



Corporate Governance

Basic Concept of Corporate Governance

The Company, a company originating in Japan which co-creates energy, will continue to strive to create new values together with its customers and stakeholders, while aiming to harmonize with the environment and society in the spirit of diversity and inclusiveness.

With this aim in mind, the Company recognizes the importance of constructing positive relationships with all stakeholders, including customers, shareholders, business partners, local communities and employees, by fulfilling its social responsibility as a good corporate citizen, improving management transparency and promoting sound and sustainable growth.

Japan's Corporate Governance Code is aimed at achieving sustainable corporate growth and increasing medium to long-term corporate value through Dialogue with Shareholders. The Company which strives to become a socially respected and highly trusted company believes that it must comply with the code in principle.

The Company attaches great importance to be self-governing, thinking by ourselves and judge ourselves in accordance with the Company's vision. In addition, the Company openly discusses its business status and management circumstances with Independent Outside Directors and Independent Outside Audit & Supervisory Board Member with a wide range of knowledge and backgrounds and sincerely absorbs their unrestricted views, thereby endeavoring to continue operating in a transparent and fair manner.

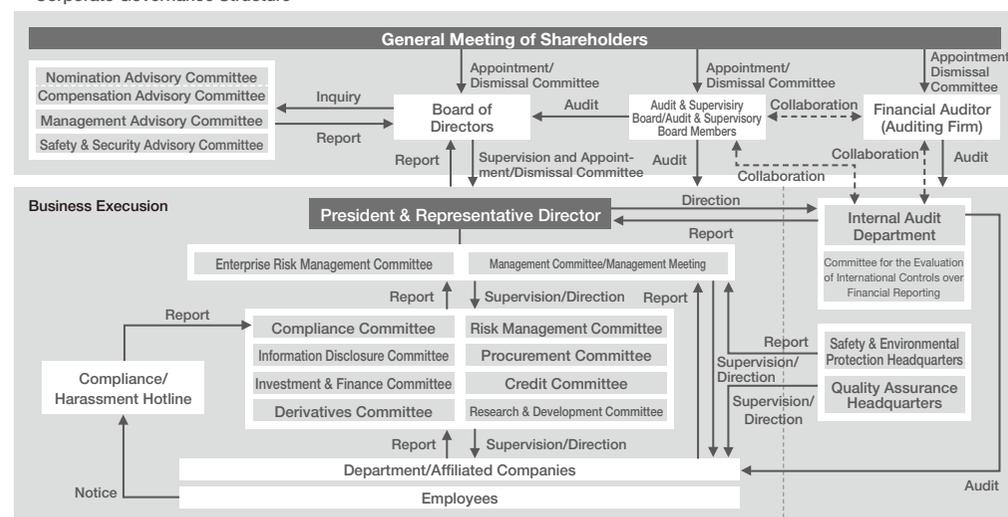
Outline of Corporate Governance System

While the Board of Directors of the Company shall make important business decisions and supervise the execution of business, the Company, as a company with Audit & Supervisory Board, shall ensure that Audit & Supervisory Board Members and the Audit & Supervisory Board that are independent of the Board of Directors shall audit the execution of duties by officers and employees.

The Board of Directors shall, in accordance with laws, regulations, the Articles of Incorporation, and other rules set down by the Company, make decisions on business strategy, business planning and other key business matters for the Company and supervise the execution of business.

In order to increase the objectivity of the Board of Directors, the Company has made it possible to separate the roles of the chairperson and the CEO by revising a clause in the Articles of Incorporation stipulating that the CEO will serve as the chairperson of the Board of Directors to read that the chairperson will be determined by the Board of Directors.

■ Corporate Governance Structure



With regard to matters other than those mentioned above, the Company shall delegate authority for business execution to the Representative Director and CEO, Management Meeting, Directors who also serve as Executive Officers, Executive Officers and General Managers, with a view to facilitating decision making on the execution of business. The Management Meeting, which has the Representative Director and some Executive Officers as its members, decides on business execution based on the Authority Rules.

Each Committee

Management Advisory Committee and Safety and Security Advisory Committee

To maintain management transparency and soundness, our company has established two committees as advisory bodies to the Board of Directors, the "Management Advisory Committee" and the "Safety and Security Advisory Committee." Both committees receive frank opinions on our company from a third-party perspective and reflect them in management improvements.

The "Management Advisory Committee" is positioned as a body that advises on issues related to overall management reform. In principle, it meets once every six months and receives recommendations from 2 outside advisors.

