

## TWELVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

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

	2007	2006	2005	2004	2003
Sales proceeds	¥ 3,082,641	¥ 2,921,287	¥ 2,268,488	¥ 1,839,445	¥ 1,726,917
Cost of sales	2,874,422	2,728,137	2,056,023	1,665,978	1,570,155
Gross profit	208,219	193,149	212,465	173,466	156,761
Sales and administrative expenses	119,405	118,847	114,084	113,280	120,787
Operating profit	88,813	74,301	98,381	60,185	35,974
Ordinary profit	92,709	77,675	100,497	61,927	38,188
Net income after taxes	43,729	46,249	58,370	2,362	21,000
Total assets	1,339,114	1,195,015	1,145,191	905,823	882,299
Total shareholders' equity* 1	338,933	309,411	275,232	226,955	234,773
Net income after taxes per share (yen)	¥ 116.12	¥ 122.95	¥ 155.31	¥ 6.14	¥ 55.96
Shareholders' equity per share (yen)	899.90	822.20	732.08	605.25	627.07
Return on sales (operating profit basis) (%)	2.9	2.5	4.4	3.3	2.1
Return on sales (net income basis) (%)	1.4	1.6	2.6	0.1	1.2
Return on assets (%)	3.3	3.9	5.1	0.3	2.4
Return on equity (%) * 1	13.5	15.8	23.2	1.0	9.2
Equity ratio (%) * 1	25.3	25.9	24.0	25.1	26.6
Number of shares outstanding at end of term (thousand shares) * 2,3	376,633	376,323	375,863	374,868	374,303

\*1 The definition of "shareholders' equity" was revised under the new Corporation Law in 2006, and "shareholders' equity" under the new law excludes minority interests. Please note referred numbers above are based on new definition of "shareholders' equity," not including minority interests. "Return on equity" and "equity ratio" are also calculated quoting these numbers.

\*2 Treasury stock is excluded.

\*3 The amount of treasury stock includes Showa Shell Sekiyu stock held by affiliates accounted for by the equity method.

### Risks

#### Operational Risks

The Showa Shell Group has created a system to monitor and manage business risk, and endeavors to mitigate the risks associated with its business operations. Among such risks, the following are considered important categories related to the businesses of the Showa Shell Group and its financial and accounting position that could have a material effect on the decisions of investors. The risks described below are those risks evaluated to be material by the Showa Shell Group (on a consolidated basis) at the end of the fiscal year under review. This list is not meant to be, and should be not construed as, a comprehensive list of every risk affecting the Group. Furthermore, the matters discussed here concerning future circumstances are those matters evaluated by the Showa Shell Group at the end of the fiscal year under review.

#### 1. The effects of energy demand and market conditions for oil products

Domestic demand for oil products is affected by, and changes with, factors such as the economic situation in Japan and domestic energy supply and demand. Moreover, Japan's domestic oil products market is affected by factors such as fluctuations in demand, price competition with other companies in the industry, overseas prices for oil products, and price competition with other forms of energy. These fluctuating factors also exert an influence on the quantities and prices of oil products that the Showa Shell Group sells, and cause changes to the Group's earnings.

#### 2. Changes in crude oil prices and exchange rate market prices

##### a. Effect on sales margin

Because the cost of sales of the oil products sold by the Showa Shell Group is affected by changes in crude oil prices and the foreign exchange market, the Group's basic policy is to reflect these influences in its sales prices. When it is difficult to reflect the changes in cost of sales, which result from factors such as the domestic market environment, in the Group's

sales prices, however, these changes will cause fluctuations in the Group's earnings.

In addition, there is a possibility that the amount of working capital the Group requires will increase because of a rise in crude oil prices or a rapid depreciation of the yen.

##### b. Effects of inventory valuation

The Showa Shell Group uses the weighted-average method to value crude oil inventory. When crude oil prices decline, the Group's cost of sales will be increased by the effect of inventory that is relatively expensive at the beginning of the period, which will be a negative factor for earnings. When crude oil prices rise, on the other hand, the Group's cost of sales will be reduced by the effect of inventory that is relatively inexpensive at the beginning of the period, which will be a positive factor for earnings. As this illustrates, there is a possibility that changes in crude oil prices will affect the Group's operating results.

#### 3. Risks related to sources of crude oil procurement

The Showa Shell Group procures all of its crude oil from countries in the Middle East. There is a possibility that the financial position and operating results of the Showa Shell Group would be seriously affected in the event that obstacles arose to its procurement of crude oil, for reasons such as changes in the political climate in oil-producing countries, and assuming that an appropriate alternative supply source could not be found.

#### 4. Effects of competition with competitors

The Showa Shell Group faces severe competition in the domestic market, mainly in the oil business, due to continued overcapacity in refineries and filling stations, and due to falling oil product demand. The Group strives to maintain and increase competitiveness. In this competitive environment however, if operations cannot be conducted efficiently there is a possibility that the Group's financial position and operating results will be affected.

Yen Million

2002	2001	2000	1999	1998	1997	1996
¥ 1,620,359	¥ 1,664,954	¥ 1,639,475	¥ 1,365,478	¥ 1,324,752	¥ 1,588,067	¥ 1,600,067
1,460,458	1,513,626	1,477,361	1,218,732	1,171,788	1,408,789	1,404,722
159,901	151,328	162,113	146,746	152,963	179,278	195,344
123,500	123,274	124,442	133,691	144,445	164,434	174,646
36,400	28,053	37,670	13,054	8,518	14,844	20,698
40,101	29,052	38,913	12,191	7,223	12,901	15,225
18,665	2,610	12,499	1,828	1,999	6,387	6,054
916,690	909,902	1,002,146	974,916	992,282	1,049,931	1,071,464
221,604	212,168	216,349	197,562	199,711	201,479	198,536
¥ 49.69	¥ 6.95	¥ 33.19	¥ 4.85	¥ 5.31	¥ 16.95	¥ 16.06
592.18	565.36	574.77	524.25	529.95	534.64	526.84
2.2	1.7	2.3	1.0	0.6	0.9	1.3
1.2	0.2	0.8	0.1	0.2	0.4	0.4
2.0	0.3	1.2	0.2	0.2	0.6	0.6
8.6	1.2	6.0	0.9	1.0	3.2	3.1
24.2	23.3	21.6	20.3	20.1	19.2	18.5
374,125	375,280	376,409	376,850	376,850	376,850	376,850

## 5. Risks related to environmental regulations and tax levies

The oil industry, of which Showa Shell is a member, has enacted voluntary targets of blending biofuels in gasoline by 2010, as a component of meeting targets set forth in the Kyoto Protocol. The Showa Shell Group is making investments to meet these targets. Going forward, if restrictions are placed in Japan on CO<sub>2</sub> emissions and/or fossil fuel consumption, or if other environmental regulations are enacted, additional investments could be needed and higher costs could occur. In that case there is a possibility that the Group's financial position and operating results will be affected. Also, if provisional tax rates on oil products are abolished, differences will occur between the provisional tax rate, at which the Group's assets are recorded, and the permanent tax rate. If a tax rebate scheme for this difference cannot be implemented, or if the difference cannot be fully reflected in product prices, there is a possibility that the Group's financial position and operating results will be affected.

