

English Translation

Interim Results for 2007

The following is the summary of interim results 2007 (1 January to 30 June 2007) of Showa Shell Sekiyu K.K.

Consolidated ordinary income of interim 2007 was 39.2 billion yen, a decrease of 12.7 billion yen versus a year ago (CCS ordinary income was 30.1 billion yen, an increase of 3.8 billion yen from the year-ago income). The company amended its estimate for full year 2007 consolidated ordinary income to 70 billion yen, an increase of 10 billion yen from the latest forecast (no changes are made to the forecast of CCS ordinary income).

1. Main indicators of the interim results 2007

<Consolidated financial results>		unit: million yen	
Sales proceeds	1,526,079	vs. interim 2006	+ 87,926 (+6.1%)
Operating income	38,164		-11,849 (-23.7%)
Ordinary income	39,213		-12,776 (-24.6%)
CCS ordinary income*	30,122		+3,834 (+14.6%)
Net income	20,942		-8,317 (-28.4%)

<Unconsolidated financial results>		unit: million yen	
Sales proceeds	1,473,961	vs. interim 2006	+88,818 (+6.4%)
Operating income	34,748		-10,193 (-22.7%)
Ordinary income	37,710		-9,933 (-20.9%)
CCS ordinary income *	28,619		+6,677 (+30.4%)
Net income	22,012		-5,587 (-20.2%)

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

2. Summary of the interim period

(1) Economy and oil business in Japan

The Japanese economy during the current interim term maintained gradual progress toward economic recovery, backed by favourable corporate results, such as the steady increase in private capital investment and signs of improvement in personal consumption.

Dubai crude oil prices, which started at a level slightly lower than \$60 per barrel at the beginning of the year, once plunged to \$48 per barrel due to a slump in demand caused by a record warm winter in the northern hemisphere. However, since late January, Dubai crude oil price kept rising due to increasing concerns about the geopolitical risks

in the oil-producing countries of the Middle East and reached \$66 per barrel by the end of the current interim term.

At the beginning of the year, Dollar/Yen exchange rate, which started around the higher half of 119 yen per dollar, appreciated to 121 yen per dollar due to favourable US economic indicators, but depreciated abruptly to 115 yen per dollar in March as a result of investors' repurchase of yen by cancellation of yen carry trade, following a global downturn in share prices that started at the end of February. However, the exchange rate gradually advanced in the direction of yen depreciation against a background of persistent interest rate differences between the US and Japan and finished the current interim term at 123 yen per dollar range.

Regarding the trend in oil demand in the domestic market, the decreasing trend in gasoline demand since last year has become predominant because the brakes on spending and the enhanced orientation for fuel saving have been continuous. As for diesel oil, backed by the economic recovery, the decreasing trend in demand has been subdued. In addition, with regard to kerosene and fuel oil A, the demand turned out lower than that for the corresponding period of the previous year due to the effect of the warm winter in addition to the mega trend of fuel conversion.

The prices for domestic oil products rose because of hikes in crude oil prices, but there was an unavoidable delay in reflecting the increased crude oil costs in sales prices to customers at service stations as well as to industrial customers.

(2) Business performances

<Oil business>

Regarding crude oil procurement, flexible crude oil procurement was implemented in order to optimise the operations of refineries of our group companies by maintaining relationships with the oil-producing countries of the Middle East and the Shell group.

With regard to production and supply aspects, we strived to maintain the refinery operation of our group companies in a stable and efficient manner and, at the same time, kept enhancing the refinery utilisation ratio and the production ratio of high value-added products. In addition, by increasing the purchase of products from the Sodegaura Refinery of Fuji Oil Company, Limited, our business partner, we further developed our product supply capacity for the domestic market and implemented exports of diesel oil to overseas markets, where demand is strong, and increased our profits.

With regard to the distribution aspect in the domestic market, we promoted the joint use of oil tank terminals with other petroleum companies as well as accommodating mutual products interchange, improved delivery efficiency by means of night transportation of lorries, and, as a result, further enhanced efficiency of product distribution. As for marine transportation, by increasing the purchase of products from the Sodegaura Refinery of Fuji Oil Company, we reinforced the stable supply for the northern parts of Japan and reduced our marine transportation costs.

