

English Translation

## Full Year Results for 2007

The following is the summary of full year results for 2007 (1 January to 31 December 2007) of Showa Shell Sekiyu K.K.

Consolidated ordinary income for full year 2007 was 92.7 billion yen, an increase of 15.0 billion yen versus the previous year. (CCS ordinary income was 44.2 billion yen, a decrease of 13.8 billion yen versus a year ago).

### 1. Main indicators of full year 2007

<b>&lt;Consolidated financial results&gt;</b>		<b>Unit: million yen</b>	
Sales proceeds	3,082,641	vs. full year 2006	+161,354 (+5.5%)
Operating income	88,813		+14,511 (+19.5%)
Ordinary income	92,709		+15,034 (+19.4%)
CCS ordinary income	44,271		-13,803 (-23.8%)
Net income	43,729		-2,519 (-5.4%)

<b>&lt;Nonconsolidated financial results&gt;</b>		<b>Unit: million yen</b>	
Sales proceeds	2,983,549	vs. full year 2006	+164,600 (+5.8%)
Operating income	78,028		+9,402 (+13.7%)
Ordinary income	83,772		+11,907 (+16.6%)
CCS ordinary income	35,334		-16,930 (-32.4%)
Net income	45,433		+3,605 (+8.6%)

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

### 2. Summary of full year 2007

#### (1) Economy and oil business in Japan

Although the Japanese economy continued to show signs of a general recovery in the current period, there was a marked wariness about the market in the second half due to a growing sense of concern caused by deceleration in the U.S. economy.

The Dubai crude oil price started at around 57 dollars per barrel range at the beginning of this year. It continued to rise steadily during the period, propelled by the geopolitical risks increased in oil producing countries, decreased production in OPEC member countries in addition to low production in non OPEC countries, and a huge amount of investment funds that flowed into the oil market. As a result, the price ended up around 89 dollars per barrel range this year.

Yen started around the lower half of 119 yen per dollar this year. Despite some temporary yen appreciation, it kept weakening gradually, finally falling as low as 123 yen per dollar range in June. After August, the dollar weakened due to concerns that the U.S. economy would be aggravated by subprime loans, where personal housing loans

are granted to people with poor credit histories. This trend pushed the yen up, finishing the year with the exchange rate of 114 yen per dollar range.

The domestic demand for gasoline and diesel oil were falling on an accelerating downward trend that carried over from the previous year, due to dwindling consumer spending caused by oil price hikes and increased awareness of energy saving. The demand for kerosene in the first quarter was below that of the same quarter a year earlier, affected by the mild winter, which dragged down demand for the entire year to a level lower than that of the previous year. The demand for industrial fuel dropped further, due to such factors as a switch to alternative fuels caused by growing awareness about environmental issues and oil price hikes.

Although the prices for domestic oil products rose in response to increases in crude oil prices, there was an unavoidable delay in reflecting the increased crude oil costs in sales prices to customers at service stations as well as to industrial customers.

## **(2) Business Results**

### **[Oil business]**

Regarding crude oil procurement, flexible crude oil procurement was implemented in order to optimise the operations of refineries of our group companies by maintaining relationships with the oil-producing countries of the Middle East and the Shell Group. With regard to production and supply aspects, we strived to maintain the refinery operation of our Group in a stable and efficient manner and, at the same time, kept enhancing the refinery utilisation ratio and the production ratio of high value-added products. In addition, by increasing the purchase of products from the Sodegaura Refinery of Fuji Oil Company, Limited, our business partner, we strengthened our domestic supply capacity and exported mainly diesel oil to overseas markets. Moreover, we integrated the operation of our international trading business with the Shell Group in August to have greater access to worldwide markets and enhance profit maximising opportunities by utilizing international trading network of the Shell Group.

With regard to the distribution aspect in the domestic market, we improved the efficiency of operations by shared use of oil storage tanks with other oil companies and by streamlining distribution networks through flexible product circulation. In addition, we improved our transportation efficiency by using lorries from the Sodegaura Refinery of Fuji Oil.

