

Information on Business Integration with Idemitsu Kosan Co., Ltd.

Contents

	Page
■ To our shareholders	2
1. Outline of the Business Integration	3
(i) Background and purpose of the Business Integration	3
(ii) Method of the Business Integration	3
(iii) Share exchange ratio	3
(iv) Outline of the New Integrated Company	4
(v) Governance structure of the New Integrated Company	5
2. The New Integrated Company's Vision	6
3. Medium-term Business Strategy of the New Integrated Company	7
(i) Basic policies	7
(ii) Business segments and business strategies	7
4. Integration synergies	8
5. Management targets (FY 2019 to FY 2021)	9
6. Investment strategies	10
7. Shareholder return policies	10
■ Frequently asked questions and answers (Q&A)	11

Showa Shell Sekiyu K.K.
(Securities Code 5002)

■ To our shareholders

Firstly, I would like to express my sincere gratitude for your continued support and patronage.

Showa Shell Sekiyu K.K. (the “Company”) and Idemitsu Kosan Co., Ltd. (“Idemitsu Kosan”) (collectively, the “Companies”) reached an agreement to carry out business integration (the “Business Integration”) through an exchange of shares in April 2019, and have accordingly concluded an agreement regarding the Business Integration on July 10, 2018, upon having attained approval from the boards of directors of the Companies.

The matter of approving the agreement and other specifics pertaining to the Business Integration will be put forward at the Company’s Extraordinary Shareholders Meeting to be held on December 18, 2018, as the Business Integration is subject to approvals at the shareholders meetings of the Companies and approval of the relevant authorities.

Given the prevailing need among corporations in the energy sector to streamline operations and enhance competitiveness amid intensifying changes of the business environment, the Company has been steadily carrying out its Mid-Term Business Strategy formulated at the end of 2017 while also actively promoting its alliance with Idemitsu Kosan, with the Companies engaging in efforts to further boost their competitiveness on a group-wide basis.

Meanwhile, management of the Companies has concluded that the best means of enhancing corporate value will involve integrating their businesses through a share exchange amid the increasingly severe business environment they face. The New Integrated Company will consistently deliver the diverse forms of energy and materials demanded by society, under its vision stating that, “the New Integrated Company, a company originating in Japan which co-creates energy, will continue to strive to create new value together with its customers and stakeholders, while aiming to, based on diversity and inclusiveness, harmonize with the environment and society.” Moreover, the New Integrated Company will also heighten our corporate value in part by extending the problem-solving capabilities developed by the Companies thus far to global markets, and also by helping to bring about a sustainable society by drawing on our capacity to anticipate change and respond flexibly.

Given this explanation, we would be grateful to our shareholders for understanding the need for the Business Integration, and ask that you accordingly furnish your approval for the Business Integration at the Extraordinary Shareholders Meeting to be held on December 18.



Tsuyoshi Kameoka

Representative Director, President,
Executive Officer, CEO

1. Outline of the Business Integration

(i) Background and purpose of the Business Integration

[Business environment]

- Structural transformation in demand for petroleum and petrochemical products both in Japan and overseas
- Demands by society for realization of low-carbon society
- Changes in business environment such as those caused by transformation of society and industrial frameworks arising from technological innovation

[Purpose of the Business Integration]

- We will achieve industry-leading competitiveness by maximizing synergies.
- We will revamp our business portfolio and promote environment, social and governance (ESG) initiatives.



We will evolve into a resilient corporate entity* and enhance corporate value.

*The resilient corporate entity will be capable of flexibly addressing substantial changes to the business environment over the medium to long term.

(ii) Method of the Business Integration

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

(iii) Share exchange ratio

	Idemitsu Kosan	Showa Shell
Share exchange ratio	1	0.41

0.41 shares of Idemitsu Kosan common stock will be allocated for every one share of the Company's common stock. If there are any material changes in the financial conditions or business performance of the Company or Idemitsu Kosan, or such changes become evident, the Companies may amend the above share exchange ratio through mutual discussions.

