



August 14, 2018

Consolidated Financial Results for the First Quarter of Fiscal Year 2018 (From April 1, 2018 to June 30, 2018) [Japan GAAP]

Company Name: **Idemitsu Kosan Co.,Ltd.** (URL <http://www.idemitsu.com>)

Company Code: 5019, Shares listed on: Tokyo Stock Exchange

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Scheduled date of commencement of dividend payments: —

Supplementary materials for the quarterly financial results: Yes

Quarterly financial results presentation: Yes (for institutional investors and analysts)

(Figures less than ¥1 million are rounded off)

1. Consolidated Financial Results for the First Quarter of FY2018 (From April 1, 2018 to June 30, 2018)

(1) Consolidated operating results

(Percentage figures represent changes from the corresponding previous period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	¥million	%	¥million	%	¥million	%	¥million	%
1Q FY2018	1,004,722	20.8	71,469	106.7	81,594	108.9	55,090	117.2
1Q FY2017	831,713	22.5	34,583	40.7	39,051	61.4	25,367	37.8

Note: Comprehensive income 1Q FY2018 ¥34,748 million 77.6 % 1Q FY2017 ¥19,571 million 196.0 %

	Net income per share	Diluted net income per share
	¥	¥
1Q FY2018	264.92	—
1Q FY2017	158.59	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	¥million	¥million	%
1Q FY2018	2,854,075	928,462	31.3
FY2017	2,920,265	905,929	29.7

Reference: Total equity 1Q FY2018 ¥892,016 million FY2017 ¥868,700 million

2. Dividends

	Cash dividends per share				
	As of Jun.30	As of Sep.30	As of Dec.31	As of Mar.31	Total
	¥	¥	¥	¥	¥
FY2017	—	40.00	—	40.00	80.00
FY2018	—				
FY2018 (Forecasts)		50.00	—	50.00	100.00

Note: Revisions of the forecasts of cash dividends since the latest announcement: None

3. Forecasts of Consolidated Financial Results for FY2018 (From April 1, 2018 to March 31, 2019)

(Percentage figures represent changes from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Net income per share
	¥million	%	¥million	%	¥million	%	¥million	%	¥
FY2018	4,280,000	14.7	220,000	9.3	250,000	10.5	140,000	(13.7)	692.41

Note: Revisions of the forecasts of consolidated financial results since the latest announcement: Yes

Setting December 28, 2018 as the due date of acquisition, the Company plans to acquire Treasury Shares with an upper limit of 12 million shares. The fiscal 2018 forecast for consolidated net income per share is calculated by reflecting the acquisition schedule in the average number of shares during the fiscal year.

* Notes

- (1) Changes of number of material consolidated subsidiaries during the three months ended June 30, 2018: **None**
- (2) Application of the accounting method peculiar to the preparation of the quarterly financial statements: **Yes**
- (3) Changes in accounting policies, accounting estimates and restatement
 - a) Changes in accounting policies arising from revision of accounting standards: **None**
 - b) Changes arising from other factors: **None**
 - c) Changes in accounting estimates: **None**
 - d) Restatement: **None**
- (4) Number of shares issued (common stock)
 - a) Number of shares issued (including treasury stock)

As of June 30, 2018: 208,000,000	As of March 31, 2018: 208,000,000
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 - b) Number of shares of treasury stock

As of June 30, 2018: 47,657	As of March 31, 2018: 47,617
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 - c) Weighted average number of shares outstanding during the period

Three months ended June 30, 2018: 207,952,369	
Three months ended June 30, 2017: 159,952,737	

*1 This document is out of the scope of the quarterly review procedures under the Financial Instruments and Exchange Act.

*2 The financial forecasts above are based on information available and assumptions as of the date of publication of this document. Actual operating results may differ from the forecasts due to various factors. Additionally, for the assumptions used for the forecasts of the above, please refer to page 5 “Explanation of Forecasts of Consolidated Financial Results for FY2018” of the Appendix.

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1. Qualitative Information on the Consolidated Operating Results for the First Quarter of FY 2018

(1) Explanation of Operating Results

The overall domestic demand for petroleum products during the first quarter of fiscal 2018 fell slightly below the previous year's level, reflecting the declining trend.

Dubai crude oil prices continued to rise mainly on the back of higher expectations of extended coordinated production cut by OPEC, increasing geopolitical risks in the Middle East, and concerns about Iran's supply levels. Consequently, the average crude oil price for the first quarter of fiscal 2018 was \$72.1/bbl, an increase of \$22.3/bbl against the same period of the previous year.

