

# Notes to Consolidated Financial Statements

## Basis of Presenting Consolidated Financial Statements

### 1. Consolidation

Consolidated subsidiaries (23 companies)	Showa Shell Sekiyu Kaihatsu K.K. Tokyo Shell Pack K.K. Enax K.K. Nakagawa Oil Co., Ltd. K.K. Shinyo Sekiyu Shoseki Overseas Oil Development Co., Ltd. Heiwa Kisen Kaisha, Ltd. Shoseki Kako K.K. Nippon Grease Co., Ltd.	Petro Star Kansai K.K. Shoseki Shoji K.K. Chuo Shell Sekiyu Hanbai K.K. Sailis Co., Ltd. Kakubari Oil Co., Ltd. K.K. Kitamoto Showa Tesco K.K.
Showa Yokkaichi Sekiyu Co., Ltd. East Ogishima Oil Terminal K.K. Showa Shell Senpaku K.K. K.K. Rising Sun Showa Gas K.K. Shoseki Engineering & Construction Co., Ltd.		
Newly added consolidated subsidiaries (2 companies)	Shoseki Home Gas K.K. (Included in consolidation due to their increased importance)	K.K. Shinyo Sekiyu
Subsidiaries eliminated from consolidation (1 company)	Shoseki Kasei K.K. (Excluded from consolidation because it is no longer material due to transfer of sales)	
Major non-consolidated subsidiaries and affiliates	Axhum Inc. Showa Solar Energy K.K.	K.K. Hayawa

### 2. Equity Method

Affiliates accounted for by the equity method (14 companies)	Osaka Shell Pack K.K. Shell Tokuhatsu K.K. Anzen Sekiyu K.K. Japan Oil Network Co., Ltd. Mieseki Shoji K.K. Nishigawa Kouyu Co., Ltd. Joyo Shell Sekiyu Hanbai K.K. Kotohira Oil Co., Ltd.	Eliminated affiliates accounted for by the equity method (1 company) K.K. Shinyo Sekiyu (Became a consolidated subsidiary)
Toa Oil Co., Ltd. Seibu Oil Co., Ltd. Daiya Shoseki K.K. Shell Sekiyu K.K., Osaka Sales Office Central Oil Gas Co., Ltd. Niigata Joint Oil Stockpiling Co., Ltd.		Major affiliates not accounted for by the equity method Kyokuyo Co., Ltd. Daiya Fuel Trading Co., Ltd.

### 3. Accounting Principles

#### 1) Standards and methods for valuing principal assets

Marketable Securities:

Held-to-maturity debt securities	.....	Amortized cost method
Other securities	Market price available	..... Cost using the moving average method
	Market price not available	..... Cost using the moving average method

Derivatives: Fair value method

Inventories: Stated principally at cost using the weighted-average method

#### 2) Depreciation methods for major assets

Tangible fixed assets: Depreciated principally using the straight-line method

Major oil refining facilities at Showa Shell's Kawasaki Refinery and Showa Yokkaichi Sekiyu's Yokkaichi Refinery are depreciated over their estimated useful lives (20 years).

Intangible fixed assets: Depreciated using the straight-line method

Software for in-house use is depreciated using the straight-line method based on the estimated useful life (five years).

#### 3) Principal accounting standards for reserves

**Allowance for doubtful receivables:** Reserve for possible losses on securities is provided for the amount deemed necessary to cover possible losses estimated based on historical impairment rates and the probability of recovery of the value of each security. Reserves are provided for securities that are deemed unlikely to recover in value.

**Reserve for bonuses:** In principle, the Company provides for an amount equivalent to the current year portion of estimated future bonus payments.

**Allowance for retirement benefits:** Reserve for retirement benefits is provided for the amount deemed necessary, based on estimated pension benefit obligations and pension plan assets at the fiscal year end, to cover required retirement benefits for eligible employees. The net transition obligation resulting from the adoption of a new accounting standard for severance and pension benefits totaling ¥30,642 million was recognized as a lump-sum expense for the year ended December 31, 2001.

