

English Translation

Full Year Results for 2006

The following is the summary of full year results 2006 (1st Jan. to 31st Dec. 2006) of Showa Shell Sekiyu.

Consolidated ordinary income for full year 2006, which marked the second year since the launching of its “New Foundation” philosophy, was JPY77.6billion, a decrease of JPY22.8billion versus a year ago (CCS ordinary income was JPY58billion, an increase of JPY4.7billion from the year-ago income).

1. Main indicators of full year 2006

<Consolidated financial results>		unit: million JPY	
Sales proceeds	2,921,287	vs. full year 2005	+652,798 (+28.8%)
Operating income	74,301		-24,079 (-24.5%)
Ordinary income	77,675		-22,822 (-22.7%)
CCS ordinary income	58,074		+4,795 (+9.0 %)
Net income	46,249		-12,121 (-20.8%)

<Unconsolidated financial results>		unit: million JPY	
Sales	2,818,949	vs. full year 2005	+626,042 (+28.5%)
Operating income	68,626		-24,673 (-26.4%)
Ordinary income	71,865		-21,357 (-22.9%)
CCS ordinary income	52,264		+3,664 (+7.5%)
Net income	41,827		-11,756 (-21.9%)

CCS ordinary income (ordinary income on Current Cost of Supply basis): ordinary income based on the cost excluding inventory valuation effects.

2. Summary of full year 2006

(1) Economy and oil business in Japan

Although the customer spending slowed down in the latter half of the year, economy in Japan continued to show signs of recovery with improvements in industrial profitability and strong capital investment.

The Dubai crude oil price started the year at the record high levels at above USD55 per barrel. It subsequently rose further, propelled by factors such as strong demand for oil, particularly in the U.S. and Asia, and the growth in geopolitical risk in the Middle East, reaching a record high of more than USD70 per barrel in the summer. In the latter half of the year, the global supply of oil was in surplus, and this and other factors offset the impact of geopolitical risk in the Middle East. As a result, the price of Dubai crude oil at the end of the term had returned to around the USD55 level.

As for the foreign exchange market, Yen started around 115 to the dollar at the beginning of the year. It fluctuated in the range between JPY113/USD and JPY119/USD until the mid-April as the future direction of Japanese and the U.S. monetary policy remained uncertain. Yen then strengthened sharply, reaching 109 level in mid-May, but the difference in interest rates between the U.S. and Japan weakened Yen to around JPY119/USD level to finish off the year.

The demand for gasoline in Japan was on the fall due to the dwindling consumer spending and the increased awareness in energy saving. The recovering economy did not prevent the demand for diesel from declining. Demand for kerosene at the beginning of the year was below its year-earlier level and was impacted by mild winter at the year-end. As a result, demand fell below the buoyant level experienced during the previous year. Demand for industrial fuel was also down owing to factors such as the switch to alternative fuels driven by the growing concerns about environmental problems and the crude oil price surge.

Although crude oil price continued to break record highs and the retail price for oil products in Japan increased until the summer, the rising procurement cost was not reflected on the retail price at service stations and on sales price for industrial customers until late in the year.

(2) Business performances

<Oil business>

We optimised the operation of our group refineries by using our close relationship with oil producing countries in the Middle East and the Shell Group to procure a good selection of crude oils. We also managed to keep oil supplies secure and to drive down the marine transportation cost to the northern parts of Japan through increasing the portion of oil purchase from Sodegaura Refinery of Fuji Oil. At Yamaguchi Refinery of Seibu Oil, we started production of a petrochemical (mix-xylene) from February. We also applied our regular shut-down maintenance to Yokkaichi Oil's Yokkaichi Refinery and Toa Oil's Keihin Refinery.

As for marketing, we strengthened the automobile marketing at our service stations by launching certification systems for service station staff, such as "Car Life Advisor Certification System" and "Oil Meister Certification System". We also opened new forms of service stations: stations called "Fantasista" that are annexed to shopping centers, and those that are annexed to convenience stores. To improve our retail networks, not only did we continue to invest in self-serve service stations, but also established Showa Shell Network Development, specialising in the establishment and development of service stations.

<New businesses>

We continued to do the experimental sales of our "Shell Eco Toyu", a new type of kerosene synthesised from natural gas using GTL (Gas To Liquids) technology, in limited areas. Construction of Showa Shell Solar's Miyazaki Plant, a next-generation CIS solar module production factory, was completed in October 2006. The factory, with annual production capability of 20mw, has started its experimental production.

LNG power plant project of Ogishima Power started to study the commercialisation of the construction of power stations. Detailed plans are being studied for commercial operation to start in 2010.

<HSSE: Health, Safety, Security and Environment>

A fire accident occurred in May in an oil tank at the Mizue Plant of Toa Oil's Keihin Refinery. Although the fire did not affect the operation of the Refinery, we regret the troubles caused. Showa Shell Sekiyu is engaged to HSSE to raise reliability of its refineries.

We also regret the troubles caused at our service stations regarding product qualities. We recognise that "quality is the base for customer-oriented businesses and without it a company loses its reliance and therefore cannot survive in the market", and this is why we set 2007 the first year of the "Quality First". We will continue to make the best of our efforts to ensure safe operations, stable supply and compliance as our top priorities.

3. Profit and loss

<Consolidated>

Sales proceeds were JPY2,921.2billion (an increase of 28.8% versus a year ago), operating income was JPY74.3billion (a decrease of JPY24billion versus a year ago), and ordinary income was JPY77.6billion (a decrease of JPY22.8billion versus a year ago). Ordinary income, excluding the inventory valuation effects, was JPY58billion (an increase of JPY4.7billion versus a year ago).

<Unconsolidated>

Sales proceeds were JPY2,818.9billion (an increase of 28.5% versus a year ago), operating income was JPY68.6billion (a decrease of JPY24.6billion versus a year ago), ordinary income was JPY71.8billion (a decrease of JPY21.3billion versus a year ago), and Net income was JPY41.8billion (a decrease of JPY11.7billion versus a year ago).

4. Dividends

The end-of-year dividend in respect of the full year 2006 is JPY18 per share. Including the interim dividend of JPY18 per share is the total of JPY36 per share, up JPY1 versus last year.

5. Forecast of full year results for 2007

Assuming that crude oil price is USD55 per barrel and the exchange rate is JPY120 to dollar for 2007, Showa Shell Sekiyu. forecasts the results of full year 2007 as below.

Estimate for consolidated CCS ordinary income, excluding the inventory valuation effects, is JPY60billion, an increase of JPY2billion from the JPY58billion of 2006.

JPY36 per share (interim JPY18, end-of-year JPY18 per share) is the expected dividend for 2007.

<Consolidated>

Sales proceeds	2,860,000
Ordinary income	60,000
Net income	35,000

unit: JPY million**<Unconsolidated>**

Sales proceeds	2,750,000
Ordinary income	53,000
Net income	31,000

unit: JPY million

NB: The above estimates are based on the currently available data and involve uncertainties that could cause actual results to differ materially from those implied in these statements.

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