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Press Release

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Announcement on the Revision of the Medium-term Management Plan (Fiscal Years 2020–2022)

After Idemitsu Kosan Co., Ltd. ("Idemitsu" or the "Company") announced its medium-term management plan in November 2019, the operating environment changed drastically due to the COVID-19 pandemic. Decarbonization trends are also accelerating, following the Japanese government's declaration on pursuing carbon neutrality by 2050. The Company therefore revised its medium-term management plan announced in November 2019 in order to accelerate the reformulation of its medium-to-long-term strategy and initiatives, as summarized below.

1. Anticipated long-term business environment

Idemitsu reviewed its assumptions concerning the long-term business environment for this revision. While the many variables involved make it extremely difficult to forecast the future global business environment, it has become clear that global decarbonization and aging will progress going forward. The Company had assumed Scenario 3 ("Prism") for the long-term energy business environment scenario up to 2050 in its medium-term management plan announced in 2019. However, it is now believed that the plausibility of entering Scenario 4 ("Azure"), in which Asian-Pacific petroleum demand will peak out early on and decrease thereafter, has increased.

2. Reconfirm corporate purpose and establish a corporate vision for 2030

When the outlook on the operating environment is unclear, it becomes more important than ever to look back to the corporate purpose to decide on future courses of action. Looking back, Idemitsu has always emphasized the value of "nurturing people through our work, contributing to society by showing infinite possibility." This is reflected in the words "Truly inspired" in the mission statement, supporting each and every employee as the Company moves relentlessly ahead towards future changes.

Our corporate vision for 2030 is to become

Your Reliable Partner for Brighter Future

and will fulfill three responsibilities through our business activities:

(1) Responsibility to protect the environment and lifestyles:

Energy/material transition to a carbon-neutral/circulatory society

(2) Responsibility to support regional communities:

Next-generation mobility & community for an aging society

(3) Responsibility to provide for society with technological capabilities:

New materials to make it possible to overcome such challenges

3. Basic strategy and management objectives towards 2030

(1) Basic strategy

Amid extreme uncertainties in the medium-to-long-term operating environment, Idemitsu has established three basic strategies to become a resilient company which can adapt flexibly to any environmental changes.

A. Engage in ROIC management

In order to place a stronger emphasis on capital efficiency, Idemitsu will apply the concept of ROIC management to portfolio management and performance management.

B. Evolve the business platform

(a) Accelerate DX

In addition to reforming internal operations, the Company aims to add value to customers and create ecosystems.

(b) Enhance corporate governance

Efforts will include limiting the board to a smaller number of directors who are equipped to handle management challenges and having external directors lead deliberations at the nomination committee.

C. Create an open, flat, and agile corporate culture

Idemitsu will pursue internal dissemination of the corporate mission and vision, organizational reforms, and workstyle reforms to create a corporate culture in which brings out the diverse capabilities of employees with various value sets and achieves synergies through collaborative internal efforts.

The Company's business strategy based on the above is as detailed below.

Business strategy

Petroleum Basic Chemicals	■ Turn apollostation into a **"Smart Yorozuya (One-stop shop)"** ■ Review refinery/complex structure and establish a **"CNX* Center"** ■ Reduce fixed costs ahead of decrease in demand ■ Deepen integration between refining and petrochemical production ■ Enabling profit contribution from Nghi Son Refinery
Functional Materials	■ Commercialize lithium solid electrolytes ■ Accelerate development of advanced materials (e.g. electronic materials, performance chemicals, lubricants, grease, functional paving materials, agri-bio)
Power and Renewable Energy	■ Expand development of renewable energy sources (solar/wind/biomass) ■ Develop distributed energy business centered around renewable energy ■ Convert Solar Frontier's module sales business into a system integrator business
Resources	■ Oil E&P: Shift to Southeast Asian gas development, CCS initiatives using developed technologies ■ Coal: Reduce mine production, shift to low-carbon solutions business (black pellets, ammonia) ■ Expand domestic and overseas geothermal business

*CNX : Carbon Neutral Transformation

(2) Portfolio transformation for the future

Idemitsu aims to achieve its 2030 vision through the three major themes of the basic strategy, including the following goals.