Producers of petrochemical products maintained high levels of operation on the back of brisk demand in Asia. The price for naphtha, a petrochemical raw material, grew by \$137/ton against the same period of last year to \$619/ton.

(Crude oil price, naphtha price and exchange rate)

	Three months ended June 30, 2017	Three months ended June 30, 2018	Change	
Dubai Crude Oil (\$/bbl)	49.8	72.1	+22.3	+ 44.9%
Naphtha (\$/ton)	482	619	+137	+ 28.4%
Exchange Rate (¥/\$)	112.1	110.1	(2.0)	(1.8)%

The Idemitsu Group's net sales for the first quarter of fiscal 2018 were ¥1,004.7 billion, an increase of 20.8% compared with the same period of the preceding year, due mainly to increased import prices for crude oil.

Operating income increased by 106.7% against the same period of the previous year to ¥71.5 billion, due mainly to higher margins on petroleum products and the positive effect of inventory valuation.

Net non-operating income during the quarter totaled ¥10.1 billion, an increase of ¥5.7 billion from the same period of last year, owing primarily to increased Equity in earnings of nonconsolidated subsidiaries and affiliates, which resulted from an increased profit of Showa Shell Sekiyu K.K., included in the other segment. As a result, ordinary income was ¥81.6 billion, up 108.9% compared with the same period of last year.

Extraordinary income or loss recorded ¥2.9 billion of income, an increase of ¥3.2 billion from the same period of the previous year, owing primarily to Gain on dissolution of oil field premium contract recorded in the resources segment.

Tax expenses, which consist of corporate income tax, inhabitant tax and business tax, as well as income taxes-deferred, etc., amounted to ¥27.3 billion, an increase of ¥15.3 billion from the same period of the previous year, mainly due to increased income before income taxes.

Net income attributable to owners of the parent increased by 117.2% compared with the same period of fiscal 2017 to ¥55.1 billion.

The performance of each business segment for the three months ended June 30, 2018 is as follows:

As to quarterly reporting periods, domestic subsidiaries use June 30 as their balance sheet date whereas overseas subsidiaries use March 31 as their balance sheet date, except for certain subsidiaries. As such, the following performance of the business segments includes the operating results of overseas subsidiaries for the three months ended March 31, 2018, and those of domestic subsidiaries for the three months ended June 30, 2017.

Net sales by segment

(Unit: ¥Billion)

Segment	1 st Quarter of FY2017	1 st Quarter of FY2018	Change (Decrease)	
			Amount	%
Petroleum products	631.1	775.6	+144.5	+22.9%
Petrochemical products	114.3	145.9	+31.6	+27.7%
Resources	72.2	68.1	(4.1)	(5.7)%
Others	14.2	15.1	+0.9	+6.7%
Total	831.7	1,004.7	+173.0	+20.8%

Operating income by segment

(Unit: ¥Billion)

Segment	1 st Quarter of FY2017	1 st Quarter of FY2018	Change (Decrease)	
			Amount	%
Petroleum products	6.9	40.3	+33.4	+485.9%
<i>: excluding effect of inventory valuation</i>	<i>12.9</i>	<i>17.8</i>	<i>+4.9</i>	<i>+38.1%</i>
Petrochemical products	10.2	12.6	+2.4	+23.4%
Resources	18.4	19.2	+0.8	+4.3%
Others	0.6	0.9	+0.3	+52.4%
Reconciliation	(1.4)	(1.5)	(0)	—
Total	34.6	71.5	+36.9	+106.7%
<i>: excluding effect of inventory valuation</i>	<i>40.6</i>	<i>49.0</i>	<i>+8.4</i>	<i>+20.6%</i>

[Petroleum products segment]

Net sales of the petroleum products segment for the three months ended June 30, 2018 were ¥775.6 billion, an increase of 22.9% compared with the same period of the previous year, due partly to increases in import prices for crude oil.

Operating income increased by 485.9% against the same period of the preceding year to ¥40.3 billion, mainly due to higher product margins and the positive effect of inventory valuation.

[Petrochemical products segment]

Net sales of the petrochemical products segment for the three months ended June 30, 2018 were ¥145.9 billion, an increase of 27.7% from the same period of fiscal 2017, due largely to increases in naphtha prices on a customs clearance basis.

