

(English Translation)

Consolidated Financial Results for the Second Quarter of Fiscal Year 2018
(From 1 January to 30 June 2018)

9 August 2018

Listed Company Name: Showa Shell Sekiyu K. K. Listed Stock Exchange: Tokyo Stock Exchange 1st Section
Code Number: 5002 URL <http://www.showa-shell.co.jp/english/index.html>
Delegate: Title: Representative Director, President, Executive Officer, CEO Name: Tsuyoshi Kameoka
Contact: Title: Corporate Executive Officer, CFO Name: Takashi Sakata Phone: (03) 5531-5594
Expected date of quarterly report submission: 10 August 2018
Expected date of dividend payment: 10 September 2018
Supporting material for quarterly results: Applicable
The briefing session of quarterly results: Applicable (For analysts and institutional investors)

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

1. Consolidated financial results for the Second Quarter of FY2018 (From 1 January to 30 June 2018)

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

(1) Consolidated financial results

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
		%		%		%		%
2Q FY2018	1,222,061	29.0	73,968	216.6	75,423	176.0	46,543	190.0
2Q FY2017	947,473	11.3	23,362	49.0	27,323	106.5	16,046	206.6

(Note) Comprehensive income 2Q FY2018: 47,750 million yen; (169.8 %) 2Q FY2017: 17,697 million yen; (296.4 %)

	Earnings per share	Diluted earnings per share
	Yen	Yen
2Q FY2018	123.58	-
2Q FY2017	42.61	-

(2) Consolidated financial position

	Total assets	Net assets	Net assets (excl. Non-controlling interests) to total assets
			%
2Q FY2018	1,129,916	312,078	25.8
FY2017	1,038,882	275,451	24.4

(Note) Net assets (excl. Non-controlling interests) 2Q FY2018: 291,977 million yen
FY2017: 253,364 million yen

2. Dividends

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

(Note) Revision of dividend forecast during this quarter: Yes

In Accordance with the Revisions of the Company's Articles of Association approved in the 106th Annual General Meeting of Shareholders held on 28 March 2018, the record date of the dividend has been changed, effective from the year-end dividend in 107th business year of the Company, which is the transitional period of the fiscal year change. The recording date of the year-end dividends for fiscal year 2018 is March 31, 2019. In connection with the resolution of the 106th Annual General Meeting of Shareholders as of 28 March 2018 to change its accounting period, the dividend forecast for the FY2018 ending on 31 March 2019 is the dividend corresponding to that of the transitional period of 15 months.

The Board of Directors resolved at the meeting held today to revise the year-end dividends for fiscal year 2018. Please refer to the Announcement of revisions in the forecast for the year-end dividends (dividend increase) for fiscal year 2018, which is released today for further details.

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

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
		%		%		%		%	Yen
FY2018	3,200,000	-	158,000	-	160,000	-	100,000	-	265.51

(Note) Revision of forecast of consolidated results: Yes

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

* Notes

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

(4) Number of shares issued (Common shares)

a) Number of shares issued (including treasury shares):	End of 2Q FY2018 :	376,850,400	End of FY2017 :	376,850,400
b) Number of treasury shares:	End of 2Q FY2018 :	221,633	End of FY2017 :	221,026
c) Average number of shares issued:	2Q FY2018 :	376,629,172	2Q FY2017 :	376,630,443

【Reference】 Forecast of non-consolidated financial results

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

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

	Net sales		Ordinary income		Net income		Earnings per share
		%		%		%	Yen
FY2018	3,000,000	-	146,000	-	99,000	-	262.82

(Note)

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

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

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

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

[Supporting material]

