



Press Release



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Announcement on the Introduction of a Performance-linked Stock Compensation Plan

Idemitsu Kosan Co.,Ltd. (the “Company”) hereby announces that the Company, in the board of directors meeting today, adopted a resolution on the introduction of a performance-linked stock compensation plan (hereinafter, the “Plan”) for Directors (excluding Outside Directors and those who are non-residents of Japan; the same hereinafter) and Executive Officers (excluding those who are non-residents of Japan; the same hereinafter) (hereinafter collectively referred to as the “Directors, etc.”) as a highly transparent and objective plan that is closely linked to the Company’s operating results for the purpose of enhancing their consciousness of contribution to both enhancing the Company’s mid- and long-term operating results and expanding the enterprise value, and decided to submit a proposal on the Plan to the 103rd ordinary general meeting of shareholders (hereinafter, the “General Meeting of Shareholders”) to be held on June 28, 2018.

1. The introduction of the Plan is subject to approval at the General Meeting of Shareholders.
2. The Plan is a stock compensation plan based on the Board Incentive Plan Trust for Officers (hereinafter, the “BIP Trust”). As in the Performance Share Plan and the Restricted Stock Plan in Europe and the United States, the BIP Trust is a structure that offers the delivery and grant (hereinafter, “Delivery, etc.”) of the Company’s shares and money equivalent to the converted value of such shares (hereinafter, “Company’s Shares, etc.”) to Directors, etc. in accordance with their official positions and the degree of achievement for performance targets, etc.
3. The Company has set up the Nomination and Compensation Advisory Committee, which consists of independent outside directors and independent outside auditors, as a voluntary advisory body to the Board of Directors in order to ensure transparency and objectivity in the compensation decision process. The introduction of the Plan has already been reviewed and discussed by the Nomination and Compensation Advisory Committee.

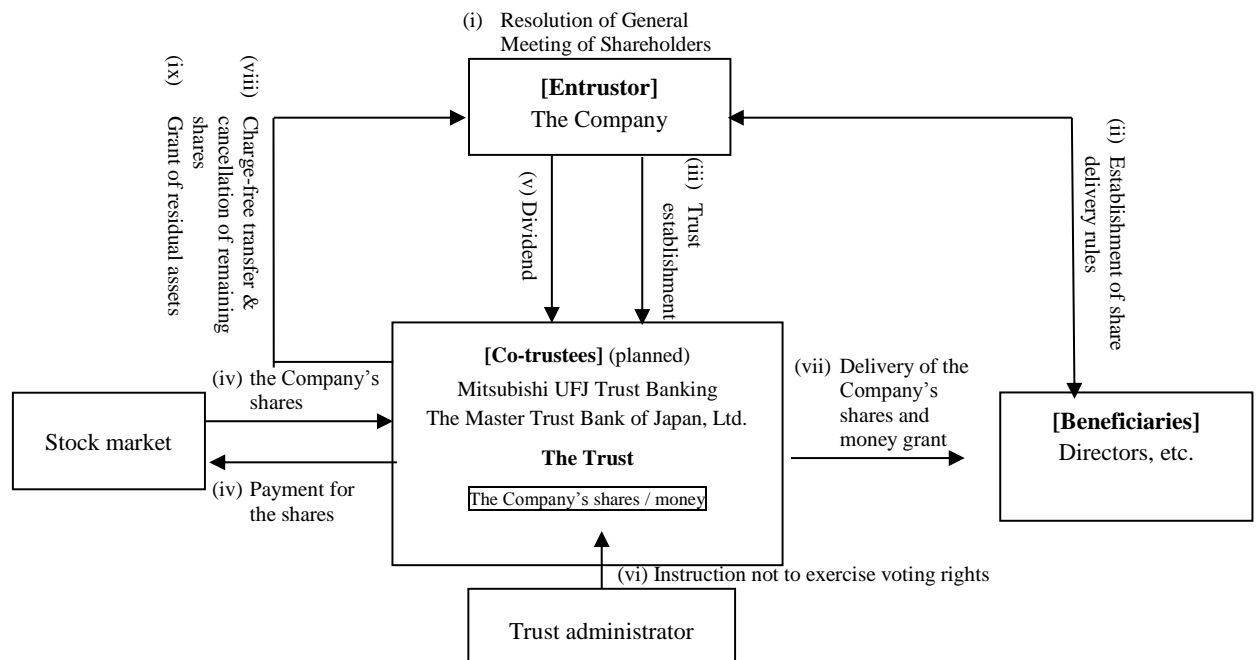
After the introduction of the Plan, the compensation plan for Directors, etc. will be comprised of “base compensation” and “performance-linked stock compensation.” For reference, the ratio of “fixed compensation” and “variable compensation (performance-linked portion)*” for Directors, etc. will be approximately 7:3 based on the amount of standard payment after the introduction of the Plan.