A. Shift in the fossil fuels/basic chemical businesses to next-generation fuel/materials and a circular business, through an energy/material transition

B. Growth in ultra-compact EVs and livelihood support in pursuit of next-generation mobility and community

C. Further expansion of the functional materials business

(3) Pursuing carbon neutrality by 2050

Idemitsu will reduce CO2 in Scope1+2 to the extent possible and engage in negative emission efforts to pursue carbon neutrality by 2050. Perceiving this as a growth opportunity, the Company will expand operations which contribute to decarbonization and seek to accurately understand customer needs to reduce CO2 emission across the entire value chain, thereby tackling the challenge posed by SDGs No.7 ("providing clean energy to everyone") head-on.

(4) Management targets for 2030

Idemitsu aims to enhance enterprise value by targeting operating + equity income of ¥250 billion and increasing ROIC to 7% through portfolio and performance management.

As an interim target towards carbon neutrality in 2050, the Company aims to reduce CO2 by over 4 million t relative to FY2017.

	FY2020 Results	FY2030	vs. FY2020
Operating + Equity Income	¥92.8 billion *1	¥250.0 billion	+¥157.2 billion
ROIC	3%	7%	+4%
GHG Reduction Target *2*3 (Scope1+2)	—*4	-4 million t	—

*1: Excludes inventory impact. *2: vs. FY2017.
*3: Includes group refineries. *4: Calculating

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

(1) Management targets

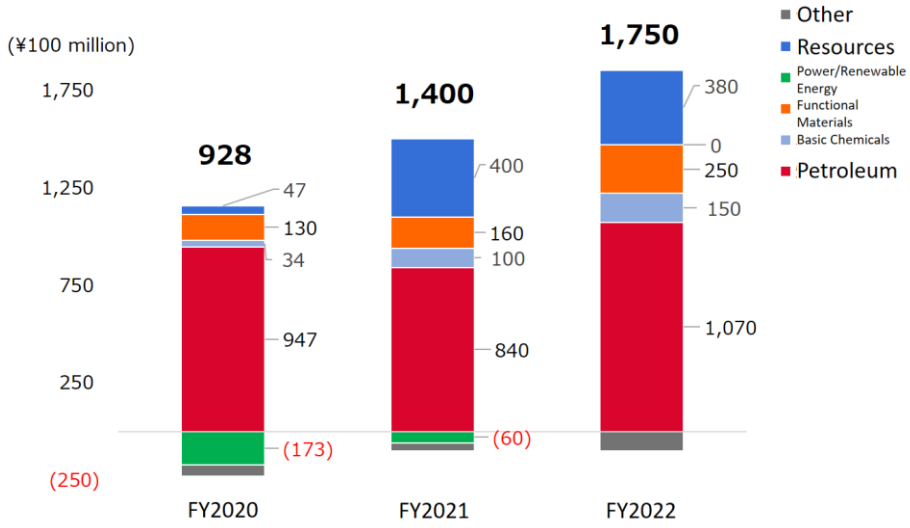
Idemitsu's cumulative targets for FY2020–2022 are as follows (FY2022 target for ROE).

