

(English Translation)

**Consolidated Financial Results for the Fourth Quarter of Fiscal Year 2018**  
**(From 1 January to 31 December 2018)**

13 February 2019

**Listed Company Name:** Showa Shell Sekiyu K. K.      **Listed Stock Exchange:** Tokyo Stock Exchange 1st Section  
**Code Number:** 5002      **URL** <http://www.showa-shell.co.jp/english/index.html>  
**Delegate:** Title: Representative Director, President, Executive Officer, CEO      **Name:** Tsuyoshi Kameoka  
**Contact:** Title: Corporate Executive Officer, CFO      **Name:** Takashi Sakata      **Phone:** (03) 5531-5594  
**Expected date of quarterly report submission:** 14 February 2019  
**Expected date of dividend payment:** -  
**Supporting material for quarterly results:** Applicable  
**The briefing session of quarterly results:** Applicable (For analysts and institutional investors)

(Amount unit: Millions of yen, unless otherwise stated)  
(Fractions less than one million yen are rounded off.)

**1. Consolidated financial results for the Fourth Quarter of FY2018 (From 1 January to 31 December 2018)**

(Percentages represent changes from the same period of the previous year.)

**(1) Consolidated financial results**

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
		%		%		%		%
4Q FY2018	2,494,647	-	81,855	-	84,828	-	44,038	-
FY2017	2,045,936	18.5	78,477	69.1	92,973	94.3	42,751	152.7

(Note)

1. Comprehensive income      4Q FY2018: 45,228 million yen; ( - %)      FY2017: 47,768 million yen; ( 225.3 %)
2. FY2018 of the Company will be for 15 months. For this reason, changes from the same period of the previous year are not stated.
3. The results for the FY2017 covers 12 months.

	Earnings per share	Diluted earnings per share
	Yen	Yen
4Q FY2018	117.32	-
FY2017	113.51	-

**(2) Consolidated financial position**

	Total assets	Net assets	Net assets (excl. Non-controlling interests) to total assets
			%
4Q FY2018	1,033,026	291,647	26.2
FY2017	1,038,882	275,451	24.4

(Note) Net assets (excl. Non-controlling interests)

4Q FY2018: 270,751 million yen

FY2017: 253,364 million yen

**2. Dividends**

	Dividend per share					
	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of 4th Quarter	End of fiscal year	Total
	Yen	Yen	Yen	Yen	Yen	Yen
FY2017	-	19.00	-	-	21.00	40.00
FY2018	-	21.00	-	-	85.00	106.00

(Note) Revision of dividend forecast during this quarter: None

In accordance with the Revisions of the Company's Articles of Association approved in the 106<sup>th</sup> Annual General Meeting of Shareholders held on 28 March 2018, the record date of the year-end dividend has been changed to 31 March of each year, effective from the year-end dividend in 107<sup>th</sup> business year of the Company, which is the transitional period of the fiscal year change. In connection with the resolution of the 106<sup>th</sup> Annual General Meeting of Shareholders as of 28 March 2018 to change its accounting

period, the dividend forecast for the FY2018 ending on 31 March 2019 is the dividend corresponding to that of the transitional period of 15 months.

### 3. Forecast of consolidated financial results for FY2018 (From 1 January 2018 to 31 March 2019)

(Percentages represent changes from the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
		%		%		%		%	Yen
FY2018	3,000,000	-	75,000	-	80,000	-	25,000	-	66.60

(Note) Revision of forecast of consolidated results: Yes

In Accordance with the Revisions of the Company's Articles of Association approved in the 106<sup>th</sup> Annual General Meeting of Shareholders held on 28 March 2018, the 107<sup>th</sup> business year of the Company, which is the transitional period of the fiscal year change, will be for 15 months commencing on 1 January 2018 and ending on 31 March 2019. For this reason, changes from the same period of the previous year are not stated.

