Until it constructed the Tokuyama Refinery in 1957, Idemitsu’s principle source of petroleum products was a Japan-based oil refining company. Even before that date, we were operating our own tankers to handle the large-scale transportation of high-quality, inexpensive petroleum products between Japan and U.S. and other overseas suppliers boasting stable supplies and consistent quality, a tradition we have maintained ever since.

In 1953, we gained worldwide attention by taking the lead in opening direct trade with oil-producing countries in the Middle East beginning with the Nissho Maru Incident, wherein we challenged the Seven Sisters (the nickname given to the group of Western oil companies that dominated the market at the time) and imported petroleum products directly from financially strapped Iran. After our refineries came on line, procuring crude oil became our primary focus and, in 1973, we established offices in Beirut, Tehran and other locations in the Middle East to strengthen our direct ties with oil-producing countries and secure crude oil and petroleum products. Even now, our network of offices in the Middle East functions as our principal point of contact with oil-producing countries.

The environment surrounding Idemitsu and Middle Eastern oil-producing countries has changed remarkably over the last ten or so years. Crude oil prices have soared and demand for crude oil has expanded in emerging economies while demand for petroleum has decreased in Japan. Idemitsu is going beyond simply trading crude oil and is seeking to form strategic partnerships with Middle Eastern oil-producing countries, with efforts oriented toward supporting human resources through business investments, technical cooperation and personnel exchanges.

### Business Investments

In 2006, Idemitsu provided 10% of the funding for Qatar's Laffan Refinery 1 and, in 2009, production commenced. In addition to providing know-how and technology gained through our own refinery operations to help get the facility started, in 2012 we dispatched an experienced employee to serve as head of operations, thereby contributing to stable operations. We have agreed to fund a second refinery, Laffan Refinery 2, and signed an agreement to this end in 2013 with the goal of completing construction in 2016. To support the new facility’s construction, we are dispatching Idemitsu technicians.

### Technical Cooperation

Idemitsu was an initial participant in the TAKREER Research Centre Project, a joint venture between the U.A.E.’s Abu Dhabi Oil Refining Company (TAKREER) and Japan Cooperation Center, Petroleum (JCCP), and has been supporting its day-to-day operations. This project is divided into three phases. Thus far we have provided guidance on using equipment at the pilot plant, assessed catalysts and examined issues at refineries. Since 2012, the final year of Phase II, an Idemitsu technician has been serving on site as head advisor, drawing on our oil-refining skills, experience and knowhow cultivated at our own refineries to provide support.

Moreover, since the 1980s, Idemitsu has been providing technical training for operators from refineries in oil-producing countries. This invaluable training helps mold employees into leaders at the forefront of production. As of 2013, about 400 overseas trainees were being provided training at our refineries, laboratories, and the Manufacturing & Technology Department's technical training center.

### Securing a Strong Foundation in Japan

**Crude Oil Procurement**

Forming strategic partnerships with oil-producing countries in the Middle East
In the Middle East, an increasing number of young, talented professionals are rising to management positions. With such younger professionals entering the management track, fostering mutual understanding and personnel exchanges with Japan and Idemitsu is extremely important to building and developing strategic partnerships.

Beginning in 2005, with the aim of encouraging the exchange of talent at multiple levels with oil-producing countries, Idemitsu began a training program for young executive candidates from Abu Dhabi National Oil Company (ADNOC) and other state-run oil companies. About 70 people have completed this training to date. In addition to classes to understand Japan's oil industry and Idemitsu's production, logistics, procurement, sales and other operations, training includes tours of our refineries and oil depots. We also provide opportunities to learn about Japanese culture. We have received considerable praise from the management of the participating state-run oil companies for our efforts.

