



# Economic Performance



## The "New Foundation" Philosophy—*Shifting to Dynamic Growth*

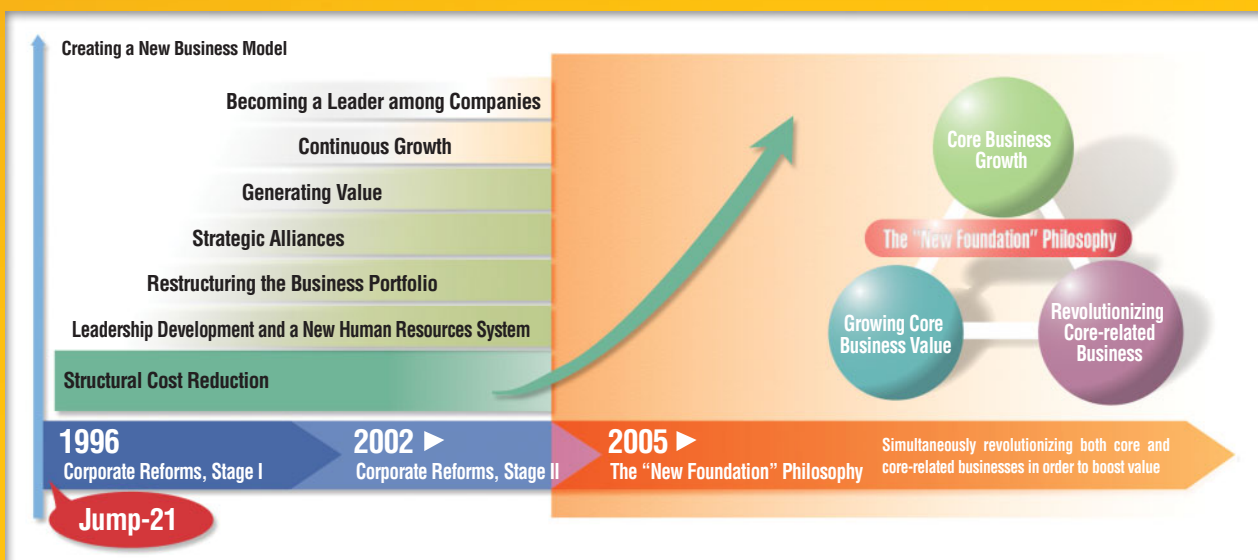
Showa Shell launched its pioneering corporate reform activity plan, Jump-21, on the eve of the liberalization that was ushered in by the abolition of the 1996 Provisional Measures Law on the Importation of Specific Petroleum Refined Products. Following through on its three basic strategies, "Creating customer-oriented added value," "Restructuring the business portfolio," and "Structural cost reduction," Showa Shell has achieved competitive superiority in terms of high profitability in petroleum downstream areas. At the same time, the company became one of Japan's top companies in terms of total shareholder return \*1.

Showa Shell reached a landmark event last year, its 20th anniversary. It was also the year that the shareholder composition changed significantly, with Saudi Aramco's equity participation. This has resulted in a dramatic change within the company's environment. This fiscal year, the company has determined not to be content with its past

successes. It is working to write a story of confidence about working toward the realization of sustainable growth under its "New Foundation" philosophy.

The company is taking on the challenge of creating a new business model and building new customer value. The three pillars in the company's plan, "Expanding core business value," "Growing the core business," and "Revolutionizing non-core business areas," are intended to further develop the core petroleum downstream business and increase value.

At the same time, the company plans to develop non-petroleum-related businesses. In addition to the petroleum chemical, electricity generation and urban gas businesses, Showa Shell is actively developing its New Energy and Solutions businesses. The former utilizes technologies such as GTL\*2 and CIS thin-film solar cells, while the latter new business is aimed toward general households and makes use of the company's customer base.



\*1 Quantified value for shareholders (capital gains from share price increases plus dividends)

\*2 GTL: Gas-to-liquid fuel, a liquid fuel synthesized from natural gas.



