

Corporate Governance

Basic Concept of Corporate Governance

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

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 by maintaining dialogue with shareholders. The Company, which strives to be both socially respected and highly trusted, believes that it must comply with the code in principle.

The Company attaches great importance to being self-governing, thinking for itself and judging itself in accordance with its vision. In addition, the Company openly discusses its business status and management circumstances with Independent Outside Directors and Independent Outside Audit & Supervisory Board Members who bring a wide range of knowledge and backgrounds. The Company sincerely takes heed of their unrestricted views, as it endeavors to continue operating in a transparent and fair manner.

Outline of Corporate Governance System

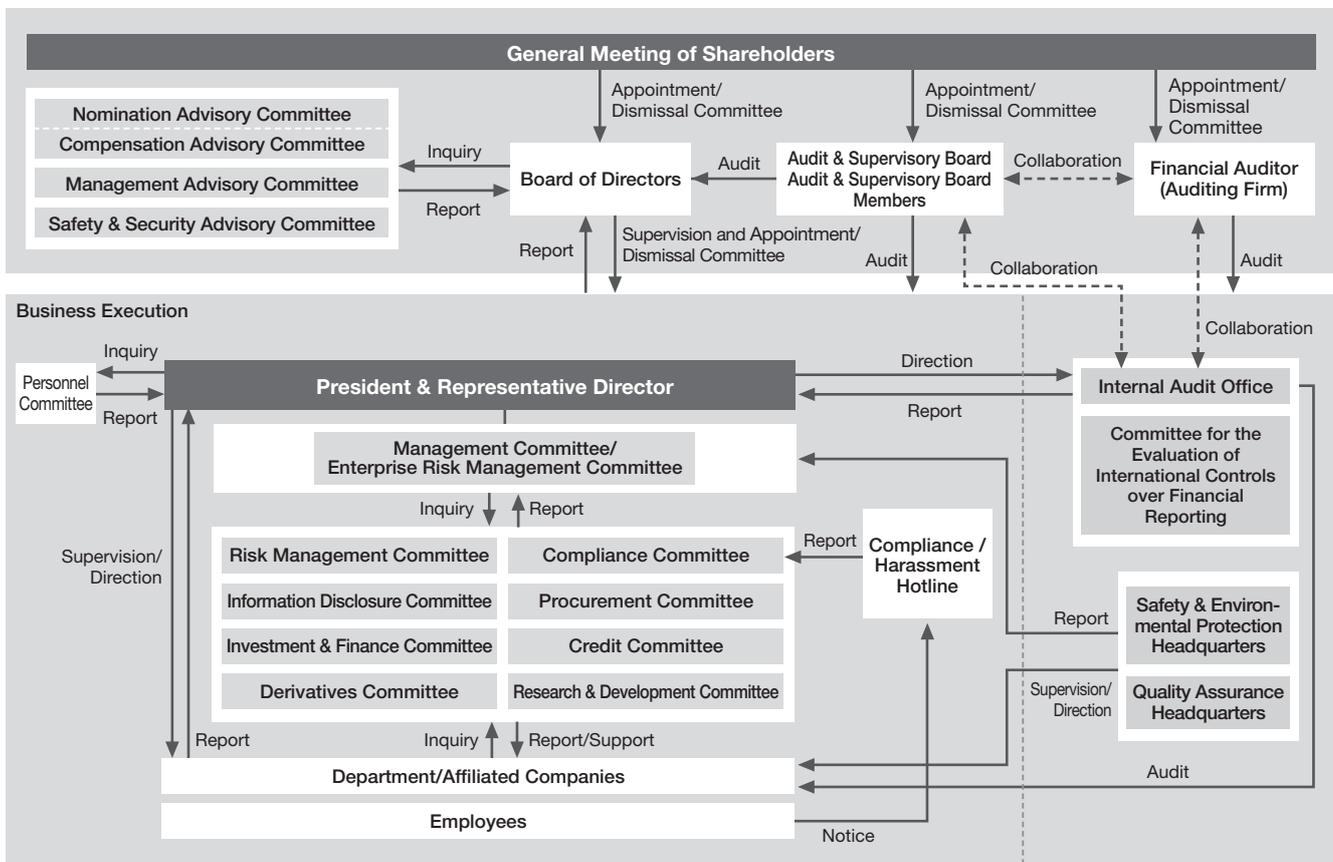
The Board of Directors of the Company shall make important business decisions and supervise the execution of business. As a company with an Audit & Supervisory Board, the Company shall ensure that the execution of duties by officers and employees is audited by Audit & Supervisory Board Members and the Audit & Supervisory Board, which remain independent of the Board of Directors.