In fiscal 2013, Idemitsu participated in exchanges with executive candidates from ADNOC, Qatar International Petroleum Marketing Company Ltd. (Tasweeq) and Oman's Ministry of Oil and Gas.
Fuel Oil Business Initiatives
Securing a Strong Foundation in Japan

Oil Refining

Promoting structural reforms and increasing the competitiveness of refineries and petrochemical plants

Adjusting Facility Capabilities to Match Sales Volumes

In 1957, Idemitsu completed the construction of the Tokuyama Refinery, its first such facility, in Shunan City, Yamaguchi Prefecture. By the mid 1970s, we were meeting Japan’s burgeoning demand for petroleum products through refineries constructed in Chiba, Hyogo, Hokkaido and Aichi prefectures. With the acquisition of Okinawa Petroleum Refining Co., Ltd. in 1972, we had a production framework comprising six refineries. In 1995, we achieved total crude oil throughput of 910 thousand barrels per day.

After domestic demand for petroleum products peaked in 1999, divesting excess refining capabilities became an industrywide issue. Accordingly, we began to optimize our short-run supply by reducing the number of refining facilities we were operating to better match sales volumes. We suspended crude oil processing at the Hyogo Fuel Oil Business Initiatives in 2003 and at the Tokuyama Refinery in March 2014. Our current production framework comprises three refineries with a combined throughput of 555 thousand barrels per day. The closures reflect our efforts to maintain an optimal balance between supply and demand while striving to both pare down costs and secure stable supplies.

Strengthening Alliances

Our petrochemical plants constantly strive to increase their competitiveness, particularly in the area of olefins, through alliances with other general chemical manufacturers and sales of competitive derivative products.

In FY2013, we strengthened the ties between our Chiba Petrochemical Plant and Mitsui Chemicals, Inc. while optimizing the production of our ethylene equipment and derivative product equipment and increasing their cost competitiveness. In addition, we increased reception and storage capacities for handling larger shipping lots of imported naphtha at the Tokuyama Petrochemical Plant, which in turn supplies competitive olefin raw materials to other companies in the Shunan Industrial Complex.

The Source of Our Competitiveness

Since its founding, the Idemitsu Group has valued individual autonomy as a basic principle. This is based on the idea that all employees should work proactively, take responsibility for their work, and conscientiously carry out their duties. The Company’s role is to bring together and harness the potential of all its employees.

Idemitsu first introduced Total Productive Maintenance (TPM) activities in 1984 at the Chiba Refinery. The scope of activities has since steadily increased to include the manufacturing and engineering sectors of other Group refineries and petrochemical plants. At refineries, petrochemical plants and related business sites, TPM activities go beyond basic plant maintenance to encompass all aspects of management. TPM activities have been implemented as a means of reshaping attitudes and encourage all employees to participate in the day-to-day running of their refineries and plants. Our efforts have garnered acclaim from outside the Company, with many business sites receiving awards from the Japan Institute of Plant Maintenance. Today every employee applies the proactive mind-set of a manager, working hard to make steady improvements. This has engendered a high level of trust in plant operations, plant maintenance, quality assurance, safety assurance, environmental conservation activities and every other facet of management, leading to improved profitability.

1. Based on internal Idemitsu reference materials. FY2013 throughput figures are as of March 31, 2014
Idemitsu started out as a dealer in petroleum products. At the time, it was standard practice for a single dealer to handle an entire region. Although our original line of products was limited to lubricants, we noted that there were no specified dealers covering regions offshore, and we used this fact to gain a foothold for our pre-war fuel oil business. To attract new customers, we came up with innovative solutions. For example, we were able to offer fishing boat operators major fuel cost reductions if they were to switch from the kerosene they usually used to power their engines to diesel oil, which doesn't hinder engine performance.

After World War II, automobiles quickly became commonplace, but the gasoline produced in Japan was of poor quality and caused a significant amount of car trouble. Idemitsu launched the Nissho Maru in 1951 and began importing high-quality gasoline from the United States, selling it under the Apollo brand name. Since then, we have continued to take the lead, for example, helping to protect the environment by offering unleaded and low-benzene gasoline.

To increase the competitiveness of our service stations, we established a comprehensive support system for our retail outlets comprising the following companies: Idemitsu Supervising Co., Ltd., which is in charge of providing operational know-how for self-service service stations; Idemitsu Credit Co., Ltd., which handles the issuing and bill processing of credit cards and prepaid cards; Apolloretailing Co., Ltd., which provides education and training for retail employees wishing to acquire mechanic qualifications and also sells car-care products, including tires and batteries, through service stations; and i BUSINESS PARTNERS Corp., which provides industry-leading point of sale (POS) systems. In April 2012, we formed a capital and business alliance with Yellow Hat Ltd. involving the sale of that company's products at our service stations. In April 2013, we created the joint brand ApolloHat and, as of September 31, 2014, this brand is sold through 72 stores. The brand is still expanding across the country.