Contents

1. Qualitative information concerning quarterly consolidated financial statements	P.2
(1) Qualitative information concerning quarterly consolidated financial results	P.2
(2) Qualitative information concerning quarterly consolidated financial position	P.3
(3) Qualitative information concerning the forecast of consolidated financial results	P.3
2. Quarterly consolidated financial statements and Notes	P.4
(1) Quarterly consolidated balance sheet	P.4
(2) Quarterly consolidated statement of income and Quarterly consolidated statement of comprehensive income	P.6
(3) Quarterly consolidated statement of cash flows	P.8
(4) Notes to quarterly consolidated financial statements	P.9
(Note for premises of going concern)	P.9
(Note in case of significant changes in shareholders' equity)	P.9
(Changes in scope of significant consolidated subsidiaries during the period)	P.9
(Adoption of special accounting methods for preparing quarterly consolidated financial statements)	P.9
(Changes in accounting principles, accounting estimates and restatement)	P.9
(Segment information)	P.10
(Significant subsequent events)	P.11

1. Qualitative information concerning quarterly consolidated financial statements

(1) Qualitative information concerning quarterly consolidated financial results

Showa Shell Sekiyu Group (“the Group”) reported consolidated net sales of 1,222.0 billion yen, an increase of 29.0 % compared to the same period a year ago, consolidated operating income of 73.9 billion yen, an increase of 50.6 billion yen compared to the same period a year ago, and consolidated ordinary income of 75.4 billion yen, an increase of 48.0 billion yen compared to the same period a year ago, for the second quarter of fiscal year 2018. Those increases in profit are mainly attributable to improved margins for petroleum products in the domestic market. The relevant consolidated ordinary income excluding the impact of the inventory valuation was 55.1 billion yen, an increase of 34.6 billion yen compared to the same period a year ago.

(Crude oil prices and foreign exchange rate)

	Dubai crude oil price (USD/Barrel)	Exchange rate (JPY/USD)
2Q of FY2017 (From 1 January to 30 June 2017)	51.4	112.3
2Q of FY2018 (From 1 January to 30 June 2018)	68.0	108.7
Difference	16.6	(3.7)

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

The business results by segment are as follows:

[Oil Business]

During the first six months of the fiscal year under review, operating income for the oil business, excluding the impact of inventory valuation, reflected the improvement in the balance of supply and demand for oil products in the Japanese market achieved with the completion of the Secondary Sophistication Act. on 31 March 2017. Second quarter results exceeded 20.0 billion yen for the third consecutive quarter since the fourth quarter of fiscal year 2017.

The group refinery operating rate exceeded both the industry average and the same period last year, during which the Yokkaichi Refinery underwent large-scale regular maintenance. Total domestic sales volume for gasoline, diesel oil, kerosene and the rest of the four main fuel types decreased compared to the same period last year, meanwhile the retail sales volume slightly surpassed the previous year. In the retail segment we have been promoting differentiation strategy in products and services.

Mixed Xylene and other petrochemicals recorded substantial growth in sales volume, owing to the contribution of Yokkaichi Refinery’s toluene disproportionation process (TDP) facilities which commenced commercial operations in June 2016, and comparison with last year, when the Yokkaichi Refinery ceased operation to undergo regular maintenance. Exports of gasoline and middle distillates (diesel oil in particular) recorded strong growth compared to last fiscal year, due to the regular maintenance at Yokkaichi Refinery mentioned above. Firm market conditions in Asia also underpinned the growth and the Group adopted flexible stance on exporting products while keeping an eye on the supply-demand trend in the Japanese market. As a result of the above factors, the oil business reported net sales of 1,167.6 billion yen (an increase of 30.4% year on year) and operating income of 75.1 billion yen (an increase of 47.9 billion yen year on year). The relevant operating income excluding the impact of inventory valuation reached 54.8 billion yen (an increase of 34.5 billion yen year on year).

