into the following three levels of hierarchy based on the observability and significance of the inputs used to calculate fair value.

Fair value of Level 1: Fair value of assets and liabilities calculated by using observable inputs, which are quoted prices in active markets

Fair value of Level 2: Fair value calculated by using observable inputs not used in Level 1

Fair value of Level 3: Fair value calculated by using unobservable inputs

When several inputs categorized into different levels that significantly impact calculation of the fair value are used, the level of the fair value will be determined according to the level of input with the lowest priority.

(1) Financial instruments reported at fair value in the consolidated balance sheets

As of March 31, 2022

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	18,246	—	—	18,246
Other	—	734	—	734
Total assets	18,246	734	—	18,980
Derivatives(*)				
Currency-related	—	9,964	—	9,964
Commodity-related	—	(1,267)	—	(1,267)
Total derivatives	—	8,697	—	8,697

(*)Net receivables and payables arising from derivative transactions are shown as a net amount and items with total net payables are shown in parentheses.

(2) Financial instruments other than those reported at fair value in the consolidated balance sheets

As of March 31, 2022

Category	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Other	—	90	—	90
Total assets	—	90	—	90
Current portion of convertible bonds with share acquisition rights	—	60,513	—	60,513
Bonds payable	—	2,985	—	2,985
Long-term loans payable	—	239,739	—	239,739
Total liabilities	—	303,238	—	303,238

(Note) Valuation techniques for measuring fair value and explanation of inputs:

Investment securities

Listed shares are measured using quoted prices. Listed shares are traded in active markets, and therefore their fair value is categorized in Level 1 of the fair value hierarchy.

Convertible bonds with share acquisition rights

The fair value of convertible bonds with share acquisition rights is based on the price quoted on the securities exchange and is not deemed to be the quoted price in active markets. Therefore, the fair value is categorized in Level 2 of the fair value hierarchy.

Bonds payable

The fair value of bonds payable is calculated by discounting the total amount of principal and interest at the interest rate assumed when similar bonds are issued and is categorized in Level 2 of the fair value hierarchy.

Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total amount of principal and interest at the interest rate assumed when similar loans are taken out and is categorized in Level 2 of the fair value hierarchy.

Derivatives

The fair value of forward foreign exchange contracts is measured using the forward exchange rate and the price indicated by the financial institutions conducting transactions. The fair value of commodity-related transactions is measured using the closing price of the stock exchange. These fair values are not deemed to be quoted prices in active markets, and therefore are categorized in Level 2 of the fair value hierarchy.

Interest rate swaps subject to the exceptional method are treated as part of the long-term loans payable being hedged, and their fair value is included in the relevant long-term loans payable (refer to “Long-term loans payable” above).

(Securities)

1 Held-to-maturity securities

As of March 31, 2021

None.

As of March 31, 2022

None.

2 Available-for-sale securities

As of March 31, 2021

Category	Consolidated balance sheet amount (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Consolidated balance sheet amount exceeds acquisition cost			
(i) Equity securities	19,093	7,611	11,481
(ii) Other	—	—	—
Subtotal	19,093	7,611	11,481
Consolidated balance sheet amount does not exceed acquisition cost			
(i) Equity securities	15	27	(11)
(ii) Other	30	30	—
Subtotal	46	57	(11)
Total	19,139	7,669	11,470

As of March 31, 2022

Category	Consolidated balance sheet amount (Millions of yen)	Acquisition cost (Millions of yen)	Difference (Millions of yen)
Consolidated balance sheet amount exceeds acquisition cost			
(i) Equity securities	18,223	7,586	10,636
(ii) Other	29	23	5
Subtotal	18,252	7,610	10,641
Consolidated balance sheet amount does not exceed acquisition cost			
(i) Equity securities	22	34	(11)
(ii) Other	761	761	—
Subtotal	784	796	(11)
Total	19,037	8,406	10,630

3 Available-for-sale securities sold

Fiscal year ended March 31, 2021

Category	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Equity securities	2,987	839	0
Total	2,987	839	0

Fiscal year ended March 31, 2022

Category	Sales amount (Millions of yen)	Total gain on sales (Millions of yen)	Total loss on sales (Millions of yen)
Equity securities	879	796	0
Total	879	796	0

4 Impaired securities

Impairment losses of 267 million yen were recognized on securities (245 million yen on equity securities in available-for-sale securities, 22 million yen on other) during the year ended March 31, 2021.

Impairment losses of 2,829 million yen were recognized on securities (56 million yen on equity securities in available-for-sale securities, 2,773 million yen on other) during the year ended March 31, 2022.

(Derivatives)

1 Derivative transactions for which hedge accounting is not applied

(1) Currency-related

As of March 31, 2021

Category	Type of transaction	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)	Gains (losses) (Millions of yen)
Transactions other than market transactions	Forward foreign exchange contracts				
	Buy U.S. dollars	168,016	—	7,037	7,037
	Chinese yuan	1,499	974	276	276
	Sell U.S. dollars	19,859	—	(328)	(328)

As of March 31, 2022

Category	Type of transaction	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)	Gains (losses) (Millions of yen)
Transactions other than market transactions	Forward foreign exchange contracts				
	Buy U.S. dollars	241,418	—	10,098	10,098
	Chinese yuan	2,453	1,813	367	367
	Sell U.S. dollars	32,516	—	(877)	(877)

(2) Commodity-related

As of March 31, 2021

Category	Type of transaction	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)	Gains (losses) (Millions of yen)
Market transactions	Crude oil futures				
	Sell	60	—	(3)	(3)
	Buy	139	—	3	3
	Products futures				
	Buy	81	—	3	3
Transactions other than market transactions	Crude oil swaps				
	Fixed buy / variable sell	8,225	—	232	232
	Fixed sell / variable buy	8,020	—	(160)	(160)

As of March 31, 2022

Category	Type of transaction	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)	Gains (losses) (Millions of yen)
Market transactions	Crude oil futures				
	Sell	243	—	(79)	(79)
	Buy	282	—	72	72
	Products futures				
	Sell	16	—	1	1

2 Derivative transactions for which hedge accounting is applied

(1) Currency-related

As of March 31, 2021

Method of hedge accounting	Type of transaction	Main hedged item	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)
Principle treatment method	Forward foreign exchange contracts Buy U.S. dollars	Foreign denominated forecast transactions	1,969	—	(23)

As of March 31, 2022

Method of hedge accounting	Type of transaction	Main hedged item	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)
Principle treatment method	Forward foreign exchange contracts	Foreign denominated forecast transactions			
	Buy				
	U.S. dollars		1,217	—	158
	Euros		1,968	11	217

(2) Interest rate-related

As of March 31, 2021

Method of hedge accounting	Type of transaction	Main hedged item	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)
Exceptional method for interest rate swaps	Interest rate swaps Variable receipt / fixed payment	Long-term loans payable	132,681	82,331	(Note)

(Note) Interest rate swaps subject to the exceptional method are treated as part of the long-term loans payable being hedged, and their fair value is included in the relevant long-term loans payable.

As of March 31, 2022

Method of hedge accounting	Type of transaction	Main hedged item	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)
Exceptional method for interest rate swaps	Interest rate swaps Variable receipt / fixed payment	Long-term loans payable	86,998	66,314	(Note)

(Note) Interest rate swaps subject to the exceptional method are treated as part of the long-term loans payable being hedged, and their fair value is included in the relevant long-term loans payable.