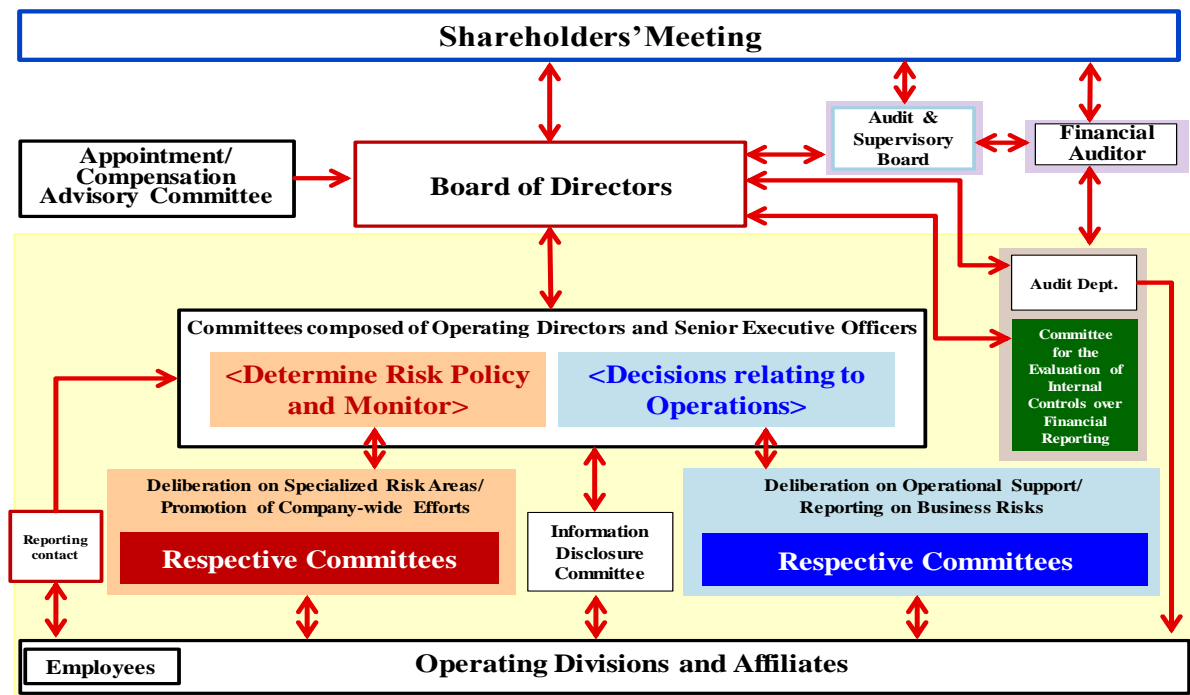
(iv) Outline of the New Integrated Company