# Commitment to a Solid Earnings Foundation

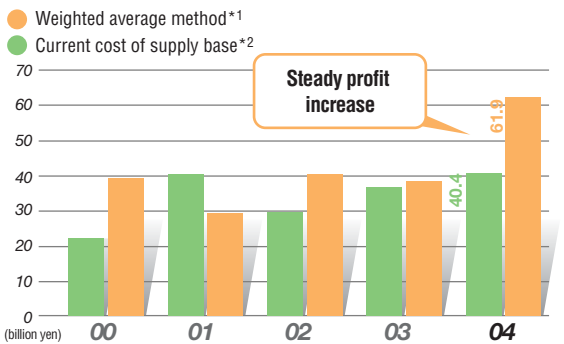
## 1. Financial Results

### Trends in main financial indicators

Showa Shell has strengthened its financial position significantly since the start of its Jump-21 program, primarily through structural cost reduction and debt reduction. As a result, the accumulated cost reductions from FY1996 through FY2004 totaled ¥121.6 billion, and petroleum products

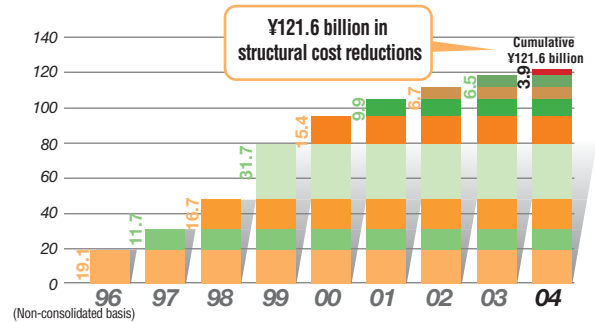
resulting from thoroughly managed operations for minimum cost continue to be supplied to the market. Further, the cut in accumulated consolidated interest-bearing debt over the same period totaled ¥325.0 billion. Showa Shell's reliance on borrowed capital is the lowest in the industry.

#### Consolidated Ordinary Income

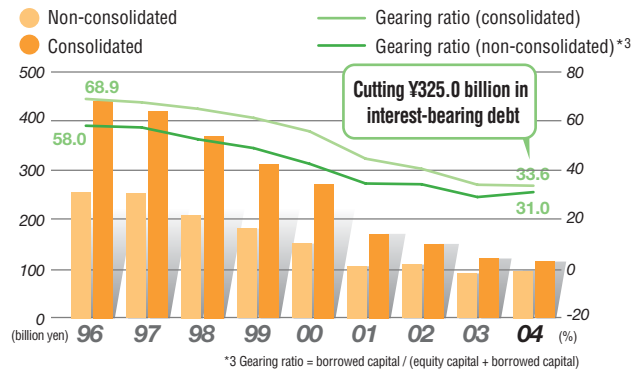


\*1 Weighted average method: a method of determining in-stock inventory value at the end of an accounting period based on the average purchase price during that period.  
\*2 Current cost of supply base: Calculation using cost excluding the impact of evaluation on inventory

#### Structural Cost Reduction

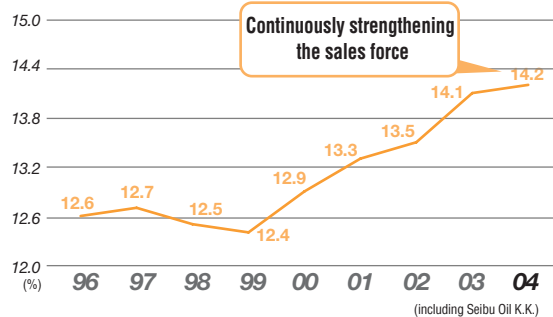


#### Debt



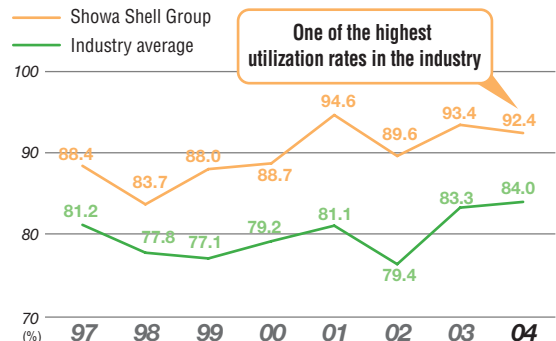
\*3 Gearing ratio = borrowed capital / (equity capital + borrowed capital)

#### Gasoline Market Share



(including Seibu Oil K.K.)

