

Governance Report

The JXTG Group works to strengthen corporate governance and promote compliance in order to increase our corporate value through highly transparent management and fair business practices.

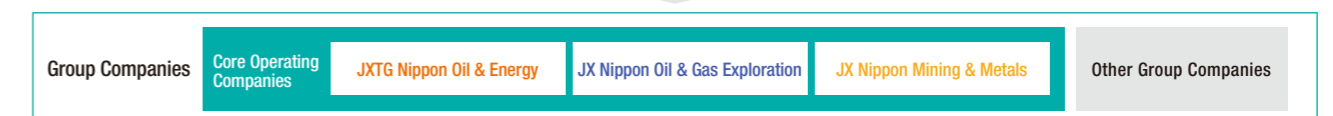
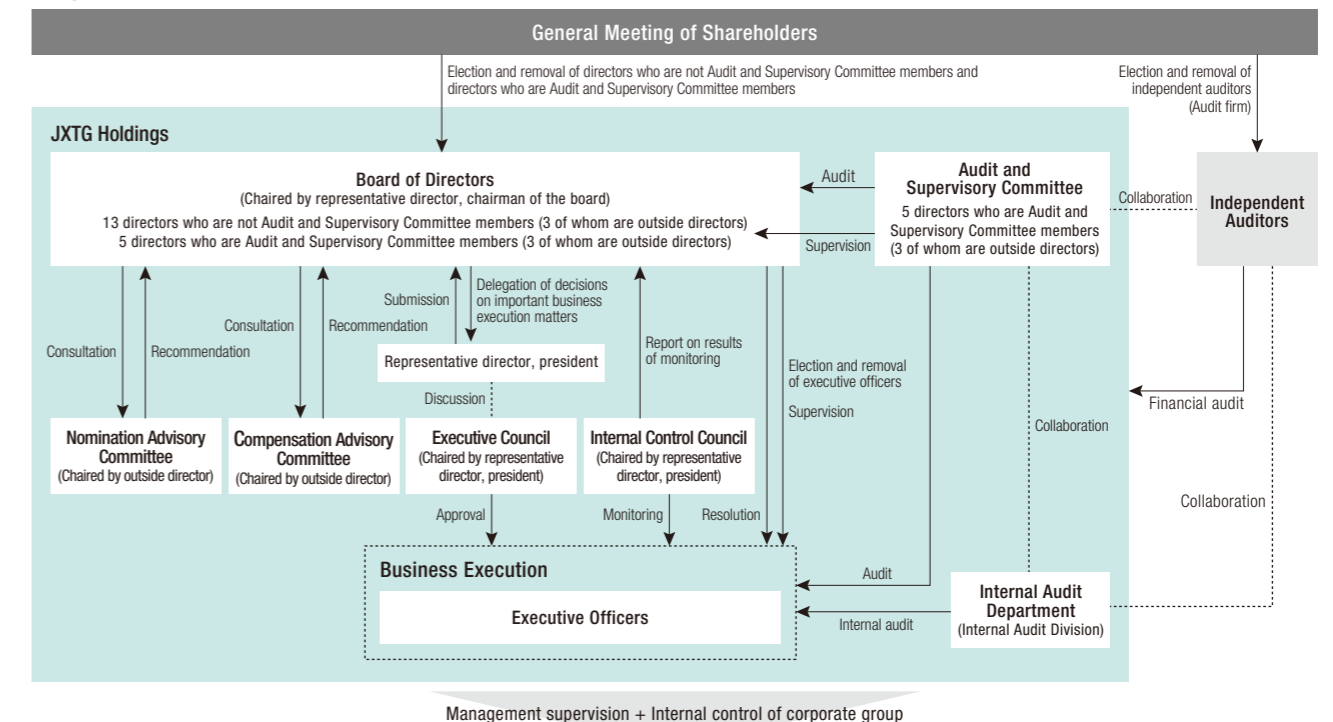
Priority Fields for CSR Activities

High Ethical Standards
Compliance
Safety and Environment
Human Rights
Human Resource Development
Health
Quality
Social Contribution

Corporate Governance Framework

Basic Approach and Framework

Corporate Governance Framework



Corporate Governance Data (As of June 27, 2018)