With regard to petroleum product sales through our service station network, we converted the existing service stations to self-service service stations. We picked up our speed to build more new-style service stations, “Fantasista”, sited in easy-to-access locations next to shopping malls, and had prepared for the opening of our second convenience store service station. We also held the “Dealers’ Meeting 2007” in November for all of our dealers across the country to reaffirm our policy of giving them the highest priority in our business operations and sharing our vision for future growth.

As for the LP gas sales business, we concluded a basic agreement for LP gas business merger with Sumitomo Corporation in December. This was to agree on the establishment of a holding company in April 2008 that would control LP gas retail sales subsidiaries of both Sumitomo and Showa Shell Sekiyu, as well as on consolidation of LP gas import functions.

### **[Other businesses]**

We started commercial production of next-generation CIS thin-film solar batteries in the Miyazaki Plant of Showa Shell Solar Co., Ltd this year. We received a Prize of Excellence (Prize of Minister of Economy, Trade and Industry) at the 2nd “Monodzukuri Nippon Grand Award” for our CIS solar battery production technology, which we translated into practical applications at the Miyazaki Plant. We also won “The Good Design Award 2007”, because the product was highly praised for brilliant design and environmental features. To satisfy the vigorous global demand for solar batteries incorporating these technologies and features, we decided to establish the second plant.

As in our power business, we have completed a series of environmental impact assessment procedures for Ohgishima Power Co., Ltd., and started construction of large natural gas power plants. In order to be ready for power sales, we registered as a member of Japan Electric Power Exchange (JEPX), a limited liability intermediate corporation.

### **3. Profit and loss**

#### **[Consolidated]**

Sales proceeds were 3,082.6 billion yen (an increase of 5.5% versus a year ago), operating income was 88.8 billion (an increase of 14.5 billion yen versus a year ago), and ordinary income was 92.7 billion (an increase of 15.0 billion yen versus a year ago). Ordinary income, excluding the inventory valuation effects, was 44.2 billion yen (a decrease of 13.8 billion yen versus a year ago).

#### **[Nonconsolidated]**

Sales proceeds were 2,983.5 billion yen (an increase of 5.8% versus a year ago), operating income was 78.0 billion yen (an increase of 9.4 billion yen versus a year ago), ordinary income was 83.7 billion yen (an increase of 11.9 billion yen versus a year ago), and Net income was 45.4 billion yen (an increase of 3.6 billion yen versus a year ago). Ordinary income, excluding the inventory valuation effects, was 35.3 billion yen (a decrease of 16.9 billion yen versus a year ago).

Sales proceeds were reduced by 104.0 billion yen due to the integration of international oil trading business with the Shell Group in August 2007, but the impact on income was negligible because income from the business is distributed to us as business lease fee.

### **4. Dividends**

The year-end dividend for 2007 will be 18 yen per share. Including the interim dividend of 18 yen per share will be the total of 36 yen per share for 2007.

### **5. Forecast of full year results for 2008**

Assuming that crude oil price is 80 dollars per barrel (82 dollars for the first half and 78 dollars for the second half of the year), and the exchange rate is 110 yen per dollar for 2008, Showa Shell Sekiyu forecasts the results of full year 2008 as below.

Estimate for consolidated CCS ordinary income, excluding the inventory valuation effects, is 60.0 billion yen, an increase of 15.8 billion from the 44.2 billion of 2007.

36 yen per share (interim 18 yen, year-end 18 yen per share) is the expected dividend for 2008.

**<Consolidated>**

Sales proceeds	2,930,000
Operating income	58,000
Ordinary income	60,000
Net income	35,000

**unit: million yen**

**<Nonconsolidated>**

Sales proceeds	2,830,000
Operating income	47,000
Ordinary income	50,000
Net income	30,000

**unit: million yen**

*NB. This document contains forward-looking statements concerning the results of operations and businesses of Showa Shell Sekiyu K.K.. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements.*

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