(i) Corporate name	Idemitsu Kosan Co., Ltd. <Trade Name: Idemitsu Showa Shell (written in Japanese Characters) (planned)>
(ii) Principal office	3-1-1 Marunouchi, Chiyoda-ku, Tokyo
(iii) Positions and names of representative directors and directors of the New Integrated Company	<p>Chairman and Representative Director Takashi Tsukioka (currently, Chairman and Representative Director of Idemitsu Kosan Co., Ltd.)</p> <p>Vice Chairman and Representative Director, Executive Officer Tsuyoshi Kameoka (currently, Representative Director, President, Executive Officer, CEO of Showa Shell Sekiyu K.K.)</p> <p>Representative Director and Chief Executive Officer Shunichi Kito (currently, Representative Director and Chief Executive Officer of Idemitsu Kosan Co., Ltd.)</p> <p>Representative Director Tomonori Okada (currently, Representative Director, Vice President, Executive Officer of Showa Shell Sekiyu K.K.)</p> <p>Director Takashi Matsushita (currently, Executive Vice President and Representative Director of Idemitsu Kosan Co., Ltd.)</p> <p>Director Katsuaki Shindome (currently, Corporate Executive Officer of Showa Shell Sekiyu K.K.)</p> <p>Director (part-time) Masakazu Idemitsu (Representative Director and President of Nissho Kosan K.K.)</p> <p>Outside Director Kazunari Kubohara (lawyer)</p> <p>Outside Director Takeo Kikkawa (currently, Outside Director of Idemitsu Kosan Co., Ltd.)</p> <p>Outside Director Mackenzie Clugston (currently, Outside Director of Idemitsu Kosan Co., Ltd.)</p> <p>Outside Director Norio Otsuka (currently, Outside Director of Showa Shell Sekiyu K.K.)</p> <p>Outside Director Yuko Yasuda (currently, Outside Director of Showa Shell Sekiyu K.K.)</p> <p>(Note) The titles of Tomonori Okada, Takashi Matsushita, and Katsuaki Shindome as executive directors will be announced once they are determined.</p>
(iv) Positions and names of statutory auditors and a substitute statutory auditor of the New Integrated Company	<p>Statutory Auditor Toshiyuki Tanida (currently, Statutory Auditor of Idemitsu Kosan Co., Ltd.)</p> <p>Statutory Auditor Kenji Takahashi (currently, Statutory Auditor of Showa Shell Sekiyu K.K.)</p> <p>Outside Statutory Auditor Taigi Ito (currently, Outside Statutory Auditor of Idemitsu Kosan Co., Ltd.)</p> <p>Outside Statutory Auditor Kenji Yamagishi (currently, Outside Statutory Auditor of Showa Shell Sekiyu K.K.)</p> <p>Substitute Statutory Auditor Junko Kai (currently, Substitute Statutory Auditor of Idemitsu Kosan Co., Ltd.)</p>

(v) Description of business	Petroleum refining and manufacture and sale of oil products Manufacture and sale of petrochemical products Development, production, and sale of petroleum and coal resources Development, manufacture, and sale of electronic materials and agricultural chemicals, etc.
(vi) Capital	168,351 million yen
(vii) Fiscal year-end	March 31
(viii) Net assets	Not yet determined
(ix) Total assets	Not yet determined

(v) Governance structure of the New Integrated Company

- Proactively embrace concepts of the Japan's Corporate Governance Code (four or more independent Outside Directors)
- Ensure transparency through better monitoring of the Board of Directors
- Engage in accelerated business management by transferring authority to the executives



2. The New Integrated Company's Vision

The New Integrated Company, a company originating in Japan which co-creates energy, will continue to strive to create new value together with its customers and stakeholders, while aiming to, based on diversity and inclusiveness, harmonize with the environment and society.

The New Integrated Company will

- deliver various forms of energy and materials in a sustainable manner;
- expand and share the Companies' cultivated problem-solving capabilities with the world; and
- create a resilient corporate entity with the capacity to anticipate change and respond flexibly.

3. Medium-term Business Strategy of the New Integrated Company

(i) Basic policies

- In order to create a resilient business portfolio^{*1}, the New Integrated Company will aim to enhance the competitiveness of the core businesses, the petroleum business and the basic chemicals business, and accelerate its efforts in growing industries and fields.
- The New Integrated Company will pursue the “noble use” of petroleum^{*2}, and aim to enhance the competitiveness of the entire value chain in the Asian region, including the Nghi Son Refinery, as well as the seven refineries and petrochemical plants in Japan.
- With respect to the integration synergies, which are a major purpose of the Business Integration, the New Integrated Company will realize synergies of 60.0 billion yen in 2021.
- The New Integrated Company will actively develop the growing fields of functional materials business, renewable energy, and electricity business, in and outside Japan.
- With respect to cash flow, the New Integrated Company will make optimum allocations for shareholder returns, strategic investments, and enhancements of its financial capacity.
- The New Integrated Company will build an advanced governance system, as well as focus greater emphasis on risk management in order to respond to changes in the management environment.
- The New Integrated Company will actively make efforts to create a sustainable society.
- The New Integrated Company will realize an environment where each employee can, through the business, perform to his or her full potential and achieve growth.