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, which previously stipulated that the CEO serve as the chairperson of the Board of Directors, to instead mandate that the chairperson will be determined by the Board of Directors.

With regard to matters other than those mentioned above, the Company shall delegate authority for business execution to the Representative Director and CEO, Directors who also serve as Executive Officers, Executive Officers and General Managers, with a view to facilitating decision making on the execution of business.

Corporate Governance Structure



Overview of Each Committee

Management Advisory Committee / Safety & Security Advisory Committee

To secure advisory bodies to the Board of Directors, we have established two committees: the “Management Advisory Committee” and the “Safety and Security Advisory Committee.” Both committees are attended by outside experts to ensure the reception of frank opinions on the 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 two outside advisors.

The “Safety & Security Advisory Committee” consults on security issues, particularly technical issues, to prevent serious accidents at refineries and complexes. 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 for each theme.

Nomination 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, the Company has established the “Nomination Advisory Committee” and “Compensation Advisory Committee” which are composed of Independent Outside Directors and Independent Outside Audit & Supervisory Board Members, and chaired by Independent Outside Directors.

The “Nomination Advisory Committee” reports on proposals, made by the President and Representative Director, that will be submitted to a General Meeting of Shareholders, for the election of candidates for Directors and Audit & Supervisory Board Members as well as on candidates for President and Representative Director and Executive Officer positions. The “Compensation Advisory Committee” 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.

Under the “Management Committee,” there are five specialized committees established to discuss specialized risks in business execution: the “Investment and Finance Committee,” the “Derivatives Committee,” the “Procurement Committee,” the “Credit Committee,” and the “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. To strengthen J-SOX compliance, we have also established the “Committee for the Evaluation of Internal Controls over Financial Reporting” within the Internal Audit Department. Furthermore, we have established the “Information Disclosure Committee” to provide timely and appropriate information disclosure based on the Group’s information disclosure policy.

Changes in Corporate Governance Structure

There are 12 Directors, five 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 final business year that ends within one year of their election pursuant to the provisions of the Articles of Incorporation. In FY2019, the Board of Directors met 16 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 term of Audit & Supervisory Board Members shall continue until the conclusion of the annual shareholders meeting for the final business year that ends within four years of their election pursuant to the provisions of the Articles of Incorporation. 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 FY2019, 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 Members
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 non-Japanese)	4 people	2 people
FY2018	Company with Audit & Supervisory Board	11 people	4 (One woman and one non-Japanese)	4 people	2 people
FY2019	Company with Audit & Supervisory Board	13 people	5 (One woman and one non-Japanese)	4 people	2 people
FY2020	Company with Audit & Supervisory Board	12 people	5 (One woman and one non-Japanese)	4 people	2 people

Status of the Board of Directors’ Operations during the COVID-19 Pandemic

The COVID-19 pandemic emerged in January 2020 and caused the Japanese government to declare a state of emergency. Despite this, the Board of Directors was able to meet as scheduled during FY2019 and recorded no absences attributable to the pandemic.

As usual, discussion was brisk at each meeting and various measures aimed at preventing infection have since been implemented. These measures included the use of web conferencing systems, the practice of social distancing in the Board room and the installation of acrylic partitions between seats.

Policy for the Nomination of Director and Audit & Supervisory Board Member Candidates by the Board of Directors

Nomination of Director Candidates

The Company has adopted human resource standards for Directors with an eye to ensuring the optimal composition of the Board of Directors.