#### \* Notes

- (1) Changes in scope of significant consolidated subsidiaries during the period : None
- (2) Adoption of special accounting methods for preparing quarterly consolidated financial statements : None
- (3) Changes in accounting principles, accounting estimates and restatement
- a) Changes in accounting principles due to amendment of accounting standards : None
  - b) Changes in accounting principles due to the reason except a) : None
  - c) Changes in accounting estimates : None
  - d) Restatement : None

#### (4) Number of shares issued (Common shares)

a) Number of shares issued (including treasury shares):	End of 4Q FY2018 :	372,596,000	End of FY2017 :	376,850,400
b) Number of treasury shares:	End of 4Q FY2018 :	222,551	End of FY2017 :	221,026
c) Average number of shares issued:	4Q FY2018 :	375,387,194	FY2017 :	376,630,088

#### 【Reference】 Forecast of non-consolidated financial results

#### Forecast of non-consolidated financial results for FY2018 (From 1 January 2018 to 31 March 2019)

(Percentages represent changes from the same period of the previous year)

	Net sales		Ordinary income		Net income		Earnings per share
		%		%		%	Yen
FY2018	2,900,000	-	80,000	-	5,000	-	13.32

(Note)

In Accordance with the Revisions of the Company's Articles of Association approved in the 106<sup>th</sup> Annual General Meeting of Shareholders held on 28 March 2018, the 107<sup>th</sup> business year of the Company, which is the transitional period of the fiscal year change, will be for 15 months commencing on 1 January 2018 and ending on 31 March 2019. For this reason, changes from the same period of the previous year are not stated.

\* These quarterly results are not reviewed by Certified Public Accountant or Audit Firm in the quarterly review procedure.

\* Explanation regarding appropriate use of the business forecast, other special instructions

The business forecast above is based on the information available as of the date of the press release of the documents, and includes various risks and uncertainties. Actual results could differ from the business forecast due to changes in economic conditions, market trends, exchange rate and other factors. Please refer to "1. (3) Qualitative information concerning the forecast of consolidated financial results" in [Supporting material] on page 3.

## [Supporting material]

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## 1. Qualitative information concerning quarterly consolidated financial statements

### (1) Qualitative information concerning quarterly consolidated financial results

During the first twelve months of the fiscal year under review, Showa Shell Sekiyu Group (“the Group”) reported consolidated net sales of ¥2,494.6 billion, an increase of 21.9% compared to the same period a year ago. Consolidated operating income was ¥81.8 billion, an increase of ¥3.3 billion, and consolidated ordinary income was ¥84.8 billion, a decrease of ¥8.1 billion. The decline in consolidated ordinary income compared with the same period a year ago mainly resulted from an inventory valuation loss stemming from the rapid decline in the price of crude oil from October 2018 onward. The relevant consolidated ordinary income excluding the impact of inventory valuation was ¥74.1 billion, an increase of ¥5.6 billion compared to the same period a year ago.

(Crude oil prices and foreign exchange rate)

	Dubai crude oil price (USD/Barrel)	Exchange rate (JPY/USD)
FY2017 (From 1 January to 31 December 2017)	53.1	112.2
4Q of FY2018 (From 1 January to 31 December 2018)	69.7	110.4
Difference	16.6	(1.8)

(Note) These are the average figures during the period.

The business results by segment are as follows:

#### [Oil Business]

During the first twelve months of the fiscal year under review, operating income for the oil business, excluding the impact of inventory valuation was ¥80.4 billion, an increase of ¥20.1 billion compared to the same period a year ago. This increase mainly resulted from the improvement in the balance of supply and demand for oil products in the Japanese market achieved with the completion of the Secondary Sophistication Act. at the end of March 2017 and from comparison with last fiscal year, during which large-scale regular maintenance at the Yokkaichi Refinery was performed during the second quarter. However, operating income excluding the impact of inventory valuation during the fourth quarter shrank substantially from the 20-billion-yen level sustained for four consecutive quarters through the third quarter, to ¥1.0 billion. This mainly resulted from shrinking fuel margins in Japan which resulted from the rapid decline in the price of crude oil from October 2018 onward. This caused a time lag between the accounting cost and the cost on which wholesale fuel prices are based, leading to the less margin of the domestic fuel oils.