Item	Details
Format of institutional design	Company with an audit and supervisory committee
Number of directors who are not Audit and Supervisory Committee members	13 (10 inside, 3 outside)
Number of directors who are Audit and Supervisory Committee members	5 (2 inside, 3 outside)
Total number of directors	18 (12 inside, 6 outside)
Ratio of outside (independent) officers	33.3%
Ratio of female officers	11.1%
Term of directors who are not Audit and Supervisory Committee members	1 year
Term of directors who are Audit and Supervisory Committee members	2 years
Adoption of executive officer system	Yes
Institution assisting the president's decision making	Executive Council
Voluntary advisory institutions for the Board of Directors	Establishment of Nomination Advisory Committee and Compensation Advisory Committee

Transition to a Company with an Audit and Supervisory Committee

The Company transitioned to a company with an audit and supervisory committee effective June 27, 2018, with the aim of further strengthening the management functions (deliberation and determination of basic management policies) and supervisory functions of the Board of Directors, as well as to further improve the agility of the execution of operations. Through this transition, the Company will promote the separation of management and supervision from the execution of operations, and strive to further enhance corporate governance.

Basic Policy on Corporate Governance

In order to achieve the sustainable growth of the JXTG Group and increase its corporate value over the medium to long term, the Company established the JXTG Group Basic Policy on Corporate Governance, with the objective of establishing and operating a corporate governance framework for the conduct of transparent, fair, timely, and decisive decision-making in the Group's management. This policy describes systematically and comprehensively the Group's basic approach to corporate governance as well as its establishment and operation, taking into consideration the Corporate Governance Code created by the Tokyo Stock Exchange. This basic policy is published on the JXTG Holdings website as our commitment to all stakeholders, including shareholders of JXTG Holdings along with JXTG Group customers, business partners and employees, and the local communities where we operate.

[WEB JXTG Group Basic Policy on Corporate Governance \(Available in Japanese only\)](https://www.hd.jxtg-group.co.jp/company/system/pdf/governance01.pdf)

<https://www.hd.jxtg-group.co.jp/company/system/pdf/governance01.pdf>

Basic Approach to Corporate Governance

By appropriately establishing and operating corporate governance, the JXTG Group works to realize the JXTG Group Philosophy, to achieve sustained growth, and to increase corporate value over the medium to long term. Based on this recognition, the Company has established and operates the corporate governance of the Group as follows.

Basic Principles on the Establishment and Operation of Corporate Governance

1. Role of each company in the holding company structure
The JXTG Group is a group of companies whose core business consists of three business fields: the Energy business, the Oil and Natural Gas E&P business and the Metals business. In view of the fact that these three businesses are so distinct, the JXTG Group has established a structure under which the Company serves as a holding company and the three core operating companies, which promote each core business, are placed thereunder. Under this structure, from a standpoint

of optimizing the value of the JXTG Group as a whole, the Company takes charge of formulating basic management policies, including the JXTG Group Philosophy, the JXTG Group Code of Conduct, and the medium-term and long-term management plan and budget (hereinafter, "basic management policies"), allocating management resources, and overseeing the management of each core operating company. In turn, each core operating company shall agilely execute its business activities in accordance with the basic management policies.

2. Institutional design
The Company is a company with an audit and supervisory committee.
3. Board of Directors
The Board of Directors of the Company consists of the chairman, the president, more than one full-time director, part-time directors concurrently serving as the presidents of the core operating companies, and outside directors. The Board of Directors is operated pursuant to the policy below:
 - (1) The Board of Directors will focus on deliberation/determination of basic management policies, and the supervision of business execution;
 - (2) Certain decisions on the execution of material operations will be delegated to the president of the Company in order to improve the agility of business execution; and
 - (3) With respect to material matters related to investment return evaluations for, as well as risks and progress of, important business execution projects for the Company and core operating companies, the president of the Company and the presidents of the core operating companies will submit reports, which will be verified for consistency with the basic management policies and then supervised.
4. Audit and Supervisory Committee
 - (1) The Audit and Supervisory Committee of the Company will carry out organized and systematic audits with high efficiency and objectivity through appropriate collaboration between full-time Audit and Supervisory Committee members, who possess powerful information-gathering skill, and outside directors who are Audit and Supervisory Committee members, who possess strong independence along with a wealth of knowledge and experience; and
 - (2) The Audit and Supervisory Committee of the Company will supervise business execution by means of each director who is an Audit and Supervisory Committee member exercising their voting rights at meetings of the Board of Directors and by means of each director who is not an Audit and Supervisory Committee member exercising their right to voice their opinion concerning personnel and compensation matters.
5. Outside directors
To take advantage of the wealth of knowledge and experience of outside directors and to ensure transparency and objectivity in decision-making, the Company shall take the following measures:
 - (1) In determining the basic management policies at meetings of the Board of Directors of the Company,

