(English Translation)

Consolidated Financial Results for the First Quarter of Fiscal Year 2018 (From January 1 to March 31, 2018)

May 9, 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: May 11, 2018
Expected date of dividend payment: -
Supporting material for quarterly results: Applicable
The briefing session of quarterly results: Applicable (For analysts and institutional investors)

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

1. Consolidated financial results for the First Quarter of FY2018 (From January 1 to March 31, 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	
		%		%		%		%
1Q FY2018	601,804	19.6	31,866	40.7	32,733	35.5	23,426	66.2
1Q FY2017	503,116	16.3	22,643	-	24,159	-	14,094	-

(Note) Comprehensive income 1Q FY2018: 22,746 million yen; (47.9 %) 1Q FY2017: 15,383 million yen; (- %)

	Earnings per share	Diluted earnings per share
	Yen	Yen
1Q FY2018	62.20	-
1Q FY2017	37.42	-

(2) Consolidated financial position

	Total assets	Net assets	Net assets (excl. Non-Controlling interests) to total assets
			%
1Q FY2018	1,014,499	288,747	26.4
FY2017	1,038,882	275,451	24.4

(Note) Net assets (excl. Non-controlling interests) 1Q FY2018: 267,697 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	-					
FY2018 (Forecast)		21.00	-	-	31.50	52.50

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

In Accordance with the Revisions of the Company's Articles of Association approved in the 106th Annual General Meeting of Shareholders held on March 28, 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.

In connection with the resolution of the 106th Annual General Meeting of Shareholders as of March 28, 2018 to change its accounting period, the dividend forecast for the FY2018 ending on March 31, 2019 is the dividend corresponding to that of the transitional period of 15 months.

3. Forecast of consolidated financial results for FY2018 (From January 1, 2018 to March 31, 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
2Q FY2018	1,040,000	9.8	38,000	62.7	38,000	39.1	26,000	62.0	69.03
FY2018	2,600,000	-	98,000	-	98,000	-	66,000	-	175.24

(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 March 28, 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)	As of March 31, 2018 :	376,850,400	As of December 31, 2017 :	376,850,400
b) Number of treasury shares	As of March 31, 2018 :	221,061	As of December 31, 2017 :	221,026
c) Average number of shares issued	1Q FY2018 :	376,629,365	1Q FY2017 :	376,630,616

【Reference】Forecast of non-consolidated financial results

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

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

	Net sales		Ordinary income		Net income		Earnings per share
		%		%		%	Yen
2Q FY 2018	970,000	9.9	35,000	5.1	23,000	2.8	61.07
FY2018	2,450,000	-	80,000	-	52,000	-	138.07

(Note)

In Accordance with the Revisions of the Company's Articles of Association approved in the 106th Annual General Meeting of Shareholders held on March 28, 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]

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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 601.8 billion yen, an increase of 19.6 % compared to the same period a year ago, consolidated operating income of 31.8 billion yen, an increase of 9.2 billion yen compared to the same period a year ago, and consolidated ordinary income of 32.7 billion yen, an increase of 8.5 billion yen compared to the same period a year ago, for the first 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 26.5 billion yen, an increase of 10.8 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)
1Q of FY2017 (January 1, 2017 through March 31, 2017)	53.0	113.6
1Q of FY2018 (January 1, 2018 through March 31, 2018)	64.0	108.2
Difference	11.0	(5.4)

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

The business results by segment are as follows.

[Oil Business]

Consolidated operating income for the oil business, excluding the impact of inventory valuation, exceeded 20.0 billion yen during the first quarter, the second consecutive period to exceed this level since the fourth quarter of fiscal year 2017. This growth reflected the balance of supply and demand for domestic oil products which has improved with the completion of the Secondary Sophistication Act. by March 2017.

The Group refinery operating rate exceeded both the same period last year and the industry average due in part to the fact that there was no scheduled maintenance and repair. Total domestic sales volume for gasoline, diesel oil, kerosene and the rest of the four main fuel types was slightly less than last fiscal year, excluding the effects of business partnerships in the Yokkaichi area.

