

FINANCIAL SECTION

- 40** Twelve-Year Summary of Selected Financial Data
- 42** Managers' Analysis of Financial Position and Operating Results
- 50** Consolidated Balance Sheet
- 52** Consolidated Statement of Income
- 53** Consolidated Statement of Changes in Net Assets
- 54** Consolidated Statement of Cash Flows
- 55** Notes to the Consolidated Financial Statements

TWELVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

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

| | 2008 | 2007 | 2006 | 2005 |
|--|-------------------|------------|------------|------------|
| Net sales | ¥3,272,801 | ¥3,082,641 | ¥2,921,287 | ¥2,268,488 |
| Cost of sales | 3,161,950 | 2,874,422 | 2,728,137 | 2,056,023 |
| Gross profit | 110,851 | 208,219 | 193,149 | 212,465 |
| Sales and administrative expenses | 123,134 | 119,405 | 118,847 | 114,084 |
| Operating income (loss) | (12,283) | 88,813 | 74,301 | 98,381 |
| Ordinary income (loss) | (10,065) | 92,709 | 77,675 | 100,497 |
| Net income (loss) after taxes | (16,221) | 43,729 | 46,249 | 58,370 |
| Total assets | 1,209,956 | 1,339,114 | 1,195,015 | 1,145,191 |
| Total shareholders' equity* ¹ | 306,813 | 338,933 | 309,411 | 275,232 |
| Net income (loss) after taxes per share (yen) | ¥ (43.07) | ¥116.12 | ¥122.95 | ¥155.31 |
| Total shareholders' equity per share (yen) | 814.63 | 899.90 | 822.20 | 732.08 |
| Return on sales (operating profit basis) (%) | — | 2.9 | 2.5 | 4.4 |
| Return on sales (net income basis) (%) | — | 1.4 | 1.6 | 2.6 |
| Return on assets (%) | — | 3.3 | 3.9 | 5.1 |
| Return on equity (%)* ¹ | — | 13.5 | 15.8 | 23.2 |
| Shareholders' equity ratio (%)* ¹ | 25.4 | 25.3 | 25.9 | 24.0 |
| Number of shares outstanding at year-end (thousand shares)* ^{2,3} | 376,630 | 376,633 | 376,323 | 375,863 |

*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.

Yen Million

| 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|------------|------------|------------|------------|------------|------------|------------|------------|
| ¥1,839,445 | ¥1,726,917 | ¥1,620,359 | ¥1,664,954 | ¥1,639,475 | ¥1,365,478 | ¥1,324,752 | ¥1,588,067 |
| 1,665,978 | 1,570,155 | 1,460,458 | 1,513,626 | 1,477,361 | 1,218,732 | 1,171,788 | 1,408,789 |
| 173,466 | 156,761 | 159,901 | 151,328 | 162,113 | 146,746 | 152,963 | 179,278 |
| 113,280 | 120,787 | 123,500 | 123,274 | 124,442 | 133,691 | 144,445 | 164,434 |
| 60,185 | 35,974 | 36,400 | 28,053 | 37,670 | 13,054 | 8,518 | 14,844 |
| 61,927 | 38,188 | 40,101 | 29,052 | 38,913 | 12,191 | 7,223 | 12,901 |
| 2,362 | 21,000 | 18,665 | 2,610 | 12,499 | 1,828 | 1,999 | 6,387 |
| 905,823 | 882,299 | 916,690 | 909,902 | 1,002,146 | 974,916 | 992,282 | 1,049,931 |
| 226,955 | 234,773 | 221,604 | 212,168 | 216,349 | 197,562 | 199,711 | 201,479 |
| ¥ 6.14 | ¥ 55.96 | ¥ 49.69 | ¥ 6.95 | ¥ 33.19 | ¥ 4.85 | ¥ 5.31 | ¥ 16.95 |
| 605.25 | 627.07 | 592.18 | 565.36 | 574.77 | 524.25 | 529.95 | 534.64 |
| 3.3 | 2.1 | 2.2 | 1.7 | 2.3 | 1.0 | 0.6 | 0.9 |
| 0.1 | 1.2 | 1.2 | 0.2 | 0.8 | 0.1 | 0.2 | 0.4 |
| 0.3 | 2.4 | 2.0 | 0.3 | 1.2 | 0.2 | 0.2 | 0.6 |
| 1.0 | 9.2 | 8.6 | 1.2 | 6.0 | 0.9 | 1.0 | 3.2 |
| 25.1 | 26.6 | 24.2 | 23.3 | 21.6 | 20.3 | 20.1 | 19.2 |
| 374,868 | 374,303 | 374,125 | 375,280 | 376,409 | 376,850 | 376,850 | 376,850 |

Managers' Analysis of Financial Position and Operating Results



Richard A. Carruth
VICE PRESIDENT DIRECTOR

CFO, Finance & Control,
Financial Information Assurance Project,
Procurement, and IT Planning

Business Results for 2008

1. Business Environment

In the Japanese economy, a growing uncertainty about the future outlook prevailed towards the end of the year against the backdrop of the recession associated with the global financial turmoil, the sharp decline in corporate earnings, and the deteriorating employment situation.

The Dubai crude oil price, which started at around 89 dollars per barrel at the beginning of the year, continued to move upward until reaching a record high of 140 dollars per barrel in July. However, the subsequent deterioration in the actual economy and the accompanying slowdown in oil demand growth, which caused a sharp decline in crude oil prices, have continued to push the Dubai crude oil price down to the 36 dollars per barrel range at the end of the year. Turning to the exchange rate, after starting the year at around 109 yen range per U.S. dollar, the yen continued to appreciate, reaching 97 yen per dollar by the middle of March. The yen kept weakening until falling as low as 110 yen per dollar by August. The intensifying U.S. financial turmoil in September pushed the yen up sharply toward the end of the year with an exchange rate of 91 yen per dollar.

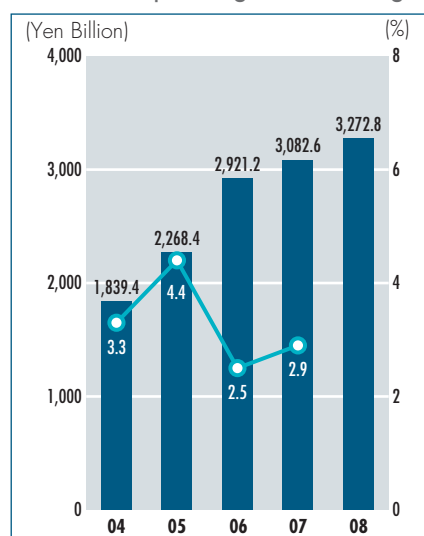
The domestic oil demand has still been on a downward trend even this year. The fall in demand for gasoline has become evident, demonstrated by reduced consumer spending caused by oil price hikes and weak consumption, which remains low even after the prices fell against the backdrop of changing consumer lifestyles and increase of energy-saving cars.

2. Operating Results

Consolidated Statement of Income

| Years ended 31 December | 2008 | 2007 | (Yen Billion) Change |
|---------------------------------|-----------------|----------|-------------------------|
| Net sales | ¥3,272.8 | ¥3,082.6 | ¥ 190.1 |
| Operating income (loss) | (12.2) | 88.8 | (101.0) |
| Non-operating profit (expenses) | 2.2 | 3.8 | (1.6) |
| Ordinary income (loss) | (10.0) | 92.7 | (102.7) |
| Extraordinary profit (expenses) | (13.3) | (14.1) | 0.7 |
| Net income (loss) | (16.2) | 43.7 | (59.9) |

Net Sales/Operating Income Margin



■ Net sales
● Operating income margin

The Showa Shell Group's consolidated sales for 2008 amounted to 3,272.8 billion yen (an increase of 6.2% versus a year ago) as sales from the oil business increased atop higher oil product prices stemming from escalating crude oil prices.