[Energy Solutions Business]

In the solar business, we focused on the rooftop market mainly in residential housing in Japan which has relatively high profitability, based on the new business strategy we have been pursuing since the end of 2016. We also reduced raw material costs, worked to increase the multifunctionality of our main Kunitomi Plant, and took other steps to reduce costs further to bring the business back into the black as quickly as possible. For residential sales in Japan, we began selling the higher output “SmaCIS (S-type)” solar modules (products with a per panel output of 180W and 185W) in January 2018, based on the “SmaCIS” concept of increasing installation volumes, reducing costs through a simple construction method, and beautiful exteriors. We restructured production of solar modules, suspending production temporarily at Tohoku Plant in September 2017, halting production at Miyazaki Plant in December of the same year, and commencing production of plural types of modules at Kunitomi Plant.

The electric power business contributed to the stable generation of profit by continuing the stable, high operating rate at the Group’s power plants. We expanded the sales areas in September 2017 and began selling

to the Tohoku, Chubu, Chugoku and Kyushu areas in stages, in addition to Tokyo Electric Power Company's existing supply area. We also began sales in the Kansai and Shikoku areas in March 2018, and are now actively selling to an area that covers 92% of total demand in Japan.

As a result of the above factors, the energy solutions business reported net sales of 50.4 billion yen (an increase of 5.4% year on year) and operating loss of 1.7 billion yen (an improvement of 2.4 billion yen year on year).

[Other Business]

The other business reported net sales of 3.9 billion yen and operating income of 0.6 billion yen.

(2) Qualitative information concerning quarterly consolidated financial position

Consolidated total assets reached 1,129.9 billion yen at the end of the second quarter, an increase of 91.0 billion yen from the end of the previous year.

Consolidated total liabilities were 817.8 billion yen, an increase of 54.4 billion yen compared to the end of the previous year. Short- and long-term interest-bearing liabilities (borrowing, CP and bonds) were 123.0 billion yen, an increase of 5.5 billion yen from the end of the previous year.

Net assets were 312.0 billion yen, an increase of 36.6 billion yen from the end of the previous year. This was mainly due to increasing factors such as an increase in net profit exceeded decreasing factors such as the year-end distribution of retained earnings.

As a result, capital adequacy ratio stands at 25.8% at the end of the second quarter.

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

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

The forecasts of consolidated and non-consolidated financial results for FY2018 (from 1 January 2018 to 31 March 2019) that were announced on 9 May 2018, and revisions in the forecast for the year-end dividends for FY2018 that was announced on 14 February 2018 have been revised. Please refer to the Announcement of Revision in the Financial Forecasts for FY2018, and the Announcement of revisions in the forecast for the year-end dividends (dividend increase) for FY2018 which is released today for further details.

The forecasts of financial results are based on information available at the time these materials were published. The forecasts contain certain assumptions made by the Company and actual results may differ from the forecast due to various events that may occur in the future.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Millions of yen)

	Previous year end As of 31 December 2017	Current 2nd quarter end As of 30 June 2018
Assets		
Current assets		
Cash and deposits	50,380	100,322
Notes and accounts receivable-trade	280,557	306,199
Merchandise and finished goods	98,938	105,355
Work in process	1,610	1,667
Raw materials and supplies	128,438	141,855
Other	36,463	39,953
Allowance for doubtful accounts	(881)	(876)
Total current assets	595,507	694,476
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	81,102	80,372
Machinery, equipment and vehicles, net	82,263	75,526
Land	139,601	138,710
Other, net	22,068	22,448
Total property, plant and equipment	325,035	317,058
Intangible assets	9,642	9,111
Investments and other assets		
Other	108,905	109,464
Allowance for doubtful accounts	(208)	(194)
Total investments and other assets	108,697	109,270
Total noncurrent assets	443,374	435,439
Total assets	1,038,882	1,129,916
Liabilities		
Current liabilities		
Notes and accounts payable-trade	276,597	341,496
Short-term loans payable	23,715	29,675
Current portion of long-term loans payable	30,625	9,080
Accounts payable-other	164,665	141,539
Income taxes payable	12,737	25,042
Provision for damages to the submarine pipeline	5,502	4,791
Provision for bonuses	2,275	2,195
Other	52,074	47,776
Total current liabilities	568,193	601,596
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	53,116	74,253
Provision for special repairs	14,601	17,402
Liability for retirement benefits	87,801	86,210
Other	29,716	28,374
Total noncurrent liabilities	195,237	216,241
Total liabilities	763,430	817,837