* The amount of variable compensation (performance-linked portion) is the sum of the short-term performance-linked portion of base compensation (15%) and the performance-linked stock compensation (15%).

For details of the Plan, please refer to the Attachment.

End of document

<Attachment> Outline of the Plan



- (i) The Company will obtain approval on officers' compensations in relation to the introduction of the Plan at the General Meeting of Shareholders.
- (ii) With respect to the introduction of the Plan, the Company will establish share delivery rules concerning officers' compensations at the Board of Directors meeting.
- (iii) The Company will entrust funds within the approved/resolved scope in the General Meeting of Shareholders as mentioned in the above (i), and will establish a trust (the "Trust") in which beneficiaries shall be Directors, etc. who fulfill the beneficiary requirements.
- (iv) The Trust will acquire the Company's shares from the stock market by using the funds entrusted under the above (iii) in accordance with instructions from the trust administrator. The number of shares to be acquired by the Trust shall be within the approved/resolved scope at the General Meeting of Shareholders as mentioned in the above (i).
- (v) Dividends for the Company's shares in the Trust will be paid in the same manner as other shares of the Company's shares.
- (vi) Voting rights of the Company's shares in the Trust shall not be exercised throughout the trust period.
- (vii) Directors, etc. will be given certain points, depending on operating results and the like, for each fiscal year. Directors, etc. who fulfill certain beneficiary requirements will receive a certain number of the Company's shares equivalent to 70% of the cumulative points (odd-lot shares shall be rounded down) after their retirement. The number of the Company's shares equivalent to the remaining points will be converted into cash in the Trust in accordance with the provisions of the Trust Agreement. The retired Directors, etc. will receive the money equivalent to the converted value of such shares
- (viii) As for remaining shares in the Trust at the expiration of the trust period, due to the failure of achieving business performance targets, or for any other reason, such shares are eligible for Delivery, etc. to Directors, etc. if the Trust continues to be used for the Plan or its equivalent stock compensation plan. In contrast, if the Trust is terminated upon the expiration of the trust period, the remaining shares in the Trust will be transferred to the Company without any charge, and the Company will then plan to cancel such shares based on a resolution of the Board of Directors as a shareholder return measure.
- (ix) As for residual dividends on the Company's shares in the Trust, such dividends at the expiration of

the trust period will be used as funds for share acquisition if the Trust continues to be used. In contrast, if the Trust is terminated upon the expiration of the trust period, the excessive portion over the reserve fund for trust expenses will be donated to groups that have no vested interest with the Company and Directors, etc.

- * If the number of shares in the Trust falls below the number of shares corresponding to the cumulative points for Directors, etc. (as stipulated in the following (5)) during the trust period, or if money in the trust assets might not be enough to pay trust fees/trust expenses, additional funds may be contributed to the Trust within the upper limit of trust money as described in the following (7).

(1) Outline

The Plan will be applicable for three consecutive fiscal years. The Plan is designed to offer Delivery, etc. of Company's Shares, etc. to Directors, etc. in accordance with operating results for each fiscal year, etc. as officers' compensations after their retirement.

(2) Resolution by the General Meeting of Shareholders on the introduction of the Plan

The General Meeting of Shareholders will resolve on the upper limit of trust money to be contributed to the Trust, the upper limit of total number of points to be given to Directors, etc. (as stipulated in the following (5)), and other necessary matters.

Note that, if the Trust is continued in accordance with the following (4)-B), the Board of Directors will decide, within the approved scope at the General Meeting of Shareholders, on amending the Trust Agreement and making additional contributions to the Trust at the expiration of the trust period.

(3) Eligible persons for the Plan (Beneficiary requirements)

On the condition that they fulfill the beneficiary requirements, and after a certain beneficiary identification process, Directors, etc. are, after their retirement, eligible to receive Delivery, etc. of Company's Shares, etc. from the Trust, of which number is determined on the basis of the cumulative points (as stipulated in the following (5)) accrued during their respective tenures before their retirement.

The beneficiary requirements are as follows:

- (i) To be incumbent as one of the Directors, etc. after the start of the Plan (including anyone who joins Directors, etc. as a new member after the start of the Plan)
- (ii) To be a resident of Japan
- (iii) To have already retired from the position of Director and/or Executive Officer*
- (iv) Not to be any of the following: Anyone who retired for one's own reasons (excluding voluntary retirement due to injuries, diseases and other unavoidable grounds); and anyone who retired or was dismissed due to a certain violative act or material non-compliance with office regulations/company rules, etc. during the tenure.
- (v) Other requirements recognized as necessary to achieve the intent of the performance-linked compensation plan

- * In this regard, however, if the trust period is extended, and if any eligible person for the Plan is still incumbent as one of Directors, etc. even at the expiration of the extended trust period as described in the following (4)-C), the Trust will be terminated at that time and the said eligible person will receive Delivery, etc. of Company's Shares, etc. during his/her tenure as one of Directors, etc.