The Company believes that in order for the Board of Directors to fulfill its roles and responsibilities and to strategically direct the Group, it is important to secure a sufficient number of Board of Directors members who are familiar with the Company's business and the issues it is confronting. The Company also deems it essential to ensure the independence and objectivity of the Board of Directors as well as diversity in the knowledge, experience, and capabilities of each Director. With this in mind, we have prepared a Skill Matrix as one of the criteria for selection.

Based on the concepts outlined above, the Board of Directors appoints, upon the receipt of recommendations from the Nomina-

tion Advisory Committee, a certain number of Director candidates who are familiar with the Company's business and the issues it is confronting and who are capable of carrying out the Company's management in an appropriate, fair and efficient manner.

Prior to the election of Director candidates, the President and Representative Director shall submit a draft to the Nomination Advisory Committee with a 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 then finalize its decision on the selection based on recommendations of the Nomination Advisory Committee.

When deemed necessary, the Nomination Advisory Committee deliberates on the dismissal of Directors and reports its conclusions to the Board of Directors.

■ Skill Matrix

Name	Areas in which the Company particularly expects Director candidates to contribute									
	Corporate philosophy / business strategy	Governance/ legal affairs	Finance/ accounting/ tax	International business/ diversity	Digital innovation/ technology	Environment/ society/ energy policies	Human resources development	Marketing/ sales	Manufacturing/ supply	
Shunichi Kito	●	●	●				●	●		
Takashi Matsushita	●			●	●				●	
Susumu Nibuya	●	●				●		●		
Katsuaki Shindome	●	●					●	●		
Atsuhiko Hirano	●				●			●		
Masakazu Idemitsu	●	●								
Kazunari Kubohara		●	●			●				
Takeo Kikkawa	Outside	Independent		●	●	●				
Mackenzie Clugston	Outside	Independent		●		●	●			
Norio Otsuka	Outside	Independent	●	●	●					
Yuko Yasuda	Outside	Independent		●			●			
Mitsunobu Koshiha	Outside	Independent	●	●	●					

● indicates areas in which the Company particularly expects the relevant Director to contribute and does not represent all of his/her knowledge and experience.

Nomination of Candidates for Audit & Supervisory Board Members

Candidates for Audit & Supervisory Board Members are selected from among those who have appropriate experience and abilities as well as the necessary knowledge of finance, accounting or legal affairs. Moreover, candidates for internal Audit & Supervisory Board Members are selected based on their full knowledge of the Company's business and the issues it is confronting in addition to their abilities to conduct audits and execute the supervision of the Company in an appropriate, fair and efficient manner.

In the selection of candidates for Audit & Supervisory Board Members, the President and Representative Director discusses the matter with all representative directors and, based on the recommendations of the Nomination Advisory Committee, submits to the Board of Directors a draft that sufficiently evaluates the abilities, knowledge and performance of each candidate, regardless of whether they are from inside or outside of the Company, after obtaining the consent of the Audit & Supervisory Board.

Independence Requirements for Outside Officers

To ensure that the Board of Directors fulfills its supervisory functions, the Company's basic policy is to appoint a sufficient number of Independent Outside Directors and Independent Outside Audit &

Supervisory Board Members capable of providing useful advice to management based on their knowledge and experience so that they account for more than one third of its Directors and half of its Audit & Supervisory Board Members. In line with this basic policy, candidates for these positions are selected from among persons who satisfy the "Independence Requirements for Outside Officers" in a way that secures diversity in terms of expertise and backgrounds.

Training

The Company provides training to its Directors and Audit & Supervisory Board Members on their roles and responsibilities as well as the level of compliance literacy expected of them when they assume these positions at a listed company.

In addition, the Company explains its business, finance, and organization to newly appointed Independent Outside Directors and Independent Outside Audit & Supervisory Board Members of the Company, so that they can fulfill their roles and responsibilities. The Company also encourages Directors and Audit & Supervisory Board Members to spontaneously strive for skill improvement and, to this end, provides them with training opportunities tailored to their individual needs, while at the same time offering a broad range of support for necessary expenses.