Mixed xylene and other petrochemicals benefitted from the contribution of Yokkaichi Refinery’s toluene disproportionation process (TDP) facilities which commenced commercial operations in June 2016, resulting in year-on-year growth in sales volume and continued maximization of production. Exports of gasoline and middle distillates (diesel oil in particular) increased over the first quarter of last fiscal year, during which scheduled maintenance and repair occurred during the second quarter. Firm market conditions in Asia also underpinned the growth and the Group adopted on 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 578.5 billion yen (an increase of 20.8% year on year) and operating income of 34.0 billion yen (an increase of 8.6 billion yen year on year). Operating income excluding the impact of inventory valuation reached 27.9 billion yen (an increase of 10.9 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) from January 2018, based on the “SmaCIS” concept of increasing installation volumes, reducing costs through a simple construction method, and beautiful exteriors. Regarding the production of solar modules, we halted production at our Tohoku Plant in September 2017, halted production at our Miyazaki Plant in December of the same year, and consolidated production from both plants at the 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 also expanded the sales areas in September 2017 and began selling to the Tohoku, Chubu, Chugoku, and Kyushu areas in stages, in addition to Tokyo Electric Power Company’s existing supply area. We also began sales in the Kansai and Shikoku areas in March 2018, and are now actively selling to an area that covers 92% of total demand in Japan.

As a result of the above factors, Energy Solutions Business net sales were 21.2 billion yen (a decrease of 4.6% year on year) and operating loss was 2.4 billion yen (an increase of 0.6 billion yen year on year).

[Other Business]

Other Business net sales were 1.9 billion yen, with operating income of 0.2 billion yen.

(2) Qualitative information concerning quarterly consolidated financial position

Consolidated total assets reached 1,014.4 billion yen at the end of the first quarter, a decrease of 24.3 billion yen from the end of the previous year.

Consolidated total liabilities were 725.7 billion yen, a decrease of 37.6 billion yen compared to the end of the previous year. Short- and long-term interest-bearing liabilities (borrowing, CP and bonds) were 157.4 billion yen, an increase of 40.0 billion yen from the end of the previous year.

Net assets were 288.7 billion yen, an increase of 13.2 billion yen from the end of the previous year. This was mainly due to positive factors such as an increase in net profit exceeded negative factors such as payment for the final dividend in the first quarter.

As a result, capital adequacy ratio stands at 26.4 % at the end of the first quarter.

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

A change in the accounting period was approved at the 106th Annual General Meeting of Shareholders held on March 28, 2018. The fiscal year for the company will therefore be from April 1 each year to March 31 of the following year. The 107th term, which is the transitional year for the fiscal year change, will be 15 months commencing on January 1, 2018 and ending on March 31, 2019.

The forecast of consolidated financial results for January through December 2018 that was announced on February 14, 2018, has consequently been revised to a forecast of consolidated and non-consolidated financial results announced for the period extending from January 1, 2018 through March 31, 2019. Please refer to the Announcement of Revision in the Financial Results due to the Change of Accounting Period (Closing Date), which is released today for further details.

The forecast of financial results is based on information available at the time these materials were published. The forecast contains 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 December 31, 2017	Current 1st quarter end As of March 31, 2018
Assets		
Current assets		
Cash and deposits	50,380	77,392
Notes and accounts receivable-trade	280,557	252,437
Merchandise and finished goods	98,938	99,557
Work in process	1,610	2,020
Raw materials and supplies	128,438	106,797
Other	36,463	34,913
Allowance for doubtful accounts	(881)	(875)
Total current assets	595,507	572,243
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	81,102	83,308
Machinery, equipment and vehicles, net	82,263	81,735
Land	139,601	139,511
Other, net	22,068	20,621
Total property, plant and equipment	325,035	325,176
Intangible assets	9,642	9,352
Investments and other assets		
Other	108,905	107,934
Allowance for doubtful accounts	(208)	(207)
Total investments and other assets	108,697	107,726
Total noncurrent assets	443,374	442,255
Total assets	1,038,882	1,014,499
Liabilities		
Current liabilities		
Notes and accounts payable-trade	276,597	226,929
Short-term loans payable	23,715	23,765
Current portion of long-term loans payable	30,625	9,610
Commercial paper	-	40,000
Accounts payable-other	164,665	140,071
Income taxes payable	12,737	11,368
Provision for damages to the submarine pipeline	5,502	5,492
Provision for bonuses	2,275	3,742
Other	52,074	48,090
Total current liabilities	568,193	509,071
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	53,116	74,106
Provision for special repairs	14,601	16,166
Liability for retirement benefits	87,801	86,992
Other	29,716	29,413
Total noncurrent liabilities	195,237	216,679
Total liabilities	763,430	725,751

(Unit: Millions of yen)

	Previous year end As of December 31, 2017	Current 1st quarter end As of March 31, 2018
Net assets		
Shareholders' equity		
Capital stock	34,197	34,197
Capital surplus	22,123	22,123
Retained earnings	202,083	217,600
Treasury stock	(188)	(188)
Total shareholders' equity	258,216	273,733
Accumulated other comprehensive income:		
Unrealized holding gain (loss) on securities	4,627	3,685
Unrealized gain (loss) from hedging instruments	(312)	(688)
Foreign currency translation adjustment	(62)	(178)
Retirement benefits liability adjustment	(9,105)	(8,854)
Total accumulated other comprehensive income	(4,852)	(6,036)
Non controlling interests	22,087	21,050
Total net assets	275,451	288,747
Total liabilities and net assets	1,038,882	1,014,499

