



Message from Outside Directors



Continue to Supply Energy While Innovating to Build a Carbon-free World

Outside Director **Takeo Kikkawa**

Taking on the Challenge of “Affordable, Clean Energy” as an Industry Leader

“Affordable and clean energy”—this is Goal 7, the goal that directly addresses energy, of the United Nations’ Sustainable Development Goals (SDGs).

Achieving this goal will be difficult. To provide affordable energy, there is no choice but to rely on fossil fuels, such as petroleum and coal. At the same time, the provision of clean energy requires reducing the use of fossil fuels and expanding the use of CO₂-free renewable energy. Achieving Goal 7 of the SDGs, which contains these two conflicting elements, is thus a tremendous challenge.

The Idemitsu Group is at the forefront of efforts to solve this challenge. In addition to fulfilling its responsibility of providing energy to people in Japan and across Asia, the Group is focusing efforts on utilizing solar, wind, geothermal, and biomass (black pellets). The coal assessment system, a proprietary system commercialized by the Group, helps reduce CO₂ emissions by optimizing combustion efficiency, and there are great expectations for the Group’s ambitious initiatives in carbonate production and other forms of carbon dioxide capture and utilization (CCU). The Group is also putting its full force into the development of materials for all-solid-state lithium ion batteries; when these are brought into practical use, they will revolutionize the energy world, contributing greatly to the advance of measures to combat global warming.

At some point in the future, humanity will surely realize a carbon-free world. The transition toward that point, however, will see several decades in which we will continue to use fossil fuels. The development of CCU during this period could make fossil fuels a useful resource for humanity even afterward. Companies that are directly taking on the difficult challenge of realizing “Affordable and clean energy” right now, a unique point in world history, are few and precious. I believe this is precisely the time for the Idemitsu Group to step up.

Backcasting—Essential to Bold Portfolio Transition

Humanity today has a responsibility to future generations to forcefully advance measures to stop global warming. Within that context, the Idemitsu Group is charged with the mission of providing a reliable supply of energy over the long term. At the same time, the Group is working to fulfill another mission—creating a wide range of innovations and businesses that will contribute to the creation of a carbon-free world.

Fulfilling the former mission requires a forward-looking posture, beginning by examining the present and steadily forecasting out from there. In contrast, to achieve the latter mission, The Group must backcast: first defining a specific future vision as a target for itself and then working backward to determine what it will need to do to realize that vision.

Over the course of its long history, the Group has developed a firmly rooted management philosophy and common values of respect for human beings and diversity and inclusion, as well as a corporate culture of seriously and steadily pursuing the issues before it. This culture lends itself to a forecast-based approach. However, the Group’s primary business, the petroleum business, includes aspects that are difficult to predict with certainty, and I feel that the Group could be stronger when it comes to backcasting.

This is distinctly reflected in the ways that the Board of Directors and Nomination Advisory Committee currently operate. I think that the Board of Directors should spend more time on discussions of strategy, including bold portfolio transition, using backcasting. The Nomination Advisory Committee, too, must not only consider the selection of top management in the coming few years, but also focus efforts on identifying and developing leaders for 10 and 20 years down the line. By making such changes, I think that the Idemitsu Group will be able to develop the strength and resilience needed to secure “Affordable and clean energy,” a mission that is significant in human history.



Message from Outside Directors



Further Diversifying Human Resources and Decisively Revising the Business Portfolio

Outside Director **Mitsunobu Koshiba**

Overcoming Difficulties, Decisively Revising the Business Portfolio, and Advancing Digital Transformation

A year has passed since I came on as a new Outside Director, following the integration of Idemitsu and Showa Shell. Unfortunately, due to the worldwide economic downturn and reverse oil shock triggered by the global spread of COVID-19 in March 2020, demand for fuel oil was sluggish, as were the markets for Idemitsu's products. As a result, Idemitsu's financial results for FY2019 were less than satisfactory. Nevertheless, I believe that post-integration management, organizational soundness, and governance are all functioning well. Idemitsu is assuming that the current low level of fuel oil demand and sluggishness of product markets are not short-term dips, but represent major management risks that will continue for several years. The Group's shareholders, employees, and customers are looking to the leadership of the new management team and the business execution abilities of the executive officers to overcome this difficult situation and create growth businesses.

The corporate value of energy sector companies around the world has taken a significant hit. The Company is no exception. Recovering its corporate value is an immediate priority for the Company. This will require steadfast effort to create new growth businesses leveraging the Company's technical skills, research and development prowess, and brand strength. In addition, given the current pressure on corporate revenue, strategic investment in non-organic growth and the digital transformation of the Group are urgent necessities.

Initiatives around the world to address global warming are clearly accelerating as they receive unprecedented levels of attention, spurred by factors including the global pandemic and hitherto unimaginable forest and brush fires in the United States and Australia. The Company must now decisively revise its business portfolio by combining its future strategies for its mainstay fuel oil and coal businesses with new businesses that will contribute to achieving carbon neutrality, such as renewable energy, lithium ion battery materials, and mobility services using electric vehicles.

Further Diversifying Human Resources, beyond Gender

I distinctly feel that Idemitsu boasts a rich roster of human resources. Building on this, the Company has begun proactive initiatives to diversify its human resources in order to enhance its creativity and respond to changes in diversifying markets. In particular, although the Company has been aggressively promoting gender diversity, in terms of appointing women to senior positions—a challenge shared throughout Japan's petrochemical industry—it seems to me that the Company is rather behind in comparison with the industry average. For many years, I worked actively to promote human resource diversification at JSR Corporation. Based on this experience, I feel that the challenges the Company faces in terms of human resource diversification are not limited to gender diversity. For example, there are few employees from technical divisions in senior management, and the promotion of younger employees to senior management and executive officer positions is lagging.

Going forward, strategic investment in non-organic growth and the further advance of the Company's digital transformation will require top management that includes members with technical backgrounds who bring deep understanding of cutting-edge technologies as well as younger individuals who, if not quite digital natives, are more at home when it comes to adopting leading digital technologies. In short, I see many opportunities for improvement in human resource diversity—not only in terms of gender diversity, but in appointing employees from technical divisions to management, promoting younger employees to senior management and executive officer positions, and proactively hiring non-Japanese nationals.