However, the Group posted consolidated operating loss of 12.2 billion yen (a decrease of 101.0 billion yen versus a year ago) and consolidated ordinary loss of 10.0 billion yen (a decrease of 102.7 billion yen versus a year ago), mainly due to the increased cost of sales caused by effect of inventory valuation as a result of the drastic decline in crude oil prices. Consolidated ordinary income, excluding the effects of inventory valuation, was 45.6 billion yen (an increase of 1.4 billion yen versus a year ago).

The Showa Shell Group recorded extraordinary net losses of 13.3 billion yen due to the valuation loss on investment securities associated with a fall in Japanese stock prices, a loss from disposal of assets such as service stations and an impairment loss; partly offset by a profit from sales of unoperated assets.

Consequently, consolidated net loss totaled 16.2 billion yen (a decrease of 59.9 billion yen versus a year ago). The net loss per share amounted to 43.07 yen.

3. Segment Information

Oil Business

With regard to the oil business, sales amounted to 3,236.0 billion yen (an increase of 6.2% versus a year ago), chiefly due to the higher sales price for oil products, which benefited from the strong rise in crude oil prices, and the increased export of diesel oil, etc. which compensated for a decrease in domestic sales volume. However, the company posted an operating loss of 16.3 billion yen, a decrease of 100.8 billion yen versus a year ago. This was mainly attributable to the effect of inventory valuation calculated by weighted average method as a result of a sharp decline in crude oil prices that started in the summer and ran through the end of the year after a steep rise earlier in the year. Operating income, excluding the effects of inventory valuation, was 39.4 billion yen, an increase of 3.3 billion yen compared to 36.1 billion yen in the previous financial year.

Property Business

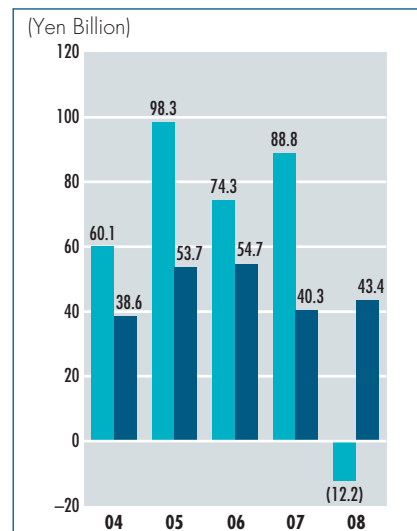
As for the office rent business, vacancies in our commercial buildings, reflecting weak office demand impacted by the slowing economy, was mainly compensated by the reduction in administrative costs and resulted in sales of 4.2 billion yen (an increase of 0.4% versus a year ago) and operating income of 2.8 billion yen, unchanged from the previous financial year.

Other Businesses

With regard to the next-generation CIS solar business, commercial production in the Miyazaki Plant 1 of Showa Shell Solar K.K., our consolidated subsidiary, has been under way since 2007. The Miyazaki Plant 2 has prepared to start operations in 2009. Also we decided to establish a research center aiming to enhance the technical development of the next-generation CIS solar business and started collaborative research and development activities on the mass production technologies. The Group's CIS solar powered cells won the Minister of Economy, Trade and Industry Prize, which is the top prize among the New Energy Awards, a program operated by the Agency for Natural Resources and Energy of the Ministry of Economy, Trade and Industry (New Energy Foundation).

In our power business, a large natural gas power plant, under a joint venture project, is currently under construction, targeting the start of operations in 2010. Also we started the selling electric power through Japan Electric Power Exchange (JEPX), a limited liability intermediate corporation.

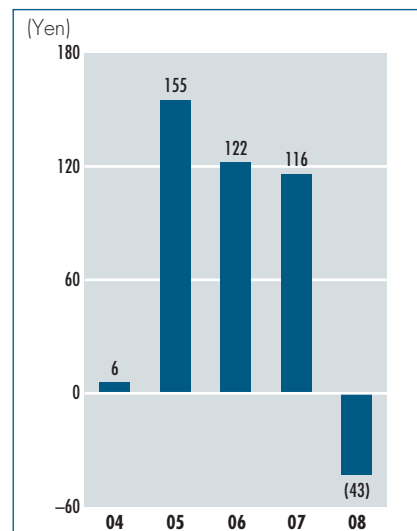
Operating Income (Loss)



■ Operating income (loss)
■ CCS operating income*

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

Earnings per Share



Consequently, sales of other businesses amounted to 32.4 billion yen (an increase of 3.6% versus a year ago) and operating income amounted to 1.1 billion yen (a decrease of 0.2 billion yen versus a year ago).

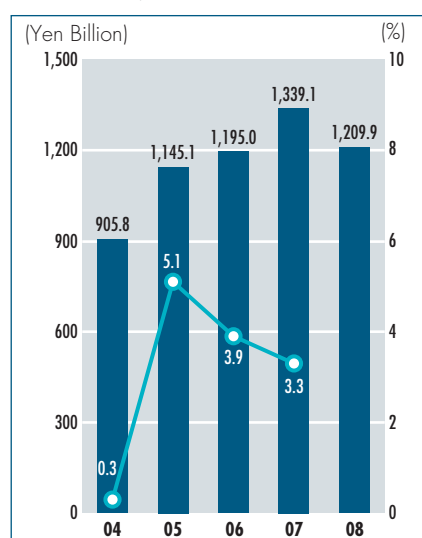
Outlook for 2009

As for the outlook for 2009, with diminished domestic demand for oil products, we estimate that consolidated net sales will be 2,010.0 billion yen, consolidated ordinary income will be 0 billion yen and consolidated net income will be 0 billion yen as a result of an expected increase in the cost of sales due to inventory valuation effects. Consolidated ordinary income excluding the effects of inventory valuation is expected to be 50.0 billion yen. The above outlook was calculated on the assumption that crude oil prices for 2009 will be 47.0 dollars per barrel in the first half of the financial year, and 56.0 dollars per barrel in the second half of the financial year. The forecasts are also based on average exchange rate assumptions of 97.0 yen to the US dollar in the first half of the financial year, and 100.0 yen to the dollar in the second half of the financial year.

Financial Position

Assets, Liabilities and Shareholders' Equity

Total Assets/ROA



■ Total assets
● ROA

Consolidated Balance Sheet

| At 31 December | 2008 | 2007 | (Yen Billion) Change |
|-------------------------|-----------------|----------|-------------------------|
| Assets | ¥1,209.9 | ¥1,339.1 | ¥(129.1) |
| Liabilities | 881.5 | 980.8 | (99.3) |
| (Interest-bearing debt) | 279.4 | 183.1 | 96.3 |
| Net assets | 328.4 | 358.2 | (29.8) |
| (Shareholders' equity)* | 306.8 | 338.9 | (32.1) |

*Net assets after minority interests

Consolidated total assets as of the end of the year were 1,209.9 billion yen, a decrease of 129.1 billion yen compared with the end of the previous financial year. This was mainly attributable to considerable decreases in accounts receivable and inventories caused by the sharp fall in crude oil prices.

Consolidated total liabilities were 881.5 billion yen, a decrease of 99.3 billion yen compared with the end of the previous financial year. This was chiefly due to decreases in accounts payable and accrued income tax, which substantially exceeded an increase in borrowings. Short and long-term interest-bearing debts (borrowings, commercial paper, and bonds) were 279.4 billion yen, an increase of 96.3 billion yen from the end of the previous financial year. This was primarily due to measures to maintain sufficient liquidity on hand for the coming financial year in case conditions prevail where both direct and indirect financial markets become dysfunctional amid the financial turmoil. On a net of cash and cash equivalents basis, interest-bearing debt was 206.3 billion yen, up 39.7 billion yen from the end of the previous financial year.

