Who We Are

Idemitsu Kosan Co., Ltd. forms the core of the Idemitsu Group, which currently operates on a global level through three business segments: core businesses, including fuel oil, basic chemicals and renewable energy; resource businesses, including oil exploration, coal, uranium and geothermal power; and functional materials businesses, including lubricants, performance chemicals, electronic materials and agricultural biotechnology.

Editorial Policy

The IDEMITSU Report provides a comprehensive range of information on the Idemitsu Group, covering corporate social responsibility (CSR) and other nonfinancial topics as well as a business summary, management plans and summarized financial data, in order to help readers gain a broad understanding of the Group’s activities. The report is offered both in print and online. The print version highlights the Group’s energy-related businesses, forward-looking initiatives and corporate governance structure. The online version, which is available on our website, offers the latest Environment, Society and Governance (ESG) information, social contribution activities and details of each business’s initiatives. We work hard to ensure that these two versions, when read in conjunction, provide a complete overview of our business. More detailed financial information is disclosed separately in the securities report, financial statements and annual report.

■ Reporting period
This report covers the Idemitsu Group’s performance for the period from April 1, 2015 to March 31, 2016 (fiscal 2015) in addition to containing information concerning activities conducted before or after this period. In some cases, data regarding overseas Group companies may represent cumulative totals for the period from January 1 to December 31, 2015, and are so designated in the corresponding charts.

■ Scope of reporting
The scope of this report includes data and activities of Idemitsu Kosan Co., Ltd. and 95 consolidated subsidiaries, including equity-method affiliates and overseas Group companies. Note that “the Company” and “Idemitsu” within this report refer to Idemitsu Kosan Co., Ltd., while “the Group” and “the Idemitsu Group” refer to Idemitsu Kosan Co., Ltd. and its consolidated subsidiaries.

■ Policy and standards for collecting and reporting performance data
The scope of collection, methods of computation and calculation and finalization of data are conducted in accordance with the Management Policies, General Principles of Global Environment, General Principles of Safety and other relevant internal regulations. Where required, these processes are undertaken in compliance with applicable laws and regulations.

■ Regarding figures
Figures indicated in graphs and tables within this report are rounded off and therefore may not exactly match the totals shown.

■ Guideline references
Japan’s Ministry of the Environment Environmental Reporting Guidelines (2012 version)
This report contains Standard Disclosures of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G4). On our website, you can find an index indicating the pages on which each disclosure item is located.

■ Publication schedule
Japanese version: Published annually since 2001 (Previous 2015 edition issued in September 2015)
English version: Published annually since 2003 (Previous 2014 edition issued in December 2015)

■ Performance data with independent practitioner’s assurance
In an effort to disclose information while ensuring its reliability, data indicated by a checkmark \( \checkmark \) have undergone an independent practitioner’s assurance by Deloitte Tohmatsu Evaluation and Certification Organization Co., Ltd. (Deloitte-TECO). The Independent Practitioner’s Assurance Report is available on our website.

Indemnities:
This report contains past and current factual data of the Idemitsu Group as well as the plans and outlook as of the date of publication and forecasts based on its management plans and policies. These plans, outlook and forecasts are assumptions or decisions drawn up on the basis of information available at the time this report was produced. The results of the Idemitsu Group’s future business activities and events may vary depending on changes in conditions and circumstances.
Our Management Philosophy

Sazo Idemitsu’s words of wisdom were recently collectively summarized as the Principles of Management, Management Policies and Action Guidelines and serve as the management philosophy of the Idemitsu Group. Remaining true to the Principles of Management, we seek to fulfill stakeholders’ commitments as depicted in the Management Policies, with employees unfailingly performing their respective roles in accordance with the Action Guidelines.

Principles of Management

Since its establishment, Idemitsu has been practicing the concept of “respect for human beings” in the conduct of business, and has sought to meet the high expectations of society and to earn its trust. In order to realize this ideal, the Company strives to do the following:

- To play a beneficial role in society by creating an environment where people trust each other and work together to realize through business the tremendous potential of “human beings,”
- To ensure that each employee develops into a reliable person and is respected in society, while upholding our vision, high ideals and engaging in mutual improvement through amicable competition, and
- To attach great importance to our promises to customers and seek to be worthy of the trust vested in us by unfailingly fulfilling those promises.

Management Policies

- **Creation and provision of new value to customers**
  We provide products, technologies and services that give customers a strong feeling of assurance, greater vitality and absolute satisfaction, as we strive to create new value.

- **Contribution to society and the environment**
  We make safety the cornerstone of business and strive to preserve and improve the natural environment. We also contribute to communities, culture and society.

- **Assured returns to shareholders**
  We fulfill our corporate social responsibilities, strive for sound, sustainable growth and endeavor to generate stable returns for shareholders.

- **Cooperation with partners**
  We secure the confidence, greater vitality and absolute satisfaction of our customers through cooperation with the retail outlets of service stations and others involved in our businesses, and aim to share the results as well as the success.

- **Pursuit of employees’ growth and self-realization**
  We create a work environment in which each employee can pursue his or her own growth and self-realization. We also make every effort to ensure that each employee is respected.

Action Guidelines

- **Customers first**
  Consider how customer satisfaction can be attained and act accordingly.

- **Sense of ethics**
  Maintain high ethical principles and act sincerely and fairly.

- **Accepting challenges**
  Exercise originality and ingenuity through flexible views and ideas, and consistently meet the challenge of high-speed innovation.

- **Consensus and cooperation**
  Devote effort to thorough discussion and work as one to implement conclusions.

- **Autonomy**
  Accomplish assigned tasks with responsibility and pride.

- **Broad-mindedness and employee development**
  Strive to create a broad-minded corporate culture for mutual growth.

- **Harmony with communities**
  Contribute to the development of local communities as a good corporate citizen.
Message from the President

The Merger Will Allow Us to Transform and Achieve Greater Growth

Takashi Tsukioka
Representative Director & Chief Executive Officer
Idemitsu Kosan Co., Ltd.
Idemitsu and the Current State of the Oil and Energy Industries

For Japan’s energy industry, fiscal 2015 was a year when several regulatory frameworks with a target year of 2030 came into effect. These include the Ministry of Economy, Trade and Industry’s Long-term Energy Supply and Demand Outlook released in July and the Paris Agreement, which is a new legal framework that was signed at the 21st Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) in December. With the full liberalization of electric power retail from April 2016 and plans for the full liberalization of city gas from April 2017, the real results of policy changes are beginning to emerge.

As for energy demand, although oil products demand in Japan is irrevocably set on a course of continuous decline, an increase in demand is forecast overseas, especially in emerging Asian economies. The International Energy Agency (IEA) projects the total petroleum demand of China and India to reach about 15 times that of Japan by 2040.

Amid this environment, Idemitsu decided in July 2015 after careful consideration to carry out a merger with Showa Shell Sekiyu K.K. Facing chronic structural oversupply, Japan’s petroleum industry has long grappled with the effects of a fundamental decline in demand for petroleum products and an earnings structure overly sensitive to fluctuations in crude oil prices and exchange rates. This has even put the steady flow of business from wholesale to retail in an undesirable position. The refining industry is earnestly working to reduce facility capacity as outlined in the Act on Sophisticated Methods of Energy Supply Structures. At this rate, however, the industry may be unable to fulfill its social obligation of ensuring Japan’s energy supply. Motivated by a sense of crisis and realizing we need to work to eliminate the structural issues besetting the industry while actively restructuring our own operations to establish a more stable foundation, we determined Showa Shell Sekiyu K.K. would be our best partner in this endeavor and moved forward with negotiations. On November 12, 2015, Idemitsu and Showa Shell Sekiyu K.K. signed a letter of intent regarding a merger. Since then, we have established Merger Review Committees and various subcommittees within each company to hold discussions related to the new post-merger company and to promote activities that foster greater mutual understanding. Going forward, we will work to quickly get the newly merged company up and running, although this will depend on various procedures, including an evaluation based on the Antimonopoly Act conducted by the Japan Fair Trade Commission, as well as on whether or not approval is granted.

Several weeks after the letter of intent was signed, the merger of our competitors JX Holdings, Inc. and TonenGeneral Sekiyu K.K. became public. Clearly, the petroleum industry is seeing a new order take hold. Such upheavals will have repercussions that go far beyond the petroleum industry and will affect competitiveness in areas outside of energy in addition to the effect on Idemitsu as it, too, takes on a new order as an integrated energy company.

Fourth Consolidated Medium-Term Management Plan: Results and Evaluation

Facing a chronic, structural oversupply issue in the petroleum industry, Idemitsu has undertaken various structural reforms that will allow it to respond to environmental changes ahead of competitors, such as streamlining its retail branch network and shifting from a production framework comprising six refineries to one comprising three refineries. Under the Fourth Medium-Term Management Plan, which kicked off in fiscal 2013, the stage was set for structural reforms and the prevailing theme was structuring our business portfolio for greater growth. Under the management policy of “contributing to a society with harmony between the economy and the environment by effectively securing and using energy and by developing functional materials,” we strove to “contribute to energy security in Japan and economic development throughout Asia” and “contribute to the realization of a society in harmony with the environment by drawing on proprietary technologies.”

The major theme of the management plan, which concluded in March 2016, was undoubtedly the merger with Showa Shell Sekiyu K.K. In addition, although operating results were affected by crude oil price fluctuations in the previous two years, if we look at results without taking into account the impact of falling crude oil prices, we can see that progress was made according to plan in functional materials businesses, including lubricants and electronic materials, as well as in the implementation of growth strategies, including undertaking Nghi Son Refinery project in Vietnam. The groundwork we laid by nurturing growth businesses is bearing fruit. These businesses include the overseas fuel oil business, which is represented by such ventures as the Nghi Son Refinery project, and the functional materials businesses. In addition, we established a joint venture with our Nghi Son Refinery project partner Kuwait Petroleum International (KPI) and are moving ahead with preparations to expand the petroleum product wholesale and retail businesses. The Company firmly believes a new opportunity for growth lies in helping refine and sell petroleum products in growth markets in Southeast Asia alongside Middle East oil-producing countries.
Our Vision

1. Supporting Japan’s Energy Security

(1) Strengthening Our Fuel Oil Supply Chain

Idemitsu has had offices in the Middle East since before the first oil shock in 1973. We have maintained face-to-face relations in oil-producing countries ever since and now have offices in Qatar, the United Arab Emirates (UAE) and Oman. We don’t just procure crude oil from them, we are engaged in a range of initiatives aimed at building strategic partnerships, such as participating in technical cooperation and personnel exchanges as well as more recently launching joint projects with oil-producing countries.

As for product supply, to lower costs and ensure procurement stability, we formulated a crude oil processing plan that takes into account our sales volume and the balance of supply and demand. We have secured a stable supply system centered on three refineries—in Hokkaido, Chiba and Aichi—and are focusing on efficient management. We are presently reinforcing our stable supply chain throughout the country, to that end making deft use of imports, exports, logistics alliances with other companies and domestic procurement along with other measures while keeping our in-house supply below total sales volume. Furthermore, in response to the persistent gradual downward trend in oil products demand in Japan, from April 2015 we ramped down the throughput of our atmospheric distillation units by 20,000 barrels a day down to 200,000 barrels a day. We will continue to ensure a stable supply of energy while working to strengthen our earnings potential and improve the balance of supply and demand in Japan, giving due consideration to regional trends and our distribution agreements.

As for sales, Idemitsu has 31 retail and operational branches across Japan. We are promoting various activities to strengthen the Idemitsu brand network together with retail outlets that manage service stations. In addition to awarding points to Rakuten cardholders when they pay in cash at storefronts since fiscal 2014, we began awarding points to those paying with Cash Preca cards in June 2015 and began accepting points when making purchases in September 2015. Furthermore, in an industry first, Idemitsu joined on as a point-boosting store for au WALLET, the prepaid payment service provided by KDDI, and Idemitsu service stations now accept these cards for payment. By the end of fiscal 2015, there were 170 ApolloHat stores, the new type of service station we are rolling out in partnership with Yellow Hat Ltd. Through these measures, we have striven to enhance convenience for our service station customers. The strength of our supply chain, encompassing crude oil procurement, imports, production, logistics and sales, lies both in our firm relationships of trust with oil-producing countries as well as in our unity with and Group awareness among retail outlets and robust ties with other business partners. We will continue to firmly secure the supply chain going forward.

A Joint Meeting in which the Idemitsu Group and retail outlets are pledging to move forward together
(2) Expanding Overseas Operations and Supporting Asian Economic Development

The Nghi Son Refinery and Petrochemical Complex project in Vietnam will be the first refinery constructed overseas by one of Japan’s primary oil distributors and is the embodiment of the Company’s vision of overseas business. Commercial production is slated to begin in 2017. This is one of the largest industrial projects ever undertaken in Vietnam and it is expected to help boost the country’s economy through the stable supply of quality petroleum and petrochemical products.

In addition, the two countries partnering with us in this project—Vietnam and Kuwait—are both oil-producing countries. This project will deepen bonds and alliances between the two countries and Idemitsu while playing a large role in ensuring Japan’s energy security. In Singapore, meanwhile, we have been promoting the enhancement of our local subsidiary network and worked to expand business in the Asian region, where demand is growing. Amid shrinking demand for petroleum products in Japan, the Company is thus building a solid business foundation in growth markets where new demand is anticipated.

Idemitsu is engaged in oil, coal, uranium, geothermal energy and other resources businesses.

The oil exploration and production business is promoting production, exploration and development activities in Norway, the United Kingdom and Southeast Asia. In the Norwegian North Sea, our principal area of focus, we commenced commercial production of the Knarr Field in March 2015.

