

(Translation)

Dear Shareholders:

**Matters Subject to Measures for Electronic Provision upon
Giving Notice of the 108th Ordinary General Meeting of
Shareholders**

Idemitsu Kosan Co., Ltd.

Major business offices and plants (as of March 31, 2023):

(i) The Company:

Category	Offices
Head office	2-1, Otemachi 1-chome, Chiyoda-ku, Tokyo
Refineries	Hokkaido (Tomakomai-shi)
Complexes	Chiba (Ichihara-shi), Tokuyama (Shunan-shi), Aichi (Chita-shi)
Branch Offices	Hokkaido Branch (Sapporo-shi), Tohoku Branch (Sendai-shi), Kanto First Branch (Chiyoda-ku, Tokyo), Kanto Second Branch (Chiyoda-ku, Tokyo), Chubu Branch (Nagoya-shi), Kansai Branch (Osaka-shi), Chugoku Branch (Hiroshima-shi), Kyushu Branch (Fukuoka-shi)
Overseas offices	Middle East (Abu Dhabi), Hanoi (Vietnam)
Laboratories	Advanced Technology Research Laboratories (Sodegaura-shi), Lubricants Research Laboratory (Ichihara-shi), Performance Materials Laboratories (Ichihara-shi)

(ii) Subsidiaries:

Name	Address
Idemitsu Tanker Co., Ltd.	Chiyoda-ku, Tokyo
SHOWA YOKKAICHI SEKIYU CO., LTD.	Yokkaichi-shi, Mie
TOA Oil Co., Ltd.	Kawasaki-shi, Kanagawa
Seibu Oil Company Limited	Chiyoda-ku, Tokyo
Idemitsu Retail Marketing Co., Ltd.	Chuo-ku, Tokyo
Idemitsu Supervising Co., Ltd.	Chiyoda-ku, Tokyo
IDEMITSU Energy Solutions Co. LTD.	Chiyoda-ku, Tokyo
IDEMITSU INTERNATIONAL (ASIA) PTE. LTD.	Singapore
IDEMITSU APOLLO CORPORATION	Sacramento, U.S.A.
Idemitsu Unitech Co., Ltd.	Minato-ku, Tokyo
SDS Biotech K.K.	Chiyoda-ku, Tokyo
RS Renewables K.K.	Chiyoda-ku, Tokyo
Idemitsu Gas Production (Vietnam) Co., Ltd.	Chiyoda-ku, Tokyo
IDEMITSU AUSTRALIA PTY LTD.	Brisbane, Australia
IDEMITSU ASIA PACIFIC PTE. LTD.	Singapore

Accounting auditors:

- (i) Names of the accounting auditors:

Deloitte Touche Tohmatsu LLC

- (ii) Amount of remuneration, etc. payable to the accounting auditors for the fiscal year under review:

	Amount of remuneration, etc.
Amount of remuneration, etc. payable to the accounting auditors for the fiscal year under review:	¥212 million
Total amount of money and other proprietary benefits payable to the accounting auditors by the Company and its subsidiaries:	¥465 million

- (Notes) 1. The amount of remuneration, etc. payable to the accounting auditors for audits under the Companies Act of Japan and the amount of remuneration, etc. payable for audits under the Financial Instruments and Exchange Act of Japan are not separated in the audit agreement between the Company and the accounting auditors. Hence, the above amount of remuneration, etc. payable to the accounting auditors for the fiscal year under review includes both amounts.
2. The total amount of money and other proprietary benefits payable to the accounting auditors by the Company and its subsidiaries includes remuneration for services (non-auditing services), which are not covered by Article 2, paragraph 1 of the Certified Public Accountant Act of Japan, entrusted to Deloitte Touche Tohmatsu LLC.
3. Among the important subsidiaries of the Company, the overseas subsidiaries were audited by a certified public accountant or audit firm (including those who have an equivalent certification in a foreign country) other than the Company's accounting auditors.

- (iii) Reasons for the Board of Statutory Auditors to consent to the remuneration, etc. of the accounting auditors:

The Board of Statutory Auditors obtained necessary materials and received reports from the relevant divisions of the Company and the accounting auditors, and confirmed and verified the content of the audit plan of the accounting auditors, the status of the execution of their account auditing duties, the basis for calculation of the remuneration estimate, etc. As a result, the Board of Statutory Auditors determined that the remuneration, etc. of the accounting auditors was appropriate and consented thereto pursuant to Article 399, paragraph 1 of the Companies Act of Japan.

- (iv) Content of non-auditing services:

The Company has paid the accounting auditors remuneration for services (non-auditing services), including the preparation of comfort letters, not covered by Article 2, paragraph 1 of the Certified Public Accountant Act of Japan.

- (v) Policy on the determination of dismissal or non-reappointment of the accounting auditors:

In the event that there arises any problem with the performance by the accounting auditors of their duties or otherwise the Board of Statutory Auditors considers it necessary, it shall take a procedure to dismiss or not to reappoint the accounting auditors pursuant to the Companies Act of Japan.

Systems to secure the properness of business activities (so-called “internal control systems”) and the summary of the status of the operation of the systems:

[Systems to secure the properness of business activities (so-called “internal control systems”)]

With regard to basic policies on internal control systems, the Board of Directors has adopted resolutions as described below, for the systems to secure the properness of business activities.

In addition, the Board of Directors checks whether the internal control systems have properly been established and operated and revises them to make them more effective.

- (i) Systems to secure the execution by the Directors and employees of the Company and its subsidiaries of their duties to comply with laws or ordinances and the Articles of Incorporation:
 - a) The Board of Directors of the Company shall, pursuant to the Regulations of the Board of Directors, determine important matters and supervise the execution of business.
 - b) Pursuant to the Compliance Regulations, the Company shall establish a Risk/Compliance Committee to monitor the appropriate response to compliance concerns reported to the hotline, etc., and to promote compliance activities for the Company and its subsidiaries.
 - c) Under the Code of Conduct for Compliance, the Company shall make use of the Compliance Book that sets action guidelines on compliance with law to raise awareness of compliance throughout the Group. In addition, the Company shall continuously provide education and training related to compliance throughout the Group.
 - d) The Company shall establish, and allow the employees, etc. of the Company and its subsidiaries in and outside Japan to make use of, compliance contact offices within and outside of the Company to help solve questions and problems with regard to compliance and to promptly identify, rectify and prevent any problems.
 - e) The Company shall make use of the General Affairs Department, which supervises and promotes structuring the internal control system and compliance activities of the entire company, and shall aim to strengthen coordination among management divisions and to reinforce initiatives to improve the maturity of internal controls.
 - f) The Internal Audit Office shall conduct audits to verify the appropriateness of business activities and the state of execution of business pursuant to the internal rules at each business division of the Company and its subsidiaries. In particular, the Company shall confirm the state of establishment and operation of the mechanism to prevent deficiencies and inappropriate activities related to quality assurance from occurring, and the control environment, by expanding the scope of the theme audit on “prevention measures for deficiencies and inappropriate activities related to quality assurance” to the overseas affiliated companies of the Group.

- (ii) Systems concerning storage and management of information on the execution by the Directors of the Company of their duties:

Information on the execution by the Directors of their duties shall be stored and managed pursuant to the Regulations of the Board of Directors, the Circular Decision Document Handling Rules and other internal rules.

- (iii) Regulations concerning management of exposure to the risk of loss of the Company and its subsidiaries and other systems:

- a) The Company shall establish an Enterprise Risk Management Committee with the President acting as the Committee Chair where issues including potential management risks are discussed to respond to risks by projecting changes in the environment and their impact.
- b) Pursuant to the Basic Manual for Risk Management, the Company shall establish a Risk/Compliance Committee to promote risk management activities.
- c) Pursuant to the Regulations on Measures upon Outbreak of Crisis and other internal rules, the Company shall take measures promptly and properly upon the outbreak of any serious crisis to the Company or any of its subsidiaries.
- d) The Company shall develop a Business Continuity Plan (BCP) for measures against an epicentral earthquake in the Tokyo metropolitan area, measures against a new type of influenza, etc., and exert group-wide efforts to implement, maintain and manage the BCP. The Company shall reflect findings and items to be improved in the BCP, which will be found through the planned disaster management drills to be implemented.
- e) Each department and affiliated company shall, pursuant to the Regulations on Internal Control and Self-Management, introduce sequentially the Voluntary Inspection WEB System (SELCHE), an assistance tool aimed at strengthening internal control by implementing self-managing PDCA, in relation to risks to the business, and establish a monitoring system.
- f) The Internal Audit Office shall, pursuant to the Internal Control Regulations, conduct audits to verify the state of risk management by each business division.

- (iv) Internal control over financial reporting:

- a) Pursuant to the Regulations on Evaluation of Internal Control over Financial Reporting, the Company shall establish a system to ensure reliability of financial reporting of the whole Group and ensure adequate improvement and administration of internal control on financial reporting.
- b) Pursuant to the regulations set forth in (a) above, the Company shall establish a Committee for Evaluation of Internal Control over Financial Reporting, which shall deliberate on and investigate matters concerning annual improvement and administration policies and evaluation plans, matters concerning the determination of the evaluation scope, matters concerning evaluation results, etc.
- c) The Internal Audit Office shall conduct periodic evaluation of the effectiveness of internal control, as well as necessary improvements thereof.

- (v) Severance of all relations with antisocial forces:
 - a) The Company shall deal with any person or group, including any crime syndicate and corporate racketeer, who engages in antisocial activities, violence and illegitimate demand in a resolute attitude and sever all relations therewith.
 - b) In the event that any antisocial force sets on, the Company shall resolutely refuse without giving in and act properly pursuant to the Manual for Measures against Antisocial Forces.

- (vi) Systems to secure efficient execution by the Directors of the Company of their duties:
 - a) To secure efficient execution of business, the Company shall have Executive Officers.
 - b) Pursuant to the Regulations of Sanctions and Powers and the Regulations of Execution of Business, the Company shall clearly define the roles and authorities of the Board of Directors, Representative Directors and other Directors.
 - c) Pursuant to the Regulations of the Management Committee, as a deliberative body to plan and deliberate on strategies for group management and for smooth and proper decision-making of business execution, the Company shall establish a Management Committee in which the President acts as the Committee Chair. The members shall be determined by the Committee Chair after deliberation by the Personnel Committee. The Management Committee shall meet three times a month, in principle.