(Unit: Millions of yen)

	Previous year end As of 31 December 2017	Current 2nd quarter end As of 30 June 2018
Net assets		
Shareholders' equity		
Capital stock	34,197	34,197
Capital surplus	22,123	21,805
Retained earnings	202,083	240,716
Treasury stock	(188)	(189)
Total shareholders' equity	258,216	296,530
Accumulated other comprehensive income		
Unrealized holding gain (loss) on securities	4,627	4,168
Unrealized gain (loss) from hedging instruments	(312)	(120)
Foreign currency translation adjustment	(62)	(79)
Retirement benefits liability adjustment	(9,105)	(8,521)
Total accumulated other comprehensive income	(4,852)	(4,553)
Non-controlling interests	22,087	20,101
Total net assets	275,451	312,078
Total liabilities and net assets	1,038,882	1,129,916

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

(Unit: Millions of yen)

	2nd quarter of FY2017 (From 1 January to 30 June 2017)	2nd quarter of FY2018 (From 1 January to 30 June 2018)
Net sales	947,473	1,222,061
Cost of sales	874,339	1,096,743
Gross profit	73,133	125,318
Selling, general and administrative expenses		
Freightage related expenses	18,284	20,003
Personnel expenses	11,637	11,614
Other	19,849	19,732
Total selling, general and administrative expenses	49,771	51,349
Operating income	23,362	73,968
Non-operating income		
Interest income	112	113
Dividends income	795	663
Equity in earnings of affiliates	4,002	1,190
Other	906	1,132
Total non-operating income	5,817	3,100
Non-operating expenses		
Interest expenses	528	422
Sales discounts	603	633
Foreign exchange losses	347	164
Other	376	425
Total non-operating expenses	1,855	1,645
Ordinary income	27,323	75,423
Extraordinary income		
Gain on sales of noncurrent assets	12	344
Subsidy	2,505	2,653
Gain on transfer from business divestiture	-	2,292
Other	580	195
Total extraordinary income	3,098	5,485
Extraordinary losses		
Loss on disposal of noncurrent assets	1,037	719
Impairment loss	342	7,500
Loss on cancellation of the lease contract	1,146	-
Other	2,230	810
Total extraordinary losses	4,757	9,029
Income before income taxes and non-controlling interests	25,663	71,878
Income taxes-current	3,874	24,754
Income taxes-deferred	5,299	(307)
Total income taxes	9,174	24,447
Net income	16,489	47,431
Net income attributable to non-controlling interests	442	888
Net income attributable to owners of the parent	16,046	46,543

Quarterly consolidated statement of comprehensive income
The Second Quarter

(Unit: Millions of yen)

	2nd quarter of FY2017 (From 1 January to 30 June 2017)	2nd quarter of FY2018 (From 1 January to 30 June 2018)
Net income	16,489	47,431
Other comprehensive income		
Unrealized holding gain (loss) on securities	258	(586)
Unrealized gain (loss) from hedging instruments	701	183
Foreign currency translation adjustment	(579)	(16)
Remeasurements of defined benefit plans	521	484
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	306	254
Total other comprehensive income	1,208	318
Comprehensive income	17,697	47,750
Comprehensive income attributable to:		
Owners of the parent	17,224	46,842
Non-controlling interests	473	907

(3) Quarterly Consolidated Statement of Cash Flows

(Unit: Millions of yen)