- request outside directors to be involved from the stage of consideration, and to fully discuss matters from multiple points of view; and in decision-making on the execution of material operations as well as supervision of execution of material operations, fully verify consistency with the basic management policies, taking opinions of outside directors into account; and
- (2) In determining personnel affairs and compensation of directors at meetings of the Board of Directors of the Company, ensure transparency of the decision-making process by consulting with the Nomination Advisory Committee and the Compensation Advisory Committee, half of whose members are outside directors, and which are chaired by an outside director.
6. Executive officers and Executive Council
 - (1) The Company will appoint executive officers as an institution for the agile execution of operations pursuant to the decisions of the Board of Directors.
 - (2) For the determination of business execution by the president, the Company has established the Executive Council as the institution for discussing matters approved by the president. The Executive Council, comprising the chairman of the Board of Directors, president and executive officer, executive vice presidents, senior vice presidents appointed by the president, and the presidents of core operating companies, makes decisions based on prudent deliberations.
 - (3) Full-time Audit and Supervisory Committee members will attend meetings of the Executive Council to understand the process for making important decisions and the status

of business execution, and share these with other Audit and Supervisory Committee members.

7. Governance framework of core operating companies
 - (1) Each core operating company is a company with a board of corporate auditors. Each core operating company has a board of directors as a mechanism enabling directors to fulfill mutual supervision functions, and each core operating company will independently carry out sufficient analysis of risks and verification of consistency with basic management policies. In addition, full-time Audit and Supervisory Committee members of the Company will be dispatched as part-time corporate auditors of each core operating company to perform audits on the execution of duties by directors of core operating companies.
 - (2) With respect to decision-making related to the execution of important business of the core operating companies (including the execution of important business projects under the control of the core operating companies), after a decision by the Board of Directors of a core operating company, in principle, the matter must be decided by or reported to the Board of Directors of the Company. With respect to the execution of other business of the core operating companies, execution will be entrusted to each core operating company within the scope of the basic management policies and management resource allocation determined by the Company, and these matters shall be approved by the president of the core operating company after deliberation by the Executive Council of the core operating company.

Composition of Nomination Advisory Committee and Compensation Advisory Committee and Fiscal 2017 Results

Advisory Bodies	Nomination Advisory Committee	Compensation Advisory Committee
Chairperson	Outside director (Otsuka)*	Outside director (Otsuka)*
Members (including chairperson)	Representative directors: 3 (Uchida, Sugimori, Mutoh)* Outside directors: 3 (Ota, Otsuka, Miyata)*	Representative directors: 3 (Uchida, Sugimori, Mutoh)* Outside directors: 3 (Ota, Otsuka, Miyata)*
Purpose	Ensure the transparency of the process of determining director candidates	Ensure the transparency and objectivity of the process of determining the compensation and other benefits for directors and executive officers
Results in fiscal 2017	The committee met a total of three times and held deliberations on personnel matters for the Company's director candidates and corporate auditor candidates.	The committee met a total of three times and held deliberations on the introduction of a stock compensation system and the policy for determining the compensation for the Company's directors and executive officers.