Consolidated net assets as of the end of the financial year were 328.4 billion yen, a decrease of 29.8 billion yen compared with the end of the previous financial year. This was mainly due to a decrease in retained earnings including a net loss for the year. As a result, net assets (excluding minority interests) per share based on the total number of shares issued as of the end of the financial year were 814.63 yen, down from 899.90 yen for the previous financial year.

Cash Flows

Consolidated Statement of Cash Flows

| At 31 December | 2008 | (Yen Billion) 2007 |
|--|---------------|-----------------------|
| Cash flows from operating activities | ¥ 26.6 | ¥ 44.7 |
| Cash flows from investing activities | (42.9) | (25.6) |
| Cash flows from financing activities | 72.3 | (21.0) |
| Change in cash and cash equivalents | 56.0 | (1.9) |
| Cash and cash equivalents at beginning of year | 15.6 | 16.5 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | 0 | 1.0 |
| Cash and cash equivalents at end of year | 71.8 | 15.6 |

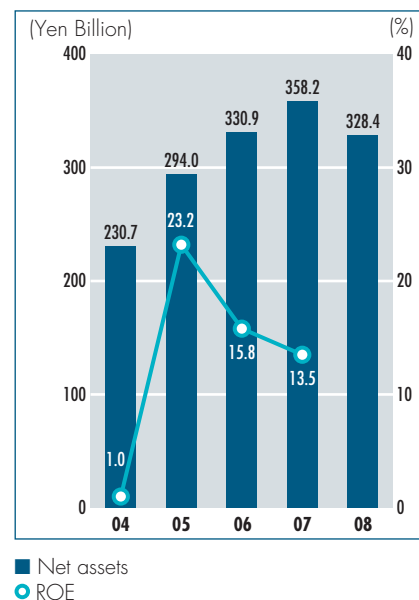
Cash and cash equivalents (hereinafter referred to as funds) as of the end of the financial year were 71.8 billion yen, an increase of 56.1 billion yen from the end of the previous financial year.

Operating activities generated 26.6 billion yen, chiefly attributable to positive factors such as no cash items that included depreciation charges and decreased inventories owing to declining crude oil prices outweighing negative factors such as the net loss.

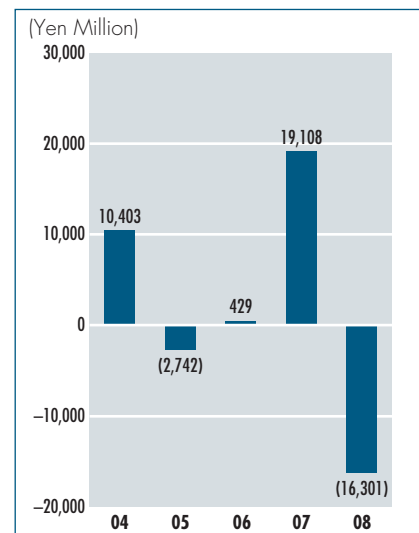
The Group used 42.9 billion yen for investing activities, mainly in capital investment in fixed assets for renovation of service stations and refinery equipment and construction of a plant for the production of CIS solar powered cells.

Financing activities totaled 72.3 billion yen, mainly owing to increased borrowings primarily for tax payments based on our high annual income in the previous year, which meant cash flows from operating activities did not cover capital investments, dividend payments, and pension contributions, as well as the maintenance of sufficient liquidity on hand.

Net Assets/ROE



Free Cash Flow



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

Financial Strategy

1. Investment Strategy

Showa Shell, in addition to reinforcing the stability and earning power of the oil business, is strategically investing in the expansion of its major new business—the next generation CIS solar business—to realize sustainable growth driven by both the oil business and new businesses.

(1) Oil Business

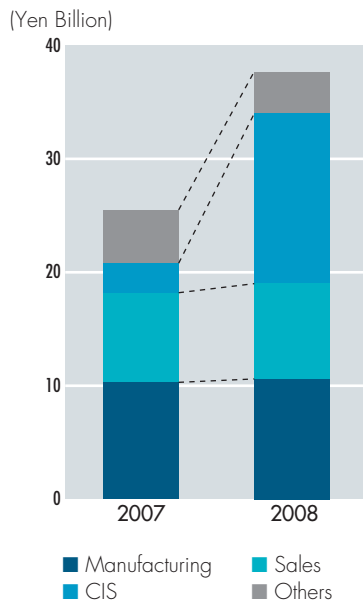
- Operational maintenance and safety measures—We will continuously invest to maintain the operational stability of our refineries and other major facilities, invest to ensure legal and regulatory compliance, and invest to minimize environmental impact throughout our entire supply chain.
- Reinforcing earning power—We will invest to enhance competitiveness, including through developing service stations and other means to improve our sales network. Similarly, we will invest to boost the competitiveness of both our refining and distribution facilities.

(2) New Businesses

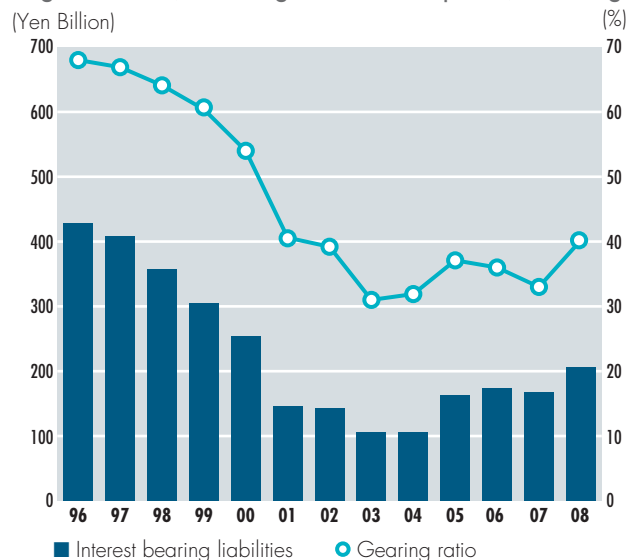
- Scale expansion in next-generation CIS solar business—We will invest not only in production facilities, but also in R&D facilities to improve production technologies. As part of this effort, we invested in the Miyazaki Plant 2 in 2008.
- Entry into new business fields—In tandem with investment in the development of eco-friendly energies and other new initiatives, we will invest in other business areas, such as the power business, that are expected to create synergies with our existing businesses.

Showa Shell carefully selects projects for investment after comprehensive consideration of each project's strategic importance and investment return profile.

Capital Expenditures in 2008 ...
37.6 Yen Billion



Interest Bearing Liabilities (Excluding Cash and Deposits)/Gearing Ratio



2. Strengthening Our Financial Position

Showa Shell is working to strengthen its financial position by maintaining an optimal capital structure for securing a stable supply of funds while pursuing the minimization of financing costs. Since 1995, we have continued to greatly reduce interest-bearing debt largely through the sale of assets of little importance to our core businesses, and by restricting investment. The earnings stability that has resulted has enabled Showa Shell to retain a financial standing that enables it to carry out investments for achieving sustainable growth even in a severe financial environment.

3. Financing Policy

Showa Shell finances funds through cash flow from operations, financial institutions, and the capital markets. We attempt to lower our funding cost by making aggressive use of the capital markets based on our credit ratings. We are working to maintain the stability of funds by establishing a ratio of long-term to short-term debt that takes into consideration the time needed to recover invested capital, given that Showa Shell has a significant amount of fixed assets, which is a characteristic of a capital intensive industry. We are also striving to diversify procurement from financial institutions by making use of city banks, regional banks, and other private financial institutions such as shinkin banks or credit associations, and credit cooperatives, as well as life insurance companies.