(3) Commodity-related

As of March 31, 2021

Method of hedge accounting	Type of transaction	Main hedged item	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)
Principle treatment method	Crude oil swaps				
	Fixed buy / variable sell	Forecast transactions	16	—	9
	Product swaps				
	Fixed buy / variable sell	Forecast transactions	10,994	—	239
	Fixed sell / variable buy		10,942	—	(646)

As of March 31, 2022

Method of hedge accounting	Type of transaction	Main hedged item	Contract amount (Millions of yen)	Contract amount exceeding one year (Millions of yen)	Fair value (Millions of yen)
Principle treatment method	Crude oil futures				
	Sell	Forecast transactions	28,743	—	(1,263)
	Crude oil swaps				
	Fixed buy / variable sell	Forecast transactions	253	—	(4)
	Product swaps				
	Fixed buy / variable sell	Forecast transactions	(1,046)	—	(65)
	Fixed sell / variable buy		1,120	—	70

(Retirement benefits)

1 Outline of retirement benefit plans

Certain consolidated subsidiaries adopt defined benefit pension plans, defined contribution pension plans, lump-sum retirement payment plans, prepaid retirement allowance plans and other plans to provide retirement benefits to employees. Retirement benefit trusts have been established in certain defined benefit pension plans.

Certain consolidated subsidiaries apply a simplified method deeming the accrued benefits at the end of the year for voluntary termination to be the retirement benefit obligations in the calculation of net defined benefit liability and retirement benefit expenses.

2 Defined benefit plans

(1) Changes in retirement benefit obligations

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Retirement benefit obligations at beginning of the year	37,332 million yen	37,050 million yen
Service cost	1,814	1,806
Interest cost	213	213
Actuarial difference	26	(10)
Benefits paid	(2,470)	(1,962)
Increase due to new consolidation	77	—
Other	55	139
Retirement benefit obligations at end of the year	37,050	37,237

(2) Changes in plan assets

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Plan assets at beginning of the year	32,168 million yen	39,528 million yen
Expected return on plan assets	533	849
Actuarial difference	6,912	(1,270)
Contributions paid by the employer	1,913	1,983
Benefits paid	(1,999)	(1,652)
Plan assets at end of the year	39,528	39,439

(3) Reconciliation of retirement benefit obligations and plan assets at end of the year with net defined benefit liability and net defined benefit asset shown on the consolidated balance sheets

	As of March 31, 2021	As of March 31, 2022
Retirement benefit obligations for funded plans	34,508 million yen	34,679 million yen
Plan assets	(39,528)	(39,439)
	(5,020)	(4,759)
Retirement benefit obligations for unfunded plans	2,541	2,557
Net amount of liabilities and assets on the consolidated balance sheets	(2,478)	(2,201)
Net defined benefit liability	2,992	2,879
Net defined benefit asset	(5,471)	(5,081)
Net amount of liabilities and assets on the consolidated balance sheets	(2,478)	(2,201)

(4) Breakdown of retirement benefit expenses

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Service cost	1,814 million yen	1,806 million yen
Interest cost	213	213
Expected return on plan assets	(533)	(849)
Actuarial difference amortization	5	(648)
Past service cost amortization	(4)	—
Other	21	13
Retirement benefit expenses for defined benefit plans	1,517	536

(5) Remeasurements of defined benefit plans

The components of remeasurements of defined benefit plans (before income tax effect) recognized in other comprehensive income are as follows:

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Past service cost	4 million yen	— million yen
Actuarial difference	(6,891)	1,907
Total	(6,887)	1,907

(6) Accumulated remeasurements of defined benefit plans

The component of remeasurements of defined benefit plans (before income tax effect) recognized in accumulated other comprehensive income is as follows:

	As of March 31, 2021	As of March 31, 2022
Unrecognized actuarial difference	(3,862) million yen	(1,954) million yen
Total	(3,862)	(1,954)

(7) Plan assets

(i) Composition of plan assets

The ratios of each main category to total plan assets are as follows:

	As of March 31, 2021	As of March 31, 2022
Bonds	34.9	37.4
Equity securities	49.1	45.5
Other	16.0	17.1
Total	100.0	100.0

(Note) Retirement benefit trusts established for corporate pension plans represent 30.7% and 25.3% of total plan assets as of March 31, 2021 and 2022, respectively.

(ii) Method of determining the long-term expected rate of return on plan assets

Current and expected allocation of plan assets and the expected present and future long-term rate of return on the various assets making up plan assets are considered in order to determine the long-term expected rate of return on plan assets.

(8) Actuarial assumptions

The principle actuarial assumptions are as follows:

	As of March 31, 2021	As of March 31, 2022
Discount rate	0.2% to 0.9%	0.2% to 0.9%
Long-term expected rate of return on plan assets	1.5% to 2.0%	1.3% to 2.5%

3 Defined contribution plans

The required contributions to defined contribution plans by certain consolidated subsidiaries were 515 million yen in the year ended March 31, 2021 and 539 million yen in the year ended March 31, 2022.

(Tax effect accounting)

1 Significant components of deferred tax assets and liabilities

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets		
Tax loss carryforwards (Note) 2	71,165 million yen	42,762 million yen
Asset retirement obligations	11,023	13,423
Provision for special repairs	8,570	12,095
Impairment loss	7,033	6,918
Other	28,637	34,638
Gross deferred tax assets	126,431	109,838
Valuation allowance for tax loss carryforwards(Note)2	(45,924)	(22,976)
Valuation allowance for deductible temporary differences and others	(19,069)	(19,079)
Valuation allowance (Note) 1	(64,993)	(42,056)
Total deferred tax assets	61,437	67,782
Deferred tax liabilities		
Amortization difference calculated based on foreign income taxes	(37,167)	(45,056)
Asset retirement expenses	(6,913)	(8,614)
Unrealized gains or losses on available-for-sale securities	(3,219)	(2,969)
Other	(9,265)	(9,085)
Total deferred tax liabilities	(56,565)	(65,725)
Net deferred tax assets and liabilities	4,871	2,056
Deferred tax assets and liabilities for land revaluation		
Deferred tax assets for land revaluation	10,277	10,277
Valuation allowance	(10,277)	(10,277)
	—	—
Total deferred tax assets for land revaluation	(5,100)	(5,107)
Net deferred tax liabilities for land revaluation	(5,100)	(5,107)

(Note) 1. Valuation allowance decreased by 22,937 million yen. This is mainly due to a decrease in tax loss carryforwards for which the valuation allowance was recognized since the consolidated taxable entity with the Company as the consolidated parent company (the “consolidated tax filing group”) used tax loss carryforwards.

(Note) 2. Amount of tax loss carryforwards and related deferred tax assets by expiration periods

As of March 31, 2021

(Millions of yen)

	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Gross deferred tax assets for tax loss carryforwards (*1)	8,248	5,513	25,200	17,870	192	14,139	71,165
Valuation allowance	3,104	363	19,155	15,151	166	7,982	45,924
Deferred tax assets	5,143	5,150	6,044	2,718	26	6,156	(*2) 25,240

(*1) Gross deferred tax assets for tax loss carryforwards are calculated by multiplying by the statutory tax rate.