Utilization rate of the group refinery during the fourth quarter fell below the same period a year ago due to the regular maintenance at the Yokkaichi Refinery in October and November. However, if the impact of the regular maintenance is excluded, the operating rate would have outperformed the industry average. Total domestic sales volume for gasoline, diesel oil, kerosene and the rest of the four main fuel types decreased compared to the same period last year, while the retail sales volume surpassed the industry average in terms of year on year performance, where we are continuing to implement a differentiation strategy for products and services at service stations.

Mixed Xylene and other petrochemicals recorded growth in sales volume over the same period last year, owing to the contribution of Yokkaichi Refinery’s toluene disproportionation process (TDP) facilities which commenced commercial operations in June 2016, and comparison with last year, when the Yokkaichi Refinery ceased operation to undergo large-scale regular maintenance. Exports of gasoline and middle distillates recorded strong growth compared to last fiscal year, due to the regular maintenance at Yokkaichi Refinery mentioned above.

As a result of the above factors, the oil business reported net sales of ¥2,374.6 billion (an increase of 23.6 % year on year) and operating income of ¥91.0 billion (an increase of ¥6.2 billion year on year). The relevant operating income excluding the impact of inventory valuation reached ¥80.4 billion (an increase of ¥20.1 billion year on year).

#### [Energy Solutions Business]

In the solar business, we made progress on improving profitability by consolidating production, reducing material costs, and other means. However, the domestic environment for solar panels has deteriorated due to sluggish demand from reductions to the FIT (Feed-in Tariff) program and stiffening price competition. In such business environment, the sales of the previous model products, which led to a decline in average unit sales

price, and the provision of reserves for product warranties in designated projects resulted in an expansion in red ink during the fourth quarter compared with the same period last year.

In light of these conditions, we are pursuing greater cost reductions. We are also strengthening the alliance between the solar business and the highly compatible electric power business even more to generate new value for solar panels, and expanding the product line-up of energy solutions to improve profitability.

The electric power business contributed to the stable generation of profit by continuing the stable, high operating rate at the Group's power plants. We also expanded the sales areas in September 2017 and began selling to the Tohoku, Chubu, Chugoku, and Kyushu areas in stages, in addition to Tokyo Electric Power Company's existing supply area. We also began sales in the Kansai and Shikoku areas in March 2018, and are now actively selling to an area that covers 92% of total demand in Japan. We also expect a substantial increase in revenue over last year due to the conversion of the majority of the electric power generation at the Toa Oil Mizue Power Station to a retail operation from June 2018.

As a result of the above factors, the energy solutions business reported net sales of ¥111.1 billion (a decrease of 3.0% year on year) and an operating loss of ¥10.8 billion (a decrease of ¥3.0 billion in loss compared with the same period last year).

#### **[Other Business]**

The other business reported net sales of ¥8.8 billion and operating income of ¥1.6 billion.

### **(2) Qualitative information concerning quarterly consolidated financial position**

Consolidated total assets reached ¥1,033.0 billion at the end of the fourth quarter, a decrease of ¥5.8 billion from the end of the previous year.

Consolidated total liabilities were ¥741.3 billion, a decrease of ¥22.0 billion compared to the end of the previous fiscal year. Short- and long-term interest-bearing liabilities (borrowing, CP and bonds) were ¥126.2 billion, an increase of ¥8.8 billion from the end of the previous fiscal year.

Net assets were ¥291.6 billion, an increase of ¥16.1 billion from the end of the previous year. This was mainly due to increasing factors such as an increase in net profit, exceeded decreasing factors such as the distribution of retained earnings and share repurchase.

As a result, the capital adequacy ratio stood at 26.2% as of the end of the fourth quarter.