- (vii) Systems to secure the properness of business activities of the corporate group comprised of the Company, its parent company and its subsidiaries:
 - a) In the Affiliated Companies Regulations, the Company shall stipulate that the supervising departments shall have the responsibility for managing affiliates, and shall clarify the roles and functions that the supervising departments shall perform. In addition, specific management matters, decision standards, and matters to be reported by affiliated companies shall be set forth in the Attached Table of Management Standards. The supervising departments and the affiliated companies shall make the necessary decisions and reports in accordance with the regulations above.
 - b) In the Affiliated Companies Regulations, the Company shall provide a fundamental policy to the effect that “transactions with affiliated companies shall be based on market prices, in principle”, to prevent conflicts of interest.
 - c) In the Affiliated Companies Regulations, the Company shall provide for the rules for selection of Directors and Statutory Auditors of its affiliated companies, pursuant to which the Directors of the Company shall not assume office of Directors of the affiliated companies, in principle.
 - d) Major affiliated companies shall build a system to strengthen management support and monitor functions related to internal controls of the affiliated companies by appointing full-time Statutory Auditors or receiving Statutory Auditors dispatched from the General Affairs Department, Management Consulting Group.
 - e) The Company shall improve operational efficiencies by utilizing the Group-standard IT infrastructures.

- f) The Quality Assurance division shall be an organizational structure that ensures its independence in light of the prevention of inappropriate activities, and that can comprehensively control product quality.
- (viii) Matters concerning the employees to assist the Statutory Auditors of the Company to execute their duties when the Statutory Auditors request the assignment thereof:

The Company shall, upon request from the Statutory Auditors, assign its employees as staff of the Board of Statutory Auditors' Secretariat to assist the Statutory Auditors to execute their duties.
- (ix) Matters to secure the independence of the employees set forth in (viii) above from the Directors and the effectiveness of directions given to the employees:
 - a) Staff at the Board of Statutory Auditors' Secretariat shall serve on a full-time basis. The final decision on personnel changes, evaluations, etc. of the Statutory Auditors' staff shall be subject to consent of the Statutory Auditors.
 - b) In the Organization Regulations, the Company shall provide for the duties of the Board of Statutory Auditors' Secretariat.
- (x) System for reporting by the Directors and employees of the Company and its subsidiaries and the Statutory Auditors of the subsidiaries to the Statutory Auditors (the Board of Statutory Auditors) of the Company and other systems for reporting to the Statutory Auditors of the Company:
 - a) The Directors, the Executive Officers, and the head of each department/office shall, pursuant to the Regulations of Execution of Business, report the specified matters to the Statutory Auditors.
 - b) The Internal Audit Office shall, pursuant to the Internal Audit Regulations, report the results of audits to the Statutory Auditors.
 - c) The Risk/Compliance Committee shall request the attendance of full-time Statutory Auditors as observers, and shall share the state of consultations and measures at the Compliance Contact Offices to the Statutory Auditors appropriately.
 - d) The Directors and employees of the Company, and the Directors, Statutory Auditors and employees of its subsidiaries shall promptly provide a report to the Statutory Auditors of the Company if there is, or they receive a report of any fact that may cause substantial damage to the Company or its subsidiaries, any material fact that violates any laws and regulations or the Articles of Incorporation, and the like. In addition, the Statutory Auditors of the subsidiaries shall report the matters related to the execution of their duties upon request of the Statutory Auditors of the Company.
- (xi) System to ensure the prevention of unfair treatment of the person who has given a report under (x) above because of such report:
 - a) It shall be prohibited to treat unfairly the person who has given a report under (x) above because of such report.
 - b) The Company shall stipulate in the Compliance Book, the Rules for Compliance Contact Offices, and the Contact Offices Usage Guidance for Employees that any person shall not be treated unfairly because of consulting with the Compliance Contact Offices and shall make it thoroughly educated through training and other sessions.

- (xii) Matters concerning the policy to pay expenses incurred by the Statutory Auditors in executing their duties:

All expenses necessary for the Statutory Auditors in performing their roles and duties, including audits of the execution by the Directors of their duties, election and dismissal of the accounting auditors, shall be borne by the Company.

- (xiii) Other systems to ensure effective audits by the Statutory Auditors (the Board of Statutory Auditors) of the Company:

- a) The Representative Directors shall hold a regular meeting with the Statutory Auditors quarterly, in principle.
- b) The Internal Audit Office shall closely coordinate and cooperate with the Statutory Auditors and the accounting auditors with regard to internal audit schedules, visiting audits, etc.

Note: The above system was resolved at the Board of Directors Meeting held on May 9, 2023, reflecting initiatives conducted with the intention of improving management efficiency and strengthening governance, such as strengthening measures for internal control related to quality.

[Summary of the status of the operation of the systems to secure the properness of business activities (so-called “internal control systems”)]

The Company, in accordance with the “systems to secure the properness of business activities (so-called “internal control systems”)” resolved by its Board of Directors, has established and operated the internal control systems of the Company and its subsidiaries.

The Company plans to revise the “systems to secure the properness of business activities (so-called “internal control systems”)” every year after the institution thereof. During the fiscal year under review, the Company operated the systems pursuant to the resolution made at the Board of Directors Meeting held in May 2022.

Major activities for internal control that were considered important during the fiscal year under review are as described below:

- (i) Activities for compliance:
 - a) The Risk/Compliance Committee held six meetings pursuant to the Risk/Compliance Committee Regulations. In addition, a promotion system was established in all workplaces by the responsible person for compliance promotion, and the managers and the person in charge of compliance promotion in order to spread and promote the Compliance Code of Conduct.
 - b) The Company has exerted its efforts to raise awareness of compliance by disseminating the Compliance Book and compliance-related cases in and outside of the Company through training sessions for its business offices and subsidiaries nationwide, training sessions for new employees and training sessions for new managers, as well as by utilizing the Compliance Room, a portal site set up on the intranet. During the fiscal year under review, the Company conducted e-learning regarding compliance for all employees and management of the Company and its subsidiaries. In addition, the Company conducted questionnaires regarding the Compliance Code of Conduct.
 - a) The details of consultations handled and measures taken by the Compliance Contact Offices established internally and externally have been reported to the Risk/Compliance Committee and shared with the full-time Statutory Auditors, and the Risk/Compliance Committee provides advice on and monitors the responses to each case and measures to prevent recurrences. In addition, following the inspection results relating to inappropriate activity regarding product testing at the Company’s subsidiaries (the “Inappropriate Activity”), which was published in the “Announcement on the Company’s action taken against the Inspection Results relating to Inappropriate Activity regarding Product Testing at Our Subsidiaries” dated September 22, 2022, the Company again disseminated maintenance of confidentiality of whistleblowers, prohibition of disadvantageous measures, and other matters, as well as the existence of the whistleblowing system.

(ii) Activities for risk management:

- a) The Enterprise Risk Management Committee, chaired by the President, predicts changes in the internal and external environment and the impact of their risks from a managerial viewpoint and discusses how to respond to them. In addition, the Risk/Compliance Committee confirms the status of formulation and implementation of a plan to prevent occurrence of a crisis, select accident insurance coverage, establish the BCP, prevent increase of risks, and respond to new risks. For the fiscal year under review, the Company identified fire and explosion risks, information-related risks, quality assurance risks, environmental pollution risks, etc. as Material Risks that require group-wide continued monitoring and made efforts to control these risks, in connection with which the Risk/Compliance Committee held five meetings.
- b) For the purpose of risk management, the Company has focused its efforts on requiring an immediate report from a department in which any business risks arise on a Bad-News First basis as soon as the business risks (accidents, disasters, violations or other risks) are recognized and taking a group-wide countermeasure in an early stage with the assistance of the Risk/Compliance Committee to prevent such risks from enlarging. Furthermore, the Company ensures that examples and countermeasures to prevent business risks from arising are horizontally shared by the Overseas Administration Contact Offices established for employees stationed overseas.
- c) Following the inspection results relating to the Inappropriate Activity, from the perspective of preventing expansion of the quality assurance risk, the Company provided technical education, a study session on the Inappropriate Activity, and the like to those employees engaging in quality work in each workplace. In addition, the Company held lecture sessions aimed at promoting understanding of the importance of quality to each level of employees.
- d) With regard to the Business Continuity Plan (BCP) instituted for measures against an epicentral earthquake in the Tokyo metropolitan area, an immense earthquake in the Nankai Trough area and a new type of influenza, the Company updates this plan every year to ensure its effectiveness. In the fiscal year 2022, the Company enhanced its action plan at its refineries and complexes. In addition, the Company conducted e-learning regarding an initial response in the event of an earthquake for those employees who work at the Head Office, in order to improve their crisis readiness capabilities.
- e) The Company conducted comprehensive disaster management drills that assume a half-split case in the event of an immense earthquake in the Nankai Trough area, to confirm responses associated with issuing temporary information. In addition, the Company conducted a soup kitchen drill in the event of employees having difficulty returning home, and established a manual on moving to an alternative location where the task group headquarters are set up, and conducted a drill to walk to and gather in the garage of buses used for transportation.
- f) The Company established the task force headquarters for COVID-19 in February 2020, and it has executed measures to prevent the spread of infection in response to the requirements of national and municipal government, such as efforts in the workplace vaccination program, throughout the Group, while fulfilling its mission as an energy supply company.

- g) For the purpose of strengthening the IT security system, the Company conducted a voluntary inspection of the system of information and control, a security audit, and enhancement of the response system for the occurrence of a security incident.
- h) In order to ascertain and respond to the sign of any material risk emerging, and a new risk, the Company defined and established the quasi-third task group headquarters as a crisis response headquarters system in September 2022, and revised the relevant regulations.

(iii) Measures to ensure effective audits by the Statutory Auditors:

- a) The Representative Directors have regular quarterly meetings with the Statutory Auditors. In addition, through important meetings, such as sessions of the Management Committee and the Risk/Compliance Committee, the Company has shared various issues with the Statutory Auditors, including issues regarding compliance and risk management.

Furthermore, the Company has exerted its efforts to enhance cooperation between the Statutory Auditors of the Company and the Statutory Auditors of its subsidiaries and affiliated companies, and other relevant persons, and to strengthen cooperation through regular meetings between the Outside Statutory Auditors and Outside Directors.

- b) In order to enhance the effectiveness of audits by the Statutory Auditors, the Internal Audit Office has strived to strengthen cooperation with the Statutory Auditors by enhancing information exchange and other measures, and to enhance opportunities to visit its business offices and subsidiaries in and outside of Japan by the full-time Statutory Auditors, as well as the Outside Statutory Auditors.

(iv) Measures for internal audits:

- a) In the fiscal year 2022, the Company conducted internal audits and assessments of internal controls mainly on-site and also online amid the continued effects of COVID-19.
- b) In accordance with its annual internal audit plan, the Company has specified the “status of achievement of management targets”, “plans to prevent and mitigate risks”, “status of compliance” and “effectiveness and efficiency of business operations” as key items of internal audits and conducted internal audits of its business offices and subsidiaries in and outside of Japan. During the fiscal year under review, by prioritizing departments such as those having high internal control risks and taking into account departments such as those having key issues in the medium-term plan, internal audits of 21 departments, comprising of both domestic and overseas departments (including three audits in collaboration with the U.S. subsidiary Idemitsu Americas Holdings). In addition, the Company conducted two internal audits in order to confirm and assess the theme that may have a significant impact on its management, such as quality assurance, throughout the Group. In particular, in the theme audit on “measures for prevention of deficiencies and inappropriate activities related to quality assurance,” the Company confirmed the state of establishment and operation of a mechanism to prevent occurrence of deficiencies and inappropriate activities related to quality assurance, and the control environment which may induce deficiencies and inappropriate activities, within the Group in Japan.
- c) With regard to internal control over financial reporting, the Company has evaluated the status of establishment and operation of the systems and schemes (group-wide internal control) and the status of documentation and operation of business processes (business process control) and has obtained confirmation from the Committee for Evaluation of Internal Control over Financial Reporting. Particularly, the Company reasonably reviewed the evaluation scope and conducted efficient evaluation according to each risk in the fiscal year under review.

