

## Message from President



# Through people-centered management, we will continue creating new value and helping realize a sustainable society.

## Responding to the COVID-19 Pandemic

I would like to extend my sympathies to all those who have been affected by COVID-19, especially those who have lost friends and family members. And to all the healthcare workers giving their all to provide treatment on the front-lines, I would like to offer my most heartfelt thanks.

To fulfill Idemitsu Group's crucial social mission of protecting the stable supply of petroleum products and energy—an essential lifeline—even amid the COVID-19 pandemic, we established the task force in February 2020, which immediately acted by considering and implementing various measures. To prevent the spread of infection, we have been careful to ensure workers do not become infected while engaged in operations at refineries, plants, or other manufacturing locations. In all our business activities, we work hard to prevent outbreaks and have arranged a framework where, even if someone does by chance become infected, operations will not need to be suspended.

Shutdown maintenance was successfully completed at the Hokkaido Refinery between mid-June and early September 2020 without any infections. At service stations, where there are many opportunities to closely interact with customers, we confirm the health status of staff members every day, including through temperature checks, and ensure thorough handwashing and disinfection. Placing highest priority on our 6,400 service stations across Japan, we are striving to provide a stable supply of products and maintain the supply chain, from manufacturing to distribution and sales, with the cooperation of distribution and equipment maintenance companies.

Demand for petroleum products has sharply declined due to restrictions on travel around the world amid the pandemic. This is especially true for jet fuel, which had been holding steady at 80% below 2019 levels. Although domestic air routes are beginning to recover, the improvement in demand has

been limited to around 40% of the previous year's level. Demand for gasoline, a commonly used product in day-to-day life, was impacted by people staying home during the major holidays in May and the holiday season in August, customarily times when many people return to their home towns. As a clear illustration of this point, service stations located on highways saw a 50% year-on-year drop in sales.

On the other hand, demand for diesel oil, which fuels many large trucks, has fallen only modestly compared with other types of fuel. This is mostly attributable to an increase in e-commerce and transportation for supermarkets amid a rise in at-home consumption despite a period of weaker demand when general economic activity ground to a halt.

However, due to a decrease in the number of automobiles manufactured and sold, as well as a decrease in demand for displays, there was a decline in demand for lubricants, functional chemicals, and electronic materials. In sum, the pandemic has caused the global economy to stagnate. To a significant degree, almost all of our businesses have been impacted.

Realizing that we are not yet at a point where we can foresee the containment of the pandemic and that the punishing business environment will persist going forward, we are focusing on what we can do ourselves, such as reforming our operational processes, promoting digitization, and enhancing our cost competitiveness.

## Progress of the Medium-term Management Plan

The Medium-term Management Plan (FY2020–2022) announced in November 2019 has two main components: a business plan with specific quantitative goals and an overarching direction for structural business reforms with milestones set for 2030. Regarding the business plan, frankly, the drop in demand

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for petroleum and other products and the plunge in crude oil prices touched off by the pandemic made it very challenging to achieve our quantitative goals. In light of the changes to the business environment caused by the pandemic and the trajectory of Japan's Basic Energy Plan, we intend to revise the Medium-term Management Plan, which we will then disclose.

Even if we were to revise the quantitative goals for 2022 downward, we would not be able to significantly alter our strategies or the direction we are taking for 2030 in our current state. Instead, confronting the pandemic has reinforced my belief that we need to accelerate our steps toward structural business reform.

To realize a resilient business portfolio, which is one of the basic policies of the Medium-term Management Plan, we will undertake the following measures that I collectively refer to as a three-stage rocket: the structural reform of the core revenue-generating businesses, the expansion of growth businesses, and the creation of next-generation businesses. In this way, we will continue accelerating structural business reforms.

First, I would like to go over the structural reform of the core revenue-generating businesses. In the near future, as domestic demand continues to decline in the petroleum business, the reorganization of our refineries will become a pressing issue. We will be able to enhance our competitiveness on a non-consolidated basis focusing on reforming operational processes using AI and digital technologies, but the extent will depend on an approach that enhances international competitiveness by strengthening our alliances with neighboring refineries and petrochemical complexes. One example of this is a project, related to our refinery in Aichi Prefecture, announced in November 2020. In this way, we will work hard to stabilize the revenue base underpinning Group businesses. By the way, operations are going smoothly at the Nghi Son Refinery in Vietnam, despite complications to profitability brought about by market factors. Moreover, we are making steady progress on measures aimed at improving profitability.

