

(5) Reserves and Allowances

Allowance for doubtful accounts:

Allowance for doubtful accounts is made against potential losses on collection at an amount measured using a historical bad debt ratio, plus an amount individually measured based on the collectibility of accounts that are expected to be uncollectible due to bad financial conditions or insolvency.

Reserve for bonuses:

In principle, the Companies provide for an amount equivalent to the current year portion of estimated future bonus payments.

Reserve for retirement benefits:

Reserve for retirement benefits is provided, based on the estimated present value of projected benefit obligations and fair value of pension plan assets at the fiscal year end in order to cover required retirement benefits for eligible employees.

Unrecognized actuarial gains and losses are recognized in expenses using the straight-line method over a fixed period (13 to 14 years), which is within the average estimated effective remaining working life of the employees, commencing from the following period.

Unrecognized prior service costs are recognized in expenses using the straight-line method over a fixed period (14 years), which is within the average estimated effective remaining working life of the employees.

<Additional information (fiscal 2003)>

The Company changed its period of amortization of unrealized actuarial gains and losses from 14 years to 13 years, due to a decrease of the average effective remaining working life of the employees. As a result of this change, income from operations, ordinary income, and income before income taxes and minority interests decreased by 67 million yen compared with the results calculated based on the former method.

Special reserve for repairs:

The Companies provide for an amount equivalent to the estimated amount needed to cover maintenance and repair expenses for the current fiscal year, such as the regular maintenance expenses of machinery and equipment in refineries, and the periodical inspection and maintenance expenses of tanks required by the Fire Defense Law.

(6) Translation of Foreign Currency Accounts

All monetary assets and liabilities of the Companies are translated into Japanese Yen at the spot rate prevailing at the year-end. Resulting exchange gains or losses are charged or credited to income.

(7) Accounting for Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. The leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(8) Income Taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Income taxes are determined using the asset and liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements.

(9) Consumption Tax

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax withheld upon sale and consumption tax paid by the Companies on their purchases of goods and services is not included in the amounts of respective revenue and cost or expense items in the accompanying consolidated statements of income.

(10) Appropriation of Retained Earnings

Under the Commercial Code of Japan and the Articles of Incorporation of the Company, the appropriation of retained earnings proposed by the Board of Directors is subject to approval by the shareholders at a meeting, which must be held within three months of the end of each fiscal year. The appropriation charged to retained earnings as reflected in the accompanying consolidated statements of shareholders' equity represents that applicable to the immediately preceding fiscal year that was approved at the shareholders' meeting and disposed of during the year. Dividends are paid to shareholders on the shareholders' register as at the end of each fiscal year.

(11) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, demand deposits in banks, time deposits whose maturity periods do not exceed three months and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

3. ACCOUNTING CHANGE

Accounting standard for impairment of fixed assets:

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the statements of income by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005 or thereafter, with possible early adoption for fiscal years ended March 31, 2004 or thereafter.

The Companies adopted this standard with effect from the year ended December 31, 2004. As a result of this adoption, income before income taxes and minority interests decreased by 33,728 million yen.

4. INVENTORIES

Inventories as of December 31, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
Finished products	¥ 64,961	¥ 44,875
Crude oil	47,670	35,987
Crude oil in transit	37,591	32,641
Work in process	21,426	15,325
Containers and supplies	4,830	4,219
	¥176,478	¥133,047

5. SECURITIES

a) Investments in securities as of December 31, 2004 and 2003 consisted of the following:

	Millions of yen	
	2004	2003
Available-for-sale securities	¥11,963	¥11,572
Investments in non-consolidated subsidiaries and affiliates	24,499	15,020
	¥36,462	¥26,592

b) Available-for-sale securities for which market value is available as of December 31, 2004 and 2003 were as follows:

	Millions of yen					
	2004			2003		
	Historical cost	Fair market value	Unrealized gain (loss)	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:						
Shares	¥1,851	¥6,155	¥4,304	¥1,923	¥5,744	¥3,821
Securities with unrealized loss:						
Shares	132	127	(5)	117	111	(6)

c) Amount of available-for-sale securities sold in the fiscal years 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Amount sold during the year	¥103	¥659
Realized gain	23	57
Realized loss	2	33

d) Details of available-for-sale securities for which market value is not available as of December 31, 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Available-for-sale securities:		
Unlisted shares (excluding OTC shares)	¥5,666	¥5,702
Unlisted bonds	15	15

6. SHORT-TERM AND LONG-TERM DEBT

Short-term debt as of December 31, 2004 and 2003 is summarized as follows:

	Millions of yen	
	2004	2003
Short-term bank loans	¥33,338	¥36,892
Commercial paper	23,000	19,000
	¥56,338	¥55,892

Notes: The weighted average interest rates on short-term debt outstanding at the year-end were as follows:

	%	
	2004	2003
Short-term bank loans	0.36%	0.27%
Commercial paper	0.01	0.01

Long-term debt as of December 31, 2004 and 2003, consisted of the following:

	Millions of yen	
	2004	2003
Loans from banks, other financial institutions, etc. due from 2005 to 2014	¥28,444	¥ —
Loans from banks, other financial institutions, etc. due from 2004 to 2013	—	35,058
0.71 per cent bond due 2010	15,000	15,000
3.25 per cent bond due 2005	15,000	15,000
	58,444	65,058
Less: portion due within one year	24,299	12,614
	¥34,145	¥52,444

Notes: 1. All bonds shown above are unsecured.

2. The weighted average interest rate on long-term loans (excluding current portion) from banks outstanding as of December 31, 2004 and 2003 were 1.65% and 2.25%, respectively.

Annual maturities of bonds are as follows:

	Millions of yen
	2004
Within one year	¥15,000
More than one year less than two years	—
More than two years less than three years	—
More than three years less than four years	—
More than four years less than five years	—
More than five years	15,000
	¥30,000

Annual maturities of long-term debt, except for bonds, are as follows:

	Millions of yen
	2004
Within one year	¥ 9,299
More than one year less than two years	6,358
More than two years less than three years	3,103
More than three years less than four years	684
More than four years less than five years	5,600
More than five years	3,400
	¥28,444

7. LEASE TRANSACTIONS

(1) Lessee

a) Finance leases

Information relating to finance leases, excluding those for which the ownership of the leased assets is considered to be transferred to the lessee, as of, and for the years ended December 31, 2004 and 2003 are as follows:

	Millions of yen					
	2004			2003		
	Acquisition costs	Accumulated depreciation	Balance	Acquisition costs	Accumulated depreciation	Balance
Buildings, structures and tanks	¥ 469	¥ 291	¥ 178	¥ 469	¥ 234	¥ 235
Machinery and equipment	2,745	1,447	1,298	3,229	1,644	1,585
Other property, plant and equipment	574	381	193	1,041	729	312
Intangible fixed assets	—	—	—	90	78	12
	¥3,788	¥2,119	¥1,669	¥4,829	¥2,685	¥2,144

Lease payments and depreciation for the years ended December 31, 2004 and 2003 amounted to 696 million yen and 791 million yen, respectively.

Depreciation is calculated using the straight-line method over the lease term of the leased assets assuming no residual value.

The scheduled maturities of future lease rental payments of finance leases as of December 31, 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Due within one year	¥1,672	¥1,922
Due over one year	3,345	3,652
	¥5,017	¥5,574

b) Operating Leases

	Millions of yen	
	2004	2003
Due within one year	¥ 83	¥23
Due over one year	180	46
	¥263	¥69

(2) Lessor

Finance leases

The scheduled maturities of future lease rental payments of finance leases as of December 31, 2004 and 2003 are as follows:

	Millions of yen	
	2004	2003
Due within one year	¥1,053	¥1,205
Due over one year	2,294	2,225
	¥3,347	¥3,430

Note: Finance leases transaction as lessor relate to sublease transactions.