The "Safety and Security Advisory Committee" has consulted on security issues, particularly technical issues, to prevent large-scale disasters at refineries and plants. Recent changes in the business environment have increased the importance of ensuring safety in business deployment, new businesses, and overseas expansion. Therefore, we have set up a working group within the Safety & Environmental Protection Headquarters to select themes appropriate to the business development and receive recommendations from outside experts each time.

Nominating Advisory Committee and Compensation Advisory Committee

To enhance the transparency and objectivity of its nomination and compensation functions, as advisory bodies to the Board of Directors, our company has established the "Nominating Advisory Committee" and "Compensation Advisory Committee" which are comprised of Independent Outside Directors and independent outside auditors, and chaired by Independent Outside Directors.

The "Nominating Advisory Committee" reports on the president's proposal submitted to a general meeting of shareholders, for the election of candidates for Directors and Audit & Supervisory Board Members, as well as the election of the President and Representative Director and Executive Officers. "Compensation Advisory Committee" also reports on matters related to the remuneration of Directors and Executive Officers.

Management Committee, Enterprise Risk Management Committee, and Other Committees

In addition to examining management issues such as the Group's strategy and governance, the "Management Committee" has been established to deliberate on important business execution issues. In addition, the "Enterprise Risk Management Committee" has been established as an organization to discuss and decide matters related to the Group's risk management and to monitor them as necessary.

At the bottom of the "Management Committee" are 5 specialized committees to discuss specialized risks in business execution: "Investment and Finance Committee," "Derivatives Committee," "Procurement Committee," "Credit Committee," and "Research & Development Committee." In addition, we have established the "Risk Management Committee" and the "Compliance Committee" under the "Enterprise Risk Management Committee" in order to strengthen our response to business risk cases and develop a framework for reviewing and drafting risk management policies. In addition, we have established the "Committee for the Evaluation of International Controls over Financial Reporting" to strengthen J-SOX compliance and the "Information Disclosure Committee" to provide timely and appropriate information disclosure based on the Group's information disclosure policy.

For an overview of each committee, please refer to page 53 of the Idemitsu Sustainability Report 2019.



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Committee Name	Chair	Members	Meeting frequency	Roles
Management Committee	President	Committee members appointed by chair	In principle, three times a month	To discuss and consider management strategies and issues for the entire group and for each division. To deliberate the execution of business.
Enterprise Risk Management Committee	President	Committee members appointed by chair	In principle, twice a year	To decide on and monitor risk management policies for group management
Investment and Finance Committee	Director in charge (determined by management meeting)	General managers of relevant departments	As needed	To deliberate and report on investment-related matters and to establish investment standards
Derivatives Committee	Director in charge (determined by management meeting)	General managers of relevant departments	In principle, once a month	To perform derivative audits and to confirm and report on the status of risk management for the entire group
Procurement Committee	Director in charge (determined by management meeting)	General managers of relevant departments	In principle, once a month	To deliberate on and consider matters regarding the placement of orders for services, raw materials, and other items
Credit Committee	Director in charge (determined by management meeting)	General managers of relevant departments	In principle, once a month	To formulate basic policies related to debt management and measures for collecting non-performing loans or bad debts
Research & Development Committee	Director in charge (determined by management meeting)	General managers of relevant departments	In principle, four times a year	To consider matters related to the direction, strategies, and issues pertaining to Company-wide research and development
Risk Management Committee	Director in charge (determined by management meeting)	General managers of relevant departments	In principle, four times a year	To deliberate and prepare important policies to promote business risk management
Compliance Committee	Director in charge (determined by management meeting)	General managers of relevant departments	In principle, twice a year	To make appropriate response to compliance concerns and to promote compliance activities
Committee for the Evaluation of Internal Controls over Financial Reporting	Director in charge of accounting	Relevant directors or executive officers	In principle, twice a year	To assess and consider matters related to internal controls regarding financial reporting
Information Disclosure Committee	Director in charge of accounting	Relevant directors, executive officers, and general managers	As needed	To decide on disclosure of information

Changes in Corporate Governance Structure

There are 13 Directors, 5 of whom are Independent Outside Directors with diverse backgrounds, including women and non-Japanese nationals. The term of Directors shall continue until the conclusion of the annual shareholders meeting for the last business year which ends within one year from the time of their election pursuant to the provisions of the Articles of Incorporation.

In FY2018, the Board of Directors met 15 times.

There are four Audit & Supervisory Board Members, two of whom are Independent Outside Audit & Supervisory Board Members, and we have established a system that allows them to fully perform management oversight functions from outside. The Audit & Supervisory Board works to improve the level of auditing by sharing issues and information among Audit & Supervisory Board Members and, when necessary, requesting information from the Directors and departments. In FY2018, the Audit & Supervisory Board met 16 times.

