

# Corporate Governance

## Governance Summary

System of governance			HISTORY		
Company with an audit & supervisory board	Total directors 9 Outside directors (ratio) 3 (1/3)	Total Audit & Supervisory Board members 4 Outside Audit & Supervisory Board members (ratio) 2 (1/2)	2000 Management organization reform: 1. Introduced a system of executive officers 2. Established an Executive Committee 3. Reformed the Board of Directors (redefined its duties as the highest-ranking decision-making body and the supervision of business activities) and reduced membership from 28 to 12 4. Elected two outside directors 5. Established the Corporate Visionary Meeting Established the IR Office Started holding the Annual General Shareholders' Meeting on a day relatively free of other shareholders' meetings		
Independent officers (directors and Audit & Supervisory Board members)	Number of board meetings held in fiscal 2017 10	Attendance rate of outside directors for board meetings in fiscal 2017 93%	2011 Revised MOL's Compliance Policy and Rules of Conduct 2014 Revised the Compliance Policy and established a chief compliance officer (CCO)		
Term of directors	Stock option system	Retirement benefit system	2015 Established the Nomination Advisory Committee and Remuneration Advisory Committee (chaired by outside directors)		
1 year	Yes	No	2017 Established independence determination standards for outside directors and Audit & Supervisory Board members		
Anti-takeover measures	Compliance rules	External compliance advisory service desk	2001 Established the Compliance Policy and Compliance Committee		
No	Yes	Yes			

### Corporate Governance—Enabling Sustainable Growth and Raising Corporate Value

Effective corporate governance has two sides. The defensive side focuses on eliminating risks and ensuring business is conducted in line with social norms and corporate ethics. The other side is offensive, striving to maximize corporate value by accurately evaluating latent risks in the process of pursuing business opportunities, then actively taking those risks deemed reasonable. A company needs both wheels of governance. One brings order, the other provides growth dynamics. With both wheels firmly in place, a company can gain the trust of its customers, stockholders, business partners, employees, local communities and other stakeholders to sustainably conduct business.

MOL greatly shored up its management structure in the years surrounding 2000. Taking a lead position among Japanese companies, MOL established an advanced, highly transparent corporate governance structure by, for example, inviting outside directors and introducing an executive officer system. We are reaping the benefits of those efforts, yet MOL has only arrived at its current position through a process of continuous improvement and evolution. We work hard to enhance corporate value.

### Corporate Governance Organization

MOL has established a corporate governance system that maximizes shareholder profits through the most appropriate allocation of management resources, with higher transparency of corporate management as shown in the chart on the next page. The Board of Directors (with the participation of independent outside directors, who are indispensable to corporate governance) supervises and encourages business operations, which are carried out by the president as chief executive officer. In addition, as a company with an Audit & Supervisory Board, business and accounting audits are conducted by four Audit &

Supervisory Board members, including two outside members.

To make even better use of the Board of Directors, we are working to carefully select and revise issues taken up by the board so that it can dedicate more of its meeting time to the MOL Group Long-Term Vision, strategy direction and management oversight. Accordingly, we have expanded the scope of authority transferred to the Executive Committee to accelerate decision-making related to business operations.

At MOL, we believe that the essence of corporate governance lies not in its structure or organization, but in whether or not it functions effectively. The framework described in the preceding paragraph is operated in the manner outlined in the following sections.

### The Board of Directors

The Board of Directors, as the Company's highest-ranking decision-making body, discusses and decides on basic policies and the most important matters connected with MOL Group management.

The Board of Directors consists of six (6) inside directors and three (3) outside directors who have no stake in the Company. Outside directors confirm the appropriateness of management decisions and check the management of business operations from an independent position based on their individual experience and knowledge, while playing a major role in revitalizing the Board of Directors by expressing helpful insights regarding overall management. We also provide a system to support outside directors in such ways as providing them with preliminary explanations of proposals before Board of Directors meetings and reports on important matters related to business operations on a case-by-case basis. In addition, we also hold the "Deliberation on Corporate Strategy and Vision", in which opinions are freely exchanged about management strategies, our long-term

vision, and overall management, with both outside directors and outside Audit & Supervisory Board members.

### Nomination Advisory Committee and Remuneration Advisory Committee

MOL established the Nomination Advisory Committee and the Remuneration Advisory Committee as discretionary organizations under the Board of Directors. Both committees are chaired by an outside director, consist of three outside directors and two internal directors, and aim to enhance outside directors' supervision of directors responsible for business execution. The committees conduct investigations from an objective standpoint emphasizing the perspective of shareholders, the Nomination Advisory Committee regarding the selection of directors and executive officers and the Remuneration Advisory Committee regarding the status of remuneration of directors, including incentives for long-term improvement of corporate value. The Board of Directors respects the content of reports from both committees, and uses it in formulating necessary resolutions.

