



Compliance

Tax Compliance Initiatives

Due to the globalization of our business, we are more likely to confront a more diverse range of increasingly complex tax-related issues in the course of operations. Accordingly, we recognize that coordinated handling of tax compliance is a matter of increasing importance. With this in mind, we established the “Group Tax Regulations,” “Group Tax Practices Guide” and other relevant rules aimed at stipulating the Group’s policies on tax compliance and the detailed treatment of tax-related issues. We are thus striving to fulfill our corporate social responsibility by paying taxes in a proper manner and complying with all applicable tax laws enforced in countries where we operate in line with the Group Basic Tax Policy.

● Group Basic Tax Policy

(1) Compliance with Tax Compliance

The Group employees must adhere with a basic policy of properly filing taxes, making payments, and otherwise handling transactions involving the Group in conformity with tax laws and regulations, and are prohibited from engaging in tax evasion or other illegal actions.

(2) Proper Management of Tax Expenses

The Group employees must give due consideration to various tax systems to prevent the emergence of tax-related risks. At the same time, they are expected to fully utilize legally permitted measures to optimize the Group’s tax-related operations.

● Framework for Promoting Tax-Related Operations

The Accounting Department serves as the primary business unit responsible for tax-related operations. In accordance with the “Group Tax Regulations,” this department is charged with furnishing information and advice to each Idemitsu department and Group company handling transactions. The Accounting Department is also tasked with providing relevant in-house education and responding to tax inspections in addition to planning and implementing necessary countermeasures aimed at ensuring tax compliance and optimizing the management of tax expenses. Moreover, all Idemitsu Group employees are obliged to comply with the aforementioned regulations and handle tax-related operations in an appropriate manner. To this end, whenever requested by the Accounting Department, Group employees report on said operations and submit relevant documents while asking it to provide prior consultation where necessary.

● Relationship with Tax Authorities

We cooperate with tax authorities in a straight-forward, appropriate manner and prohibit our employees from making any inappropriate responses involving falsification or concealment. We endeavor to explain our group’s position and standpoint to the best of our ability in order to ensure the comprehension of tax authorities when they inquire about or point out issues pertaining to our handling of tax-related operations. Moreover, we utilize the advance inquiry procedures offered by tax authorities to ensure the appropriate payment of taxes. By voluntarily disclosing information to tax authorities, we thus strive to prevent the occurrence of and minimize the risk of tax-related incidents.

● Response to Tax-Related Compliance Violations

Should a tax-related compliance violation occur, we will take a stringent approach to its correction. We will also ensure that measures to prevent recurrences are implemented in accordance with in-house rules and regulations stipulated by the Idemitsu Group.

Risk Management

Policy of Risk Management

Idemitsu Group strives to stabilize its management by proactively recognizing and evaluating various risks associated with its business activities and taking appropriate measures in accordance with those risks. At our group, we classify risks associated with our business activities into two categories: “Operational Risk” and “Business Strategy Risk” and promote countermeasures against them. “Operational Risk” is the risk of impeding business execution that causes losses and yields no profit. Risks under this category are typified by accidents, disasters, non-compliance, business errors, product defects, customer complaints, environmental pollution, system failures, terrorism, and labor problems. The term “Business Strategy Risk” refers to risks associated with business activities that exclude “Operational Risk” and significantly affect profit or loss. In addition to risks associated with current business strategies such as investments and finance, this category includes risks associated with the future business environment.

- Risk arising from changes in international affairs and the economic environment
- Risk arising from changes in the external business environment (market prices of products, procurement conditions, country-specific circumstances and foreign exchange rates)
- Risk associated with climate change and environmental regulations
- Risk associated with business investments
- Risk associated with legal and regulatory compliance
- Risk associated with intellectual properties
- Risk arising from natural disasters and accidents
- Risk associated with the management of personal information
- Risk arising from the spread of COVID-19

Risk Management Promotional Framework

Enterprise Risk Management Committee

The Enterprise Risk Management Committee, which is supervised by the Board of Directors, handles “Business Strategy Risk” and is tasked with the determination of risk management policies associated with Group operations and monitoring the status of risk management. With the President serving as chairman, committee members mainly consist of Executive Officers and heads of relevant divisions. In principle, this committee meets once every six months and requests reporting from other committees with regard to major risks categorized under “Operational Risk” or “Business Strategy Risk.” Also, the committee provides the Board of Directors with updates on the status of its activities once a year in principle.