(*2) Deferred tax assets of 25,240 million yen were recorded out of gross deferred tax assets for tax loss carryforwards of 71,165 million yen (calculated by multiplying by the statutory tax rate). 25,108 million yen of deferred tax assets were recognized for a portion of 70,296 million yen of the balance of gross deferred tax assets for tax loss carryforwards of the consolidated tax filing group (calculated by multiplying by the statutory tax rate). Tax loss carryforwards, for which these deferred tax assets were recognized, are non-recurring items generated mainly at Cosmo Oil Co., Ltd. due to the effects of the Great East Japan Earthquake and a sharp drop in crude oil prices in prior years. The Company expects that crude oil prices will stabilize and demand for fuel oil, which had been falling due to COVID-19, will recover gradually as a result of increased vaccinations and other factors. The

domestic market conditions are expected to remain stable, and continuously securing the appropriate margin is expected to be possible. Refineries are expected to be able to maintain high utilization rates by securing sales volumes in excess of production volumes. In this environment, the Company will strive to further increase profitability by continuously implementing key initiatives in the sixth consolidated medium-term management plan. Based on the above, taxable income before adding or subtracting temporary differences is expected to arise consistently for the long-term. Accordingly, a valuation allowance has not been recognized as the deferred tax assets for tax loss carryforwards are determined to be recoverable.

As of March 31, 2022

(Millions of yen)

	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Gross deferred tax assets for tax loss carryforwards (*1)	—	11,281	17,754	159	844	12,721	42,762
Valuation allowance	—	2,854	14,524	159	844	4,594	22,976
Deferred tax assets	—	8,427	3,230	—	—	8,127	(*2) 19,785

(*1) Gross deferred tax assets for tax loss carryforwards are calculated by multiplying by the statutory tax rate.

(*2) Deferred tax assets of 19,785 million yen were recorded out of gross deferred tax assets for tax loss carryforwards of 42,762 million yen (calculated by multiplying by the statutory tax rate). 19,777 million yen of deferred tax assets were recognized for a portion of 42,076 million yen of the balance of gross deferred tax assets for tax loss carryforwards of the consolidated tax filing group (calculated by multiplying by the statutory tax rate). Tax loss carryforwards, for which these deferred tax assets were recognized, are non-recurring items generated mainly at Cosmo Oil Co., Ltd. due to a sharp drop in crude oil prices in prior years. We have assumed that the initial budget assumptions prepared by the Group will continue, despite the current surge in crude oil prices due to uncertainty over the global situation, including Russia's invasion of Ukraine. The domestic market conditions are expected to remain stable, and it is expected it will be possible to continuously secure the appropriate margin. Refineries are expected to be able to maintain high utilization rates by securing sales volumes in excess of production volumes. Under these circumstances, the Company's profitability has increased significantly owing to key initiatives from the sixth consolidated medium-term management plan. Accordingly, a valuation allowance has not been recognized as the deferred tax assets for tax loss carryforwards are determined to be recoverable.

2 Reconciliation of statutory tax rate and effective tax rate

	As of March 31, 2021	As of March 31, 2022
Statutory tax rate	30.62%	Omitted because the difference between the
(Adjustments)		statutory tax rate and the effective tax rate is
Entertainment and other permanently non-	0.15	not greater than 5% of the statutory tax rate.
deductible expenses	0.15	
Effects of equity method investments accounting	6.76	
Foreign income tax	(31.54)	
Changes in valuation allowance	(1.41)	
Other		
Effective tax rate	4.73	

(Asset retirement obligations)

Asset retirement obligations included in the consolidated balance sheets

1. Summary of asset retirement obligations

The Group has primarily the following asset retirement obligations:

- Obligations to restore real estate under fixed-term leasehold rights for service stations
- Obligations to restore real estate under land rental contracts for wind-power generation facilities
- Obligations to restore real estate under real estate rental leases of offices
- Mine closure obligations due to the effective date of concession agreements

2. Calculation method of asset retirement obligations

The Group calculates the amount of asset retirement obligations by forecasting an estimated usage period between 8 to 50 years and using a discount rate between 0.005% to 3.000%.

3. Movement in asset retirement obligations

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
At beginning of the year	23,675 million yen	20,488 million yen
Increases due to purchase of property, plant and equipment	87	309
Increases (decrease) due to changes in estimates	(2,854)	2,382
Adjustments due to the passage of time	223	243
Decreases due to payments for asset retirement obligations	(581)	(578)
Other increase (decrease)	(61)	(22)
At end of the year	20,488	22,823

4. Change in estimate for the asset retirement obligations

The Group mainly reviewed removal costs for the asset retirement obligations recorded as mine closure obligations due to the effective date of concession agreements by a consolidated subsidiary. As a result, the Group changed its estimate because it became evident that the removal costs to be incurred in the future will change from the estimated amount at the beginning of the fiscal year ended March 31, 2022. Due to this change in estimate, 2,854 million yen was deducted from the asset retirement obligations before the change in the fiscal year ended March 31, 2021, and 2,382 million yen was added in the fiscal year ended March 31, 2022.

(Rental property)

The Company and certain of its subsidiaries own rental service station facilities and office buildings (including land) in the Tokyo metropolitan area and other regions. The rental income related to such rental property in the fiscal years ended March 31, 2021 and 2022 were 1,448 million yen and 1,362 million yen, respectively. Rental revenues are reported mainly as net sales and related rental expenses are included mainly as selling, general and administrative expenses in the consolidated statements of income. The net gain or loss on sales and disposal of rental properties in the fiscal years ended March 31, 2021 and 2022 were 1,521 million yen and 40 million yen, respectively (accounted for as extraordinary income or loss). The impairment losses in the fiscal years ended March 31, 2021 and 2022 were 141 million yen and 30 million yen, respectively (accounted for as extraordinary loss).

Book value, increase/decrease in book value during the fiscal year and fair value were as follows:

(Millions of yen)

		Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Book value			
	Balance at beginning of the year	31,563	28,644
	Net movement during the year	(2,918)	(176)
	Balance at end of the year	28,644	28,467
Fair value at end of the year		29,260	29,137

- (Notes)
- 1 Book value is acquisition cost less accumulated depreciation.
 - 2 The main increases in the fiscal year ended March 31, 2021 are primarily attributed to change in the purpose of use from assets in use to rental property (290 million yen) and new consolidation (397 million yen). The main decreases in the fiscal year ended March 31, 2021 are primarily attributed to sale or disposal of properties (2,764 million yen), impairment (141 million yen) and change in the purpose of use from rental property to assets in use (328 million yen). The main increases in the fiscal year ended March 31, 2022 are primarily attributed to change in the purpose of use from assets in use to rental property (129 million yen). The main decreases in the fiscal year ended March 31, 2022 are primarily attributed to depreciation (179 million yen) and sale or disposal of properties (171 million yen).
 - 3 The fair value of the main properties at the end of the fiscal years is the amount according to valuation reports issued by a third-party real estate appraiser. The fair value for other properties is based on a valuation in accordance with real estate appraisal standards. Additionally, the fair value for minor properties is set according to a certain appraised value or an index believed to reflect the appropriate market value. For certain depreciable assets, such as buildings, the fair value is assessed as the book value.

(Revenue recognition)

1. Disaggregation of revenue from contracts with customers

The Group operates its petroleum business, petrochemical business, oil exploration and production business, renewable energy business and other businesses. These businesses are regularly reviewed by the Board of Directors in order to make decisions about the allocation of resources and assess their performance. Therefore, net sales for each business, which are disaggregated by region where the customer is located, are presented as disaggregated revenue information.