Actuarial gains and losses are recognized in expenses using the straight-line method over a fixed period (14 years), which is within the average estimated remaining service lives of the employees, commencing from the following period.

**Special reserve for repairs:** The Company provides for an amount equivalent to the estimated amount needed to cover maintenance and repair expenses for the current fiscal year, such as the regular inspection of tanks required by the Fire Defense Law.

#### 4) Lease transactions

Finance leases, other than those deemed to transfer ownership of the leased assets to the lessee, are accounted for as operating leases.

#### 5) Consumption Tax

Consumption tax is excluded from the accounts that are subject to such tax.

#### 4. Consolidation of profit and loss of consolidated subsidiaries

The profit and loss of consolidated subsidiaries are consolidated into the Company's consolidated financial statements based on the financial data of subsidiaries for the fiscal year.

#### 5. Consolidated Statement of Cash Flows

In preparing the cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call, and all highly liquid investments with maturities of three months or less and little risk of fluctuation in value.

#### <Additional Information>

**Pension and Retirement Benefits:** Effective January 1, 2001, the Company and its domestic subsidiaries adopted the new accounting standard, "Opinion on Setting Accounting Standard for Employees' Severance and Pension Benefits," issued by the Business Accounting Deliberation Council on June 16, 1998. As a result of adoption of the new accounting standard, in the year ended December 31, 2001, pension and retirement benefit expenses decreased by ¥1,173 million, and operating profit and ordinary profit, respectively, increased by ¥1,171 million, compared with what would have been recorded under the previous accounting standard. The entire amount of net transition obligation of ¥30,642 million was recorded as a special expense, which had the effect of reducing income before income taxes by ¥29,470 million.

**Financial Instruments:** Effective January 1, 2001, the Company and its consolidated subsidiaries adopted the new Japanese accounting standard for financial instruments, "Opinion Concerning Establishment of Accounting Standard for Financial Instruments," issued by the Business Deliberation Council on January 22, 1999.

As a result of adopting the new accounting standard for financial instruments, ordinary profit and income before income taxes, respectively, increased by ¥93 million, compared with what would have been recorded under the previous accounting standard.

Upon applying the new accounting standard, the Company examines the intent of holding each security and classifies those securities as (a) debt securities intended to be held to maturity or (b) other securities, and records each category as investment securities. In the year ended December 31, 2001, the Company did not recognize the difference between fair market value and the carrying amount for securities included under "Other securities" for which a fair market value is available.

In accordance with article 3 of Ordinance 9 issued by the Ministry of Finance in 2000, other securities of ¥3,397 million, securities for which a market price is available of ¥4,431 million, difference between fair market value and carrying amount of ¥600 million, and deferred tax liabilities of ¥434 million were included on the consolidated balance sheets.

**Foreign Currency Translation into Japanese Yen:** Effective January 1, 2001, the Company and its consolidated subsidiaries adopted the revised accounting standard for foreign currency translation, "Opinion Concerning Revision of Accounting Standard for Foreign Currency Translation," issued by the Business Accounting Deliberation Council on October 22, 1999. As a result of adopting the new accounting standard for foreign currency translation, ordinary profit and income before income taxes, respectively, increased by ¥52 million, compared with what would have been recorded under the previous accounting standard.

#### Segment Information

##### 1. Business Segment Information

For the consolidated fiscal year ended December 31, 2000

(¥ Million)

	Petroleum	Real estate	Others	Total	Eliminations and corporate	Consolidated
I. Net sales and operating profit						
Net sales						
(1) Sales to outside customers	¥1,622,106	¥ 4,362	¥13,005	¥1,639,475	¥ —	¥1,639,475
(2) Intersegment sales and transfers	69	263	11,683	12,017	(12,017)	—
Total sales	1,622,176	4,626	24,689	1,651,492	(12,017)	1,639,475
Operating expenses	1,587,506	1,984	23,842	1,613,332	(11,527)	1,601,804
Operating profit	¥ 34,670	¥ 2,642	¥ 847	¥ 38,160	¥ 489	¥ 37,670
II. Assets, depreciation and capital expenditures						
Assets	¥ 951,728	¥43,461	¥10,061	¥1,005,252	¥ (3,105)	¥1,002,146
Depreciation	27,889	1,080	36	29,006	—	29,006
Capital expenditures	7,467	131	62	7,661	—	7,661