(4) Trust period

A) Trust period

The period shall be approximately three years from August 2018 (planned) to August 2021 (planned).

B) Continuation of the Trust

At the expiration of the trust period, the Trust may be continued by amending the Trust Agreement and making additional contributions to the Trust. In such a case, the trust period of the Trust will be extended for an additional three years and the Company will contribute additional money within the upper limit of trust money that shall be approved/resolved at the General Meeting of Shareholders for every extended trust period, and Directors, etc. will continuously be given points during the extended trust period. Note that, if such additional contributions are to be made, and if there are some remaining Company's shares (excluding those that correspond to the points given to Directors, etc. and have yet to make Delivery, etc. to them) and money (hereinafter the "Remaining Shares, etc.") in the trust assets on the last day of the trust period before the extension, then the sum of the amount of the Remaining Shares, etc. and the amount of trust money to be additionally contributed shall be within the upper limit of trust money that shall be approved/resolved at the General Meeting of Shareholders. Such extension of the trust period will not be limited to once, and subsequently the Company may continue the Trust again or more than once in the same manner.

C) How to treat the termination of the Trust (Extension of the trust period without additional contributions)

Even in the case of terminating the Trust, if any of the Directors, etc. who may fulfill the beneficiary rights are still incumbent at the expiration of the trust period (or the extended trust period if the Trust is continued as described in the above B)), then the Trust will not immediately be terminated, and the trust period of the Trust will be extended for a certain limited period. Note that, in such a case, any new points will not be given to Directors, etc.

(5) Company's Shares, etc. subject to Delivery, etc. to Directors, etc.

Directors, etc. will be given "grant points," which are calculated by multiplying "basic points" (as described just below) by the performance-linked coefficient (also as described below). Basic points are calculated using the following formula predetermined by official position at a certain time every year during the trust period, while the performance-linked coefficient varies, depending on consolidated operating income and net income attributable to owners of the parent, etc. for each fiscal year as well as the degree of achievement for selected performance measurements from those set in the Company's Mid-term Management Plan. (The degree of achievement for each measurement is evaluated by using such measurement on the basis of excluding the impact from inventory valuation gain/loss.)

(Formula for basic points)

Basic amount by official position / Average closing price (rounded off to the closest whole number) of the Company's stock at the Tokyo Stock Exchange as of July 2018*

* If the trust period is extended, the month preceding the month in which the fiscal year to which the extension date belongs, starts

(Formula for the grant points)

Basic points × Performance-linked coefficient

After the retirement of Directors, etc., cumulative grant points (hereinafter, "Cumulative Points") are

calculated, and Delivery, etc. of Company's Shares, etc. equivalent to Cumulative Points will be made. Note that one point shall be equivalent to one share of the Company's stock and that fractions less than one point shall be rounded off. In this regard, however, if the Company splits or consolidates its shares during the trust period, the number of Company's Shares, etc. subject to Delivery, etc. per point will be adjusted in accordance with the split ratio or the consolidation ratio of the Company's stock.

(6) Method and timing of making Delivery, etc. to Directors, etc. of Company's Shares, etc.

Directors, etc. who fulfill certain beneficiary requirements will receive a certain number of the Company's shares equivalent to 70% of the Cumulative Points (odd-lot shares shall be rounded down) when they retire (excluding at the time of death) after completion of a certain beneficiary identification process. The number of the Company's shares equivalent to the remaining Cumulative Points will be converted into cash in the Trust, and the retired Directors, etc. shall receive the money equivalent to the converted value of such shares.

If any Director, etc. who fulfills the beneficiary requirements during the trust period passes away, a certain number of the Company's shares equivalent to the Cumulative Points calculated at that point in time will be converted into cash in the Trust, and heirs of the deceased officer among Directors, etc. shall receive the money equivalent to the converted value from the Trust. Besides, if any Director, etc. who fulfills the beneficiary requirements during the trust period takes on an overseas assignment, a certain number of the Company's shares equivalent to the Cumulative Points calculated at that point in time will be converted into cash in the Trust, and the officer among Directors, etc. shall receive the money equivalent to the converted value.

