

SHOWA SHELL SEKIYU and Idemitsu Kosan Announced their Business Integration—JCR Already Incorporated into Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on announcements by SHOWA SHELL SEKIYU K.K. (security code: 5002) and Idemitsu Kosan Co., Ltd. (security code: 5019) on entering into agreement on their business integration.

- (1) SHOWA SHELL SEKIYU K.K. and Idemitsu Kosan Co., Ltd. announced on July 10, 2018 that they had entered into a business integration agreement and would integrate their businesses on April 1, 2019. They announced on July 30, 2015 that they would enter full-scale discussions toward a business integration. Since May 2017, they have been enhancing and promoting business collaboration by forming a business group ahead of business integration. The integration is subject to the approval of the relevant domestic and foreign competition authorities and approvals at the 2 companies' extraordinary shareholders' meetings. However, it is considered that the major concern, agreements by Idemitsu Kosan's largest shareholders, had been obtained and that the big obstacle to the realization of business integration therefore has been cleared.
- (2) In the oil refining and distribution industry, integration between former JX Holdings and former TonenGeneral Sekiyu in April 2017 created JXTG Group, which holds 50% shares for domestic fuel oil sales. This event significantly improved the environment in the industry. The integration between the 2 companies will create a business group which has approximately 30% domestic shares, the 2nd largest share after JXTG Group. The 2 companies have been promoting collaboration towards enhancement of competitive strength. JCR assumes that they will be able to realize further expansion of synergistic effects through the business integration.
- (3) JCR assesses the 2 companies current ratings based on their business base and financial base and has been incorporating their various kinds of initiatives for the business integration. JCR therefore does not intend to change their ratings immediately due to the business integration. JCR will confirm the details of a share exchange agreement to be entered into in October 2018 and impact on the financial structure. JCR will also pay close attention to details of the 2 companies' medium-term management plans that are scheduled to be announced before their extraordinary shareholders' meetings to be held in December 2018.

Hiroyuki Chikusa, Masayoshi Mizukawa

<Reference>

Issuer: SHOWA SHELL SEKIYU K.K.

Long-term Issuer Rating: A Outlook: Stable

Issuer: Idemitsu Kosan Co., Ltd.

Long-term Issuer Rating: A- Outlook: Positive

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