8. INCOME TAXES

(1) The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities as of December 31, 2004 and 2003, are as follows:

	Millions of yen	
	2004	2003
<i>Deferred tax assets:</i>		
Non-deductible portion of reserve for retirement benefits	¥ 30,572	¥ 29,432
Loss on impairment of fixed assets	13,720	—
Loss on write-down of investments in securities	2,301	2,421
Loss on write-down of fixed assets	—	1,273
Non-deductible portion of allowance for doubtful receivables	430	356
Others	13,509	8,196
Sub-total	60,532	41,678
Valuation allowance	(14,384)	(2,788)
Total deferred tax assets	¥ 46,148	¥ 38,890
<i>Deferred tax liabilities:</i>		
Deferred gains on fixed assets	¥ (8,989)	¥ (9,009)
Unrealized gains on available-for-sale securities	(1,750)	(1,553)
Others	(548)	(476)
Total deferred tax liabilities	(11,287)	(11,038)
Deferred tax assets, net	¥ 34,861	¥ 27,852

(2) Reconciliation between the statutory tax rate and the effective tax rate as of December 31, 2004 and 2003, is as follows:

	2004	2003
Statutory tax rate	42.0%	42.0%
<i>Permanent differences:</i>		
Non-deductible expenses such as entertainment expenses	1.56%	1.11%
Non-taxable income such as dividend income	(3.27)%	(1.69)%
Loss on impairment of fixed assets	47.88%	—
Decrease in deferred tax assets due to tax rate change	—	1.95%
Others	2.01%	(0.52)%
Effective tax rate	90.18%	42.85%

<Additional information (fiscal 2003)>

New legislation was enacted in March 2003, which changes the aggregate effective tax rate to 40.7% from 42.0% in 2002. The effect of this tax rate change was to decrease deferred tax assets net of deferred tax liability by 669 million yen and to increase income taxes (deferred) and net unrealized gains on investments in securities by 719 million yen, 49 million yen, respectively.

9. RESERVE FOR RETIREMENT BENEFITS

The Companies operate various defined benefit plans, such as a contributory pension plan, a qualified pension plan and a severance payment plan.

(1) The reserve for retirement benefits as of December 31, 2004 and 2003 is analyzed as follows:

	Millions of yen	
	2004	2003
Projected benefit obligations	¥(102,076)	¥(102,877)
Plan assets	10,041	9,500
Unfunded benefit obligations	(92,035)	(93,377)
Unrecognized actuarial differences	13,308	14,554
Unrecognized prior service costs	(681)	(739)
	¥ (79,408)	¥ (79,562)

Notes: 1. Certain subsidiaries calculate the projected benefit obligation by the simple method permitted under Japanese GAAP.

2. At the time of retirement of employees, in some cases extra benefits might be paid, which are not included in the projected benefit obligations calculated by actuarial measurement on the basis of retirement and severance benefits.

(2) The net periodic pension expense related to the retirement benefits for the fiscal years 2004 and 2003 is as follows:

	Millions of yen	
	2004	2003
Service cost	¥2,084	¥2,071
Interest cost	2,491	2,907
Amortisation of unrecognized actuarial differences	1,255	954
Amortisation of unrecognized prior service costs	(57)	(57)
	¥5,773	¥5,875

Notes: 1. Service cost excludes employees' contributions pension plan operated by the Company.

2. Service cost includes net periodic pension expense incurred by the subsidiaries which apply the simple method.

(3) Assumptions used in calculation of the above information are as follows:

	As of December 31, 2004	As of December 31, 2003
	Method of attributing the projected benefits of services	Benefit/year of service approach
Discount rate	2.5%	2.5%
Expected rate of return	0%	0%

10. DERIVATIVE TRANSACTIONS

(1) Conditions of Derivative Financial Instruments

In the normal course of business, the Companies use various financial instruments, including derivative financial instruments, to manage their exposures to market risks in compliance with their internal policies. The Companies do not use derivative financial instruments for speculative purposes. These instruments include foreign exchange contracts, foreign currency options, interest rate swaps, crude oil futures and forward contracts, petroleum futures and forward contracts and crude oil options.

