

An aerial photograph of a rocky coastline. The water is a vibrant, clear blue. On the left, a large, dark grey rock formation juts out into the sea. In the center, a smaller, rounded rock is visible. In the lower right, a yellow kayak with two people is on the water. The overall scene is bright and clear, suggesting a sunny day.

# New Foundation

**Showa Shell Sekiyu K.K.**  
ANNUAL REPORT 2005



# Profile

Showa Shell Sekiyu K.K. was formed in 1985 by a merger between Showa Oil Co., Ltd., established in 1931, and Shell Sekiyu K.K., which had been operating in Japan for more than one hundred years. In the ensuing years, Showa Shell has continued to foster a hybrid corporate culture that incorporates the best of both Japanese and Western management practices: it is rooted in the local community, and speedily responds to the changing needs of customers and the environment, while simultaneously pursuing cutting-edge innovations.

In 2004, Saudi Aramco, the national oil company of Saudi Arabia, which is the world's largest oil-producing nation, became a new partner to Showa Shell through equity participation. Since then, we have been working to foster a receptive corporate culture that can easily accommodate the diversity resulting from the amalgamation of the management styles of the Shell Group and Saudi Aramco, and Japanese business practices.

We at Showa Shell ushered in a new era for Showa Shell with the change in shareholder composition in 2005, and the adoption of our "New Foundation" mission statement demonstrates our commitment to undertaking new challenges. The management at Showa Shell will make the utmost effort to earn the trust of our customers and stakeholders.

Showa Shell Sekiyu has been reborn. We aim to become the leading company in Japan's petroleum refining and sales industry, and the management at Showa Shell is fully committed to ensuring that the Company meets the expectations of all its stakeholders.

すべては、あなたに信頼される企業であるために。

私たちは約束したい。  
エネルギーとともにある未来を。人間らしい豊かさのある未来を。  
そのために、これまでなかった商品や、  
提案あるサービスを次々と生み出していくことを。

私たちは約束したい。  
生活を、社会全体を活性化させるエネルギーに責任を持つことを。  
人の気持ちを前へ、前へと進めるエネルギーをお届けすることを。

私たちに、その力がある。  
永年培った安定供給の実績と、有難い。  
環境と性能を両立させる、次世代エネルギーの研究。  
お客様のことを考え抜く姿勢と、サービス品質…。

そして、  
私たちは約束したい。  
お客様のために、誰よりエネルギーにあふれる会社になることを。  
あなたとともに、未来へと走り続ける会社であることを。

ずっと走ろう。シェルと走ろう。  
**昭和シェル石油**



## Corporate Message

This corporate message reflects our aim of creating enduring ties with our customers and stakeholders through our daily activities, and our aspiration to become their company of choice in the future. It also expresses the hope that this relationship will be mutually beneficial for all those involved.

[http://www.showa-shell.co.jp/profile/corp\\_message.html](http://www.showa-shell.co.jp/profile/corp_message.html)

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For more information, visit our website:

<http://www.showa-shell.co.jp/>

### Note about forward-looking statements and forecasts

Statements made in this annual report with respect to current plans, estimates, strategies and beliefs and other statements of Showa Shell Sekiyu K.K. that are not historical facts are forward-looking statements about the future performance of Showa Shell Sekiyu. These statements are based on management's current assumptions and beliefs in light of the information currently available to it and involve known and unknown risks and uncertainties. Actual results may materially differ from those contained in the forward-looking statements as a result of various factors. Important factors that might cause such a material difference include, but are not limited to, currency exchange rate fluctuations, changes in market conditions and in general economic conditions.

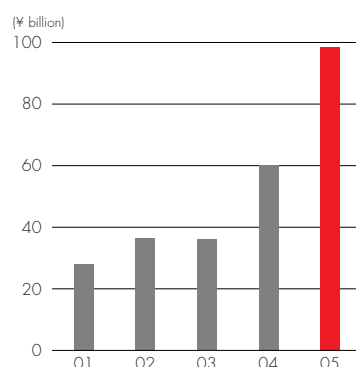
# Consolidated Financial Highlights

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

	Millions of yen	
	2005	2004
For the year:		
Sales proceeds.....	¥2,268,488	¥1,839,445
Operating profit.....	98,381	60,185
Ordinary profit.....	100,497	61,927
Net income after taxes.....	58,370	2,362
At year end:		
Total shareholders' equity.....	275,232	226,956
Total assets.....	1,145,191	905,823
Interest-bearing debt.....	191,830	114,782
Per share data:		
Net income after taxes per share.....	¥155.31	¥ 6.14
Cash dividends.....	35.00	30.00
Shareholders' equity per share.....	732.08	605.25
Ratios:		
Return on equity (ROE) (%).....	23.2	1.0
Return on assets (ROA) (%).....	5.1	0.3
Gearing ratio* (%).....	41.1	33.6

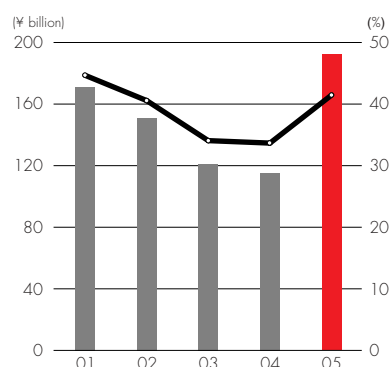
\*Gearing ratio is interest-bearing debt/Average capital employed (shareholders' equity plus interest-bearing debt)

### Consolidated Operating Profit



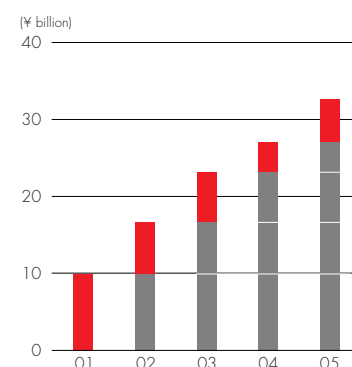
### Borrowings

— Gearing ratio



### Structural Cost Reductions

(non-consolidated)



#### Long-term rating

Rating and Investment Information Inc. (R&I) .....A  
Japan Credit Rating Agency Ltd. ....A+p  
Moody's Japan K.K. ....Baa1

#### Short-term (CP) rating

Rating and Investment Information Inc. (R&I) ...a-1

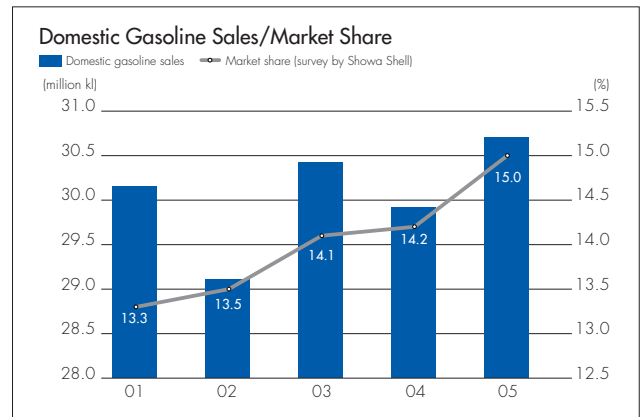
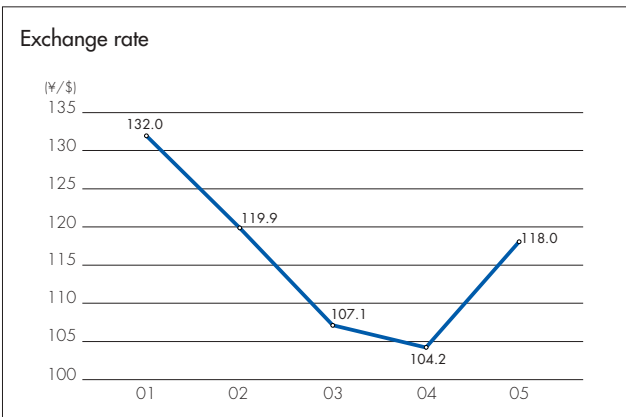
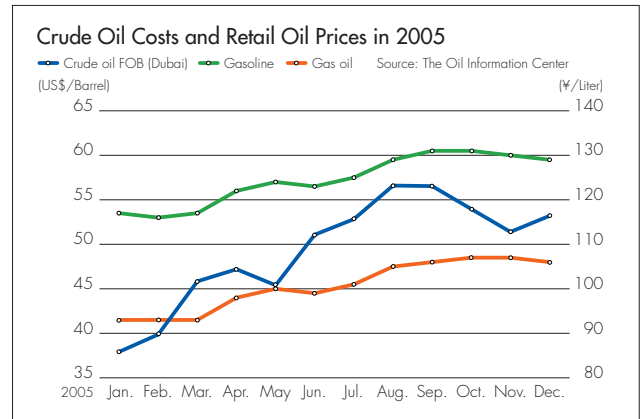
# Changes in the Management Environment

As an upward trend continued, oil prices hit record levels.  
Demand for petroleum products in Japan remained strong in 2005.

Strong economic growth achieved by China and other BRICs countries contributed to a steady performance of the global economy as well as to a rise in demand for crude oil in 2005. In addition, damage to the U.S. oil refinery operations on the Gulf Coast in late August resulted in a further rise in crude oil prices, and this upward trend propelled crude oil to record price levels during the term under review.

Regarding recent exchange rate movements, the dollar began 2005 at the ¥102 level. Amid forecasts of successive interest-rate hikes in the U.S., the dollar continued to strengthen against the yen, except for a short, temporary decline, after which the dollar again appreciated against the yen, fueled by strong demand for the U.S. currency. The dollar finished the year at the ¥118 yen level.

In the Japanese market, rising crude oil prices and the growing demand for petroleum products amid the unusually cold winter temperatures forced prices to surge in the first quarter (January-March). This was followed by a temporary easing, but from the latter half of the second quarter, prices again began increasing until the end of the third quarter, resulting in a nearly across-the-board price hike for all grades of oil. In the fourth quarter, gasoline prices decreased. In contrast, kerosene and grade A fuel oil, used as fuels for heaters, surged in response to a severe cold wave. Although it was quite difficult to raise sales prices quickly enough to pass on to our customers the higher price of crude oil, we managed to implement price hikes.



# Innovation through our New Foundation programme

The year 2005 was the first year for implementation of our New Foundation programme to accomplish our goals of increasing the value of our core businesses, expanding the scale of our core businesses, and developing new and peripheral businesses. We took our first steps toward the employment of a more proactive approach to management.

We have successfully implemented several projects aimed at the improvement of core competencies in our production and marketing capabilities. As a result, for the first time in 10 years, the amount of investment has substantially surpassed our depreciation cost on a consolidated basis, reflecting our adoption of management strategies aiming to recover the growth track.

## Developing new and peripheral businesses

We will undertake development of new products and services in core-related businesses, and then commercialize these new products and services. Showa Shell will endeavor to supply diverse forms of energy, while simultaneously creating new business models by responding to customers' potential needs, through its home solutions business, for example.

- Began supplying GTL (Gas-to-Liquids), a new fuel synthesized from natural gas, marking a first for the Japanese market (p. 9; environmentally friendly)
- Commenced commercial production of a next-generation CIS (copper-indium-diselenide) photovoltaic modules (p. 9; new energy development)
- Obtained the gas business of Wakamatsu Gas K.K. and Wakamatsu Gas Nenryo Kiki K.K. through the transfer of their goodwill and business assets to the Company's wholly-owned subsidiary (p. 7; development of peripheral businesses)

## Increasing the value of our core businesses

In our core businesses (the refining, distribution and sale of petroleum products), we will continue efforts to further reduce costs. We will make renewed efforts to improve operational efficiency, by resolving bottlenecks that arise anywhere between the crude oil procurement and product distribution stages, and thereby achieve greater profitability.

- Unveiled our corporate message (p. 9; brand strategy)
- Expansion in sales area for *Shell Pura* high-octane gasoline, to strengthen sales capabilities
- Raised Saudi Aramco's equity stake to 14.96% (p. 5) to ensure a stable supply of crude oil

- Equity participation in Toyotsu Sekiyu Hanbai K.K. (p. 7) to strengthen sales capabilities
- Equity participation in AOC Holdings Inc. (p. 6) to expand petroleum refining capacity and reduce costs
- Toa Oil Co., Ltd. made a specified subsidiary (p. 7) to boost petroleum refining capacity
- Construction of equipment to produce mixed xylene (to strengthen petroleum refining capabilities)

## Expanding the scale of our core businesses

We are considering to expand the scope of our core businesses through, for instance, M&A and strategic partnerships. By strengthening procurement capabilities for crude oil, as well as refining, distribution and sales capabilities for petroleum products, we expect to be able to distribute products through a more efficient marketing network, and thereby post increased sales.