Next, let's look at the expansion of growth businesses. We are making steady progress on the overseas expansion of operations involving products for which we expect to see demand rise going forward, in particular, we have started up our second lubricant plant in China (Huizhou) and an OLED material manufacturing plant (Chengdu). In addition, in the businesses related to environmental measures, we are installing new compact mass-production equipment for solid-state electrolytes for use in all-solid-state lithium ion batteries. Moreover, we began test cultivation of crops for fuel use in biomass power generation and for creating wood pellets. In these and other ways, the seeds we have sown are beginning to bear fruit, as can be seen in the faster commercialization of R&D the Group has undertaken over many years.

Finally, let's turn to the creation of next-generation businesses, that is,

business that we plan to commercialize from 2030 onward. In this area, our intention is to commercialize solutions to anticipated social issues while leveraging the resources of existing businesses, rather than using core revenue-generating businesses or growth businesses as a jumping off point.

The first next-generation business theme is regional revitalization. As the population declines and ages and the birthrate falls, we aim to shift our network of 6,400 service stations from a specialized structure for selling petroleum products to a broader component of social infrastructure that supports the day-to-day life and mobility of the communities we serve. Given space constraints, I would like to illustrate with the example of ultra-compact EVs. Surprisingly, in 2019 alone, 600,000 seniors voluntarily surrendered their driving licenses. This includes many seniors who live in regional cities with poor public transportation, making it difficult for them to do their daily shopping or go to the hospital. For these people with few transport options, ultra-compact EVs provide a way for them to get where they want to go when they want to go.

We are currently conducting pilot tests of Auto Share, a car sharing service offering ultra-compact EVs, in Hida and Takayama, Gifu Prefecture as well as Tateyama, Chiba Prefecture. Moreover, when ultra-compact EVs and charging ports become more widely available, we expect to see expansion in businesses using solid-state electrolytes for lithium ion batteries that the Group helped develop and functional plastics under development for the bodies of EVs.

The second theme is contributing to a carbon-neutral society. We consider Prime Minister Suga's declaration of carbon neutrality by 2050 as a good opportunity for structural business reform and technological development. We will strive to further accelerate and promote such circular economy businesses as renewable energy development, storage battery-related businesses, carbon recycling, and solar panels.

In addition, under the guidance of the Digital Innovation Department established in January 2020, we will digitize the maintenance operations to make them more sophisticated and efficient, begin using digital marketing that leverages the customer base established by our service stations, and create new business, through our participation in the "SmartCityX" Project, which is supported by cooperation among several companies.

### Second Year of the Integration —Expanding the Inclusion of Employees

When the newly integrated company was created, I released a message, both internally and externally, that was filled with the keywords *integration* and *harmony*. Recently, however, some people within the company have said that the

words *original company* and *integration* are no longer necessary, that we are past the stage where we need to emphasize harmony among employees. In the morale survey conducted every year, visible signs of success have emerged, including a year-on-year increase in the percentage of employees who report that their work is rewarding. Going forward, we aim to roll out initiatives aimed at further expanding inclusion by encouraging employees to recognize their diverse individuality while fostering a greater sense of unity. I'm looking forward to this internal momentum growing as the whole Group works hard to overcome the pandemic, stably supply energy, and maintain infrastructure.

As a representative measure of the newly integrated company, we took early action to revamp the corporate brand in July 2020 and, from April 2021, we will steadily unify the two companies' service station brands under the *apollostation* brand. The service station transformation will extend even further than the logo. We will gradually combine the POS systems and enable the mutual acceptance of station cards to help enhance customer convenience.

### Practicing People-Centered Management and Diversity & Inclusion

One of the Group's most unique characteristics is its people-centered management. We do not subscribe to the idea that personnel development is merely a means to achieving maximum corporate value; rather, we believe that business management itself is developing personnel. In other words, the development of personnel who are respected by and useful to the world is the ultimate purpose of the Group, and business is a means to achieve that. Of course, to develop people, capital is needed, and if there is no income, the business cannot continue. However, nobody knows what the future holds, as exemplified by the global ramifications of the COVID-19 pandemic that unexpectedly erupted in 2020. We are, however, certain that if we develop personnel who are reliable during emergencies, they will be able to find new solutions and maintain a sustainable corporate structure no matter what situation arises. I regularly communicate these thoughts of mine to executive officers and the general managers of departments.

When looking to fully harness the tremendous potential of human beings, health management serves as the foundation. We must maintain and promote the health of employees. Therefore, with the pandemic remaining uncontained, we have prioritized ensuring the health and safety of not just employees but also customers and the workers at partner companies.

Furthermore, we aim to foster a workplace environment that respects human rights with no discrimination or harassment. In our Management Vision, we outlined diversity and inclusion that leverages diverse values,

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careers, and expertise regardless of disability, sex, or nationality, as we strive to create new value.