Operating income of the segment was ¥12.6 billion, up 23.4% from the same period of the previous year, mainly due to higher margins on styrene monomer and other products.

[Resources segment]

(Oil exploration and production and geothermal energy business)

Net sales of the oil exploration and production business for the three months ended June 30, 2018 were ¥20.3 billion, up 5.6% from the corresponding period of the previous year, bolstered primarily by higher crude oil prices, despite the negative effect of reduced sales volumes due to transfer of its assets in the UK North Sea, with operating income of ¥9.0 billion, up 31.6% from the same period of the preceding year.

(Coal business and others)

Net sales of the coal business and others for the three months ended June 30, 2018 were ¥47.8 billion, down 9.8% compared with the same period of last year, due mainly to temporarily reduced production volumes in response to a change in the production plan and the negative effect of foreign exchange, which was partially offset by higher coal prices in the coal business, with operating income of ¥10.2 billion, down 11.7% from the same period of the preceding year.

As a result, total net sales of the resources segment were ¥68.1 billion, down 5.7% from the corresponding period of the previous year, and operating income was ¥19.2 billion, up 4.3% from the same period of the preceding year.

[Other segments]

Net sales of the other segments for the three months ended June 30, 2018 were ¥15.1 billion, up 6.7% from the same period last year, and operating income was ¥0.9 billion, up 52.4% compared with the same period of the preceding year.

(2) Explanation of Financial Position

1) Analysis of financial position

Summarized Consolidated Balance Sheets

			(Unit: ¥Billion)
	FY2017	1 st Quarter of FY2018	Change (Decrease)
Current assets	1,208.2	1,178.6	(29.6)
Fixed assets	1,712.0	1,675.4	(36.6)
Total assets	2,920.3	2,854.1	(66.2)
Current liabilities	1,161.6	1,115.2	(46.4)
Non-current liabilities	852.7	810.4	(42.3)
Total liabilities	2,014.3	1,925.6	(88.7)
Total net assets	905.9	928.5	+22.5
Total liabilities and net assets	2,920.3	2,854.1	(66.2)

a) Total assets

Total assets as of June 30, 2018 decreased by ¥66.2 billion from the end of the previous fiscal year to ¥2,854.1 billion, owing primarily to decreases in notes and accounts receivable-trade mainly due to seasonal factors as well as the liquidation of oil field premium assets as a result of dissolution of the oil field premium contract that had been signed at the time of acquisition of the Snorre field.

b) Total liabilities

Total liabilities as of June 30, 2018 decreased by ¥88.7 billion from the end of the previous fiscal year to ¥1,925.6 billion, owing primarily to declines in notes and accounts payable-trade mainly due to seasonal factors as well as the liquidation of oil field premium liabilities as a result of dissolution of the oil field premium contract that had been signed at the time of acquisition of the Snorre field, despite increases in interest-bearing debts (¥933.5 billion as of June 30, 2018).

c) Total net assets

Total net assets as of June 30, 2018 grew by ¥22.5 billion from the end of the preceding fiscal year to ¥928.5 billion, primarily owing to ¥55.1 billion of net income attributable to owners of the parent, which was partially offset by reductions in foreign currency translation adjustments due to the appreciation of the yen and payment of dividends. Consequently, the equity ratio as of June 30, 2018 was 31.3%, improved by 1.5 percent points from 29.7% at the end of fiscal 2017.

(3) Explanation of Forecasts of Consolidated Financial Results for FY2018

The Company has revised the forecasts of the consolidated financial results for the year ending March 31, 2019 released on May 15, 2018, given the actual business results for the three months ended June 30, 2018 and the latest forecasts. Please refer to “Announcement on the Revision to Consolidated Earnings Forecasts” announced today for details of the relevant expectations.

2. Consolidated Financial Statements for the First Quarter of FY2018 and Major Notes

(1) Consolidated Quarterly Balance Sheets

(Unit: ¥Million)