## 6. Effects of termination or restriction of business as the result of disaster, accident, etc.

The Showa Shell Group has enacted a basic policy concerning health, safety, security and the environment (HSSE) based on its own management rules. The Group strives to ensure safe operations and minimize disaster risk through the use of appropriate insurance, including property and casualty insurance. There is a possibility, however, that each office and facility of the Showa Shell Group, including its refineries, could face obstacles to operations if struck by a natural disaster such as a large typhoon or earthquake, or if the area of business operations of the Group is hit by a large-scale epidemic of a serious infectious disease such as avian influenza. These types of scenarios could affect the Group's financial position and operating results. There is also a possibility of being similarly affected by the termination or restriction of business as the result of an occurrence such as a serious industrial injury or equipment accident.

## 7. Risks related to the internal control system

The Showa Shell Group continues to strive for the strengthening of compliance. The Group appoints an executive in charge of compliance, has enacted regulations regarding compliance with antitrust laws, operates a risk management system, and conducts internal audits. However, in cases where the internal control system does not work effectively and compliance risk cannot be entirely avoided, there is a possibility that the trust of stakeholders will be lost and the Group's financial position and operating results be affected.

## 8. Risks related to intellectual property rights

In addition to competition for technological development, as intellectual property rights strategies become more important, there is a risk that disputes will occur over issues such as the violation of intellectual property rights if the Group's steps to strengthen its intellectual property rights management system or defensive measures are inadequate.

## 9. Control of personal data

The Showa Shell Group obtains and uses personal data, including information on its customers, in relation to its businesses such as oil sales, and has created in-house management systems for the administration of this data. The Group strives to protect such information with great care, but there is a possibility the Showa Shell Group brand image will be damaged, and the business performance of the Group negatively affected, if for some reason such data is disclosed outside the group and misused.

## 10. Risk concerning retirement benefits

The Showa Shell Group's estimated pension benefit obligations and costs are calculated according to actuarial principles, and basic rates such as the discount rate and the expected rate of return on pension plan assets have been set as actuarial assumptions. In the event the actual numerical values for these basic rates differ from assumptions, or in the event the assumptions are revised, these changes could affect the amount of the pension benefit obligation and costs recognized as the effects would be cumulative and would be recognized regularly in future periods.

## MANAGERS' ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

### Management Environment

The Japanese economy during the term under review on the whole maintained its momentum of recovery but concerns over a slowdown in the US economy since the second half have increased a sense of caution regarding the future.

Although Dubai crude oil prices started off the year in the range of 57 dollars per barrel, factors such as increased geopolitical risk in oil producing states and the massive inflow of investment funds into the crude oil market continued to drive prices up. By the end of the year prices per barrel were around the 89 dollars mark. In the foreign exchange market, the Japanese currency started off the year at about 119 yen to the dollar and around March began to gain ground against the dollar. After falling back for a short period thereafter, the yen continued to edge steadily upwards against the dollar from August onwards amid concerns of a worsening US economy triggered by the subprime loan problem. By the end of November the yen traded at the 107 yen mark, but after dollar buying regained strength it weakened, and at the end of the term was 114 yen per dollar.

Meanwhile domestic oil demand has been on a decline. Demand for gasoline and diesel oil has fallen off as consumers show restraint in consumption due to price rises and a growing orientation toward economizing on fuel consumption. Annual demand for kerosene also fell below that for the previous year due to a warm winter. The decrease in demand was even more conspicuous in industrial fuel products, attributable chiefly to progress in conversion to alternative fuels as companies take measures to address environmental problems and due to surges in crude oil prices.

Despite rises in domestic oil product prices as a result of surges in crude oil prices, again this year the full brunt of crude oil costs could not be adequately passed on to prices at filling stations and for oil products for industrial use.

### Operating Results

Consolidated sales for 2007 came to 3,082.6 yen billion, an increase of 5.5% on the previous year. Although demand for oil

products in all areas including gasoline, diesel oil, kerosene, and fuel oil for industrial purposes decreased, the large increase in sales in the oil business was attributable mainly to an increase in prices due to surges in crude oil prices.

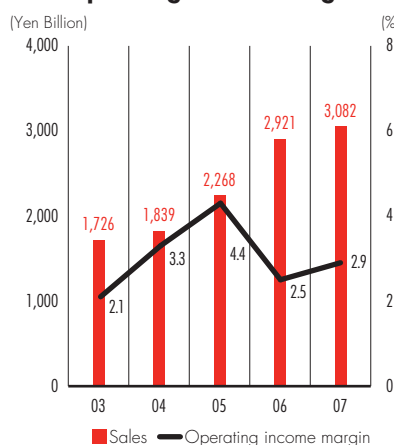
At the profit level, consolidated operating income increased 14.5 yen billion from the previous year to 88.8 yen billion. Consolidated ordinary income increased 15 yen billion from the previous year to 92.7 yen billion, due mainly to an improvement of 2 yen billion in gains/losses on foreign exchange translations. Consolidated ordinary income on a current cost of supply basis (i.e. excluding the effects of inventory appraisals) was 44.2 yen billion, representing a year-on-year decrease of 13.8 yen billion. Extraordinary gains/losses totaled a net loss of 14.1 yen billion on gains on sales accompanying the disposal of idle assets and impairment losses. As a result of the above, consolidated net income finished at 43.7 yen billion (down 2.5 yen billion on the previous year). Net earnings per share amounted to 116.12 yen.

### Segment Information

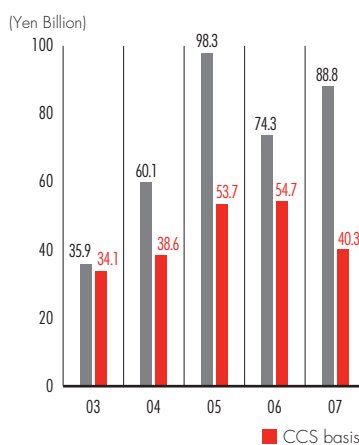
#### Oil Business

Although the oil business recorded sales volume decreases for kerosene and fuel oil in the Japanese market, these were offset by an increase in gasoline sales due largely to expansion of the Group's filling station network and an increase in exports centering on diesel fuel. An increase in oil product prices following steep rises in crude oil prices also contributed. As a result, sales finished at 3,047 yen billion, a 5.7% increase on the previous year. Operating income rose to 84.5 yen billion, an increase of 14.5 yen billion over the previous year. This was largely due to the effects of inventory asset appraisals accompanying increases in crude oil prices however. Operating income on a current cost of supply basis (i.e. excluding the effects of inventory appraisal) was 36.1 yen billion, a decline of 14.2 yen billion on the previous year's 50.3 yen billion. This was attributable largely to the inability to sufficiently pass on increases in crude oil costs to product prices.

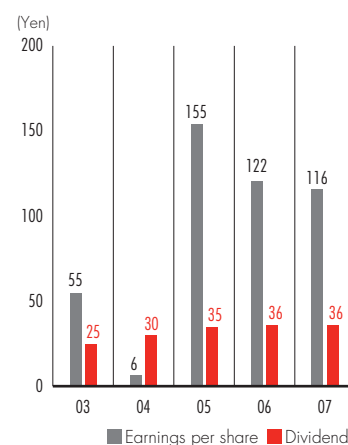
Sales/  
Operating Income Margin



Operating Income



Earnings per Share/  
Dividends



\* CCS operating income (operating income on Current Cost of Supply basis): operating income based on the cost excluding inventory valuation effects.