### **(3) Qualitative information concerning the forecast of consolidated financial results**

The 106<sup>th</sup> Annual General Meeting of Shareholders as of 28 March 2018 approved a change of accounting period. In connection with the approval, the fiscal year of the Company shall commence on 1 April and end on 31 March of each year, and the 107<sup>th</sup> business year of the Company, which is the transitional period of the fiscal year change, will be for 15 months commencing on 1 January 2018 and ending on 31 March 2019.

The forecasts of consolidated and non-consolidated financial results for FY2018 (from 1 January 2018 to 31 March 2019) that were announced on 9 August 2018 have been revised. Please refer to the Announcement of Revision in the Financial Forecasts for FY2018, which is released today for further details.

The business forecasts are based on information available at the time these materials were published and actual results may differ from the forecast due to various events that may occur in the future.

## 2. Quarterly consolidated financial statements and Notes

### (1) Quarterly consolidated balance sheet

(Unit: Millions of yen)

	Previous year end As of 31 December 2017	Current 4th quarter end As of 31 December 2018
<b>Assets</b>		
Current assets		
Cash and deposits	50,380	73,106
Notes and accounts receivable-trade	280,557	267,454
Merchandise and finished goods	98,938	105,625
Work in process	1,610	1,618
Raw materials and supplies	128,438	100,344
Other	36,463	38,179
Allowance for doubtful accounts	(881)	(879)
Total current assets	595,507	585,450
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	81,102	78,743
Machinery, equipment and vehicles, net	82,263	66,490
Land	139,601	140,812
Other, net	22,068	33,620
Total property, plant and equipment	325,035	319,667
Intangible assets	9,642	9,213
Investments and other assets		
Other	108,905	118,812
Allowance for doubtful accounts	(208)	(117)
Total investments and other assets	108,697	118,695
Total noncurrent assets	443,374	447,576
Total assets	1,038,882	1,033,026
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	276,597	247,977
Short-term loans payable	23,715	29,675
Current portion of bonds payable	-	10,000
Current portion of long-term loans payable	30,625	44,080
Accounts payable-other	164,665	151,595
Income taxes payable	12,737	23,825
Provision for damages to the submarine pipeline	5,502	-
Provision for bonuses	2,275	2,347
Other	52,074	55,681
Total current liabilities	568,193	565,183
Noncurrent liabilities		
Bonds payable	10,000	-
Long-term loans payable	53,116	42,543
Provision for special repairs	14,601	17,805
Liability for retirement benefits	87,801	84,646
Other	29,716	31,200
Total noncurrent liabilities	195,237	176,195
Total liabilities	763,430	741,379

(Unit: Millions of yen)

	Previous year end As of 31 December 2017	Current 4th quarter end As of 31 December 2018
Net assets		
Shareholders' equity		
Capital stock	34,197	34,197
Capital surplus	22,123	21,775
Retained earnings	202,083	220,331
Treasury stock	(188)	(191)
Total shareholders' equity	258,216	276,112
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	4,627	2,720
Unrealized gain (loss) from hedging instruments	(312)	69
Foreign currency translation adjustment	(62)	(184)
Retirement benefits liability adjustment	(9,105)	(7,966)
Total accumulated other comprehensive income	(4,852)	(5,360)
Non-controlling interests	22,087	20,895
Total net assets	275,451	291,647
Total liabilities and net assets	1,038,882	1,033,026

**(2) Quarterly consolidated statement of income and Quarterly consolidated statement of comprehensive income**  
**Quarterly consolidated statement of income**  
The Fourth Quarter

(Unit: Millions of yen)