As regards sales aspects, in order to ensure the stable supply and high quality of products, we decided to set the year 2007 as the first year of “First Quality”, and all Showa Shell Sekiyu Group including our dealers and affiliated companies, started full-scale implementation of the Quality First campaign. Furthermore, with a view to enhancing the efficiency of the service station network, we continued to commit ourselves to proactive investments for the transition to self-service petrol stations. In addition, aiming to promote full-scale implementation of the Visa Touch, a settlement service by deferral payment using contactless IC credit card introduced last year, we increased the number of service stations where the service is available to approximately 300 across the country and, in addition, established a new financing facility for environmental measures on behalf of dealers. We thus prepared a system to promote construction of environmental and safety measures for the premises of service stations.

<New businesses>

We continued to test-market the “Shell Eco Toyu”, eco-friendly kerosene manufactured with GTL (Gas To Liquids) technology that synthesizes it from natural gas in certain areas of Kanagawa and Gunma prefectures. In addition, we participated in the distribution verification business of bio-gasoline, which is a granted project of the Ministry of Economy, Trade and Industry, and started selling it in April at the seven service stations in Tokyo, Kanagawa and Chiba prefectures.

With regard to the verification supply test of the hydrogen station for the purpose of popularisation of fuel-cell vehicles, we have been providing hydrogen for more than 2,200 units of fuel-cell vehicles since the start of the test in June 2003. Regarding the power supply business, we started full-scale preparations for the proposed construction of plants after completing a series of environmental impact evaluation procedures by Ohgishima Power Co., Ltd., which promote plans to construct large natural gas power plants.

3. Profit and loss

<Consolidated>

Sales proceeds were 1,526.0 billion yen (an increase of 6.1% versus a year ago), operating income was 38.1 billion yen (a decrease of 11.8 billion yen versus a year ago), and ordinary income was 39.2 billion yen (a decrease of 12.7 billion yen versus a year ago). Ordinary income, excluding the inventory valuation effects, was 30.1 billion yen (an increase of 3.8 billion yen versus a year ago).

<Unconsolidated>

Sales proceeds were 1,473.9 billion yen (an increase of 6.4% versus a year ago), operating income was 34.7 billion yen (a decrease of 10.1 billion yen versus a year ago), ordinary income was 37.7 billion yen (a decrease of 9.9 billion yen versus a year ago), and Net income was 22 billion yen (a decrease of 5.5 billion yen versus a year ago).

4. Dividends

The board of Showa Shell Sekiyu K.K. has passed a resolution paying an interim dividend in respect of the first half of 2007 of 18 yen per share. The year-end dividend is also expected to be 18 yen per share, making the total dividend for the year 36 yen per share.

5. Forecast of full year results for 2007

Assuming that crude oil price is 64.5 dollars per barrel and the exchange rate is 120 yen per dollars for the second half of 2007, Showa Shell Sekiyu K.K. amended its forecast for the full year 2007 as below:

<Consolidated>		unit: million yen		
Estimates for 2007	Sales proceeds	Operating income	Ordinary income	Net income
New forecasts	2,960,000	67,000	70,000	39,000
Last forecasts	2,930,000	—	60,000	35,000
Difference	30,000	—	10,000	4,000

<Unconsolidated>		unit: million yen		
Estimates for 2007	Sales proceeds	Operating income	Ordinary income	Net income
New forecasts	2,860,000	59,000	64,000	38,000
Last forecasts	2,820,000	—	53,000	31,000
Difference	40,000	—	11,000	7,000

No changes are made to the estimated consolidated CCS ordinary income of 60 billion yen.

<Background for making amendments to the results>

Above amendments are made due to the continuous crude oil price surge and to anticipated decrease of sales proceeds by the transfer of our international trading business, which we released on 25 July 2007.

NB. This document contains forward-looking statements concerning the financial condition, results of operations and businesses of Showa Shell Sekiyu K.K.. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements.

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