	FY2017 (As of March 31, 2018)	1st Quarter of FY2018 (As of June 30, 2018)
Assets		
Current assets:		
Cash and deposits	88,424	81,220
Notes and accounts receivable, trade	486,185	444,595
Inventories	535,636	555,374
Other	98,422	97,887
Less: Allowance for doubtful accounts	(432)	(434)
Total current assets	1,208,236	1,178,643
Fixed assets:		
Property, plant and equipment:		
Machinery and equipment, net	185,959	188,794
Land	579,743	578,057
Other, net	241,080	235,444
Total property, plant and equipment	1,006,782	1,002,296
Intangible fixed assets	20,768	22,748
Investments and other assets:		
Investment securities	422,436	420,560
Oil field premium assets	33,081	—
Other	229,024	229,800
Less: Allowance for doubtful accounts	(64)	(64)
Total investments and other assets	684,477	650,386
Total fixed assets	1,712,029	1,675,432
Total assets	2,920,265	2,854,075
Liabilities		
Current liabilities:		
Notes and accounts payable, trade	429,550	367,662
Short-term loans payable	142,873	174,926
Commercial paper	138,001	149,000
Current portion of bonds payable	25,000	25,000
Accounts payable, other	295,421	272,852
Income taxes payable	27,542	41,768
Provision for bonuses	8,111	3,002
Other	95,106	81,013
Total current liabilities	1,161,607	1,115,225
Non-current liabilities:		
Bonds payable	40,000	40,000
Long-term loans payable	546,171	543,065
Liability for employees' retirement benefits	13,972	13,685
Reserve for repair work	27,112	31,222
Asset retirement obligations	49,178	47,975
Oil field premium liabilities	39,274	—
Other	137,019	134,438
Total non-current liabilities	852,727	810,387
Total liabilities	2,014,335	1,925,612

(Unit: ¥Million)

	FY2017 (As of March 31, 2018)	1st Quarter of FY2018 (As of June 30, 2018)
Net assets		
Shareholders' equity:		
Common stock	168,351	168,351
Capital surplus	130,875	130,875
Retained earnings	403,745	449,855
Treasury stock	(133)	(133)
Total shareholders' equity	702,839	748,948
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	10,105	10,176
Deferred gains (losses) on hedging activities, net	(4,083)	(5,965)
Surplus from land revaluation	158,171	157,447
Foreign currency translation adjustments	919	(19,498)
Defined retirement benefit plans	748	906
Total accumulated other comprehensive income	165,861	143,067
Noncontrolling interests	37,228	36,445
Total net assets	905,929	928,462
Total liabilities and net assets	2,920,265	2,854,075

(2) Consolidated Quarterly Statements of Income and Comprehensive Income

1) Consolidated Quarterly Statements of Income

(Unit: ¥Million)

	1st Quarter of FY2017 (From April 1, 2017 to June 30, 2017)	1st Quarter of FY2018 (From April 1, 2018 to June 30, 2018)
Net sales	831,713	1,004,722
Cost of sales	729,567	862,591
Gross profit	102,146	142,130
Selling, general and administrative expenses	67,562	70,661
Operating income	34,583	71,469
Non-operating income:		
Interest income	913	1,412
Dividend income	1,335	2,038
Equity in earnings of nonconsolidated subsidiaries and affiliates, net	5,297	9,370
Other	265	442
Total non-operating income	7,811	13,263
Non-operating expenses:		
Interest expense	2,443	2,095
Loss on foreign exchange, net	335	514
Other	564	528
Total non-operating expenses	3,343	3,138
Ordinary income	39,051	81,594
Extraordinary income:		
Gain on sales of fixed assets	15	206
Gain on sale of affiliate stock	—	187
Gain on dissolution of oil field premium contract	—	6,251
Other	3	8
Total extraordinary income	18	6,654
Extraordinary losses:		
Impairment loss on fixed assets	17	3,003
Loss on sales of fixed assets	10	24
Loss on disposals of fixed assets	303	228
Other	—	475
Total extraordinary losses	332	3,730
Income before income taxes	38,737	84,517
Income taxes	12,071	27,323
Net income	26,665	57,194
Net income attributable to noncontrolling interests	1,298	2,103
Net income attributable to owners of the parent	25,367	55,090

2) Consolidated Quarterly Statements of Comprehensive Income

(Unit: ¥Million)

	1st Quarter of FY2017 (From April 1, 2017 to June 30, 2017)	1st Quarter of FY2018 (From April 1, 2018 to June 30, 2018)
Net income	26,665	57,194
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	(77)	(265)
Deferred gains on hedging activities, net	1,013	(1,481)
Foreign currency translation adjustments	(4,360)	(15,400)
Defined retirement benefit plans	282	139
Share of other comprehensive income in equity method affiliates	(3,952)	(5,438)
Total other comprehensive income	(7,094)	(22,446)
Comprehensive income	19,571	34,748
Comprehensive income attributable to:		
Owners of the parent	19,327	33,039
Noncontrolling interests	243	1,708

(3) Notes to the Consolidated Quarterly Financial Statements

1) Notes on the Assumption of a Going Concern

None

2) Notes on Significant Changes in Shareholders' Equity

None

3) Application of the Accounting Method Peculiar to the Preparation of the Quarterly Financial Statements

Income taxes are calculated by multiplying the income before income taxes for the three months ended June 30, 2018 by the estimated effective tax rate that is reasonably estimated for income before income taxes for the fiscal year that includes the current quarter.