	2nd quarter of FY2017 (From 1 January to 30 June 2017)	2nd quarter of FY2018 (From 1 January to 30 June 2018)
Operating activities		
Income before income taxes and non-controlling interests	25,663	71,878
Depreciation and amortization	14,094	12,261
Impairment loss	342	7,500
Loss (gain) on sales and disposal of noncurrent assets	1,024	374
Equity in losses (earnings) of affiliates	(4,002)	(1,190)
Increase (decrease) in liability for retirement benefits	(926)	(846)
Interest and dividends income	(908)	(777)
Interest expense and sales discount	1,132	1,055
Decrease (increase) in notes and accounts receivable-trade	49,969	(25,649)
Decrease (increase) in inventories	3,218	(19,663)
Increase (decrease) in notes and accounts payable-trade	(94,228)	59,925
Increase (decrease) in accounts payable-other	4,681	(13,269)
Other, net	(3,851)	(7,252)
Subtotal	(3,790)	84,346
Interest and dividends received	908	778
Interest paid	(1,144)	(1,107)
Income taxes (paid) refunded	(5,786)	(13,811)
Net cash provided by (used in) operating activities	(9,813)	70,205
Investing activities		
Purchase of property, plant and equipment	(8,015)	(16,274)
Purchase of intangible assets	(565)	(480)
Proceeds from sales of property, plant and equipment	273	521
Net decrease (increase) in short-term loans receivable	1,259	2,033
Long-term loans made	(24)	(2,133)
Collection of long-term loans receivable	72	81
Payments for investments in capital	(1,649)	(641)
Purchase of subsidiaries' shares resulting in changes in scope of consolidation	770	-
Proceeds from sales of subsidiaries' shares resulting in change in scope of consolidation	565	-
Proceeds from business divestiture	-	2,550
Other, net	(133)	274
Net cash used in investing activities	(7,447)	(14,069)
Financing activities		
Net increase (decrease) in short-term loans payable	(12,227)	5,960
Increase (decrease) in commercial papers	20,000	-
Proceeds from long-term loans payable	1,000	30,200
Repayment of long-term loans payable	(610)	(30,608)
Cash dividends paid	(7,156)	(7,910)
Cash dividends paid to non-controlling interests	(519)	(1,540)
Purchase of subsidiaries' shares without changes in scope of consolidation	-	(1,753)
Others, net	(545)	(529)
Net cash used in financing activities	(59)	(6,182)
Effect of exchange rate changes on cash and cash equivalents	(154)	(14)
Net increase (decrease) in cash and cash equivalents	(17,473)	49,940
Cash and cash equivalents at the beginning of the period	49,126	48,773
Cash and cash equivalents at the end of the period	31,652	98,713

(4) Notes to quarterly consolidated financial statements

(Notes for premises of going concern)

Not applicable

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

Not applicable

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

Not applicable

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

Not applicable

(Changes in accounting principles, accounting estimates and restatement)

Not applicable

(Segment Information)**I. 2nd quarter of FY2017 (From 1 January to 30 June 2017)**

(Unit: Millions of yen)

	Oil Business	Energy Solutions Business	Subtotal	Others	Total	Adjustment	Consolidated
Net sales							
Sales to customers	895,542	47,858	943,401	4,071	947,473	-	947,473
Inter-segment sales and transfers	2,325	1,370	3,696	3,626	7,322	(7,322)	-
Total	897,868	49,229	947,097	7,697	954,795	(7,322)	947,473
Operating Income/(losses)	27,132	(4,237)	22,894	444	23,338	23	23,362

- Notes: 1. "Others" is a business segment that is not considered a reportable segment. It includes leases of properties, construction works, sales and leases of automobile accessories and others.
2. "Adjustment" of "Operating Income/(losses)" of 23 million yen is treated as intersegment.
3. "Operating Income/(loss)" is reconciled to operating income in the accompanying quarterly consolidated statements of income.

