(English Translation)

Consolidated Financial Results for the First Quarter ended March 31, 2017

May 12, 2017

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: CEO, Representative Director Name: Tsuyoshi Kameoka

Contact: Title: Executive Officer Name: Takashi Sakata Phone: (03) 5531-5594

Expected date of quarterly report submission: May 15, 2017
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 three months ended March 31, 2017 (January 1 through March 31, 2017)

(Note) 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	
For the three months ended		%		%		%		%
March 31, 2017	503,116	16.3	22,643	-	24,159	-	14,094	-
March 31, 2016	432,785	(28.2)	(8,137)	-	(8,807)	-	(6,942)	-

(Reference) Comprehensive income Three months ended March 31, 2017: 15,383 million yen; (- %)
Three months ended March 31, 2016: (7,509) million yen; (- %)

	Earnings per share	Diluted earnings per share
For the three months ended	Yen	Yen
March 31, 2017	37.42	-
March 31, 2016	(18.43)	-

(2) Consolidated financial position

	Total assets	Net assets	Net assets (excl. minority interests) to total assets
			%
As of March 31, 2017	933,765	250,225	24.5
As of December 31, 2016	976,134	242,518	22.7

(Reference) Net assets (excl. minority interest) As of March 31, 2017: 229,121 million yen
As of December 31, 2016: 221,291 million yen

2. Dividends

	Dividend per share				
(Record date)	End of 1st Quarter	End of 2nd Quarter	End of 3rd Quarter	End of fiscal year	Total
	Yen	Yen	Yen	Yen	Yen
Full year 2016	-	19.00	-	19.00	38.00
Full year 2017	-				
Full year 2017 (Forecast)		19.00	-	19.00	38.00

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

3. Forecast of consolidated financial results for full year 2017 (January 1 through December 31, 2017)

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

	Net sales		Operating income		Ordinary income		Net income attribute to owners of the parent		Earnings per share
		%		%		%		%	Yen
Interim 2017	1,000,000	17.4	35,000	123.3	35,000	164.5	20,000	282.2	53.10
Full year 2017	2,080,000	20.5	63,000	35.7	68,000	42.1	43,000	154.1	114.17

(Note) Revision of forecast of consolidated results: None

* 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, 2017 :	376,850,400	As of December 31, 2016 :	376,850,400
b) Number of treasury shares	As of March 31, 2017 :	219,832	As of December 31, 2016 :	219,702
c) Average number of shares	As of March 31, 2017 :	376,630,616	As of March 31, 2016 :	376,631,581

* These quarterly results are exempt from the quarterly review procedures.

* 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 consolidated financial statements etc.

(1) Qualitative information concerning consolidated financial results

Showa Shell Sekiyu Group ("the Group") reported consolidated net sales of 503.1 billion yen, an increase of 16.3 % compared to the same period a year ago, consolidated operating income of 22.6 billion yen, an increase of 30.7 billion yen compared to the same period a year ago, and consolidated ordinary income of 24.1 billion yen, an increase of 32.9 billion yen compared to the same period a year ago, for the current three-month period of FY2017. Those increases in profit are mainly attributable to the inventory valuation gains, while inventory valuation loss occurred over the same period of the previous year due to the crude oil price fall in the oil business. The relevant consolidated ordinary income excluding the impact of the inventory valuation was 15.6 billion yen, an increase of 6.4 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/2016	30.6	115.4
1Q/2017	53.0	113.6
Difference	22.4	(1.8)

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

The business results by segment are as follows.

[Oil Business]

With regard to the sales situation of oil products, the domestic fuel sales volume of gasoline, diesel oil, and kerosene, in the first quarter decreased from a year ago level mainly because the first quarter last year contained one day more than the same period of this year. Though crude oil prices stably moved within the range between 50 to 55 dollars per barrel, the domestic fuel margins were unstable as the domestic demand occasionally became sluggish according to weather conditions. Under the circumstances, the Group spent relentless efforts to differentiate itself with such strategies as "Shell V-Power", the high-performance premium gasoline, and "Ponta", the joint point program, while actively exporting products, such as gasoline and diesel oil, in flexible response to changeable market price situations between the domestic and overseas markets. Petrochemical products, such as mixed xylene, continuously enjoyed healthy margins on the back of solid demand growth in Asia, so that the Group continued to maximize the petrochemical production for profit expansion.

As a result, the Oil Business segment reported net sales of 478.8 billion yen, an increase of 21.9% compared to the same period a year ago and operating income of 25.4 billion yen, an increase of 33.5 billion yen compared to the same period a year ago. The relevant consolidated operating income excluding the effects of inventory valuation was 16.9 billion yen, an increase of 7 billion yen compared to the same period a year ago.