In the coal business, Idemitsu owns interests in four coal mines in Australia, has stakes in companies with interests in two Indonesian mines and has developed a value chain that encompasses everything from production through sales. With coal prices stagnating, we have been working to pare down costs and improve productivity at all our mines in Australia and Indonesia. For example, we installed a coal handling and preparation plant and completed construction to expand our production scale at our core Boggabri Mine, securing a system capable of stably producing high-grade coals that meet market needs.

In the uranium business, we began selling uranium concentrate produced at the Cigar Lake Mine in Canada.

In the gas business, we had been working with Canada’s AltaGas Ltd. to commercialize exports of liquefied natural gas (LNG) to Asia. However, with the worsening LNG market conditions recently, we decided to hold off on the venture for now but will reexamine our position down the line. In Japan, to move forward with feasibility studies and preparations for a natural gas-fired electric power business, we established the joint venture Himeji Natural Gas Power Generation Co., Ltd. in April 2016 with Osaka Gas Co., Ltd. We are also working to continue expanding Asia-bound exports and sales of North American liquefied petroleum gas (LPG). Our aim is to diversify supply sources, ensure stable supply, and support Japan’s energy security, in part thanks to the economical superiority arising from the relatively shorter transport distance from North America.
2. Helping Build a Society in Harmony with Nature

(1) Promoting the Development of Renewable Energy
Idemitsu is working to expand its electric power operations, including wind, mega solar, and biomass power generation. We also aim to develop new geothermal power projects. Specifically, we have funded Futamata Wind Development Co., Ltd. in Aomori prefecture, signaling our entry into the wind power business. We also operate mega solar power plants, which utilize formerly idle plots in our asset portfolio, in Kitakyushu City, Fukuoka Prefecture; Himeji City, Hyogo Prefecture; and Iwaki City, Fukushima Prefecture. With regard to biomass power, Tosa Green Power Co., Ltd.’s Tosa Power Station commenced operations in April 2015. This power station exclusively uses forest residue (waste wood) for fuel and is the first station in Japan that handles all processes from chipping and drying wood through to power generation. In addition, Fukui Green Power Co., Ltd.’s Ono Power Station, which we have invested in, commenced operations in April 2016. As for geothermal power, our operations in Takigami, Oita Prefecture remain stable, and we have begun construction of a binary cycle power station on the grounds there. Furthermore, we are continuing to consider commercialization in Hokkaido, Akita and Fukushima prefectures as we look to expand this business. Idemitsu is also engaged in the retail power business, providing electricity generated from these stations to customers through subsidiaries.

(2) Promoting Environmental Contributions and Global Growth Strategies in the Functional Materials Businesses
In the lubricants, electronic materials, agricultural biotechnology and performance chemicals businesses, we are expanding overseas operations, focusing on marketing energy-saving and eco-friendly products that incorporate proprietary technologies, and aiming to secure a growth trajectory for each business. In the lubricant business, our combined total domestic and overseas lubricant sales volume in fiscal 2015 surpassed 1.1 million kiloliters, setting a new record high. In addition, we bolstered the production capabilities of our lubricant plant in Tianjin, China, responding to increased sales of high-performance lubricants in that country. We will develop environment-friendly products and highly functional products adapted to technological innovations, overhaul our overseas manufacturing and sales locations, and accelerate global expansion.

In the functional chemicals business, we decided to boost the production capabilities of the Chiba Petrochemical Plant for heat-resistant engineering plastic as new applications continue to be developed. We also decided to construct a new plant for hydrogenated petroleum resins in cooperation with Taiwan’s FPCC in response to the growing needs of customers in the area of functional liquid polymers.

In the electronic materials business, in 2009 we agreed to a strategic alliance with the LG group in the OLED business and have since implemented active initiatives in said field. As a result of its efforts, Idemitsu’s high performance materials were incorporated into the LG group’s panel and television manufacturing technology, leading to the successful launch of the world’s first large high-definition OLED television. OLED televisions are expected to take over liquid crystal televisions as the next-generation high-resolution television because they can display true black and be made thin and curved as they do not require a backlight.

Idemitsu will continue to contribute to many leading-edge OLED products by bringing together technologies to provide high performance OLED materials.

3. Management Issues and Responses in Non-Financial Fields

(1) Strengthening Corporate Governance
Idemitsu has adopted the structure of a company with an audit & supervisory board, established a robust corporate governance system and continues to engage in activities aimed at improving its capabilities in this field. The Audit & Supervisory Board comprises five statutory auditors, including three independent outside auditors. At the ordinary general meeting of shareholders in June 2014, two new independent outside directors were appointed to further strengthen the system. In June 2015, Japan’s Corporate Governance Code took effect with the intention of spurring sustainable growth and raising medium to long-term corporate value through dialogue with shareholders. This is in line with Idemitsu’s goal of being widely respected and trusted by society. We have disclosed the implementation status for each rule of the code in our Corporate Governance Report. Going forward we aim to achieve more transparent and fairer management by incorporating diverse opinions through the frank discussion of management issues with outside directors and outside Audit & Supervisory Board members, a group with wide-ranging expertise and backgrounds.

(2) Safety Assurance and Environmental Protection
For the Idemitsu Group, which handles large volumes of hazardous materials, safety assurance and environmental protection comprise its management foundation. Explosions, fires, oil spills and other accidents must be absolutely avoided to fulfill our corporate social responsibility. Human life is irreplaceable, and we must give safety assurance priority above everything else. The Idemitsu Group seeks to ensure that there are zero accidents and disasters. With the Environmental Protection Headquarters leading the way, the Group is working to enhance its safety assurance capabilities, foster a culture of safety and reduce its environmental impact.

(3) Major Earthquake Response Measures
Idemitsu regularly conducts practice drills to improve the effectiveness of its business continuity plans (BCPs) anticipating major earthquakes, such as an inland earthquake in the Tokyo area or an earthquake in the Nankai region. The purpose of these efforts is to enable us to fulfill our social duty of maintaining supply of petroleum, petrochemicals and other products even after experiencing a major earthquake or other disaster. After the Cabinet Office deemed Idemitsu a designated public institution on April 1, 2015, under Article 2,
Paragraph 5 of the Basic Act on Disaster Control Measures, we created a disaster prevention plan to supplement our existing BCPs and are working to enhance our crisis readiness.

(4) Active Promotion of Diversity
Idemitsu fosters a work environment that encourages employee interaction and cooperation regardless of nationality, sex or age. This approach is rooted in our Principles of Management, specifically, “playing a beneficial role in society by creating an environment where people trust each other and work together” and “ensuring that each employee develops into a reliable person while engaging in mutual improvement through amicable competition.” To actively promote diversity, in July 2015, we established the Human Resources Diversification Promotion Group, which is responsible for such diversity measures as expanding the role of women, within the Human Resources Department. The Act on Promotion of Women’s Participation and Advancement in the Workplace came into force in April 2016. It requires publicly available action plans with quantifiable goals. The action plan Idemitsu released includes the goal of increasing the number of women in leadership roles by 2.5 times by fiscal 2020. Looking ahead, we will continue to formulate and promote various measures with the aim of achieving the goal of our action plan.

Seeking New Order for Idemitsu

Over the course of Idemitsu’s 100-plus year history, Idemitsu has adhered to the management principle of respect for human beings, undertaking business with a focus on people and contributing to the sustainable development of society through its operations. Overcoming various hardships along the way, we have steadily created the Idemitsu of today. Many changes are currently afoot around the world, including the spread of terrorism due to turmoil in the Middle East and the prolonged stagnation of crude oil prices as OPEC’s influence wanes. The world is in the midst of a great upheaval and searching for a new order. In response, Idemitsu is seeking its own new order. We are now aiming to be a highly competitive industry leader and are striving to take the first step toward a merger with Showa Shell Sekiyu K.K. Through the merger process, we will bring together our long-held traditions and culture as well as our unique strengths. We also anticipate achieving a whole new corporate chemistry as our differences spark off each other. That said, this merger will free us from the shackles of the past and perhaps bring into question common wisdom regarding the Company, providing an excellent opportunity to completely make over Idemitsu.

The key to swiftly and successfully carrying out this merger lies in our respect for human beings and our drive to espouse a spirit of conciliation and cooperation. I believe that the “Idemitsu approach” to this merger is to show mutual respect for the two companies’ strong points while maintaining our belief in the tremendous potential of human beings, our high ideals and strong will. The philosophy and basic policy at the heart of Company are universal in nature and will remain as essential values signaling our origins.

We hope everyone is looking forward to the new order for Idemitsu and ask for your continued support and encouragement.

Patience
Though bitter winds
May at times blow
Be like the willow

Sengai

“Each store has asked me at some point for a portrait of myself to hang up. But I really didn’t like the idea. ... So instead, I made copies of the Sengai painting Kannin Yanagi and handed them out.”
Sazo Idemitsu, “My Sixty Years: Volume III”

Takashi Tsukioka
Representative Director & Chief Executive Officer,
Idemitsu Kosan Co., Ltd.
The Petroleum Business Value Chain

Since the Group’s founding in 1911, its fundamental purpose as a business has been to serve as a connection between producers and consumers. Accordingly, we have optimized our distribution capabilities with the overarching goal of establishing an extensive retail network that connects directly with consumers. Moreover, moving beyond its origins as simply a dealer in petroleum products, Idemitsu has striven to realize its founder’s vision of creating a comprehensive business structure that covers the entire value chain from crude oil procurement and production through sales.

**Resource Development**
- Since the 1960s, we have conducted full oil exploration operations and, since the late 70s, have promoted activities ranging from exploration and research to production and sales of coal, uranium, and geothermal energy as alternatives to petroleum.

**Crude Oil Procurement**
- We have built strategic partner ships with Middle East oil-producing countries that go beyond just crude oil trading.
- We have built an optimal supply system that utilizes a flexible raw material procurement structure and the import and export of petroleum products while carefully monitoring market trends in Asia and the Pacific Rim.

**Oil Refining**
- We have promptly acted to address the industry-wide need to reduce oil refining capacity while placing top priority on maintaining a stable supply.
- We have established a highly efficient and cost-competitive three-refinery framework by keeping our short-run fuel oil supply at a level below total sales.
- The oil refining and petrochemical industries have joined forces.

**Crude Oil Drilling and Procurement**
- Crude oil production: 13.14 million BOE (petroleum equivalent 2.09 million kl)
- Crude oil imports: 26.67 million kl

**Domestic Transport**
- 3 refineries with a combined throughput of 26.76 million kl
- 2 petrochemical plants with a combined production capacity of 3.78 million tons (ethylene equivalent)

**Oil Refining**
- Idemitsu Engineering Co., Ltd.
- Idemitsu Plantech Hokkaido Co., Ltd.
- Idemitsu Plantech Chiba Co., Ltd.
- Idemitsu Plantech Aichi Co., Ltd.
- Idemitsu Plantech Tokuyama Co., Ltd.

**Domestic Transport**
- Idemitsu Lube Techno Co., Ltd.
- Union Oil Industry Co., Ltd.

**Petrochemical Manufacturing**
- Chiba Chemicals Manufacturing LLP

**Functional Materials Businesses**
- Idemitsu Lube Techno Co., Ltd.
- Cray Valley Idemitsu Corporation

**Core Businesses (Fuel Oils and Basic Chemicals)**
- Crude Oil Drilling and Procurement
- International Transport
- Oil Refining
- Domestic Transport
- Basic Chemicals

**FY2015 Results**
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- (Note) Aggregation period: Jan.–Dec. 2015

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- International Transport
- Oil Refining
- Domestic Transport
- Basic Chemicals

**Resource Development**
- Since the 1960s, we have conducted full oil exploration operations and, since the late 70s, have promoted activities ranging from exploration and research to production and sales of coal, uranium, and geothermal energy as alternatives to petroleum.

**Crude Oil Procurement**
- We have built strategic partner ships with Middle East oil-producing countries that go beyond just crude oil trading.
- We have built an optimal supply system that utilizes a flexible raw material procurement structure and the import and export of petroleum products while carefully monitoring market trends in Asia and the Pacific Rim.

**Oil Refining**
- We have promptly acted to address the industry-wide need to reduce oil refining capacity while placing top priority on maintaining a stable supply.
- We have established a highly efficient and cost-competitive three-refinery framework by keeping our short-run fuel oil supply at a level below total sales.
- The oil refining and petrochemical industries have joined forces.
Because inexpensive and reliable crude oil procurement is crucial to securing our supply system and raising our competitiveness, we constantly pursue stronger ties with oil producing countries. At the same time, we aim for sustainable growth and to this end work to cut costs related to the production and storage of petroleum products and basic chemical products, which are the raw materials of petrochemicals. We also strive to reduce transportation costs while strengthening and enhancing the powerful brand network underpinning our sales network.

**Inland and Marine Distribution**

- In overseas transport, we have upgraded our fleet manned by our crews praised for their high skill level.
- Deliveries are made by tanker trucks (and coastal shippers) emblazoned with the Idemitsu logo, and we have organized a fleet of domestic vessels to support deliveries.

**Oil Sales**

- We have established a brand network in union with retail outlets.

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19 oil depots in Japan with a combined fuel oil storage capacity of 590 thousand kl

3,666 service stations across Japan selling a combined 8.21 million kl of gasoline
The Idemitsu Group handles hazardous materials throughout its entire value chain from the extraction and procurement of crude oil through sales. The biggest material risks for the Group are the major impact on operations of shutdowns and on business revenue and other financial indicators of accidents, including fires, explosions, oil spills and the cross-contamination of different grades of oil. Therefore, ensuring safety, protecting the environment, and assuring quality are the materiality for the Group.

To ensure a secure supply and safe operations, the Group defines major stakeholders and recognizes risks at each stage of the value chain while promoting risk reduction.