Risk Management Committee

Our group has established the “Risk Management Committee” tasked with handling “Operational Risk” and is promoting company-wide risk management by taking necessary measures in a timely and prompt manner. The committee chairman is appointed by the Management Committee from among the Directors or Executive Officers, while committee members consist mainly of officers of general affairs divisions; General Affairs, Safety Environment (HSSE) & Quality Assurance, Finance, Legal, Corporate Planning, Human Resources, Public Relations, and Internal Control. The committee holds periodic meetings on a quarterly basis to specify major risks for the entire Group, formulate countermeasures, and identify signs of their emergence while assessing novel types of risks. In addition to deliberating on these and other matters related to the management of Operational Risk, including measures for risk prevention and managing the progress of such measures, the committee is responsible for submitting its conclusions to the Enterprise Risk Management Committee.

Risk Management

Other Risk Management Initiatives

Further Enhancement of Crisis Readiness Capabilities

We formulated the “Crisis Response Rules” as the highest rules for crisis response. These rules stipulate our policy on crisis response, crisis level definitions, reporting lines, and methods for establishing emergency task forces, among other matters related to crisis response.

Should an incident occur at any facility run by a group entity, the business unit responsible for the incident site will swiftly relay the ascertained risk-related information will be swiftly reported to the business unit responsible for the incident site and the General Affairs Department’s Risk Management Section in accordance with these rules. This risk-related information will also be communicated to the Risk Management Committee as necessary. Furthermore, corporate and other relevant departments will work to assist or spearhead risk countermeasures undertaken at the incident site to minimize the social impact and potential damage.

Initiatives to Upgrade our Business Continuity Plans (BCPs)

We formulated BCPs assuming the occurrence of an earthquake with an epicenter in the Tokyo metropolitan area, a megathrust earthquake involving the Nankai trough, and the outbreak of avian influenza, respectively. Based on said BCPs, we have held annual comprehensive disaster drills and confirmed problems regarding actual execution and coordination among all business bases in order to strengthen our practical response capabilities and have reflected appropriate revisions to the BCPs. Also, each refinery, complex and plant carries out periodic disaster prevention drills encompassing their entire site in accordance with applicable crisis response regulations.

In FY2015, Idemitsu was appointed as a designated public institution by the Cabinet Office and we accordingly announced the Disaster Prevention Action Plan. This plan was updated in conjunction with management integration, with the latest edition being submitted to the relevant authorities in December 2019. As a designated public institution, we worked to ensure that the tanker trucks we operate in each prefecture have been registered for emergency use.

Idemitsu's Disaster Prevention Action Plan is posted on the Cabinet Office's disaster prevention information website (Japanese only).
http://www.bousai.go.jp/taisaku/keikaku/gyomu_koukyou.html

Countermeasures against the COVID-19 Pandemic

Based on our BCP assuming the outbreak of avian influenza, in February 2020 we established the task force headed by the President and Representative Director. Aiming to ensure the stable supply of petroleum products and materials, which are essential to supporting economic and social activities, we have constantly updated our relevant policies and measures in light of changes in social conditions. At the same time, we rallied the Group’s overall strengths to protect the safety of employees and implemented thoroughgoing countermeasures to prevent the spread of infection.