All such instruments involve risk, including the credit risk of non-performance by counter-parties. However, at December 31, 2004, in the management's opinion, there was no significant risk of loss in the event of non-performance of the counter-parties on these financial instruments, because all counter-parties were major financial institutions and trading companies with a high credit rating.

(2) Fair Value Information of Derivative Financial Instruments

	Millions of yen					
	December 31, 2004			December 31, 2003		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Currency-related transactions						
To buy	¥20,477	¥20,598	¥ 121	¥14,565	¥14,452	¥(113)
To sell	3,513	3,542	(29)	3,219	3,213	6
			¥ 92			¥(107)
Commodity-related transactions						
To buy	19,640	21,470	1,830	18,997	19,228	231
To sell	18,612	20,496	(1,884)	18,975	19,182	(207)
			¥ (54)			¥ 24

Interest rate swaps which meet specific matching criteria are not measured at fair value but the net amount to be paid or received under the swap contract is recognized and included in interest expenses or income. The fair value information above is presented exclusive of these interest rate swaps.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major elements of selling, general and administrative expenses for the years ended December 31, 2004 and 2003 are as follows.

	Millions of yen	
	2004	2003
Transportation expenses	¥ 40,465	¥ 41,613
Salaries	28,293	28,859
Rent expenses	5,151	5,761
Depreciation	5,285	5,289
Research and development expenses	1,928	2,399
Others	32,159	36,866
	¥113,281	¥120,787

12. LOSS ON IMPAIRMENT OF FIXED ASSETS

For the year ended December 31, 2004, the Companies recognized loss on impairment of fixed assets as follows:

As a minimum unit for generating cash flows, service stations were assessed individually, and other fixed assets were basically grouped in sections used for management accounting, excluding those assets used for rent and non-performing assets. Such assets were assessed in their respective groups.

Recoverable value was assessed comparing net selling price and value in use. Net selling price was mainly adopted for non-performing assets and value in use for other assets. Net selling prices, if material, were assessed according to real estate appraisal standards. To calculate value in use, the future cash flows were discounted at 3.5%.

An impairment loss was recorded at the amount by which the carrying amount of each group of assets exceeded its recoverable value. For the year ended December 31, 2004, the Companies recognized impairment losses of 33,728 million yen on 321 groups of impaired fixed assets, which were accounted for as a special loss. They were primarily related to the significant decrease in the market value of the Companies' land as well as to the overall deterioration of their business environment. They consisted of the following:

	Millions of yen		
	2004		
	Land	Others	Total
Service stations (88 groups)	¥15,106	¥ 453	¥15,559
Assets for real estate business (2 groups)	1,143	—	1,143
Non-performing assets (231 groups)	11,344	5,682	17,026
	¥27,593	¥6,135	¥33,728

13. PLEDGED ASSETS

As of December 31, 2004, fixed assets of 111,339 million yen were pledged as collateral for certain liabilities of the Companies (26,659 million yen) and the affiliate (7,999 million yen).

14. CONTINGENT LIABILITIES

The Companies had the following contingent liabilities as of December 31, 2004 and 2003:

	Millions of yen	
	2004	2003
As guarantors of indebtedness of:		
Non-consolidated subsidiaries, affiliates and other companies	¥6,838	¥7,864
Employees	1,478	1,648
As discounters of notes receivable	148	—
	¥8,464	¥9,512

15. RELATED PARTY TRANSACTIONS

(1) Related Companies

Material transactions of the Company with its related companies, representing more than 10 per cent of the consolidated sales or the total amount of the consolidated cost of sales and the consolidated selling, general and administrative expenses, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements, for the years ended December 31, 2004 and 2003 are disclosed by each item.