Fiscal year ended March 31, 2022

(Millions of yen)

	Petroleum Business	Petrochemical Business	Oil Exploration and Production Business	Renewable Energy Business	Other	Total
Japan	1,871,666	299,196	31,973	13,091	21,620	2,237,547
Asia	84,688	12,399	—	—	67	97,155
Other	98,072	691	5,235	—	1,750	105,749
Outside customers	2,054,427	312,286	37,208	13,091	23,437	2,440,452
Revenue from contracts with customers	2,051,640	311,949	37,208	13,091	22,875	2,436,764

(Notes) 1 The amounts are the net values of internal transactions between group companies.

2 Net sales from outside customers include 3,687 million yen of revenue recognized from sources other than that of contracts with customers.

2. Basic information to understand revenue from contracts with customers

Petroleum business

In the petroleum business, the Group mainly engages in importation and exportation, refining, storage and sales of crude oil and petroleum products.

For this business, the Group recognizes revenue based on the transaction price under the contract mainly when a product promised under the contract is delivered to the customer, considering the performance obligation under the contract to have been satisfied when the control of the product has been transferred to the customer. The Group also recognizes revenue based on the transaction price under the contract at the time of shipping in accordance with the alternative treatment. Revenue is recognized at the amount of consideration under the contract with the customer, less returns and discounts. Since the consideration for transactions is received within one year after the delivery of the product, it does not include a significant financial element. For transactions that may contain variable consideration, revenue is recognized only to the extent that it is highly probable that a significant reversal of revenue will not occur.

Petrochemical business

In the petrochemical business, the Group mainly engages in manufacturing and sales of petrochemical products.

For this business, the Group recognizes revenue based on the transaction price under the contract mainly when a product promised under the contract is delivered to the customer, considering the performance obligation under the contract to have been satisfied when the control of the product has been transferred to the customer. Since the consideration for transactions is received within one year after the delivery of the product, it does not include a significant financial element. For transactions that may contain variable consideration, revenue is recognized only to the extent that it is highly probable that a significant reversal of revenue will not occur.

Oil exploration and production business

In the oil exploration and production business, the Group mainly engages in exploration, production and sales of crude oil.

For this business, the Group recognizes revenue based on the transaction price under the contract mainly when a product promised under the contract is delivered to the customer, considering the performance obligation under the contract to have been satisfied when the control of the product has been transferred to the customer. Since the consideration for transactions is received within one year after the delivery of the product, it does not include a significant financial element.

Renewable energy business

In the renewable energy business, the Group mainly engages in supply and sales of electricity produced by wind power.

For this business, the Group recognizes revenue based on the transaction price under the contract mainly when a product promised under the contract is delivered to the customer, considering the performance obligation under the contract to have been satisfied when the control of the product has been transferred to the customer. Since the consideration for transactions is received within one year after the delivery of the product, it does not include a significant financial element.

3. Information on the relationship between performance obligations satisfied based on contracts with customers and cash flows arising from the contracts, as well as the amount of revenue from the contracts with customers existing in the fiscal year ended March 31, 2022 that is expected to be recognized after the fiscal year ended March 31, 2023 and the timing of recognition

(1) Balances of contract assets and liabilities

	(Millions of yen)
	Fiscal year ended March 31, 2022
Receivables from contracts with customers (beginning balance)	216,853
Receivables from contracts with customers (ending balance)	269,819
Contract assets (beginning balance)	2,016
Contract assets (ending balance)	1,932
Contract liabilities (beginning balance)	7,021
Contract liabilities (ending balance)	9,279

Contract assets are primarily related to consideration for uncompleted constructions for which revenue was recognized regarding construction contracts. These assets are reclassified to receivables from contracts with customers when the right to the consideration becomes unconditional.

Contract liabilities are consideration received from customers in advance of satisfying performance obligations under contracts. They are reclassified to revenue as or when performance obligations are satisfied.

Contract assets are included in “Other” under current assets and contract liabilities are included in “Other” in current liabilities.

The contract liability balance at the beginning of the fiscal year ended March 31, 2022 was largely recognized as revenue for the year, and the amount carried forward was immaterial. The amount of revenue recognized from performance obligations satisfied in prior periods was also immaterial in the fiscal year ended March 31, 2022.

(2) Transaction price allocated to the remaining performance obligations

This information has been omitted since the balance of unsatisfied performance obligations under a contract that has an original expected duration of one year or less is immaterial in the fiscal year ended March 31, 2022. There are no significant amounts in consideration from contracts with customers that are not included in transaction prices.

(Segment information, etc.)

Segment information

1 Overview of reportable segments

The reportable segments of the Group are components for which discrete financial information is available, and such information is regularly reviewed by the Board of Directors (the chief operating decision maker) in order to make decisions about the allocation of resources and assess their performance.

The Group operates its petroleum business, petrochemical business, oil exploration and production business, and renewable energy business in addition to other businesses. The Company and its subsidiaries conduct these businesses through independent management enterprises.

The Group, which is comprised of segments defined by the products and services that are handled, therefore considers the “Petroleum Business,” “Petrochemical Business,” “Oil Exploration and Production Business,” and “Renewable Energy Business” as its four reportable segments.

The petroleum business produces and sells gasoline, naphtha, kerosene, gas oil, heavy oil, crude oil, lubricants, liquefied petroleum gas, asphalt and other petroleum products. The petrochemical business produces and sells ethylene, mixed xylene, para-xylene, benzene, toluene, petrochemical solvents and other petrochemical products. The oil exploration and production business develops, produces and sells crude oil. The renewable energy business supplies and sells electricity produced by wind power.

From the fiscal year ended March 31, 2022, as part of sustainable management in anticipation of long-term environmental changes, the Group has changed its business management system to clarify its management policies which aim to expand the Group’s business portfolio from the perspective of business performance. As a result, the Group has changed its reportable segments from three categories of “Petroleum Business,” “Petrochemical Business” and “Oil Exploration and Production Business” to four categories of “Petroleum Business,” “Petrochemical Business,” “Oil Exploration and Production Business” and “Renewable Energy Business.” The “Renewable Energy Business” includes the wind and solar power generation businesses, which were previously included in “Other.”

In order to respond to changes in the business structure toward decarbonization, the importance of information about investments and assets as sources of revenues is increasing. The Group has therefore disclosed information on segment assets.

Segment information for the previous fiscal year has been prepared based on the revised classification of reportable segments.

2 Calculation method for net sales, income or loss, assets, liabilities and other items by reportable segment

The accounting methods for the operating segments that are reported are the same as those included and summarized in “Basis of preparation of consolidated financial statements” above.

Segment income is based on ordinary income. Inter-segment revenue and transfers are based on actual market prices.

(Changes in accounting policies)

As described in (Changes in accounting policies) - (Application of the Accounting Standard for Revenue Recognition, etc.), the Company has adopted the Accounting Standard for Revenue Recognition, etc. from the beginning of the fiscal year ended March 31, 2022 and has changed the accounting method for revenue recognition. As a result, the Company has changed the calculation method of the profit or loss of reportable segments in the same manner.

As a result of this change, as compared with the previous method, net sales have decreased by 695,998 million yen and segment income has increased by 377 million yen in “Petroleum Business” for the fiscal year ended March 31, 2022. In “Petrochemical Business,” net sales have decreased by 120,895 million yen and segment income has decreased by 5 million yen, and in “Other,” net sales have increased by 282 million yen and segment income has increased by 71 million yen for the fiscal year ended March 31, 2022.