*1 The resilient business portfolio will enable us to flexibly address substantial changes to the business environment over the medium and long term.

*2 This refers to the notion of using more sophisticated means of drawing on strengths wielded in terms of petroleum.

(ii) Business segments and business strategies

- Petroleum/Basic chemicals
We will enhance competitiveness from manufacturing to sales and develop refineries, wholesale, sales, and petrochemical business overseas.
- Functional materials
We will proactively develop technology-based businesses in growing areas and markets.
[Lubricants, performance chemicals, electronic materials, functional asphalt, agricultural biotechnology, and solid electrolytes]
- Power / Renewable energy
We will develop renewable energy, LNG power, solar panel and distributed generation business, and promote next-generation energy management system.
- Resources
We will commence natural gas development in Asia in addition to existing petroleum and coal development.

4. Integration synergies

The Brighter Energy Alliance, which commenced in May 2017, is extending into various fields such as crude oil procurement, production, logistics, and joint procurement. Due to the Business Integration, synergies of 30 billion yen will be realized in 2019, and additional synergies of 30 billion yen are further expected by the end of FY 2021, as follows.

Field	Major items	Expected synergies
Crude oil procurement	<ul style="list-style-type: none">• Jointly procure crude oil• Jointly allocate crude oil tankers• Reduce ship chartering and new shipbuilding costs	1.5 billion yen
Supply/demand, overseas, logistics, and sales	<ul style="list-style-type: none">• Integrate production planning system• Interchange finished and intermediate products at the seven refineries• Mutually utilize oil terminal and joint shipping• Integrate imports/exports and expand overseas sales• Reorganize oil terminals	29 billion yen
Manufacturing and procurement	<ul style="list-style-type: none">• Develop best practices for initiatives to improve refinery margins• Reduce procurement costs through joint procurement• Optimize adaptation to IMO MARPOL's treaty response to reduced gasoline demand, etc.	20.5 billion yen
Shared	<ul style="list-style-type: none">• Reduce duplicate costs through organizational integrations (such as office integrations)• Optimize capital investment• Mutually use lubricant bases• Others (such as IT system, and promoting BPR)	9 billion yen
Total		60 billion yen

5. Management targets (FY 2019 to FY 2021)

The New Integrated Company will work to carry out its Medium-term Business Strategies and realize the integration synergies so that it can achieve accumulated net income for the total of the three years from FY 2019 to FY 2021 of 500 billion yen or more, and for FY 2021, achieve net income of 200 billion yen, ROE of over 10%, and a net D/E ratio for 0.5 times or less.

The New Integrated Company will announce the medium-term management plan, including the long-term vision, around October 2019.

	FY 2018 Plan Idemitsu Kosan / Showa Shell	FY 2021 Plan
Net income (excluding inventory impact and one-time factors)	124 billion yen / 62.5 billion yen	200 billion yen (FY 2021) 500 billion yen or more (total of three years)
Integration synergies	30 billion yen (FY 2019)	60 billion yen (FY 2021)
ROE*	13.8% / 21.5%	Over 10% (FY 2021)
Net D/E	0.90 / 0.06	0.5 times or less (FY 2021)

*ROE: Net income attributable to owners of the parent / Average total shareholders' equity

6. Investment strategies

A total investment of 500 billion yen will be allocated for the three years from FY 2019 to FY 2021, and the New Integrated Company will follow a policy of concentrating investment into growth markets, growth fields and structural reforms.

Looking at investment by business segment, 250 billion yen will be allocated for petroleum and basic chemicals, 120 billion yen will be used for functional materials, electricity, and renewable energy, and 130 billion yen will be invested in resources.

