



## Message from President



## Aiming to Become an Energy Co-Creation Company

### What do you think of the new integrated company's Management Vision?

We chose the path of business integration in order to build a strong management base capable of bearing the heavy responsibility of energy security in Japan.

Now that we have integrated, it is natural that we aim to create integration synergies and enhance competitiveness through economies of scale. However, business integration is a means, not a goal. It is putting the cart before the horse if the integration loses what each company has cherished. We have carefully discussed what our company should become, based on fundamental questions such as why we exist, what our stakeholders expect from us, and what points are unique, while watching the history of both companies.

#### Management Vision

**We are an energy co-creation company that values diversity and inclusion, creates new values with customers and stakeholders, and seeks harmony with the environment and society.**

Both Idemitsu Kosan Co.,Ltd., and Showa Shell Sekiyu K.K., the predecessors of the new integrated company, were established in Japan in the Meiji era (1868-1912). Both companies have a long history of selling petroleum products and fighting for energy security in Japan during and after the turbulent times of the war. We have always been challenging ourselves to create new values in order to realize the ideal society. For example, in Japan, Marcus Samuel, one of the founders of Showa Shell Sekiyu K.K., started selling kerosene oil (kerosene) for heating and lighting. Sazo Idemitsu, the founder of Idemitsu Kosan, led the Nisshou Maru Incident, which triggered the start of free international trade in oil. Since then, Sazo Idemitsu has continued to work on the construction of the world's largest tanker and the world's first heavy oil direct hydrodesulfurization unit. The new integrated company will inherit the DNA of these founders and make it the core value of the company.

Japan's environmental and safety regulations and standards for quality and service are among the strictest in the world. We intend to contribute to the development of each country and region outside of Japan and to the resolution

of social issues by utilizing the technological capabilities, products and services, and business know-how that we have developed and accumulated for over 100 years. One example is building petroleum products supply chains in emerging countries, particularly in Asia, where economic growth is booming.

"Co-creation" expresses our determination to create new values together with our customers, local communities, all our business partners, and employees, who are our group's strengths and assets by standing at a new starting point. I believe that there is no future as an extension of the past. Collaboration with diverse stakeholders is essential to creating new values.

We will discuss "Diversity & inclusion" and "Harmony with the environment and society" in another section.

### Please tell us about "People-centered management."

There is another common value that both companies have valued. The idea is that "People-centered management." To be clear, I believe that our group's ultimate goal is to develop people who are useful and respected in society, and our business is a means to this end. This is different from the idea of developing human resources to maximize corporate value. For example, we may be able to increase our corporate value by making investments with limited risks and high returns. However, we basically do not make investments that do not lead to human development. We place a high priority on the process in which our employees engage directly in each business and work hard, overcome numerous difficulties, and grow vigorously through various experiences.

This is not just about naive thinking or idealism. In a turbulent business environment, it is difficult for management alone to respond quickly and appropriately to a variety of simultaneous and frequent issues. In many cases, it is more efficient and effective to trust experienced employees who are familiar with the workplace and leave decisions to them. Also, in order to create a future that is not in line with the present, it is necessary for employees with diverse backgrounds to constantly breathe new life into the company. "Human development" is not only the ultimate management objective, but also the principles of management indispensable to the development of our group.

With this in mind, the new integrated company's slogan is "Hitowa, Mugenno Energy. (People have limitless energy.)" This means that each

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employee can make the best use of his or her abilities without limiting them. At the same time, the team strength of the entire organization and supply chain is enhanced to contribute to the development of society, thereby enriching one's own life. Also, it expresses the preciousness of energy in humans and our group's mission as an energy company.

Based on the idea that human resources are the source of management vitality, we believe that the greatest responsibility of management is to create an environment in which employees can work energetically. As a result, we believe that we will be able to promote sustainable growth, which in turn will increase our attractiveness in the capital market.

## What is the basic policy of the medium-term management plan?

Domestic demand for petroleum products peaked out in 1999 and has been on a gradual decline due to a dwindling of population and the spread of eco-cars. This trend is expected to accelerate even in the future, and is expected to decline by 30% in 2030 due to the shift from car ownership to shared use. As an energy supplier, responding to climate change issues is important and urgent, and we recognize that it is difficult to continue to be overly dependent on our petroleum products, oil exploration and production and coal business. Accordingly, in order to remain a strong corporate group 30 years from now, in 2050, our group embarked on the formulation of the current medium-term management plan from the perspective of how, what, and by when it must change. In November 2019, the company announced its first medium-term management plan (FY2020-2022) after the business integration. To begin with, we drew up several business environment scenarios up to 2050 based on the Paris Agreement. As a result, although the environmental forecast for 2050 is extremely uncertain, all scenarios are on the same track until 2030. Therefore, we have decided to set management targets with 2030 as a milestone. We have set 2030 as a turning point, and we intend to establish a system that will enable us to respond flexibly to any changes in the environment that occur after that. We then backcast our 2030 management targets into a medium-term management plan.