**FY2015 Environmental Impact**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Extraction</th>
<th>Import (one way by tanker)</th>
<th>Domestic manufacturing Refinery, petrochemical plant</th>
<th>Domestic transportation (one-way)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Air pollution</strong></td>
<td>Installing equipment to prevent air pollution</td>
<td></td>
<td>Installing equipment to prevent air pollution</td>
<td></td>
</tr>
<tr>
<td><strong>Global warming</strong></td>
<td></td>
<td>Taking energy-saving measures</td>
<td>Taking energy saving measures at manufacturing sites</td>
<td>Streamlining logistic operations</td>
</tr>
<tr>
<td><strong>Resources consumed</strong></td>
<td></td>
<td></td>
<td>Recycling plastic</td>
<td></td>
</tr>
<tr>
<td><strong>Waste</strong></td>
<td>Installing equipment to recover VOCs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Hazardous chemical substances</strong></td>
<td></td>
<td>Property storing and treating PCBs</td>
<td>Installing equipment to recover VOCs at inland transport facilities</td>
<td></td>
</tr>
<tr>
<td><strong>Ozone layer damage</strong></td>
<td></td>
<td>Limiting emissions of fluorocarbons</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Water contamination</strong></td>
<td></td>
<td>Installing equipment to treat wastewater</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Soil pollution</strong></td>
<td></td>
<td>Monitoring and taking measures</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Marine pollution</strong></td>
<td>Treating industrial wastewater, injecting drilling mud into wells and treating it above ground</td>
<td>Shifting to double-hulled tankers to protect surrounding marine ecosystems</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Major Stakeholders, Risks and Precautions in the Value Chain**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Oil extraction</th>
<th>Crude oil procurement</th>
<th>Overseas transport</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major Stakeholder</strong></td>
<td>Drilling operators and staff</td>
<td>Local residents and community</td>
<td>Oil-producing countries</td>
</tr>
<tr>
<td><strong>Risks</strong></td>
<td>• Injury or death in a fire or explosion</td>
<td>• Marine pollution or damage to fishing industry due to an oil spill</td>
<td>• Halt in trade due to geopolitical factors</td>
</tr>
<tr>
<td><strong>Precautions</strong></td>
<td>• Using a Safety, Health and Environment Management System (SHEMS). Evaluating potential risks and reducing them.</td>
<td>• Training executive candidates, technical trainees and other staff from oil-producing countries</td>
<td>• Requesting International Safety Management (ISM) Codes* for safe operations. Keeping up to code to prevent marine pollution.</td>
</tr>
</tbody>
</table>

*International Safety Management (ISM) Code: An international standard incorporated into the International Convention for the Safety of Life at Sea (SOLAS), designed to augment the safety management of ships.
activities. Moreover, natural disaster risks include earthquakes, tsunamis and typhoons, and there is a risk that our refineries, petrochemical plants and other facilities in Japan, where there are many earthquakes, may face a disaster. The Group has formulated business continuity plans (BCPs) for these potential events. We hold general disaster prevention drills every year and revise our BCPs according to the outcomes of the drills. We are working to strengthen our practical response capabilities.

<table>
<thead>
<tr>
<th>Domestic sales and others</th>
<th>Domestic sales and others</th>
<th>Domestic Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using sulfur-free fuels</td>
<td>Using Idemitsu Co! Assessment System and heat-resistant monitoring cameras</td>
<td>Using lime cake for desulphurization agent</td>
</tr>
<tr>
<td>Recycling waste</td>
<td>Using thermal diagnostics</td>
<td>Recycling plastic containers</td>
</tr>
<tr>
<td>- Recycling waste</td>
<td>Using fuel-saving lubricants</td>
<td>Hazardous chemical substances</td>
</tr>
<tr>
<td>- : Using non-chlorinated cutting oils and Biodegradable hydraulic oils</td>
<td>Using non-aromatic solvents</td>
<td>Ozone layer damage</td>
</tr>
<tr>
<td>- : Using CFC-free refrigeration lubricants</td>
<td>Using halogen-free resins, sheets, etc.</td>
<td>Water contamination</td>
</tr>
<tr>
<td>- Assessing soil pollution and taking countremesures</td>
<td></td>
<td>Soil pollution</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Refining, production and storage</th>
<th>Logistics in Japan</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local residents and community</td>
<td>Local residents and community</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>Employees, associate operators</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Injury or death, damage to local infrastructure or obstruction of traffic due to a fire or explosion</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Marine and other pollution or damage to fishing industry due to an oil spill or other leak</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Designing fail-safe and foolproof equipment</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Conducting thorough plant safety assurance, maintenance and operational management</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Maintaining local disaster prevention systems and conducting periodic disaster prevention training</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Safety and environment-related instructions and safety and environmental audits from the Safety and Environmental Protection Headquarters</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Promoting periodic local community gatherings and dialogue</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Reinforcing cooperation with local communities through events, volunteering and other activities</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Introducing emergency shutdown systems for earthquakes</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
<tr>
<td>- Reinforcing structures to resist earthquakes</td>
<td>Service station customers</td>
<td>Local residents and community</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Domestic transportation (one-way)</th>
<th>Domestic sales and others</th>
<th>Domestic Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>INPUT Energy:</td>
<td>OUTPUT Energy:</td>
<td>OUTPUT Energy:</td>
</tr>
<tr>
<td>3.8 PJ</td>
<td>0.8 PJ</td>
<td>91,626 kt</td>
</tr>
<tr>
<td>Equivalent in crude oil: 97.6 thousand t</td>
<td>19.7 thousand t</td>
<td>CO₂ by GHG Protocol</td>
</tr>
<tr>
<td>Water: 6.5 kt</td>
<td>OUTPUT CO₂:</td>
<td>Scope 1:</td>
</tr>
<tr>
<td>266 kt</td>
<td>43 kt</td>
<td>0 kt</td>
</tr>
<tr>
<td>CO₂ by GHG Protocol</td>
<td>OUTPUT CO₂:</td>
<td>Scope 2:</td>
</tr>
<tr>
<td>Scope 1: 0 kt</td>
<td>43 kt</td>
<td>0 kt</td>
</tr>
<tr>
<td>Scope 2: 0 kt</td>
<td>Scope 3: (emissions when sold products are burned): 91,626 kt</td>
<td></td>
</tr>
<tr>
<td>Scope 3 (emissions from other companies’ domestic ships, trucks, etc.): 266 kt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SO₂: 3,032 t</td>
<td>86,688 t</td>
<td></td>
</tr>
<tr>
<td>NOₓ: 3,611 t</td>
<td></td>
<td>SO₂ by GHG Protocol</td>
</tr>
<tr>
<td>Wastewater: 2.9 kt</td>
<td></td>
<td>Scope 3:</td>
</tr>
<tr>
<td>Final disposal (landfill): 7 t</td>
<td></td>
<td>91,626 kt</td>
</tr>
</tbody>
</table>

OUTPUT

<table>
<thead>
<tr>
<th>OUTPUT</th>
<th>CO₂ by GHG Protocol</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1</td>
<td>0 kt</td>
</tr>
<tr>
<td>Scope 2</td>
<td>0 kt</td>
</tr>
<tr>
<td>Scope 3 (emissions when sold products are burned): 91,626 kt</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recycling plastic containers</th>
<th>Domestic sales and others</th>
<th>Domestic Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air pollution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global warming</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resources consumed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hazardous chemical substances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ozone layer damage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water contamination</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soil pollution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marine pollution</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Fiscal 2015 Economic Environment

In fiscal 2015, ended March 31, 2016, the Japanese economy, including share prices, remained firm due to healthy corporate profits. On the world stage, however, there has been a stronger sense of stagnation since the end of calendar 2015 as uncertainty surrounding the Chinese economy grows and the economies of emerging countries decelerate.

Turning to the domestic market for petroleum products, demand for gasoline and other transport fuels remained even with the previous fiscal year. Overall petroleum product demand fell year on year as an unprecedentedly warm winter suppressed demand for middle distillates, including kerosene, and fuel oil for power generation.

Dubai crude oil prices were on the rise in the spring but began to sink from the summer onward due mainly to there being no sign of a decrease in OPEC production and concerns over China's outlook arising from the devaluation of the yuan. At its general meeting in the first half of December, OPEC opted not to reduce production to rebalance supply and demand, accelerating the decline. Dubai crude oil prices temporarily dipped below US$30 per barrel. As a result, the average price for the fiscal year fell US$37.9 year on year to US$45.5 per barrel.

And, although demand for petrochemicals remained relatively unchanged from the previous fiscal year, domestic production remained strong as the depreciation of the yen lowered the volume of imports. The price of the petrochemical raw material naphtha fell US$332 to US$486 per ton.

### Review of the Fourth Consolidated Medium-Term Management Plan

Idemitsu did not achieve the plan’s goals to improve the Company’s earnings and financial situation. This was primarily due to a total valuation loss on inventories of over ¥200.0 billion that the Company was forced to record during the period of the plan due to the steep decline in crude oil prices.

On the other hand, investments proceeded largely according to plan. Specifically, investments were made within the scope of cash flows from operating activities without increasing interest-bearing debt thanks to rationalization and cost reduction efforts and a decrease in working capital in tandem with falling crude oil prices.

### Fiscal 2015 Operating Results Summary

Idemitsu’s fiscal 2015 net sales fell 22.9% compared with the previous fiscal year to ¥3,570.2 billion primarily due to lower crude oil

### Reference Data:

<table>
<thead>
<tr>
<th>Data Type</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dubai crude oil price (US$/barrel)</td>
<td>110.1</td>
<td>107.1</td>
<td>104.6</td>
<td>83.5</td>
<td>45.5</td>
<td>(45.4)</td>
</tr>
<tr>
<td>Naphtha price (US$/ton, after customs)</td>
<td>971</td>
<td>965</td>
<td>939</td>
<td>817</td>
<td>486</td>
<td>(40.6)</td>
</tr>
<tr>
<td>Exchange rate (yen/US$)</td>
<td>80.1</td>
<td>84.1</td>
<td>101.2</td>
<td>110.9</td>
<td>121.1</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Notes: 1. Figures in parentheses represent negative values.

2. Idemitsu conducted a 4-for-1 stock split on January 1, 2014 for shareholders recorded in the registry on December 31, 2013. Net income per share was calculated as if the stock split had been conducted on April 1, 2012.

3. Cash dividends of ¥125 per share for FY2013 comprise a ¥100 interim dividend distributed before the stock split and a ¥25 year-end dividend distributed after the stock split.
prices. Owing in part to shrinking profit margins for petroleum products and the effect of a valuation loss on inventories, operating loss was ¥19.6 billion, but this was actually a year-on-year improvement of ¥85.2 billion mainly attributable to cost reductions arising from falling crude oil prices. Ordinary loss was ¥21.9 billion, a year-on-year improvement of ¥85.7 billion. As a result, net loss attributable to owners of the parent was ¥36.0 billion, an improvement of ¥102.0 billion from the previous year.

Fiscal 2015 Operating Results by Segment

In petroleum products, operating loss amounted to ¥67.4 billion due mainly to the effects of valuation loss on inventories. This was a year-on-year improvement of ¥44.3 billion as the positive effects of lower costs from declining crude oil prices outweighed the negative effects of shrinking product margins. The valuation loss on inventories, which is included in operating loss, stood at ¥118.6 billion.

In petrochemical products, operating income was ¥42.3 billion, up ¥49.4 billion from an operating loss in the previous fiscal period, buoyed by firm overseas markets in addition to lower costs owing to declining naphtha prices. The valuation loss on inventories, which is included in operating loss, stood at ¥3.5 billion.

In resources, operating income fell ¥13.7 billion year on year to record a loss of ¥0.6 billion.

In others, which includes electronic materials, agricultural biotechnology, gas and renewable energy, operating income grew ¥5.5 billion year on year to ¥8.8 billion.

Policy on Shareholder Returns

Idemitsu considers the return of profits to shareholders to be an important management issue. We distribute stable dividends while undertaking strategic investments geared toward strengthening existing businesses as well as future business development, the balance of operating results and the improvement of our financial condition.

The year-end dividend for fiscal 2015 was ¥25 per share. Dividends for the full year totaled ¥50 per share. The Company plans to pay out dividends of ¥50 per share for fiscal 2016 (full year).

Outlook for Fiscal 2016

In fiscal 2016, net sales are expected to decline 8.7% year on year to ¥3,260.0 billion due in part to lower yearly average crude oil prices. In addition, Idemitsu expects a ¥132.6 billion turnaround in the operating account that will move it from a loss to income of ¥113.0 billion due mainly to improved profit margins for petroleum products and a valuation gain rather than loss on inventories. Also forecast is a climb of ¥133.9 billion resulting in ordinary income of ¥112.0 billion. Net income attributable to owners of the parent is expected to reach ¥70.0 billion, a ¥106.0 billion year-on-year improvement. These projections for the fiscal year ended March 2017 are based on an assumed Dubai crude oil price of US$45 per barrel and an exchange rate of ¥110 to the U.S. dollar.
Fuel Oil Business Initiatives

Crude Oil Procurement
Forming strategic partnerships with oil-producing countries in the Middle East

Our Strengths in Crude Oil Procurement

1. Well ahead of our competitors, we worked to establish direct trade with oil producing countries in the Middle East and as a result enjoy long-term relationships of trust with bonds reinforced through business investment, technical cooperation and personnel exchanges.

2. Our relationships with oil producing countries are evolving from crude oil trade and emerging as strategic partnerships.

3. Our active pursuit of expansion overseas entails the creation of an optimal supply structure that unifies North America, Asia and the Middle East through flexible and nimble crude oil and petrochemical feedstock procurement and petroleum product export and import operations while maintaining a close awareness of market trends along the Asia Pacific Rim.

Responding to Social Issues through the Fuel Oil Business

1. As Japan relies on imports for most of its crude oil, building long-term relationships with oil-producing countries is crucial.

2. The risks related to procuring crude oil continue to diversify. Geopolitical risks are growing, including political instability and terrorism in some oil-producing countries. Competition is heating up in expanding Asian markets. Concerns remain over a supply glut caused by U.S. shale oil and an increasing rate of switchover to the use of alternative energy. In light of these challenges, there is a driving need for stronger corporate foundations in the petroleum industry.