### Executive Committee and Committees

Within the scope of the basic policy approved by the Board of Directors, MOL transfers significant authority to implement projects to the Executive Committee. This helps to speed up decision-making on individual projects by the executive officers supervised by the president.

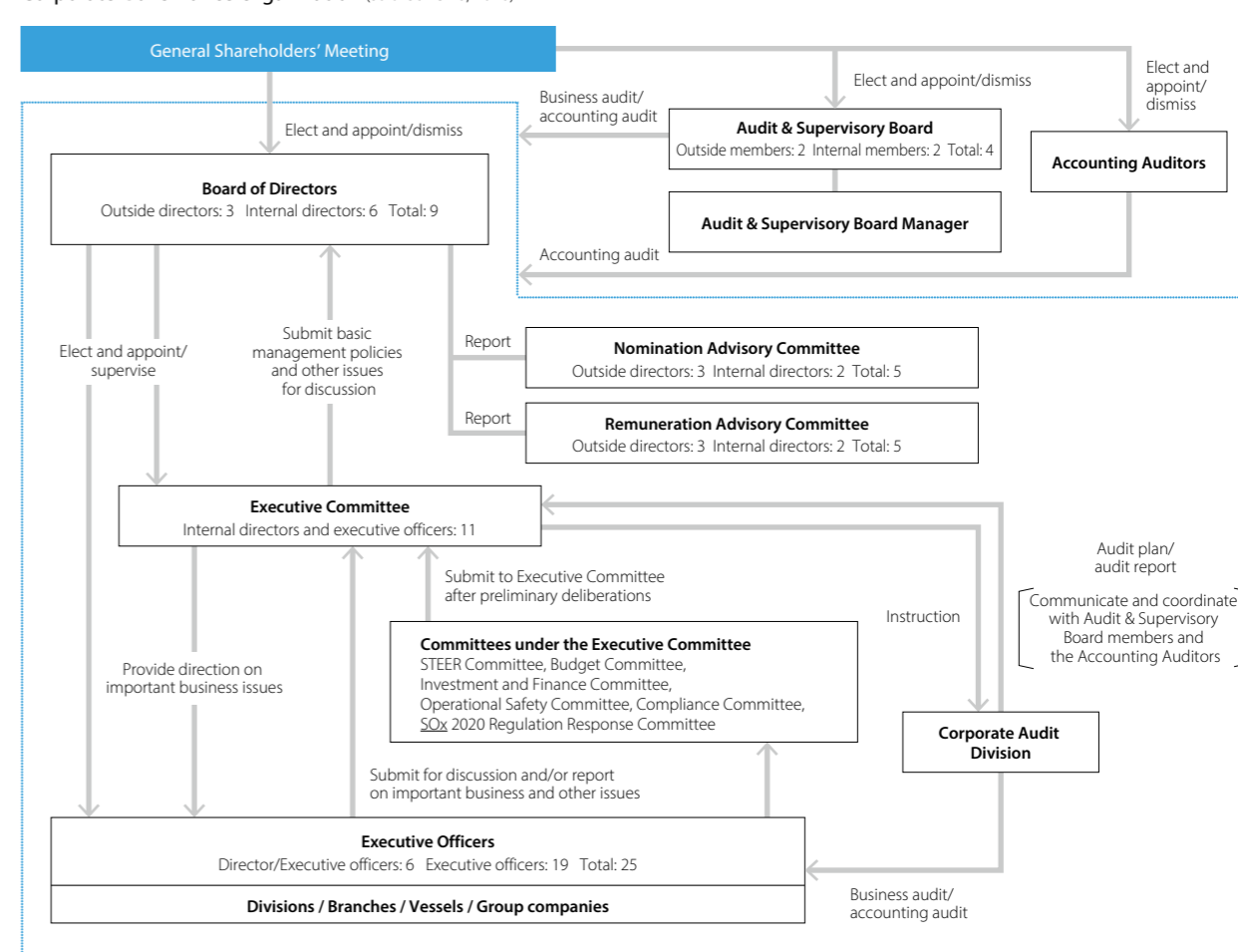
MOL has also established the following sub-committees of the Executive Committee to study and discuss especially important matters and projects straddling divisions that will be submitted to the Executive Committee for discussion (see the chart below).