Fiscal Year	Form of Organization	Number of Directors	of Which, Number of Independent Outside Directors	Number of Audit & Supervisory Board Members	of Which, Number of Independent Outside Audit & Supervisory Board
FY2015	Company with Audit & Supervisory Board	10 people	2 (One woman)	5 people	3 people
FY2016	Company with Audit & Supervisory Board	10 people	2 (One woman)	5 people	3 people
FY2017	Company with Audit & Supervisory Board	12 people	4 (One woman and one foreigner)	4 people	2 people
FY2018	Company with Audit & Supervisory Board	11 people	4 (One woman and one foreigner)	4 people	2 people
FY2019	Company with Audit & Supervisory Board	13 people	5 (One woman and one foreigner)	4 people	2 people

Policy for Nominating Candidates for Directors and Audit & Supervisory Board Members by Board of Directors

Nomination of Candidates for Directors

Our company has adopted human resource standards for Directors that take into account the composition of the Board of Directors.

Our company believes that it is important for the Board of Directors to have a certain number of people who are familiar with our company's business and its issues as a member of the Board of Directors, to ensure the independence and objectivity of the Board of Directors, and to ensure diversity in the knowledge, experience, and capabilities of the Directors, in order for the Board to fulfill its roles and responsibilities and to strategically direct our group, and has prepared a Skill Matrix as one of the criteria for selection.

Based on this, the Board of Directors receives recommendations from the Nominating Advisory Committee and appoints a certain number of candidates who are familiar with our company's business and its issues, and who are capable of carrying out our company's management appropriately, fairly and efficiently.

In the election of Director candidates, after discussions among representative directors, the CEO shall submit a draft to the Nomination Advisory Committee on full assessment of the abilities, knowledge and performance of individual candidates, regardless of whether they are from inside or outside of the Company. The Board of Directors shall make a decision based on a report submitted by the Nomination Advisory Committee.

The Nomination Advisory Committee, when it deems it necessary, deliberates on the dismissal of directors and reports the results to the Board of Directors.

Nomination of Candidates for Audit & Supervisory Board Members

Our company determines the standards for the personnel of Audit & Supervisory Board Members based on the structure of the Audit & Supervisory Board, after obtaining the prior consent of the Audit & Supervisory Board.

Candidates for Audit & Supervisory Board Members are selected based on the prior consent of the Audit & Supervisory Board, provided that they have appropriate experience and abilities as well as the necessary knowledge of finance, accounting or legal affairs. Candidates for internal Audit & Supervisory Board Members are selected based on their full knowledge of our company's business and its issues, and are able to conduct audits and supervision of our company appropriately, fairly and efficiently.

In the selection of candidates for Audit & Supervisory Board Members, the President and Representative Director discusses this with all representative directors and, based on the recommendations of the Nominating Advisory Committee, submits to the Board of Directors a draft which sufficiently evaluates the abilities, knowledge and performance of each candidate, as for both inside and outside the company, with the consent of the Audit & Supervisory Board.

Independence Requirements for Outside Officers

In order for the Board of Directors to fulfill its supervisory functions, our company's basic policy is to appoint more than 1/3 of its Directors and half of its Audit & Supervisory Board Members as Independent Outside Directors and auditors, respectively, who have the knowledge and experience to provide useful advice for the management of our company, from among persons who satisfy the "Independence Requirements for Outside Officers" by taking into consideration a variety of knowledge and backgrounds.

1. A person who has become an executive officer of the Company or its subsidiaries in the present or in the past.
2. A person who is a major shareholder or currently affiliated with an organization that is a major shareholder with a 10% or higher share ratio in the Company's latest shareholder list.
3. A person who is currently affiliated with the Company's business partners or their consolidated subsidiaries with a total annual transaction amount of 2% or more of consolidated net sales in the three most recent business years.



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4. A person who is a consultant, accounting professional, legal expert, accounting auditor, or contractor (if they are corporations, associations, or other organizations, those who actually belong to those organizations) who receives money or other properties of ¥10 million or more per annum from the Company other than remuneration for a Director or 4 Audit & Supervisory Board Member in the three most recent fiscal years.
5. A person who is currently affiliated with non-profit organizations that have received 2% or more of their gross or ordinary income from the Company in the three most recent fiscal years.
6. In the case where a person has belonged to any of the organizations or business partners described in "2." to "5." above, five years have not elapsed since (s)he left the organization or business partner.
7. A person who is the spouse or relative within the third degree of kinship of an officer (excluding those that are not important) of the Company or a specified associated company of the Company.