3. Although Asia in particular is expected to see steady expansion in petroleum demand over the medium to long term, the downward trend that began with 2014’s sudden drop in crude oil prices bringing to an end the high sustained since 2011, continues. There are concerns at present that operating results could fluctuate due to price-related uncertainties.

Until it constructed the Tokuyama Refinery in 1957, Idemitsu’s principal 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 the Chiba Refinery came on line in 1963, procuring crude oil for local refinement became our primary focus. In 1973, with control over Middle Eastern crude oil shifting from the Seven Sisters to the oil-producing countries themselves, we established offices in Beirut, Tehran and other locations in the Middle East to strengthen our direct ties with those countries and secure crude oil and petroleum products. Even now, we have offices in Qatar, the United Arab Emirates (UAE), and Oman and maintain daily face-to-face contact with national oil companies in each country. Our network of offices in the Middle East functions as our principal point of contact with oil-producing countries. In fiscal 2015, we held respective ceremonies to celebrate the 40th year of crude oil term contract with ADNOC.

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 operational advisor 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 commencing operations in the second half of 2016. Construction is progressing steadily, and in 2014 the deep desulfurization units for diesel oil came on line ahead of the other facilities. To support the new facility’s construction, we have dispatched Idemitsu technicians.
Idemitsu was the first participant of the TAKREER Research Centre (TRC) 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 daily operations. Since 2012, an Idemitsu senior researcher has been serving at TRC as the Head of Advisors. Thus far, we have provided guidance on using equipment at the pilot plant, assessed catalysts and examined issues at refineries. Since 2016, Idemitsu has drawn on its oil-refining skills, experience and know-how cultivated at its own refineries to provide solutions to and support for the management of TAKREER in regard to various refinery issues in cooperation with the TRC, which is a base completed for the on-site technology center with the support of Idemitsu.

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 2015, about 447 overseas trainees were being provided training at our refineries, laboratories, and the Manufacturing & Technology Department's technical training center.

Technical Cooperation

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Personnel Exchanges

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 in the Middle East, Idemitsu began a training program for young executive candidates from Abu Dhabi National Oil Company (ADNOC) and other state-run oil companies. About 78 people had completed this training as of fiscal 2015. In addition to classes covering 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 2015, Idemitsu, in partnership with JCCP, participated in exchanges via executive candidate training for young executives from ADNOC and sales and logistics training for employees from Vietnam Oil and Gas Group (Petrovietnam) and Vietnam National Petroleum Group (Petrolimex). In addition, in November the UAE’s Minister of State Dr. Maitha Salem Al Shamsi and executives from both ADNOC and Kuwait Foreign Petroleum Exploration Company (KUFPEC) visited President Tsukioka, deepening our exchanges.
Fuel Oil Business Initiatives

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

Our Strengths in Oil Refining

1. While maintaining a stable supply to ensure energy security remains our top priority, we spearheaded efforts to address the industry-wide issue of oil refining overcapacity.

2. We have built a highly cost-competitive framework centered on three refineries with a high capacity utilization rate by keeping our short-run of fuel oil supply below total sales.

3. From the moment we began operations, we have worked to ensure our refineries are lush “parkland factories” in harmony with the surrounding geography and natural environment.

Responding to Social Issues through the Oil Refining Business

1. After the Great East Japan Earthquake, petroleum provided an alternative fuel for power generation, taking the place of electricity and city gas, which had been cut off. This reaffirmed the effectiveness and importance of petroleum as a source of distributed energy.

2. Following the disaster, the supply-demand gap gradually narrowed and overall domestic demand declined. Reducing surplus refining capacity and enhancing competitiveness remain pressing issues.

Quick Adjustments to Facility Capabilities and Cooperation between the Oil Refining and Petrochemical Industries

In 1957, Idemitsu completed the construction of the Tokuyama Refinery, its first such facility, in Tokuyama City (now 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., 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 industry-wide 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 and Okinawa refineries in 2003 and at the Tokuyama Refinery in March 2014. Most recently, in light of projected trends in domestic demand we have taken action well ahead of the rest of the industry, reducing the throughput of the Chiba Refinery by 20,000 barrels per day in April 2015. Our current production framework comprises three refineries with a combined throughput of 535 thousand barrels per day. The production cuts reflect our efforts to maintain an optimal balance between supply and demand while striving to both pare down costs and secure stable supplies.

To enhance the competitiveness of our refineries, it has become extremely important to present a unified front of allied oil refining and petrochemical businesses. We are strengthening ties between our fuel oil and basic chemical businesses while our petrochemical plants constantly strive to increase their competitiveness, particularly in the area of olefins, through alliances with other general chemical manufacturers and expanded sales of competitive derivative products.

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 every employee 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, which were advocated by the Japan Institute of Plant Maintenance, 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 and have been implemented as a means of reshaping attitudes and mindsets. Our efforts have garnered acclaim from outside the Company, receiving awards from the Japan Institute of Plant Maintenance. These initiatives form the basis of our streamlined, efficient refinery management and help enhance our competitiveness. Looking ahead, we will continue to build 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.
Keeping Our Short-Run of Fuel Oil Supply below Total Sales
As surplus refining facilities became a problem, Idemitsu closed its Hyogo and Okinawa refineries in 2003 and 2004. Since then, the Company's strategy has been to maintain its refining capacity at a level below its total sales volume and to supplement any supply deficiency through imports and purchases from domestic companies. We aim to nimbly respond to fluctuations in demand while raising utilization rates at refining facilities and enhancing cost competitiveness.

Building a Stable Supply System for Times of Disaster
Even as they work to reduce their surplus oil refining capacity, Japan's primary oil distributors are obligated by the Act on Oil Stockpiling to maintain private oil stocks as one of two pillars of Japan's stockpiling initiative. In short, this is to ensure a robust system that will provide a stable energy supply in the event of a major disaster, which could strike at any time. We are working to strengthen our supply infrastructure to improve our crisis readiness in response to major disasters. Since shifting to a three-refinery framework, we have enabled the safe suspension of equipment operations, installed drum-filling facilities for petroleum products, enhanced the earthquake resistance of dock-based and tanker truck loading facilities, and installed emergency power generators. We also enhanced the functions of oil depots at the Tokuyama Refinery (now the Tokuyama Complex), which has suspended oil refining functions.

Addressing Environmental Issues at Our Refineries and Petrochemical Plants
We constantly strive to minimize our operations' environmental impact, looking to increase efficiency and reduce raw material and fuel usage. At the same time, we actively promote greening activities at our refineries and petrochemical plants. At facilities built on reclaimed coastal land, for example, we incorporated green spaces from the design stage and continually work to ensure that these green spaces are maintained and utilized even as the facilities are running. The resulting green spaces, which are home to a thriving diversity of organisms, have garnered us certification as social and environmental green spaces from the Social and Environmental Green Evaluation System (SEGES).

In addition, we are cooperating in a carbon capture and storage (CCS) demonstration project that Japan CCS Co., Ltd. is operating in Tomakomai, Hokkaido Prefecture on commission from the Ministry of Economy, Trade and Industry (METI). The project is utilizing CCS technology that absorbs CO$_2$ from gaseous power plant emissions before it can be released into the atmosphere, pumping it deep underground to sequester it. Our role in the project is to supply the gas containing CO$_2$ from the Hokkaido Refinery for use in the demonstration project.

On a related note, as one of two pillars of Japan’s stockpiling strategy, the Act on Oil Stockpiling requires primary oil distributors to maintain separate private oil stocks. Since 1993, stockpiles are required to be equivalent to 70 days of normal supply. So far Japan’s energy supply has been underpinned by private oil stocks without any need to tap government stocks of crude oil.
Fuel Oil Business Initiatives

Oil Sales
Our Resilient Brand Network with Retail Outlets at Its Core

Our Strengths in Oil Sales
1. In adherence to the extensive retail network business model that has been part of Idemitsu's management policy since its founding, the Company is widely recognized by its Apollo logo, under which it has established a robust brand network by developing business in cooperation with retail outlets whose management is strongly rooted in the local community.

2. Through our network infrastructure, including the industry's first point of sale (POS) system and various card systems, we aim to establish a brand supported by local communities even as gasoline demand declines.

Responding to Social Issues through the Oil Sales Business
1. We need to leverage our ability to directly connect with consumers to ensure service station management that responds swiftly to environmental changes and meet regional needs.

2. Given the structural decline in domestic demand, service stations are expected to serve as strongholds of energy supply during times of disaster. The challenge of meeting this social need is the sparsity of service stations in some areas; some with fewer than three.

Responding to Social Issues

Prioritizing Consumer Benefit
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 launch a business directly selling fuel oil to fishing boat operators. 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. This led to great results for both our business and the fishing boat operators.

The distribution system at the time meant fuel oil went from the oil company through two to three dealers before reaching the consumer for sale. Idemitsu, however, created a distribution system that allowed it to cut out the middleman and conduct retail operations itself through a single large organization covering an extensive area.

Building a Network Uniting Our Retail Outlets
The Idemitsu Group’s extensive retail network business model was created by unifying the extended family of Idemitsu companies and retail outlets to form the Idemitsu brand network. The extensive retail network is a rational, efficient business model used to directly connect producers with consumers. After World War II, we returned to the petroleum industry and, despite having built a network of retail outlets, faced a great number of challenges in creating an extensive retail network. It was finally made possible thanks to the presence of retail outlets that shared our belief in respect for human beings and working together as members of Idemitsu’s extended family. As post-war demand for automobile fuel expanded, like-minded retail outlets joined us as business partners to create an extensive retail network and extend our service station network.

After its launch in 1950, this idea, or the Idemitsu-kai concept, spread to our operations in every region of the country, providing a forum of exchange for retail outlet managers. These regional groups later merged to form a single organization covering the entire nation. At the annual Joint Meeting and Idemitsu-kai National Conference, around 1,100 retailers and Idemitsu associates from around Japan gather to affirm policies and activities and pledge to work in unison to achieve their goals. In addition, the Idemitsu-kai has always held regional promotional activities for Idemitsu and promoted region-specific social contribution. Its activities have helped raise our brand value while increasing the reliability of our network of service stations and retail outlets.

Our service stations remain important energy bases that support local communities. Like neighborhood doctors but for cars rather than people, these stations are highly regarded by their customers and have promoted activities rooted in local communities that make them trusted and supported by all. Idemitsu considers its strong ties with retail outlets to be the core of its competitiveness and that strengthening this competitiveness will lead to consumer benefit.
At present, the business environment surrounding Idemitsu and retail outlets is undergoing great change. Demand for petroleum is deteriorating due mainly to a low birth rate, graying population and the improving fuel economy of cars. Companies are having to bear the high cost of refurbishing underground fuel tanks as stricter regulations under the Fire Service Act mandate measures to prevent the leakage of dangerous substances. Idemitsu and its associated retail outlets need service station management that can prevail despite these harsh environmental changes. Therefore, the Company, along with highly specialized Group companies, provides a solid support structure for the management of retail outlets in order to bolster the strength of the extensive retail network it has built up.

Our comprehensive support system for our retail outlets comprises 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 financial services, including the issuing of credit cards and prepaid cards as well as leases and guarantee factoring; Apolloretailing Co., Ltd., which provides education and training for retail employees wishing to acquire mechanic qualifications or improve management techniques and also sells car-care products, including tires and batteries, through service stations; and i BUSINESS PARTNERS Corp., which provides accounting and payroll services using point of sale (POS) systems. The Central Training Center, where Apolloretailing Co., Ltd. provides education and training for mechanics and other professions, celebrates its 50th anniversary in April 2016. The cumulative total number of students who have attended reached 23,479 in fiscal 2015.

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 March 31, 2016, this brand is sold through 170 stores. We continue to enhance our network for our customers’ convenience.

Idemitsu decided to participate in the R-Point Card that the online retailer Rakuten, Inc. began issuing in October 2014. In addition to awarding points to R-Point cardholders when they pay in cash at storefronts, we began awarding points to those paying with Cash Preca cards in June 2015 and began accepting points when such cardholders make a purchase in September 2015. On July 1, 2015, in an industry first, Idemitsu joined on as a point-boosting store for au WALLET, the prepaid payment service provided by KDDI. In August 2016, we began accepting the SoftBank Card offered by SoftBank Payment Service Corp. Through our efforts to enhance convenience for our service station customers, including by leveraging our network strengths to diversify the payment methods we accept, we increase the opportunities for new customers to visit Idemitsu service stations. In addition, this year we marked the 20th anniversary of the launch of ZEPRO™ motor oil by introducing ZEPRO ECOMEDALIST™ SN 0W-16, a top-ranking motor oil (API SN, SAE 0W-16) that enables users to maximize the fuel economy advantages offered by the latest eco cars.
Distribution Initiatives

Inland and maritime distribution is key to stable supply and energy security

Our Strengths in Distribution

1. Japan’s energy security is mainly supported by very large crude carriers (VLCCs) that travel 6,500 miles (12,000 km) one way from the Persian Gulf. It takes a total of 45 days for one round-trip journey: 20 days each way and around five days for loading and unloading crude oil. Idemitsu operates a tanker fleet that has garnered high praise for the capability of its ocean-faring crews.

2. Transport of our petroleum products in Japan relies on our strong bonds with companies that subcontract tankers and tanker trucks. Our products are safely and reliably delivered to service stations around the country in tanker trucks with the Idemitsu Apollo logo.

Responding to Social Issues through Distribution

1. As for distribution in Japan, while the shortage of crew for tankers and tanker trucks worsens, the declining number of service stations and consolidation of refineries and oil depots are increasing the average transportation distance.

2. As for international transport, maintaining a highly cost-competitive fleet while responding to tightening global environmental regulations is indispensable to ensuring Japan’s energy security.

