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Press Release

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Idemitsu Kosan formulates Medium-term Management Plan (FY2020-2022)

Idemitsu Kosan has formulated a Medium-term Management Plan for the new company resulting from its merger with Showa Shell Sekiyu K.K. in April 2019, as summarized below.

Details

1. Basic policies of formulation of the Medium-term Management Plan

Based on our recognition that climate change will have a major impact on our management and business sustainability as a Company whose main business is energy, formulation of this Medium-term Management Plan began with discussion of the kind of future that awaits in 2050, the target year for the Paris Agreement.

Nevertheless, the environment in which the Company operates, including the energy conditions, is complex and diverse, and it is extremely difficult to predict, with high certainty, the future in 2050. Accordingly, as we aim to be a resilient group able to adapt with flexibility and strength to any future, we envisioned multiple scenarios regarding business conditions through 2050 and devised a vision for 2030, as a milestone year for which predictions can have a relatively higher degree of reliability, and formulated this Medium-term Management Plan based on back casting from this vision.

We will continue to be an energy co-creation company that creates new values with stakeholders.

2. Vison for 2030

(a) Understanding of business conditions in 2030

[1] Structural changes to energy demand

- Developed countries: Decreased demand for fossil fuels, increasing diversification (electrification, shift to distributed energy, shift to renewable energy)
- Emerging countries: Increased demand for energy due to strong economic growth

[2] Advancement of technological innovation

- Increased demand for new materials for use in new technologies (such as EVs and robotics)
- Advancement of the digital innovation

[3] Changing lifestyles and demands from society

- Advancement of a recycling-oriented society as consumers' ecological awareness increases
- Changing customer needs (from ownership to use)
- Progression of aging society and depopulation in Japan
- Increasing demands for corporate social responsibility in areas such as practical contributions to achievement of the SDGs (environmental measures, contributing to communities, strengthening governance, improving workplace environments, diversity, etc.)

(b) Basic policies for the run-up to 2030

Basic Policy 1. Realizing a resilient business portfolio

[1] Structural reforms to core revenue-generating businesses

- Pursuing profits in the petroleum business (maximizing integration synergies, making refineries more reliable)
- Enabling the Nghi Son Refinery to contribute to profits

[2] Expansion of growth businesses

- Expansion of business scale and domains (M&As on a scale of JPY100 billion during the Medium-term Management Plan period)
- Increasing the share of functional materials business to 30% by 2030
- Increasing total power generated from renewable energy to 5 GW by 2030 (Mainly from overseas)
- Transformation of solar-power business

[3] Creation of next-generation businesses

- Creating new businesses with an eye on societal changes, diversification of customer needs, lessening of environmental impact, etc.

Basic Policy 2. Building a business platform suited to the needs of society

[1] Harmony with the global environment and society

- Efforts to reduce GHGs (2030: down 15% vs. 2017)

[2] Progress in governance

- Enhancing roles and functions of the Board of Directors

[3] Acceleration of digital innovations

- Utilizing digital technologies to create new value

(c) Quantitative targets

We will reduce overreliance on the petroleum business by examining the business portfolio from multifaceted perspectives, including growth potential, stability of earnings (impact of market changes), and environmental impact.

	FY2019 (Projected)	FY2030	vs. FY2019
Operating income + equity earnings of affiliated companies	JPY168 billion*	JPY300 billion	+JPY132 billion
Operating income ratio of 3 businesses (petroleum, exploration, coal)	60%	Less than 50%	-10%
Operating income ratio of functional materials business	18%	More than 30%	+12%
Cumulative total power development (overseas)	1.0 GW (0.2 GW)	More than 5 GW (4 GW)	+4 GW

*Excluding inventory impact

(d) GHG reduction targets

We will accelerate our activities to reduce GHG emissions using three indicators based on the basic understanding that such reductions should be advanced while simultaneously contributing to the fields of the environment, society, and the economy.