	4th quarter of FY2018 (From 1 January to 31 December 2018)
Net sales	2,494,647
Cost of sales	2,301,948
Gross profit	192,699
Selling, general and administrative expenses	
Freightage related expenses	41,465
Personnel expenses	23,970
Other	45,408
Total selling, general and administrative expenses	110,844
Operating income	81,855
Non-operating income	
Interest income	222
Dividends income	896
Equity in earnings of affiliates	2,619
Foreign exchange gains	350
Other	1,967
Total non-operating income	6,056
Non-operating expenses	
Interest expenses	869
Sales discounts	1,332
Other	882
Total non-operating expenses	3,084
Ordinary income	84,828
Extraordinary income	
Gain on sales of noncurrent assets	1,342
Gain on sales of investments in securities	2,388
Subsidy	2,642
Gain on transfer from business divestiture	2,292
Other	171
Total extraordinary income	8,837
Extraordinary losses	
Loss on disposal of noncurrent assets	2,387
Impairment loss	14,395
Other	1,539
Total extraordinary losses	18,322
Income before income taxes and non-controlling interests	75,342
Income taxes-current	30,479
Income taxes-deferred	(853)
Total income taxes	29,625
Net income	45,716
Net income attributable to non-controlling interests	1,678
Net income attributable to owners of the parent	44,038



**Quarterly consolidated statement of comprehensive income**  
The Fourth Quarter

(Unit: Millions of yen)

4th quarter of FY2018  
(From 1 January to 31 December 2018)

Net income	45,716
Other comprehensive income	
Unrealized holding gain (loss) on securities	(1,973)
Unrealized gain (loss) from hedging instruments	376
Foreign currency translation adjustment	(121)
Remeasurements of defined benefit plans	1,001
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	228
Total other comprehensive income	(488)
Comprehensive income	45,228
Comprehensive income attributable to:	
Owners of the parent	43,530
Non-controlling interests	1,697

### (3) Quarterly Consolidated Statement of Cash Flows

(Unit: Millions of yen)

	4th quarter of FY2018 (From 1 January to 31 December 2018)
<b>Operating activities</b>	
Income before income taxes and non-controlling interests	75,342
Depreciation and amortization	24,990
Impairment loss	14,395
Loss (gain) on sales and disposal of noncurrent assets	1,044
Loss (gain) on sales of investments in securities	(2,388)
Equity in losses (earnings) of affiliates	(2,619)
Decrease (increase) in liability for retirement benefits	(1,665)
Interest and dividends income	(1,119)
Interest expense and sales discount	2,201
Decrease (increase) in notes and accounts receivable-trade	13,096
Decrease (increase) in inventories	21,620
Increase (decrease) in notes and accounts payable-trade	(29,795)
Increase (decrease) in accounts payable-other	(7,181)
Other, net	4,736
Subtotal	112,659
Interest and dividends received	1,122
Interest paid	(2,239)
Income taxes (paid) refunded	(21,409)
Net cash provided by (used in) operating activities	90,133
<b>Investing activities</b>	
Purchase of property, plant and equipment	(38,501)
Purchase of intangible assets	(1,187)
Proceeds from sales of property, plant and equipment	2,310
Net decrease (increase) in short-term loans receivable	2,074
Long-term loans made	(1,077)
Collection of long-term loans receivable	82
Purchase of affiliates' shares	(15,175)
Proceeds from sales of affiliates' shares	4,757
Payments for investments in capital	(1,201)
Proceeds from business divestiture	2,550
Other, net	(584)
Net cash used in investing activities	(45,952)
<b>Financing activities</b>	
Net increase (decrease) in short-term loans payable	5,960
Proceeds from long-term loans payable	33,530
Repayment of long-term loans payable	(30,648)
Purchase of treasury stock	(10,002)
Repayment of lease obligations	(1,032)
Cash dividends paid	(15,820)
Cash dividends paid to non-controlling shareholders	(1,540)
Purchase of subsidiaries' shares without changes in scope of consolidation	(1,754)
Others, net	(0)
Net cash used in financing activities	(21,309)
Effect of exchange rate changes on cash and cash equivalents	(146)
Net increase (decrease) in cash and cash equivalents	22,724
Cash and cash equivalents at the beginning of the period	48,773
Cash and cash equivalents at the end of the period	71,498

#### **(4) Notes to quarterly consolidated financial statements**

##### **(Notes for premises of going concern)**

Not applicable

##### **(Notes in case of significant changes in shareholders' equity)**

The Company repurchased 4,254,400 shares based on the resolution of the Board of Directors' meeting held on 9 August 2018. Besides, the Company cancelled 4,254,400 treasury shares as of 30 November 2018. As a result, capital surplus and retained earnings decreased by ¥ 28 million and ¥ 9,971 million, respectively during the fourth quarter of FY2018. The acquisition and cancellation of treasury stocks have led capital surplus, retained earnings, and treasury stocks to ¥ 21,775 million, ¥ 220,331 million, and ¥ 191 million, respectively at the end of the fourth quarter.