Idemitsu is committed to ensuring the country’s energy security and maintaining and improving distribution efficiency. We are building a more robust and cost-competitive next-generation distribution network.

Inland and Maritime Distribution in Japan

In inland transport, we are introducing 24-kl tanker trucks into our fleet to handle the longer hauls resulting from the consolidation of oil depots. Despite the higher capacity, these tanker trucks are more compact than our current mainstay 20-kl trucks. We are also working to bolster transportation safety by introducing high-tech systems for light and middle distillate tanker trucks.

In maritime transport, the shift to a three-refinery production framework has lengthened our seaborne delivery routes to Western Japan and areas on the Sea of Japan coast. To improve the operational efficiency of our expanded fleet of 52 domestic tankers we have introduced a fleet deployment optimization system. In addition, we have begun setting domestic vessels on international routes, branding them as dual domestic-international vessels, and are focusing efforts on streamlining distribution by routing imports and exports through South Korean terminals. These efforts were recognized as the Green Logistics Partnership Conference Special Award under the Excellent Green Logistics Commendation Program organized by The Ministry of Economy, Trade and Industry, the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) and related industrial organizations.

In October 2014, we merged the order-processing centers in eastern and western Japan, establishing the Central Delivery Management Center. By creating a nationwide centralized management system for orders and deliveries, we are enhancing our ability to respond in times of disaster.

Leading in Safe, Efficient Overseas Transport

Idemitsu is one of a few primary oil distributors in Japan to maintain its own vessel crews, in this case through Idemitsu Tanker Co., Ltd. Currently, Idemitsu Tanker operates 12 very large crude oil carriers (VLCCs), including the NISSHO MARU, each of which is 330 meters in length. The company also operates six very large gas carriers (VLGCs), which measure 230 meters. As of August 1, 2016, Idemitsu Tanker directly manages four VLCCs and two VLGCs. These ships have Japanese captains, chief engineers and Filipino crews. Idemitsu Tanker began hiring Filipinos in earnest around 25 years ago and currently there are about 250 in its employ.

The capability of our ocean-faring crews has been steadily nurtured over 75 years of international operations and has garnered high praise from shipping companies in Japan and overseas. This capability is manifest in the fact that our crews are accredited by the Oil Companies International Forum (OCIMF) as participating members of the Ship Inspection Report (SIRE) Programme, which assesses the safety of ships and keeps records of the results. By participating in such tanker inspections, we are helping make international transport safer.

To increase cost competitiveness, we use vessels over a long term (25 years for VLCCs, 30 years for VLGCs) and jointly deploy fully depreciated vessels. We are also working to shorten the time required for scheduled dry-dockings and reduce the extent of necessary restoration work by employing onboard maintenance (OBM).
Renewable Energy Initiatives

Revisiting our long-term future as an energy company and moving forward

Our Strengths in Renewable Energy

1. We have spearheaded efforts in the renewable energy business with the aim of contributing to energy security and solutions to environmental issues through the development of domestic resources.

2. Applying the long-term perspective unique to an energy company, we are ascertaining future prospects and promoting related initiatives.

Responding to Social Issues through Renewable Energy

1. Reducing CO₂ and other greenhouse gases emitted by burning fossil fuels is an issue confronting all of humanity.

2. In our long-term outlook on energy supply and demand, we aim for renewable energy to comprise 22%–24% of the 2030 energy mix.


Wind Power
Wind power is limited by wind conditions, its esthetic impact on the surrounding scenery, the noise it generates and other such factors. However, it is relatively inexpensive compared with other forms of renewable energy and is highly efficient—a single wind turbine can operate for 20 to 30 years. Idemitsu provided funding to Futamata Wind Development Co., Ltd. in April 2010, and helps operate Japan's first wind power station equipped with storage batteries in Rokkasho-Mura, Kamikita-Gun, Aomori Prefecture.

Wood-Fueled Biomass Power
This is a way to produce electricity using renewable, plant-derived organic resources (biomass), including grass and wood, as fuel. In Kochi Prefecture, which, at 84% woodland, is the most forested prefecture in Japan, we established Tosa Green Power Co., Ltd. as a joint venture with Tosaden Kotsu Co., Ltd. and Kochiken Shinnikukumiai Rengokai in January 2013. The Tosa Power Station commenced operations in April 2015. Incorporating chipping and drying facilities, the station is Japan’s first stand-alone wood-fueled biomass power station. Moreover, it exclusively uses forest residue (waste wood) resulting from local thinning operations, a practice indispensable to the healthy growth of forests. The station will supply enough energy to meet the average usage needs of around 5,800 households. We acquired a 10% stake in Fukui Green Power Co., Ltd., and its Ono Power Station began supplying enough electric power for 15,000 households from April 2016.

Solar Power
Idemitsu is actively engaged in the mega solar power business on tracts of idle Company-owned land with good sun exposure. We commenced operations at the Moji Power Station I and Moji Power Station II in November 2013, the Himeji Power Station in March 2014, and the Onahama Power Station in November 2014. Expansion work was completed at the Moji Power Station II in August 2015. These four power stations produce enough electricity to meet the average usage needs of around 5,800 households.

Electric Power Retail
Idemitsu Green Power K.K. and Premium Green Power K.K. directly provide customers with electricity generated from renewable sources, including electricity from the previously mentioned power stations.

Idemitsu aims to raise interest in environmental issues, spur the development of Japan’s natural resources from the viewpoint of ensuring energy security, and attain new sources of revenue. As an electric power business utilizing renewable energy,* we develop and procure new sources of energy and operate electric power supply and retail businesses through subsidiaries. Applying the long-term perspective unique to an energy company, we are committed to the renewable energy business.

* Solar, wind, hydro, geothermal, biomass and other forms of renewable energy can be sustainably used without exhaust and are eco-friendly in that they mostly do not emit CO₂, a source of global warming, when consumed. We introduce our development efforts in geothermal power, a powerful element in resource development, on page 26.

Fukui Green Power’s Ono Power Station
Tosa Green Power’s Tosa Power Station
Moji Power Station (mega solar)
Overseas Fuel Oil Business Initiatives

Overseas Fuel Oil
Expanding Our Network along the Asia Pacific Rim

Our Strengths in the Overseas Fuel Oil Business

1. Idemitsu continues to develop businesses by leveraging its experience in promoting business overseas and the skills that its employees have accumulated since its founding.

2. We are able to develop businesses based on strategic partnerships through our principal points of contact with oil-producing countries.

3. In overseas growth markets, especially those situated on the Pacific Rim, Idemitsu is building a value chain that unites North America and Asia as well as the Middle East and encompasses everything from fuel oil production and procurement through sales.

Responding to Social Issues through the Overseas Fuel Oil Business

1. Around the world, energy demand is rapidly expanding as economies and populations grow. Seeking out opportunities for growth, we are establishing mutually beneficial relationships and participating in large-scale refinery construction projects to help spur further development.

2. We help ensure a stable supply of energy for each country by adjusting trading functions to accommodate differing supply and demand balances.

3. In Japan, overall energy demand is expected to decrease. To secure the country’s position in the energy market, we need to support its energy procurement capabilities through initiatives in neighboring countries.

The development of overseas businesses is a pillar of our growth strategy on par with strengthening the competitiveness of our domestic supply and sales system. Capturing a portion of the now rapidly expanding demand in economies worldwide, especially in Asia, is particularly key to our success. While promoting overseas businesses is indispensable to our growth strategy, we believe it is important that our efforts contribute to the development of the local region as well as Japan’s energy security.

Joint Ventures with Vietnamese and Kuwaiti Companies

In 2008, Idemitsu partnered with Vietnam Oil and Gas Group (Petrovietnam), Kuwait Petroleum International Ltd (KPI), and Mitsui Chemicals, Inc. to establish the joint venture Nghi Son Refinery and Petrochemical LLC (NSRP) and construct Vietnam’s second refinery. This undertaking is one of Vietnam’s largest industrial projects. NSRP’s greatest responsibility to society will be to reliably provide high-quality products to meet growing demand for petroleum products within the country and thereby contribute to the development of the Vietnamese economy.

The refinery complex will process oil supplied by Kuwait Petroleum Corporation (KPC). It will have 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 began in July of that year. With an eye to commencing operation in fiscal 2017, we are currently engaged in refinery construction. With regard to construction and operation, our top priority is to ensure health, safety, security, and the environment (HSSE) integrity, and we are focusing efforts on training staff and fostering a corporate culture to maintain that priority. Because operations will mainly be conducted by Vietnamese staff after the complex comes on line, we are dispatching local Vietnamese staff to the Hokkaido Refinery to acquire Idemitsu operational know-how to ensure the realization of an industrial site that truly belongs to the people of Vietnam.

In Thanh Hóa Province, which is where the complex is located, NSRP aims to bring benefits to local communities in the course of achieving business growth. For example, the company contributes to the local economy by creating jobs, promoting activities to support employment by helping the local Vietnamese people acquire skills and techniques that will enable them to more fully enjoy the economic benefits provided by the complex. These activities have garnered attention as a model that can be used when other foreign companies promote businesses that invest in local development.

Idemitsu has also established a separate joint venture with KPI and is moving forward with preparations to develop a petroleum product wholesale and retail business in Vietnam, beginning with the construction and operation of service stations.
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 Asia Pacific Rim in addition to developing new businesses. We are continuing to construct 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 Asia Pacific Rim, including Indochina and Australia.

Expanding Our Sales and Procurement Networks in the Americas

In June 2010, Idemitsu Apollo Corporation expanded its fuel oil business by acquiring a wholesale petroleum products business in California. This wholesale business has grown into one of North America’s major independent wholesale companies with an annual sales volume of around 4.0 million kiloliters. We are expanding our sales network with our base of operations on the U.S. West Coast. Wholesale operations have now extended to Canada and Alaska and we are selling imports of petroleum products from the Far East in the United States, Canada, Central and South America.

Securing a Fuel Oil Sales Base in Australia

In December 2012, Idemitsu acquired Freedom Energy Holdings Pty Ltd, an independent fuel oil sales company in Brisbane, Queensland, and launched its fuel oil business in Australia. 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 900 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.
Resource Business Initiatives

Resource Development
Enhancing Our Portfolio and Reinforcing Energy Security

Our Strengths in the Resource Business

1. We have fully engaged in oil exploration since the late 1960s, and have promoted the development of coal, uranium and geothermal resources as alternatives to petroleum since the late 1970s.

2. We are developing resources across vast regions, including Europe, Australia, North America and Southeast Asia, without focusing too much on any one area.

Resolving Social Issues in the Resource Business

1. We encourage investment in upstream development (interest acquisition) to mitigate the impact of crude oil price fluctuations while aiming for an optimal energy mix that reduces dependence on crude oil on the demand side.

2. We promote resource development that facilitates both growth and the goals of the Paris Agreement (environmental restrictions).

By securing and supplying petroleum, natural gas, coal, uranium, geothermal and other energy resources, we continue to contribute to the energy security of Japan and the economic development of Asia.

Securing Interests in Oil Fields in the North Sea and Offshore Vietnam

Idemitsu has promoted oil and gas exploration, development and production projects in Norway, the United Kingdom and Southeast Asian countries, especially Vietnam. In the Norwegian North Sea, our exploration and production activities began in 1989, and today we produce oil and gas at oil fields, including Snorre and Fram, and gas at another field. In the U.K. North Sea, our production activities began in 2009 and continue to the present. In Vietnam, we own active oil fields, acquired other blocks in 2004 and 2015, and are promoting oil exploration as an operator.

As for new oil field development, we began production at the Knarr Field in Norway in March 2015. In 2015, we produced 36,000 barrels a day in the Norwegian North Sea, U.K. North Sea, and Vietnam, up 7,000 barrels a day compared with the previous year. Going forward, we will continue securing new reserves, taking a medium- to long-term perspective.

Securing Diverse Energy Resources

Coal Mines
Demand for inexpensive coal sourced from regions with low geopolitical risk is expected to continue to grow, especially in Asia, where there are plans for constructing new coal-fired power stations. In particular, demand is rising for low-ash, low-sulfur, high calorific value coal that will enable clean, highly efficient power generation.

Idemitsu currently owns interests in four Australian coal mines: Boggabri, Ensham, Muswellbrook and Tarrawonga. We also provide funding to two companies that own interests in two Indonesian mines. In 2015, annual production from these mines amounted to 12.5 million tons. Although the coal we produce is sold mainly in Japan, Taiwan, Korea and other parts of East Asia, we also supply customers in India and Southeast Asian countries.

At the mainstay Boggabri Mine, we expanded the production scale to reduce production costs and installed a coal handling and preparation plant to separate and remove ash. A production system was established that is capable of producing a combined total of 7 million tons of high-grade coal for use in power stations and coking coal for steel mills. The Malinau Mines in Indonesia, in which Idemitsu owns a 30% stake, supply inexpensive low-ash, low-sulfur coal for use in coal fired power stations. In addition, Idemitsu is the only Japanese coal producing company that has a Coal & Environment Research Laboratory that provides technical services in harmony with the environment, such as highly efficient combustion technologies.

In the coal business, we are working to enhance the competitiveness of our entire value chain, including Company-owned mines, procurement, distribution, marketing and technical solutions.
● **Uranium Mine** With an 8% interest of Canada's Cigar Lake uranium mine, Idemitsu is the only Japanese oil wholesaler that owns a stake in the uranium mine. The mine is the world's second largest uranium mine and the first in terms of grade.* Production and sales commenced from 2015.

* Company survey

● **Geothermal Exploration** Idemitsu established Idemitsu Oita Geothermal Co., Ltd. and has been providing geothermal steam to Kyushu Electric Power Co., Inc.'s Takigami Power Station in the Takigami district of Oita Prefecture since 1996. This plant has a high utilization rate averaging over 90%. We have also begun on-site construction of a binary cycle power station to utilize hot water. The station is scheduled to come on line in March 2017 and will generate 5,050 kW of electric power, making it one of Japan's largest binary cycle power stations. With the aim of expanding business, we have been conducting drilling wells for geothermal exploration in the Amemasudake district of Hokkaido Prefecture, the Oyasu district of Akita Prefecture and the Bandai district of Fukushima Prefecture.