(7) Maximum total amount of trust money to be contributed to the Trust and maximum total number of points to be given to Directors, etc. in the Trust

As for the total amount of trust money to be contributed to the Trust by the Company for each trust period, and the total points to be given to Directors, etc. for the Trust, their respective upper limits shall be stipulated as follows on the condition that they are approved in resolutions by the General Meeting of Shareholders.

Maximum total amount of trust money to be contributed

980,000,000 yen (for three years) *

* Sum of the funds for share acquisition by the Trust and the trust fees/trust expenses during the trust period

Maximum total number of points to be given to Directors, etc. per fiscal year

127,000 points

The maximum total amount of trust money to be contributed to the Trust is calculated in light of the current level of base compensation for Directors, etc. among others, and includes trust fees/trust expenses.

The maximum total number of points to be given to Directors, etc. per fiscal year is set up in light of the above-mentioned maximum total amount of trust money and with reference to current stock prices, etc.

As for the number of shares of the Company's stock to be acquired by the Trust during the trust period (hereinafter, the "Number of Shares to be Acquired"), the upper limit shall be the number of shares equivalent to the maximum total number of points to be given to Directors, etc. per fiscal year multiplied by three, i.e. the number of years in the trust period (381,000 shares).

(8) Method of acquiring the Company's shares by the Trust

The Company's shares are to be acquired from the stock market within the respective upper limits of funds for share acquisition and the Number of Shares to be Acquired as described in the above (7).

(9) Exercise of voting rights for the Company's shares in the Trust

Voting rights for the Company's shares in the Trust (namely the Company's shares before Delivery, etc. to Directors, etc.) shall not be exercised during the trust period in order to ensure the neutrality of management.

(10) How to treat dividends of the Company's shares in the Trust

Dividends paid on the Company's shares in the Trust will be received by the Trust and shall be appropriated to the payment of trust fees/trust expenses.

(11) How to treat the Trust-related matters at the expiration of the trust period

If there are remaining shares (excluding Company's Shares, etc. of which Delivery, etc. is planned to be made to any of Directors, etc. after his/her retirement as he/she is still incumbent and may fulfill the beneficiary requirements at the time of trust termination) in the Trust at the expiration of the trust period due to the failure of achieving performance targets or any other reason, the Trust may be continue and used as the Plan, or any similar incentive plan, by amending the Trust Agreement and making additional contributions to the Trust. If the Trust is terminated upon the expiration of the trust period, the remaining shares in the Trust will be transferred to the Company with no charge and then the Company will cancel such shares based on a resolution of the Board of Directors as a shareholder return measure.

As for residual dividends on the Company's shares in the Trust at the expiration of the trust period, such dividends will be used as funds for share acquisition if the Trust continues to be used. In contrast, if the Trust is terminated upon the expiration of the trust period, the excessive portion over the reserve fund for trust expenses will be donated to groups that have no vested interest with the Company and Directors, etc.

(Reference)

[Details of the Trust Agreement]

(i)	Type of trust	Trust of money other than a specified individually operated monetary trust (third party benefit trust)
(ii)	Purpose of trust	Granting of incentives to Directors, etc.
(iii)	Entrustor	The Company
(iv)	Trustee	Mitsubishi UFJ Trust Banking (planned) (Co-trustee: The Master Trust Bank of Japan, Ltd.)
(v)	Beneficiaries	Directors, etc. who have retired and who fulfill beneficiary requirements
(vi)	Trust administrator	A third party having no vested interest with the Company (certified public accountant)
(vii)	Trust agreement date	August 2018 (planned)
(viii)	Trust period	August 2018 (planned) – August 2021 (planned)
(ix)	Starting date of plan	August 2018 (planned)
(x)	Exercise of voting rights	Not to be exercised
(xi)	Class of shares to be acquired	Common shares of the Company

(xii)	Amount of trust money	980,000,000 yen (planned) (including trust fees/trust expenses)
(xiii)	Period of acquiring shares	August 21, 2018 (planned) – August 30, 2018 (planned), (A certain time span from five business days before the end of each accounting period (including each interim and quarterly accounting period) to the end of each accounting period is excluded.)
(xiv)	Method of acquiring shares	To be acquired from the stock market
(xv)	Rights holder	The Company
(xvi)	Residual assets	Residual assets that may belong to the Company as the rights holder will be within the scope of the reserve fund for trust expenses, after the deduction of funds for acquiring shares from trust money.

[Details of administrative tasks related to trust and shares]

(i)	Administrative tasks related to trust	Mitsubishi UFJ Trust Banking is to become a trustee of the Trust and handle administrative tasks related to trust
(ii)	Administrative tasks related to shares	Mitsubishi UFJ Morgan Stanley Securities, Co., Ltd. is to handle clerical tasks for the delivery of shares of the Company to beneficiaries, in accordance with a service agreement.

End