

Eleven-Year Summary of Selected Financial Data

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
Years ended December 31

	2005	2004	2003	2002
Sales proceeds	¥2,268,488	¥1,839,445	¥1,726,917	¥1,620,359
Cost of sales	2,056,023	1,665,978	1,570,155	1,460,458
Gross profit	212,465	173,466	156,761	159,901
Sales and administrative expenses	114,084	113,280	120,787	123,500
Operating profit	98,381	60,185	35,974	36,400
Ordinary profit	100,497	61,927	38,188	40,101
Net income after taxes	58,370	2,362	21,000	18,665
Total assets	1,145,191	905,823	882,299	916,690
Total shareholders' equity	275,232	226,956	234,773	221,604
Net income after taxes per share (yen).....	¥155.31	¥6.14	¥55.96	¥49.69
Shareholders' equity per share (yen).....	732.08	605.25	627.07	592.18
Return on sales (operating profit basis) (%)	4.3	3.3	2.1	2.2
Return on sales (net income basis) (%)	2.6	0.1	1.2	1.2
Return on assets (%).....	5.1	0.3	2.3	2.0
Return on equity (%).....	23.2	1.0	9.2	8.6
Equity ratio (%).....	24.0	25.1	26.6	24.2
Number of shares outstanding at end of term (thousand shares) *1,2	375,863	374,868	374,303	374,125

*1 Treasury stock is excluded.

*2 The amount of treasury stock includes Showa Shell Sekiyu stock held by affiliates accounted for by the equity method.

Management's Analysis of Financial Position and Operating Results

Japan's Economy and the Operating Environment

During 2005, Japan's economy showed signs of a stronger recovery, even though the pace of improvement was slow. Corporate earnings rose and private capital investments continued to grow. Mining and manufacturing production and exports tended to be flat, but started to recover in the latter half of the year.

The price of Dubai crude oil was at US\$34 per barrel at the beginning of the year, and rose significantly due to the strong expansion of worldwide demand for oil. From August to September, there was a sudden jump in price to US\$59 per barrel due to the massive hurricanes that battered the U.S. Gulf Coast. The price of oil then settled as IEA (International Energy Agency) member nations released oil reserves, and Dubai crude dropped to US\$53 per barrel by the end of the year.

In the foreign exchange market, the yen began the year at ¥102 to the U.S. dollar. The Japanese currency gradually lost value due to the forecast increases in U.S. interest rates, and in

the first half of December, it exceeded ¥121 to the dollar. Once expectations emerged that the Federal Reserve would stop raising interest rates, the yen began to recover, and the exchange rate at the end of 2005 was ¥118 to the dollar.

Within this business environment, the Showa Shell Group has adopted the "New Foundation" Philosophy in order to achieve sustained growth. In our core petroleum operations, we are leveraging the cost competitiveness, trust and customer base that we have fostered to create value and to grow further, as well as to nurture and expand new related businesses. The procurement of Saudi Arabian oil and newly introduced double-hull ships have reduced our oil export costs. By leveraging our relationship with crude oil suppliers dealing with a wide range of types of oil, we have been optimizing our production planning and enhancing our competitive edge.

Sales of Petroleum Products

The Company's domestic sales figures have seen a slight

Millions of yen

2001	2000	1999	1998	1997	1996	1995
¥1,664,954	¥1,639,475	¥1,365,478	¥1,324,752	¥1,588,067	¥1,600,067	¥1,441,176
1,513,626	1,477,361	1,218,732	1,171,788	1,408,789	1,404,723	1,225,954
151,328	162,113	146,746	152,964	179,278	195,344	215,222
123,274	124,442	133,692	144,446	164,434	174,646	186,383
28,053	37,670	13,054	8,518	14,844	20,698	28,839
29,052	38,913	12,191	7,223	12,901	15,225	21,993
2,610	12,499	1,828	1,999	6,387	6,054	13,802
909,902	1,002,146	974,916	992,282	1,049,931	1,071,464	1,001,676
212,168	216,349	197,562	199,711	201,479	198,536	195,926
¥6.95	¥33.19	¥4.85	¥5.31	¥16.95	¥16.06	¥39.94
565.36	574.77	524.25	529.95	534.64	526.84	519.93
1.7	2.3	1.0	0.6	0.9	1.3	2.0
0.2	0.8	0.1	0.2	0.4	0.4	1.0
0.3	1.2	0.2	0.2	0.6	0.6	1.5
1.2	6.0	0.9	1.0	3.2	3.1	7.3
23.3	21.6	20.3	20.1	19.2	18.5	19.6
375,281	376,409	376,850	376,850	376,850	376,850	376,850

overall reduction due to the slump in sales of fuel oil because of the sudden jump in prices, and fuel conversion to natural gas and electricity has progressed. However, the sales figures for gasoline are steady and a cold winter saw a significant increase in sales of kerosene. On the other hand, diesel sales figures have leveled out as demand has declined with the reduced number of diesel vehicles.

Operating Results

Consolidated operating results for the fiscal year ended in December 2005 for the Showa Shell Group are discussed below.

Consolidated sales proceeds were ¥2,268.4 billion (an increase of 23.3% from the prior period). The main reason for the increase is that, although sales figures have decreased slightly, the sudden jump in crude oil prices caused sales prices to increase. As a result, consolidated operating profit reached ¥98.3 billion (an increase of 63.5% over the last

year). Even with the sudden jump in crude oil prices, the sales-to-cost ratio was unchanged at 90.6% from the prior period due to the effect of inventory valuation. Continued cost reduction efforts have kept the increase in sales and administrative expenses to ¥800 million compared with the prior period, and the ratio of sales and administrative expenses to sales proceeds has decreased 1.1 points to 5.0%.