### Property Business

In the office building rental business, despite a revision in rental rates and building management arrangements, sales fell 0.3% on the previous year to 4.2 yen billion and operating income, which finished at 2.8 yen billion (a 0 yen hundred million change on the previous year), was roughly flat year-on-year.

### Other Businesses

During the year under review we commenced commercial production in our CIS (copper, indium, selenium) solar powered cells business. We also decided to build a second plant for producing solar powered cells in response to robust demand for solar powered cells worldwide and expect it to be operational in 2009.

In the electric power business, environmental assessment procedures for Ohgishima Power were completed and construction of the electric power plant is now underway. We also became a qualified trading member of the Japan Electric Power Exchange (JEPX), a limited liability intermediate company, in preparation for the commencement of electric power trading in the future.

As a result of the above, sales in the Other Businesses segment finished at 31.3 yen billion, a decrease of 6.6% on the previous year, and operating income finished at 1.4 yen billion, down 200 yen million on the previous year.

### Financial Position

#### Assets, Liabilities, and Shareholders' Equity

Consolidated total assets at the end of the term under review stood at 1,339.1 yen billion, an increase of 144 yen billion compared with the previous term-end. This increase is primarily attributable to a significant increase in both trade receivables and inventory assets due to the sharp rise in crude oil prices. Despite efforts to reduce loans payable, the reduction did not cover an increase in trade payables accompanying rises in crude oil prices and an increase in accrued income tax. Consolidated liabilities rose to 980.8 yen billion, an increase of 116.7 yen billion on the previous year. The combined total of interest-bearing debt, loans, commercial paper, and corporate bonds, decreased 7.3 yen billion in comparison with

the previous year to 183.1 yen billion (166.6 yen billion on a net of cash and cash equivalents basis).

Minority interest declined from the end of the previous term and retained earnings rose. As a result, consolidated net assets at the end of term stood at 358.2 yen billion, an increase of 27.3 yen billion compared with the previous term-end. Shareholders' equity per share at the end of the term increased from 822.20 yen at the previous term-end to 899.90 yen.

### Cash Flows

Cash and cash equivalents at the end of term stood at 15.6 yen billion, a decrease of 800 yen million on the previous term.

Net cash provided by operating activities amounted to 44.7 yen billion (an increase of 15.4 yen billion on the previous year) due to the fact that the combined amount of increases in pre-tax income (78.5 yen billion) and depreciation expenses, which are non-cash, (26.7 yen billion) exceeded the amount of income taxes paid.

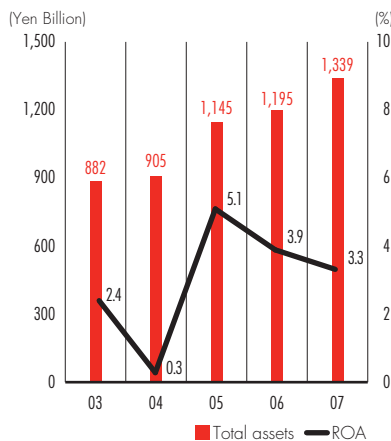
Net cash used in investing activities amounted to 25.6 yen billion, a year-on-year increase of 3.1 yen billion, as a result of capital investment in fixed assets accompanying refurbishment of filling stations and refining facilities.

Net cash flow used in financing activities amounted to 21 yen billion, a decrease of 7.3 yen billion from the previous year. Dividend payments of 13.5 yen billion and debt repayments of 7.3 yen billion were part of this cash usage.

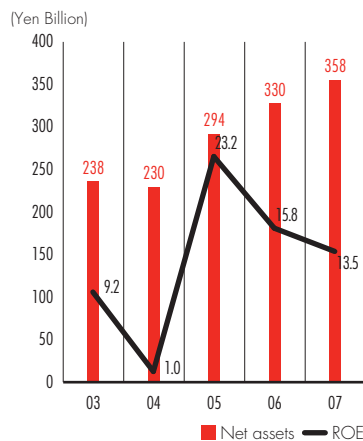
### Outlook for 2008

In fiscal 2008, we expect crude oil prices to remain high. Due to this we project consolidated sales of 3,140 yen billion, consolidated ordinary income of 60 yen billion, and consolidated net income of 35 yen billion. On a current cost of supply basis, we project ordinary income to be 50 yen billion. These forecasts are based on assumptions of an average crude oil price of 91.3 dollars per barrel in the first fiscal quarter, 95 dollars per barrel in the second quarter, and 93 dollars per barrel in the second half of the fiscal year. The forecasts are also based on average exchange rate assumptions of 105.2 yen to the US dollar in the first quarter, 100 yen to the dollar in the second quarter, and 102 yen to the dollar in the second half.

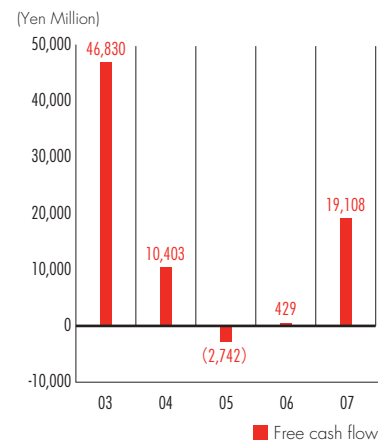
**Total Assets/ROA**



**Net Assets/ROE**



**Free Cash Flow**



\* Free cash flow = Cash flow from operating activities + Cash flow from investing activities

## CONSOLIDATED BALANCE SHEET

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries  
As of 31 December 2007

	Yen Million	
	2007	2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and deposits (Note 12)	¥ 16,479	¥ 16,645
Notes and accounts receivable – trade (Note 14)	386,151	326,121
Inventories	361,738	276,298
Deferred tax assets (Note 7)	10,738	7,611
Others (Note 9)	27,920	24,748
Provisions for doubtful debts	(336)	(401)
Total current assets	802,691	651,025
<b>Fixed assets</b> (Notes 6, 11 and 12):		
Tangible fixed assets		
Buildings and structures	114,352	116,967
Tanks	11,773	10,768
Machinery and equipment	123,934	125,855
Land	162,295	162,162
Construction in progress	3,148	5,795
Others	5,467	5,313
Total tangible fixed assets	420,972	426,862
Intangible fixed assets		
Goodwill	1,207	1,629
Leasehold	3,972	3,692
Software	5,048	5,084
Others	927	1,051
Total intangible fixed assets	11,155	11,458
Investments		
Investment securities (Note 4)	53,000	54,509
Long-term loans	856	997
Deferred tax assets (Note 7)	24,677	25,362
Others (Note 9)	26,818	25,988
Provisions for doubtful debts	(1,057)	(1,189)
Total investments	104,295	105,669
Total fixed assets	536,423	543,990
<b>Total assets</b>	<b>¥ 1,339,114</b>	<b>¥ 1,195,015</b>

The accompanying notes are an integral part of these financial statements.