However, if the calculation using the relevant estimated effective tax rate leads to significantly irrational results, income taxes are calculated by multiplying the quarterly income before income taxes by the effective statutory tax rate, after adjusting important differences that do not constitute temporary differences.

4) Additional Information

(Application of Partial Amendments of Accounting Standard for Tax Effect Accounting, etc.)

The Company adopted Statement No.28 Partial Amendments of Accounting Standard for Tax Effect Accounting (revised on February 16, 2018), etc., from the beginning of the current fiscal year. Deferred Tax Assets are represented on Investments and other assets and Deferred Tax Liabilities are represented on Non-current liabilities.

5) Consolidated Segment Information

First Quarter of FY2017 (From April 1, 2017 to June 30, 2017)

(a) Net sales and income or loss by reportable segment

(Unit: ¥Million)

	Reportable segment				Others	Total	Reconciliation	Consolidated
	Petroleum products	Petro-chemical products	Resources	Total				
Net sales:								
Net sales to outside customers	631,072	114,252	72,233	817,559	14,154	831,713	—	831,713
Inter-segment	2,506	965	322	3,793	617	4,410	(4,410)	—
Total	633,578	115,218	72,556	821,352	14,771	836,124	(4,410)	831,713
Operating income	6,881	10,174	18,383	35,439	579	36,018	(1,435)	34,583

Notes:

1. The segment “Others” refers to the total of other business segments that are not included in the reportable segments, including Showa Shell Sekiyu K.K., engineering businesses, insurance businesses, electronic materials businesses, agricultural biotechnology businesses and renewable energy businesses.
2. The amount of reconciliation for the operating income mainly represents research and development costs, which do not belong to reportable segments.
3. The operating income of the reportable segments is reconciled to the amount of operating income in the consolidated quarterly statement of income.
4. Although not included in the calculation of the operating income of the reportable segments, equity in earnings of non-consolidated subsidiaries and affiliates is provided to and used by the Board of Directors on a regular basis. The equity in earnings of non-consolidated subsidiaries and affiliates of Showa Shell Sekiyu K.K. is included in the segment “Others”.
(Petroleum products) ¥ (592) million (Petrochemical products) ¥2,652 million
(Resources) ¥530 million (Others) ¥2,741 million (Reconciliation) ¥ (35) million

(b) Impairment loss on fixed assets and goodwill by reportable segment

There is no significant item during the period.

First Quarter of FY2018 (From April 1, 2018 to June 30, 2018)

(a) Net sales and income or loss by reportable segment

(Unit: ¥Million)

	Reportable segment				Others	Total	Reconciliation	Consolidated
	Petroleum products	Petro-chemical products	Resources	Total				
Net sales:								
Net sales to outside customers	775,619	145,877	68,128	989,625	15,096	1,004,722	—	1,004,722
Inter-segment	2,875	1,228	174	4,278	1,035	5,314	(5,314)	—
Total	778,495	147,105	68,303	993,904	16,132	1,010,037	(5,314)	1,004,722
Operating income	40,318	12,553	19,176	72,048	883	72,931	(1,462)	71,469

Notes:

1. The segment “Others” refers to the total of other business segments that are not included in the reportable segments, including Showa Shell Sekiyu K.K., engineering businesses, insurance businesses, electronic materials businesses, agricultural biotechnology businesses and renewable energy businesses.
2. The amount of reconciliation for the operating income mainly represents research and development costs, which do not belong to reportable segments.
3. The operating income of the reportable segments is reconciled to the amount of operating income in the consolidated quarterly statement of income.
4. Although not included in the calculation of the operating income of the reportable segments, equity in earnings of non-consolidated subsidiaries and affiliates is provided to and used by the Board of Directors on a regular basis. The equity in earnings of non-consolidated subsidiaries and affiliates of Showa Shell Sekiyu K.K. is included in the segment “Others”.
(Petroleum products) ¥ (582) million (Petrochemical products) ¥3,321 million
(Resources) ¥659 million (Others) ¥5,974 million (Reconciliation) ¥ (2) million

(b) Impairment loss on fixed assets and goodwill by reportable segment

There is no significant item during the period.