#### Refinery utilization Rate



(as of June 2005)

#### Long-term Rating

Rating and Investment Information, Inc. (R&I) · · A  
Japan Credit Rating Agency, Inc. (JCR) · · · · A+p  
Moody's Japan · · · · · Baa 1

#### Short-term (CP) Ratings

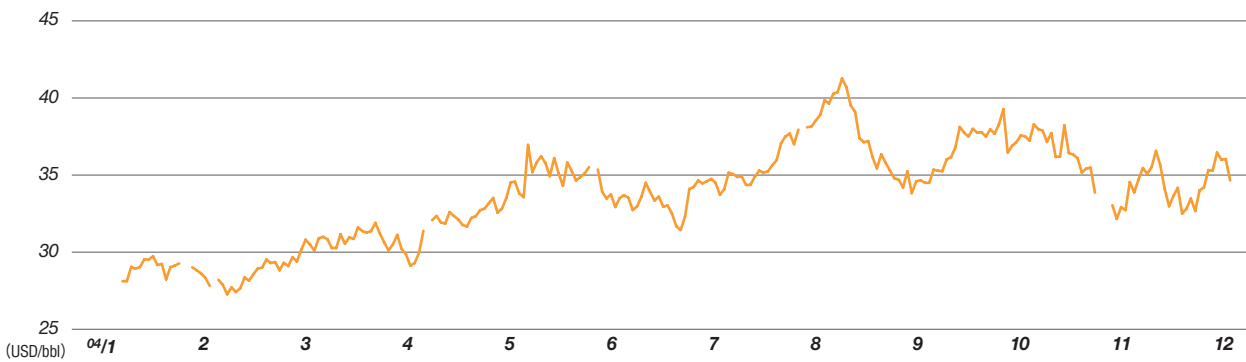
Rating & Information, Inc. (R&I) · · · · · a-1

## 2. Earnings Overview for Fiscal 2004

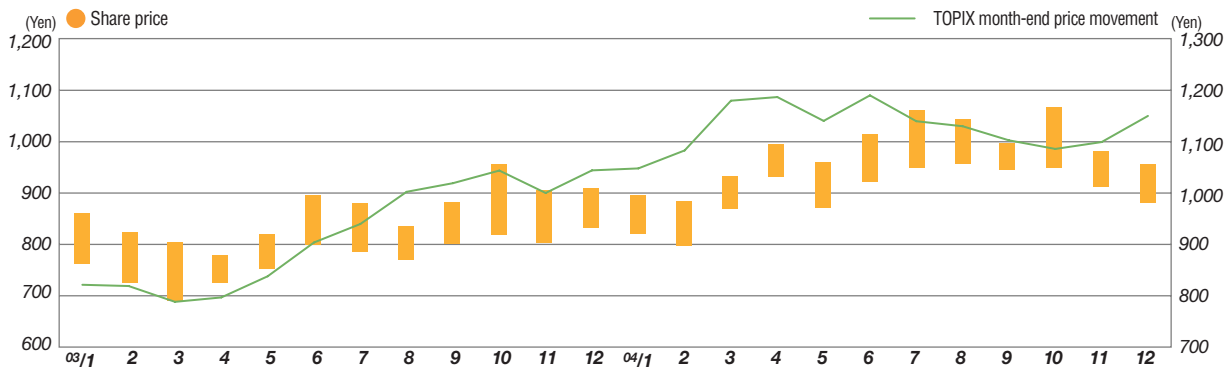
Fiscal 2004 (ended in December 2004) was a very challenging year due to record-high oil prices. With crude oil accounting for the majority of the Company's manufacturing costs, Showa Shell has to react swiftly to rising prices of crude oil. Although not immediately apparent during the first half of fiscal 2004, Showa Shell succeeded in adjusting its gasoline and other prices to compensate for rising crude oil prices by the second half of fiscal 2004. This resulted in a year-on-year increase in ordinary income of 62.2% to ¥61.9 billion, a record high. Of this, ¥21.5 billion resulted from inven-

tory valuations from the petroleum price increase. Discounting for this effect, actual base ordinary income (on the basis of current cost of supply) was up 11.3% to ¥40.4 billion. Income not impacted by oil price fluctuations has also started to increase. The company has introduced the use of asset-impairment accounting two years before being obligated to do so. As a result, net income was ¥2.36 billion. The early introduction of asset-impairment accounting has strengthened Showa Shell's financial structure and increased the transparency of its financial position.

### Oil price trends



### Share Price Trends



For details, please see the Showa Shell website:

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