# To Our Shareholders

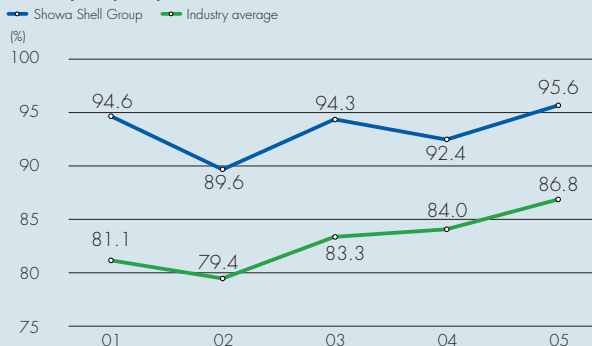


## A review of the first year of our New Foundation programme

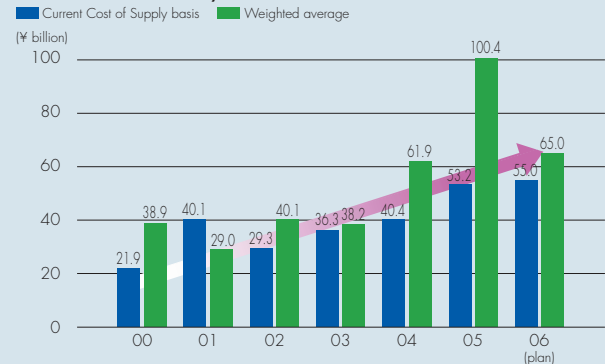
The term that ended December 2005 marked the 20th anniversary of the merger of Showa Oil Co., Ltd. and Shell Sekiyu K.K. To acknowledge this turning point in our 20-year history, we introduced our New Foundation management vision and have achieved dramatic results. The vision incorporates three resolutions. Firstly, we will move forward by separating ourselves from

the past, in a positive sense, to enable us to tackle the new challenges facing us. Secondly, we will firmly establish Showa Shell on a growth track through adherence to a well-defined strategy. Thirdly, we will respond to the changes in shareholder composition, and increase autonomy to ensure that Showa Shell can, indeed, achieve the fresh start to which it aspires as a reborn company.

### Refinery Capacity Utilization Rate



### Consolidated Ordinary Profit



The well-defined strategy referred to in the second item consists of expanding our core businesses, enhancing the value of core businesses, and developing new and peripheral businesses. At Showa Shell, we took the opportunity in 2005 to make a departure from the corporate innovation activities that had been in effect since 1996. We have introduced widespread initiatives that firmly target growth as their objective. We have been raising our product selling prices in response to increases in crude oil prices since 2004. At the same time, we made aggressive efforts to expand sales. As a result, on a consolidated basis, sales proceeds for fiscal 2005 increased by 23.3% year-on-year to ¥2,268.4 billion, gross profit amounted to ¥212.4 billion, and the gross profit margin on sales was unchanged from the previous term, at 9.4%.

At the profit level, as a result of an improvement in our profit margin on the sale of fuel oil and various cost reductions, as well as a substantial increase in gains on valuation of inventories, in line with the continued upward trend of crude oil prices compared with the previous fiscal year. As a result, operating profit on a consolidated basis came to ¥98.3 billion, for a year-on-year increase of 63.5%, and ordinary profit rose 62.3% to ¥100.4 billion. Ordinary profit calculated on a current cost of supply (CCS\*) basis, i.e. excluding gains on the valuation of inventory assets, came to ¥53.2 billion, for a year-on-year growth of 31.8%.

Sales and administrative expenses edged up by 0.7% to ¥114 billion, and sales and administrative expenses as a percentage of sales declined to 5.0% from 6.1% for the previous term. As a result of these factors, net income after taxes for the reporting period soared to ¥58.3 billion, or 24.7 times the figure for the previous term.

Total assets at term-end increased by ¥239.3 billion over the previous term-end, to ¥1,145.1 billion. This was due

mainly to: 1) an increase in the book value of inventories resulting from the high level of crude oil prices, 2) additional investment in the petroleum refining and independent power producer (IPP) businesses, 3) the establishment of new consolidated subsidiaries, mainly to engage in the gas utility business (supply of natural gas via pipeline networks), and 4) an increase in total investment resulting from the purchase of equity securities as part of strategic investments in various companies.

Regarding cash flows, operating activities resulted in a net cash inflow of ¥25.8 billion, investing activities resulted in a net cash outflow of ¥28.5 billion, and financing activities resulted in a net cash inflow of ¥20.7 billion. As a result of the foregoing, and including the increase resulting from the inclusion of 3 additional companies in the scope of consolidation, cash and cash equivalents as of the term-end registered an increase of ¥21 billion over the previous term-end.

### Stable supply is prerequisite for enhancing enterprise value and higher profits

In August 2004, through a transfer of shares from the Shell Group, Saudi Aramco, the national oil company of Saudi Arabia, the world's largest oil producing nation, became a participant in the Company's management. The inclusion of Saudi Aramco among our shareholders rounds out the Company's Saudi Arabian procurement network, and has enabled Showa Shell to streamline the transport process and create a more steady and efficient supply system.

Meanwhile, this has resulted in a reduction in the Shell Group's equity stake, which had been 50% until then. We must become more autonomous in our decision-making and reconsider how we intend to proceed as a Japan-based petroleum company. Needless to say, there will be no change in the solid business partnership we maintain with the Shell

### CCS\* Basis (Current Cost of Supply basis)

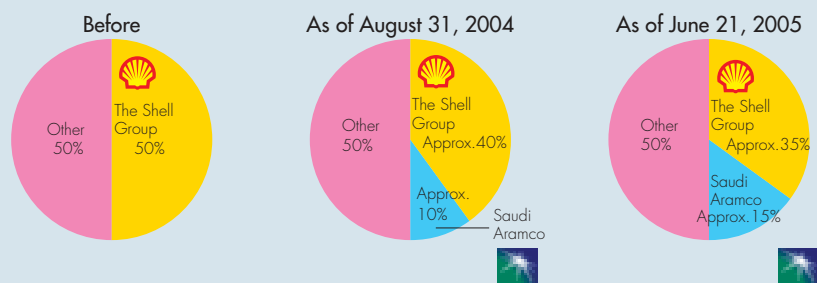
Inventories are stated at historical cost, mainly based on the weighted average method. Cost of sales is calculated using the weighted average of the cost of inventory purchased during the reporting term (current cost) and the cost of inventory at the start of the term (previous term-end inventory). Consequently, during periods when the price of crude oil is rising, the inclusion of the relatively inexpensive start-of-term inventory serves to bring down the cost of sales recognized in the accounts below the actual level of inventory costs during the reporting term (current cost). Conversely, during periods when crude oil prices are on a downward trend, the start-of-term inventory price is higher per unit than that for inventory purchased during the term, and the cost of sales is higher than actual inventory purchase costs for the term (current cost).

As a result, the Company's cost of sales for fiscal 2005 was lower by ¥47.2 billion than that on a current cost of supply basis. Conversely, operating income was pushed up in the same

amount. At Showa Shell, to enable a system of earnings management and monitoring that reflects the actual state of affairs by excluding this kind of effect from inventory valuation, in addition to the posting of profits and losses using the conventional method (described above) for calculating cost of sales (weighted average basis), we also calculate and disclose profits and losses on the basis of the current cost of supplies (CCS basis).

### Changes in Shareholder Composition

In accordance with the initial contract, an additional 5% of the Company's equity shares were transferred from the Shell Group to Saudi Aramco in June 2005. Thus, the current shareholder composition is as follows: Shell Group (35.04%), Saudi Aramco (14.96%), and general shareholders (50%). With the acceptance of equity participation by Aramco, oil imports from Saudi Arabia have risen above 60%. We can also vary production of petroleum products as the occasion demands, which gives us a considerable advantage.



Group. This aspect is underscored by the third priority task included in our New Foundation programme: to respond to the changes in shareholder composition, and increase autonomy to ensure that Showa Shell can, indeed, realize the fresh start to which it aspires as a reborn company.

Showa Shell, the number of whose general shareholders has been rapidly increasing since its secondary offering of the Company's shares to Japanese investors in 2004, is expected to fulfil its responsibilities to its general shareholders in addition to the major shareholders. Moreover, with Japan as its primary business market, its priority is to adequately fulfil its mission of ensuring a stable supply of petroleum products.

To meet the requests of its customers requiring petroleum, the Company functions at a high level of competency, engaging primarily in the import, refining and distribution of petroleum products. At the same time, to remain competitive in the current operating climate, only those companies that implement environmental policies and fulfil their corporate social responsibilities will survive. In addition to the super major Shell Group, our partnership with Aramco will help us to meet these criteria and contribute significantly to this all-important task of ensuring a stable supply of oil.

### Concentrating on our core business, developing high-value-added products

From 1996 through 2004, our top priority has been the strengthening of our financial position. We have made utmost efforts to transform operations in order to become a lean, muscular organization. In addition, our management resources—which have been dispersed through the diversification process—are now being redirected to our core business. Previously, there had been concerns that a diminishing of business scale would result due to the strong emphasis placed on

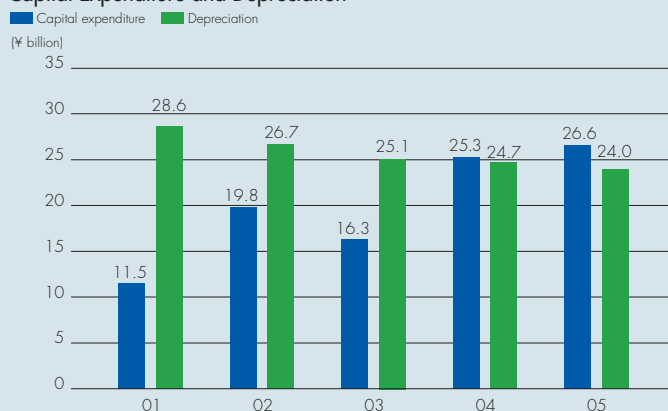
the bolstering of our financial position, the raising of overall efficiency, and the pursuit of more economical operations. However, from 2005, with the adoption of the New Foundation initiative, we have dramatically changed direction, and now emphasize an expansion of operations.

The centrepiece of this programme is, of course, our core business. We are creating a network through which we will provide high-quality products suited to the Japanese market, which demands a level of quality on par with global standards. While working to raise the value—and profitability—of our businesses, we will simultaneously undertake new investments to expand the scale of business operations.

A perfect example of our high quality, high-value-added products is *Shell Pura*. The more this gasoline is used, the cleaner the engine becomes. This, in turn, leads to improved acceleration capabilities and dramatic reductions in emissions of harmful gases, such as carbon monoxide. Launched in April 2005 in the area surrounding the city of Sendai, in Miyagi Prefecture, *Shell Pura* is now being sold nationwide in 25 prefectures, and has become a very popular product. Our other high-value-added products and services include the engine oil *Shell Helix*, developed by leveraging know-how acquired through F1 racing, and a credit card that precisely meets customers' needs, as indicated by responses to very detailed customer surveys.

In addition, we have been undertaking investments to expand the scale of our operations. For example, in October 2005, we undertook equity participation in AOC Holdings Inc., the joint venture holding company of Fuji Oil Co., Ltd. established with Arabian Oil Co., Ltd. (AOC), which engages in oil exploration and development in the Middle East (see below). This equity participation aims to ensure a long-term stable supply of petroleum product transactions with Fuji Oil. In

### Capital Expenditure and Depreciation



### Capital participation in AOC Holdings Inc.

Showa Shell owns an equity stake of 6.58% (with voting rights of 6.84%) in AOC Holdings; the holding company of Fuji Oil Co., Ltd. Affiliate Fuji Oil operates a refinery in Sodegaura, Chiba Prefecture, which produces 192,000 barrels per day. This refinery is expected to serve as an important supplier of petroleum products for customers in the Tohoku region, as well as the Tokyo area, where demand is strong. With the Group's existing refineries located at a distance, this move will help to ensure a stable supply of petroleum products.

the same month, the Showa Shell Group made Toa Oil Co., Ltd. into a specified subsidiary (see p. 7). Through these various initiatives, in addition to measures implemented under business tie-up agreements with Japan Energy Corporation, we were able to dramatically increase our oil supply capabilities.

On the sales front, in April 2005, Showa Shell invested in equity shares of Toyotsu Sekiyu Hanbai K.K., a wholly owned subsidiary of Toyota Tsusho K.K. The company operates both directly-owned and franchised service station chains centred in Aichi Prefecture. Through this move, we were able to strengthen our petroleum retail base in the Chukyo area (42 cities, 37 towns and 2 villages in Aichi, Gifu and Mie prefectures), our core market in Japan. In addition, we implemented a reorganization of affiliated dealers in which we have invested, and strengthened our grip on influential dealers.

We intend to take every opportunity to make strategic investments of this kind in the future.

### **Aggressive development of core-related peripheral businesses**

As the Company commences the second year of the New Foundation initiative, Showa Shell must focus on pursuing further growth of its core businesses, as well as gaining a foothold in new and peripheral businesses. Specifically, we must improve the profitability of existing core business areas and strengthen cost competitiveness, while simultaneously developing a new business model that targets sustained business growth.