### Functions of Outside Directors and Reasons for Appointment

As part of efforts to strengthen corporate governance, MOL has been appointing outside directors since 2000, with the aim of bolstering oversight of the execution of business operations by bringing an outside perspective to management.

MOL has appointed three outside directors whose experience encompasses the realms of finance, business, and academia in Japan. MOL has adjudged that all three individuals are

Corporate Governance Organization (as of June 26, 2018)



independent and have neutral positions with no conflicts of interest with the Company. The outside directors draw on their individual experience and insight to check the appropriateness of management and the status of execution of business operations from the shareholders' standpoint. At the same time, they express valuable opinions about management as a whole. In these ways, the outside directors play a major role in enhancing the operation of the Board of Directors.

**Reasons for Appointment of Outside Directors**

Name	Position	Reason for appointment
Masayuki Matsushima	Senior Advisor of Integral Corporation Outside Director of JGC Corporation Senior Advisor, Taniguchi Partners International Accounting & Tax Office Member of Management Council, Grant Thornton Taiyo LLC	MOL adjudged that he has a neutral position with no conflicts of interest with the Company as well as extensive, wide-ranging experience in and knowledge of finance and other sectors. He will thus be able to bring a global perspective to the Company's management and appropriately supervise business execution.
Hidetoshi Fujii	Adviser of Sumitomo Corporation	MOL adjudged that he has a neutral position with no conflicts of interest with the Company and that he has extensive, wide-ranging experience in and knowledge of the management from his involvement in Japan's finance and financial policy as an administrative vice minister of finance. He will thus be able to help maintain and strengthen the Company's corporate governance from an independent and fair perspective.
Etsuko Katsu	Professor, School of Political Science and Economics, Meiji University Chairman of Fund Management Advisory Committee, The Japan Foundation Director, Center for Entrance Examination Standardization Administrative Board Member, International Association of Universities	MOL adjudged that she has a neutral position with no conflicts of interest with the Company as well as experience and insight in university management and global human resource development. She is also an expert in international finance. She will thus be able to offer advice on the Company's management and business execution from an independent perspective and contribute to the maintenance and reinforcement of corporate governance.

(As of June 30, 2018)

**Functions of Outside Audit & Supervisory Board Members and Reasons for Appointment**

MOL has appointed four Audit & Supervisory Board members, who are responsible for performing statutory auditing functions, including two outside Audit & Supervisory Board members who are completely independent and have no conflicts of interest with MOL. At a time when corporate auditing systems are taking on added importance, it goes without saying that the independence of members from management and policy execution is assured. Our Audit & Supervisory Board members work closely with the Corporate Audit Division and independent public accountants to assure effective corporate governance. They also work on strengthening corporate governance and compliance throughout the Group.

**Reasons for Appointment of Outside Audit & Supervisory Board Members**

Name	Position	Reason for appointment
Hiroyuki Itami	President, International University of Japan	MOL adjudged that he has a neutral position with no conflicts of interest with the Company, and that he has wide-ranging experience and knowledge for checking the appropriateness of management decisions and supervising the execution of business operations from the shareholders' perspective based on his specialist knowledge as a scholar of business administration.
Hideki Yamashita	Attorney-at-Law and Patent Attorney, YAMASHITA & TOYAMA LAW AND PATENT OFFICE Outside Corporate Auditor of I-Cell Networks Corp.	MOL adjudged that he has a neutral position with no conflicts of interest with the Company, and that he has wide-ranging experience and knowledge for checking the appropriateness of management decisions and supervising the execution of business operations from the shareholders' perspective based on his specialist knowledge as an attorney at law.

(As of June 30, 2018)

**Compensation for Directors, Audit & Supervisory Board Members and Independent Public Accountants**

The Board of Directors, including the outside directors, determines compensation for the directors and Audit & Supervisory Board members. Compensation paid to directors and Audit & Supervisory Board members in fiscal 2017 is shown in the following table.

The Company has granted stock options to all directors, executive officers, general managers of divisions and branch offices and managers in similar positions, as well as to presidents of consolidated subsidiaries, to motivate them to carry out operations for the benefit of shareholders.

**Compensation for Directors and Audit & Supervisory Board Members**

	No. of people remunerated	Total remuneration (¥ millions)	(Thousands of U.S.\$)
Directors (excluding outside directors)	7	¥330	\$3,106
Audit & Supervisory Board members (excluding outside members)	3	63	592
Outside directors and outside members	5	56	527

**Compensation for the Accounting Auditors**

	Compensation for audit operations (¥ millions)	Compensation for non-audit operations (¥ millions)	Total (¥ millions)	(Thousands of U.S.\$)
Parent company	¥108	—	¥108	\$1,017
Consolidated subsidiaries	122	1	123	1,158
Total	231	1	232	2,184

**Internal Control System**

MOL has established a basic policy on the establishment of internal control systems\* and goes beyond the scope required by law to promote activities to further enhance MOL Group management effectiveness, efficiency and transparency, namely ensuring the appropriateness of business operations and the trustworthiness of financial reporting. We have chosen two extracts from the policy and introduce them below: 1. Compliance and 2. Role of the Audit & Supervisory Board members.

