

## Year-end Results for FY 2005

We present the following summary of the business of the Company for its 94th term, namely, the period from 1st January to 31st December, 2005.

### Note

The consolidated ordinary profit of FY 2005 was record 100.4 billion yen (increased by 38.5 billion yen compared to the last year) following the previous term. As a result of every effort towards further growth with our new philosophy, 'New Foundation', we have revised up our previous projection of 90 billion yen announced in our 3Q results statement.

### 1. Main Indicators

<Consolidated>		Unit : Million Yen	
Sales Proceeds	2,268,488	VS	+429,043 (23.3%)
Operating Profit	98,381	"	+38,195 (63.5%)
Ordinary Profit	100,497	"	+38,569 (62.3%)
Ordinary Profit (CCS basis)	53,279	"	+12,853 (31.8%)
NIAT	58,370	"	+56,007 (2,370.8%)

### <Unconsolidated>

Sales Volume	37,767KKL	VS	-477KKL (-1.2%)
Sales Proceeds	2,192,906	"	+414,537 (23.3%)
Operating Profit	93,299	"	+38,019 (68.8%)
Ordinary Profit	93,222	"	+34,281 (58.2%)
Ordinary Profit (CCS basis)	48,600	"	+11,160 (29.8%)
NIAT	53,584	"	+50,381 (1,573.2%)

CCS basis : Current Cost of Supply basis

Calculation based on the cost excluding stock evaluation effects

### 2. Business Outline

#### (1) Domestic Economy and Industrial Environment

During this period, while improvement of corporate profits and increase of private sector industrial investment continued, the Japanese economy slowly but surely recovered as the growth rate of exports as well as mining and manufacturing production improved in the second half of the period. Meanwhile, Dubai crude oil price, starting the year at around 34 dollars per barrel, dramatically increased and reached 59 dollars in August and September under the influence of large-sized hurricanes in the U.S. Oil price hike calmed

afterwards as the members of IEA (International Energy Agency) released oil stocks. Dubai crude oil price at the end of this period was 53 dollars per barrel.

As for foreign exchange markets, the exchange rate for Japanese yen to the U.S. dollar was around 102 at the beginning of the year, but gradually weakened due mainly to the forecast of rise in interest rates in the U.S., and exceeded 121 in early December. The yen later strengthened rapidly and the exchange rate at the end of the period was around 118.

With respect to domestic oil demands, demand for gasoline continued to increase steadily. Moreover, demand for kerosene drastically increased because of low temperature in the first quarter and December. Conversely, demand for gas oil declined due to the decrease of the number of diesel passenger cars owned and the improvement in truck transport efficiency. Demand for fuel oil also fell severely after the third quarter as a result of fuel conversion to city gas and electricity in response to the steep rise of the product price.

Petroleum products price surged during the first quarter due to the boost of demands by reason of a cold winter in addition to the hike in crude oil price. In the second quarter, prices of some products such as gas oil temporarily declined. Prices, however, started to rise again for all products in the third quarter reflecting the worldwide increase of crude oil and product prices, which was caused by factors such as the hurricane damages suffered in the U.S. In the fourth quarter, while the price of gasoline decreased due to expected supply surplus, prices of kerosene and A fuel oil soared as demands sharply increased under the influence of severe cold wave and crude oil and product import prices rose.

## **(2) Business Activities**

Under such business circumstances, we created values and achieved further growth in the downstream business, which is the core business of Showa Shell Sekiyu Group, by utilizing our accumulated cost competitiveness, credibility, and customer base, and at the same time, engaged in development and expansion of new businesses in the peripheral area, for the purpose of sustainable growth.

### **< Downstream Segment >**

As for crude oil acquisition, we have managed to reduce the number of loading ports by increasing the volume of Saudi Arabian crude oil purchase. As a result, we reduced the cost for crude oil transport.

In manufacturing, we promoted effective use of the wide variety of crude oil available from suppliers in order to promote the optimisation of the operation plan, and therefore, strengthened our competitiveness. As part of our growth strategy, we invested in AOC Holdings, Inc. and began purchasing products from Fuji Oil Co., Ltd. (an AOCHD subsidiary) to enhance our Group's product supply capacity.

In relation to marketing, we purchased shares in Toyotsu Sekiyu Hanbai K.K. to enhance our sales network in the Chukyo area, and invested in and

integrated major dealers in the Tokyo area in July to restructure the service station network.

#### **< New Energy Development >**

In an effort in achieving practical use of GTL (Gas To Liquids), a multi-purpose new fuel synthesized from natural gas, we provided it as fuel for a shuttle bus at the Aichi Expo, and also embarked on the sales of the product as heating fuel in limited areas, under the name of "Shell Eco Toyu."

#### **<New Businesses>**

We acquired the goodwill and business assets from the Wakamatsu Gas K.K. Group, and began to engage in the city gas business. As a result of consolidation of Toa Sekiyu K.K., its subsidiary engaged in electric power generation business, Genex Co., Ltd., also became a part of consolidated account. We commenced the construction of a 20 mega watt production plant for the next-generation CIS solar cells in Miyazaki City, Miyazaki Prefecture aiming for commercial production from the beginning of 2007. We also continued our experimental operation of the hydrogen supply station in pursuit of commercialization of fuel-cell automobiles, and commenced the verification test of fuel cells for household use with LPG as fuel.

#### **<Health, Safety, Security and Environment (HSSE) Activities>**

As a crucial task of the management, we further promoted the implementation of risk management by laying down the "Business Continuity Plan" (BCP) and the "Crisis Management Plan" (CMP) in order to continue business operation disasters such as huge earthquakes. We also introduced a system to confirm the safety of employees, by using the e-mail function of mobile phones, and enhanced emergency supplies.

### **3. Profit and Loss**

#### **<Consolidated>**

Sales proceeds were 2,268.4 billion yen (23.3% increase compared with last year), operating profit was 98.3 billion yen (increased by 38.1 billion yen compared with last year) and ordinary profit was 100.4 billion yen (increased by 38.5 billion yen compared with last year). Ordinary profit excluding stock evaluation effects was 53.2 billion yen (increased by 12.8 billion yen compared with last year).

Consolidated NIAT was 58.3 billion yen (increased by 56.0 billion yen compared with last year).

#### **<Unconsolidated>**

Sales proceeds were 2,192 billion yen (23.3% increase compared with last year), operating profit and ordinary profit were 93.2 billion yen each (increased 38.0 billion yen / 34.2 billion yen respectively compared with last year, and NIAT was 53.5 billion yen (increased 50.3 billion yen compared with last year).

#### 4. Dividends

We will pay a final dividend of 15 yen per share, giving a total dividend for the year of 35 yen per share (interim dividend of 20 yen including 5 yen of special dividend), increased 5 yen compared with last year.

#### 5. Estimation of YR2006

We assume a crude oil price of US\$57 per barrel and an exchange rate of 118.0 Japanese yen to the US dollar for the year 2006. Based on these premises, we estimate the following business results.

For ordinary profit based on current cost of supply calculation, excluding the stock evaluation effects, we expect to attain 55 billion yen, an increase of 1.8 billion yen compared with 53.2 billion yen in 2005. With regard to dividends, we are planning to pay a total dividend of 36 yen per share (interim dividend and final dividend: 18 yen each).

##### <Consolidated Basis> Unit: Billion Yen

Sales Proceeds	2,750
Ordinary Profit	65
Ordinary Profit (CCS basis)	55
NIAT	39

##### <Un-consolidated Basis> Unit: Billion Yen

Sales Proceeds	2,680
Ordinary Profit	60
Ordinary Profit (CCS basis)	50
NIAT	35

END