With regard to the core business and closely related peripheral businesses, in July 2005 the Company entered into a new business field as a supplier of gases to end-users through pipelines. The Company acquired parts of businesses from Wakamatsu Gas K.K., a gas supplier based in Fukushima Prefecture, transferring the goodwill and business assets of

Wakamatsu Gas K.K. and Wakamatsu Gas Nenryo Kiki K.K. on behalf of the Company's wholly owned subsidiary. As a new downstream development, we are hoping this will lead to an expansion in the scale of our core businesses. By securing diverse energy sources, we intend to expand the scope of downstream products and create a system to respond to wide-ranging customer requirements.

In the area of new businesses, we are creating the world's first commercial production base for CIS (copper, indium, and selenide) solar batteries in Miyazaki Prefecture, and have decided to construct a new plant with a capacity of 20 megawatts per annum. Commercial production and sales are targeted for 2007. In addition, we have launched a new business encompassing home security, house cleaning, and other home solutions, and have begun test sales of GTL (gas-to-liquids) kerosene, with the hope that these new ventures will grow into promising businesses in the future.

Our existing business model for our core business requires a passive stance whereby we wait for customers to come to our service stations. In the future, however, we need to develop a more proactive model, in which we anticipate customers' latent needs, and then reach out to them and meet those needs. Our entrance into the gas business is one such example of the way in which we are working to proactively meet customer needs. Through the diversification of the types of energy we supply, and also through the development of a home solutions business, we aim to become a company that can respond more closely to end-user needs.

### **Brand Strategy**

Showa Shell has put down strong roots in the Japanese market, and is making strenuous efforts to become the petroleum company of choice among customers in this market. The

#### **Toa Oil Co., Ltd. made a specified subsidiary**

The main businesses of Toa Oil and its subsidiaries are petroleum refining and wholesale of electricity. The company became a specified subsidiary of Showa Shell at the end of October 2005, upon receipt of the new shares through a private placement of shares issued by Toa Oil Co., Ltd.

#### **Capital participation in Toyotsu Sekiyu Hanbai K.K.**

Showa Shell Sekiyu acquired an equity stake in Toyotsu Sekiyu Hanbai through a private placement of shares. Following the investment in Toyotsu Sekiyu Hanbai, the equity stake composition became Toyota Tsusho K.K. (65.3%) and Showa Shell Sekiyu (34.7%). Capital participation in Toyotsu Sekiyu Hanbai is part of a business alliance between Showa Shell and Toyota Tsusho K.K. Both parties will work together to strengthen the competitiveness of Toyotsu Sekiyu Hanbai.

#### **Acquisition of gas business of Wakamatsu Gas K.K. and Wakamatsu Gas Nenryo Kiki K.K.**

Wakamatsu Gas K.K. and Wakamatsu Gas Nenryo Kiki K.K. have their headquarters in Aizu-Wakamatsu City, in Fukushima Prefecture, and are developing their gas business in Aizu-Wakamatsu and Fukushima cities. At the request of the Wakamatsu Gas Group, Showa Shell has provided support through a transfer of goodwill. Through this move, Showa Shell aims to make a major contribution to the local region by ensuring the continuation of the local gas business, which is matter of great interest to the public.

Company's goal is to capture an overwhelming share of the market, and thereby achieve sustained growth. To this end, we must make proactive efforts to reach out to our customers, identify their latent needs, develop new services and products to meet those needs, and create a new business model.

In addition, by taking a proactive stance, reaching out to customers, we hope to cultivate customer loyalty for the Showa Shell Sekiyu brand. We have drafted our corporate message with the objective of promoting the understanding of customers and stakeholders about the measures we are implementing for corporate revitalization and the creation of new value through our New Foundation initiatives (p. 3). Our corporate message conveys Showa Shell Sekiyu's strong desire to grow along with its customers and stakeholders.

### Compliance and CSR Activities

As the Company's management gains a greater level of autonomy, the role of corporate governance as "safe counsel" becomes increasingly important. Showa Shell has established the Corporate Governance Committee as a permanent body to advise the Board of Directors. The committee is designed to enable the Board of Directors to incorporate the views of outside experts, to enhance the transparency and objectivity of management.

In a very regrettable development, we were convicted of violating the Antitrust Law relating to tendering practices for the sale of jet fuel to the Self Defense Agency during the term under review. We at Showa Shell will make utmost efforts to prevent the recurrence of such an incident by more strictly enforcing compliance with laws and regulations. Particularly in view of the recent tightening of antitrust regulations, we intend to take an even stricter and more uncompromising stance on involvement in cartels, and on the elimination of other illegal

tendering practices. We will carefully monitor every minute aspect of our operations in tackling this issue. We also make the enforcement of our basic policy concerning health, safety, security and environmental preservation, based on HSSE management rules, into our highest priority.

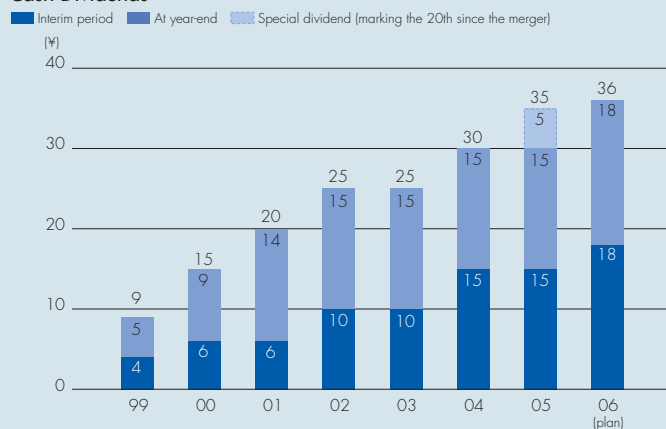
Showa Shell fulfils its corporate social responsibilities through its involvement in a wide variety of activities. In 2004, we set up a CSR working team, and our previously published environmental report *Moderate* has become our CSR Report. In addition to issuing a report, we also introduced various rules, regulations, and policies. In this way, we have systematically commenced CSR activities. In 2005, the second year of this initiative, we held "The First Showa Shell Environment Photo Contest." Our aim is to raise awareness about the natural environment through the photographing of local scenery, and encourage individuals to take the initiative in seeking solutions to environmental issues from a new perspective. From the 1,175 submissions received, we can conclude that the event generated a high level of interest in environmental issues. We intend to hold this contest every year.

In the future, we intend to place greater priority on the provision of "sulfur-free" gasoline and diesel oil and other environmentally friendly products and services.

### Successive Dividend Hikes and 20th Anniversary Dividend Payment

Showa Shell's basic policy concerning the distribution of earnings is to pay a stable and attractive dividend to shareholders while taking into consideration factors such as the Company's operations, financial position and trends in the financial markets. In accordance with this policy, the Company has continuously increased its annual dividend payment, which was ¥9.00 in 1999. For the fiscal year ended in December 2005,

#### Cash Dividends



the Company paid a dividend of ¥5.00 per share at the interim term-end to commemorate the 20th anniversary of the merger between Showa Oil and Shell Sekiyu. In addition, a ¥15.00 dividend was paid at both the interim term-end and annual term-end, on par with the dividend paid in the previous term. Consequently, the total amount of dividends for the full-year period came to ¥20.00 for the first-half period, ¥15.00 for the second-half period, and ¥35.00 per share for the year. We estimate a dividend payment of ¥36.00 for fiscal 2006.

### Forecast for Fiscal 2006 and Future Tasks

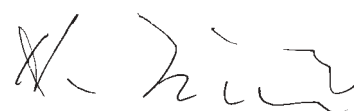
In fiscal 2006, the second year of our New Foundation plan, we will continue working to become a leading company with the goal of achieving sustained growth, and in the current year we will redouble our efforts to realize this goal. In 2006, the Japanese economy is forecast to show a favorable performance, overall. However, we anticipate a further acceleration in the pace of change in our management environment. Among our foremost concerns is the oil situation. Given the limited supply of this natural resource and global environmental concerns, it is unclear how long we will be able to continue using oil as a fuel source, and this question is stirring much debate. Against this backdrop, the economic development of China and the other BRICs countries is rapidly speeding up the consumption of oil, causing oil prices to surge to record levels.

In the domestic market, the combination of an improvement in automobile fuel efficiency and a switchover from heavy oil to natural gas for plant operations suggests that demand for crude oil will be flat in the future even under the most optimistic scenario. Given this situation, the time has come for the Company to seriously reformulate policies for achieving sustainable growth.

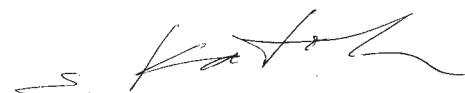
In 2006, we will once again return to a customer-focused

approach, with the aim of becoming a company that closely meets local market needs. Although Japan is a country of limited land area, local market needs are quite diversified. We will do our best to respond to the requirements of our customers in each local area, by emphasizing the creation of a network of affiliated dealers and other affiliated companies. By focusing on the preferences of customers and the characteristics of the local market, we aim to identify latent demand and discover a path toward sustained growth.

We at the Showa Shell Group would like to express our great appreciation to all our shareholders, for their continued support and understanding.



Haruyuki Niimi  
Chairman, Representative Director



Shigeya Kato  
Vice Chairman, Representative Director



Yasuo Murayama  
President, Representative Director

### Commenced commercial production of a next-generation CIS solar battery

As a project commissioned by The New Energy and Industrial Technology Development Organization (NEDO), the independent administrative organization, Showa Shell has undertaken development of CIS (copper, indium and diselenide) thin-film photovoltaic modules, which are cadmium-free and thus environmentally friendly, for more than 10 years. The production process of CIS modules involves a production process that is completely different from that of existing crystalline silicon, and is drawing attention worldwide. The Company began construction of the world's first commercial production plant in Miyazaki City in Kyushu after determining photovoltaic modules to be cost-competitive with strong potential for future commercialization. We will continue working to introduce clean energies that offer possibilities for recycling, thereby contributing to the resolution of environmental issues while supplying sustainable sources of energy.

### GTL fuel supplied at Aichi Expo

Accompanying our sponsorship of the Expo 2005 Aichi Japan (also known as Aichi Expo 2005), we supplied GTL (gas-to-liquids) fuel for a shuttle bus for use at the expo site. This was the first time that GTL fuel had been used in the hybrid diesel electric vehicles of a public transport organization in Japan. The GTL fuel was produced by the Shell Group's plant in Bintulu, Malaysia, using its proprietary technology.

### Corporate Message

Our employees, including the younger generation, have been discussing the future direction for Showa Shell, and out of these discussions has come the Company's new corporate message. The emphasis is not simply on what Shell will do on its own account, but rather on what Shell will do for and with its customers. In the development of this slogan, we have endeavored to incorporate the customer's perspective, and sincerely hope that this slogan will be used by Showa Shell for years to come.

# Overview of Business Operations



## Service Stations

At our service stations, together with our affiliated dealers who are our business partners, we promote the extension of services that meet the specific needs of our customers. We offer a full lineup of products, which is winning strong support from our customers. We are also bolstering training for service station staff. For example, we have set up the SRM (Shell Royal Manager) system, which serves as the standard for certification of future affiliated dealership managers. The staff must complete three levels of certification before qualifying for the management position of an affiliated dealership. From 2006, we will introduce a new certification programme for the positions of "oil meister" and "car life adviser." Through such initiatives, we aim to create service stations that more precisely meet our customers' car maintenance needs.



## Distribution System

We are enhancing the efficiency of delivery operations and lowering distribution costs thanks to the introduction of massive shipments, made possible by larger tankers and tank trucks, the creation of a computer-controlled distribution system. We have also expanded the use of Driver-Controlled Delivery to raise tank truck utilisation rates, and are now making full use of night-time tank truck deliveries. Efficiency was further enhanced by the introduction of cell phones and tank trucks equipped with GPS (global positioning systems) in 2005. In addition, we have held a large number of meetings for service station managers and lorry drivers to improve communication, and are simultaneously introducing measures to ensure safety.



## Liquefied Petroleum Gas (LPG)

Showa Shell handles four kinds of LPG: 1) Clean Propane, used in homes and at restaurants; 2) Clean Auto used in taxis; 3) Clean Butane for industrial and consumer gas applications, as well as basic materials for chemical products; and 4) Clean Mix, a mix of propane and butane. These gases can be stored in easy-to-carry, environmentally friendly dispensers, which make LPG easy to handle. Nationwide, there are currently 26,000,000 households that use LPG for cooking, water heating and air conditioning. Other applications include commercial, automotive, and industrial use. In the future, we anticipate the use of LPG in fuel batteries, serving as one of the fuels in a diversified power system.