	Yen Million	
	2007	2006
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable – trade (Note 14)	¥ 387,675	¥ 291,289
Short-term debts (Notes 5, 12 and 13)	82,602	51,254
Accounts payable – other (Notes 12 and 14)	201,629	201,769
Income taxes payable	22,976	9,032
Accrued expenses	14,042	11,666
Provisions for employees' bonuses	2,092	2,142
Provisions for directors' bonuses	63	62
Commercial papers (Note 5)	24,000	68,000
Others (Notes 9 and 14)	49,757	43,789
Total current liabilities	784,839	679,006
<b>Long-term Liabilities</b>		
Bonds (Note 5)	30,000	30,000
Long-term debts (Notes 5 and 12)	46,532	41,272
Deferred tax liabilities (Note 7)	8,441	7,418
Provisions for employees' retirement benefits (Note 8)	73,888	78,554
Provisions for special maintenance	12,809	11,353
Others (Note 9)	24,331	16,453
Total long-term liabilities	196,005	185,052
<b>Total liabilities</b>	<b>980,845</b>	864,058
<b>NET ASSETS</b>		
<b>Shareholders' equity</b>		
Share capital		
Authorised 440,000,000 shares		
Issued shares 376,850,400 shares in 2007 and 2006	34,197	34,197
Capital surplus	22,112	22,111
Retained earnings	278,251	248,108
Treasury shares		
216,636 shares as of 31 December 2007 and 527,370 as of 31 December 2006	(174)	(422)
<b>Total Shareholders' equity</b>	<b>334,386</b>	303,995
<b>Valuation and translation gains/losses</b>		
Unrealised gains/losses on investment securities, net of income taxes	4,546	5,416
<b>Minority interests</b>	<b>19,336</b>	21,544
<b>Total net assets</b>	<b>358,269</b>	330,956
<b>Total liabilities and net assets</b>	<b>¥ 1,339,114</b>	¥ 1,195,015

The accompanying notes are an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF INCOME**

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries  
Year ended 31 December 2007

	Yen Million	
	2007	2006
Net sales (Notes 14 and 15)	<b>¥ 3,082,641</b>	¥ 2,921,287
Cost of sales (Notes 14 and 15)	<b>2,874,422</b>	2,728,137
<b>Gross Profit</b>	<b>208,219</b>	193,149
Sales, administrative and general expenses (Notes 6,8,10,14 and 15)	<b>119,405</b>	118,847
<b>Operating Income</b>	<b>88,813</b>	74,301
Non-operating profit		
Interest income	<b>159</b>	130
Dividend income	<b>541</b>	535
Foreign exchange gain, net	<b>3,399</b>	1,324
Amortisation of negative goodwill	<b>619</b>	468
Equity in net earnings of affiliates	<b>544</b>	1,803
Income from investment in anonymous association	<b>1,512</b>	1,465
Others	<b>2,035</b>	2,191
	<b>8,811</b>	7,919
Non-operating expenses		
Interest expense	<b>1,991</b>	1,702
Sales discounts	<b>1,935</b>	2,026
Others	<b>988</b>	816
	<b>4,915</b>	4,546
<b>Ordinary Income</b>	<b>92,709</b>	77,675
Extraordinary profit		
Gain on sales of fixed assets	<b>3,484</b>	5,119
Gain on sales of investment securities and others (Note 4)	<b>117</b>	725
Reversal of provisions for special maintenance	<b>12</b>	972
Others	<b>499</b>	632
	<b>4,114</b>	7,450
Extraordinary loss		
Loss on disposals of fixed assets	<b>5,971</b>	3,869
Valuation loss on investment securities and others	<b>13</b>	118
Impairment Loss (Note 11)	<b>7,505</b>	2,462
Provisions for termination of directors' retirement benefits	<b>1,073</b>	—
Loss on disposal of subsidiaries business assets	<b>3,344</b>	—
Others	<b>345</b>	1,484
	<b>18,254</b>	7,934
Net Income before taxes	<b>78,569</b>	77,190
Income taxes – current	<b>36,889</b>	28,861
Income taxes – deferred	<b>(723)</b>	1,003
Income / (loss) attributable to minority interests	<b>(1,325)</b>	1,077
<b>Net Income</b>	<b>¥ 43,729</b>	¥ 46,249
	Yen	
Per share data		
Net income – primary	<b>¥ 116.12</b>	¥ 122.95
Net income – diluted	<b>116.12</b>	122.88
Dividend	<b>36.00</b>	36.00
Net assets	<b>899.90</b>	822.20

The accompanying notes are an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries  
Year ended 31 December 2007

Yen Million

2007								
	Shareholders' equity					Valuation & translation gains/losses	Minority interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealised gains/losses on investment securities, net of income taxes		
Opening balance	<b>¥34,197</b>	<b>¥22,111</b>	<b>¥248,108</b>	<b>¥(422)</b>	<b>¥303,995</b>	<b>¥5,416</b>	<b>¥21,544</b>	<b>¥330,956</b>
Changes in the period								
Dividend			<b>(13,555)</b>		<b>(13,555)</b>			<b>(13,555)</b>
Net Income			<b>43,729</b>		<b>43,729</b>			<b>43,729</b>
Acquisition of treasury shares				<b>(11)</b>	<b>(11)</b>			<b>(11)</b>
Reissuance of treasury shares		<b>1</b>		<b>259</b>	<b>260</b>			<b>260</b>
Changes in interest in a consolidated subsidiary			<b>296</b>		<b>296</b>	<b>7</b>	<b>(478)</b>	<b>(174)</b>
Decrease resulting from inclusion of a subsidiary in consolidation			<b>(327)</b>		<b>(327)</b>			<b>(327)</b>
Net changes in items other than shareholders' equity						<b>(878)</b>	<b>(1,730)</b>	<b>(2,608)</b>
Total changes in the period	<b>—</b>	<b>1</b>	<b>30,142</b>	<b>247</b>	<b>30,391</b>	<b>(870)</b>	<b>(2,208)</b>	<b>27,312</b>
Closing balance	<b>¥34,197</b>	<b>¥22,112</b>	<b>¥278,251</b>	<b>¥(174)</b>	<b>¥334,386</b>	<b>¥4,546</b>	<b>¥19,336</b>	<b>¥358,269</b>

The accompanying notes are an integral part of these financial statements.