* Please see <https://www.hd.jxtg-group.co.jp/english/company/directors/> for the profiles of officers (Board of Directors and Audit and Supervisory Committee Members)

Nomination Advisory Committee

To ensure the transparency of the process of determining the director candidates of the Company, the Nomination Advisory Committee has been established to provide advice to the Board of Directors. The Nomination Advisory Committee consists of three outside directors and three representative directors, and one of the outside directors on the committee acts as chairperson. At meetings of the Nomination Advisory Committee, deliberations are held on the personnel matters of the Company's director candidates, and recommendations are made to the Board of Directors on the results of these deliberations. In addition, opinions are exchanged on the issue of succession planning for the Company's chairman and president and for the presidents of the core operating companies, and advice is received from the outside directors.

Compensation Advisory Committee

To ensure the transparency and objectivity of the process of determining the compensation and other benefits for directors and executive officers, the Compensation Advisory Committee has been established to provide advice to the Board of Directors. The Compensation Advisory Committee comprises three outside directors and three representative directors, and one of the outside directors on the committee acts as chairperson. The Compensation Advisory Committee is responsible for deliberating the policies for determining the compensation and other benefits for directors and executive officers as well as other related matters. The results of the committee's deliberations are recommended to the Board of Directors.

Evaluation of the Effectiveness of the Board of Directors

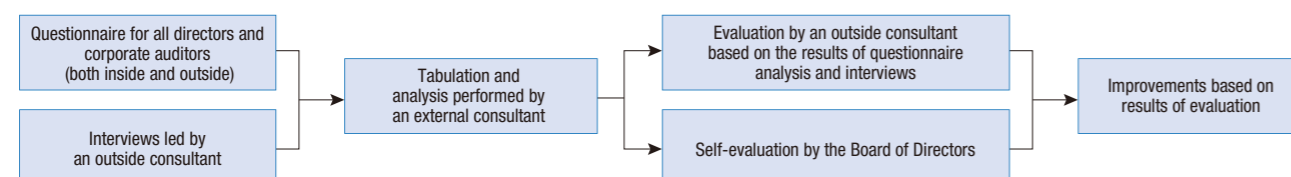
Overview of Evaluation of the Effectiveness of the Board of Directors

From November to December 2017, the Company conducted an evaluation of the effectiveness of the entire Board of Directors. To conduct the evaluation, the Company employed an external consultant, and a questionnaire and interviews were implemented for all directors and corporate auditors, including outside directors and corporate auditors. The results were analyzed and it was determined that improvements have

been made in the provision of information to outside officers, which was cited as an issue last year, and that the Board was generally evaluated as effective. In addition, each director and corporate auditor evaluated initiatives underway since fiscal 2017 to improve the operation of the Board of Directors, including ensuring enough time for deliberations.

On the other hand, directors and corporate auditors continued to point out certain issues, such as the roles of the holding company and the core operating companies, the organization of matters for deliberation, and improvement of monitoring. Moving forward, the Company will work to make further improvements in these areas.

Process for Evaluation of Board Effectiveness



Method of Appointing Director Candidates

The Company strives to appoint independent outside directors* to at least one-third of director positions. As of June 27, 2018, the ratio of outside independent officers was 33.3%.

As directors who are not Audit and Supervisory Committee members, the Company has appointed people who have such characteristics as high standards of business ethics, strategic thinking ability, superior decision-making capabilities, and flexible attitudes toward change, as well as the ability to supervise decision-making and management from the viewpoint of what is best for the Group as a whole. Two or more of the directors are independent outside directors.

As directors who are Audit and Supervisory Committee members, the Company has appointed people who have such characteristics as high standards of business ethics, a certain level of specialist knowledge in legal affairs, finance and accounting, as well as the ability to appropriately audit the execution of duties by directors and the ability to appropriately supervise the execution of business. A majority of these are independent outside directors.

* The term "independent outside director" refers to outside directors who have satisfied the Company's "Criteria for Assessing the Independence of Independent Officers."