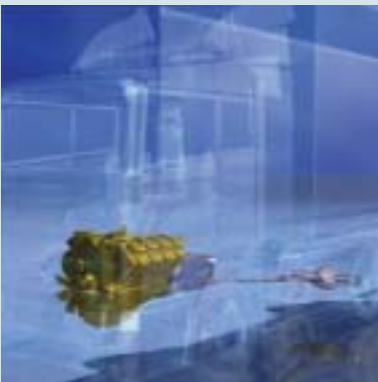
## Jet and Tanker Fuel

Showa Shell sells fuel oil and lubricants for jets and tankers. The Shell Group supplies fuel to jets starting with their very first tankful. Today, the Shell Group supplies fuel to over 800 airports, in more than 80 countries. The Group also supplies tanker fuel and lubricants, servicing over 1,400 ports worldwide. Leveraging its global network, the Shell Group is expanding its sales activities in Japan and overseas. With regard to lubricants, the Shell Group markets a common brand for both jets and tankers.



## Fuel for Industrial Uses

Showa Shell produces fuels for industrial use and sells these fuels directly to customers in the manufacturing, transport, and electric power industries, and also the agricultural, forestry and fisheries sectors, as well as the government and other public offices. As all industrial sectors in Japan work to resolve environmental issues, typified by recent efforts to reduce CO<sub>2</sub> emissions, their fuel needs will grow increasingly diverse. Showa Shell aims to face this challenge not merely as a fuel supplier, but also as a solution provider.



## Lubricants and Grease

Concerning lubricants and grease, Showa Shell in collaboration with the Shell Group has developed over 1,000 varieties of lubricants and grease, for a wide product lineup designed to meet customers' needs, which change from moment to moment. The synthetic fuel XHVI™, made from natural gas, boasts a high viscosity index with superior stability, and is a base oil which is sulfur-free and contains no pungent hydrocarbons. In the unlikely event of an oil leak, we have developed an oil which will automatically be broken down by bacteria. In this way, we have gained a substantial lead over our competitors thanks to our development of such high-performance, environmentally friendly lubricants. In addition, we have created a highly efficient distribution system for delivering products to locations anywhere in Japan from our two production plants in Yokohama and Kobe.



## Asphalt

Thanks to Showa Shell's extensive efforts in research and new product development, the Company is now able to supply asphalt that imposes a smaller environmental burden, which can be used for a variety of applications and which contributes to life in rural areas. Asphalt is known primarily for its use as a road covering. However, making use of its tenacity, it can be applied as a layer over pilings for substructures of civil engineering works, protecting the pilings from friction caused by land subsidence. Due to its properties of being waterproof, rust-resistant, sound-proof and vibration-proof, asphalt is suitable for a wide range of applications in civil engineering, construction and other industries.



## Refining and Supply of Petroleum

In addition to the combined capacity of the Group's three refineries—the Yokkaichi Refinery of Showa Yokkaichi Sekiyu, the Keihin Refinery of Toa Oil, and the Yamaguchi Refinery of Seibu Oil—the Company has acquired equity stakes in AOC Holdings, thereby gaining access to Fuji Oil's Sodegaura Refinery and substantially increasing its supply capacity in the Tokyo area, where demand is especially strong. We actively invested in technology for limiting sulfur content in gasoline for automotive fuel to 10 ppm or less (sulfur-free). Through the pioneering of such sophisticated technologies, we will continue to undertake oil refining while proactively responding to customer needs.

# Research and Development

The Shell Group is a pioneer in environmentally friendly countermeasures and new energy development. Our Central Research Laboratory—our primary research organization—works closely with the Shell Group's worldwide R&D bases, undertaking research on themes ranging from oil refining to eco-friendly energies. The results of our research efforts are evident in a variety of businesses, such as the high-octane gasoline *Shell Pura* and our development of asphalt that offers drainability and noise-reduction features.



## Solar Energy Business

Since 1978, Showa Shell has been making aggressive efforts to popularize solar batteries, and the Company is undertaking a variety of projects in this area. Among these is a project commissioned by The New Energy and Industrial Technology

Development Organization (NEDO), an independent administrative organization, the development of CIS (copper, indium, and diselenide) thin-film photovoltaic modules that have achieved the world's most efficient energy conversion rate. A manufacturing plant is currently under construction, with commercial production slated to begin in 2007. We will continue to pursue further technological developments in the field of clean energies to enable the realization of a sustainable society.



## Hydrogen Fuel

Hydrogen fuel promises to be an extremely clean source of energy. The Shell Group has developed proprietary technology—modified CPO (Catalytic Partial Oxidation) technology—for incorporation in a highly efficient hydrogen production system,

which features high startability and an ability to reduce the environmental load (the degree of operational freedom). As part of a project commissioned by the Petroleum Energy Centre (PEC), the Central Research Laboratory of the Company is working to develop a system that uses a hydrogen station, leveraging the modified CPO technology.



## Dispersed Power Source Business

We began cogeneration utilizing the TES (Total Energy System) in 1974. Since then, we have realized significant achievements in the dispersed power source business. We have been able to more efficiently supply

electricity than the existing electric power companies, thereby contributing to the reduction of carbon dioxide. In addition to large-scale facilities, we will also begin offering efficient and reliable cogeneration power systems for home-use and use by small businesses.



## GTL (Gas to Liquids)

GTL refers to a process that combines the carbon and hydrogen elements in natural gas molecules to make synthetic liquid petroleum products. GTL fuel is clean, and environmentally friendly, as it contains almost no sulfur and has virtually no

odor. The Shell Group operates the world's first commercial GTL plant in Bintulu, Sarawak, in Malaysia, providing products to over 20 countries. Moreover, the Shell Group has announced plans to build a large-scale GTL plant in Qatar, slated for completion in 2009, which will further cement its lead in both GTL technology and GTL fuel supply.



## Natural Gas Development Business

From the viewpoint of environmental protection, it is necessary to further improve energy-use efficiency while giving adequate consideration to atmospheric preservation and energy conservation. These requirements

have prompted us to develop new applications for natural gas, which is a clean form of energy. Showa Shell is working together with Tokyo Gas on a power project through joint establishment of K.K. Ogishima Power in order to ensure the efficient and economical supply of electricity from sites located in close proximity to customers. Leveraging the strengths of each company, the project is making steady progress, with full-scale operation slated to begin in 2009.



## Soil Remediation Business

The Company employs the NERA (Network Environment Risk Assessment) system, developed by the Shell Group, to assess environmental risks and manage soil contamination risks at service stations. Our subsidiary Shoseki Engineering & Construction

Co., Ltd. is registered as a specified assessment organization with regard to soil reclamation countermeasures. Another subsidiary, K.K. SVC Tokyo, which is authorized to undertake verification of environmental measurements, is working to develop a business as a highly reliable environmental risk assessment company.

# CSR Initiatives

The modern business environment is changing at an ever-accelerating pace, and the expectations and demands of the Company stakeholders have increased and grown more complex.

The Showa Shell Group is grappling with various environmental issues, while simultaneously planning activities that will contribute to society. Through the planning and provision of support for corporate social responsibility initiatives, the Company endeavors to hasten the realization of a society that gives priority to sustainable environmental protection.

## Management Philosophy and Basic Policies

Showa Shell recognizes that the sustainable growth of the Company not only depends upon economic factors such as earnings and dividends, but also requires a management approach that shows due care for the environment and community. By maintaining an open line of communication with stakeholders including shareholders, consumers, customers, business partners, employees and the community, Showa Shell is committed to affirming its responsibilities as a corporation and reflecting the input of stakeholders in management decisions, as well as to boosting its corporate value.

The Company also recognizes that no company can raise its enterprise value without possessing a sound earnings structure.

Showa Shell's approach to achieving sustainable growth is outlined in its Management Philosophy and Corporate Goals, while its business activities are guided by the Code of Conduct in existence since 1997. (For more information, see p. 32).



## CSR Report

In fiscal 2004, Showa Shell established a cross-divisional Corporate Social Responsibility (CSR) Working Group whose aim is to further raise the recognition of the Company's CSR initiatives among stakeholders. Showa Shell also published its *CSR Report 2005*, which incorporates two additional elements, "Society" and "Economy," into *Moderate*, the Company's environmental report published since 1993. For more information on our CSR initiatives, please read the *CSR Report 2005*, on our website.

<http://www.showa-shell.co.jp/society/csr/index.html>.



## Environment Photo Contest

From 2005, we launched the "Environment Photo Contest." We requested the submission of photos showing local scenery that make a visual appeal for raising consciousness with regard to environmental preservation, as well as heighten awareness of environmental issues. Our hope is that this event will serve as a first step toward the creation of a nationwide grassroots movement aimed at the resolution environmental issues, realized through the planning and initiative of individuals. The first such photo contest was divided into two categories (elementary, junior and senior high school division, and the senior citizens' division), with a total of 46 winners. The awards ceremony was held on October 30, 2005 on the 18th floor of our head office. We hope that this contest will provide young people—who will be responsible for creating the world of the future—with opportunities to observe the natural environment in which they live, and will hopefully lead to environmental preservation activities in the future.



# Board of Directors and Corporate Auditors



## Directors

### Chairman, Representative Director

Haruyuki Niimi

### Vice Chairman, Representative Director

Shigeya Kato

### President, Representative Director

Yasuo Murayama

### Vice President, Director

Roy D. Waight

### Managing Director

Hitoshi Sato

### Directors

Yoshihiko Miyauchi  
 Mohammad S. Alshammari  
 Chong-Meng Tan  
 Tomoyuki Egami  
 Jun Arai  
 Atsuhiko Hirano

### Full-Time Auditors

Hisao Nozaki  
 Kanji Yamamoto

### Auditors

Akio Kioi  
 Midori Miyazaki

## Executive Officers

### Senior Managing Executive Officer

Jun Yui

### Managing Executive Officers

Yukimichi Ikemura  
 Shigeaki Kameda

### Executive Officers

Kazuo Murakami  
 Yoshitaka Takesawa  
 Kazunori Yamamoto  
 Naoto Komatsu  
 Kiyotaka Yamada  
 Tsuyoshi Kameoka  
 Katsuhiro Nakagawa  
 Hiroto Tamai

*(From left, the first row):*

*Chong-Meng Tan,  
 Shigeya Kato,  
 Haruyuki Niimi,  
 Yasuo Murayama,  
 Mohammad S. Alshammari,  
 Tomoyuki Egami*

*(From left, the second row):*

*Midori Miyazaki,  
 Yoshihiko Miyauchi,  
 Roy D. Waight,  
 Hitoshi Sato, Akio Kioi*

