Message from the CFO

CFO
Director and Managing Executive Officer
Idemitsu Kosan Co.,Ltd.
Noriaki Sakai

Overview of Operating Results for FY2020 (April 2020 to March 2021)

In fiscal 2020, the Japanese economy significantly decelerated in the first quarter due mainly to the emergency declaration regarding the spread of COVID-19. Although the economy gradually recovered by autumn as economic activity began to restart, it stalled from the start of 2021 as the virus resurged.

The price of Dubai crude oil fell rapidly in spring 2020 but began to recover as economic activity restarted in major countries and OPEC Plus agreed to reduce production. From November, the economy was on the upswing due in part to COVID-19 vaccines becoming widely available and expectations of a recovery in the U.S. economy.

Amid this environment, the sales volume of petroleum products in Japan declined overall compared with the previous fiscal year, reflecting a drop in demand for gasoline as people stayed home and a major decrease in demand for jet fuel due to the suspension of and reduction in the number of commercial flights. In addition, the business environment surrounding the Group was especially challenging because of the added difficulty imposed by a decline in the market for resources and basic chemicals. While implementing infection prevention measures, Idemitsu maintained a stable energy supply and focused on initiatives aimed at strengthening its corporate structure, such as enhancing the competitiveness of its domestic supply chain, accelerating workstyle reforms and a DX shift, reducing costs, and pursuing carefully selected investments. As a result, in fiscal 2020, the Group's net sales totaled ¥4,556.6 billion (a year-on-year decrease of ¥1,489.2 billion) due in part to a decrease in crude oil prices and the decline in sales volume. However, segment income (operating + equity profit, excluding inventory effects) totaled ¥92.8 billion (an increase of ¥29.7 billion) due to an increase in profit in the petroleum segment. Net income attributable to owners of the parent was ¥29.7 billion, excluding inventory effects (a decrease of ¥9.3 billion), due mainly to the recording of a valuation loss on long-term loans and an impairment loss in the resource business.

(Billions of yen)

	FY2019	FY2020	Change
Net sales	6,045.9	4,556.6	–1,489.2
Operating + equity income (excl. inventory impact)	–26.2 (63.1)	100.3 (92.8)	+126.5 (+29.7)
Net income (excl. inventory impact)	–22.9 (39.0)	34.9 (29.7)	+57.9 (–9.3)

2. Revisions to the Medium-term Management Plan

In November 2019, we announced the Medium-term Management Plan covering fiscal 2020 to 2022, but the business environment significantly changed as mentioned above. In addition, the global decarbonization trend has gained steam, with the Japanese government declaring its intention to achieve carbon neutrality by 2050. For Idemitsu to remain a resilient company into the future, and recognizing that we need to rebuild our medium- to long-term strategy and accelerate our actions, we announced the Revised Medium-term Management Plan in May 2021.

3. Targets during the Mediuam-term Management Plan Period (FY2020–2021)

Idemitsu incorporated improvements in resource prices and the basic chemicals market while pursuing the expansion of integration synergies in the petroleum segment and improved earnings from the Nghi Son Refinery. We set goals for segment income (operating + equity income, excluding inventory effects) of ¥140.0 billion in fiscal 2021 and ¥175.0 billion in fiscal 2022. In the cumulative three-year period of the Medium-term Management Plan, we aim to achieve net income of ¥220.0 billion, segment income of ¥410.0 billion, and an ROE of 8% by the end of fiscal 2022.

Regarding our cash balance, our policy is to retain ¥800.0 billion together with amortization expenses by reducing fixed costs and proactively selling assets.

Regarding capital investment, we plan to expend a cumulative ¥570.0 billion. Of that amount, we will use ¥270.0 for strategic investments aimed at shifting our business portfolio in the future toward, for example, the functional materials business, shifting energy operations toward low-carbon fuel, and increasing mobility-related business. We will also retain ¥100.0 billion as a fund to dynamically conduct M&A.

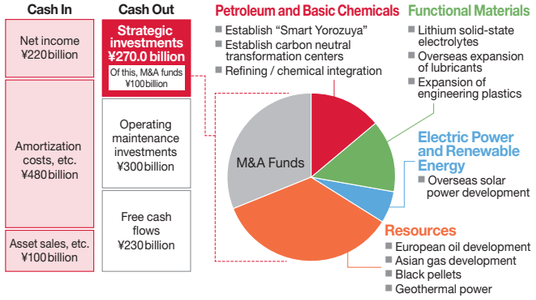
As a result, our policy is to retain free cash flows of ¥230.0 billion and allot money to shareholder returns, strategic investments to convert our portfolio, and strengthen our financial situation.

In addition, we think it is important to enhance capital efficiency to ensure the flexibility needed to respond to further environmental changes going forward and outlined the practice of ROIC* management in our basic policy for 2030. Specifically, we set a goal of achieving an ROIC of 7% by the end of fiscal 2030, and, as a transition point, we aim to improve this figure to 4% by the end of fiscal 2022.

*Return on Invested Capital

Net income (excl. inventory impact)	Operating + equity income (excl. inventory impact)	ROE	FCF
(three years, cumulative)	(three years, cumulative)	(March 31, 2022)	(three years, cumulative)
¥220 billion	¥410 billion	8%	¥230 billion

(main assumptions)	Unit	FY2021	FY2022
Crude oil (Dubai)	$/BBL	60.0	
Naphtha (customs)	$/t	560	
Coal (Australian thermal)	$/t	80.0	75.0
Currency exchange (US$)	¥/$	105.0	



4. Shareholder Returns

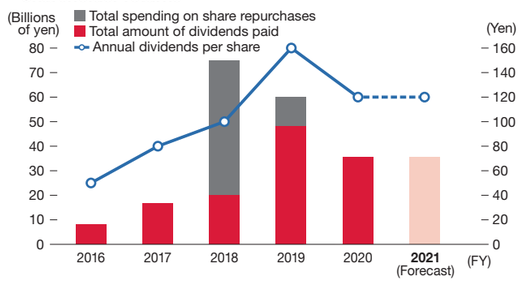
Idemitsu considers returning profits to shareholders an important management issue. Based on this idea, in the period between fiscal 2020 and 2022 of the Medium-term Management Plan, our policy is to conduct shareholder returns with a 50% or more dividend payout ratio and stable dividends of ¥120 per share.

Going forward, we will realize enhanced corporate value by converting our portfolio and capital efficiency and continue meeting shareholder expectations.

5. Dialogue with Shareholders and Investors

We recognize that it is important to hold dialogues with shareholders and investors through timely and appropriate disclosure regarding management policies and operating results and to reflect their opinions in management. As a company with a mission to supply energy, we will continue striving to enhance our financial and non-financial disclosures, including action on climate change. In addition, amid the present period of major environmental change, we will hold more active briefings based on the Company's policies and strategies going forward, including on the revised Medium-term Management Plan. I would like to thank our shareholders and investors for their continued support.

■ Shareholder returns



FY	2016	2017	2018	2019	2020	2021 (Forecast)
Total spending on share repurchases (Billions of yen)	–	–	55.0	12.0	–	
Total amount of dividends paid (Billions of yen)	8.0	16.6	20.0	48.0	35.7	35.7
Annual dividends per share (Yen)	50	80	100	160	120	120
Total shareholder return ratio (%) *Excluding inventory impact	12	12	97	154	120	

■ Financial Highlights ➡p.83
■ Primary Financial Data ➡pp.85-86