Yen Million

2006								
	Shareholders' equity					Valuation & translation gains/losses	Minority interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Unrealised gains/losses on investment securities, net of income taxes		
Opening balance	¥ 34,197	¥ 22,106	¥ 214,346	¥ (781)	¥ 269,869	¥ 5,362	¥ 18,859	¥ 294,091
Changes in the period								
Dividend			(12,412)		(12,412)			(12,412)
Directors' bonuses			(74)		(74)			(74)
Net income			46,249		46,249			46,249
Acquisition of treasury shares				(9)	(9)			(9)
Reissuance of treasury shares		4		368	373			373
Net changes in items other than shareholders' equity						53	2,685	2,739
Total changes in the period	<b>—</b>	<b>4</b>	<b>33,762</b>	<b>359</b>	<b>34,125</b>	<b>53</b>	<b>2,685</b>	<b>36,865</b>
Closing balance	¥ 34,197	¥ 22,111	¥ 248,108	¥ (422)	¥ 303,995	¥ 5,416	¥ 21,544	¥ 330,956

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries  
Year ended 31 December 2007

	Yen Million	
	2007	2006
<b>Cash flows from operating activities</b>		
Net income before taxes	¥ 78,569	¥ 77,190
Depreciation	26,708	27,329
Impairment loss	7,505	2,462
Loss on disposal of fixed assets	5,971	3,869
Gain on sale of fixed assets	(3,484)	(5,119)
Provisions for termination of directors' retirement benefits	1,073	—
Loss on disposal of subsidiaries business assets	3,344	—
Change in provisions for doubtful debts	(195)	330
Change in provisions for employees' retirement benefits	(4,682)	(1,131)
Change in provisions for special maintenance	1,456	(5,874)
Interest and dividend income	(700)	(665)
Interest expense	3,926	3,729
Change in accounts receivable	(59,850)	(14,923)
Change in inventories	(84,883)	(39,271)
Change in accounts payable	91,460	44,809
Others	5,595	(12,839)
Sub total	71,816	79,896
Interests and dividends received	696	701
Interests paid	(3,881)	(3,912)
Corporate taxes paid	(23,835)	(47,373)
<b>Cash flow from operating activities</b>	<b>44,796</b>	<b>29,312</b>
<b>Cash flows from investing activities</b>		
Payments for purchase of fixed assets	(23,617)	(32,540)
Proceeds from sales of fixed assets	4,668	6,485
Payments for purchase of investment securities	(1,170)	(1,559)
Proceeds from sales of investment securities	268	1,064
Net change in short-term loans	(2,504)	(919)
Payments for long-term loans	(72)	(97)
Proceeds from collection of Long-term loans	6	67
Others	(3,267)	(1,385)
<b>Cash flow from investing activities</b>	<b>(25,687)</b>	<b>(28,883)</b>
<b>Cash flows from financing activities</b>		
Net change in short-term debts	34,281	13,053
Net change in commercial papers	(44,000)	(18,000)
Proceeds from long-term debts	10,000	—
Repayments of long-term debts	(7,673)	(11,367)
Proceeds from bond issues	—	15,000
Payments for purchase of treasury shares	(11)	(9)
Dividends paid	(13,555)	(12,412)
Dividends paid to minority shareholders of subsidiaries	(330)	(349)
Others	260	373
<b>Cash flow from financing activities</b>	<b>(21,029)</b>	<b>(13,712)</b>
<b>Change in cash and cash equivalents</b>	<b>(1,920)</b>	<b>(13,282)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>16,541</b>	<b>29,354</b>
<b>Increase in cash and cash equivalents from newly consolidated subsidiaries</b>	<b>1,066</b>	<b>469</b>
<b>Cash and cash equivalent at end of year</b>	<b>¥ 15,686</b>	<b>¥ 16,541</b>

Reconciliation between cash and cash equivalents at year-end and cash and deposit on the balance sheet

	Yen Million	
	2007	2006
Cash and deposits on the balance sheets	¥16,479	¥16,645
Time deposit exceeding 3 months	(792)	(104)
Cash and cash equivalents	¥15,686	¥16,541

The accompanying notes are an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Basis of Presentation

The accompanying consolidated financial statements of Showa Shell Sekiyu K. K. (the "Company") and its consolidated subsidiaries (together, the "Companies") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act 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 Financial Instruments and Exchange Act, fractions below one million yen are rounded 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 31 December 2007: (27 companies)

Showa Yokkaichi Sekiyu Co., Ltd.	Shoseki Overseas Oil Development Co., Ltd.	Shoseki Home Gas K.K.
Toa Oil Co., Ltd.	Petro Star Kansai Co., Ltd.	K.K. Shinyo Sekiyu
East Ohgishima Oil Terminal Co., Ltd.	Chuo Shell Sekiyu Hanbai K.K.	K.K. Marushin
Showa Shell Sempaku K.K.	Kanto Koyu Energy Co., Ltd.	K.K. Rising Sun
Shoseki Gas Co., Ltd.	Nakagawa Oil Co., Ltd.	Shoseki Engineering & Construction Co., Ltd.
Nippon Grease Co., Ltd.	Tokyo Shell Pack K.K.	Wakamatsu Gas K.K.
Shoseki Kako Co., Ltd.	Petro Star Kanto Co., Ltd.	Genex Co., Ltd.
Heiwa Kisen Kaisha, Ltd.	K.K. Sun Road	On-Site Power Co., Ltd.
Central Energy K.K.	Nissho Koyu K.K.	Showa Shell Solar Co., Ltd. [*1]

(\*1) Showa Shell Solar Co., Ltd. has become a consolidated subsidiary from this financial year because of increased materiality by its business expansion.

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

#### b) Account closing dates

30 September	Petro Star Kansai K.K., Petro Star Kanto Co., Ltd., Nakagawa Oil Co., Ltd., K.K. Sun Road, K.K. Shinyo Sekiyu, Shoseki Home Gas K.K., and K.K. Marushin, Central Energy K.K.
31 October	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-method Affiliates

Equity-method affiliates as of 31 December 2007: (11 companies)

Seibu Oil Co., Ltd.	Toyotsu Petrotex Co.	Niigata Joint Oil Stockpiling Co., Ltd.
Japan Oil Network Co., Ltd.	Joyo Shell Sekiyu Hanbai K.K.	Marubeni Energy Corporation
Central Sekiyu Gas Co., Ltd.	Mieseiki Shoji K.K.	Shell Sekiyu Osaka Hatsubaisho K.K.
Shell Tokuhatsu K.K.	Diashoseki Co. Ltd.	

### (3) Valuation Methods for Major Assets

#### a) Securities:

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

Securities with no market value are stated 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 and Amortisation of Major Assets

#### 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 at the Ohgimachi Factory of the Keihin Refinery of the company and the Yokkaichi Refinery of Showa Yokkaichi Sekiyu Co., Ltd. are depreciated with estimated useful economic lives of 20 years.

#### b) Intangible fixed assets:

Straightline method is adopted. Software for in-house use is amortised based on the straightline method over the expected useful economic life of 5 years.

### (5) Basis of Provisions

#### a) Provisions for doubtful debts:

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

#### b) Provisions for employees' 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 Directors' bonuses:

For directors' bonuses, provisions are calculated based on the estimated bonuses to be paid in the following year.

#### d) Provisions for retirement benefits:

Accrued retirement benefits for the current financial year are provided based on the estimated PBO and pension assets as at the current financial year end. Actuarial differences are amortised evenly within the following 13-14 years, which is the average remaining service years of employees. The past service liabilities are amortised evenly within 14 years, which was the average number of remaining service years of employees at occurrences.

Differences at the accounting standards change are amortised evenly over the following 15 years, which used to be the average remaining service years of employees at that time.

#### e) Provisions for special maintenances:

Estimated accrued expenses on inspections and maintenances on refining machineries and oil tanks are provided. Periodical inspections on oil tanks are required under the Fire Service Act.

### (6) Accounting for Leases

Finance leases, in which ownership of the leased assets is not transferred to the lessees, are treated in the same way as operating leases.