*(From left, the third row):*

*Hisao Nozaki, Jun Arai,  
 Atsuhiko Hirano,  
 Kanji Yamamoto*

*(As of March 30, 2006)*

# Network, Major Subsidiaries and Affiliates

<b>Head Office</b>	Daiba Frontier Bldg., 2-3-2, Daiba, Minato-ku, Tokyo 135-8074	Tel: (03) 5531-5591
<b>Ishioka Training Centre</b>	3-21-11, Minamidai, Ishioka, Ibaraki 315-0035	Tel: (0299) 26-9611
<b>Central Research Laboratory</b>	4052-2, Nakatsu, Aikawa-machi, Aiko-gun, Kanagawa 243-0303	Tel: (046) 285-0564
<b>Branches</b>		
<b>Hokkaido</b>	Nishi 1-chome, Kita 7 jo, Kita-ku, Sapporo, Hokkaido 060-0807	Tel: (011) 738-2070
<b>Tohoku</b>	4-1-1, Ichiban-cho, Aoba-ku, Sendai, Miyagi 980-0811	Tel: (022) 263-1216
<b>Tokyo Metropolitan District No.1 Area</b>	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-8518
<b>Tokyo Metropolitan District No.2 Area</b>	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-7302
<b>Kanto</b>	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-8581
<b>Niigata</b>	21, Heiwa-cho, Niigata-shi, Niigata 950-8515	Tel: (025) 274-5511
<b>Shizuoka</b>	3-11, Otemachi, Shizuoka-shi, Shizuoka 420-0853	Tel: (054) 255-5381
<b>Chubu</b>	3-25-9, Meieki, Nakamura-ku, Nagoya, Aichi 450-0002	Tel: (052) 582-6611
<b>Hokuriku</b>	1-5-2, Honmachi, Kanazawa, Ishikawa 920-0853	Tel: (076) 233-5151
<b>Kinki</b>	2-5-8, Minami-senba, Chuo-ku, Osaka-shi, Osaka 542-0081	Tel: (06) 6271-9825
<b>Chugoku</b>	2-7-10, Otemachi, Naka-ku, Hiroshima-shi, Hiroshima 730-0051	Tel: (082) 249-4424
<b>Shikoku</b>	1-3-1, Kotobuki-cho, Takamatsu, Kagawa 760-0023	Tel: (087) 851-7934
<b>Kyushu</b>	3-11-1, , Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka 810-0001	Tel: (092) 752-5313
<b>Petroleum Import Terminal</b>		
<b>Niigata</b>	21, Heiwa-cho, Niigata-shi, Niigata 950-8723	Tel: (025) 274-4141
<b>Lubricant Blending Plants</b>		
<b>Yokohama</b>	2-4, Anzen-cho, Tsurumi-ku, Yokohama, Kanagawa 230-0035	Tel: (045) 505-8201
<b>Kobe</b>	6-1-17, Namimatsu-cho, Nagata-ku, Kobe, Hyogo 653-0055	Tel: (078) 731-2035
<b>Management Terminals</b>		
<b>Management Terminal (Tokyo)</b>	1-6-1, Otemachi, Chiyoda-ku, Tokyo 100-0004	Tel: (03) 3214-8531
<b>Management Terminal (Osaka)</b>	2-5-8, Minami-senba, Chuo-ku, Osaka-shi, Osaka 542-0081	Tel: (06) 6271-2411
<b>Management Terminal (Yokkaichi)</b>	1, Shiohama-cho, Yokkaichi, Mie 510-0851	Tel: (0593) 46-2418
<b>Management Terminal (Seibu)</b>	5, Oaza-Nishioki, Onoda, Yamaguchi 756-0885	Tel: (0836) 88-0622
<b>Affiliates</b>		
<i>Company name</i>	<i>Equity ownership (%)</i>	<i>Major businesses</i>
Showa Yokkaichi Sekiyu Co., Ltd.	75.0	Petroleum refining
Toa Oil Co., Ltd.	50.1	Petroleum refining
Seibu Oil Co., Ltd.	38.0	Petroleum refining
Showa Shell Sempaku K.K.	100.0	Domestic and international shipping
Heiwa Kisen Kaisha, Ltd.	100.0	On-site services at refineries and oil fields; shipping agent
Japan Oil Network Co., Ltd.	49.0	Petroleum storage; contracts for receipts and payments; leasing of petroleum storage facilities
JLS Corporation	50.0	Receipt of orders for transport, allocation of vehicles and delivery of petroleum products
Niigata Joint Oil Stockpiling Co., Ltd.	29.0	Petroleum storage
East Ogishima Oil Terminal K.K.	76.0	Petroleum storage
Hokkaido Joint Oil Stockpiling Co., Ltd.	10.0	Petroleum storage
Oita L.P.G. Joint Stockpiling Co., Ltd.	15.0	Liquefied natural gas storage
Shoseki Overseas Oil Development Co., Ltd.	100.0	Mining, development, production and sales of petroleum and natural gas
Shoseki Engineering & Construction Co., Ltd.	100.0	Design and construction of industrial facilities, particularly those used in the petroleum industry
Red and Yellow Co., Ltd.	100.0	Import and sales of lubricating oil
Nippon Grease Co., Ltd.	99.3	Manufacturing and sales of grease and lubricating oil
Rekisei Kagaku K.K.	100.0	Processing of specialized asphalt products
Shell Solar Japan Ltd.	100.0	Manufacturing, sales, import and export of solar batteries
K.K. SVC Tokyo	100.0	Performance testing and analysis of petroleum products; solutions to prevent oil from polluting the soil; engine testing
Shoseki Kako K.K.	100.0	Manufacturing, sales and execution of materials used for waterproofing buildings, and manufacturing and sales of petroleum products and asphalt pavement
Shoseki Gas K.K.	100.0	Sales of liquefied natural gas; high-pressure gas and other petroleum related engineering works, and sales of household appliances and office automation equipment
K.K. Rising Sun	100.0	Sales of petroleum and automotive products; indemnity agent; leasing; uniform rental
Kyoto Sky Parking K.K.	100.0	Operation of parking facilities; real estate agent
K.K. Creco	100.0	Building maintenance services; travel agent
K.K. On Site Power	64.0	Supply of heat and electricity
K.K. Ogishima Power	25.0	Environmental assessment, technological study, and business profitability study on electric power plant construction
Wakamatsu Gas K.K.	100.0	Sales of petroleum products and city gas business

(As of April 2006)

# 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%.

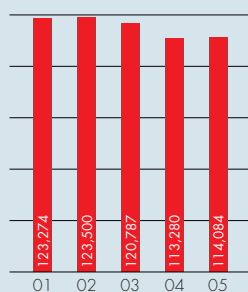
Regarding the cash flow from the end of the consolidated fiscal year under review, net cash provided by operating activities was ¥25.8 billion, as the increase in capital due to income before income taxes and minority interests, depreciation and other cash flow exceeded capital demand due to increases 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

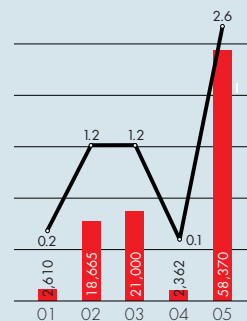
Sales Proceeds/Gross Profit Margin  
(¥ million/%)



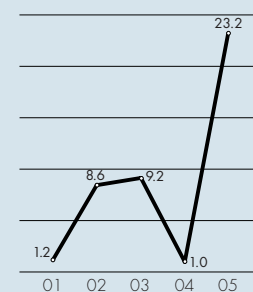
Sales and Administrative Expenses  
(¥ million)



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



Return on Equity (ROE)  
(%)



utilities businesses, and the acquisition of fixed assets.

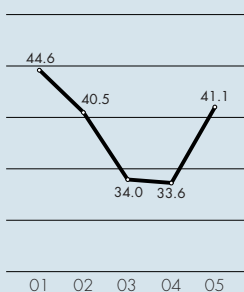
Net cash provided by financing activities came to ¥20.7 billion, mainly from increases in commercial paper in response to rising capital demands, including investments and dividend payments.

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.

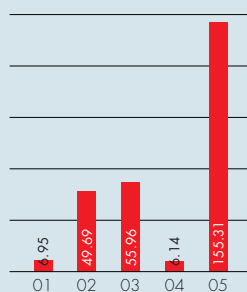
### Outlook for 2006

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\*  
(%)



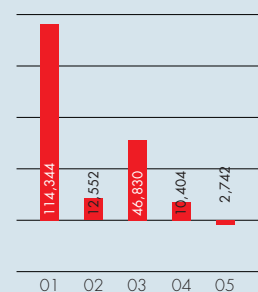
Net Income after Taxes per Share  
(¥)



Shareholders' Equity per Share  
(¥)



Free Cash Flow  
(¥ million)



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

# Consolidated Balance Sheets

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries  
As of December 31, 2005 and 2004

Millions of yen

	2005	2004
<b>Assets</b>		
Current Assets:		
Cash and deposits (Note 13).....	¥ 29,651	¥ 8,553
Notes and accounts receivable (Note 15) .....	309,633	233,032
Inventories (Note 4) .....	236,686	176,477
Deferred tax assets (Note 8) .....	8,049	7,723
Others .....	20,956	25,088
Provisions for bad debts .....	(417)	(324)
Total current assets.....	604,560	450,551
Fixed assets (Notes 7, 12 and 13):		
Tangible fixed assets		
Buildings and structures.....	118,750	115,189
Tanks.....	11,636	11,004
Machineries and equipments.....	123,771	100,982
Lands.....	160,512	128,417
Construction in progress.....	5,106	1,657
Others .....	5,308	2,994
Total tangible fixed assets.....	425,085	360,246
Intangible fixed assets		
Goodwill.....	2,064	—
Lease hold.....	3,683	3,421
Software .....	6,066	7,789
Others .....	1,393	668
Total intangible fixed assets .....	13,207	11,880
Investments		
Investment securities (Note 5).....	51,377	36,462
Long-term loans .....	1,206	1,632
Deferred tax assets (Note 8) .....	25,900	27,402
Others .....	24,688	19,041
Provisions for bad debts .....	(835)	(1,393)
Total investments.....	102,338	83,144
Total fixed assets .....	540,630	455,271
<b>Total assets</b> .....	<b>¥1,145,191</b>	<b>¥905,823</b>
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payable (Trade) (Note 15) .....	¥ 247,565	¥196,438
Short-term debts (Notes 6 and 13).....	41,901	42,638
Bonds to be matured (Note 6).....	—	15,000
Accounts payable (Other) (Notes 13 and 15).....	204,174	191,595
Income taxes payable .....	26,952	21,749
Unpaid expenses.....	11,265	10,890
Provisions for bonuses.....	2,069	1,742
Commercial papers (Note 6) .....	86,000	23,000
Others (Note 15).....	44,451	34,374
Total current liabilities .....	664,379	537,429
Long-term liabilities:		
Bonds (Note 6) .....	15,000	15,000
Long-term debts (Notes 6 and 13) .....	48,929	19,145
Deferred tax liabilities (Note 8) .....	3,886	264
Provisions for retirement benefits (Note 9).....	79,677	79,408
Provisions for special maintenance .....	17,227	10,292
Others .....	21,998	13,521
Total long-term liabilities .....	186,719	137,631
<b>Total liabilities</b> .....	<b>851,099</b>	<b>675,060</b>
<b>Minority interests</b> .....	<b>18,859</b>	<b>3,807</b>
Contingent liabilities (Note 14)		
<b>Shareholders' equity</b>		
Capital:		
Authorized 440,000,000 shares		
Issued shares 376,850,400 shares.....	34,197	34,197
Capital surplus.....	22,106	22,095
Profit surplus.....	214,346	169,113
Unrealized gain/loss of investment securities.....	5,362	3,085
Treasury shares:		
986,620 shares as of December 31, 2005 and		
1,981,642 shares as of December 31, 2004 .....	(781)	(1,537)
<b>Total shareholders' equity</b> .....	<b>275,232</b>	<b>226,956</b>
<b>Total liabilities, minority interests and shareholders' equity</b> .....	<b>¥1,145,191</b>	<b>¥905,823</b>

Fractions below 1 million yen is rounded off.

# Consolidated Statements of Income

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries  
Years ended December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Sales proceeds (Notes 15 and 16).....	<b>¥2,268,488</b>	¥1,839,445
Cost of sales (Notes 15 and 16).....	<b>2,056,023</b>	1,665,978
Gross profit.....	<b>212,465</b>	173,466
Sales and administrative expenses (Notes 7, 9, 11, 15 and 16).....	<b>114,084</b>	113,280
Operating profit.....	<b>98,381</b>	60,185
Non-operating profit		
Interest income.....	<b>64</b>	48
Dividends received.....	<b>455</b>	240
D.I.E profit.....	<b>—</b>	246
Amortization of goodwill on consolidation.....	<b>2,951</b>	—
Profit from equity associates.....	<b>1,668</b>	996
Profit from anonymous associates.....	<b>785</b>	1,207
Others.....	<b>2,351</b>	1,844
	<b>8,276</b>	4,584
Non-operating expenses		
Interest expenses.....	<b>1,103</b>	1,191
Sales discount.....	<b>1,516</b>	1,153
D.I.E loss.....	<b>2,831</b>	—
Others.....	<b>708</b>	498
	<b>6,160</b>	2,842
Ordinary profit.....	<b>100,497</b>	61,927
Special Profit (Note 5)		
Profit from sales of fixed assets.....	<b>1,824</b>	1,715
Profit from sales of investment securities.....	<b>91</b>	65
Write back of provisions for special maintenance.....	<b>81</b>	—
Others.....	<b>707</b>	24
	<b>2,704</b>	1,805
Special loss (Note 12)		
Loss from sale of fixed assets.....	<b>1,663</b>	4,813
Loss from sale of investment securities.....	<b>0</b>	65
Valuation loss of investment securities.....	<b>9</b>	48
Early retirement premium.....	<b>82</b>	23
Valuation loss of golf membership.....	<b>34</b>	102
Impairment losses.....	<b>1,894</b>	33,728
Others.....	<b>398</b>	136
	<b>4,083</b>	38,918
Net income before taxes.....	<b>99,119</b>	24,814
Taxes.....	<b>40,439</b>	29,585
Tax adjustments.....	<b>(53)</b>	(7,206)
Earnings of minority interests.....	<b>363</b>	73
Net income after taxes.....	<b>¥ 58,370</b>	¥ 2,362

Yen

	Yen	
Per share data:		
Net income after taxes per share.....	<b>¥155.31</b>	¥ 6.14
Diluted net income after taxes.....	<b>155.13</b>	6.13
Dividend per share.....	<b>35.00</b>	30.00
Shareholders' equity.....	<b>732.08</b>	605.25

Fractions below 1 million yen is rounded off.

# Consolidated Statements of Shareholders' Equity

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries  
Years ended December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Capital:		
Opening balance.....	<b>¥ 34,197</b>	¥ 34,197
Closing balance.....	<b>¥ 34,197</b>	¥ 34,197
Capital surplus:		
Opening balance.....	<b>¥ 22,095</b>	¥ 22,089
Profit from treasury shares sold.....	<b>11</b>	6
Closing balance.....	<b>¥ 22,106</b>	¥ 22,095
Profits surplus:		
Opening balance.....	<b>¥169,113</b>	¥178,102
Net income after taxes.....	<b>58,370</b>	2,362
Increase by subsidiaries mergers.....	<b>—</b>	19
Increase by newly consolidated subsidiaries.....	<b>50</b>	—
Dividends.....	<b>(13,125)</b>	(11,235)
Director remuneration.....	<b>(62)</b>	(57)
Decrease by subsidiaries mergers.....	<b>—</b>	(77)
Closing balance.....	<b>¥214,346</b>	¥169,113

Fractions below 1 million yen is rounded off.