[Energy Solutions Business]

With regard to the Solar Business, the domestic demand maintained relatively high in both residential and non-residential markets in the first quarter despite the fact that the domestic feed-in-tariff system change is gradually discouraging new demand creation. On the other hand, the overseas demand continues to grow, but market competition has become harder by decreasing panel prices. Under the tough competition, the Group has been focusing more on the domestic market, where better profitability is expected, according to the new business strategies effective from the second half of last year. Regarding production, Miyazaki Plant in March started production of "SmaCIS", which will roll out in July to capture residential demand. Kunitomi Plant, the mainstay plant, has produced the prototype of high-efficiency panels, which will be commercially available within this year, and stably operated in line with annual plan. Panel selling prices continued to decrease in the domestic market. Financial performance of the Solar Business has been under pressure before the new business strategies come to fruition.

Regarding the Electric Power Business, the Group's power plants as a whole continued to be stably operational in the first quarter. In power sales, it strived to expand business by conducting marketing promotions to increase household customers, for whom it started business because of the full-fledged market deregulation occurred in April 2016.

As a result, the Energy Solutions Business reported net sales of 22.2 billion yen, a decrease of 41.3% compared to the same period a year ago, and operating loss of 3 billion yen, a decrease of 2.6 billion yen compared to the same period a year ago.

[Other Business]

Other Business segment reported net sales of 1.9 billion yen and an operating income of 2 billion yen for the period.

(2) Qualitative information concerning consolidated financial position

Consolidated total assets reached 933.7 billion yen at the end of the first quarter, a decrease of 42.3 billion yen from the end of the previous year.

Consolidated total liabilities were 683.5 billion yen, a decrease of 50.0 billion yen compared to the end of the previous year. Short- and long-term interest-bearing liabilities (borrowing, CP, and bonds) were 152.7 billion yen, an increase of 15.0 billion yen from the end of the previous year.

Net assets were 250.2 billion yen, an increase of 7.7 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 stands at 24.5 % at the end of the first quarter.

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

There is no change in the earnings forecast for the full year 2017, which was published on February 14, 2017. The earnings forecast was prepared based on information available on the announcement date of this document. Actual results may differ from those included in the forecast due to various factors.

2. Quarterly Consolidated Financial Statements and notes

(1) Quarterly Consolidated Balance Sheet

(Unit: Millions of yen)

	Previous year end As of December 31, 2016	Current 1st quarter end As of March 31, 2017
Assets		
Current assets		
Cash and deposits	50,317	22,685
Notes and accounts receivable-trade	233,123	222,250
Merchandise and finished goods	78,810	96,343
Work in process	16,106	16,459
Raw materials and supplies	92,067	84,616
Other	40,067	34,269
Allowance for doubtful accounts	(97)	(81)
Total current assets	510,396	476,543
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	86,472	85,300
Machinery, equipment and vehicles, net	91,785	88,026
Land	140,850	140,799
Other, net	18,309	19,539
Total property, plant and equipment	337,418	333,665
Intangible assets	9,964	9,770
Investments and other assets		
Other	118,614	113,986
Allowance for doubtful accounts	(258)	(199)
Total investments and other assets	118,355	113,786
Total noncurrent assets	465,738	457,222
Total assets	976,134	933,765
Liabilities		
Current liabilities		
Notes and accounts payable-trade	254,242	228,684
Short-term loans payable	42,952	64,052
Current portion of bonds	10,000	10,000
Commercial paper	-	15,000
Accounts payable-other	140,442	108,689
Income taxes payable	4,219	3,514
Provision for damages to the submarine pipeline	94	64
Provision	2,461	3,745
Other	59,440	49,969
Total current liabilities	513,853	483,720
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	74,741	53,716
Provision for special repairs	15,494	16,774
Provision for damages to the submarine pipeline	2,409	2,404
Liability for retirement benefits	91,874	91,027
Other	25,242	25,895
Total noncurrent liabilities	219,761	199,820
Total liabilities	733,615	683,540

(Unit: Millions of yen)

	Previous year end As of December 31, 2016	Current 1st quarter end As of March 31, 2017
Net assets		
Shareholders' equity		
Capital stock	34,197	34,197
Capital surplus	22,123	22,123
Retained earnings	173,645	180,583
Treasury stock	(186)	(186)
Total shareholders' equity	229,780	236,717
Accumulated other comprehensive income:		
Unrealized holding gain (loss) on securities	2,352	2,612
Unrealized gain (loss) from hedging instruments	(855)	(46)
Foreign currency translation adjustment	418	(13)
Retirement benefits liability adjustment	(10,404)	(10,148)
Total accumulated other comprehensive income	(8,488)	(7,595)
Non controlling interests	21,226	21,103
Total net assets	242,518	250,225
Total liabilities and net assets	976,134	933,765

