

(English Translation)

Summary of Consolidated Second Quarter Results for 2011

29 July 2011

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>

Delegate: Title: President, Representative Director

Name: Jun Arai

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Expected date of quarterly report submission: 11 August 2011

Expected date of dividend payment: 7 September 2011

Supporting material for Quarter results: Applicable

Quarter results briefing: Applicable (For analysts and institutional investors)

(Note) Fractions of one million yen are rounded off.

1. Consolidated financial results for 2nd quarter 2011 (from 1 January 2011 to 30 June 2011)

(Note) Percentages represent changes from the same quarter of the previous year.

(1) Consolidated financial results

	Sales		Operating income		Ordinary income		Net income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
2nd quarter 2011	1,380,935	18.0	67,642	293.5	68,818	219.0	37,244	221.6
2nd quarter 2010	1,170,221	24.3	17,189	-	21,575	-	11,579	-

	Earnings per share	Diluted earnings per share
	Yen	Yen
2nd quarter 2011	98.89	-
2nd quarter 2010	30.75	-

(2) Consolidated financial position

	Total assets	Net assets	Net assets (excl. minority interests) to total assets	Net assets (excl. minority interests) per share
	Million Yen	Million Yen	%	Yen
2nd quarter 2011	1,251,515	297,195	21.9	727.35
Full year 2010	1,193,149	263,006	20.1	637.78

(Reference) Net assets (excl. minority interest) 2Q 2011 273,938 million yen End of 2010 240,204million yen

2. Dividends

(Record date)	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of year	Yearly
	Yen	Yen	Yen	Yen	Yen
Full year 2010	-	9.00	-	9.00	18.00
Full year 2011	-	9.00	-	-	-
Full year 2011 (Forecast)	-	-	-	9.00	18.00

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

3. Forecast of consolidated full year results 2011 (from 1 January 2011 to 31 December 2011)

(Percentages represent changes from previous year)

	Sales		Operating income		Ordinary income		Net income		Earnings per share
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Full year 2011	2,840,000	21.1	75,000	104.4	75,000	77.9	39,000	144.4	103.55

(Note) Revision of forecast of consolidated results : Applicable

4. Others (Note: Please refer to “ 2. Others “in [Supporting material] on page 3 for the details.)

- (1) Important change in scope of consolidated subsidiaries during the period : None
- (2) Adoption of simplified accounting method and special accounting method for consolidated quarterly financial statements : Applicable
- (3) Change in accounting principles, procedures and presentation etc. (It will be described in “Change in important issues for the basis of quarterly consolidated financial statements” in the “Quarterly Report”.)
- a) Change due to amendment of accounting standards : Applicable
- b) Change other than a) : None
- (4) Issued shares (Common share)
- | | | |
|--|----------------------------------|----------------------------------|
| a) Number of shares issued
(Inc. treasury shares) | As of 30 Jun. 2011 : 376,850,400 | As of 31 Dec. 2010 : 376,850,400 |
| b) Number of treasury shares | As of 30 Jun. 2011 : 225,578 | As of 31 Dec. 2010 : 225,209 |
| c) Average number of shares | As of 30 Jun. 2011 : 376,625,060 | As of 30 Jun. 2010 : 376,627,259 |

* Presentation regarding the status of implementation of the quarterly review procedures

These quarterly results are exempt from the quarterly review procedures pursuant to the Financial Instruments and Exchange Act, and the review procedures with respect to the quarterly financial statements pursuant to the Financial Instruments and Exchange Act have not been completed as of the date of disclosure of such quarterly results.

* Explanation regarding appropriate use of the forecast, other special instructions

Figures in the above forecast are based on currently available information, and include various risks and uncertainty. Actual results could differ from this 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 2.

[Supporting material]

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1. Qualitative information and consolidated financial statements etc.

(1) Qualitative information concerning consolidated financial results

The Japanese economy for the six-month period for 2011 (from 1 January 2011 to 30 June 2011) thereafter has exhibited evidence of an upturn in production and exports along with signs of a bottoming out in private consumption, although the Great East Japan Earthquake and the Fukushima Daiichi nuclear power plant accident slowed the momentum of corporate earnings.