(Change of depreciation method for property, plant and equipment)

As described in (Changes in accounting policies) - (Changes in accounting policies that are difficult to distinguish from changes in accounting estimates), certain consolidated subsidiaries had mainly adopted the declining-balance method (excluding buildings acquired in and after April 1998 and attached facilities, structures and oil tanks acquired in and after April 2016, which were depreciated by the straight-line method) to calculate depreciation of property, plant and equipment (excluding leased assets). However, the depreciation method was changed to the straight-line method from the fiscal year ended March 31, 2022.

As a result, segment income in “Petrochemical Business” for the fiscal year ended March 31, 2022 has increased by 1,940 million yen, as compared with the previous method.

3 Information about net sales, income or loss, assets, liabilities and other items by reportable segment

Fiscal year ended March 31, 2021

(Millions of yen)

	Petroleum Business	Petrochemical Business	Oil Exploration and Production Business	Renewable Energy Business	Other (Note) 1	Adjustments (Note) 2, 4	Consolidated (Note) 3
Net sales							
Outside customers	1,906,912	268,005	22,939	11,662	23,730	—	2,233,250
Inter-segment	148,924	36,525	37,472	—	45,099	(268,021)	—
Total	2,055,836	304,530	60,411	11,662	68,830	(268,021)	2,233,250
Segment income (loss)	74,058	(3,319)	13,859	4,134	4,134	4,503	97,370
Segment assets	1,194,125	297,797	255,685	51,027	55,746	(145,365)	1,709,017
Other items							
Depreciation	26,584	9,479	13,510	1,824	2,738	(574)	53,564
Interest income	366	124	220	28	27	(398)	368
Interest expenses	4,650	263	2,097	83	173	(42)	7,225
Equity in net income (loss) of unconsolidated subsidiaries and affiliates	2,884	(3,433)	5	65	30	—	(447)
Investments in entities accounted for using equity method	25,868	37,120	12,821	568	343	—	76,722
Capital expenditures	42,471	19,683	10,338	10,040	38	(2,948)	79,624

(Notes) 1 The “Other” segment includes business segments not included in the reportable segments such as the construction business, insurance agency business and leasing business.

2 Adjustments to segment income (loss) of 4,503 million yen include 3,773 million yen of net corporate income and expenses that are not allocated to any reportable segment or to the “Other” segment, 1,759 million yen of inter-segment transaction eliminations, 64 million yen of adjustments to inventories, and (1,094) million yen of adjustments to non-current assets.

3 Segment income (loss) is reconciled to ordinary income in the consolidated statement of income.

4 Adjustments to segment assets of (145,365) million yen include corporate assets that are not allocated to any reportable segment or to the “Other” segment, and inter-segment transaction eliminations.

5 The Company does not disclose liability items as they are not allocated to each segment.

Fiscal year ended March 31, 2022

(Millions of yen)

	Petroleum Business	Petrochemical Business	Oil Exploration and Production Business	Renewable Energy Business	Other (Note) 1	Adjustments (Note) 2, 4	Consolidated (Note) 3
Net sales							
Outside customers	2,054,427	312,286	37,208	13,091	23,437	—	2,440,452
Inter-segment	83,318	47,147	53,824	16	38,762	(223,070)	—
Total	2,137,746	359,434	91,033	13,108	62,199	(223,070)	2,440,452
Segment income	165,549	13,617	44,761	3,483	3,465	2,221	233,097
Segment assets	1,424,267	312,316	271,564	42,563	54,330	(166,633)	1,938,408
Other items							
Depreciation	27,667	8,435	13,534	2,582	2,712	(979)	53,953
Interest income	396	151	55	28	47	(521)	157
Interest expenses	3,949	488	2,011	130	158	(336)	6,402
Equity in net income (loss) of unconsolidated subsidiaries and affiliates	4,234	(3,462)	1,901	(76)	52	—	2,650
Investments in entities accounted for using equity method	26,226	35,974	12,493	482	410	—	75,587
Capital expenditures	23,008	13,093	14,291	7,856	133	(1,318)	57,064

- (Notes) 1 The “Other” segment includes business segments not included in the reportable segments such as the construction business, insurance agency business and leasing business.
- 2 Adjustments to segment income (loss) of 2,221 million yen include 3,522 million yen of net corporate income and expenses that are not allocated to any reportable segment or to the “Other” segment, 790 million yen of inter-segment transaction eliminations, (2,473) million yen of adjustments to inventories, and 381 million yen of adjustments to non-current assets.
- 3 Segment income is reconciled to ordinary income in the consolidated statement of income.
- 4 Adjustments to segment assets of (166,633) million yen include corporate assets that are not allocated to any reportable segment or to the “Other” segment, and intersegment transaction eliminations.
- 5 The Company does not disclose liability items as they are not allocated to each segment.

Related information

Fiscal year ended March 31, 2021

1 Information by product and service

This information has been omitted because information about each product and service is the same as that disclosed in the segment information above.

2 Information by geographic area

(1) Net sales

(Millions of yen)

Japan	Asia	Other	Total
2,105,759	74,642	52,848	2,233,250

(Note) Net sales are calculated based on customer location, and are categorized by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	United Arab Emirates	Other	Total
720,233	145,144	55	865,433

3 Information about major customers

(Millions of yen)

Trade name or name of customer	Net sales	Name of relevant segment
ENEOS Holdings, Inc.	335,154	Petroleum Business/Oil Exploration and Production Business
Kygnus Sekiyu K.K.	234,426	Petroleum Business

(Note) Net sales include revenue for the direct customer and customers who belong to the same corporate group.

Fiscal year ended March 31, 2022

1 Information by product and service

This information has been omitted because information about each product and service is the same as that disclosed in the segment information above.

2 Information by geographic area

(1) Net sales

(Millions of yen)

Japan	Asia	Other	Total
2,237,547	97,155	105,749	2,440,452

(Note) Net sales are calculated based on customer location, and are categorized by country or region.

(2) Property, plant and equipment

(Millions of yen)

Japan	United Arab Emirates	Other	Total
703,751	142,780	84	846,616

3 Information about major customers

(Millions of yen)

Trade name or name of customer	Net sales	Name of relevant segment
Kygnus Sekiyu K.K.	333,993	Petroleum Business

- (Notes) 1 Net sales include revenue for direct customers and customers who belong to the same corporate group.
 2 Net sales from ENEOS Holdings, Inc. have been omitted since the amount was no longer material after the accounting method for certain transactions was changed through the application of revenue recognition standards in the fiscal year ended March 31, 2022.

Information about impairment losses of non-current assets by reportable segment

Fiscal year ended March 31, 2021

(Millions of yen)

	Petroleum Business	Petrochemical Business	Oil Exploration and Production Business	Renewable Energy Business	Other	Group / Eliminations	Total
Impairment loss	215	51	—	—	—	—	267

Fiscal year ended March 31, 2022

(Millions of yen)

	Petroleum Business	Petrochemical Business	Oil Exploration and Production Business	Renewable Energy Business	Other	Group / Eliminations	Total
Impairment loss	72	1,311	10,849	—	—	—	12,232

Information about amortization and unamortized balance of goodwill by reportable segment

Fiscal year ended March 31, 2021

None.