Main Agenda Items Discussed by the Board of Directors

In FY2019, the Board of Directors engaged in active discussion, holding multiple sessions to address matters associated with business integration, including the absorption-type company split executed in July 2019, and the Medium-term Management Plan announced in November. In the second half of said fiscal year, the Board of Directors strove to address issues identified via the annual

assessment of the effectiveness of its operations and, to this end, deliberated on such matters as the partial delegation of its authority to executive departments and the establishment of human resource standards for Director, Audit & Supervisory Board Member and Executive Officer candidates, in addition to discussing strategic issues the Company is currently confronting.

■ FY2019	
1Q	<ul style="list-style-type: none"> ■ Shareholder return policy ■ Medium-term Management Plan (kick-off session) ■ Business integration-related (absorption-type company split, etc.) ■ Revision of remuneration systems for executives ■ Basic policy on internal control systems ■ Basic policy on corporate governance
2Q	<ul style="list-style-type: none"> ■ Financing strategies for the entire Group, including overseas operations ■ Medium-term Management Plan (carbon recycling initiatives) ■ DTK project (operational flow and work style reforms to improve productivity) ➡ P. 48 ■ Audit policies for Audit & Supervisory Board Members ■ Periodic reporting from the Risk Management Committee
3Q	<ul style="list-style-type: none"> ■ Medium-term Management Plan (summary) ■ Review of investor interview results ■ Policies on information disclosure for shareholders and the conduct of shareholders general meetings ■ Assessment of the Board of Directors' effectiveness (implementation methods) ■ Partial delegation of the Board of Directors' authority to executive departments ■ Establishment of human resource standards for Director, Audit & Supervisory Board Member and Executive Officer candidates ■ Establishment of the Action Mindset ➡ P. 45 ■ Establishment of the Human Rights Policy ➡ P. 45
4Q	<ul style="list-style-type: none"> ■ Business impact of the COVID-19 pandemic and countermeasures ■ Medium-term strategic issues ■ Business portfolio ■ Medium-term targets and initiatives for GHG emission reduction ■ Assessment of the Board of Directors' effectiveness (review of results) ■ Digital innovation initiatives ➡ P. 41 - 42 ■ New service station brand ➡ P. 5, 24 ■ Review of the executive structure and the flow of the selection process for Executive Officers

Note: The above list is a partial representation of agenda items. The Board of Directors has also deliberated on other matters deemed necessary under laws, regulations and the Articles of Incorporation of the Company and passed resolutions on these matters.

Assessment of the Effectiveness of the Board of Directors

Having marked a fresh start as a new integrated company, we launched the first round of assessment since integration, to this end sending out questionnaires to all Directors and Audit & Supervisory Board Members

in December 2019. We have since analyzed input from respondents, employing the advice of an expert organization. Finally, the results of this analysis were discussed by the Board of Directors.