(v) Measures for management of subsidiaries:

- a) Based on the Affiliated Companies Regulations and the Schedule of Management Standards, decisions on important Group matters related to affiliated companies are made appropriately by designated decision-makers after careful deliberation by the Investment and Loan Committee, the Management Committee, etc.
- b) Full-time Statutory Auditors are appointed at major affiliates, or part-time officers (Statutory Auditors and Directors) are dispatched from Management Consulting Group established in the General Affairs Department to major affiliates for the purpose of strengthening governance and reducing risk. These officers share information with the Company’s Statutory Auditors and accounting auditors to enhance the effectiveness of audits. Furthermore, for the purpose of strengthening the internal control of subsidiaries, the Company promoted introduction of the Voluntary Inspection WEB System (SELCHE) for self-managing PDCA.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, ETC.

(April 1, 2022 to March 31, 2023)

(million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stocks	Total shareholders' equity
Balance at April 1, 2022	168,351	460,507	645,330	(1,883)	1,272,306
Changes during the year					
Capital surplus (goodwill)		(8,865)			(8,865)
Dividends from surplus			(50,629)		(50,629)
Net income attributable to owners of the parent			253,646		253,646
Acquisitions of treasury stock				(13,091)	(13,091)
Disposals of treasury stock		(0)		186	187
Reversal of revaluation difference of land			562		562
Change in items other than shareholders' equity during the year (net)					
Total changes during the year	—	(8,865)	203,579	(12,904)	181,809
Balance at March 31, 2023	168,351	451,642	848,910	(14,788)	1,454,116

	Accumulated other comprehensive income						Noncontrolling interests	Total net assets
	Unrealized holding gains on other securities	Deferred gains (loss) on hedges	Revaluation difference of land	Translation adjustments	Retirement benefit liability adjustment	Total accumulated other comprehensive income		
Balance at April 1, 2022	3,443	(5,236)	157,154	(26,762)	11,196	139,795	24,410	1,436,512
Changes during the year								
Capital surplus (goodwill)								(8,865)
Dividends from surplus								(50,629)
Net income attributable to owners of the parent								253,646
Acquisitions of treasury stock								(13,091)
Disposals of treasury stock								187
Reversal of revaluation difference of land			(562)			(562)		—
Change in items other than shareholders' equity during the year (net)	475	(1,194)	(1,949)	22,191	1,656	21,178	(9,629)	11,548
Total changes during the year	475	(1,194)	(2,512)	22,191	1,656	20,615	(9,629)	192,795
Balance at March 31, 2023	3,918	(6,431)	154,641	(4,571)	12,853	160,410	14,781	1,629,308

(Note) Figures are indicated by discarding fractions less than one million yen.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Important matters forming the basis of preparation of consolidated financial statements

(1) Matters concerning the scope of consolidation

(i) Consolidated subsidiaries:

- Number of consolidated subsidiaries: 120 companies
- Names of major consolidated subsidiaries:
 - Idemitsu Tanker Co., Ltd.
 - SHOWA YOKKAICHI SEKIYU CO., LTD.
 - TOA Oil Co., Ltd.
 - Seibu Oil Company Limited
 - Idemitsu Retail Marketing Co., Ltd.
 - Idemitsu Supervising Co., Ltd.
 - IDEMITSU Energy Solutions Co. LTD.
 - IDEMITSU INTERNATIONAL (ASIA) PTE.LTD.
 - IDEMITSU APOLLO CORPORATION
 - Idemitsu Unitech Co., Ltd.
 - SDS Biotech K.K.
 - RS Renewables K.K.
 - Idemitsu Gas Production (Vietnam) Co., Ltd.
 - IDEMITSU AUSTRALIA PTY LTD.
 - IDEMITSU ASIA PACIFIC PTE. LTD.

(ii) Non-consolidated subsidiaries:

- Name of major non-consolidated subsidiary:
 - Idemitsu Lube Techno Co., Ltd.
- Reason for excluding the non-consolidated subsidiaries from the scope of consolidation:

The scale of business conducted by each of the non-consolidated subsidiaries is small, and the total assets, net sales, net income or loss (based on the Company's equity interest) and retained earnings (based on the Company's equity interest) of each non-consolidated subsidiary do not have a material impact on the consolidated financial statements.

(iii) Company in which the Company holds a majority of voting rights but which is not treated as a subsidiary:

- Name of the company: Astomos Energy Corporation
- Reason for not treating it as a subsidiary:

Astomos Energy Corporation has been determined to be a jointly controlled company pursuant to Article 175 of the "Implementation Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures" (the Accounting Standards Board of Japan ("ASBJ") Accounting Standard Implementation Guidance No. 10) and excluded from the scope of consolidation to apply the accounting method similar to the equity method.

(2) Matters concerning the application of the equity method

(i) Non-consolidated subsidiaries and affiliates to which the equity method is applied:

- Number of non-consolidated subsidiaries or affiliates to which the equity method is applied: 24 companies
- Names of the major companies: Astomos Energy Corporation
Idemitsu Credit Co., Ltd.
Prime Polymer Co., Ltd.
Nghì Son Refinery and Petrochemical LLC
INPEX Norway Co., Ltd.

(ii) Non-consolidated subsidiaries and affiliates to which the equity method is not applied:

- Names of the major companies, etc.: Union Sekiyu Kogyo Co., Ltd.
Kuo Horng Co., Ltd.
- Reason for not applying the equity method to such companies:

The net income or loss (based on the Company's equity interest) and retained earnings (based on the Company's equity interest) of each company have no significant impact on the consolidated financial statements and is of no importance in general.

(iii) Special matter concerning the procedure to apply the equity method:

With regard to the equity method companies whose balance sheet dates do not correspond to the consolidated balance sheet date, the financial statements for the fiscal years of such equity method companies are used.

(3) Matters concerning changes in the scope of consolidation and the scope of application of the equity method

(i) Change in the scope of consolidation:

- Number of new consolidated subsidiaries: Eight companies
- Names of the new consolidated subsidiaries: Seibu Oil Company Limited and seven other companies

Seibu Oil Company Limited has been reclassified as a consolidated subsidiary from an equity method company due to additional acquisition of its shares.
- Number of subsidiaries excluded from the scope of consolidation: Four companies
- Names of the subsidiaries excluded from the scope of consolidation: Idemitsu Canada Corporation and three other companies

Idemitsu Canada Corporation is excluded from the scope of consolidation as a result of its liquidation.

(ii) Change in the scope of application of the equity method:

- Number of new equity method companies: None
- Number of companies excluded from the scope of equity method: Two companies
- Name of companies excluded from the scope of equity method: Seibu Oil Company Limited
Petrogas Energy Corp.

Seibu Oil Company Limited has been reclassified as a consolidated subsidiary as a result of the additional acquisition of its shares. Petrogas Energy Corp. is excluded from the scope of the equity method company as a result of the sale of its shares.

(4) Matters concerning the fiscal years of consolidated subsidiaries

With regard to any consolidated subsidiary whose balance sheet date does not correspond to the consolidated balance sheet date, the financial statements for the fiscal year of such consolidated subsidiary are used. However, with regard to any important transaction that took place after the end of the relevant fiscal year and prior to the consolidated balance sheet date, necessary adjustments are made for the purpose of preparation of the consolidated financial statements.

(5) Notes on accounting policies

(i) Basis and method of valuation of major assets:

(a) Basis and method of valuation of securities:

Bonds to be held to maturity: At amortized cost (straight-line method)

Subsidiaries' stock and affiliates' stock:

At cost, determined by the moving average method

Other securities:

- Securities other than those without market value: At market value, implementing the use of the market price at each reporting date (valuation differences are included directly in net assets, and costs of securities sold are determined by the moving average method, in principle).
- Those without market value: At cost, determined by the moving average method

(b) Basis and method of evaluation of inventories:

At cost, determined by the gross average method, in principle

The balance sheet values are calculated by the write-down method based on declined margins.

(c) Basis and method of evaluation of derivatives:

At market value

(ii) Method of depreciation of important depreciable assets:

(a) Tangible fixed assets
(excluding lease assets):

By the straight-line method, in principle.

(b) Intangible fixed assets
(excluding lease assets):

By the straight-line method, in principle; provided, however, that software for internal use is amortized by the straight-line method on the estimated useful life of internal use (five years).
Customer-related assets are amortized by the straight-line method on useful lives (20 years).

(c) Lease assets:

By the straight-line method on the assumption that the lease period is the useful life of the property and the residual value is zero.

(iii) Basis for accounting for important allowances and reserves:

- (a) Allowance for doubtful accounts: To meet losses from loan default, the Company sets aside an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of specific claims, such as probable non-performing credits.
- (b) Allowance for bonuses: To meet the payment of bonuses to employees, the Company sets aside the portion for the consolidated fiscal year under review of an estimated amount of bonuses to be paid in the future.
- (c) Reserve for repair works: To meet the payment for repair expenses in the future, the Company sets aside the portion until the consolidated fiscal year under review of an amount of expenses of inspection and repair to be defrayed in respect of the oil tanks and machinery and equipment and vessels that require periodic repairs in the future.

(iv) Standards for recognition of important revenue and expenses

The content of primary obligations in the major business in relation to revenue generated from contracts with customers of the Company and its consolidated subsidiaries, and the normal time when the obligations are fulfilled (the normal time when the revenue is recognized) are as follows:

(a) Sale of products:

The petroleum segment produces and sells refined petroleum products, the basic chemicals segment produces and sells olefin/aroma products, and the functional materials segment produces and sells lubricants, performance chemicals, etc. The resources segment explores, develops, produces, and sells crude oil, natural gas, and other energy resources such as coals.

With respect to these sales, the legal ownership and physical possession right to the products, and important risks associated with owning the products, and economic values are transferred to customers when control over the products is transferred to the customers, i.e., upon delivery of the products to the customers. Furthermore, the Company obtains the right to receive consideration for the products from its customers; therefore, the revenue is recognized at that time. In addition, the revenue is recognized based on the transaction prices under the contracts with the customers; with respect to transactions in which the role of the Company and its subsidiaries is an agent, the transaction prices are calculated based on the net amount, namely the amount received from customers less payments to suppliers. The tax amount that is deemed to be collected as an agent such as those imposed at the time of sale, like value-added tax and the light oil delivery tax, are presented in net amount but not included in the sales. On the other hand, the tax amount, like gasoline tax, which is imposed in the process before sale and included in the sales amount, is included in the sales. Considerations for transactions include no material financial components because they are received within one year after delivery of the products. Regarding variable considerations including variable discounts, the amount of consideration to which the Company and its consolidated subsidiaries will obtain the rights are estimated using all reasonably available information including past, current, and expectation; and the sales are recognized only within the scope where material reversion is very unlikely to occur.