Our 2 basic policies for 2030 are "Realization of resilient business portfolio" and "Building a business platform that meets the needs of society." Let's talk about the former.

I would like to reiterate that our basic philosophy is to promote "Structural reform of the revenue base business," "Expansion of growth businesses" and "Creation of next-generation businesses" in order to be a company that can respond flexibly and resiliently to any environmental change. In the revenue base business, we will take various measures to secure cash flow in the petroleum business for the next 10 years. We will maximize integration synergies and

strengthen the international competitiveness of our refineries to achieve world-class operational reliability and maintenance cost efficiency in FY2030. Based on this, we will continue to expand our overseas business in response to growing demand in Asia, taking advantage of the potential of our competitive refineries. At the Nghi Son Refinery, we will make an early contribution to earnings. In growth businesses, we will use cash generated from our revenue base business to expand our business scope and scale while making use of M&As in our functional materials business. Our business portfolio for 2030 consists of operating income from revenue base businesses such as petroleum products, oil exploration and production, coal business, and equity in earnings of affiliated companies which account for less than half of the total, compared to 60% in FY2019. Our goal is to expand our functional materials business, which includes lubricants, advanced materials & performance chemicals, Electronic materials; especially OLED materials, agri-bio products, and all-solid lithium-ion rechargeable battery materials, to more than 30% of the total operating income.

Furthermore, in order to create next-generation businesses, while keeping an eye on changes in society, diversification of customer needs, and progress in decarbonization, we will develop new business models to meet new energy demands, such as the development of next-generation service stations, the development of decentralized energy businesses, and the development of circular businesses.

I will also touch on our response to the digital innovation. Our group established the "Digital Innovation Department" in January 2020 as a specialized department. The purpose of the establishment is to increase operational efficiency through digitalization of core businesses, create new customer value, and create entirely new businesses. I expect these activities will take place across the group.

## What is your view on cash balance in the medium-term management plan?

Under the current medium-term management plan, we forecast a 3 year cumulative net profit of ¥480 billion, and cash in will secure ¥1.03 trillion, including depreciation and amortization, asset sales.

Cash out is calculated on the assumption that ¥630 billion will be allocated for capital investment, including M&As, and ¥200 billion will be allocated for shareholder returns. Free cash after shareholder return is expected to be ¥200 billion. After comprehensively considering such factors as income and expenditure, we intend to allocate these resources to strategic investments in growth areas, to strengthen our financial position, or to expand the source of returns to shareholders from FY2022 onwards.

Our group recognizes the return of profits to shareholders as an important

management issue. Accordingly, from FY2019 to 2021, we plan to return profits to shareholders with a return ratio of at least 50%. Policies for FY2022 and beyond will be determined in FY2021.

## What is your approach to the ESG (Environment, Society and Governance)?

Another basic policy of our medium-term management plan is "building a business platform that meets the needs of society."

As an energy supplier, our group recognizes that harmony with the global environment and society is a top priority. The goals of the SDGs (Sustainable Development Goals) were first linked to respective businesses in the current medium-term management plan, and then priority issues (materiality) that our group should focus on and address specifically were clarified. Next, we set GHG (Greenhouse Gas) reduction targets.

Our specific target for 2030 is to reduce CO<sub>2</sub> emissions from Scope 1 + 2 by 2 million t-CO<sub>2</sub> (▲15% of 2017 levels). This target exceeds the level of the reduction targets (1 million kl crude oil equivalent, about ▲2.7 million t-CO<sub>2</sub> compared to 2010) set by the national oil industry in light of Japan's draft commitments to the Paris Agreement. This is a very challenging target, but we intend to achieve it with all our group's resources.

It goes without saying that "Ensuring safety" and "Quality assurance" are the most important issues. Our group recognizes that its social mission and the foundation of its management are to continue safe and stable operations at refineries and complexes and to supply a stable supply of energy while earning the trust of local communities. We will continue to work to improve safety and foster a safety culture with the goal of achieving zero accidents. The number of group refineries increased due to the management integration. There has already been active communication among refineries, creating opportunities to learn from each other about common issues at production sites, such as safety, security, quality, and maintenance, based on risk management. I feel that safety and quality management have been further strengthened. We will continue to pay close attention to the wide range of our group products and concentrate our energies on ensuring product safety and quality throughout the entire supply chain.

Finally, let's talk about "Progress in governance." To revitalize and strengthen the functions of the Board of Directors, we will continue to have at least 1/3 of the Board of Directors as independent outside directors. In addition to these external standards, we will use a skill matrix to optimize the overall structure of the Board of Directors. At present, 5 out of 13 directors are outside directors, and when formulating the medium-term management plan, they gave advice from their respective specialized perspectives.



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### Please tell us about your initiatives for diversity, work style reform, and business reform.