II. 2nd quarter of FY2018 (1 January to 30 June 2018)

(Unit: Millions of yen)

	Oil Business	Energy Solutions Business	Subtotal	Others	Total	Adjustment	Consolidated
Net sales							
Sales to customers	1,167,685	50,442	1,218,128	3,933	1,222,061	-	1,222,061
Inter-segment sales and transfers	2,414	1,406	3,820	3,655	7,476	(7,476)	-
Total	1,170,099	51,849	1,221,949	7,588	1,229,538	(7,476)	1,222,061
Operating Income/(losses)	75,114	(1,783)	73,330	623	73,954	13	73,968

- Notes: 1. "Others" is a business segment that is not considered a reportable segment. It includes leases of properties, construction works, sales and leases of automobile accessories and others.
2. "Adjustment" of "Operating Income/(losses)" of 13 million yen is treated as intersegment.
3. "Operating Income/(loss)" is reconciled to operating income in the accompanying quarterly consolidated statements of income.

(Significant subsequent events)

Business Integration with Idemitsu Kosan Co., Ltd.

The Company held the Board of Directors' meeting on 10 July 2018 and approved the execution of an agreement regarding the business integration (the "Business Integration Agreement"), and executed the Business Integration Agreement effective on that day. The Company and Idemitsu Kosan Co., Ltd. ("Idemitsu Kosan") (collectively the "Companies") decided to realize the business integration (the "Business Integration") by implementing a share exchange (the "Share Exchange"), in which Idemitsu Kosan will distribute its shares to shareholders of the Company and acquire all of the issued shares of the Company.

(1) Purpose of the Business Integration

The core businesses of the Company and Idemitsu Kosan are oil refining and distribution services in Japan. The Companies have operated their businesses in order to accomplish their social missions to provide a stable supply of energy, which is fundamental for the lives of people, and to support energy security in Japan.

The domestic oil industry faces structural challenges such as a medium to long-term decline in the demand for oil products, and overcapacity, which materially influences current and future management not only of the Companies but also of dealers, distributors, transport companies and cooperative companies, that have been working alongside the Companies. Considering that the business environment surrounding the Companies is becoming more challenging, it is not acceptable that the synergies that will be created by the business collaboration and the benefits to be enjoyed are delayed any further because the business integration is behind schedule. Also, the Companies, which are energy related companies, are facing a number of challenges such as environmental countermeasures represented by ESG and SDGs, and higher social demands regarding the governance.

In this challenging business environment, Idemitsu Kosan executed a share purchase agreement to acquire the Company's shares from subsidiary companies of Royal Dutch Shell plc, the largest shareholder of the Company, and entered full-scale discussions with the Company toward the business integration as set forth in the press release of 30 July 2015 by Idemitsu Kosan, titled "Announcement Regarding Acquisition of Showa Shell Sekiyu K.K. Shares (33.3% of the voting rights) from Royal Dutch Shell plc", and held progressive discussions with the Company concerning the business integration in order to create an industry-leading company with an unparalleled competitive position by combining the respective strengths and consolidating the management resources of the Companies, as set forth in the press release of 12 November 2015 by the Companies, titled "Execution of Memorandum of Understanding Regarding the Business Integration of Showa Shell Sekiyu K.K. and Idemitsu Kosan Co., Ltd."

Also, in order to use the time in the run-up to realizing the business integration in the most effective manner, under the alliance name "Brighter Energy Alliance", the Companies are energetically examining measures to realize synergies in the respective overlapping business areas (crude oil & marine, refining, demand-supply, logistics, distribution and corporate sectors), as set forth in the press release of 9 May 2017 by the Companies, titled "Execution of Agreement Regarding the Enhancement and Promotion of the Business Collaboration of Showa Shell Sekiyu K.K. and Idemitsu Kosan Co., Ltd." As a result, the Companies now anticipate achieving on our objectives early, deriving synergies from the alliance amounting to 25 billion yen in three years. Furthermore, the Companies are setting their sights on achieving synergies amounting to 30 billion yen in three years.