■ Process for the Assessment of the Board of Directors' Effectiveness	
<p>Sending out questionnaires to all Directors and Audit & Supervisory Board Members</p>	<p>Discussion by the Board of Directors regarding the results of the analysis of input from respondents</p>
<p>Identifying issues to be tackled and implementing initiatives aimed at effecting improvement</p>	
■ Results of FY2019 Assessment, Issues to Be Tackled and Future Initiatives	
<p>Overall assessment and items that earned high ratings</p>	
<ul style="list-style-type: none"> ● Overall functions of the Board of Directors were confirmed. ● Ratings were particularly high for the following items. <p>Diversity in the composition of the Board; the timing of the provision of meeting materials; the content and the timing of the prior explanation of agenda items; open, active and constructive discussion and the exchange of opinions at each Board of Directors</p>	
<p>Issues Identified via the FY2019 Assessment and Initiatives Aimed at Effecting Improvement</p>	
<p>(1) Composition of the Board of Directors</p>	<p>Employ the Skill Matrix to pursue the optimization of the Board of Directors' overall composition in a way that helps it invigorate discussion and enhance its functions.</p>
<p>(2) Review of agenda items to be discussed by the Board of Directors going forward</p>	<p>Place stronger emphasis on deliberating strategic and governance matters as well as topics associated with achieving improvement in corporate value; to this end, the Board of Directors' authority over a broad range of matters associated with the execution of business, including organizational management, human resources and internal rules, has been delegated to executive departments over the course of the December 2019–March 2020 period, with the aim of speeding up decision making and clarifying responsibilities with regard to the execution of business.</p>
<p>(3) Follow-up assessment of the progress in the management plan</p>	<p>Progress under the Medium-term Management Plan, which was launched in April 2020, is being assessed by the Board of Directors on a quarterly basis in the short term. The Board of Directors also remains attentive to changes in the business environment over the medium to long term and determines the timing and content of strategic revisions when necessary. Moreover, the Board of Directors deliberates strategic issues, to this end receiving reports from relevant Executive Officers with regard to specific business strategies and performing follow-up assessments based on such reports.</p>
<p>(4) Discussion regarding a plan for the succession of the CEO position and process for the selection and dismissal of CEO</p>	<p>The process for the selection of CEO has already been discussed by the Nomination Advisory Committee. In FY2020, the committee went on to launch discussions regarding the plan for CEO succession and process for CEO dismissal.</p>

Compensation for Executives

Basic Policy on Executive Compensation

The Company's basic policies regarding remuneration for its Directors and Executive Officers are twofold: 1) to increase corporate performance and corporate value over the medium to long term to realize its Management Vision and 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, the Company's executive compensation system is as follows.

Compensation Standard

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

Compensation Structure

The Company and Showa Shell merged on April 1, 2019. Starting in FY2019, the compensation structures for 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. Compensation for these individuals will thus 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.

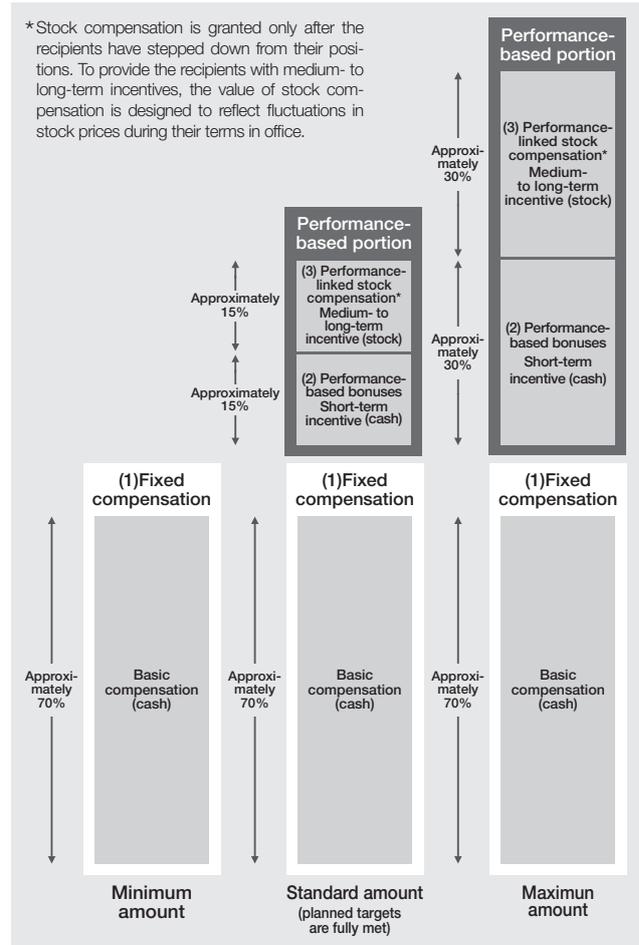
As the Company aims to ensure that the recipients share values in common with our shareholders and investors, the Company uses net income and consolidated operating income as indicators for determining the performance-based portion of compensation, believing that these indicators are appropriate in light of strengthening profitability and increasing the corporate value. In addition to using these consolidated financial results the Company has adopted indicators that reflect the accomplishments of each recipient in their efforts to address management issues in their respective areas of oversight. In particular, this portion for Representative Directors is designed to better reflect the Company's non-financial accomplishments, including those associated with environmental, social and governance (ESG) issues. Weights allocated to each indicator are determined based on duties executed by each recipient.