Outline of our initiatives

January 2020	Distributed the first alert regarding the prevention of infection, urging the families of expatriates in China to temporarily return to Japan
February 2020	Established the task force chaired by the President and Representative Director
April 2020	In response to the declaration of a state of emergency, thoroughgoing and highly effective measures to prevent the spread of infection were immediately enforced. These measures included a general prohibition of commuting to company facilities and taking business trips.
May 2020	In conjunction with the lifting of the state of emergency, the aforementioned measures were partially relaxed. Discussion regarding the incorporation of new working styles was launched, with an eye to adapting to the new normal in the post-pandemic period.
July 2020	In response to a resurgence in the outbreak, preventive countermeasures were once again strengthened, with the target of decreasing the ratio of employees who commute to company facilities to less than 30%. (These restrictions on commuting were still place as of September 2020.)

Implementation of Comprehensive Disaster Drills

Since 2007, we have held annual comprehensive disaster drills aimed at enhancing the effectiveness of our BCPs. In conjunction with a government-designated “Disaster Prevention Week,” the 14th round of the comprehensive disaster drill was held in September 2020. To prevent the spread of COVID-19, this round was largely web based, with approximately 200 individuals, including a number from the Head Office emergency task forces, playing their part online. At the same time, staff at relevant departments took part in the drill remotely and practiced the collection, screening, and accurate reporting of information based on a scenario assuming a megathrust earthquake involving the Nankai trough (i.e., the partial cracking of eastern part of the Nankai trough). As part of this drill, we also confirmed employee safety on a company-wide basis, with approximately 14,000 individuals, including those working at subsidiaries and affiliates, reporting their whereabouts in a prompt manner. Looking ahead, we will update our BCPs to address issues identified in the course of the drill. Moreover, we will draw on takeaways from this latest round so that we are better prepared to remotely operate our emergency task forces in a smooth manner.

Online based comprehensive disaster drill



Acquiring Highest BCM Rating from the Development Bank of Japan

In January 2020, Idemitsu became the first oil refiner and primary oil distributor to receive the highest “Rank A” rating awarded by the Development Bank of Japan (DBJ) under the DBJ BCM Rated Loan Program. This program provides a loan menu that incorporates Business Continuity Management (BCM) ratings. Using a proprietary screening system, DBJ assesses disaster prevention measures and BCPs in place at prospective borrowers and offers loan conditions that favor borrowers deemed excellent based on the assessment results. The ratings are classified into three grades from “Rank C” to “Rank A.” We were granted “Rank A: an outstanding company in terms of disaster prevention and business continuity initiatives” thanks to high evaluations in the three areas that follow.

- Under the commitment of the top management, we have established a risk management system that covers all-risk hazards, including geopolitics and cyber risks. Employees work with management to strengthen the Company’s resilience to risks via, for example, risk control through prior investment in addition to the preparation of various risk financing methods based on the analysis of financial impact at the time of risk occurrence.
- As we are aware of our social mission of maintaining oil supply and believe that its disruption can affect people’s lives, we have thoroughly implemented industry-leading quake-resistance measures. As part of these efforts, we have introduced risk engineering survey methods employed by our overseas peers to undertake safety and disaster prevention inspections and implemented robust countermeasures in conformity with global standards. In addition, we have established a system to ensure continued oil supply across Japan based on the “Plan for Joint-Operations of Oil Supply in Disasters,” which is an industrial cooperative framework for emergency supply.
- We work to constantly improve our BCPs by implementing various drills involving outside stakeholders, including Japan’s Self-Defense Forces (SDFs). We also work to improve the effectiveness of emergency response via, for instance, the enhancement a human resource development system to support sophisticated risk management.





Risk Management

Information Management

Information Management System

In line with the Information Security Basic Policies, the Idemitsu Group is endeavoring to ensure the confidentiality of its information assets and to simultaneously secure the accessibility and security of its information systems and networks. Utilizing information technologies, Idemitsu is thus striving to maintain and enhance the level of customer services. In addition, Idemitsu has established the Customer Information Management Standards to appropriately collect and use customer information, keeping it up to date while safeguarding it. The standards also mandate the proper disposal of such information.