By segment, for our backbone petroleum department, which contributes 99.2% of total company sales and 96.4% of operating profit, increases in gasoline and kerosene sales and a significant rise in crude oil prices have resulted in sales proceeds of ¥2,220.5 billion (an increase of 23.2% from the prior period) and operating profit came to ¥94.8 billion, up 23.2% over the prior period. The real estate and other divisions have also reported increases in sales and profits.

As the profit from equity associates also increased, consolidated ordinary profit rose by 62.3% from the prior period to ¥100.4 billion. When computed based on current cost of

supply, consolidated ordinary profit rose 31.8% from the prior period to ¥53.2 billion and operating profit by 41.1% to ¥50.1 billion.

Special losses greatly improved to a loss of only ¥1.3 billion, as we applied asset impairment accounting ahead of schedule in the prior period.

As a result of the above, net income on a consolidated basis significantly increased, by 2,370.8%, to ¥58.3 billion. Therefore, the current net income after taxes per share was up ¥149.18 (¥149.01 diluted) from the prior period at ¥155.31 (¥155.14 diluted).

Having taken into consideration that we are continuing to reduce costs and strengthen the Company's financial position, we are setting the year-end dividend for this current term at ¥15 per share. With the interim dividend of ¥20 (including the special anniversary dividend of ¥5), the annual dividend is ¥35 per share.

Assets, Liabilities and Shareholders' Equity

Total assets increased ¥239.3 billion from the end of the prior period to ¥1,145.1 billion. There was a significant increase in current assets resulting from notes and accounts receivables from increased sales and the growth of inventories, due to the sudden jump in crude oil prices. In addition, fixed assets

increased with the addition of new consolidated subsidiaries representing additional investments in petroleum processing and wholesale power supply businesses and expansion into city gas businesses, as well as the strategic acquisition of investment securities.

As for current liabilities, there was an increase in commercial paper, in addition to notes and accounts payable accompanying increases in sales. With respect to long-term liabilities, long-term debt increased due to aggressive investments. As a result, the gearing ratio increased from 33.6% to 41.1% from the prior period.

The increase in retained earnings pushed up capital sharply to ¥275.2 billion, an increase of 21.3% from the prior period. However, the equity ratio was down slightly at 24.0%.

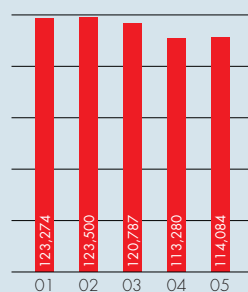
Regarding the cash flow from the end of the consolidated fiscal year under review, net cash provided by operating activities was ¥25.8 billion, as the increase in capital due to income before income taxes and minority interests, depreciation and other cash flow exceeded capital demand due to increases in working capital such as account receivables as a result of the high price of crude oil.

Net cash used in investment activities was ¥28.5 billion as a result of the acquisition of investment securities including AOC Holdings, business rights and operating assets of gas

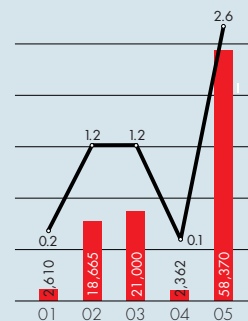
Sales Proceeds/Gross Profit Margin
(¥ million/%)



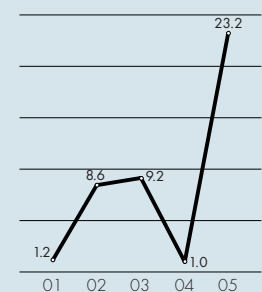
Sales and Administrative Expenses
(¥ million)



Net Income after Taxes/Return on Sales
(¥ million/%)



Return on Equity (ROE)
(%)



utilities businesses, and the acquisition of fixed assets.

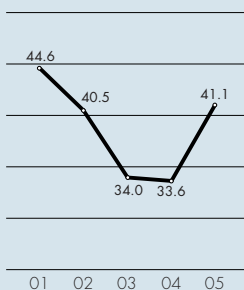
Net cash provided by financing activities came to ¥20.7 billion, mainly from increases in commercial paper in response to rising capital demands, including investments and dividend payments.

As a result, cash or cash equivalents, including those of consolidated subsidiaries, rose by ¥21.0 billion compared with the end of the prior consolidated fiscal year, to ¥29.4 billion.

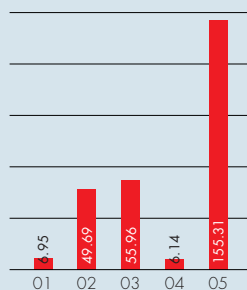
Outlook for 2006

For the fiscal year ending in December 2006, as the price of crude oil remains high, the outlook for sales proceeds on a consolidated basis is for ¥2,750 billion, while ordinary profit is projected at ¥65.0 billion and net income after taxes at ¥39.0 billion, both also on a consolidated basis. On current cost of supply basis, ordinary profit on a consolidated basis are expected to be ¥55.0 billion. This forecast is based on 2006 crude oil prices of US\$57 per barrel and an exchange rate of ¥118 to the U.S. dollar.

Gearing Ratio*
(%)



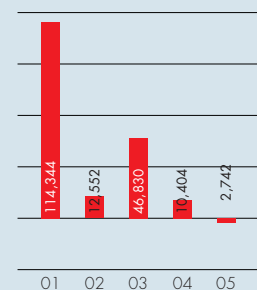
Net Income after Taxes per Share
(¥)



Shareholders' Equity per Share
(¥)



Free Cash Flow
(¥ million)



*Gearing ratio is interest-bearing debt/Average capital employed (shareholders' equity plus interest-bearing debt)