4. Financial Risk Management Policy

Showa Shell has signed revolving credit contracts (lines of credit agreements) totaling 150 billion yen with financial institutions as a means of securing the liquidity of funds should unforeseen conditions materialize. Of these lines, 140 billion yen is in the form of earthquake response financing. In this way, we have made preparations to procure funds needed to reopen operations swiftly in the event that a major earthquake or other disaster damages our main production facilities.

As for property and casualty insurance, we have insured against all risks above a certain threshold in order to ensure management stability and mitigate any negative effects on business performance of a major natural disaster or accident.

Furthermore, in purchasing crude oil, exporting products and other foreign currency transactions we control the risk of fluctuations in exchange rates by taking currency hedges within the limits of actual demand.

5. Group-Wide Financial Management

We work to reduce financing costs by concentrating fund procurement and fund management for the entire Group at the parent company. By concentrating and distributing funds in this manner, we increase fund efficiency by connecting the financial activities between group companies through a Cash Management System (CMS).

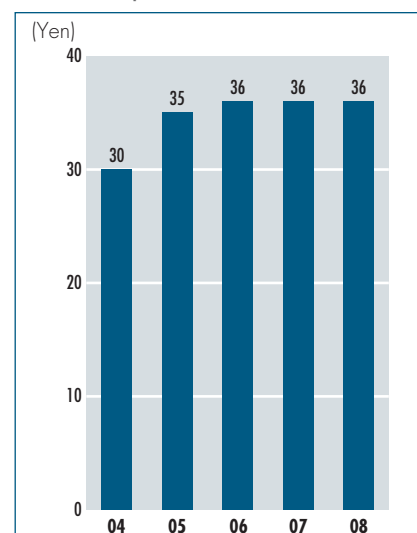
6. Shareholder Return

In 2008, Showa Shell paid dividends of 36 yen per share, the same amount as in the previous year. We are committed to continue payments of stable dividends while securing sufficient funds to strengthen our financial position and carry out our growth strategy.

Credit Ratings (As of 31 December 2008)

| | |
|---|-----|
| Rating and Investment Information, Inc. | |
| Long term | A |
| Short term | a-1 |

Dividends per Share



Business 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 related to the businesses of the Showa Shell Group and its financial 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 financial 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 financial year under review.

1. Risks related to 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, including exports, and cause changes to the Group's earnings.

2. Risks related to changes in crude oil prices and exchange rate

a. Effect on sales margin and working capital

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 rates, the Group's basic policy is to reflect these influences in its sales prices. In case where 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 adopts the weighted-average method to value inventory. When crude oil prices decline, the Group's cost of sales will be increased by relatively expensive inventory 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 relatively inexpensive inventory 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 most of its crude oil from overseas, mainly 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 ensured.

4. Risks related to competition with other oil companies

The Showa Shell Group is exposed to severe competition in the domestic market, mainly in the oil business, due to continued overcapacity in refineries and excess number of service stations, as well as due to declining demand for oil products. The Group strives to maintain and increase competitiveness. In case where, however, the Group cannot conduct operations efficiently in this competitive environment, there is a possibility that the Group's financial position and operating results will be affected.

5. Risks related to environmental regulations and tax levies

The oil industry, of which Showa Shell is belonged to, 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. In case where restrictions are placed in Japan on CO₂ emissions and/or fossil fuel consumption, or other environmental regulations are enacted in the future, additional investments could be needed and higher costs could be incurred. Hence, there is a possibility that the Group's financial position and operating results will be affected.

6. Risks related to 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 based on the internal rule for HSSE. The Group strives to ensure safe operations and minimize disaster risk through the use of appropriate insurance, including property and casualty insurance, as well as formulation of the risk control plan and the business continuity plan with its related discipline. There is a possibility, however, that the Group's financial position and operating results will be affected, in case where each base of the Showa Shell Group, including its refineries, could encounter obstacles to operations if suffered by a unexpected disaster etc. There is also a possibility of being similarly affected by the termination or restriction of business as the result of an occurrence of a serious industrial injury or equipment-related accident, or information system failures.

7. Risks related to the internal control system

The Showa Shell Group continues to strive to strengthen compliance by means of appointment of a director in charge of Code of Conducts, enactment of internal regulations for antitrust law, establishment and operation of risk management system, and conducts internal audits. However, in cases where the internal control system built by the Group 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 in case where management system of intellectual property rights or defensive measures are inadequate.

9. Risks related to 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 product sales, and has created in-house management systems for the administration of this data. The Group strives to protect such information with full attention, however there is a possibility the Showa Shell Group brand image will be damaged, and the financial position and business performance of the Group be negatively affected, in case where 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 valuation method, and basic rates such as the discount rate and the expected rate of return on pension 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.

CONSOLIDATED BALANCE SHEET

Showa Shell Sekiyu K.K. and Consolidated Subsidiaries
As of 31 December 2008

Yen Million

| | 2008 | 2007 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and deposits (Note 12) | ¥ 73,113 | ¥ 16,479 |
| Notes and accounts receivable—trade (Notes 12 and 14) | 276,218 | 386,151 |
| Inventories (Note 12) | 248,088 | 361,738 |
| Income taxes receivable | 18,193 | — |
| Deferred tax assets (Note 7) | 18,819 | 10,738 |
| Others (Note 9) | 42,108 | 27,920 |
| Provisions for doubtful debts | (433) | (336) |
| Total current assets | 676,107 | 802,691 |
| Fixed assets (Notes 6, 11 and 12) | | |
| Tangible fixed assets | | |
| Buildings and structures | 112,601 | 114,352 |
| Tanks | 11,564 | 11,773 |
| Machinery and equipment | 118,426 | 123,934 |
| Land | 166,675 | 162,295 |
| Construction in progress | 20,792 | 3,148 |
| Others | 5,517 | 5,467 |
| Total tangible fixed assets | 435,579 | 420,972 |
| Intangible fixed assets | | |
| Goodwill | 2,259 | 1,207 |
| Leasehold | 4,074 | 3,972 |
| Software | 4,995 | 5,048 |
| Others | 581 | 927 |
| Total intangible fixed assets | 11,910 | 11,155 |
| Investments | | |
| Investment securities (Note 4) | 43,330 | 53,000 |
| Long-term loans | 1,551 | 856 |
| Deferred tax assets (Note 7) | 26,229 | 24,677 |
| Others (Note 9) | 17,409 | 26,818 |
| Provisions for doubtful debts | (2,164) | (1,057) |
| Total investments | 86,358 | 104,295 |
| Total fixed assets | 533,848 | 536,423 |
| Total assets | ¥1,209,956 | ¥1,339,114 |

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

Yen Million

| | 2008 | 2007 |
|--|-------------------|------------|
| LIABILITIES | | |
| Current liabilities | | |
| Notes and accounts payable—trade (Note 14) | ¥ 231,419 | ¥ 387,675 |
| Short-term debts (Notes 5, 12 and 13) | 141,384 | 82,602 |
| Accounts payable—other (Note 12) | 204,363 | 201,629 |
| Income taxes payable | 4,672 | 22,976 |
| Accrued expenses | 12,294 | 14,042 |
| Provisions for employees' bonuses | 2,376 | 2,092 |
| Provisions for directors' bonuses | 53 | 63 |
| Commercial papers (Note 5) | 72,000 | 24,000 |
| Others (Notes 9 and 14) | 40,041 | 49,757 |
| Total current liabilities | 708,606 | 784,839 |
| Long-term liabilities | | |
| Bonds (Note 5) | 30,200 | 30,000 |
| Long-term debts (Notes 5 and 12) | 35,891 | 46,532 |
| Deferred tax liabilities (Note 7) | 4,235 | 8,441 |
| Provisions for employees' retirement benefits (Note 8) | 69,560 | 73,888 |
| Provisions for directors' retirement benefits | 674 | — |
| Provisions for special maintenance | 17,633 | 12,809 |
| Others (Note 9) | 14,701 | 24,331 |
| Total long-term liabilities | 172,898 | 196,005 |
| Total liabilities | 881,504 | 980,845 |
| NET ASSETS | | |
| Shareholders' equity | | |
| Share capital | | |
| Authorised 440,000,000 shares | | |
| Issued 376,850,400 shares in 2008 and 2007 | 34,197 | 34,197 |
| Capital surplus | 22,113 | 22,112 |
| Retained earnings | 248,589 | 278,251 |
| Treasury shares | | |
| 219,446 shares as of 31 December 2008 and 216,636 as of 31 December 2007 | (178) | (174) |
| Total shareholders' equity | 304,721 | 334,386 |
| Valuation and translation gains/losses | | |
| Unrealised gains/losses on investment securities, net of income taxes | 2,092 | 4,546 |
| Minority interests | 21,637 | 19,336 |
| Total net assets | 328,451 | 358,269 |
| Total liabilities and net assets | ¥1,209,956 | ¥1,339,114 |