Total investment (total of three years) 500 billion yen	<u>Petroleum / basic chemicals:</u> <ul style="list-style-type: none">● Revamp refineries● Establish and expand overseas sites● Enhance the service station network	250 billion yen
	<u>Functional materials, electricity, and renewable energy:</u> <ul style="list-style-type: none">● Overseas bases handling lubricants● Overseas production facilities handling performance chemicals and organic EL● Secure electricity sources in and outside Japan● Promote research and development (solid electrolytes)● New businesses	120 billion yen
	<u>Resources:</u> <ul style="list-style-type: none">● Develop gas fields in Vietnam● Redevelop the Snorre field in the North Sea	130 billion yen

7. Shareholder return policies

With consideration for the return of profits to shareholders, which is an important responsibility of management, the New Integrated Company will steadily secure income by realizing the effects of integration and shareholder returns.

The target of total net income for the period from FY 2019 to FY 2021 is 500 billion yen or more, and the New Integrated Company will aim to implement a shareholder return of 50% or more of such total amount. (10% or more of the shareholder return for each fiscal year will be provided through the acquisition of treasury shares)

■ Frequently asked questions and answers (Q&A)

Q1 What is a share exchange?

A1 A share exchange is a form of business combination widely used among listed companies whereby a wholly owning parent company comes into existence upon issuing shares of one corporation to the shareholders of another corporation.

The Company and Idemitsu Kosan are carrying out this Business Integration by means of share exchange whereby the common stock of Idemitsu Kosan will be issued to shareholders of the Company's common stock.

Q2 How many shares of Idemitsu Kosan stock will be issued through the Share Exchange?

A2 Shareholders who are listed on the Company's latest Register of Shareholders on March 31, 2019, the day prior to the effective date of the share exchange, will be issued 0.41 shares of Idemitsu Kosan common stock for every one share of the Company's common stock held by such shareholders.

(Example 1) Holdings amounting to 1,000 shares of the Company's common stock

$$1,000 \text{ shares} \times 0.41 = 410 \text{ shares}$$

The above calculation indicates that 410 shares of Idemitsu Kosan common stock would be issued to the shareholder.

Under this scenario, the remaining 10 shares, which constitute less than one unit (100 shares), may be liquidated upon requesting that Idemitsu Kosan purchase those shares. Otherwise, the shareholder in this case would alternatively be able to purchase an additional 90 shares from Idemitsu Kosan to yield one full share unit of 100 shares. Please refer to question 5, below, for further details in this regard.

(Example 2) Holdings amounting to 10 shares of the Company's common stock

$$10 \text{ shares} \times 0.41 = 4.1 \text{ shares}$$

The above calculation indicates that 4 shares of Idemitsu Kosan common stock would be issued to the shareholder.

Under this scenario, the shareholder would receive cash payment from Idemitsu Kosan with respect to the fractional share of less than one share, for such fractional amount.

Q3 How was the ratio that determines the number of shares of Idemitsu Kosan stock to be issued (share exchange ratio) decided?

A3 The Companies referred to the respective results of the calculations of the share exchange ratio that were performed by the third-party financial advisors, and the share exchange ratio was then decided through prudent discussion by the Companies, treating the share prices of the Companies as the major criteria, while giving consideration to the results of the due diligence mutually implemented by the Companies and the interests, etc. of the shareholders of the Companies. The Company has also obtained written fairness opinion from the third-party financial advisors attesting that this share exchange ratio is appropriate or fair from a financial perspective under certain conditions.

