

(English Translation)

Summary of Consolidated Third Quarter Results for 2011

31 October 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 November 2011

Expected date of dividend payment: -

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 3rd quarter 2011 (from 1 January 2011 to 30 September 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	%
3rd quarter 2011	2,077,636	19.6	63,589	247.3	65,380	179.6	32,514	187.8
3rd quarter 2010	1,737,547	19.7	18,310	-	23,384	-	11,298	-

	Earnings per share	Diluted earnings per share
	Yen	Yen
3rd quarter 2011	86.33	-
3rd quarter 2010	30.00	-

(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
3rd quarter 2011	1,232,462	288,426	21.5	704.13
Full year 2010	1,193,149	263,006	20.1	637.78

(Reference) Net assets (excl. minority interest) 3Q 2011 265,193 million yen End of 2010 240,204 million yen

2. Dividends

(Record date)	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of year	Yearly
Full year 2010	- Yen	9.00 Yen	- Yen	9.00 Yen	18.00 Yen
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	2,770,000	18.1	59,000	60.8	60,000	42.4	28,000	75.5	74.34

(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 Sep. 2011 : 376,850,400 | As of 31 Dec. 2010 : 376,850,400 |
| b) Number of treasury shares | As of 30 Sep. 2011 : 225,923 | As of 31 Dec. 2010 : 225,209 |
| c) Average number of shares | As of 30 Sep. 2011 : 376,624,923 | As of 30 Sep. 2010 : 376,627,024 |

* 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

Dubai crude oil prices for the nine-month period for 2011 (from 1 January 2011 to 30 September 2011), which started at the 91-dollar-per-barrel level at the beginning of the year, continued to steady rise reflecting the concern of the short supply due to the turmoil in the Middle East and North Africa, once reaching close to 120 dollars per barrel in April. Thereafter the price dropped in the range between 101 dollars per barrel and 110 dollars per barrel against the backdrop of the announcement by the International Energy Agency (IEA) to tap oil reserves and the aggravation of financial and monetary problems in Europe. In September, there was increasing concern regarding worldwide economic slowdown, and the price fell down, and closed the third quarter at the 100-dollar-per-barrel level.

Regarding the exchange rate for Japanese yen to the U.S. dollar, which started at the 81-yen level at the beginning of the year, there was a rapid rise in the yen because of the aggravation of financial and monetary problems in Europe and the successive deterioration in the U.S. economy, and the yen closed in the upper 76 yen at the end of third quarter.

In such a business environment, the Showa Shell Sekiyu Group posted consolidated sales of 2,077.6 billion yen (a 19.6% increase compared to the same period a year ago), consolidated operating income of 63.5 billion yen (an increase of 45.2 billion yen compared to the same period a year ago), consolidated ordinary income of 65.3 billion yen (an increase of 41.9 billion yen compared to the same period a year ago) for the current nine-month period of 2011. This was attributable to the fact that the demand of heating oil 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 37.4 billion yen, an increase of 13.6 billion yen compared to the same period a year ago.

(2) Qualitative information concerning consolidated financial position

Total assets reached 1,232.4 billion yen at the end of the third quarter, an increase of 39.3 billion yen from the end of the previous year. This was mainly attributable to the increase in inventories, which were caused by the hike in crude oil prices.

Consolidated total liabilities were 944.0 billion yen, an increase of 13.8 billion yen compared with the end of the previous year. The balance of interest-bearing liabilities (total of long- and short-term debts, commercial paper, and corporate bonds) posted 317.8 billion yen, an increase of 16.8 billion yen from the end of the previous year.

Net assets reached 288.4 billion yen, an increase of 25.4 billion yen from the end of the previous year.

As a result, capital adequacy stands at 21.5% at the end of the third quarter of the current consolidated financial year.

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

Forecast of consolidated full year results 2011 (From 1 January 2011 to 31 December 2011)

	Sales	Operating income	Ordinary income	Net income	Net income per share
	Million Yen	Million Yen	Million Yen	Million Yen	Yen
Last announcement (A)	2,840,000	75,000	75,000	39,000	103.55
Revised forecast (B)	2,770,000	59,000	60,000	28,000	74.34
Change (B-A)	(70,000)	(16,000)	(15,000)	(11,000)	
Change (%)	(2.5)	(21.3)	(20.0)	(28.2)	

We have revised the previous forecast of consolidated full year financial results for 2011 released on 29 Jul. 2011.