For the consolidated fiscal year ended December 31, 2001

(¥ Million)

	Petroleum	Real estate	Others	Total	Eliminations and corporate	Consolidated
<b>I. Net sales and operating profit</b>						
Net sales						
(1) Sales to outside customers	¥1,648,121	¥ 4,672	¥12,160	¥1,664,954	¥ —	¥1,664,954
(2) Intersegment sales and transfers	108	131	6,568	6,809	(6,809)	—
Total sales	1,648,230	4,804	18,729	1,671,763	(6,809)	1,664,954
Operating expenses	1,623,523	2,003	18,057	1,643,585	(6,684)	1,636,900
Operating profit	¥ 24,706	¥ 2,800	¥ 671	¥ 28,178	¥ (124)	¥ 28,053
<b>II. Assets, depreciation and capital expenditures</b>						
Assets	¥ 859,640	¥44,541	¥10,082	¥ 914,264	¥ (4,362)	¥ 909,902
Depreciation	27,482	1,071	44	28,598	—	28,598
Capital expenditures	10,135	151	10	10,297	—	10,297

- Notes: 1. All amounts are rounded down to the nearest million yen.  
2. Businesses are classified mainly on an internal management basis.  
3. Main products and businesses in each business segment are as follows:  
(1) Petroleum: Gasoline, naphtha, kerosene, gas oil, fuel oil, lubricating oil, LPG, asphalt, petrochemical products  
(2) Real estate: Real estate leasing and management  
(3) Others: Engineering, data processing, sale of automobile products, leasing business and car rental business  
4. Unallocatable operating expenses included in "Eliminations and corporate" are not included in operating expenses for the fiscal year.  
5. Corporate assets included in "Eliminations and corporate" are not included in assets.  
6. Long-term prepaid expenses and their depreciation are included in depreciation and capital expenditures.

## 2. Geographic Segment Information

For the consolidated fiscal year ended December 31, 2000

As net sales and assets outside Japan accounted for less than 10 percent of total net sales and assets for all business segments, geographic segment information is not disclosed.

For the consolidated fiscal year ended December 31, 2001

Geographic segment information is omitted because the Company has no consolidated subsidiaries or branches domiciled in countries or regions other than Japan.

## 3. Overseas Sales

For the consolidated fiscal year ended ended December 31, 2000

(¥ Million)

	Asia	Europe	Others	Total
Overseas sales	¥172,318	¥9,283	¥958	¥ 182,559
Consolidated net sales				¥1,639,475
Overseas sales as a percentage of total consolidated net sales	10.5%	0.5%	0.1%	11.1%

- Notes: 1. Countries and regions are classified on the basis of geographic proximity.  
2. Principal countries included in each geographic segment are as follows:  
(1) Asia ..... China, Singapore, Republic of Korea  
(2) Europe ..... United Kingdom, Switzerland  
(3) Others ..... U.A.E., U.S.A  
3. Overseas sales are net sales of the Company and its consolidated subsidiaries in countries and regions outside Japan.

For the consolidated fiscal year ended ended December 31, 2001

(¥ Million)

	Asia	Others	Total
Overseas sales	¥153,793	¥58,966	¥ 212,760
Consolidated net sales			¥1,664,954
Overseas sales as a percentage of total consolidated net sales	9.2%	3.5%	12.8%

- Notes: 1. Countries and regions are classified on the basis of geographic proximity.  
2. Principal countries included in each geographic segment are as follows:  
(1) Asia ..... China, Singapore, Republic of Korea  
(2) Others ..... Bermuda, Switzerland, United Kingdom, U.S.A., U.A.E.  
3. Overseas sales are net sales of the Company and its consolidated subsidiaries in countries and regions outside Japan.  
4. The classification "Europe" presented in the financial statements for the year ended December 31, 2000 has been included under "Others" in the financial statements for the year ended March 31, 2001 because it is no longer material to the ratio of overseas sales to total consolidated net sales.