Dubai crude oil prices, which started at the 91-dollar-per-barrel level at the beginning of the year, continued to rise due to anti-government protests in Tunisia and Egypt, which spilled over to Libya, until once reaching close to 120 dollars per barrel at the end of April. The Dubai crude oil prices, which subsequently dropped to 101 dollars per barrel triggered by a sharp fall in Brent crude oil and WTI oil prices, immediately recovered to the 111-dollar-per-barrel level and then hovered in the range between 101 dollars per barrel and close to 110 dollars per barrel and closed the second quarter at the 106-dollar-per-barrel level.

The exchange rate for Japanese yen to the U.S. dollar, which started at the 81-yen level at the beginning of the year, rose sharply after the Great East Japan Earthquake of 11 March 2011 until the yen hit a record high of 76.25 yen against the dollar but bounced back to the higher part of 81 yen after the G7 intervened in foreign exchange markets the following day. Afterward, the yen further weakened and dropped to the 85-yen level but successive deterioration in the U.S. economy since the middle of April pushed the yen gradually up against the backdrop of lower U.S. interest rates caused by concerns over a slowdown in economic recovery to close the second quarter in the upper 80 yen-to-the-dollar range.

In such a business environment, the Showa Shell Sekiyu Group posted consolidated sales of 1,380.9 billion yen (a 18.0% increase compared to the same period a year ago), consolidated operating income of 67.6 billion yen (an increase of 50.4 billion yen compared to the same period a year ago), consolidated ordinary income of 68.8 billion yen (an increase of 47.2 billion yen compared to the same period a year ago) for the current six-month period of 2011. This was attributable to the fact that the demand has increased due to lower temperatures in winter and the balance between supply and demand has been improved since last year. In addition, the relevant consolidated ordinary income, excluding the impact of the inventory valuation, was 30.3 billion yen, an increase of 19.2 billion yen compared to the same period a year ago.

(2) Qualitative information concerning consolidated financial position

Total assets reached 1,251.5 billion yen at the end of the second quarter, an increase of 58.3 billion yen from the end of the previous year. This was mainly attributable to the increase in accounts receivable and inventories, both of which were caused by the hike in crude oil prices.

Consolidated total liabilities were 954.3 billion yen, an increase of 24.1 billion yen compared with the end of the previous year. This was chiefly due to increases in accounts payable caused by crude oil price raise. The balance of interest-bearing liabilities (total of long- and short-term debts, commercial paper, and corporate bonds) posted 302.0 billion yen, an increase of 0.9 billion yen from the end of the previous year.

Net assets reached 297.1 billion yen, an increase of 34.1 billion yen from the end of the previous year. This was mainly attributable to positive factors, such as net income for the current six-month period exceeding negative factors like the final dividend.

As a result, capital adequacy stands at 21.9% at the end of the second quarter of the current consolidated financial year.

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

As for the outlook for full year of 2011, we have revised the previous forecast originally released on 6th May 2011. Please refer to “Announcement of revisions in the forecast of full year results 2011” released today for details.

2. Others

(1) Important change in scope of consolidated subsidiaries during the period

None

(2) Adoption of simplified accounting method and application of accounting procedure

a) Simplified accounting method

With regard to the judgment of collectibility of deferred tax assets, as the business environment and temporary differences are deemed not to have been changed significantly since the end of the previous financial year, the method of which the way used in the previous consolidated financial year on the future earnings forecast and tax planning has been adopted.

b) Accounting procedure

None

(3) Change in accounting principles, procedures and presentation regarding consolidated quarterly financial statements

a) Application of Accounting Standards for Asset Retirement Obligations

From the first quarter consolidated accounting period, “Accounting Standards for Asset Retirement Obligations” (Accounting Standards Board of Japan [ASBJ] Statement No. 18, March 31, 2008) and “Guidance on Accounting Standards for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) have been applied. As a result, operating income and ordinary income each declined by 70 million yen, and income before income taxes and minority interests declined by 1,829 million yen for the current six month period of 2011. The variable amount of asset retirement obligations due to the application of this accounting standard is 2,860 million yen.

b) Application of “Accounting Standard for Equity Method of Accounting for Investment”

From the first quarter consolidated accounting period, the Group applies the “Accounting Standard for Equity Method of Accounting for Investment” (ASBJ Statement No. 16 of March 10, 2008) and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ PITF No. 24 of March 10, 2008).

There is no impact on the Group’s consolidated financial statements for the year as a result of this change.

c) Application of the Standard for Consolidated Financial Statements

Based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 of December 26, 2008), the Group applies the “Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No.5, March 24, 2009). As a result, “Income before minority interests” is included in the consolidated financial statements for the six months ended June 30, 2011 and the three months ended June 30, 2011.

