

# Interim result for YR2002/1<sup>st</sup> Half

Date : 21<sup>th</sup> August, 2002

## **1.Main indicators**

[Consolidated] Compared with YR2001 1H

Unit: ¥ M

		Difference	Change (%)
<b>Sales proceed</b>	778,418	78,419	▲ 9.2%
<b>Operating profit</b>	19,759	698	▲ 3.4%
<b>Ordinary profit</b>	21,787	31	▲ 0.1%
<b>Ordinary (CCS)</b>	13,829	10,292	▲42.7%
<b>Net income</b>	9,343	3,629	63.5%

[Unconsolidated] Compared with YR2001 1H

Unit: ¥ M

		Difference	Change (%)
<b>Sales Volume (K kl)</b>	19,876	1,569	▲7.3%
<b>Sales proceed</b>	742,837	74,365	▲9.1%
<b>Operating profit</b>	17,382	1,717	11.0%
<b>Ordinary profit</b>	21,319	2,096	10.9%
<b>Ordinary (CCS)</b>	13,362	8,163	▲37.9%
<b>Net income</b>	10,137	4,186	70.3%

CCS basis: Current Cost of Supply basis, which excludes the impact on reported profit of changes in stock values arising out of changes in crude price.

## **2.OUTLINE OF THE BUSINESS SITUATION**

### **(1). Progress and Results of Business**

During the period, private sector investment in Japan continued to decline and consumer spending was at a standstill owing to concerns over the employment rate and income levels. The Japanese economy as a whole remained depressed.

The Dubai crude oil price was 19 dollars per barrel at the start of the period, and rose in March reflecting global crude oil demand and the unstable situation in the Middle East. Thereafter, the price stabilized at around 24 dollars per barrel.

In the foreign currency markets, the Yen was 131 to the U.S. dollar at the start of the period. After initially weakening to 135 to the dollar in April, the market trend reversed on the back of

economic uncertainty about the state of the US economy. The exchange rate was 119 yen to the dollar at the end of the period.

In the domestic oil markets, gasoline demand continued to increase steadily, but gas oil demand was lower than in the same period last year. The demand for kerosene as heating oil weakened in comparison with last year's strong demand created by cold weather, as temperatures in the first quarter of this year were higher than average. The demand for fuel oil remained weak due to the sluggish economy. Fuel oil demand for power generation was especially weak, partly because fuel oil was substituted by LNG and other fuels, and partly because the demand for electricity fell.

Sales prices were soft throughout the period. Although product prices rose after the end of March owing to an increase in crude oil prices, retail and consumer prices have not fully covered the increased cost of crude oil, as demand for petroleum fell in conditions of tough competition.

## **(2)The process of business activity**

### **<Transformation>**

Against this demanding background, we have continued to rationalize the Company's business portfolio, carry out structural cost reduction and create added value through the pursuit of customer-oriented operations. We have focused our efforts upon various measures to further transform the Company, enhancing growth potential and human resource development.

### **<Retail policy>**

We have carried out various measures, as part of our "Retail Renaissance 21" initiative, involving the introduction of new products and services in order to promote customer satisfaction, proposing new retail outlet designs based upon the customer viewpoint, and offering supportive schemes to strengthen the sales capabilities of our retail network. Specifically, we launched in areas around Tokyo in March, a new high-octane gasoline called "Shell Pura", which revitalizes car engines through the effect of new cleaning agents, and actively promoted the "Shell Helix" brand of automobile lubricants. Furthermore, we have been working to improve the sales network by selective investment in self-service outlets and carrying out activities for the promotion of our "X-Card", a credit card membership scheme devised for individual use. We also introduced an electronic invoicing system in order to improve business efficiency both in the Company and among its dealers.

### **<Rationalization of distribution and the alliance with Japan Energy>**

With respect to domestic distribution, we have been working to optimize our nation-wide product distribution capacity by sharing depot networks and promoting product exchanges with other oil companies. We have improved transportation efficiency by the introduction of nighttime deliveries to service stations. As for joint activities with K.K. Japan Energy, further rationalization in product distribution has been achieved through joint order-taking, joint delivery and the expansion of product exchanges. In addition, appropriate procurement activities were transferred to K.K. J.L.S., a joint venture with K.K. Japan Energy, and joint-procurement of materials started in June.

**<HSE>**

Under the Company's "Health, Safety and Environment Management System" we have been enhancing environmental protection, operational safety and workplace safety & occupational hygiene.

**<HR policy>**

During the period, we launched a new vision for HR, directed at ensuring the high motivation of our employees. Constituent elements include new evaluation schemes and human resource development plans. Furthermore, personnel systems were improved so as to make advanced payment of retirement allowance and annual pension possible, to respond to various needs and values of employees, and to attract capable human resources from the progressively fluid labor market.

### **3. Profit and Loss**

**<Consolidated basis>**

Sales proceeds were ¥778.4 billion (9.2% decrease compared with the same period last year). Besides, Operating profit was ¥19.7 billion (3.4% decrease), and Ordinary profit was ¥21.7 billion (0.1% decrease). Because the Showa Shell group introduced provisioning of periodical shut down maintenance of machinery and equipment from this fiscal year, and because the cost corresponding to past periods was recognized as special loss in this period, Net Income was ¥9.3 billion (63.5% increase).

**<Unconsolidated basis>**

Total sales proceeds were ¥742.8 billion, a decreased of 9.1% when compared with the same period last year because both sales volume and selling prices fell, although they rose by 10.9% over the estimate announced in February this year, due mainly to an increase in cargo sales.

Operating profit was ¥17.3 billion, an increase of ¥1.7 billion over the same period last year, because a decrease in refining cost and inventory valuation gains reduced the cost of sales, although current cost of supply margin fell owing to a decrease in sales volume and low product selling prices which did not fully cover the increase in crude oil prices. The ordinary profit was ¥21.3 billion, an increase of ¥2.0 billion over last year, reflecting improved profit and loss from financial transactions. Excluding the effect of inventory valuation, ordinary profit was ¥13.3 billion, a decrease of ¥8.1 billion over last year (¥21.5 billion).

The Special Profit and Loss account shows a loss of ¥5 billion, since Special Profit was only ¥2.4 billion (mostly gains on the sale of fixed assets), whereas Special Loss included losses on the sale of fixed assets and a ¥4.4 billion provision for periodic shut down maintenance as Showa Yokkaichi Sekiyu K.K. and Toa Sekiyu K.K. as referred to earlier.

Therewith, The net profit after local taxes, business taxes and corporate tax calculated in accordance with deferred tax accounting principles was ¥10.1 billion for this interim period.

#### **4. Dividend**

We have decided to pay a ¥10 per share interim dividend this year. We plan to pay a final dividend of ¥15 per share, giving a total dividend for the year of ¥25 per share.

#### **5. Estimation of YR2002**

We foresee that severe pressure on profitability will continue reflecting sluggish demand and a sluggish economy. We are assuming a crude oil price of \$25.6/barrel and exchange rate of ¥120.0/US\$ for the second half of YR2002. Based on these premises, we estimate the following business result for YR2002.

Estimation

##### **[Consolidated basis]**

Sales	¥1,570 bln
Ordinary Profit	¥40 bln
Net Income	¥21 bln

##### **[Un-consolidated basis]**

Sales	¥1,500bln
Ordinary Profit	¥36 bln
Net Income	¥20 bln