- (b) Construction contract: The petroleum segment designs and constructs oil-related facilities.
- With respect to a construction contract whose obligations are fulfilled over a certain period, the control over the assets is transferred to customers in accordance with the progress of construction; therefore, the revenue is recognized over the relevant construction period. The degree of progress is measured based on the ratio of expenses incurred to fulfill the obligations to the total expenses expected to fulfill the obligations. If expenses incurred are expected to be collected while the degree of progress related to the fulfillment of the obligations cannot be reasonably estimated, the revenue is recognized based on the cost collection standards.
- (c) Sale of electricity: The power and renewable energy segment conducts power generation (thermal power, solar power, wind power, etc.), sales of electricity, and solar cell business.
- Regarding the revenue pertaining to sales of electricity, fees are measured by monthly meter reading; and the fees then calculated are recognized as the revenue generated for the relevant month. In addition, the revenue generated between the date of the first date in the settlement month and the settlement date are estimated from the result of the meter reading conducted in the settlement month, and the revenue according to the accounting period is recorded. The revenue is recognized based on the transaction prices under contracts with customers; and the consideration for the transaction includes no material financial components because it is received within one year after delivery of the products.
- (d) Maintenance service: The power and renewable energy segment provides solar cell maintenance services.
- The Company considers the provision of those maintenance services to be a performance obligation to be satisfied over a certain period of time pursuant to the respective maintenance agreements with customers. Accordingly, the Company has estimated the progress of satisfaction of the performance obligation and recognizes revenue based on this progress.

(v) Method of important hedge accounting

(a) Method of hedge accounting: Deferral hedge accounting is applied. Exceptional accounting treatment (*tokurei shori*) is applied to interest rate swap contracts that satisfy the requirements thereof.

(b) Hedging instruments and hedged items:

Hedging instruments: Forward exchange contracts, currency option transactions, loans payable denominated in foreign currencies, crude oil and petroleum products swap transactions, futures transactions, coal swap transactions, interest rate swaps, interest rate and currency swaps, and option transactions.

Hedged items: Foreign currency receivables and payables, forecasted foreign currency transactions, purchase and sale of crude oil and petroleum products, purchase and sale of coal, and debts payable.

(c) Hedging policy: The Company and some of its consolidated subsidiaries, in accordance with their respective rules, carry out hedge transactions within the scope of actual requirements to hedge risk of price changes, interest rate and currency fluctuations with regard to the hedged items.

(d) Method of evaluating the effectiveness of a hedge:

The method of evaluating the effectiveness of a hedge is to confirm the compliance of the hedging instruments with the hedged items. No evaluation is made as to the effectiveness of any transaction in which important conditions are common for the hedged assets and liabilities or scheduled transactions and price changes or cash flow changes are assumed in advance to be offset upon the commencement of the hedging and continue to be offset thereafter.

(Hedging to which the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR is applied)

The Company applies exceptional treatment, as provided in the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR (Practical Solution No. 40, March 17, 2022), to all hedging included in the scope of the application thereof. Details of hedging to which the Practical Solution is applied are as set forth below.

Method of hedge accounting:	Deferral hedge accounting, and exceptional accounting treatment for interest rate swaps
Hedging instruments:	Interest rate swaps
Hedged items:	Interest on loans payable
Types of hedge transactions:	Transactions that fix cash flows

(vi) Amortization of goodwill:

Goodwill is amortized using the straight-line method over the estimated useful life of goodwill (five years to 20 years).

(vii) Other important matters forming the basis of preparation of consolidated financial statements:

(a) Basis of translation of assets and liabilities denominated in foreign currencies into the Japanese currency:

Foreign currency receivables and payables are translated into Japanese yen at the spot rate prevailing on the consolidated balance sheet date and translation differences are treated as gains and losses. Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the spot rate prevailing on the consolidated balance sheet date. Income and expenses are translated into Japanese yen at the average rate for the period and translation differences are included in translation adjustments and noncontrolling interests under the net assets section on the consolidated balance sheet.

(b) Basis of accounting for liability for employees' retirement benefits:

To meet the payment of retirement benefits to employees, the Company provides an amount obtained by deducting the amount of plan assets from retirement benefit obligations, based on their respective estimated amounts as of the end of the consolidated fiscal year under review, as a liability for employees' retirement benefits. Actuarial differences are treated as expenses, based on the straight line method for a specific period of years (ten years to fourteen years) not exceeding the average remaining years of service of employees, from the consolidated fiscal year next following the consolidated fiscal year when such differences occur. Prior year service liabilities are treated as expenses in a lump sum during the consolidated fiscal year when such liabilities occur.

Unrecognized actuarial differences, after adjusting for taxes, are recognized as a retirement benefit liability adjustment under accumulated other comprehensive income in the net assets section.

(c) Accounting treatment of deferred assets:

Bond issuance expenses and stock issuance expenses are all treated as expenses upon payment thereof.

(6) Change in accounting policies

(Application of Accounting Standard for Fair Value Measurement)

Effective April 1, 2022, the Idemitsu Group applied “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; the “Fair Value Accounting Standard Implementation Guidance”). In accordance with the transitional provision set forth in Article 27-2 of the Fair Value Accounting Standard Implementation Guidance, the Idemitsu Group prospectively applied a new accounting policy prescribed by the Fair Value Accounting Standard Implementation Guidance. This application has no impact on the consolidated financial statements.

(Leases: ASU2016-02)

The aforementioned accounting standards require, as a general rule, that lessees recognize assets and liabilities for all leases, among other requirements. The Company applies these standards to its overseas consolidated subsidiaries in the United States. However, the application of these standards has no significant impact on the consolidated financial statements.

(7) Change in presentation methods

(Consolidated statement of income)

“Loss on valuation of subsidiaries and affiliates” that was presented by being included in “Others” of “Extraordinary expenses” in the consolidated fiscal year 2021 is stated separately from the consolidated fiscal year under review due to its increased monetary importance.

“Loss on valuation of subsidiaries and affiliates” for the consolidated fiscal year 2021 was ¥130 million.

Furthermore, “Loss on valuation of investment securities” that was stated separately in and before the consolidated fiscal year 2021 (which is ¥122 million for the consolidated fiscal year under review) is presented by being included in “Others” of “Extraordinary expenses” from the consolidated fiscal year under review due to lack of monetary importance.

(8) Notes on accounting estimates

The consolidated financial statements of the Company include management’s estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based on management’s best judgments, taking into account past financial results, various factors considered to be reasonable as of the end of the consolidated fiscal year, and other considerations. Due to their inherent nature, actual results may differ from these estimates and assumptions.

Items that may have a significant impact on the consolidated financial statements of the Company are as follows.

We consider that there will be no material impact of COVID-19 on our accounting estimates.

(i) Valuation of equity-method investments and loans to equity-method affiliates

As to Nghi Son Refinery and Petrochemical LLC (“NSRP”), an equity-method affiliate of the Company, the Company has an equity interest and loans receivable and provides funding through loans and disbursements on behalf of NSRP via consolidated subsidiaries. NSRP’s financial performance is reflected in the Company’s consolidated financial statements through equity in earnings (losses) of affiliates. Also, NSRP’s financial position and performance have an impact on the fair value and the collectability of long-term loans, and the collectability of receivables from the disbursements, whose changes are reflected in net income in the Company’s consolidated financial statements. The amounts and the line items of the equity interest, the loans and the disbursements recorded in the consolidated balance sheet are as follows:

	Line item	Amount (million yen)
Equity interest	Investment securities	-
Loans	Long-term loans receivable	13,325
Disbursements on behalf of NSRP	Accounts receivable, other	120,520

Until the previous fiscal year, NSRP had continuously recorded operating loss due to lower refinery utilization rates it initially experienced and unfavorable market conditions on product margins subsequent to the commencement of commercial operation. During the current fiscal year, although NSRP recorded operating income due to improved market conditions, financial costs arising from increased amount of borrowings led NSRP to recognizing net loss, similar to the preceding fiscal years. Since the history of the net loss indicated that its fixed assets subject to impairment test may be impaired, NSRP performed an impairment test on such assets. As the recoverable amount of the fixed assets, which had been calculated based on their value in use, exceeded their carrying amount of ¥797,617 million recorded in its balance sheet, NSRP did not record an impairment loss on the fixed assets.

In preparing the Company’s consolidated financial statements, the Company measured the fair value and assessed the collectability of the long-term loans. As a result, as to the long-term loans, the Company concluded that neither gain or loss on valuation nor an allowance for doubtful accounts was to be recorded during this fiscal year.

The value in use and the fair value based on estimated future cash flows were calculated by applying NSRP’s future business plan and involve the use of certain assumptions such as discount rates, product margins and asset utilization rates. These assumptions were determined based on NSRP’s financial performance and forecasts on external factors such as supply-demand balance, geopolitical risks and response measures to climate change. The changes in these assumptions may have a material impact on the Company’s consolidated financial statements.

(ii) Valuation of fixed assets

With respect to tangible and intangible fixed assets, any indication of impairment loss is examined for each asset group; and if there is any indication, an impairment test is implemented.

In calculating the recoverable amount in the impairment test, estimates of future cash flows and discount rates are determined; the future cash flows are determined based on the business plan that is approved by management as well as the best estimate and judgment of management. The sales volume, product prices, and exchange rates included in the future cash flows are affected by changes in uncertain factors, such as future economic conditions, a shift to a low carbon society towards climate change, a decrease in product demands associated with changes to Japan's population structure; therefore, if these estimates and recoverable amounts need to be reviewed, this may have a material impact on the Company's consolidated financial statements.

(9) Change in accounting estimates

There is no material change to the accounting estimates.

A change was made to the estimate of part of the asset retirement obligations. The details are stated in the notes titled "10. Notes on asset retirement obligations".

2. Notes to the consolidated balance sheet

(1) Assets pledged and corresponding liabilities

Assets pledged

(i) Factory foundation mortgage:

Land	¥370,755 million
Machinery and equipment	¥37,734 million
Other	¥27,788 million

(ii) Other pledges:

Investment securities	¥2,590 million
Capital contribution	¥242 million

Total	¥439,111 million
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In addition to the above, the Company pledged the capital contribution (investment securities) in NSRP and long-term loans receivable from NSRP as collateral for NSRP's borrowings from financial institutions. The equity method has been applied to NSRP, and the consolidated balance sheet amount of each item is as described below:

	The consolidated fiscal year under review (March 31, 2023)
Investment securities (million yen)	—
Long-term loans receivable (million yen)	—

Liabilities with assets pledged

Factory foundation mortgage:

Accounts payable-other	¥51,513 million
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Total	¥51,513 million
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The accounts payable-other were related to payment of gasoline tax.