However, considering that the business environment surrounding the Companies is becoming more challenging, the Companies recognize that they urgently need to implement the business integration of the Companies, and produce further synergies.

In this connection, the Boards of Directors' meetings of the Companies held on 10 July 2018, resolved to realize the Business Integration on 1 April 2019, through procedures such as the execution of a share exchange agreement (the "Share Exchange Agreement"), by implementing the Share Exchange. The Companies will carry out the Share Exchange, based on approvals by the relevant domestic and foreign competition authorities, after the Companies execute the Share Exchange Agreement and subject to approvals at the extraordinary shareholders' meetings of the Companies to be held in December 2018. The Company and Idemitsu Kosan intend to reinforce the enterprise value of the Companies by implementing the Business Integration, (i) in the short term, by maximizing the creation of synergies and aiming to create an entity with unparalleled competitiveness, and (ii) in the medium to long-term, by evolving in earnest to be a genuinely sustainable entity from the comprehensive perspective of business structure and initiatives concerning environment, society and governance.

(2) Outline of the Business Integration

(a) Method and schedule for the Business Integration

The Companies will carry out the Share Exchange, subject to approval at the extraordinary shareholders' meetings of the Companies to be held in December 2018.

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

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

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

(b) Details of Allotment Concerning the Share Exchange

The share exchange ratio of the Share Exchange will be fairly determined through an agreement between the Companies, by using the respective share prices of the Companies as the main criterion, and based on the results of due diligence reviews to be mutually carried out by the Companies and the profit of the Companies' shareholders, etc.

(c) Details of the Share Exchange Agreement

Details are not yet to be decided, but the Companies will determine details upon further discussion.

(d) Basis for Calculation of Allotment Concerning the Share Exchanges

It is not yet to be confirmed.

(3) Management Structure after the Business Integration, etc.

(a) Initial Directors and Representative Directors after the Implementation of the Business Integration

- (i) After the implementation of the Business Integration, the basic approach to select members of the Board of Directors at Idemitsu Kosan will be fair, merit-based and based on "the right person in the right place" concept, regardless of the company of which such Directors are from, in order to maximize the enterprise value of the Companies.
- (ii) As for the initial Directors of Idemitsu Kosan after implementing the Business Integration, three candidates to be Directors will be nominated by the Company, and five candidates to be Directors will be nominated by Idemitsu Kosan. Two candidates to be Directors recommended by the major shareholders of Idemitsu Kosan are included in the candidates to be Directors nominated by Idemitsu Kosan. However, candidates to be Directors who will assume office as Independent Outside Directors are not included in the abovementioned candidates to be Directors.
- (iii) With regard to candidates to be Directors nominated by the Company and candidates to be Directors recommended by the major shareholders of Idemitsu Kosan, at the extraordinary shareholders' meeting concerning the approval of the Share Exchange Agreement, Idemitsu Kosan will submit proposals to appoint Directors in which the candidates will assume office as Idemitsu Kosan's Directors on 1 April 2019, subject to a condition precedent that the Share Exchange becomes effective.
- (iv) With regard to the initial Representative Directors of Idemitsu Kosan after implementing the Business Integration, the Company and Idemitsu Kosan will respectively nominate two candidates, and the candidates nominated by the Company will assume office as the Representative Directors of Idemitsu Kosan on 1 April 2019.

(b) Tradename

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

(c) Existing Brand

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

(d) Corporate Governance

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

(e) Policy regarding Organization Structure and Human Affairs

- (i) The Companies will promptly consult with each other and agree to an organization structure which aims to create a sense of coherent unity within the group of the Company and Idemitsu Kosan, and realize the maximization of synergies.
- (ii) With regard to the initial Executive Officers (excluding General Managers of refineries and complexes) in charge of the corporate departments and of two or more departments of the petroleum business, General Managers, and Branch Managers of Idemitsu Kosan after the Business Integration is implemented, the Companies will respectively appoint such persons in the same number, and as for those of other departments, the present structure will, in principle, be maintained with consideration for business continuity.