### (7) Hedge Accounting

Hedge accounting is not adopted.

**(8) 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.

**(9) Valuation Method for Assets and Liabilities of Subsidiaries**

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

**(10) Amortisation of Goodwill and Negative Goodwill**

Goodwill and negative goodwill is amortised evenly over a period not exceeding 20 years, which is determined in consideration of its causes. Goodwill is expensed in the year it arises when it is immaterial.

**(11) Appropriation of Retained Earnings**

Under the Companies Act of Japan, the appropriation of retained earnings on the current financial year is determined by resolution of shareholders meeting held after the financial year-end. Therefore the appropriation of the retained earnings for the current financial year is not reflected in the accounts of the current financial year.

**(12) Cash and Cash Equivalents**

Cash and cash equivalents in the consolidated statement of cash flows consists of cash in hand, deposits, readily convertible into cash, and short-term investments with low risk of price fluctuations and with a maturity of 3 months or less at the time of acquisition.

**(13) Reclassification**

Certain accounts in the consolidated financial statements for the year ended 31 December 2006 have been reclassified to conform to the 2007 presentation.

**3. Change in Accounting Policy****Depreciation method for fixed assets**

Effective from the current financial year, the Companies changed their accounting policies for depreciation of fixed assets due to the revision of Corporate Tax Law and regulations whereby tangible fixed assets acquired on and after 1 April 2007 have been depreciated with no residual amount, while depreciation had been allowed until 95% of acquisition costs of tangible fixed assets prior to revision. The effect of the change in this accounting policy was not material to the consolidated financial statements.

**4. Securities****(1) Investment securities**

	Yen Million	
	2007	2006
Securities	<b>¥ 24,489</b>	¥ 26,098
Security investments in non-consolidated subsidiaries and affiliates	<b>28,510</b>	28,410
	<b>¥ 53,000</b>	¥ 54,509

**(2) Securities with market value**

	Yen Million		
	2007		
	Historical cost	Market value	Unrealised gain (loss)
Securities with unrealised gains:			
Equity securities	<b>¥ 2,081</b>	<b>¥ 10,468</b>	<b>¥ 8,386</b>
Securities with unrealised losses:			
Equity securities	<b>10,047</b>	<b>8,396</b>	<b>(1,650)</b>

	Yen Million		
	2006		
	Historical cost	Market value	Unrealised gain (loss)
Securities with unrealised gains:			
Equity securities	¥ 12,172	¥ 20,465	¥ 8,292
Securities with unrealised losses:			
Equity securities	4	4	(0)

**(3) Securities sold**

	Yen Million	
	2007	2006
Proceeds from sales of securities during the year	<b>¥ 141</b>	¥ 1,064
Realised gains	<b>75</b>	725
Realised losses	<b>0</b>	0

**(4) Securities with no market value**

	Yen Million	
	2007	2006
Unquoted securities		
Equity securities	<b>¥ 5,609</b>	¥ 5,614
Debt securities	<b>15</b>	15
	<b>¥ 5,624</b>	¥ 5,629

**5. Short-term and Long-term Debts**

## (1) Short-term debts

	Yen Million	
	2007	2006
Short-term debts	¥ 77,870	¥ 43,589
Commercial papers	24,000	68,000
	¥ 101,870	¥ 111,589

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

	%	
	2007	2006
Short-term debts	0.35	0.18
Commercial papers	0.73	0.44

## (2) Long-term debts

	Yen Million	
	2007	2006
Loans from banks, other financial institutions, etc.		
Due from 2008 to 2015	¥ 51,265	¥ 48,937
0.71 per cent unsecured straight bond due in 2010	15,000	15,000
1.66 per cent unsecured straight bond due in 2013	15,000	15,000
	81,265	78,937
Less: due within one year	4,732	7,665
	¥ 76,532	¥ 71,272

Note: The weighted average interest rate on long-term debts (excluding the one due in 1 year) from banks outstanding as of 31 December 2007 and 2006 were 1.68% and 1.74%, respectively.

## Annual maturities of bonds

	Yen Million
	2007
Within one year	¥ —
More than one year less than two years	—
More than two years less than three years	15,000
More than three years less than four years	—
More than four years less than five years	—
More than five years	15,000
	¥ 30,000

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

	Yen Million
	2007
Within one year	¥ 4,732
More than one year less than two years	8,820
More than two years less than three years	8,063
More than three years less than four years	500
More than four years less than five years	10,000
More than five years	19,149
	¥ 51,265

## (3) Commitment-line contracts

The Company concludes a revolving credit contract available up to 60 billion yen with a banking syndicate and overdraft contract up to 10 billion yen with Mizuho Corporate Bank Ltd.

There was 10 billion yen balance as at 31 December 2007 under the contract with Mizuho Corporate Bank Ltd.

**6. 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 31 December 2007 and 2006.

	Yen Million			
	2007			
	Acquisition Costs	Accumulated Depreciation	Accumulated Impairment Loss	Balance
Buildings, structures and tanks	¥ 315	¥ 254	¥ —	¥ 60
Machinery and equipment	12,790	4,761	3,754	4,273
Tools, implements and fixtures	2,472	931	—	1,541
Intangible fixed assets	38	13	—	24
	¥ 15,616	¥ 5,961	¥ 3,754	¥ 5,900

	Yen Million			
	2006			
	Acquisition Costs	Accumulated Depreciation	Accumulated Impairment Loss	Balance
Buildings, structures and tanks	¥ 312	¥ 216	¥ —	¥ 95
Machinery and equipment	17,545	5,937	91	11,517
Tools, implements and fixtures	1,141	364	—	776
Intangible fixed assets	18	14	—	3
	¥ 19,018	¥ 6,533	¥ 91	¥ 12,393

Lease payments and depreciation for the years ended 31 December 2007 and 2006 amounted to 1,498 million yen and 2,037 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 payments of finance leases as of 31 December 2007 and 2006

	Yen Million	
	2007	2006
Due within one year	¥ 2,897	¥ 3,384
Due over one year	9,382	14,156
	¥ 12,279	¥ 17,540

#### b) Operating Leases

	Yen Million	
	2007	2006
Due within one year	¥ 102	¥ 90
Due over one year	113	125
	¥ 215	¥ 215

#### (2) Lessor

##### Finance leases

Scheduled maturities of future lease payments of finance leases as of 31 December 2007 and 2006

	Yen Million	
	2007	2006
Due within one year	¥ 1,809	¥ 1,422
Due over one year	4,569	3,724
	¥ 6,379	¥ 5,146

Note: They are sublease transactions.