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 2008

| | Yen Million | |
|--|-------------------|------------|
| | 2008 | 2007 |
| Net sales (Notes 14 and 15) | ¥3,272,801 | ¥3,082,641 |
| Cost of sales (Notes 14 and 15) | 3,161,950 | 2,874,422 |
| Gross profit | 110,851 | 208,219 |
| Sales, administrative and general expenses (Notes 6, 8, 10, 14 and 15) | 123,134 | 119,405 |
| Operating income/(loss) | (12,283) | 88,813 |
| Non-operating profit | | |
| Interest income | 142 | 159 |
| Dividend income | 750 | 541 |
| Foreign exchange gain, net | 2,115 | 3,399 |
| Amortisation of negative goodwill | 428 | 619 |
| Equity in net earnings of affiliates | 1,221 | 544 |
| Income from investment in anonymous association | 1,571 | 1,512 |
| Others | 1,861 | 2,035 |
| | 8,090 | 8,811 |
| Non-operating expenses | | |
| Interest expense | 2,522 | 1,991 |
| Sales discounts | 2,249 | 1,935 |
| Others | 1,100 | 988 |
| | 5,872 | 4,915 |
| Ordinary income/(loss) | (10,065) | 92,709 |
| Extraordinary profit | | |
| Gain on sales of fixed assets | 1,069 | 3,484 |
| Gain on sales of investment securities and others (Note 4) | 30 | 117 |
| Reversal of provisions for special maintenance | 5 | 12 |
| Reversal of provisions for estimated loss on assets disposal | 591 | — |
| Promotion subsidy for corporate location | 304 | — |
| Others | 412 | 499 |
| | 2,413 | 4,114 |
| Extraordinary loss | | |
| Loss on disposals of fixed assets | 2,809 | 5,971 |
| Loss on sales of investment securities and others (Note 4) | 39 | 0 |
| Valuation loss on investment securities and others | 7,527 | 13 |
| Impairment loss (Note 11) | 2,976 | 7,505 |
| Directors' retirement benefits | 216 | 1,073 |
| Loss on disposal of subsidiaries business assets | — | 3,344 |
| Others | 2,191 | 345 |
| | 15,761 | 18,254 |
| Net income/(loss) before taxes | (23,414) | 78,569 |
| Income taxes—current | 5,375 | 36,889 |
| Income taxes—deferred | (12,989) | (723) |
| | (7,613) | 36,165 |
| Income/(loss) attributable to minority interests | 421 | (1,325) |
| Net income/(loss) | ¥ (16,221) | ¥ 43,729 |

| | Yen | |
|---------------------------|---|---------|
| Per share data | | |
| Net income/(loss)—primary | ¥ (43.07) | ¥116.12 |
| Net income—diluted | Due to no diluted share, the information is omitted. | 116.12 |
| Dividend | 36.00 | 36.00 |
| Net assets | 814.63 | 899.90 |

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 2008

| | Yen Million | | | | | | | |
|--|----------------------|-------------------|-----------------|----------------------------|--|--|--------------------|------------------|
| | 2008 | | | | | | | |
| | Shareholders' equity | | | | | Valuation and 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 | | | |
| Opening balance | ¥34,197 | ¥22,112 | ¥278,251 | ¥(174) | ¥334,386 | ¥ 4,546 | ¥19,336 | ¥358,269 |
| Changes in the period | | | | | | | | |
| Dividends | | | (13,561) | | (13,561) | | | (13,561) |
| Net loss | | | (16,221) | | (16,221) | | | (16,221) |
| Acquisition of treasury shares | | | | (10) | (10) | | | (10) |
| Reissuance of treasury shares | | 0 | | 6 | 6 | | | 6 |
| Increase resulting from merger of consolidated subsidiaries | | | 121 | | 121 | | 2,522 | 2,643 |
| Increase resulting from inclusion of subsidiaries in consolidation | | | | | | | 236 | 236 |
| Net changes in items other than shareholders' equity | | | | | | (2,453) | (456) | (2,910) |
| Total changes in the period | — | 0 | (29,661) | (4) | (29,665) | (2,453) | 2,301 | (29,817) |
| Closing balance | ¥34,197 | ¥22,113 | ¥248,589 | ¥(178) | ¥304,721 | ¥ 2,092 | ¥21,637 | ¥328,451 |

| | Yen Million | | | | | | | |
|--|----------------------|-------------------|-----------------|----------------------------|--|--|--------------------|------------------|
| | 2007 | | | | | | | |
| | Shareholders' equity | | | | | Valuation and 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 | | | |
| Opening balance | ¥34,197 | ¥22,111 | ¥248,108 | ¥(422) | ¥303,995 | ¥5,416 | ¥21,544 | ¥330,956 |
| Changes in the period | | | | | | | | |
| Dividends | | | (13,555) | | (13,555) | | | (13,555) |
| Net income | | | 43,729 | | 43,729 | | | 43,729 |
| Acquisition of treasury shares | | | | (11) | (11) | | | (11) |
| Reissuance of treasury shares | | 1 | | 259 | 260 | | | 260 |
| Change in interest in a consolidated subsidiary | | | 296 | | 296 | 7 | (478) | (174) |
| Decrease resulting from inclusion of a subsidiary in consolidation | | | (327) | | (327) | | | (327) |
| Net changes in items other than shareholders' equity | | | | | | (878) | (1,730) | (2,608) |
| Total changes in the period | — | 1 | 30,142 | 247 | 30,391 | (870) | (2,208) | 27,312 |
| Closing balance | ¥34,197 | ¥22,112 | ¥278,251 | ¥(174) | ¥334,386 | ¥4,546 | ¥19,336 | ¥358,269 |