3. Consolidated Financial Statements

(1) Consolidated balance sheet

(Unit:Million Yen)

	Current 2nd quarter end As of 30 Jun. 2011	Previous year end As of 31 Dec. 2010
Assets		
Current assets		
Cash and deposits	19,266	20,943
Notes and accounts receivable-trade	305,449	291,104
Merchandise and finished goods	161,054	108,200
Work in process	1,291	1,158
Raw materials and supplies	143,108	127,032
Other	47,488	54,784
Allowance for doubtful accounts	(192)	(249)
Total current assets	677,465	602,975
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	118,297	106,324
Machinery, equipment and vehicles, net	178,076	111,001
Land	160,585	162,795
Other, net	20,790	93,597
Total property, plant and equipment	477,750	473,719
Intangible assets	12,983	12,836
Investments and other assets		
Other	84,206	104,509
Allowance for doubtful accounts	(891)	(892)
Total investments and other assets	83,315	103,617
Total noncurrent assets	574,049	590,173
Total assets	1,251,515	1,193,149
Liabilities		
Current liabilities		
Notes and accounts payable-trade	311,593	273,531
Short-term loans payable	55,245	40,381
Accounts payable-other	165,333	185,000
Income taxes payable	2,893	2,151
Provision	2,417	2,213
Commercial papers	67,000	115,000
Other	49,068	50,237
Total current liabilities	653,552	668,517
Noncurrent liabilities		
Bonds payable	35,000	35,000
Long-term loans payable	144,573	110,470
Provision for retirement benefits	74,610	72,426
Provision for special repairs	14,390	11,687
Other provision	465	475
Other	31,726	31,566
Total noncurrent liabilities	300,767	261,626
Total liabilities	954,319	930,143

(Unit:Million Yen)

	Current 2nd quarter end As of 30 Jun. 2011	Previous year end As of 31 Dec. 2010
Net assets		
Shareholders' equity		
Capital stock	34,197	34,197
Capital surplus	22,113	22,113
Retained earnings	216,706	182,959
Treasury stock	(183)	(183)
Total shareholders' equity	<u>272,833</u>	<u>239,087</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,105	1,117
Total valuation and translation adjustments	<u>1,105</u>	<u>1,117</u>
Minority interests	<u>23,257</u>	<u>22,801</u>
Total net assets	<u>297,195</u>	<u>263,006</u>
Total liabilities and net assets	<u>1,251,515</u>	<u>1,193,149</u>

(2) Consolidated Statement of Income

(Unit: Million Yen)

	Year-To-Date From 1 Jan. 2010 To 30 Jun. 2010	Year-To-Date From 1 Jan. 2011 To 30 Jun. 2011
Net sales	1,170,221	1,380,935
Cost of sales	1,092,210	1,250,340
Gross profit	78,010	130,595
Selling, general and administrative expenses		
Freightage related expenses	18,214	18,691
Personal expenses	18,007	17,865
Other	24,598	26,396
Total selling, general and administrative expenses	60,821	62,953
Operating income	17,189	67,642
Non-operating income		
Interest income	106	113
Dividends income	2,779	218
Foreign exchange gains	—	398
Amortization of negative goodwill	1,673	—
Equity in earnings of affiliates	429	1,408
Gain on investments in silent partnership	—	897
Other	1,599	727
Total non-operating income	6,589	3,763
Non-operating expenses		
Interest expenses	1,843	2,120
Foreign exchange losses	97	—
Other	261	465
Total non-operating expenses	2,202	2,586
Ordinary income	21,575	68,818
Extraordinary income		
Gain on sales of noncurrent assets	586	7,004
Reversal of provision for special repairs	416	—
Subsidy	326	—
Other	199	1,716
Total extraordinary income	1,529	8,721
Extraordinary loss		
Loss on disposal of noncurrent assets	917	1,451
Loss on valuation of investment securities	497	—
Impairment loss	803	293
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,754
Loss from the earthquake	—	1,484
Other	228	936
Total extraordinary losses	2,446	5,920

(Unit:Million Yen)