In addition to the above, although the factory foundation was subjected to a revolving mortgage related to bank transactions, there were no substantial liabilities with assets pledged.

(2) Accumulated depreciation of tangible fixed assets ¥2,061,428 million

(3) Contingent liabilities

The Company provides guarantees for the loan obligations, etc. of the following companies, which are not the Company's consolidated companies, from financial institutions, etc.

(i) Guarantee of obligations

Japan Biofuels Supply LLP.	¥11,695 million
IDEMITSU LUBRICANTS (THAILAND) CO., LTD.	¥1,483 million
Oyasu Geothermal Co., Ltd.	¥1,423 million
Others	¥3,279 million
Total	¥17,882 million

(ii) Construction completion guarantee

The Company provides a construction completion guarantee for project financing regarding the project to construct the Nghi Son Refinery and Petrochemical Complex, by NSRP in Vietnam. The burden of the guarantee of the Company is as follows.

The Company's burden of guarantee ¥144,605 million

Depending on future changes in the circumstances, the Company may be requested to perform the construction completion guarantee by the banking syndicate. If the Company performs the construction completion guarantee, this may have a material impact on the Company's financial and cash flow conditions.

(4) Land revaluation

In accordance with the Land Revaluation Act (Act No. 34, promulgated on March 31, 1998) of Japan and the Act to Amend Part of the Land Revaluation Act (Act No. 19, promulgated on March 31, 2001) of Japan, the Company's land used for business is revaluated and an amount equivalent to taxes on the difference on revaluation is included in liabilities as "deferred tax liabilities upon revaluation" and the difference on revaluation minus the amount of such taxes is included in net assets as "revaluation difference of land".

(i) Method of revaluation:

Land revaluation is made in accordance with the method of calculation by making reasonable adjustments to the assessed value of fixed assets as set forth in Article 2, item 3 of the Ordinance to Implement the Land Revaluation Act (Cabinet Order No. 119, promulgated on March 31, 1998; the "Ordinance"), the method of calculation by making reasonable adjustments to the land values that form the basis of land tax calculations as set forth in Article 2, item 4 of the Ordinance, and appraisals by real estate appraisers as set forth in Article 2, item 5 of the Ordinance.

(ii) Revaluation date: March 31, 2002

(iii) Difference of the market value at the end of the consolidated fiscal year under review of the land revaluated and the book value thereof after such revaluation:
(¥116,747 million)

3. Notes to the consolidated statement of changes in shareholders' equity, etc.

(1) Matters concerning the total number of issued shares

Class of shares	Number of shares as of April 1, 2022	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2023
Shares of common stock	297,864 thousand shares	— thousand shares	— thousand shares	297,864 thousand shares

(2) Matters concerning the number of treasury shares

Class of shares	Number of shares as of April 1, 2022	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2023
Shares of common stock	561 thousand shares	4,359 thousand shares	60 thousand shares	4,859 thousand shares

(Note 1) The increase of 4,359 thousand shares consists of an increase of 4,352 thousand shares due to acquisitions of treasury shares determined by resolution at the meeting of the Board of Directors and an increase of 6 thousand shares due to acquisitions of less-than-one-unit shares.

(Note 2) The decrease of 60 thousand shares consists of a decrease of 17 thousand shares due to sale of the Company shares by a consolidated subsidiary, a decrease of 42 thousand shares due to the stock awards in accordance with the Board Incentive Plan Trust for Officers, and a decrease of 0 thousand shares due to the disposals of less-than-one-unit shares.

(3) Matters concerning the distribution of retained earnings

(i) Amount of payment for dividends, etc.:

Matters concerning the dividends determined by resolution at the meeting of the Board of Directors held on May 10, 2022:

- Aggregate amount of dividends ¥32,760 million
- Amount of dividend per share ¥110
- Record date March 31, 2022
- Effective date June 2, 2022

(Note) The total dividends paid include dividend payment of ¥55 million made for the Company shares held by the Board Incentive Plan Trust for Officers.

Matters concerning the dividends determined by resolution at the meeting of the Board of Directors held on November 8, 2022:

- Aggregate amount of dividends ¥17,869 million
- Amount of dividend per share ¥60
- Record date September 30, 2022
- Effective date December 7, 2022

(Note) The total dividends paid include dividend payment of ¥27 million made for the Company shares held by the Board Incentive Plan Trust for Officers.

- (ii) Dividends for which the record date falls during the consolidated fiscal year under review but the effective date falls during the next consolidated fiscal year:

Matters concerning the dividends determined by resolution at the meeting of the Board of Directors held on May 9, 2023:

- Aggregate amount of dividends ¥17,607 million
- Amount of dividend per share ¥60
- Record date March 31, 2023
- Effective date June 2, 2023

(Note) The total dividends paid include dividend payment of ¥27 million made for the Company shares held by the Board Incentive Plan Trust for Officers.

4. Notes on financial instruments

(1) Matters relating to the status of financial instruments

The Group raises required funds (principally by bank loans and the issuance of bonds) according to plant and equipment plans. The Group invests temporary surplus funds in high-security deposits and others and raises short-term operating funds through bank loans and commercial papers.

The Group utilizes derivatives to mitigate risk relating to its actual requirements and engages in no speculative transaction.

To reduce clients' credit risks relating to notes and accounts receivable-trade, the Group has stipulated its credit management rules and credit sales management rules. With regard to investment securities, which are principally stocks of client companies with which the Group has business ties, the market prices of listed stocks are recognized for each quarter and with regard to unlisted stocks, the financial positions of the issuers are recognized for each fiscal year.

With regard to foreign currency accounts payable-trade relating to imports of raw materials, the Group utilizes forward exchange contracts to reduce foreign currency risk.

To avert interest-rate risk relating to long-term loans payable, the Group engages in interest rate swaps and fixes interest expenses. In addition, to reduce market risk relating to crude oil and petroleum products, the Group engages in product swap transactions and future transactions.

The Group engages in derivatives all in accordance with the policy approved for each fiscal year based on its internal trading rules and within actual requirements.

(2) Matters concerning current values, etc. of financial instruments

The following chart shows the consolidated balance sheet amounts of financial instruments as of March 31, 2023, along with their current values and the variances. Securities without market value (consolidated balance sheet amount: ¥226,789 million) are not included in “Investment securities”. Notes on cash are omitted, and notes on deposit are also omitted because deposits are settled in a short period and the market value approximates to the book value. In addition, notes on investments in partnerships that are measured at the Company’s proportionate interest in their net assets in the balance sheet (consolidated balance sheet amount: ¥9,671 million) are omitted as well:

(million yen)

	Consolidated balance sheet amount	Current value	Variance
(1) Notes and accounts receivable - trade	841,798	841,798	—
(2) Accounts receivable - other	319,483	319,483	—
(3) Investment securities	17,910	17,910	—
(4) Long-term loans receivable	23,944	21,659	(2,285)
Total assets	1,203,136	1,200,851	(2,285)
(1) Notes and accounts payable - trade	697,307	697,307	—
(2) Short-term borrowings	486,701	486,701	—
(3) Commercial papers	301,983	301,983	—
(4) Accounts payable - other	390,189	390,189	—
(5) Bonds	150,000	147,624	(2,376)
(6) Long-term debt	519,232	508,923	(10,309)
Total liabilities	2,545,414	2,532,728	(12,685)
Derivatives (*)	7,729	7,729	—

(*) Net receivables and payables resulting from derivatives transactions are presented on net base. The total net payables are presented in parentheses.

(3) Matters regarding the breakdown of financial instruments by each fair value level

Fair values of financial instruments are categorized at the following three levels according to the observability and importance of inputs related to the calculation of the fair values:

Level 1 fair value: fair values calculated using the quoted prices of the assets and liabilities subject to the calculation of the fair values that are formed in active markets among inputs related to the calculation of observable fair values;

Level 2 fair value: fair values calculated using the inputs related to the calculation of fair values other than Level 1 inputs among inputs related to the calculation of observable fair values; and

Level 3 fair value: fair values calculated using the inputs related to the calculation of fair values that cannot be observed.

In cases where multiple inputs that have a material effect on the calculation of the fair value are used, among the levels to which the respective inputs belong, the fair value is categorized at the level with the lowest priority in the fair value calculation.

(i) Financial instruments recorded in the consolidated balance sheet at fair value

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Investment securities	17,910	—	—	17,910
Derivatives	—	7,729	—	7,729
Total assets	17,910	7,729	—	25,640

(ii) Financial instruments other than those that are recorded in the consolidated balance sheet at fair value

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Long-term loans receivable	—	21,659	—	21,659
Total assets	—	21,659	—	21,659
Bonds payable	—	147,624	—	147,624
Long-term loans payable	—	508,923	—	508,923
Total liabilities	—	656,547	—	656,547

(Note) Explanation of the valuation methods and inputs used in calculating fair values

Investment securities:

Listed shares are valued using the quoted price. As listed shares are traded on active markets, their fair value is categorized as a Level 1 fair value.

Long-term loans receivable:

Long-term loans receivable calculated from the present value of the future cash flow discounted at a rate supposing that a similar loan is newly extended, is categorized as Level 2.

Long-term loans receivable to NSRP is categorized as Level 3. For details of the calculation of the fair value, please see “(iii) Financial instruments categorized as Level 3” below.

Derivatives:

The fair value of derivatives is calculated based on the observable inputs, such as prices or exchange rates and interest rates presented by financial institutions, and categorized as a Level 2 fair value.

Bonds payable:

The fair value of bonds issued by the Company is calculated using the market value, and categorized as a Level 2 fair value.

Long-term loans payable:

The fair value of long-term loans payable is calculated by discounting the total principal and interest by an interest rate supposing that similar borrowings are newly conducted. Long-term loans payable with floating interest rates are subject to interest rate swaps under exceptional accounting treatment. The fair value of these loans is calculated by discounting the total principal and interest that were accounted for as a single item with the relevant interest rate swap, by a reasonably estimated interest rate applicable when similar borrowings are conducted, and is categorized as a Level 2 fair value.

(iii) Financial instruments categorized as Level 3

Increase and decrease in long-term loans payable categorized as Level 3 are as follows:

	Consolidated fiscal year under review (from April 1, 2022 to March 31, 2023)	
Balance at the beginning of fiscal year 2022	—	million yen
Gains and losses recorded for the current period (*)	—	
Balance at the end of fiscal year 2022	—	

(*) Gains and losses recorded for fiscal year 2022 are those that are valued using the fair value, and there are no gains and losses recorded for fiscal year 2022.

The fair value of long-term loans receivable categorized as Level 3 is calculated based on the DCF method using the expected return rate (discount rate) in which estimated future cash flows based on NSRP's future business plan and inherent risks of investments and loans to NSRP were reflected. The calculation was conducted by the department in charge of accounting in accordance with the valuation method and was approved after the authorized person of the department confirmed the validity of the inputs and the adequacy of the level category of the fair value.