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 2008

Yen Million

| | 2008 | 2007 |
|---|-----------------|-----------------|
| Cash flow from operating activities | | |
| Net income/(loss) before taxes | ¥ (23,414) | ¥ 78,569 |
| Depreciation | 31,239 | 26,708 |
| Impairment loss | 2,976 | 7,505 |
| Loss on disposals of fixed assets | 2,809 | 5,971 |
| Gain on sales of fixed assets | (1,069) | (3,484) |
| Valuation loss on investment securities and others | 7,527 | 13 |
| Directors' retirement benefits | 216 | 1,073 |
| Loss on disposal of subsidiaries business assets | — | 3,344 |
| Increase/(decrease) in provisions for doubtful debts | (136) | (195) |
| Increase/(decrease) in provisions for directors' retirement benefits | 548 | — |
| Increase/(decrease) in provisions for employees' retirement benefits | (5,375) | (4,682) |
| Increase/(decrease) in provisions for special maintenance | 4,824 | 1,456 |
| Interest and dividend income | (892) | (700) |
| Interest expense | 4,771 | 3,926 |
| (Increase)/decrease in accounts receivable | 118,523 | (59,850) |
| (Increase)/decrease in inventories | 116,940 | (84,883) |
| Increase/(decrease) in accounts payable | (167,753) | 91,460 |
| Others | (19,431) | 5,581 |
| Sub total | 72,307 | 71,816 |
| Interests and dividends received | 887 | 696 |
| Interests paid | (4,852) | (3,881) |
| Income taxes paid | (41,711) | (23,835) |
| Cash flow from operating activities | 26,631 | 44,796 |
| Cash flow from investing activities | | |
| Payments for purchase of tangible fixed assets | (37,606) | (23,617) |
| Payments for purchase of intangible fixed assets | (2,427) | — |
| Proceeds from sales of fixed assets | 1,901 | 4,668 |
| Payments for purchase of investment securities | (1,116) | (1,170) |
| Proceeds from sales of investment securities | 107 | 268 |
| Net (increase)/decrease in short-term loans | (2,641) | (2,504) |
| Payments for long-term loans | (885) | (72) |
| Proceeds from collection of long-term loans | 15 | 6 |
| Proceeds from share acquisition of consolidated subsidiaries | 161 | — |
| Others | (440) | (3,267) |
| Cash flow from investing activities | (42,932) | (25,687) |
| Cash flow from financing activities | | |
| Net increase/(decrease) in short-term debts | 43,327 | 34,281 |
| Net increase/(decrease) in commercial papers | 48,000 | (44,000) |
| Proceeds from long-term debts | — | 10,000 |
| Repayments of long-term debts | (4,732) | (7,673) |
| Payments for purchase of treasury shares | (10) | (11) |
| Dividends paid | (13,561) | (13,555) |
| Dividends paid to minority shareholders of subsidiaries | (692) | (330) |
| Others | 6 | 260 |
| Cash flow from financing activities | 72,337 | (21,029) |
| Change in cash and cash equivalents | 56,035 | (1,920) |
| Cash and cash equivalents at beginning of year | 15,686 | 16,541 |
| Increase in cash and cash equivalents from newly consolidated subsidiaries | 93 | 1,066 |
| Cash and cash equivalent at end of year | ¥ 71,815 | ¥ 15,686 |

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

Yen Million

| | 2008 | 2007 |
|---|---------|---------|
| Cash and deposits on the balance sheets | ¥73,113 | ¥16,479 |
| Time deposit exceeding 3 months | (1,298) | (792) |
| Cash and cash equivalents | ¥71,815 | ¥15,686 |

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 of 31 December 2008: (40 companies)

| | | |
|--|-----------------------------|--|
| Showa Yokkaichi Sekiyu Co., Ltd. | Toa Oil Co., Ltd. | Showa Shell Sempaku K.K. |
| Nippon Grease Co., Ltd. | Shoseki Kako Co., Ltd. | Heiwa Kisen Kaisha, Ltd. |
| Shoseki Overseas Oil Development Co., Ltd. | Petro Star Kansai Co., Ltd. | Chuo Shell Sekiyu Hanbai K.K. |
| Kanto Koyu Energy Co., Ltd. | Nakagawa Oil Co., Ltd. | Tokyo Shell Pack K.K. |
| Petro Star Kanto Co., Ltd. | K.K. Sun Road | K.K. Shinyo Sekiyu |
| K.K. Marushin | K.K. Rising Sun | Shoseki Engineering & Construction Co., Ltd. |
| Wakamatsu Gas K.K. | Genex Co., Ltd. | Central Energy K.K. |
| Nissho Koyu K.K. | On-Site Power Co., Ltd. | Showa Shell Solar Co., Ltd. |
| Nagase Oil Ltd. ⁽¹⁾ | Jonen Co. ⁽¹⁾ | Enessance Holdings Co., Ltd. ⁽²⁾ |
| Other 13 companies | | |

⁽¹⁾ Nagase Oil Ltd. and Jonen Co., which became subsidiaries of the Company by share acquisition in the current financial year, have been newly included in the consolidation.

⁽²⁾ As a part of LPG business integration and reorganisation, Enessance Holdings Co., Ltd. and its 11 subsidiaries have been newly included in the consolidation. Shoseki Gas Co., Ltd. and Shoseki Home Gas K.K., which became subsidiaries of Enessance Holdings Co., Ltd. in the course of the LPG business reorganisation, have been continuously included in consolidation.

East Ogishima Oil Terminal Co., Ltd. that had been included in consolidation until the previous financial year, merged with Toa Oil Co., Ltd. on 1 March 2008 that is a consolidated subsidiary of the Company.

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

Account closing dates of the consolidated subsidiaries are as follows.

| | |
|--------------|--------------|
| 30 June | 1 subsidiary |
| 30 September | 8 |
| 31 October | 1 |
| 31 December | 30 |

For the subsidiary with an account closing date of 30 June, the accounts for the twelve-month period ended 30 September are used for the consolidation.

For other subsidiaries of which the account closing dates are other than 31 December, annual financial statements for the periods ended their own account closing dates are used for the consolidation. Material differences arising from the use of different account closing dates are appropriately adjusted in consolidation procedures.

(2) Equity-method Affiliates

Equity-method Affiliates as of 31 December 2008: (12 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. | TS Aromatics Ltd. |

TS Aromatics Ltd. has included in the scope of equity-method affiliates from this financial year because of share acquisition.

Certain 20% to 50% owned companies, such as K.K. Kyokuyo, are excluded from equity-method affiliates because their influence is immaterial to the consolidated financial statements.

(3) Valuation Method 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:

Straight-line method is adopted. Software for in-house use is amortised based on the straight-line 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 employees' retirement benefits:

Accrued retirement benefits 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 number of 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 due to changes in the accounting standards are amortised evenly over the following 15 years, which was the average number of remaining service years of employees at that time.

e) Provisions for directors' retirement benefits:

Estimated retirement benefits for directors for the current financial year are provided based on the internal rules of some consolidated subsidiaries.

f) Provisions for special maintenance:

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 subsidiaries are measured at the market values when consolidated.

(10) Amortisation of Goodwill and Negative Goodwill

Goodwill and negative goodwill are 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 statements 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 comparative accounts in the consolidated financial statements for the year ended 31 December 2007 have been reclassified to conform to the 2008 presentation.

3. Change in Accounting Policies**(1) Provisions for Directors' Retirement Benefits**

Certain subsidiaries changed their accounting method for directors' retirement benefits in line with the opinion note of JICPA issued on 13 April 2007. Previously, costs for directors' retirement benefits at such subsidiaries had been recorded when paid. Effective from the current financial year, estimated costs based on the internal rules are provided as provisions for directors' retirement benefits. The effects of this change in accounting policy are immaterial to the consolidated financial statements.

(2) Depreciation Method for Fixed Assets

The Company and its subsidiaries have changed their depreciation methods for the fixed assets acquired on or before 31 March 2007 due to the amendments in the income tax regulations. Previously, the 5% residual values of the acquisition costs had not been charged to income until those are disposed. Effective from the current financial year, such 5% amounts have been depreciated equally over 5 years once the carrying amount of depreciable fixed assets reached 5% of the acquisition costs. Due to this change in depreciation method, operating loss, ordinary loss and net loss before taxes increased by 4,222 million yen as compared to those which would have been reported under the previous depreciation method.