● **Gas Businesses** Idemitsu has added gas businesses to its portfolio, aiming to turn them into pillars of profit. Astomos Energy Corporation, a company in the Idemitsu Group playing a key role in these efforts, is one of the world's largest LPG-specialized suppliers and already handles all aspects of business, from importing to selling.

Idemitsu and the Canadian company AltaGas have jointly acquired two-thirds of all outstanding shares of Petrogas Energy Corp., a major energy company engaged mainly in the marketing, logistics, storage and transportation of natural gas liquids (NGL), LPG and crude oil, primarily in Western Canada and the United States. Petrogas Energy itself acquired an LPG export terminal in Washington State in May 2014. As a result of these acquisitions we now possess AltaGas's LPG production facilities, Petrogas Energy's gathering, storage and logistics facilities, including freight railcars, and the Idemitsu Group's sales network united under one banner. This enabled us to initiate LPG exports to Japan from North America in August 2014, a full two years ahead of schedule. We will continue to further expand the LPG business. On the other hand, we have decided at this time to postpone commercialization of LNG exports to Asia. In Japan, however, Idemitsu established Himeji Natural Gas Power Generation Co., Ltd. in April 2016 with joint funding from Osaka Gas Co., Ltd. to continue studies on and preparation of a new natural gas power business.

Demand for LNG and LPG is expected to continue rising, especially in Asia. Incorporating these energy sources into our business portfolio is crucial for Idemitsu's growth and will help ensure Japan's energy security by diversifying supply sources and increasing cost-competitive supplies.
Functional Materials Business Initiatives

Functional Materials
Promoting Global Expansion and Pursuing Growth

Our Strengths in Functional Materials

1. Lubricants, performance chemicals, and other materials are both the products of our core technologies and contributors to their ongoing development. Although the market for these products is smaller than that for petroleum products, the functional materials business is highly profitable and stable.

2. We position global expansion as a growth strategy and, with sales bases spanning 23 countries around the globe, the lubricant business is leading the way.

Responding to Social Issues through the Functional Materials Business

1. We are urgently applying advanced technical skills developed in Japan to enhance our global competitiveness.

2. The key to creating high added value lies in providing solutions that not only meet customer needs but also help solve social issues.

We are expanding our functional materials businesses, including lubricants, performance chemicals, electronic materials and agricultural biotechnology, all of which have grown out of and, in turn, contributed to the development of our core technologies. In the functional materials businesses, we aim to globally develop product ranges using our proprietary technology while setting each business on a growth track.

The Rapidly Globalizing Lubricant Business

Idemitsu is developing eco-friendly motor oil that reduces CO₂ emissions through better fuel economy and high-performance industrial oils adapted to technological innovations in manufacturing. At the Lubricants Research Laboratory, more than 100 researchers work in collaboration with both internal and external research institutions, each year developing hundreds of distinct products to meet exacting customer needs. In fiscal 2015, worldwide sales exceeded 1.1 million kiloliters, setting a new record.

As for our worldwide expansion, we have already set up a structure boasting 28 manufacturing bases in 22 countries that is capable of supplying products of the same consistently high quality on a global basis. This structure can provide a level of support overseas consistent with what we offer in Japan. As for sales bases, in fiscal 2014, we established a new branch office in Beijing, which is one of China’s largest centers of automobile production. Along with the head office in Tianjin, branches in Shanghai and Guangzhou, and sales offices in Changchun and Chongqing, this constitutes our sixth branch office in China. As of March 31, 2016, we had 37 sales bases worldwide in 23 countries with a sales staff of around 400. In China, we doubled the manufacturing capacity of our Tianjin Plant, making it the Group’s largest lubricant plant.
Reconstructing the Foundation of the Petrochemical Business (the Basic Chemical and Performance Chemical Businesses)

In the basic chemicals business, we rationalized distribution by shifting to larger shipping lots for naphtha imports and thereby established a stable system for the Tokuyama Complex’s supply of competitive olefins to other companies in the Shunan Industrial Complex. In addition, we enhanced the Tokuyama Complex’s function as a logistics center for chemical products by refurbishing decommissioned crude oil tanks to handle chemical products, especially methanol. Looking ahead, we aim to optimize the supply chain for olefins, including derivative products, and plan to enhance cost competitiveness by leveraging the strengths of petrochemical complexes, which use naphtha and other products as raw materials.

The Idemitsu Group’s performance chemical business follows a global B-to-B model. To respond to the globalization of markets we have established a production structure that provides stable supplies of materials for the production of automobiles as well as electrical, electronic, information and OA equipment in Japan, Europe, the United States and Asia. In the engineering plastic business, we moved production of all-purpose grade polycarbonate resin to the plant of our Taiwanese joint-venture partner to raise our cost competitiveness. With regard to our syndiotactic polystyrene resin XAREC™, which demonstrates excellent heat resistance and other properties particularly in automotive electronics, we are continuing to develop new applications and have boosted the production capacity of the Chiba Petrochemical Plant from 7,000 to 9,000 tonnes per year.

Globalization Continues in the Electronic Material and Agricultural Biotechnology Businesses

In the OLED business, the main field of the electronic material business, we concluded an agreement with the South Korea-based LG Display Co., Ltd. covering the licensing of patents related to OLED devices and forming a strategic OLED technology alliance to accelerate the commercialization of the OLED display panel business. Having employed Idemitsu’s OLED materials in 55- and 56-inch OLED TVs marketed since 2013, LG Electronics Inc. went on to incorporate them in its latest model, which was released in Japan in May 2016. In addition, we signed a memorandum with the South Korean OLED material manufacturer Doosan Corporation regarding a manufacturing partnership and the mutual use of patents in fields related to OLED materials. We have also opened an office in Shanghai, China.

In the agricultural biotechnology business, which we have promoted as a way to contribute to livestock and other agricultural operations in Japan and Asia, we commenced shipments of RUMINUP™ to Australia and South Korea. We have been selling this product in Japan as a feed mix that maintains the intestinal health of cattle.

In environmental greening fields, we began nationwide sales of IDESURF™, which draws water into soil quickly and evenly, ensuring that sufficient water is supplied to the roots of the lawn.
Initiatives Regarding Our Research and Development System and Intellectual Property

The Company established the R&D Strategy Office within the Corporate Planning Department. We aim to accelerate the creation of new businesses and expand earnings by promoting future-oriented R&D and concentrating management resources in line with corporate strategies. We have also established the intellectual property department, which is involved in using, maintaining, applying for and securing rights to intellectual property, including patents and trademarks.

Our Research and Development System and a Summary of Each Research Location’s Activities

Improving the Value of the Group’s Products and Brands through the Strategic Protection and Use of Intellectual Property

The Group has many patented products that other companies cannot imitate. In addition to unique technologies, we protect products through patent rights so that our customers can be confident in their purchasing. In Japan and overseas, the Idemitsu Group applies for a total of approximately 400 patents every year. At the end of fiscal 2015, the number of Idemitsu’s registered domestic and overseas patents reached 4,962.

Furthermore, we license patents and technologies to outside companies that wish to use Idemitsu technology.

In recent years, with the rise of globalization, we are seeing more incidents of counterfeiting and patent infringement, for example, false Idemitsu brand logos attached to similar-looking products and instances of Idemitsu technology used without permission. We are combating this trend with the aid of Japan External Trade Organization (JETRO).

Through these actions, we are striving to maintain and enhance our brand value and the credibility of Idemitsu products.
Focusing on promising markets where global growth is expected, these laboratories anticipate market needs and quickly address changes in the social environment while promoting R&D through the innovation and fusion of technologies. In addition, the Analytical Technology Center, which serves as a diagnostic/analytic division, works in unison with the laboratories to enhance and strengthen the Company’s core technologies.

These laboratories carry out R&D—primarily on engineering plastics and tackifier base materials—that supports the functional chemicals business, which Idemitsu expects to become a central pillar of business after the core businesses and resource businesses.

Since opening in 1968, this laboratory has engaged in robust collaboration with customers as part of ongoing R&D efforts aimed at creating cutting-edge lubricant products and lubricant technologies. Our research findings in the area of tribology and extensive know-how accumulated over the years underpin the trust our customers place in us.

This center was established in the outskirts of Detroit in 2016 as an overseas R&D organization to globally promote the customer-inclusive lubricant development model, which was already in place in Japan.


With a mission to support stable farm production while promoting safe and secure food production, this section is mainly engaged in the development of eco-friendly pesticides derived from microorganisms and natural products as well as feed additives.

With a staff that boasts technical expertise in agrochemical manufacturing, including that related to organic chemistry, biology, analytic chemistry, and physical chemistry, this laboratory engages in R&D aimed at providing safe and useful products and goods that help protect beneficial animals and plants and prevent outbreaks of disease.

Coal continues to be an important energy resource and this laboratory provides consulting and technical services that anticipate customer needs related to the entire value chain from extraction to transport and use, including environmental protection. In addition, it promotes the development of technologies that address global environmental problems and secure future resources.

The Technology & Engineering Center supports the Idemitsu Group by providing development, design, construction, facility operation, quality control and safety process to businesses engaged in oil refining and petrochemical processes. In addition, the center supports the development of new technology-driven businesses, for example, a business that devises manufacturing processes for new performance materials. It also is actively working to export technology, including processes and catalyst licenses.

The mission of the R&D Center for Plastic Products is to develop technologies that lead to the creation of products that inspire customers. The center’s principal R&D focus is polyolefin resin, which it is investigating for Idemitsu Unitech Co., Ltd., one of the Idemitsu Group’s high-performance materials businesses.

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First in the Industry to Be Selected as One of the Top 100 Global Innovators

Idemitsu was chosen for the first time in fiscal 2015 by Thomson Reuters as one of the world’s Top 100 Global Innovators—a list of 100 companies that excel at intellectual property strategies. Thomson Reuters is a major international information firm based in the United States. The list was established in 2011 as a way for it to recognize leading companies and organizations around the world that protect their unique, innovative ideas with patents and have succeeded in commercialization. Canon, Toyota Motors and 40 other Japanese companies are among those that have been selected, but this is the first time for a Japanese petroleum company to receive recognition. The Company was praised for its long track record of continually creating innovative technology that impacts global markets in the functional materials business and securing patent rights through intellectual property use.
Our ESG Information

Corporate Governance

Since its founding, Idemitsu has consistently maintained the utmost respect for people and has worked diligently to be a socially respect ed and highly trusted company. With this aim in mind, the Company recognizes the importance of maintaining 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.

Outline of the Corporate Governance Structure

Idemitsu has adopted the structure of a company with an audit & supervisory board, established a robust corporate governance system and continues to engage in activities aimed at improving its capabilities in this area. The Board of Directors consists primarily of directors who are conversant with the Company's businesses from the viewpoint of improvements in management efficiency. To ensure that objective perspectives are taken into account by management, the Company has appointed two outside directors (independent officers) to the Board since the 99th Ordinary General Meeting of Shareholders on June 26, 2014.

The Board of Directors is presently composed of 10 members, including the Representative Director & Chief Executive Officer. The functions of the Board include decision making with regard to management matters as well as managing and supervising business execution. Each member's term lasts one year, and elections are held every year at the General Meeting of Shareholders. The Board of Directors meets once a month in principle to decide important matters and oversee the execution of operations. In fiscal 2015, the Board of Directors met 16 times.

Idemitsu has appointed executive officers to make the execution of operations more efficient. Executive officers are appointed by the Board of Directors and have authority over and responsibility for the business execution of the multiple operating divisions that they control or supervise.

Idemitsu appointed independent Audit & Supervisory Board members as a way to oversee management. Of the five Audit & Supervisory Board members, three are outside members and there is a system in place to allow them to carry out their function of external oversight of management. Meetings of the Audit & Supervisory Board are held once a month in principle. At these meetings, the board strives to share issues and information among the Audit & Supervisory Board members and requests information from the directors and operating divisions as necessary in order to improve the level of oversight. In fiscal 2015, the Audit & Supervisory Board met 13 times.

Corporate Governance Code

Japan’s Corporate Governance Code, which took effect from June 2015, aligns with Idemitsu’s goal of meeting the high expectations of society and earning its trust. With due consideration given to its philosophy and the external environment, Idemitsu applies a principles-based approach and appropriately discloses information pertinent to its position.

Officer Remuneration

Remuneration for directors was set at no more than ¥1.2 billion annually at the 91st Ordinary General Meeting of Shareholders on June 27, 2006. The Board of Directors sets individual amounts in consideration of the report submitted by the Remuneration Advisory Committee, which comprises four members, including two outside Audit & Supervisory Board members. Remuneration for fiscal 2015 amounted to ¥684 million for 18 individuals, including outside directors and Audit & Supervisory Board members. Outside of basic remuneration, the Company provides no stock options, bonuses, employee salaries, retirement allowances or other forms of remuneration.

Management Committee and Other Committees and Headquarters

Idemitsu established the Management Committee to discuss and consider management strategies and issues for the Group as a whole and for each operating division. Furthermore, the Risk Management Committee and the Compliance Committee were established as subordinate organs to the Management Committee.