In Oil business, we had steady profitability and the sales volume was increased, although the effects of inventory valuation will be deteriorated, because crude oil prices fell below those of the previous forecast.

In Solar business in Energy Solution Businesses, we expect the profit will decline compared with the forecast of the last announcement, due to the appreciation of the Yen and the fall in market price of solar cell.

The consolidated ordinary income, excluding inventory valuation effects, is revised downward to 30 billion yen, because oil business will improve earnings, although Energy Solution Businesses will increase losses.

The above forecast is calculated on the assumption that crude oil price for the full year of 2011 will be 107 dollars per barrel and that the exchange rate will be 80 yen per dollar.

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 106 million yen, and income before income taxes and minority interests declined by 1,870 million yen for the current nine 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 nine months ended September 30, 2011, and “Loss before minority interests” is included in the consolidated financial statements for the three months ended September 30, 2011.

3. Consolidated Financial Statements

(1) Consolidated balance sheet

(Unit: Million Yen)

	Current 3rd quarter end As of 30 Sep. 2011	Previous year end As of 31 Dec. 2010
Assets		
Current assets		
Cash and deposits	16,157	20,943
Notes and accounts receivable-trade	306,141	291,104
Merchandise and finished goods	172,339	108,200
Work in process	1,185	1,158
Raw materials and supplies	119,587	127,032
Other	50,692	54,784
Allowance for doubtful accounts	(237)	(249)
Total current assets	665,868	602,975
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	114,148	106,324
Machinery, equipment and vehicles, net	174,436	111,001
Land	159,838	162,795
Other, net	22,101	93,597
Total property, plant and equipment	470,523	473,719
Intangible assets	12,966	12,836
Investments and other assets		
Other	84,148	104,509
Allowance for doubtful accounts	(1,043)	(892)
Total investments and other assets	83,104	103,617
Total noncurrent assets	566,594	590,173
Total assets	1,232,462	1,193,149
Liabilities		
Current liabilities		
Notes and accounts payable-trade	277,768	273,531
Short-term loans payable	53,553	40,381
Accounts payable-other	168,712	185,000
Income taxes payable	3,536	2,151
Provision	4,532	2,213
Commercial papers	86,000	115,000
Other	48,669	50,237
Total current liabilities	642,773	668,517
Noncurrent liabilities		
Bonds payable	35,000	35,000
Long-term loans payable	143,121	110,470
Provision for retirement benefits	75,728	72,426
Provision for special repairs	15,595	11,687
Other provision	455	475
Other	31,360	31,566
Total noncurrent liabilities	301,262	261,626
Total liabilities	944,035	930,143

(Unit: Million Yen)

	Current 3rd quarter end As of 30 Sep. 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	208,586	182,959
Treasury stock	(184)	(183)
Total shareholders' equity	<u>264,713</u>	<u>239,087</u>
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	480	1,117
Total valuation and translation adjustments	<u>480</u>	<u>1,117</u>
Minority interests	<u>23,233</u>	<u>22,801</u>
Total net assets	<u>288,426</u>	<u>263,006</u>
Total liabilities and net assets	<u>1,232,462</u>	<u>1,193,149</u>

(2) Consolidated Statement of Income

(Unit: Million Yen)

	Year-To-Date From 1 Jan. 2010 To 30 Sep. 2010	Year-To-Date From 1 Jan. 2011 To 30 Sep. 2011
Net sales	1,737,547	2,077,636
Cost of sales	1,627,436	1,920,169
Gross profit	110,111	157,467
Selling, general and administrative expenses		
Freightage related expenses	27,064	27,806
Personal expenses	27,162	26,609
Other	37,573	39,462
Total selling, general and administrative expenses	91,800	93,877
Operating income	18,310	63,589
Non-operating income		
Interest income	163	164
Dividends income	3,547	225
Foreign exchange gains	564	1,266
Equity in earnings of affiliates	431	1,643
Gain on investments in silent partnership	—	1,262
Other	3,629	999
Total non-operating income	8,335	5,561
Non-operating expenses		
Interest expenses	2,742	3,152
Other	519	618
Total non-operating expenses	3,262	3,770
Ordinary income	23,384	65,380
Extraordinary income		
Gain on sales of noncurrent assets	979	7,929
Other	1,271	1,845
Total extraordinary income	2,250	9,774
Extraordinary loss		
Loss on disposal of noncurrent assets	1,634	2,002
Impairment loss	948	353
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,754
Loss from the earthquake	—	1,519
Other	846	1,141
Total extraordinary losses	3,429	6,771
Income before income taxes and minority interests	22,205	68,384
Income taxes-current	2,409	4,826
Income taxes-deferred	7,475	30,075
Total income taxes	9,885	34,901
Income before minority interests	—	33,482
Minority interests in income	1,021	967
Net income	11,298	32,514