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

| | Yen Million | |
|--|----------------|---------|
| | 2008 | 2007 |
| Securities | ¥12,650 | ¥24,489 |
| Securities investments in non-consolidated subsidiaries and affiliates | 30,680 | 28,510 |
| | ¥43,330 | ¥53,000 |

(2) Securities with Market Value

| | Yen Million | | |
|------------------------------------|---------------|---------------|------------------------|
| | Historical | 2008 | |
| | | Market value | Unrealised gain (loss) |
| Securities with unrealised gains: | | | |
| Equity securities | ¥1,551 | ¥4,896 | ¥3,344 |
| Securities with unrealised losses: | | | |
| Equity securities | 3,358 | 3,160 | (198) |

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

(3) Securities Sold

| | Yen Million | |
|---|-------------|------|
| | 2008 | 2007 |
| Proceeds from sales of securities during the year | ¥93 | ¥141 |
| Realised gains | 25 | 75 |
| Realised losses | 39 | 0 |

(4) Securities with No Market Value

| | Yen Million | |
|---------------------|---------------|--------|
| | 2008 | 2007 |
| Unquoted securities | | |
| Equity Securities | ¥4,578 | ¥5,609 |
| Debt Securities | 15 | 15 |
| | ¥4,594 | ¥5,624 |

5. Short-term and Long-term Debts

(1) Short-term Debts

| | Yen Million | |
|-------------------|-----------------|----------|
| | 2008 | 2007 |
| Short-term debts | ¥128,497 | ¥ 77,870 |
| Commercial papers | 72,000 | 24,000 |
| | ¥200,497 | ¥101,870 |

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

| | % | |
|-------------------|-------------|------|
| | 2008 | 2007 |
| Short-term debts | 0.61 | 0.35 |
| Commercial papers | 1.25 | 0.73 |

(2) Long-term Debts

| | Yen Million | |
|--|----------------|---------|
| | 2008 | 2007 |
| Loans from banks, other financial institutions, etc. | | |
| Due from 2009 to 2015 | ¥48,779 | ¥51,265 |
| 0.71 per cent unsecured straight bond due in 2010 | 15,000 | 15,000 |
| 1.09 per cent unsecured straight bond due in 2011 | 100 | — |
| 1.03 per cent unsecured straight bond due in 2011 | 100 | — |
| 1.66 per cent unsecured straight bond due in 2013 | 15,000 | 15,000 |
| | 78,979 | 81,265 |
| Less: due within one year | 12,887 | 4,732 |
| | ¥66,091 | ¥76,532 |

Note: The weighted average interest rate on long-term debt (excluding the one due in 1 year) from banks outstanding as of 31 December 2008 and 2007 were 1.74% and 1.68%, respectively.

Annual maturities of bonds

| | Yen Million | |
|--|----------------|--|
| | 2008 | |
| Within one year | ¥ — | |
| More than one year less than two years | 15,000 | |
| More than two years less than three years | 200 | |
| More than three years less than four years | — | |
| More than four years less than five years | 15,000 | |
| More than five years | — | |
| | ¥30,200 | |

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

| | Yen Million |
|--|----------------|
| | 2008 |
| Within one year | ¥12,887 |
| More than one year less than two years | 7,795 |
| More than two years less than three years | 459 |
| More than three years less than four years | 10,159 |
| More than four years less than five years | 3,263 |
| More than five years | 14,213 |
| | ¥48,779 |

(3) Commitment-line Contacts

The Company concludes a revolving credit contract available up to 140 billion yen with a banking syndicate and overdraft contract up to 10 billion yen with Mizuho Corporate Bank Ltd.

There was no balance as at 31 December 2008 under these contracts.

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 2008 and 2007.

| | Yen Million | | | |
|---------------------------------|-------------------|--------------------------|-----------------------------|---------------|
| | 2008 | | | |
| | Acquisition Costs | Accumulated Depreciation | Accumulated Impairment loss | Balance |
| Buildings, structures and tanks | ¥ 333 | ¥ 290 | ¥ — | ¥ 42 |
| Machinery and equipment | 7,821 | 2,713 | 143 | 4,965 |
| Tools, implements and fixtures | 3,062 | 1,259 | — | 1,802 |
| Intangible fixed assets | 438 | 249 | — | 188 |
| | ¥11,655 | ¥4,512 | ¥143 | ¥7,000 |

| | 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 |

Lease payments and depreciation for the years ended 31 December 2008 and 2007 amounted to 1,408 million yen and 1,498 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 2008 and 2007

| | Yen Million | |
|---------------------|----------------|---------|
| | 2008 | 2007 |
| Due within one year | ¥ 3,629 | ¥ 2,897 |
| Due over one year | 10,218 | 9,382 |
| | ¥13,847 | ¥12,279 |

b) Operating leases

| | Yen Million | |
|---------------------|-------------|------|
| | 2008 | 2007 |
| Due within one year | ¥209 | ¥102 |
| Due over one year | 479 | 113 |
| | ¥688 | ¥215 |

(2) Lessor

Finance leases

Scheduled maturities of future lease payments of finance leases as of 31 December 2008 and 2007

| | Yen Million | |
|---------------------|---------------|--------|
| | 2008 | 2007 |
| Due within one year | ¥2,070 | ¥1,809 |
| Due over one year | 4,777 | 4,569 |
| | ¥6,847 | ¥6,379 |

Note: They are sublease transactions.

7. Income Taxes

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

| | Yen Million | |
|---|-------------|-----------|
| | 2008 | 2007 |
| Deferred tax assets: | | |
| Provisions for employees' retirement benefits | ¥ 31,218 | ¥ 31,624 |
| Impairment loss on fixed assets | 15,002 | 16,448 |
| Net loss carried forward | 11,827 | — |
| Valuation loss on investment securities and others | 4,008 | 824 |
| Provisions for doubtful debts | 559 | 205 |
| Others | 17,927 | 20,278 |
| Sub-total | 80,543 | 69,382 |
| Valuation reserve | (21,282) | (19,607) |
| Total deferred tax assets | ¥ 59,261 | ¥ 49,775 |
| Deferred tax liabilities: | | |
| Reserve for advanced depreciation on fixed assets transaction | ¥ (9,901) | ¥ (9,788) |
| Unrealised gain on investment securities | (1,286) | (2,619) |
| Others | (7,260) | (10,393) |
| Total deferred tax liabilities | (18,448) | (22,801) |
| Net deferred tax assets/(liabilities) | ¥ 40,813 | ¥ 26,974 |

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

| | % | |
|--|-------|-------|
| | 2008 | 2007 |
| Effective statutory tax rate | 40.7 | 40.7 |
| (Adjustments) | | |
| Entertainment expense and others that are not deductible permanently | (1.8) | 0.5 |
| Dividend income and others that are not taxable permanently | 0.6 | (1.1) |
| Increase/(decrease) in valuation reserves | (6.5) | 6.1 |
| Inhabitant tax on per capita basis | (0.6) | 0.2 |
| Others | 0.1 | (0.4) |
| Actual tax rate | 32.5 | 46.0 |

8. Provisions for Employees' Retirement Benefits

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

(1) Provisions for employees' retirement benefits

| | Yen Million | |
|--|-------------|------------|
| | 2008 | 2007 |
| Retirement benefit obligations | ¥(104,966) | ¥(104,352) |
| Pension assets | 23,034 | 21,675 |
| Unfunded retirement benefit obligations | (81,932) | (82,677) |
| Unrecognised actuarial differences | 12,091 | 8,448 |
| Unrecognised past service cost (reduction in obligations) (Note 1) | (453) | (510) |
| Unrecognised transition differences due to accounting changes | 733 | 850 |
| | ¥ (69,560) | ¥ (73,888) |

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 | |
|---|-------------|--------|
| | 2008 | 2007 |
| Service cost | ¥2,495 | ¥2,274 |
| Interest cost | 2,493 | 2,535 |
| Expected return on pension assets | (783) | (667) |
| Amortisation of unrecognised actuarial differences | 1,175 | 1,181 |
| Amortisation of unrecognised past service costs | (57) | (57) |
| Amortisation of unrecognised transition differences due to accounting changes | 117 | 117 |
| | ¥5,441 | ¥5,384 |