Fiscal year ended March 31, 2022

None.

Information about gain on bargain purchase by reportable segment

Fiscal year ended March 31, 2021

None.

Fiscal year ended March 31, 2022

None.

Notes on related party transactions

1 Related party transactions

(1) Transactions with the Company

(a) Parent company and major shareholders of the Company (limited to corporate entities)

Fiscal year ended March 31, 2021

None.

Fiscal year ended March 31, 2022

None.

(b) Non-consolidated subsidiaries and affiliates of the Company

Fiscal year ended March 31, 2021

None.

Fiscal year ended March 31, 2022

None.

(c) Executive officers and major shareholders of the Company (only for individuals)

Fiscal year ended March 31, 2021

Type	Name	Address	Capital stock (Millions of yen)	Details of business activities or occupation	Voting rights held by the Company (or held by others (%))	Relationship with related party	Details of transaction	Amount of transaction (Millions of yen)	Account title	Balance at end of the year (Millions of yen)
Executive officer	Takayuki Uematsu	—	—	Representative Director, Senior Executive Officer of the Company	(Held by others) Direct 0.0	Representative Director, Senior Executive Officer of the Company Chairperson of the Cosmo Oil Eco Card Fund	Donation	44	—	—

(Note) The conditions of this transaction were the same as those for a transaction with a third party, including the transaction terms.

Fiscal year ended March 31, 2022

None.

(2) Transactions with consolidated subsidiaries

(a) Parent company and major shareholders of the Company (limited to corporate entities)

Fiscal year ended March 31, 2021

None.

Fiscal year ended March 31, 2022

None.

(b) Unconsolidated subsidiaries and affiliates of the Company

Fiscal year ended March 31, 2021

Type	Name	Address	Capital stock (Millions of yen)	Details of business activities or occupation	Voting rights held by the Company (or held by others) (%)	Relationship with related party	Details of transaction	Amount of transaction (Millions of yen)	Account title	Balance at end of the year (Millions of yen)
Affiliate	Kygnus Sekiyu K.K.	Chiyoda-ku, Tokyo	2,000	Sales and purchase of petroleum and petrochemical products	(Held by the Company) Direct 20.0	Sales of the Company's products Concurrent positions of officers	Sales of petroleum products, etc.	234,426	Accounts receivable-trade	27,922
									Long-term deposits received	23,600

Fiscal year ended March 31, 2022

Type	Name	Address	Capital stock (Millions of yen)	Details of business activities or occupation	Voting rights held by the Company (or held by others) (%)	Relationship with related party	Details of transaction	Amount of transaction (Millions of yen)	Account title	Balance at end of the year (Millions of yen)
Affiliate	Kygnus Sekiyu K.K.	Chiyoda-ku, Tokyo	2,000	Sales and purchase of petroleum and petrochemical products	(Held by the Company) Direct 20.0	Sales of the Company's products Concurrent positions of officers	Sales of petroleum products, etc.	333,993	Accounts receivable-trade	34,924
									Long-term deposits received	23,600
Affiliate	Kitaseki co Ltd.	Iwanuma City, Miyagi Prefecture	50	Sales of petroleum products	(Held by the Company) Indirect 19.7	Sales of the Company's products	Sales of petroleum products, etc.	128,375	Accounts receivable-trade	21,318

(Note) The conditions of this transaction were the same as those for a transaction with a third party, including the transaction terms.

(c) Executive officers and major shareholders of the Company (only for individuals)

Fiscal year ended March 31, 2021

Type	Name	Address	Capital stock (Millions of yen)	Details of business activities or occupation	Voting rights held by the Company (or held by others) (%)	Relationship with related party	Details of transaction	Amount of transaction (Millions of yen)	Account title	Balance at end of the year (Millions of yen)
Executive officer	Takayuki Uematsu	—	—	Representative Director, Senior Executive Officer of the Company	(Held by others) Direct 0.0	Representative Director, Senior Executive Officer of the Company Chairperson of the Cosmo Oil Eco Card Fund	Donation	25	—	—

Fiscal year ended March 31, 2022

Type	Name	Address	Capital stock (Millions of yen)	Details of business activities or occupation	Voting rights held by the Company (or held by others) (%)	Relationship with related party	Details of transaction	Amount of transaction (Millions of yen)	Account title	Balance at end of the year (Millions of yen)
Executive officer	Takayuki Uematsu	—	—	Representative Director, Senior Managing Executive Officer of the Company	(Held by others) Direct 0.0	Representative Director, Senior Managing Executive Officer of the Company Chairperson of the Cosmo Oil Eco Card Fund	Donation	25	—	—

(Note) The conditions of this transaction were the same as a transaction with a third party, including the transaction terms.

2 Notes about significant affiliates

None.

(Per share information)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net assets per share	3,882.72 yen	5,446.39 yen
Net income per share	1,025.86 yen	1,658.64 yen
Diluted net income per share	861.16 yen	1,389.40 yen

- (Notes)
- 1 The number of outstanding shares in the calculation for net assets per share excludes the Company shares held by the BIP trust (1,076 thousand shares as of March 31, 2021; 1,004 thousand shares as of March 31, 2022). Similarly, the average number of shares outstanding during the year in the calculation for net income per share excludes the Company shares held by the BIP trust (1,021 thousand shares as of March 31, 2021; 1,029 thousand shares as of March 31, 2022).
 - 2 As described in “Changes in accounting policies,” the Accounting Standard for Revenue Recognition has been applied since the beginning of the fiscal year ended March 31, 2022. As a result, net assets per share decreased by 5.31 yen and net income per share and diluted net income per share increased by 3.22 yen and 2.69 yen, respectively, in the fiscal year ended March 31, 2022.
 - 3 The basis for calculation of net income per share and diluted net income per share is as follows:

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022
Net income per share		
Net income attributable to owners of parent (Millions of yen)	85,910	138,890
Amount not attributed to common shareholders (Millions of yen)	—	—
Net income attributable to owners of parent related to common shares (Millions of yen)	85,910	138,890
Weighted average number of common shares during the year (Thousands of shares)	83,745	83,737
Diluted net income per share		
Adjustments to net income attributable to owners of parent (Millions of yen)	—	—
Increase in the number of common shares (Thousands of shares)	16,016	16,226
(Convertible bonds with share acquisition rights (Thousands of shares))	(16,016)	(16,226)
Overview of potential shares not included in calculation of diluted net income per share because they have no dilutive effect	—	—

(Major subsequent events)

(Acquisition of treasury stock)

At the Board of Directors' meeting held on May 12, 2022, the Company resolved matters related to the acquisition of treasury stock based on Article 156 of the Companies Act applied mutatis mutandis pursuant to Article 165-3 of the same act, and acquired its treasury stock as follows:

(1) Reason for the acquisition of treasury stock

To improve capital efficiency and increase returns to shareholders

(2) Resolutions by the Board of Directors regarding the acquisition of treasury stock

- (i) Class of shares acquired: Common shares of the Company
- (ii) Number of shares acquired: 8,000,000 shares (maximum)
(The ratio to the total number of outstanding shares (excluding treasury stock) is 9.55%.)
- (iii) Total acquisition cost: 20,000 million yen (maximum)
- (iv) Acquisition period: May 13 to November 30, 2022
- (v) Acquisition method: Market purchase on the Tokyo Stock Exchange