(2) Quarterly consolidated statement of income and Consolidated statement of comprehensive income
Quarterly consolidated statement of income
The Three-Month Period Ended March 31

(Unit: Millions of yen)

	For the three months ended March 31, 2016 (January 1 through March 31, 2016)	For the three months ended March 31, 2017 (January 1 through March 31, 2017)
Net sales	432,785	503,116
Cost of sales	415,725	454,789
Gross profit	17,059	48,326
Selling, general and administrative expenses		
Freightage related expenses	9,329	9,708
Personal expenses	6,156	5,739
Other	9,709	10,235
Total selling, general and administrative expenses	25,196	25,683
Operating income (loss)	(8,137)	22,643
Non-operating income		
Interest income	52	56
Dividends income	395	390
Equity in earnings of affiliates	-	2,009
Gain on investments in silent partnership	464	242
Other	334	227
Total non-operating income	1,246	2,926
Non-operating expenses		
Interest expenses	574	611
Foreign exchange losses	680	578
Equity in loss of affiliates	451	-
Other	210	220
Total non-operating expenses	1,917	1,410
Ordinary loss	(8,807)	24,159
Extraordinary income		
Gain on sales of noncurrent assets	528	11
Subsidy	2,644	2,503
Other	9	24
Total extraordinary income	3,183	2,538
Extraordinary losses		
Loss on disposal of noncurrent assets	208	317
Impairment loss	54	300
Loss on sales of investment securities	106	-
Loss on valuation of investments in securities	-	1,016
Loss on damages to the submarine pipeline	108	-
Loss on cancellation of the lease contract	-	1,146
Other	33	825
Total extraordinary income	511	3,606
Income (loss) before income taxes and non-controlling interests	(6,136)	23,091
Income taxes-current	1,162	4,124
Income taxes-deferred	(666)	4,497
Total income taxes	496	8,621
Net income (loss)	(6,632)	14,469
Net income (loss) attributable to non controlling interests	310	375
Net income (loss) attributable to owners of the parent	(6,942)	14,094

Quarterly consolidated statement of comprehensive income

The Three-Month Period Ended March 31

(Unit: Millions of yen)

	For the three months ended March 31, 2016 (January 1 through March 31, 2016)	For the three months ended March 31, 2017 (January 1 through March 31, 2017)
Income (loss) before minority interests	(6,632)	14,469
Other comprehensive income		
Unrealized holding gain (loss) on securities	(581)	153
Unrealized gain (loss) from hedgind instruments	(127)	738
Foreign currency translation adjustment	(290)	(431)
Remeasurements of defined benefit plans	76	260
Share of other comprehensive income of affiliates accounted for by the equity method	46	192
Total other comprehensive income	(877)	913
Comprehensive income	(7,509)	15,383
Comprehensive income attributable to		
Sharholders of Showa Shell Sekiyu K.K.	(7,790)	14,986
Non controlling interests	281	396

(3) Notes to 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)

None

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

None

(Changes in accounting principles, accounting estimates and restatement)

None

(Additional information)

(Business Integration with 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 on April 1, 2017.

However, to secure enough time for both companies to discuss with their respective stakeholders, we have decided that it is not appropriate to set the effective date of the Merger as April 1, 2017 pursuant to an extraordinary shareholders meeting or to specify an alternative effective date of the Merger at this moment.. 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 yet to decide the location of the head office of the new company 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.

(Execution of Agreement Regarding the 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 (crude oil purchase, refining, supply, logistics, sales, corporate sector), 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.

(Adoption of “Implementation Guidance on Recoverability of Deferred Tax Assets”)

Effective from the beginning of the first quarter of FY2017, Showa Shell Sekiyu Group (“the Group”) adopted “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26 of March 28, 2016).

(5) Segment Information

I. For the three months ended March 31, 2016 (January 1 through March 31, 2016)

(Unit: Millions of yen)

	Oil Business	Energy Solutions Business	Subtotal	Others	Total	Adjustment	Consoli-dated
Net sales							
(1) Sales to customers	392,831	37,972	430,804	1,980	432,785	-	432,785
(2) Inter-segment sales and transfers	1,756	914	2,670	2,048	4,719	(4,719)	-
Total	394,588	38,887	433,475	4,028	437,504	(4,719)	432,785
Operating Income/(losses)	(8,078)	(418)	(8,497)	355	(8,141)	4	(8,137)

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 of 4 million yen is treated as intersegment elimination.
3. Operating income (loss) in the table above is reconciled to operating loss in the accompanying consolidated statements of income.

II. For the three months ended March 31, 2017 (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 consolidated statements of income.