After the emergency declaration in April 2020, at most of our facilities, excluding some manufacturing sites such as refineries, 90% of our employees worked from home. I think we were able to switch to a work-from-home framework relatively smoothly due in part to our early efforts to prepare for the Tokyo Olympics set to be held in summer 2020. Currently, around half of our employees continue to work from home, and this has become very ordinary. Going forward, we will not backtrack to our previous working framework. We will make additional revisions to our internal rules, go paperless, change meeting methods and approval processes, and amend the rules of employment so that our diverse employees can choose more flexible workstyles.

When working from home, most meetings take place online, but some outcomes can only be attained through face-to-face communication. I want each employee to realize new workstyles, while assessing the pros and cons of face-to-face and other forms of communication, then adeptly choosing the appropriate option. I also want each person to enhance their productivity and focus on working creatively, in addition to allocating their lessened commute time to chores, hobbies, and other activities that improve their quality of life.

### Accelerating Environment, Society, and Governance (ESG) Initiatives

As a corporate group that operates an energy supply business, we are aware that harmony between the global environment and society is a theme we should address as a top priority. Everyday life would come to a halt without petroleum or petrochemicals. Nevertheless, energy companies that handle fossil fuels, including Idemitsu, still tend to have a negative reputation regarding the environment. Going forward, we will focus on stably supplying energy and maintain our tireless efforts to reduce CO<sub>2</sub>.

As specific initiatives, we launched a research group to conduct development aimed at establishing a carbon recycling technology for recovering CO<sub>2</sub> from the petroleum product manufacturing process. This technology could be utilized in the production of fuel and chemicals, as well to establish a technology that combines industrial waste and CO<sub>2</sub> to manufacture carbonate, a raw material of concrete. In the area of coal, we launched a business to supply black pellets (wood biomass), which are half carbonized rubber tree material, with the aim of reducing CO<sub>2</sub> emissions through coal-fired biomass mixed combustion. In addition, we are rolling out various other measures aimed at biofuel production, such as cultivating crops suited to the production of biomass pellets on the sites of closed coal mines. In addition, we will continue to steadfastly work to reduce CO<sub>2</sub> emissions by actively participating in venture

capital and government funds promoting renewable energy. Furthermore, we will establish specialized in-house organizations, such as the Next Generation Business Department and Innovation Strategy Planning Department. In these and other ways, we will leverage the Group's long-standing strength in dealing with CO<sub>2</sub> to roll out activities for contributing to a carbon neutral society, which we regard as a pillar of our next-generation businesses, as previously mentioned.

We are also accelerating our broader social initiatives. We matched individual businesses with the targets of the sustainable development goals (SDGs) and identified priority topics (materiality) that the Group should diligently and directly address. As a provider of energy supply, it goes without saying that ensuring safety and quality assurance are central issues for Idemitsu's continued co-existence with society. To maintain safe and stable operations at refineries and complexes, we will enhance our safety assurance, foster a culture of safety, and steadily work to build a robust energy supply chain. We continually strive to strengthen the supply foundation for petroleum, gas, and electric power, which are all indispensable to daily life and economic activity. Despite the high incidence of such natural disasters as typhoons, torrential rain, and earthquakes in recent years, we remain determined to continue fulfilling our role providing essential lifelines during emergencies.

Lastly, let's turn to governance. Comprised of members boasting diverse expertise and careers, the Board of Directors holds deliberations on the Medium-term Management Plan and other matters as well as discussions on long-term issues. To evaluate the effectiveness of governance, we began conducting a survey of all directors and Audit & Supervisory Board members in FY2019. The results are subsequently discussed by the Board of Directors to identify potential issues. Going forward, to further enhance the Group's corporate value, we will continue holding active discussions related to a variety of issues and initiatives.

### Message to Stakeholders

The Group's primary social mission is to efficiently supply the energy people need at a low cost. This is not simply a matter of carrying on. Rather, we are working to enhance the resilience and sophistication of our operations to support energy security and protect lifelines, as well as to enhance our competitiveness, in ways that allow customers to use energy in a more beneficial manner. I believe these efforts have resulted in the strengthening of our revenue base.

Going forward, we aim to ensure Idemitsu is resilient and able to flexibly and deftly adapt to any kind of change in the business environment. As an



energy co-creation company, we strive to create new value in partnership with all our stakeholders. We look forward to hearing your frank opinions and requests regarding the Group. Thank you very much for your continued understanding and support.

Idemitsu Kosan Co.,Ltd.  
President and Representative Director

**Shunichi Kito**