	Year-To-Date From 1 Jan. 2010 To 30 Jun. 2010	Year-To-Date From 1 Jan. 2011 To 30 Jun. 2011
Income before income taxes and minority interests	20,658	71,619
Income taxes-current	1,536	2,482
Income taxes-deferred	6,945	30,919
Total income taxes	8,482	33,402
Income before minority interests	—	38,216
Minority interests in income	596	972
Net income	11,579	37,244

(Unit:Million Yen)

	2nd quarter of previous year From 1 Apr. 2010 To 30 Jun. 2010	2nd quarter of current year From 1 Apr. 2011 To 30 Jun. 2011
Net sales	559,619	689,689
Cost of sales	522,351	629,968
Gross profit	37,267	59,721
Selling, general and administrative expenses		
Freightage related expenses	8,501	8,885
Personal expenses	9,225	8,934
Other	13,143	13,129
Total selling, general and administrative expenses	30,871	30,949
Operating income	6,395	28,772
Non-operating income		
Interest income	58	54
Dividends income	1,099	86
Foreign exchange gains	169	698
Equity in earnings of affiliates	326	504
Gain on investments in silent partnership	267	497
Other	493	297
Total non-operating income	2,414	2,138
Non-operating expenses		
Interest expenses	877	1,057
Other	114	291
Total non-operating expenses	991	1,348
Ordinary income	7,818	29,561
Extraordinary income		
Gain on sales of noncurrent assets	493	388
Reversal of provision for special repairs	416	—
Subsidy	304	—
Gain on reversal of loss on business liquidation	—	995
Other	186	407
Total extraordinary income	1,401	1,791
Extraordinary loss		
Loss on disposal of noncurrent assets	546	405
Loss on valuation of investment securities	495	—
Impairment loss	—	153
Loss from the earthquake	—	(79)
Other	447	28
Total extraordinary losses	1,490	508
Income before income taxes and minority interests	7,730	30,844
Income taxes-current	93	1,156
Income taxes-deferred	4,316	12,469
Total income taxes	4,409	13,625
Income before minority interests	—	17,218
Minority interests in income (loss)	(105)	447
Net income	3,426	16,771

(3) Consolidated Statement of Cash Flows

(Unit:Million Yen)

	Year-To-Date From 1 Jan. 2010 To 30 Jun. 2010	Year-To-Date From 1 Jan. 2011 To 30 Jun. 2011
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	20,658	71,619
Depreciation and amortization	16,868	20,501
Impairment loss	803	293
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,754
Loss (gain) on sales and retirement of noncurrent assets	330	(5,553)
Interest and dividends income	(2,885)	(331)
Interest expenses	1,843	2,120
Decrease (increase) in notes and accounts receivable-trade	31,906	(14,644)
Decrease (increase) in inventories	(907)	(69,171)
Increase (decrease) in notes and accounts payable-trade	(57,069)	27,549
Other, net	13,591	(13,867)
Subtotal	<u>25,139</u>	<u>20,270</u>
Interest and dividends income received	2,876	337
Interest expenses paid	(1,887)	(2,100)
Income taxes (paid) refund	(1,525)	(2,250)
Net cash provided by (used in) operating activities	<u>24,602</u>	<u>16,256</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(26,718)	(29,118)
Purchase of intangible assets	(1,490)	(1,363)
Proceeds from sales of property, plant and equipment	1,146	12,763
Purchase of investment securities	(120)	(3)
Proceeds from sales of investment securities	4	2
Decrease (increase) in short-term loans receivable	(258)	2,936
Payments of long-term loans receivable	(2,346)	(0)
Collection of long-term loans receivable	2	1
Other, net	(91)	566
Net cash provided by (used in) investing activities	<u>(29,872)</u>	<u>(14,215)</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(41,514)	15,030
Increase (decrease) in commercial papers	12,000	(48,000)
Proceeds from long-term loans payable	40,650	35,300
Repayment of long-term loans payable	(1,689)	(1,362)
Purchase of treasury stock	(0)	(0)
Cash dividends paid	(6,780)	(3,390)
Cash dividends paid to minority shareholders	(622)	(541)
Other, net	(364)	(540)
Net cash provided by (used in) financing activities	<u>1,678</u>	<u>(3,505)</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,591)</u>	<u>(1,465)</u>
Cash and cash equivalents at beginning of period	<u>21,030</u>	<u>19,746</u>
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(111)
Cash and cash equivalents at end of period	<u>17,438</u>	<u>18,170</u>

(4) Note for premises of going concern

None

(5) Note in case of significant change in shareholders equity

None