##### **(Changes in scope of significant consolidated subsidiaries during the period)**

Not applicable

##### **(Adoption of special accounting methods for preparing quarterly consolidated financial statements)**

Not applicable

##### **(Changes in accounting principles, accounting estimates and restatement)**

Not applicable

**(Additional information)****Business Integration with Idemitsu Kosan Co., Ltd.**

Showa Shell Sekiyu K.K. (the “Company”) and Idemitsu Kosan Co., Ltd. (“Idemitsu Kosan”) (collectively, the “Companies”) have continued discussions toward executing the share exchange agreement, regarding the business integration (the “Business Integration”) agreed by the Companies based on the Business Integration Agreement dated 10 July 2018. On 16 October 2018, the Companies respectively held Boards of Directors’ meetings, which resolved to execute an agreement (the “Share Exchange Agreement”) regarding the share exchange (the “Share Exchange”) in which Idemitsu Kosan will become a wholly owning parent company and the Company will become a wholly owned subsidiary company, subject to the approvals from the Companies’ shareholders’ meetings and the relevant authorities, and executed the Share Exchange Agreement.

In accordance with the press release of the Announcement Regarding Approvals by Competition Authorities for Business Integration dated 12 December 2018, the Companies have acquired all the approvals from the relevant authorities. Besides, in accordance with the press release of the Announcement Regarding Approvals of Share Exchange Agreement, etc. at Extraordinary General Meetings of Shareholders dated 18 December 2018, the Companies have acquired the approvals of the Share Exchange from the Companies’ respective extraordinary shareholders’ meetings.

**1. Outline of the Business Integration****(1) Purpose of the Business Integration**

The Company and Idemitsu Kosan intend to reinforce the enterprise value of the Companies by implementing the Business Integration through the Share Exchange, (i) in the short term, by maximizing synergies and aiming to create an entity with industry-leading competitiveness, and (ii) in the medium to long-term, by evolving into a resilient corporate entity through promoting the optimization of their business structure and of their environment, society and governance initiatives.

**(2) Method for the Business Integration**

The Companies will implement a share exchange on 1 April 2019 (scheduled) in which Idemitsu Kosan will distribute its shares to shareholders of the Company and acquire all of the issued shares of the Company.

**(3) Schedule for the Business Integration**

Execution of the Business Integration Agreement	10 July 2018
Resolution of Board of Directors’ meetings of the Companies concerning approval of the execution of the Share Exchange Agreement	16 October 2018
Execution of the Share Exchange Agreement (agreement on the share exchange ratio)	16 October 2018
Public notice of the record date of the Companies’ extraordinary shareholders’ meetings	17 October 2018
Record date of the Companies’ extraordinary shareholders’ meetings	1 November 2018
The Companies’ extraordinary shareholders’ meetings	18 December 2018
Last trading date (the Company)	26 March 2019 (scheduled)
Date of delisting (the Company)	27 March 2019 (scheduled)
Effective date of the Share Exchange	1 April 2019 (scheduled)

(Note) If it is necessary to amend the schedule because of notifications to the relevant authorities, etc. such as the procedures required by the relevant 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 discussions and agreement.

**(4) Details of allocation in the Share Exchange (the share exchange ratio)**

	Idemitsu Kosan	The Company
Share exchange ratio	1	0.41

**(Note 1) Share allocation ratio**

0.41 shares of Idemitsu Kosan common stock will be allocated for every one share of the Company common stock. If there are any material changes in the financial conditions or business performance of

the Company or Idemitsu Kosan, or such changes become evident, the Companies may amend the above share exchange ratio through mutual discussions.