6) Significant Subsequent Events

(The Share Exchange and Acquisition of Treasury Shares for the Business Integration with Showa Shell Sekiyu K.K.)

(Regarding Execution of Agreement with Our Major Shareholders)

Idemitsu Kosan Co.,Ltd. (“we” or the “Company”) have executed an agreement (the “Agreement”) with our major shareholders, namely Nissho Kosan K.K. and Mr. Masakazu Idemitsu (collectively, “Our Major Shareholders”), regarding the business integration with Showa Shell Sekiyu K.K. (“Showa Shell”) on July,10, 2018.

(a) Purpose and Background of the Agreement

Although we have advanced discussions with Showa Shell aimed at the business integration since we executed the share purchase agreement on July 30, 2015 with subsidiary companies of Royal Dutch Shell plc to acquire Showa Shell shares, the business integration has not been realized because the discussions with Our Major Shareholders were not settled.

However, during the course of the discussions, concerns of Our Major Shareholders that the corporate philosophy supporting the Company’s fundamentals would not be succeeded to because of the business integration were gradually eliminated.

We and Our Major Shareholders now believe that joining forces to make the Company better will enhance the Company’s enterprise value, and consequently, have executed the Agreement.

(b) Outline of the Agreement

a) Implementation of a share exchange

We will implement a share exchange (the “Share Exchange”), to be effective on April 1, 2019, with Showa Shell, in which the Company will distribute its shares to shareholders of Showa Shell and acquire all of the issued shares of Showa Shell. The share exchange ratio of the Share Exchange will be appropriately determined by agreement of both companies by using the respective share prices of Showa Shell and the Company as the main criterion, and based on the results of due diligence reviews to be carried out and the profit of both companies’ shareholders.

b) The exercise by Our Major Shareholders of voting rights to approve the Share Exchange at the Company’s shareholders’ meeting

In the case where all of the following conditions are satisfied, Our Major Shareholders shall exercise all their voting rights at the Company’s extraordinary shareholders’ meeting (the “Extraordinary Shareholders’ Meeting”), to be held by March 31, 2019, to approve (i) the proposal to approve the Share Exchange, and (ii) the matters to be proposed by the Company and generally related to a shareholders’ meeting concerning a share exchange. If Our Major Shareholders determine not to exercise their voting rights to approve any of the Company’s proposals at the Extraordinary Shareholders’ Meeting because any of the following conditions is not satisfied, the Agreement will be immediately invalid.

- (i) The number of candidates to be directors (excluding independent outside directors) the Company proposes to newly elect on the occasion of the Share Exchange at the Extraordinary Shareholders’ Meeting is approximately five. Our Major Shareholders can recommend two persons of such five candidates. The

Company will, with respect to the persons that Our Major Shareholders notifies the Company will be recommended to the Company as candidates, carry out election procedures pursuant to its internal rules to admit such persons as candidates to be directors.

- (ii) The Company will have not submitted a proposal regarding change of its trade name at the Extraordinary Shareholders' Meeting, or taken any other action against its operation policy as provided in c) below.
 - (iii) When announcing the execution of the basic agreement with Showa Shell regarding the Share Exchange, the Company will also announce that it aims to acquire its 12 million treasury shares by the Extraordinary Shareholders' Meeting.
 - (iv) The Company will announce, by the Extraordinary Shareholders' Meeting, a future medium-term management plan (the "Medium-Term Management Plan") which takes into account expected effects from the Share Exchange. Also, the Company will (i) in the Medium-Term Management Plan, indicate certain amounts as the final profit objective for three fiscal years subject to the Medium-Term Management Plan ("Fiscal Years subject to the Plan") (upon consultation with Showa Shell, the Company sets its final profit objective for Fiscal Years subject to the Plan as a total of 500 billion yen or more), and (ii) represent that it will return to its shareholders profits for the Fiscal Years subject to the Plan at a certain rate, which is 50% or more (no less than 10% of such shareholder return will be allotted to the acquisition of treasury shares for each Fiscal Year subject to the Plan, and such acquisition of the treasury shares does not include the acquisition of the treasury shares specified in (iii) above, which will be expressly indicated in the Medium-Term Management Plan).
- c) Operation of the Company after the Share Exchange
- (i) Unless the ratio of the number of shares held by Our Major Shareholders to the number of all voting rights materially changes, Our Major Shareholders will be able to recommend two persons as candidates to be directors proposed by the Company pursuant to the procedures specified in b) (i) above. If the ratio of the number of the shares held by Our Major Shareholders to the number of all voting rights materially changes, Our Major Shareholders and the Company will have good faith discussions on how to deal with Our Major Shareholders' recommendation of candidates to be directors proposed by the Company.
 - (ii) We will maintain the Company's trade name.
 - (iii) We will continue to use the Company's brand.