Support System for Outside Directors

Each of the three outside directors who are not Audit and Supervisory Board members and the three outside directors who are Audit and Supervisory Board members meet the independence standards based on the rules of the Tokyo and Nagoya stock exchanges, on which the Company is listed. The Company sends materials regarding the agenda of meetings of the Board of Directors to the outside directors, in principle, three days before the meeting, and the Company

provides explanations to the outside directors about important agenda items before the meeting. Furthermore, to enhance the auditing function by all Audit and Supervisory Committee members, including outside directors, the Company has established the Office of Audit and Supervisory Committee, which is clearly independent from the chain of command for divisions responsible for business execution (including personnel evaluations). Full-time staff members have been assigned to the office to assist with the duties of the Audit and Supervisory Committee members. Moreover, to support the outside directors who are not Audit and Supervisory Committee members in business execution, the Board Members' Support Office has been established, and full-time staff members have been assigned.

Training for Directors and the Corporate Auditors of Core Operating Companies

The directors of the Company and core operating companies and the corporate auditors of core operating companies have the duty of working toward the realization of the Group Philosophy, the sustained growth of the JXTG Group, and the achievement of increased corporate value over the medium to long term. To that end, to support efforts to enhance necessary knowledge and skills, the Company and its core operating companies provide opportunities for directors and corporate auditors to receive training related to the Companies Act, internal control systems, accounting and taxes, business strategies, and organizations. In addition, the Company also pays for expenses arising from self-study initiatives. Furthermore, when outside directors are appointed, the Company provides explanations of basic matters regarding the JXTG Group's businesses, and after their appointment, the Company offers business presentations and worksite tours to deepen their understanding.

Training for Outside Directors (Fiscal 2017 and Fiscal 2018)

Topic	Intended for	Timing (fiscal year)	Content of training
Corporate governance	Newly appointed directors and corporate auditors	2017	JXTG Group corporate governance
Internal control	Newly appointed directors and corporate auditors	2017	JXTG Group internal control systems
Overview of JXTG Holdings and core operating companies	Newly appointed directors and corporate auditors	2017	Basic knowledge about JXTG Holdings and the core operating companies
Worksite tours	All directors and corporate auditors	2017	(Energy) Kawasaki Refinery, Kawasaki Plant, Bulga Coal Mine (Australia) (Oil E&P) Nakajo Oil and Gas Field
		2018 (plan)	(Energy) Oita Refinery, Malaysia LNG Plant (Metals) Toho Titanium, Kurami Works, Saganoseki Smelter and Refinery
Investor relations	All directors and corporate auditors	2017, 2018 (plan)	Opinions of institutional investors (expectations regarding the JXTG Group)

Determination of Director Compensation

The upper limit of the total amount of compensation, for the Company's directors was determined, as follows, at the eighth Ordinary General Meeting of Shareholders, held on June 27, 2018.

- The amount of compensation for directors who are not Audit and Supervisory Committee members shall be equal to or less than 1,100 million yen (including 200 million yen for outside directors who are not Audit and Supervisory Committee members) per business year.
- The amount of compensation for directors who are Audit and Supervisory Committee members shall be equal to or less than 200 million yen per business year.

In addition, in a separate framework from the above, at the eighth Ordinary General Meeting of Shareholders, held on June 27, 2018, it was determined that a share compensation plan for the Company's directors who are not Audit and Supervisory Committee members (excluding outside directors) and executive officers who do not serve concurrently as directors (hereinafter, "the Directors, etc.") would be implemented once again. The upper limit of the plan is 600 million yen over a period of three fiscal years.

The compensation and other benefits of directors who are not Audit and Supervisory Committee members comprises the three components of fixed compensation paid monthly based on role, a bonus whose amount fluctuates based on performance, and share compensation in which the Company's shares are provided based on role. This is a balanced compensation system that reflects the Company's business performance for the business year as well as stock value over the medium to long term in compensation amounts. The policy for determining this compensation

and other benefits is determined by resolution of the Board of Directors after deliberation and recommendation to the Compensation Advisory Committee (comprising three outside directors and three representative directors; and chaired by an outside director). Compensation is paid out within the above maximum amount pursuant to this policy.

The compensation and other benefits of directors who are Audit and Supervisory Committee members comprise a fixed compensation amount in view of the independence of their duties. Compensation is paid out within the above maximum amount pursuant to deliberations involving each director who is an Audit and Supervisory Committee member.