## 7. Income Taxes

### (1) Temporary differences that compose deferred tax assets and liabilities

	Yen Million	
	2007	2006
Deferred tax assets:		
Provisions for employees' retirement benefits	¥ 31,624	¥ 31,887
Impairment loss on fixed assets	16,448	14,287
Valuation loss on investment securities and others	824	900
Provisions for doubtful debts	205	219
Others	20,278	16,139
Sub-total	69,382	63,435
Valuation reserve	(19,607)	(14,742)
Total deferred tax assets	¥ 49,775	¥ 48,693
Deferred tax liabilities:		
Reserve for advanced depreciation on fixed assets transactions	¥ (9,788)	¥ (9,688)
Unrealised gain on investment securities	(2,619)	(3,377)
Others	(10,393)	(10,134)
Total deferred tax liabilities	(22,801)	(23,200)
Net deferred tax assets / (liabilities)	¥ 26,974	¥ 25,492

(2) Reconciliation between the effective statutory tax rate and the actual tax rate  
2007

	%
Effective statutory tax rate	40.7
(Adjustments)	
Entertainment expense and others that are not deductible permanently	0.5
Dividend income and others that are not taxable permanently	(1.1)
Increase/(decrease) in valuation reserve	6.1
Inhabitant tax on per capita basis	0.2
Others	(0.4)
Actual tax rate	46.0

2006

Information on 2006 accounts is omitted because there was no significant difference between the effective tax rate and the actual tax rate.

**8. Provisions for Employees' 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 employees' retirement benefits

	Yen Million	
	2007	2006
Retirement benefit obligations	¥ (104,352)	¥ (105,977)
Pension assets	21,675	17,326
Unfunded retirement benefit obligations	(82,677)	(88,650)
Unrecognised actuarial differences	8,448	9,695
Unrecognised past service cost (reduction in obligations) (Note 1)	(510)	(567)
Unrecognised transition differences due to accounting changes	850	967
	¥ (73,888)	¥ (78,554)

Notes: 1. A past service obligation (decrease in obligations) arose because a consolidated subsidiary using the general accounting method changed its plan by reducing the benefit level in its lump-sum retirement scheme.

2. The Company's retirement benefit scheme includes three consolidated subsidiaries.

3. The simple method is used for calculating retirement benefit obligations, except the Company and two of the consolidated subsidiaries.

4. In-house pension schemes are mainly those in which employees retiring at retirement age or voluntarily at above the age of 55 contribute 50% of their retirement benefits to their company, which then pays it out over 180 months or until the death of the pensioners.

5. The Company has introduced a new retirement benefit system in which employees choose from a scheme for advance cash payment of retirement allowance and pension (full payment of retirement allowance and pension equivalent amount included in salary), and a lump-sum retirement benefit scheme; the benefit obligations of employees choosing the lump-sum scheme are also included.

6. Employee pension trust has been set since this financial year.

## (2) The net periodic pension expense related to the retirement benefits

	Yen Million	
	2007	2006
Service cost	¥ 2,274	¥ 2,315
Interest cost	2,535	2,535
Expected return on pension assets	(667)	(924)
Amortisation of unrecognised actuarial differences	1,181	1,171
Amortisation of unrecognised post service costs	(57)	(57)
Amortisation of unrecognised transition differences due to accounting changes	117	117
	¥ 5,384	¥ 5,158

Note: The retirement benefit costs of consolidated subsidiaries that use a simple method are included in "Service cost."

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

	As of 31 December 2007	As of 31 December 2006
Allocation method for retirement benefit expenses	<b>Periodical straight line</b>	Periodical straight line
Discount rate	<b>2.5%</b>	2.5%
Expected rate of return	<b>3.7%</b>	6.5%
Period for amortisation of past service cost	<b>14 years</b>	14 years
Period for amortisation of actuarial differences	<b>13-14 years</b>	13-14 years
Period for amortisation of transition differences due to accounting changes	<b>15 years</b>	15 years

**9. 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, futures, forward contracts and options of crude oil, oil products and tanker freight.

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

## (2) Current Value of Derivatives

Yen Million			
31 December 2007			
	Notional Amount	Market Value	Unrealised Gain (Loss)
Foreign currency contracts (US\$)			
To buy	¥ 122,457	¥ 123,823	¥ 1,365
To sell	15,091	15,484	(392)
			¥ 973
Commodity-related transactions			
To buy	¥ 4,820	¥ 16,721	¥ 11,900
To sell	3,083	3,062	21
			¥ 11,921

Yen Million			
31 December 2006			
	Notional Amount	Market Value	Unrealised Gain (Loss)
Foreign currency contracts (US\$)			
To buy	¥ 53,532	¥ 54,243	¥ 710
To sell	1,780	1,785	(5)
			¥ 705
Commodity-related transactions			
To buy	¥ 19,006	¥ 29,945	¥ 10,941
To sell	17,010	16,569	441
			¥ 11,382

Interest rate swaps, which meet specific matching criteria are not measured at market value although the net amount to be paid or received under the swap contracts is recognised and included in interest expenses or income. The above information is presented excluding these interest rate swaps.

## 10. Sales, Administrative and General Expenses

Major elements of sales, administrative and general expenses for the years ended 31 December 2007 and 2006

Yen Million		
	2007	2006
Transportation	¥ 45,271	¥ 44,649
Salaries	30,095	29,746
Rents	4,749	4,843
Depreciation	5,007	5,173
Research and development expenses	2,014	1,866
Others	32,267	32,569
	¥ 119,405	¥ 118,847

## 11. 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 6.5%.

Impairment loss was recorded at the amount by which the carrying amount of each asset group exceeded its recoverable value. For the year ended 31 December 2007, the Companies recognised impairment loss of 7,505 million yen on 92 groups of impaired fixed assets, which were accounted for as extraordinary 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:

Yen Million				
2007				
	Land	Lease assets	Others	Total
Service stations (20 groups)	¥ 943	¥ —	¥ 378	¥ 1,321
Idle assets (72 groups)	34	3,689	2,458	6,183
				¥ 7,505

Yen Million			
2006			
	Land	Others	Total
Service stations (21 groups)	¥ 819	¥ 457	¥ 1,277
Idle assets (36 groups)	363	822	1,185
			¥ 2,462

**12. Collateral Assets**

As of 31 December 2007, 164,165 million yen assets were mortgaged for certain liabilities of the Companies (82,747 million yen).

**13. Contingent Liabilities**

The Companies had the following contingent liabilities as of 31 December 2007 and 2006:

	Yen Million	
	2007	2006
Guarantees for:		
Non-consolidated subsidiaries, affiliates and other companies	<b>¥ 3,685</b>	¥ 6,227
Employees (housing loan)	<b>1,197</b>	1,355
Discounts of notes receivable	<b>—</b>	121
	<b>¥ 4,883</b>	¥ 7,703

**14. Related Party Transactions**

When transactions of the Company with its related parties are more than 10% of the consolidated sales proceeds, or 10% of the total amount of the consolidated cost of sales and sales administrative and general expenses, for the years ended 31 December 2007 and 2006 are disclosed by each item.