The Company further discloses material balances and transactions with related companies where such balances and transactions, including the related amount in the footnote, represent more than 1 per cent of the consolidated total assets, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements. Related party transactions in the fiscal years 2004 and 2003 are as follows:

Name of related company	Capital stock (millions of yen)	Equity ownership by the Company (by the related company)	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2004	Account	Fiscal 2004
Saudi Arabian Oil Co., Ltd	—	(Indirect 10.0%)	Purchase of crude oil and materials	¥ 76,532	Accounts payable (trade)	¥21,430
Seibu Oil Co., Ltd.	8,000	Direct 38.0%	Purchase of petroleum materials	168,690	Accounts payable (trade)	38,582
Toa Oil Co., Ltd.	4,961	Direct 37.4%	Trust of refining petroleum	23,821	Other current liabilities	1,926
Marubeni Energy Corporation	2,350	Direct 33.4%	Payment of gasoline tax	110,891	Accounts payable (other)	28,499
Shell Eastern Trading (PTE), Ltd.	714 (millions of US dollars)	—	Sale of petroleum materials	105,643	Accounts receivable (trade)	14,342
Shell Chemicals Japan Co., Ltd.	250	—	Purchase of crude oil and materials	265,803	Accounts payable (trade)	11,792
			Sale of petrochemical products	57,727	Accounts receivable (trade)	9,584

Name of related company	Capital stock (millions of yen)	Equity ownership by the Company (by the related company)	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2003	Account	Fiscal 2003
Seibu Oil Co., Ltd.	8,000	Direct 24.5%	Purchase of petroleum materials	¥151,338	Accounts payable (trade)	¥33,325
Toa Oil Co., Ltd.	4,961	Direct 37.4%	Trust of refining petroleum	24,786	Other current liabilities	2,606
			Payment of gasoline tax	105,009	Accounts payable (other)	27,430
Shell International Trading and Shipping Co., Ltd.	140 (millions of pounds)	—	Purchase of Crude oil	132,182	Accounts payable (trade)	11,040

(2) Related Individuals

Material transactions and balances of the Company with related individuals, including shareholders and directors, representing more than 1 million yen for the years ended December 31, 2004 and 2003 are as follows.

Name	Description of post	Ownership	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2004	Account	Fiscal 2004
Haruyuki Niimi	Representative director/ Chairman of Zaidanhojin Showa Shell Sekiyu Kankyo Kenyu Josei Zaidan	—	Donation	¥35	—	—

Name	Description of post	Ownership	Millions of yen			
			Transactions		Resulting account balances	
			Description of transactions	Fiscal 2003	Account	Fiscal 2003
Haruyuki Niimi	Representative director/ Chairman of Zaidanhojin Showa Shell Sekiyu Kankyo Kenyu Josei Zaidan	—	Donation	¥35	—	—
Yoshihiko Miyauchi	Director/ Representative director of Orix Baseball Club K.K.	—	Payment of advertisement fee	2	—	—

16. SEGMENT INFORMATION

(1) Business Segment Information

For the year ended December 31, 2004	Millions of yen					
	Petroleum	Real estate	Others	Total	Eliminations and corporate	Consolidated
I. Net sales and operating profit						
Net sales						
(1) Sales to outside customers	¥1,826,064	¥ 4,244	¥ 9,137	¥1,839,445	¥ —	¥1,839,445
(2) Inter-segment sales and transfers	129	130	6,695	6,954	(6,954)	—
Total sales	1,826,193	4,374	15,832	1,846,399	(6,954)	1,839,445
Operating expenses	1,769,195	1,855	15,157	1,786,207	(6,947)	1,779,260
Income from operations	¥ 56,998	¥ 2,519	¥ 675	¥ 60,192	¥ (7)	¥ 60,158
II. Assets, depreciation and capital expenditures						
Assets	¥ 849,187	¥28,720	¥ 8,537	¥ 886,444	¥19,379	¥ 905,823
Depreciation	23,612	1,013	28	24,653	—	24,653
Loss on impairment of fixed assets	15,559	18,169	—	33,728	—	33,728
Capital expenditures	14,379	146	23	14,548	—	14,548