Idemitsu has also established the Committee for the Evaluation of Internal Controls over Financial Reporting, which considers and deliberates on items concerning annual preparations, operating policies and evaluation plans, as well as decisions on the scope of evaluations. The Company has established the Safety & Environmental Protection Headquarters, which plans basic policies and important matters related to environmental management and ensures safety and security in the

Corporate Governance Structure Check List

Type of governance structure: Company with an Audit & Supervisory Board

| Number of executives set in the Company's Articles of Incorporation | 20, at most |
| Length of term set in the Company's Articles of Incorporation | 1 year |
| Head of Board of Directors | Representative Director & CEO |
| Outside directors appointed or not | Appointed |
| Number of outside directors | 2 |
| Number of independent officers among the outside directors | 2 |
| Audit & Supervisory Board established | Yes |
| Number of Audit & Supervisory Board members set in the Company's Articles of Incorporation | 6, at most |
| Number of Audit & Supervisory Board members | 5 |
| Outside Audit & Supervisory Board members appointed or not | Appointed |
| Number of outside Audit & Supervisory Board members | 3 |
| Number of independent officers among the outside Audit & Supervisory Board members | 3 |
business operations of Idemitsu and the Idemitsu Group. The Company has also established the Quality Assurance Headquarters, which plans basic policies and important matters related to quality assurance for Idemitsu and the Idemitsu Group.

The Management Committee meets twice a month in principle and operates with the Representative Director & Chief Executive Officer as its committee chairman and with the Corporate Planning Department as its secretariat.

The chair of each committee and the head of each headquarters, with the exception of the Management Committee, is in principle a director other than the Representative Director & Chief Executive Officer and plays a cross-divisional role as part of Company-wide internal controls in order to implement effective operations of committees.

Advisory Committees
In order to maintain the transparency and soundness of the management, the Company has established the following two committees consisting of external experts as advisory organs to the Board of Directors. Both committees listen closely to frank opinions from the perspective of third parties and reflect these opinions in recommendations to the management.

Management Advisory Committee
The Management Advisory Committee is an advisory organ that discusses issues related to management policies from various viewpoints, including management, technological innovation and environmental management. The committee, which meets once every half-year period in principle, engages five external advisers who express their opinions and provide advice.

Safety & Security Advisory Committee
The committee provides valuable independent guidance and advice on matters concerning the safety and security assurance of the Idemitsu Group and strengthening security to prevent large-scale disasters at refineries and petrochemical plants.

The committee meets once every year in principle and, in fiscal 2015, solicited recommendations regarding the Group’s response to intensifying natural disasters.

Outline of Major Committees and Headquarters

<table>
<thead>
<tr>
<th>Risk Management Committee</th>
<th>Members</th>
<th>Secretariat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Director</td>
<td>General managers of the Public Relations &amp; CSR Affairs Office; Corporate Planning Department; Safety, Environment &amp; Quality Assurance Department; General Affairs Department; Human Resources Department; Treasury Department; Manufacturing &amp; Technology Department; and Information Systems Department</td>
<td>The Risk Management Group within the General Affairs Department</td>
</tr>
<tr>
<td>Chairman</td>
<td>Members</td>
<td>Secretariat</td>
</tr>
<tr>
<td>Managing Director</td>
<td>General managers of the Public Relations &amp; CSR Affairs Office; Corporate Planning Department; Safety, Environment &amp; Quality Assurance Department; General Affairs Department; Human Resources Department; Treasury Department; Manufacturing &amp; Technology Department; and Information Systems Department</td>
<td>The Risk Management Group within the General Affairs Department</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Compliance Committee</th>
<th>Members</th>
<th>Secretariat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Director</td>
<td>General managers of the Public Relations &amp; CSR Affairs Office; Corporate Planning Department; Safety, Environment &amp; Quality Assurance Department; General Affairs Department; Human Resources Department; Treasury Department; Manufacturing &amp; Technology Department; and Information Systems Department</td>
<td>The Risk Management Group within the General Affairs Department</td>
</tr>
<tr>
<td>Chairman</td>
<td>Members</td>
<td>Secretariat</td>
</tr>
<tr>
<td>Managing Director</td>
<td>General managers of the Public Relations &amp; CSR Affairs Office; Corporate Planning Department; Safety, Environment &amp; Quality Assurance Department; General Affairs Department; Human Resources Department; Treasury Department; Manufacturing &amp; Technology Department; and Information Systems Department</td>
<td>The Risk Management Group within the General Affairs Department</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Safety &amp; Environmental Protection Headquarters</th>
<th>Members</th>
<th>Secretariat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director in charge of safety and security</td>
<td>General manager of the Safety, Environment &amp; Quality Assurance Department (deputy-head) and general managers of each relevant department in charge</td>
<td>The Safety &amp; Environmental Management Section of the Safety, Environment &amp; Quality Assurance Department</td>
</tr>
<tr>
<td>Chairman</td>
<td>Members</td>
<td>Secretariat</td>
</tr>
<tr>
<td>Managing Director</td>
<td>General manager of the Safety, Environment &amp; Quality Assurance Department (deputy-head) and general managers of each relevant department in charge</td>
<td>The Safety &amp; Environmental Management Section of the Safety, Environment &amp; Quality Assurance Department</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quality Assurance Headquarters</th>
<th>Members</th>
<th>Secretariat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing Director</td>
<td>General manager of the Safety, Environment &amp; Quality Assurance Department (deputy-head) and general managers of business divisions related to product quality</td>
<td>The Quality Assurance Section of the Safety, Environment &amp; Quality Assurance Department</td>
</tr>
<tr>
<td>Chairman</td>
<td>Members</td>
<td>Secretariat</td>
</tr>
<tr>
<td>Managing Director</td>
<td>General manager of the Safety, Environment &amp; Quality Assurance Department (deputy-head) and general managers of business divisions related to product quality</td>
<td>The Quality Assurance Section of the Safety, Environment &amp; Quality Assurance Department</td>
</tr>
</tbody>
</table>
Management Supervision Mechanisms
The mechanism to monitor management encompasses supervision by the Board of Directors, auditing by Audit & Supervisory Board members and accounting audits by accounting auditors. In support of these, the Company has established an Internal Audit Office made up of specialist staff, which remains independent of the divisions and is under the direct control of the Representative Director & Chief Executive Officer. This office conducts internal audits based on the Internal Audit Regulations and the evaluation of internal controls based on the Regulations for Internal Control over Financial Reporting.

Internal Auditing
The Internal Audit Office periodically audits and confirms the legality of the business operations, the status of risk management and the business execution of each division based mainly on their self-directed internal auditing in accordance with self-regulatory standards.

The results of the internal audits are reported to the Representative Director & Chief Executive Officer, the director in charge of the relevant division or business area and Audit & Supervisory Board members. If necessary, the Representative Director & Chief Executive Officer or the director in charge gives instructions to the division in question.

Any division that receives advice or recommendations in the course of an internal audit prepares a remediation plan for submission to the general manager of the Internal Audit Office and undertakes improvements. The Internal Audit Office then conducts follow-up audits as needed.

Evaluation of Internal Controls over Financial Reporting
The Internal Audit Office evaluates and confirms the preparation and implementation of internal controls in each division based on the Regulations for Internal Controls over Financial Reporting in order to ensure the reliability of financial reporting for the Group as a whole. Each division prepares a remediation plan to address any shortcomings discovered during the evaluation and undertakes improvements. Each division submits improvement plans and the results of executed plans to the general manager of the Internal Audit Office. The Internal Audit Office reevaluates plans based on results to gauge progress. The results are analyzed and discussed by the Committee for the Evaluation of Internal Controls over Financial Reporting, confirmed by the Representative Director & Chief Executive Officer, and finally submitted to the Audit & Supervisory Board members.

Auditing by Audit & Supervisory Board Members
All of the Company’s five Audit & Supervisory Board members attend board meetings and conduct audits of the business reports, non-consolidated financial statements and consolidated financial statements presented at the General Meeting of Shareholders and of the day-to-day execution of the duties of the directors. Standing Audit & Supervisory Board members attend important internal meetings, including meetings of the Management Committee, and execute their auditing duties by interviewing executives, general managers, overseas business office managers and the presidents of subsidiaries. Meetings are held between Audit & Supervisory Board members and representative directors on a quarterly basis. These meetings serve as a forum for raising and deliberating on pertinent issues.

Responses to Important Matters (Materiality) in Non-Financial Fields
The Group has a social duty to support Japan’s energy security by stably providing the energy that serves as the foundation of people’s lives. To fulfill this duty, safety assurance, environmental protection, quality assurance, product responsibility and thorough compliance are of the utmost importance.

Environmental Protection and Safety Assurance Are Important when Handling Hazardous Materials throughout the Value Chain
The Idemitsu Group handles hazardous materials throughout its entire value chain from the extraction and procurement of crude oil through sales. The biggest material risk for the Group is the major impact on business revenue of accidents, including fires, explosions, oil spills and the cross contamination of different grades of oil.

In the event of an accident at a refinery, petrochemical plant, oil stockpiling yard or oil depot, there is the risk that production will need to be stopped. Not only would this directly impact revenue due to the loss of business opportunities and the cost of restarting equipment, it could also cause long-term damage by diminishing the trust placed in us by the local community and degrading the general public’s perception of the Company.

At the same time, if contamination occurs during unloading at a service station or customer site, there is a risk it could lead to an accident affecting the vehicles that received the fuel. Remedying such contamination in order to avoid an accident takes considerable time and money. The Company must recover the fuel, switch out products and clean sales facilities, including underground tanks. Such an occurrence has far-reaching effects on our brand network. For example, customers might be inclined to not refuel their vehicles not only at the service station where the incident occurred but other of our service stations. We are working to prevent accidents that may arise due to faults in equipment, including tanker trucks and service station fuel receiving facilities. We are also working to prevent accidents that may arise from operational mistakes by holding training seminars on truck operation management and conducting safety campaigns with our business partners.

Strict Compliance at Each Stage of the Value Chain
Idemitsu considers compliance a social responsibility. We take a broad interpretation encompassing adherence to not just laws and regulations but also social mores, internal rules, and contracts. We regard this adherence as a matter of utmost importance and rigorously implement compliance within the Company.

Fiscal 2015 Results
- There were no major compliance violations.*
- There were no occurrences of major accidents* at refineries and petrochemical plants.
- We had no major product or quality incidents.*

* An accident or a violation deemed to be at the highest danger level as stipulated by Idemitsu’s internal regulations

Pursuing Business Continuity Plans
In fiscal 2004, the Idemitsu Group formulated Guidelines for Addressing Crises as the topmost of its regulations concerning crisis readiness and undertook a sweeping review of its crisis-level definitions, the system for liaison and instruction, and methods for establishing emergency task forces. At the same time, we implemented a systematic review of various types of regulations concerning crises.

In fiscal 2006, we formulated a Business Continuity Plan (BCP) for the eventuality of an earthquake with an epicenter in the Tokyo metropolitan area and in fiscal 2009 formulated a BCP for the eventuality of an outbreak of a new, more virulent strain of influenza. In fiscal 2013, we formulated a new BCP for a Nankai megathrust earthquake. At refineries and petrochemical plants, as well as other business sites, we continue to make our equipment more earthquake-resistant and implement periodic crisis drills covering each location’s entire site based on various types of crisis response regulations. Additionally, we hold annual comprehensive disaster drills based on various BCPs at the corporate head office and review BCPs based on the results of the drills as part of our efforts to strengthen our practical response capabilities.
Our Main Environment, Society and Governance Initiatives

Preventing Industrial Accidents
Idemitsu has established Safety & Environmental Management Sections at each of the business sites where its oil refineries, petrochemical plants are located. These sections work diligently to prevent accidents, with their own teams as well as affiliate partners undertaking daily safety inspections.

Frequency rate (Frequency rate of accidents)*
- Average across all industries for business sites with 100 or more people

<table>
<thead>
<tr>
<th>Refineries</th>
<th>Petrochemicals</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.62</td>
<td>1.59</td>
</tr>
<tr>
<td>1.58</td>
<td>1.61</td>
</tr>
<tr>
<td>1.66</td>
<td>1.69</td>
</tr>
</tbody>
</table>

Severity rate (Degree of severity of accidents)*

<table>
<thead>
<tr>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015 (CY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refineries</td>
<td>0.00</td>
<td>0.00</td>
<td>0.35</td>
<td>0.00</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Notes: 1. Outline of the Ministry of Health, Labour and Welfare's survey on industrial accidents (survey on establishments (with 100 or more employees) and survey on general construction).
2. Accounting period: January 1, 2015 to December 31, 2015
3. Prime Polymer Co., Ltd’s Aneasaki Works is included in the Chiba petrochemical plant.
*Frequency rates and severity rates: Frequency rates and severity rates are indicators used by the Ministry of Health, Labour and Welfare and others when assessing the incidence of workplace accidents. Frequency rate = (Number of casualties from workplace accidents ÷ Cumulative total of labor hours worked) × 1,000
Severity rate = (Number of work days lost + Cumulative total of labor hours worked) × 1,000

Promoting Employment of Persons with Disabilities
Idemitsu believes that work allows people to achieve personal growth and gain the respect of others. Accordingly, under our philosophy of respect for human beings, we welcome all people to our workplaces, including those with disabilities, with the aim of helping create a society that allows everyone, regardless of their limitations, to provide mutual support and live harmoniously.

Employment Rate of People with Disabilities

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<tr>
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</thead>
<tbody>
<tr>
<td>1.8</td>
<td>1.97</td>
<td>1.87</td>
<td>1.79</td>
<td>1.88</td>
<td>2.20</td>
</tr>
</tbody>
</table>

Note: Employment status as of June 1 of each year

Boosting Women’s Workforce Participation
The Company had 4,090 total employees as of March 31, 2016, 335 (8.2%) of which were women. Although our overall percentage of women employees remains relatively low. In fact, in our sales, logistics, corporate and other departments the percentage of women surpasses 20%.

Going forward, we will continue to fine-tune systems and work environments to facilitate long-term employment regardless of gender.

Maternity and Childcare Support for Balancing Work and Personal Life
We help employees balance work with childbearing and childcare needs by offering systems of maternity leave, childcare leave and reduced working hours for parenting. We actively encourage both our male and female employees to use these systems. In addition, we have fostered an office environment that ensures a smooth transition back to work and are considering flexible measures that can meet individual childcare needs.