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

(Unit: Millions of yen)

	1st quarter of FY2017 (January 1 through March 31, 2017)	1st quarter of FY2018 (January 1 through March 31, 2018)
Net sales	503,116	601,804
Cost of sales	454,789	544,520
Gross profit	48,326	57,284
Selling, general and administrative expenses		
Freightage related expenses	9,708	10,287
Personal expenses	5,739	5,840
Other	10,235	9,289
Total selling, general and administrative expenses	25,683	25,418
Operating income	22,643	31,866
Non-operating income		
Interest income	56	56
Dividends income	390	217
Equity in earnings of affiliates	2,009	960
Other	470	531
Total non-operating income	2,926	1,765
Non-operating expenses		
Interest expenses	260	236
Sales discounts	350	335
Other	799	326
Total non-operating expenses	1,410	899
Ordinary income	24,159	32,733
Extraordinary income		
Gain on sales of noncurrent assets	11	141
Subsidy	2,503	2,510
Other	24	7
Total extraordinary income	2,538	2,660
Extraordinary losses		
Loss on disposal of noncurrent assets	317	402
Impairment loss	300	70
Loss on cancellation of the lease contract	1,146	-
Other	1,841	125
Total extraordinary income	3,606	597
Income before income taxes	23,091	34,795
Income taxes-current	4,124	11,317
Income taxes-deferred	4,497	(455)
Total income taxes	8,621	10,861
Net income	14,469	23,934
Net income attributable to non controlling interests	375	507
Net income attributable to owners of the parent	14,094	23,426

Quarterly consolidated statement of comprehensive income
The First Quarter

(Unit: Millions of yen)

	1st quarter of FY2017 (January 1 through March 31, 2017)	1st quarter of FY2018 (January 1 through March 31, 2018)
Net income	14,469	23,934
Other comprehensive income		
Unrealized holding gain (loss) on securities	153	(983)
Unrealized gain (loss) from hedging instruments	738	(374)
Foreign currency translation adjustment	(431)	(115)
Remeasurements of defined benefit plans	260	225
Share of other comprehensive income of affiliates accounted for by the equity method	192	59
Total other comprehensive income	913	(1,187)
Comprehensive income	15,383	22,746
Comprehensive income attributable to		
Sharholders of Showa Shell Sekiyu K.K.	14,986	22,243
Non controlling interests	396	503

(3) 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

(Additional information)

(The business integration between Showa Shell Sekiyu K.K. and Idemitsu Kosan Co., Ltd)

The Company and Idemitsu Kosan Co., Ltd. (collectively, the "Companies") entered into a Memorandum of Understanding (hereinafter the "MoU") for the Business Integration based on a spirit of equal partnership (hereinafter the "Business Integration"), which shall not be legally binding, as of November 12, 2015. The Companies will discuss and formally enter into a legally binding definitive agreement (hereinafter the "Definitive Agreement") through necessary procedures including a resolution by the Board of Directors.

(1) Objectives of the Business Integration

The Companies agreed, in the MoU, to create an industry-leading player unparalleled competitive position by combining the strengths and the management resources of both companies. The new company (the "NewCo") will lead the effort of solving the industry's various structural issues with the aim at improving the lives of Japanese citizens through efficient and stable energy supply.

(2) Method of the Business Integration

The Companies have set a merger as the base structure of the Business Integration, subject to further discussions and an official agreement.

(3) Schedules of the Business Integration

The schedule of the Business Integration has been discussed further with the following target timeline: commencement of due diligence of the Companies and their subsidiaries upon signing of the MoU, followed by the signing of the Definitive Agreement incorporating the definitive details and terms, approval at the shareholders' meetings of both parties, and the launch of the NewCo in April 2017.

However, to secure enough time for both companies to discuss with their respective stakeholders, the Companies have decided that it was not appropriate to set the effective date of the Business Integration as 1 April 2017 pursuant to an extraordinary shareholders meeting or to specify an alternative effective date of the Business Integration. Therefore, the date of the launch of the NewCo is undecided.

(4) Name of the NewCo

The name of the NewCo is currently undetermined and is scheduled to be decided upon further discussion between the Companies.

(5) Location of the head office of the NewCo

The Companies have not yet decided the location of the head office of the NewCo but are planning to find a location different from the current offices of the Companies by the effective date of or as soon as possible after the Business Integration.