(Unit:Million Yen)

	3rd quarter of previous year From 1 Jul. 2010 To 30 Sep. 2010	3rd quarter of current year From 1 Jul. 2011 To 30 Sep. 2011
Net sales	567,326	696,700
Cost of sales	535,225	669,829
Gross profit	32,100	26,871
Selling, general and administrative expenses		
Freightage related expenses	8,849	9,114
Personal expenses	9,155	8,743
Other	12,975	13,066
Total selling, general and administrative expenses	30,979	30,924
Operating income (loss)	1,121	(4,052)
Non-operating income		
Interest income	56	50
Dividends income	767	6
Foreign exchange gains	662	867
Equity in earnings of affiliates	1	235
Gain on investments in silent partnership	—	365
Other	355	272
Total non-operating income	1,843	1,798
Non-operating expenses		
Interest expenses	898	1,031
Other	258	152
Total non-operating expenses	1,156	1,183
Ordinary income (loss)	1,808	(3,438)
Extraordinary income		
Gain on sales of noncurrent assets	392	924
Gain on sales of investment securities	354	—
Reversal of allowance for doubtful accounts	(99)	—
Other	74	128
Total extraordinary income	721	1,052
Extraordinary loss		
Loss on disposal of noncurrent assets	717	550
Other	265	299
Total extraordinary losses	983	850
Income (loss) before income taxes and minority interests	1,547	(3,235)
Income taxes-current	873	2,343
Income taxes-deferred	529	(844)
Total income taxes	1,403	1,499
Loss before minority interests	—	(4,734)
Minority interests in income (loss)	425	(5)
Net loss	(281)	(4,729)

(3) Consolidated Statement of Cash Flows

(Unit: Million Yen)

	Year-To-Date From 1 Jan. 2010 To 30 Sep. 2010	Year-To-Date From 1 Jan. 2011 To 30 Sep. 2011
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	22,205	68,384
Depreciation and amortization	25,418	31,998
Impairment loss	948	353
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,754
Loss (gain) on sales and retirement of noncurrent assets	655	(5,927)
Interest and dividends income	(3,710)	(389)
Interest expenses	2,742	3,152
Decrease (increase) in notes and accounts receivable-trade	33,686	(15,336)
Decrease (increase) in inventories	47,625	(56,829)
Increase (decrease) in notes and accounts payable-trade	(46,723)	(724)
Other, net	(8,920)	(12,786)
Subtotal	<u>73,928</u>	<u>13,649</u>
Interest and dividends income received	3,683	388
Interest expenses paid	(2,670)	(3,088)
Income taxes (paid) refund	(2,518)	(3,494)
Net cash provided by (used in) operating activities	<u>72,424</u>	<u>7,455</u>
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(48,225)	(37,825)
Purchase of intangible assets	(2,308)	(1,821)
Proceeds from sales of property, plant and equipment	1,909	14,429
Purchase of investment securities	(123)	(6)
Proceeds from sales of investment securities	777	2
Decrease (increase) in short-term loans receivable	(988)	3,920
Payments of long-term loans receivable	(2,326)	(3)
Collection of long-term loans receivable	8	2
Other, net	(193)	583
Net cash provided by (used in) investing activities	<u>(51,470)</u>	<u>(20,717)</u>
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(51,421)	12,937
Increase (decrease) in commercial papers	(14,000)	(29,000)
Proceeds from long-term loans payable	49,650	35,300
Repayment of long-term loans payable	(2,615)	(2,413)
Proceeds from issuance of bonds	20,000	—
Redemption of bonds	(15,000)	—
Purchase of treasury stock	(1)	(0)
Cash dividends paid	(10,170)	(6,780)
Cash dividends paid to minority shareholders	(622)	(541)
Other, net	(582)	(812)
Net cash provided by (used in) financing activities	<u>(24,763)</u>	<u>8,688</u>
Net increase (decrease) in cash and cash equivalents	<u>(3,809)</u>	<u>(4,573)</u>
Cash and cash equivalents at beginning of period	<u>21,030</u>	<u>19,746</u>
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	62	—
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(111)
Cash and cash equivalents at end of period	<u>17,283</u>	<u>15,062</u>

(4) Note for premises of going concern

None

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

None