Number of Employees Taking Maternity, Childcare and Nursing Care Leave and Reduced Working Hours for Parenting (Cumulative Total Number of Persons)

<table>
<thead>
<tr>
<th>Maternity leave</th>
<th>Childcare leave</th>
<th>Nursing care leave</th>
<th>Reduced working hours for parenting</th>
</tr>
</thead>
<tbody>
<tr>
<td>151</td>
<td>0</td>
<td>0</td>
<td>21(1)</td>
</tr>
<tr>
<td>17</td>
<td>0</td>
<td>0</td>
<td>28</td>
</tr>
<tr>
<td>24(1)</td>
<td>28</td>
<td>27(1)</td>
<td>331(1)</td>
</tr>
<tr>
<td>23</td>
<td>16</td>
<td>24(1)</td>
<td>212(2)</td>
</tr>
<tr>
<td>191</td>
<td>24</td>
<td>21(1)</td>
<td>211(1)</td>
</tr>
</tbody>
</table>

Note: Temporary workers: Limited term employees directly hired by the Idemitsu Group; does not include workers dispatched from other firms.

Our Action Plan to Promote a Dynamic Female Workforce
To ensure its ability to respond swiftly to changes in the business environment, Idemitsu considers it important to maintain a diverse workforce and an equal-opportunity work environment. Accordingly, we are taking measures aimed at promoting dynamic women. In July 2015, we established the Diversity & Inclusion Group in the Human Resources Department to further bolster efforts. The group has refreshed our vision for the workforce while restating the purpose and significance of promoting women’s participation and advancement in the workplace. In addition, the group engaged in dialogue that encompassed individual interviews with and surveys of all female employees.

Reflecting the results of this dialogue, we are working to reform our corporate culture, support career development, and enhance measures that support work-life balance. We formulated an action plan to increase the number of women in leadership roles by 2.5 times by fiscal 2020. The following is a list of our four specific measures.

- Conducting training for managers with the aim of improving workplace culture and supporting female employees’ career development
- Providing opportunities to gain knowledge and skills that draw on women’s actual work experiences
- Instituting medium-term career development programs (CDPs) based on individual traits and identifying tasks needed to foster employee development
- Enhancing systems to accommodate variable time and location restrictions
Idemitsu Group Companies

Overseas Business Sites (as of June 30, 2016)

Petroleum Development (6 companies)
- Idemitsu Snorre Oil Development Co., Ltd.
- Idemitsu Cuu Long Petroleum Co., Ltd.
- Idemitsu Petroleum Norge AS
- Idemitsu Petroleum UK Ltd.
- Idemitsu UK Oil Limited

Petroleum Product Sales (5 companies)
- Idemitsu Retail Marketing Co., Ltd.
- Apolloretailing Co., Ltd.
- S.I. Energy, Ltd.
- Okinawa Idemitsu Co., Ltd.
- Apolloretailing Co., Ltd.

Transportation, Storage and Refinery Works (9 companies)
- Idemitsu Tanker Co., Ltd.
- Apolloretailing Co., Ltd.
- ORPHEUS TANKER CORP.
- ZEARTH TANKER CORP.
- Idemitsu Plantech Hokkaido Co., Ltd.
- Idemitsu Plantech Chiba Co., Ltd.
- Idemitsu Plantech Aichi Co., Ltd.
- Idemitsu Plantech Tokuyama Co., Ltd.
- Hokkaido Joint Oil Stockpiling Co., Ltd.

LPG Business (1 company)
- Astomos Energy Corporation*

Gas Business (4 companies)
- Idemitsu Canada Corporation
- Idemitsu Canada Gas Inc.
- AltarGas Idemitsu Management Inc.*
- AltarGas Idemitsu Joint Venture Limited Partnership*

Overseas Petroleum Business (19 companies)
- IDEMITSU CHEMICALS EUROPE PLC
- IDEMITSU INTERNATIONAL (EUROPE) LIMITED
- Idemitsu North Sea Oil Limited
- Idemitsu Petroleum UK Ltd.
- Idemitsu UK Oil Limited
- Norwegian oilfield and others
- Snorre Oilfield
- PETRA FRAM
- China
- Shandong
- Guangzhou
- Chongqing
- Beijing
- Tianjin
- Shanghai
- Gyeonggi-do
- Changhun
- Hanoi
- Phnom Penh
- Jakarta
- PT MITRABARA ADIPERDANA Tbk.
- Indonesia
- Mumbai
- Panaji
- Phnom Penh
- Jakarta
- PT MITRABARA ADIPERDANA Tbk.
- Indonesia

Petroleum exploration development project

Net Sales by Region

Asia, Oceania ¥576.9 billion (16.2%)

Europe ¥86.7 billion (2.4%)

Other areas ¥2,677.9 billion (75.0%)

Idemitsu Group Consolidated Subsidiaries and Equity-Method Companies (as of June 30, 2016)

Coal Business (14 companies)
- IDEMITSU AUSTRALIA RESOURCES PTY LTD.
- IDEMITSU BOGGABRI COAL PTY LIMITED
- IDEMITSU CHINA RESOURCES PTY LTD.
- IDEMITSU CHEMICALS AND PETROCHEMICALS PTY LTD.
- IDEMITSU CHEMICALS HONG KONG CO., LTD.
- IDEMITSU CHEMICALS JAPAN CO., LTD.
- IDEMITSU CHEMICALS MALAYSIA PTY LTD.
- IDEMITSU CHEMICALS SINGAPORE PTY LTD.
- IDEMITSU CHEMICALS TAIWAN INC.
- IDEMITSU CHEMICALS (HONG KONG) CO., LIMITED
- IDEMITSU CHEMICALS (MALAYSIA) SDN. BHD.
- IDEMITSU CHEMICALS (SINGAPORE) PTE. LTD.
- IDEMITSU CHEMICALS (THAILAND) LIMITED
- IDEMITSU CHEMICALS (U.S.A.) CORPORATION
- IDEMITSU CHEMICALS (U.K.) LIMITED

Petrochemical Business (16 companies)
- Idemitsu Unitech Co., Ltd.
- Cray Valley Idemitsu Corporation
- Freedom Fuels Terminalling Pty Ltd.
- Freedom Fuels Australia Pty Ltd.
- Freedom Fuels Terminalling Pty Ltd.

Who We Are  How We Manage  Our Businesses  Our ESG Information  Corporate Data
Company Information

Company Profile

Company name: Idemitsu Kosan Co., Ltd.
Head Office: 1-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo 100-8321
Representative Director & Chief Executive Officer: Takashi Tsukioka
Establishment: March 30, 1940 (founded June 20, 1911)
Paid-in capital: ¥108.6 billion (as of March 31, 2016)
Consolidated net sales: ¥3,570.2 billion (FY2015)
Consolidated number of employees: 9,203* (as of March 31, 2016)
*Excludes temporary workers
Sales office: 24
Branch office: 7

Refineries: 3 (Hokkaido, Chiba, Aichi)
Petrochemical plants: 2 (Chiba Plant, Tokuyama Complex)
Oil depots: 19 (as of March 31, 2016, including one of Okinawa Idemitsu)
Research laboratories: 8
Partners (as of June 30, 2016)

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<th>Overseas</th>
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Company History

1911 Idemitsu Shokai is founded and commences sales of lubricants (machine oil).
1913 Sales of marine fuel oil for motor fishing vessels commence.
1914 Enters the mainland Chinese market, which had been dominated by American and European oil companies. Sales channel are subsequently expanded throughout Asia.
1938 Nissho Maru (first generation), an oil products tanker, is commissioned.
1945 Idemitsu loses most of its management assets due to Japan’s defeat in World War II. Various businesses are launched, including radio repair and sales, printing, agriculture, fishery and fermentation, precluding the need to dismiss any employees. Of these businesses, the most grueling were operations to manually recover leftover oil from the bottom of decommissioned naval oil tanks.
1947 Idemitsu returns to the oil business as 29 of its outlets across Japan are named retailers for the Oil Distribution Public Corporation. In 1949, Idemitsu is designated as a primary oil distributor.
1951 Nissho Maru (second generation) is commissioned and begins importing high-octane gasoline from the United States.
1953 Petroleum products are imported from Iran (Nissho Maru Incident).
1957 Tokuyama Refinery, Idemitsu’s first refinery, is completed and the Company enters the oil refining business.
1963 Chiba Refinery, Asia’s largest refinery at the time, is completed. By 1975, the Hyogo, Hokkaido and Aichi refineries are completed.
1964 Idemitsu Petrochemical Co., Ltd. is established and its Tokuyama Plant (now owned by Idemitsu Kosan) is completed. Chiba Plant is completed in 1975.
1966 Idemitsu Maru, the world’s first 200,000-ton class oil tanker, is commissioned.
1973 The Beirut Office (closed in 1975) and the Tehran Office are established.
1992 Production begins at the Snorre oilfield in the Norwegian North Sea.
1994 Production begins at Ensham coal mine in Australia.
2006 Stock listed on First Section of the Tokyo Stock Exchange.
2013 Final investment decision reached for the Nghi Son Refinery and Petrochemical Complex. Design and construction begins in July.
2014 Idemitsu terminated the crude oil refining function of the Tokuyama Refinery (three-refinery framework).
Supporting Cultural Activities to Give Back to Society

The Idemitsu Museum of Arts

The Idemitsu Museum of Arts was established in 1966 to house the collection of founder Sazo Idemitsu (1885–1981). Over its more than 50 years of operation as a public interest incorporated foundation, this Company-supported institution has expanded its collection of works and continues to communicate to visitors the splendor of the beauty and spirit of the East. The collection centers on Japanese works of art, including such national treasures as the Minuyonotomo Album of Exemplary Calligraphy, which features snippets of outstanding compositions from nobility once residing in the imperial palace, and the Ban Dainagon Picture Scrolls, a masterpiece of Japanese painting illustrating the rise and fall of a high-ranking government official during the Heian period. The collection also showcases a wide range of extraordinary art pieces from other parts of the Far East. Through the universal medium of art the museum strives to establish a commonality among the hundreds of thousands of annual visitors and Idemitsu.

The founding philosophy of the art museum is outlined in Sazo Idemitsu’s own words: “The most important duties of museums of art are to be constantly diligent in selecting excellent art pieces, to use these pieces to educate the current generation, to carefully preserve the artworks for future generations, and to raise awareness of these splendors.” The founder’s desire to share this extensive, highly valuable private collection of works—seen as national cultural assets—with the public was bolstered by expert opinions contending that he had a social responsibility to do so. This formed the impetus for the founding of the Idemitsu Museum of Arts.

Due to Sazo Idemitsu’s affinity for the work of such commercial artists as ukiyo-e and bunjinga painters, the first Idemitsu collection was somewhat unbalanced when viewed from the perspective of art history. To redress this imbalance, the museum began collecting mostly academic art, including paintings of the Kano school and the Ban Dainagon Picture Scrolls. As the museum collected works to fill out its exhibits in certain fields, it began to establish a unique reputation for displaying orthodox Eastern art in an easy to understand manner.

The Idemitsu collection, an assortment of thoughtfully curated art pieces, possesses a power beyond that of its individual components and retains the taste and spirit of Sazo Idemitsu. One of the messages we can take away from the Idemitsu collection is that of tolerance. Tolerance is thought to be a traditional virtue in Japan originating from Buddhism. The museum considers it a duty to directly implant the concept of tolerance into the hearts of its visitors through the works in the Idemitsu collection.

Sazo Idemitsu said that throughout his life he was guided by beauty, that you see art with your eyes, but you see the beauty of people with your heart. He also emphasized that a business must serve its country and its citizens, aim to benefit society, and move forward together with the people. He expressed this philosophy in his book Making Business an Art. The Idemitsu Museum of Arts, which has been putting that philosophy into practice through its collection of art, could be thought of as the ultimate embodiment of CSR.

Contributing to Music Culture

We contribute to music culture. We are the sole sponsor of the music television program “Daihai no Nai Ongaku-kai,” or “Untitled Concert.” We have also established the Idemitsu Music Awards to support the activities of up-and-coming musicians.

Spanning over 50 years, the “Daihai no Nai Ongaku-kai” classical music program premiered in August 1964 as the “Golden Pop Concert: Daihai no Nai Ongaku-kai.” Ryu Goto, a globally active violinist based in New York, became the fifth host of the show in October 2015. Goto shares with the audience the charms of a wide range of music genres, with an emphasis on classical work.

In fiscal 2015, continuing an annual tradition established in 2013, we joined with AUN J Classic Orchestra, which is composed of eight traditional Japanese instrument performers, for the ONE ASIA Joint Concert.
About the Folding Screens on the Cover and the Artist

The original *Fujin Raijin-zu* (Wind God and Thunder God Screens) were painted by Tawaraya Sotatsu in the 17th century and, around 100 years later, replicated by Ogata Korin. The artwork’s subject matter is representative of the Rimpa school of art. This third iteration of *Fujin Raijin-zu* is by Sakai Hoitsu, who brought the Rimpa school art style from where it blossomed in the then capital city of Kyoto to the city of Edo (today’s Tokyo). He has preserved the humorous facial expressions of the two god figures, but brings to bear a new clarity of accentuated color that resonates with the calm and understated beauty that the Rimpa school in Edo values.

Nobuhiko Hiromi,
Curator at the Idemitsu Museum of Arts

The powerful motif offered by a confrontation between the wind and thunder gods fascinated the three painters that respectively represent the early, mid-, and late Edo periods. Tawaraya Sotatsu lived in the first half of the 17th century, Ogata Korin in the first half of the 18th century, and Sakai Hoitsu, the painter of the reproduction shown here, in the first half of the 19th century. There are some commonalities between the history of the *Fujin Raijin-zu* folding screens and the Idemitsu Group’s vision—with respect for human beings at its core, the Group forms new traditions through the accumulation of innovation that anticipates the demands of the times.