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 2008 | As of 31 December 2007 |
|---|---------------------------------|--------------------------|
| Allocation method for retirement benefit expenses | Periodical straight line | Periodical straight line |
| Discount rate | 2.5% | 2.5% |
| Expected rate of return | 3.7% | 3.7% |
| Period for amortisation of past service cost | 14 years | 14 years |
| Period for amortisation of actuarial differences | 13-14 years | 13-14 years |
| Period for amortisation of transition differences due to accounting changes | 15 years | 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 counterparties. However, in order to minimise the credit risk of non-performance 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 2008 | | |
| | Notional Amount | Market Value | Unrealised Gain |
| Foreign currency contracts | | | |
| To buy (US\$) | ¥38,211 | ¥38,302 | ¥ 90 |
| (Euro) | 1,388 | 1,405 | 16 |
| To sell (US\$) | 14,884 | 14,454 | 429 |
| (Euro) | 414 | 405 | 9 |
| | | | ¥ 545 |
| Commodity-related transactions | | | |
| To buy | ¥ 3,535 | ¥ 4,443 | ¥ 907 |
| To sell | 5,833 | 4,913 | 919 |
| | | | ¥1,826 |

| | 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 |

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. As at 31 December 2008, there was no interest rate swap contract.

10. Sales, Administrative and General Expenses

Major elements of sales, administrative and general expenses for the years ended 31 December 2008 and 2007

| | Yen Million | |
|-----------------------------------|-----------------|----------|
| | 2008 | 2007 |
| Transportation | ¥ 44,697 | ¥ 45,271 |
| Salaries | 31,676 | 30,095 |
| Rents | 5,486 | 4,749 |
| Depreciation | 5,890 | 5,007 |
| Research and development expenses | 2,233 | 2,014 |
| Others | 33,149 | 32,267 |
| | ¥123,134 | ¥119,405 |

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 7.0% (6.5% in 2007).

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 2008, the Companies recognised impairment loss of 2,976 million yen on 71 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 | | |
|------------------------------|---------------|-------------|---------------|
| | Land | Others | Total |
| | 2008 | | |
| Service stations (38 groups) | ¥1,787 | ¥392 | ¥2,180 |
| Idle assets (33 groups) | 58 | 737 | 796 |
| | | | ¥2,976 |

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

12. Collateral Assets and Secured Debts

(1) Collateral Assets

| | Yen Million |
|-----------------------------|-----------------|
| | 2008 |
| Cash & deposits | ¥ 3,756 |
| Notes & accounts receivable | 1,654 |
| Inventories | 74 |
| Buildings & structures | 21,225 |
| Tanks | 4,524 |
| Machinery & equipment | 89,069 |
| Land | 42,273 |
| Others | 9 |
| Total | ¥162,587 |

(2) Secured Debts

| | Yen Million |
|------------------|----------------|
| | 2008 |
| Long-term debts | ¥11,146 |
| Short-term debts | 6,226 |
| Accounts payable | 65,581 |
| Total | ¥82,955 |

13. Contingent Liabilities

The Companies had the following contingent liabilities as of 31 December 2008 and 2007:

| | Yen Million | |
|---|---------------|--------|
| | 2008 | 2007 |
| Guarantees for: | | |
| Non-consolidated subsidiaries, affiliates and other companies | ¥2,280 | ¥3,685 |
| Employees (housing loan) | 1,026 | 1,197 |
| Discounts of notes receivable | 38 | — |
| | ¥3,345 | ¥4,883 |

The Company is subject to legal proceedings claims and liabilities which arise in the ordinary course of business. In the opinion of management, the amount of the ultimate liability with respect to those actions will not materially affect the Company's financial position or results of operations and cash flows.

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 2008 and 2007 are disclosed by each item.

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

(1) Related Parties—Corporation

For the year ended 31 December 2008

| 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 | ¥1,068,566 | Accounts payable (trade) | ¥28,560 |
| Seibu Oil Co., Ltd. | 8,000 | Direct 38.0% | Purchase of oil products | 501,850 | Accounts payable (trade) | 43,281 |
| Marubeni Energy Corporation | 2,350 | Direct 33.4% | Sale of oil products | 189,831 | Accounts receivable (trade) | 12,430 |
| Shell Chemicals Japan Ltd. | 250 | NA | Sales and purchase of oil products/purchase of petrochemicals | 300,167 | Accounts receivable (trade) | 13,984 |

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 | ¥886,713 | Accounts payable (trade) | ¥88,173 |
| Seibu Oil Co., Ltd. | 8,000 | Direct 38.0% | Purchase of oil products | 358,792 | Accounts payable (trade) | 47,851 |
| | | | Joint procurement of crude oil | — | Accounts receivable (trade) | 28,319 |
| Marubeni Energy Corporation | 2,350 | Direct 33.4% | Sale of oil products | 184,914 | Accounts receivable (trade) | 19,687 |
| Shell Chemicals Japan Ltd. | 250 | NA | Sales and purchase of oil products/purchase of petrochemicals | 135,883 | Accounts receivable (trade) | 25,925 |
| Shell Eastern Trading (P.T.E.) Limited | 714 | NA | Sales and purchase of crude and oil products | 307,564 | Accounts payable (trade) | 9,756 |

Notes: 1. The prices of crude oil and oil products are determined by negotiations in consideration of market prices.
2. Consumption tax is not included.

(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 2008 and 2007 are as follows.

For the year ended 31 December 2008

Not applicable

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 | ¥13 | — | — |

Note: Consumption tax is not include.

15. Segment Information

(1) Business Segment Information For the year ended 31 December 2008

| | Yen Million | | | | | |
|---|--------------|-------------------|----------------|------------|----------------|------------|
| | Oil business | Property business | Other business | Sub-total | Internal trade | Total |
| I. Sales and operating profits | | | | | | |
| Sales | | | | | | |
| (1) Sales to customers | ¥3,236,069 | ¥ 4,288 | ¥32,444 | ¥3,272,801 | ¥ — | ¥3,272,801 |
| (2) Inter-segment sales and transfers | 5,336 | 123 | 7,148 | 12,608 | (12,608) | — |
| Sales | 3,241,405 | 4,412 | 39,592 | 3,285,410 | (12,608) | 3,272,801 |
| Operating expenses | 3,257,727 | 1,519 | 38,409 | 3,297,656 | (12,571) | 3,285,084 |
| Operating income/(loss) | (16,321) | 2,892 | 1,182 | (12,246) | (37) | (12,283) |
| II. Assets, depreciation, impairment, and capital expenditures | | | | | | |
| Assets | ¥1,170,226 | ¥29,804 | ¥55,597 | ¥1,255,628 | ¥(45,672) | ¥1,209,956 |
| Depreciation | 27,357 | 843 | 3,039 | 31,239 | — | 31,239 |
| Impairment loss | 2,976 | — | — | 2,976 | — | 2,976 |
| Capital expenditures | 23,528 | 107 | 16,686 | 40,323 | — | 40,323 |

For the year ended 31 December 2007

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

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, asphalt, 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 2008 and 2007, 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 2008

Disclosure on this information is omitted because overseas sales has become less than 10% of consolidated sales proceeds due to the transfer of international trading business from 1 August 2007.

For the year ended 31 December 2007

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

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

Report of Independent Auditors

27 March 2009

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 2008, and the related consolidated statements 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 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As explained in the note 3 (2) to the consolidated financial statements, the Company and its subsidiaries changed their depreciation methods for fixed assets acquired on or before 31 March 2007.

A handwritten signature in black ink that reads "PricewaterhouseCoopers Aarata". The signature is written in a cursive, flowing style.