\* Established by resolution of the Board of Directors in 2006, partially amended in 2015

**1. Compliance**

The Company has established a Compliance Committee, which is headed by the chief compliance officer, and formulated the Compliance Policy. General managers of divisions are appointed as Compliance Officers. They are responsible for enforcing compliance regulations and are also required to report to the Compliance Committee in the event of a compliance breach. General managers of divisions are appointed as Compliance Officers, take a thorough approach to compliance as the person responsible, and are also required to report to the Compliance Committee in the event of a compliance breach. The Corporate Audit Division, a body that operates independently of the Company's divisions, provides a counseling service. The division also undertakes investigations of breaches and reports the results to the Compliance Committee. In addition to the existing counseling service, we established an external compliance advisory service desk, which we entrusted an outside attorney to run. The desk provides anonymous counseling services.

**2. Role of the Audit & Supervisory Board Members**

The MOL Group has established rules for reporting to its Audit & Supervisory Board members, creating a system in which directors, executive officers and employees report to the Audit & Supervisory Board members on the Company's operations and important matters that may impact business performance. These rules also safeguard appropriate frameworks for reporting legal violations and other compliance issues to Audit & Supervisory Board members. Furthermore, the representative directors strive to regularly meet with Audit & Supervisory Board members, and the Corporate Audit Division works in coordination with the Audit & Supervisory Board members to provide assistance. In these ways, the Company actively cooperates with the Audit & Supervisory Board members to facilitate effective auditing.

**Accountability**

MOL believes that timely, full and fair disclosure of corporate and financial information is an important aspect of corporate governance. In addition to being accountable to shareholders and investors by providing information, the Company makes every effort possible to reflect their opinions in management. The distinguishing feature of our investor relations activities is that the president takes the lead in their implementation. In fiscal 2017, the president participated in the Company's presentations of interim and full-year results and attended meetings with domestic and foreign investors. The Company is also aware of the need

for full and fair disclosure to all investors, whether in Japan or overseas. In releasing its quarterly financial results, the Company releases the financial results in Japanese and English on the Tokyo Stock Exchange's TDnet, while simultaneously posting the Japanese and English drafts of presentation materials on its website. This information is e-mailed on the same day to foreign investors registered with the Company. MOL actively disseminates information about management strategy, investment plans, market conditions and other information through its website.

As recommended by the Corporate Governance Code, MOL proactively holds constructive dialogues with institutional investors and there will be no change to this policy. Feedback is regularly provided to management with regard to the content of discussions held with investors and analysts. Going forward, MOL will further bolster the quality and quantity of communication while being mindfully aware of fair disclosure rules enacted in April 2018.

The responsibility to provide information is not limited to management and financial issues. MOL's basic stance is to quickly disclose information, even if it is negative such as information on accidents, to all stakeholders. Furthermore, we hold regular drills for responding to the media in emergencies and are working to strengthen our ability to quickly and properly disclose information.

MOL will continue working to raise confidence in its business policies and management through close communication with various stakeholders.

**IR Activities in Fiscal 2017 (April 2017–March 2018)**

Activity	Frequency	Details
For securities analysts and institutional investors	Business performance presentations 4 times	Quarterly results/forecasts
	President's small meetings 2 times	Held for analysts in Japan
For overseas institutional investors	Overseas investor road shows 3 times	Twice in Europe, once in Asia (Hong Kong and Singapore)
	Conferences held by securities companies 4 times	Attended conferences in Japan and held individual meetings
For individual investors	Corporate presentations for individual investors 4 times	Attended seminars for individual investors in Tokyo, Osaka, Nagoya and Kanazawa, once in each city

**IR Materials (available on MOL's website)**

Material	Japanese	English
Financial reports	Yes	Yes
Stock exchange filings (financial highlights, etc.)	Yes	Yes
Business performance presentation materials (including summaries of Q&A sessions)	Yes	Yes
Integrated Report	Yes	Yes
Securities reports	Yes	No
Quarterly reports	Yes	No
Business reports for shareholders	Yes	No
Investor guidebooks	Yes	Yes
Market data	Yes	Yes