(3) Acquisition status as of the end of the month before the month in which the security report was issued

- (i) Class of shares acquired: Common shares of the Company
- (ii) Number of shares acquired: 397,900 shares
- (iii) Total acquisition cost: 1,399,937,482 yen
- (iv) Acquisition period: May 27 to 31, 2022 (on a trade date basis)
- (v) Acquisition method: Market purchase on the Tokyo Stock Exchange

(v) Consolidated Supplementary Schedules

Schedule of company bonds

Company Name	Bond name	Date of issue	Balance at April 1, 2021 (Millions of Yen)	Balance at March 31, 2022 (Millions of Yen)	Interest rate (%)	Collateral	Maturity
Cosmo Energy Holdings Co., Ltd.	25th, unsecured bonds payable	September 30, 2013	10,000 (10,000)	—	1.145	No collateral	September 30, 2021
Cosmo Energy Holdings Co., Ltd.	26th, unsecured bonds payable	February 25, 2014	7,700 (7,700)	—	1.260	No collateral	February 25, 2022
Cosmo Energy Holdings Co., Ltd.	27th, unsecured bonds payable	October 1, 2015	3,000	3,000	1.340	No collateral	October 1, 2025
Cosmo Energy Holdings Co., Ltd.	Euro-yen dominated convertible bonds with share acquisition rights due 2022	December 5, 2018	60,000	60,000 (60,000)	—	No collateral	December 5, 2022
Total	—	—	80,700 (17,700)	63,000 (60,000)	—	—	—

(Notes) 1 Current portion of bonds payable is stated in parentheses.

2 Details of convertible bonds with share acquisition rights are as follows:

Name	Euro-yen dominated convertible bonds with share acquisition rights due 2022
Shares to be issued	Common shares
Amount to be paid in for share acquisition rights (Yen)	Gratis
Issue price of shares (Yen)	3,694.0
Total amount to be paid (Millions of yen)	60,000
Total amount to be paid for shares issued through exercise of share acquisition rights (Millions of yen)	—
Grant ratio of share acquisition rights (%)	100
Exercise period of share acquisition rights	From December 19, 2018 to November 21, 2022

When there is a request to exercise share acquisition rights, in place of redemption of the full amount of the bonds to which the share acquisition rights are attached, it is deemed that the full amount to be paid upon exercise of the share acquisition rights has been paid. In addition, when share acquisition rights are exercised, it is deemed that the said request has been received.

3 Scheduled redemptions within the next five years after March 31, 2022 is as follows:

Due in one year or less (Million yen)	Due after one year through two years (Million yen)	Due after two years through three years (Million yen)	Due after three years through four years (Million yen)	Due after four years through five years (Million yen)
60,000	—	—	3,000	—

4 The 25th, 26th, and 27th, unsecured bonds of Cosmo Energy Holdings Co., Ltd. have been transferred from Cosmo Oil Co., Ltd., a consolidated subsidiary.

Schedule of borrowings, etc.

Classification	Balance at April 1, 2021 (Millions of yen)	Balance at March 31, 2022 (Millions of yen)	Average interest rate (%)	Maturity
Short-term loans payable	102,774	121,232	0.308	—
Current portion of long-term loans payable	72,917	74,253	1.169	—
Current portion of lease obligations	162	391	—	—
Long-term loans payable (excluding current portion)	315,759	242,873	1.539	2023 to 2053
Lease obligations (excluding current portion)	485	2,203	—	2023 to 2032
Other interest-bearing debts				
Notes and accounts payable - trade	96,207	95,588	0.811	—
Commercial paper (payable within one year)	37,200	82,300	0.150	—
Total	625,507	618,843	—	—

(Notes)1 The average interest rate is calculated using the weighted average rate for the outstanding balance of borrowings.

2 The average interest rate of lease obligations is not included because the lease obligations recorded on the consolidated balance sheet are the amounts before excluding the interest equivalent included in the total lease payments.

3 The average interest rate of notes and accounts payable - trade is the U.S. dollar interest rate.

4 The scheduled redemptions within the next five years after March 31, 2022 for the total long-term loans payable (excluding current portion) and lease obligations (excluding current portion) are as follows:

	Due after one year through two years (Millions of yen)	Due after two years through three years (Millions of yen)	Due after three years through four years (Millions of yen)	Due after four years through five years (Millions of yen)
Long-term loans payable	43,263	51,408	17,005	30,196
Lease obligations	341	319	288	281

Schedule of asset retirement obligations

Classification	Balance at April 1, 2021 (Millions of yen)	Increases during the year (Millions of yen)	Decreases during the year (Millions of yen)	Balance at March 31, 2022 (Millions of yen)
Obligations to restore real estate under fixed-term leasehold rights for service stations	3,426	80	—	3,506
Mine closure obligations due to the effective date of concession agreements and others	17,061	2,855	600	19,316
Total	20,488	2,935	600	22,823

Independent Auditor's Report on the Financial Statements
and
Internal Control Over Financial Reporting

June 23, 2022

To the Board of Directors of COSMO ENERGY HOLDINGS COMPANY, LIMITED:

KPMG AZSA LLC
Tokyo Office, Japan

Junshi Ono
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Katsunori Hanaoka
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Kyoko Shiga
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of COSMO ENERGY HOLDINGS COMPANY, LIMITED ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") provided in the "Financial Information" section in the company's Annual Securities Report, which comprise the consolidated balance sheet as at March 31, 2022 and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies, other explanatory information and supplementary schedules, in accordance with Article 193-2(1) of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Company's judgment on the recoverability of deferred tax assets of the consolidated tax filing group	
The key audit matter	How the matter was addressed in our audit
In the consolidated balance sheet of the Company for the fiscal year ended March 31, 2022, deferred tax assets of ¥42,858 million were recognized. As described in Note, "Significant accounting estimates" to the consolidated financial statements, the amount of deferred tax assets before being offset by deferred tax liabilities was ¥67,782 million. Of this amount, deferred tax assets held by the Company and certain of its domestic consolidated subsidiaries that file a consolidated tax return (hereinafter, collectively referred to as the "consolidated tax filing group") amounted to ¥42,404 million, representing approximately 2% of total assets. Deferred tax assets are recognized to the extent that tax loss carryforwards and deductible temporary differences are deemed to reduce the amount of income taxes in the future. Despite the fact that the consolidated tax filing group incurred significant tax losses in the past, the Company has determined that deferred tax assets are recoverable, because it expects positive taxable income before adding or subtracting temporary differences over multiple years in the future after considering, among others, the causes of historical significant tax losses, the consolidated medium-term management plan and its progress, as well as the trend of taxable income or tax loss during the past and current fiscal years. The future taxable income before adding or subtracting temporary differences was estimated based on the future plan prepared on the basis of the budget for the following fiscal year of the consolidated tax filing group (hereinafter, referred to as the "future plan"), after taking into account management's assessment of the potential impact of uncertainties included in the future plan. Key assumptions incorporated into the estimated future taxable income were that crude oil prices related to the cost of petroleum products would continue to be at the level assumed in the original budget despite the recent surge in crude oil prices; the domestic market conditions related to the selling prices of petroleum products would remain stable; and the refineries would operate stably based on the forecast of the	The primary procedures we performed to assess whether the Company's judgment on the recoverability of deferred tax assets of the consolidated tax filing group was appropriate included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the Company's internal controls relevant to its judgment on the recoverability of deferred tax assets of the consolidated tax filing group. In this assessment, we focused our testing on controls designed to prevent and/or detect in a timely manner the adoption of inappropriate assumptions in the future plan that are inconsistent with the past and current crude oil market conditions, domestic petroleum product market conditions, the operation status of refinery equipment and information from third-party organizations. (2) Assessment of the reasonableness of the estimated future taxable income before adding or subtracting temporary differences In order to assess the reasonableness of the future taxable income before adding or subtracting temporary differences estimated based on the future plan and management's assessment of the potential impact of uncertainties included in the future plan, we inquired of management regarding the basis for key assumptions incorporated in the estimate and inspected relevant documents. In addition, we: assessed the appropriateness of the assumption that crude oil prices related to the cost of petroleum products would continue to be at the level assumed in the original budget despite the recent surge in crude oil prices by confirming its consistency with the forecasts of crude oil prices by third-party organizations used by management and comparing with the forecasts of other third-party organizations that we independently obtained, and then analyzed the effect, if any, of the recent crude oil price level on the estimate of the future taxable income before adding or subtracting temporary differences assuming that the recent crude oil