# Consolidated Statements of Cash Flows

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries  
Years ended December 31, 2005 and 2004

Millions of yen

	2005	2004
<b>Cash flows from operating activities</b>		
Net income before taxes .....	¥99,119	¥24,814
Depreciation .....	23,979	24,653
Impairment losses .....	1,894	33,728
Loss from sale of fixed assets .....	1,663	4,813
Profit from sale of fixed assets .....	(1,824)	(1,715)
Valuation loss of investment securities .....	43	150
Changes in provisions for bad debts .....	(473)	150
Changes in provision for retirement benefits .....	(1,041)	(191)
Interest and dividend income .....	(520)	(289)
Interest expense .....	2,620	2,344
Changes in accounts receivable .....	(69,675)	(13,160)
Changes in inventories .....	(58,678)	(43,331)
Changes in accounts payable .....	50,812	25,632
Others .....	16,781	(5,819)
Subtotal .....	64,700	51,780
Interests and dividends received .....	896	292
Interests paid .....	(2,986)	(2,406)
Corporate taxes paid .....	(36,803)	(20,068)
<b>Cash flow from operating activities</b> .....	<b>25,806</b>	<b>29,598</b>
<b>Cash flows from investing activities</b>		
Deposit to savings account .....	(8)	(5)
Payments for purchase of fixed assets .....	(17,442)	(12,408)
Proceeds from sales of fixed assets .....	3,347	3,723
Payments for purchase of investment securities .....	(10,420)	(11,365)
Proceeds from sales of investment securities .....	471	2,308
Changes in short-term loan .....	415	105
Long-term loan lent .....	(117)	(519)
Long-term loan collected .....	12	204
Payments for additional purchase of consolidated subsidiaries .....	(949)	—
Others .....	(3,858)	(1,236)
<b>Cash flow from investing activities</b> .....	<b>(28,548)</b>	<b>(19,194)</b>
<b>Cash flows from financing activities</b>		
Changes in short-term debts .....	(14,292)	(4,173)
Changes in commercial papers .....	63,000	4,000
Proceeds from long-term debts .....	9,500	6,000
Repayments of long-term debts .....	(10,012)	(12,614)
Redemptions of bonds .....	(15,000)	—
Payment for purchase of treasury shares .....	(9)	(8)
Dividends paid .....	(13,133)	(11,235)
Dividend payments for minority interests .....	(101)	(101)
Others .....	775	432
<b>Cash flow from financial activities</b> .....	<b>20,725</b>	<b>(17,700)</b>
<b>Changes in cash and cash equivalents</b> .....	<b>17,982</b>	<b>(7,296)</b>
<b>Cash and cash equivalents from opening balance</b> .....	<b>8,313</b>	<b>15,151</b>
<b>Increase in cash for newly consolidated subsidiaries</b> .....	<b>3,057</b>	<b>—</b>
<b>Increase in cash by subsidiaries mergers</b> .....	<b>1</b>	<b>458</b>
<b>Cash and cash equivalent from closing balance</b> .....	<b>¥29,354</b>	<b>¥ 8,313</b>

Relation between cash and cash equivalents at year-end and cash in hand and at bank on the balance sheets

Millions of yen

	2005	2004
Cash and deposits on the balance sheets .....	¥29,651	¥8,553
Time deposit exceeding three months .....	(296)	(240)
Cash and cash equivalents .....	¥29,354	¥8,313

Fractions below 1 million yen is rounded off.

# Notes to the Consolidated Financial Statements

## 1. Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Securities and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Security Exchange Law, fraction below one million yen is round off. It causes the totals in the financial statements are not equivalent to the sums of each item.

## 2. Summary of Significant Accounting Principles

### (1) Principles of Consolidation

#### a) Consolidated subsidiaries as of December 31, 2005: (23 companies)

Showa Yokkaichi Sekiyu Co., Ltd.	Shoseki Overseas Oil Development Co., Ltd.	Shoseki Home Gas K.K.
Toa Oil Co., Ltd. (*3)	Petro Star Kansai K.K.	K.K. Shinyo Sekiyu
East Ogishima Oil Terminal Co., Ltd	Chuo Shell Sekiyu Hanbai K.K. (*2)	K.K. Marushin (*5)
Showa Shell Sempaku K.K.	Kanto Kouyu Energy Co., Ltd (*1)	K.K. Rising Sun
Shoseki Gas K.K.	Nakagawa Oil Co., Ltd.	Shoseki Engineering & Construction Co., Ltd.
Nippon Grease Co., Ltd.	Tokyo Shell Pack K.K.	Wakamatsu Gas K.K. (*4)
Shoseki Kako K.K.	Petro Star Kanto Co., Ltd.	Genex Co., Ltd. (*3)
Heiwa Kisen Kaisha, Ltd.	K.K. Sun Road	

(\*1) Shoseki Shoji K.K (consolidated subsidiary), has changed its name to Kanto Kouyu Energy Co., Ltd. as of January 1, 2005.

(\*2) Chuo Shell Sekiyu Hanbai K.K. (consolidated subsidiary), has merged with Siris Co., Ltd. (consolidated subsidiary), and Anzen Sekiyu K.K. (consolidated subsidiary) from this financial year, which used to be an equity associate) as of July 1, 2005.

(\*3) Toa Oil Co., Ltd., which was an equity associate, and its consolidated subsidiary, Genex Co., Ltd. have become consolidated subsidiaries due to additional acquisition of Toa shares issued by right offering.

(\*4) K.K. CF Energy, which has changed its name to Wakamatsu Gas K.K., has become a consolidated subsidiary by business transfer on July 1, 2005.

(\*5) K.K. Marushin has become a consolidated subsidiary from this financial year because of its increased materiality.

Companies, such as K.K. Hayawa are excluded from consolidation because their influence is immaterial to the consolidated financial statements.

#### b) Account closing dates

March 31	Toa Oil Co., Ltd., Genex Co., Ltd.
September 30	Petro Star Kansai K.K., Petro Star Kanto Co., Ltd., Nakagawa Oil Co., Ltd., K.K. Sun Road, K.K. Sinyo Sekiyu, Shoseki Home Gas K.K. and K.K. Marushin
October 31	Tokyo Shell Pack K.K.

The consolidated financial statements incorporated the accounts of the above companies with adjustments for significant transactions arising after their accounts closed.

### (2) Equity Associates

Equity associates as of December 31, 2005: (13 companies)

Seibu Oil Co., Ltd.	Toyotsu Sekiyu Hambai K.K. (*)	Niigata Joint Oil Stockpiling Co., Ltd.
Nissho Koyu K.K.	Japan Oil Network Co., Ltd.	Joyo Shell Sekiyu Hanbai K.K.
Marubeni Energy Corporation	Central Energy K.K.	Central Sekiyu Gas Co., Ltd.
Mieseki Shoji K.K.	Shell Sekiyu Osaka Sales Office K.K.	Shell Tokuhatsu K.K.
Daiya Shoseki K.K.		

(\*) Toyotsu Sekiyu Hambai K.K. has become an equity associate from this financial year due to share acquisition issued by right offering.

Companies, such as Kyokuyo Co., Ltd., K.K. Onsite Power are excluded from the consolidated financial statements because their influence is immaterial.

### (3) Valuation Methods of Main Assets

#### a) Securities:

Securities with market value are stated at market value. Net unrealized gains or losses on these securities are reported as a component of the shareholders' equity in after-tax amount. Cost of securities sold is calculated by the moving average method.

Securities with no market value are valued at historical cost, based on the moving average method.

#### b) Derivatives:

Derivatives are stated at market value.

#### c) Inventories:

Inventories are stated at historical cost, mainly based on the weighted average method.

### (4) Depreciation

#### a) Tangible fixed assets:

Straight-line method is adopted. The same standard as stipulated in the Corporate Tax Law is applied to the useful economic lives and the residual values. The main refining facilities in Kawasaki and Yokkaichi are depreciated with estimated useful economic lives of 20 years.

#### b) Intangible fixed assets:

Straight-line method is adopted. Software for in-house use is depreciated based on the straight-line method over the expected useful economic life of 5 years.

### (5) Provisions

#### a) Provisions for bad debts:

For doubtful debts, allowances are calculated individually based on the estimated uncollectible amounts. For other debts, allowances are calculated based on the actual ratio of the past bad debt losses.

#### b) Provisions for bonuses:

Accrued bonuses for the current financial year are provided based on the estimated bonuses to be paid in the following year.

#### c) Provisions for retirement benefits:

Accrued retirement benefits for the current financial year is provided based on the estimated PBO and pension assets as at the current financial year end. Actuarial differences are amortized evenly within the following 13-15 years, which is the average remaining service years of employees. The past service liabilities are amortized evenly within 14 years, which was the average remaining service years of employees at occurrences. Differences at the accounting standards change are amortized evenly over the following 15 years, which used to be the average remaining service years of employees at that time.

#### d) Provisions for special repairs:

The companies are required to have periodical inspections and repairs for oil tanks under the Fire-fighting Law. Estimated accrued expenses for those inspections and repairs are provided.

#### (6) Currency Translation

Assets/Liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate as at the current financial year end. Translation differences are charged or credited to income.

#### (7) Accounting for Leases

Finance leases, whose ownership of the leased assets do not transfer to the lessees, are treated as the same way as operating leases.

#### (8) Hedge Accounting

Hedge accounting is not adopted.

#### (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 revenue and cost or expense items respectively in the accompanying consolidated statements of income.

#### (10) Valuation of Assets and Liabilities of Subsidiaries

Assets and liabilities of the subsidiaries are measured at the fair values when consolidated.

#### (11) Amortisation of Goodwill

Goodwill is amortised not more than 20 years, which is determined in consideration of its causes.

#### (12) 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 the shareholders' approval at a shareholders' meeting, which must be held within three months from the financial year-end. The appropriation charged to retained earnings, that is applicable to the preceding financial year, was approved at the shareholders' meeting and disposed of during the year. Dividends are paid to shareholders on the shareholders list as at the end of each financial year.

#### (13) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated cash flow statements are composed of cash in hand, withdrawal deposits, time deposits whose maturity do not exceed 3 months and low risk & volatile short-term investment with maturity within 3 months.

### 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 shall be effective from the financial year ended March 31, 2004 or thereafter. The Companies adopted it from the accounts ended December 31, 2004. As a result, net income before taxes and minority interests of 2004 decreased by 33,728 million yen.

### 4. Inventories

Inventories as of December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Products .....	¥ 86,212	¥ 64,961
Crude & materials .....	58,617	47,670
Crude & materials afloat .....	57,765	37,591
Work in progress .....	27,817	21,426
Containers & stores .....	6,273	4,830
	<b>¥236,686</b>	¥176,478

### 5. Securities

a) Investment securities as of December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Securities .....	¥27,489	¥11,963
Securities of non-consolidated subsidiaries and affiliates .....	23,887	24,499
	<b>¥51,377</b>	¥36,462

b) Securities with market value as of December 31, 2005 and 2004

	Millions of yen		
	2005		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares .....	¥12,426	¥21,616	¥9,189
Securities with unrealized loss:			
Shares .....	0	0	(0)

	Millions of yen		
	2004		
	Historical cost	Fair market value	Unrealized gain (loss)
Securities with unrealized gain:			
Shares.....	¥1,851	¥6,155	¥4,304
Securities with unrealized loss:			
Shares.....	132	127	(5)

c) Securities sold in the accounts of 2005 and 2004

	Millions of yen	
	2005	2004
Amount of sold during the year .....	¥471	¥103
Realized gain.....	91	23
Realized loss.....	0	2

d) Securities with no market value as of December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Securities		
Unlisted shares.....	¥5,858	¥5,665
Unlisted bonds.....	15	15
	¥5,873	¥5,680

## 6. Short-term and Long-term Debts

a) Short-term debts as of December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Short-term debts .....	¥ 30,535	¥33,338
Commercial paper .....	86,000	23,000
	¥116,535	¥56,338

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

	%	
	2005	2004
Short-term debts .....	0.19	0.36
Commercial paper .....	0.03	0.01

b) Long-term debts as of December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Loans from banks, other financial institutions, etc		
Due from 2006 to 2015.....	¥60,295	¥ —
Due from 2005 to 2014.....	—	28,444
3.25 per cent straight bond due in 2005 (Note 1) .....	—	15,000
0.71 per cent straight bond due in 2010 (Note 1) .....	15,000	15,000
	75,295	58,444
Less: due within one year .....	11,366	24,299
	¥63,929	¥34,145

Notes: 1. Unsecured bonds.