Important observable inputs used to measure the fair value of long-term loan receivable categorized as Level 3 are the asset utilization rate and the expected return rate (discount rate) used to estimate future cash flows. Any changes to the assumptions of these inputs may materially change the fair value. A rise (decline) in the inputs of the asset utilization rate used contributes to an increase (decrease) in the fair value; however, the rise (decline) in the discount rate may cause a decrease (increase) in the fair value.

5. Notes on business combination
(Business combination due to acquisition)

(1) Outline of the business combination

(i) Name and business description of the acquired company

Name of the acquired company: Seibu Oil Company Limited
Business description: Manufacturing, sales, etc. of petroleum products

(ii) Main reason for the business combination

Domestic petroleum product demand is expected to decrease further due to structural issues such as the aging and decreasing population, the impact of the COVID-19 pandemic, and global trends towards decarbonization. As a result of comprehensive consideration in light of this evolving operating environment, the Company determined that a revamping of the Group's manufacturing and supply framework is inevitable and that making Seibu Oil Company Limited a subsidiary of the Company, terminating the product purchase agreement, and terminating refinery operations at Yamaguchi Refinery is the best course of action for the Company.

(iii) Business combination date

June 14, 2022

(iv) Legal form of the business combination

Acquisition of shares in exchange for cash

(v) Name of the company after the business combination

There is no change.

(vi) Ratio of voting rights acquired

Ratio of voting rights held immediately before the business combination: 38.0%

Ratio of voting rights additionally acquired on the business combination date: 28.9%

Ratio of voting rights after the business combination: 66.9%

(vii) Main grounds for the decision on the acquired company

The Company acquired shares in exchange for cash.

(2) The acquired company's financial performance period included in the consolidated financial statements

From July 1, 2022 to March 31, 2023

(3) Acquisition cost for the acquired company and breakdown of consideration by type

They are not disclosed for confidentiality with the counterparty to the acquisition of shares.

(4) Main acquisition-related costs and amount

Advisory fees, etc.: ¥34 million

(5) Difference between the acquisition cost for the acquired company and the total amount of acquisition cost by transaction leading to the acquisition

Loss concerning step acquisition: ¥7,223 million

(6) Amount, cause for accrual, amortization method, and amortization period of the accrued goodwill

(i) Amount of the accrued goodwill

¥63 million

(ii) Cause for accrual

A difference exceeding the net amount after allocating the acquisition cost to the accepted assets and the assumed liabilities is recorded as goodwill.

(iii) Amortization method and amortization period

Goodwill is amortized in a lump-sum at the time of accrual because of lack of importance.

(7) Amounts of the accepted assets and the assumed liabilities as of the business combination date, and main breakdown

Current assets	225,060	million yen
Fixed assets	20,119	
Total assets	<u>245,180</u>	
Current liabilities	215,990	
Long-term liabilities	29,218	
Total liabilities	<u>245,208</u>	

(8) Estimated amount of an impact on the consolidated statement of income for the consolidated fiscal year under review assuming that the business combination was completed on the commencement date of the consolidated fiscal year, and calculation method

Description is omitted because of lack of importance.

6. Notes on real estate for lease, etc.

(1) Matters relating to the status of real estate for lease, etc.

The Company and some of its subsidiaries possess office buildings for lease, oil storage tanks, commercial establishments, etc. (including land) in Tokyo, Osaka and other areas in Japan and overseas. For the consolidated fiscal year under review, with regard to real estate for lease, etc., income on lease was ¥417 million (lease income is accounted for in net sales and lease expenses are accounted for in selling, general and administrative expenses, respectively, in principle), income on sales of fixed assets was ¥51,082 million (accounted for in extraordinary income) and impairment loss was -¥687 million (accounted for in extraordinary expenses).

(2) Matters concerning current values, etc. of real estate for lease, etc.

(million yen)

Consolidated balance sheet amount	Current value
104,507	96,139

(Note 1) The consolidated balance sheet amount is an amount obtained by deducting from the acquisition cost the accumulated depreciation of tangible fixed assets and the accumulated loss on impairment.

(Note 2) The current value as at the close of the consolidated fiscal year under review is an amount (including any adjustment made using indexes, etc.) calculated by the Company principally in accordance with its "Real Estate Appraisal Standards".

7. Notes on revenue recognition

(1) Information on breakdown of revenues arising from contracts with customers

(million yen)

Region	Reportable Segment						Other (Note)	Total
	Petroleum	Basic chemicals	Functional materials	Power and renewable energy	Resources	Subtotal		
Japan	5,361,459	441,093	246,811	194,092	447,604	6,691,061	5,375	6,696,437
Asia and Oceania	1,121,445	223,900	196,697	—	201,605	1,743,647	0	1,743,648
North America	742,909	1,691	43,521	2,978	3,516	794,617	—	794,617
Other regions	178,046	204	23,976	0	19,351	221,579	—	221,579
Sales to external customers	7,403,861	666,889	511,006	197,070	672,077	9,450,905	5,376	9,456,281

(Note) “Other” means business segments that are not included in reportable segments, and mainly includes insurance business, intra-group service business, etc.

(2) Underlying information to understand the revenues arising from contracts with customers

As described in “(iv) Standards for recognition of important revenue and expenses” in “(5) Notes on accounting policies.”

- (3) Information to understand the amount of revenue for the consolidated fiscal year under review and the subsequent consolidated fiscal years
- (i) Balance of contractual assets and contractual liabilities

A breakdown of receivables, contractual assets, and contractual liabilities arising from contracts with customers is as shown below.

In the consolidated balance sheet, receivables arising from contracts with customers are included in “notes and accounts receivable - trade,” contractual assets are included in “Other current assets,” and contractual liabilities are included in “Other current liabilities” and “Other long-term liabilities,” respectively.

(million yen)

	Consolidated fiscal year under review
Receivables arising from contracts with customers	841,798
Contractual assets	127
Contractual liabilities	60,917

“Contract assets” are unpaid receivables arising primarily from construction contracts, and are transferred to “receivables arising from contracts with customers” when the right to payment becomes unconditional. “Contractual liabilities” are primarily consideration received in advance of performance under a contract, and are reversed upon recognition of revenues.

Due to performance obligations satisfied in prior periods, the amount of revenue recognized in the fiscal year under review (e.g., changes in transaction prices) is also immaterial.

(ii) Transaction prices allocated to the residual performance obligations

The Company and its consolidated subsidiaries apply the convenience method of practice to note the transaction prices allocated to the residual performance obligations, and do not include in the notes contracts with an initially anticipated contractual period of less than one year. The total amount of transaction prices allocated to the residual performance obligations and the period during which revenue is expected to be recognized are as shown below.

In addition, there are no significant amounts of consideration arising from contracts with customers that are not included in the transaction prices.

(million yen)

	Consolidated fiscal year under review
Within one year	4,391
Over one year	11,015
Total	15,406

8. Notes on the information per share

(1) Net assets per share (yen):	5,510.24
(2) Net income per share (yen):	853.37

(Note 1) Diluted net income per share is not calculated for the consolidated fiscal year under review because no dilutive shares exist.

(Note 2) In calculating net assets per share, the 459 thousand shares held by The Master Trust Bank of Japan, Ltd. as the trust property for the Company's stock compensation plan are included in the number of treasury shares that is to be deducted from the number of the Company's issued shares at the end of the fiscal year under review. Also, in calculating net income per share, the 459 thousand shares held by The Master Trust Bank of Japan, Ltd. as the trust property for the Company's stock compensation plan are included in the number of treasury shares that is to be deducted from the average number of the Company's issued shares during the fiscal year under review.

9. Notes on significant subsequent events

The Company agreed to transfer all of its interests (85%) in the Ensham Coal Mine, Australia, held through its wholly owned subsidiary Idemitsu Australia Pty Ltd to Sungela Pty Ltd., and signed a sale and purchase agreement on February 3, 2023.

(1) Reason for transfer

In order to contribute to the realization of a carbon-neutral society while fulfilling its responsibility to provide a stable supply of energy, the Company has adopted “Your Reliable Partner for a Brighter Future” as its 2030 vision.

In addition, in its medium-term business plan (FY2023-FY2025) announced on November 16, 2022, the Company developed a new vision for 2050, “Shaping Change.” The Company aims to achieve sustainable profitable growth by transforming its business portfolio by reducing fossil fuel assets and maximizing earnings from existing businesses, and by expanding new businesses that contribute to carbon neutral society.

Based on the above vision and policy, the Company will promote the commercialization of Idemitsu Green Energy Pellets as an alternative fuel to coal, as well as a policy of structural reform of its coal business. As part of this policy, the Company decided to sell its interest in Ensham.

The main strategies for structural reform of the coal business are as follows.

- (i) By utilizing the highly competitive Boggabri Coal Mine, continuation of stable coal supply mainly to domestic customers and maximization of earnings
- (ii) Divestment of the Malinau Coal Mine in Indonesia (sold in March 2022) and Ensham in Australia
- (iii) Diversify the portfolio (e.g., investment in renewable energy projects at existing mine sites, rare metal development utilizing mining technology) by leveraging the existing business infrastructure

With the completion of coal mining at Muswellbrook Mine (December 2022) and the transfer of its interest in Ensham, the Company’s only coal mine operating in Australia will be Boggabri Mine. As stated above, through the operation of Boggabri Mine, the Company will fulfill its mission of providing a stable supply of energy needed today, while at the same time making maximum use of the management resources it has developed over many years in Australia and shifting to new businesses, such as renewable energy, rare metals, hydrogen and ammonia in which future demand growth is expected.

(2) Outline of the transferred assets

- (i) Location: Queensland, Australia
- (ii) Commencement of operation: Coal production in 1993
- (iii) Composition of interests (before transfer): Idemitsu Australia Pty Ltd 85%, Bowen Investment (Australia) Pty Ltd. 15%
Composition of interests (after transfer): Sungela Pty Ltd 85%, Bowen Investment (Australia) Pty Ltd 15%
- (iv) Actual production volume: 4.3 million tons per annum (actual production volume in FY2021, 100% of interests)
- (v) Transfer price: Upfront payment of A\$340 million to be paid as of the transfer date and a royalty consideration payment based on the price and volume of coal to be sold from the Ensham mine in 2023 and 2024
- (vi) Profit/loss from the transfer: The time of transfer is undetermined and the final transfer price will vary; therefore, it is undetermined at present.

(3) Outline of the transferee

Sungela Pty Ltd (a joint venture company formed by Thungela, Mayfair, and Audley in connection with the transfer)

Contribution ratio (scheduled): Thungela (75%), Mayfair (12.5%), and Audley (12.5%)

(4) Time of transfer

During 2023 (scheduled)

*The completion of the transfer is subject to approval, etc. by the Australian government.