domestic sales volume of petroleum products. Accordingly, management's judgment on these assumptions, including its assessment of the potential impact of uncertainties, had a significant impact on the estimate of future taxable income before adding or subtracting temporary differences and the amount of deferred tax assets to be recognized. We, therefore, determined that our assessment of the appropriateness of the Company's judgment on the recoverability of deferred tax assets of the consolidated tax filing group was one of the most significant matters in our audit of the consolidated financial statements for the fiscal year ended March 31, 2022, and accordingly, a key audit matter.	price level would continue in the following fiscal year; ● assessed the appropriateness of the assumption that the domestic market conditions related to the selling prices of petroleum products would remain stable by comparing the projected sales margins with the past actual sales margins of domestic petroleum products and reports of third-party organizations on the domestic market conditions of petroleum products that we independently obtained; and ● performed the following procedures to assess the appropriateness of the assumption that the refineries would operate stably; - compared the domestic sales volume forecast of petroleum products, which supported the assumption that the refineries would maintain a high level of utilization, with the latest domestic demand forecast of petroleum products published by the government agency and the past actual sales volume, and inspected relevant contracts for a selection of transactions with large customers included in the sales volume forecast; and - inquired of the personnel responsible for the refining and technology department regarding the existence of equipment defects that affected the utilization rates of the refineries and the implementation status of improvement measures to address the defects, and compared the planned utilization rates of the refineries used by management with the past actual utilization rates.
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Appropriateness of the judgment made at Qatar Petroleum Development Co., Ltd. on the valuation of its costs recoverable under production sharing	
The key audit matter	How the matter was addressed in our audit
In the consolidated balance sheet of the Company for the fiscal year ended March 31, 2022, costs recoverable under production sharing for Qatar Petroleum Development Co., Ltd., a consolidated subsidiary, amounting to ¥1,322 million were recognized, representing approximately 0.06% of total assets. In addition, as described in Note, "Notes to Consolidated Statements of Income", under "Impairment loss" to the consolidated financial statements, an impairment loss of ¥10,849 million was recognized for the costs recoverable under production sharing in the consolidated statement of	The primary procedures we performed to assess whether the judgment made at Qatar Petroleum Development Co., Ltd. on the valuation of its costs recoverable under production sharing was appropriate included the following: (1) Internal control testing We tested the design and operating effectiveness of certain of the internal controls within Qatar Petroleum Development Co., Ltd. relevant to its judgment on whether an impairment loss should be recognized on the costs recoverable under production

income. As described in Note, “Significant accounting estimates” to the consolidated financial statements, costs recoverable under production sharing are exploration, development and other related costs spent under the production sharing contract executed with the Qatar government (hereinafter, this contract is referred to as the “production sharing contract”). After the commencement of production, those costs are being recovered with products in accordance with the production sharing contract; however, if there is an impairment indicator for the costs recoverable under production sharing, they need to be tested for impairment. The impairment test is performed by comparing the undiscounted future cash flows that are expected to be generated from the assets with their carrying amounts. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss. The production volume for the fiscal year ended March 31, 2022 was below the forecast due to malfunction of the production facilities or other causes. In addition, the production sharing contract expires in December 2022. The difference between the carrying amount and the recoverable amount was recognized as an impairment loss due to increased uncertainty about the continuation of the business considering the current situation evaluated when a proposal to extend the production sharing contract was considered. The recoverable amount used to measure the impairment loss was the value in use, which was the present value of the undiscounted future cash flows. The undiscounted future cash flows used in the impairment test and measurement of the impairment loss were estimated based on the budget for the following fiscal year prepared by management and the business plan formulated at the end of the current fiscal year, which included assumptions concerning production periods, crude oil production volume and crude oil prices. These assumptions had a significant impact on the budget for the following fiscal year and the business plan formulated at the end of the current fiscal year, as they involved uncertainties. Accordingly, management's judgment thereon had a significant impact on the estimate of the undiscounted future cash flows and the recognition and measurement of the impairment loss. We, therefore, determined that our assessment of the appropriateness of the judgment made at Qatar Petroleum Development Co., Ltd. on the valuation of	sharing and the measurement of the impairment loss. In this assessment, we focused our testing on controls designed to prevent and/or detect in a timely manner the adoption of inappropriate assumptions related to the feasibility of stable crude oil production in accordance with the production sharing contract, which are key assumptions included in the budget for the following fiscal year and the business plan formulated at the end of the current fiscal year, that are inconsistent with the past and current production conditions. (2) Assessment of the reasonableness of the estimated undiscounted future cash flows In order to assess the appropriateness of key assumptions adopted in the budget for the following fiscal year and the business plan formulated at the end of the current fiscal year, which were used as the basis for estimating the undiscounted future cash flows, we inquired of management and the personnel responsible for the mining factory regarding the basis on which those assumptions were developed. In addition, we: ● assessed the appropriateness of assumptions related to production periods by comparing the contract extension period, contract type, product allocation ratios and planned investment amount included in the proposal to extend the production sharing contract, with the current terms of the production sharing contract, and also evaluated uncertainty about the continuation of the business by inspecting the minutes of the board of directors meetings and other materials, and inquiring of management; ● assessed the feasibility of assumptions for crude oil production forecasts by comparing them with actual results of the past and current production; ● assessed the consistency of management's forecast of crude oil prices with the forecast of crude oil prices by third-party organizations used by management; and ● assessed whether there were any significant assumptions other than those adopted by analyzing the achievement of the past business plan including the causes of variances with actual results.
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its costs recoverable under production sharing was one of the most significant matters in our audit of the consolidated financial statements for the fiscal year ended March 31, 2022, and accordingly, a key audit matter.	
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Other Information

The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The audit and supervisory committee is responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit and supervisory committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The audit and supervisory committee is responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit and supervisory committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of COSMO ENERGY HOLDINGS COMPANY, LIMITED as at March 31, 2022, in accordance with Article 193-2(2) of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2022, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Internal Control Report* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and supervisory committee for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

The audit and supervisory committee is responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor's Responsibilities for the Audit of the Internal Control Report

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor's report that includes our opinion.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor's judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with the audit and supervisory committee regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

We also provide the audit and supervisory committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Reader of Audit Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Act of Japan.