(Regarding Execution of Business Integration Agreement with Showa Shell Sekiyu K.K.)

Showa Shell Sekiyu K.K. ("Showa Shell") and Idemitsu Kosan Co., Ltd. ("Idemitsu Kosan") (collectively, the "Companies") have taken steps toward the business integration of the Companies since the Companies announced on July 30, 2015 that the Companies had entered full-scale discussions toward a business integration. On July 10, 2018, the Companies respectively held boards of directors meetings and executed an agreement regarding the business integration (the "Business Integration Agreement") as the best method of enhancing enterprise value, and the Companies decided to realize the business integration (the "Business Integration") on April 1, 2019, through procedures such as the execution of a share exchange agreement, by implementing a share exchange (the "Share Exchange"), in which Idemitsu Kosan will distribute its shares to shareholders of Showa Shell and acquire all of the issued shares of Showa Shell.

The Share Exchange is subject to the approval of the relevant domestic and foreign competition authorities. Also, the Companies aim to execute a share exchange agreement (the “Share Exchange Agreement”) by October 2018, and implement the Share Exchange subject to the approval of the Share Exchange Agreement at the extraordinary shareholders’ meetings of the Companies to be respectively held by December 2018.

(a) Purpose of the Business Integration

Showa Shell and Idemitsu Kosan intend to reinforce the enterprise value of the Companies by implementing the Business Integration, (i) in the short term, by maximizing the creation of synergies and aiming to create an entity with unparalleled competitiveness, and (ii) in the medium to long-term, by evolving in earnest to be a genuinely sustainable entity from the comprehensive perspective of business structure and initiatives concerning environment, society and governance.

(b) Outline of the Business Integration

a) Method and schedule for the Business Integration

The Companies will carry out the Share Exchange, subject to approval at the extraordinary shareholders’ meetings of the Companies to be held in December 2018. The share exchange ratio of the Share Exchange will be fairly determined through an agreement between the Companies, by using the respective share prices of Showa Shell and Idemitsu Kosan as the main criterion, and based on the results of due diligence reviews to be mutually carried out by Showa Shell and Idemitsu Kosan and the profit of the Companies’ shareholders, etc.

The Companies will proceed with the Business Integration according to the tentative schedule below. If it is necessary to amend the schedule because of notifications to the relevant authorities, etc. such as the procedures required by the relevant domestic and foreign competition authorities, registrations, acquisition of permissions/approvals, or other preparations for the Business Integration, or for other reasons, the Companies will announce the amended schedule upon mutual discussion and agreement.

Execution of the share exchange agreement (agreement of share exchange ratio)	October 2018 (scheduled)
Extraordinary shareholders’ meetings of Showa Shell and Idemitsu Kosan	December 2018 (scheduled)
Date of Delisting (Showa Shell)	March 29, 2019 (scheduled)
Effective date of the Share Exchange	April 1, 2019 (scheduled)

The Companies have agreed that if (i) the Share Exchange Agreement has not been executed by the end of March 2019, or (ii) the proposal to approve the Share Exchange Agreement is disapproved at the extraordinary shareholders’ meeting of either Showa Shell or Idemitsu Kosan, the Business Integration Agreement will become invalid.

b) Management structure after the Business Integration, etc.

(i) Initial directors and representative directors after the implementation of the Business Integration

- After the implementation of the Business Integration, the basic approach to select members of the board of directors at Idemitsu Kosan will be fair, merit-based and

based on “the right person in the right place” concept, regardless of the company of which such directors are from, in order to maximize the enterprise value of the Companies.

