

YR2004 3Q Flash Report on Consolidated Financial Results

12-November-2004

Listed Company Name: Showa Shell Sekiyu K.K. (Code number : 5002 Tokyo, Osaka, Nagoya,
 (URL <http://www.showa-shell.co.jp/>) Fukuoka, Sapporo)
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1. Matters regarding compiling the Quarterly Flash Report

- ① Adoption of simplified accounting method : Applicable Simplified method is adopted in tax calculation
 ② Changes in accounting method : None
 ③ Changes in scope of consolidated and equity subsidiaries : Applicable One new equity subsidiary

2. Consolidated Financial Results (From January 1, 2004 to September 30, 2004)

(Note) Fractions below one million yen are rounded off

(1) Consolidated Business Results

	Sales Proceeds		Operating Income		Ordinary Income		NIAT	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
1 st - 3 rd QTR 2004	1,321,304	—	39,144	—	38,048	—	20,607	—
1 st - 3 rd QTR 2003	—	—	—	—	—	—	—	—
Full year 2003	1,726,917		35,974		38,188		21,000	

	Earning per share	Diluted Earning per share
	Yen	Yen
1 st - 3 rd QTR 2004	55.03	54.99
1 st - 3 rd QTR 2003	—	—
Full year 2003	55.96	55.94

(Note) Percentage shown in columns Sales Proceeds, Operating Income, and NIAT, represents % change over the previous year. Corresponding figures of the previous year are not shown in the table above, as this is the first disclosure of quarterly financial results by the company.

Sales volume of gasoline in the 3rd QTR 2004 (from 1st Jan. 2004 to 30th Sep. 2004) were better than the same period last year due to higher demand stimulated by good weather during the summer. On the other hand, sales volumes of kerosene and A fuel oil decreased because of the warm winter in the 1st QTR, when demand is traditionally highest. Sales volumes of C fuel oil also declined compared with the previous year when sales to power companies were uncharacteristically high. Overall, the total in-land sales volume slightly decreased compared with the previous year.

Consolidated financial results for the quarter were concluded with sales proceeds, ordinary income and net profit being JPY1,321.3 billion, JPY38.0 billion and JPY20.6 billion respectively.

The 3rd QTR ordinary income has already reached the same level of the forecast annual ordinary income announced at the 2004 interim accounts disclosure. This improvement is mainly attributable to the JPY 21 billion decrease in cost of sales arising out of stock profits on the back of the higher crude oil price, to increases in gasoline sales volumes and to additional cost reduction, while the total hydrocarbon margin deteriorated due to low middle distillate spreads.

(2) Consolidated Finance Position

	Total assets	Shareholder's Equity	Shareholder's Equity to Total Assets	Shareholder's Equity per share
	Million Yen	Million Yen	%	Yen
End of 3 rd QTR 2004	895,477	245,460	27.4	654.83
End of 3 rd QTR 2003	—	—	—	—
End of Dec.2003	882,299	234,773	26.6	627.07

【Consolidated cash-flow】

	Cash-flow from Operating activities	Cash-flow from Investing activities	Cash-flow from Financing activities	Balance of cash and cash equivalents at end of period
	Million Yen	Million Yen	Million Yen	Million Yen
1 st - 3 rd QTR 2004	△1,804	△16,449	11,233	8,204
1 st - 3 rd QTR 2003	—	—	—	—
Dec.2003	54,704	△ 7,874	△ 39,167	15,151

Total assets as of the end of the 3rd QTR 2004 were JPY895.4 billion, an increase of JPY13.1 billion compared with 2003 year end. This is mainly because of an increase in stocks on the back of the higher crude oil price and the increase in strategic investments.

With regard to cash flows in the 3rd QTR 2004, the balance of cash & cash equivalents decreased by JPY6.9 billion compared with 2003 year end, as a result of a JPY 1.8 billion net cash outflow in operating activities, JPY 16.4 billion net cash outflow in investing activities and JPY 11.2 billion net cash inflow from financing activities.

The negative cash flow from operating activities was attributable to a decrease in account receivables due to sales volume decline in the quarter end month, and effect of the bank holidays in the previous year end, partly offset by a increase in stocks due to higher unit prices and increased volumes of inventories.

The negative cash flow from investing activities was mainly due to acquisition of investment securities.

The positive cash flow from financing activities was mainly attributable to additional funds raised through issuing commercial paper.

3. Projection of Consolidated Financial Results (For the year from January 1, 2004 to December 31,2004)

	Sales Proceeds	Ordinary Income	NIAT
	Million Yen	Million Yen	Million Yen
Amended announcement	1,850,000	60,000	0
Last announcement	1,810,000	38,000	21,000
Differences (A) – (B)	40,000	22,000	△21,000
Differences (%)	2.2%	57.8%	-

(Reference) Forecast net income per share for the year: 0.00yen

For a projection of 2004 results, consolidated sales proceeds are expected to increase, reflecting higher crude oil prices. Consolidated ordinary income is expected to increase significantly compared with the projection announced at the 2004 interim accounts disclosure. This is mainly because of the diminished cost of sales affected by stock valuation effects and cost reductions previously referred to.

The projection is based on \$34/bbl crude oil price and JPY109/\$ exchange rate (annual averages).

Net income after tax is expected to be 0 because of special losses in which impairment losses of JPY33 billion are most significant. SSSKK has determined on an early introduction of impairment accounting in the 2004 accounts. (Please refer to the appendix “Early introduction of impairment accounting”.)

The JPY15/share term end dividend (JPY30/share annually) is not expected to change.

【Reference】 Forecast of Non-Consolidated Financial Performance (For the year from January 1, 2004 to December 31,2004)

	Sales Proceeds	Ordinary Income	NIAT
	Million Yen	Million Yen	Million Yen
Amended announcement	1,790,000	57,000	0
Last announcement	1,750,000	35,000	21,000
Differences (A) – (B)	40,000	22,000	△21,000
Differences (%)	2.2%	62.8%	-

* The financial results projection, stated in the above, is based on currently available information and it includes some factors of risk and uncertainty. Therefore, future consolidated financial results may differ from those stated in the projection, depending on various factors such as economic situations, market conditions and FX rates in future.

RE : Early introduction of impairment accounting

SSSKK has been steering its business in line with managerial strategies such as “Business Portfolio Restructuring”, “Structural Cost reduction” through “Jump 21”, which launched in 1996, and the second stage of reformation from 2002. Through those activities, SSSKK has disposed of unprofitable and idle assets in order to increase asset efficiency and enhance profitability of assets in refineries, depots and SS etc.

We have decided to introduce impairment accounting in 2004 accounts, with a view to improving further transparency of disclosure to the markets, as well as to further enhancing the financial soundness of the company.

We adopt a strict criteria for calculation of impairment loss; land with a market value more than 30% below book value is subject to recovery test.

The impairment losses are not allowable for tax and deferred tax assets have not been created with respect to these special losses.

Projected impairment losses for 2004 accounts are as follows.

(Unit ; JPY billion)

	Expected impairment loss (Consolidation)
SS (Service Station)	15.9
Leased Properties	1.4
Idle Assets	15.7
Total	33.0