(Note 2) Number of shares to be allocated through the Share Exchange

At the time of the Share Exchange, Idemitsu Kosan will allocate and deliver 105 million shares (planned) of common stock to the shareholders of the Company (meaning shareholders after the cancellation of the Company's treasury shares described below, and excluding the Company and Idemitsu Kosan) as of the time immediately before Idemitsu Kosan acquires all of the issued shares of the Company through the Share Exchange (the "Reference Time"). Idemitsu Kosan will, at the allotment and delivery of its shares, appropriate the treasury shares it holds, although the number of treasury shares to be appropriated has not been decided to date.

The Company will at the Reference Time cancel all treasury shares it holds as of the Reference Time (including shares to be acquired by the Company in response to dissenting shareholders' demands in relation to the Share Exchange to purchase their shares as stipulated in Article 785, paragraph 1 of the Companies Act) upon a resolution of the Company's Board of Directors' meeting to be held by the day immediately preceding the effective date of the Share Exchange (the "Effective Date"). The number of shares to be allocated and delivered through the Share Exchange may change due to change of the number of the Company's treasury shares and for other reasons.

Idemitsu Kosan held the Board of Directors' meeting on 10 July 2018, which resolved the share repurchase. In accordance with the resolution of the Board of Directors' meeting, Idemitsu Kosan repurchased 10,439,700 shares for ¥ 54,999 million until 9 November 2018, and completed the acquisition of treasury stocks on that day.

(Note 3) Treatment of shares constituting less than one unit

It is expected that some shareholders will hold shares constituting less than one unit (100 shares) of Idemitsu Kosan stock as a result of the Share Exchange. Such shareholders will not be able to sell such shares constituting less than one unit of Idemitsu Kosan on any financial instruments exchange markets.

Shareholders who will hold shares constituting less than one unit of Idemitsu Kosan may use the following systems on and after the Effective Date.

- i. System to demand purchase of shares constituting less than one unit (sale of shares constituting less than one unit)

Shareholders who will hold shares constituting less than one unit of Idemitsu Kosan stock may demand that Idemitsu Kosan purchase their shares constituting less than one unit pursuant to Article 192, paragraph 1 of the Companies Act.

- ii. System to further purchase shares constituting less than one unit (purchase shares required to constitute one unit)

Shareholders who will hold shares constituting less than one unit of Idemitsu Kosan stock may purchase from Idemitsu Kosan the number of shares required, together with the number of shares constituting less than one unit they hold, to constitute one unit (100 shares) pursuant to Article 194, paragraph 1 of the Companies Act and the relevant provision of Idemitsu Kosan's articles of incorporation.

(Note 4) Treatment of any fractional shares

For the current shareholders of the Company who will receive a fraction less than one share of Idemitsu Kosan stock upon the Share Exchange, Idemitsu Kosan will pay cash to each such shareholder for the value of such fractional shares pursuant to Article 234 of the Companies Act and other relevant laws and regulations.

(5) Voting rights of shareholders of the Company to whom Idemitsu Kosan's common stock will be allotted and delivered at the Share Exchange

Idemitsu Kosan's Board of Directors' meeting will resolve, by the Effective Date, to grant to shareholders of the Company to whom Idemitsu Kosan's common stock will be allotted and delivered at the Share Exchange, voting rights in relation to such Idemitsu Kosan's common stock which will be able to be exercised at its annual shareholders' meeting to be held in June 2019 pursuant to Article 124, paragraph 4 of the Companies Act, subject to a condition precedent that (i) the amendment to the Company's articles of incorporation, announced on 16 October 2018, in which the provision regarding the record date to exercise voting rights is

deleted, becomes effective, and (ii) the Share Exchange becomes effective.