Net income (excl. inventory impact)	Operating+ Equity income (excl. inventory impact)	ROE	FCF
(3-year cumulative) ¥220 bn	(3-year cumulative) ¥410 bn	(FYE 2022) 8 %	(3-year cumulative) ¥230 bn

*Key assumptions for FY2022: Crude oil $60/BBL, naphtha $560/t, coal $75/t, exchange rate ¥105/$

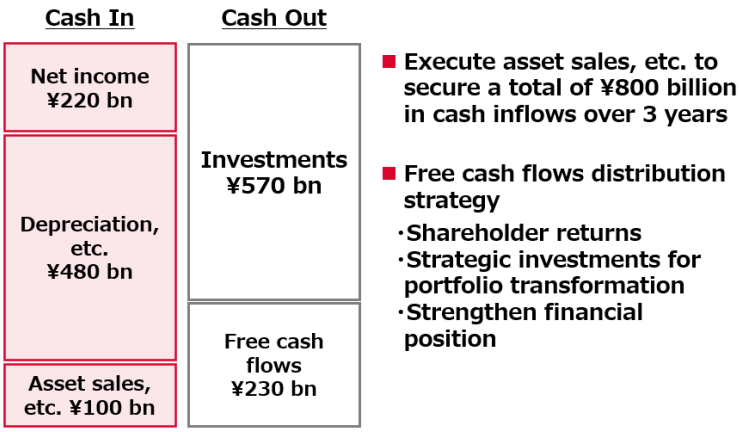
(2) Operating + equity income (excluding inventory impact) by segment

Idemitsu targets operating income (including investment income) of 175 billion yen in FY2022 by achieving more integration synergies in the petroleum segment and enabling profit contribution from Nghi Son Refinery, while also taking recoveries in resource prices and the basic chemicals market into account.



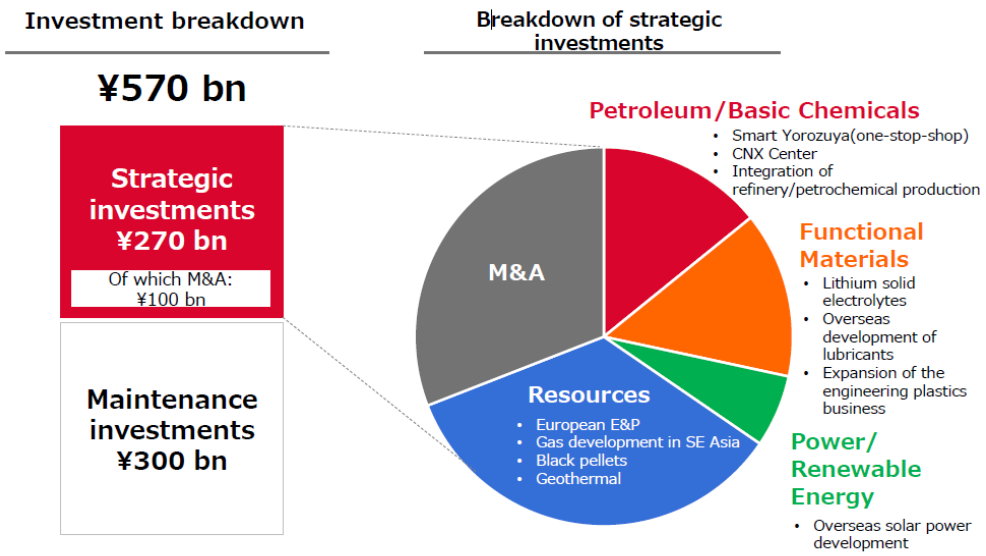
(3) Cash balance

Idemitsu plans to achieve free cash flows of 230 billion yen through fixed cost reductions, careful selection of investment transactions, and proactive asset sales. Free cash flows will be allocated to shareholder returns, to strategic investments, and for the strengthening of the Company's financial position.



(4) Investment plan

Idemitsu plans cumulative investments of 570 billion yen over the 3 years. Strategic and M&A funds will be allocated to investments aimed at transforming the business portfolio.



5. Shareholder returns

Shareholder returns are positioned as a key management priority at Idemitsu. The Company's shareholder returns policy is as follows.

(1) Total payout ratio of at least 50% on cumulative net income excluding inventory impact from FY2020–2022

(2) Stable dividends of 120 yen/share

Annex: Revision of 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.