Financial Capital

Message from Chief Financial Officer

In the face of a rapidly evolving business environment, we are acutely aware of the ongoing importance of ensuring stable financial management. Therefore, we will strive to maintain and augment our financial base, which supports our ability to execute the Medium-term Management Plan.

Idemitsu Kosan Co.,Ltd.
Senior Executive Officer
Chief Financial Officer

Noriaki Sakai

Overview of Operating Results for FY2019 (April 2019 to March 2020)

In FY2019, the business environment was affected by an ongoing sense of uncertainty due to fallout from U.S-China trade tensions and the deceleration of China's economic growth. Moreover, global economic conditions deteriorated rapidly following the emergence of the COVID-19 pandemic in January 2020. Specifically, domestic and overseas demand for petroleum and other products became more sluggish than ever before due to the enforcement of travel restrictions and the resulting stagnation in economic activities. Furthermore, crude oil prices plunged at the end of the fiscal year as OPEC Plus failed to strike a deal regarding production cuts.

Against this backdrop, we nevertheless made steady progress in our initiatives in the fuel oil segment, striving to improve the profit margin via the use of a profitability-oriented sales approach while rallying our comprehensive strengths to create synergies. However, segment earnings were significantly undermined by losses on inventory valuation due to the plunging crude oil prices as well as a sharp drop in product prices that outpaced a decrease in the cost of sales (a phenomenon called the “negative time lag”). In the basic chemicals segment, earnings were down compared with the previous fiscal year due to spending on facility expansion in Asia and elsewhere as well as deteriorating market conditions influenced by the COVID-19 pandemic. In the resource segment, earnings were similarly down year on year as prices for crude oil and coal plunged.

Reflecting these and other factors, net loss for FY2019 amounted to 22.9 billion yen, down 117.5 billion yen from the previous fiscal year as net income. Given these circumstances, we temporarily raised the volume of cash on hand with liquidity at the end of the fiscal year in an effort to secure financial stability in preparation for the risk of financial market turmoil under the influence of the COVID-19 pandemic.

Operating Results Forecasts for FY2020 (April 2020 to March 2021)

As the state of emergency was lifted in Japan in May 2020, demand for gasoline and diesel oil for automobile fuel use was reinstated on a recovery track. On the other hand, demand for jet fuel remains far lower than the level seen in the previous fiscal year due to the ongoing enforcement of international travel restrictions. Moreover, we expect that recovery in demand for basic chemicals and functional materials, the latter of which include lubricants, will take some time.

In addition, although crude oil prices have somewhat recovered, prices are nevertheless expected to remain low due to an unfavorable environment attributable to worldwide economic stagnation.

Taking these factors into account, we expect operating results for FY2020 to be as harsh as those recorded for FY2019. Nevertheless, we will strive to secure earnings by, for example, reducing expenses. We will also work to improve the balance of cash flows via the use of a strictly selective investment approach.

Progress under the Medium-term Management Plan (FY2020 – 2022)

In line with the Medium-term Management Plan, we are striving to achieve sustainable growth toward 2030 and, to this end, executing the basic policies of “realizing a resilient business portfolio” and “building a business platform suited to the needs of society.” However, in the face of the rapidly deteriorating business environment, we need to revise our profit planning. On the other hand, we deem it essential to shift our business portfolio as we aim to grow sustainably. Therefore, we must steadily implement necessary investments aimed at strengthening our operational foundation and expanding growth businesses.

With this in mind, the Finance Department will keep an even tighter grip on expense management while aiding in the across-the-board integration of duplicate operations and overall streamlining of operations with the aim of supporting cost reductions. With regard to investment, we will take a prudent and selective approach in terms of the scope, size and timing of investments. Moreover, we will push ahead with the divestment of assets. In these and other ways, we will secure robust preparedness, backed by financial stability, against the risk of prolonged business uncertainty due to the COVID-19 pandemic.

In addition, we consider shoring up the financial positions of the entire Group, including its overseas subsidiaries, to be a matter of importance. Such endeavors will be key to the success of our future growth strategies on a global basis. Therefore, we will consider the further diversification of fundraising methods with the objective of reducing financial risks. Simultaneously, we will utilize an overseas subsidiary as a financial headquarters to ensure the effective utilization of group funds via integrated fund management while strengthening governance.

Currently, we intend to revise the Medium-term Management Plan in light of fallout from the COVID-19 pandemic and the resulting changes in the business environment as well as the latest government policies vis-à-vis its Basic Energy Plan. We will swiftly announce the revised plan as soon as its content is determined. With regard to finance, we will continue pushing ahead with initiatives discussed above, thereby maintaining and augmenting our financial base, an essential component supporting our ability to execute the Medium-term Management Plan.

■ **Rating Information**

Rating agency	Long-term rating	Short-term rating
Rating and Investment Information, Inc. (R&I)	A (Direction: stable)	a-1
Japan Credit Rating Agency, Ltd. (JCR)	A+ (Outlook: stable)	J-1

Shareholder Returns

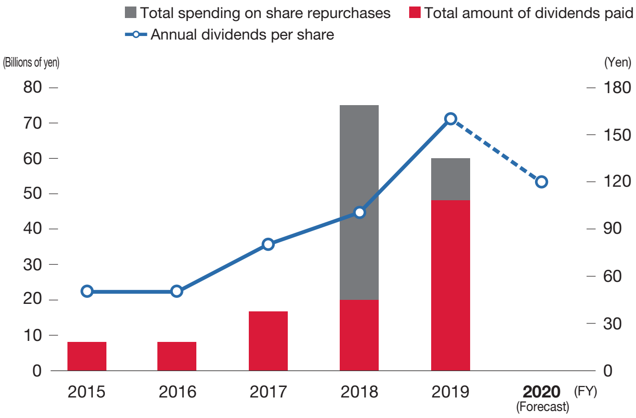
Idemitsu believes that the return of profits to shareholders constitutes an important management issue. As for dividend forecasts for FY2020, we have set an annual dividend forecast of 120 yen per share, taking into account the financial impact of drastic changes in the business environment.

Looking ahead, we will strive to maintain a stable stream of cash dividends in a way that gives comprehensive consideration to the balance of cash flows, including funds to be spent for strategic investments aimed at strengthening existing operations and supporting future business development, while endeavoring to improve our financial condition.

Dialogue with Shareholders and Investors

We recognize that it is important to maintain dialogue with shareholders and investors via the timely and appropriate disclosure of our management policies, operating results and other corporate information. These activities are deemed essential as we aim to reflect their inputs in business management. In particular, as a company tasked with energy supply, we are determined to enhance the content of non-financial information being disclosed in connection with such matters as our response to climate change while maintaining the disclosure of financial information. Looking ahead, we ask for the ongoing support of shareholders and investors.

■ **Shareholder returns**



FY	2015	2016	2017	2018	2019	2020 Forecast
■ Total spending on share repurchases (Billions of yen)				55.0	12.0	
■ Total amount of dividends paid (Billions of yen)	8.0	8.0	16.6	20.0	48.0	
Annual dividends per share (Yen)	50	50	80	100	160	120
Total shareholder return ratio (%) *Excluding inventory impact	18	12	12	97	154	

■ Financial Highlights ➡P.73
■ Primary Financial Data ➡P.75-76