2. The weighted average interest rate on long-term debts [excluding the one due in 1 year] from banks outstanding as of December 31, 2005 and 2004 were 1.68% and 1.65%, respectively.

Annual maturities of bonds

	Millions of yen	
	2005	
Within one year .....	¥	—
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 .....		15,000
More than five years .....		—
		¥15,000

Annual maturities of long-term debts, (excl. bonds)

	Millions of yen
	<b>2005</b>
Within one year .....	<b>¥11,366</b>
More than one year less than two years .....	<b>7,664</b>
More than two years less than three years .....	<b>4,732</b>
More than three years less than four years .....	<b>11,734</b>
More than four years less than five years .....	<b>9,148</b>
More than five years .....	<b>15,651</b>
	<b>¥60,295</b>

**7. Lease Transactions**

(1) Lessee

a) Finance leases

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, 2005 and 2004.

	Millions of yen		
	<b>2005</b>		
	Acquisition Costs	Accumulated Depreciation	Balance
Buildings, structures and tanks.....	<b>¥ 312</b>	<b>¥ 180</b>	<b>¥ 132</b>
Machinery and equipment.....	<b>1,189</b>	<b>614</b>	<b>575</b>
Other property, plant and equipment.....	<b>3,316</b>	<b>1,870</b>	<b>1,445</b>
Intangible fixed assets.....	<b>12</b>	<b>6</b>	<b>5</b>
	<b>¥4,830</b>	<b>¥2,672</b>	<b>¥2,157</b>

	Millions of yen		
	2004		
	Acquisition Costs	Accumulated Depreciation	Balance
Buildings, structures and tanks.....	¥ 469	¥ 291	¥ 178
Machinery and equipment.....	2,745	1,446	1,298
Other property, plant and equipment.....	574	381	192
	¥3,788	¥2,119	¥1,669

Lease rental payments and depreciation for the years ended December 31, 2005 and 2004 amounted to 852 million yen and 696 million yen, respectively. Depreciation is calculated by the straight-line method over the lease term of the leased assets assuming no residual value.

Scheduled maturities of future lease rental payments of finance leases as of December 31, 2005 and 2004

	Millions of yen	
	<b>2005</b>	2004
Due within one year .....	<b>¥2,261</b>	¥1,672
Due over one year .....	<b>4,510</b>	3,345
	<b>¥6,771</b>	¥5,017

b) Operating Leases

	Millions of yen	
	<b>2005</b>	2004
Due within one year .....	<b>¥101</b>	¥ 83
Due over one year .....	<b>182</b>	179
	<b>¥284</b>	¥263

(2) Lessor

Finance leases

Scheduled maturities of future lease rental payments of finance leases as of December 31, 2005 and 2004

	Millions of yen	
	<b>2005</b>	2004
Due within one year .....	<b>¥1,421</b>	¥1,053
Due over one year .....	<b>3,191</b>	2,294
	<b>¥4,613</b>	¥3,347

Note: They are sublease transactions.

## 8. Income Taxes

### (1) Temporary differences that compose deferred tax assets and liabilities as of December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Deferred tax assets:		
Non-deductible portion of provisions for retirement benefits .....	¥31,508	¥30,572
Loss on impairment of fixed assets .....	14,496	13,720
Non-deductible valuation loss of investment securities .....	1,014	2,301
Non-deductible portion of provisions for bad debts .....	310	429
Others .....	16,475	13,508
Sub-total .....	63,805	60,532
Valuation allowance .....	(15,090)	(14,383)
Total deferred tax assets .....	¥48,715	¥46,148
Deferred tax liabilities:		
Reserve for deferred gains on fixed assets transactions .....	¥ (9,038)	¥ (8,989)
Unrealized gains on investment securities .....	(3,740)	(1,750)
Others .....	(5,873)	(546)
Total deferred tax liabilities .....	(18,652)	(11,286)
Net deferred tax assets / (liabilities) .....	¥30,063	¥34,862

### (2) Reconciliation between the statutory tax rate and the effective tax rate as of December 31, 2005 and 2004

	2004
Statutory tax rate .....	42.0%
Permanent differences:	
Non-deductible expenses such as entertainment expenses .....	1.56
Non-taxable income such as dividend income .....	(3.27)
Loss on impairment of fixed assets .....	47.88
Decrease in deferred tax assets due to tax rate change .....	—
Others .....	2.02
Effective tax rate .....	90.18%

Note: Information on 2005 accounts is omitted because there was no significant difference between the normal effective statutory tax and the effective income tax rates.

## 9. Provisions for Retirement Benefits

The Companies operate various kinds of retirement benefit plans, such as contributory pension plan, qualified pension plan and severance payment plan.

### (1) Provisions for retirement benefits as of December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Retirement benefit obligations .....	¥(106,240)	¥(102,076)
Pension assets .....	15,212	10,041
Unfunded retirements benefit obligations .....	(91,027)	(92,035)
Unrecognized actuarial differences .....	10,889	13,308
Unrecognized prior service costs .....	(624)	(681)
Transition difference arising from initial adoption of new accounting standard for retirement benefits .....	1,085	—
	¥ (79,677)	¥ (79,408)

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

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

3. Transition differences arising from initial adaptation of new accounting standard for retirement benefits are recognized due to the consolidation of the subsidiary in this financial year.

### (2) The net periodic pension expense related to the retirement benefits for the 2005 and 2004 accounts

	Millions of yen	
	2005	2004
Service cost .....	¥2,132	¥2,084
Interest cost .....	2,496	2,491
Expected return on pension assets .....	(56)	—
Amortization of unrecognized actuarial differences .....	1,268	1,254
Amortization of unrecognized prior service costs .....	(57)	(57)
Amortization of unrecognized differences at accounting standard change .....	29	—
	¥5,812	¥5,773

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

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

### (3) Assumptions used in calculation of the above information

	As of December 31, 2005	As of December 31, 2004
Allocation method for retirement benefits expense .....	Periodical straight line	Periodical straight line
Discount rate .....	2.5%	2.5%
Expected rate of return .....	0.5%	0%

## 10. Derivatives

### (1) Conditions of transactions

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

All such derivatives involve risks, including the credit risk of non-performance by counter-parties. However, in order to minimise the credit risk of non-performance by counterparties, the Companies deals these derivatives with major financial institutions and trading companies with a high credit rating.

### (2) Current Value of Derivatives as at the end of 2005 and 2004

	Millions of yen		
	December 31, 2005		
	Notional Amount	Fair Value	Unrealized Gain (loss)
Currency-related transactions			
To buy .....	<b>¥35,944</b>	<b>¥35,899</b>	<b>¥ (45)</b>
To sell .....	<b>5,535</b>	<b>5,549</b>	<b>(14)</b>
			<b>¥ (59)</b>
Commodity-related transactions			
To buy .....	<b>63,853</b>	<b>74,351</b>	<b>10,500</b>
To sell .....	<b>69,201</b>	<b>80,058</b>	<b>(10,856)</b>
			<b>¥ (356)</b>

	Millions of yen		
	December 31, 2004		
	Notional Amount	Fair Value	Unrealized Gain (loss)
Currency-related transactions			
To buy .....	¥20,477	¥20,598	¥ 121
To sell .....	3,513	3,542	(29)
			¥ 92
Commodity-related transactions			
To buy .....	19,640	21,470	1,830
To sell .....	18,612	20,496	(1,884)
			¥ (54)

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 contracts is recognized and included in interest expenses or income. The above information is presented excluding these interest rate swaps.

## 11. Selling, General and Administrative Expenses

Major elements of selling, general and administrative expenses for the years ended December 31, 2005 and 2004

	Millions of yen	
	2005	2004
Transportation .....	<b>¥ 41,468</b>	¥ 40,465
Salaries .....	<b>29,478</b>	28,293
Rents .....	<b>4,843</b>	5,151
Depreciation .....	<b>5,498</b>	5,285
Research and development expenses .....	<b>2,030</b>	1,928
Others .....	<b>30,765</b>	32,159
	<b>¥114,084</b>	¥113,280

## 12. Impairment Loss of Fixed Assets

As a minimum unit for generating cash flows, service stations were assessed individually, and other fixed assets were grouped by segments of management accounting. Assets used for rent and non-performing assets were assessed individually in principle.

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 the property 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, 2005, the Companies recognized impairment losses of 1,894 million yen on 58 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		
	2005		
	Land	Others	Total
Service stations (26 groups) .....	<b>¥638</b>	<b>¥ 132</b>	<b>¥ 770</b>
Assets for property business (2 groups) .....	<b>15</b>	<b>5</b>	<b>20</b>
Non-performing assets (30 groups) .....	<b>112</b>	<b>989</b>	<b>1,102</b>
			<b>¥1,894</b>

	Millions of yen		
	2004		
	Land	Others	Total
Service stations (88 groups) .....	¥15,106	¥ 452	¥15,559
Assets for property business (2 groups) .....	1,142	—	1,142
Non-performing assets (231 groups).....	11,344	5,681	17,026
			¥33,728

### 13. Mortgaged Assets

As of December 31, 2005, 171,404 million yen assets were mortgaged for certain liabilities of the Companies (64,573 million yen).

### 14. Contingent Liabilities

The Companies had the following contingent liabilities as of December 31, 2005 and 2004:

	Millions of yen	
	2005	2004
Guarantees for:		
Non-consolidated subsidiaries, affiliates and other companies .....	<b>¥6,507</b>	¥6,838
Employees .....	<b>1,514</b>	1,478
Discounts of notes receivable.....	<b>19</b>	148
	<b>¥8,040</b>	¥8,464

### 15. Related Third Party Transactions

When transactions of the Company with its related third parties are more than 10% of the consolidated sales proceeds, or 10% of the total amount of the consolidated cost of sales, or 10% of the consolidated selling, general and administrative expenses, excluding transactions with consolidated subsidiaries, for the years ended December 31, 2005 and 2004 are disclosed by each item.

The Company discloses material balances and transactions with related third parties where such balances and transactions represent more than 1 per cent of the consolidated total assets, excluding transactions with consolidated subsidiaries.

#### (1) Related third parties – Corporation

For the year ended December 31, 2005

Name	Capital (millions yen)	Voting right Share owing (Share owned)	Millions of yen	
			Transactions	Resulting account balances
Saudi Arabian Oil Co., Ltd	—	(Indirect 15.0%)	Purchase of crude oil and oil products	<b>¥586,763</b> Accounts payable (trade) <b>¥47,872</b>
Seibu Oil Co., Ltd.	8,000	Direct 38.0%	Purchase of oil products	<b>222,602</b> Accounts payable (trade) <b>38,244</b>
Toa Oil Co., Ltd.	4,961	Direct 37.5%	Refining on commission	<b>14,561</b> Other current liabilities <b>2,082</b>
			Payment of gasoline tax	<b>90,800</b> Accounts payable (other) <b>24,477</b>
Marubeni Energy Corporation	2,350	Direct 33.4%	Sale of oil products	<b>131,340</b> Accounts receivable (trade) <b>19,174</b>

For the year ended December 31, 2004

Name	Capital (millions yen)	Voting right Share owing (Share owned)	Millions of yen	
			Transactions	Resulting account balances
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
			Payment of gasoline tax	110,891 Accounts payable (other) 28,499
Marubeni Energy Corporation	2,350	Direct 33.4%	Sale of petroleum materials	105,643 Accounts receivable (trade) 14,342
Shell Chemicals Japan Co., Ltd.	250	—	Sale of petrochemical products	57,727 Accounts receivable (trade) 9,584
Shell Eastern Trading (PTE), Ltd.	714 (millions of US dollars)	—	Purchase of crude oil and materials	265,803 Accounts payable (trade) 11,792

#### (2) Related third parties – 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, 2005 and 2004 are as follows.

For the year ended December 31, 2005

Name	Post	Owner ship	Millions of yen	
			Transactions	Resulting account balances
Haruyuki Niimi	Representative director / Chairman of Zaidanhojin Showa Shell Sekiyu Kankyo Kenkyu Josei Zaidan	—	Donation	<b>¥38</b> — —

For the year ended December 31, 2004

Name	Post	Owner ship	Millions of yen	
			Transactions	Resulting account balances
Haruyuki Niimi	Representative director / Chairman of Zaidanhojin Showa Shell Sekiyu Kankyo Kenkyu Josei Zaidan	—	Donation	¥35 — —