## 2. Basis for the Calculation of the Share Exchange Ratio of the Share Exchange

### (1) Basis and reasons for the share exchange ratio

The Company and Idemitsu Kosan carefully negotiated and discussed the share exchange ratio, referring to the share exchange ratio calculated by third party financial advisors appointed by each company, using the respective share prices as the main criterion, and based on the results of due diligence reviews mutually carried out by the Companies and the profit of the Companies' shareholders, etc. After prudent and thorough discussions, the Companies have come to an agreement and concluded that the share exchange ratio described in 1. (4) above is appropriate.

### (2) Matters related to the calculation

Names of the financial advisors and their relationships with the Companies

In order to ensure the fairness of the share exchange ratio of the Share Exchange for each company's shareholders, each company appointed third party financial advisors for the calculation of the ratio. The Company retained Lazard Frères K.K. and Mizuho Securities Co., Ltd. ("Mizuho Securities"), and Idemitsu Kosan retained JPMorgan Securities Japan Co., Ltd., Goldman Sachs Japan Co., Ltd., and Daiwa Securities Co. Ltd. Although the Company and Idemitsu Kosan have obtained loans from a bank in Mizuho Securities' group, Mizuho Securities and its group banks have developed and implemented appropriate conflict of interest management systems in accordance with the applicable laws. As the Company determined that appropriate measures to prevent inappropriate practices had been implemented in connection with the calculation of the share exchange ratio, the Company retained Mizuho Securities as a third party financial advisor. None of the other third party financial advisors of the Company or Idemitsu Kosan has any material interest to be noted in connection with the Share Exchange.

## 3. Corporate name, Principal office, Names of Representative Directors, Capital, Net assets, Total assets and Description of business of the wholly owning parent company through the Share Exchange

Corporate name	Idemitsu Kosan Co., Ltd. (Trade Name: Idemitsu Showa Shell (planned))
Principal office	3-1-1 Marunouchi, Chiyoda-ku, Tokyo
Names of Representative Directors (planned)	<ul style="list-style-type: none"> <li>▪Chairman and Representative Director Takashi Tsukioka (currently, Chairman and Representative Director of Idemitsu Kosan Co., Ltd.)</li> <li>▪Vice Chairman and Representative Director, Executive Officer Tsuyoshi Kameoka (currently, Representative Director, President, Executive Officer, CEO of Showa Shell Sekiyu K.K.)</li> <li>▪Representative Director and Chief Executive Officer Shunichi Kito (currently, Representative Director and Chief Executive Officer of Idemitsu Kosan Co., Ltd.)</li> <li>▪Representative Director Tomonori Okada (currently, Representative Director, Vice President, Executive Officer of Showa Shell Sekiyu K.K.)</li> </ul>
Capital	¥ 168,351 million
Net assets	Not yet determined
Total Assets	Not yet determined
Description of business	<ul style="list-style-type: none"> <li>▪Petroleum refining and manufacture and sale of oil products.</li> <li>▪Manufacture and sale of petrochemical products</li> <li>▪Development, production, and sale of petroleum and coal resources</li> <li>▪Development, manufacture, and sale of electronic materials and agricultural chemicals, etc.</li> </ul>

**(Segment Information)****4th quarter of FY2018 (From 1 January to 31 December 2018)****(Unit: Millions of yen)**

	Oil Business	Energy Solutions Business	Subtotal	Others	Total	Adjustment	Consoli- dated
Net sales							
Sales to customers	2,374,659	111,102	2,485,762	8,885	2,494,647	-	2,494,647
Inter-segment sales and transfers	2,606	2,580	5,186	7,329	12,515	(12,515)	-
Total	2,377,265	113,682	2,490,948	16,215	2,507,163	(12,515)	2,494,647
Operating Income/(losses)	91,097	(10,851)	80,246	1,620	81,867	(11)	81,855

- Notes: 1. "Others" is a business segment that is not considered a reportable segment. It includes leases of properties, construction works, sales and leases of automobile accessories and others.
2. "Adjustment" of "Operating Income/(losses)" of ¥ (11) million is treated as intersegment eliminations.
3. "Operating Income/(loss)" is reconciled to operating income in the accompanying quarterly consolidated statements of income.