[1] Reduction target

i. 2030 reduction target for our Scope 1+2 reduction (vs. 2017): -2 million t-CO2 (-15%)

[2] Monitoring indicators

ii. 2050 goal for low-carbon energy supply (vs. 2017): -30%

*However, this goal will be revised as necessary in light of the progress of society's shift to low-carbon energy and technological advances.

iii. Degree of decarbonization of companywide revenues: Setting profit targets and degree of decarbonization based on ascertaining the business environment in 2050

3. Overview of the Medium-term Management Plan (FY2020-2022)

(a) Management objectives

	FY2022 (Final year of medium-term management plan)	Three-year cumulative total
Net income	JPY175 billion	JPY480 billion
Operating income + equity earnings of affiliated companies	JPY260 billion	JPY720 billion
ROE	10% or higher	
FCF	JPY400 billion	

*Major assumptions for FY2022: Crude oil 60$/BBL, naphtha 550$/t, coal 72$/t, exchange rate 105JPY/$

(b) Operating income + equity earnings of affiliated companies, by segment (excluding inventory impact)

Through means including maximization of integration synergies, improving earnings of the Nghi Son Refinery in the petroleum segment, business growth in the functional materials segment, centered on lubricants, as well as expansion of power development overseas, we will aim an operating income (including equity earnings of affiliated companies) of JPY260 billion in FY2022.

(Unit: JPY billion)

Segment	FY2019 (Projected)	FY2022 (Planned)	vs. FY2019	Main factors behind changes vs. 2019
Petroleum	59	123	+64	Maximization of integration synergies; expansion of overseas sales; improving earnings of the Nghi Son Refinery
Basic chemicals	45	41	-4	Downturn in product markets (aroma, etc.)
Functional materials	31	50	+19	Expansion of domains of lubricant/performance chemicals businesses, etc.; strengthening the electronic materials business
Power and renewable energy	-4	14	+18	Expansion of power development from renewable energy sources overseas; expansion of the domestic electricity business
Resources	42	41	-1	Commencement of production at Vietnam gas field; downturn in coal market
Others	-5	-9	-4	Increase in costs of new business development, etc.
Total	168	260	+92	

(c) Cash balance

In addition to securing net income of JPY480 billion, we will realize cumulative cash inflows of JPY1.03 trillion over three years through means including sale of assets.

Free cash of JPY200 billion after returns to shareholders would be used to fund initiatives such as strategic investment in growth fields, strengthening our financial foundation, and returns to shareholders in FY2022.

The allocation of free cash would be decided by comprehensive consideration of matters such as the states of revenues and expenditures.

(Unit: JPY billion)

	Three-year cumulative total	Details
Cash in	1,030	Net income 480, depreciation, etc. 450, sale of assets, etc. 100
Cash out	830	Investments 630 (including 100 in funding for M&As), returns to shareholders 200
Free cash after returns to shareholders	200	Strategic investment in growth fields, strengthening financial foundation, returns to shareholders in FY2022 and later

(d) Investment plans

In order to advance structural reforms to our core revenue-generating businesses during the period of this Medium-term Management Plan, we will allocate a degree of funding to invest in operation and maintenance

and investment in strengthening our business infrastructure, with the goal of realizing stable operations in the petroleum business.

At the same time, to reform the business portfolio we plan to proactively invest in growth strategies, with the goal of expanding our business domains in functional materials such as performance chemicals, lubricants, and electronic materials. We will also give careful yet bold consideration to M&As in growth fields.

(Unit: JPY billion)

Investment category	Positioning	Three-year cumulative total
Growth Strategy	Investment in existing core business, growth businesses and next-generation businesses in pursuit of further revenue growth	190
Strengthening business infrastructure	Investment in stable operation and strengthening competitiveness through diversification of raw materials, shortening periodic maintenance cycles, BCP measures, etc.	70
Operation and maintenance	Investment in maintenance, upgrading, etc.	270
M&A funding	Funding M&As in growth fields of the functional materials business (performance chemicals, etc.)	100
Total		630

(e) Shareholder Returns

[1] FY2019-2021

Realizing returns to shareholders with a total payout ratio of 50% or higher

- As announced in October 2018, the minimum dividend is JPY160 per share and at least 10% of returns to shareholders will be allocated to share buyback.
- All repurchased shares will be canceled.

[2] FY2022 and later

Considering further returns to shareholders through means such as increased dividends and flexible share buyback in accordance with profit levels, based on a minimum dividend of JPY160 per share

- A final policy will be decided on during FY2021, based on comprehensive consideration of the cash balance including strategic investment in growth fields, strengthening of financial foundation, etc.

Attachment: Medium-term Management Plan (FY2020-2022)

Precaution Statement about Forecasts

Any information about forecasts for the Company's operating results, management strategy and management policy contained in this documents other than historical facts is prepared, according to judgments made by the top management of the Company based on information available as of the publication of the document.

Actual business environments contain potential risk factors and uncertainties including economic situations, crude oil prices, trends in petroleum products, market conditions, currency exchange rates and interest rates.

Consequently, actual operating results of the Company may substantially differ from forecasts due to changes in the important factors mentioned above.