(4) Shareholder Return Policy after the Implementation of the Business Integration

Upon discussions, the Company and Idemitsu Kosan will establish and announce, by the extraordinary shareholders' meetings of the Companies concerning the approval of the Share Exchange Agreement, a medium-term management plan for FY2019 to FY2021 (the “Fiscal Years subject to the Plan”) after the Business Integration is implemented, which takes into account expected effects from the Share Exchange. The Company and Idemitsu Kosan will show, in the medium-term management plan, certain amounts as the final profit objective (current net profit) for the Fiscal Years subject to the Plan, and the accumulated total amount of such amounts, which the Companies assume will be 500 billion yen or more. After the Business Integration is implemented, Idemitsu Kosan will return the final profit for the Fiscal Years subject to the Plan to its shareholders at a certain rate, which is 50% or more.

(5) Discussion, etc. of the Special Committee of the Company at the Execution of the Business Integration Agreement

In order to secure a transparent and fair decision-making process in relation to the Business Integration, the Company held discussion, etc. of the special committee and obtained consent from all Directors (excluding Daisuke Seki and Katsumi Saito, both of whom may have interests in the Business Integration) and all Auditors of Showa Shell, because Idemitsu Kosan has certain interests in the Business Integration. The special committee has four members, who are as follows: Norio Otsuka, Yuko Yasuda, Midori Miyazaki and Kenji Yamagishi, each of whom is an Independent Director/Auditor of the Company.

Share Repurchase and Cancellation of Treasury Shares

Showa Shell Sekiyu K.K. has announced that the Board of Directors resolved at the meeting held today to repurchase its shares in accordance with Article 156 of the Companies Act of Japan, as applied pursuant to paragraph 3 of Article 165 of the Companies Act of Japan and to cancel a part of treasury shares in accordance with the Article 178 of the Act. Details of the repurchase and cancellation are as follows:

(1) Reasons for share repurchase

In the Mid-Term Business Strategy formulated in 2017, the Company stated that further enhance “additional shareholder return” and “strategic investment for the future growth” as our basic policy of cash allocation.

As stated in the document “Announcement of Revisions in the Financial Forecasts for FY2018” released today, we expect a record-high profit for this accounting period with free cash flow far exceeding the original estimate. Given such circumstances, we decided to repurchase shares as an additional shareholder return based on the Mid-Term Business Strategy.

If the year-end dividend is resolved at the extraordinary general meeting of shareholders to be held in December 2018 at the level announced in the document released today, “Announcement of revisions in the forecast for the year-end dividends (dividend increase) for fiscal year 2018”, total payout ratio will be around 50% for the fiscal year 2018.

(2) Details of share repurchase

- | | | |
|--|---|---|
| (a) Class of share | : | Common share of the Company |
| (b) Total number of shares to be repurchased | : | 6 million shares (upper limit) |
| | | (equal to 1.59% of total issued shares excluding treasury shares) |
| (c) Total amount of purchase price | : | 10 billion yen (upper limit) |
| (d) Period for share repurchase | : | From August 16, 2018 to October 31, 2018 |
| (e) Repurchase method | : | Market purchase at the Tokyo Stock Exchange, Japan |

(3) Details of cancellation

- | | | |
|---|---|---|
| (a) Class of share | : | Common share of the Company |
| (b) Total number of shares of treasury shares to be cancelled | : | All of the shares of common share to be repurchased pursuant to 2 above |
| (c) Scheduled date of cancellation | : | 30 November 2018 |

(Reference)

- | | | |
|--|---|-------------|
| Number of outstanding shares excluding treasury shares | : | 376,680,466 |
| Number of treasury shares as of June 30, 2018 | : | 169,934 |