(6) Structure of Board of Directors

While the structure of the Board of Directors will be decided upon further discussions between the Companies, Representative Directors and Executive Directors will consist of an equal number of Representatives from each company.

(Enhancement and Promotion of the Business Collaboration of Showa Shell Sekiyu K.K. and Idemitsu Kosan Co.,)

Showa Shell Sekiyu K.K. and Idemitsu Kosan Co., Ltd. (collectively, the "Companies" or "we") have signed an agreement on May 9, 2017 regarding formation of an alliance between both Company groups to enhance and promote business collaboration (the "Alliance") prior to the business integration of the Companies (the "Integration").

We continue to pursue the Integration, but also want to make the most use of our time prior to achievement of the Integration and realize synergies during that period in order to further enhance the corporate value of the Companies. We will form the Alliance as equal business partners, and extensively deepen our business collaboration (hereafter the "Collaboration") while restarting or accelerating the processes for the Integration.

(1) Name of the Alliance

As an alliance with leading competitiveness in Asia, we set the alliance values of the Collaboration as anticipating changes in the business environment, making continuous efforts for self-evolution and boldly striving for upcoming innovations. With that in mind, we will call the Alliance as follows: "Brighter Energy Alliance".

(2) Details of the Alliance

(i) Realizing Synergies from the Integration in the Domestic Petroleum Business

We will realize synergies through the Alliance prior to the Integration by intensively discussing and executing pursuance of synergies as part of the preparation for the Integration.

(ii) Alignment of Business Strategies in Overlapping Business Areas between the Companies

To deal with overlapping business areas after the Integration, the Companies will align their strategies prior to the Integration, and discuss plans to enhance customer value and to become more efficient and competitive.

With respect to sales of products, we will not immediately change any systems of each Company and will continue to operate on each Company basis in principle for the time being.

(iii) Considering Strategies for the Alliance Group and the Integrated New Company

As an alliance, the Companies will proceed with wide-ranging and vigorous planning of initiatives that can contribute to enhancing business efficiency and competitiveness, mid- to long-term management strategies, business plans, investment plans and other initiatives through "Strategic Top-Level Meetings" comprised of the top managements of the Companies and other meetings.

(iv) Promotion of Harmonization between Personnel of the Companies

We mutually respect the differences in culture, codes of conduct, and working style between the Companies and then we aim to harmonize the personnel of the Companies by exploring culture, codes of conduct, and working style after the Integration.

(v) Development of New Services from the Perspective of Customers

We have many customers through the dealers and distributors of the Companies. We will establish a task team from a new perspective gained through the Collaboration for retail business development of new products and services in order to improve convenience and quality of services for customers.

(vi) Further Promotion of Social Contribution Activities

We will collaborate in areas of social contribution activities. We will work together on activities to contribute to the community and to develop the next generation, and will further enhance the scale of these activities.

(vii) Promotion of Initiatives to Realize a Low-Carbon Society

We will develop new measures to reduce carbon dioxide by drawing upon the various renewable energy businesses of the Companies.

Segment Information

I. 1st quarter of FY2017 (January 1 through March 31, 2017)

(Unit: Millions of yen)

	Oil Business	Energy Solutions Business	Subtotal	Others	Total	Adjustment	Consoli-dated
Net sales							
(1) Sales to customers	478,872	22,296	501,168	1,947	503,116	-	503,116
(2) Inter-segment sales and transfers	1,267	675	1,943	2,241	4,184	(4,184)	-
Total	480,140	22,971	503,111	4,189	507,300	(4,184)	503,116
Operating Income/(losses)	25,447	(3,089)	22,358	284	22,643	(0)	22,643

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 loss of (0) million yen is treated as intersegment elimination.
3. Operating income (loss) in the table above is reconciled to operating income in the accompanying quarterly consolidated statements of income.

II. 1st quarter of FY2018 (January 1 through March 31, 2018)

(Unit: Millions of yen)

	Oil Business	Energy Solutions Business	Subtotal	Others	Total	Adjustment	Consoli-dated
Net sales							
(1) Sales to customers	578,574	21,266	599,840	1,964	601,804	-	601,804
(2) Inter-segment sales and transfers	1,611	728	2,339	1,820	4,160	(4,160)	-
Total	580,186	21,994	602,180	3,784	605,965	(4,160)	601,804
Operating Income/(losses)	34,081	(2,448)	31,632	239	31,871	(5)	31,866

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 loss of (5) million yen is treated as intersegment elimination.
3. Operating income (loss) in the table above is reconciled to operating income in the accompanying quarterly consolidated statements of income.