Introduction of Share Compensation Plan

The Company introduced a share compensation plan beginning in fiscal 2017. The share compensation plan adopts a mechanism called Board Incentive Plan Trust (BIP Trust). The plan covers the period of execution of the duties of the Directors, etc., over three fiscal years, from fiscal 2017 to fiscal 2019, and entitles the Directors, etc., to the delivery of the Company's shares based on their roles. Certain portions of such Company shares may be provided by cash equivalent of the value of the Company's shares upon conversion.

The purpose of the introduction of this plan is to clarify the linkage between the compensation of the Directors, etc., and the value of the Company's shares; to further raise the incentive of the Directors, etc., to contribute to the enhancement of corporate value; to further increase awareness for shareholder-centered management; and to improve the medium- to long-term corporate value of the JXTG Group.

Amount of Compensation and Other Benefits for Each Category of Officer (Fiscal 2017)

Grantee	Total amount of compensation and other benefits (Millions of yen)	Total amount of compensation and other benefits by type (Millions of yen)		Number of eligible officers	Total amount of compensation and other benefits by type (Millions of yen)	
		Fixed compensation	Bonus		Share compensation	Number of eligible officers
Directors (excluding outside directors)	605	354	228	14	23	8
Corporate auditors (excluding outside corporate auditors)	104	104	—	4	—	—
Outside directors	60	60	—	5	—	—
Outside corporate auditors	33	33	—	4	—	—

Amount of Compensation and Other Benefits for Each Officer (Fiscal 2017)

Name	Grantee	Total amount of compensation and other benefits (Millions of yen)	Total amount of compensation and other benefits by type (Millions of yen)		
			Fixed compensation	Bonus	Share compensation
Yasushi Kimura	Representative Director	112	67	42	4
Yukio Uchida	Representative Director	112	67	42	4

Note: Only persons with total compensation and other benefits of 100million yen or more are listed.

Risk Management

The JXTG Group has introduced an enterprise risk management (ERM) system, through which it strives to share and visualize risk information that contributes to management decision making and the day-to-day execution of business operations.

Enterprise Risk Management (ERM)

The Company established an office in charge of risk management within the Corporate Planning Department in April 2017, which has been working on the development and operation of an ERM system.

In fiscal 2017, based on the COSO* ERM framework, the Company comprehensively identified risks facing the JXTG Group with an eye on the current condition of the entire JXTG Group and future changes in the social and economic situation. Afterward, through interviews of managers and other means, we determined specific risk events that could affect the JXTG Group. After calculating the impact and probability of these risks according to assessment criteria, we selected those risks exceeding a certain threshold as "material risk events." Furthermore, we determined the degree of latency of these material risk events in a comprehensive manner and defined multiple priority response risk events. The Board of Directors receives reports on these priority response risk events and verifies the effectiveness of the overall ERM process.

In fiscal 2018, we will examine detailed contingencies for each designated priority response risk event and begin implementing these contingencies after reporting them to the Board of Directors. We will also continue to closely monitor changes in the social and economic situation as we identify material risk events that could affect the JXTG Group and assess these risks, as well as designate priority response risk events and prepare for them.

Furthermore, the core operating companies, JXTG Nippon Oil & Energy, JX Nippon Oil & Gas Exploration, and JX Nippon Mining & Metals, each have established and are operating an ERM system based closely on their individual business operations and characteristics.

Departments in charge of risk management of the Company and its core operating companies work together to share information on risks. If a risk event that could seriously impact the JXTG Group's management is detected at a core operating company, a system is in place in which both the core operating company responsible for the risk event and the Company will work together to share information as well as examine and implement contingencies for the risk event.

* COSO stands for Committee of Sponsoring Organizations of the Treadway Commission. It refers to a framework for internal control released by the commission and adopted by countries around the world.

Internal Control

Based on the JXTG Group Philosophy and in alignment with the Code of Conduct, the Company has established and operates an internal control system to ensure appropriate operations. The Board of Directors formulated the Basic Policy on Internal Control System, which addresses the operation of this system, and is monitoring the status of operation of this system.

 The JXTG Group's Basic Policy on Internal Control System is published on our website.