10. Notes on asset retirement obligations

Asset retirement obligations recorded on the consolidated balance sheet:

(1) Outline of the asset retirement obligations:

Restitution obligations in connection with real estate lease agreements with regard to land for facilities of service stations, etc., expenses of removal of coal production facilities upon termination of production or mining rights and other items are reasonably estimated and recorded as asset retirement obligations.

(2) Method of calculation of the amounts of the asset retirement obligations:

The periods projected prior to defrayment are based on, with regard to service stations, the useful lives of principal facilities thereof and with regard to coal, etc., mining lives from the commencement of operations. Applicable discount rates range from 0.0% to 4.6%.

(3) Changes in the total amount of the asset retirement obligations during the consolidated fiscal year under review:

(million yen)

Balance at beginning of year	46,904
Increased amount in connection with the acquisition of tangible fixed assets	2,151
Adjustments by lapse of time	1,232
Decreased amount as a result of asset retirement obligations	(1,082)
Increased (decreased) amount as a result of changes in estimates (see Note 1)	10,162
Other increased (decreased) amount (see Note 2)	(24,888)
Balance at end of year	34,479

(Note 1) During the consolidated fiscal year under review, the Company changed the amounts of estimates because its review of the expenses to be incurred upon termination of production or mining rights by some overseas consolidated subsidiaries indicated that future cash flows would increase. The increased (decreased) amount comprises an increase of ¥10,257 million and a decrease of ¥95 million.

(Note 2) “Other increased (decreased) amount” is, among others, a decrease as a result of a transfer to liabilities directly associated with assets held for sale.

NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY,
ETC.

(April 1, 2022 to March 31, 2023)

(million yen)

	Shareholders' equity								
	Common stock	Capital surplus			Retained earnings				
		Capital reserve	Other capital surplus	Total capital surplus	Retained earnings reserve	Other retained earnings			Total retained earnings
					Reserve for loss on overseas investment, etc.	Reserve for advanced depreciation of fixed assets	Retained earnings carried forward		
Balance at April 1, 2022	168,351	42,105	415,999	458,105	1,081	47	32,283	359,734	393,146
Changes during the year									
Dividends from surplus								(50,629)	(50,629)
Net income								49,494	49,494
Acquisitions of treasury stock									
Disposals of treasury stock			0	0					
Reserve for other retained earnings							1,570	(1,570)	—
Reversal of other retained earnings						(47)	(2,105)	2,153	—
Reversal of revaluation difference of land								562	562
Reductions from company split			(1,699)	(1,699)					
Changes in items other than shareholders' equity during the year (net)									
Total changes during the year	—	—	(1,698)	(1,698)	—	(47)	(535)	11	(571)
Balance at March 31, 2023	168,351	42,105	414,301	456,406	1,081	—	31,748	359,745	392,574

	Shareholders' equity		Valuation and translation adjustments				Total net assets
	Treasury stocks	Total shareholders' equity	Unrealized holding gains on other securities	Deferred gains (loss) on hedges	Revaluation difference of land	Total valuation and translation adjustments	
Balance at April 1, 2022	(1,843)	1,017,760	2,402	(1,320)	157,154	158,236	1,175,997
Changes during the year							
Dividends from surplus		(50,629)					(50,629)
Net income		49,494					49,494
Acquisitions of treasury stock	(13,091)	(13,091)					(13,091)
Disposals of treasury stock	146	146					146
Reserve for other retained earnings		—					—
Reversal of other retained earnings		—					—
Reversal of revaluation difference of land		562			(562)	(562)	—
Reductions from company split		(1,699)					(1,699)
Changes in items other than shareholders' equity during the year (net)			191	1,716	(1,949)	(41)	(41)
Total changes during the year	(12,945)	(15,215)	191	1,716	(2,512)	(604)	(15,820)
Balance at March 31, 2023	(14,788)	1,002,544	2,593	396	154,641	157,632	1,160,177

(Note) Figures are indicated by discarding fractions less than one million yen.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

1. Matters concerning significant accounting policies

(1) Basis and method of valuation of assets

(i) Basis and method of valuation of securities:

(a) Bonds to be held to maturity: At amortized cost (straight-line method).

(b) Capital stocks of affiliates: At cost, determined by the moving average Method.

(c) Other securities:

• Securities other than those without market value: At market value (valuation differences are included directly in net assets, and costs of securities sold are determined by the moving average method).

• Those without market value: At cost, determined by the moving average method.

(ii) Basis and method of evaluation of inventories:

Merchandise and finished goods, and raw material and supplies: At cost, determined by the gross average method, in principle (the balance sheet values are calculated by the write-down method based on declined margins).

(iii) Basis and method of evaluation of derivatives:

At market value.

(2) Method of depreciation of fixed assets

(i) Tangible fixed assets
(excluding lease assets):

By the straight-line method.

(ii) Intangible fixed assets
(excluding lease assets):

By the straight-line method; provided, however, that software for internal use is amortized by the straight-line method on the estimated useful life of internal use (five years).

Goodwill is amortized by the straight-line method, on the estimated term to become effective (5-20 years).

Customer-related assets are amortized by the straight-line method, on useful lives (20 years).

(iii) Lease assets:

By the straight-line method on the assumption that the lease period is the useful life of the property and the residual value is Zero.

(3) Basis for accounting for allowances and reserves

(i) Allowance for doubtful accounts: To meet losses from loan default, the Company sets aside an estimated uncollectible amount, by taking into consideration the actual loss rate in respect of general credits and the individual possibilities of collection in respect of specific claims, such as probable non-performing credits.

(ii) Allowance for bonuses: To meet the payment of bonuses to employees, the Company sets aside the portion for the fiscal year under review of an estimated amount of bonuses to be paid in the future.

(iii) Retirement allowances for employees: To meet the payment of retirement benefits to employees, the Company provides an amount estimated to accrue at the close of the fiscal year under review, based on the estimated retirement benefit obligations and pension plan assets as of the close of each such fiscal year.

Actuarial differences are treated as expenses, based on the straight line method for a specific period of years (ten years) not exceeding the average remaining years of service of employees, from the fiscal year next following the fiscal year when such differences occur. Prior year service liabilities are treated as expenses in a lump sum during the fiscal year when such liabilities occur.

(iv) Reserve for repair works: To meet the payment for repair expenses in the future, the Company sets aside the portion until the fiscal year under review of an amount of expenses of inspection and repair to be defrayed in respect of the oil tanks and machinery and equipment that require periodic repairs in the future.

(4) Standards for recognition of revenue and expenses

The content of primary obligations in the major business in relation to revenue generated from contracts with customers of the Company, and the normal time when the obligations are fulfilled (the normal time when the revenue is recognized) are as follows:

(i) Sale of products

The Company produces and sells refined petroleum products, olefin and aromatic products, lubricants, and performance chemicals.

With respect to these sales, the legal ownership and physical possession right to the products, and important risks associated with owning the products, and economic values are transferred to customers when control over the products is transferred to the customers, i.e., upon delivery of the products to the customers. Furthermore, the Company obtains the right to receive consideration for the products from its customers; therefore, the revenue is recognized at that time. The revenue is recognized based on the transaction prices under the contracts with the customers; with respect to transactions in which the role of the Company is an agent, the transaction prices are calculated based on the net amount, namely the amount received from customers less payments to suppliers. The tax amount that is deemed to be collected as an agent such as those imposed at the time of sale, like the light oil delivery tax, are presented in net amount but not included in the sales. On the other hand, the tax amount, like gasoline tax, which is imposed in the process before sale and included in the sales amount, are included in the sales. Considerations for transactions include no material financial components because they are received within one year after delivery of the products. Regarding variable considerations including variable discounts, the amount of consideration to which the Company will obtain the rights are estimated using all reasonably available information including past, current, and expectation; and the sales are recognized only within the scope where material reversion is very unlikely to occur.

(ii) Sale of electricity

The Company sells electricity.

Regarding the revenue pertaining to sales of electricity, fees are measured by monthly meter reading; and the fees then calculated are recognized as the revenue generated for the relevant month. In addition, the revenue generated between the date of the meter reading in the settlement month and the settlement date are estimated, and the revenue according to the accounting period is recorded. The revenue is recognized based on the transaction prices under contracts with customers; and the consideration for the transaction includes no material financial components because it is received within one year after delivery of the products.

(5) Method of hedge accounting

(i) Method of hedge accounting: Deferral hedge accounting is applied.

(ii) Hedge instruments and hedged items:

Hedging instruments: Forward exchange contracts, currency option transactions, crude oil and petroleum products swap transactions, futures transactions, coal swap transactions, interest rate swaps, interest rate and currencyswaps, and option transactions.

Hedged items: Foreign currency receivables and payables, purchase and sale of crude oil and petroleum products, purchase and sale of coal, and debts payable.

(iii) Hedging policy: The Company, in accordance with its rules, carries out hedge transactions within the scope of actual requirements to hedge risk of price changes, interest rate and currency fluctuations with regard to the hedged items.

(iv) Method of evaluating the effectiveness of a hedge:

The method of evaluating the effectiveness of a hedge is to confirm the compliance of the hedging instruments with the hedged items. No evaluation is made as to the effectiveness of any transaction in which important conditions are common for the hedged assets and liabilities and price changes or cash flow changes are assumed in advance to be offset upon the commencement of the hedging and continue to be offset thereafter.

(6) Other important matters forming the basis of preparation of financial statements

(i) Accounting treatment of deferred assets:

Bond issuance expenses and stock issuance expenses are all treated as expenses upon payment thereof.

(7) Change in accounting policies

(Application of Accounting Standard for Fair Value Measurement)

Effective April 1, 2022, the Idemitsu Group applied “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; the “Fair Value Accounting Standard Implementation Guidance”). In accordance with the transitional provision set forth in Article 27-2 of the Fair Value Accounting Standard Implementation Guidance, the Idemitsu Group prospectively applied a new accounting policy prescribed by the Fair Value Accounting Standard Implementation Guidance. This application has no impact on the financial statements.

(8) Changes in presentation methods

(Non-consolidated statement of income)

“Loan loss provisioning” that was presented by being included in “Others” of “Non-operating expenses” in and before fiscal year 2021 was decided to be set down separately from the fiscal year under review due to its increase in monetary importance.

“Loan loss provisioning” for fiscal year 2021 was ¥762 million.

“Gain on sales of shares of subsidiaries and affiliates” that was stated separately in and before fiscal year 2021 (which is ¥34 million for the fiscal year under review) is presented by being included in “Others” of “Extraordinary income” from the fiscal year under review due to lack of monetary importance.

(9) Notes to accounting estimates

The valuation of fixed assets in the non-consolidated financial statements is described in detail in “1. Important matters forming the basis of preparation of consolidated financial statements” in “NOTES TO CONSOLIDATED FINANCIAL STATEMENTS”, so the note is omitted.

(10) Change in accounting estimates

Not applicable.