For the year ended December 31, 2003	Millions of yen					
	Petroleum	Real estate	Others	Total	Eliminations and corporate	Consolidated
I. Net sales and operating profit						
Net sales						
(1) Sales to outside customers	¥1,710,639	¥ 4,291	¥11,987	¥1,726,917	¥ —	¥1,726,917
(2) Inter-segment sales and transfers	88	115	6,879	7,082	(7,082)	—
Total sales	1,710,727	4,406	18,866	1,733,999	(7,082)	1,726,917
Operating expenses	1,678,189	1,880	18,021	1,698,090	(7,147)	1,690,943
Income from operations	¥ 32,538	¥ 2,526	¥ 845	¥ 35,909	¥ 66	¥ 35,974
II. Assets, depreciation and capital expenditures						
Assets	¥ 828,546	¥48,695	¥ 8,696	¥ 885,937	¥(3,638)	¥ 882,299
Depreciation	24,072	1,031	35	25,138	—	25,138
Capital expenditures	15,247	129	27	15,403	—	15,403

- Notes: 1. Businesses are classified mainly on an internal management basis.
2. 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, sale of automobile products, leasing business and car rental business
3. Non-allocatable operating expenses are not included in operating expenses in "Elimination and corporate" for the fiscal year.
4. Corporate assets are fully allocated to each segment and not included in assets in "Elimination and corporate".
5. Long-term prepaid expenses and their depreciation are included in depreciation and capital expenditures.
6. (Note for fiscal 2004) As mentioned in Note 3, the Companies adopted "Accounting Standard for Impairment of Fixed Assets" with effect from the year ended December 31, 2004.
7. (Note for fiscal 2003) As mentioned in Note 2 (5), the Company has applied 13 years for amortization of unrealized actuarial gains and losses from this year. As a result of this change, operating expenses increased by 67 million yen and income from operations decreased by the same amount. The effect of this change for Real estate division and Others is immaterial.

(2) Geographic Segment Information

For the years ended December 31, 2004 and 2003, geographic segment information has been omitted as the Company has no consolidated subsidiaries or branches domiciled in countries or regions other than Japan.

(3) Overseas Sales

For the year ended December 31, 2004	Millions of yen		
	Asia	Others	Total
Overseas sales	¥118,311	¥82,118	¥ 200,429
Consolidated net sales			1,839,445
Overseas sales as a percentage of total consolidated net sales	6.4%	4.5%	10.9%

For the year ended December 31, 2003	Millions of yen		
	Asia	Others	Total
Overseas sales	¥126,513	¥77,588	¥ 204,101
Consolidated net sales			1,726,917
Overseas sales as a percentage of total consolidated net sales	7.3%	4.5%	11.8%

- 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) AsiaSingapore, China, Republic of Korea
(2) OthersU.A.E., U.S.A, United Kingdom, Switzerland, Bermuda (fiscal 2003 only)
3. Overseas sales are net sales of the Company and its consolidated subsidiaries in countries and regions outside Japan.

Report of Independent Auditors

To the Board of Directors
SHOWA SHELL SEKIYU K.K.

We have audited the accompanying consolidated balance sheets of SHOWA SHELL SEKIYU K.K. and its consolidated subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SHOWA SHELL SEKIYU K.K. and its consolidated subsidiaries as of December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

As described in Note 3, effective for the year ended December 31, 2004, SHOWA SHELL SEKIYU K.K. and its consolidated subsidiaries adopted "Accounting Standard for Impairment of Fixed Assets."

Chuo Aoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
March 30, 2005