- As for the initial directors of Idemitsu Kosan after implementing the Business Integration, three candidates to be directors will be nominated by Showa Shell, and five candidates to be directors will be nominated by Idemitsu Kosan. Two candidates to be directors recommended by the major shareholders of Idemitsu Kosan are included in the candidates to be directors nominated by Idemitsu Kosan. However, candidates to be directors who will assume office as independent outside directors are not included in the abovementioned candidates to be directors.
- With regard to candidates to be directors nominated by Showa Shell and candidates to be directors recommended by the major shareholders of Idemitsu Kosan, at the extraordinary shareholders’ meeting concerning the approval of the Share Exchange Agreement, Idemitsu Kosan will submit proposals to appoint directors in which the candidates will assume office as Idemitsu Kosan’s directors on April 1, 2019, subject to a condition precedent that the Share Exchange becomes effective.
- With regard to the initial representative directors of Idemitsu Kosan after implementing the Business Integration, Showa Shell and Idemitsu Kosan will respectively nominate two candidates, and the candidates nominated by Showa Shell will assume office as the representative directors of Idemitsu Kosan on April 1, 2019.

(ii) Tradename

“Idemitsu Showa Shell” (written in Japanese Characters) is planned to be the tradename after the Business Integration is implemented. The actual operations of the tradename, including the tradename outside Japan, will be determined upon mutual discussion.

(iii) Existing brand

For a certain period after the Business Integration is implemented, the existing brand of the Companies will be used.

(iv) Corporate governance

With regard to the corporate governance structure of Idemitsu Kosan after the Business Integration is executed, the basic policy is that we will (i) actively adopt concepts indicated in the Corporate Governance Code, such as appointing four or more independent outside directors, (ii) ensuring transparent management by enhancing the monitoring function of the board of directors, and (iii) ensuring rapid and decisive business management by boldly transferring authority to the executives.

(v) Policy regarding organization structure and human affairs

- The Companies will promptly consult with each other and agree to an organization structure which aims to create a sense of coherent unity within the group of Showa Shell and Idemitsu Kosan, and realize the maximization of synergies.
- With regard to the initial executive officers (excluding general managers of refineries and complexes) in charge of the corporate departments and of two or more departments of the petroleum business, general managers, and branch

managers of Idemitsu Kosan after the Business Integration is implemented, the Companies will respectively appoint such persons in the same number, and as for those of other departments, the present structure will, in principle, be maintained with consideration for business continuity.

c) Shareholder return policy after the implementation of the Business Integration

Upon discussions, Showa Shell and Idemitsu Kosan will establish and announce, by the extraordinary shareholders' meetings of the Companies concerning the approval of the Share Exchange Agreement, a medium-term management plan for FY 2019 to FY 2021 (the "Fiscal Years subject to the Plan") after the Business Integration is implemented, which takes into account expected effects from the Share Exchange. Showa Shell and Idemitsu Kosan will show, in the medium-term management plan, certain amounts as the final profit objective (current net profit) for the Fiscal Years subject to the Plan, and the accumulated total amount of such amounts, which the Companies assume will be 500 billion yen or more.

After the Business Integration is implemented, separate from the acquisition of treasury shares as set forth in "Regarding Acquisition of Treasury Shares" below, Idemitsu Kosan will return the final profit for the Fiscal Years subject to the Plan to its shareholders at a certain rate, which is 50% or more (no less than 10% of such shareholder return will be allotted to the acquisition of treasury shares for each Fiscal Year subject to the Plan).

(Regarding Acquisition of Treasury Shares)

Idemitsu Kosan Co.,Ltd. ("we" or the "Company") resolved on its board of directors meeting on July 10, 2018, to acquire its treasury shares (the "Acquisition of Treasury Shares") as follows, pursuant to the Articles of Incorporation, under the provision of Article 459, paragraph 1 of the Companies Act of Japan. In addition, we will distribute all or part of the treasury shares to be acquired to shareholders (excluding the Company) of Showa Shell Sekiyu K.K. ("Showa Shell") on the occasion of a share exchange with Showa Shell.

(a) Purpose for the Acquisition of Treasury Shares

Through the Acquisition of Treasury Shares, we intend to improve the capital efficiency and earnings per share through the decrease in number of shares, as well as to increase profit return to the shareholders.

(b) Details of Acquisition

a) Type of shares to be acquired

Common shares of the Company

b) Aggregate number of shares to be acquired

12 million shares (upper limit)

(5.77% of the total number of the issued shares, excluding treasury shares)

c) Aggregate amount of purchase price

55 billion yen (upper limit)

d) Acquisition period

From July 17, 2018 to December 28, 2018

e) Acquisition method

Market purchase based on the discretionary dealing contract