Beginning in October 2014, we decided to participate in the R-Point Card issued by Rakuten, Inc. We are aiming to tap the market comprising approximately 90 million Rakuten members to boost sales.
In 2008, Idemitsu partnered with Vietnam Oil and Gas Group (Petrovietnam), Kuwait Petroleum International Ltd, and Mitsui Chemicals, Inc. to establish the joint venture Nghi Son Refinery and Petrochemical Complex in Vietnam, and the provision of funding for Qatar’s Laffan Refinery 2. Under the Fourth Medium-Term Management Plan, which began in FY2013, we established a value chain encompassing refining, supply, trade and sales in the Asian Pacific Rim from our base in Singapore with the aim of securing a stable earnings platform.

Joint Ventures in Vietnam and Kuwait

In 2008, Idemitsu partnered with Vietnam Oil and Gas Group (Petrovietnam), Kuwait Petroleum International Ltd, and Mitsui Chemicals, Inc. to establish the joint venture Nghi Son Refinery and Petrochemical (NSRP) LLC, Vietnam’s second refinery. This is one of Vietnam’s largest industrial projects and by reliably providing high-quality products to meet growing demand for petroleum products within the country, it is expected to contribute to the development of Vietnam’s economy.

This refinery uses oil supplied by Kuwait Petroleum Corporation (KPC). It has an atmospheric distillation unit with a 200 thousand barrel daily throughput, a heavy oil fluid catalytic cracking unit, and petrochemical production units. The final decision to invest in NSRP was reached in June 2013 and full-scale design and construction work began in July of that year. With an eye to completing the complex in 2016, we are currently leveling the land and upgrading the port facilities. In addition, the Company has dispatched personnel and begun hiring and training local staff to provide technical support for construction efforts and operations.

We are also considering going beyond oil refining and sales for NSRP to further expand business within Vietnam.

Building up Singapore as a Base in the Asia Pacific Rim

With its base of operations in Singapore, Idemitsu International (Asia) Pte. Ltd. (Idemitsu Asia) trades crude oil and petroleum products throughout the Asian Pacific Rim in addition to developing new businesses. Since July 2013, we have further strengthened Idemitsu Asia’s authority and function by transferring gasoline and diesel oil trading operations from Tokyo to Singapore. We are now constructing a global value chain linking refineries and petrochemical plants in Japan with sales channels on the U.S. West Coast and in Australia. Singapore, which boasts one of the world’s largest concentrations of petroleum product manufacturing and is a major clearinghouse for market information, will be the base from which we expand trade and develop businesses throughout the Asian Pacific Rim, including Indochina and Australia.
Expanding Our Sales and Procurement Networks in the Americas

In June 2010, Idemitsu Apollo Corporation took over the wholesale petroleum products business on the U.S. west coast from California-based New West Petroleum, Inc. The company receives supplies of gasoline and diesel oil from oil refining companies, transporting it by pipeline to inland transport facilities and selling racks to rack jobbers and retailers. Furthermore, we are expanding the sales network and have boosted current annual sales volume 1.5 times since the time of purchase to around 3 million kiloliters. We began wholesaling in Canada and Alaska and selling imports of petroleum products from the Far East to the United States, Canada, Central and South America.

Securing a Fuel Oil Sales Base in Australia

In December 2012, Idemitsu acquired all the shares of Freedom Energy Holdings Pty Ltd, an independent fuel oil sales company in Brisbane, Queensland, basing its decision on the strong prospects for growth in the local market for fuel oil. In addition to importing fuel oil that it sells both directly and through wholesalers, Freedom Energy operates around 40 service stations with an annual sales volume of approximately 830 thousand kiloliters. We have been working to enhance Group synergy in Australia and, in October 2013, began providing fuel oil to mines that the Idemitsu Group owns interests in.