As part of our thoroughgoing information management measures, we mandate that all IT system users (including permanent and temporary employees as well as subcontractors) periodically undergo educational programs, such as Security Standards for the Use of IT Systems. At the same time, each division carries out an autonomous inspection of information management every year and data security audits are implemented as part of periodic internal audits. Should information leakage occur, the incident will be handled in accordance with the "Crisis Response Rules," and the Information Control Guidelines.

Information Security Basic Policies

1. The Idemitsu Group shall endeavor to ensure the secrecy of its information assets, secure the availability and security of its information systems and networks, and enhance the level of customer services by employing information technologies.
2. The Idemitsu Group shall put in place appropriate protective measures to prevent the leakage, falsification, or destruction of customer information.
3. The Idemitsu Group shall strive to secure the availability and security of its information systems and networks and protect their secrecy, in an effort to prevent information-related incidents that may cause trouble to customers, business partners, or other stakeholders.
4. The Idemitsu Group shall ensure that all employees, temporary staff, and vendors are aware of the importance of information security and educated on the proper use of information and information systems by providing them with training and otherwise raising their awareness.
5. The Idemitsu Group shall conduct periodic audits aimed at inspecting and evaluating the status of security policy compliance, thereby ensuring robust information security.

Employee education

● Information security education via e-learning

We provide annual e-learning programs (in Japanese, English and Chinese) to instill information security rules that must be observed by all IT system users. Targeting all Group employees at home and abroad, the 2020 round of these programs was implemented during the March – April 2020 period and completed by a total of 14,545 people, or 100% of targeted individuals.

● Specialized e-learning program

In FY2019, we also launched e-learning programs for employees tasked with handling or administering control systems. The 2020 round of this program was implemented during the February – March 2020 period and completed by a total of 4,516 people, or 100% of targeted individuals.

● Training on the handling of suspicious e-mails

On a quarterly basis, we implement training focused on handling targeted e-mail attacks, with the aim of mitigating the risk of contracting computer virus infections borne by suspicious e-mails and raising cybersecurity awareness among employees.

● In-house newsletters designed to raise employee awareness

We distribute the monthly cybersecurity newsletter via e-mail, calling employees' attention to relevant cybersecurity-related topics and thereby raising their awareness.

Intellectual Property

Utilization of Intellectual Property

We have established the Intellectual Property Department to supervise intellectual property. The Intellectual Property Department supports our business development and activities to increase the brand value of our products by collaborating with business and R&D departments to apply for, secure, maintain and utilize intellectual property rights, such as patents and trademarks.

Initiatives to Utilize Intellectual Property

Promotion of Intellectual Property Activity Plans

We use the PDCA cycle to formulate IP Activity Plans based on the directives of the Intellectual Property Strategy Council headed by the general managers of each department. The departments, research laboratories, and the Intellectual Property Department work together to promote priority issues. We have also introduced the "Unit Structure," which efficiently solves problems in a wide range of business fields, from petroleum to functional materials, in accordance with the characteristics and strategies of each business. By doing so, each unit can smoothly carry out intellectual property activities such as patent search and analysis, patent prosecution, negotiations, planning, and administration.

In the petroleum field, we have entered into a cross-licensing agreement and are working to strengthen our competitiveness, to this end reducing costs by making available patents from both parties. In the lubricants field, we command a large share of the global market for refrigerating machine oil, which is one of our strengths, and we have established global patent portfolios.

Because market growth is expected in the OLED business, the core field of the electronic materials business, we have entered into alliance agreements with companies in Japan and overseas that hold useful patents related to OLED materials, enabling the mutual use of patents in specific fields. Through these and other measures, we are working to create and expand businesses while expanding the areas in which development is possible.

Exercising Intellectual Property Rights

Intellectual property rights are being exercised with increasing frequency in response to the diversification of business activities, from licensing to the pursuit of alliances and mergers and acquisitions. We established a specialized negotiations team within the Intellectual Property Department to support its various business segments by handling the negotiation and signing of technology contracts with partners as well as performing due diligence.

■ Number of patent publications

