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Press Release

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Announcement of financing by subordinated loans

Idemitsu Kosan Co.,Ltd. (“Idemitsu” or the “Company”) hereby announces that it has reached an agreement with financial institutions on financing by subordinated syndication loans (the “Loan”), as follows.

1. Purpose of the Subordinated Loan

Idemitsu has engaged in efforts to expand operations in growing overseas markets, to reinforce domestic competitiveness and to improve its financial position in light of the continued decline in domestic demand for petroleum products.

Given the current severe business circumstances, Idemitsu and Showa Shell Sekiyu K.K. (“Showa Shell”) (collectively, the “Companies”) concluded to integrate their operations (the “Merger”). Idemitsu reached an agreement with Royal Dutch Shell Plc (Headquarters: Hague, Netherlands, CEO: Ben van Beurden)(“Royal Dutch Shell”) on July 30, 2015, to acquire Show Shell shares (33.3% of voting rights) from Royal Dutch Shell’s subsidiary companies(expected execution date: first half of FY 2016) for the Merger. A memorandum of understanding concerning the Merger was signed on November 12, 2015. The Companies are currently continuing discussions towards the merger.

Idemitsu utilizes the Loan as a portion of the acquisition of Showa Shell shares.

As government financial institution and main banks are the lenders for this Subordinated Loan and as credit rating agencies are expected to recognize the Loan as an equity credit characteristics similar to equity instruments, this allows the Company to effectively strengthen its financial position while avoiding equity dilution.

Idemitsu aims to rapidly achieve integration synergies following the Merger, to establish its stabilized earnings base and to accelerate its growth strategy by leveraging the strengths of the new integrated company.

2. Characteristics of the Subordinated Loan

The Subordinated Loan is positioned between debt and equity as a type of hybrid financing. It has equity-like characteristics such as mandatory deferral of interest and an extremely long repayment period while it is a form of debt. Thus, Idemitsu expects that it will be eligible for 75% equity treatment from the credit rating agency (Japan Credit Rating Agency, Limited (“JCR”)).

3. Summary of the Subordinated Loan

(1) Total loan Amount: ¥100 billion

(2) Contract Date: March 31, 2016

(3) Drawdown Date: (planned at or after the acquisition of Showa Shell shares)

(4) Term: 60 years

Provided that, in the event that either (i) 5 years have passed since the drawdown date of the borrowing or (ii) all lenders and agents consent, Idemitsu is permitted to elect to make early repayments of all or a portion of the Subordinated Loan .

(5) Replacement Restriction Clause

With respect to early repayment of the Loan, Idemitsu intends to raise funds that the credit rating agency have approved the same or higher equity credit as the Loan during the 12 months preceding the early repayment date.

The funds include the new integrated companies’ paid-in capital and capital surplus which will increase as a result of the Merger, provided that the amount will be limited to such an extent amount deemed reasonable in light of the social implications of the Merger, post-integration financial position, and other relevant factors.

(6) Applicable interest rate

A variable interest rate based on 6-month JPY LIBOR will be applied during the first 5 years. A variable interest rate with a step-up of 1.00% per year will be applied thereafter.

(7) Interest Payment Date

Payment in arrears every 6 months following the drawdown date

(8) Constraints on interest payment

1) Mandatory suspension of interest payments

Repayment of all or a portion of interest payments on the Subordinated Loan will be deferred in the event of the occurrence of the following:

- i) All interest payments shall be deferred if net losses are reported in consolidated financial statements for two consecutive fiscal years (excluding FY 3/2016).
- ii) All interest payments shall be deferred if the fiscal year-end or interim net debt/equity ratio, calculated based on the most recent consolidated financial statements, exceeds 3.5.
- iii) There are also other provisions to defer all or a portion of interest payments based on the status of distributable funds based on the Companies Act and dividend payments on preferred shares (if any).

2) Voluntary suspension of interest payments

Idemitsu may, at its discretion, defer all or a portion of interest payments on the Subordinated Loan.

(9) Subordination Clause

1) In the event of the commencement of liquidation procedures or a court decision to commence bankruptcy proceedings, corporate reorganization, civil rehabilitation, or similar proceedings, lenders of the Loan shall be entitled to receive payment of the principal and interest on the Loan after repayment has been made in full to all outstanding debt other than the Subordinated Loan and other subordinated debt of equal priority (other subordinated debt issued by the Company with rights to interest payments, redemption or redemption conditions, and payment terms in the event of the Company's liquidity proceedings are effectively equivalent to those of the Subordinated Loan), pursuant to the loan agreement.

2) No provision set forth in the agreement shall be changed to the disadvantage of lenders of the Subordinated Loan or senior creditors in any respect whatsoever.

(10) Equity credit acknowledgment

75% recognized as equity (JCR)

(11) Lenders

Development Bank of Japan Inc.

Sumitomo Mitsui Banking Corporation

The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Sumitomo Mitsui Trust Bank, Limited

Mizuho Bank, Ltd.