## 16. Segment Information

### (1) Business Segment Information

For the year ended December 31, 2005

	Millions of yen					
	Oil business	Property business	Other business	Sub-total	Internal trade	Total
<b>I. Total sales and operating profit</b>						
Total sales						
(1) Sales to outside customers .....	<b>¥2,250,088</b>	<b>¥ 4,281</b>	<b>¥14,119</b>	<b>¥2,268,488</b>	<b>¥ —</b>	<b>¥2,268,488</b>
(2) Inter-segment sales and transfers .....	<b>728</b>	<b>128</b>	<b>8,540</b>	<b>9,398</b>	<b>(9,398)</b>	<b>—</b>
Total sales .....	<b>2,250,817</b>	<b>4,410</b>	<b>22,659</b>	<b>2,277,887</b>	<b>(9,398)</b>	<b>2,268,488</b>
Operating expenses .....	<b>2,156,018</b>	<b>1,719</b>	<b>21,774</b>	<b>2,179,511</b>	<b>(9,404)</b>	<b>2,170,107</b>
Income from operations .....	<b>¥ 94,798</b>	<b>¥ 2,691</b>	<b>¥ 885</b>	<b>¥ 98,375</b>	<b>¥ 5</b>	<b>¥ 98,381</b>
<b>II. Assets, depreciation and capital expenditures</b>						
Assets .....	<b>¥1,091,570</b>	<b>¥32,729</b>	<b>¥38,573</b>	<b>¥1,162,873</b>	<b>¥(17,682)</b>	<b>¥1,145,191</b>
Depreciation .....	<b>22,197</b>	<b>926</b>	<b>854</b>	<b>23,979</b>	<b>—</b>	<b>23,979</b>
Impairment losses .....	<b>1,873</b>	<b>20</b>	<b>—</b>	<b>1,894</b>	<b>—</b>	<b>1,894</b>
Capital expenditures .....	<b>17,697</b>	<b>42</b>	<b>3,552</b>	<b>21,292</b>	<b>—</b>	<b>21,292</b>

For the year ended December 31, 2004

	Millions of yen					
	Oil business	Property business	Other business	Sub-total	Internal trade	Total
<b>I. Net sales and operating profit</b>						
Net sales						
(1) Sales to outside customers .....	¥1,826,064	¥ 4,243	¥ 9,136	¥1,839,445	¥ —	¥1,839,445
(2) Inter-segment sales and transfers .....	128	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	(6,948)	1,779,259
Income from operations .....	¥ 56,998	¥ 2,518	¥ 674	¥ 60,192	¥ (6)	¥ 60,185
<b>II. Assets, depreciation and capital expenditures</b>						
Assets .....	¥ 849,187	¥28,720	¥ 8,536	¥ 886,444	¥19,378	¥ 905,823
Depreciation .....	23,612	1,013	27	24,653	—	24,653
Loss on impairment of fixed assets .....	15,559	18,168	—	33,728	—	33,728
Capital expenditures .....	14,379	146	22	14,548	—	14,548

Notes: 1. Businesses are classified based on the companies' internal definition.

2. Main products and businesses by each segment

(1) Oil business: Gasoline, naphtha, kerosene, gas oil, fuel oil, lubricating oil, LPG, asphalt, petrochemical products

(2) Property business: Property lettings and management

(3) Others business: Engineering, sale of automobile products, city gas business, electric power supply business

3. "Internal trade" did not include any operating expenses that could not be allocated.

4. Corporate assets are fully allocated to each segment and not included in assets in "Internal trade."

5. Long-term prepaid expenses and their depreciation are included in depreciation and capital expenditures.

### (2) Geographic Segment Information

For the years ended December 31, 2005 and 2004, geographic segment information has been omitted as the Companies have no consolidated subsidiaries or branches domiciled in countries or regions other than Japan.

### (3) Overseas Sales

For the year ended December 31, 2005

	Millions of yen		
	Asia	Others	Total
Overseas sales .....	<b>¥125,583</b>	<b>¥92,901</b>	<b>¥ 218,484</b>
Consolidated sales proceeds .....			<b>2,268,488</b>
Overseas sales as a percentage of total consolidated sales proceeds .....	<b>5.5%</b>	<b>4.1%</b>	<b>9.6%</b>

For the year ended December 31, 2004

	Millions of yen		
	Asia	Others	Total
Overseas sales .....	¥118,311	¥82,117	¥ 200,429
Consolidated net sales .....			1,839,445
Overseas sales as a percentage of total consolidated net sales .....	6.4%	4.5%	10.9%

Notes: 1. Countries and regions are classified on the basis of geographic proximity.

2. Main countries included in each geographic segment are as follows;

(1) Asia .....Singapore, China, Republic of Korea

(2) Others...U.A.E., U.S.A, United Kingdom, Switzerland

3. Overseas sales are sales of the Company and its consolidated subsidiaries 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 subsidiaries as of December 31, 2005 and 2004, 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 generally accepted 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 subsidiaries as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

*ChuoAoyama PricewaterhouseCoopers*

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan  
March 30, 2006

# Code of Conduct

## 1. Objectives

The objectives of the Company are to engage responsibly and efficiently in profitable businesses in the fields of refining and sales of oil and related fields.

The Company seeks a high standard of performance and aims to maintain a long-term position in competitive environments.

## 2. Responsibilities

The Company recognizes the following responsibilities:

### 1) Responsibility to shareholders

To protect shareholders' investment, and provide an acceptable return.

### 2) Responsibility to customers

To win and retain customers by developing and providing products and services that offer value in terms of price, quality, safety and environmental impact, and which are supported by technological, environmental and commercial expertise.

### 3) Responsibility to employees

To respect the worth and individuality of employees, and provide them with a safe work environment and good working conditions; to promote the development and best use of human resources; and to encourage the involvement of employees in the implementation of business and in the application of these principles within the Company.

### 4) Responsibility to business partners

To seek mutually beneficial relationships with business partners, including joint venture partners, and to promote the application of these principles in these relationships; to consider the ability and performance of these companies to conform with these principles in the decision to enter into or remain in such relationships.

### 5) Responsibility to society

To conduct business as a responsible corporate member of society, to observe laws, to express support for fundamental human rights, and to give proper regard to health, safety and environment consistent with the commitment to contribute to sustainable development.

## 3. Economic Principles

Profitability is essential to discharging these responsibilities and remaining a going concern. It is a measure both of efficiency and of customer satisfaction with the Company's products and services. It is also essential to the future allocation of corporate resources and to the continuing investment required to ensure a stable supply of energy to meet consumer needs. Without profits and a strong financial foundation, it is not possible to fulfil the responsibilities outlined above.

Criteria for investment decisions are not exclusively economic in nature but also take into account social and environmental effects.

## 4. Business Integrity

The Company has established a corporate code of conduct and insists on honesty and fairness in all aspects of its business, and expects the same in its relationships with all entities with which it does business.

The direct or indirect offering, payment, solicitation or acceptance of bribes in any form are unacceptable practices. Employees must avoid conflicts of interest between their private financial activities and their conduct on behalf of the Company.

All business transactions on behalf of the Company must be reflected accurately and fairly in the accounts of the Company in accordance with established procedures and be subject to audit.

## 5. Political Activities

The Company acts in a socially responsible manner within the law in pursuit of its legitimate commercial objectives.

The Company does not make payments to political parties, organizations or their representatives or take any part in party politics. However, the Company has the right and the responsibility to make its position known on any matter that affects the interests of itself, its employees, its customers and its shareholders.

## 6. Health, Safety and Environment

Consistent with its commitment to contribute to sustainable development, the Company adopts a continuous and systematic approach to health, safety and environmental management.

To this end, the Company manages these matters as it does all other critical business activities, sets targets for improvement, and measures, appraises and reports on performance.

## 7. Local Community

The Company is actively involved in contributing to society as a responsible member thereof. The most important contribution that the Company can make to the local community is in performing its core business as efficiently as possible.

## 8. Competition

The Company seeks to compete freely and fairly within the framework of applicable competition laws.

## 9. Communications

The Company recognizes that open communication is essential in view of the importance of the activities in which it is engaged and their impact on national economies and individuals. The Company therefore provides relevant information about its activities in a timely and appropriate manner.

## 10. Companies of the Showa Shell Sekiyu Group

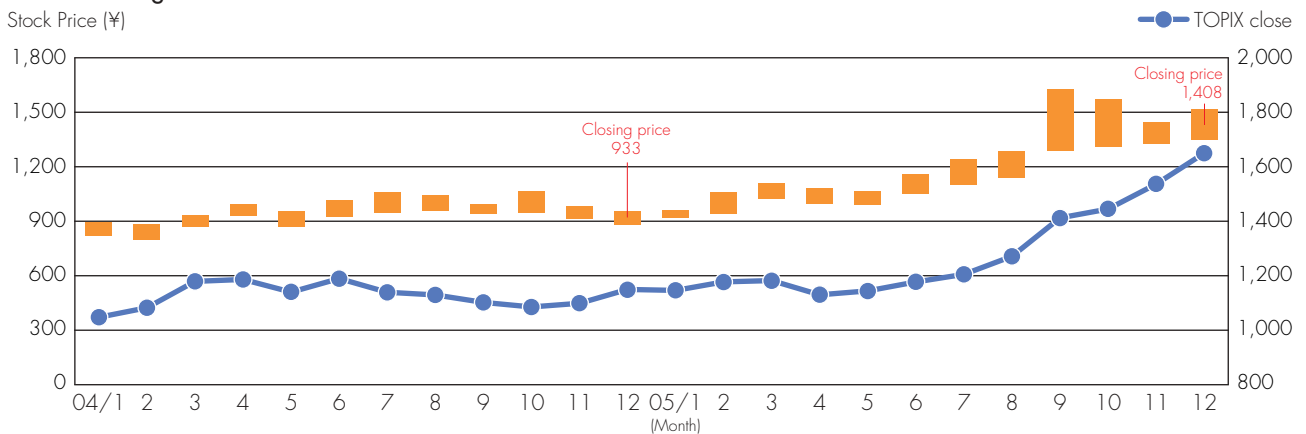
The Company encourages these companies to adopt and abide by its Code of Conduct.

# Investor Information

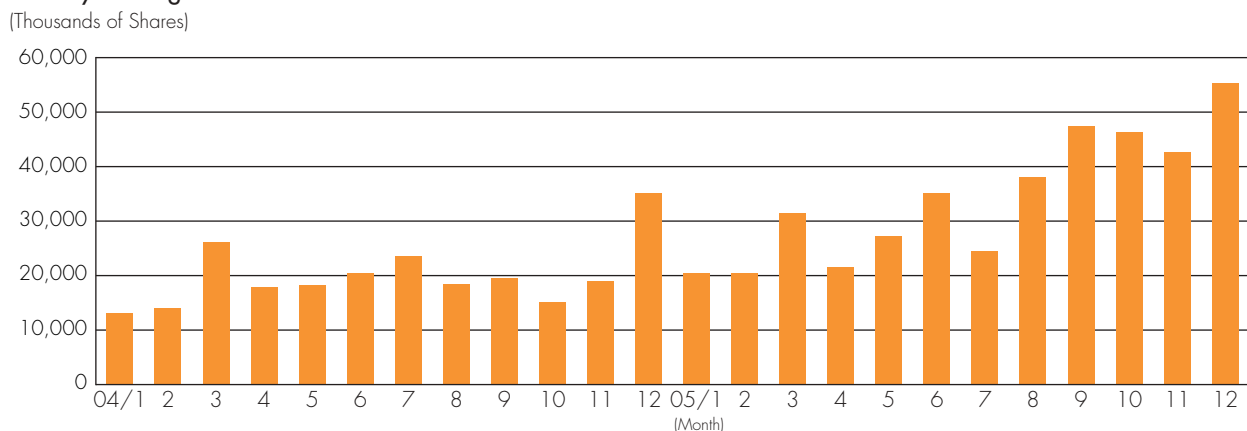
Date of Establishment: .....	January 1, 1985
Authorized Number of Shares: .....	440,000,000 shares
Number of Shares Issued: .....	376,850,400 shares
Paid-in Capital: .....	¥34,197,585,900
Number of Employees: .....	1,058
Total Number of Service Stations: .....	4,746
Number of Shareholders: .....	41,883
Securities Listings: .....	Tokyo
Ticker Code: .....	5002
Transfer Agent: .....	Mizuho Trust & Banking Co., Ltd. 1-2-1, Yaesu, Chuo-ku, Tokyo 103-0028, Japan
Independent Auditors: .....	ChuoAoyama PricewaterhouseCoopers
General Shareholders' Meeting: .....	March

Major Shareholders	Shares owned (Thousand shares)	Percentage of total common shares outstanding
The Shell Petroleum Co., Ltd. ....	125,261.2	33.24%
Aramco Japan Holdings Company B.V. ....	56,380.0	14.96
Japan Trustee Services Bank, Ltd. ....	29,479.6	7.82
The Master Trust Bank of Japan, Ltd. (Trust Account) ....	14,088.3	3.74
The Anglo-Saxon Petroleum Co., Ltd. ....	6,784.0	1.80
Trust & Custody Services Bank, Ltd. ....	5,544.3	1.47
Kawasaki Kisen Kaisha, Ltd. ....	3,503.7	0.93
Nomura Securities Co., Ltd. ....	3,053.1	0.81
Investors Bank .....	2,976.6	0.79
State Street Bank and Trust Company .....	2,833.3	0.75
Total .....	249,904.1	66.31

## Stock Price Range



## Monthly Trading Volume



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