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.

In the course of determining compensation for Directors and Executive Officers, the Company also utilizes data obtained from a consulting firm that is independent from the Company to assess its appropriateness.

In addition, no specific limitations are set for the number of the Company shares that can be owned by Directors and Executive Officers.

■ Compensation Systems for Directors (excluding Outside Directors) and Executive Officers



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

At the 91st 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 five 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, the Company would contribute up to 1.9 billion yen in total to a trust established to support the performance-linked stock compensation system that grants the Company stock to Directors and other recipients based on their accomplishments during the last three consecutive fiscal years (provided, however, that with regard to a trust that commenced in FY2018, a total amount of 2.3 billion yen shall be contributed to support the system so it is able to reward recipients for their accomplishments during the four business years from FY2018 to FY2021). At the time of resolution, this system covered six Directors (excluding Outside Directors) and 31 Executive Officers (not concurrently serving as Directors).

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 10 times in FY2019, including deliberation on executive compensation.

Total Amount of Compensation, etc. by Executive Category

Total amount of compensation and other wages paid to Directors in FY2019, their breakdown by type and the number of recipients is as presented below.

Category	Number (people)	Fixed compensation (Millions of yen)	Performance-linked compensation (Millions of yen)		Total compensation (Millions of yen)
			Cash compensation	Stock compensation	
Directors (excluding Outside Directors)	8	460	14	—	475
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	2	58	—	—	58
Outside Directors and Outside Audit & Supervisory Board Members	7	97	—	—	97
Total	17	616	14	—	631

Management Monitoring System

The company's internal control system is based on the supervision by the Board of Directors, audits by Audit & Supervisory Board Members, and accounting audits, as well as the effective functioning of the following three defense lines under executive leadership supervised by the 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) The Company has 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, general managers, and relevant Executive Officers. 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 (four members) 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 general managers, overseas managers, and the presidents of subsidiaries. Part-time Audit & Supervisory Board Members strive to enhance auditing by visiting key departments. As a general rule, these individuals hold quarterly meetings with the representative director to discuss issues.

Strategic Holdings of Listed Shares

Policy on Strategic Holdings of Listed Shares

The Company's strategic holdings of listed shares, which have been maintained with the objective of securing and expanding medium- to long-term transactions, are currently being reduced via the annual verification of rationale for such shareholdings. This verification involves both quantitative and qualitative assessments. The former focuses on examining the benefits and risks arising from each shareholding and confirming its propriety vis-à-vis capital cost. The latter focuses on examining such factors as improvement in the stability of the investee business. Results of this verification are discussed by the Board of Directors to decide on whether or not to divest certain shareholdings. The Company also engages in sufficient dialogue with business partners whose shares are earmarked for divestment from its shareholding portfolio. Upon securing their understanding, the Company carries out divestment while giving due consideration to its impact on share prices. In FY2019, the Company divested 20 shareholdings worth 2,305 million yen in total.

Criteria for the Exercise of Voting Rights Associated with Strategic Holdings of Listed Shares

With regard to voting rights associated with strategic holdings of listed shares, our company maintains a policy of casting its vote in a way that leads to sustainable improvement in the corporate value of both our company and the investee. To this end, the Company has made it a rule to judge whether or not an investee is able to sustainably improve its corporate value based on the assessment of such factors as its management strategies and operating results. Furthermore, depending on the content of a ballot proposal, the Company requests a detailed explanation on each matter prior to casting a vote. Should a ballot proposal by an investee be deemed to constitute a conflict of interest between the Company and said investee, the Company exercises its voting rights on an as-necessary basis after consulting with Independent Outside Directors and external specialists.