Training

Our company provides training to its Directors and Audit & Supervisory Board Members on the roles, responsibilities, and compliance that are expected of them when they become Directors or Audit & Supervisory Board Members of listed companies.

In addition, we explain our company's business, finance, and organization to newly appointed Independent Outside Directors and auditors of our company, so that they can fulfill their roles and responsibilities.

In addition, our company encourages Directors and Audit & Supervisory Board Members to improve their skills and provides them with training opportunities tailored to their needs, while at the same time providing a broad range of support for necessary expenses.

Assessment of the Effectiveness of the Board of Directors

At least once a year, all the directors and Audit & Supervisory Board Members assess the effectiveness of the Board of Directors, and the Company disclose an overview of the results. The first effectiveness evaluation of the integrated new company, which was established in April 2019, will be conducted in the second half of FY2019.

Compensation for Executives

Basic Policy on Executive Compensation

Our company's basic policies regarding remuneration for its Directors and Executive Officers (Directors, etc.) are twofold: 1) to increase corporate performance and corporate value over the medium to long term to realize its management vision; 2) to establish a remuneration system and decision-making process that is transparent, rational and fair so that the company can fulfill its accountability to customers, society, the environment, shareholders, business partners, employees, and other stakeholders. Based on this policy, our company's executive compensation system is as follows.

Compensation Standard

Compensation levels for Directors and others shall be reviewed as appropriate in light of changes in the business environment and external survey data.

Compensation Structure

Our company and Showa Shell Sekiyu K.K. merged on April 1, 2019. Starting in FY2019, the compensation structures for the Directors (excluding Outside Directors) and Executive Officers will be based on new arrangements, with the emphasis being placed on contributing to the maximization of synergy creation, business portfolio rearrangement, and enhancement of initiatives for the environment, society and governance, which in turn will lead to further improvement of corporate value, and will consist of (1) fixed compensation, (2) performance-based bonuses (shift from performance-linked

monetary compensation (periodic equal pay) to performance-based bonuses for the purpose of clarifying the incentive structure), and (3) performance-linked stock compensation.

The ratios of fixed compensation, performance-based bonuses, and performance-linked stock compensation at the time of standard payment are set at approximately 70%, 15%, and 15%. Compensation for Outside Directors consists solely of fixed compensation from the perspective of objectively assessing the appropriateness of business execution and ensuring appropriate supervisory functions.

1. Fixed compensation

Fixed compensation shall be paid on a monthly basis in an amount determined according to the role.

2. Performance-based bonus

Performance-based bonuses are designed to fluctuate within a range of 0 - 200% according to achievement levels (such as roles and company performance (hereinafter "net income") and consolidated operating income attributable to shareholders of the parent company).

3. Performance-linked stock compensation

From the perspective of sharing value with shareholders, performance-linked stock compensation is designed to fluctuate within the range of 0 - 200% in accordance with the achievement of corporate performance (net income and consolidated operating income) for all executives. This is a medium- to long-term incentive in which the value of assets fluctuates due to stock price fluctuations during the term of office as stock is given to Directors, etc., after their resignation.

Our company uses net income and consolidated operating income as indicators to share value with shareholders and investors, and believes that they are appropriate indicators to strengthen profitability and increase our corporate value.

The weight of each indicator is determined in accordance with the duties of each director.

The Date of Resolution at the Shareholders General Meeting Concerning remuneration, etc. for Executives and the Details of Such Resolution

At the 91th Ordinary General Meeting of Shareholders held on June 27, 2006, the amount of compensation for Directors and Audit & Supervisory Board Members was set at 1.2 billion yen or less per year for Directors and 120 million yen or less per year for Audit & Supervisory Board Members. At the time of the resolution, there were 12 Directors and 5 Audit & Supervisory Board Members.

At the 104th Ordinary General Meeting of Shareholders held on June 27, 2019, it was resolved that in addition to the above compensation limits, our company would contribute up to 1.9 billion yen (provided, however, that in the case of a trust that has already commenced in FY2018, the total amount of 2.3 billion yen shall be calculated for the four business years from FY2018 to FY2021.) in total to a trust that would be covered by the performance-linked stock compensation system for Directors and others during the 3 consecutive fiscal years. At the time of resolution, the number of Directors (excluding Outside Directors) covered by this system is 6 and the number of Executive Officers who do not concurrently serve as Directors is 31.