- Q4 What procedures are necessary in order to exchange holdings of the Company's shares for those of Idemitsu Kosan?
- A4 There are no shareholder requirements in that regard. As of April 1, 2019 (scheduled), the effective date of the Share Exchange, Idemitsu Kosan shares are to be automatically issued to the brokerage accounts of shareholders recorded in the Company's latest Register of Shareholders on March 31, 2019.
- Q5 What will happen if the Share Exchange results in a shareholder having shares constituting less than one unit?
- A5 The number of shares in one share unit of Idemitsu Kosan is 100 shares. As such, if the Share Exchange results in a shareholder ending up with shares constituting less than one unit of 100 shares, then that shareholder may liquidate such holdings by requesting that Idemitsu Kosan purchase such shares constituting less than one unit. Otherwise, the shareholder alternatively may request that Idemitsu Kosan sell the shareholder the number of shares needed to yield one full unit of 100 shares, in conjunction with such holdings of shares constituting less than one unit. Note that shares constituting less than one unit may not be sold on the market.
- Q6 How will this affect the year-end dividend for the fiscal year ending March 31, 2019?
- A6 We ask that our shareholders approve our resolution at this Extraordinary Shareholders Meeting to provide a year-end dividend of 85 yen per share for the fiscal year ending March 31, 2019 (item for resolution number 3). If the resolution gains approval, the Company intends to make payment of dividends on the record date of such dividends on June 28, 2019, to shareholders (shareholders or registered pledgees of shares listed on the Company's Register of Shareholders) who own shares as of the effective date of appropriation of profit on March 31, 2019.
- (Note) The record date of the year-end dividend for the present fiscal year has become March 31, 2019 as a result of the change of the closing date of the fiscal year made at the 106th Annual General Meeting of Shareholders held on March 28, 2018.
- Q7 When will shareholders receive dividends from Idemitsu Kosan?
- A7 Shareholders who hold Idemitsu Kosan shares issued on April 1, 2019 as of September 30, 2019, will receive payment of interim dividends from Idemitsu Kosan, as resolved by its Board of Directors, given that such shareholders will have been recorded in Idemitsu Kosan's Register of Shareholders on the same date. Please check the content of "7. Shareholder return policies" on page 10 for details regarding shareholder return policies subsequent to the integration.
- Q8 How much longer will it be possible to trade shares of the Company?
- A8 The Company's shares are to be delisted on March 27, 2019, due to the Share Exchange. As such, trading of the Company's shares is available until March 26, 2019, which is the day before the shares are to be delisted. Idemitsu Kosan shares that have been issued due to the Share Exchange may be traded beginning on April 1, 2019.

Q9 When will it be possible to attend Idemitsu Kosan's General Meeting of Shareholders?

A9 Arrangements are planned to be made that will enable you to attend Idemitsu Kosan's Ordinary General Meeting of Shareholders scheduled to be held in late June 2019. Although the record date for voting rights at the said ordinary general meeting of shareholders is March 31, 2019, it is planned that a resolution at the Board of Directors meeting of Idemitsu Kosan will be made to grant voting rights at the said Ordinary General Meeting of Shareholders of Idemitsu Kosan to the shareholders who acquire Idemitsu Kosan shares through the Share Exchange on April 1, 2019.

Note that if the proposal requesting that resolution be passed at this Extraordinary Shareholders Meeting on revisions of the Company's Articles of Association (Resolution item 2), is approved, our shareholders will no longer be able to attend the Annual General Meeting of Shareholders of the Company, which is scheduled to be held in late June 2019.

Inquiries regarding stock (transfer agent)

Shareholders are asked to contact the securities company that handles their equity transactions for information on carrying out procedures such as verification of shareholdings, address changes, inheritance, and arrangements for remittance of dividends.

Please contact the transfer agent listed below if you have questions regarding administrative matters with respect to stock other than the aforementioned.

Transfer Agent

2-8-4, Izumi, Suginami-ku, Tokyo 168-0063, Japan
Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Business Planning Department
Telephone: 0120-782-031 (toll free in Japan)
+81-3-3323-7111 (from overseas)
Open from 9:00 a.m. ~ 5:00 p.m.

Inquiries regarding this information

Daiba Frontier Bldg.
2-3-2, Daiba, Minato-ku,
Tokyo 135-8074, Japan
Showa Shell Sekiyu K.K. Finance Division, Investor Relations
Telephone: +81-3-5531-5594 (from overseas)