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

**(1) Related parties — Corporation**

For the year ended 31 December 2007

Name	Capital (Yen Million)	Voting right share owing (share owned)	Yen Million			
			Transactions		Closing balances	
Saudi Arabian Oil Co., Ltd.	—	(Indirect 15.0%)	Purchase of crude oil and oil products	<b>¥886,713</b>	Accounts payable (trade)	<b>¥88,173</b>
Seibu Oil Co., Ltd.	8,000	Direct 38.0%	Purchase of oil products	<b>358,792</b>	Accounts payable (trade)	<b>47,851</b>
			Joint procurement of crude oil	<b>—</b>	Accounts receivable (trade)	<b>28,319</b>
Marubeni Energy Corporation	2,350	Direct 33.4%	Sale of oil products	<b>184,914</b>	Accounts receivable (trade)	<b>19,687</b>
Shell Chemicals Japan Ltd.	250	NA	Sales and purchase of oil products /purchase of petrochemicals	<b>135,883</b>	Accounts receivable (trade)	<b>25,925</b>
Shell Eastern Trading (P.T.E.) Limited	714	NA	Sales and purchase of crude and oil products	<b>307,564</b>	Accounts payable (trade)	<b>9,756</b>

For the year ended 31 December 2006

Name	Capital (Yen Million)	Voting right share owing (share owned)	Yen Million			
			Transactions		Closing balances	
Saudi Arabian Oil Co., Ltd.	—	(Indirect 15.0%)	Purchase of crude oil and oil products	¥ 761,084	Accounts payable (trade)	¥ 61,195
Seibu Oil Co., Ltd.	8,000	Direct 38.0%	Purchase of oil products	326,090	Accounts payable (trade)	38,565
Marubeni Energy Corporation	2,350	Direct 33.4%	Sale of oil products	154,402	Accounts receivable (trade)	17,846
Shell Chemicals Japan Ltd.	250	NA	Purchase of petrochemicals	96,926	Accounts receivable (trade)	12,259
Shell Eastern Trading (P.T.E.) Limited	714	NA	Sales and purchase of crude and oil products	294,586	Accounts payable (trade)	23,251

**(2) Related 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 31 December 2007 and 2006 are as follows.

For the year ended 31 December 2007

Name	Post	Voting right share owing (share owned)	Yen Million			
			Transactions		Closing balances	
Haruyuki Niimi	Chairman of SSSKK, Head Director of Showa Shell Sekiyu, Foundation for Promotion of Environmental Research	—	Donation	<b>¥ 13</b>	—	—

For the year ended 31 December 2006

Name	Post	Voting right share owing (share owned)	Yen Million			
			Transactions		Closing balances	
Haruyuki Niimi	Chairman of SSSKK, Head Director of Showa Shell Sekiyu, Foundation for Promotion of Environmental Research	—	Donation	¥ 38	—	—

**15. Segment Information****(1) Business Segment Information**

For the year ended 31 December 2007

Yen Million						
	Oil business	Property business	Other businesses	Sub-total	Internal trade	Total
<b>I. Sales and operating income</b>						
Sales						
(1) Sales to customers	<b>¥ 3,047,065</b>	<b>¥ 4,270</b>	<b>¥ 31,306</b>	<b>¥ 3,082,641</b>	<b>¥ —</b>	<b>¥ 3,082,641</b>
(2) Inter-segment sales and transfers	<b>5,811</b>	<b>125</b>	<b>7,217</b>	<b>13,154</b>	<b>(13,154)</b>	<b>—</b>
Sales	<b>3,052,876</b>	<b>4,396</b>	<b>38,523</b>	<b>3,095,796</b>	<b>(13,154)</b>	<b>3,082,641</b>
Operating expenses	<b>2,968,310</b>	<b>1,539</b>	<b>37,112</b>	<b>3,006,962</b>	<b>(13,134)</b>	<b>2,993,828</b>
Operating income	<b>84,566</b>	<b>2,856</b>	<b>1,411</b>	<b>88,833</b>	<b>(19)</b>	<b>88,813</b>
<b>II. Assets, depreciation, impairment and capital expenditures</b>						
Assets	<b>¥ 1,297,407</b>	<b>¥ 30,394</b>	<b>¥ 53,564</b>	<b>¥ 1,381,367</b>	<b>¥ (42,252)</b>	<b>¥ 1,339,114</b>
Depreciation	<b>23,262</b>	<b>807</b>	<b>2,637</b>	<b>26,708</b>	<b>—</b>	<b>26,708</b>
Impairment loss	<b>2,107</b>	<b>—</b>	<b>5,398</b>	<b>7,505</b>	<b>—</b>	<b>7,505</b>
Capital expenditures	<b>22,603</b>	<b>76</b>	<b>3,155</b>	<b>25,835</b>	<b>—</b>	<b>25,835</b>

For the year ended 31 December 2006

Yen Million						
	Oil business	Property business	Other businesses	Sub-total	Internal trade	Total
<b>I. Sales and operating income</b>						
Sales						
(1) Sales to customers	¥ 2,883,480	¥ 4,283	¥ 33,523	¥ 2,921,287	¥ —	¥ 2,921,287
(2) Inter-segment sales and transfers	5,799	126	15,293	21,220	(21,220)	—
Sales	2,889,279	4,410	48,817	2,942,507	(21,220)	2,921,287
Operating expenses	2,819,298	1,648	47,184	2,868,131	(21,146)	2,846,985
Operating income	69,980	2,761	1,633	74,375	(73)	74,301
<b>II. Assets, depreciation, impairment and capital expenditures</b>						
Assets	¥ 1,165,149	¥ 31,361	¥ 28,818	¥ 1,225,329	¥ (30,314)	¥ 1,195,015
Depreciation	24,021	907	2,400	27,329	—	27,329
Impairment loss	2,462	—	—	2,462	—	2,462
Capital expenditures	30,057	125	3,812	33,995	—	33,995

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, diesel oil, fuel oil, lubricants, LP gas, bitumen, petrochemical products

(2) Property business: Leasing and administration of properties

(3) Other businesses: Engineering, sale and lease of automobile accessories, city gas business, electric power supply business and distributed power supply, solar powered cells business etc.

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, impairment loss and capital expenditures.

**(2) Geographic Segment Information**

For the years ended 31 December 2007 and 2006, 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 31 December 2007

Yen Million			
	Asia	Others	Total
Overseas sales	<b>¥ 189,705</b>	<b>¥ 119,320</b>	<b>¥ 309,026</b>
Consolidated sales			<b>3,082,641</b>
Overseas sales as a percentage of total consolidated sales	<b>6.2%</b>	<b>3.9%</b>	<b>10.0%</b>

For the year ended 31 December 2006

Yen Million			
	Asia	Others	Total
Overseas sales	¥ 212,113	¥ 127,463	¥ 339,576
Consolidated sales			2,921,287
Overseas sales as a percentage of total consolidated sales	7.3%	4.4%	11.6%

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, Republic of Korea, Hong Kong

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

3. Overseas sales are sales of the Company and its consolidated subsidiaries outside Japan.

4. Overseas sales regarding international trading business decreased by 104,049 million yen compared with the previous financial year, mainly because the Company has leased it to the Shell group since 1 August 2007.



PricewaterhouseCoopers Aarata  
Shin-Marunouchi Bldg., 32nd Floor  
1-5-1 Marunouchi  
Chiyoda-ku, Tokyo 100-6532  
Japan  
Telephone : +81 (3) 5427 6555  
Facsimile : +81 (3) 5427 6556  
[www.pwc.com/jp/aarata](http://www.pwc.com/jp/aarata)

### **Report of Independent Auditors**

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

We have audited the accompanying consolidated balance sheet of SHOWA SHELL SEKIYU K.K. (“the Company”) and its subsidiaries as of 31 December 2007, and the related consolidated statement of income, changes in net assets and cash flows for the year 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 audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 31 December 2007, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

*PricewaterhouseCoopers Aarata*

March 28, 2008