At the outset of our management vision is "Diversity & inclusion." There is no future as an extension of the present situation, and if we try to transform our business structure in this context, sometimes our past successes and knowledge become obstacles. Also, the strengths that the company has worked hard to accumulate may turn into weaknesses in an instant. How should we deal with it in such an era? I believe that one solution is to initiate chemical reactions while drawing out the full potential of each individual by incorporating diverse viewpoints, values, and powers. That's why diversity & inclusion is important.

Diversity & inclusion is generally defined as recognizing and accepting diversity, but it is ambiguous. At our group, we are promoting diversity & inclusion by creating an environment that enables our employees to achieve a good work-life balance that they can make time to improve their individual capabilities, streamlining existing operations for the employees to interact with people outside the company, and combining knowledge to create new values. In addition, the strength of each individual can be demonstrated only when he or she is healthy as well as when he or she enriches his or her personal life. Along with the promotion of diversity & inclusion, we are also promoting healthy management by positioning the promotion of healthy working conditions for both physical and mental health as a management issue.

At the same time, the acceleration of business change is essential to improving our group's competitiveness. To this end, "Next Forum" plays a major role. In February 2019, we began holding Next Forum, where employees and the top management communicate directly.

Forum committee members selected from each department gather opinions from the workplace and form a group of 7 to 8 members on a theme that is considered to be the company-wide issue. Directors also participate in this group to actively exchange opinions and finally compile proposals. One of the results of these efforts was the launch of "DTK(Dattara Ko Shiyō)Project(=Business Process Redesign)" triggered by Next Forum and other events.

DTK Project is aimed at developing a corporate culture that not only unifies work procedures and systems, but also promotes sustainable and autonomous business reform activities. The name reflects the desire of all employees to make their work more efficient and reform the way they work, to thoroughly discuss any issues they face, to come up with solutions based on flexible ideas and to carry out the decisions as a whole.

We hope that the time saved by these activities can be used to encourage individuals to pursue higher-value-added work, to spend time on their own development, and to enhance their personal lives, thereby increasing their motivation and capabilities, which in turn will lead to the expansion of growth fields and the creation of next-generation businesses. At the same time, we have

started digitization, BPR (Business Process Redesign), and smart work initiatives that enable a variety of work styles, including the introduction of RPA (Robotic Process Automation).

I believe that no matter what changes occur in the business environment, as long as we nurture well-trained and respected people, we will be able to overcome any difficulties and open a new era.

### What is the role of the Idemitsu Group in the society?

Recently, disasters such as earthquakes and typhoons hit the Japanese archipelago, threatening the lifeline of the people. Our group's social mission is to support energy security in Japan and protect the lifeline of its people. We will work to maintain and strengthen our supply chain in the event of an emergency. To fulfill this responsibility, we must create new services and business models that meet the needs of each region without further reducing our nationwide service station network.

The number of service stations has halved from the peak of approximately 60,000 to around 30,000 as a result of excessive competition for many years under the name of free competition. In particular, service stations in rural areas such as mountainous areas have decreased. Assuming that demand for petroleum products will decline by 30% over the next 10 years, the number of service stations is certain to decline further if we remain idle. Our group is working to maintain and strengthen its network by thoroughly pursuing what service stations can do and increasing the added value of their services. Service stations play an important part as social infrastructure in rural towns and villages, where public transportation is not available and automobiles are a vital means of transportation, and in sparsely populated areas where the population is aging. As an example, we have begun a demonstration of the MaaS (Mobility as a Service) business that utilizes ultra-small EVs. This initiative has received high praise from various parties as a reassuring initiative for the elderly and other people with poor transportation. We are also taking on the challenge of creating new services based on the needs of our customers by making full use of digital technology. From "Last Mile" perspective, we believe that service stations have great potential and has room to expand into a variety of businesses.

### What is your message to stakeholders?

In formulating this medium-term management plan, our group conducted scenario analysis focusing on energy demand through 2050.

This hypothesis was created based on the information obtained at present, and it is necessary to continue to collect, analyze, and refine this information.



We intend to build a resilient business portfolio that can respond flexibly and resiliently to any environmental change. We will report on the progress of our medium-term business plan to our stakeholders in a timely manner. We will also promptly report any changes in our strategic assumptions.

Energy is indispensable for the people of the world to lead cultural lives. At present, oil and coal are the primary energy sources required. However, for our group, whose main product is fossil fuels, responding to climate change is an inevitable challenge. The fact that our group has set a GHG emission reduction target despite its difficulties is an indication of our determination. In addition, we are actively engaged in renewable energy-related businesses such as solar, geothermal, biomass, and wind power. Our medium-term management plan sets a target of achieving a total of 5GW of renewable energy development overseas by 2030. We will assess changes in the structure of energy demand and work to ensure a stable supply of energy required in each region, while boldly addressing global environmental issues.

As a "Energy co-creation company," we will strive to create new values together with all our stakeholders while maximizing the synergies of people and businesses resulting from the management integration. We look forward to hearing your frank opinions and requests regarding our group. Thank you very much for your continued understanding and support.

Idemitsu Kosan Co.,Ltd.  
President and Representative Director

**Shunichi Kito**