2. Notes to the non-consolidated balance sheet

(1) Assets pledged and corresponding liabilities

Assets pledged

(i) Factory foundation mortgage:	
Land	¥337,963 million
(ii) Other pledges:	
Investment securities	¥384 million
Investments in shares of affiliates	¥2,205 million
Total	¥340,553 million

In addition to the above, the Company pledged the capital contribution (investment in shares of affiliate) in NSRP, amounting to ¥90,645 million, as collateral for NSRP's borrowings from financial institutions. All of the capital contribution (investment in shares of affiliate) has been accounted for as impairment loss in fiscal year 2019.

Liabilities with assets pledged

Factory foundation mortgage:	
Accounts payable-other	¥22,912 million
Total	¥22,912 million

The accounts payable-other were related to payment of gasoline tax.

In addition to the above, although the factory foundation was subjected to a revolving mortgage related to bank transactions, there were no substantial liabilities with assets pledged.

(2) Accumulated depreciation of tangible fixed assets: ¥1,803,824 million

(3) Contingent liabilities:

(i) Guarantee of obligations

IDEMITSU INTERNATIONAL (ASIA) PTE. LTD.	¥169,711 million
Seibu Oil Company Limited	¥58,172 million
Idemitsu Gas Production (Vietnam) Co., Ltd.	¥41,464 million
Others	¥71,711 million
Total	¥341,059 million

(ii) Construction completion guarantee

The Company provides a construction completion guarantee for project financing regarding the project to construct the Nghi Son Refinery and Petrochemical Complex, by NSRP in Vietnam. The burden of the guarantee of the Company is as follows.

The Company's burden of guarantee ¥144,605 million

Depending on future changes in the circumstances, the Company may be requested to perform the construction completion guarantee by the banking syndicate. If the Company performs the construction completion guarantee, this may have a material impact on the Company's financial and cash flow conditions.

- | | | |
|-------|---------------------------------------------------------|------------------|
| (4) | Receivables from affiliates and payables to affiliates: | |
| (i) | Short-term receivables from affiliates: | ¥429,071 million |
| (ii) | Long-term receivables from affiliates: | ¥34,175 million |
| (iii) | Short-term payables to affiliates: | ¥420,001 million |
| (iv) | Long-term payables to affiliates: | ¥6,591 million |

(5) Land revaluation

In accordance with the Land Revaluation Act (Act No. 34, promulgated on March 31, 1998) of Japan and the Act to Amend Part of the Land Revaluation Act (Act No.19, promulgated on March 31, 2001) of Japan, the Company's land used for business is revaluated and an amount equivalent to taxes on the difference on revaluation is included in liabilities as "deferred tax liabilities upon revaluation" and the difference on revaluation minus the amount of such taxes is included in net assets as "revaluation difference of land".

(i) Method of revaluation:

Land revaluation is made in accordance with the method of calculation by making reasonable adjustments to the assessed value of fixed assets as set forth in Article 2, item 3 of the Ordinance to Implement the Land Revaluation Act (Cabinet Order No.119, promulgated on March 31, 1998; the "Ordinance"), the method of calculation by making reasonable adjustments to the land values that form the basis of land tax calculations as set forth in Article 2, item 4 of the Ordinance, and appraisals by real estate appraisers as set forth in Article 2, item 5 of the Ordinance.

(ii) Revaluation date: March 31, 2002

(iii) Difference of the market value at the end of the fiscal year under review of the land revaluated and the book value thereof after such revaluation:

(¥116,747 million)

3. Notes to the non-consolidated statement of income

(1) Transactions with affiliates:

- | | | |
|-------|--------------------------------------------|--------------------|
| (i) | Sales: | ¥1,617,255 million |
| (ii) | Purchases: | ¥639,618 million |
| (iii) | Transactions other than ordinary business: | ¥22,992 million |

4. Notes to the non-consolidated statement of shareholders' equity, etc.

Matters concerning the number of treasury shares:

Class of shares	Number of shares as of April 1, 2022	Increase in the number of shares during the year	Decrease in the number of shares during the year	Number of shares as of March 31, 2023
Shares of common stock	543 thousand shares	4,359 thousand shares	42 thousand shares	4,859 thousand shares

(Note 1) The increase of 4,359 thousand shares consists of an increase of 4,352 thousand shares due to acquisitions of treasury shares determined by resolution at the meeting of the Board of Directors and an increase of 6 thousand shares due to acquisitions of less-than-one-unit shares.

(Note 2) The decrease of 42 thousand shares consists of a decrease of 42 thousand shares due to stock awards in accordance with the Board Incentive Plan Trust for Officers and a decrease of 0 thousand shares due to the disposals of less-than- one-unit shares.

(Note 3) Of the number of shares at the end of fiscal year 2022, 459 thousand shares were held by the Board Incentive Plan Trust for Officers.

5. Notes on tax effect accounting

Principal components of deferred tax assets and deferred tax liabilities:

(Deferred tax assets)	(million yen)
Tax effect on investments	52,900
Impairment loss on fixed assets	19,657
Reserve for repair works	18,200
Retirement allowances for employees	14,127
Retirement benefit trust	9,217
Estimated sales prices	7,015
Accounts payable for removal	6,905
Asset retirement obligations	4,353
Allowance for bonuses	3,209
Loss on penalty for LPG business	1,837
Business tax payable	935
Fixed assets for research and development	802
Unrealized holding gains (loss) on other securities	88
Deferred loss on hedges	26
Others	5,882
Subtotal of deferred tax assets	<u>145,158</u>
Valuation reserve	<u>(71,097)</u>
Total deferred tax assets	74,061
(Deferred tax liabilities)	
Market price valuation difference due to business combination	(57,923)
Reserve for deferred income tax on fixed assets	(19,973)
Prepaid pension cost	(8,063)
Asset retirement obligations	(2,658)
Tax effect on investments	(1,612)
Unrealized holding gains (loss) on other securities	(1,307)
Deferred gains on hedges	(201)
Reserve for special depreciation	<u>(8)</u>
Total deferred tax liabilities	<u>(91,748)</u>
Net deferred tax liabilities	<u>(17,686)</u>

6. Notes on the fixed assets used by lease

The notes are omitted because they are insignificant.

7. Notes on transactions with related parties

Attribute	Trade name	Capital stock (million yen)	Principal business	Ratio of voting rights owned by the Company (owned in the Company)(%)	Relationship	Transaction	Transaction amount (million yen)	Account item	End-of- year balance (million yen)
Subsidiary	IDEMITSU INTERNATIONAL (ASIA) PTE. LTD.	US\$45,156 thousand	Import, export and trading of crude oil, petroleum products, etc.	100.0 (indirect)	None	Guarantee of obligations (Note 2)	169,711	-	-
Subsidiary	IDEMITSU ASIA PACIFIC PTE. LTD.	US\$157,937 thousand	Management support for overseas branches and overseas financial planning, etc.	100.0 (direct)	None	Accommodation of surplus funds (Note 3)	130,186	Cash deposit	125,566
						Underwriting of capital increase (Note 4)	43,443	-	-
Subsidiary	SHOWA YOKKAICHI SEKIYU CO., LTD.	4,000	Oil refinery and production of petrochemical products	75.0 (direct)	None	Loan extension (Note 5)	46,122	Short- term loans receivable	43,518
Subsidiary	Idemitsu Gas Production (Vietnam) Co., Ltd.	1	Exploration and development of natural gas fields	100.0 (direct)	None	Guarantee of obligations (Note 1)	41,464	-	-
Subsidiary	Seibu Oil Company Limited	8,000	Oil refinery, and production and sale of petrochemical products	100.0 (direct)	None	Purchase of petroleum products, etc. (Note 6)	670,612	Accounts payable – trade	75,453
						Loan extension (Note 5)	44,338	Short-term loans receivable	70,000
						Guarantee of obligations (Note 1)	58,172	-	-

Affiliate	Idemitsu Credit Co., Ltd.	1,950	Credit card and credit guarantee business	50.0 (direct)	None	Collection of trade receivables (Note 7)	2,026,164 (Note 8)	Accounts receivable – other	48,760
Affiliate	Nghi Son Refinery and Petrochemical LLC	US\$2,362,723 thousand	Oil refinery, and production and sale of petrochemical products	35.1 (direct)	None	Construction completion guarantee (Note 9)	144,605 (Note 10)	-	-
Company or other entity whose majority voting rights are held by the Company's officer or his/her close relative	Nissho Kosan Co., Ltd. (Note 11)	100	Real estate leasing and management	9.3 (owned in the Company) (direct)	Interlocking officers	Building lease (Note 12)	88	Prepaid expenses	8
								Security deposit	45

(Note 1) The Company guarantees obligations principally for bank loans.

(Note 2) The Company guarantees obligations principally for purchasing goods.

(Note 3) The Company determines whether to accommodate surplus funds taking into consideration market interest rates.

(Note 4) The Company fully underwrites capital increases by subsidiaries.

(Note 5) The Company determines interest rates taking into consideration market interest rates and other factors.

(Note 6) The Company determines whether to purchase products, etc. taking into consideration market prices, etc.

(Note 7) The Company receives from Idemitsu Credit Co., Ltd. part of the trade receivables of petroleum products, etc. for exclusive distributors (after offsets by such exclusive distributors against credit receivables from Idemitsu Credit Co., Ltd.).

(Note 8) The transaction amount represents the total annual collection amount.

(Note 9) The Company has provided a construction completion guarantee for the project finance in connection with the project to construct the Nghi Son Refinery and Petrochemical Complex. In addition, the Company pledged the capital contribution (investment in shares of affiliate) in the Nghi Son Refinery and Petrochemical LLC (“NSRP”), amounting to ¥90,645 million, as collateral for NSRP’s borrowings from financial institutions. All of the capital contribution (investment in shares of affiliate) has been accounted for as impairment loss in the fiscal year 2019.

(Note 10) The transaction amount represents the portion of the guarantee amount provided by the Company.

(Note 11) Mr. Masakazu Idemitsu, one of the Company’s directors, and his close relatives hold 100% of the voting rights.

(Note 12) Rents are calculated based on actual transactions in the vicinity.

8. Notes on revenue recognition

The basic information to understand the revenue from the contracts with the clients of the Company is the same as described in “7. Notes on revenue recognition” in “NOTES TO CONSOLIDATED FINANCIAL STATEMENTS”, so the note is omitted.

9. Notes on the information per share

(1)	Net assets per share (yen):	3,959.58
(2)	Net income per share (yen):	166.52

(Note 1) Diluted net income per share is not calculated for the fiscal year under review because no dilutive shares exist.

(Note 2) In calculating net assets per share, the 459 thousand shares held by The Master Trust Bank of Japan, Ltd. as the trust property for the Company’s stock compensation plan are included in the number of treasury shares that is to be deducted from the number of the Company’s issued shares at the end of the fiscal year under review. Also, in calculating net income per share, the 459 thousand shares held by The Master Trust Bank of Japan, Ltd. as the trust property for the Company’s stock compensation plan are included in the number of treasury shares that is to be deducted from the average number of the Company’s issued shares during the fiscal year under review.

10. Notes on significant subsequent eventsNot

applicable.

- END -