<https://www.hd.jxtg-group.co.jp/english/company/system/pdf/policy.pdf>

The Internal Control Department takes the lead in assistance and general management for the development and operation of the JXTG Group's internal control system. In particular, the department works on building and reinforcing internal control systems for general operations pursuant to the COSO framework, which has become a global standard on internal controls. Starting in fiscal 2018, an approach to internal controls following a risk-based PDCA cycle was rolled out and deployed at JXTG Holdings and JXTG Nippon Oil & Energy. Under this approach, each organization identifies and evaluates risks that could impede business operations, formulates and implements appropriate controls based on the risks identified, and then regularly monitors these risks. We plan to roll out and deploy this same approach at other Group companies in the future.

Risks and Opportunities Concerning Climate Change

The Company has identified climate change as a management strategy risk within ERM. Specifically, the Company faces risks related to the transition to a low-carbon society and risks related to the physical impacts of climate change.

The JXTG Group maintains a diverse business portfolio that spans the fields of energy, resources and materials. Along with risks related to the transition to a low-carbon society, there are various business opportunities that can be gained from this transition as well, including those in sectors such as natural gas, electricity, renewable energy, functional materials, and electronic materials. In particular, the Company believes that development and strengthening of businesses that will be mainstays of the future as indicated in the medium-term management plan (overseas business, power and gas business, and technology-driving business) will help it cope with the transition to a low-carbon society.

 Please see the Special Feature section on pp.33-40 of our Integrated Report for more about the JXTG Group's contributions to the realization of a low-carbon society.

<https://www.hd.jxtg-group.co.jp/english/ir/library/annual/>

Risk Assessment of Business Activities

The JXTG Group has developed company rules and regulations for combating various kinds of risks in its business activities. For the screening of new investments, in addition to country risks and foreign exchange rate risks, we analyze and evaluate ESG-related risks, including environmental risks such as those related to the scope of response to biodiversity and environmental regulations, risks in the procurement of raw materials including water, and human resources risks including occupational health and safety aspects. Based on this, appropriate actions are taken when necessary.

For example, when reviewing a potential investment, we perform screenings based on the stage-gate system prior to reaching a final decision. The objective of the stage-gate system is to narrow down important projects for the advancement of business strategies in an efficient manner. Under this system, processes from initial review to execution are broken down into stages of review. In turn, gates are set up that must be cleared in each of these stages. During screenings, we clarify various risks, including ESG-related risks, using sensitivity analysis and case analysis among other means and take steps to minimize risks. For important investments, follow-up is carried out after a certain period of time has passed to clarify impacts on the initial outlook caused by environmental changes or other factors and determine whether to continue with the project thereafter.

Furthermore, ESG-related risks pertaining to existing businesses are managed and monitored appropriately within the framework of the Company's CSR promotion structure.

Crisis Management

When crises or emergency situations arise that may significantly affect the management of the JXTG Group, the Company exercises overall control and has prepared the Rules for Responding to Crises and Emergencies, which specifies measures to be taken to minimize any damage that may occur.

The Crisis Management Department of the Company functions as the standing organizational unit in charge of crisis response and management. The general manager of this department acts as head of this crisis response unit, and when such situations arise at the Company and Group companies, operating procedures require that the situation and measures to be taken be reported immediately to the head of the crisis response unit.

In addition, depending on the magnitude of the crisis, the Company may, at its discretion, form a crisis response headquarters or a joint crisis response headquarters with JXTG Group companies to respond quickly and appropriately to the crisis, thereby fulfilling the social mission of the JXTG Group.

Information Security

Based on its Basic Rules for Information Security, the JXTG Group works to prevent the improper use or disclosure, including leakage, of company information, which is a corporate asset. The JXTG Group also strives to maintain the accuracy and reliability of its corporate information as well as prevent falsification or erroneous handling while making it possible for authorized users of information to have constant access to information when they need it.

Cyber Security Measures

The JXTG Group conducts training drills, issues reminders on suspicious email delivered to employees and provides Group-wide security training using curriculum translated into multiple languages in order to protect its important information and systems from cyberattacks, which have become stealthier in recent years.

The IT Security Basic Procedures for JXTG Group have been established as a set of rules that must be followed by Group companies. The Company is now working to further enhance cyber security countermeasures for the entire JXTG Group.