Individual compensation for Directors is determined by the Board of Directors based on the recommendations of the Nomination and Compensation Advisory Committee, which is composed of Independent Outside Directors and Independent Outside Audit & Supervisory Board Members. Individual compensation for Audit & Supervisory Board Members is determined through discussions between Audit & Supervisory Board Members. The Nomination and Compensation Advisory Committee met a total of 11 times in FY2018, including deliberation on executive compensation.



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Total Amount of Compensation, etc. by Executive Category

In FY2018, Directors' and Audit & Supervisory Board Members' salaries totaled 1.19 billion yen and 100 million yen, respectively.

Category	People (number)	Fixed Compensation (1 million yen)	Performance-linked compensation (1 million yen)		Other Compensation (Response to the transition to the new company system) (1 million yen)	Total compensation (1 million yen)
			Cash Compensation (periodic equal pay)	Stock compensation		
Directors (excluding Outside Directors)	7	393	136	132	472	1,135
Audit & Supervisory Board Members (excluding Independent Outside Audit & Supervisory Board Members)	3	59	4	—	12	77
Outside Directors and Independent Outside Audit & Supervisory Board Members	6	69	—	—	9	78
Total	16	522	141	132	494	1,290

* Our company's current executive compensation plan consists of fixed compensation as well as performance-linked cash compensation (periodic equal payment) and performance-linked stock compensation. In FY2019, to clarify the composition of incentives, we shifted from performance-linked cash compensation (periodic equal payment) to bonus payments. "Other Compensation" refers to the extraordinary payment of the portion corresponding to the transition to bonus payments and the adjustment of executive compensation accompanying the management integration.

Management Monitoring System

Our company's internal control system is based on the supervision by the Board of Directors, audits by Outside Directors and Independent Outside Audit & Supervisory Board Members, and accounting audits, as well as the effective functioning of the 3 defense lines under the direction of execution (under President and Representative Director). (1) Each department controls risks by incorporating self-management into daily operations, and ensures the legality of operations. (2) The management division supports the division in each specialized field and monitors the status of self-management. (3) We have established an "Internal Audit Department" under the direct control of the President and Representative Director, and its staff implement "Internal Audits" and "Assessment of Internal Control over Financial Reporting (J-SOX)" from an independent and objective standpoint. The Internal Audit Department conducts internal audits of domestic and overseas offices and affiliated companies. In this way, the effectiveness of internal controls in each division is evaluated, and the results are reported to the President and Representative Director, Audit & Supervisory Board Members, division heads, and relevant executives. The departments that receive advice and proposals for improvement systematically make improvements, and the Internal Audit Department conducts follow-up audits as necessary.

Audits by Audit & Supervisory Board Members

Audit & Supervisory Board Members (4 people) attend meetings of the Board of Directors and audit business reports, financial statements, and consolidated financial statements that are submitted to the annual general meeting of shareholders. They also audit the execution of business operations by Directors on a daily basis. Full-time Audit & Supervisory Board Members attend important internal meetings, such as those of the Management Committee, and meet with department heads, overseas store managers, and the presidents of subsidiaries. Part-time Audit & Supervisory Board Members strive to enhance auditing by visiting key departments. As a general rule, we hold quarterly meetings with the representative director to discuss issues.

Strategically-held Listed Shares

Policy on strategic holdings of listed shares

The Company strategically holds listed shares which are found to be necessary to maintain and expand relationships with business partners over the medium to long term. And yet, the Company shall validate the appropriateness of such holdings annually in the following way, and has been reducing those share holdings.

More specifically, the Company shall scrutinize those share holdings in terms of both quantitative evaluation, which analyzes whether the benefits and risks of holding such shares are commensurate with the relevant cost of capital, and qualitative evaluation, which analyzes the degree of contribution to improving business stability, etc., and the appropriateness of selling shares shall be decided after the deliberation of the Board of Directors.

As for shares which are decided to be sold, the Company shall have sufficient dialogues with the relevant business partners to get their understanding, and then proceeds with the stock sales while considering the impact on share prices. In FY2018, we sold a total of six stocks worth 887 million yen.

Standards for exercising voting rights of strategically-held listed shares

The Company shall exercise voting rights of strategically-held listed shares only when it finds that such exercise will improve on a sustainable basis the corporate values of both the Company and the company whose shares it strategically holds.

The Company shall examine whether or not the exercise of voting rights improves on a sustainable basis the corporate value of the company whose shares it strategically holds, based on management strategies, business results, etc. of the said company. Depending on the agenda, the Company shall ask the said company for an explanation before exercising voting rights.

In cases where the agenda of the company whose shares the Company strategically holds may be in conflict with the interests of the Company and if the need arises, the Company shall exercise voting rights based on Independent Outside Directors' and outside experts' opinions.